New Issue-Book-Entry Only **Ratings: (see "RATINGS" herein)**

In the opinion of Co-Bond Counsel, interest on the Series 2005A Bonds (the "2005A Bonds") is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, except as to interest on any Bond during any period such Bond is held by a person who is a "substantial user" of the facilities financed by the 2005A Bonds or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"), subject to the condition described in "TAX MATTERS" herein. Interest on the 2005A Bonds is treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes. Under the laws of the Commonwealth of Pennsylvania, the 2005A Bonds are exempt from personal property taxes in Pennsylvania, and interest on the 2005A Bonds is exempt from Pennsylvania personal income tax and the Pennsylvania corporate net income tax. For a more complete discussion, see "TAX MATTERS" herein.

$124,985,000
City of Philadelphia, Pennsylvania
Airport Revenue Bonds, Series 2005A

Dated: Date of Delivery Due: As shown on inside cover page

The City of Philadelphia, Pennsylvania, Airport Revenue Bonds, Series 2005A (the "2005A Bonds") are issuable as fully registered bonds in the denominations of $5,000 or any integral multiple thereof, maturing in the aggregate principal amounts and bearing interest at the rates set forth on the inside front cover hereof. The 2005A Bonds are being issued pursuant to the Act and the Ordinances (as such terms are defined herein). The 2005A Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC") which will act as securities depository for the 2005A Bonds. Purchases of the beneficial ownership interests in the 2005A Bonds will be made in book-entry only form. Purchasers will not receive certificates representing their ownership interests in the 2005A Bonds purchased, so long as Cede & Co. is the owner of the 2005A Bonds, as nominee of DTC. References herein to the bondholders, holders and registered owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the 2005A Bonds. See "DESCRIPTION OF THE 2005A BONDS – Book-Entry Only System."

The principal and redemption price of the 2005A Bonds are payable at the corporate trust office of Wachovia Bank, National Association, as Fiscal Agent and Sinking Fund Depository, in Philadelphia, Pennsylvania, at the times and in the amounts set forth herein. Interest on the 2005A Bonds is payable semi-annually on each June 15 and December 15 commencing December 15, 2005, by check mailed by the Fiscal Agent to the persons in whose names the 2005A Bonds are registered at the close of business on the first day (regardless of whether it is a Business Day) of the calendar month of each interest payment date. So long as DTC, or its nominee, Cede & Co., is the registered owner of the 2005A Bonds, principal of and interest on the 2005A Bonds are payable directly to Cede & Co. for redistribution to Participants and in turn to Beneficial Owners as described herein. For so long as any purchaser is the Beneficial Owner of Bonds, such purchaser must maintain an account with a broker or dealer who is, or acts through, a Participant to receive payment of the principal of and interest on such Bonds.

The 2005A Bonds are subject to optional and mandatory redemption prior to maturity as described herein under the heading "DESCRIPTION OF THE 2005A BONDS."

THE 2005A BONDS ARE LIMITED OBLIGATIONS OF THE CITY OF PHILADELPHIA AND DO NOT PLEDGE THE FULL FAITH, CREDIT OR TAXING POWER OF THE CITY OF PHILADELPHIA, OR CREATE ANY DEBT OR CHARGE AGAINST THE TAX OR GENERAL REVENUES OF THE CITY OF PHILADELPHIA, OR CREATE A LIEN AGAINST ANY PROPERTY OF THE CITY OF PHILADELPHIA OTHER THAN AGAINST AMOUNTS PLEDGED THEREFOR.

The scheduled payment of principal of and interest on the 2005A Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the 2005A Bonds by MBIA Insurance Corporation.

MBIA

The proceeds of the Series 2005A Bonds, are being used to (i) finance a portion of the costs of the 2005 Project (hereinafter defined), (ii) finance capitalized interest on the 2005A Bonds during construction of the 2005 Project, and (iii) pay the costs of issuing and insuring the 2005A Bonds (which include the premiums for the financial guaranty insurance policy and the debt service reserve surety bond). See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THEIR MAKING AN INFORMED INVESTMENT DECISION.

The 2005A Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the prior sale, withdrawal, or modification of the offer without notice, and subject to the approval as to the legality of the issuance of the 2005A Bonds by Saul Ewing LLP and Law Offices of Denise Joy Smyler, each of Philadelphia, Pennsylvania, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Obermayer Rebmann Maxwell & Hippel LLP, Philadelphia, Pennsylvania, and White & D'Elia LLC, Rosemont, Pennsylvania, co-counsel to the Underwriters. Certain legal matters will be passed upon for the City of Philadelphia by the City Solicitor. It is anticipated that the 2005A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about August 4, 2005.

Bear, Stearns & Co. Inc.

Goldman, Sachs & Co. Jackson Securities

Cabrera Capital Markets, Inc. Morgan Stanley Siebert Brandford Shank & Co., LLC

Dated: July 27, 2005

MATURITY SCHEDULE

CITY OF PHILADELPHIA, PENNSYLVANIA
AIRPORT REVENUE BONDS, SERIES 2005A

$59,860,000 Serial Bonds

Maturity (June 15)	Amount	Interest Rate	Yield	CUSIP® No. **
2009	$2,340,000	5.00%	3.49%	717817HS2
2010	2,460,000	5.00	3.64	717817HT0
2011	2,580,000	5.00	3.79	717817HU7
2012	2,705,000	5.00	3.91	717817HV5
2013	2,840,000	5.00	3.99	717817HW3
2014	2,985,000	5.00	4.07	717817HX1
2015	3,130,000	5.00	4.15	717817HY9
2016	3,290,000	4.20	4.20	717817HZ6
2017	3,425,000	4.30	4.30	717817JA9
2018	3,570,000	5.00	4.28*	717817JB7
2019	3,750,000	5.00	4.31*	717817JC5
2020	3,940,000	5.00	4.34*	717817JD3
2021	4,135,000	5.00	4.37*	717817JE1
2022	4,340,000	5.00	4.40*	717817JF8
2023	4,560,000	5.00	4.41*	717817JG6
2024	4,785,000	5.00	4.42*	717817JH4
2025	5,025,000	5.00	4.44*	717817JJ0

$22,575,000 4.50% Term Bond Due June 15, 2029 – Yield 4.67%

CUSIP® No. 717817JK7**

$42,550,000 4.75% Term Bond Due June 15, 2035 – Price 100%

CUSIP® No. 717817JL5**

* Yield calculated to the par call date of June 15, 2015

** The City takes no responsibility for the accuracy of the CUSIP numbers, which are included solely for the convenience of the registered owners and beneficial owners of the 2005A Bonds.

CITY OF PHILADELPHIA

MAYOR JOHN F. STREET

Mayor's Chief of Staff
Joyce S. Wilkerson

MAYOR'S CABINET

Vincent J. Jannetti .... Acting Secretary of Financial Oversight and Director of Finance
Romulo L. Diaz, Jr. ....City Solicitor
Pedro A. Ramos .... Managing Director
George R. Burrell, Jr. ....Secretary of External Affairs
Stephanie W. Naidoff...Director of Commerce/City Representative
Richard L. Lombardo ....Acting Executive Director of City Planning/
Secretary of Strategic Planning and Initiatives
Debra A. Kahn .... Secretary of Education
Sylvester M. Johnson .... Police Commissioner/Secretary of Public Safety
Kevin R. Hanna.................................... Secretary of Housing and Neighborhood Preservation
Dianah L. Neff .... Chief Information Officer

CITY CONTROLLER
Jonathan A. Saidel

PRESIDENT OF CITY COUNCIL
Honorable Anna C. Verna

PHILADELPHIA DEPARTMENT OF COMMERCE
DIVISION OF AVIATION

Charles J. Isdell, Jr. .... Director of Aviation
T. Jeffrey Shull.. Airport Chief of Staff
Edward C. Anastasi .... Deputy Director of Aviation – Finance and Administration
Mark Gale ....Deputy Director of Aviation – Operations and Facilities
James Tyrrell.. Deputy Director of Aviation – Property Management
and Business Development
Calvin M. Davenger, Jr. ....Deputy Director of Aviation – Planning
and Environmental Stewardship

FINANCIAL ADVISORS
Phoenix Capital Partners, LLP
First Southwest Company

FISCAL AGENT
Wachovia Bank, National Association

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations, other than as contained in this Official Statement, and if given or made, such other information or representations 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 2005A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract or agreement among the City, the Underwriters and the purchasers or owners of any 2005A Bonds. 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 the affairs of the City of Philadelphia or of the Division of Aviation of the Department of Commerce or in any other matters discussed herein since the date hereof. 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 a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2005A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

THIS OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE REPORT OF THE AIRPORT CONSULTANT, CONTAINS STATEMENTS RELATING TO FUTURE RESULTS THAT ARE "FORWARD LOOKING STATEMENTS" AS DEFINED IN THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. WHEN USED IN THIS OFFICIAL STATEMENT, THE WORDS "ESTIMATE", "ANTICIPATE", "FORECAST", "PROJECT", "INTEND", "PROPOSE", "PLAN", "EXPECT", "ASSUME" AND SIMILAR EXPRESSIONS IDENTIFY FORWARD LOOKING STATEMENTS. SUCH STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE CONTEMPLATED IN SUCH FORWARD LOOKING STATEMENTS.

THE 2005A BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE 2005A BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

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OFFICIAL STATEMENT

relating to

$124,985,000
City of Philadelphia, Pennsylvania
Airport Revenue Bonds, Series 2005A

INTRODUCTION

This Official Statement, including the cover page, the inside cover and Appendices attached hereto, is furnished to provide information with respect to the issuance by the City of Philadelphia (the "City") of its $124,985,000 aggregate principal amount of Airport Revenue Bonds, Series 2005A (the "2005A Bonds"). The 2005A Bonds are being authorized and issued under and pursuant to The First Class City Revenue Bond Act, Act of October 18, 1972, Act No. 234 (the "Act"), the Amended and Restated General Airport Revenue Bond Ordinance, approved June 16, 1995 (Bill No. 950282), as amended and supplemented (the "General Ordinance') and the Fifth Supplemental Ordinance to the General Ordinance approved June 16, 2005 (Bill No. 050369) (the "Fifth Supplemental Ordinance", and together with the General Ordinance, the "Ordinances"). Unless otherwise indicated, capitalized terms used in this Official Statement are defined in Appendix IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS."

The proceeds of the 2005A Bonds are being used to: (i) finance a portion of the costs of the 2005 Project (hereinafter defined), (ii) finance capitalized interest on the 2005A Bonds during construction of the 2005 Project, and (iii) pay the costs of issuance of the 2005A Bonds (which include the premiums for the financial guaranty insurance policy and the debt service reserve surety bond). See "PLAN OF FINANCE – The 2005 Project" and "ESTIMATED SOURCES AND USES OF FUNDS."

As of June 30, 2005, $1,101,720,000 of previously-issued parity Airport Revenue Bonds were outstanding.

The Airport System consists of the Philadelphia International Airport (the "Airport") and the Northeast Philadelphia Airport (the "Northeast Philadelphia Airport") and is owned by the City and operated by the Division of Aviation of the City's Department of Commerce (the "Division of Aviation"). As of April, 2005, the Airport had 613 daily scheduled aircraft departures to domestic destinations and 53 to international destinations. It was ranked 17th in the United States in terms of total passengers for the calendar year ended December 31, 2004 and served a total of approximately 14.2 million enplaned passengers in calendar year 2004. For a further description of the Airport System, the Service Area of the Airport and the Air Transport Industry, see "THE AIRPORT SYSTEM," "THE AIRPORT SERVICE AREA," "CERTAIN INVESTMENT CONSIDERATIONS" and APPENDIX II – "REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005."

Brief descriptions of the 2005A Bonds, the security therefor, the Airport System and certain data about the City are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to the Act, the General Ordinance, the Fifth Supplemental Ordinance, and the Report of the Airport Consultant are qualified in their entirety by reference to each such document. Copies of the Act, the General Ordinance, the Fifth Supplemental Ordinance and the financial statements of the City for the FY ended June 30, 2004, are available from the Office of the Director of Finance, 13th Floor, Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102. Financial statements of the Division of Aviation for the FY ended June 30, 2004, are attached hereto as APPENDIX I. The Report of the Airport Consultant is attached hereto as APPENDIX II. The Engineer's Letter is attached hereto as APPENDIX III. Summaries of legislation authorizing the issuance of the City's Airport Revenue Bonds, the Insurance and Reimbursement Agreement, the Financial Guaranty Agreement and the Use and Lease Agreements are attached hereto as APPENDIX IV. Certain information concerning the government of and fiscal affairs of the City is attached hereto as APPENDIX V. A specimen financial guaranty insurance policy of MBIA Insurance Corporation is attached hereto as APPENDIX VI. A proposed form of the opinion of Co-Bond Counsel is attached hereto as APPENDIX VII. The proposed form of the Continuing Disclosure Agreement is attached hereto as APPENDIX VIII.

MBIA Insurance Corporation (the "Insurer") has committed to issue, simultaneously with the issuance of the 2005A Bonds, a financial guaranty insurance policy (the "Policy") insuring the payment of the principal of and interest on the 2005A Bonds as the same shall become due (not including redemption, except mandatory sinking fund redemption). See "BOND INSURANCE" and a specimen of the Insurer's policy in APPENDIX VI.

Under the caption "CERTAIN INVESTMENT CONSIDERATIONS" is a discussion of certain investment risks which, among others, may affect repayment of and security for the 2005A Bonds, including the current bankruptcy proceedings respecting US Airways, the principal air carrier operating at the Airport, and the June 30, 2006 expiration date of the present Use and Lease Agreements with certain air carriers serving the Airport.

THIS OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE REPORT OF THE AIRPORT CONSULTANT, CONTAINS STATEMENTS RELATING TO FUTURE RESULTS THAT ARE "FORWARD LOOKING STATEMENTS" AS DEFINED IN THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. WHEN USED IN THIS OFFICIAL STATEMENT, THE WORDS "ESTIMATE," "ANTICIPATE," "FORECAST," "PROJECT," "INTEND," "PROPOSE," "PLAN," "EXPECT," "ASSUME" AND SIMILAR EXPRESSIONS IDENTIFY FORWARD LOOKING STATEMENTS. SUCH STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE CONTEMPLATED IN SUCH FORWARD LOOKING STATEMENTS.

PLAN OF FINANCE

The proceeds of the 2005A Bonds are being used to: (i) finance a portion of the costs of the 2005 Project (as hereinafter defined), (ii) finance capitalized interest on the 2005A Bonds during construction of the 2005 Project, and (iii) pay the costs of issuing and insuring the 2005A Bonds (which include the premiums for the financial guaranty insurance policy and the debt service reserve surety bond).

The 2005 Project. The Division of Aviation maintains an ongoing six-year capital improvement program for the Airport System. The City periodically issues Airport Revenue Bonds to finance Airport System capital improvement projects, as such projects are reviewed and approved by the Scheduled Airlines under procedures of the Use and Lease Agreements. The "2005 Project" represents the next phase of an ongoing process of expanding and modernizing Airport facilities to keep pace with increasing traffic demand and changes in the air transportation system. The capital improvements to the Airport System that are to be funded, *inter alia*, with the proceeds of Airport Revenue Bonds, including proceeds of the 2005A Bonds consist of (a) the improvement and expansion of Terminals D and E as follows: (i) construction of a 3-level connector building between Terminal Buildings D and E, to combine and add 23 ticketing positions and an in-line explosives detection baggage screening system on the lower level; to relocate and increase security screening areas to create 14 screening lanes on the second level; and to relocate the Division of Aviation's offices and provide additional airline club and/or office space on the third level; (ii) expansion and renovation of the Terminal E concourse, creating 3 additional gates and additional operations space; (iii) renovation of Terminal Buildings D and E including relocation of mechanical and utility areas and expansion of ticketing lobbies; (iv) consolidation and expansion of Terminals D and E baggage claim buildings and related baggage system improvements, adding two baggage claim carousels, an oversized baggage conveyor and additional queuing space for passengers in the baggage claim areas; and (v) expansion and improvement of the heating and cooling system; (b) the improvement of Terminal A East, including: (i) completion of Terminal A East Alterations which were originally part of the 1998-2001 Terminal A project; (ii) concourse and ticketing area improvements; and (iii) installation of in-line explosive detection system (EDS) baggage screening system; (c) the resurfacing of Runway 9R/27L; and (d) Terminals B-C security enhancements including: (i) the addition of screening lanes; (ii) installation of Transportation Security Administration (TSA) standard technology enhancements such as CCTV and digital recording; and (iii) improvement of ticketing areas to enhance baggage screening. The Terminal D/E expansion and modernization program will in aggregate add 222,000 square feet of Terminal Building space. See APPENDIX II – "REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005 – FINANCIAL ANALYSIS – Exhibit A".

Elements of the 2005 Project expected to be funded with proceeds of the 2005A Bonds include the expansion and modernization of Terminals D and E, improvements to Terminal A East, Terminal B and Terminal C and improvement to Runway 9R/27L. Other elements of the 2005 Project are being funded with proceeds of the $41,000,000 Airport Revenue Bonds, Series 2005B (the "2005B Bonds") issued by the City on June 2, 2005 and are expected to include improvements to Terminals D and E to accommodate EDS provided by the TSA and improvements to Terminal A East to accommodate EDS provided by the TSA.

AUTHORIZATION FOR THE 2005A BONDS

The 2005A Bonds are being authorized and issued under the Act, the General Ordinance and the Fifth Supplemental Ordinance. The Act authorizes cities of the first class to issue revenue bonds to finance certain revenue producing projects and to refund any such bonds or other bonds of the City issued for the foregoing purposes. Such bonds must be payable solely from Project Revenues (as defined in the Act). The 2005A Bonds are required to and will meet the requirements of the Act and the General Ordinance for the issuance of additional Airport Revenue Bonds thereunder. See APPENDIX IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS – THE AMENDED AND RESTATED GENERAL AIRPORT REVENUE BOND ORDINANCE – Summary of Operative Provisions of the General Ordinance-Covenants of the City."

DESCRIPTION OF THE 2005A BONDS

General

The 2005A Bonds will be dated the date of delivery. The 2005A Bonds shall bear interest from such date and shall mature on the dates set forth on the inside cover page hereof. The 2005A Bonds are issuable as fully registered bonds. Interest on the 2005A Bonds is payable on each December 15 and June 15, beginning on December 15, 2005 (the "Interest Payment Dates"). Interest is payable on such Interest Payment Dates by check or draft mailed by Wachovia Bank, National Association, Fiscal Agent and Sinking Fund Depository, Philadelphia, Pennsylvania (the "Fiscal Agent'), to the registered owners of the 2005A Bonds as of the close of business on the first day of the month of each such Interest Payment Date (the "Record Date"). Any person who is the registered owner of at least $1,000,000 principal amount of Airport Revenue Bonds may, by written request to the Fiscal Agent, at least three (3) days before the Record Date in connection with which such request is made, request that interest be paid by wire transfer to an account at a financial institution in the United States as may be specified in such written request. The principal or redemption price of the 2005A Bonds is payable at the principal Philadelphia corporate trust office of the Fiscal Agent upon surrender of the 2005A Bonds.

The 2005A Bonds will be subject to redemption prior to maturity as and to the extent provided in the Bond Committee Determination.

The 2005A Bonds are limited obligations of the City, payable solely from the pledged rentals, revenues and moneys and neither the credit nor the taxing power of the City is pledged for the payment of the principal of or interest on the 2005A Bonds, nor shall the 2005A Bonds be or be deemed to be a general obligation of the City. See "SECURITY FOR THE 2005A BONDS."

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2005A Bonds. The 2005A Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of 2005A Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to 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.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2005A Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect

Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written 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 2005A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Bonds, except in the event that use of the book-entry system for the 2005A Bonds is discontinued.

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2005A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2005A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 2005A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2005A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the 2005A 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 issuer or its agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with bonds 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 Fiscal Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium, if any, and interest on the 2005B and C Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, 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 2005A Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

THE CITY AND THE FISCAL AGENT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE ACCURACY OF THE RECORDS OF DTC, ITS NOMINEE OR ANY DTC PARTICIPANT WITH RESPECT TO ANY OWNERSHIP INTEREST IN THE 2005A BONDS, OR PAYMENTS TO, OR THE PROVIDING OF NOTICE FOR, DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC. The City takes no responsibility for the accuracy thereof.

Optional Redemption

The 2005A Bonds maturing on or after June 15, 2016 are subject to redemption prior to maturity in whole or in part (and if in part, in such order of maturity as the City may direct and within a maturity by lot) on any Business Day on and after June 15, 2015, at the redemption price of 100% of the principal amount thereof, together with accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption

The 2005A Bonds maturing on June 15, 2029 and on June 15, 2035 are subject to mandatory redemption prior to maturity (to the extent that such 2005A Bonds in the principal amount otherwise required to be redeemed have not been previously purchased by the City), in part, as drawn by lot by the Fiscal Agent, by application of moneys required to be deposited for that purpose in the Sinking Fund on June 15 of the following years at a redemption price equal to 100% of the principal amount of each such 2005A Bond to be redeemed, plus accrued interest to the date of redemption according to the following schedules:

Year	Principal Amount of Mandatory Sinking Fund Redemption
2026	$5,275,000
2027	5,515,000
2028	5,765,000
2029*	6,020,000
2030	6,300,000
2031	6,595,000
2032	6,905,000
2033	7,235,000
2034	7,580,000
2035*	7,935,000

* Stated Maturity

In its discretion, the City is authorized under the direction of the Director of Finance to satisfy any mandatory sinking bond requirements for the 2005A Bonds by purchasing the 2005A Bonds in the open market at not more than par and presenting them to the Fiscal Agent in lieu of required deposits to the Sinking Fund.

Notice of Redemption

As provided more fully in the General Ordinance and in the forms of the 2005A Bonds, notice of redemption of the 2005A Bonds shall be given by the Fiscal Agent by mailing a copy of the redemption notice by first class mail, postage prepaid, to each Holder of Bonds to be redeemed at such Holder's registered address as it appears in the Bond Register, not less than thirty (30) or more than sixty (60) days prior to the redemption date. Each notice shall be given in the name of the City and shall contain the CUSIP number, and, in the case of partial redemption of any Bonds, the certificate numbers and the respective principal amounts of the 2005A Bonds to be redeemed, the publication date, the redemption date, the redemption price and the name and address of the redemption agent, and shall further identify the 2005A Bonds by date of issue, interest rate and maturity date. Failure to mail any notice or any defect in a mailed notice or in the mailing thereof in respect of any notice shall not affect the validity of the redemption proceedings. If at the time of mailing notice of redemption the City shall not have deposited with the Fiscal Agent moneys sufficient to redeem the 2005A Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of the redemption moneys with the Fiscal Agent not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited. Notice having been given and funds having been deposited in the Sinking Fund in accordance with the requirements of the General Ordinance, all interest on the 2005A Bonds called for redemption shall cease accruing from the date fixed for redemption.

ESTIMATED SOURCES AND USES OF FUNDS

The City anticipates the following sources and uses of funds in connection with the sale of the 2005A Bonds. Only the 2005A Bonds are being offered by this Official Statement. However, the 2005 Project is also expected to be funded in part by proceeds of the 2005B Bonds and in part from other sources.

ESTIMATED SOURCES OF FUNDS

Principal Amount of 2005A Bonds	$124,985,000.00
Net Original Issue Premium	$2,358,536.40
Total Sources of Funds	$127,343,536.40

ESTIMATED USES OF FUNDS

Deposit to Project Fund for 2005 Project	$108,874,518.10
Sinking Fund Deposit (Capitalized Interest)	$16,015,915.26
Costs of Issuance[1]	$2,453,103.04
Total Uses of Funds	$127,343,536.40

[1] Includes Bond insurance premium, Sinking Fund Reserve surety bond premium, underwriters' discount, printing costs, rating agency fees, legal and financial advisor fees and expenses and other expenses.

SECURITY FOR THE 2005A BONDS

Pledge of Project Revenues and Funds

Pursuant to the General Ordinance, the City has covenanted that the 2005A Bonds, together with all other parity Airport Revenue Bonds issued under and outstanding or subject to the General Ordinance, are and will be equally and ratably secured by a lien on and security interest in (i) Project Revenues (as defined below); (ii) amounts payable to the City under a Qualified Swap; (iii) all amounts on deposit in or credited to the Aviation Funds, except for amounts deposited into any Non-Parity Sinking Fund Reserve Subaccount; and (iv) proceeds of the foregoing (subsections (i) through (iv) are collectively referred to herein as the "Pledged Amounts"). See APPENDIX IV – "SUMMARY OF AUTHORIZATIONS FOR THE 2005A BONDS – THE AMENDED AND RESTATED GENERAL AIRPORT REVENUE BOND ORDINANCE – Summary of Operative Provisions of the General Ordinance Pledge of Revenues; Grant of Security Interest; Limitation on Recourse." To the extent that the Fiscal Agent maintains such Pledged Amounts, the Fiscal Agent shall hold and apply the Pledged Amounts in trust, for the equal and ratable benefit and security of all Holders of parity Airport Revenue Bonds issued under or subject to the General Ordinance. The General Ordinance provides that such Pledged Amounts may also be pledged for the benefit of a letter of credit issuer, municipal bond insurance provider, standby purchaser, swap provider or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price of and interest on any series of Airport Revenue Bonds on an equal and ratable basis with Airport Revenue Bonds.

THE 2005A BONDS ARE LIMITED OBLIGATIONS OF THE CITY AND DO NOT PLEDGE THE FULL FAITH, CREDIT OR TAXING POWER OF THE CITY, OR CREATE ANY DEBT OR CHARGE AGAINST THE TAX OR GENERAL REVENUES OF THE CITY, OR CREATE ANY LIEN AGAINST ANY PROPERTY OF THE CITY, OTHER THAN AGAINST THE PLEDGED AMOUNTS PLEDGED THEREFOR.

Definition of Project Revenues. The General Ordinance defines Project Revenues to include all of the revenues, rents, rates, tolls or other charges imposed upon all lessees, occupants and users of the Airport System and all moneys received by or on behalf of the City from all sources during any FY (except as hereinafter excluded) from or in connection with the ownership, operation, improvements and enlargements of the Airport System, or any part thereof and the use thereof including, without limitation, revenues pledged or appropriated for the benefit of the Airport System, all rentals, rates, charges, Payments-in-Aid, landing fees, use charges, concession revenues, income derived from the City's sale of services, fuel, oil, and other supplies or commodities and all other charges received by the City or accrued by it from the Airport System, and all interest on and the profits from investment of moneys derived from the foregoing and all accounts, contract rights and general intangibles representing the Project Revenues. The definition of Project Revenues excludes all revenues, rents, rates, tolls or other charges generated by or allocable to the Overseas Terminal and the Outside Terminal Area (other than Payments-in-Aid of the Outside Terminal Area); any and all Passenger Facility Charges ("PFC") revenues or any taxes which the City may from time to time impose upon users of the Airport System; all governmental grants and contributions in aid of capital projects; such rentals as may be received pursuant to leases of Special Purpose Facilities; and all net amounts payable to the City under a Qualified Swap (other than termination amounts payable from a Qualified Swap Provider due as a result of termination of a Qualified Swap).

Certain Provisions of General Ordinance Effective Upon City Election and Certain Consents

Certain provisions of the General Ordinance relating to the definitions of "Project Revenues" and "Operating Expenses," the Alternative Rate Covenant, and the addition and/or withdrawal of pledged revenues and assumption of operating expenses and debt service for the Outside Terminal Area or the Overseas

Terminal become effective only upon the written election of the City and in certain circumstances, the consent of certain parties. Presently, the City has no plans to elect any of the foregoing provisions; however, the City may elect such provisions in the future. See APPENDIX IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS – THE AMENDED AND RESTATED GENERAL AIRPORT REVENUE BOND ORDINANCE."

City May Pledge Passenger Facility Charges Revenues. The City may pledge PFC revenues pursuant to a Supplemental Ordinance and such PFC revenues shall constitute Pledged Amounts; provided, however, that if as a result of applicable law, rules and regulations, such PFC revenues may only be pledged to secure one or more specified series of Airport Revenue Bonds, Pledged PFC revenues and proceeds thereof, shall constitute Pledged Amounts solely with respect to such series of Airport Revenue Bonds; provided, further, that PFC revenues shall not constitute Pledged Amounts or Amounts Available for Debt Service unless the City first receives written confirmation from all Rating Agencies then rating any Airport Revenue Bonds outstanding under the General Ordinance, that the pledge of PFC revenues in and of itself will not result in a downgrade, suspension or withdrawal of rating on any outstanding Airport Revenue Bonds, without taking into account Airport Revenue Bonds the rating on which is based upon a Credit Facility for such Airport Revenue Bonds, provided that if all outstanding Airport Revenue Bonds are rated based upon a Credit Facility, then PFC revenues may be pledged only upon receipt by the City of written consent by the providers of such Credit Facilities.

"PFC revenues" means PFCs paid to the City as a result of enplanements at the Airport, together with investment earnings thereon. "Pledged PFC revenues" means the PFC revenues, subject to the following limitation: at no time shall the amount of PFC revenues pledged to the 1998B Bond (as hereinafter defined) and the 2001A Bond (as hereinafter defined) in any year exceed the lesser of (a) seventy percent of the amount of all PFCs actually paid to the City in that year, or (b) seventy-five percent of total debt service on such series of Airport Revenue Bonds in that year.

In addition to the previously issued Airport Revenue Bonds, Series 1997A, Series 1997B, Series 1998A and the 2005B Bonds and the Airport Revenue Refunding Bonds, Series 2005C (the "2005C Bonds"), the City issued solely to the Philadelphia Authority for Industrial Development its $443,700,000 Airport Revenue Bond, Series 1998B (Philadelphia Airport System Project) (the "1998B Bond") to acquire a capital leasehold interest in two new terminals, Terminal A West and Terminal F, and related improvements at the Airport (the "Terminal A West/Terminal F Project") (See "THE AIRPORT SYSTEM – Recently Completed Capital Improvement Projects") and its $187,680,000 Airport Revenue Bond, Series 2001A (Philadelphia Airport System Project) (the "2001A Bond") to finance the cost of the completion of the acquisition of the leasehold interest in the Terminal A West/Terminal F Project. The City also issued $40,120,000 Airport Revenue Bonds, Series 2001B (the "2001B Bonds") to finance improvements and expansion to Terminal E. The 1997A Bonds, the 1997B Bonds, the 1998A Bonds, the 1998B Bond , the 2001A Bond, the 2001B Bonds, the 2005B Bonds and the 2005C Bonds are, and the 2005A Bonds will be, parity Airport Revenue Bonds under the General Ordinance. The 1998B Bond and the 2001A Bond are also secured by a pledge of Pledged PFC revenues. The 2005A Bonds are not secured by a pledge of Pledged PFC revenues.

Flow of Funds and Application of Project Revenues

Under the provisions of the General Ordinance, the City is required to deposit all Project Revenues and other amounts received which

relate to the Airport System into the Aviation Funds. The Aviation Funds are to be held separate and apart from all other funds and accounts of the City and the Fiscal Agent and the funds and accounts therein shall not be commingled with or loaned or transferred among themselves or to any other funds or accounts of the City (except for transfers between City funds which are expressly permitted by the General Ordinance).

Amounts on deposit in the Aviation Operating Fund shall be applied by the City or the Fiscal Agent, as the case may be, in the following order of priority:

(a) to pay operating expenses of the Outside Terminal Area and Overseas Terminal from amounts not constituting Project Revenues so long as revenues, rates, tolls or other charges generated or allocable to such areas are not pledged Project Revenues;

(b) to pay such sums constituting Net Operating Expenses in a timely manner;

(c) for deposit in the appropriate accounts of the Sinking Fund, the amount necessary to provide for the timely payment of Debt Service Requirements;

(d) for deposit in the Sinking Fund Reserve Account or the appropriate subaccount thereof, the amount, if any, required to eliminate any deficiencies therein; provided, however, in the event there are insufficient amounts available to replenish all of the accounts or subaccounts within the Sinking Fund Reserve Account, the amount to be deposited in each Sinking Fund Reserve Account or subaccount shall be determined by dividing the Sinking Fund Reserve Requirement on the outstanding Airport Revenue Bonds secured thereby by the sums of the Sinking Fund Reserve Requirements on all Airport Revenue Bonds outstanding and multiplying that result by the total amount available to be deposited under this clause (d);

(e) for deposit in the Renewal Fund, the amount, if any, required to eliminate any deficiency therein, and to pay amounts due and payable under Exchange Agreements;

(f) to pay termination amounts to a Qualified Swap Provider due as a result of the termination of a Qualified Swap and termination amounts payable to JPMorgan Chase Bank – New York, if any, with respect to Payments upon Early Termination on the Interest Rate Swap Transaction effective on June 15, 2005;

(g) for deposit in the Subordinate Obligation Fund: (i) the amount necessary to provide for the timely payment of the principal or redemption price of and interest on Subordinate Obligations, (ii) on or before the dates that other payments are due under any credit facility, liquidity facility or swap agreement constituting Subordinate Obligations, to deposit the amount necessary to make such payments, (iii) forward to the paying agent in respect of bond anticipation notes (payable by exchange for, or out of the proceeds of the sale of, Subordinate Obligations) the amount necessary to provide for the timely payment of interest thereon (to the extent not capitalized), and (iv) for deposit in the applicable subaccount of the sinking fund reserve account for a series of Subordinate Obligations the amounts, if any, required to eliminate any deficiency in such account;

(h) to pay to the City the amount necessary to provide for the timely payment of the principal or redemption price of and interest on General Obligation Bonds;

(i) to pay any Interdepartmental Charges; and

(j) to pay to the City the amount necessary to provide for the timely payment of the principal or redemption price of and interest on NSS (non-self-sustaining) General Obligation Bonds.*

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* No general obligation debt of the City described in "j" is currently outstanding.

Any amounts remaining in the Aviation Operating Fund following any transfer then required to be made pursuant to subparagraphs (a)-(j) above, may be used at the written direction of the City for any Airport System purposes.

Sinking Fund Reserve Account

Under the General Ordinance, the City is required to maintain a parity Sinking Fund Reserve Account within the Sinking Fund known as the Parity Sinking Fund Reserve Account. The City is required to maintain an aggregate balance in the Parity Sinking Fund Reserve Account for all Airport Revenue Bonds which are to be secured by the Parity Sinking Fund Reserve Account, equal to the lesser of (a) the greatest amount of Debt Service Requirements on Airport Revenue Bonds payable in any one FY, determined as of any particular date, or (b) the maximum amount permitted by the Internal Revenue Code of 1986, as amended (the "Code"), to be maintained without yield restriction for bonds, the interest on which is not includable in gross income for Federal income tax purposes; provided, however, that additional Airport Revenue Bonds may be secured by a Non-Parity Sinking Fund Reserve Account under certain circumstances. See APPENDIX IV –"SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS – The Amended and Restated General Airport Revenue Bond Ordinance – Summary of Operative Provisions of the General Ordinance – Establishment of Funds and Accounts."

In the event that the moneys in the Debt Service Account of the Sinking Fund are insufficient to pay as and when due, the principal of (and premium, if any) or interest on any Airport Revenue Bonds or other obligations payable from the Debt Service Account then due (including any amounts payable out of the Sinking Fund under Swap Agreements), the Fiscal Agent is authorized and directed (i) with respect to Airport Revenue Bonds secured by the Parity Sinking Fund Reserve Account, to withdraw an amount equal to the deficiency from the Parity Sinking Fund Reserve Account, and use such amount to pay debt service on the Airport Revenue Bonds secured thereby, and (ii) with respect to Airport Revenue Bonds secured by a Non-Parity Sinking Fund Reserve Subaccount, to withdraw an amount equal to the deficiency from such Non-Parity Sinking Fund Reserve Subaccount and use such amount to pay debt service on the Airport Revenue Bonds secured thereby. If by reason of such withdrawal or for any other reason there is a deficiency in the Sinking Fund Reserve Account or any subaccount thereof, the City has covenanted to restore such deficiency promptly from Project Revenues, in no event later than the next interest payment date for Airport Revenue Bonds outstanding under the General Ordinance.

Any moneys in the Sinking Fund Reserve Account or any subaccount thereof in excess of the applicable Sinking Fund Reserve Requirement shall be transferred on an annual basis to the Debt Service Account of the Sinking Fund at the written direction of the City.

Under the General Ordinance, in lieu of the required deposits into the Sinking Fund Reserve Account, the City may cause to be deposited in such Account an unconditional and irrevocable surety bond, an insurance policy or an irrevocable letter of credit in the required amount.

At the time of issuance of the 2005A Bonds, the City will deposit into the Sinking Fund Reserve Account a Debt Service Reserve Surety Bond (the "Reserve Surety Bond") issued by the Insurer, in fulfillment of its obligations under the General Ordinance with respect to the Sinking Fund Reserve Account.

Parity Sinking Fund Reserve Account Surety Bond

Concurrently with the issuance of the 2005A Bonds, the Insurer will issue its Reserve Surety Bond. The Reserve Surety Bond unconditionally and irrevocably guarantees the full and complete payments that are to be applied to payment of principal of and interest on the 2005A Bonds and any Bonds on a parity therewith and that are required to be made by or on behalf of the City under the General Ordinance, provided, that the amount available under the Reserve Surety Bond for payment shall not exceed the maximum amount set forth in the Reserve Surety Bond, which maximum amount represents the Parity Sinking Fund Reserve Requirement for the 2005A Bonds (the "Surety Bond Limit"); provided, further, that the amount available at any particular time to be paid to the Fiscal Agent under the terms thereof (the "Surety Bond Coverage") shall be reduced and may be reinstated from time to time as set forth therein.

The Reserve Surety Bond is non-cancelable and the premium will be fully paid at the time of delivery of the 2005A Bonds. The Reserve Surety Bond covers failure to pay principal on the 2005A Bonds or any bonds on a parity therewith on their maturity dates, or dates to which the same shall have been called for mandatory sinking fund redemption, and not on any other date to which such 2005A Bonds or any bonds on a parity therewith may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment.

Upon the later of: (i) three (3) days after receipt by the Insurer of a demand for payment (the "Demand for Payment"), duly executed by the Fiscal Agent; or (ii) the payment date of the 2005A Bonds, as specified in the Demand for Payment presented by the Fiscal Agent to the Insurer, the Insurer will make payments which will be sufficient for the payment to the Fiscal Agent, of amounts that are then due to the Fiscal Agent (as specified in the Demand for Payment) subject to the limits of the Surety Bond Coverage.

The amount payable by the Insurer under the Reserve Surety Bond pursuant to a particular Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the extent of each payment made by the Insurer thereunder and will be reinstated to the extent of each reimbursement of the Insurer pursuant to the provisions of the Financial Guaranty Agreement between the Insurer and the City (the "Financial Guaranty Agreement"); provided, that in no event shall such reinstatement exceed the Surety Bond Limit. For a more complete description of the Financial Guaranty Agreement, see APPENDIX IX—"SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS."

The term of the Reserve Surety Bond for the 2005A Bonds will expire on the earlier of (i) June 15, 2035 (the final maturity date of the 2005A Bonds), or (ii) the date on which the City has made all payments required to be made on the 2005A Bonds.

There is no acceleration payment due under a Reserve Surety Bond unless such acceleration is at the sole option of the Insurer.

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

Renewal Fund

The General Ordinance establishes a renewal fund (the "Renewal Fund") in the amount of $2,500,000 (the "Renewal Fund Requirement'). The amount required to be maintained in the Renewal Fund may be increased or decreased from time to time as determined by the Consultant. The Renewal Fund is maintained by the Fiscal Agent and, under the General Ordinance, may be used (1) to pay the cost of major repairs, renewals and replacements of Airport System facilities for purposes of meeting unforeseen contingencies and emergencies arising from the operation of the Airport System, (2) to pay expenses chargeable as Operating Expenses if Project Revenues are insufficient, for whatever reason, to cover such Operating Expenses in any FY, (3) to pay debt service on Airport Revenue Bonds, or (4) to repay any loan from the Aviation Capital Fund to the Aviation Operating Fund, in accordance with the requirements of the General Ordinance. If the amount in the Renewal Fund drops below the Renewal Fund Requirement, such deficiency must be restored by regular quarterly deposits from Project Revenues which shall not be required to exceed the total of $500,000 in any FY. If the monies and investments in the Renewal Fund are in excess of the Renewal Fund Requirement, the amount of such excess, on order of the Director of Finance, shall be paid over by the City to the Debt Service Account of the Sinking Fund, to be used and applied as are all other moneys deposited in or on deposit therein.

Rate Covenant

The City covenants with the holders of the Bonds, including the 2005A Bonds, that it will, at a minimum, impose, charge and recognize as revenues in each FY such rentals, charges and fees as shall, together with that portion of the Aviation Operating Fund balance attributable to Amounts Available for Debt Service and carried forward at the beginning of such FY and together with all other Amounts Available for Debt Service to be received in such FY, be equal to not less than the greater of:

(1) the sum of: (i) all Net Operating Expenses payable during such FY; (ii) 150% of the amount required to pay the Debt Service Requirements during such FY; (iii) the amount, if any, required to be paid into the Sinking Fund Reserve Account during such FY; and (iv) the amount, if any, required to be paid into the Renewal Fund during such FY; or

(2) the sum of: (i) all Operating Expenses payable during such FY, and (ii)(A) all Debt Service Requirements during such FY, (B) all debt service requirements during such FY in respect of all outstanding General Obligation Bonds issued for improvements to the Airport System and all outstanding NSS General Obligation Bonds issued for improvements to the Airport System, exclusive of General Obligation Bonds and NSS General Obligation Bonds issued for improvements to the Outside Terminal Area and the Overseas Terminal, unless revenues, rents, rates, tolls or other charges generated by or allocable to the Overseas Terminal and the Outside Terminal Area are pledged in a Supplemental Ordinance in accordance with Section 4.02 of the General Ordinance, (C) all debt service requirements during such FY on Subordinate Obligations and any other subordinate indebtedness secured by any Amounts Available for Debt Service, (D) all amounts required to repay loans among funds made pursuant to Section 4.05(c) of the General Ordinance, (E) the amount, if any, required to be paid into the Sinking Fund Reserve Account or Renewal Fund during such FY, and (F) all amounts required to be paid under Exchange Agreements.

For a further discussion of the funds and accounts, priority of payment, the Rate Covenant, the Alternative Rate Covenant which may be elected by the City, and other provisions of the General Ordinance, see APPENDIX IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS – The Amended and Restated General Airport Revenue Bond Ordinance."

Issuance of Additional Airport Revenue Bonds

The General Ordinance permits the issuance of additional Bonds which, except as otherwise provided in the General Ordinance, will be equally and ratably secured with the 2005A Bonds and all other outstanding parity Bonds issued under and/or subject to the General Ordinance. Additional Bonds may be issued under the General Ordinance to pay the costs of Projects relating to the Airport System (exclusive of the Outside Terminal Area and the Overseas Terminal unless the revenues therefrom are pledged), to reimburse the City for the prior payment of such costs, to fund any such costs for which the City shall have outstanding obligations, to refund Bonds or bonds of the City previously issued for such purposes or to finance other costs relating to the Airport System permitted under the Act; provided that, among other requirements, in each case other than certain refundings of Bonds, the City obtains reports of the Consultants stating, among other things, that (i) for either the immediately preceding FY of the City, or any period of 12 full consecutive months during the 18-month period preceding the delivery of the Consultants' reports, the Airport System yielded pledged Amounts Available for Debt Service, sufficient to satisfy the Rate Covenant, (ii) the Airport System will, in the opinion of the Consultant, yield pledged Amounts Available for Debt Service for each of the five FYs (or three FYs in the event that the Consultant is professionally unable to provide an opinion for a period in excess of three FYs) ended immediately following the issuance of the Bonds, sufficient to comply with the Rate Covenant, and (iii) a statement that the Airport System is in good operating condition or that adequate steps are being taken to return the Airport System to good operating condition. For a discussion of the issuance and assumption of additional Bonds under the General Ordinance, see APPENDIX IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS – The Amended and Restated General Airport Revenue Bond Ordinance – Summary of Operative Provisions of the General Ordinance – Conditions of and Provisions Relating to Issuing Bonds."

Authorization for Possible Transfer of Airport System

The General Ordinance provides that, under certain circumstances, the City has the ability to transfer the Airport System to a municipal authority created pursuant to the Municipality Authorities Act, or to an authority created pursuant to other authorizing legislation or to another entity which will assume the obligations evidenced by the outstanding Bonds. See APPENDIX IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS – The Amended and Restated General Airport Revenue Bond Ordinance – Summary of Operative Provisions of the General Ordinance – Conveyance of System and Assignment, Assumption and Release of Obligations" for a summary of the conditions which must be satisfied prior to any such transfer.

SOURCES OF PROJECT REVENUES UNDER THE GENERAL ORDINANCE

Use and Lease Agreements

General. The City has entered into individual Use and Lease Agreements with each of the Scheduled Airlines which require the Scheduled Airlines to make payments in each FY in amounts which, together with other Amounts Available For Debt Service, are sufficient to pay Operating Expenses and annual debt service on the outstanding Airport Revenue Bonds and general obligation bonds issued for the Airport System, exclusive of general obligation bonds issued for improvements to the Outside Terminal Area and the Overseas Terminal, and are sufficient to comply with the Rate Covenant in the General Ordinance. The Use and Lease Agreements establish procedures for annual review and adjustment of Scheduled Airline rates, fees and charges to take into account changes in expenses and revenues and to enable the City to collect sufficient Project Revenues from the operation of the Airport System to comply with the Rate Covenant in each year of the term of the Use and Lease Agreements. The Use and Lease Agreements provide for the rental of space and the use of the Airport by the Scheduled Airlines.

Term. Each Use and Lease Agreement has a term ending June 30, 2006 and is not coterminous with the amortization period of the 2005A Bonds, which extends beyond the expiration date of the current Use and Lease Agreements. In the absence of substitute or replacement Use and Lease Agreements, the City is empowered under the City's Home Rule Charter to promulgate rates and charges sufficient to satisfy the Rate Covenant relating to the Airport Revenue Bonds. See "Certain Other Revenues" below. However, the City's ability to establish, charge and collect air carrier rates and charges is subject to the requirements of federal law which may limit the City's ability to recover costs associated with vacant airline space. See "CERTAIN INVESTMENT CONSIDERATIONS – Expiration of Use and Lease Agreements" for a description of applicable federal law.

The City intends to negotiate and present to the City Council for approval new Use and Lease Agreements with the air carriers serving the Airport prior to the expiration of the current Use and Lease Agreements in 2006. However, no decisions have been made by the City regarding rate-making methods or other business arrangements that will be addressed in those negotiations. No assurance can be given that new Use and Lease Agreements will be in effect on or after July 1, 2006, or if such does occur, of the nature of such agreements.

Cost Centers

For purposes of developing rents, rates and charges under the Use and Lease Agreements, the Airport System has been divided into the following cost centers to which all revenues, expenses, debt service on Airport Revenue Bonds and debt service on general obligation bonds issued for Airport System purposes have been allocated.

Terminal Building. For purposes of allocating capital and operating costs and for calculating rentals, fees and charges for the Scheduled Airlines and the international and charter airlines, the Terminal Building comprises two subcost centers: the Domestic Terminal and the International Terminal. Revenues from the Terminal Building are Project Revenues and consist of concession revenues, space rentals, Payments-in-Aid of Terminal Building Operation and miscellaneous revenues.

Airfield Area, Cargo City, Other Areas and Northeast Philadelphia Airport. Revenues from the Airfield Area, Cargo City, Other Areas and Northeast Philadelphia Airport are Project Revenues and consist of landing fees, terminal and building rentals, site rentals, fuel flowage fees, concession fees and other direct charges.

Ramp Areas. For purposes of allocating capital and operating costs and for calculating rentals, fees and charges for the Scheduled Airlines and the international and charter airlines, the Ramp Area comprises two subcost centers: the Domestic Ramp and the International/Charter Ramp Revenues from the Ramp Areas are Project Revenues and consist of linear foot charges against each Scheduled Airline.

Outside Terminal Area. Revenues from the Outside Terminal Area are not Project Revenues and consist of net parking revenues and other miscellaneous charges. In some FYs these revenues have not been sufficient to support this City cost center on a self-sustaining basis. The Scheduled Airlines have agreed to pay up to $1,100,000 or fifty percent (50%) of the deficit (whichever is less) in each FY. It is the responsibility of the City, pursuant to the Use and Lease Agreements, to provide for the balance of the operating costs of this City cost center from other City funds.

Overseas Terminal. Revenues derived from the use of the Overseas Terminal are not Project Revenues. There are currently minimal revenues derived from the use of the Overseas Terminal. Operating deficits in this City cost center are the responsibility of the Scheduled Airlines pursuant to the Use and Lease Agreements.

The operations of the Overseas Terminal and the Outside Terminal Area cost centers have no effect on Project Revenues (except that Payments-in-Aid of the Outside Terminal Area are included in Project Revenues, but can be withdrawn under certain circumstances if the City elects the alternative definition of Project Revenues). See APPENDIX IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS – The Amended and Restated General Airport Revenue Bond Ordinance - Certain Definitions." Operating expenses and debt service allocable to these City cost centers are not taken into account for purposes of fixing rentals, fees and charges or compliance with the Rate Covenant, except under certain circumstances as described in the General Ordinance. Revenues allocable to the Outside Terminal Area or the Overseas Terminal may be pledged under certain circumstances as described in the General

Ordinance, in which event, Operating Expenses shall include operating expenses of the Outside Terminal Area or the Overseas Terminal, respectively. See APPENDIX IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS – The Amended and Restated General Airport Revenue Bond Ordinance – Summary of Operative Provisions of the General Ordinance – Pledge of Revenues; Grant of Security Interest; Limitation on Recourse."

Adjustment of Landing Fees, Rentals and Other Charges. Each Use and Lease Agreement contains provisions for annual adjustments of rentals, landing fees and other charges in connection with the City's budget making process to allow for past and future variations in revenues or expenses. In connection with certain adjustments for deficits, the City is required to give notice upon becoming aware of a 5% or greater increase in expenses. Additional provisions permit adjustments during any FY in the event of substantial (10% or more) decreases in revenues. These adjustment sections make provision for review by the Scheduled Airlines of the adjustments and set forth the specific methods of adjusting each type of payment. Each Use and Lease Agreement provides that the Scheduled Airline agrees that, pursuant to Authorizing Legislation (as defined therein), which includes the General Ordinance, the City shall impose, charge and collect and the Scheduled Airline agrees to pay such rental charges and fees as may be required pursuant to the authorizing legislation (including the Rate Covenant). Reference is made to APPENDIX IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS – Use and Lease Agreements" for a more detailed description of the adjustment provisions.

Operating Budget. The Aviation Operating Fund budget is developed annually by the City to provide sufficient appropriations for the payment of all operating expenses and debt service payments projected for the Airport System for the ensuing FY and satisfaction of the Rate Covenant. The budget, together with all other operating budgets of the City, is submitted by the Mayor to City Council for adoption at least 90 days prior to the beginning of such FY.

On the basis of the budget and applicable rate covenants prescribed in the General Ordinance, the City computes the rates and charges which it regards as necessary for the ensuing FY. The City and the Scheduled Airlines meet and review the budget and the City's rate computations to reach mutual agreement as to the level or rentals and fees to be assessed. In each FY since the inception of the Use and Lease Agreements, mutual agreement between the City and a Majority-in-Interest (defined herein) of the Scheduled Airlines has been reached. In the absence of mutual agreement, the Use and Lease Agreements provide that the rentals and fees computed by the City shall be imposed subject to the arbitration procedures prescribed in the agreements.

Majority-in-Interest; Present and Future Capital Expenditures. For the purposes of the Use and Lease Agreements, more than fifty percent (50%) in number of the Scheduled Airlines that have, on the date in question, more than fifty percent (50%) of the aggregate revenue aircraft landed weight at the Airport during the preceding FY constitute a "Majority-in-Interest." The decision of a Majority-In-Interest as to rentals and fees is binding on all Scheduled Airlines. In the event of a dispute between the City and the Scheduled Airlines, the rentals and fees, as calculated by the City in accordance with the Use and Lease Agreement and the Authorizing Legislation, with such revisions as deemed reasonable and appropriate by the City, shall become effective, subject to revision only pursuant to binding arbitration.

Any future Capital Expenditure (as defined in the Use and Lease Agreements) affecting the Terminal Building rentals, Ramp Area rentals, landing fees or Payments-in-Aid of Terminal Building Operation may be disapproved by a Majority-in-Interest unless such Capital Expenditure is for the Overseas Terminal; is required by a state or Federal agency; is of an emergency nature and, if not made, would result in the closing of the Airport within 48 hours; is for the Terminal Building and the City has fully credited all Payments-in-Aid of Terminal Building Operation; or is for the Outside

Terminal Area and the City has fully credited all Payments-in-Aid of Outside Terminal Area and of Terminal Building Operation. The Use and Lease Agreements provide that the Capital Expenditure is deemed approved unless, within 45 days of the meeting convened by the City with the Scheduled Airlines to discuss the proposed Capital Expenditure, the City is notified in writing of Majority-in-Interest disapproval of such Capital Expenditure.

The City has received written notice that the Scheduled Airlines have not disapproved the Capital Expenditure comprising the 2005 Project.

Miscellaneous. The City covenants in the Use and Lease Agreements that it will: efficiently manage and operate the Airport System on the basis of sound business and airport management principles and with efficient and prudent control of operating expenses; require all users of the Airfield Area to pay for the use thereof; develop, improve and maintain the Airport System and keep the same in good repair; and insure the Terminal Building against loss by procuring and keeping in force at all times insurance against loss and damage by fire and extended coverage perils in an amount not less than eighty percent (80%) of the replacement cost of the Terminal Building. The Scheduled Airlines have agreed that there will be no abatement of rent or fees payable by reason of the destruction of the Terminal Building, provided required payments shall be reduced by the proceeds of insurance.

Other Airline Agreements

Other air carriers operate at the Airport pursuant to written agreements (the "Other Airline Agreements") according to classifications as tenant or non-tenant, regional and commuter, all-cargo, scheduled or non-scheduled carrier. The Other Airline Agreements provide carriers a landing fee equal to that of the Scheduled Airlines and an exemption from some operating fees assessed to carriers which have not executed such agreements. The airlines which have executed Other Airline Agreements are Air Canada, AirTran, American Eagle, America West, BAX Global, Federal Express, Frontier Airlines, Mesa Airlines, Midwest Airlines, Pennsylvania Commuter, Piedmont Airlines, PSA, Southwest Airlines, UPS and USA 3000.

Air Jamaica, Air France, British Airways and Lufthansa, International Terminal tenants, are assessed rates and charges in accordance with the Memorandum of Understanding between the City and such airlines dated December 1990, as modified by the practice of the parties. International Terminal rates and charges are promulgated annually in the City's Airport rates and charges regulation.

Certain Other Revenues

Some air carriers operating at the Airport are governed by duly promulgated regulations of the Department of Commerce of the City, rather than pursuant to written agreements. Certain of these carriers are not tenants and, whether scheduled or nonscheduled, their operations at the Airport do not warrant the undertaking of the obligations imposed upon carriers entering into written agreements. Pursuant to the Use and Lease Agreements, rates and charges paid by such carriers may not be less than the rates and charges paid by the Scheduled Airlines.

Users of the Airport other than Scheduled Airlines and other air carriers include providers of aviation services, such as ground handlers, fixed base operators, fuelers and in-flight kitchen operators. Concessionaires provide services and products to passengers and visitors, and include, among other things, restaurant and fast-food service, newsstands and gift shops, rental cars, taxi and limousine and other forms of ground transportation and on-Airport and off-Airport parking. See "Philadelphia Parking Authority" below. Lease and license agreements with the providers of these products and services provide the Airport with rentals and concession revenues.

Philadelphia Parking Authority

The Philadelphia Parking Authority ("PPA") was established by City of Philadelphia ordinance in 1950 pursuant to the Pennsylvania Parking Authority Law, P.L. 458, No. 208 (June 5, 1947). Various statutes, ordinances, and contracts authorize PPA to plan, design, acquire, hold, construct, improve, maintain, and operate, own or lease land and facilities for parking in the City, including such facilities at the Airport; and to administer and enforce City on-street parking regulations for the City through an Agreement of Cooperation (the "Agreement of Cooperation") with the City.

Revenues under the Ground Lease with the Philadelphia Parking Authority. The PPA owns and operates five parking garages at the Airport, as well as operating a number of surface parking lots at the Airport. The land on which these garages and surface lots are located is leased from the City, acting through the Department of Commerce, Division of Aviation, pursuant to a lease expiring in 2030 (the "Ground Lease"). The Ground Lease provides for payment of rent to the City (the "Rental Payment"), which is equal to gross receipts less operating expenses, debt service on PPA's bonds issued to finance improvements at the Airport and reimbursement to PPA for capital expenditures and prior year operating deficits relating to its Airport operations, if any. The amount that was transferred from the PPA to the City's Aviation Operating Fund as rent on June 30, 2004 was $14,539,053. The City received transfers of rental payments in FY 2002 and FY 2003 that totaled $15,326,571 and $11,629,311, respectively. The amount that was transferred from the PPA to the City's Aviation Operating Fund as rent on June 30, 2005 was $27,239,110.

One component of operating expenses is PPA's administrative costs. In 1999, at the request of the Federal Aviation Administration ("FAA"), PPA and the City entered into a letter agreement (the "FAA Letter Agreement") which contained a formula for calculating PPA's administrative costs and capped such administrative costs at 28% of PPA's total administrative costs throughout all its revenue centers. (PPA owns and/or operates parking facilities at a number of non-Airport locations in the City. These parking facilities are revenue centers for purposes of the FAA Letter Agreement.)

BOND INSURANCE

Concurrently with the issuance of the 2005A Bonds MBIA Insurance Corporation (the "Insurer" or "MBIA") will issue its Financial Guaranty Insurance Policy for the 2005A Bonds (the "Policy").

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA for use in this Official Statement. Reference is made to Appendix VI for a specimen of MBIA's Policy.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the 2005A Bonds or the advisability of investing in the 2005A Bonds.

The Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Fiscal Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2005A Bonds, as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the 2005A Bonds, pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2005A Bonds. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of the 2005A Bonds, upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Policy also does not insure against nonpayment of principal of or interest on the 2005A Bonds, resulting from the insolvency, negligence or any other act or omission of the Fiscal Agent or any other paying agent for the 2005A Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Fiscal Agent or any owner of the 2005A Bonds, the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2005A Bonds, or presentment of such other proof of ownership of the 2005A Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2005A Bonds, as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the 2005A Bonds, in any legal proceeding related to payment of insured amounts on the 2005A Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Fiscal Agent payment of the insured amounts due on such 2005A Bonds, less any amount held by the Fiscal Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

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

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

Regulation

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

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

Financial Strength Ratings of MBIA

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

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

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

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

The above ratings are not recommendations to buy, sell or hold the 2005A Bonds, as the case may be, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2005A Bonds. MBIA does not guaranty the market price of the 2005A Bonds, nor does it guaranty that the ratings on the 2005A Bonds, will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2004, MBIA had admitted assets of $10.4 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2005 MBIA had admitted assets of $10.6 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.6 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

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

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

Incorporation of Certain Documents by Reference

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

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the 2005A Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

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

THE AIRPORT SYSTEM

General

The Airport System consists of the Airport and the Northeast Philadelphia Airport and is owned by the City and operated by the Division of Aviation of the City's Department of Commerce.

The City is classified as a large air traffic hub by the Federal Aviation Administration (the "FAA"). According to the Airport Council International, the Airport was ranked 17th in passenger traffic for calendar year 2004 among U.S. airports and served a total of approximately 14.2 million enplaned passengers in calendar year 2004. Origin-destination traffic accounts for approximately 59% of annual enplaned passengers. The remaining 41% of the annual passengers enplaned are connecting passengers. For a discussion of airline market share, passenger enplanements, airline landed weight and historical and projected airline traffic activity at the Airport, see APPENDIX II – "REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005 – Airline Traffic Analysis."

Management of the Airport System

The Airport System is managed by the Division of Aviation. The Director of Aviation, Charles J. Isdell, is responsible for the operation of the Division. As of January 1, 2005, there were approximately 1,000 persons employed by the City at the Airport.

Airport System operations are conducted under the supervision of the following members of the Division of Aviation Staff:

Charles J. Isdell, Director of Aviation – Charles Isdell was appointed Philadelphia's Director of Aviation in 2000. Prior to being appointed Director, he served as Deputy Director of Aviation for Operations and Maintenance (1995-2000). Mr. Isdell's commitment to passenger comfort and convenience has been the Airport's hallmark in the post-9/11 era.

Mr. Isdell is currently leading a master planning effort that is focused on the development of a more efficient airfield. The FAA approved a $40 million runway extension project in April 2005. An environmental impact study is now underway to evaluate a more extensive runway re-configuration. Both of these projects were selected by a presidential task force for streamlined environmental review.

Mr. Isdell holds Bachelor's and Master's degrees from Temple University. He has done post-graduate work at the Wharton School, George Washington University, the Massachusetts Institute of Technology and the University of California at Berkeley. He is accredited by the American Association of Airport Executives (AAAE) and has spoken at industry conferences in the United States and abroad. In 2004, he joined AAAE's Policy Review Committee.

In 2003, Mr. Isdell was named "Airport Director of the Year" by Airport Revenue News Magazine. A recipient of the 2003 March of Dimes Service to Humanity Award, he serves on the Board of the Philadelphia Convention and Visitors Bureau and is Chairman of the Board of Governors of the Philadelphia High School Aviation Academy.

T. Jeffrey Shull, Airport Chief of Staff – Mr. Shull is responsible for overall coordination of the Airport's Executive Staff, including four Deputy Directors. He also manages special projects for the Director. He is a licensed Commercial Pilot and a graduate of the Florida Institute of Technology with a Bachelor's Degree in Aviation Management and Flight Technology (1990). Prior to being appointed Chief of Staff, Mr. Shull was the Airport's Director of Security and Systems Technology (1995-2000) and has held various other positions with the Airport since 1991. Prior to joining the Airport Staff, he worked in numerous capacities for Continental Airlines and US Airways.

Edward C. Anastasi, Deputy Director of Aviation – Finance and Administration – Mr. Anastasi is responsible for financial services, procurement services, human resource management and general administration of the Airport System. He joined the Division of Aviation in 1977 and served as the Airport's Financial Services Manager from 1980 to 1997. He obtained his undergraduate degree (B.S. Accounting, 1971) from LaSalle University. Prior to joining the Airport, he served on the staff of the City Controller as a municipal audit supervisor.

Mark Gale, Deputy Director of Aviation – Operations and Facilities – Mr. Gale is responsible for leading a group of managers in directing the day-to-day activities of the Airport, including all aspects of airport operations, electrical and electronic services, design and construction, HVAC, pavement and grounds, facility services and related administrative units. Prior to being appointed Deputy, he served as the Airport's Operations Manager (1996-2000), and has held several other operations positions with the Division of Aviation since 1989. Mr. Gale holds a Bachelor's degree in Aeronautical Studies from Embry-Riddle

Aeronautical University (1987). He is an accredited member in the American Association of Airport Executives (AAAE). Mr. Gale also serves on several industry committees, including AAAE's Safety, Security and Technical Services Steering Group, as well as Airports Council International – North America (ACI-NA) Technical Affairs Committee.

James Tyrrell, Deputy Director of Aviation – Property Management and Business Development – Mr. Tyrrell is responsible for the Property Management and overall Business Development functions for the Airport System. He joined the Division of Aviation in 1987 and served as the Airport Properties Manager from 1993 to 2001. He obtained his undergraduate degree (B.S. Marketing/Management, 1982) from Saint Joseph's University. Prior to joining the Airport he worked in commercial real estate as a site selector for a franchise company.

Calvin M. Davenger, Jr., Deputy Director of Aviation – Planning and Environmental Stewardship – Mr. Davenger is responsible for directing the development of a comprehensive Airport Master Plan and associated programs for the utilization of the Airport's physical facilities. He is also responsible for ensuring that the Airport adheres to environmental and safety requirements. Mr. Davenger started his aviation career at Philadelphia International Airport in 1991. He received a B.S. degree in Mechanical Engineering from the Pennsylvania State University (1971) and was licensed in 1976 as a Registered Professional Engineer in Pennsylvania, while preparing for foreign assignments lasting nearly five years in the Middle East and Europe.

Description of the Airport

The Airport was opened in 1940, is owned by the City and operated by the Division of Aviation, and serves residents of and visitors to a broad geographic area that includes portions of four states: Pennsylvania, New Jersey, Delaware and Maryland. The primary service region of the Airport consists of the Philadelphia and Wilmington Metropolitan Statistical Areas. See APPENDIX II herein. The Airport is located partly in the southwestern section of the City and partly in the northeastern section of Delaware County about eight miles from center city Philadelphia. It is adjacent to Interstate 95 and is served by a commuter rail line with direct service to center city Philadelphia operated by the Southeastern Pennsylvania Transportation Authority ("SEPTA").

Land. The existing Airport boundary contains approximately 2,302 acres which the City owns in fee simple subject only to liens or encumbrances which do not interfere with the orderly operation of the Airport.

Airfield. The airfield pavements consist of parallel runways 9L-27R and 9R-27L, crosswind runway 17-35 and commuter runway 8-26, together with interconnecting taxiways and aircraft parking aprons. The runway system is capable of handling the largest commercial aircraft currently operated by the Scheduled Airlines.

Runway	Length	Width
9R-27L	10,500′	200′
9L-27R	9,500′	150′
17-35	5,460′	150′
8-26	5,000′	150′

Passenger Terminals. The Terminal Building contains approximately 2.7 million square feet, consisting of seven terminal units (A West, A East, B, C, D, E and F), each comprising a concourse, baggage claim area and terminal building. The Terminals can accommodate 120 aircraft boarding gates.

Ticketing and baggage claim operations occupy the ground level and are served by ground level roadways. Airline operational facilities and baggage make-up areas are located on the ground level of the Terminal Building and in the concourses. While airline office space is provided adjacent to ticket counter locations or in concourses, there are also offices in the connectors, the Terminal B Tower and the Baggage Claim Buildings. Concessions are located throughout the public areas on two levels of the Terminal Building.

All food, beverage and retail concessions in the terminal buildings are managed and operated under the Second Amended and Restated Master Lease, Development and Concession Agreement and Sub-Sublease Development and Concession Agreement (collectively, the “Master Lease Agreement”) between the City and Marketplace Redwood Limited Partnership which was executed in January 2001. The Master Lease Agreement provides for Marketplace Redwood to develop and manage Airport concessions showcasing national brands and local Philadelphia products.

Outside Terminal Area. The Outside Terminal Area contains a hotel, a service station site, car rental facilities, a ground transportation system, parking garages and surface lots.

The Philadelphia Parking Authority owns and operates the parking facilities at the Airport under two 1974 Agreements. The five parking garages, containing a total of 11,300 parking spaces, are adjacent to and connected with the Terminal Building by walkways. In addition, premium parking spaces for 925 vehicles are located at ground level in close proximity to the bag claim buildings. A remote economy surface lot with 5,600 parking spaces is serviced by buses to and from the Terminal Building complex.

Seven car rental companies (Avis, Budget, Dollar, Enterprise, Hertz, National and Alamo) lease parking areas and areas adjacent to the baggage claim building for shuttle bus pickup and drop off. Although the car rental concessions are physically located in the Outside Terminal Area, the majority of the revenues payable by the car rental companies are Project Revenues.

Parkway Corporation has managed the Airport ground transportation system since November 1993. Parkway provides for the orderly dispatch of taxicabs to and from the terminal baggage claim facilities and the sequencing of taxicabs in the Airport’s taxicab holding area. An eight-zone system for delineating commercial traffic is in effect on the north and south sides of the baggage claim areas, which provides separate zones for SEPTA, rental car shuttles, parking shuttles, hotel shuttles, taxicabs, inter-terminal shuttles, limousine and shuttle van services and charter buses and courier services. The City imposes egress fees for commercial vehicles based upon the seating capacity. All commercial vehicles are subject to the fees and must pay to enter the commercial roadway at a tollbooth operated by Parkway Corporation. The only exception to the fees is for those operators who do not operate “for hire” (i.e., rental car courtesy vehicles, hotel courtesy vehicles and parking shuttle services).

Host Marriott Corporation operates a 14-story, 419-room hotel on 2.85 acres leased from the City adjacent to the Terminals A-B parking garage. It features a restaurant, lounge and an 8,640 square foot grand ballroom.

Neither revenues nor expenses allocable to the Outside Terminal Area are included in either Project Revenues or Operating Expenses except as otherwise described in connection with Payments-in-Aid of Outside Terminal Area. Revenues allocable to the Outside Terminal Area may be pledged under certain circumstances as described in the General Ordinance, in which event Operating Expenses shall include the operating expenses of the Outside Terminal Area. See “SECURITY FOR THE 2005A BONDS – Flow of Funds and Application of Project Revenues”, “- Pledge of Project Revenues and Funds” and “- Certain Provisions of the General Ordinance Effective Upon City Election and Certain Consents.”

Overseas Terminal. Located on the east side of the Airport, the Overseas Terminal was placed in service in 1973 and contains approximately 90,950 square feet. Since completion of Terminal A East in 1991, scheduled international and charter airline activities have been conducted at the Terminal Building, and the Overseas Terminal is no longer in use.

The Use and Lease Agreements provide that any deficits in the Overseas Terminal cost center are to be paid by the Scheduled Airlines. Revenues and expenses allocable to the Overseas Terminal are not included in Project Revenues or Operating Expenses. Revenues allocable to the Overseas Terminal may be pledged under certain circumstances as described in the General Ordinance, in which event, Operating Expense shall include the operating expenses of the Overseas Terminal. See APPENDIX IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS – The Amended and Restated General Airport Revenue Bond Ordinance-Summary of Operative Provisions of the General Ordinance".

General Aviation Facilities. General aviation operations are serviced primarily by a commercial fixed based facility located at the easternmost end of the Airport. This facility, constructed and operated by Atlantic Aviation, opened in April 2000 with the following: an 8,000 square foot terminal building; two 23,000 square foot hangars, that include 6,500 square feet of attached office space; a 6,700 square foot ground equipment and maintenance building; a fuel farm consisting of two 15,000 gallon tanks and one 10,000 gallon tank; 17 acres of ramp space; and 23 based aircraft.

Cargo and Other Facilities. Air cargo facilities are located in eight major structures in and near Cargo City at the western end of the Airport Facilities that constitute Cargo City and consist of the following: U.S. Postal Service, American Airlines/United Airlines/Federal Express, US Airways, Aero Philadelphia, The Ridgely Group, West*Pac, L.P., and United Parcel Service.

US Airways operates an aircraft maintenance hangar and parking apron on 9.15 acres of land located in Cargo City.

Hertz Rent-A-Car operates a maintenance facility located on 10 acres of land at the corner of 84th Street and Bartram Avenue.

Recently Completed Capital Improvement Projects

Terminal A West (New International Terminal). This 800,000 square foot multi-level facility located west of former Terminal A (now called A East) contains thirteen gates, twelve of which can accommodate wide body jets, a new ticketing area, baggage handling facilities including an in-line Explosives Detection System (EDS), concession space, and a new area for Federal Inspection Services (FIS). The combined Terminal A Facility now has 25 gates, 17 of which can handle widebody jets. The project also included land acquisition, new aircraft parking aprons, and major modifications to the access roadways. The new terminal was opened in May, 2003. The total cost was approximately $600 million.

Terminal F (New Regional Airline Terminal). This 200,000 square foot facility contains thirty-eight (38) commuter aircraft parking positions, twenty-four of which are capable of accommodating regional jet (RJ) aircraft at loading bridges, a ticketing area, baggage handling facilities, and concession space, all at ground level. It also includes a second level structure connecting to Terminal E and to the Philadelphia Parking Authority airport parking garages. A 100-foot high ramp control tower is part of this building. The project also included new aircraft parking aprons, major modifications to the access roadways, and the construction of an addition to the power plant facility serving Terminals D and E. The new terminal was opened in June 2001. The total cost was approximately $135 million.

Ramp Control Tower. A new 200 foot high ramp control tower is located between Terminals A East and B, and is used to visually monitor ramp activity between Terminal A West and the west side of Terminal E. This works in conjunction with the new ramp control tower in Terminal F that is used to monitor the activity east of Terminal E. This facility was opened in October 2001. The total cost was approximately $17 million.

I-95 Access Ramps. New ramps have been constructed from both northbound and southbound I-95, which was necessary to provide access to the new Terminal A West. These ramps went into operation in 2003. The total cost was approximately $100 million. All costs were paid using state and federal highway funding except for about $9 million of PFC funds which were used for design to help speed the construction process.

Terminal D Concourse Expansion. A new 40,000 square foot structure was added to the south end of the concourse to provide four additional passenger gates, concession space, and expanded passenger circulation areas. The project also included a 12,000 square foot expansion of the Terminal D Baggage Claim Building to provide one new carousel and expanded circulation and bag claim office space. This facility was opened in November 2002. The total cost was approximately $22 million.

Aircraft Deicing Facility. A complete seven position deicing facility was constructed adjacent to the western end of Runway 9L-27R. The facilities constructed under this project include approximately 90,000 square yards of concrete deicing apron, an extensive glycol distribution and recovery system, a two-story deicing system control building and a system of twelve 55-foot high booms. The facility went into operation during the 2002/2003 winter. The total cost was approximately $53 million.

Fire Training Facility. The new aircraft fire training facility consists of a concrete fire burn pit, with mock aircraft, a stone maneuvering area surrounding the pit, a control building, access road, parking area and necessary utilities. The facility is located along Hog Island Road and west of the UPS facility. The fire burn pit is a shallow concrete 125 foot diameter ring with sloping bottom for drainage. The pit contains a propane distribution network and computerized control system capable of simulating real life aircraft fire. The facility went into operation in 2002. The total cost was approximately $10 million.

Airfield Improvements. Various projects have been in progress to renovate and upgrade existing airfield facilities. The resurfacing of Runway 17-35 was completed in 2004 with an approximate cost of $7 million. The aircraft parking aprons in the vicinity of Terminals D and E and in the Cargo City area are being replaced through multi-year construction programs. The work in those two areas is estimated to have a total cost of $45 million, and to be completed in 2007. Approximately 20% of the work has been completed to date. Also, a Surface Movement Guidance and Control System (SMGCS) project is underway, which will enhance safety on the Airfield. This project is expected to be completed in the summer of 2005. The estimated total cost is $8 million.

Northeast Philadelphia Airport

Northeast Philadelphia Airport is located on a 1,240-acre tract of land situated within the City limits 13 miles northeast of center city Philadelphia and provides for general aviation, air taxi and corporate, as well as occasional military use.

The airport currently has no scheduled commercial service. There are currently 85 T-hangars, 6 corporate hangars and 6 open hangars for general aviation activities.

General aviation fuel for both propeller and jet aircraft fueling services and aircraft and avionics maintenance are available. There are approximately 220 general aviation based aircraft at Northeast Philadelphia Airport.

On December 8, 1998, the Division of Aviation finalized an agreement with Atlantic Aviation Flight Support, Inc. for the development and operation of Fixed Base Operations at Northeast Philadelphia. The agreement is for a 20 year period with two renewal terms for five and three years, respectively. Under the financial terms of the agreement, Atlantic Aviation Flight Support, Inc. has spent over one million dollars for renovation and repairs to facilities at Northeast Philadelphia Airport.

Future Airport System Capital Improvement Projects

Future projects in the City's capital program for FY 2006 through FY 2011 include various improvements and upgrades to terminal facilities, runways, taxiways, and roadways, as follows:

- Runway 17-35 will be extended by 640 feet to the north and 400 feet to the south. The project will also include new airfield lighting, extension of adjacent taxiways and modification of nearby roadways. In March 2005 the FAA issued a final Environmental Impact Statement ("EIS") for this project, and on April 29, 2005, the FAA issued a Record of Decision (ROD) approving the project.

- Various improvements to aprons and taxiways include the reconstruction of the Terminals D-E and cargo aircraft aprons.

- Other ongoing projects at the Airport include land acquisition, soundproofing of surrounding homes, improvement of mechanical and electrical systems, renovation of existing structures and buildings, modification of the roadway system, and upgrade of airfield lighting systems.

Such projects are estimated to cost approximately $135 million and are expected to be funded through a combination of passenger facility charge (PFC) revenues, federal and State grants-in-aid, and other City funds.

The City is currently updating its Airport Master Plan and preparing an associated EIS to ensure that the Airport can be developed to accommodate long-term requirements. The capital program beyond FY 2011 is being refined and updated as part of the Master Plan process and is expected to include a comprehensive airfield capacity enhancement program, possibly including extension of the existing runways, construction of new runways, and relocation of Airport facilities.

Such future capital projects will be initiated only in response to identified requirements or demand and as economically justified. The City has not committed to issuing any additional Bonds to finance the capital program.

Funding Sources for Airport System Capital Improvement Projects

Over the years, Airport System capital improvements have been financed primarily through Federal and Commonwealth grants-in-aid, PFC revenues, and the sale of Airport Revenue Bonds and general obligation bonds. The Airport expects to continue to fund its capital improvement projects with a combination of Federal and Commonwealth grants-in-aid, proceeds from additional issues of Airport Revenue Bonds and future PFC revenues.

Airport Revenue Bonds and General Obligation Bonds of the City. Over the years, the financing of a portion of the capital improvements to the Airport System has been accomplished through the sale of Airport Revenue Bonds and the City's general obligation bonds. The City has previously issued several series of general obligation bonds and thirteen series of Airport Revenue Bonds, eight of which are currently outstanding (the 1997A Bonds, the 1997B Bonds, the 1998A Bonds, the 1998B Bond, the 2001A Bond, the 2001B Bonds, the 2005B Bonds and the 2005C Bonds). As of June 30, 2005, there were $1,101,720,000 of Airport Revenue Bonds outstanding for the Airport System.

Federal Grants-in-Aid. The Airport and Airway Improvement Act of 1982 created the Airport Improvement Program (the "AIP"), which is administered by the FAA and funded by the Airport and Airway Trust Fund. This fund is financed by Federal aviation user taxes. Grants are available to airport operators in the form of "entitlement" funds and "discretionary" funds. Entitlement funds are apportioned annually based upon cargo volume and enplaned passengers and discretionary funds are available at the discretion of the FAA based upon a national priority system. Actual entitlement funds will vary with the actual numbers of passenger enplanements and cargo volume, with total appropriations for the AIP and with any revision of the existing statutory formula for calculating such funds. In addition, pursuant to the PFC Act (defined below) and the Aviation Investment and Reform Act for the 21st Century, an airport's annual Federal passenger entitlement grants are reduced 50% following the imposition of PFCs at the $3.00 level and 75% following imposition at the $4.50 level.

Since 1982, the Division of Aviation has received grants from the Federal government under the AIP. In each of federal fiscal years 2001 through 2004, the Division of Aviation received entitlement grants ranging from $5.7 million to $9.2 million and discretionary grants ranging from $6.2 million to $25.9 million.

Commonwealth Grants-In-Aid. The Pennsylvania Department of Transportation provides grants for airport improvements. In recent years, the Division of Aviation has received approximately $800,000 per year for improvements at the Airport and $200,000 for improvements at the Northeast Philadelphia Airport. These grants are expected to continue at this rate with the funds for the Airport being used for airfield improvements.

Passenger Facility Charges. PFCs are fees authorized by the Aviation Safety and Capacity Expansion Act of 1990, as amended (the "PFC Act"), as implemented by the FAA pursuant to published regulations issued with respect to the PFC Act (the "PFC Regulations"). The PFC Act allows a public agency such as the City, which controls a commercial service airport to charge each paying passenger enplaning at the airport (subject to certain limited exceptions) a PFC of $1.00, $2.00, $3.00, $4.00 or $4.50. Pursuant to the PFC Act and to the City's current approvals from the FAA, the City may, with certain exceptions, charge each paying passenger who enplanes at the Airport a PFC of $4.50. The annual amount of PFCs payable to the City thus depends upon the number of passenger enplanements at the Airport. The PFC Act requires air carriers and their agents to collect the PFCs and to remit to the City once each month the proceeds of such collections, less a handling fee and without interest earned prior to such remittance.

PFC revenues are to be used to finance approved airport-related projects that preserve or enhance capacity, safety or security of the national air transportation system, reduce noise from an airport that is part of the system or provide an opportunity for enhanced competition between or among air carriers or foreign air carriers. These projects include airport development or planning, terminal development, airport noise compatibility measures and planning and construction of gates and related areas (other than restaurants, rental car facilities, automobile parking or other concessions) for the movement of passengers and baggage.

The FAA approval provides that bond documents, such as the General Ordinance, may define pledged airport revenues in a manner that would include PFC revenues. However, the FAA approval also provides that the use of PFC revenues is limited to the allowable costs of approved PFC projects ("PFC-Eligible" projects) and may not be used to pay debt service on any bonds issued to finance non-PFC-Eligible projects. The use of PFC revenues deposited in the special PFC account in the Aviation Capital Fund for any other project would require special FAA approval. Under the General Ordinance, PFC revenues do not constitute Project Revenues, but may be included in Amounts Available for Debt Service to the extent that such PFC revenues have been pledged pursuant to a Supplemental Ordinance. See APPENDIX IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS – The Amended and Restated General Airport Revenue Ordinance – Certain Definitions."

The City Program. The City has, since September 1992, been authorized by the FAA to impose a PFC on eligible passengers enplaned at the Airport and to use PFC revenues to pay the costs of various FAA-approved projects. The PFC was initially $3.00 per passenger and, effective April 1, 2001, was increased to $4.50 per passenger. The City has authority from the FAA to impose the PFC through an estimated date of July 1, 2013, and to collect PFC revenues, inclusive of investment earnings, of approximately $1.2 billion.

The City is authorized to use PFC revenues to pay a portion of the Debt Service Requirements of the 1998B Bond and the 2001A Bond and has pledged PFC revenues equal to 100% of the annual amount of PFC-eligible debt service on the 1998B Bond and the 2001A Bond, subject to the limitation that in no year shall the amount pledged exceed the lesser of (1) 70% of PFC revenues received by the City in such year, or (2) 75% of total debt service on the 1998B Bond and the 2001A Bond in such year.

Through March 31, 2005, PFC revenues received by the City, including investment earnings, totaled $449 million, of which $388 million had been expended on approved project costs, as shown in the following tables:

Table 1

HISTORY OF APPLICATIONS TO USE PFC REVENUES
Philadelphia International Airport

PFC Application No.	Approval Date	Initial Approved Amount	Amended Approved Amount
93-02-U-00-PHL	05/15/1993	$ 14,250,000	$ 12,902,724
95-03-C-00-PHL	02/27/1995	101,500,000	94,683,961
95-04-U-00-PHL	10/13/1995	950,000	1,270,605
95-05-C-00-PHL	11/21/1995	14,000,000	14,000,000
98-06-C-00-PHL	02/11/1998	26,150,000	23,560,410
99-08-U-00-PHL	10/12/1999	672,000,000	999,267,790
01-09-C-00-PHL	02/22/2000	22,250,000	24,400,000
Totals		$ 851,100,000	$1,170,085,490

Source: City of Philadelphia, Division of Aviation.

Table 2

PFC REVENUES THROUGH 3/31/05
Philadelphia International Airport

FY	COLLECTIONS	INTEREST	TOTAL REVENUES
1993	$ 14,484,101	$ 142,790	$ 14,626,891
1994	22,605,318	1,111,511	23,716,829
1995	21,828,173	2,285,485	24,113,658
1996	22,817,704	2,277,935	25,095,639
1997	27,229,901	1,837,334	29,067,235
1998	30,931,674	1,654,752	32,586,426
1999	29,408,652	2,018,264	31,426,916
2000	32,278,858	2,828,083	35,106,941
2001	31,880,729	3,362,695	35,243,424
2002	53,688,877	2,112,347	55,801,223
2003	43,961,971	1,537,729	45,499,700
2004	51,766,443	808,417	52,574,859
2005 (9 Mos.)	43,300,268	801,409	44,101,676
Totals	$426,182,669	$22,778,750	$448,961,419
Expenditures through 3/31/2005			388,307,004
Balance			$ 60,654,415

Source: City of Philadelphia, Division of Aviation.

Aviation Activity at the Airport

There are 32 airlines currently serving the Airport that provide, as of April, 2005, a total of 718 daily non-stop departures to 117 cities, including 85 domestic and 32 international destinations. The scheduled passenger airlines serving the Airport and their respective market shares are listed in Tables 3 and 4 below. For a more detailed description of airline market share, passenger enplanements, airline landed weight and historical and projected airline traffic activity at the Airport, see APPENDIX II – "REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005 – Airline Traffic Analysis" herein.

Table 3

HISTORICAL ENPLANED PASSENGERS

Philadelphia International Airport

FY	Domestic	International	Total	Total annual increase (decrease)
1990	7,400,854	379,667	7,780,521	
1991	7,322,959	388,954	7,711,913	(0.9%)
1992	7,041,274	534,004	7,575,278	(1.8)
1993	7,645,396	582,621	8,228,017	8.6
1994	7,777,184	607,718	8,384,902	1.9
1995	8,419,133	634,955	9,054,088	8.0
1996	8,538,732	665,334	9,204,066	1.7
1997	9,502,168	890,094	10,392,262	12.9
1998	10,601,187	1,104,443	11,705,630	12.6
1999	10,737,979	1,329,813	12,067,792	3.1
2000	10,652,391	1,326,524	11,978,915	(0.7)
2001	11,149,732	1,521,721	12,671,453	5.8
2002	10,501,846	1,499,659	12,001,505	(5.3)
2003	10,519,234	1,617,391	12,136,625	1.1
2004	11,149,952	1,938,821	13,088,773	7.9
First 9 months				
2004	8,059,396	1,377,861	9,437,257	5.6%
2005	9,800,488	1,490,363	11,290,851	19.6%
	Average annual percent increase			
1990-2001	3.8%	13.5%	4.5%	
1996-2001	5.5	18.0	6.6	
2001-2004	0.0	8.4	1.1	

Note: The City's FY ends June 30.
Source: City of Philadelphia, Division of Aviation.

Table 4

AIRLINE SHARES OF ENPLANED PASSENGERS
Philadelphia International Airport

	FY 2003		FY 2004	
	Number	**Percent**	**Number**	**Percent**
Domestic service				
Scheduled major and national *(a)*				
US Airways	5,752,074	47.4%	5,822,698	44.5%
American	747,764	6.2	687,624	5.3
United	637,684	5.3	678,749	5.2
Delta	635,139	5.2	617,363	4.7
AirTran	314,135	2.6	470,637	3.6
Northwest	388,297	3.2	397,993	3.0
America West	203,122	1.7	216,860	1.7
Continental	158,787	1.3	159,591	1.2
ATA	120,510	1.0	155,188	1.2
Southwest	--	--	72,892	0.6
Midwest Express	28,746	0.2	31,954	0.2
USA 3000	701	--	19,713	0.2
Frontier	--	--	10,393	0.1
TWA	--	--	--	--
Sunworld	475	--	--	--
Spirit	--	--	--	--
Nations Air	--	--	--	--
National	28,558	0.2	--	--
Midway	--	--	--	--
Other	--	--	--	--
Total	9,015,992	74.3%	9,341,655	71.5%
Scheduled regional				
US Airways Express	1,272,342	10.5%	1,509,806	11.5%
Other	210,555	1.7	288,998	2.2
	1,482,897	12.2%	1,798,804	13.7%
Nonscheduled	20,345	0.2	9,493	0.1
Total domestic service	10,519,234	86.7%	11,149,952	85.2%

	FY 2003		FY 2004	
	Number	**Percent**	**Number**	**Percent**
International service				
Scheduled				
US Airways	1,202,017	9.9%	1,494,116	11.4%
British Airways	135,306	1.1	133,986	1.0
Lufthansa	58,868	0.5	69,245	0.5
Air France	47,573	0.4	51,570	0.4
Air Jamaica	47,158	0.4	42,876	0.3
USA 3000	18,869	0.2	35,296	0.3
Air Canada	27,455	0.2	37,861	0.3
Air Canada Jazz	41,327	0.3	29,045	0.2
US Airways Express	12,220	0.1	24,885	0.2
Total	1,590,793	13.1%	1,918,880	14.6%
Nonscheduled	26,598	0.2	19,941	0.2
Total international service	1,617,391	13.3%	1,938,821	14.8%
Total service	12,136,625	100.0%	13,088,773	100.0%

Note: The City's FY ends June 30.

(a) Major airlines are defined by the U.S. Department of Transportation as those with annual operating revenues of more than $1 billion; national airlines are those with revenues between $100 million and $1 billion.

Source: City of Philadelphia, Division of Aviation.

Information Concerning the Scheduled Airlines

General. There are five Scheduled Airlines which have each entered into Use and Lease Agreements with the City (American Airlines, Delta Air Lines, Northwest Airlines, United Airlines and US Airways) which require the Scheduled Airlines to make payments in each FY in amounts which, together with other Project Revenues and other pledged Amounts Available for Debt Service such as pledged PFC revenues, are sufficient to pay Operating Expenses and annual debt service on all of the City's outstanding Airport Revenue Bonds and general obligation bonds issued for the Airport System (exclusive of general obligation bonds issued for improvements to the Outside Terminal Area and the Overseas Terminal) and are sufficient to comply with the Rate Covenant. See "SOURCES OF REVENUES UNDER THE GENERAL ORDINANCE – Use and Lease Agreements". Each of the Scheduled Airlines serving the Airport is subject to the information requirements of the Securities Exchange Act of 1934 and, in accordance therewith, must file reports and other information with the Securities and Exchange Commission (the "Commission"). Certain information, including financial information, concerning each of the Scheduled Airlines (or its parent corporation) is disclosed in certain reports and statements filed with the Commission. Such reports and statements can be inspected in the Public Reference Room of the Commission at 450 Fifth St., N.W., Washington. D.C. 20549, or at the SEC website at http://www.sec.gov, and copies of such reports and statements can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. In addition, each Scheduled Airline is required to file periodic reports of financial and operating statistics with the Department of Transportation. Such reports may be inspected at the following location: Office of Aviation Information Management, Data Requirements and Public Reports Division Research and Special Programs Administration, Department of Transportation, 400

Seventh Street, S.W., Washington, D.C. 20590. Additional data may be posted at the websites of the respective airlines. The City makes no representation as to the accuracy or completeness of any such information prepared and filed by any of the Scheduled Airlines.

US Airways. According to the records of the Division of Aviation, US Airways, Inc. ("US Airways") and its commuter partners accounted for 67% of the total enplaned domestic and international passengers at the Airport in the FY ended June 30, 2004.

Based on its current activities at the Airport, US Airways is an "obligated person" as such term is defined by Rule 15c2-12, promulgated by the Securities and Exchange Commission ("Rule 15c2-12") and as used in the Continuing Disclosure Agreement to be executed by the City and acknowledged by US Airways in connection with the delivery of the 2005A Bonds. See "CONTINUING DISCLOSURE AGREEMENT" and APPENDIX VIII – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

Bankruptcy Proceedings of US Airways. The following constitutes only a summary of certain matters relating to US Airways and the bankruptcy proceedings discussed below. Additional information regarding US Airways and the bankruptcy proceedings may be obtained from the Commission. See "THE AIRPORT SYSTEM" – Information Concerning The Scheduled Airlines."

US Airways filed for Chapter 11 bankruptcy protection in August 2002 and emerged from bankruptcy in March 2003. As part of its bankruptcy reorganization, the airline received from the Air Transportation Stabilization Board (ATSB) a federal guarantee of $0.9 billion of a $1.0 billion loan. Under a transformation plan revealed in early 2004, US Airways announced plans to lower and simplify fares, cut labor and other costs, and restructure its route network and flight operations to increase productivity. After failure to achieve the sought cost savings, the airline again filed for Chapter 11 protection in September 2004.

In November 2004, US Airways drastically reduced service at its Pittsburgh hub. Also in November 2004, US Airways announced a comprehensive agreement with GE Capital Aviation Services and GE Engine Services regarding the financing and leasing of aircraft and engines. The agreement provided the airline with short-term liquidity, reduced leasing costs, and ensured continued access to its leased aircraft fleet.

In January 2005, US Airways and the ATSB reached an agreement that extended the airline's use of the cash proceeds from its federally guaranteed loan, allowing the airline to continue operations while it completes its reorganization and emergence from bankruptcy protection. Also in January 2005, US Airways announced that it had ratified agreements with its pilots, flight attendants, mechanics, and other employee groups to achieve estimated savings in compensation and benefits of approximately $1.1 billion annually. In February 2005, the U.S. Pension Benefit Guaranty Corporation assumed responsibility for the pensions of many US Airways employees, guaranteeing payment of an estimated funding shortfall of $2.3 billion.

In May 2005, US Airways and America West Airlines announced a proposed merger that would create the fifth or sixth largest U.S. airline. The merged airline would operate under the US Airways name, be headquartered in Tempe, Arizona, and have its primary hubs in Charlotte, Philadelphia, and Phoenix. In June 2005, the U.S. Department of Justice completed its antitrust review and approved the merger, concluding that it would not reduce competition. Also in June 2005, US Airways confirmed that it will sell regional jet aircraft and slot assets to Republic Airways, generating approximately $100 million in liquidity.

On June 30, 2005, US Airways filed with the federal bankruptcy court its plan of reorganization, which is built on the proposed merger with America West, and a disclosure statement with respect thereto. Since there were no competing bids for US Airways assets, on July 7, 2005 the Bankruptcy Court ordered the submission of the plan of reorganization and the disclosure statement to creditors. In connection with its plan to emerge from bankruptcy, US Airways announced it has obtained commitments for a total of approximately $565 million in new equity financing. Investors include ACE Aviation Holdings – the parent of Air Canada, Eastshore Aviation – a subsidiary of Air Wisconsin, and several hedge funds. A $250 million loan from Airbus is also expected as part of an agreement for US Airways to acquire new Airbus aircraft.

The bankruptcy court has set an August 9, 2005, hearing date on approval of the plan of reorganization. Other approvals required for the merger to become effective include those by the America West shareholders, the US Airways creditors, the Commission, the U.S. Department of Transportation, and the ATSB. The two airlines have announced the goal of closing the merger transaction by October 2005.

Notwithstanding the financial relief afforded by the various agreements associated with the reorganization and proposed merger, the airline's financial situation and industry conditions make a future liquidation of US Airways a possibility.

THE AIRPORT SERVICE AREA

For a discussion of the service area and the secondary service area of the Airport, see APPENDIX II – "REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005 – Airline Traffic Analysis – Airport Service Region." See also APPENDIX V – "CERTAIN INFORMATION CONCERNING THE CITY OF PHILADELPHIA."

FINANCIAL FACTORS

The City Controller has not participated in the preparation of the budget estimates and projections set forth in various tables contained in this Official Statement or otherwise set forth herein. The financial statements, tables, statistics and other information contained in this Official Statement have been provided by the Division of Aviation and can be reconciled to the financial statements in the City's Comprehensive Annual Financial Report ("CAFR") for the FYs 2000 through 2004.

Historical Project Revenues and Expenses

For information regarding the historical Project Revenues and expenses of the Airport System, see the Report of the Airport Consultant included as APPENDIX II of this Official Statement. The Report of the Airport Consultant should be read in its entirety.

The data in Table 5 shown below have been provided by the Division of Aviation from its unaudited accrual basis reports and presents information regarding Project Revenues and expenses of the City's Airport System.

TABLE 5

SUMMARY OF HISTORICAL PROJECT REVENUES AND EXPENSES
OF THE AIRPORT SYSTEM
CITY OF PHILADELPHIA
(FYs Ended June 30)
(Dollar amounts are listed in thousands)

Line	AMOUNTS AVAILABLE FOR DEBT SERVICE	2000	2001	2002	2003	2004
	Scheduled Airline Rentals, Fees and Charges					
1.	Revenue deferred from prior year	$ 17,754	$ 16,838	$ 18,105	$ 28,341	$ 17,768
2.	Space rentals	33,503	35,630	36,370	40,519	39,195
3.	Landing fees	27,168	34,702	32,581	30,945	35,963
4.	Ramp Area rentals	2,238	1,753	1,304	1,053	1,144
5.	Terminal Payments-in-Aid	5,017	8,200	10,681	10.534	19,421
6.	Outside Terminal Area Payments-in-Aid	0	0	0	0	0
7.	International Terminal revenues	9,818	10,592	9,892	10,187	24,619
8.	Revenue deferred to subsequent year	-16,838	-18,105	-28,341	-17,768	-18,688
9.	Subtotal, Scheduled Airline Revenue	$ 78,660	$ 89,610	$ 80,593	$ 103,811	$ 119,422
10.	Non-airline Revenues	49,919	56,966	64,713	63,162	62,732
11.	Interest Income	1,849	1,405	1,160	1,351	1,153
12.	Total Project Revenues	130,428	147,981	146,466	168,324	183,307
13.	Passenger Facility Charges (PFCs)Available for Debt Service	0	0			32,777

				16,796	31,234	
14.	Total Amounts Available for Debt Service	130,428	147,981	163,262	199,558	216,084
	EXPENSES					
15.	Net Operating Expenses	51,755	59,582	56,316	66,977	71,863
16.	Required Renewal Fund Deposit	0	0	0	0	0
17.	Revenue Bond Debt Service	36,514	44,813	64,068	83,175	89,653
18.	General Obligation Bond Debt Service	5,688	5,743	2,050	1,436	1,051
19.	Interdepartmental Charges	35,327	36,038	39,686	46,147	52,218
20.	Total Expenses	129,284	146,176	162,119	197,735	214,786
21.	**NET REVENUE**	$ 1,143	$ 1,805	$ 1,143	$ 1,823	$ 1,298
	RATE COVENANT TESTS OF THE ORDINANCE					
22.	Test A (Line 14–Line 15–Line 16)/(Line 17)	2.15	1.97	1.67	1.59	1.61
23.	Test B (Line 14-Line 15–Line 16–Line 19)/(Line 17+Line 18)	1.03	1.04	1.02	1.02	1.01

Note: The information presented above reconciles to the General Purpose Financial Statements, which include the Aviation Fund, contained in the City's Comprehensive Annual Financial Reports, which are audited by the Office of the City Controller.

Management Discussion of Historical Summary

Table 5 presents the annual revenues and expenses of the Airport System excluding those generated by or allocable to the Overseas Terminal and the Outside Terminal Area (other than Payments-in-Aid of the Outside Terminal Area). The information contained in this table is presented on the accrual basis of accounting adjusted to meet the particular requirements of the Use and Lease Agreement, as amended, and the General Ordinance. See APPENDIX I – "FINANCIAL STATEMENTS OF THE DIVISION OF AVIATION".

A fundamental goal of Airport management is to contain costs so as to minimize increases in airline rentals and fees. The achievement of this goal is reflected in the financial results presented in Table 5. From FY 2000 to FY 2002, increases in Operating Expenses (the sum of Net Operating Expenses and Interdepartmental Charges) were held to an annual rate of 5.0%, notwithstanding the opening of Terminal F, a 100,000 square-foot regional passenger terminal, in June 2001. The containment of operating costs, coupled with an increase in non-airline revenues, enabled management to maintain an average annual increase in Scheduled Airline revenues of 1.2% from FY 2000 to FY 2002.

Cost savings measures instituted in FY 2000 through FY 2002 served to lessen the budgetary effects of Terminal F. These initiatives included the following:

- A line item cost review after September 11, 2001, which produced budget cuts in personal services, equipment purchases and contractual services totaling $12.1 million.

- A $1.0 million annual savings from a fleet rationalization program and an alternative fuel heating program.

- A $700,000 savings in utility costs resulting from internal audits of electricity and natural gas billings.

During FY 2003, the Airport's new international terminal (Terminal A West) opened. This four-level 800,000 square-foot facility increased Airport passenger terminal space by 42%, from 1.9 million square feet to 2.7 million square feet. This significant expansion of the terminal building primarily accounted for the 13.7% increase in Operating Expenses from FY 2002 to FY 2004. The specific components of this increase include the following:

- Additional contractual services, utility consumption, janitorial and trades staffing and materials/supplies acquisitions associated with Terminal A West ($13.1 million).

- Additional police staffing for Terminal A West ($0.6 million) and the cost of implementing federal security measures mandated by the Transportation Security Administration after September 11, 2001 ($2.0 million).

- An increase in payroll and fringe benefit costs ($6.6 million) resulting from the City's collective bargaining agreements with AFSCME District Council #33, AFSCME District Council #47, the Fraternal Order of Police and International Fire Fighters Local #22, in effect during FY 2002 to FY 2004.

- Increases in various expense line items ($5.8 million) associated with price escalations and growth in Airport traffic from FY 2002 to FY 2004, including a 9.1% percent increase in Airport passengers.

Total Operating Expenses of $124 million in FY 2004 (the first full year of Terminal A West operations) were $10 million lower than forecast in the Report of the Airport Consultant dated June 30, 2001, prepared in connection with the issuance of the 2001A Bond and the 2001B Bonds.

Growth in non-airlines revenues also served to minimize increases in Scheduled Airline Revenues. From FY 2000 to FY 2004, non-airline revenues increased at an average annual rate of 5.9%. This increase is attributable to the following:

- Payments from the Transportation Security Administration totaling $1.4 million annually, to partially defray the cost of implementing post-September 11, 2001 mandated federal security measures.

- A $6.8 million increase in terminal rentals and landing fees from non-Scheduled Airlines due to the commencement of air service by Southwest Airlines, Frontier Airlines and USA 3000, and leasehold expansion by AirTran Airways.

- A $1.6 million increase in cargo building and land rentals due to long-term ground lease renewals and the completion of a new aircraft maintenance hangar by US Airways during FY 2001.

- A $1.0 million increase in Northeast Philadelphia Airport revenues. This increase is due to private sector development of aeronautical and non-aeronautical facilities over the past four years. These facilities include an aircraft maintenance training center, a new fixed base operation facility, a corporate hangar, a public hockey rink, a banking center and a car dealership. Non-airline revenues from these facilities include ground rentals and concession fees.

- A $2.2 million increase from other non-airline revenue sources, including the Airport's terminal concession program, utility sales and advertising program concession fees.

Revenue Bond debt service increased from $36.5 million in FY 2000 to $89.7 million in FY 2004, primarily due to the completion of Terminal F, Terminal A West, Runway 8-26 and various infrastructure projects funded by Revenue Bonds since 1995. Passenger Facility Charge (PFC) Revenues Available for Debt Service partially fund debt service payments on the 1998B Bond and 2001A Bond.

Each Fiscal Year, actual Scheduled Airline Revenue in excess of required Scheduled Airline Revenue ranged from 8.6 percent of total Project Revenues in FY 2004 to 17.4 percent of total Project Revenues in FY 2002. Excess Scheduled Airline Revenues are carried forward (deferred) to the next Fiscal Year and are considered in the calculation of that Fiscal Year's rates and charges, as prescribed in the Use and Lease Agreements.

Interest Income consists of interest accrued on Aviation Fund balances. The amount of interest income in each FY is primarily dependent upon the level of excess Scheduled Airline Revenues, Net Revenue and Aviation Fund investment yields. Net Revenue primarily consists of International Terminal revenues in excess of International Terminal expenses.

As shown in Table 5, the rate covenants prescribed in the General Ordinance were satisfied in each of the Fiscal Years 2000 through 2004.

Management Discussion of FY 2005 Budget and Expected Results

The Airport System's operating budget for FY 2005 increased by 3.8%, from $210.5 million in FY 2004 to $218.4 million in FY 2005 (including budgeted expenses for the Overseas Terminal and the Outside Terminal Area). This increase is attributable to the following:

- Additional wage and benefit costs pursuant to labor agreements between the City and its civilian and uniformed collective bargaining units ($1.8 million). Labor agreements with the civilian and police bargaining units extend from FY 2005 through FY 2008. A three-year labor agreement with the fire fighters expired on June 30, 2005. The City is currently engaged in binding arbitration with the firefighters. An award is expected in December 2005. See APPENDIX V – "CERTAIN INFORMATION CONCERNING THE CITY OF PHILADELPHIA – EXPENDITURES OF THE CITY – Labor Agreements".

- Increases in contractual services, primarily due to the expiration of warranty periods for Terminal A West mechanical and electrical systems and additional funding to meet infrastructure maintenance requirements ($3.3 million).

- Increases in police funding attributable to additional security initiatives of the Transportation Security Administration ($1.2 million).

- An increase in debt service payments charged to operations, due to the expiration of the final capitalized interest component of the 2001B Bonds ($1.4 million).

- Increases in various expense line items ($0.2 million) associated with price escalations and growth in Airport traffic during FY 2005.

By containing FY 2005 budgeted costs and maximizing non-airline revenues, management was able to reduce rentals and fees assessed to the Airport's airline tenants by $3.3 million for FY 2005, including a reduction in the landing fee rate from $2.12 to $1.99. The overall reduction in airline fees of 2.9% was made possible by increases in parking and terminal concession revenues, and the carry-forward of deferred operating revenues in the airfield and terminal building cost centers of the Airport.

FY 2005 total expenses are currently estimated to approximate budgeted expenses. However, FY 2005 revenues are expected to run $15.3 million higher than budgeted revenues, due to increases in parking revenues, rental car concession fees and terminal concession program revenues. These increases are primarily due to year-to-date passenger traffic running approximately 19% above FY 2004 levels.

Management Discussion of FY 2006 Budget

Airport System budgeted expenses for FY 2006 are projected to run 0.4% higher than FY 2005 levels, primarily due to additional wage and benefit costs pursuant to City labor agreements and price escalations in service contracts, offset by a reduction in debt service payments on the City's general obligation bonds issued for the Airport System. The final maturity on these bonds occurred in FY 2005. Moderate budgetary increases and projected continued growth in non-airline revenues have enabled management to further reduce airline rentals and fees for FY 2006 by $8.6 million.

Airport Insurance

The City maintains comprehensive general liability aviation insurance coverage for claims arising out of bodily injury, personal injury or property damage arising from the operations of the Airport System. This insurance coverage provides a combined single limit of $500 million for each occurrence/aggregate. The Self Insured Retention is $100,000 each occurrence/$500,000 aggregate. The City also maintains "all risks" property insurance coverage for property at the Airport System (including real and business) in the amount of $1 billion with deductibles of $250,000 at the Airport and $100,000 at the Northeast Philadelphia Airport. The property policy also includes but is not limited to business interruption (including loss of rents and extra expense), mechanical breakdown coverage, electronic data processing coverage, flood, earthquake, and terrorism coverages.

Cash Management and Investment Policies

As a division of the City, the Airport is subject to the City cash management and investment policies. See APPENDIX V – "CERTAIN INFORMATION CONCERNING THE CITY OF PHILADELPHIA – CITY CASH MANAGEMENT AND INVESTMENT POLICIES".

Hedges and Swaps

General. The General Ordinance authorizes the City, at the time of issuance of a series of Bonds or at any time thereafter, to enter into interest rate exchange agreements, interest rate swap agreements or other similar agreements, to the extent permitted by applicable law and in accordance with the General Ordinance, if the City determines that such agreement will assist the City in more effectively managing its interest costs. Such agreements may be effected as Qualified Swaps or as Exchange Agreements. Payments under Qualified Swaps (other than termination payments) are made from the Sinking Fund and are calculated as part of Debt Service Requirements, and payments under Exchange Agreements (other than termination payments) are made only after required deposits to the Sinking Fund and the Sinking Fund Reserve are made and are on a parity with required deposits to the Renewal Fund. Termination payments on Qualified Swaps and on a certain Exchange Agreement (discussed below) are made only after required transfers to the Sinking Fund, Sinking Fund Reserve and the Renewal Fund have been made.

The General Ordinance provides, among other things, that the City will not enter into a Qualified Swap or Exchange Agreement unless it receives written confirmation from S & P that such agreement, in and of itself, will not result in a downgrade, withdrawal or suspension of the credit ratings on the Bonds.

The City has entered into one swaption agreement pursuant to the General Ordinance, which is an Exchange Agreement and is described below. There are currently no Qualified Swaps and no other Exchange Agreements in effect.

Interest Rate Swap Agreement for the 2005C Bonds. The City entered into an interest rate swap and option agreement (the "Swap Agreement") with JPMorgan Chase Bank, National Association (the "Swap Provider"), dated as of April 1, 2002, portions of which were amended and restated as of June 1, 2002, which relates to the 2005C Bonds. The notional amount of the Swap Agreement is equal to the aggregate principal amount of the 2005C Bonds. Pursuant to the Swap Agreement, the Swap Provider purchased, and exercised on June 15, 2005, the option requiring the City to pay to the Swap Provider periodic fixed amounts based on a fixed percentage on the notional amount and requiring the Swap Provider to pay to the City periodic floating amounts based upon the BMA Municipal Swap Index times such notional amount. The existence of the Swap Agreement does not affect the City's obligation to pay the principal of, premium, if any, and interest on the 2005A Bonds or the priority of the security for the 2005A Bonds.

The City and the Swap Provider amended and restated portions of the Swap Agreement in connection with the issuance of the 2005C Bonds in order to permit certain of the City's payments under the Swap Agreement to be guaranteed by a Swap Insurance Policy issued by MBIA Insurance Corporation (the "Swap Insurer").

Under certain circumstances (including certain events of default with respect to the City or the Swap Provider), the Swap Agreement could terminate in whole or in part prior to its stated termination date. Following any such early termination of the Swap Agreement, either the City or the Swap Provider, as applicable, could owe a termination payment to the other, depending upon market conditions. The Swap Insurer was given certain rights under the Swap Agreement, including rights to permit or consent to the designation of an Early Termination Date upon the occurrence of certain events and the right to designate an Early Termination Date with respect to the City if the City is in default under the Swap Agreement. **If at the time of an early termination of the Swap Agreement long-term interest rates are significantly lower than they were when the Swap Agreement was executed and delivered, the City could owe a substantial termination payment to the Swap Provider**.

In addition, the Swap Agreement grants to the Swap Provider an option, exercisable on any date after June 15, 2007, to terminate the Swap Agreement at no cost, in the event the BMA Municipal Swap Index for the 180 calendar day period ending on the day prior to the exercise date is more than 7.00 percent. In that event, the 2005C Bonds would no longer be hedged and any replacement swap the City could obtain would likely require the City to pay a higher fixed rate. The Report of the Airport Consultant attached to this Official Statement as APPENDIX II assumes that the Swap Agreement will be in place throughout the forecast period.

The Swap Agreement is an Exchange Agreement, as such term is defined in the General Ordinance. The City's obligations under the Swap Agreement are payable solely from and secured solely by Project Revenues in the order of priority listed in Section 4.06 of the General Ordinance, that is, subject and subordinate to the City's obligations to pay Net Operating Expenses, Debt Service Requirements (including debt service on the Bonds, payments on Qualified Swaps and Credit Facility charges secured on a parity to Bonds) and obligations to replenish the Sinking Fund Reserve. However, the City's obligation to pay termination payments with respect to the Swap Agreement and the security interest in Project Revenues therefor are subject and subordinate to its obligation to make periodic payments under the Swap Agreement.

Schedule of Debt Service

The following schedule of debt service shows the debt service requirements on the 2005A Bonds together with estimated debt service on other outstanding Airport Revenue Bonds.

Debt Service Table

FY Ending 6/30	Series 2005A Bonds Debt Service	Other Airport Revenue Bond Debt Service (1)	Total Bond Debt Service (2)
2006	$5,165,801	$ 96,509,770	$101,646,870
2007	5,979,705	88,600,700	94,551,705
2008	5,979,705	88,607,362	94,558,328
2009	8,319,705	88,610,531	96,901,575
2010	8,322,705	88,692,627	96,986,632
2011	8,319,705	91,819,033	100,110,038
2012	8,315,705	91,860,380	100,149,588
2013	8,315,455	91,888,857	100,180,265
2014	8,318,455	91,914,514	100,211,409
2015	8,314,205	91,916,266	100,211,571
2016	8,317,705	85,739,886	94,041,468
2017	8,314,525	85,849,885	94,151,198
2018	8,312,250	84,954,390	93,256,490
2019	8,313,750	74,572,900	82,879,720
2020	8,316,250	74,635,591	82,948,266
2021	8,314,250	69,297,150	77,611,400
2022	8,312,500	69,314,305	77,626,805
2023	8,315,500	69,320,003	77,635,503
2024	8,312,500	69,336,485	77,648,985
2025	8,313,250	69,343,990	77,657,240
2026	8,312,000	53,251,394	61,563,394
2027	8,314,625	53,261,885	61,576,510
2028	8,316,450	47,013,388	55,329,838
2029	8,312,025	2,757,438	11,069,463
2030	8,321,125	2,758,275	11,079,400
2031	8,316,875	2,757,550	11,074,425
2032	8,313,613		8,313,613
2033	8,315,625		8,315,625
2034	8,316,963		8,316,963
2035	8,311,913		8,311,913
Total	$241,644,838	$1,824,584,555	$2,066,229,393

(1) Estimated Debt service on the 1997A Bonds, 1997B Bonds, 1998A Bonds, 1998B Bond, 2001A Bond, 2001B Bonds, 2005B Bonds and 2005C Bonds. For purposes of this table, the interest rate on the 2005B Bonds is estimated to be 5.02% and on the 2005C Bonds is estimated to be 6.04%.
(2) Totals may not add due to rounding.

REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005

Leigh Fisher Associates prepared the Report of the Airport Consultant included as APPENDIX II to this Official Statement in connection with the issuance of the 2005A Bonds, 2005B Bonds and 2005C Bonds to comply with the requirements of the General Ordinance. References made herein to the Report of the Airport Consultant are made to the entire Report of the Airport Consultant, which contains material information, forecasts, findings, assumptions and conclusions concerning the Airport System.

The Report of the Airport Consultant presents certain airline traffic and financial forecasts for FY 2005 through FY 2010 and sets forth the assumptions upon which the forecasts are based. The financial forecasts are based on certain assumptions that were provided by, or reviewed and agreed to by, Division of Aviation management. In the opinion of Leigh Fisher Associates, these assumptions provide a reasonable basis for the forecasts.

The Report of the Airport Consultant should be read in its entirety for an understanding of the forecasts and the underlying assumptions contained therein.

As set forth in the Report of the Airport Consultant, pledged Amounts Available for Debt Service are forecast to be sufficient to meet Net Operating Expenses and other funding requirements of the General Ordinance, including 150% coverage of annual debt service on the planned 2005A Bonds and the 2005B Bonds and the 2005C Bonds issued on June 2, 2005, and all other outstanding Bonds for FY 2005 through FY 2010. The following table presents forecasts of pledged Amounts Available for Debt Service less Net Operating Expenses, and debt service coverage for FY 2005 through FY 2010 under the General Ordinance, as set forth in the Report of the Airport Consultant. These forecasts include Debt Service Requirements on the 2005A Bonds, 2005B Bonds and 2005C Bonds. From FY 2005 through FY 2008 a portion of the debt service on the 2005A Bonds and 2005B Bonds is to be capitalized and paid from the proceeds of such Bonds.

Forecast Debt Service Coverage

The following Table 6 constitutes the base passenger forecast taken from the Report of the Airport Consultant included herein as APPENDIX II. See APPENDIX II, Exhibit G-1.

For the base passenger forecast, the Report of the Airport Consultant assumed that US Airways will successfully reorganize, emerge from bankruptcy protection in mid-2005, achieve sustained profitability, continue to develop the Airport as its primary Northeast connection hub and international gateway, and gradually increase the number of destinations served and the frequency of flight from the Airport; also that other major airlines will provide competitive non-stop service in large travel markets.

TABLE 6
HISTORICAL AND FORECAST DEBT SERVICE COVERAGE ON THE AIRPORT REVENUE BONDS UNDER THE GENERAL ORDINANCE
BASE PASSENGER FORECAST

FY	Pledged Amounts Available for Debt Service (A)	Annual Airport Revenue Bond Debt Service Requirements (B)	Debt Service Coverage (A/B)	Debt Service Coverage Requirement
2000	$ 78,672,541	$36,513,573	2.15	1.50
2001	88,399,658	44,813,354	1.97	1.50
2002	106,946,506	64,067,958	1.67	1.50
2003	132,580,995	83,174,846	1.59	1.50
2004	144,220,280	89,653,253	1.61	1.50
2005	147,568,000	91,045,000	1.62	1.50
2006	152,048,000	93,051,000	1.63	1.50
2007	147,467,000	85,468,000	1.73	1.50
2008	156,154,000	89,178,000	1.75	1.50
2009	169,373,000	98,984,000	1.71	1.50
2010	172,977,000	99,010,000	1.75	1.50

The Report of the Airport Consultant also includes as Exhibit G-2 projections of debt service coverage under a low passenger forecast which assumes inter alia the cessation of service at the Airport by US Airways on June 30, 2005. See APPENDIX II – "REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005 – Exhibit G-2" and the related textual materials.

Forecasts of airline payments to the City for landing fees, terminal rentals and other use charges are often expressed an a per enplaned passenger basis for the purpose of comparing airline payments at different airports and assessing the reasonableness of major capital programs from an airline payments standpoint. The Report of the Airport Consultant in its base passenger forecast (Exhibit G-1) forecasts that airline payments (which include landing fees, terminal rentals and other use charges) per enplaned passenger for FYs 2005 through 2010 will be:

Projected Airline Payments Per Enplaned Passenger

FY	Airline Payments Per Enplaned Passenger
2005[1]	$7.56
2006	8.41
2007	8.26
2008	8.91
2009	9.66
2010	9.85

[1] Budgeted

The Report of the Airport Consultant has been included herein in reliance upon the knowledge and experience of Leigh Fisher Associates as airport consultants.

As noted in the Report of the Airport Consultant, any forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary from those forecast, and the variations may be material. See "CERTAIN

INVESTMENT CONSIDERATIONS" herein. The Report of the Airport Consultant was completed and delivered and is dated March 18, 2005, and the Airport Consultant has consented to the use of it in the Official Statement.

CERTAIN INVESTMENT CONSIDERATIONS

The purchase. and ownership of the 2005A Bonds entails certain investment risks. Prospective purchasers of the 2005A Bonds are urged to read this Official Statement in its entirety. The factors set forth below, among others, may affect repayment of and the security for the 2005A Bonds. See APPENDIX II – "REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005 – Airline Traffic Analysis – Key Factors Affecting Future Airline Traffic" for additional information regarding investment risks.

General Factors Affecting the Airline Industry

No assurance can be given as to the levels of aviation activity which will be achieved at the Airport in future FYs. As discussed in the Report of the Airport Consultant, the factors affecting aviation activity at the Airport include: the growth in the population and economy of the Airport service region, airline service and route networks, airline economics and competition, national and international economic and political conditions, the availability and price of aviation fuel, levels of air fares, the capacity of the national air traffic control system, and airport capacity at the Airport and elsewhere. See APPENDIX II – "REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005." Historically, slow or negative traffic growth; competition among air carriers; bankruptcy of and consolidation and mergers among air carriers; increased security measures; increased fuel, labor, equipment and other costs; and increases in the requirements for and the cost of debt capital have combined to reduce profits or to cause losses for most carriers.

The September 11, 2001 terrorist attacks (the "September 11 events"), hostilities in Iraq and elsewhere, competition and high fuel costs, among other factors, have had a significant adverse impact on the airline industry. The airline industry is expected to suffer substantial losses for an indeterminable period. Certain airlines have filed for protection under the U.S. Bankruptcy Code. Other airlines have warned that they may have to file for such protection if costs cannot be contained. In addition, many airlines have recently had their credit ratings downgraded by national credit rating agencies. Potential investors are urged to review the airlines' financial information on file with the SEC and the United States Department of Transportation ("DOT").

US Airways' Presence at the Airport and Bankruptcy

US Airways filed for Chapter 11 Bankruptcy protection in August, 2002 and emerged from Bankruptcy in March, 2003. In September, 2004, US Airways and related entities again filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code. The Chapter 11 filing permits US Airways, and each of the other related debtors, to continue operations while developing a plan of reorganization to address existing debt, capital and cost structures. The City has no information regarding the financial condition of US Airways and its future plans generally, and with regard to the Airport in particular, other than from SEC filings and bankruptcy court filings. The SEC website is http://www.sec.gov, and the United States Bankruptcy Court for the Eastern District of Virginia website is http://www.vaeb.uscourts.gov. *Neither the City nor the Underwriters undertake any responsibility for and make no representations as to the accuracy or completeness of the content of information available from the SEC or the bankruptcy court, including, but not limited to, updates of such information or links to other internet sites accessed through the SEC or bankruptcy court web sites. See also "Effect of*

Bankruptcy on Use and Lease Agreements and Additional Airline Operating Agreements" and "Limitations on Bondholders' Remedies" below.

US Airways is the principal air carrier operating at the Airport, which serves as a primary hub in US Airway's route system. US Airways currently leases 30 of the existing 82 full service jet gates at the Airport under the US Airways Use and Lease Agreement. US Airways, together with its US Airways Express commuter affiliates, accounted for approximately 67% of passenger enplanements at the Airport in 2004, as well as approximately 48% of the airline rentals, fees and charges component of the Airport System's operating revenues in 2004. No other airline accounts for more than 10% of either passenger enplanements at the Airport or airline rentals, fees and charges component of the Airport System's operating revenues.

US Airways has not assumed the US Airways Use and Lease Agreements, and no assurances can be given with regard to whether US Airways' efforts to reorganize will be successful, or with regard to US Airways' future level of activity at the Airport, if any. In the event US Airways reduces or discontinues its operations at the Airport, US Airway's current level of activity at the Airport may not be replaced by other carriers. See APPENDIX II – "REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005 – AIRLINE TRAFFIC ANALYSIS – Forecast Airline Traffic".

Assumptions in the Report of the Airport Consultant; Forward Looking Statements

The Report of the Airport Consultant incorporates numerous assumptions as to the utilization of the Airport and other matters and states that any forecast is subject to uncertainties. Significant assumptions made in the Report of the Airport Consultant include: (1) no major act of terrorism will materially affect airline travel in the United States during the forecast period; (2) sustained national economic growth will occur during the forecast period; (3) the terms of the Use and Lease Agreements, which expire on June 30, 2006, will remain in effect as to calculation of airline rentals, fees and charges through the end of the forecast period, that is, through FY 2010; and (4) the Airport will remain a major national and international system hub for US Airways. The Report of the Airport Consultant should be read in its entirety regarding the assumptions used to prepare the forecasts made therein. No assurances can be given that the assumptions contained in the Report of the Airport Consultant will occur, especially in light of the numerous financial difficulties being encountered by many airlines including US Airways, the dominant Airport carrier. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary from the forecast results, and the variations may be material. See APPENDIX II – "REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005 – AIRLINE TRAFFIC ANALYSIS – Forecast Airline Traffic".

This Official Statement, including particularly the Report of the Airport Consultant, contains statements relating to future results that are "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "anticipate," "forecast," "project," "intend," "propose," "plan," "expect," "assume" and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements.

Passenger Facility Charge Revenues

Possibility and Consequences of Insufficiency of PFC revenues. The ability of the City to collect annually sufficient PFC revenues depends upon a number of factors including the operation of the Airport by the City, the number of enplanements at the Airport, the use of the Airport by Collecting Carriers, and the efficiency and ability of the Collecting Carriers to collect and remit PFCs to the City. The City relies upon the Collecting Carriers' collection and remittance of PFCs and both the City and the FAA rely upon the air carriers' reports of enplanements and collections.

Amendment to the PFC Act. There is no assurance that the PFC Act will not be repealed or amended or that the PFC Regulations or the City's approvals from the FAA will not be amended in a manner that would adversely affect the City's ability to collect and use PFC revenues in amounts sufficient to make timely payments of a portion of the principal and interest on those Airport Revenue Bonds secured by PFC revenues, including the 1998B Bond and the 2001A Bond. In such event, the City may have less PFC revenues available than projected and may have to use other Pledged Amounts to pay debt service on the 1998B Bond and the 2001A Bond.

Termination of Authority to Impose and Use PFCs. The FAA may terminate the City's authority to impose PFCs, subject to informal and formal procedural safeguards, if the FAA determines that (i) the City is in violation of certain provisions of the Noise Act (as defined herein) relating to airport noise and access restrictions, (ii) PFC revenues are not being used for approved PFC funding in accordance with the FAA's approvals or with the PFC Act and the PFC Regulations, (iii) implementation of projects financed with PFC revenues does not commence within the time periods specified in the PFC Act and the PFC Regulations, or (iv) the City is otherwise in violation of the PFC Act, the PFC Regulations or the PFC approvals.

Treatment of PFCs in Air Carrier Bankruptcies. The PFC Act provides that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the City) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. However, the airlines are permitted to commingle PFC collections with other revenues and are also entitled to retain interest earned on PFC collections until such PFC collections are remitted. In the event of a bankruptcy, the PFC Enabling Act, as amended in December 2003, provides that (1) PFCs are and remain trust funds, (2) the airline in bankruptcy may not grant to any third party any security or other interest in PFC revenue, and (3) the airline in bankruptcy must segregate in a separate account PFC revenue equal to its average monthly PFC liability. Despite these enhanced statutory protections, it is unclear whether the City would be able to recover the full amount of PFC trust funds collected or accrued with respect to an airline in the event of a liquidation or cessation of business. The City also cannot predict whether an airline operating at the Airport that files for bankruptcy would have properly accounted for PFCs owed to the City or whether the bankruptcy estate would have sufficient moneys to pay the City in full for PFCs owed by such airline. All airlines operating at the Airport, including US Airways (which is currently in bankruptcy reorganization), are current in the payment of PFCs owed to the City. Moreover, pursuant to a consent order entered by the federal bankruptcy court handling the US Airways bankruptcy, US Airways is endeavoring to comply with the PFC Enabling Act by depositing and maintaining as a reserve in a separate bank trust account PFC revenue equal to its average monthly PFC liability and by depositing on each business day in such separate bank trust account a per-calendar-day amount equal to one-thirtieth (1/30) of its average monthly PFC liability at the Airport. After the close of the calendar month the latter average deposit is adjusted to reflect the actual US Airways PFC liability at the Airport for such month, and paid to the City.

Effect of Bankruptcy on Use and Lease Agreements and Additional Airline Operating Agreements

General. The profitability of the airline industry has deteriorated since 2000, with many airlines reporting substantial financial losses and a number of airlines filing for bankruptcy protection, due not only to the September 11 events and subsequent reductions in airline demand, but also to a general economic slowdown in 2001 and 2002, increased aviation fuel costs, labor disruptions, the hostilities in Iraq, increased competition and other factors. In 2001, Trans World Airlines ("TWA") filed for bankruptcy protection and was integrated into American Airlines ("American") after substantially all of TWA's assets and certain liabilities were purchased by American; in August 2002 US Airways filed for bankruptcy protection, emerged from bankruptcy in March 2003 and filed for bankruptcy protection again on September 12, 2004; in December 2002 UAL Corp., the parent company of United and numerous of its subsidiaries, including United, filed for bankruptcy protection and are continuing operations while in Chapter 11 and in April 2003 Air Canada filed for protection under the CCAA but emerged from CCAA protection on September 30, 2004. Additional bankruptcies, liquidations or major restructurings of other airlines have occurred and could occur. It is not possible to predict the future impact on the Airport of the bankruptcy of US Airways or of any future bankruptcies, liquidations or major restructurings of other airlines. However, such events could have a material adverse effect.

Assumption or Rejection of Agreements. In the event of bankruptcy proceedings involving one or more of the Scheduled Airlines or other air carriers, the debtor or its bankruptcy trustee must determine within a time period determined by the court whether to assume or reject the applicable Use and Lease Agreement or Other Airline Agreement. In the event of assumption, the debtor would be required to cure any prior defaults and to provide adequate assurance of future performance under the relevant agreements. Rejection of a lease or executory contract by any of the Scheduled Airlines would give rise to an unsecured claim of the City for damages, the amount of which in the case of a lease is limited by the Bankruptcy Code. However, the costs of Terminal Building space vacated as a result of a rejection of a Use and Lease Agreement by a Scheduled Airline in bankruptcy would be passed on to the remaining Scheduled Airlines under their Use and Lease Agreements. If the bankruptcy of one or more Scheduled Airlines were to occur, there can be no assurance that the remaining Scheduled Airlines would be able, individually or collectively, to meet their obligations under the Use and Lease Agreements. See "THE AIRPORT SYSTEM – Information Concerning the Scheduled Airlines – Bankruptcy Proceedings of US Airways". See also APPENDIX II – "REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005."

Expiration of Use and Lease Agreements

The Use and Lease Agreements expire on June 30, 2006. The City expects to negotiate and present to the City Council for approval new Use and Lease Agreements with the air carriers serving the Airport prior to the expiration of the current Use and Lease Agreements in 2006. However, no decisions have been made by the City regarding rate-making methods or other business arrangements that will be addressed in those negotiations. No assurance can be given that new Use and Lease Agreements will be in effect on or after July 1, 2006, or if such does occur, of the nature of such agreements.

If contractual agreements with the airlines do not exist, rates and charges for use of the Airport System are required to be established by ordinance of City Council.

The Use and Lease Agreements provide that, in determining Terminal Building rentals, the City shall calculate its cost per square foot to arrive at the basic per square foot per year rental rate for leased space, and permits the City to add a surcharge due to excess space not leased by the Scheduled Airlines. See APPENDIX IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS – Use and Lease Agreements" for a more detailed description of the rental provisions. Federal law requires that, when airport fees are set other than by agreement with airlines, such airport fees be "reasonable." Airport operators may recover the costs of space actually occupied or used by airlines but generally may not recover costs associated with vacant airline space from airlines. US Airways occupies approximately 65% of airline leasable space in the Terminal Building. If US Airways were to reduce or eliminate its hubbing operation at the Airport its space requirements likely would be significantly reduced. Unless there were a corresponding expansion of operations by other airlines, this would likely result in vacant space in the Terminal Building. In the absence of use and lease agreements after June 30, 2006, authorizing recovery of such costs, the City would probably not be able to charge airlines fees to recover costs associated with the vacant airline space and a significant revenue shortfall could result. Factors mitigating any such revenue shortfall would include (1) the fact that space required for use by originating and destination passengers, such as ticketing, baggage handling and baggage claim space would likely not be significantly reduced even if numbers of connecting passengers were reduced; (2) the City might be able to reduce the operating costs for space not in use; and (3) the City might have latitude to allocate the costs of public-use and common-use space associated with airline leased space to such leased space. To the extent that the costs of vacant airline space are not recoverable from airline rentals, fees, and charges, the City would have to pay such costs from concession fees and other non-airline revenues to the extent available.

Limitations on Bondholders' Remedies

The rights and remedies of the Fiscal Agent and the Bondholders with respect to the 2005A Bonds are subject to various provisions of Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"), which permits, under certain circumstances, a political subdivision or public agency or instrumentality of a state to file a voluntary petition in bankruptcy in the nature of a plan for adjustment in the repayment of debts if, generally, the entity is insolvent or unable to meet its debts as they mature. Such a petition may be filed by a political subdivision (such as the City) only if the state legislature has specifically authorized (by description or by name) the entity to be a debtor under Chapter 9 of the Bankruptcy Code or a governmental officer or organization empowered by state law to give such authorization has done so. The Financially Distressed Municipalities Act, Act No. 1987-47 of the Commonwealth of Pennsylvania, approved July 10, 1987, amended in 1992 and now known as the Municipalities Financial Recovery Act, Act No. 1992-69 of the Commonwealth, approved June 30, 1992 ("Financial Recovery Act"), provides, among other things, for the restructuring of debt of a financially distressed municipality and the method by which such entities are permitted to apply for relief under the Bankruptcy Code. In addition, the Financial Recovery Act empowered the Department of Community Affairs of the Commonwealth (now the Department of Community and Economic Development) to declare certain municipalities financially distressed upon the occurrence of certain events and the making of certain determinations by such Department.

With respect to the City, certain provisions of the Financial Recovery Act have been preempted by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class, Act No. 1991-6 of the Commonwealth, approved June 5, 1991 (the "PICA Act"). The provisions of the Financial Recovery Act relating to the City that were not preempted have been suspended with respect to the City by the PICA Act. The PICA Act prevents the City from filing a petition for relief under Chapter 9 of the Bankruptcy Code as long as PICA has outstanding any bonds issued pursuant to the PICA Act. As of July 1, 2004, PICA had bonds outstanding in the aggregate principal amount of $770,700,000 and the maturity of those bonds extends until 2023 in the absence of early redemption. If no such bonds were outstanding, the PICA Act requires approval in writing by the Governor of the Commonwealth for a filing under Chapter 9 by the City. If the provisions of the PICA Act relating to the authorization by the Governor for the City to file a petition under Chapter 9 of the Bankruptcy Code were invoked, such provisions could limit the enforcement of rights and remedies by holders of the 2005A Bonds and other Airport Revenue Bonds. Because the term of the 2005A Bonds extends beyond the latest maturity date of the bonds issued by PICA, there is a possibility that the City could file for bankruptcy protection under the Bankruptcy Code. Should the City ever file under Chapter 9 of the Bankruptcy Code, the rights and remedies of the holders of the 2005A Bonds and other Airport Revenue Bonds may be adversely affected.

The enforceability of the rights and remedies of the Trustee and the holders of Bonds may also be limited by other bankruptcy or insolvency or other laws now or hereafter in effect affecting the rights or remedies of creditors generally, or be subject to principles of equity, if equitable remedies are sought.

Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of the current hostilities in Iraq and elsewhere in the Middle East, other potential international hostilities, terrorist attacks and global health concerns, may influence passenger travel behavior and air travel demand. These concerns have intensified in the aftermath of the September 11 events. Travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the switching from air to surface travel.

Intensified security precautions have been instituted by government agencies, airlines and airport operators since the September 11 events. These precautions include the strengthening of aircraft cockpit doors, the federal program to train U.S. commercial airline pilots to carry firearms during flights, changes to prescribed flight crew responses to attempted hijackings, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration and revised procedures and techniques for the screening of passengers and baggage for weapons and explosives. While there have been no successful attacks on U.S. aviation targets since September 11, 2001, no assurance can be given that these precautions will be successful. Also, the current hostilities in Iraq and elsewhere in the world, and the possibility of other international hostilities or further terrorist attacks involving or affecting commercial aviation, are a continuing concern that may affect future travel behavior and airline passenger demand.

Because of the implementation of the Congressional mandate for the screening of all checked baggage for explosives, as well as the impact on airport operations of procedures mandated under "Code Orange" (high) and "Code Red" (severe) national threat levels declared by the Department of Homeland Security under the new Homeland Security Advisory System, there is the potential for significantly increased inconvenience and delays at many airports, although to date only relatively minor delays have been experienced as a result of these enhanced security procedures.

The Report of the Airport Consultant states that historically airline travel demand has recovered from temporary decreases stemming from terrorist attacks, hijackings, aircraft crashes and international hostilities and, provided that intensified security precautions serve to maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, of which there can be no assurance, it can be expected that future demand for airline travel at the Airport will depend primarily on economic rather than security factors. See APPENDIX II – "REPORT OF THE AIRPORT CONSULTANT DATED MARCH 18, 2005 – AIRLINE TRAFFIC ANALYSIS – Key Factors Affecting Future Airline Traffic – *Aviation Security Concerns.*"

Aviation Fuel Costs

There has been no shortage of aviation fuel since the "fuel crisis" of 1974, but the price of aviation fuel continues to be an important and uncertain determinant of an airline's operating economics. The average price of aviation fuel increased 68% between December, 2001 and December, 2004. Future increases or fluctuations could adversely affect the financial condition of airlines, air service and passenger numbers at the Airport.

Airline Economics, Competition and Airfares

Airline fares have an important effect on passenger demand, particularly for relatively short trips where the automobile, rail or other land travel modes are alternatives and for price-sensitive "discretionary" travel, such as vacation travel. Airfares are influenced by airline operating costs and debt burden, passenger demand, capacity and yield management, market presence and competition. If airlines are unable to charge fares sufficiently high to cover operating costs and interest expense they will continue to experience financial difficulty, which could adversely affect Airport revenues.

Capacity of National Air Traffic Control and Airport Systems

Demands on the nation's air traffic control system continue to cause aircraft delays and restrictions, both on the number of aircraft movements in certain air traffic routes and on the number of landings and takeoffs at certain airports. These restrictions affect airline schedules and passenger traffic nationwide. In addition, increasing demands on the national air traffic control and airport systems could cause increased delays and restrictions in the future.

Antitrust Scrutiny

The United States Congress, the Department of Justice and the Department of Transportation have indicated that heightened scrutiny of anti-competitive behavior by airlines, including alliances, mergers and predatory pricing policies, may be appropriate. Such scrutiny could result in regulation, the imposition of fines or disapproval of mergers and alliances, any of which might impact the conduct of business and financial condition of one or more of the airlines utilizing the Airport.

TAX MATTERS

General

The Internal Revenue Code of 1986, as amended (the "Code") contains provisions relating to the tax-exempt status of interest on obligations issued by governmental entities which apply to the 2005A Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the 2005A Bonds and the rebate of certain investment earnings derived from such proceeds to the United States Treasury Department on a periodic basis. These and other requirements of the Code must be met by the City subsequent to the issuance and delivery of the 2005A Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The City has covenanted to comply with such requirements.

In the opinion of Co-Bond Counsel, interest (including accrued original issue discount) on the 2005A Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, except as to interest on any 2005A Bond during any period such 2005A Bond is held by a person who is a "substantial user" of the facilities financed with the 2005A Bond proceeds or a "related person," as those terms are used in Section 147 (a) of the Internal Revenue Code of 1986, as amended (the "Code"). The opinion of Co-Bond Counsel is subject to the condition that the City comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the 2005A Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the 2005A Bonds to be so includable in gross income retroactive to the date of issuance of the 2005A Bonds. The City has covenanted to comply with all such requirements. Interest on the 2005A Bonds is treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes. Co-Bond Counsel expresses no opinion regarding other federal tax consequences relating to the 2005A Bonds or the receipt of interest thereon. See discussion of "Alternative Minimum Tax", "Branch Profits Tax", "S Corporations with Passive Investment Income", "Social Security and Railroad Retirement Benefits", "Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations", "Property or Casualty Insurance Corporation" and "Accounting Treatment of Original Issue Discount and Amortizable Bond Premium below."

In the opinion of Co-Bond Counsel, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof, the 2005A Bonds and the interest thereon are free from taxation for state and local purposes within the Commonwealth of Pennsylvania, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2005A Bonds or the interest thereon. Profits, gains or income derived from the sale, exchange, or other disposition of the 2005A Bonds are subject to state and local taxation within the Commonwealth of Pennsylvania. Specifically, the 2005A Bonds are exempt from personal property taxes in Pennsylvania and interest on the 2005A Bonds is exempt from the Pennsylvania personal income tax and the Pennsylvania corporate net income tax.

Alternative Minimum Tax

The Code includes as an item of tax preference, for purposes of the individual and corporate alternative minimum tax, interest on a "specified private activity bond". The 2005A Bonds are "specified private activity bonds" and thus interest thereon is treated as an item of tax preference.

Branch Profits Tax

Under the Code, foreign corporations engaged in a trade or business in the United States may be subject to a "branch profits tax" equal to thirty (30%) of the corporation's "dividend equivalent amount" for the taxable year. The term "dividend equivalent amount" includes interest on tax-exempt obligations such as the 2005A Bonds.

S Corporations With Passive Investment Income

Section 1375 of the Code imposes a tax on the "excess net passive income" of certain small business corporations for which an S Corporation election is in effect. For purposes of Section 1375 of the Code, the term "passive investment income" may include interest on the 2005A Bonds. This tax applies to an S Corporation for a taxable year if the S Corporation has Subchapter C earnings and profits at the close of the taxable year and has gross receipts, more than twenty-five percent (25%) of which are "passive investment income." Thus, interest on the 2005A Bonds may be subject to federal income taxation under Section 1375 of the Code if the requirements of that provision are met.

Social Security and Railroad Retirement Benefits

Under Section 86 of the Code, certain Social Security and Railroad Retirement benefits (the "benefits") may be includable in gross income. The Code provides that interest on tax-exempt obligations (including interest on the 2005A Bonds) is included in the calculation of "modified adjusted gross income" in determining whether a portion of the benefits received are to be includable in the gross income of individuals.

Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations

The Code, subject to limited exceptions inapplicable to the 2005A Bonds, denies the interest deduction for indebtedness incurred by banks, thrift institutions and other financial institutions to purchase or carry tax-exempt obligations such as the 2005A Bonds. The denial to such institutions of one hundred percent (100%) of the deduction for interest paid on funds allocable to tax-exempt obligations applies to those tax-exempt obligations acquired after August 7, 1986.

Property or Casualty Insurance Company

The Code also provides that a property or casualty insurance company may also incur a reduction, by a specified portion of its tax-exempt interest income such as interest on the 2005A Bonds, of its deduction for losses incurred.

Accounting Treatment of Original Issue Discount and Amortizable Bond Premium

The 2005A Bonds maturing on June 15, 2029 are herein referred to as the "Discount Bonds." In the opinion of Co-Bond Counsel, the difference between the initial public offering price of the Discount Bonds set forth on the inside cover page and the stated redemption price at maturity of each such Discount Bond constitutes "original issue discount," all or a portion of which will, on the disposition or payment of such Discount Bonds, be treated as tax-exempt interest for federal income tax purposes. Original issue discount will be apportioned to an owner of the Discount Bonds under a "constant interest method," which utilizes a periodic compounding of accrued interest. If an owner of a Discount Bond who purchases it in the original offering at the initial public offering price owns that Discount Bond to maturity, that Bondholder will not realize taxable gain for federal income tax purposes upon payment of the Discount Bond at maturity. An owner of a Discount Bond who purchases it in the original offering at the initial public offering price and who later disposes of the Discount Bond prior to maturity will be deemed to have accrued tax-exempt income in a manner described above; amounts realized in excess of the sum of the original offering price of such Discount Bond and the amount of accrued original issue discount will be taxable gain.

Purchasers of Discount Bonds should consider possible state and local income, excise or franchise tax consequences arising from original issue discount on the Discount Bonds. Prospective purchasers of the Discount Bonds should consult their tax advisors regarding the Pennsylvania tax treatment of original issue discount.

The 2005A Bonds maturing on June 15, 2009 to and including June 15, 2015 and June 15, 2018 to and including June 15, 2025 are hereinafter referred to as the "Premium Bonds." An amount equal to the excess of the initial public offering price of a Premium Bond set forth on the inside cover page over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

Purchasers of any Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning Premium Bonds.

LEGAL PROCEEDINGS

General

The City is involved in several claims and lawsuits arising in the ordinary course of operations of the Airport System. The City estimates that any liability assessed against the City as a result of claims that are not covered by insurance would not materially and adversely affect the 2005A Bonds, the security for the 2005A Bonds or the financial condition or operations of the Airport System. There has been no litigation seeking to enjoin the sale of the 2005A Bonds.

Criminal Investigation

The Office of the U.S. Attorney and the Federal Bureau of Investigation are currently conducting an investigation, in the course of which they have subpoenaed certain records and communication devices of the City of Philadelphia, including records of the Division of Aviation. The Administration has responded to the subpoenas and has provided the items requested.

On June 29, 2004, a federal grand jury issued indictments against twelve individuals including former City Treasurer, Corey Kemp. The indictment against Mr. Kemp charges him with, among other things, conspiracy to commit honest services fraud, extortion and money laundering. These charges relate to Mr. Kemp's activities as City Treasurer, including the appointment of firms to participate in municipal bond and other financial transactions of the City. On May 9, 2005 Mr. Kemp was convicted of a number of the charges filed against him. Of the 11 other individuals indicted, five have entered guilty pleas, one is now deceased, one has been acquitted and four have been convicted of some of the charges.

On September 29, 2004, a federal grand jury issued indictments against seven individuals including John Christmas, former special assistant to the Chief of Staff for the Mayor, and Steven Vaughn, former Chief of Staff for the City Councilperson elected to represent the Eighth District. The indictment against Mr. Christmas charged him with scheming to defraud, conspiracy to commit mail fraud, perjury and making false statements. These charges related to certain activities of Mr. Christmas which allegedly resulted in the improper awarding of a City contract. On June 14, 2005, the jury acquitted Mr. Christmas of all of the charges against him, other than a perjury charge on which it was unable to reach a verdict and which the trial judge dismissed. The indictment against Mr. Vaughn charges him with scheming to defraud and conspiracy to commit mail fraud. These charges relate to certain activities of Mr. Vaughn which allegedly resulted in fraudulent representations made in the awarding of a City contract. Mr. Vaughn entered a plea of guilty to charges against him and has been sentenced.

The City is cooperating fully with federal investigators in pursuing their case.

No Litigation Opinion

Upon delivery of the 2005A Bonds, the City Solicitor shall furnish an opinion, in form satisfactory to Co-Bond Counsel, to the effect that, among other things, except for litigation which in the opinion of the City Solicitor is without merit and except as disclosed in this Official Statement, there is no litigation or other legal proceeding pending in any court, or, to the knowledge of the Law Department after investigation, threatened in writing against the City, to restrain or enjoin the issuance or delivery of the 2005A Bonds or in any way contesting the validity or enforceability of the 2005A Bonds.

UNDERWRITING

The Underwriters have agreed to purchase the 2005A Bonds at a purchase price of \$126,574,433.36, which is equal to the par amount of \$124,985,000 plus net original issue premium of \$2,358,536.40 less the Underwriters' discount of \$769,103.04. The purchase contract for the 2005A Bonds provides that the Underwriters will purchase all of such series of Bonds duly authorized and issued by the City, and makes such purchase subject to certain terms and conditions thereof. The initial public offering prices of such series of Bonds may be changed, from time to time, by the Underwriters without prior notice. The Underwriters may offer and sell such 2005A Bonds to certain dealers (including dealers depositing the 2005A Bonds into investment trusts) and certain dealer banks and banks acting as agents at prices lower than the public offering prices stated on the inside cover hereof.

RATINGS

The 2005A Bonds are expected to be assigned ratings of "Aaa" by Moody's Investors Service Inc. ("Moody's"), "AAA" by Standard & Poor's Ratings Group ("S&P") and "AAA" by Fitch Ratings, Inc. ("Fitch"), with the understanding that upon delivery of the 2005A Bonds, the Policy insuring the payment when due of principal and interest on the 2005A Bonds will be issued by the Insurer. The ratings assigned by Moody's, S&P and Fitch are based upon the claims paying ability of the Insurer and are not based on the creditworthiness of the City or the Airport. The underlying ratings on the 2005A Bonds assigned by the rating agencies are "A3" by Moody's, "A" by S&P and "A" by Fitch.

A rating, including any related outlook with respect to potential changes in such ratings, reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the 2005A Bonds. An explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any of such rating agencies if, in the judgment of any of them, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the 2005A Bonds.

CONSULTING ENGINEER

The report on the physical condition of the Airport System has been prepared by Urban Engineers, Inc. A copy of this report is available from the Administrative Office of the Division of Aviation, Philadelphia International Airport, Philadelphia, Pennsylvania 19153. APPENDIX III to this Official Statement is a letter from Urban Engineers, Inc., which is included in reliance upon the knowledge and experience of such firm in the field of physical properties consulting.

CO-FINANCIAL ADVISORS

First Southwest Company, Houston, Texas, and Phoenix Capital Partners, LLP, Philadelphia, Pennsylvania, are retained by the City as Co-Financial Advisors in connection with the issuance of the 2005A Bonds and, in such capacity, have assisted the City in the preparation of Bond-related documents. The Co-Financial Advisors' fee for services rendered with respect to the sale of the 2005A Bonds is contingent upon the issuance and delivery of the 2005A Bonds.

Although the Co-Financial Advisors have read and participated in the preparation of this Official Statement, they have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's records and from other sources that are believed to be reliable, including financial records of the City, reports of consultants and other entities that may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

APPROVAL OF LEGALITY

Certain legal matters incident to the authorization. issuance and sale of the 2005A Bonds are subject to the receipt of opinions of Saul Ewing LLP and Law Offices of Denise Joy Smyler, each of Philadelphia, Pennsylvania, Co-Bond Counsel. The proposed form of such opinion is included herein as

APPENDIX VII. Certain legal matters will be passed upon for the City by the City Solicitor. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Obermayer Rebmann Maxwell & Hippel LLP, Philadelphia, Pennsylvania and White & D'Elia LLC, Rosemont, Pennsylvania.

ADDITIONAL INFORMATION

It is the practice of the City in connection with the issuance and sale of each issue of the City's bonds or notes, to require in its contract with its underwriters that the underwriters deposit the official statement of the City relating to such issue of bonds or notes with a nationally recognized municipal securities information repository (a "Repository") as soon as practicable after delivery of such official statement. It is also the City's practice to file its Comprehensive Annual Financial Report ("CAFR"), which contains the audited combined financial statements of the City, with a Repository as soon as practicable after delivery of such report. The CAFR for the City's FY ended June 30, 2004 was deposited with the appropriate Repositories on February 24, 2005. The CAFR is prepared by the Office of the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants audit guide, Audits of State and Local Government Units. Upon written request to the Office of the Director of Finance and payment of the costs of duplication and mailing, the City will make available copies of the CAFR for the FY ended June 30, 2004. Such a request should be addressed to: Office of the Director of Finance, Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, PA 19102. The CAFR contains pertinent information with respect to the Division of Aviation. The City also expects to provide financial and other information as to the City from time to time to Moody's, S&P and Fitch in connection with securities ratings issued by those rating agencies for bonds or notes of the City.

The foregoing statement as to filing or furnishing of additional information reflects the City's current practices, but is not a contractual obligation to the holders of the City's bonds or notes.

CONTINUING DISCLOSURE AGREEMENT

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12, the City will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with Digital Assurance Certification, L.L.C. as dissemination agent, which shall constitute a written undertaking for the benefit of the owners and beneficial owners of the 2005A Bonds. The proposed form of Continuing Disclosure Agreement is attached to this Official Statement as APPENDIX VIII.

At this time, only the City and US Airways (which is a party to a Use and Lease Agreement and pursuant thereto currently accounts for at least 20% of Project Revenues, as defined in the General Ordinance for the past two FYs) are "obligated persons" for annual reporting purposes under the criteria specified in the Continuing Disclosure Agreement. Pursuant to the Continuing Disclosure Agreement, US Airways has agreed to make available, and the City agrees to use its best efforts to require any future obligated persons to make available financial information and operating data with respect to themselves as required by the Rule. US Airways will acknowledge the Continuing Disclosure Agreement and agree to make available such information for as long as it remains an obligated person under the criteria specified in the Continuing Disclosure Agreement. Upon expiration of its Use and Lease Agreement, in the absence of another contractual arrangement between the City and US Airways, US Airways may cease to be an obligated person under Rule 15c2-12.

CERTAIN REFERENCES

All summaries of the Act, the General Ordinance, the Fifth Supplemental Ordinance, the Insurance and Reimbursement Agreement, the Financial Guaranty Agreement, the Swap Agreement, and the Use and Lease Agreements contained in this Official Statement, including the Appendices hereto, are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is made hereby to the complete documents for the complete terms and provisions thereof. Copies of these documents are available from the Office of the Director of Finance, 13th Floor, Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, Pennsylvania 19102.

All quotations from and summaries and explanations of the Constitution and laws of the Commonwealth and Ordinances of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all references to the 2005A Bonds are qualified in their entirety by reference to the definitive form of the 2005A Bonds. All capitalized terms used herein which are not defined herein or in APPENDIX V shall have the meanings ascribed to them in the Act and the General Ordinance. See APPENDIX IV – "SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS."

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

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

This Official Statement has been duly approved, executed and delivered by the following officers on behalf of the City.

CITY OF PHILADELPHIA

By: /s/ John F. Street
John F. Street, Mayor

/s/ Jonathan A. Saidel
Jonathan A. Saidel, City Controller

/s/ Romulo L. Diaz, Jr.
Romulo L. Diaz, Jr., City Solicitor

Approved:

/s/ Vincent J. Jannetti
Vincent J. Jannetti, Acting Director of Finance

APPENDIX I

FINANCIAL STATEMENTS OF THE DIVISION OF AVIATION

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FINANCIAL STATEMENTS
OF THE DIVISION OF AVIATION

For purposes of calculating Scheduled Airline rentals, fees and charges, and demonstrating compliance with the Rate Covenant, Aviation Fund accounts are maintained on the accrual basis of accounting adjusted to meet the particular requirements of the Use and Lease Agreements and the General Airport Revenue Bond Ordinance of the City. Using this basis of accounting, revenues are recorded as they are earned, and operating expenses are recorded as they are incurred. In addition, principal payments on debt are recorded as an element of expense in lieu of depreciation, and equipment purchases and other capital outlays funded from operations are charged to expense in the year of acquisition.

For purposes of budgeting, Aviation Fund accounts are maintained on the modified accrual basis of accounting also referred to as the "legally enacted basis." Under this basis, revenues are recorded in the year received. Obligations are recognized and recorded as expenses at the time they are paid or encumbered. A reserve is maintained for encumbrances at the close of the fiscal year, intended to be sufficient to liquidate the estimated related obligations.

The accounting policies of the City of Philadelphia, as reflected in the accompanying Aviation Fund financial statements, conform to accounting principles generally accepted in the United States of America for local government units as prescribed by the Governmental Accounting Standards Board. Accounting principles generally accepted in the United States of America for proprietary funds, such as the Aviation Fund, require that both earnings and expenses be recorded as they accrue, and that depreciation of fixed assets be recorded as an expense. The financial statements for fiscal year 2004 are presented in accordance with accounting principles generally accepted in the United States of America.

The financial statements contained in Appendix I are reconcilable with the Basic Financial Statements contained in the City's Comprehensive Annual Financial Report for fiscal year 2004, which are audited by the Office of the Controller of the City of Philadelphia.

INTRODUCTION

The following discussion and analysis of the financial performance and activity of the City of Philadelphia Airport System is to provide an introduction and understanding of the basic financial statements of the Philadelphia Aviation Fund (Aviation Fund) for the year ended June 30, 2004 (Fiscal 2004) with selected comparative information for the year ended June 30, 2003 (Fiscal 2003). This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto that follow this section. The financial statements presented are for the Aviation Fund only, and are not intended to present fairly the financial position of the City of Philadelphia (the City) as a whole and the results of its operations and cash flows. The Comprehensive Annual Financial Report (CAFR) of the City provides complete financial information as to the City and its component units.

Philadelphia International Airport (PHL, or the Airport) and Northeast Philadelphia Airport (PNE) comprise the Philadelphia Airport System (the Airport System). The Airport System is owned by the City and operated by the Division of Aviation of the City's Department of Commerce (the Division).

AIRPORT ACTIVITIES AND HIGHLIGHTS

- Overall, the financial position of the Airport remained strong in Fiscal 2004, with revenues exceeding expenses by $17.2 million. Assets exceeded liabilities at June 30, 2004 by $587 million (total net assets). This amount includes Aviation Fund unrestricted net assets of $41.5 million to supplement continuing operations.

- PHL achieved new records in passenger traffic, operations, and landed weight during Fiscal 2004, as shown in the chart below. This growth is been partly attributable to the increased presence of low cost carriers such as AirTran Airways, America West Airlines, ATA, Frontier Airlines, Southwest Airlines and USA3000, in addition to expanded service and airfare reductions by US Airways, PHL's hub carrier. PHL led the nation in overall airfare reductions, with an average decrease of 9.9% during the last quarter of Fiscal 2004.

Enplanements and Operations Activity at PHL

	Fiscal 2004	Fiscal 2003	% Increase (Decrease) from 2003
Enplanements (Outbound passengers):	13,088,773	12,136,625	7.8%
Operations (Takeoffs & landings):	459,627	454,428	1.1%
Landed Weight (1,000-pound units):	22,288,280	22,023,035	1.2%

- Southwest Airlines commenced service at PHL in May 2004, with 14 daily flights to 6 cities. In July 2004, the airline expanded to 13 cities and increased its daily flights at PHL to 28. In October, 2004, the airline expanded to 16 cities and increased its daily flights to 41. Southwest considers the PHL operation to be its most successful market opening to date.

- The opening of Terminal A West, PHL's New International Terminal, in May 2003, has enabled US Airways to expand its nonstop service to a total of 11 European and 16 Caribbean destinations. This expansion has had a positive impact on international passenger traffic at PHL, which increased by approximately 20% in Fiscal 2004. US Airways commenced non-stop daily service to Glasgow, Scotland in May 2004.
- A capacity enhancement program (CEP) is underway at PHL to accommodate its steady growth in air traffic. The first project proposed under this program is an extension of Runway 17-35 (by approximately 1,000 feet) to increase this runway's capacity to accommodate regional jet aircraft. Regional jets and larger commercial aircraft often must share the use of PHL's primary runways, which can cause aircraft delays. Assuming the timely receipt of requisite project approvals, completion of the runway extension is scheduled for Spring of 2007. Environmental Impact Statements (EIS) for the runway extension project and the overall CEP are currently underway.
- In March 2004, the Division completed its second update to PHL's Airline Competition Plan. The update outlines specific measures the Division has taken and future initiatives it will take to maximize opportunities for airlines to provide competitive service and airfares to and from the Airport. The competition plan update received Federal Aviation Administration (FAA) approval in April 2004.

AIRLINE BANKRUPTCIES

On September 12, 2004, US Airways, PHL's largest airline filed for bankruptcy protection for the second time in two years. US Airways' current transformation plan includes strengthening its presence in the Northeast region, focusing its core operations around the airline's PHL and Charlotte, N.C. hubs and competing with low cost carriers by effecting company-wide cost reductions. US Airways continues to operate their business and manage their properties as debtors in possession. The airline stated goal is to emerge from bankruptcy by June 30, 2005.

In Fiscal 2004, US Airways and its regional affiliates accounted for 67% of PHL's passenger traffic. Operating revenues from US Airways and its affiliates totaled approximately $96.0 million, which represented approximately 48% of total Aviation Fund operating revenues. US Airways operates over 400 flights at PHL to approximately 100 cities.

The Division had developed contingency planning to address the potential for a termination of air service by US Airways. This planning includes a quantification of the effects that a US Airways termination could have on passenger traffic and operating revenues, and the identification of cost reduction measures, revenue enhancement measures and future adjustments to airline rentals and fees that the Division could invoke under provisions of the City/Airline Use and Lease Agreement, to provide for the ongoing financial viability of the Aviation Fund.

United Airlines continues to operate under bankruptcy protection, citing a need to settle outstanding cost issues prior to emergence. In Fiscal 2004, United accounted for 5.2% of PHL's passenger traffic.

BACKGROUND INFORMATION ON THE AVIATION FUND

The Aviation Fund is an enterprise fund of the City. It was created and authorized as part of the Fiscal 1974 Operating Budget Ordinance approved by City Council on June 7, 1973 and made effective July 1, 1973.

PHL is classified by the Federal Aviation Administration as a large air traffic hub (enplaning 1.0% or more of the total passengers enplaned in the U.S.). According to Airports Council International – North America, the Airport ranked 17th in passenger traffic among U.S. airports for Calendar 2003 (ranked 18th for Calendar 2002).

The Aviation Fund is self-supporting, using aircraft landing fees, terminal building rentals, concession revenue and other facility charges to fund annual expenses. The Airport's capital program is funded by airport revenue bonds issued by the City, federal and state grants, Passenger Facility Charges (PFCs) and operating revenues.

The Airport serves residents of and visitors to a broad geographic area that includes eleven counties within four states: Pennsylvania, New Jersey, Delaware and Maryland. The Airport System consists of the following:

Philadelphia International Airport

- *Land.* Approximately 2,330 acres located partly in the southwestern section of the City and partly in the northeastern section of Delaware County, about 7 miles from center city Philadelphia.
- *Runways.* A four-runway system, capable of handling the largest commercial aircraft currently in operation.
- *Terminal Building.* Approximately 2.4 million square feet, consisting of seven terminal units (A West, A East, B, C, D, E and F). Terminal facilities principally include: ticketing areas, passenger holdrooms, baggage claim and over 150 food, retail and service establishments.
- *Cargo Facilities.* Located in seven major structures in and around Cargo City at the western end of the Airport.
- *Outside Terminal Area.* Consisting of a 14-story, 400-room hotel, a service station, seven rental car facilities and five parking garages and surface lots operated by the Philadelphia Parking Authority.

Northeast Philadelphia Airport

PNE is located on 1,240 acres situated within the City limits 10 miles northeast of center city Philadelphia. PNE serves as a reliever airport for PHL and provides for general aviation, air taxi, corporate, and occasional military use. The airport currently has no scheduled commercial service. There are presently eighty-five (85) T-hangars, six (6) corporate hangers, and six open hangars for general aviation activities. There are approximately 220 general aviation based aircraft at PNE.

FINANCIAL STATEMENTS OVERVIEW

The basic financial statements of the Aviation Fund are designed to provide readers with a broad overview of Airport System finances, in a manner similar to the private sector. The financial statements are prepared in accordance with generally accepted accounting principles promulgated by the Government Accounting Standards Board (GASB).

Financial statements of the Aviation Fund continue to be presented on an accrual basis. Income is recorded as earned and expenses as incurred. Operating revenues include charges for goods and services, rentals and concessions. Operating expenses include the purchase of services, payroll and employee benefits, materials and supplies and depreciation/amortization. Non-operating revenue and expense items include interest income, interest expense, PFC revenues and operating grants.

Aviation Fund financial activity is presented in three financial statements:

- The S*tatement of Net Assets* presents information on all Aviation Fund assets and liabilities, classified between current and non-current. The difference between assets and liabilities is reported as *net assets.* Net assets is segregated into three components: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

- The S*tatement of Revenues, Expenses and Changes in Fund Net Assets* presents revenue and expense activity for the current year. The difference between revenue and expense will either increase or decrease total net assets. The ending balance of net assets resulting from this increase or decrease is reflected on the Statement of Net Assets.

- The S*tatement of Cash Flows* presents the actual inflow and outflow of cash by category during the year. The difference between the inflow and outflow of cash increases or decreases the total cash balance. The resulting ending cash balance is reflected on the Statement of Net Assets.

The Aviation Fund financial statements can be found on pages I-12 through I-14 of this report.

Notes to Financial Statements. The Notes provide additional information that is essential to a full understanding of the data provided in the Aviation Fund financial statements. The Notes to Financial Statements can be found on pages I-15 through I-36 of this report.

Other information. In addition to the basic financial statements and accompanying notes, government accounting standards require presentation of *required supplementary information* (RSI) concerning the progress in funding employee pension benefit obligations. Discrete pension information is not available for the Aviation Fund, but is available for the City as a whole. Please see the Comprehensive Annual Financial Report (CAFR) of the City of Philadelphia for complete financial information for the City and its component units.

FINANCIAL POSITION

The following table summarizes the Airport System's assets, liabilities and net assets at June 30, 2004 and June 30, 2003:

City of Philadelphia – Aviation Fund
Statement of Net Assets

	(in thousands) 2004	2003	Increase (Decrease) from 2003	% Increase (Decrease) from 2003
Current and other assets	$ 332,559	$ 375,067	$ (42,508)	-11.3%
Capital assets	1,412,997	1,426,322	(13,325)	-0.9%
Total assets	1,745,556	1,801,389	(55,833)	-3.1%
Long-term liabilities	1,043,956	1,077,417	$ (33,461)	-3.1%
Other liabilities	114,584	154,288	(39,704)	-25.7%
Total liabilities	1,158,540	1,231,705	(73,165)	-5.9%
Net assets:				
Invested in capital assets, net of related debt	406,917	366,824	40,093	10.9%
Restricted for Capital Projects	29,760	40,032	(10,272)	-25.7%
Restricted for Debt Service	108,734	134,556	(25,822)	-19.2%
Unrestricted	41,604	28,272	13,332	47.2%
Total net assets	$ 587,016	$ 569,684	$ 17,332	3.0%

Net assets serves as a useful indicator of the Airport's financial position. At June 30, 2004, the Airport System's assets exceeded liabilities by $587 million. Between Fiscal 2003 and Fiscal 2004, total net assets increased by $17 million. Changes in total net assets are summarized below:

- **Total Assets** decreased by $55.8 million due to depreciation ($62.9 million) exceeding capital asset additions ($49.6 million), and the use of current and other assets ($42.5 million) for repayment of long-and short-term debt and assets.
- **Total Liabilities** decreased by $73.2 million due to repayment of long- and short-term debt, (including construction accounts payable of $42.3 million and long-term debt repayments of $36.3 million) offset by an increase in deferred revenue ($3.6 million) and other liabilities ($1.8 million).
- **Investment in capital assets, net of related debt** increased by $40.1 million, due to a decrease in debt related to capital assets.
- **Restricted for capital projects** represents funds available and restricted for construction of capital assets. The balance decreased by $10.3 million due to capital assets construction expenditures exceeding PFC revenue and interest income earned on construction funds.
- **Restricted for debt service** decreased by $25.8 million due to the use of sinking funds and PFCs for repayment of debt.
- **Unrestricted net assets** increased by $13.2 million. Unrestricted net assets may be used to supplement the Airport System's ongoing operations.

The following table compares the changes in revenues, expenses and fund net assets between Fiscal 2004 and Fiscal 2003:

City of Philadelphia – Aviation Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets

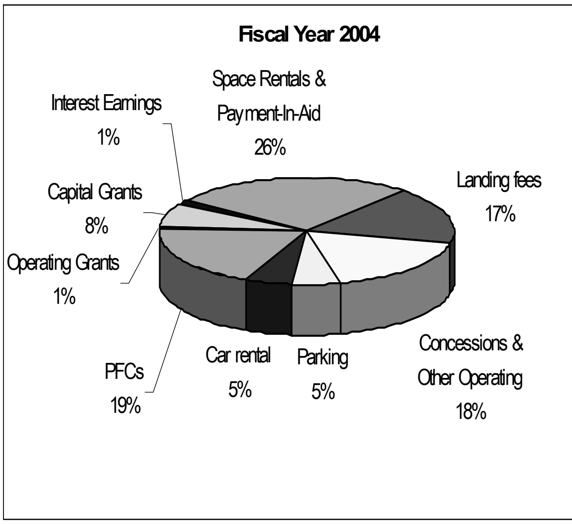
	(in thousands) 2004	2003	Increase (Decrease) from 2003	% Increase (Decrease) from 2003
Revenues:				
Operating income	$ 199,780	$ 183,117	$ 16,663	9.1%
Operating grants and contributions	1,935	267	1,668	*
Capital grants and contributions	20,947	17,241	3,707	21.5%
Passenger facility charges	52,096	47,429	4,667	9.8%
Interest income	3,624	11,996	(8,371)	-69.8%
Total revenues	278,383	260,049	18,334	7.1%
Expenses:				
Operating expenses	201,726	187,129	14,597	7.8%
Debt service interest	56,657	57,870	(1,212)	-2.1%
Other expenses	2,667	38	2,629	*
Total expenses	261,051	245,037	16,014	6.5%
Increase in Net Assets	17,332	15,012	2,320	15.5%
Net assets beginning of year	569,684	554,671	15,012	2.7%
Net assets end of year	$ 587,016	$ 569,684	$ 17,332	3.0%

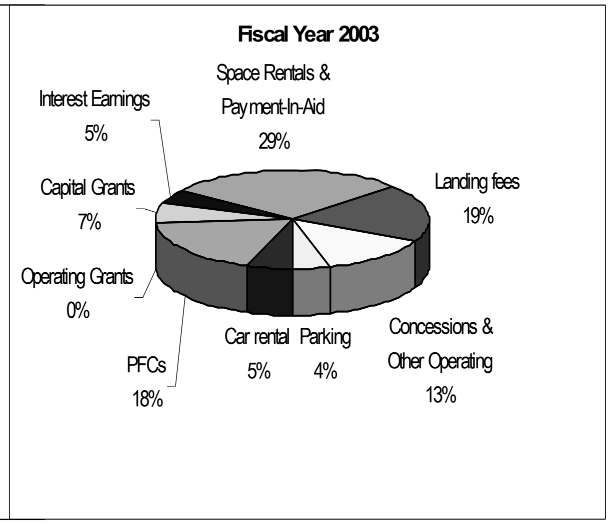
* Percentage comparisons in excess of 150% are omitted.

Change in Net Assets is a useful indicator of whether the overall financial condition of the Airport has improved or declined during the year. In Fiscal 2004, net assets increased by $17 million.

The graphs on the following pages present the major components of revenues and expenses for Fiscal 2004, and provide explanations for changes in each category from Fiscal 2003.

Revenues by Source





Revenues

- Operating revenues increased approximately 9% during Fiscal 2004, primarily in international terminal passenger fees (Concessions and Other Operating category) and Parking revenue categories. This increase was due primarily to a 20% increase in international passenger traffic and a 6% increase in garage parking rates. The overall increase of 9% was offset slightly by a deferment of operating revenue to the ensuing fiscal year. Deferred operating revenue results from the receipt of airline rentals and landing fee payments during a fiscal year in excess of that year's budgetary requirements.

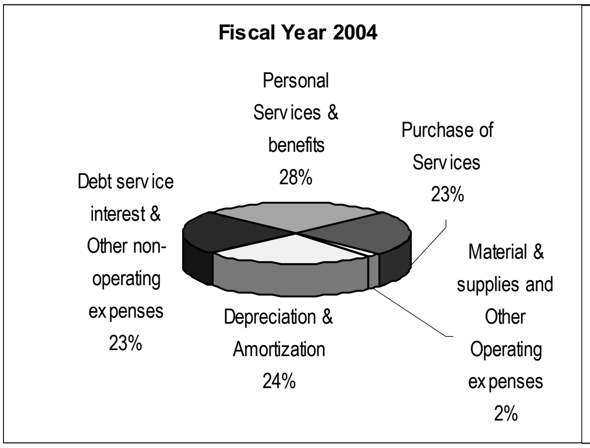
- Operating grants and contributions increased due to the Federal Emergency Management Agency (FEMA) reimbursement for snow removal.

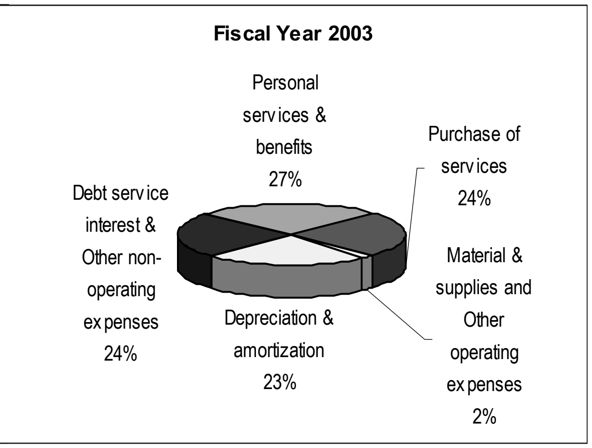
- Capital grants and contributions increased due to an increase in grant-eligible capital expenditures during Fiscal 2004. Capital grant expenditures in any given year are dependent upon actual construction timelines for Airport capital projects.

- PFCs increased commensurate with the increase in enplaned passengers at PHL.

- Interest income decreased primarily due the disbursement of capital funds to complete the construction of Terminal A West, which included the aircraft parking apron and access roadway.

Expenses by Source





Expenses

- Operating expenses rose in Fiscal 2004 primarily due to the following: additional wage and benefit costs pursuant to labor agreements between the City and its collective bargaining units; additional security costs required to meet enhanced federal security mandates; first full year of depreciation expense for Terminal A West; and additional staffing, utilities and security costs associated with the maintenance and operation of new Terminal A West.

- Debt service interest decreased slightly in Fiscal 2004 due to current debt repayments of $36.3 million.

- Other expenses increased due to additional asset retirements and dispositions during Fiscal 2004.

CAPITAL ASSET AND DEBT ADMINISTRATION

The following table presents the changes in capital assets for the Fiscal 2004.

City of Philadelphia – Aviation Fund
Capital Assets
(amounts expressed in thousands)

	July 1, 2003	Additions	Deletions	June 30, 2004
Non-Depreciable Business Type Assets				
Land	$ 74,418	37	-	$ 74,455
Construction in Progress	53,459	49,120	(82,986)	19,594
Total Non-Depreciable Business Type Assets	127,877	49,157	(82,986)	94,049
Depreciable Business Type Assets				
Buildings	1,475,089	66,431	(50)	1,541,470
Infrastructure	414,510	14,530	-	429,040
Equipment	31,037	2,996	(1,451)	32,582
Total Depreciable Business Type Assets	1,920,636	83,957	(1,501)	2,003,092
Accumulated Depreciation				
Capital Additions	(451,082)	(43,542)	-	(494,623)
Infrastructure	(153,914)	(17,164)	-	(171,079)
Equipment	(17,195)	(2,208)	961	(18,442)
Total Accumulated Depreciation	(622,191)	(62,914)	961	(684,144)
Net Depreciable Business Type Assets	1,298,445	21,043	(540)	1,318,948
Total Business Type Assets	$ 1,426,322	$ 70,201	$ (83,526)	$ 1,412,997

The following provides further detail on capital projects that were substantially completed in Fiscal 2004.

Capital Assets

Fixed asset additions totaled $84 million during Fiscal 2004, $63 million of which was attributable to the completion of the construction of Terminal A West, which included the aircraft parking apron and access roadway. Other major design and construction projects that were substantially completed during Fiscal 2004 include the following:

- Repaving of Runway 17-35 ($4.6 million)
- Installation of CCTV cameras and other security equipment ($2.7 million)
- Updating computer systems related to Flight Information Display System (FIDS) equipment in passenger terminals ($2.5 million)
- Ongoing Master Plan study to develop alternatives to expand the Airport's airfield facilities to meet future needs ($1.2 million)

Additions to construction in progress totaled $49 million at June 30, 2004. Major projects under construction at fiscal year-end included: electrical work related to the resurfacing of Runway 17-35, an Airport security system upgrade, passenger terminal expansion and renovation projects, and reconstruction of a taxiway and cargo apron.

Long-Term Debt

The following table summarizes the changes in long-term debt (including the current portion of long-term debt) for Fiscal 2004:

City of Philadelphia – Aviation Fund
Changes in Long-Term Debt
(amounts expressed in thousands)

	July 1, 2003	New Issues	Repayments	June 30, 2004
General obligation bonds	$ 5,082	-	$ 2,709	$ 2,373
Revenue bonds	1,124,120	-	33,605	1,090,515
	$ 1,129,202	$ -	$ 36,314	$ 1,092,888

Total debt service for Fiscal 2004 was $94.4 million, including principal payments of $33.6 million and interest payments of $60.8 million.

BUDGETARY HIGHLIGHTS FOR FISCAL 2004

Fiscal 2004 marked the first full year of operation of Terminal A West, the Airport's new international terminal, consisting of 800,000 square feet of airline leased space, public space, concession facilities, federal inspection facilities, an international arrivals hall and support space. The Airport System's operating budget for Fiscal 2004 increased by $8.1 million, primarily due to the opening of A West and programmed increases in payroll costs. Affected budgetary line items are summarized below:

- Wages and fringe benefits increased pursuant to labor agreements between the City and its civilian and uniform collective bargaining units ($1.5 million).
- Staffing, contractual services, materials/supplies, utilities costs and security costs increased due to the opening of Terminal A West ($3.8 million).
- Debt service payments, net of PFCs used for debt service, increased by $2.8 million, also attributable to Terminal A West. Prior to the opening of the terminal, interest payments were capitalized.

Airline rates and charges fund Airport System operating costs, to the extent not otherwise funded by concession fees and non-airline space rentals and user fees. While the Airport System's operating budget increased by $8.1 million, increases in airline rates and charges were held to $2.0 million, due to the generation of new terminal concessions revenues, fees from a new advertising concession contract, increased parking revenues and snow removal cost reimbursements obtained from FEMA.

KEY FACTORS AFFECTING THE FISCAL 2005 OPERATING BUDGET

The Airport System's operating budget increased by $3.8% from Fiscal 2004 to Fiscal 2005. The following factors primarily account for this increase:

- Additional wage and benefit costs pursuant to labor agreements between the City and its civilian and uniformed collective bargaining units ($1.8 million). Labor agreements with the civilian and police bargaining units extend from Fiscal 2005 through Fiscal 2008. The three-year labor agreement with the fire fighters expires on June 30, 2005.
- Increases in contractual services due to expiring warranty periods for Terminal A West mechanical and electrical systems and additional funding to meet infrastructure maintenance requirements ($3.3 million).
- Increases in police funding attributable to new federal security initiatives of the Department of Homeland Security ($1.2 million).

By containing costs and maximizing non-airline revenues, the Division was able to reduce its rentals and fees assessed to PHL's airline tenants by $3.3 million for Fiscal 2005, including a reduction in the landing fee rate from $2.12 to $1.99. This overall reduction in airline fees of 2.9% was made possible by increases in parking and terminal concession revenues, and the carry-forward of deferred operating revenues in the airfield and terminal building cost centers of the Airport.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Philadelphia Airport System finances and to demonstrate the City's accountability for the funds it receives and disburses. For additional information concerning this report, please contact: Edward C. Anastasi, Deputy Director of Aviation - Finance and Administration, Terminal E, Philadelphia International Airport, Philadelphia, PA 19153.

CITY OF PHILADELPHIA
AVIATION FUND
Statement of Net Assets
June 30, 2004
(Unaudited)

ASSETS	
Current assets:	
Cash and cash equivalents	$ 71,171,237
Accounts receivable:	
Utility & aviation charges	6,944,985
Other	3,121,126
Total accounts receivable	10,066,111
Allowance for doubtful accounts	(1,482,308)
Inventories	2,792,730
Due from other governmental units	449,720
Total current assets	82,997,490
Restricted assets:	
Cash and cash equivalents	132,162,412
Sinking funds and reserves held by fiscal agents	49,678,528
Grants from other governments for capital purposes	4,423,866
Accounts receivable (PFCs & insurance escrow)	9,562,930
Interest receivable	685,954
Cash held by fiscal agent	53,048,340
Total restricted assets	249,562,030
Property, plant and equipment:	
Land	74,454,919
Infrastructure	429,039,898
Construction in progress	19,593,660
Buildings and equipment	1,574,052,066
Less: accumulated depreciation and amortization	(684,143,799)
Property, plant and equipment, net	1,412,996,744
Total assets	1,745,556,264
LIABILITIES	
Current liabilities:	
Vouchers payable	3,538,135
Accounts payable	6,244,363
Salaries and wages payable	1,788,306
Construction contracts payable	22,186,649
Accrued expenses	19,657,231
Deferred revenue	23,395,653
Current maturities of long-term bonded debt	37,773,311
Total current liabilities	114,583,648
Long-term liabilities:	
Revenue bonds - principal amount	1,055,115,000
Unamortized discount on revenue bonds	(12,629,577)
Unamortized loss on retirement of bonds	(4,772,225)
Other long-term liabilities	6,243,264
Total long-term liabilities	1,043,956,462
Total liabilities	1,158,540,110
NET ASSETS	
Invested in capital assets, net of related debt:	406,917,323
Restricted:	
Capital projects	29,760,279
Debt service	108,734,319
Unrestricted	41,604,233
Total net assets	$ 587,016,154

See notes to financial statements.

CITY OF PHILADELPHIA
AVIATION FUND
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2004
(Unaudited)

Operating revenues:	
Charges for goods and services	$ 76,285,737
Rentals and concessions	119,282,194
Miscellaneous operating revenues	4,212,088
Total operating revenues	199,780,019
Operating expenses:	
Personal services	50,413,007
Purchase of services	59,881,833
Materials and supplies	4,803,688
Employee benefits	22,049,400
Indemnities and taxes	1,664,309
Depreciation and amortization	62,913,846
Total operating expenses	201,726,083
Operating loss	(1,946,064)
Nonoperating revenues (expenses):	
Operating grants	1,935,073
Passenger facility charges	52,096,109
Interest income	3,624,468
Debt service, interest	(56,657,495)
Loss on disposal of property, net	(2,667,036)
Total nonoperating revenues (expenses)	(1,668,881)
Loss before capital contributions	(3,614,945)
Capital contributions	20,947,354
Change in net assets	17,332,409
Net assets beginning of period	569,683,745
Net assets end of period	$ 587,016,154

See notes to financial statements.

CITY OF PHILADELPHIA
AVIATION FUND
Statement of Cash Flows
For the Year Ended June 30, 2004
(Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 199,173,561
Payments to suppliers	(61,980,486)
Payments to employees	(71,588,535)
Internal activity-payments to other funds	(3,741,167)
Net cash provided by operating activities	61,863,373
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES :	
Operating subsidies and transfers to/from other funds	14,539,053
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital contributions	25,881,708
Purchase of capital assets	(86,083,089)
Principal paid on capital debt	(33,605,000)
Interest paid on capital debt	(60,826,335)
Passenger facility charges	51,197,716
Net cash (used in) capital and related financing activities	(103,435,000)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and dividends	4,943,822
NET DECREASE IN CASH AND CASH EQUIVALENTS:	(22,088,752)
Balance beginning of year	278,470,741
Balance end of year	$ 256,381,989
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating (loss)	$ (1,946,064)
Adjustment to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation and amortization	62,913,846
Operating subsidies and transfers included in operating income	(14,539,053)
Changes in assets and liabilities:	
(Decrease) in accounts receivable	9,921,471
(Increase) in inventories	(259,859)
Increase in payables	104,830
(Decrease) in accrued expenses	2,072,830
(Decrease) in deferred revenue	3,595,372
Net cash provided by operating activities	$ 61,863,373

See notes to financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

The Aviation Fund is a proprietary fund of the City of Philadelphia (City). It was created and authorized as part of the Fiscal 1974 Operating Budget Ordinance approved by City Council on June 7, 1973 and became effective July 1, 1973. This fund was established to facilitate administrative and financial operations necessary to maintain, improve, repair and operate Philadelphia International Airport and Northeast Philadelphia Airport. The financial statements presented are for the Aviation Fund only, and are not intended to present fairly the financial position of the City of Philadelphia as a whole and the results of its operations and cash flows. The comprehensive annual financial report of the City of Philadelphia provides complete financial information as to the City and its component units.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time obligations are incurred.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and the proprietary fund financial statements to the extent that they do not conflict or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds. The City has elected not to follow subsequent private sector guidelines.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenue of the Aviation Fund is charges for the use of the airport facilities. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The Aviation Fund considers all highly liquid investments (except for repurchase agreements) with a maturity of three months or less to be cash equivalents.

Cash and investments are reflected as follows in the financial statements and related footnotes:

Statement Presentation		Note Presentation	
Cash and cash equivalents	$ 71,171,237	Cash (Note 2)	$ 64,708,630
Included in restricted assets:		Investments (Note 2)	191,673,359
Cash and cash equivalents	132,162,412		$ 256,381,989
Cash held by fiscal agent	53,048,340		
	$ 256,381,989		

Investments

The Aviation Fund records investments at fair value.

Accounts Receivable

Accounts receivable included in current assets consists of billed and unbilled rentals and fees, which have been earned but not collected as of June 30, 2004. The allowance for doubtful accounts is management's estimate of the amount of accounts receivable which will be deemed to be uncollectible and is based upon specific identification.

Inventories

Inventories consist of materials and supplies and are carried at amounts determined on a moving-average cost basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Assets

Restricted assets represent amounts that have been legally restricted by contracts or outside parties and are not available for payment of operating fund expenditures. The following represent restricted assets of the Aviation Fund:

- Funds available for construction, including grants due from other governments for capital purposes.

- Sinking funds and reserves, reserved for debt service and construction, pursuant to revenue and general obligation (GO) bond indentures.

- Passenger facility charges (PFCs), representing revenues collected from airlines based on the number of ticket sales for flights boarding passengers at Philadelphia International Airport, reserved for the funding of certain capital projects and debt service payments, as approved by the Federal Aviation Administration (FAA). Collection of PFCs began in the fall of 1992. All unexpended PFC funds, including accumulated interest, are classified as restricted assets.

Property, Plant and Equipment

Property, plant and equipment constructed or acquired by purchase are stated at cost. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Buildings	20 to 50 years
Improvements other than buildings	10 to 25 years
Equipment	5 to 10 years

Management periodically reviews its long-lived assets for impairment. At present, management does not believe any impairment exists.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction in Progress

Construction in progress includes construction costs, architects fees, construction manager's fees and capital administrative costs. At the commencement of construction, legal fees, consulting fees and capitalized interest costs are allocated to capital administration costs. Interest expense on bonds used for construction in progress is capitalized, net of related interest income earned on these funds during the construction period. After construction is completed, interest income and expense on these funds are recorded as non-operating revenue and expense.

Depreciation commences in the year following completion of construction.

Compensated Absences

Vacation leave is recorded as an expense when earned. Sick leave rights are non-vesting, and are recorded as expense in the year taken.

Deferred Revenue

Deferred revenue arises primarily from excess billings to scheduled airlines and from advance payments received from air carriers. Such deferrals are ultimately included in income when earned, usually during the next year.

Pensions

The City has implemented the provisions of the GASB Statement No. 27 *Accounting for Pensions by State and Local Government Employers*. GASB 27 requires the accrual of a pension-related liability only if the employer has under-funded annual required contributions of the plan.

Revenues

Operating revenues consist primarily of the following:

- Charges for goods and services – landing fees, international terminal charges, and utility charges.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues (continued)

- Rental and concessions – space rentals, parking revenue, car rental and concession revenues, and terminal building payments-in-aid. Income from the Philadelphia Parking Authority for operation of the airport parking facilities is recorded in rental and concession income. The amount recorded is the actual amount received from the Parking Authority and is subject to final audit adjustment.

Income from lease contracts is recorded when earned. Adjustments to revenue resulting from audits of tenants are recorded on an "as-determined" basis.

Non-operating revenue includes operating grants, PFCs and interest income. Revenue from PFCs is reserved for the funding of certain capital expenditures and debt service payments, as approved by the FAA.

Capital contributions consist of federal and state capital grant reimbursements.

Operating Expenses

Operating expenses consist primarily of personnel and administrative services, purchase of services and depreciation and amortization expense.

Amortization of Discount on Bonded Debt and Loss on Retirement of Bonds

Discount and issuance costs are amortized over the life of the debt using the effective interest method. The loss on retirement is amortized on the straight-line method over the life of the new debt.

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Aviation Fund's cash, cash equivalents and investments are comprised of current (operating) and restricted (capital) cash and cash equivalents and investments held in sinking funds, reserves, and by an outside fiscal agent. Statutes authorize the City to invest in obligations of the Treasury, agencies, and instrumentalities of the United States, repurchase agreements, collateralized certificates of deposit, bank acceptance or mortgage obligations, certain corporate bonds, and money market funds.

The Aviation Fund's cash and cash equivalents include separate operating and capital bank accounts and are not commingled with other City funds. These funds are used to pay ongoing operating and capital costs at the airports. Cash and cash equivalents on the statement of cash flows includes both the current and restricted amounts listed for cash and investments below, which total $256,381,989. At June 30, 2004, the fair value of cash, cash equivalents and investments was:

		Restricted Assets		
	Current Assets	Cash and Cash Equivalents	Amount Held By Fiscal Agent	Total Restricted Assets
Cash	$ 11,660,290	$ -	$ 53,048,340	$ 53,048,340
Investments	59,510,947	132,162,412	-	132,162,412
Total	$ 71,171,237	$ 132,162,412	$ 53,048,340	$ 185,210,752

Sinking funds and reserves are maintained in segregated investment accounts and are not commingled with other City funds. The accounts are maintained to comply with reserve and other requirements of the bond covenants.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

At June 30, 2004 the fair value of sinking funds and reserves investments was:

	Fair Value
Sinking fund	$ -
Sinking fund reserves	46,699,818
Renewal fund	2,489,901
Total investments	49,189,719
Accrued interest receivable	488,809
Total sinking funds and reserves	$ 49,678,528

Cash

The amount of the total bank balance is classified into categories of credit risk. As of June 30, 2004, the balance in the operating bank account in the amount of $11,660,290 is classified as Category 1, cash insured or collateralized with securities held by the City or its agent in the City's name. The balance held by fiscal agent in the amount of $53,048,340 is classified as category 3, uncollateralized.

Investments

The investments of the Aviation Fund are categorized below to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agents in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name. The fair value of investments at year-end consisted of:

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Investments (continued)

Description	Risk Category	Cash Equivalents Operating	Cash Equivalents Restricted	Sinking Funds and Reserves: Sinking Fund	Sinking Fund Reserve	Renewal Fund	Total
U.S. Government Securities	(1)	$ -	$ -	$ -	$ 13,924,641	$ -	$ 13,924,641
U.S. Government Agency Securities	(1)	37,348,234	55,197,741	-	18,801,043	2,404,463	21,205,506
Corporate Bonds	(1)	9,032,991	10,562,228	-	11,694,313	-	11,694,313
Other Investments	(1)	-	-	-	1,877,186	-	1,877,186
Total Insured/ Collateralized		46,381,225	65,759,969	-	46,297,183	2,404,463	48,701,646
Short-term investment pool		13,129,722	66,402,443	-	402,635	85,438	488,073
Carrying amount		$ 59,510,947	$ 132,162,412	$ -	$ 46,699,818	$ 2,489,901	$ 49,189,719

Management is not aware of any violations of statutory authority or contractual provisions for investments for the year ended June 30, 2004.

3. AMOUNTS HELD BY FISCAL AGENT

Amounts held by fiscal agent consist entirely of year-end cash balances related to the net proceeds of Philadelphia Authority for Industrial Development's (PAID) Airport Revenue Bonds Series 1998A and 2001A. In accordance with GASB Interpretation No. 2, these bonds are considered by PAID to be conduit debt. Therefore, no assets related to the bond proceeds are reported in PAID's financial statements. Instead, the proceeds, which are held by a fiscal agent and disbursed at the City's discretion to pay for capital improvements at the airport, are shown as assets of the Aviation Fund.

4. PROPERTY, PLANT AND EQUIPMENT

A portion of bond interest expense net of related interest income on unexpended funds is capitalized during the construction phase of the projects funded by the bonds. Net interest capitalized to construction in progress was $5,187,006 for the fiscal year, which represents $5,622,754 in interest expense net of $435,748 of related interest income.

Depreciation and amortization expense for the year was $62,913,846.

The following schedule reflects the changes in general fixed assets for the Aviation Fund during the year:

	Beginning Balance	Additions	Transfers/ Retirements	Ending Balance
Non-depreciable Assets				
Land	$ 74,417,956	$ 36,963	$ -	$ 74,454,919
Construction-in-progress	53,458,748	49,120,473	(82,985,561)	19,593,660
Total non-depreciable business type assets	127,876,704	49,157,436	(82,985,561)	94,048,579
Depreciable business type assets				
Buildings	1,475,088,883	66,431,394	(50,347)	1,541,469,930
Infrastructure	414,510,295	14,529,603	-	429,039,898
Equipment	31,037,181	2,996,106	(1,451,151)	32,582,136
Total depreciable business-type assets	1,920,636,359	83,957,103	(1,501,498)	2,003,091,964
Accumulated depreciation				
Capital additions	(451,081,739)	(43,541,573)	-	(494,623,312)
Infrastructure	(153,914,356)	(17,164,272)	-	(171,078,628)
Equipment	(17,195,182)	(2,208,001)	961,324	(18,441,859)
Total accumulated depreciation	(622,191,277)	(62,913,846)	961,324	(684,143,799)
Net depreciable business type assets	1,298,445,082	21,043,257	(540,174)	1,318,948,165
Total business type assets	$ 1,426,321,786	$ 70,200,693	$ (83,525,735)	$ 1,412,996,744

5. DEFERRED REVENUE

Deferred revenue of $23,395,653 consists of excess billings to scheduled airlines and revenues received in advance at June 30, 2004.

6. ARBITRAGE REBATE

Federal tax legislation generally requires that the accumulated net excess of interest income on the proceeds of bond issues over interest expense paid on these issues be repaid to the federal government every five years. The City issued General Airport Revenue Bonds Series 1995A, 1997A, 1997B, 1998A, 1998B, 2001A and 2001B, which are subject to this legislation. The arbitrage rebate liability as of June 30, 2004 was $270,204, and is included in other long-term liabilities.

7. INTEREST RATE SWAPTION

Objective of Swaption: In April 2002, the Aviation Fund entered into a swaption that provided the Aviation Fund with an up-front payment of $6,536,836. The swaption gives JPMorgan Chase Bank – New York the option to enter into an interest rate swap to receive fixed amounts and pay variable amounts. If the option is exercised, the Aviation Fund would then expect to issue variable-rate refunding bonds.

Terms: JPMorgan Chase has the option to exercise the agreement on the 1995 bonds' first call date, June 15, 2005. If the swap is exercised, the swap will also commence on June 15, 2005 and would have a notional amount of $189,500,000. The swap has multiple fixed swap rates (starting at 6.466% and decreasing over the life of the swap to 1.654%) which were set at rates that, based on the swap notional amount and when added to an assumption for remarketing, liquidity costs and cost of issuance, will approximate the debt service of the "refunded bonds." The swap's variable payment would be based on the BMA Municipal Swap Index. Starting on June 15, 2007 and thereafter, to the extent that the rolling 180-day average of the BMA Municipal Swap Index exceeds 7.00%, JPMorgan Chase has the option to terminate the swap.

Fair Value: As of June 30, 2004, the swap had a negative fair value of $26,005,000. Its fair value was estimated using the BDT option pricing model. This model takes into consideration probabilities, volatilities, time and underlying prices.

7. INTEREST RATE SWAPTION (continued)

Market Risk and Interest Rate Risk: If the option is exercised and the future refunding bonds cannot be issued, the 1995 bonds would not be refunded and the Aviation Fund would either have to unwind the swap and pay a termination payment or make net swap payments as required by the terms of the Agreement. If the option is exercised and variable-rate bonds are issued, the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the to-be-issued variable rate bonds versus the variable payments on the swap (the BMA Municipal Swap Index). The swap increases the Aviation Fund's exposure to variable interest rates starting June 15, 2007 and thereafter to the extent that the rolling 180-day average of the BMA Municipal Swap Index exceeds 7.00%. If this occurs, JPMorgan Chase has the option to terminate the swap.

8. FUND BALANCES

The following is a description of the restrictions for all net assets categories of the Aviation Fund:

- *Invested in Capital Assets, Net of Related Debt* reflects the investment in fixed assets net of accumulated depreciation offset by debt service related to expended bond proceeds.
- *Restricted for Capital Projects* reflects the unexpended funds from bond proceeds and PFCs, which are reserved for construction of capital projects.
- *Restricted for Debt Service* reflects the unexpended funds from bond proceeds and PFCs, which are reserved for repayment of debt.
- *Unrestricted* reflects net assets available for current and future operations.

Certain reclassifications have been made between net asset categories from the prior year presentation for unexpended bond and PFC proceeds.

9. BONDS PAYABLE

General obligation bonds, payable out of Aviation Fund revenues, consist of bonds declared by statute to be self-sustaining from airport revenues.

9. BONDS PAYABLE (continued)

In July 1995, Airport Revenue Bonds, Series 1995A in the amount of $209,690,000 were issued to support the construction of a new commuter runway, the consolidation of terminals B & C and other airport improvements.

In July 1997, Airport Revenue Refunding Bonds, Series 1997A and Airport Revenue Bonds Series 1997B in the amounts of $123,565,000 and $98,700,000, respectively, were issued. Additionally, Airport Revenue Refunding Bonds, Series 1998A in the amount of $123,405,000 were issued in March 1998. The proceeds of these bonds were used to: *(i)* finance certain capital improvements to the airport; *(ii)* refund the City's Airport Revenue Bonds, Series 1978, Series 1984, Series 1985 and Series 1988; *(iii)* fund the deposit into the sinking fund reserve; *(iv)* fund a portion of the interest on the Series 1997B bonds; and, *(v)* pay costs of insurance relating to the bonds.

In July 1998, the City issued $443,700,000 in Airport Revenue Bonds, Series 1998B to prepay the City's fixed rental obligation under a lease with PAID (the PAID Lease). Under this lease, the City acquired a leasehold interest and will occupy, operate and manage certain new terminals and related improvements (the US Airways Project Facility), constructed with funds provided by the Series 1998A PAID Airport Revenue Bonds.

In July 2001, the City issued $187,680,000 in Airport Revenue Bonds, Series 2001A to prepay an additional fixed rental obligation under the PAID Lease, attributable to completion costs of the US Airways Project Facility funded by the Series 2001A PAID Airport Revenue Bonds.

In July 2001, the City issued Airport Revenue Refunding Bonds, Series 2001B in the amount of $40,120,000. The proceeds of these bonds were used to: finance certain capital improvements to the airport system, fund the deposits into the sinking funds, finance capitalized interest and to pay issuance costs on the Series 2001B bonds.

Total interest cost for the fiscal year was $62,280,249 of which $5,622,754 was capitalized and $56,657,495 was recorded as non-operating expense.

Details of the various general obligation and revenue bonds included in the financial statements are reflected on the following page. Airport Revenue Bonds Series 1998B and 2001A, totaling $610.6 million, reflect the PAID outstanding balances, which are treated as conduit debt under GASB Interpretation 2. Payments on the conduit debt are guaranteed by General Airport Revenue Bonds Series 1998B and 2001A.

9. **BONDS PAYABLE** (continued)

Type of Debt	Description	Authorized and Issued	Included in Current Liabilities	Portion Due After June 30, 2005	Total Outstanding Bonded Debt	Final Maturity	Interest Percentage Rate
General Obligation - Self sustaining	Loan # 196	$ 3,099,838	$ 281,428	$ -	$ 281,428	2005	3.25 - 6.00%
General Obligation - Self sustaining	Loan # 197	42,130,271	2,091,883	-	2,091,883	2004	4.00 - 6.25%
Airport Revenue Bonds - Series 1995A	Loan # 704	209,690,000	4,785,000	183,895,000	188,680,000	2025	4.25 - 6.10%
Airport Revenue Bonds - Series 1997A	Loan # 705	123,565,000	10,405,000	53,575,000	63,980,000	2015	5.00 - 6.00%
Airport Revenue Bonds - Series 1997B	Loan # 705	98,700,000	2,280,000	86,360,000	88,640,000	2027	4.50 - 6.00%
Airport Revenue Bonds - Series 1998A	Loan # 705	123,405,000	4,835,000	94,395,000	99,230,000	2018	5.25 - 6.00%
Airport Revenue Bonds - Series 1998B	Loan # 706	443,700,000	8,785,000	417,570,000	426,355,000	2028	4.25 - 5.38%
Airport Revenue Bonds - Series 2001A	Loan # 707	187,680,000	3,580,000	180,630,000	184,210,000	2028	4.00 - 5.50%
Airport Revenue Bonds - Series 2001B	Loan # 708	40,120,000	730,000	38,690,000	39,420,000	2031	4.00 - 5.25%
			$ 37,773,311	$ 1,055,115,000	$ 1,092,888,311		

Airport General Obligation Bonds authorized and unissued at June 30, 2004	$ 62,500,000

CHANGES IN LONG-TERM DEBT:	Beginning Balance	Additions	Retirements/ Repayments	Ending Balance	Due Within One Year
General obligation bonds	$ 5,081,981	$ -	$ (2,708,670)	$ 2,373,311	$ 2,373,311
Revenue bonds	1,124,120,000	-	(33,605,000)	1,090,515,000	35,400,000
Less unamortized premium/ discount and loss on refunding	(19,348,308)	-	1,946,506	(17,401,802)	-
Total bonds	1,109,853,673	-	(34,367,164)	1,075,486,509	37,773,311
Workers compensation claims	1,038,672	-	(399,466)	639,206	80,093
Termination compensation payable	5,143,041	559,169	(418,356)	5,283,854	418,356
Legal liability	50,000	-	-	50,000	-
Arbitrage	2,788,530	-	(2,518,326)	270,204	-
	$ 1,118,873,916	$ 559,169	$ (37,703,312)	$ 1,081,729,773	$38,271,760

9. BONDS PAYABLE (continued)

Amounts of debt service payable for general obligation and revenue bonds to maturity are as follows:

Years Ending	G.O. Bonds		Revenue Bonds		Total
June 30	Principal	Interest	Principal	Interest	Debt Service
2005	2,373,311	81,138	35,400,000	58,629,993	96,484,442
2006	-	-	37,340,000	56,661,430	94,001,430
2007	-	-	31,530,000	54,549,898	86,079,898
2008	-	-	33,280,000	52,791,631	86,071,631
2009	-	-	35,080,000	50,989,388	86,069,388
2010-2014	-	-	205,880,000	224,125,285	430,005,285
2015-2019	-	-	230,360,000	162,792,470	393,152,470
2020-2024	-	-	243,110,000	99,582,871	342,692,871
2025-2029	-	-	233,425,000	31,473,838	264,898,838
2030-2034	-	-	5,110,000	405,825	5,515,825
Total	$ 2,373,311	$ 81,138	$ 1,090,515,000	$ 792,002,629	$ 1,884,972,078

10. POST EMPLOYMENT BENEFITS

In addition to providing pension benefits, the City provides certain post-employment health care and life insurance benefits for retired employees, dependents and/or beneficiaries through provisions of City ordinances, civil service regulations and agreements with its various employee bargaining units. The City provides these benefits for one to five years after retirement depending upon the classification of the employee at his/her retirement. Substantially all of the City’s employees may become eligible for those benefits if they reach normal retirement age while working for the City. These and similar benefits for active employees are provided through a combination of a self-insurance program and insurance companies, whose premiums are based on the benefits paid during the year. The cost of providing these health benefits and life insurance for approximately 3,401 eligible retirees amounted to $25.2 million and $3.8 million, respectively, for the City as a whole.

11. PENSION PLAN

The Aviation Fund contributes to the Municipal Pension Plan (City Plan) of the City of Philadelphia. Information for the City Plan as a whole is available in the comprehensive annual financial report of the City of Philadelphia for the year ended June 30, 2004.

Plan Description

The Philadelphia Home Rule Charter (the Charter) mandates that the City maintain an actuarially sound pension and retirement system. To satisfy that mandate, the City's Board of Pensions and Retirement maintains the single-employer Municipal Pension Plan (the Plan). The Plan covers all officers and employees of the City and officers and employees of five other governmental and quasi-governmental organizations. By authority of two ordinances and related amendments passed by City Council, the Plan provides retirement benefits as well as death and disability benefits. Benefits vary by the class of employee. The Plan has two major classes of members – those covered under the 1967 Plan and those covered under the 1987 Plan. Both plans have multiple divisions.

Retirement Benefits

An employee who meets the age and service requirements of the particular division in which he participates is entitled to an annual benefit, payable monthly for life, equal to the employee's average final compensation multiplied by a percentage that is determined by the employee's years of credited service. The formula for determining the percentage is different for each division. If fund earnings exceed the actuarial assumed rate by a sufficient amount, an enhanced benefit distribution to retirees, their beneficiaries, and their survivors shall be considered. A deferred vested benefit is available to an employee who has 10 years of credited service, has not withdrawn contributions from the system and has attained the appropriate service retirement age. Members of both plans may opt for early retirement with a reduced benefit. The Deferred Retirement Option Plan (DROP) was initiated on October 1, 1999. Under this plan employees that reach retirement age may accumulate their monthly service retirement benefit in an interest bearing account at the Board of Pensions for up to four (4) years and continue to be employed by the City of Philadelphia.

11. PENSION PLAN (continued)

Death Benefits

If an employee dies from the performance of duties, his/her spouse, children or dependent parents may be eligible for an annual benefit ranging from 15% to 80% of the employee's final average compensation. Depending on age and years of service, the beneficiary of an employee who dies other than from the performance of duties will be eligible for either a lump sum benefit only or a choice between a lump sum or an annual pension.

Disability Benefits

Employees disabled during the performance of duties are eligible for an immediate benefit equal to contributions plus a yearly benefit. If the employee subsequently becomes employed, the benefit is reduced by a percentage of the amount earned. Certain employees who are disabled other than during the performance of duties are eligible for an ordinary disability payment if they apply for the benefit within one year of termination. If the employee subsequently becomes employed, the benefit is reduced by a percentage of the amount earned.

Funding Policy

Employee contributions are required by City Ordinance. For 1967 Plan members, employees contribute 3¾% of their total compensation that is subject to Social Security Tax and 6% of compensation not subject to Social Security Tax. 1987 Plan contribution rates are defined for the membership as a whole by Council Ordinance. Rates for individuals are then determined annually by the actuary so that total individual contributions satisfy the overall rate set by Council.

The City is required to contribute the remaining amounts necessary to fund the Plan, using an acceptable actuarial basis as specified by the Home Rule Charter, City Ordinance and State Statute. Court decisions require that the City's annual employer contributions are sufficient to fund:

- The accrued actuarially determined normal costs.

11. PENSION PLAN (continued)

Funding Policy (continued)

- Amortization of the unfunded actuarial accrued liability determined as of July 1, 1985. The portion of that liability attributable to a class action lawsuit by pension fund beneficiaries (the Dombrowski suit) is amortized in level installments, including interest, over 40 years through June 30, 2009. The remainder of the liability is amortized over 34 years with increasing payments expected to be level as a percentage of each year's aggregate payroll.

- Amortization in level dollar payments of the changes to the July 1, 1985 liability due to the following causes over the stated period:

  - nonactive members' benefit modifications (10 years)
  - experience gains and losses (15 years)
  - changes in actuarial assumptions (20 years)
  - active members' benefit modifications (20 years)

The required employer contribution for the Aviation Fund was 13.5% of covered payroll of $50,723,367.

Administrative costs of the Plan are paid out of the Plan's assets.

In fiscal 1999, the City entered into a Pension Service Agreement with Philadelphia Authority for Industrial Development (PAID). The City will pay a trustee designated by PAID the amount of principal and interest on PAID Pension Funding Bonds. The proceeds of these bonds were deposited in the Municipal Pension Fund. These proceeds reduced the City's unfunded actuarial accrued liability and resulted in reductions in required payments for the current fiscal year ended June 30, 2004 and projected reductions of these payments in future years.

Annual Pension Cost

The actuarial valuation used to compute the current year's required contribution was performed as of July 1, 2002. Methods and assumptions used for that valuation include:

- the individual entry age actuarial cost method
- a five-year smoothed market value method for valuing investments

11. PENSION PLAN (continued)

Annual Pension Cost (continued)

- a level percentage closed method for amortizing the unfunded liability
- an annual investment rate of return of 9.0%
- projected annual salary increases of 5.0% (including inflation)
- annual inflation of 3.5%
- no post-retirement benefit increases

For the current year, the City's annual pension cost was $291.1 million. Aviation Fund's share was $5,417,513.

The annual pension cost and related percentage contributed for the three most recent fiscal years for the Aviation Fund are as follows:

June 30	Cost	Contributed
2002	$ 4,909,580	100.0%
2003	$ 5,643,896	91.7%
2004	$ 6,823,326	79.4%

For the City as a whole, the net pension obligation is a negative amount since the plan is currently over funded. The Municipal Pension Fund issues a separate annual financial report. To obtain a copy, contact the Director of Finance of the City of Philadelphia. Separate information for the Aviation Fund, relating to accumulated plan benefits and net assets available for plan benefits, is not available from the City of Philadelphia Municipal Pension Fund.

12. COMPENSATED ABSENCES

The Aviation Fund follows city policies regarding accumulation of sick leave. Sick leave can be accumulated to predetermined balances, but is payable only upon retirement or in some cases death. The City budgets for, and charges, the cost of sick leave as it is taken.

13. OPERATING LEASES

Long-term use and lease agreements have been executed with scheduled domestic airlines operating at Philadelphia International Airport. These agreements, effective July 1, 1974, will expire on June 30, 2006. Payments by the airlines under these agreements are determined annually, based on actual and projected expenses, as defined in the agreement. In addition, the agreements provide for payments-in-aid of losses incurred in the cost center designated as the "outside terminal area." The amount of such payments-in-aid is limited to 50% of such losses, with a maximum amount of $1,100,000 in any one year.

The Aviation Fund's other operating leases consist primarily of leases of airport facilities for retail or other aviation related matters. Most assets constructed by lessees under terms of the lease revert to the City at the end of the lease term. Those assets are recorded at fair value, which is estimated replacement value less applicable depreciation. The Aviation Fund recorded no income related to such assets in the year ended June 30, 2004.

The Aviation Fund's most significant non-airline lease is with MarketPlace Redwood Limited Partnership (MRLP). Under the terms of the amended Master Lease, Development and Concession Agreement by and between the City of Philadelphia and MRLP, MRLP has developed approximately 153 food, retail and service establishments in seven terminals and concourses. The focal point is an award-winning food court and retail facility between connecting concourses B and C. The agreement provides for MRLP to pay rentals to the City in the form of minimum annual guarantees and profit sharing.

Rental income from operating leases for the year was as follows:

Minimum rentals	$ 57,059,180
Additional rentals	78,480,554
Total rental income	$ 135,539,734

13. OPERATING LEASES (continued)

As of year-end, future minimum rentals to be received under noncancelable operating leases are as follows:

Years Ending June 30	Future Payments
2005	$ 16,563,997
2006	16,130,429
2007	14,115,407
2008	13,671,930
2009	13,228,255
2010-2014	41,227,665
2015-2019	20,041,217
2020-2024	13,054,208
2025-2029	9,444,272
Total	$ 157,477,380

The separate cost and carrying amount of property held for leasing is not available.

14. RISK MANAGEMENT

The Aviation Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Aviation Fund is self-insured for worker's compensation and unemployment compensation and insured through insurance carriers for other coverage. The accrued liability for worker's compensation and unemployment compensation was $639,206 at June 30, 2004.

The comprehensive annual financial report of the City of Philadelphia provides complete financial information for the outstanding workers' compensation liability. Discrete information is not available for the Aviation Fund.

15. CONTINGENCIES AND COMMITMENTS

Payments-in-aid from the terminal building, billed during the year, is recorded as revenue. There is a possibility that portions of this revenue will be repayable to certain scheduled airlines prior to the expiration of the airport use and lease agreement in 2006. Such repayment is dependent upon the generation of excess revenues in future periods in certain airport cost centers, as defined in the lease agreement. The likelihood of any such obligation cannot be determined at this time.

As of June 30, 2004, the Aviation Fund had commitments of approximately $28.3 million for operating expenses and $50.6 million for capital assets and improvements. These commitments are expected to be funded through operations and through capital grants, bond proceeds, and passenger facility charges.

Several lawsuits have been instituted against US Airways and other parties, including naming the City as a codefendant, for non-payment or under-payment of claims for construction of the US Airways Project Facility. US Airways is the project manager on the projects funded by the PAID bonds. No determination can be made as to the ultimate outcome of the claims, which total approximately $18.6 million. However, the Aviation Fund believes that no more than $7.4 million will be awarded in favor of the plaintiff. All of the $7.4 million has been recorded in the financial statements as an increase in construction in progress and a current liability because it is probable that amount will be paid.

16. CONCENTRATION OF CREDIT RISK

US Airways presently operates approximately 400 daily flights to 100 destinations from Philadelphia. Operating revenues from US Airways and its affiliates totaled approximately $96.0 million in Fiscal Year 2004, which represented approximately 48% of total Aviation Fund operating revenues. In September 2004, US Airways (and its affiliated companies) filed for protection under the United States Bankruptcy Code. Since that time, the airline has continued to operate under Chapter 11 reorganization. US Airways continues to operate their business and manage their properties as Debtors in Possession. US Airways has requested an extension of time from the Bankruptcy Court through April 30, 2005 to determine the status of its nonresidential real property leases. Therefore, it has not as yet assumed or rejected its leases with Philadelphia.

In January 2005, US Airways and the Air Transportation Stabilization Board reached an agreement that extends the airline's use of the cash proceeds from its federally guaranteed loan through June 2005, allowing the airline to continue operations while it completes its reorganization and emergence from bankruptcy protection. By January 21, 2005, US Airways had ratified agreements with its pilots, flight attendants, mechanics, and other employee groups to achieve estimated savings in compensation and benefits of approximately $1.1 billion annually.

The City has developed contingency planning to address the potential for a termination of air service by US Airways. This planning includes a quantification of the effects that a US Airways termination could have on passenger traffic and operating revenues, and the identification of cost reduction measures, revenue enhancement measures and future adjustments to airline rentals and fees that the City could invoke under provisions of the City/Airline Use and Lease Agreement, to provide for the ongoing financial viability of the Aviation Fund.

17. SUBSEQUENT EVENT

On February 15, 2005, the City was notified by JPMorgan of its intention to exercise its option to enter into the interest rate swap transaction referred to in Note 7. The swap will commence on June 15, 2005 and will have a notional amount of $189,500,000.

CITY OF PHILADELPHIA
AVIATION FUND
Reconciliation of Fund Balance (Legally Enacted Basis) to
Net Assets (GAAP Basis)
For the Year Ended June 30, 2004
(Unaudited)

Fund balance, legal basis June 30, 2004	$ 24,269,859
Add assets not included in legal basis:	
Current assets	3,018,081
Fixed assets, net of depreciation	1,412,996,744
Restricted assets	249,562,030
	1,665,576,855
Deduct liabilities not included in legal basis:	
Construction accounts payable	(22,186,649)
Current liabilities	(31,066,221)
Bonds payable	(1,075,486,508)
Other long-term liabilities	(6,243,264)
	(1,134,982,642)
Add (deduct) fund balance accounts included in legal basis:	
Reserve for encumbrance, current	26,136,891
Reserve for encumbrance, prior	(2,240,216)
Reserve for materials inventory	2,792,730
Reserve for productivity enhancement	5,462,677
	32,152,082
Net assets - GAAP basis, June 30, 2004	$ 587,016,154

CITY OF PHILADELPHIA
AVIATION FUND
Budgetary Comparison Schedule
Budget and Actual (Legal Basis)
For the Year Ended June 30, 2004
(Unaudited)

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Budget
Revenues				
Locally generated non-tax revenue	$309,835,000	$277,409,000	$234,993,662	$(42,415,338)
Revenue from other governments	3,075,000	2,127,000	5,306,521	3,179,521
Revenue from other funds	450,000	450,000	1,080,768	630,768
Total revenues	313,360,000	279,986,000	241,380,951	(38,605,049)
Expenditures and Encumbrances				
Personal services	58,329,565	58,329,565	50,733,367	7,596,198
Pension contributions	8,600,000	8,592,907	7,281,096	1,311,811
Other employee benefits	13,769,000	13,776,093	12,401,741	1,374,352
Sub-total employee compensation	80,698,565	80,698,565	70,416,204	10,282,361
Purchase of services	91,000,485	91,000,485	68,872,939	22,127,546
Materials and supplies	9,163,110	9,163,110	7,131,698	2,031,412
Equipment	8,971,293	8,971,293	2,699,107	6,272,186
Contributions, indemnities and taxes	4,285,267	4,285,267	1,780,273	2,504,994
Debt service - principal	43,463,700	43,463,700	36,863,670	6,600,030
Debt service - interest	70,851,580	70,851,580	55,756,838	15,094,742
Short-term interest	500,000	500,000	-	500,000
Payments to other funds	15,972,000	15,972,000	9,068,606	6,903,394
Advances, subsidies, miscellaneous	500,000	500,000	-	500,000
Total expenditures and encumbrances	325,406,000	325,406,000	252,589,335	72,816,665
Operating surplus (deficit) for the year	(12,046,000)	(45,420,000)	(11,208,384)	34,211,616
Fund balance available for appropriation, July 1, 2003	24,745,000	24,052,883	24,052,883	-
Operations in Respect to Prior Fiscal Years				
Commitments Cancelled - Net	4,800,000	5,000,000	11,510,360	6,510,360
Prior period adjustments	-	-	(85,000)	(85,000)
Adjusted fund balance, July 1, 2003	29,545,000	29,052,883	35,478,243	6,425,360
Fund balance available for appropriation, July 1, 2004	$ 17,499,000	$ (16,367,117)	$ 24,269,859	$ 40,636,976

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APPENDIX II

REPORT OF THE AIRPORT CONSULTANT

DATED MARCH 18, 2005

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Appendix II

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

CITY OF PHILADELPHIA, PENNSYLVANIA,
AIRPORT REVENUE BONDS
SERIES 2005A, SERIES 2005B, AND REFUNDING SERIES 2005C

Prepared for

City of Philadelphia
Philadelphia, Pennsylvania

Prepared by

Leigh Fisher Associates
San Francisco, California

March 18, 2005

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LEIGH FISHER ASSOCIATES
A Division of Jacobs Consultancy Inc.

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

March 18, 2005

Mr. Charles J. Isdell
Director of Aviation
Philadelphia International Airport
8800 Essington Avenue, Terminal E
Philadelphia, Pennsylvania 19153

and

Mr. Vincent J. Jannetti
Acting Director of Finance
1401 John F. Kennedy Boulevard
640 Municipal Services Building
Philadelphia, Pennsylvania 19102

Re: **Report of the Airport Consultant,**
City of Philadelphia, Pennsylvania, Airport Revenue Bonds,
Series 2005A, Series 2005B, and Refunding Series 2005C

Dear Mr. Isdell and Mr. Jannetti:

We are pleased to submit this Report of the Airport Consultant on certain aspects of the proposed issuance of Airport Revenue Bonds, Series 2005A (the 2005A Bonds), Series 2005B (the 2005B Bonds), and Refunding Series 2005C (the 2005C Refunding Bonds) by the City of Philadelphia, Pennsylvania (the City). The 2005A Bonds, the 2005B Bonds, and the 2005C Refunding Bonds are referred to collectively as the 2005 Bonds. This letter and the accompanying attachment and exhibits constitute our report.

The City owns Philadelphia International Airport (the Airport), the principal airline airport serving the Philadelphia metropolitan area, and Northeast Philadelphia Airport, a general aviation reliever airport. The two airports (collectively, the Airport System) are operated by the City's Division of Aviation.

The 2005A Bonds are being issued as fixed-rate bonds in the approximate amount of $149,000,000 to finance part of the costs of expanding and renovating terminal buildings, enhancing passenger security screening facilities, and resurfacing a runway at the Airport.

The 2005B Bonds are being issued as variable-rate bonds in the approximate amount of $54,000,000 to finance part of the costs of expanding and renovating terminal buildings and upgrading baggage security screening facilities at the Airport.

The projects being financed in part from the proceeds of the proposed 2005A and 2005B Bonds are referred to collectively as the 2005 Project.

The 2005C Refunding Bonds are being issued as variable-rate bonds in the approximate amount of $190,000,000 to refund $183,895,000 of outstanding Airport Revenue Bonds, Series 1995A (the 1995A Bonds).

General Ordinance

The 2005 Bonds are being issued under the terms of the City's 1995 Amended and Restated General Airport Revenue Bond Ordinance providing for the issuance of Airport Revenue Bonds (Bonds), as subsequently amended and supplemented by supplemental ordinances, including the Fifth and Sixth Supplemental Ordinances to be enacted before the 2005 Bonds are issued (collectively, the General Ordinance). Except as otherwise defined herein, capitalized terms in this report are used as defined in the General Ordinance and the Airline-Airport Use and Lease Agreement (discussed later). Certain of the provisions of the General Ordinance described in this report are summaries of such provisions that are relevant to the financial forecasts presented in the report and should not be regarded as complete statements of the provisions.

Security for the Bonds

Under the provisions of Section 4.02 of the General Ordinance, the 2005 Bonds are to be limited obligations of the City payable from Amounts Available for Debt Service and are to be secured by a pledge of Pledged Amounts. Amounts Available for Debt Service include Project Revenues, which comprise all revenues derived from the operation of the Airport System except certain revenues generated by or allocable to the Outside Terminal Area (OTA) and the Overseas Terminal, passenger facility charge (PFC) revenues, grants-in-aid for capital projects, Special Purpose Facility rentals, and certain other amounts.

Amounts Available for Debt Service may include PFC revenues to the extent that such PFC revenues are specifically pledged to the payment of Bond debt service. The City has received authority from the Federal Aviation Administration (FAA) to impose a PFC of $4.50 per eligible enplaned passenger at the Airport and to use PFC revenues to pay eligible debt service. The City has pledged certain PFC revenues to pay a portion of the debt service on its Airport Revenue Bond, Series 1998B (the 1998B Bond) and its Airport Revenue Bond, Series 2001A (the 2001A Bond). No PFC revenues are pledged to the payment of the Debt Service Requirements of the proposed 2005 Bonds.

Amounts Available for Debt Service may also include grant funds to the extent they are intended to be used to pay Bond debt service and are deposited in the Sinking Fund. The City expects to receive grants from the federal Transportation Security Administration (TSA) to pay certain of the costs of the 2005 Project and intends to apply any such grants to pay debt service on the 2005B Bonds. However, the City has not yet received a commitment from the TSA for such grants and no such grant funds are to be pledged to the payment of the Debt Service Requirements of the 2005B Bonds. For the purposes of this report, no such grant funds are assumed.

The City could, under certain circumstances, elect to effect certain provisions of the General Ordinance relating to the definitions of Project Revenues and Operating Expenses, the Rate Covenant, the pledge of revenues, the withdrawal of pledged revenues, and the assumption of operating expenses and debt service for the OTA and Overseas Terminal cost centers. For the purposes of this report, it was assumed that the City will not make any such elections.

As of March 1, 2005, the City had outstanding $479,950,000 of Bonds payable solely from Project Revenues and $598,200,000 of Bonds payable from Project Revenues and pledged PFC revenues.

Rate Covenant

In Section 5.01 of the General Ordinance, the City covenants that it will, at a minimum, impose, charge, and recognize as revenues in each Fiscal Year such rentals, charges, and fees as shall, together with that portion of the Aviation Operating Fund balance attributable to Amounts Available for Debt Service and carried forward at the beginning of such Fiscal Year, and together with all other Amounts Available for Debt Service to be received in such Fiscal Year, equal not less than the greater of all the following amounts payable during such Fiscal Year:

Either (1) the sum of:

(i) Net Operating Expenses (Operating Expenses exclusive of Interdepartmental Charges);

(ii) 150% of the amount required to pay the Debt Service Requirements of outstanding Bonds;

(iii) the amount, if any, required to be paid into the Sinking Fund Reserve Account; and

(iv) the amount, if any, required to be paid into the Renewal Fund.

or (2) the sum of:

(i) Operating Expenses;

(ii) the Debt Service Requirements of outstanding Bonds;

(iii) the debt service requirements of any outstanding General Obligation Bonds (including General Obligation Bonds that have not been adjudged to be self-sustaining on the basis of expected Project Revenues) issued for improvements to the Airport System, other than such bonds issued for improvements to certain City cost centers (discussed later) unless revenues from those cost centers are pledged as Pledged Amounts;

(iv) the debt service requirements of any outstanding Subordinate Obligations and any other subordinate indebtedness secured by Amounts Available for Debt Service;

(v) amounts required to repay any loans among the Aviation Capital Fund, the Renewal Fund, and the Aviation Operating Fund made pursuant to Section 4.05(c) of the General Ordinance;

(vi) the amount, if any, required to be paid into the Sinking Fund Reserve Account or Renewal Fund; and

(vii) any amounts required to be paid under Exchange Agreements.

These provisions of the General Ordinance are referred to as the Rate Covenant. The requirements of the preceding items (1)(i) through (1)(iv) are referred to in this report as Rate Covenant Test #1 and the requirements of items (2)(i) through (2)(vii) are referred to as Rate Covenant Test #2. The City's Fiscal Year (FY) ends June 30.

Additional Bonds Test

Section 5.04 of the General Ordinance requires, as a condition for the City's issuance of an additional Series of Bonds, that a report be prepared by nationally recognized independent consultants having broad experience in the operation of major airport systems. The report is required to address, for each Series of Bonds, the ability of the Airport System to yield Amounts Available for Debt Service sufficient to comply with the Rate Covenant. The report is required to demonstrate that the Rate Covenant (1) was met for the Fiscal Year immediately preceding the date of the consultant's report (or for any period of 12 full consecutive months during the 18 months preceding the date of the report) and (2) is estimated to be met for each of the five Fiscal Years ended immediately following the issuance of the additional Bonds. The report is also required to document that, as of the date of the report, no deficiency exists in the Sinking Fund Reserve Account. The requirements of Section 5.04 of the General Ordinance are referred to as the Additional Bonds Test. The applicable Fiscal Years for the 2005 Bonds are FY 2004 and FY 2006 through FY 2010. This report constitutes the report required by the Additional Bonds Test.

Airline Agreement

The City and the following airlines, referred to as the Scheduled Airlines, have entered into long-term Airline-Airport Use and Lease Agreements, as amended (collectively, the Airline Agreement):

American Airlines
Delta Air Lines
Northwest Airlines
United Airlines
US Airways

The Airline Agreement is effective through FY 2006, and establishes procedures for the annual review and adjustment of Scheduled Airline rentals, fees, and charges so that the Airport System will yield Project Revenues sufficient to comply with the Rate Covenant.

The City is discussing with the airlines serving the Airport the terms of a new use and lease agreement to succeed the current Airline Agreement. The City expects that the procedures in the successor agreement for setting airline rentals, fees, and charges will be substantially similar to those in the existing Airline Agreement and will be such as to ensure continued compliance with the Rate Covenant. Accordingly, for the purposes of this report, the procedures in the Airline Agreement were assumed to continue through FY 2010, the period covered in this report.

Under the Airline Agreement, Capital Expenditures are deemed approved by the Scheduled Airlines unless they are specifically disapproved by a Majority-in-Interest (MII). MII is defined as more than 50% in number of the Scheduled

Airlines that had more than 50% of the aggregate revenue aircraft weight landed at the Airport during the immediately preceding Fiscal Year. MII approval obligates the Scheduled Airlines to pay rentals, fees, and charges as required to enable the City to comply with the Rate Covenant.

The City has received MII approval for the 2005 Project being financed in part from the proceeds of the proposed 2005A and 2005B Bonds. Under the provisions of the Airline Agreement, the City may, at its option, refund outstanding Bonds and has informed the Scheduled Airlines of its intention to issue the 2005C Refunding Bonds.

Scope of the Report

This report was prepared to address the ability of the Airport System to yield Amounts Available for Debt Service sufficient to comply with the Rate Covenant of Section 5.01 of the General Ordinance and to demonstrate compliance with the requirements of the Additional Bonds Test of Section 5.04 of the General Ordinance. The report presents historical financial results for FY 2001 through FY 2004 and forecast results for FY 2005 through FY 2010.

In preparing the report, we analyzed:

- Future airline traffic demand at the Airport, giving consideration to the demographic and economic characteristics of the region served, historical trends in airline traffic, airline service provided by US Airways and other airlines, and key factors that may affect future airline traffic.

- Estimated sources and uses of funds for the 2005 Project and the 2005C Refunding Bonds and associated estimated annual Bond Debt Service Requirements.

- Historical relationships among revenues, expenses, and airline traffic at the Airport and other factors that may affect future revenues and expenses.

- Historical and future PFC revenues.

- The City's actual FY 2003 and FY 2004 results for the Airport System; budgeted results for FY 2005; projected staffing requirements; and other operational considerations.

- The City's policies and contractual arrangements relating to the use and occupancy of Airport System facilities, including the calculation of airline rentals, fees, and charges under the Airline Agreement; the operation of concession privileges; and the leasing of buildings and grounds.

We also identified key factors upon which the future financial results of the Airport System may depend and formulated assumptions about those factors. On the basis of these assumptions, we assembled the financial forecasts presented in the exhibits at the end of this report.

Estimates of project costs, project financing, and annual Debt Service Requirements were provided by the sources noted in the report.

Debt Service Coverage

As shown in Exhibit G-1, Rate Covenant Tests #1 and #2 were, or are forecast to be, met or exceeded in each Fiscal Year 2001 through 2010. Estimates of debt service coverage under Rate Covenant Test #1 are summarized as follows.

Fiscal Year	Net amounts available for debt service *(a)* [A]	Bond Debt Service Requirements [B]	Bond debt service coverage [A/B]	Bond debt service coverage requirement
Historical				
2000	$ 78,672,541	$36,513,573	2.15	1.50
2001	88,399,658	44,813,354	1.97	1.50
2002	106,946,506	64,067,958	1.67	1.50
2003	132,580,995	83,174,846	1.59	1.50
2004	144,220,280	89,653,253	1.61	1.50
Forecast				
2005	$147,568,000	$91,045,000	1.62	1.50
2006	152,048,000	93,051,000	1.63	1.50
2007	147,467,000	85,468,000	1.73	1.50
2008	156,154,000	89,178,000	1.75	1.50
2009	169,373,000	98,984,000	1.71	1.50
2010	172,977,000	99,010,000	1.75	1.50

(a) Amounts Available for Debt Service less Net Operating Expenses.

Note: See Exhibit G-1 for sources and calculations.

The estimates shown in Exhibit G-1 and above demonstrate that pledged Amounts Available for Debt Service were and are forecast to be sufficient to meet the Additional Bonds Test requirements of Section 5.04 of the General Ordinance for the applicable Fiscal Years.

Project Revenues and other pledged Amounts Available for Debt Service were and are forecast to be sufficient to cover Operating Expenses; debt service on all outstanding series of Airport Revenue Bonds and the proposed 2005 Bonds; debt service on all outstanding General Obligation Bonds; and all other requirements of the General Ordinance in each of the years required by Section 5.04 of the General Ordinance.

In preparing the forecasts, it was assumed that the effective net debt service payable by the City on the variable-rate 2005C Refunding Bonds will be the debt service amounts that would be payable on the 1995A Bonds if they were not refunded. Such assumed debt service payments are higher than the debt service payments required to be assumed for variable-rate Bonds, under the provisions of Section 5.01 of the General Ordinance, for the purposes of demonstrating compliance with the Rate Covenant, the Additional Bonds Test, and the Sinking Fund Reserve Requirement. If the lower debt service amounts required under Section 5.01 of the General Ordinance were to be assumed, then the projected debt service coverage would be the same as or higher than the amounts shown in each year.

Sinking Fund Reserve Account

According to financial records provided by the City, no deficiency exists in the Sinking Fund Reserve Account as of the date of this report and, assuming that 2005 Bond proceeds are used in accordance with Exhibit B, no such deficiency will exist as of the date the 2005 Bonds are issued.

Airline Payments per Enplaned Passenger

The following tabulation presents forecasts of payments to be made to the City by the passenger airlines in the form of terminal rentals, landing fees, and other charges (assuming the base forecast of passengers documented in this report).

Fiscal Year	Passenger airline payments [C]	Enplaned passengers [D]	Payments per enplaned passenger [C/D]
2005	$115,597,000	15,300,000	$7.56
2006	134,492,000	16,000,000	8.41
2007	135,536,000	16,400,000	8.26
2008	149,634,000	16,800,000	8.91
2009	166,207,000	17,200,000	9.66
2010	173,404,000	17,600,000	9.85

Note: See Exhibits E and G-1 for sources and calculations.

Assumptions Underlying the Financial Forecasts

The financial forecasts are based on information and assumptions that were provided by or reviewed with and agreed to by Division of Aviation management. Accordingly, the forecasts reflect management's expected course of action during the forecast period and, in 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.

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 are likely to be differences between the forecast and actual results, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of the report.

Low Passenger Forecast

The Airport is a major connecting hub for US Airways, which, together with its regional airline affiliates operating as US Airways Express, accounted for approximately 67% of the 13.1 million passengers enplaned at the Airport in FY 2004. Of those 13.1 million passengers, an estimated 7.7 million (59%) originated their air journeys at the Airport and the other 5.4 million (41%) connected between flights.

US Airways is operating under Chapter 11 bankruptcy protection. To test the sensitivity of the financial forecasts to the possibility that US Airways could liquidate, financial projections were assembled assuming a cessation of US Airways service at the Airport effective July 2005 (the beginning of FY 2006). Under the low passenger forecast associated with such a hypothetical scenario, it was assumed that other airlines would gradually increase service to serve originating passenger demand, but that numbers of connecting passengers would be reduced. For the low forecast, the number of enplaned passengers is approximately 24% lower than for the base passenger forecast in FY 2008.

Under the low passenger forecast, airline rentals, fees, and charges per enplaned passenger would increase relative to those required under the base forecast. However, debt service coverage is projected to be similar to that forecast under the base forecast and to meet or exceed the coverage requirements of Rate Covenant Tests #1 and #2. (See Exhibit G-2.)

* * * * *

We appreciate the opportunity to assist the City on the proposed financing.

Respectfully submitted,

Leigh Fisher Associates

LEIGH FISHER ASSOCIATES

Attachment

BACKGROUND, ASSUMPTIONS, AND RATIONALE FOR THE FINANCIAL FORECASTS

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

CITY OF PHILADELPHIA, PENNSYLVANIA,
AIRPORT REVENUE BONDS
SERIES 2005A, SERIES 2005B, AND REFUNDING SERIES 2005C

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CONTENTS

CONTENTS *(continued)*

CONTENTS *(continued)*

TABLES

TABLES *(continued)*

FIGURES

EXHIBITS

AIRLINE TRAFFIC ANALYSIS

AIRPORT FACILITIES

Philadelphia International Airport occupies a 2,300-acre site in Philadelphia and Delaware Counties about 8 miles by road southwest of Center City Philadelphia. Road access to the Airport is provided by Interstate 95 and Pennsylvania Route 291, which bound the Airport site to the north. The Delaware River bounds the site to the south. Direct rail service is provided by the Southeastern Pennsylvania Transportation Authority (SEPTA) between Center City and stations serving the passenger terminal complex.

Airfield

The Airport has four runways and an associated system of taxiways. The main runways are east-west Runway 9R-27L, 10,500 feet long, and Runway 9L-27R, 9,500 feet long. The main runways are separated by 1,400 feet, which does not permit their simultaneous use for arrivals during periods of poor visibility. Runway 8-26 is 5,000 feet long and is used only for regional airline aircraft arrivals from the east and departures to the east. Crosswind Runway 17-35, 5,460 feet long, is used mainly by regional airline aircraft.

Passenger Terminals

The passenger terminal complex, located north of the main runways, comprises seven terminal units, each providing a concourse for aircraft loading and unloading; a landside building for passenger ticketing, check-in, and security screening; and (except in the case of Terminal F) a separate baggage claim building. The landside buildings and baggage claim buildings are served by separate curbside roadway systems. The terminal complex provides a total of approximately 2.7 million square feet of space and 120 aircraft parking positions and associated facilities (gates).

Terminals A West and A East provide facilities for international airline operations and passengers. Terminal A West, opened in May 2003, provides 13 gates, 12 of which are capable of accommodating widebody aircraft. Terminal A East, opened in March 1991, provides 12 gates, 5 of which are capable of accommodating widebody aircraft. Terminals B through F provide facilities mainly for domestic airline operations and passengers. Terminals B through E date from the late 1970s. Terminals B and C, which are leased by US Airways, each provide 15 gates. Terminals B and C were renovated, expanded, and consolidated in 1998, at which time a connector between Terminals B and C, housing extensive new food, beverage, and retail concessions, was constructed. Terminal D was expanded in August 2003 and provides 16 gates. Terminal E provides 11 gates. Terminal F, opened in June

2001, provides 38 gates designed for use by regional airline aircraft. Information on airline use of the terminals is provided in the later section, "Airline Gate Use."

Parking and Outside Terminal Area

Public parking facilities, which are operated by the Philadelphia Parking Authority, consist of five multi-story garages and surface lots immediately north of the terminals (approximately 12,200 spaces) and a surface lot remote from the terminal complex and served by shuttle buses (approximately 5,600 spaces). A 50-acre site north of the terminal complex, designated the Outside Terminal Area (OTA), accommodates the parking garages as well as a hotel, rental car storage and maintenance sites, commercial ground transportation, and other facilities. The parking garages and hotel are connected directly to the terminals by enclosed walkways.

Cargo and Other Facilities

Air cargo buildings, airline maintenance hangars, and associated aircraft parking aprons are located on a 90-acre site at the northwest side of the Airport known as Cargo City. The site also accommodates a 220,000-square-foot U.S. Postal Service air mail facility and Airport support facilities. UPS Air Cargo leases a 210-acre site at the south side of the Airport where the airline operates its East Coast package handling and sorting hub from a 670,000-square-foot building.

General and business aviation facilities are located on 30 acres on the east side of the Airport. Commercial fixed base operator services are provided by Atlantic Aviation. Approximately 30 general aviation aircraft are based at the Airport and approximately 20,000 general aviation operations (landings and takeoffs) occur annually.

Northeast Philadelphia Airport

The City owns and operates Northeast Philadelphia Airport (PNE), which accommodates most general and business aviation activities. PNE is located on a 1,240-acre site about 13 miles by road northeast of Center City. Approximately 210 aircraft are based at PNE, which has two runways, 7,000 feet and 5,000 feet long. PNE handles approximately 170,000 general aviation operations annually.

AIRPORT SERVICE REGION

Philadelphia International Airport is the principal airline airport serving the City of Philadelphia and surrounding areas of Pennsylvania, New Jersey, Delaware, and Maryland. The Airport serves as an international passenger gateway, a connecting hub for US Airways, and a hub for regional airlines, particularly those operating as US Airways Express. The Airport also serves as an international air cargo hub.

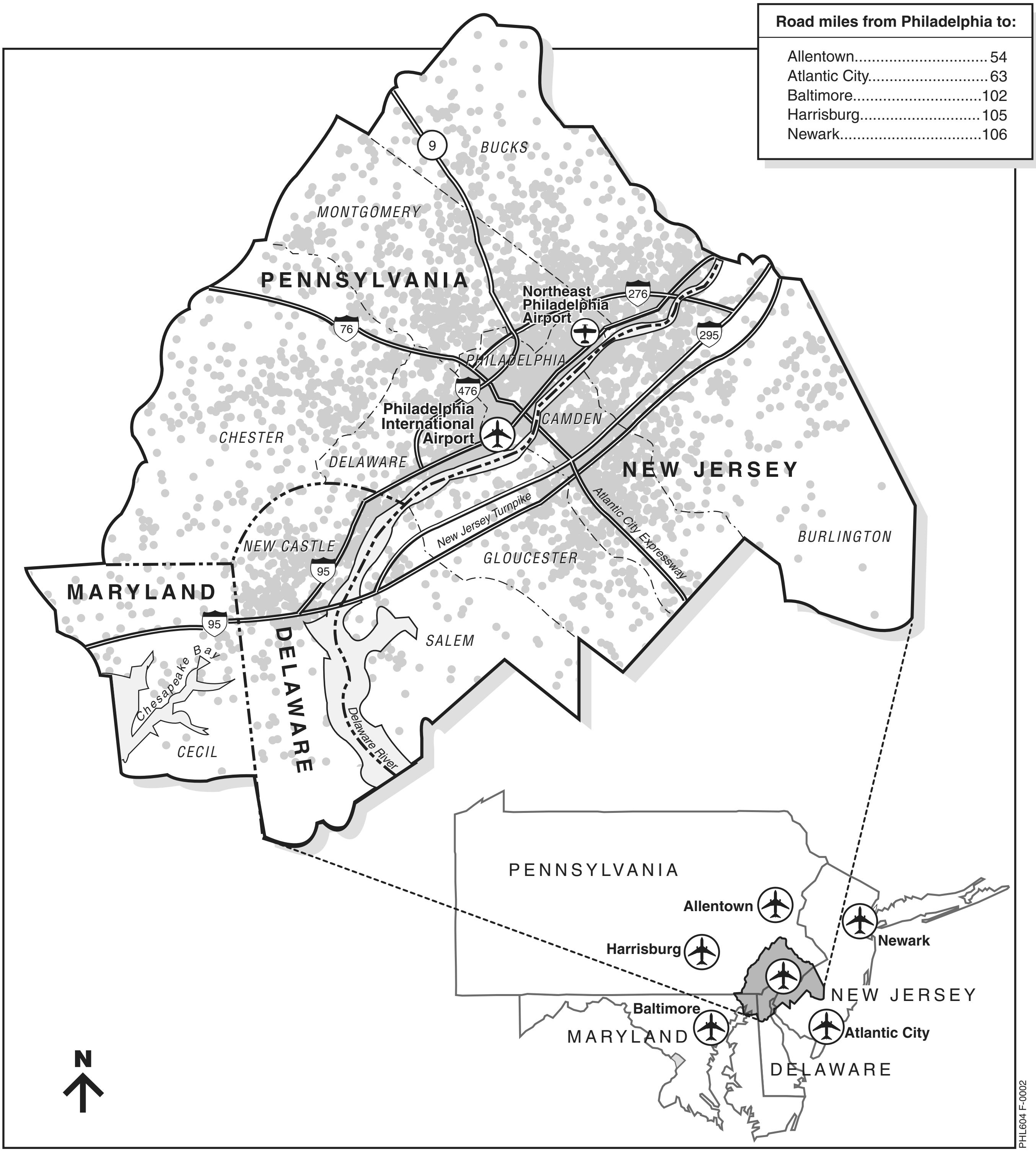
As shown on Figure 1, the region served by the Airport consists primarily of the Philadelphia, PA-NJ Primary Metropolitan Statistical Area (PMSA)—Bucks, Chester, Delaware, Montgomery, and Philadelphia counties in Pennsylvania and Burlington, Camden, Gloucester, and Salem counties in New Jersey—and the Wilmington-Newark, DE-MD PMSA—New Castle County in Delaware and Cecil County in Maryland. These 11 counties are referred to in this report as the Airport Service Region or the Region.

Surrounding the 11-county Airport Service Region is a secondary service area defined by the availability of airline service at other airports. As shown on Figure 1, the airports that have historically defined this secondary area are Lehigh Valley International Airport (near Allentown, 54 miles to the north), Atlantic City International Airport (63 miles to the southeast), Baltimore/Washington International Airport (102 miles to the southwest), Harrisburg International Airport (105 miles to the northwest), and Newark Liberty International Airport (106 miles to the northeast). The extent to which these surrounding airports compete with Philadelphia International Airport for passengers is discussed in the later section "Competing Airports."

Tables 1 through 7 provide historical and forecast data on population, employment, and per capita income in the Airport Service Region with comparative data for the United States, where appropriate.

Population, Employment, and Income

As shown in Tables 1 and 2, the 11-county Airport Service Region had a population of approximately 5.7 million in 2000, and the secondary service area had an additional population of approximately 2.0 million. The rate of population increase in the Airport Service Region has historically been about 40% of the rate for the nation as a whole. The projected rate of population increase for the Region is about 60% of the rate projected for the nation. Similarly, as shown in Table 3, the projected rate of increase in employment for the Airport Service Region is about 60% of the rate projected for the nation.



LEGEND

- Passenger air carrier airport
- General aviation airport
- State boundary
- County boundary
- Population density

Figure 1
AIRPORT SERVICE REGION
Philadelphia International Airport
March 2005

LFA LEIGH FISHER ASSOCIATES

Table 1

POPULATION DISTRIBUTION IN THE AIRPORT SERVICE REGION
2000

State and County	Population	Percent of total
Pennsylvania		
Philadelphia	1,517,550	26.7%
Montgomery	750,097	13.2
Bucks	597,635	10.5
Delaware	550,864	9.7
Chester	433,501	7.6
	3,849,647	67.7%
New Jersey		
Camden	508,932	9.0%
Burlington	423,394	7.4
Gloucester	254,673	4.5
Salem	64,285	1.1
	1,251,284	22.0%
Delaware		
New Castle	500,265	8.8
Maryland		
Cecil	85,951	1.5
Total	5,687,147	100.0%

Source: U.S. Department of Commerce, Bureau of the Census, March 2004.

Table 2

HISTORICAL AND PROJECTED POPULATION
Airport Service Region and United States

Year	Airport Service Region	Average annual increase: Airport Service Region	Average annual increase: United States
Historical			
1980	5,240,612		
1990	5,435,468	0.4%	0.9%
2000	5,687,147	0.5	1.2
Projected			
2010	5,956,000	0.5%	0.9%

Sources:
Historical: U.S. Department of Commerce, Bureau of the Census, March 2004.

Projected: Delaware Valley Regional Planning Commission, *Population and Employment Forecasts, 2000-2025*, March 2002;

New Jersey Department of Labor, Division of Labor Market & Demographic Research, *County Population and Labor Force Projections for New Jersey, 2000 to 2020*;

Delaware Population Consortium, *Population Projection Series*, September 2004;

Maryland Department of Planning, Planning Data Services, May 2004;

U.S. Department of Commerce, Bureau of the Census, March 2004.

Table 3

HISTORICAL AND PROJECTED EMPLOYMENT
Airport Service Region and United States

Year	Airport Service Region	Average annual increase: Airport Service Region	Average annual increase: United States
Historical			
1980	2,538,650		
1990	3,011,880	1.7%	2.0%
2000	3,289,950	0.9	1.8
Projected			
2010	3,555,000	0.8%	1.4%

Source: National Planning Association, Data Services, Inc., *Key Indicators of County Growth, 1970–2030*, 2004 edition.

As shown in Table 4, per capita personal income in the Airport Service Region has historically been higher than the average for the United States and is projected to increase at a rate similar to the rate for the nation as a whole.

Table 4

HISTORICAL AND PROJECTED PER CAPITA PERSONAL INCOME
Airport Service Region and United States

	Airport Service Region	United States	Average annual increase: Airport Service Region	Average annual increase: United States
Historical				
1980	$25,147	$22,909		
1990	31,962	27,542	2.4%	1.9%
2000	36,928	32,058	1.5	1.5
Projected				
2010	$46,170	$40,450	2.3%	2.4%

Sources:
Historical: U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.doc.gov, March 2004. Adjusted to constant 2004 dollars using the Consumer Price Index published by the U.S. Department of Labor, Bureau of Labor Statistics.

Projected: National Planning Association, Data Services, Inc., *Key Indicators of County Growth, 1970 - 2025*, 2004 Edition. Adjusted to 2004 dollars using the Consumer Price Index.

Employment Sectors

Table 5 lists the private sector employers with the largest numbers of employees in the Airport Service Region. The table indicates a diversity of economic activity. Many of the companies listed are involved in national and international operations that rely on airline travel. The economy of the Region, according to the categories of employment shown in Table 6, is discussed in the following sections.

Table 5

LARGEST PRIVATE EMPLOYERS
Airport Service Region
2003

Employer	Type of business	Number of employees
1. University of Pennsylvania	Education, research, health care	23,600
2. Jefferson Health System	Health care	22,200
3. Verizon Communications	Telecommunications	20,000
4. Merck & Co.	Pharmaceutical	10,000
5. MBNA Corp.	Banking services	10,000
6. Dupont Co.	Chemical manufacturer	9,900
7. The Vanguard Group	Investment services	8,000
8. Christiana Care Health System	Health care	7,900
9. United Parcel Service	Package delivery	7,500
10. Acme Markets	Food retailer	7,300
11. Crozer-Keystone Health System	Health care	7,000
12. Tenet Health Systems	Health care	7,000
13. Prudential	Financial services	6,600
14. Genesis Health Ventures	Long-term care	6,400
15. Wyeth Pharmaceuticals	Pharmaceutical	6,300
16. Children's Hospital of Philadelphia	Health care	6,200
17. Temple University Health System	Health care	6,200
18. Mercy Health System	Health care	5,900
19. Independence Blue Cross	Health insurance	5,700
20. US Airways Group	Commercial airline	5,500
21. Cendant Mortgage	Mortgage lending	5,500
22. Allied Security	Security services	5,000
23. Rosenbluth International	Travel management services	5,000
24. AstraZeneca Pharmaceuticals	Pharmaceutical	4,800
25. Abington Memorial Hospital	Health care	4,600

Table 5 *(page 2 of 2)*
LARGEST PRIVATE EMPLOYERS
Airport Service Region
2003

Employer	Type of business	Number of employees
26. Thomas Jefferson University	Academic health center	4,500
27. The Boeing Co.	Helicopter manufacturing	4,400
28. Cardone Industries Inc.	Remanufacturing	4,100
29. PNC Financial Services Group	Banking and financial services	4,000
30. Cooper Health	Health care	4,000
31. Commerce Bank	Banking services	3,700
32. Aetna U.S. Healthcare	Health insurance	3,500
33. Lockheed Martin Naval Electronics	Engineering and naval systems	3,500
34. QVC Inc.	E-commerce	3,500
35. Kennedy Health System	Health care	3,400
36. Siemens Medical Solutions	Health information and technology services	3,400
37. Virtua Health	Health care	3,300
38. Comcast Corp.	Telecommunication and entertainment	3,000
39. Lockheed Martin/Management and Data Systems	Engineering and information technology	3,000
40. Genuardi's	Food retailer	2,900
41. Philadelphia Newspapers	Newspaper publishing	2,700
42. Cigna Corp.	Employee benefits	2,500
43. Jevic Transportation	Trucking services	2,400
44. GlaxoSmithKline	Pharmaceutical	2,200
45. Drexel University	Education	2,200

Note: Data were gathered by surveying employers, so omissions may have resulted from failures to respond.

Sources: *Philadelphia Business Journal, Book of Lists*, 2004 edition, and Delaware Economic Development Office, www.state.de.us/dedo, 2004, except US Airways Group, from US Airways website.

Table 6

NONAGRICULTURAL EMPLOYMENT BY SECTOR
Airport Service Region and United States

	Airport Service Region			United States
	1995	2000	2003	2003
Construction and mining	3.8%	4.3%	4.4%	5.6%
Manufacturing	12.3	10.8	9.0	11.2
Wholesale trade	4.8	4.7	4.7	4.3
Retail trade	11.7	11.4	11.3	11.5
Transportation, warehousing, and utilities	3.5	3.4	3.5	3.7
Information	2.4	2.6	2.4	2.5
Financial activities	7.9	7.8	8.1	6.1
Professional and business services	12.8	14.3	14.0	12.3
Educational and health services	16.7	16.7	17.7	12.8
Leisure and hospitality services	6.7	7.1	7.5	9.3
Other services	4.0	4.1	4.5	4.2
Public administration	13.5	12.6	12.8	16.6
	100.0%	100.0%	100.0%	100.0%
Total nonagricultural employment	2,469,400	2,724,300	2,726,000	129,931,600

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

Source: U.S. Department of Labor, Bureau of Labor Statistics, March 2004. Employment is classified using the North American Industry Classification System (NAICS).

Construction and Mining

The conversion of former military installations and the development of infrastructure, hotels, office buildings, and residential complexes have contributed to construction activity in the Airport Service Region. The construction and mining sector (of which mining is a small part) added 26,900 new jobs in the Region between 1995 and 2003.

Recent construction projects include the completion of a new baseball park, a new football stadium, and terminal and roadway improvements at the Airport. Major new initiatives include a research and medical campus in University City and proposals to expand the Convention Center and redevelop the Delaware River waterfront. Two major office buildings are under construction and the Center City residential market is growing. According to the Center City District and Central Philadelphia Development Corporation, 5 new condominium projects adding 225 units were completed in 2004, and an additional 10 condominium projects with 1,700 units have been proposed. About 300 apartment units were completed in 2003 and 1,200 more units are expected to be built through 2006.

The Philadelphia Industrial Development Corporation is developing the former Philadelphia Naval Base as the Philadelphia Naval Business Center (PNBC), a mixed-use, 1,000-acre master-planned campus. The campus will include a corporate center (70 acres of office buildings), a historic core (170 acres), a shipyard (450 acres), a research park (80 acres), and 200 waterfront acres for mixed development. The PNBC has, to date, attracted 60 private companies with over 6,000 employees. The companies include Kvaerner, a ship-building company providing 1,000 jobs. Office tenants include Barthco International, VITETTA, Alstom, and the U.S. Navy. At full build-out, the PNBC is expected to support more than 18,000 employees and is seen as a long-term economic development engine for the Region.

Manufacturing

Consistent with nationwide trends, the number of manufacturing jobs in the Airport Service Region decreased by 58,700 between 1995 and 2003. In 2003, the manufacturing sector accounted for 9.0% of jobs in the Region, compared with 11.2% nationwide. Employment has, however, increased in the chemical manufacturing and pharmaceutical industries. Most of the world's largest biotechnology and pharmaceutical companies have a presence in the Region, including Merck & Co., AstraZeneca, Wyeth Pharmaceuticals, GlaxoSmithKline, Aventis Pharmaceuticals Inc., Centocor Inc., and Cephalon, Inc. Advanced Pharmaceutical Nanotech, Inc., one of Asia's largest pharmaceutical manufacturers, recently opened its first U.S. operation in New Castle, Delaware. Other major manufacturing employers in the Region are Dupont Co., The Boeing Co., SPS Technologies, Lockheed Martin Corp., Sunoco Inc., Campbell Soup Co., Rohm & Haas Co., and Crown Cork & Seal.

Wholesale and Retail Trade

Between 1995 and 2003, the wholesale and retail trade sectors added 29,700 jobs to the Airport Service Region's employment base. As part of a Federal Empowerment Zone, the City of Philadelphia is benefiting from federal grants that are being used to develop retail and warehouse facilities. Philadelphia's transportation infrastructure has also encouraged the development of new warehouse and distribution facilities.

The merger in 2001 of AmeriSource Health Corporation and Bergen Brunswig Corporation created AmerisourceBergen Corporation, now one of the largest pharmaceutical distributors in the United States, whose headquarters are in Valley Forge. In April 2004, Sysco Food Services, the largest food service marketing and distribution organization in North America, bought an 11-acre site in south Philadelphia for a 210,000-square-foot expansion. Also in south Philadelphia, DHL Worldwide Express, one of the world's largest express delivery companies, is building a new distribution facility. Quartermaster Plaza is currently being developed on a 44-acre site in south Philadelphia that was previously a U. S. Army clothing manufacturing plant. Major tenants of the 540,000-square-foot space include Home Depot, BJ's Wholesale, Staples, and Walgreens.

Transportation, Warehousing, and Utilities

Between 1995 and 2003, a total of 7,600 jobs was added to the transportation, warehousing, and utilities sector; this sector accounted for 94,300 jobs in 2003. An important contributor to this total is the Airport, where airlines and other businesses directly employ about 21,000 people. As of November 2004, over 5,500 US Airways employees were based in Philadelphia. In a 2001 study by GRA, Inc., it was estimated that activities at Philadelphia International Airport directly and indirectly supported a total of over 71,000 jobs in the Region. Philadelphia's transportation infrastructure has encouraged the development of extensive new warehouse facilities. In 2001, a 1-million-square-foot warehouse and distribution facility was completed in northeast Philadelphia by Liberty Property Trust.

Information

Employment in the Airport Service Region in the information sector grew by 5,700 jobs between 1995 and 2003. Telecommunications companies Verizon and Comcast are both large employers. Verizon Communications was formed in 2000 by the merger of Bell Atlantic Corporation and GTE Corporation and is one of the largest providers of local and wireless telecommunication service in the United States. Verizon employs 20,000 people in the Region. Comcast, which is headquartered in Philadelphia, has grown to be one of the world's leading communication companies and employs 3,000 people in the Region.

Local economists consider the Region to be well positioned to benefit from development of the high-technology economy because of the concentration of high-technology companies and the presence of research universities. Large high-technology employers in the Region include Unisys Corporation, Lockheed Martin Management and Data Systems, SunGard Data Systems, Siemens Medical Solutions and Computer Sciences Corporation.

Financial Activities

The financial activities sector accounted for 8.1% of nonagricultural employment in the Airport Service Region in 2003, compared with 6.1% nationwide. From 1995 to 2003, employment in this sector increased by 24,700 employees. Large employers in the Region include several financial and insurance institutions: MBNA Corporation, The Vanguard Group, Prudential, Aetna U.S. Healthcare, Independence Blue Cross, PNC Financial Services Group, Cendant Mortgage, Commerce Bank, and Cigna Corporation. Wachovia, based in North Carolina, is one of the largest financial services institutions in the United States. Although local employment data are not available, in 2003, Wachovia had an approximate 25% share of Philadelphia area bank deposits, followed by PNC Bank, with 13%. In recent years, Lincoln Financial Group and Citizens Bank moved their corporate headquarters to Philadelphia and Bank of America established a presence in the Region when it combined with Fleet.

A 2002 report by the research department of the Federal Reserve Bank of Philadelphia noted that, although the number of jobs at depository institutions in the Region has declined since the mid 1990s, such declines have been offset by growth at investment companies. The report also noted a significant increase in Delaware's output in finance, insurance, and real estate attributable to the growth in credit card transactions.

Services

Professional and business services and educational and health services were the fastest growing industry sectors in the Airport Service Region between 1995 and 2003, creating 138,500 new jobs. These two industry sectors accounted for about 32% of the Region's nonagricultural employment in 2003, compared with 25% nationwide. The leisure and hospitality sector created an additional 40,300 jobs in the Region between 1995 and 2003. Table 7 shows employment in the fastest growing services subsectors.

Table 7

EMPLOYMENT IN SELECTED SERVICES SUBSECTORS
Airport Service Region

	Employment		
	1995	2000	2003
Professional and business services	316,000	389,800	382,600
Professional, scientific, and technical	149,800	188,200	191,100
Management of companies	32,900	37,500	35,600
Administrative, support and waste management	133,200	164,100	155,900
Educational and health	411,200	455,800	483,100
Educational services	91,300	102,800	113,000
Health care and social assistance	320,000	353,000	370,100
Leisure and hospitality	165,200	194,500	205,500
Arts, entertainment, and recreation	28,100	34,300	38,100
Accommodation and food services	137,100	160,100	167,400

Source: U.S. Department of Labor, Bureau of Labor Statistics, March 2004.

Professional and Business Services. The professional, scientific, and technical services subsector grew by 41,300 employees between 1995 and 2003. This increase accounts for 62% of the overall increase in the professional and business services sector. The subsector includes legal services, accounting services, architectural services, engineering services, computer systems design, consulting services, and scientific research.

Education. In the educational services subsector, 21,700 new jobs were added in the Airport Service Region between 1995 and 2003. Educational services account for 4.1% of all nonagricultural employment in the region, compared to 2.0% nationwide. The Region has over 80 colleges and universities, representing the second largest concentration of degree-granting accredited colleges and universities in the country. These institutions generate almost $700 million in research and development, employ 27,000 faculty members, and educate 213,400 full-time equivalent students. Universities in the Region include the University of Pennsylvania, Drexel University, Temple University, La Salle University, Villanova University, Saint Joseph's University, Rowan University, West Chester University, and Rutgers University. According to a 2002 report by the Research Department of the Federal Reserve Bank of Philadelphia, Pennsylvania ranks fifth among states in total research and development spending at universities and colleges. The University of Pennsylvania accounts for much of Pennsylvania's university-based research. In early 2001, the University announced the establishment of a new Genomics Institute. In the fall of 2004, the University completed a 128,000-square-foot Research Laboratory which will support research programs affiliated with the Schools of Medicine and Engineering.

Health. In the health care and social assistance subsector, 50,100 new jobs were added in the Airport Service Region between 1995 and 2003. In 2003, the health services sector accounted for 13.6% of nonagricultural employment in the Region compared with 10.7% nationwide. Of the 45 largest private employers in the Airport Service Region, 14 are health care providers, 3 are in the health insurance and information business, and 4 are pharmaceutical companies. The Greater Philadelphia Chamber of Commerce reports that the Region has the second largest concentration of health resources in the country, with 120 hospitals, 200 pharmaceutical and biotechnology firms, and 135 medical manufacturers. In 2001, the Children's Hospital of Philadelphia launched a 5-year, $650 million project that will nearly double the size of the main campus, adding more than 1 million square feet of new space to meet the growing demand for inpatient and outpatient care. The expansion project is expected to be completed in 2006 and create an additional 1,000 healthcare jobs.

According to a 2002 study by the Delaware Valley Healthcare Council, regional employment in life sciences has doubled in the last 25 years to more than 250,000, while its share of the total regional work force has grown from 6% to 14%. Life sciences is composed of hospitals and other healthcare providers, pharmaceutical companies, biotechnology firms, insurers, and educational and research institutions. The Delaware Valley Healthcare Council forecasts that while hospital employment will increase. The shift in health services sector employment away from hospitals and towards out-patient care has been a trend over the past 25 years.

Leisure and Hospitality. The leisure and hospitality sector had an increase of 40,300 employees between 1995 and 2003. According to a 2004 report by the Greater Philadelphia Tourism Marketing Corporation, tourism accounts for nearly $9 billion in direct, indirect, and induced spending and more than 125,000 jobs in the Region. As the first major city in America, Philadelphia is rich with American history. Independence Hall, the Liberty Bell pavilion, and other attractions in the Historic District draw visitors from all parts of the nation and the world. Table 8 shows major tourist attractions in the Airport Service Region. The newest addition to Independence Mall, the 160,000-square-foot National Constitution Center, opened in 2003, and is expected to attract 1 million visitors a year. The new Liberty Bell Center, which is one of the final elements of the redevelopment of Independence National Historical Park, also opened in 2003.

Table 8

MAJOR TOURIST ATTRACTIONS
Airport Service Region
2003

	Number of visits
Independence National Historic Park *(a)*	5,360,000
Philadelphia Museum of Art	800,000
Franklin Institute Museum	750,000
Longwood Gardens	700,000
Betsy Ross House	260,000
Academy of Natural Sciences	250,000
Christ Church and Burial Ground	220,000
Battleship New Jersey Museum and Memorial	180,000

(a) All 27 park units including Independence Hall and the Liberty Bell pavilion.

Source: Philadelphia Business Journal, August 2004.

Other major attractions in the Airport Service Region include Longwood Gardens, The Franklin Institute Museum, the Philadelphia Museum of Art, the Battleship New Jersey Museum and Memorial, and the Academy of Natural Sciences. The

Philadelphia Zoo is one of the Region's leading family attractions. The New Jersey State Aquarium has been an anchor to the Camden Waterfront since its opening in 1992. The Kimmel Center, the City's new centerpiece for the Avenue of the Arts, opened in 2001 as home to eight resident performing arts companies, including the Philadelphia Orchestra and the Pennsylvania Ballet. Philadelphia's diversity of cultural offerings includes 17 museums, 24 performing arts organizations and numerous art galleries and studios. A 21-acre National Center for the American Revolution is scheduled to open in Valley Forge in 2006.

Philadelphia is home to professional teams in most major sports: the Eagles (National Football League), the Flyers (National Hockey League), the Phillies (Major League Baseball), and the 76ers (National Basketball Association). The Eagle's new 66,000-seat stadium opened in 2003 and the Phillies new ballpark opened in 2004.

Convention activity increased dramatically in the years following the 1993 opening of the $522 million Pennsylvania Convention Center. The Convention Center, located in Center City, provides 1.3 million square feet of space, making it the second largest convention center in the Northeast. In 2002, the number of convention attendees exceeded 1.4 million. Since then, attendance has decreased, partly as a result of labor disputes, to a total of approximately 1.1 million in 2004. In July 2003, a new 10-year labor agreement was signed. This agreement is expected to make the Center more competitive with convention facilities in nearby cities. In 2004, the Commonwealth of Pennsylvania approved funding for a $633 million expansion project that will add more than 1 million square feet to the Convention Center.

Hotel development, especially in Center City, has accompanied increased tourism and convention attendance. According to a report by the Center City District and Central Philadelphia Development Corporation, over 4,500 hotel rooms were added to the Center City hotel market between 1998 and 2001. The Philadelphia Convention and Visitors Bureau reports that more than 3,500 hotel rooms are within one city block of the Convention Center and more than 10,500 rooms are in downtown Philadelphia. Local economists suggest that the availability of hotel rooms in Philadelphia will permit continued development of the tourism and convention industries, with associated increases in airline passengers at the Airport.

Government

The government sector accounted for 350,200 jobs in the Airport Service Region in 2003. Although the sector's share of nonagricultural employment decreased slightly between 1995 and 2003, there was an absolute increase of 16,500 jobs in the sector (an increase of 19,500 jobs in local government and an increase of 3,900 jobs in state government offset by a decrease of 6,900 jobs in federal government). In addition, the U.S. Navy has retained approximately 2,500 employees at the former Philadelphia Naval Base, now the Philadelphia Naval Business Center.

Economic Outlook

The economy of the Airport Service Region, like that of much of the United States, experienced a slowdown between 2000 and 2003. Federal Reserve Board economists reported improved business conditions in the Region in 2003 and 2004, and forecast continued improvement in 2005. Development of the Region's economy is expected to be broad-based and involve most industry sectors. A recent assessment of the region's economy prepared by the Milken Institute named Philadelphia as the "most improved" of the 10 largest U.S. metropolitan regions, measured by recent rates of job and wage growth and the number of high technology industries.

Factors that are expected to contribute to continued economic growth in the Region and associated increases in airline travel include (1) diversity in the economic base, which lessens its vulnerability to weaknesses in particular industry sectors, (2) strength in financial services, higher education, information technology, health care, and professional services, (3) continued growth of the leisure and hospitality industry, (4) labor and living costs that are generally lower than in other major northeastern metropolitan areas, (5) an educated labor force able to support the development of knowledge-based and service industries, and (6) continued reinvestment in Center City to support the development of tourism, conventions, and other businesses.

AIRPORT ROLE

Nearly all the major U.S. passenger airlines provide service between Philadelphia International Airport and destinations throughout the United States. Scheduled international service is provided by U.S. and foreign flag airlines to Canada, Europe, the Caribbean, and Latin America. All the large U.S. all-cargo airlines provide regular service to and from the Airport.

Table 9 presents data on the numbers of passengers at the busiest U.S. airports. According to data compiled by Airports Council International, in calendar year 2003, the Airport ranked 17th in the nation in passengers, 13th in aircraft movements, and 14th in cargo tonnage. Table 10 presents data on the number of international passengers at the Airport and other international gateway airports. International passenger numbers at the Airport increased 44% between 1998 and 2003 as US Airways increased service. US Airways accounted for 77% of international passengers at the Airport in FY 2004 and foreign-flag airlines accounted for most of the remainder.

In common with virtually all major U.S. airports, passenger numbers at the Airport decreased between 2000 and 2003 as a result of economic recession and the decrease in travel that followed the September 2001 terrorist attacks. However, the decrease at the Airport was much smaller than at most other airports as US Airways built up service at its Philadelphia hub. Historical changes in passenger traffic at the Airport are discussed further in the later section, "Historical Airline Traffic."

Table 9

PASSENGERS AT BUSIEST U.S. AIRPORTS
2003

Rank	City (airport)	Total passengers *(a)* (millions) 1998	2000	2002	2003	Average annual increase (decrease) 1998-2000	2000-2003
1	Atlanta	73.5	80.2	76.9	79.1	4.5%	(0.5%)
2	Chicago (O'Hare)	72.5	72.1	66.6	69.5	(0.3)	(1.2)
3	Los Angeles	61.2	66.4	56.2	55.0	4.2	(6.1)
4	Dallas/Fort Worth	60.5	60.7	52.8	53.3	0.2	(4.2)
5	Denver	36.8	38.8	35.7	37.5	2.7	(1.1)
6	Phoenix	31.8	36.0	35.5	37.4	6.4	1.3
7	Las Vegas	30.2	36.9	35.0	36.3	10.5	(0.5)
8	Houston (Bush)	31.0	35.3	33.9	34.2	6.7	(1.1)
9	Minneapolis/St. Paul	30.3	36.8	32.6	33.2	10.2	(3.4)
10	Detroit (Metropolitan)	31.5	35.5	32.5	32.7	6.2	(2.7)
11	New York (Kennedy)	31.4	32.9	29.9	31.7	2.4	(1.2)
12	Miami	33.9	33.6	30.1	29.6	(0.4)	(4.1)
13	Newark	32.5	34.2	29.2	29.4	2.6	(4.9)
14	San Francisco	40.1	41.0	31.5	29.3	1.1	(10.6)
15	Orlando (International)	27.7	30.8	26.7	27.3	5.5	(3.9)
16	Seattle-Tacoma	25.9	28.4	26.7	26.8	4.7	(1.9)
17	**Philadelphia**	**24.2**	**24.9**	**24.8**	**24.7**	**1.4**	**(0.3)**
18	Charlotte	23.0	23.1	23.6	23.1	0.2	(0.0)
19	Boston	26.5	27.4	22.7	22.8	1.7	(5.9)
20	New York (LaGuardia)	22.8	25.4	22.0	22.5	5.6	(4.0)
21	Cincinnati	21.2	22.5	20.8	21.2	3.0	(2.0)
22	St. Louis	28.7	30.6	25.6	20.4	3.3	(12.6)
23	Baltimore	15.0	19.6	19.0	20.1	14.3	0.8
24	Honolulu	22.6	23.0	19.7	19.7	0.9	(5.0)
25	Salt Lake City	20.3	19.9	18.6	18.5	(1.0)	(2.4)
26	Chicago (Midway)	11.4	15.7	17.4	18.4	17.4	5.4
27	Fort Lauderdale	12.5	15.9	17.0	17.9	12.8	4.0
28	Washington (Dulles)	15.6	20.0	17.1	16.8	13.2	(5.7)
29	Tampa	13.8	16.0	15.5	15.5	7.7	(1.1)
30	San Diego	14.9	15.8	14.9	15.3	3.0	(1.1)
	Average for airports listed					4.0%	(2.8%)

(a) Enplaned and deplaned passengers (transit passengers counted once).

Source: Airports Council International, *Worldwide Airport Traffic Report*, for years noted.

Table 10

INTERNATIONAL PASSENGERS AT BUSIEST U.S. GATEWAY AIRPORTS
2003

Rank	City (airport)	International enplaned passengers *(a)* (thousands)				Average annual increase (decrease)	
		1998	2000	2002	2003	1998-2000	2000-2003
1	New York (Kennedy)	8,816	9,167	7,605	7,617	2.0%	(6.0%)
2	Los Angeles	7,594	8,780	7,435	7,307	7.5	(5.9)
3	Miami	7,758	8,096	7,170	6,929	2.2	(5.1)
4	Chicago (O'Hare)	4,338	5,049	4,359	4,544	7.9	(3.5)
5	Newark	3,433	4,196	3,547	3,662	10.6	(4.4)
6	San Francisco	3,327	4,013	3,651	3,353	9.8	(5.8)
7	Houston (Bush)	2,280	2,831	2,855	2,846	11.4	0.2
8	Atlanta	2,152	2,916	2,864	2,756	16.4	(1.9)
9	Dallas/Fort Worth	1,712	2,590	2,241	2,219	23.0	(5.0)
10	Honolulu	2,819	2,567	2,126	2,111	(4.6)	(6.3)
11	Washington (Dulles)	1,615	2,083	2,018	1,995	13.6	(1.4)
12	Boston	1,873	2,154	1,812	1,795	7.2	(5.9)
13	**Philadelphia**	**1,210**	**1,419**	**1,595**	**1,737**	**8.3**	**7.0**
14	Detroit	1,453	1,942	1,341	1,306	15.6	(12.4)
15	Seattle-Tacoma	1,058	1,211	704	1,106	7.0	(3.0)
16	Orlando (International)	951	1,181	772	812	11.4	(11.7)
17	Minneapolis/St. Paul	619	690	741	711	5.6	1.0
18	Phoenix	405	493	602	701	10.3	12.5
19	Charlotte	297	490	517	674	28.5	11.2
20	Fort Lauderdale	620	734	603	618	8.8	(5.6)
21	Las Vegas	458	621	502	539	16.4	(4.6)
22	Denver	250	430	382	465	31.2	2.6
23	New York (LaGuardia)	561	617	513	451	4.9	(9.9)
24	Baltimore	307	412	384	439	15.9	2.1
25	Orlando (Sanford)	568	493	413	394	(6.8)	(7.2)
26	Cincinnati	504	306	271	315	(22.1)	1.0
27	Pittsburgh	348	419	382	224	9.7	(18.8)
28	Tampa	259	229	218	217	(6.0)	(1.8)
29	Oakland	86	71	119	189	(9.1)	38.6
30	St. Louis	157	198	285	181	12.3	(3.0)
	Average for airports listed					7.2%	(4.3%)

(a) International enplaned passengers, excluding transit passengers.

Source: Airports Council International, *Worldwide Airport Traffic Report*, for years noted.

Airport's Role as a Connecting Hub

Table 11 presents data on airline service (measured by numbers of seats on scheduled airline aircraft departures) as scheduled for April 2005 at the Airport and selected other U.S. airports. Figure 2 presents the airline service data graphically for selected major connecting hub airports.

Since the mid-1990s, US Airways and its regional airline affiliates operating as US Airways Express have concentrated service at Philadelphia International Airport, which, together with Charlotte Douglas International Airport, is one of the two primary connecting hubs in the US Airways system.

As discussed further in the later section "Originating and Connecting Passengers," approximately 41% of passengers enplaned at the Airport in FY 2004 connected from other flights. Of these connecting passengers, an estimated 90% were enplaned on the flights of US Airways or US Airways Express.

Competing connecting hub airports located near Philadelphia include Newark Liberty (Continental Airlines) and Washington Dulles (United Airlines). Air service at these and other airports is discussed further in the later section "Competing Airports."

Airport's Role in US Airways System

Table 12 presents data on airline service (daily scheduled aircraft departures and seats) provided by US Airways and its US Airways Express affiliates at the Airport and other important airports in the US Airways system. Figure 3 presents the data on scheduled seats in April 2005 graphically. As shown in the table, between 2000 and 2005, US Airways increased service at both Philadelphia and Charlotte, particularly on US Airways Express flights. Historically, Pittsburgh International Airport has also been a major connecting point in the US Airways system, but since 2001 the airline has drastically reduced service at Pittsburgh.

Table 11

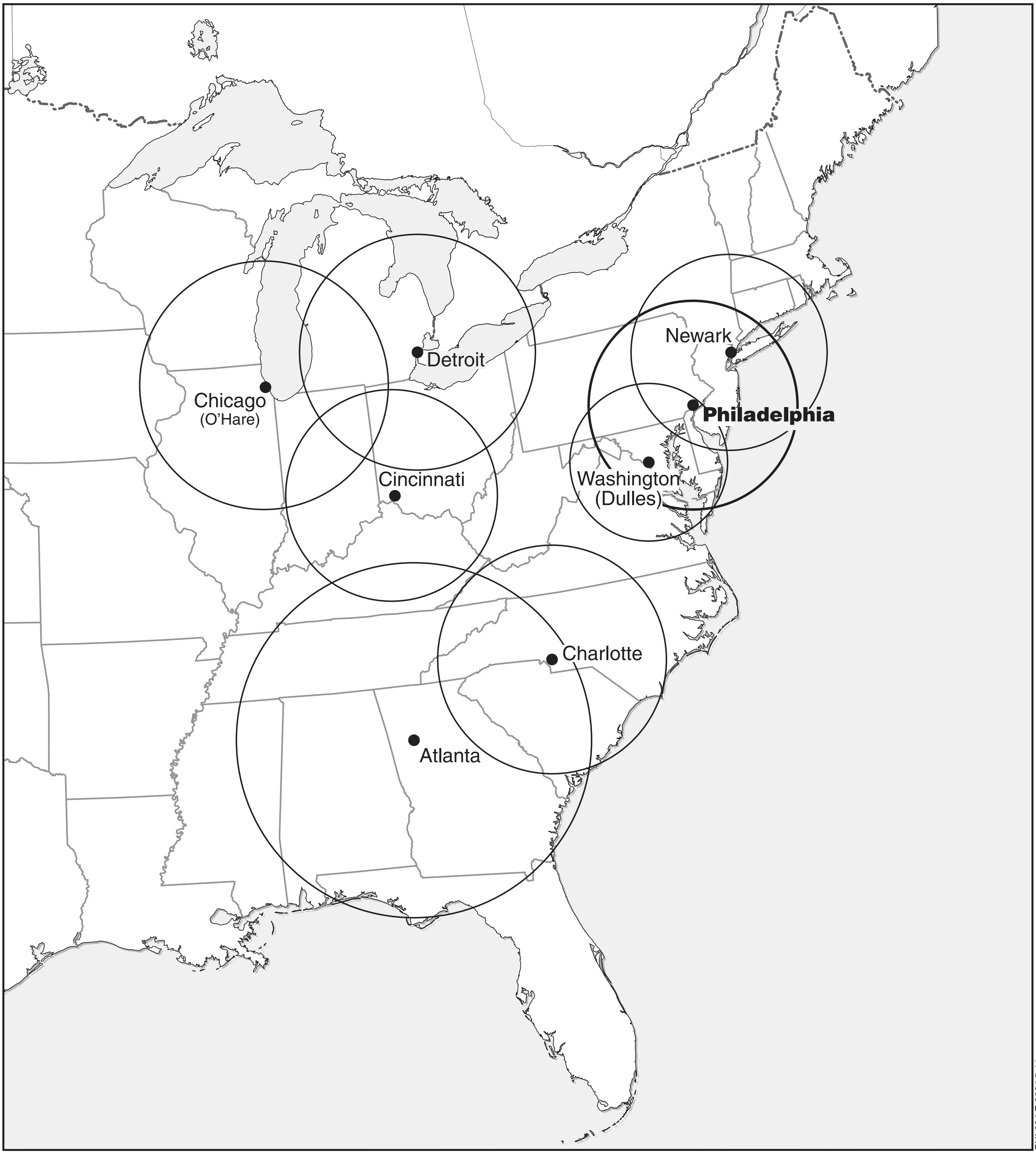
AIRLINE SERVICE AT SELECTED U.S. AIRPORTS
Scheduled for April 2005

City (airport)	Average daily scheduled seats: International	Domestic	Total	Hubbing airline: Airline *(a)*	Average daily scheduled seats	Airline share of airport total
Atlanta	12,606	153,308	165,914	Delta	130,108	78.4%
Chicago (O'Hare)	21,194	115,273	136,467	United	63,824	46.8
Los Angeles	30,302	75,373	105,675	United	20,935	19.8
Dallas/Fort Worth	8,919	89,090	98,009	American	80,482	82.1
Phoenix	3,162	75,056	78,218	America West	35,234	45.0
Las Vegas	2,644	71,773	74,417	Southwest	26,027	35.0
Detroit (Metropolitan)	6,668	65,982	72,650	Northwest	57,446	79.1
New York (Kennedy)	33,120	39,078	72,198	JetBlue	16,578	23.0
Denver	3,023	68,483	71,505	United	39,238	54.9
Minneapolis-St. Paul	4,602	66,222	70,824	Northwest	56,456	79.7
Houston (Bush)	12,664	56,492	69,156	Continental	56,814	82.2
Philadelphia	**7,303**	**61,053**	**68,356**	**US Airways**	**45,101**	**66.0**
Newark	16,753	46,093	62,846	Continental	39,382	62.7
Charlotte	4,125	57,491	61,616	US Airways	55,194	89.6
Orlando	3,542	56,082	59,623	Delta	12,584	21.1
Miami	27,541	29,551	57,092	American	36,607	64.1
San Francisco	14,236	42,280	56,516	United	27,629	48.9
New York (LaGuardia)	3,401	50,659	54,060	Delta	12,474	23.1
Boston	7,212	46,033	53,244	Delta	11,361	21.3
Washington (Dulles)	9,283	43,292	52,575	United	25,589	48.7
Seattle-Tacoma	4,317	45,661	49,978	Alaska	25,027	50.1
Cincinnati	2,031	47,414	49,445	Delta	46,393	93.8
Fort Lauderdale	5,456	38,605	44,061	Delta	8,236	18.7
Baltimore	1,107	41,052	42,159	Southwest	21,435	50.8
Salt Lake City	670	40,073	40,743	Delta	30,075	73.8
Tampa	688	36,188	36,876	Southwest	8,543	23.2
Honolulu	7,227	26,761	33,988	Hawaiian	9,195	27.1
St. Louis	190	28,511	28,701	American	13,466	46.9
Memphis	709	21,571	22,280	Northwest	17,808	79.9
Pittsburgh	340	21,888	22,228	US Airways	14,515	65.3

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

(a) Including regional airline affiliates.

Source: Official Airline Guides, Inc., online database, January 2005.



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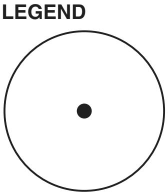

= Approximately 20,000 average daily departing seats scheduled for April 2005

Note: The area of each circle is proportional to the number of scheduled seats on departing flights of the principal hubbing airline and its regional airline affiliates at that airport.

Source: Official Airline Guides, Inc., online database, January 2005.

Figure 2

SCHEDULED SEAT CAPACITY AT SELECTED CONNECTING HUB AIRPORTS

March 2005

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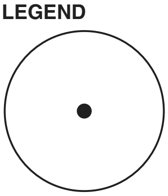


= Approximately 20,000 average daily departing seats scheduled for April 2005

Note: The area of each circle is proportional to the number of scheduled seats on departing flights of the principal hubbing airline and its regional airline affiliates at that airport.

Source: Official Airline Guides, Inc., online database, January 2005.

Figure 3

SCHEDULED SEAT CAPACITY AT PRINCIPAL US AIRWAYS SYSTEM AIRPORTS

March 2005

LEIGH FISHER ASSOCIATES

Table 12

US AIRWAYS SERVICE AT ITS PRINCIPAL AIRPORTS
Philadelphia International Airport

City (airport)	April 2000	2001	2002	2003	2004	2005	Average annual increase (decrease) 2000-2005
	Daily scheduled aircraft departures: all US Airways operations						
Charlotte	469	505	487	432	469	547	3.1%
Philadelphia	**376**	**403**	**389**	**362**	**375**	**471**	**4.6**
Pittsburgh	478	500	482	352	358	222	(14.2)
New York (LaGuardia)	185	193	180	176	183	180	(0.6)
Washington (National)	158	173	144	153	168	176	2.2
Boston	164	157	109	86	93	99	(9.6)
Fort Lauderdale	32	35	21	19	22	44	6.6
	Daily scheduled departing seats: all US Airways operations						
Charlotte	45,614	50,529	49,401	41,872	45,418	55,194	3.9%
Philadelphia	**37,267**	**41,514**	**38,750**	**35,802**	**36,798**	**45,101**	**3.9**
Pittsburgh	39,893	43,019	39,995	26,372	24,871	14,515	(18.3)
Washington (National)	15,021	16,171	11,451	12,121	13,798	16,520	1.9
New York (LaGuardia)	16,472	16,836	13,568	10,843	11,565	11,864	(6.4)
Boston	14,519	13,971	10,819	7,712	9,069	9,416	(8.3)
Fort Lauderdale	4,103	4,409	3,146	2,913	3,388	6,013	7.9
	Daily scheduled departing seats: US Airways mainline						
Charlotte	41,064	44,468	41,553	33,563	35,763	41,158	0.0%
Philadelphia	**32,710**	**36,535**	**32,512**	**29,549**	**28,732**	**33,220**	**0.3**
Washington (National)	12,895	13,198	8,361	8,675	9,458	11,299	(2.6)
Pittsburgh	33,633	35,858	30,179	18,417	15,454	8,337	(24.3)
Boston	12,924	11,273	9,187	6,399	7,774	7,993	(9.2)
New York (LaGuardia)	12,853	13,230	8,831	5,618	6,216	6,515	(12.7)
Fort Lauderdale	4,072	4,378	3,146	2,913	3,388	5,813	7.4
	Daily scheduled departing seats: US Airways Express						
Charlotte	4,550	6,060	7,848	8,308	9,655	14,036	25.3%
Philadelphia	**4,557**	**4,979**	**6,237**	**6,253**	**8,066**	**11,881**	**21.1**
Pittsburgh	6,260	7,161	9,816	7,955	9,418	6,178	(0.3)
Washington (National)	2,126	2,973	3,089	3,446	4,340	5,220	19.7
New York (LaGuardia)	3,619	3,606	4,737	5,225	5,349	5,349	8.1
Boston	1,595	2,698	1,633	1,313	1,295	1,422	(2.3)
Fort Lauderdale	31	31	--	--	--	200	45.2

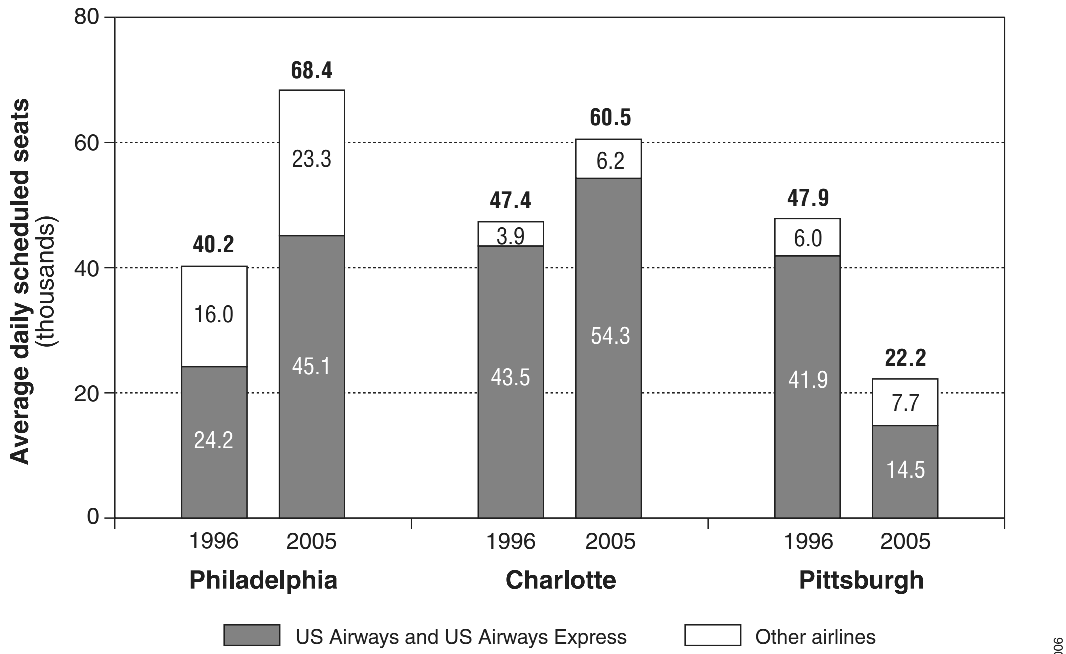
Source: Official Airline Guides, Inc., online database, January 2005.

Figure 4 presents data on changes in available airline seats at Philadelphia, Charlotte, and Pittsburgh since US Airways began its buildup at Philadelphia in 1996. Over the period 1996 to 2005, the average number of daily seats scheduled by US Airways at Philadelphia increased 86%, at Charlotte increased 25%, and at Pittsburgh decreased 65%. Figure 4 also highlights the relatively high proportion of scheduled seats provided by airlines other than US Airways at Philadelphia (34% in April 2005) compared with Charlotte (10% in April 2005).

Figure 4

CHANGES IN AIRLINE SEATS AT US AIRWAYS HUBS

April 1996 and April 2005 (scheduled)



Source: Official Airlines Guides, Inc., online database, January 2005.

In FY 2004, approximately 59% of enplaned passengers at Philadelphia were originating their air journeys at the Airport, rather than connecting between flights. By comparison, at Charlotte, approximately 23% of enplaned passengers were originating.

US Airways Transformation Plan

In October 2004, US Airways announced a restructuring of its systemwide flight schedules as part of a "transformation plan" to position the airline to compete successfully. The new flight schedules, which became effective in February 2005, are characterized by US Airways as "laying the groundwork for a complete overhaul of the airline's business model, combining the best business practices of the legacy and low-cost carriers." Under the plan, reduced aircraft turn times increase the use of mainline aircraft by 10% and of US Airways Express aircraft by 5%. Combined with changes to the airline's hub operations at Philadelphia, Charlotte, and Pittsburgh, improved aircraft use allows the operation of an additional 230 daily flights systemwide.

Under the new flight schedule, Philadelphia continues to serve as US Airways' primary Northeast connecting hub and the airline's international gateway. Total daily flight departures scheduled for April 2005 number 471, an increase of 26% over the 375 daily departures in April 2004. Traditional "banks" of connecting flights at Philadelphia have been replaced with a continuous schedule of flight arrivals and departures throughout the day. The new schedule is expected to reduce airfield delays and improve operational efficiency.

Star Alliance

In May 2004, US Airways joined United Airlines in the Star Alliance network. Foreign flag airline members of the alliance include Air Canada, Air New Zealand, ANA, Asiana Airlines, Austrian Airlines, BMI, LOT Polish Airlines, Lufthansa German Airlines, Scandinavian Airlines System, Singapore Airlines, Spanair, Thai Airways International, and Varig Brazilian Airlines. The alliance provides for code-sharing, coordinated schedules, reciprocal frequent flyer programs, and other benefits.

Table 13 presents data on scheduled international departures for US Airways and its Star Alliance partners at their U.S. gateway airports. As shown, an average of 48 daily international departures are scheduled at the Airport for April 2005, second in number only to the average of 67 departures scheduled by United and other Star Alliance airlines at Chicago O'Hare.

Table 13

INTERNATIONAL AIRLINE SERVICE AT STAR ALLIANCE GATEWAY AIRPORTS

City (airport)	April 2000	2001	2002	2003	2004	2005
	Average daily scheduled international departures: All Star Alliance airlines					
Chicago (O'Hare)	49	56	46	43	52	67
Philadelphia	**27**	**34**	**36**	**36**	**46**	**48**
San Francisco	26	33	28	26	29	37
Washington (Dulles)	25	27	27	29	35	35
Los Angeles	30	36	29	26	27	30
Charlotte	11	15	13	20	26	28
Denver	12	14	9	14	14	17
New York (Kennedy)	14	16	12	10	12	13
	Average daily scheduled international departures: U.S. Airways only					
Chicago (O'Hare)	--	--	--	--	--	--
Philadelphia	**21**	**27**	**29**	**29**	**38**	**40**
San Francisco	--	--	--	--	--	--
Washington (Dulles)	--	--	--	--	--	--
Los Angeles	--	--	--	--	--	--
Charlotte	9	12	11	18	23	25
Denver	--	--	--	--	--	--
New York (Kennedy)	--	--	--	--	--	--
	Average daily scheduled international departures: Other Star Alliance partners					
Chicago (O'Hare)	49	56	46	43	52	67
Philadelphia	**5**	**7**	**6**	**7**	**7**	**8**
San Francisco	26	33	28	26	29	37
Washington (Dulles)	25	27	27	29	35	35
Los Angeles	30	36	29	26	27	30
Charlotte	2	3	2	2	3	3
Denver	12	14	9	14	14	17
New York (Kennedy)	14	16	12	10	12	13

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

Source: Official Airline Guides, Inc., online database, January 2005.

COMPETING AIRPORTS

The effective boundary of the region served by the Airport is defined by the availability of airline service at surrounding airports. The extent to which the Airport is successful in competing with these other airports for passengers depends, among other factors, on airline fares and air service frequency at the airports and surface travel times to and from the airports.

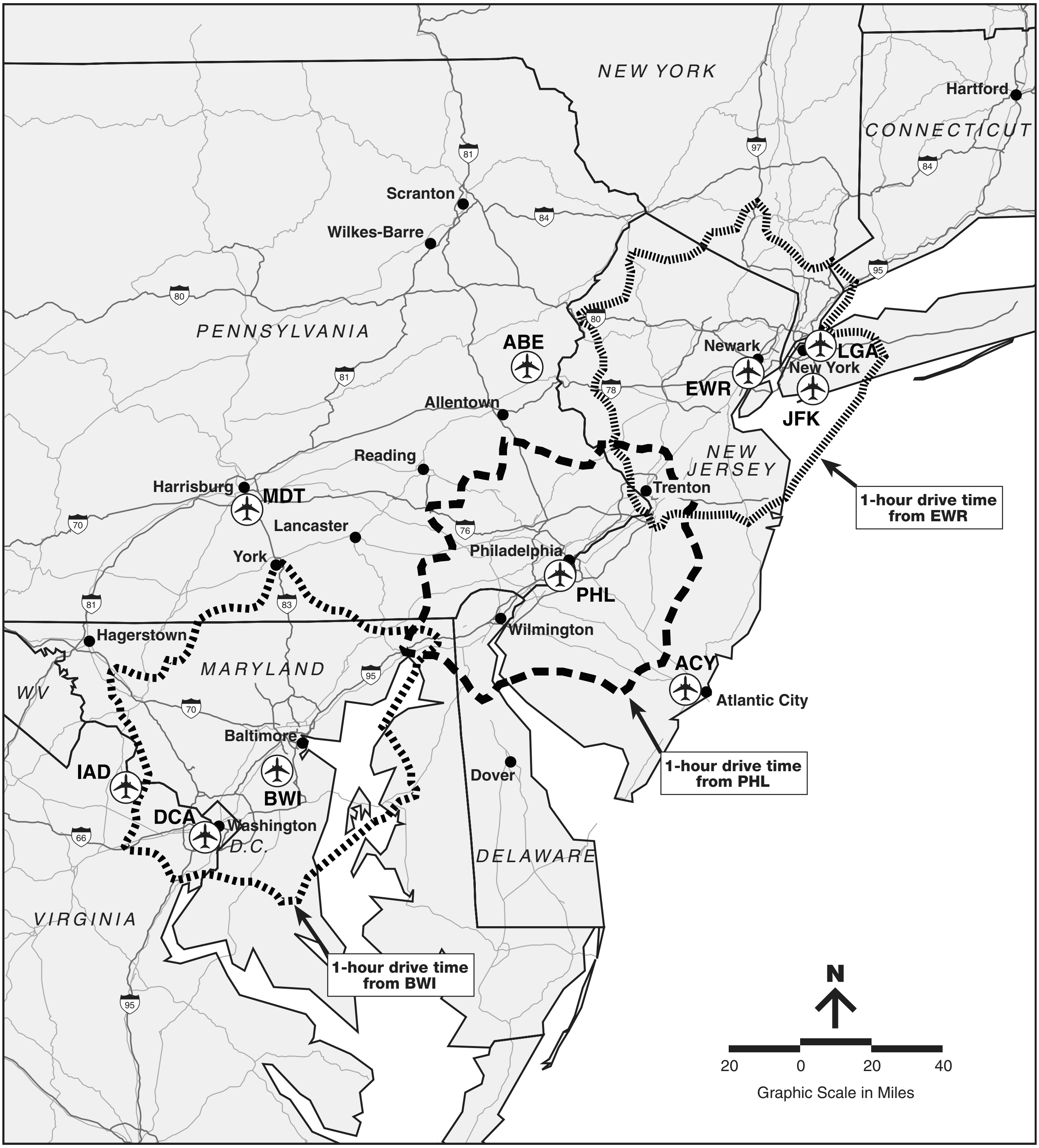
Baltimore/Washington International (BWI) and Newark Liberty International airports offer levels of domestic airline service comparable to those at Philadelphia and are the primary competing airports defining the boundaries of the Philadelphia Airport Service Region. Figure 5 illustrates the natural "catchment" areas of the three airports as defined by approximate one-hour driving times from each.

Table 14 presents data on airline service at the Airport, BWI, Newark, and selected other airports in the northeast (as well as Charlotte). In April 2001, in terms of total scheduled seats, Philadelphia was the 4th busiest of the airports listed, after Newark, New York Kennedy, and New York LaGuardia. As scheduled for April 2005, Philadelphia is the 2nd busiest after Kennedy. Aside from Charlotte, the US Airways hub at Philadelphia provides the largest number of seats by a single airline at the airports listed. New York Kennedy and Washington Dulles compete with Philadelphia as connecting hubs and international gateways.

The airports serving Allentown, Atlantic City, and Harrisburg, although closest to Philadelphia, are not significant competitors for most airline travel because of the relatively small numbers of scheduled daily airline seats offered.

Table 15 shows historical average one-way domestic airfares at selected Northeast airports. Between FY 2001 and FY 2004, average airfares at Philadelphia decreased an average of 5.2% annually as a result of industrywide fare discounting and the introduction of airline service and airfare competition at Philadelphia. Among competing airports, only at Kennedy, where JetBlue built up extensive low-fare service during the period, did airfares decrease more.

In 1994, Southwest began service at BWI and introduced service in many markets. Southwest has since built up service to provide 157 daily scheduled departures as of April 2005 and become the busiest airline at BWI in terms of numbers of enplaned passengers (displacing US Airways).



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Airline airports

Interstate highway

Other major highway

Figure 5

AREAS WITHIN ONE-HOUR DRIVE TIMES OF PHILADELPHIA, NEWARK LIBERTY, AND BALTIMORE/WASHINGTON INTERNATIONAL AIRPORTS

March 2005

LEIGH FISHER ASSOCIATES

Table 14

AIRLINE SERVICE AT SELECTED NORTHEAST AIRPORTS

April 2001 and April 2005

	Average daily scheduled departures			Average daily scheduled seats			Airline with the largest number of average daily scheduled seats *(a)*		
City (airport)	Major and national airlines	Regional airlines	Total	Major and national airlines	Regional airlines	Total	Airline	Seats	Share
				April 2005					
New York (Kennedy)	345	86	432	68,171	4,028	72,198	Jet Blue	16,578	23.0%
Philadelphia	**382**	**283**	**665**	**54,930**	**13,426**	**68,356**	**US Airways**	**45,101**	**66.0**
Newark	339	218	557	52,146	10,700	62,846	Continental	39,382	62.7
Charlotte	314	319	633	44,701	16,914	61,616	US Airways	55,194	89.6
New York (LaGuardia)	301	254	555	43,195	10,865	54,060	Delta	12,474	23.1
Washington (Dulles)	185	460	645	29,825	22,750	52,575	United	25,589	48.7
Baltimore	287	53	340	39,929	2,230	42,159	Southwest	21,435	50.8
Washington (National)	223	165	387	29,746	8,596	38,342	US Airways	16,520	43.1
Pittsburgh	98	223	321	12,908	9,320	22,228	US Airways	14,515	65.3
Harrisburg	6	48	54	742	2,072	2,814	US Airways	930	33.0
Allentown	3	36	38	303	1,524	1,826	US Airways	584	32.0
Atlantic City	10	3	13	1,556	142	1,698	Spirit Airlines	1,556	91.6
				April 2001					
New York (Kennedy)	314	93	407	65,570	4,047	69,617	American	14,031	20.2%
Philadelphia	**391**	**182**	**573**	**53,784**	**6,482**	**60,266**	**US Airways**	**41,514**	**68.9**
Newark	455	155	610	68,470	9,719	78,189	Continental	43,323	55.4
Charlotte	379	184	563	48,968	7,073	56,041	US Airways	50,529	90.2
New York (LaGuardia)	186	392	578	9,064	54,180	63,244	US Airways	16,836	26.6
Washington (Dulles)	198	283	481	31,545	10,898	42,443	United	26,741	63.0
Baltimore	238	143	381	34,032	9,136	43,168	Southwest	16,768	38.8
Washington (National)	109	273	382	5,362	36,646	42,008	US Airways	16,171	38.5
Pittsburgh	333	258	591	41,841	8,931	50,772	US Airways	43,019	84.7
Harrisburg	21	33	54	2,340	1,125	3,465	US Airways	1,402	40.5
Allentown	22	24	46	2,750	830	3,580	US Airways	1,086	30.3
Atlantic City	8	7	15	1,238	147	1,385	Spirit Airlines	1,238	89.4

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

(a) Includes airline affiliate(s).

Source: Official Airline Guides, Inc., online database, January 2005.

Table 15

AVERAGE ONE-WAY AIRFARES AT SELECTED NORTHEAST AIRPORTS

City (airport)	FY 1996	FY 2001	FY 2002	FY 2003	FY 2004	Average annual increase (decrease) FY 1996-FY 2001	FY 2001-FY 2004
New York (Kennedy)	$178.66	$212.20	$174.84	$162.94	$151.25	3.5%	(10.7%)
Philadelphia	**170.93**	**198.33**	**174.33**	**173.28**	**168.85**	**3.0**	**(5.2)**
Newark	166.19	208.91	181.62	182.74	183.93	4.7	(4.2)
Charlotte	188.38	225.34	206.71	194.55	198.81	3.7	(4.1)
New York (LaGuardia)	164.52	171.85	150.67	151.04	152.54	0.9	(3.9)
Washington (Dulles)	180.55	227.71	203.69	201.57	200.17	4.8	(4.2)
Baltimore	135.39	131.67	121.62	124.66	126.63	(0.6)	(1.3)
Washington (National)	160.43	174.84	167.24	171.17	171.64	1.7	(0.6)
Pittsburgh	166.30	186.66	158.32	164.68	164.82	2.3	(4.1)
Harrisburg	191.87	214.37	188.54	171.79	182.24	2.2	(5.3)
Allentown	190.90	199.26	190.03	189.70	192.91	0.9	(1.1)
Atlantic City	103.32	105.75	108.01	114.75	103.39	0.5	(0.8)

Note: For the 12-month periods ended June 30.

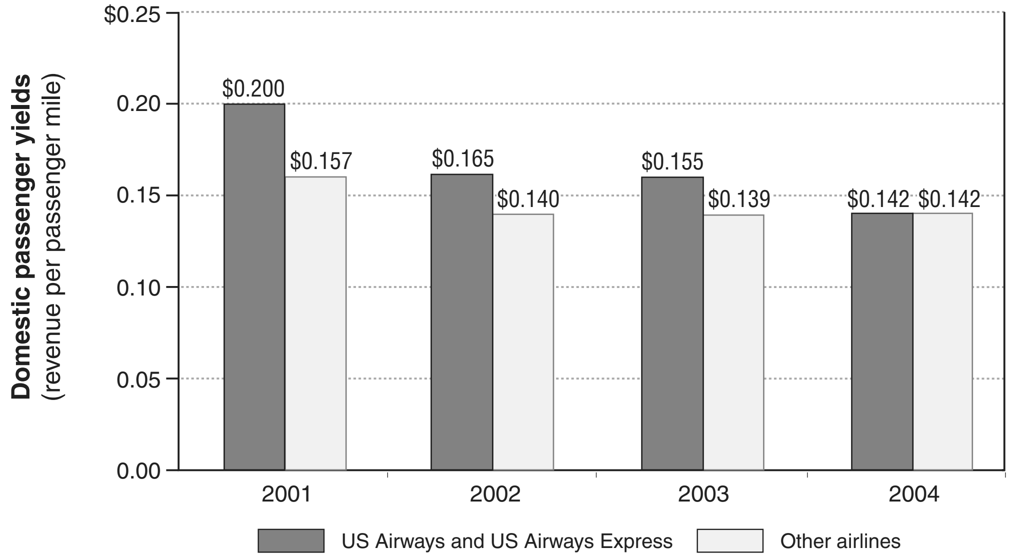
Source: U.S. Department of Transportation, average one-way domestic airfare, *Origin-Destination Survey of Airline Passenger Traffic, Domestic*, for years noted, as reported by Back Aviation Products, Inc.

In May 2004, Southwest Airlines began service at Philadelphia with 14 daily departures and has since rapidly built up service, providing 41 scheduled daily departures as of April 2005. Fare competition introduced at the Airport by Southwest, as well as other "low-fare" airlines such as AirTran, America West, and Frontier, has contributed to reduced average airfares and resulting increases in air travel. Recent increases in passenger numbers at the Airport have resulted both from travel by passengers who would otherwise have used competing airports and a stimulation of demand from lower fares. In FY 2001, average airfares at BWI were 34% lower than those at Philadelphia. For the quarter ended September 2004, average airfares at BWI were 11% lower than those at Philadelphia.

Figure 6 shows trends in airline passenger yields (revenues per passenger-mile) at the Airport for US Airways and other airlines. The figure illustrates how the "yield premium" historically enjoyed by US Airways at Philadelphia has disappeared as a result of competition from low-fare airlines and the transparency of airline pricing brought about by the Internet. In FY 2001, the average US Airways yield at the Airport was 27% higher than the average for the other airlines. For the quarter ended September 2004, the average US Airways yield was essentially the same as the average for the other airlines.

Figure 6

TRENDS IN DOMESTIC PASSENGER YIELDS



Note: For the 12 month periods ended June 30.

Source: U.S. Department of Transportation, *Orgin-Destination Survey of Airline Passenger Traffic, Domestic.*

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Table 16 shows the historical trends in numbers of originating passengers at Philadelphia and other airports and illustrates the effects of reductions in average airfares on increasing passenger numbers, especially at BWI and Kennedy, where Southwest and JetBlue, respectively, have provided increased service and fare competition. At BWI, between FY 1996 and FY 2001, originating passenger numbers increased an average of 12.7% per year. At Kennedy, between FY 2001 and FY 2004, originating passenger numbers increased an average of 7.4% per year.

Table 16

ORIGINATING PASSENGERS AT SELECTED NORTHEAST AIRPORTS

City (airport)	FY 1996	FY 2001	FY 2002	FY 2003	FY 2004	Average annual increase (decrease) FY 1996-FY 2001	Average annual increase (decrease) FY 2001-FY 2004
New York (Kennedy)	6,570,000	8,050,000	7,290,000	8,280,000	9,960,000	4.1%	7.4%
Philadelphia *(a)*	**6,760,000**	**8,270,000**	**7,760,000**	**7,280,000**	**7,760,000**	**4.1**	**(2.5)**
Newark	9,490,000	11,850,000	10,060,000	10,150,000	10,630,000	4.5	(3.6)
Charlotte	2,270,000	2,950,000	2,520,000	2,730,000	2,930,000	5.4	(0.2)
New York (LaGuardia)	8,680,000	11,510,000	9,530,000	9,950,000	10,800,000	5.8	(2.1)
Washington (Dulles)	3,530,000	4,510,000	4,180,000	4,050,000	4,490,000	5.0	(0.1)
Baltimore	4,680,000	8,510,000	8,020,000	7,830,000	8,470,000	12.7	(0.2)
Washington (National)	6,080,000	6,760,000	4,780,000	5,730,000	6,230,000	2.1	(2.7)
Pittsburgh	3,090,000	3,620,000	3,270,000	3,160,000	3,370,000	3.2	(2.4)
Harrisburg	530,000	570,000	550,000	610,000	620,000	1.5	2.8
Allentown	430,000	470,000	370,000	330,000	350,000	1.8	(9.4)
Atlantic City	140,000	290,000	290,000	360,000	430,000	15.7	14.0

Note: For the 12-month periods ended June 30.

(a) Calculated by applying estimated originating passenger percentages to the number of enplaned passengers from City of Philadelphia, Division of Aviation, records.

Source: Leigh Fisher Associates estimates based on U.S. Department of Transportation, *Origin-Destination Survey of Airline Passenger Traffic, Domestic and International*, for years noted, as reported by Back Aviation Products, Inc., January 2005.

AIRLINE SERVICE

As scheduled for April 2005, the airlines serving the Airport together offer nonstop scheduled flights from the Airport to 86 domestic cities and 27 international cities. Table 17 shows scheduled daily airline service at the Airport, expressed in terms of aircraft departures and seats. As of April 2005, 665 departures and 68,356 seats are scheduled daily from the Airport to domestic destinations, with 66% of the seats provided on the flights of US Airways and US Airways Express. To international destinations, 53 departures and 7,303 seats are scheduled daily from the Airport, with 75% of the seats provided on the flights of US Airways.

Between April 1996 and April 2005, the number of daily scheduled seats to domestic destinations increased 60% or an average of 6.1% per year. The number of daily scheduled seats to international destinations increased 196% or an average of 12.8% per year.

Table 17

SCHEDULED DOMESTIC AND INTERNATIONAL AIRLINE SERVICE

Philadelphia International Airport

	Average daily scheduled departures							
	April						Average annual increase (decrease)	
	1996		2001		2005			
	Departures	Percent of total	Departures	Percent of total	Departures	Percent of total	1996-2001	2001-2005
Domestic service								
Major and national airlines								
US Airways	156	36.2%	238	41.5%	194	29.1%	8.8%	(5.0%)
Other	113	26.2	118	20.6	153	23.0	0.9	6.5
	269	62.4%	356	62.1%	347	52.1%	5.8%	(0.7%)
Regional airlines								
US Airways Express	118	27.4%	138	24.1%	237	35.6%	3.2%	14.5%
Other	26	6.0	41	7.2	29	4.4	9.5	(7.5)
	144	33.4%	179	31.3%	266	40.0%	4.5%	10.5%
Total domestic service	413	95.8%	535	93.4%	613	92.1%	5.3%	3.5%
International service								
US Airways	10	2.3%	27	4.7%	40	6.0%	22.0%	10.3%
Others	8	1.9	11	1.9	13	1.9	6.6	4.5
Total international service	18	4.2%	38	6.6%	53	7.9%	16.1%	8.7%
Total service	431	100.0%	573	100.0%	665	100.0%	5.9%	3.8%

	Average daily scheduled seats							
	April						Average annual increase (decrease)	
	1996		2001		2005			
	Seats	Percent of total	Seats	Percent of total	Seats	Percent of total	1996-2001	2001-2005
Domestic service								
Major and national airlines								
US Airways	19,431	48.3%	32,548	54.0%	28,389	41.5%	10.9%	(3.4%)
Other	14,214	35.4	15,285	25.4	20,059	29.3	1.5	7.0
	33,645	83.7%	47,833	79.4%	48,448	70.9%	7.3%	0.3%
Regional airlines								
US Airways Express	3,278	8.2%	4,832	8.0%	11,158	16.3%	8.1%	23.3%
Other	816	2.0	1,503	2.5	1,448	2.1	13.0	(0.9)
	4,094	10.2%	6,335	10.5%	12,606	18.4%	9.1%	18.8%
Total domestic service	37,739	93.9%	54,168	89.9%	61,053	89.3%	7.5%	3.0%
International service								
US Airways	1,466	3.6%	4,420	7.3%	5,555	8.1%	24.7%	5.9%
Others	1,003	2.5	1,678	2.8	1,748	2.6	10.8	1.0
Total international service	2,469	6.1%	6,098	10.1%	7,303	10.7%	19.8%	4.6%
Total service	40,208	100.0%	60,266	100.0%	68,356	100.0%	8.4%	3.2%

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

Source: Official Airline Guides, Inc., online database, January 2005.

Domestic Airline Service

Table 18 shows scheduled daily domestic airline service at the Airport, expressed in terms of aircraft departures and seats by airline. Table 19 presents the top domestic passenger origin and destination markets (all markets accounting for 1% or more of Philadelphia originating passengers). The origin and destination pattern is illustrated on Figure 7.

Table 19 also shows the number of average daily scheduled nonstop departures to domestic destinations from the Airport. As scheduled for April 2005, all of the top origin-destination markets are provided with nonstop airline service. Of the 26 cities listed, 22 have nonstop service by US Airways or US Airways Express and one or more other airlines.

International Airline Service

Table 20 lists scheduled international passenger service at the Airport. As of April 2005, 47% of the weekly international scheduled seating capacity is on flights to Europe, followed by the Caribbean and Latin America (35%), and Canada (18%). US Airways has announced that it will add daily nonstop service to Barcelona and Venice effective May 2005.

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Table 18

SCHEDULED DOMESTIC AIRLINE SERVICE BY AIRLINE
Philadelphia International Airport

	April 2001			April 2004			April 2005		
Airline	Average daily departures	Average daily seats	Number of cities served nonstop *(a)*	Average daily departures	Average daily seats	Number of cities served nonstop *(a)*	Average daily departures	Average daily seats	Number of cities served nonstop *(a)*
Major and National									
US Airways	238	32,548	52	165	23,993	44	194	28,389	40
Southwest Airlines	--	--	--	--	--	--	41	5,635	18
Delta Air Lines	21	3,091	3	17	2,528	3	21	2,997	3
American Airlines *(b)*	28	3,671	5	22	2,741	4	20	2,812	4
AirTran Airways	8	848	4	18	2,129	7	20	2,375	7
United Airlines	24	3,125	5	23	2,811	4	17	2,229	4
Northwest Airlines	16	1,921	3	14	1,587	3	15	1,638	3
Continental Airlines	8	928	2	5	501	1	7	844	2
America West Airlines	5	698	2	6	796	2	5	698	2
USA 3000 Airlines	--	--	--	1	133	3	2	308	3
Midwest Airlines	3	203	1	2	196	1	3	290	1
Frontier Airlines	--	--	--	--	--	--	2	233	1
National Airlines	2	333	1	--	--	--	--	--	--
ATA Airlines	3	467	1	4	672	1	--	--	--
	356	47,833	56	276	38,089	50	347	48,448	49

Table 18 *(page 2 of 2)*
SCHEDULED DOMESTIC AIRLINE SERVICE
Philadelphia International Airport

	April 2001			April 2004			April 2005		
Airline	Average daily departures	Average daily seats	Number of cities served nonstop *(a)*	Average daily departures	Average daily seats	Number of cities served nonstop *(a)*	Average daily departures	Average daily seats	Number of cities served nonstop *(a)*
Regional									
US Airways Express *(c)*	138	4,832	52	172	7,438	44	237	11,158	40
American Eagle *(d)*	7	279	5	14	592	4	10	444	4
Northwest Airlink *(e)*	--	--	3	2	164	3	5	276	3
United Express *(f)*	6	228	5	4	202	4	5	250	4
Delta Connection *(g)*	6	236	3	8	276	3	4	238	3
Continental Express *(h)*	14	362	2	6	274	1	5	236	2
Midwest Connection *(i)*	--	--	--	--	4	1	--	4	1
Air Midwest	--	--	--	--	--	--	--	--	--
America West *(j)*	3	138	2	--	--	2	--	--	2
San Juan Aviation	5	260	1	--	--	--	--	--	--
Regional total	179	6,335	45	207	8,950	56	266	12,606	68
Airport total	535	54,168	82	483	47,039	80	613	61,053	86

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

(a) Some cities are served nonstop by more than one airline; therefore, these numbers do not add.
(b) Trans World Airlines in April 2001.
(c) Mesa, Piedmont, PSA, Chautauqua, Mid Atlantic, Allegheny, and Shuttle America.
(d) Trans State and Chautauqua Airlines.
(e) Pinnacle Airlines.
(f) Mesa Airlines.
(g) Comair, Independence Air, and NOK Air.
(h) Express Jet and CommutAir.
(i) Skyway Airlines.
(j) Mesa Airlines.

Source: Official Airline Guides, Inc., online database, January 2005.

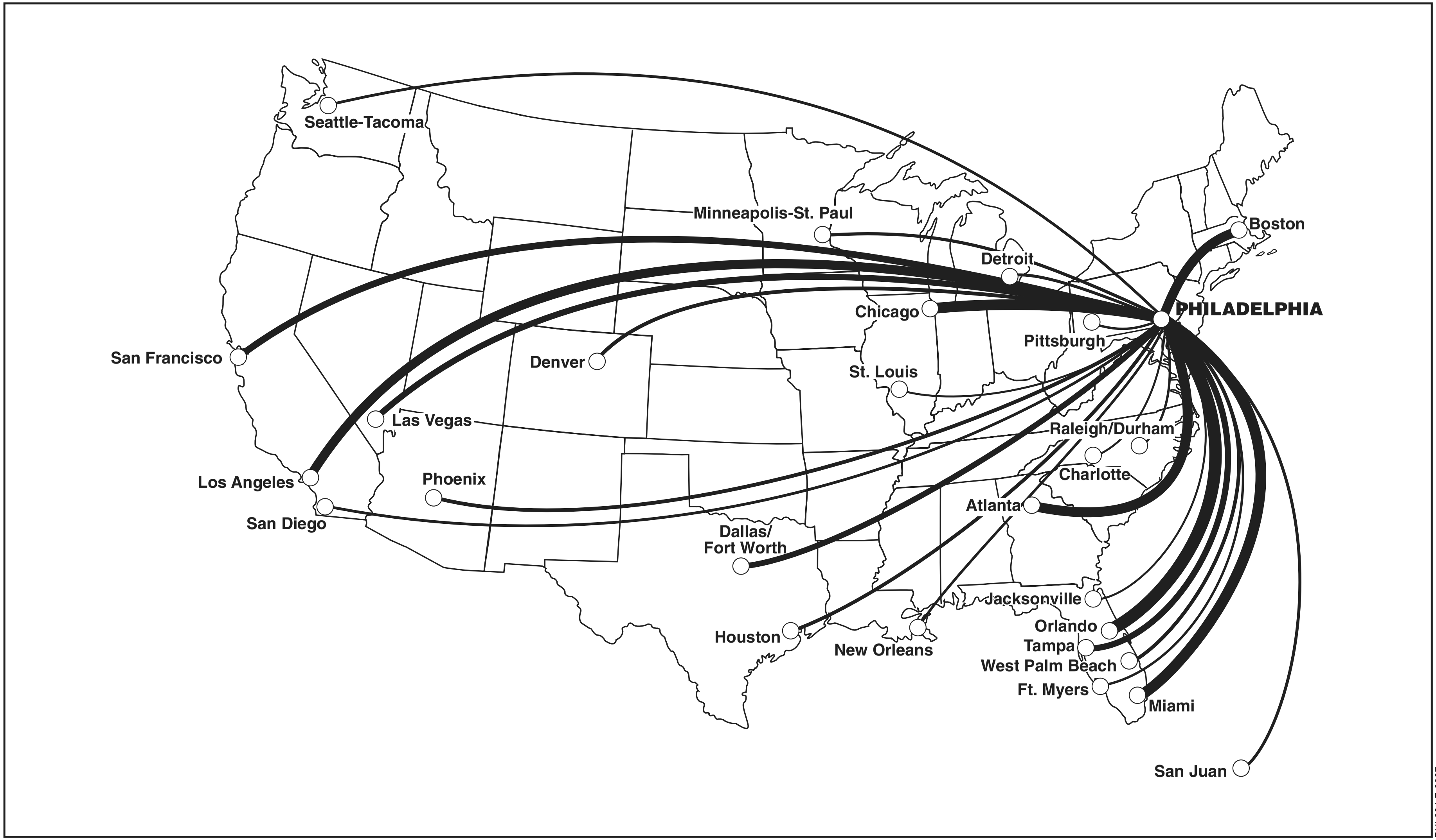
Table 19

DOMESTIC ORIGIN-DESTINATION PATTERNS
Philadelphia International Airport

City of origin or destination	Air miles from Philadelphia	Percent	Average daily scheduled nonstop departures (April 2005) *(a)* US Airways	Other airlines	Total
Orlando	749	6.3%	12	9	21
Miami *(b)*	882	5.4	13	9	22
Chicago *(c)*	587	5.4	7	22	29
Atlanta	579	5.0	6	21	27
Boston	242	4.8	15	4	19
Los Angeles *(d)*	2,081	4.6	4	4	8
San Francisco *(e)*	2,185	3.4	4	3	7
Las Vegas	1,887	3.1	5	3	8
Tampa	801	3.1	10	4	14
Dallas-Fort Worth	1,122	2.5	4	8	12
Denver	1,349	1.9	3	6	9
Phoenix	1,800	1.9	3	4	7
Houston *(f)*	1,150	1.8	4	7	11
West Palm Beach	828	1.8	6	2	8
Minneapolis-St. Paul	850	1.6	4	6	10
Detroit *(g)*	393	1.5	6	8	14
San Juan	1,372	1.5	3	2	5
San Diego	2,053	1.4	2	--	2
Seattle-Tacoma	2,059	1.3	3	--	3
New Orleans	940	1.3	5	1	6
Fort Myers	864	1.2	4	2	6
Raleigh-Durham	295	1.2	8	8	16
Pittsburgh	220	1.2	8	--	8
Jacksonville	648	1.0	4	1	5
St. Louis	698	1.0	4	6	10
Charlotte	389	1.0	10	--	10
Cities listed		66.2%	157	140	297
Other cities		33.8	274	42	316
All cities		100.0%	431	182	613

(a) Official Airline Guides, Inc., online database, January 2005.
(b) Miami and Fort Lauderdale-Hollywood international airports.
(c) Chicago O'Hare and Midway international airports.
(d) Los Angeles International, Bob Hope, John Wayne (Orange County), Long Beach Municipal, and Ontario International airports.
(e) San Francisco, Oakland, and Mineta San Jose international airports.
(f) Bush Intercontinental Airport/Houston and William P. Hobby Airport.
(g) Detroit Metropolitan Wayne County and Detroit City airports.

Source: U.S. Department of Transportation, online database, as reported by Back Aviation Products, Inc., for the 12 months ended June 30, 2004, except as noted.



Note: Data are for cities with 1% or more of total inbound and outbound passengers on the scheduled flights of the major and national airlines at Philadelphia International Airport. The width of the line corresponds to the relative share of origin-destination passengers for each community.

Source: U.S. Department of Transportation, *Origin-Destination Survey of Airline Passenger Traffic, Domestic,* 12 months ended June 30, 2004 (see Table 19).

Figure 7

DOMESTIC ORIGIN-DESTINATION PATTERNS

Philadelphia International Airport

March 2005

LEIGH FISHER ASSOCIATES

Table 20

SCHEDULED INTERNATIONAL AIRLINE SERVICE
Philadelphia International Airport

		April 1996		April 2001		April 2005	
International destination)	Airline	Weekly nonstop departures	Total available weekly seats	Weekly nonstop departures	Total available weekly seats	Weekly nonstop departures	Total available weekly seats
Europe							
Amsterdam	US Airways	--	--	7	1,421	7	1,421
Brussels	US Airways	--	--	7	1,421	--	--
Frankfurt	US Airways	8	1,705	7	1,876	14	3,453
	Lufthansa	--	--	7	1,820	7	2,268
London (Gatwick)	US Airways	--	--	14	3,297	7	2,079
London (Heathrow)	British Airways	14	5,236	14	4,659	14	3,766
Manchester	US Airways	--	--	7	1,876	7	2,079
Madrid	US Airways	--	--	7	1,421	7	1,421
Munich	US Airways	--	--	7	1,421	7	1,421
Paris	US Airways	--	--	7	1,386	7	2,079
	Air France	7	1,421	7	1,876	7	1,834
Rome	US Airways	--	--	7	1,876	7	2,079
		29	8,362	98	24,350	91	23,900
Caribbean/Latin America							
Aruba	US Airways	--	--	7	994	8	1,439
Barbados	US Airways	--	--	--	--	7	1,022
Bermuda	US Airways	7	1,221	7	994	7	1,274
Cancun	US Airways	--	--	7	882	22	3,634
	USA 3000	--	--	--	--	4	539
Costa Rica	US Airways	--	--	--	--	1	170
Cozumel	US Airways	--	--	--	--	4	579
Freeport	US Airways	--	--	--	--	1	147
Grand Cayman	US Airways	--	--	7	882	1	186
Montego Bay	US Airways	--	--	7	882	14	2,048
	Air Jamaica	--	--	7	1,050	7	1,050
Nassau	US Airways	1	101	7	882	14	2,042
Providenciales	US Airways	--	--	--	--	4	608

Table 20 *(page 2 of 2)*
SCHEDULED INTERNATIONAL AIRLINE SERVICE
Philadelphia International Airport

International destination)	Airline	April 1996		April 2001		April 2005	
		Weekly nonstop departures	Total available weekly seats	Weekly nonstop departures	Total available weekly seats	Weekly nonstop departures	Total available weekly seats
Caribbean/Latin America *(continued)*							
Punta Cana	US Airways	--	--	--	--	7	854
	USA 3000	--	--	--	--	4	539
Santo Domingo	US Airways	--	--	7	994	1	142
St. Kitts	US Airways	--	--	--	--	1	142
St. Lucia	US Airways	--	--	--	--	2	256
St. Maarten	US Airways	--	--	7	1,078	8	1,486
		8	1,322	63	8,638	118	18,158
Canada							
Montreal	US Airways	20	2,345	21	2,324	39	3,127
	Air Canada	13	483	12	595	13	557
Ottawa	US Airways	--	--	21	1,050	38	1,890
Toronto	US Airways	27	3,472	28	3,332	39	1,937
	Air Canada	26	1,295	30	2,632	34	1,683
		86	7,595	112	9,933	162	9,193
Total		123	17,279	273	42,921	371	51,251

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

Source: Official Airline Guides, Inc., online database, January 2005.

HISTORICAL AIRLINE TRAFFIC

Enplaned Passengers

Table 21 presents data on historical enplaned passengers at the Airport. From FY 1990 through FY 2001, total enplaned passengers increased an average of 4.5% per year. In FY 2002, passenger reactions to the September 2001 attacks and anxieties about the possibility of further attacks drastically reduced air travel demand. Travel demand was also depressed by the national economic recession in 2001.

Between FY 2002 and FY 2004, passenger traffic at the Airport recovered, largely as a result of increased numbers of passengers connecting between US Airways flights. Between FY 1996, when US Airways first began its buildup of Philadelphia as a major connecting hub, and FY 2004, domestic passenger numbers at the Airport increased an average of 3.4% per year and international passenger numbers increased an average of 14.3% per year.

In the first 6 months of FY 2005 (July through December 2004), the number of enplaned passengers increased 17.6% over the number in the same 6 months of FY 2004 as a result of intense airfare competition and the buildup of service by Southwest and US Airways.

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Table 21

HISTORICAL ENPLANED PASSENGERS
Philadelphia International Airport

Fiscal Year	Domestic	International	Total	Total annual increase (decrease)
1990	7,400,854	379,667	7,780,521	
1991	7,322,959	388,954	7,711,913	(0.9%)
1992	7,041,274	534,004	7,575,278	(1.8)
1993	7,645,396	582,621	8,228,017	8.6
1994	7,777,184	607,718	8,384,902	1.9
1995	8,419,133	634,955	9,054,088	8.0
1996	8,538,732	665,334	9,204,066	1.7
1997	9,502,168	890,094	10,392,262	12.9
1998	10,601,187	1,104,443	11,705,630	12.6
1999	10,737,979	1,329,813	12,067,792	3.1
2000	10,652,391	1,326,524	11,978,915	(0.7)
2001	11,149,732	1,521,721	12,671,453	5.8
2002	10,501,846	1,499,659	12,001,505	(5.3)
2003	10,519,234	1,617,391	12,136,625	1.1
2004	11,149,952	1,938,821	13,088,773	7.9
First 6 months				
2004	5,580,418	882,210	6,462,628	
2005	6,634,501	962,871	7,597,372	17.6%
	Average annual percent increase			
1990-2001	3.8%	13.5%	4.5%	
1996-2001	5.5	18.0	6.6	
2001-2004	0.0	8.4	1.1	

Note: The City's Fiscal Year ends June 30.

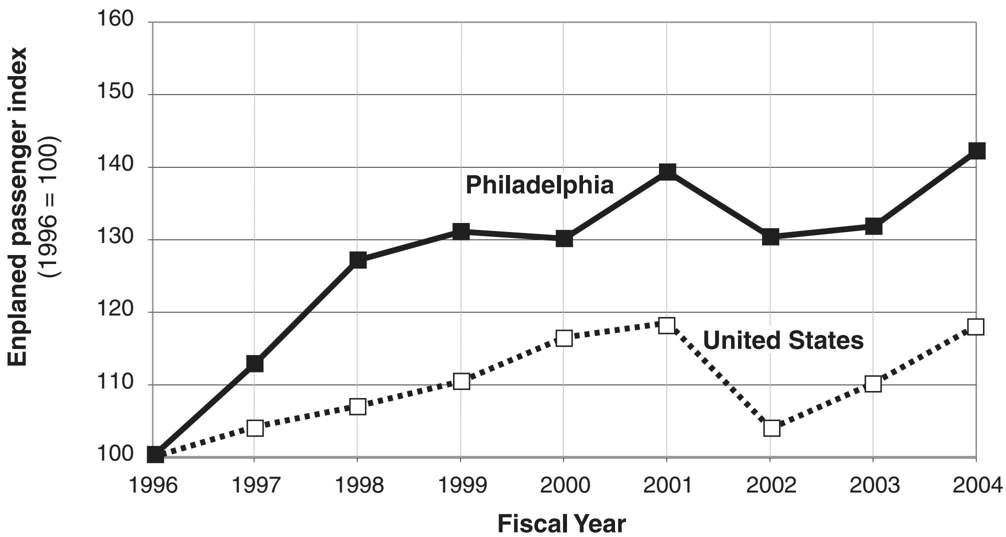
Source: City of Philadelphia, Division of Aviation.

As shown on Figure 8, between FY 1996 and FY 2001, the rate of increase in enplaned passengers at the Airport outpaced the national average largely as a result of the expansion of service by US Airways. Between FY 1996 and FY 2001, enplaned passengers at the Airport increased an average of 6.6% per year, compared with 2.8% for the nation as a whole. Between FY 2001 and FY 2004, enplaned passenger numbers increased 1.1% at Philadelphia versus a decrease of 0.1% for the nation.

Figure 8

ENPLANED PASSENGER TRENDS

Philadelphia International Airport and United States



Sources: Philadelphia: City of Philadelphia, Division of Aviation.
United States: U.S. Department of Transportation, Bureau of Transportation Statistics, *Intermodal Transportation Database.*

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Table 22 shows the increase in scheduled international passengers at the Airport by US Airways and other airlines. In FY 2004, US Airways accounted for 77% of international passengers.

Originating and Connecting Passengers

Table 23 shows the estimated distribution of enplaned passengers between those originating their air journeys at the Airport and those connecting between flights. As shown, since FY 1996, the number of connecting passengers has increased at a higher overall rate than the number of originating passengers as a result of the development of the US Airways hub.

Table 22

INTERNATIONAL ENPLANED PASSENGERS
Philadelphia International Airport

	FY 1996	FY 2001	FY 2002	FY 2003	FY 2004	Average annual percent increase (decrease) FY 1996-FY 2001	FY 2001-FY 2004
Scheduled service							
US Airways	343,083	1,055,371	1,104,393	1,202,017	1,494,116	25.2%	12.3%
Other	227,141	398,230	358,168	388,776	424,764	11.9	2.2
Subtotal	570,224	1,453,601	1,462,561	1,590,793	1,918,880	20.6%	9.7%
Nonscheduled service	95,110	68,120	37,098	26,598	19,941	(6.5)	(33.6)
Total	665,334	1,521,721	1,499,659	1,617,391	1,938,821	18.0%	8.4%

Note: The City's Fiscal Year ends June 30.

Source: City of Philadelphia, Division of Aviation.

Table 23

ORIGINATING AND CONNECTING PASSENGERS
Philadelphia International Airport

	FY 1996	FY 2001	FY 2002	FY 2003	FY 2004	Average annual percent increase (decrease) FY 1996-FY 2001	FY 2001-FY 2004
Originating passengers	6,760,000	8,270,000	7,760,000	7,280,000	7,660,000	4.1%	(2.5%)
Percent of total	73.5%	65.2%	64.7%	60.0%	58.5%		
Connecting passengers	2,440,066	4,401,453	4,241,505	4,856,625	5,428,773	12.5%	7.2%
Percent of total	26.5%	34.8%	35.3%	40.0%	41.5%		
Enplaned passengers	9,204,066	12,671,453	12,001,505	12,136,625	13,088,773	6.6%	1.1%

Note: The City's Fiscal Year ends June 30.

Sources: Enplaned passengers—City of Philadelphia, Division of Aviation.
Originating and connecting passenger distribution—Leigh Fisher Associates, estimated from U.S. Department of Transportation data.

Airline Shares of Passengers

Table 24 presents historical airline shares of enplaned passengers at the Airport. US Airways and US Airways Express together enplaned approximately 8.8 million passengers (67%) in FY 2004, up from 5.4 million (58%) in FY 1996. Among the other major airlines, American, Delta, and United each accounted for approximately 5% or more of enplaned passengers in FY 2004.

As shown on Figure 9, for July through September 2004, the largest share of enplaned passengers was carried by US Airways (64%), followed by Southwest (6%). As shown on Figure 10, considering only originating passengers, the largest shares were accounted for by US Airways (46%) and Southwest (11%).

Airline Aircraft Departures

As shown in Table 25, in FY 2004, the passenger airlines accounted for 95% of airline aircraft departures at the Airport and the all-cargo airlines accounted for the other 5%. Between FY 1996 and FY 2004, the number of passenger aircraft departures increased at a slower average rate (2.7% per year) than the number of enplaned passengers (4.5% per year) as the average seating capacity of aircraft and passenger load factors increased. Between FY 1996 and FY 2000, the average number of seats per departure on scheduled airline aircraft at the Airport increased from 96 to 105. Since FY 2000, the average number of seats per departure has decreased slightly as increased numbers of regional jet aircraft have been introduced into service. In FY 2004, the annual average on-board load factor (the percentage of seats occupied) at the Airport was similar to the industrywide average (approximately 70%).

Airline Gate Use

Tables 26 summarizes the availability of gates at the Airport and the average number of flight departures per gate as scheduled for April 2005.

The Airport provides 82 gates accommodating large jet airline aircraft at Terminals A-West through E and 38 gates designed for use by regional airline aircraft at Terminal F. As shown, of the 120 total gates, 48 are leased for the exclusive use of airlines that are signatory to the Airline Agreement, 51 are leased on a preferential-use basis, and 21 are available for common use.* On average, each gate is used for 5.5 aircraft departures per day.

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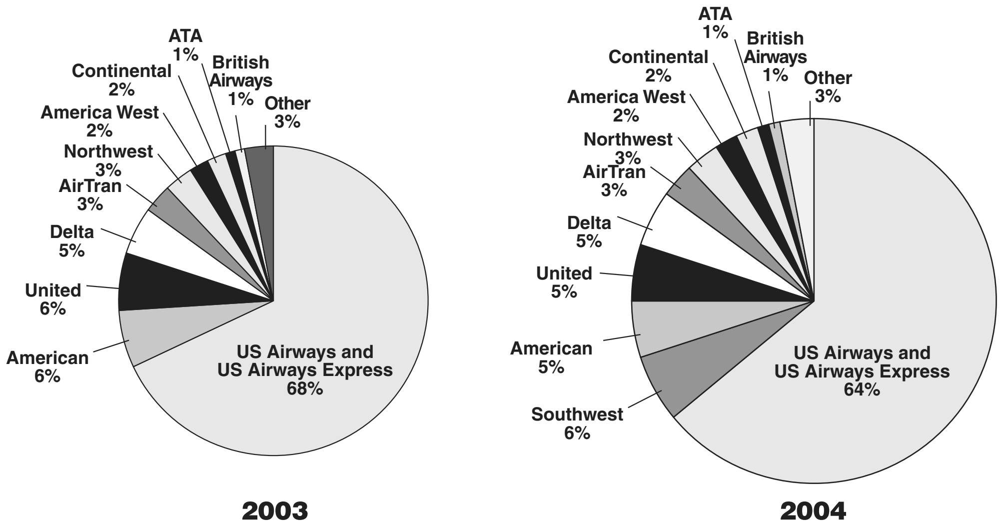
*A gate leased by an airline on an exclusive-use basis may be made available to other airlines only through a subleasing or other arrangement with the leasing airline. A gate leased to an airline on a preferential-use basis may be made available to other airlines at the direction of the City if the gate is not being used by the leasing airline. A common-use gate is available for use by any airline, as assigned by the City.

Figure 9

ENPLANED PASSENGER MARKET SHARES

July – September



Source: City of Philadelphia Division of Aviation.

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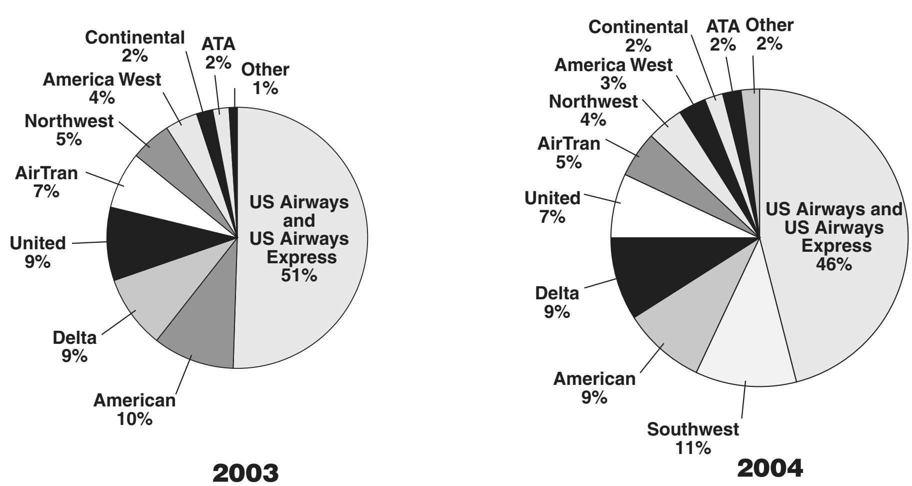
Figure 10

ORIGINATING PASSENGER MARKET SHARES

July – September



Source: Leigh Fisher Associates estimates based on U.S. Department of Transportation, *Origin-Destination Survey of Airline Passenger Traffic, Domestic,* for years noted, as reported by Back Aviation Products, Inc., January 2005.

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Note: The area of each circle on Figures 9 and 10 is proportional to the number of enplaned or originating passengers.

Table 24

AIRLINE SHARES OF ENPLANED PASSENGERS
Philadelphia International Airport

	FY 1996		FY 2001		FY 2002		FY 2003		FY 2004	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Domestic service										
Scheduled major and national *(a)*										
US Airways	4,468,492	48.6%	6,439,325	50.8%	6,090,205	50.7%	5,752,074	47.4%	5,822,698	44.5%
American	765,109	8.3	666,557	5.3	676,000	5.6	747,764	6.2	687,624	5.3
United	664,579	7.2	632,226	5.0	560,152	4.7	637,684	5.3	678,749	5.2
Delta	523,190	5.7	716,817	5.7	626,663	5.2	635,139	5.2	617,363	4.7
AirTran *(b)*	108,986	1.2	227,098	1.8	271,350	2.3	314,135	2.6	470,637	3.6
Northwest	419,442	4.6	414,303	3.3	365,466	3.0	388,297	3.2	397,993	3.0
America West	95,671	1.0	195,393	1.5	201,533	1.7	203,122	1.7	216,860	1.7
Continental	233,658	2.5	202,778	1.6	163,855	1.4	158,787	1.3	159,591	1.2
ATA	--	--	124,666	1.0	116,628	1.0	120,510	1.0	155,188	1.2
Southwest	--	--	--	--	--	--	--	--	72,892	0.6
Midwest Express	35,126	0.4	40,851	0.3	35,782	0.3	28,746	0.2	31,954	0.2
USA 3000	--	--	--	--	--	--	701	--	19,713	0.2
Frontier	--	--	--	--	--	--	--	--	10,393	0.1
TWA	178,386	1.9	177,166	1.4	59,998	0.5	--	--	--	--
Sunworld	--	--	--	--	2,446	--	475	--	--	--
Spirit	96,134	1.0	--	--	--	--	--	--	--	--
Nations Air	81,839	1.0	--	--	--	--	--	--	--	--
National	--	--	98,988	0.8	71,221	0.6	28,558	0.2	--	--
Midway	57,041	0.6	73,162	0.6	15,578	0.1	--	--	--	--
Other	9,601	0.1	--	--	--	--	--	--	--	--
Total	7,737,254	84.1%	10,009,330	79.1%	9,256,877	77.1%	9,015,992	74.3%	9,341,655	71.5%
Scheduled regional										
US Airways Express	560,838	6.1%	967,135	7.6%	1,056,139	8.9%	1,272,342	10.5%	1,509,806	11.5%
Other	188,357	2.0	157,845	1.2	161,815	1.3	210,555	1.7	288,998	2.2
	749,195	8.1%	1,124,980	8.8%	1,217,954	10.2%	1,482,897	12.2%	1,798,804	13.7%
Nonscheduled	52,283	0.6	15,422	0.1	27,015	0.2	20,345	0.2	9,493	0.1
Total domestic service	8,538,732	92.8%	11,149,732	88.0%	10,501,846	87.5%	10,519,234	86.7%	11,149,952	85.2%

Table 24 *(page 2 of 2)*
AIRLINE SHARES OF ENPLANED PASSENGERS
Philadelphia International Airport

	FY 1996		FY 2001		FY 2002		FY 2003		FY 2004	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
International service										
Scheduled										
US Airways	343,083	3.7%	1,055,371	8.3%	1,104,393	9.2%	1,202,017	9.9%	1,494,116	11.4%
British Airways	159,224	1.7	150,820	1.2	129,794	1.1	135,306	1.1	133,986	1.0
Lufthansa	--	--	63,354	0.5	52,909	0.4	58,868	0.5	69,245	0.5
Air France	--	--	48,451	0.4	49,358	0.4	47,573	0.4	51,570	0.4
Air Jamaica	32,352	0.4	46,540	0.4	49,570	0.4	47,158	0.4	42,876	0.3
USA 3000	--	--	--	--	--	--	18,869	0.2	35,296	0.3
Air Canada	16,488	0.2	81,380	0.6	54,821	0.5	27,455	0.2	37,861	0.3
Air Canada Jazz	--	--	--	--	9,901	0.1	41,327	0.3	29,045	0.2
US Airways Express	--	--	3,609	0.0	11,815	0.1	12,220	0.1	24,885	0.2
Air Aruba	--	--	4,076	--	--	--	--	--	--	--
Swissair	12,837	0.1	--	--	--	--	--	--	--	--
Other	6,240	0.1	--	--	--	--	--	--	--	--
Total	570,224	6.2%	1,453,601	11.4%	1,462,561	12.2%	1,590,793	13.1%	1,918,880	14.6%
Nonscheduled	95,110	1.0	68,120	0.6	37,098	0.3	26,598	0.2	19,941	0.2
Total international service	665,334	7.2%	1,521,721	12.0%	1,499,659	12.5%	1,617,391	13.3%	1,938,821	14.8%
Total service	9,204,066	100.0%	12,671,453	100.0%	12,001,505	100.0%	12,136,625	100.0%	13,088,773	100.0%

Notes: The City's Fiscal Year ends June 30.
Columns may not add to totals shown because of rounding.

(a) Major airlines are defined by the U.S. Department of Transportation as those with annual operating revenues of more than $1 billion; national airlines are those with revenues between $100 million and $1 billion.
(b) ValuJet Airlines until September 1997.

Source: City of Philadelphia, Division of Aviation.

Table 25

HISTORICAL AIRCRAFT DEPARTURES
Philadelphia International Airport

Fiscal Year	Passenger service *(a)* Annual	Passenger service *(a)* Average daily	Average seats per departure *(b)*	All-cargo service *(a)* Annual	All-cargo service *(a)* Average daily	Total annual departures *(a)*
1990	n.a.	n.a.	n.a.	n.a.	n.a.	182,000 *(c)*
1991	n.a.	n.a.	n.a.	n.a.	n.a.	191,000 *(c)*
1992	n.a.	n.a.	n.a.	n.a.	n.a.	176,000 *(c)*
1993	156,178	428	n.a.	6,216	17	162,394
1994	152,981	419	n.a.	8,649	24	161,630
1995	n.a.	n.a.	93.5	n.a.	n.a.	172,255
1996	153,402	420	96.0	11,384	31	164,786
1997	169,907	465	95.3	10,445	29	180,352
1998	188,377	516	97.7	11,020	30	199,397
1999	193,827	531	103.5	11,555	32	205,382
2000	191,215	524	105.0	12,110	33	203,325
2001	195,783	536	104.0	12,166	33	207,949
2002	185,733	509	104.7	11,582	32	197,315
2003	183,933	504	102.2	10,599	29	194,532
2004	189,298	519	104.8	9,757	27	199,055
First 6 months						
2004	93,870	257	103.0	5,041	14	98,911
2005	101,262	277	114.8	5,214	14	106,476

Note: The City's Fiscal Year ends June 30.

n.a. = not available.

(a) Source: City of Philadelphia, Division of Aviation.
(b) Official Airline Guides, Inc., online database, January 2005.
(c) Estimated based on City of Philadelphia, Division of Aviation data.

Table 26

AIRLINE GATE USE
Philadelphia International Airport
Scheduled for April 2005

Leasing or using airline	Exclusive use	Preferential use	Common use	Total	Other airlines	Average daily scheduled departures (April 2005) *(a)*	Average daily scheduled departures per gate
AirTran	--	3	1	4		20	5.0
American	4	2 *(b)*	--	6	American Eagle, American Connection	30	5.0
America West	--	1	--	1		5	5.0
ATA *(c)*	--	1 *(b)*	--	1		-	-
Continental	--	2	--	2	Continental Express	12	5.9
Delta	4	--	--	4	Delta Connection, Air France, Midwest	29	7.3
Northwest	3	--	--	3	Northwest Airlink	20	6.7
Southwest	--	4	2	6		41	6.9
United	7	--	--	7	Air Canada, United Express	29	4.1
US Airways (Terminals B and C)	30	--	--	30		194	6.5
US Airways Express (Terminal F)	--	38 *(d)*	--	38		237	6.2
Various (Terminal A-West)	--	--	13	13	Air Jamaica, Lufthansa, US Airways	44	3.4
Various (Terminal A-East)	--	--	5 *(e)*	5	British Airways, USA 3000	5	1.0
Total/average	48	51	21	120		665	5.5

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

(a) Source: Official Airline Guides, Inc., online database, January 2005.
(b) "Interim domestic" gates for which airline has preferential-use rights only when the gates are not required for international flights.
(c) ATA discontinued service to Philadelphia as of January 2005.
(d) 24 gates equipped with loading bridges for use by regional jet aircraft and 14 gates without loading bridges for use by regional turboprop aircraft.
(e) Includes passenger transport vehicle portal.

Landed Weight

Table 27 presents historical data on aircraft landed weight at the Airport. Between FY 1996 and FY 2004, landed weight increased an average of 3.6% per year. Table 28 presents data on airline shares of landed weight.

Table 27

HISTORICAL LANDED WEIGHT
Philadelphia International Airport

Fiscal Year	Landed weight (1,000-pound units)	Annual increase (decrease)
1990	15,653,000 *(a)*	--%
1991	15,796,000 *(a)*	0.9
1992	15,727,000 *(a)*	(0.4)
1993	16,434,779	4.5
1994	16,243,757	(1.2)
1995	17,312,456	6.6
1996	16,731,664	(3.4)
1997	18,921,408	11.3
1998	20,378,678	7.7
1999	21,282,188	4.4
2000	21,830,907	2.6
2001	23,404,963	7.2
2002	22,652,408	(3.2)
2003	22,024,492	(2.8)
2004	22,288,280	1.2
First 6 months		
2004	10,983,902	--
2005	12,475,048	13.6%

Note: The City's Fiscal Year ends June 30.

(a) Estimated.

Source: City of Philadelphia, Division of Aviation.

Table 28

AIRLINE SHARES OF LANDED WEIGHT
Philadelphia International Airport
(1,000-pound units)

	FY 1996		FY 2000		FY 2001		FY 2002		FY 2003		FY 2004	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Domestic service												
Scheduled major and national *(a)*												
US Airways	6,884,357	41.1%	9,275,184	42.4%	10,583,243	45.2%	10,038,471	44.3%	9,288,510	42.2%	8,713,652	39.1%
American	1,159,150	6.9	1,033,212	4.7	1,047,052	4.5	1,152,775	5.1	1,203,630	5.5	1,056,846	4.7
Delta	767,971	4.6	1,179,068	5.4	1,016,000	4.3	943,534	4.2	849,239	3.9	824,451	3.7
United	1,022,105	6.1	1,048,299	4.8	1,051,853	4.5	849,379	3.7	949,625	4.3	991,265	4.4
Northwest	625,270	3.7	686,106	3.1	679,004	2.9	600,646	2.7	654,410	3.0	629,537	2.8
AirTran *(b)*	141,443	0.8	215,044	1.0	306,173	1.3	409,648	1.8	385,512	1.8	590,611	2.6
America West	193,287	1.2	243,878	1.1	250,220	1.1	243,443	1.1	285,386	1.3	301,243	1.4
Continental	383,746	2.3	331,603	1.5	320,900	1.4	240,243	1.1	219,234	1.0	212,990	1.0
ATA	--	--	155,411	0.7	174,975	0.7	167,225	0.7	152,471	0.7	193,846	0.9
Southwest	--	--	--	--	--	--	--	--	--	--	93,460	0.4
Midwest Express	65,887	0.4	84,652	0.4	88,670	0.4	86,076	0.4	67,850	0.3	65,482	0.3
Frontier	--	--	--	--	--	--	--	--	--	--	15,592	0.1
Other	396,907	2.4	459,969	2.1	541,461	2.3	256,969	1.1	39,996	0.2	26,307	0.1
Total	11,640,123	69.6%	14,712,426	67.4%	16,059,551	68.6%	14,988,409	66.2%	14,095,863	64.0%	13,715,282	61.5%
Scheduled regional												
US Airways	964,559	5.7%	1,593,827	7.3%	1,517,723	6.5%	1,744,569	7.7%	2,009,069	9.1%	2,318,840	10.4%
Other	346,653	2.0	344,353	1.6	281,827	1.2	310,985	1.4	357,879	1.6	419,156	1.9
Total	1,311,212	7.7%	1,938,180	8.9%	1,799,550	7.7%	2,055,554	9.1%	2,366,948	10.7%	2,737,996	12.3%
Nonscheduled	113,856	0.7	76,993	0.4	93,233	0.4	39,169	0.2	109,591	0.5	19,815	0.1
Total domestic service	13,065,191	78.1%	16,727,599	76.6%	17,952,334	76.7%	17,083,132	75.4%	16,572,402	75.2%	16,473,093	73.9%
International service												
Scheduled												
US Airways	140,470	0.8%	1,301,416	6.0%	1,616,053	6.9%	1,736,267	7.7%	1,831,763	8.3%	2,119,969	9.5%
Other	614,679	3.7	854,577	3.9	856,076	3.7	904,840	4.0	854,381	3.9	1,002,809	4.5
Total	755,149	4.5%	2,155,993	9.9%	2,472,129	10.6%	2,641,107	11.7%	2,686,144	12.2%	3,122,778	14.0%
Nonscheduled	233,136	1.4	66,786	0.3	60,699	0.3	11,195	--	19,164	0.1	19,632	0.1
Total international service	988,285	5.9%	2,222,779	10.2%	2,532,828	10.8%	2,652,302	11.7%	2,705,308	12.3%	3,142,410	14.1%
All-cargo airlines	2,678,188	16.0	2,880,529	13.2	2,919,801	12.5	2,916,974	12.9	2,746,782	12.5	2,672,777	12.0
Total	16,731,664	100.0%	21,830,907	100.0%	23,404,963	100.0%	22,652,408	100.0%	22,024,492	100.0%	22,288,280	100.0%

Note: The City's Fiscal Year ends June 30.

(a) Major airlines are defined by the U.S. Department of Transportation as those with annual operating revenues of more than $1 billion; national airlines are those with revenues between $100 million and $1 billion.

(b) ValuJet Airlines until September 1997.

Air Cargo

As shown in Table 28, the all-cargo airlines serving the Airport accounted for 12.0% of total Airport landed weight in FY 2004. Recent increases in cargo activity are attributable mainly to increased service by integrated cargo airlines such as UPS Air Cargo and FedEx. UPS Air Cargo operates its primary East Coast international gateway and a regional hub at the Airport. In FY 2004, a total of 283,310 tons of cargo (freight and mail) was enplaned and deplaned at the Airport.

Restrictions on the carriage of air mail on passenger aircraft since 2001 and other security restrictions have reduced the amount of air cargo carried on passenger aircraft.

KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

Besides the development of the economy of the Philadelphia Airport Service Region, discussed earlier, key factors that will affect airline traffic at Philadelphia International Airport include:

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

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 traffic during those years. Future increases in passenger traffic will depend largely on the ability of the nation to sustain growth in economic output and income.

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

Aviation 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 air travel and the switching from air to surface modes for short-haul 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. In early 2003, safety concerns were again heightened by the beginning of hostilities in Iraq and the threat of retaliatory terrorist attacks.

Since September 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against attacks 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), and more intensive screening of passengers and baggage.

Historically, airline travel demand has recovered after temporary decreases stemming from terrorist attacks, hijackings, aircraft crashes, and international hostilities. Provided that intensified security precautions 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 security, factors.

Financial Health of the Airline Industry

Increases in passenger traffic at the Airport will depend partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines, particularly US Airways, to make the necessary investments to increase service.

The 1990-1991 economic recession, coupled with increased operating costs and security concerns during the Gulf War, generated then-record financial losses in the airline industry. These 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 in the early 1990s.

Between 1995 and 2000, the airline industry as a whole was profitable, but as a result of the 2001 economic recession, the disruption of the airline industry that followed the

September 2001 terrorist attacks, high operating costs, and intense price competition, the industry has again experienced huge financial losses. In 2004, industry traffic, as measured by revenue-passenger-miles, for the major U.S. airlines was about 3% lower than in 2000, yields (revenues per passenger-mile) were about 20% lower, and revenues were about 22% lower. The major U.S. airlines collectively recorded net losses of $7.5 billion on revenues of $78.9 billion in 2001, losses of $11.2 billion on revenues of $71.0 billion in 2002, losses of $4.5 billion on revenues of $70.8 billion in 2003, and losses of $6.4 billion on revenues of $76.6 billion in 2004. US Airways alone reported net losses of $2.12 billion in 2001, $1.65 billion in 2002, $0.46 billion in 2003, and $0.61 billion in 2004.

To mitigate these losses, all the major network airlines have restructured their route networks and flight schedules and negotiated with their employees, lessors, vendors, and creditors to cut costs, either under Chapter 11 bankruptcy protection or the threat of such. Besides US Airways (discussed below), United Airlines filed for Chapter 11 protection in December 2002 and has announced that it does not expect to emerge from bankruptcy until late in 2005. In 2003, American avoided filing for bankruptcy protection only after obtaining labor cost concessions from its employees and drastically reduced service at its St. Louis hub. In 2004, Delta Air Lines avoided filing for bankruptcy protection only after obtaining concessions from its employees and lenders. In February 2005, Delta eliminated its Dallas/Fort Worth hub and restructured its other airport operations. Among smaller airlines, Hawaiian Airlines filed for Chapter 11 protection in March 2003, ATA Airlines filed in October 2004, and Aloha Airlines filed in December 2004.

Continuing losses could force airlines to retrench, seek bankruptcy protection, discontinue marginal operations, or liquidate. The restructuring or liquidation of one or more of the large network airlines could drastically affect service at many connecting hub airports, present business opportunities for the remaining airlines, and change travel patterns throughout the U.S. aviation system.

US Airways filed for Chapter 11 bankruptcy protection in August 2002 and emerged from bankruptcy in March 2003. As part of its bankruptcy reorganization, the airline received from the Air Transportation Stabilization Board (ATSB) a federal guarantee of $0.9 billion of a $1.0 billion loan. Under its transformation plan revealed in early 2004, US Airways announced plans to lower and simplify fares, cut labor and other costs, and restructure its route network and flight operations to increase productivity. After failure to achieve the sought cost savings, the airline again filed for Chapter 11 protection in September 2004.

In November 2004, US Airways drastically reduced service at its Pittsburgh hub. Also in November 2004, US Airways announced a comprehensive agreement with GE Capital Aviation Services and GE Engine Services regarding the financing and leasing of aircraft and engines. The agreement provided the airline with short-term liquidity, reduced leasing costs, and ensured continued access to its leased aircraft fleet.

In January 2005, US Airways and the ATSB reached an agreement that extends the airline's use of the cash proceeds from its federally guaranteed loan through June 2005, allowing the airline to continue operations while it completes its reorganization and emergence from bankruptcy protection. Also in January 2005, US Airways announced that it had ratified agreements with its pilots, flight attendants, mechanics, and other employee groups to achieve estimated savings in compensation and benefits of approximately $1.1 billion annually. In February 2005, the U.S. Pension Benefit Guaranty Corporation assumed responsibility for the pensions of many US Airways employees, guaranteeing payment of an estimated funding shortfall of $2.3 billion. Also in February 2005, the bankruptcy court approved a $125 million financing arrangement with Eastshore Aviation, a subsidiary of Air Wisconsin, which provides US Airways with additional liquidity.

Notwithstanding the financial relief afforded by these agreements, the airline's precarious financial situation makes a liquidation of US Airways a possibility. Later sections of this report provide estimates of the effects on Airport passenger traffic and financial results if US Airways is forced to liquidate and ceases operations.

Airline Service and Routes

The Airport serves both as a gateway to the Airport Service Region and as a connecting hub. The number of origin and destination passengers depends on the intrinsic attractiveness of the Philadelphia Region as a business and leisure destination and the propensity of its residents to travel. The number of connecting passengers, on the other hand, depends on the airline service provided at the Airport.

Most major airlines have developed nationwide systems of hubs that allow them to offer high-frequency service in many city-pair markets. Because most connecting passengers have a choice of airlines and intermediate airports, connecting traffic at an airport depends on the route networks and flight schedules of the airlines at that airport and at other competing hub airports.

As discussed in the earlier section, "Airport's Role in US Airways System," the Airport is an important connecting hub for US Airways. As a result, some of the passenger traffic at the Airport results from the route network and flight schedules of US Airways rather than the economy of the Airport Service Region. If the airline were to reduce connecting service at the Airport, such flights would not necessarily be replaced by other airlines, although reductions in service by US Airways would create obvious business opportunities for others.

Some industry analysts have questioned the economic viability of the hub-and-spoke business model of the network airlines and see a future only for airlines with lower cost structures providing direct point-to-point service with low fares. In recent years, low-cost airlines have increased market share and have gained acceptance by passengers. However, even before the recent industry contraction, most startup airlines had difficulties becoming profitable. Recent failures include Midway, Vanguard, and National airlines. Some low-cost airlines concentrate on point-to-point service; others have adopted a hub-and-spoke model.

The large network airlines have improved the productivity of their hub operations and most industry analysts consider that the service and revenue advantages of the hub-and-spoke system will ensure the continued importance of major connecting hub airports. The viability of the large network airlines, such as US Airways, will depend on their ability to combine the revenue advantages of their hub systems while bringing their operating costs closer to those of their low-cost competitors.

Airline Competition and Airfares

Airline fares have an important effect on passenger demand, particularly for relatively short trips where the automobile and other travel modes are alternatives and for price-sensitive "discretionary" travel, particularly leisure travel. Airfares are influenced by labor, fuel, and other airline operating costs; taxes, fees, and other charges assessed by governmental and airport agencies; debt burden; passenger demand; capacity and yield management; market presence; and competitive factors. Increases in passenger traffic at the Airport will depend on the continued availability of competitive airfares and service.

In an attempt to stimulate passenger traffic and remain competitive, the airlines reduced airfares early in 2001 and, following September 2001, reduced airfares further. In 2002, the average domestic yield on the major U.S. airlines was 12.1 cents per passenger-mile, compared with 14.7 cents in 2000. Overcapacity in the industry and other factors caused yield to remain low in 2003, averaging 12.0 cents, and in 2004, averaging 11.5 cents. Industry analysts have expressed concern about the sustainability of the "revenue model" of many of the major network airlines, which involves charging uneconomically low discount fares to some travelers and high "walk-up" fares to others. The ability of consumers to book flights easily via the Internet, and the associated transparency of airline pricing, creates additional downward pressures on airfares. Some of the major network airlines have recently introduced simplified fare structures designed to rationalize their revenue model. Widespread adoption of such rationalized fare structures, along with controls on airline seat capacity, are seen as keys to the industry regaining and sustaining profitability.

In many airline travel markets nationwide, price competition is provided by new entrant and other airlines with lower cost structures. In Philadelphia, AirTran, America West, Frontier, and Southwest provide such competition. In recent years, most of the low-cost airlines have greatly increased their systemwide seat capacity, with the result that the share of U.S. airline domestic revenue-passenger-miles carried by the low-cost airlines increased from approximately 9% in 2000 to approximately 22% in 2004.

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. DOT as a result of concerns about reduced airline competition. The distressed condition of the airline industry could again persuade government regulators to permit further airline consolidation.

Alliances provide airlines with many of the advantages of mergers. Such alliances typically involve marketing, code-sharing, and scheduling arrangements to facilitate the transfer of passengers between the airlines. As discussed in the earlier section "Star Alliance," in May 2004, US Airways joined the United-led Star Alliance. In September 2004, Continental Airlines and Northwest Airlines joined the Delta-led SkyTeam alliance.

Availability and Price of Aviation Fuel

There has been no shortage of aviation fuel since the "fuel crisis" of 1974, but the price of aviation fuel continues to be an important and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability. The invasion and occupation of Iraq, political unrest in other oil-producing countries, and other factors influencing the demand for and supply of oil caused aviation fuel prices to increase sharply in 2003 and 2004. In December 2004, average fuel prices were 46% higher than in December 2003, and 68% higher than in December 2001. These high fuel prices have been a major contributor to recent airline industry losses. While fuel prices have not affected the ability of airlines to provide service, future high prices will affect airline service, airfares, and passenger numbers.

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 automating and enhancing the computer, radar, and communications equipment of the air traffic control system and enhancing the use of runways through improved air navigation aids. Air traffic delays have decreased as a result of the reduction in aircraft operations since 2001. However, as demand returns to and exceeds 2001 levels, flight delays and restrictions are again likely.

Capacity of the Airport

In addition to any future constraints that may be imposed by the national air traffic control system, future growth in airline traffic at Philadelphia International Airport will depend on the provision of increased capacity at the Airport itself.

The City is undertaking an update to the Airport Master Plan to address how the long-term capacity needs of the Airport should best be met. Recent, ongoing, and planned terminal projects, including the 2001 completion of Terminal F (adding 38 regional airline gates), 2003 completion of Terminal A-West (13 aircraft gates), 2003 expansion of Terminal D (3 aircraft gates), and planned expansion of Terminals D and E as part of the 2005 Project (3 aircraft gates), will provide the terminal capacity to allow continued near-term increases in airline service and passengers.

According to an airport capacity benchmark report released by the FAA in April 2001, the Airport was one of eight airports that experienced significant delays to passenger airline aircraft in 2000 (with an estimated 4.5% of flights delayed for more than 15 minutes). Improvements being implemented to enhance the capacity of the airfield in the near term include the construction of high-speed exit taxiways, installation and use of upgraded navigational aids to allow the simultaneous use of Runways 8-26 and 9R-27L for aircraft arrivals in poor visibility conditions, and extension of Runway 17-35. To meet longer term airfield capacity needs, various plans are being considered for runway reconfiguration and reconstruction.

FORECAST AIRLINE TRAFFIC

Forecasts of airline traffic at the Airport through FY 2010 were developed taking into account analyses of the economic basis for airline traffic, trends in historical airline traffic, and key factors likely to affect future airline traffic, all as discussed in earlier sections. Forecasts recently prepared for the Airport Master Plan update and forecasts prepared by the FAA for the Airport were also taken into account.

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

Two passenger forecasts were developed, a “base” forecast and a “low” forecast, as presented in Table 29. The forecasts are shown graphically on Figure 11.

The numbers of enplaned passenger in FY 2005 (15.3 million, a 16.9% annual increase from FY 2004) and FY 2006 (16.0 million, a 4.6% annual increase from FY 2005) were estimated on the basis of actual data for the 6 months July through December 2004, published flight schedules (including the increased Philadelphia schedule implemented by US Airways in February 2005), and the expectation that fare and service competition among US Airways, Southwest, and other airlines will continue.

Numbers of originating passengers are forecast to increase an average of 14.3% per year between FY 2004 and FY 2006, resulting in an increase in the percentage of originating passengers from 58.5% in FY 2004 to 62.5% in FY 2006.

Beginning in FY 2007, and through the remainder of the forecast period, airline traffic is forecast to increase on the basis of the following assumptions:

1. The U.S. economy will experience sustained growth averaging between 2.0% and 2.5% per year.

2. The economy of the Airport Service Region will increase at a rate somewhat lower than that of the United States as a whole.

3. Competition among airlines serving the Airport will ensure the continued availability of competitive airfares comparable to those now available.

4. A generally stable international political environment and enhanced passenger and baggage screening procedures will maintain airline traveler confidence in aviation security without imposing unreasonable inconveniences.

5. There will be no major disruption of airline service or travel behavior as a result of international hostilities or terrorist acts or threats.

6. No significant competitive airline service will be provided at airports serving the Airport Service Region, such as those in Allentown, Atlantic City, and Harrisburg.

7. The Airport will continue to be a major gateway and distribution center for UPS Air Cargo and landed weight by the all-cargo aircraft will increase in line with growth in the economy of the Airport Service Region.

Table 29

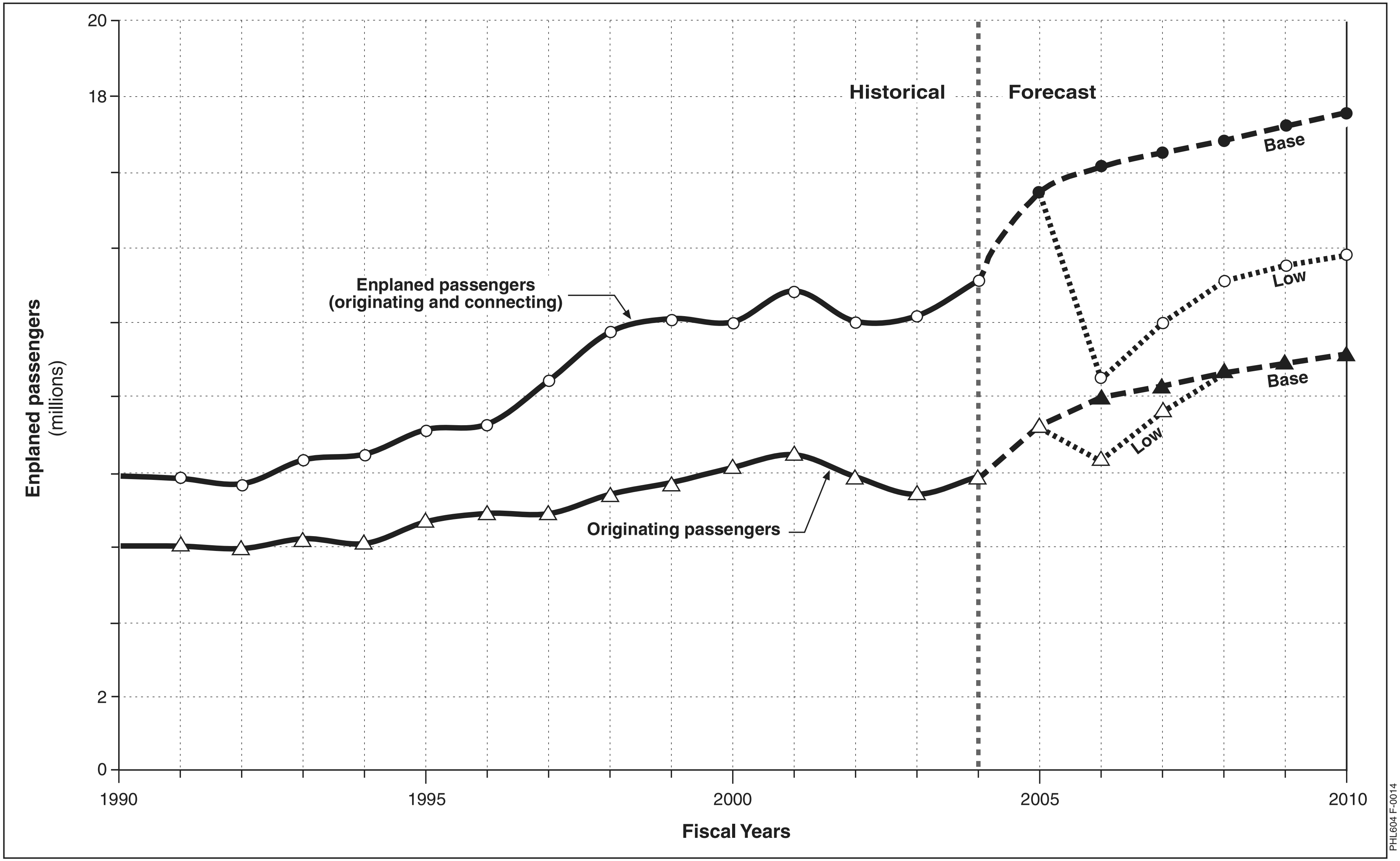
AIRLINE TRAFFIC FORECASTS
Philadelphia International Airport
For Fiscal Years ending June 30

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

	Historical				Forecast						Average annual increase
	2001	2002	2003	2004	2005 *(a)*	2006	2007	2008	2009	2010	2004-2010
BASE FORECAST											
Enplaned passengers											
Domestic	11,149,732	10,501,846	10,519,234	11,149,952	13,300,000	13,900,000	14,200,000	14,500,000	14,800,000	15,100,000	5.2%
International	1,521,721	1,499,659	1,617,391	1,938,821	2,000,000	2,100,000	2,200,000	2,300,000	2,400,000	2,500,000	4.3
Total	12,671,453	12,001,505	12,136,625	13,088,773	15,300,000	16,000,000	16,400,000	16,800,000	17,200,000	17,600,000	5.1%
Annual increase (decrease)	3.2%	(5.3%)	1.1%	7.8%	16.9%	4.6%	2.5%	2.4%	2.4%	2.3%	
Originating	8,270,000	7,760,000	7,280,000	7,660,000	9,400,000	10,000,000	10,300,000	10,600,000	10,900,000	11,200,000	6.5%
Connecting	4,401,453	4,241,505	4,856,625	5,428,773	5,900,000	6,000,000	6,100,000	6,200,000	6,300,000	6,400,000	2.8
Total	12,671,453	12,001,505	12,136,625	13,088,773	15,300,000	16,000,000	16,400,000	16,800,000	17,200,000	17,600,000	5.1%
Percent originating	65.3%	64.7%	60.0%	58.5%	61.4%	62.5%	62.8%	63.1%	63.4%	63.6%	
Landed weight (1,000-pound units)	23,409,796	22,674,765	22,024,492	22,288,280	25,700,000	27,200,000	28,200,000	29,200,000	30,300,000	31,300,000	
LOW FORECAST											
Enplaned passengers											
Originating					9,400,000	8,300,000	9,600,000	10,600,000	10,900,000	11,200,000	
Connecting					5,900,000	2,200,000	2,400,000	2,500,000	2,600,000	2,700,000	
Total					15,300,000	10,500,000	12,000,000	13,100,000	13,500,000	13,900,000	
Percent originating					61.4%	79.0%	80.0%	80.9%	80.7%	80.6%	
Low Forecast as percent of Base Forecast					100%	66%	73%	78%	78%	79%	
Landed weight (1,000-pound units)					25,700,000	17,900,000	20,600,000	22,800,000	23,800,000	24,700,000	

(a) Estimated on the basis of 6 months of actual data.

Sources: Historical: City of Philadelphia, Division of Aviation.
Forecast: Leigh Fisher Associates, March 2005.



The forecasts presented in this figure were prepared using the information and assumptions given in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

Sources: Historical—City of Philadelphia, Division of Aviation.
Forecast—Leigh Fisher Associates, March 2005.

Figure 11
HISTORICAL AND FORECAST ENPLANED PASSENGERS
Philadelphia International Airport
March 2005

LEIGH FISHER ASSOCIATES

Base Passenger Forecast

For the base passenger forecast, it was assumed that US Airways will successfully reorganize, emerge from bankruptcy protection in mid-2005, and achieve sustained profitability. Consistent with its transformation plan, the airline will continue to develop the Airport as its primary Northeast connecting hub and international gateway, and will gradually increase the number of destinations served and the frequency of flights from the Airport. Other major airlines will provide competitive nonstop service in large travel markets.

Overall, the number of enplaned passengers is forecast to increase from 13.1 million in FY 2004 to 17.6 million in FY 2010, an average increase of 5.1% per year. Originating and connecting components of passenger traffic are forecast to increase at average rates of 6.5% and 2.8% per year, respectively.

The number of passengers forecast for FY 2010 is similar to the number forecast by the FAA in its most recent *Terminal Area Forecast* (approximately 17 million) and towards the high end of the range forecast for the Airport Master Plan (approximately 19 million).

Low Passenger Forecast

The low passenger forecast was developed to provide the basis for a sensitivity test of the Airport's forecast financial results to a hypothetical cessation of service by US Airways if the airline were to be unsuccessful in its reorganization and be liquidated. For the purposes of this hypothetical scenario, US Airways was assumed to cease all service at the Airport effective July 2005 (the beginning of FY 2006). Replacement service by other airlines was then assumed to be introduced over the 2 years FY 2006 and FY 2007.

Specifically, it was assumed that:

- Major network airlines such as American, Delta, Northwest, and United would gradually increase service to meet originating passenger demand, largely through their connecting hub airports, but no major airline would operate a Philadelphia connecting hub comparable to the US Airways operation.

- The Airport would continue to be a connecting point for regional flights, much as it was before the US Airways buildup in the mid-1990s, but the Airport's importance as a national connecting point would be much reduced. Long-haul service at the Airport would hypothetically be reduced to a level commensurate with originating passenger demand.

- Low-fare airlines such as AirTran and Southwest would provide additional service in selected travel markets at competitive airfares, stimulating air travel demand.

- Some of the US Airways international routes to Europe and the Caribbean would be served by other U.S. airlines, but most international passenger traffic would be carried by foreign-flag airlines.

- In the "transition" years of FY 2006 and FY 2007, as airlines adjust their flight schedules and terminal facilities are reconfigured to accommodate the new mix of airlines, overall numbers of enplaned passengers would be 34% and 27% lower, respectively, relative to the base forecasts. By FY 2008, when new airline service patterns and operating arrangements have stabilized, enplaned passengers would be 22% lower. In FY 2008, relative to the base forecast, originating passengers would be about the same, connecting passengers would be 60% lower, and international passengers would be 60% lower.

In the low passenger forecast, the number of passengers in FY 2010 would be close to the low end of the range forecast for the Airport Master Plan (approximately 14 million).

Landed Weight

For the base forecast, aircraft landed weight is forecast to increase from 25.7 million pounds in FY 2005 to 31.3 million pounds in FY 2010, an average increase of 4.0% per year. The forecast growth rate for landed weight is lower than that for enplaned passengers, reflecting an assumed increase in the average size of aircraft in use at the Airport. Corresponding assumptions were made for the low forecast, producing a forecast of 24.7 million pounds in FY 2010.

FINANCIAL ANALYSIS

FRAMEWORK FOR FINANCIAL OPERATIONS

Philadelphia International Airport is owned by the City of Philadelphia and operated by the Division of Aviation of the City's Department of Commerce as a self-supporting enterprise fund of the City under the direction of the Director of Aviation. The Airport is operated with a staff of approximately 1,000 City employees (including police and fire protection employees). Certain accounting, budgeting, bond financing, treasury, and other financial functions are accomplished through the City's Office of the Director of Finance. Airport funds are held in separate Division of Aviation accounts.

General Ordinance

The financial operations of the Airport System are governed by the provisions of the 1995 Amended and Restated General Airport Revenue Bond Ordinance, as supplemented (the General Ordinance). In Section 5.01 (the Rate Covenant) of the General Ordinance, the City covenants that it will impose rentals, charges, and fees as required to ensure that all operating and maintenance expenses and debt service requirements of the Airport System are met. The letter at the beginning of this report describes the provisions of the Rate Covenant.

Airline Agreement

The City has entered into Airline-Airport Use and Lease Agreements, as amended (collectively, the Airline Agreement), with the following five Scheduled Airlines serving the Airport: American Airlines, Delta Air Lines, Northwest Airlines, United Airlines, and US Airways. In addition, although not signatory to the Airline Agreement, Air France, Air Jamaica, AirTran Airways, America West Airlines, British Airways, Continental Airlines, Frontier Airlines, Lufthansa German Airlines, Southwest Airlines, and USA 3000 Airlines pay rentals, fees, and charges at the Scheduled Airline rates. The 15 airlines listed accounted for 95% of the passengers enplaned at the Airport in FY 2004. Airborne Express, FedEx, and UPS Air Cargo also pay landing fees at the Scheduled Airline rate.

The Airline Agreement establishes procedures for the annual adjustment of airline rentals, fees, and charges, and the rights and obligations of each Scheduled Airline with respect to its use and occupancy of Airport facilities. Scheduled Airline rentals, fees, and charges are adjusted at least annually to produce total Project Revenues that, together with pledged PFC revenues, are sufficient to meet the Rate Covenant.

The term of the Airline Agreement extends through FY 2006. The City is discussing with the airlines serving the Airport the terms of a new use and lease agreement to succeed the current Airline Agreement. In its discussions with the airlines, the City has proposed various modifications to the operational and financial provisions of the Airline Agreement intended to, among other objectives, (1) provide for the more efficient use of the terminals by leasing facilities on a nonexclusive basis; (2) generate increased discretionary cash flow to provide for operating reserves and a source of funding for Airport capital improvements; (3) provide for the annual funding of Bond debt service coverage; and (4) simplify the annual calculation of airline rentals, fees, and charges. The City expects that the procedures for adjusting airline rentals, fees, and charges in the successor agreement will be substantially similar to those in the current Airline Agreement. Accordingly, for purposes of this report, it was assumed that the terms of the Airline Agreement relating to the calculation of airline rentals, fees, and charges will extend through the forecast period. See the later section "Airline Revenues."

PROJECT COSTS

Exhibit A summarizes the elements of the 2005 Project and their estimated costs and funding sources. The 2005 Project elements are described in the following sections.

Terminals D-E Expansion

Terminals D and E are operated as unit terminals with separate ticketing, security screening, baggage handling, and baggage claim facilities. Passengers transferring between the Terminal E concourse and the other terminal concourses must leave the secure area and be rescreened. This project consists of the expansion and renovation of Terminals D and E and the construction of a three-level connector between the terminals to consolidate them into a single complex similar to the Terminals B-C complex.

At the first level of the connector, outbound baggage handling areas will be expanded and reconfigured to allow explosives detection system (EDS) machines to be incorporated in-line with the baggage handling system. A consolidated ticketing and check-in lobby will provide space for up to 23 additional counter positions. At the second level, additional public circulation, security screening, and concession areas will be provided. The second-level connector will allow secure passenger access to all concourses. The Terminal E concourse will be enlarged to add three gates. Space will be added for up to nine additional passenger security screening lanes to serve Terminals D and E. At the third level, replacement office space will be provided.

Inbound baggage handling systems will also be expanded and the Terminals D and E baggage claim buildings will be enlarged and consolidated into a single building providing two additional baggage claim carousels.

In total, approximately 220,000 square feet of usable airline, public, concession, and office space will be added. The thermal plant will be expanded to increase the heating and cooling capacity required to serve the expanded terminal complex.

Terminals B-C Security Enhancements

Passenger security screening areas in Terminals B and C will be expanded and upgraded, allowing the addition of up to two screening lanes at each terminal and installation of the latest-technology security equipment. The Terminals B and C ticketing lobby and inbound baggage facilities will also be improved to enhance the efficiency of baggage screening.

Terminal A East Improvements

This project represents the completion phase of the City's program to expand and upgrade international terminal facilities at the Airport. The Terminal A East concourse, ticketing lobby, and other facilities will be renovated and upgraded to standards compatible with Terminal A West facilities. The old customs and immigration inspection areas will be converted to new baggage claim, ground transportation, concession, public circulation, and airline support uses. The connector between Terminals A West and A East will be reconfigured and remodeled to improve passenger circulation between the terminals. Outbound baggage handling areas will be expanded and reconfigured to allow EDS machines to be incorporated in-line with the baggage handling system.

Runway 9R-27L Resurfacing

Runway 9R-27L is 10,500 feet long and 200 feet wide and one of the Airport's two main runways. The runway was last resurfaced in 1990, is approaching the end of its useful life, and will be resurfaced as part of the City's airfield renewal and replacement program. The lighting system will also be upgraded.

FUTURE PROJECTS

Future projects in the City's capital program for FY 2005 through FY 2010 include various improvements and upgrades to terminal facilities, runways, taxiways, and roadways, as follows:

- Runway 17-35 will be extended 640 feet to the north and 400 feet to the south to provide a total runway length of 6,500 feet. The project will also include new airfield lighting and extension of the adjacent taxiways. In March 2005, the FAA issued a final Environmental Impact Statement (EIS) for the project.

- Various improvements to aprons and taxiways include the reconstruction of the Terminals D-E and cargo aircraft aprons.

- Other ongoing projects at the Airport include land acquisition, soundproofing of surrounding homes, improvement of mechanical and electrical systems, renovation of existing structures and buildings, modification of the roadway system, and upgrading of airfield lighting systems.

Such projects are estimated to cost approximately $135 million and are expected to be funded through a combination of passenger facility charge (PFC) revenues, federal and Commonwealth grants-in-aid, and other City funds. The City has not committed to issuing any additional Bonds to finance the FY 2005-FY 2010 capital program and no debt service on any such Bonds is included in the calculations in this report.

The City is currently updating its Airport Master Plan and preparing an associated EIS to ensure that the Airport can be developed to accommodate long-term requirements. The capital program beyond FY 2010 is being refined and updated as part of the Master Plan process and is expected to include a comprehensive airfield capacity enhancement program, possibly including extension of the existing runways, construction of new runways, and relocation of Airport facilities.

NON-BOND SOURCES OF FUNDS

Passenger Facility Charge Revenues

The City has, since September 1992, been authorized by the Federal Aviation Administration (FAA) to impose a PFC on eligible passengers enplaned at the Airport and to use PFC revenues to pay the costs of various FAA-approved projects. The PFC was initially $3.00 per passenger and, effective April 1, 2001, was increased to $4.50 per passenger. The City has authority from the FAA to impose the PFC through an estimated date of July 1, 2013, and to collect PFC revenues, inclusive of investment earnings, of approximately $1.2 billion.

The City is authorized to use PFC revenues to pay a portion of the Debt Service Requirements of the 1998B Bond and the 2001A Bond and has pledged PFC revenues equal to 100% of the annual amount of PFC-eligible debt service on the 1998B GARB and the 2001A GARB, subject to the limitation that in no year shall the amount pledged exceed the lesser of (1) 70% of PFC revenues received by the City in such year, or (2) 75% of total debt service on the 1998B GARB and the 2001A GARB in such year. No PFC revenues are pledged to the payment of debt service on the 2005 Bonds.

Through December 31, 2004, PFC revenues received by the City, including investment earnings, totaled $434,371,000, of which $383,565,000 had been expended on approved project costs.

As shown in Exhibit A, the City plans to use $46,750,000 of PFC revenues, on a pay-as-you-go basis, to pay a portion of the costs of the 2005 Project and is in the process of applying to the FAA for authority to do so.

Grants-in-Aid

The City receives federal grants-in-aid for Airport capital projects under the FAA's Airport Improvement Program (AIP). The amounts of AIP entitlement grants are calculated as a function of the number of passengers and amount of cargo enplaned at the Airport. AIP discretionary grants are awarded for specific projects at the discretion of the FAA. In recent years, the Division has also received airport improvement grants from the Pennsylvania Department of Transportation (PennDOT).

As shown in Exhibit A, the City expects to receive $18,746,000 of AIP grants for payment of the costs of the 2005 Project. No PennDOT grants are expected to be used for payment of 2005 Project costs.

TSA Contributions

The City expects to receive reimbursement from the Transportation Security Administration (TSA) of certain of the 2005 Project costs associated with the infrastructure and baggage handling system modifications required to accommodate in-line EDS equipment. The City is financing the costs of the in-line EDS projects with the proceeds of the variable-rate 2005B Bonds and intends to retire such Bonds with the TSA grant funds as they are received. However, no such grant funds have yet been committed by the TSA and none are assumed for the purposes of this report.

REVENUE BOND FINANCING

Exhibit B presents a summary of the estimated sources and uses of funds for the 2005A Bonds, 2005B Bonds, and 2005C Refunding Bonds, as provided by First Southwest Company, the City's financial advisors.

2005A and 2005B New Money Bonds

The 2005A Bonds are to be issued as fixed-rate Bonds and the 2005B Bonds are to be issued as variable-rate Bonds, with the proceeds used to pay 2005 Project costs as shown in Exhibit A.

The estimated sources of funds are (1) proceeds from the sale of the 2005A and 2005B Bonds and (2) investment earnings during construction on amounts in the

Construction Fund and the Sinking Fund (capitalized interest). For the purposes of this report, no such investment earnings were assumed.

The estimated uses of funds are (1) payment of 2005 Project costs, (2) a deposit to the Sinking Fund Reserve Account, (3) a deposit to the Sinking Fund to pay interest on the 2005A and 2005B Bonds during construction, and (4) payment of underwriters' discount, financing, legal, bond insurance, and other issuance expenses.

2005C Refunding Bonds

The 2005C Refunding Bonds are to be issued as variable-rate Bonds to effect a current refunding of the 1995A Bonds.

The estimated sources of funds are (1) the proceeds from the sale of the 2005C Refunding Bonds, (2) amounts available in the Sinking Fund, and (3) amounts available in the Sinking Fund Reserve Account for the 1995A Bonds. The estimated uses of funds are (1) an escrow fund deposit to retire the 1995A Bonds, (2) a deposit to the Sinking Fund Reserve Account, and (3) payment of underwriters' discount, financing, legal, bond insurance, and other issuance expenses.

DEBT SERVICE REQUIREMENTS

Exhibit C presents historical and forecast debt service requirements of Airport Revenue Bonds and General Obligation Bonds issued for Airport System improvements. Financing assumptions for the proposed 2005A Bonds and 2005B Bonds, as provided by First Southwest Company, are summarized as follows:

	2005A Bonds	2005B Bonds
Interest rate	5.75%	5.02%
Interest capitalized through construction		
Terminals D-E Expansion	April 2008	
Terminals B-C Security Enhancements	January 2007	
Terminal A East Improvements	July 2007	
Runway 9R-27L Resurfacing	July 2007	
Interest only for:	3 years	5 years
Then principal amortization over:	27 years	10 years

In April 2002, the City entered into an interest rate "swaption" agreement with JPMorgan Chase (JPM) (the Swaption Agreement) to accomplish a synthetic forward refunding of the 1995A Bonds, which are callable on or after June 15, 2005. At the time the Swaption Agreement was entered into, the City received from JPM a swaption premium of $6,537,000, which was expended, with the agreement of the Scheduled Airlines and UPS Air Cargo, for various improvements to the Airport System and to reduce landing fees.

As provided for under the Swaption Agreement, JPM has exercised its option to put the City into a variable-to-fixed rate interest swap. Consequently, the City is issuing the variable-rate 2005C Refunding Bonds to refund the 1995A Bonds. The variable-rate debt service payments on the 2005C Refunding Bonds are to be offset by the variable-rate payments to be received from JPM. The City will pay to JPM amounts approximately equal to the current fixed-rate Debt Service Requirements of the 1995A Bonds. Thus, issuance of the 2005C Refunding Bonds will not materially change the Bond debt service payable from Project Revenues.

Section 5.01 of the General Ordinance specifies the assumptions to be made regarding interest rates for variable-rate Bonds for the purposes of calculating Debt Service Requirements in estimating future compliance with the Rate Covenant and the Additional Bonds Test. For variable-rate Bonds, the specified rate of interest is to be assumed at the Bond Buyer's 25 Bond Revenue Index for long-term fixed-rate bonds for a date within 90 days of issuance of the Bonds. According to First Southwest Company, the interest rate assumed for the 2005B Bonds, as noted above, complies with the requirement of Section 5.01 of the General Ordinance. In the case of the 2005C Refunding Bonds, according to First Southwest Company, the assumed interest rate is higher, i.e., more conservative, than the rate required by Section 5.01 of the General Ordinance.

HISTORICAL FINANCIAL STATEMENTS

Table 30 presents a summary of historical revenues and expenses for the Airport System. The Division of Aviation's accounts are maintained, in accordance with the requirements of the General Ordinance and the Airline Agreement, on an accrual basis and recognize as expenses (1) principal and sinking fund payments on Airport Revenue Bonds and (2) equipment purchases and other capital outlays funded from operating funds. The statements reconcile to the basic financial statements contained in the City's Comprehensive Annual Financial Report, which are prepared on the basis of generally accepted accounting principles and are audited by the Office of the City Controller. During FY 2005, the City will retire all of the General Obligation Bonds issued for Airport System improvements.

Table 30

STATEMENT OF HISTORICAL REVENUES AND EXPENSES
Philadelphia International Airport
For Fiscal Years ended June 30

	2001	2002	2003	2004
Revenues from Project cost centers				
Prior year's credit to Scheduled Airlines	$ 16,837,640	$ 18,105,090	$ 28,340,520	$ 17,768,024
Airline rentals, fees, and charges				
Landing Fees	$ 34,702,313	$ 32,581,374	$ 30,945,442	$ 35,963,037
Terminal space rentals	35,399,797	36,189,558	40,443,614	39,054,704
Terminal Payments-in-Aid	8,200,054	10,680,686	10,533,534	19,420,612
Units D and E Baggage Tunnel rentals	230,106	180,615	75,531	140,551
Ramp Area rentals	1,753,114	1,304,213	1,053,483	1,144,011
OTA Payments-in-Aid	--	--	--	--
International and charter airline charges	10,591,616	9,891,782	10,186,954	24,618,788
	$ 90,877,000	$ 90,828,228	$ 93,238,558	$120,341,703
Nonairline revenue				
Terminal Building	$ 35,313,483	$ 37,700,419	$ 38,234,882	$ 36,771,743
Airfield Area	15,608,559	17,537,452	16,335,984	16,930,124
Cargo City	4,913,843	5,590,982	6,223,866	5,828,325
Other Areas	1,413,645	3,325,028	2,060,135	2,155,163
Northeast Philadelphia Airport	1,361,333	1,652,251	1,599,602	2,123,542
Ramp Area	(244,608)	58,073	50,635	51,541
Administration	5,505	8,999	7,915	24,511
	$ 58,371,760	$ 65,873,204	$ 64,513,019	$ 63,884,949
Less: Scheduled Airlines revenues deferred to subsequent year	(18,105,090)	(28,340,520)	(17,768,024)	(18,687,991)
Total Project Revenues	$147,981,310	$146,466,002	$168,324,073	$183,306,684
Revenues from City cost centers				
Revenues deferred from prior years	$ (284,844)	$ (269,487)	$ (127,562)	$ (26,319)
Outside Terminal Area	30,074,278	21,187,246	17,459,322	20,677,709
Overseas Terminal	213,500	258,100	247,350	201,600
Less: Revenues deferred to subsequent year	269,487	127,562	26,319	14,966
Total revenues from City cost centers	$ 30,272,421	$ 21,303,421	$ 17,605,429	$ 20,867,956
Total Airport System revenues	$178,253,731	$167,769,423	$185,929,502	$204,174,640
Airport System expenses				
Division of Aviation operating expenses	$ 67,565,560	$ 64,258,847	$ 76,881,059	$ 81,402,676
Interdepartmental Charges	41,728,233	47,575,362	54,976,298	61,194,212
	$109,293,793	$111,834,209	$131,857,357	$142,596,888
Debt service				
Airport Revenue Bonds	45,010,082	67,658,015	85,739,175	89,673,449
Less: PFC revenues	--	(16,796,290)	(31,234,087)	(32,776,602)
Less: interest income credit	(196,728)	(3,590,057)	(2,564,329)	(20,196)
General Obligation Bonds	12,613,589	4,204,906	2,945,259	2,947,059
Total Airport System expenses	$166,720,736	$163,310,783	$186,743,375	$202,420,598
Excess of revenues over expenses	$ 11,532,995	$ 4,458,640	$ (813,873)	$ 1,754,042
Disposition of excess revenues (deficit)				
Credit to Scheduled Airlines (OTA net revenues)	$ 4,863,856	$ 1,657,766	$ --	$ 170,382
Transfer to City Aviation Fund (OTA net revenues)	4,863,856	1,657,766	(2,637,001)	285,701
Retained in Aviation Fund	1,805,283	1,143,109	1,823,128	1,297,959
	$ 11,532,995	$ 4,458,640	$ (813,873)	$ 1,754,042

Note: The information presented reconciles to the basic financial statements contained in the City's Comprehensive Annual Financial Report as audited by the Office of the City Controller.

Source: City of Philadelphia, Division of Aviation.

OPERATING EXPENSES

Exhibit D presents historical and forecast operating expenses (Division of Aviation operating expenses and interdepartmental charges). Division of Aviation operating expenses allocable to Project cost centers are defined in the General Ordinance as Net Operating Expenses. Division of Aviation operating expenses and interdepartmental charges allocable to Project cost centers are together defined in the General Ordinance as Operating Expenses. Exhibit D presents the allocation of operating expenses to Project cost centers and City cost centers (discussed later).

Airport operating expenses were forecast, using actual FY 2004 and budgeted FY 2005 expenses as the base, taking into account assumed increases in unit costs as a result of inflation, forecast aircraft and passenger activity, planned facility development, and other assumptions about Airport operations. The unit costs of most salaries, wages, fringe benefits, materials, supplies, and services were assumed to increase an average of 3.5% per year.

PROJECT REVENUES

Exhibit E presents historical and forecast Project Revenues and other Airport System revenues. Under the provisions of the General Ordinance, all Project Revenues remaining after the payment of Net Operating Expenses are to be used to pay debt service on outstanding Airport Revenue Bonds.

Project Revenues consist of all Airport System revenues except for revenues derived from certain City cost centers. Project Revenues comprise (1) rentals, fees, and charges paid by the Scheduled Airlines and international and charter airlines (referred to in this report as airline revenues) and (2) terminal building concession fees, space rentals, and other payments from Airport tenants and users other than the Scheduled Airlines (referred to as nonairline revenues).

In FY 2004, airline revenues (excluding amounts credited to account for an excess of actual over required payments) totaled $120,341,703, 65.3% of Project Revenues, and nonairline revenues totaled $63,884,949, 34.7% of Project Revenues.

Individual components of Project Revenues shown in Exhibit E were forecast on the basis of the Division of Aviation's budget for FY 2005 and the provisions of the various leases and agreements between the City and the airlines and other Airport tenants and users. Revenues from sources related to passengers, such as concession revenues, were forecast to increase as a function of forecast increases in enplaned passengers and allowances for price inflation, assumed at 2.5% per year.

Interest income, which is allocated to both Project and City cost centers, was forecast assuming an average interest rate of 2%.

AIRLINE REVENUES

The Airline Agreement establishes a cost center approach for calculating and adjusting airline rentals, fees, and charges for the occupancy and use of Airport facilities. Cost centers directly supported by Scheduled Airline rentals, fees, and charges are as follows:

Project cost center	Scheduled Airline rentals, fees, and charges
Terminal Building	Space rentals and Payments-in-Aid
Units D and E Baggage Tunnel	Baggage tunnel rentals
Ramp Area	Ramp Area rentals
Airfield Area	Landing fees
Cargo City	Landing fees
Other Areas	Landing fees
Northeast Philadelphia Airport	Landing fees

Terminal Building rentals, fees, and charges and Terminal Building Payments-in-Aid are calculated in accordance with the requirements of the Airline Agreement to ensure that all debt service requirements and operating expenses allocable to the Terminal Building are recovered, in effect according to a cost-center residual rate calculation methodology.

For purposes of calculating airline rentals, fees, and charges, the Terminal Building is accounted for as two subcost centers, the International Terminal (the international portion of Terminal A East) and the Domestic Terminal (all other terminal space, including the international Terminal A West). Similarly, the Ramp Area is accounted for as two subcost centers.

Terminal Building rentals and Payments-in-Aid for the Scheduled Airlines are calculated on the basis of costs allocated to the Domestic Terminal. Rentals, fees, and charges for the international and charter airline users of the International Terminal are calculated on the basis of costs allocated to the International Terminal.

If the revenues derived from the occupancy and use of the International Terminal and the associated Ramp Area are lower than the revenues required, the City contributes up to $500,000 per year to subsidize International Terminal operations. Any shortfall in excess of $500,000 is recovered through Payments-in-Aid from the Scheduled Airlines.

The Airline Agreement provides that Scheduled Airline rentals, fees, and charges are to be calculated and periodically adjusted to ensure that revenues derived from the Project cost centers, together with any pledged PFC revenues, are sufficient to cover all maintenance, operating, and debt service costs allocable to the Project cost centers and to meet any other requirements of the General Ordinance. Airline revenues were forecast on the assumption that the Scheduled Airlines collectively will pay all amounts required under the Airline Agreement.

Terminal Building Space Rentals and Payments-in-Aid

Exhibit E-1 presents the calculation of required Scheduled Airline revenue in the Domestic Terminal subcost center. Required Scheduled Airline space rentals are calculated using the average cost rate per square foot of providing and maintaining the space leased by the Scheduled Airlines.

Other Terminal Building revenues are used to pay the costs of providing, maintaining, and operating concession and public areas. If such other revenues are not sufficient to cover the costs of the concession and public areas, the Scheduled Airlines make Terminal Building Payments-in-Aid to cover the shortfall.

Certain areas of the Terminal Building are designated for Scheduled Airline use but are not leased. The Airline Agreement specifies that 50% of the cost of such unused space is to be paid as a rental surcharge on leased space and 50% is to be as a part of Terminal Building Payments-in-Aid.

Exhibit E-1 also presents the calculation of the international and charter airline charges required in the International Terminal subcost center.

Units D and E Baggage Tunnel Rentals

Exhibit E-2 presents the calculation of Scheduled Airline revenues required to recover the debt service requirements of the Units D and E Baggage Tunnel, a joint-use facility that is shared by the airline tenants of Terminals D and E (AirTran, America West, Continental, Delta, Northwest, Southwest, and United).

Ramp Area Rentals

Exhibit E-2 also presents the calculation of rentals for the Domestic Ramp Area, the aircraft parking apron area adjacent to the Domestic Terminal buildings. That portion of the Terminal A East apron costs allocable to Scheduled Airline gates is included in the Domestic Ramp Area subcost center.

Outside Terminal Area Payments-in-Aid

The Outside Terminal Area (OTA) is operated as a City cost center. Under the Airline Agreement, the Scheduled Airlines are required to pay annual OTA Payments-in-Aid in the amount of 50% of any net deficit incurred by the City in operating the OTA, up to $1,100,000 annually. Any such payments are then to be repaid from any surpluses in later years. In FY 1988, the Division of Aviation fully repaid to the Scheduled Airlines their cumulative share of prior OTA Payments-in-Aid.

In FY 2003, the OTA cost center incurred a deficit of $2,637,001. The City elected to cover the Scheduled Airlines' share of this deficit from the Scheduled Airlines' share of expected future surpluses and not to collect OTA Payments-in-Aid. The OTA cost center incurred a surplus in FY 2004 and no further OTA Payments-in-Aid are forecast to be required from the Scheduled Airlines.

Memorandum of Understanding

The City has entered into a Memorandum of Understanding (MOU) with the principal foreign-flag airlines (Air France, Air Jamaica, British Airways, and Lufthansa) that operate from the common-use gates in Terminals A West and A East. The MOU provides these airlines with signatory status and documents how their fees are to be calculated to enable the City to recover the allocable net capital and operating costs. For purposes of this report, it was assumed that the provisions of the MOU will extend through the forecast period.

Rentals, Fees, and Charges for International Operations

For use of the international terminal facilities, the City collects from the airlines Federal Inspection Services (FIS) Area charges, departure and arrival gate use fees, ticket counter fees, and space rentals for leased areas. The FIS Area includes space for customs and immigration inspection, offices, inbound baggage, the international baggage claim area, and a pro rata share of public space. FIS Area charges are calculated by dividing the total cost (debt service and operating expenses) of FIS space by the number of deplaning passengers using the FIS facilities.

Landing Fees

Exhibit E-3 presents the calculation of Scheduled Airline Landing Fees required to recover the net costs of the Airfield Area, Other Areas, Cargo City, and Northeast Philadelphia Airport cost centers. Landing Fees are calculated according to a cost-center residual methodology whereby the requirement is calculated by summing all estimated debt service and operating costs associated with the four cost centers and deducting all estimated revenues for the four cost centers from sources other than Landing Fees. The residual amount is divided by the landed weight of the Scheduled Airlines to derive the required airline Landing Fee rate per 1,000 pounds of landed weight. The City charges the international airlines signatory to the MOU and airlines operating under license agreements (discussed later) the same Landing Fee rate as the Scheduled Airlines.

NONAIRLINE REVENUES

The principal sources of nonairline Project Revenues are Terminal Building concession revenues, certain rental car revenues, certain ground transportation revenues, Terminal Building space rentals, and landing fees paid by nonsignatory airlines; Cargo City rentals and fees; and revenues from Northeast Philadelphia Airport.

Master Concession Agreement

In January 2001, the City executed a management agreement with MarketPlace Redwood that extends through FY 2013. The agreement covers the development and management of approximately 111,000 square feet of public food, beverage, and retail concession space in the passenger terminals.

Revenues received by the City from MarketPlace Redwood consist of a minimum annual guarantee plus a graduated profit sharing amount. The minimum annual guarantee is calculated on the basis of the number of enplaned passengers in Terminals A East through E, ranging up to $0.71 per enplaned passenger over 11 million. The profit sharing amount is calculated for food, beverage, duty free, and retail gross sales as a percentage, according to a graduated scale. In FY 2004, the City received $5,058,708 as the minimum annual guarantee and $2,666,838 in profit sharing, for a total of $7,725,546.

Food and Beverage. All food and beverage outlets in the terminals, accounting for approximately 55,000 square feet, are managed by MarketPlace Redwood. In FY 2004, total gross food and beverage sales were $51,191,665, or $3.91 per enplaned passenger.

Retail Merchandise. All news, gift, and specialty retail merchandise outlets, accounting for approximately 51,000 square feet, are operated under the MarketPlace Redwood agreement by a variety of concessionaires. In FY 2004, retail gross sales were $41,962,933, or $3.21 per enplaned passenger.

Duty Free. The duty free concession is managed under the MarketPlace Redwood management agreement and operated by ISATA under a separate agreement that extends through FY 2010. Four duty free locations in Terminal A West, Terminal A East, and Terminal C occupy approximately 5,000 square feet and, in FY 2004, generated gross sales of $4,674,937, or $2.40 per enplaned international passenger.

Other Concessions and Services

Under an agreement with JC Decaux for Terminal A West and Terminal F that expires in May 2010, the City receives the greater of 75% of gross advertising revenues or an annual guarantee of $250,000. Under an agreement that commenced in May 2004 and expires in May 2010, Clear Channel Airports manages the advertising program in the other terminals. Under the agreement with Clear Channel Airports, the City receives 60% of gross advertising revenues or an annual guarantee of $2,150,000. In FY 2004, advertising revenues received by the City totaled $1,826,922.

The City also receives revenues from public telephone concessions operated by AT&T. Under an agreement with AT&T that expires in September 2005, the City receives 42% of gross revenues or a minimum annual guarantee of 50% of the previous year's payment. Such revenues totaled $255,104 in FY 2004. The City has the option to extend the agreement for two additional one-year terms. Public telephone revenues are forecast to be lower than those received historically because of the increasing use of cellular phones and other methods of telecommunication.

Other concessions and passenger services from which the City derives revenues include check cashing services, ATMs, phone cards, shoe shines, wireless internet services, currency exchange, post offices, baggage carts, and vending machines. AAT Communications has an agreement with the City to provide wireless internet access in all terminals. Beginning in FY 2005, the City receives 50% of gross wireless internet revenues.

Rental Cars

The on-Airport rental car companies and their shares of rental car gross revenues reported for FY 2004 are as follows.

Rental car company	Share of gross revenues
Hertz	34.9%
Avis	27.1
National	13.2
Budget	9.7
Alamo	8.4
Dollar	6.7
	100.0%

These six rental car companies, together with Enterprise, which moved its operations to the Airport in February 2005, operate under the terms of a City commercial ground transportation regulation. The companies pay a concession fee of 10% of gross revenues plus ground rent for their facilities. Concession fees from the five rental car companies (Avis, Budget, Dollar, Hertz, and National) that formerly operated from rental car counters in the terminals are allocated to the Terminal Building cost center. Concession fees from Alamo and Enterprise are allocated to the OTA cost center. The ground rent from all seven rental car companies, as provided for in leases that expire in 2009, is allocated to the OTA cost center.

In November 2001, ANC Rental Corporation, the parent company of Alamo and National, filed for Chapter 11 bankruptcy protection. Alamo rejected its lease at the Airport and, with the approval of the bankruptcy court, ANC rental corporation now operates at the Airport under one agreement for both the Alamo and National brands. In July 2002, Budget filed for Chapter 11 bankruptcy protection. In November 2002, Cendant Corporation, the parent company of Avis, acquired Budget and operates Budget as a brand separate from Avis. These developments in the rental car industry were assumed to have no material effect on the revenues forecast to be paid collectively by the rental car companies to the City.

In FY 2004, rental car revenues received by the City and allocated to the Terminal Building totaled $12,953,066, or $1.67 per originating passenger. Such revenues are forecast to increase in proportion to forecast increases in originating passengers and with inflation. The terms of the commercial ground transportation regulation were assumed to continue through the forecast period.

Ground Transportation and Other

Ground transportation revenues include monitor fees assessed to shuttle van and limousine operators. In FY 2004, such ground transportation revenues, together with ground handling fees and other miscellaneous Terminal Building revenues, totaled $481,244. Certain other limousine and taxicab fees (accounting for $1,476,637 in FY 2004) are allocated to the OTA cost center.

Nonsignatory Airline Revenues

Other than the Scheduled Airlines signatory to the Airline Agreement and the major foreign-flag airlines signatory to the MOU, most of the airlines serving the Airport operate under nonexclusive airline operating license agreements. These agreements do not provide for the exclusive or preferential use of terminal facilities. (Any such use rights are specified in separate lease agreements.) The standard term of the license agreements is one year, extendable year-to-year. Landing fees are payable at the Scheduled Airline rate.

Terminal building space rentals paid by nonsignatory airlines, surcharges paid by airline tenants for proprietary equipment financed by the City, and reimbursements of security costs together totaled $12,907,474 in FY 2004. Landing fees paid by non-signatory passenger and cargo airlines totaled $11,889,209 in FY 2004.

Other Airfield Area

Other Airfield Area nonairline revenues include fuel flowage fees, in-flight catering fees, and the sale of utilities. Such revenues totaled $5,040,915 in FY 2004.

Cargo City

Revenues generated from Cargo City include space rentals, land rentals, utility sales, and reimbursed real estate taxes. Tenants include American Airlines, FedEx, United Airlines, US Airways, and the U.S. Postal Service. Most building and ground rental agreements between the City and the Cargo City tenants extend beyond the forecast period. Cargo City revenues totaled $5,828,325 in FY 2004.

Northeast Philadelphia Airport

Revenues at Northeast Philadelphia Airport include landing fees, fuel flowage fees, concession fees, and various rentals. Such revenues totaled $2,123,542 in FY 2004.

OUTSIDE TERMINAL AREA REVENUES

The Outside Terminal Area (OTA) is defined as a City cost center and, under the General Ordinance, revenues derived from the OTA (except for OTA Payments-in-Aid, discussed earlier) are excluded from Project Revenues pledged to the payment of Bonds. OTA revenues comprise net parking revenues, certain rental car revenues, certain ground transportation revenues, and revenues from a 420-room Marriott hotel. In FY 2004, net parking revenues totaled $14,539,053 and other OTA revenues totaled $6,138,656.

Parking Revenues

Public automobile parking garages and lots at the Airport are operated directly by the Philadelphia Parking Authority, which has responsibility for Airport parking under the provisions of a contract and lease agreement that extend to 2030. (Prior to November 2004, the parking facilities were operated through a management contract.) Each year on June 30, the Authority pays the City rent in the amount of the net revenues derived from Airport parking in the preceding year ended March 31. Net revenues are gross parking revenues (after a 15% City tax) less direct operating expenses, allocated Authority administrative expenses, and debt service on bonds issued by the Authority for Airport parking facilities. The City received $14,539,000 in net parking revenues for FY 2004 and expects to receive approximately $22,400,000 in net parking revenues for FY 2005. The expected increase in net parking revenues results mainly from increased numbers of originating passengers and an increase in parking rates during FY 2004.

With the completion of new parking garages for Terminal A West and Terminals E and F in 2003, approximately 17,800 on-Airport parking spaces are provided. In addition, approximately 17,000 parking spaces are provided off Airport property by private operators.

Parking rates were most recently adjusted effective September 2003. Short-term rates are now $3 for the first half-hour and $2 per half-hour thereafter to a maximum of $38 per day; garage rates are $3 for the first half-hour and $2 per half-hour thereafter to a maximum of $17 per day; economy rates are $8 per day.

Economy parking rates are to be increased to $9 per day effective April 2005. The City has proposed to increase the tax on all the Authority's operations City-wide, including Airport parking, from 15% to 20% effective July 2005. To maintain the revenues received by the City, short-term, garage, and economy parking rates would be increased at that time.

Net parking revenues were forecast assuming that parking demand will increase from estimated 2005 levels in proportion to forecast increases in originating passengers and that rates for parking will be increased in April and July 2005, as noted. Thereafter, an increase in parking rates in July 2008 was assumed, resulting in an increase in gross parking revenues per passenger of approximately 5%.

Other OTA Revenues

Outside Terminal Area revenues from operations other than public parking (rental car, ground transportation, and hotel revenues) were assumed to increase with inflation and with numbers of enplaned passengers.

Application of Net OTA Revenues

Under the provisions of the Airline Agreement, net OTA revenues are shared 50% by the City (to provide a source of funds for capital improvements and for other Airport System purposes) and 50% by the Scheduled Airlines (as a credit against rentals and fees). Net OTA revenues retained by the City in FY 2004 totaled $170,832.

OVERSEAS TERMINAL REVENUES

The Overseas Terminal is also defined as a City cost center and, under the General Ordinance, any revenues derived from the Overseas Terminal are excluded from Project Revenues pledged to the payment of Bonds. The City receives revenues from the Scheduled Airlines to cover certain debt service and operating expenses for the Overseas Terminal, which is no longer in use. Overseas Terminal revenues totaled $201,600 in FY 2004. All debt associated with the Overseas Terminal will be retired in FY 2005 and thereafter Overseas Terminal revenues are expected to be minimal.

APPLICATION OF PROJECT REVENUES

Exhibit F presents the forecast application of Project Revenues as required under the General Ordinance. The priorities for applying Project Revenues and other amounts on deposit in the Aviation Operating Fund are as follows:*

1. Payment of Net Operating Expenses

2. Deposit to the Sinking Fund to pay the Debt Service Requirements of Airport Revenue Bonds

3. Restoration of any deficiency in the Sinking Fund Reserve Account (no such amounts are forecast to be required)

4. Restoration of any deficiency in the Renewal Fund and payment of any amounts due under Exchange Agreements (no such amounts are forecast to be required)

5. Payment of any termination amounts payable to a Qualified Swap Provider as a result of the termination of a Qualified Swap and any termination amounts payable to JPM with respect to an early termination of the Swaption Agreement (discussed in the earlier section "Debt Service Requirements") (no such amounts are forecast to be required on the basis of the assumption that there will be no change in the credit quality of JPM that would lead to an early termination)

6. Payment of debt service on any Subordinate Obligations (no such amounts are forecast to be required)

7. Payment of debt service on General Obligation Bonds adjudged to be self-sustaining on the basis of Project Revenues from the Airport System (no such amounts are forecast to be required after FY 2005)

8. Payment of Interdepartmental Charges

9. Payment of debt service on any other general obligation debt incurred for the Airport System (no such amounts are forecast to be required)

The balance may be used by the City for any Airport System purpose.

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*For a more complete description of the required application of Project Revenues under the General Ordinance, see Appendix IV of the Official Statement.

Pledged PFC revenues are not defined as Project Revenues but do constitute Amounts Available for Debt Service. Such pledged PFC revenues are to be deposited directly into the Sinking Fund for the payment of PFC-eligible debt service on the 1998B Bond and 2001A Bond.

Exhibit F-1 presents the forecast application of PFC revenues. As shown in the exhibit, forecast PFC collections exceed PFC revenues pledged to pay debt service on the 1998B Bond and 2001A Bond.

DEBT SERVICE COVERAGE

Exhibit G-1 presents the calculation of forecast Airport Revenue Bond debt service coverage (Rate Covenant Test #1) and total debt service coverage (Rate Covenant Test #2) in accordance with the Rate Covenant of the General Ordinance in each year through FY 2010. Pledged Amounts Available for Debt Service after the payment of Net Operating Expenses are forecast to be sufficient to exceed the debt service coverage of 1.50 times required by Rate Covenant Test #1 in each year.

Exhibit G-1 also shows that pledged Amounts Available for Debt Service after the payment of all Operating Expenses are forecast to be sufficient to cover debt service on outstanding Bonds, the proposed 2005 Bonds, General Obligation Bond debt service, and all other requirements, as required by Rate Covenant Test #2 in each year.

Exhibits G-2 presents a summary of historical and projected debt service coverage assuming the low passenger forecast summarized in Table 29 and discussed in the earlier section "Low Passenger Forecast." Concession and other revenues associated with passengers were assumed to be reduced, as were certain operating and maintenance expenses. All other assumptions are the same as for the base passenger forecast.

AIRLINE PAYMENTS PER ENPLANED PASSENGER

Exhibits G-1 and G-2 show forecast and projected passenger airline payments, respectively, expressed per enplaned passenger. The forecasts and projections were prepared on the assumption that the terms of the current Airline Agreement relating to the calculation of airline rentals, fees, and charges will extend through the forecast period and that the airlines collectively will make all payments required by such terms.

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Exhibit A

SOURCES AND USES OF 2005 PROJECT FUNDS
Philadelphia International Airport

		Sources of funds						
					Airport Revenue Bonds			
	Project costs	AIP grants	PFC revenues pay-as-you-go	Other City funds	Prior Series	Series 2005A	Series 2005B	Total sources
Terminals D-E Expansion								
Connector building	$ 87,000,000	$ -	$ 30,000,000	$ -	$ -	$ 42,500,000	$ 14,500,000	$ 87,000,000
Concourse expansion	27,000,000	-	3,000,000	-	24,000,000	-	-	27,000,000
Renovations	32,000,000	-	-	-	7,000,000	25,000,000	-	32,000,000
Baggage handling system	4,500,000	-	-	-	-	4,500,000	-	4,500,000
Accommodation of EDS	15,000,000	-	3,750,000	-	-	-	11,250,000	15,000,000
Baggage claim expansion	7,000,000	-	-	-	-	7,000,000	-	7,000,000
Thermal plant expansion	12,500,000	-	-	-	-	12,500,000	-	12,500,000
	$ 185,000,000	$ -	$ 36,750,000	$ -	$ 31,000,000	$ 91,500,000	$ 25,750,000	$ 185,000,000
Terminals B-C Security Enhancements	10,000,000	-	-	-	-	10,000,000	-	10,000,000
Terminal A East Improvements								
Concourse and ticketing lobby	$ 13,000,000	$ -	$ 5,000,000	$ -	$ 2,000,000	$ 6,000,000	$ -	$ 13,000,000
Renovations and alterations	11,000,000	3,746,000	2,000,000	-	5,254,000	-	-	11,000,000
Accomodation of EDS	12,000,000	-	3,000,000	-	-	-	9,000,000	12,000,000
	$ 36,000,000	$ 3,746,000	$ 10,000,000	$ -	$ 7,254,000	$ 6,000,000	$ 9,000,000	$ 36,000,000
Runway 9R-27L Resurfacing	20,000,000	15,000,000	-	250,000	-	4,750,000	-	20,000,000
Total 2005 Project	$ 251,000,000	$ 18,746,000	$ 46,750,000	$ 250,000	$ 38,254,000	$ 112,250,000	$ 34,750,000	$ 251,000,000

Source: City of Philadelphia, Division of Aviation

Exhibit B

SOURCES AND USES OF 2005 BOND FUNDS

Philadelphia International Airport

	2005A Bonds	2005B Bonds	2005C Refunding Bonds	Total
Sources of Funds				
Airport Revenue Bonds	$ 148,960,000	$ 53,950,000	$ 189,500,000	$ 392,410,000
Original issue premium (discount)	-	-	-	-
Net proceeds	$ 148,960,000	$ 53,950,000	$ 189,500,000	$ 392,410,000
Sinking Fund amounts available				
Reserve Account	$ -	$ -	$ 16,121,000	$ 16,121,000
Debt Service Account	-	-	10,452,000	10,452,000
	$ -	$ -	$ 26,573,000	$ 26,573,000
Investment earnings during construction				
Construction Fund	$ -	$ -	$ -	$ -
Sinking Fund (capitalized interest)	-	-	-	-
Subtotal investment earnings	$ -	$ -	$ -	$ -
Total sources	$ 148,960,000	$ 53,950,000	$ 216,073,000	$ 418,983,000
Uses of Funds				
Project costs from Bond proceeds (a)	$ 112,250,000	$ 34,750,000	$ -	$ 147,000,000
Deposit to refunding escrow fund	-	-	198,701,000	198,701,000
Capitalized interest	22,749,000	7,224,000		29,973,000
Sinking Fund Reserve Account	9,419,000	5,394,000	18,947,000	33,760,000
Bond insurance premium	2,583,000	669,000	2,508,000	5,760,000
Other issuance costs	1,959,000	1,155,000	675,000	3,789,000
Transfer for bond insurance premium and reserve requirements	-	4,758,000	(4,758,000)	-
Total uses	$ 148,960,000	$ 53,950,000	$ 216,073,000	$ 418,983,000

(a) See Exhibit A.

Source: First Southwest Company, March 15, 2005. See text for assumptions.

3/18/2005

Exhibit C

DEBT SERVICE REQUIREMENTS
City of Philadelphia, Division of Aviation
For Fiscal Years ending June 30

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Division of Aviation management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. The achievement of any financial forecast may be affected by fluctuating economic conditions and is dependent upon the occurrence of other future events that cannot be assured. Therefore, there are likely to be differences between the forecast and actual results, and these differences may be material.

	Historical (unaudited) (a) (b)					Budget (a)	Forecast				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Airport Revenue Bonds											
Series 1995A	$ 8,536,221	$ 13,560,827	$ 13,579,641	$ 16,119,568	$ 14,755,045	$ 16,119,000	$ -	$ -	$ -	$ -	$ -
Series 1997A	13,993,169	13,996,168	13,993,319	13,995,694	13,093,724	13,996,000	13,997,000	6,075,000	6,074,000	6,074,000	6,078,000
Series 1997B	3,796,986	7,130,156	7,135,556	7,137,052	6,441,501	7,135,000	7,131,000	7,133,000	7,131,000	7,136,000	7,132,000
Series 1998A	10,316,656	10,322,931	10,318,981	10,318,480	9,248,957	10,317,000	10,317,000	10,319,000	10,318,000	10,323,000	10,317,000
Series 1998B	-	-	20,309,579	27,332,342	30,598,718	30,589,000	30,594,000	30,605,000	30,601,000	30,597,000	30,603,000
Series 2001A	-	-	2,320,939	10,836,039	13,417,283	13,229,000	13,321,000	13,322,000	13,317,000	13,320,000	13,316,000
Series 2001B	-	-	-	-	2,118,222	2,760,000	2,761,000	2,761,000	2,762,000	2,762,000	2,759,000
Proposed Series 2005A (c)	-	-	-	-	-	-	-	321,000	2,911,000	10,995,000	10,995,000
Proposed Series 2005B (c)	-	-	-	-	-	-	137,000	137,000	1,267,000	2,979,000	2,983,000
Proposed Series 2005C (c) (d)	-	-	-	-	-	-	16,116,000	16,118,000	16,120,000	16,121,000	16,118,000
	$ 36,643,032	$ 45,010,082	$ 67,658,015	$ 85,739,175	$ 89,673,449	$ 94,145,000	$ 94,374,000	$ 86,791,000	$ 90,501,000	$ 100,307,000	$ 100,301,000
Less: Interest income	(129,459)	(196,728)	(3,590,057)	(2,564,329)	(20,196)	(3,100,000)	(1,323,000)	(1,323,000)	(1,323,000)	(1,323,000)	(1,291,000)
Bond Debt Service Requirements	$ 36,513,573	$ 44,813,354	$ 64,067,958	$ 83,174,846	$ 89,653,253	$ 91,045,000	$ 93,051,000	$ 85,468,000	$ 89,178,000	$ 98,984,000	$ 99,010,000
Less: Pledged PFC revenues (1998B Bond)	$ -	$ -	$ (15,134,852)	$ (23,107,058)	$ (22,777,108)	$ (22,604,000)	$ (22,945,000)	$ (22,954,000)	$ (22,951,000)	$ (22,948,000)	$ (22,953,000)
Pledged PFC revenues (2001A Bond)	-	-	(1,661,439)	(8,127,029)	(9,999,494)	(9,922,000)	(9,990,000)	(9,991,000)	(9,988,000)	(9,990,000)	(9,987,000)
	$ -	$ -	$ (16,796,290)	$ (31,234,087)	$ (32,776,602)	$ (32,526,000)	$ (32,935,000)	$ (32,945,000)	$ (32,939,000)	$ (32,938,000)	$ (32,940,000)
Net Bond debt service requirements	$ 36,513,573	$ 44,813,354	$ 47,271,668	$ 51,940,759	$ 56,876,651	$ 58,519,000	$ 60,116,000	$ 52,523,000	$ 56,239,000	$ 66,046,000	$ 66,070,000
General Obligation Bonds	$ 11,859,914	$ 12,613,589	$ 4,204,906	$ 2,945,259	$ 2,947,059	$ 2,455,000	$ -	$ -	$ -	$ -	$ -
Less: Outside Terminal Area	(6,129,143)	(6,788,389)	(2,144,164)	(1,501,565)	(1,842,257)	(1,534,000)	-	-	-	-	-
Overseas Terminal	(42,479)	(81,834)	(11,117)	(7,716)	(53,824)	(45,000)	-	-	-	-	-
Net General Obligation Bond debt service requirements	$ 5,688,292	$ 5,743,366	$ 2,049,625	$ 1,435,978	$ 1,050,978	$ 876,000	$ -	$ -	$ -	$ -	$ -
Total debt service allocable to Project cost centers	$ 42,201,865	$ 50,556,720	$ 49,321,293	$ 53,376,737	$ 57,927,629	$ 59,395,000	$ 60,116,000	$ 52,523,000	$ 56,239,000	$ 66,046,000	$ 66,070,000
Allocation to Project cost centers											
Terminal Building											
Domestic Terminal	$ 21,908,914	$ 21,193,549	$ 23,240,450	$ 28,351,820	$ 33,909,306	$ 35,756,000	$ 36,281,000	$ 31,789,000	$ 34,798,000	$ 44,358,000	$ 44,366,000
International Terminal	5,789,813	5,443,162	5,417,093	5,076,379	4,304,579	3,138,000	2,783,000	2,450,000	2,847,000	2,929,000	2,929,000
Airfield Area	10,627,792	19,793,568	17,044,836	16,551,426	16,380,754	17,068,000	17,947,000	16,884,000	17,194,000	17,359,000	17,374,000
Cargo City	1,110,493	1,382,191	1,107,757	1,046,696	1,022,376	1,053,000	1,086,000	678,000	678,000	678,000	678,000
Other Areas	138,021	151,930	534,382	516,664	518,335	551,000	347,000	306,000	306,000	306,000	306,000
Northeast Philadelphia Airport	305,558	315,339	370,874	361,746	364,253	384,000	384,000	128,000	128,000	128,000	128,000
Ramp Area	2,082,664	2,041,572	1,449,609	1,330,566	1,295,222	1,313,000	1,171,000	288,000	288,000	288,000	289,000
Units D and E Baggage Tunnel	238,610	235,409	156,292	141,440	132,804	132,000	117,000	-	-	-	-
	$ 42,201,865	$ 50,556,720	$ 49,321,293	$ 53,376,737	$ 57,927,629	$ 59,395,000	$ 60,116,000	$ 52,523,000	$ 56,239,000	$ 66,046,000	$ 66,070,000

(a) Source: City of Philadelphia, Division of Aviation.
(b) Information reconciles to the General Purpose Financial Statements contained in the City's Comprehensive Annual Finance Report as audited by the Office of the City Controller.
(c) Source: First Southwest Company, March 15, 2005.
(d) Debt service equal to debt service on the Series 1995A Bonds before their refunding.

3/18/2005

Exhibit C-1

DEBT SERVICE REQUIREMENTS BY PROJECT ELEMENT
2005 Airport Revenue Bonds
Philadelphia International Airport
Fiscal Years ending June 30

	2005	2006	2007	2008	2009	2010
Series 2005A						
Terminals D-E Expansion	$ -	$ -	$ -	$ 1,579,000	$ 9,081,000	$ 9,081,000
Terminals B-C Security Enhancements	-	-	321,000	630,000	905,000	905,000
Terminal A East Improvements	-	-	-	392,000	563,000	563,000
Runway 9R-27L Resurfacing	-	-	-	310,000	446,000	446,000
	$ -	$ -	$ 321,000	$ 2,911,000	$ 10,995,000	$ 10,995,000
Series 2005B						
Terminals D-E Expansion	$ -	$ 103,000	$ 103,000	$ 546,000	$ 2,240,000	$ 2,243,000
Terminal A East Improvements	-	34,000	34,000	721,000	739,000	740,000
	$ -	$ 137,000	$ 137,000	$ 1,267,000	$ 2,979,000	$ 2,983,000
Refunding Series 2005C (a)	-	16,116,000	16,118,000	16,120,000	16,121,000	16,118,000
Total 2005 Bonds	$ -	$ 16,253,000	$ 16,576,000	$ 20,298,000	$ 30,095,000	$ 30,096,000

(a) Equal to debt service on Series 1995A Bonds before their refunding.

Source: First Southwest Company, March 15, 2005. See text for assumptions.

Exhibit D

OPERATING EXPENSES
City of Philadelphia, Division of Aviation
For Fiscal Years ending June 30

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Division of Aviation management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. The achievement of any financial forecast may be affected by fluctuating economic conditions and is dependent upon the occurrence of other future events that cannot be assured. Therefore, there are likely to be differences between the forecast and actual results, and these differences may be material.

	Historical (unaudited) (a) (b)					Budget (a)	Forecast				
By object category	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Division of Aviation operating expenses											
Personal services	$ 22,086,927	$ 25,721,419	$ 26,051,484	$ 28,301,202	$ 32,959,301	$ 34,326,000	$ 36,558,000	$ 38,542,000	$ 43,071,000	$ 45,421,000	$ 47,895,000
Contractual services	31,110,013	34,670,364	32,774,485	43,546,133	41,727,079	50,823,000	54,032,000	57,008,000	60,138,000	63,430,000	66,893,000
Materials and supplies	3,426,588	3,988,837	3,439,973	3,149,073	4,742,767	4,967,000	5,294,000	5,593,000	5,907,000	6,238,000	6,586,000
Equipment	1,001,876	898,305	321,924	550,793	431,748	1,422,000	1,510,000	1,592,000	1,678,000	1,769,000	1,864,000
Taxes	1,199,145	1,232,830	1,387,034	1,487,473	1,557,067	1,026,000	1,069,000	1,117,000	1,166,000	1,218,000	1,273,000
Other	(260,417)	1,053,805	283,947	(153,615)	(15,286)	-	-	-	-	-	-
Total Division of Aviation operating expenses	$ 58,564,132	$ 67,565,560	$ 64,258,847	$ 76,881,059	$ 81,402,676	$ 92,564,000	$ 98,463,000	$ 103,852,000	$ 111,960,000	$ 118,076,000	$ 124,511,000
Interdepartmental charges											
Police	$ 9,347,007	$ 10,261,443	$ 14,976,257	$ 17,310,298	$ 16,875,328	$ 18,011,000	$ 19,401,000	$ 20,578,000	$ 21,820,000	$ 23,129,000	$ 24,511,000
Fire	5,023,474	5,096,061	5,304,752	5,461,145	6,307,227	6,242,000	6,485,000	6,794,000	7,122,000	7,463,000	7,817,000
Utilities	8,799,443	9,407,337	9,271,892	13,155,314	14,518,265	14,212,000	14,923,000	15,670,000	17,206,000	18,067,000	18,970,000
Insurance	594,059	622,147	1,581,197	1,888,792	2,639,671	3,744,000	3,912,000	4,087,000	4,272,000	4,464,000	4,666,000
Services of others	1,409,907	1,382,853	1,020,874	1,044,824	1,394,644	1,564,000	1,634,000	1,708,000	1,785,000	1,865,000	1,948,000
Legal services	1,202,516	1,187,977	1,258,169	1,566,629	1,589,406	1,731,000	1,628,000	1,701,000	1,778,000	1,858,000	1,942,000
Fringe benefits	9,497,256	10,316,296	10,592,553	11,927,743	13,299,992	14,589,000	16,086,000	16,959,000	18,951,000	19,986,000	21,074,000
Fleet management	1,960,608	3,202,779	3,006,237	2,422,846	4,397,600	2,785,000	2,869,000	2,956,000	3,045,000	3,136,000	3,229,000
Vehicle purchases	2,629,286	-	-	-	-	1,705,000	1,284,000	1,322,000	1,362,000	1,403,000	1,445,000
Indemnities	328,038	251,340	191,234	198,707	172,079	250,000	258,000	266,000	274,000	282,000	290,000
Other	-	-	372,197	-	-	-	-	-	-	-	-
Total interdepartmental charges	$ 40,791,594	$ 41,728,233	$ 47,575,362	$ 54,976,298	$ 61,194,212	$ 64,833,000	$ 68,480,000	$ 72,041,000	$ 77,615,000	$ 81,653,000	$ 85,892,000
Total Airport System operating expenses	$ 99,355,726	$ 109,293,793	$ 111,834,209	$ 131,857,357	$ 142,596,888	$ 157,397,000	$ 166,943,000	$ 175,893,000	$ 189,575,000	$ 199,729,000	$ 210,403,000
Percent annual change		10.0%	2.3%	17.9%	8.1%	10.4%	6.1%	5.4%	7.8%	5.4%	5.3%

Exhibit D (page 2 of 2)
OPERATING EXPENSES
For Fiscal Years ending June 30
City of Philadelphia, Division of Aviation

	Historical (unaudited) (a) (b)					Budget (a)	Forecast				
By cost center	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Project cost centers											
Terminal Building											
Division of Aviation operating expenses	$ 35,422,653	$ 40,470,515	$ 37,576,925	$ 41,790,357	$ 50,797,191	$ 58,853,000	$ 63,193,000	$ 67,016,000	$ 73,489,000	$ 77,896,000	$ 82,542,000
Interdepartmental charges	18,224,342	19,794,205	21,842,109	26,297,943	28,872,399	33,807,000	36,349,000	38,387,000	42,357,000	44,719,000	47,204,000
	$ 53,646,995	$ 60,264,720	$ 59,419,034	$ 68,088,300	$ 79,669,590	$ 92,660,000	$ 99,542,000	$ 105,403,000	$ 115,846,000	$ 122,615,000	$ 129,746,000
Airfield Area											
Division of Aviation operating expenses	$ 11,080,684	$ 13,252,909	$ 13,477,561	$ 19,099,598	$ 13,652,653	$ 16,614,000	$ 17,487,000	$ 18,337,000	$ 19,227,000	$ 20,162,000	$ 21,142,000
Interdepartmental charges	11,927,366	10,728,243	12,134,317	12,586,007	16,083,952	14,465,000	15,276,000	15,940,000	16,632,000	17,350,000	18,098,000
	$ 23,008,050	$ 23,981,152	$ 25,611,878	$ 31,685,605	$ 29,736,605	$ 31,079,000	$ 32,763,000	$ 34,277,000	$ 35,859,000	$ 37,512,000	$ 39,240,000
Cargo City											
Division of Aviation operating expenses	$ 1,204,065	$ 1,395,688	$ 1,326,683	$ 1,506,117	$ 1,880,710	$ 1,862,000	$ 1,935,000	$ 2,011,000	$ 2,091,000	$ 2,173,000	$ 2,261,000
Interdepartmental charges	1,719,804	1,834,740	1,982,951	2,737,544	3,071,972	2,628,000	2,685,000	2,797,000	2,917,000	3,045,000	3,177,000
	$ 2,923,869	$ 3,230,428	$ 3,309,634	$ 4,243,661	$ 4,952,682	$ 4,490,000	$ 4,620,000	$ 4,808,000	$ 5,008,000	$ 5,218,000	$ 5,438,000
Other Areas											
Division of Aviation operating expenses	$ 2,415,346	$ 2,279,519	$ 2,340,543	$ 2,663,573	$ 3,065,936	$ 2,892,000	$ 2,996,000	$ 3,105,000	$ 3,217,000	$ 3,333,000	$ 3,455,000
Interdepartmental charges	2,069,739	2,330,882	2,323,206	3,068,830	2,593,682	2,974,000	3,064,000	3,187,000	3,317,000	3,452,000	3,593,000
	$ 4,485,085	$ 4,610,401	$ 4,663,749	$ 5,732,403	$ 5,659,618	$ 5,866,000	$ 6,060,000	$ 6,292,000	$ 6,534,000	$ 6,785,000	$ 7,048,000
Ramp Area											
Division of Aviation operating expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interdepartmental charges	-	-	-	-	-	-	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Northeast Philadelphia Airport											
Division of Aviation operating expenses	$ 1,632,456	$ 2,183,021	$ 1,594,074	$ 1,917,520	$ 2,466,516	$ 1,963,000	$ 2,035,000	$ 2,109,000	$ 2,187,000	$ 2,268,000	$ 2,351,000
Interdepartmental charges	1,370,314	1,344,080	1,394,232	1,448,804	1,571,875	1,773,000	1,621,000	1,687,000	1,753,000	1,823,000	1,895,000
	$ 3,002,770	$ 3,527,101	$ 2,988,306	$ 3,366,324	$ 4,038,391	$ 3,736,000	$ 3,656,000	$ 3,796,000	$ 3,940,000	$ 4,091,000	$ 4,246,000
Administration											
Division of Aviation operating expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interdepartmental charges	15,828	5,505	8,999	7,915	24,511	-	1,000	1,000	1,000	-	-
	$ 15,828	$ 5,505	$ 8,999	$ 7,915	$ 24,511	$ -	$ 1,000	$ 1,000	$ 1,000	$ -	$ -
Division of Aviation operating expenses (Net Operating Expenses)	$ 51,755,204	$ 59,581,652	$ 56,315,786	$ 66,977,165	$ 71,863,006	$ 82,184,000	$ 87,646,000	$ 92,578,000	$ 100,211,000	$ 105,832,000	$ 111,751,000
Interdepartmental charges	35,327,393	36,037,655	39,685,814	46,147,043	52,218,391	55,647,000	58,996,000	61,999,000	66,977,000	70,389,000	73,967,000
Operating Expenses	$ 87,082,597	$ 95,619,307	$ 96,001,600	$ 113,124,208	$ 124,081,397	$ 137,831,000	$ 146,642,000	$ 154,577,000	$ 167,188,000	$ 176,221,000	$ 185,718,000
City cost centers											
Outside Terminal Area											
Division of Aviation operating expenses	$ 6,655,251	$ 7,914,035	$ 7,886,598	$ 9,833,333	$ 9,464,981	$ 10,306,000	$ 10,740,000	$ 11,195,000	$ 11,668,000	$ 12,162,000	$ 12,677,000
Interdepartmental charges	5,410,534	5,644,142	7,840,953	8,761,425	8,913,087	9,119,000	9,414,000	9,969,000	10,562,000	11,184,000	11,841,000
	$ 12,065,785	$ 13,558,177	$ 15,727,551	$ 18,594,758	$ 18,378,068	$ 19,425,000	$ 20,154,000	$ 21,164,000	$ 22,230,000	$ 23,346,000	$ 24,518,000
Overseas Terminal											
Division of Aviation operating expenses	$ 153,678	$ 69,873	$ 56,463	$ 70,560	$ 73,690	$ 74,000	$ 76,000	$ 78,000	$ 80,000	$ 82,000	$ 84,000
Interdepartmental charges	53,666	46,436	48,595	67,831	62,733	67,000	71,000	74,000	77,000	80,000	83,000
	$ 207,344	$ 116,309	$ 105,058	$ 138,391	$ 136,423	$ 141,000	$ 147,000	$ 152,000	$ 157,000	$ 162,000	$ 167,000
Total Airport System operating expenses	$ 99,355,726	$ 109,293,793	$ 111,834,209	$ 131,857,357	$ 142,595,888	$ 157,397,000	$ 166,943,000	$ 175,893,000	$ 189,575,000	$ 199,729,000	$ 210,403,000

(a) Source: City of Philadelphia, Division of Aviation.
(b) Information reconciles to the General Purpose Financial Statements contained in the City's Comprehensive Annual Finance Report as audited by the Office of the City Controller.

Exhibit E

REVENUES
City of Philadelphia, Division of Aviation
For Fiscal Years ending June 30

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Division of Aviation management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. The achievement of any financial forecast may be affected by fluctuating economic conditions and is dependent upon the occurrence of other future events that cannot be assured. Therefore, there are likely to be differences between the forecast and actual results, and these differences may be material.

	Historical (unaudited) (a) (b)					Budget (a)	Forecast				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Project Revenues											
Application of prior year's credit to Scheduled Airlines	$ 17,753,879	$ 16,837,640	$ 18,105,090	$ 28,340,520	$ 17,768,024	$ 18,688,000	$ 3,797,000	$ -	$ -	$ -	$ -
Airline revenues											
Scheduled Airline rentals and fees											
Terminal Building space rentals	$ 33,267,491	$ 35,399,797	$ 36,189,558	$ 40,443,614	$ 39,054,704	$ 55,473,000	$ 57,866,000	$ 58,343,000	$ 61,510,000	$ 68,298,000	$ 71,179,000
Terminal Building Payments-in-Aid	5,016,652	8,200,054	10,680,686	10,533,534	19,420,612	18,954,000	37,230,000	33,014,000	40,886,000	48,236,000	50,237,000
Units D and E Baggage Tunnel rentals	235,730	230,106	180,615	75,531	140,551	241,000	114,000	-	-	-	-
Ramp Area rentals	2,238,180	1,753,114	1,304,213	1,053,483	1,144,011	1,649,000	1,183,000	288,000	288,000	288,000	289,000
OTA Payments-in-Aid	-	-	-	-	-	-	-	-	-	-	-
	$ 40,758,053	$ 45,583,071	$ 48,355,072	$ 52,106,162	$ 59,759,878	$ 76,317,000	$ 96,393,000	$ 91,645,000	$ 102,684,000	$ 116,822,000	$ 121,705,000
International and charter airline charges	9,817,930	10,591,616	9,891,782	10,186,954	24,618,788	5,604,000	5,506,000	5,328,000	6,235,000	6,512,000	6,715,000
Landing fees	27,167,514	34,702,313	32,581,374	30,945,442	35,963,037	33,676,000	32,593,000	38,564,000	40,716,000	42,872,000	44,985,000
Total airline revenues	$ 77,743,497	$ 90,877,000	$ 90,828,228	$ 93,238,558	$ 120,341,703	$ 115,597,000	$ 134,492,000	$ 135,537,000	$ 149,635,000	$ 166,206,000	$ 173,405,000
Nonairline revenues											
Terminal Building											
Concessions											
Master concession agreement (c)	$ 7,479,767	$ 7,849,530	$ 7,993,743	$ 7,202,370	$ 7,725,546	$ 8,362,000	$ 8,957,000	$ 9,515,000	$ 10,102,000	$ 10,718,000	$ 11,365,000
Rental cars	13,535,789	13,695,809	12,554,947	13,093,281	12,953,066	13,511,000	14,876,000	15,859,000	16,892,000	17,978,000	19,120,000
Advertising	1,422,408	1,798,209	1,211,747	1,369,123	1,826,922	2,026,000	2,400,000	2,472,000	2,544,000	2,616,000	2,688,000
Ground handling	107,626	92,735	(57)	815	21,173	1,000	1,000	1,000	1,000	1,000	1,000
Public telephones	1,613,154	631,446	398,168	294,586	255,104	408,000	408,000	408,000	408,000	408,000	408,000
Other (d)	388,133	400,379	347,000	440,117	460,051	888,000	916,000	945,000	975,000	1,006,000	1,038,000
Terminal Building concession revenues	$ 24,546,877	$ 24,468,108	$ 22,505,548	$ 22,400,292	$ 23,241,862	$ 25,196,000	$ 27,558,000	$ 29,200,000	$ 30,922,000	$ 32,727,000	$ 34,620,000
Enplaned passengers	11,978,915	12,824,172	12,001,505	12,136,625	13,092,010	15,300,000	16,000,000	16,400,000	16,800,000	17,200,000	17,600,000
Concession revenues per enplaned passenger	$2.05	$1.91	$1.88	$1.85	$1.78	$1.65	$1.72	$1.78	$1.84	$1.90	$1.97
Space rentals	$ 1,874,691	$ 3,335,773	$ 2,885,933	$ 3,241,402	$ 4,415,668	$ 788,000	$ 788,000	$ 788,000	$ 788,000	$ 788,000	$ 788,000
Tenant surcharge for proprietary equipment	1,702,000	2,467,000	4,561,248	5,848,796	1,830,376	4,248,000	7,041,000	6,565,000	6,595,000	6,630,000	6,630,000
Reimbursement of security costs	1,697,854	1,709,537	1,773,434	4,287,745	3,640,259	3,160,000	3,271,000	3,385,000	3,503,000	3,626,000	3,753,000
Other	1,132,240	2,574,478	5,347,841	1,727,309	3,021,171	2,409,000	2,439,000	2,470,000	2,502,000	2,535,000	2,569,000
Interest income	998,274	758,587	626,415	729,338	622,407	550,000	550,000	550,000	550,000	550,000	550,000
Other Terminal Building nonairline revenues	$ 7,405,059	$ 10,845,375	$ 15,194,871	$ 15,834,590	$ 13,529,881	$ 11,155,000	$ 14,089,000	$ 13,758,000	$ 13,938,000	$ 14,129,000	$ 14,290,000
Total Terminal Building nonairline revenues	$ 31,951,936	$ 35,313,483	$ 37,700,419	$ 38,234,882	$ 36,771,743	$ 36,351,000	$ 41,647,000	$ 42,958,000	$ 44,860,000	$ 46,856,000	$ 48,910,000
Airfield Area											
Nonsignatory landing fees	$ 7,591,276	$ 10,209,016	$ 9,192,876	$ 12,354,042	$ 11,889,209	$ 16,966,000	$ 13,044,000	$ 14,391,000	$ 14,364,000	$ 14,340,000	$ 14,304,000
Fuel flowage fees	1,414,490	1,462,120	1,539,464	1,313,909	1,359,293	1,290,000	1,329,000	1,369,000	1,410,000	1,452,000	1,495,000
Inflight catering	2,733,066	3,211,242	2,439,115	2,144,044	2,024,921	2,065,000	2,197,000	2,263,000	2,329,000	2,395,000	2,460,000
Other	334,089	304,708	4,017,959	118,767	1,310,890	103,000	108,000	113,000	118,000	123,000	128,000
Interest income	554,644	421,473	348,038	405,222	345,811	325,000	325,000	325,000	325,000	325,000	325,000
Airfield Area nonairline revenues	$ 12,627,565	$ 15,608,559	$ 17,537,452	$ 16,335,984	$ 16,930,124	$ 20,749,000	$ 17,003,000	$ 18,461,000	$ 18,546,000	$ 18,635,000	$ 18,712,000

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Exhibit E (page 2 of 2)
REVENUES
City of Philadelphia, Division of Aviation
For Fiscal Years Ending June 30

	Historical (unaudited) (a) (b)					Budget (a)	Forecast				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Cargo City											
Land rentals	$ 1,580,359	$ 1,608,768	$ 1,866,945	$ 1,900,201	$ 1,898,401	$ 1,921,000	$ 1,934,000	$ 2,082,000	$ 2,145,000	$ 2,145,000	$ 2,145,000
Utilities sales	1,158,703	1,043,032	1,218,415	1,214,787	1,271,088	1,276,000	1,314,000	1,354,000	1,394,000	1,436,000	1,479,000
Space rentals	774,962	814,516	869,022	836,998	881,004	895,000	926,000	959,000	992,000	1,027,000	1,063,000
Other	1,422,020	1,405,348	1,601,770	2,231,327	1,743,225	1,660,000	1,704,000	1,750,000	1,797,000	1,845,000	1,895,000
Interest income	55,507	42,179	34,830	40,553	34,607	25,000	25,000	25,000	25,000	25,000	25,000
Cargo City nonairline revenues	$ 4,991,551	$ 4,913,843	$ 5,590,982	$ 6,223,866	$ 5,828,325	$ 5,777,000	$ 5,903,000	$ 6,170,000	$ 6,353,000	$ 6,478,000	$ 6,607,000
Other Areas revenues	$ 940,907	$ 1,413,645	$ 3,325,028	$ 2,060,135	$ 2,155,163	$ 2,208,000	$ 2,246,000	$ 2,285,000	$ 2,325,000	$ 2,367,000	$ 2,411,000
Northeast Philadelphia Airport revenues	1,141,435	1,361,333	1,652,251	1,599,602	2,123,542	1,653,000	1,671,000	1,689,000	1,707,000	1,725,000	1,743,000
Ramp Area revenues	98,787	(244,608)	58,073	50,635	51,541	-	-	-	-	-	-
Administration revenues	15,828	5,505	8,999	7,915	24,511	-	-	-	-	-	-
	$ 2,196,957	$ 2,535,875	$ 5,044,351	$ 3,718,287	$ 4,354,757	$ 3,861,000	$ 3,917,000	$ 3,974,000	$ 4,032,000	$ 4,092,000	$ 4,154,000
Total nonairline revenues	$ 51,768,009	$ 58,371,760	$ 65,873,204	$ 64,513,019	$ 63,884,949	$ 66,738,000	$ 68,470,000	$ 71,563,000	$ 73,791,000	$ 76,061,000	$ 78,383,000
Less: Credit to Scheduled Airlines for excess payments (e)	(16,837,640)	(18,105,090)	(28,340,520)	(17,768,024)	(18,687,991)	(3,797,000)	-	-	-	-	-
Total Project Revenues	$ 130,427,745	$ 147,981,310	$ 146,466,002	$ 168,324,073	$ 183,306,684	$ 197,226,000	$ 206,759,000	$ 207,100,000	$ 223,426,000	$ 242,267,000	$ 251,788,000
Revenues from City cost centers											
Revenues (costs) deferred from prior year	$ (354,221)	$ (284,844)	$ (269,487)	$ (127,562)	$ (26,319)	$ (15,000)	$ (156,000)	$ (147,000)	$ (152,000)	$ (157,000)	$ (162,000)
Outside Terminal Area (OTA)											
Public parking	21,894,091	23,731,389	15,326,571	11,629,311	14,539,053	22,400,000	24,800,000	25,544,000	26,288,000	27,032,000	27,776,000
Other OTA revenues	6,188,111	6,342,889	5,860,675	5,830,011	6,138,656	6,880,000	7,168,000	7,352,000	7,537,000	7,725,000	7,916,000
Overseas Terminal	319,200	213,500	258,100	247,350	201,600	45,000	156,000	147,000	152,000	157,000	162,000
Transfer from General Fund	-	-	-	-	-	-	-	-	-	-	-
	$ 28,047,181	$ 30,002,934	$ 21,175,859	$ 17,579,110	$ 20,852,990	$ 29,310,000	$ 31,968,000	$ 32,896,000	$ 33,825,000	$ 34,757,000	$ 35,692,000
Costs (revenues) deferred to following year	284,844	269,487	127,562	26,319	14,966	156,000	147,000	152,000	157,000	162,000	167,000
Total revenues from City cost centers	$ 28,332,025	$ 30,272,421	$ 21,303,421	$ 17,605,429	$ 20,867,956	$ 29,466,000	$ 32,115,000	$ 33,048,000	$ 33,982,000	$ 34,919,000	$ 35,859,000
Total Airport System revenues	$ 158,759,770	$ 178,253,731	$ 167,769,423	$ 185,929,502	$ 204,174,640	$ 226,692,000	$ 238,874,000	$ 240,148,000	$ 257,408,000	$ 277,186,000	$ 287,647,000
Percent annual change		12.3%	-5.9%	10.8%	9.8%	11.0%	5.4%	0.5%	7.2%	7.7%	3.8%

(a) Source: City of Philadelphia, Division of Aviation.
(b) Information reconciles to the General Purpose Financial Statements contained in the City's Comprehensive Annual Finance Report as audited by the Office of the City Controller.
(c) Food, beverage, news, gift, insurance, and duty free concessions.
(d) Includes luggage carts, ground transportation monitor fees, television, and airline club concessions.
(e) Includes reconciling adjustments for City's share of International Terminal deficit and unbilled OTA Payments-in-Aid.

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Exhibit E-1

CALCULATION OF TERMINAL RENTALS AND PAYMENTS-IN-AID
City of Philadelphia, Division of Aviation
For Fiscal Years ending June 30

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Division of Aviation management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. The achievement of any financial forecast may be affected by fluctuating economic conditions and is dependent upon the occurrence of other future events which cannot be assured. Therefore, there are likely to be differences between the forecast and actual results and these differences may be material.

	2006		2007		2008		2009		2010	
	Domestic	International	Domestic	International	Domestic	International	Domestic	International	Domestic	International
Scheduled Airline Terminal Building space rentals										
Operating Expenses	$ 94,637,000	$ 4,905,000	$100,209,000	$ 5,194,000	$110,138,000	$ 5,708,000	$116,573,000	$ 6,042,000	$ 123,353,000	$ 6,393,000
Debt Service Requirements	36,281,000	2,783,000	31,789,000	2,450,000	34,798,000	2,847,000	44,358,000	2,929,000	44,366,000	2,929,000
Total Terminal Building requirement	$130,918,000	$ 7,688,000	$131,998,000	$ 7,644,000	$144,936,000	$ 8,555,000	$160,931,000	$ 8,971,000	$ 167,719,000	$ 9,322,000
Gross building area (square feet)	2,564,064	132,888	2,564,064	132,888	2,824,769	134,609	2,824,769	134,609	2,824,769	134,609
Average rental rate per square foot (cost rate)	$ 51.06	$ 57.85	$ 51.48	$ 57.52	$ 51.31	$ 63.55	$ 56.97	$ 66.64	$ 59.37	$ 69.25
Airline leased space (square feet)	1,047,885		1,047,885		1,110,003		1,110,003		1,110,003	
	$ 53,504,000		$ 53,945,000		$ 56,953,000		$ 63,238,000		$ 65,906,000	
Less: Prior year carry-forwards	-		-		-		-		-	
Total Scheduled Airline space rentals	$ 53,504,000		$ 53,945,000		$ 56,953,000		$ 63,238,000		$ 65,906,000	
Scheduled Airline Terminal Building rental surcharges										
Airline space leasable but not leased (square feet)	170,866		170,866		177,617		177,617		177,617	
Cost rate per square foot	$ 51.06		$ 51.48		$ 51.31		$ 56.97		$ 59.37	
Cost of space leasable but not leased	$ 8,724,000		$ 8,796,000		$ 9,113,000		$ 10,119,000		$ 10,546,000	
Total Scheduled Airline rental surcharges for space leasable but not leased (50% of cost)	$ 4,362,000		$ 4,398,000		$ 4,557,000		$ 5,060,000		$ 5,273,000	
Effective average Terminal Building rental rate										
Airline rental revenues	$ 57,866,000		$ 58,343,000		$ 61,510,000		$ 68,298,000		$ 71,179,000	
Airline leased space (square feet)	1,047,885		1,047,885		1,110,003		1,110,003		1,110,003	
Effective average rental rate per square foot	$ 55.22		$ 55.68		$ 55.41		$ 61.53		$ 64.13	
Airline Terminal Building Payments-in-Aid										
Space other than airline leasable space (square feet)	1,345,313		1,345,313		1,537,149		1,537,149		1,537,149	
Cost rate per square foot	$ 51.06		$ 51.48		$ 51.31		$ 56.97		$ 59.37	
Cost of public areas	$ 68,689,000		$ 69,258,000		$ 78,870,000		$ 87,574,000		$ 91,267,000	
Less: Terminal Building nonairline revenue	$ 32,424,000	$ 2,182,000	$ 34,077,000	$ 2,316,000	$ 35,945,000	$ 2,320,000	$ 37,767,000	$ 2,459,000	$ 39,673,000	$ 2,607,000
Tenant surcharge for proprietary equipment (a)	7,041,000		6,565,000		6,595,000		6,630,000		6,630,000	
Prior year carry-forwards	(3,644,000)		-		-		-		-	
Payments-in-Aid for public areas	$ 32,868,000		$ 28,616,000		$ 36,330,000		$ 43,177,000		$ 44,964,000	
Payments-in-Aid for space leasable but not leased	4,362,000		4,398,000		4,556,000		5,059,000		5,273,000	
Total Scheduled Airline Payments-in-Aid	$ 37,230,000		$ 33,014,000		$ 40,886,000		$ 48,236,000		$ 50,237,000	
Total international and charter airline rentals and fees (b)		$ 5,506,000		$ 5,328,000		$ 6,235,000		$ 6,512,000		$ 6,715,000

(a) US Airways' pro rata share of debt service for proprietary equipment funded from Bond proceeds.
(b) Excludes fees and charges for common use areas of Terminal A.

Exhibit E-2

CALCULATION OF UNITS D AND E BAGGAGE TUNNEL AND RAMP AREA RENTALS
City of Philadelphia, Division of Aviation
For Fiscal Years ending June 30

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Division of Aviation management, as described in the accompanying text. Invariably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. The achievement of any financial forecast may be affected by fluctuating economic conditions and is dependent upon the occurrence of other future events that cannot be assured. Therefore, there are likely to be differences between the forecast and actual results, and these differences may be material.

	2006	2007	2008	2009	2010
Units D and E Baggage Tunnel rentals					
Operating Expenses	$ -	$ -	$ -	$ -	$ -
Debt Service Requirements	117,000	-	-	-	-
	$ 117,000	$ -	$ -	$ -	$ -
Less: Prior year carry-forwards	(3,000)	-	-	-	-
Rentals	$ 114,000	$ -	$ -	$ -	$ -
Total area (square feet)	25,915	25,915	25,915	25,915	25,916
Rental rate per square foot	$ 4.40	$ -	$ -	$ -	$ -
Ramp Area rentals					
Operating Expenses	$ -	$ -	$ -	$ -	$ -
Debt Service Requirements	1,171,000	288,000	288,000	288,000	289,000
	$ 1,171,000	$ 288,000	$ 288,000	$ 288,000	$ 289,000
Less: Prior year carry-forward	12,000	-	-	-	-
Ramp Area rentals	$ 1,183,000	$ 288,000	$ 288,000	$ 288,000	$ 289,000
Ramp Area linear footage	14,659	14,659	15,128	15,128	15,128
Ramp Area rental rate per square foot	$ 80.70	$ 19.65	$ 19.04	$ 19.04	$ 19.10

Exhibit E-3

CALCULATION OF LANDING FEES
City of Philadelphia, Division of Aviation
For Fiscal Years ending June 30

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Division of Aviation management, as described in the accompanying text. Invariably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. The achievement of any financial forecast may be affected by fluctuating economic conditions and is dependent upon the occurrence of other future events that cannot be assured. Therefore, there are likely to be differences between the forecast and actual results, and these differences may be material.

	2006	2007	2008	2009	2010
Airfield Area requirement					
Operating Expenses	$ 32,763,000	$ 34,277,000	$ 35,859,000	$ 37,512,000	$ 39,240,000
Debt Service Requirements	17,947,000	16,884,000	17,194,000	17,359,000	17,374,000
Less: Nonairline revenues	(17,003,000)	(18,461,000)	(18,546,000)	(18,635,000)	(18,712,000)
	$ 33,707,000	$ 32,700,000	$ 34,507,000	$ 36,236,000	$ 37,902,000
Plus deficit (surplus):					
Other Areas	4,161,000	4,313,000	4,515,000	4,724,000	4,943,000
Cargo City	(197,000)	(684,000)	(667,000)	(582,000)	(491,000)
Northeast Philadelphia Airport	2,369,000	2,235,000	2,361,000	2,494,000	2,631,000
	$ 40,040,000	$ 38,564,000	$ 40,716,000	$ 42,872,000	$ 44,985,000
Less: Prior year carry-forwards	(7,447,000)	-	-	-	-
Scheduled Airline Landing Fees required	$ 32,593,000	$ 38,564,000	$ 40,716,000	$ 42,872,000	$ 44,985,000
Scheduled Airline landed weight (1,000-pound units) (a)	19,333,000	20,733,000	21,933,000	23,133,000	24,333,000
Scheduled Airline Landing Fee rate per 1,000 pounds	$ 1.69	$ 1.86	$ 1.86	$ 1.85	$ 1.85

(a) Landed weight from Scheduled Airlines and UPS Air Cargo only, projected to be approximately 77% of total landed weight at the Airport.

Exhibit F

APPLICATION OF PROJECT REVENUES
City of Philadelphia, Division of Aviation
For Fiscal Years Ending June 30

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Division of Aviation management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. The achievement of any financial forecast may be affected by fluctuating economic conditions and is dependent upon the occurrence of other future events that cannot be assured. Therefore, there are likely to be differences between the forecast and actual results, and these differences may be material.

Priority under Section 4.06	Historical (unaudited) (a) (b)					Budget (a)	Forecast				
of the General Ordinance	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Project Revenues (c)	$ 130,427,745	$ 147,981,310	$ 146,466,002	$ 168,324,073	$ 183,306,684	$ 197,226,000	$ 206,759,000	$ 207,100,000	$ 223,426,000	$ 242,267,000	$ 251,788,000
Application of Project Revenues											
Net Operating Expenses (d)	$ 51,755,204	$ 59,581,652	$ 56,315,786	$ 66,977,165	$ 71,863,006	$ 82,184,000	$ 87,646,000	$ 92,578,000	$ 100,211,000	$ 105,832,000	$ 111,751,000
Sinking Fund (net Debt Service Requirements) (e) (f)	36,513,573	44,813,354	47,271,668	51,940,759	56,876,651	58,519,000	60,116,000	52,523,000	56,239,000	66,046,000	66,070,000
General Obligation Bond debt service requirements (e)	5,688,292	5,743,366	2,049,625	1,435,978	1,050,978	876,000	-	-	-	-	-
Interdepartmental charges (d)	35,327,393	36,037,655	39,685,814	46,147,043	52,218,391	55,647,000	58,997,000	61,999,000	66,976,000	70,389,000	73,967,000
Available for Airport System use	1,143,283	1,805,283	1,143,109	1,823,128	1,297,658	-	-	-	-	-	-
	$ 130,427,745	$ 147,981,310	$ 146,466,002	$ 168,324,073	$ 183,306,684	$ 197,226,000	$ 206,759,000	$ 207,100,000	$ 223,426,000	$ 242,267,000	$ 251,788,000

(a) Source: City of Philadelphia, Division of Aviation.
(b) Information reconciles to the General Purpose Financial Statements contained in the City's Comprehensive Annual Finance Report as audited by the Office of the City Controller.
(c) See Exhibit E.
(d) See Exhibit D.
(e) See Exhibit C.
(f) Net of PFC revenues pledged as Amounts Available for Debt Service.

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Exhibit F-1

APPLICATION OF PFC REVENUES
City of Philadelphia, Division of Aviation
For Fiscal Years Ending June 30

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Division of Aviation management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. The achievement of any financial forecast may be affected by fluctuating economic conditions and is dependent upon the occurrence of other future events that cannot be assured. Therefore, there are likely to be differences between the forecast and actual results, and these differences may be material.

	Historical (unaudited) (a) (b)					Budget (a)	Forecast				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Calculation of PFC revenues											
Enplaned passengers	11,978,915	12,824,172	12,001,505	12,136,625	13,092,010	15,300,000	16,000,000	16,400,000	16,800,000	17,200,000	17,600,000
Percent PFC-eligible (c)						87.0%	87.0%	87.0%	87.0%	87.0%	87.0%
PFC-eligible enplaned passengers						13,311,000	13,920,000	14,268,000	14,616,000	14,964,000	15,312,000
PFC collection per passenger (d) (e)	$ 2.92	$ 3.17	$ 4.42	$ 4.42	$ 4.42	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39
PFC collections	$ 32,278,858	$ 31,880,729	$ 53,688,877	$ 43,961,971	$ 51,766,442	$ 58,435,000	$ 61,109,000	$ 62,637,000	$ 64,164,000	$ 65,692,000	$ 67,220,000
Interest earnings	2,828,083	3,362,695	2,112,347	1,537,729	808,416	837,000	919,000	829,000	769,000	739,000	739,000
Total PFC revenues	$ 35,106,941	$ 35,243,424	$ 55,801,223	$ 45,499,700	$ 52,574,858	$ 59,272,000	$ 62,028,000	$ 63,466,000	$ 64,933,000	$ 66,431,000	$ 67,959,000
Application of PFC revenues											
Pay-as-you-go expenditures											
Terminals D-E Expansion	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,750,000	$ 25,000,000	$ 5,000,000	$ -	$ -
Terminal A East Improvements	-	-	-	-	-	-	4,000,000	6,000,000	-	-	-
Other projects	32,801,293	29,710,367	33,697,709	10,085,562	47,570,591	25,000,000	14,250,000	4,000,000	30,000,000	35,000,000	35,000,000
	$ 32,801,293	$ 29,710,367	$ 33,697,709	$ 10,085,562	$ 47,570,591	$ 25,000,000	$ 25,000,000	$ 35,000,000	$ 35,000,000	$ 35,000,000	$ 35,000,000
Bond debt service											
1998B Bond	$ -	$ -	$ 15,134,852	$ 23,107,058	$ 22,777,108	$ 22,604,000	$ 22,945,000	$ 22,954,000	$ 22,951,000	$ 22,948,000	$ 22,953,000
2001A Bond	-	-	1,661,439	8,127,029	9,999,494	9,922,000	9,990,000	9,991,000	9,988,000	9,990,000	9,987,000
Total PFC revenues used to pay Bond debt service	$ -	$ -	$ 16,796,290	$ 31,234,087	$ 32,776,602	$ 32,526,000	$ 32,935,000	$ 32,945,000	$ 32,939,000	$ 32,938,000	$ 32,940,000
Percentage of annual PFC revenues used to pay Bond debt service	0.0%	0.0%	30.1%	68.6%	62.3%	54.9%	53.1%	51.9%	50.7%	49.6%	48.5%
Total application of PFC revenues	$ 32,801,293	$ 29,710,367	$ 50,493,999	$ 41,319,649	$ 80,347,193	$ 57,526,000	$ 57,935,000	$ 67,945,000	$ 67,939,000	$ 67,938,000	$ 67,940,000
Year-end PFC revenue fund balance	$ 52,860,387	$ 58,393,444	$ 63,700,668	$ 67,880,719	$ 40,108,385	$ 41,854,000	$ 45,947,000	$ 41,468,000	$ 38,462,000	$ 36,955,000	$ 36,974,000

(a) Source: City of Philadelphia, Division of Aviation.
(b) Information reconciles to the General Purpose Financial Statements contained in the City's Comprehensive Annual Finance Report as audited by the Office of the City Controller.
(c) For FY 2000 through FY 2004, an average of 87.4% of total enplaned passengers paid a PFC.
(d) Net of airline processing charge of $0.08 per PFC through May 2005, $0.11 thereafter.
(e) $4.50 PFC charge effective date was April 1, 2001. In FY 2001, PFC receipts were for 10 months at $3.00 and 2 months at $4.50.

Exhibit G-1

DEBT SERVICE COVERAGE
BASE PASSENGER FORECAST
City of Philadelphia, Division of Aviation
For Fiscal Years ending June 30

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Division of Aviation management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. The achievement of any financial forecast may be affected by fluctuating economic conditions and is dependent upon the occurrence of other future events that cannot be assured. Therefore, there are likely to be differences between the forecast and actual results, and these differences may be material.

		Historical (unaudited) (a) (b)					Budget (a)	Forecast				
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Airport Revenue Bond debt service coverage (Test #1)												
Project Revenues (c)		$ 130,427,745	$ 147,981,310	$ 146,466,002	$ 168,324,073	$ 183,306,684	$ 197,226,000	$ 206,759,000	$ 207,100,000	$ 223,426,000	$ 242,267,000	$ 251,788,000
Pledged PFC revenues (d)		-	-	16,796,290	31,234,087	32,776,602	32,526,000	32,935,000	32,945,000	32,939,000	32,938,000	32,940,000
Amounts Available for Debt Service		$ 130,427,745	$ 147,981,310	$ 163,262,292	$ 199,558,160	$ 216,083,286	$ 229,752,000	$ 239,694,000	$ 240,045,000	$ 256,365,000	$ 275,205,000	$ 284,728,000
Less: Net Operating Expenses (e)		51,755,204	59,581,652	56,315,786	66,977,165	71,863,006	82,184,000	87,646,000	92,578,000	100,211,000	105,832,000	111,751,000
Net amounts available	[A]	$ 78,672,541	$ 88,399,658	$ 106,946,506	$ 132,580,995	$ 144,220,280	$ 147,568,000	$ 152,048,000	$ 147,467,000	$ 156,154,000	$ 169,373,000	$ 172,977,000
Bond Debt Service Requirements	[B]	$ 36,513,573	$ 44,813,354	$ 64,067,958	$ 83,174,846	$ 89,653,253	$ 91,045,000	$ 93,051,000	$ 85,468,000	$ 89,178,000	$ 98,984,000	$ 99,010,000
Bond debt service coverage	[A/B]	2.15	1.97	1.67	1.59	1.61	1.62	1.63	1.73	1.75	1.71	1.75
Coverage requirement		1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Total debt service coverage (Test #2)												
Project Revenues (c)		$ 130,427,745	$ 147,981,310	$ 146,466,002	$ 168,324,073	$ 183,306,684	$ 197,226,000	$ 206,759,000	$ 207,100,000	$ 223,426,000	$ 242,267,000	$ 251,788,000
Pledged PFC revenues (d)		-	-	16,796,290	31,234,087	32,776,602	32,526,000	32,935,000	32,945,000	32,939,000	32,938,000	32,940,000
Amounts Available for Debt Service		$ 130,427,745	$ 147,981,310	$ 163,262,292	$ 199,558,160	$ 216,083,286	$ 229,752,000	$ 239,694,000	$ 240,045,000	$ 256,365,000	$ 275,205,000	$ 284,728,000
Less: Operating Expenses (e)	[C]	87,082,597	95,619,307	96,001,600	113,124,208	124,081,397	137,831,000	146,642,000	154,577,000	167,186,000	176,219,000	185,717,000
Net amounts available	[D]	$ 43,345,148	$ 52,362,003	$ 67,260,692	$ 86,433,952	$ 92,001,889	$ 91,921,000	$ 93,052,000	$ 85,468,000	$ 89,179,000	$ 98,986,000	$ 99,011,000
Airport Revenue Bond Debt Service Requirements and General Obligation Bond debt service requirements	[E]	$ 42,201,865	$ 50,556,720	$ 66,117,583	$ 84,610,824	$ 90,704,231	$ 91,921,000	$ 93,051,000	$ 85,468,000	$ 89,178,000	$ 98,984,000	$ 99,010,000
Total debt service coverage	[D/E]	1.03	1.04	1.02	1.02	1.01	1.00	1.00	1.00	1.00	1.00	1.00
Coverage requirement		1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Total of Operating Expenses, Bond Debt Service Requirements, and General Obligation Bond debt service requirements	[C+E]	$ 129,284,462	$ 146,176,027	$ 162,119,183	$ 197,735,032	$ 214,785,628	$ 229,752,000	$ 239,693,000	$ 240,045,000	$ 256,364,000	$ 275,203,000	$ 284,727,000
Airline payments per enplaned passenger												
Airline revenues (c)		$ 77,743,497	$ 89,071,717	$ 89,685,119	$ 91,415,430	$ 119,043,744	$ 115,597,000	$ 134,492,000	$ 135,537,000	$ 149,634,000	$ 166,207,000	$ 173,405,000
Enplaned passengers		11,978,915	12,824,172	12,001,505	12,136,625	13,092,010	15,300,000	16,000,000	16,400,000	16,800,000	17,200,000	17,600,000
Airline payments per enplaned passenger		$6.49	$6.95	$7.47	$7.53	$9.09	$7.56	$8.41	$8.26	$8.91	$9.66	$9.85

(a) Information reconciles to the General Purpose Financial Statements contained in the City's Comprehensive Annual Finance Report as audited by the Office of the City Controller.
(b) Source: City of Philadelphia, Division of Aviation.
(c) See Exhibit E.
(d) See Exhibit C.
(e) See Exhibit D.

3/18/2005

Exhibit G-2

DEBT SERVICE COVERAGE
LOW PASSENGER FORECAST
City of Philadelphia, Division of Aviation
For Fiscal Years ending June 30

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, Division of Aviation management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. The achievement of any financial forecast may be affected by fluctuating economic conditions and is dependent upon the occurrence of other future events that cannot be assured. Therefore, there are likely to be differences between the forecast and actual results, and these differences may be material.

		Historical (unaudited) (a) (b)					Budget (a)	Projection				
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Airport Revenue Bond debt service coverage (Test #1)												
Project Revenues (c)		$ 130,427,745	$ 147,981,310	$ 146,466,002	$ 168,324,073	$ 183,306,684	$ 197,226,000	$ 184,797,000	$ 189,586,000	$ 208,123,000	$ 226,459,000	$ 235,456,000
Pledged PFC revenues (d)		-	-	16,796,290	31,234,087	32,776,602	32,526,000	32,935,000	32,945,000	32,939,000	32,938,000	32,940,000
Amounts Available for Debt Service		$ 130,427,745	$ 147,981,310	$ 163,262,292	$ 199,558,160	$ 216,083,286	$ 229,752,000	$ 217,732,000	$ 222,531,000	$ 241,062,000	$ 259,397,000	$ 268,396,000
Less: Net Operating Expenses (e)		51,755,204	59,581,652	56,315,786	66,977,165	71,863,006	82,184,000	72,814,000	80,737,000	89,847,000	95,115,000	100,668,000
Net amounts available	[A]	$ 78,672,541	$ 88,399,658	$ 106,946,506	$ 132,580,995	$ 144,220,280	$ 147,568,000	$ 144,918,000	$ 141,794,000	$ 151,215,000	$ 164,282,000	$ 167,728,000
Bond Debt Service Requirements	[B]	$ 36,513,573	$ 44,813,354	$ 64,067,958	$ 83,174,846	$ 89,653,253	$ 91,045,000	$ 93,051,000	$ 85,468,000	$ 89,178,000	$ 98,984,000	$ 99,010,000
Bond debt service coverage	[A/B]	2.15	1.97	1.67	1.59	1.61	1.62	1.56	1.66	1.70	1.66	1.69
Coverage requirement		1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Total debt service coverage (Test #2)												
Project Revenues (c)		$ 130,427,745	$ 147,981,310	$ 146,466,002	$ 168,324,073	$ 183,306,684	$ 197,226,000	$ 184,797,000	$ 189,586,000	$ 208,123,000	$ 226,459,000	$ 235,456,000
Pledged PFC revenues (d)		-	-	16,796,290	31,234,087	32,776,602	32,526,000	32,935,000	32,945,000	32,939,000	32,938,000	32,940,000
Amounts Available for Debt Service		$ 130,427,745	$ 147,981,310	$ 163,262,292	$ 199,558,160	$ 216,083,286	$ 229,752,000	$ 217,732,000	$ 222,531,000	$ 241,062,000	$ 259,397,000	$ 268,396,000
Less: Operating Expenses (e)	[C]	87,082,597	95,619,307	96,001,600	113,124,208	124,081,397	137,831,000	124,680,000	137,062,000	151,883,000	160,411,000	169,384,000
Net amounts available	[D]	$ 43,345,148	$ 52,362,003	$ 67,260,692	$ 86,433,952	$ 92,001,889	$ 91,921,000	$ 93,052,000	$ 85,469,000	$ 89,179,000	$ 98,986,000	$ 99,012,000
Airport Revenue Bond Debt Service Requirements and General Obligation Bond debt service requirements	[E]	$ 42,201,865	$ 50,556,720	$ 66,117,583	$ 84,610,824	$ 90,704,231	$ 91,921,000	$ 93,051,000	$ 85,468,000	$ 89,178,000	$ 98,984,000	$ 99,010,000
Total debt service coverage	[D/E]	1.03	1.04	1.02	1.02	1.01	1.00	1.00	1.00	1.00	1.00	1.00
Coverage requirement		1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Total of Operating Expenses, Bond Debt Service Requirements, and General Obligation Bond debt service requirements	[C+E]	$ 129,284,462	$ 146,176,027	$ 162,119,183	$ 197,735,032	$ 214,785,628	$ 229,752,000	$ 217,731,000	$ 222,530,000	$ 241,061,000	$ 259,395,000	$ 268,394,000
Airline payments per enplaned passenger												
Airline revenues (c)		$ 77,743,497	$ 89,071,717	$ 89,685,119	$ 91,415,430	$ 119,043,744	$ 115,597,000	$ 124,264,000	$ 129,069,000	$ 144,647,000	$ 161,345,000	$ 168,638,000
Enplaned passengers		11,978,915	12,824,172	12,001,505	12,136,625	13,092,010	15,300,000	10,500,000	12,000,000	13,100,000	13,500,000	13,900,000
Airline payments per enplaned passenger		$6.49	$6.95	$7.47	$7.53	$9.09	$7.56	$11.83	$10.76	$11.04	$11.95	$12.13

(a) Information reconciles to the General Purpose Financial Statements contained in the City's Comprehensive Annual Finance Report as audited by the Office of the City Controller.
(b) Source: City of Philadelphia, Division of Aviation.
(c) See Exhibit E.
(d) See Exhibit C.
(e) See Exhibit D.

3/18/2005

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APPENDIX III

ENGINEER'S LETTER

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URBAN ENGINEERS, INC.
ISO 9001 Registered
Founded 1960
530 Walnut Street, 14th Floor
Philadelphia, PA 19106-3685
(215) 922-8080 Fax (215) 922-8082
www.urbanengineers.com

March 16, 2005

City of Philadelphia
1330 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

Attn: Vincent J. Jannetti
Acting Director of Finance

RE: Engineering Certification of the Airport System
Philadelphia International Airport and Northeast Philadelphia Airport

Dear Mr. Jannetti:

Urban Engineers, Inc. (Urban) is pleased to submit this engineering report on the physical condition of the City of Philadelphia's Airport System, which includes Philadelphia International and Northeast Philadelphia Airports. Based on our visual inspection of these facilities and our examination of those documents we deemed relevant to our inspection effort, it is our professional opinion that the physical elements of the Airport System, supported by a suitable ongoing maintenance plan, are in good operating condition. Our inspections and examinations were conducted over the time period of February 11, 2005 through March 8, 2005. The attached reports summarize our observations.

This inspection and examination of the airport system was conducted at the request of the Division of Aviation, Philadelphia International Airport. Urban is a professional consulting engineering firm, employing personnel encompassing a broad range of engineering disciplines that contribute considerable experience in the design and analysis of the physical operation of airports of the magnitude and scope of Philadelphia's Airport System.

Very truly yours,

URBAN ENGINEERS, INC.

Joseph P. McAtee, PE
Executive Vice President

Attachments
c: File #406600/002131

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APPENDIX IV

SUMMARY OF CERTAIN AUTHORIZATIONS FOR THE 2005A BONDS

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APPENDIX IV
SUMMARY OF CERTAIN AUTHORIZATIONS
FOR THE 2005A BONDS

The following are summaries of certain provisions and/or definitions of The First Class City Revenue Bond Act (the "Act"), the Amended and Restated General Airport Revenue Bond Ordinance of 1995, as amended and supplemented (the "General Ordinance"), the Fifth Supplemental Ordinance to the General Ordinance (the "Fifth Supplemental Ordinance"), the Insurance and Reimbursement Agreement (as defined herein), the Financial Guaranty Agreement (as defined herein) (collectively, the "Insurance Agreements"), and the Use and Lease Agreements (as defined herein). The summaries are not, and should not be regarded as, complete statements of the provisions of these documents and legislation. Reference is made to the Act, the General Ordinance, the Fifth Supplemental Ordinance, the Insurance Agreements and the Use and Lease Agreements, copies of which are available from the Office of the Director of Finance, 1401 J.F.K. Boulevard, Municipal Services Building, Room 1330, Philadelphia, Pennsylvania 19102, for the complete terms and provisions thereof.

THE FIRST CLASS CITY REVENUE BOND ACT

The 2005A Bonds are being issued under the terms of The First Class City Revenue Bond Act and the General Ordinance and pursuant to the Fifth Supplemental Ordinance. The following summarizes the terms of The First Class City Revenue Bond Act. All capitalized terms used in the following summary of The First Class City Revenue Bond Act are defined as in The First Class City Revenue Bond Act and may be differently referenced in other portions of this Official Statement.

General Authorization; Definition of Project; Bonds to be Special Obligations

The Act is intended to provide a comprehensive authorization to the City and any other Pennsylvania city of the first class to issue revenue bonds ("Bonds") to finance various types of projects.

The Act defines "Project" to include, among other things, any buildings, structures, facilities or improvements of a public nature, the related land, rights or leasehold estates in land and the related furnishings, machinery, apparatus or equipment of a capital nature, which the City is authorized to own, construct, acquire, improve, lease, operate or support; any item of construction, acquisition or extraordinary maintenance or repair thereof, the City's share of the cost of any of the foregoing undertaken jointly with others; and any combination of the foregoing or any undivided portion of the cost of any of the foregoing as may be designated a project by the City for financing purposes and in respect of which the City may reasonably be expected to receive "Project Revenues" (as defined in the act), which include, among other things, all revenues generated by the Project financed.

Bonds issued under the Act are required to be payable solely from Project Revenues and to be secured solely by such revenues and by any reserve funds which may be created in connection with the Bonds. The Bonds are not permitted to pledge the credit or taxing power of the City, to create a debt or charge against the tax or general revenues of the City, or to create a lien against any City property other than the Project Revenues pledged therefore and reserve funds established in respect of the Bonds. The Bonds are excluded from the calculation of the City's debt-incurring capacity under the Pennsylvania Constitution.

Estimates of Future Revenues

To establish that Project Revenues will be sufficient to amortize all Bonds outstanding, the Act requires a finding to be made in the ordinance authorizing the issuance of the Bonds that the pledged Project Revenues will be sufficient to pay any prior parity charges on such pledged Project Revenues and the principal of and interest on the Bonds. The finding is to be based on a report of the chief fiscal officer of the City filed with the City Council and supported by appropriate schedules and summaries. The report of the chief fiscal officer of the city may be based on a report of the airport consultant employed by the City to evaluate the Project.

For the purposes of estimating future Project Revenues, the Act provides that only the following shall be included (i) those rents, rates, tolls or charges to the general public which, under existing authorizations, and in effect as of the date of calculation, will be reasonably collectable during the fiscal year under the rate schedule which is or will be in effect during such fiscal year, or which may be imposed by administrative action without further legislation; (ii) those bulk payments which may be imposed under subsisting legislation or which are provided under subsisting agreements or are the subject of an expression of intent by the prospective obligor deemed reliable by the chief fiscal officer of the City; and (iii) those governmental subsidies or payments which, under subsisting legislation, are subject to reasonably precise calculation and, unless stated in such legislation or authorization to be of an annually or more frequent recurring nature, are payable in such year.

Details of Bonds and City Covenants

The Act provides that the ordinance authorizing the issuance of the Bonds shall fix the aggregate amounts of the Bonds to be issued from time to time and determine, or designate officers of the City to determine, the form and details of the Bonds. The City may include in its Bond ordinance various covenants with Bondholders, including covenants governing the imposition, collection and disbursement of Project Revenues, Project operation and maintenance, the establishment, segregation, maintenance, custody, investment and disbursement of sinking funds and reserves, the issuance of additional priority or parity bonds, the redemption of the Bonds and such other provisions as the City deems necessary or desirable in the interest or for the protection of the City or of such Bondholders. Under the Act the covenants, terms and provisions of the Bond ordinance made for the benefit of Bondholders constitute contractual obligations of the City, but such covenants (within limitations, if any, fixed by the Bond ordinance) may be modified by agreement with a majority in interest of the Bondholders or such larger portion thereof as may by provided in the Bond ordinance.

Sinking Fund

The Act requires that the Bond ordinance shall provide for the establishment of a sinking fund for the payment of the principal of and interest on the Bonds. Payment into such sinking fund shall be made in annual or more frequent installments and shall be sufficient to pay or accumulate for payment all principal of and interest on the Bonds for which the sinking fund is established as and when the same shall become due and payable. The sinking fund shall be managed by the chief fiscal officer of the City and moneys therein to the extent not currently required, shall be invested, subject to limitations established by the Bond ordinance and the Act. Interest and profits from investment of moneys in the sinking fund shall be added to such fund and may be applied in reduction of or to complete required deposits into the sinking fund. Excess moneys in the sinking fund shall be repaid to the City for its general purposes or may be applied as may be provided in the Bond ordinance. All moneys deposited in the sinking fund are subjected to a perfected security interest for the benefit of the holders of the Bonds, for which the fund is established, until properly disbursed. This perfected security interest also applies, under the terms of the Act, to moneys in the sinking fund reserve created as part of the sinking fund by the General Ordinance.

Refunding

Any outstanding Bonds issued under the Act or other bonds issued for purposes for which bonds are issuable under the Act, whether issued before or after the effective date of the Act, may from time to time be refunded by Bonds issued under the Act and are subject to the same protections and provisions required for the issuance of an original issue of Bonds. The last stated maturity date of the refunding Bonds may not be later than ten years after the last stated maturity date of the Bonds to be refunded. If outstanding Bonds are refunded in advance of their maturity or redemption date, the principal thereof and interest thereon to payment or redemption date, and redemption premium payable, if any, will no longer be deemed to be outstanding obligations when the City shall have deposited with a bank, bank and trust company or trust company, funds irrevocably pledged to the purpose, which are represented by demand deposits, interest bearing time accounts, savings deposits, certificates of deposit (insured or secured as public funds) or specified obligations of the United States or of the Commonwealth of Pennsylvania to effect such redemption or payment or, if interest on the deposited funds to the time of disbursement is also pledged, sufficient, together with such interest, for such purpose and, in the case of redemption, shall have duly called the Bonds for redemption or given irrevocable instructions to give notice of such call.

Validity of Proceedings; Suits and Limitations Thereon

Prior to delivery of any Bonds, the City must file with the Court of Common Pleas a transcript of the proceedings authorizing the issuance of the Bonds. If no action is brought on or before the twentieth day following the date of recording of the transcript, the validity of the proceedings, the City's right to issue the Bonds, the lawful nature of the purpose for which the Bonds are issued, and the validity and enforceability of the Bonds in accordance with their terms may not thereafter be inquired into judicially, in equity, at law, or by civil or criminal proceedings, or otherwise, either directly or collaterally, except where a constitutional question is involved.

Negotiable Instrument

The Act provides that Bonds issued thereunder shall have the qualities and incidents of securities under article 8 of the Uniform Commercial Code of the Commonwealth and shall be negotiable instruments.

Exemption from State Taxation

The Commonwealth pledges with the holders from time to time of Bonds issued under the Act that such Bonds, and the interest thereon, shall at all times be free from taxation within and by the Commonwealth, but this exemption does not extend to gift, succession or inheritance taxes or any other taxes not levied directly on the Bonds and the receipt of interest thereon.

Defaults and Remedies

If the City should fail to pay the principal of or interest on any Bond when the same shall be due and payable, the remedy provisions of the Act permit the holder of such Bond, subject to the limitations described below, to recover the amount due in an action in Philadelphia Common Pleas Court; but a judgment rendered in favor of the Bondholder in such an action is collectible only from Pledged Amounts. The holders of 25% or more in aggregate principal amount of the Bonds of such series then outstanding which are in default, whether because of failure of timely payment which is not cured in 30 days, or failure of the City to comply with any other provisions of the Bonds or any Bond ordinance, may appoint a trustee to represent them. On being appointed, the trustee shall be the exclusive representative for the affected Bondholders and the individuals' rights of action described above shall no longer be available. The trustee may, and upon written request of the holders of 25% or more in aggregate principal amount of Bonds in default, and on being furnished with indemnity satisfactory to it, shall, take one or more of the following actions, which, if taken, shall preclude similar action, whether previously or subsequently initiated, by individual holders of Bonds; enforce, by proceedings at law or in equity, all rights of the holders of the Bonds; bring suit on the Bonds; bring suit in equity to require the City to make an accounting for all pledged Project Revenues received and to enjoin unlawful action or action in violation of the holders' rights; and, after 30 days' written notice to the City, and subject to any limitations in the Bond ordinance, declare the unpaid principal of the Bonds to be immediately due and payable, together with interest thereon at the rates stated in the Bonds until final payment, and upon the curing of all defaults, to annual such declaration. In any suit, action or proceeding by or on behalf of holders of defaulted Bonds, trustee fees and expenses, including operating costs of a project and reasonable counsel fees, shall constitute taxable costs, and all such costs and expenses allowed by the Court shall be deemed additional principal due on the Bonds and shall be paid in full from any recovery prior to any distribution to the holders of the Bonds. The General Ordinance limits any such recovery to Pledged Amounts. The trustee shall make distribution of any sums so collected in accordance with the Act.

Refunding with General Obligation Bonds

Upon certification by the City's chief fiscal officer that Project Revenues pledged for the payment of Bonds have become insufficient to meet the requirements of the ordinance or ordinances under which the Bonds were issued, the City Council is empowered, subject to applicable Pennsylvania constitutional debt limitations, to authorize the issuance and sale of general obligation refunding bonds of the City, without limitations as to rate of interest, in such principal amount (subject to the aforesaid limitations on indebtedness) as may be required, together with other available funds, to pay and redeem such Bonds, together with interest to the payment or redemption date and redemption premium, if any.

THE AMENDED AND RESTATED GENERAL AIRPORT REVENUE BOND ORDINANCE

The 2005A Bonds are being issued under the terms of the General Ordinance and pursuant to the Fifth Supplemental Ordinance. The Fifth Supplemental Ordinance (see below) sets forth the specific terms of the 2005A Bonds. The following summarizes the terms of the General Ordinance, prior to being supplemented by the Fifth Supplemental Ordinance. All capitalized terms used in the following summary of the General Ordinance are defined as in the General Ordinance, prior to being supplemented by the Fifth Supplemental Ordinance, and may be differently referenced in other portions of this Official Statement.

Certain Definitions

The following is a summary of certain terms defined in the General Ordinance and used in this Official Statement. Reference should be made to the General Ordinance for a full and complete statement of its terms and any capitalized terms used herein but not otherwise defined.

"Accreted Value" means, with respect to Capital Appreciation Bonds, the amount to which, as of any specified time, the Original Value of any such Capital Appreciation Bond has been increased by accretion, all as may be provided in an applicable Supplemental Ordinance.

"Act" means The First Class City Revenue Bond Act, approved October 18, 1972 (Act No. 234, 53 P.S. §15901 to 15924), as from time to time amended.

"Airport System" means the Airport and Northeast Philadelphia Airport, as such system currently exists or hereafter may be developed, expanded, extended or improved from time to time.

"Amended and Restated General Airport Revenue Bond Ordinance" or "General Ordinance" means the Amended and Restated General Airport Revenue Bond Ordinance, as amended from time to time by one or more Supplemental Ordinances in accordance with Article V or Article X of the Amended and Restated General Airport Revenue Bond Ordinance.

"Amounts Available for Debt Service" means for any particular period, Project Revenues for that period plus: (a) Passenger Facility Charges which are legally available to pay Debt Service Requirements with respect to such particular period to the extent such Passenger Facility Charges have been pledged under a Supplemental Ordinance, and (b) grants or moneys received from private persons or public agencies, either federal, state or local, directly or indirectly for the benefit of the Airport System, to the extent deposited in the Sinking Fund to be used for Debt Service Requirements.

"Assumed Amortization Period" means, with respect to Balloon Bonds, the period of time specified in clause (a) or clause (b), as selected by the City: (a) five years; or (b) the period of time exceeding five years set forth in an Investment Banker's Certificate delivered to the City, as being not longer than the maximum period of time over which indebtedness having comparable terms and security issued or incurred by similar issuers of comparable credit standing would need to be amortized, if then being offered, in order to be marketable on reasonable and customary terms.

Notwithstanding the foregoing, such period shall not be in excess of (i) the maximum amortization period permitted by the Act, or (ii) the useful life of the assets to be financed, or the remaining useful life of the assets being refinanced.

"Assumed Interest Rate" means with respect to Balloon Bonds, the rate per annum (determined as of the last day of the calendar month next preceding the month in which the determination of Assumed Interest Rate is being made) set forth in an Investment Banker's Certificate delivered to the City, as being not lower than the lowest rate of interest at which indebtedness having comparable terms, security and federal tax status amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period, and issued or incurred by similar issuers of comparable credit standing would, if being offered as of such last day of the calendar month, be marketed at par on reasonable and customary terms.

"Authority" shall mean a municipal authority created pursuant to the Municipal Authorities Act of 1945, as amended, or an authority created pursuant to any other applicable statute or to another entity.

"Aviation Capital Fund" means the Aviation Capital Fund established in Section 4.04 of the General Ordinance.

"Aviation Funds" means, collectively, the Aviation Operating Fund, the Aviation Capital Fund, the Sinking Fund (including the Sinking Fund Reserve Account), the Subordinate Obligations Fund, and the Renewal Fund.

"Aviation Operating Fund" means the operating fund of the Division of Aviation which is so designated in the City's books and records and which is established in Section 4.04 of the General Ordinance and described in Sections 4.05 and 4.06 of the General Ordinance.

"Balloon Bonds" means any series of Bonds, or any portion of a series of Bonds, designated by Determination as Balloon Bonds, (a) 25% or more of the principal payments (including mandatory sinking fund payments) of which are due in a single year, or (b) 25% or more of the principal of which may, at the option of the holder or holders thereof, be redeemed at one time.

"Bond" or "Bonds" means any airport revenue bond of the City, authorized and issued, or assumed, under one or more supplemental ordinances amending and supplementing the General Airport Revenue Bond Ordinance of 1978, or the General Ordinance.

"Bond Committee" means the Mayor, City Controller and City Solicitor or a majority thereof.

"Bond Counsel" means a firm of nationally recognized bond counsel selected by the City.

"Bondholder" or "Holder" means any registered owner of Bonds or holder of Bonds issued in coupon form at the time Outstanding.

"Capital Appreciation Bonds" means any Bonds issued under the General Ordinance which do not pay interest either until maturity or until a specified date prior to maturity, but whose Accreted Value increases periodically by accretion to a final Maturity Value.

"City" means the City of Philadelphia, Pennsylvania.

"City Controller" means the head of the City's auditing department as provided by the Philadelphia Home Rule Charter.

"City Solicitor" means the head of the City's law department as provided by the Philadelphia Home Rule Charter.

"Code" means the Internal Revenue Code of 1986, as amended.

"Consultants" means nationally recognized Independent registered consulting engineers, registered architects, certified public accountants or other Independent qualified experts having broad experience in the operation of airport systems of the magnitude and scope of the Airport System.

"Cost Accounting System" means the system for accounting for the collection, allocation, and reporting of revenues, expenses and debt service associated with the operation of the Airport System in accordance with Cost Centers as provided for in the Use and Lease Agreements, or if none of the Use and Lease Agreements is in effect, as determined by the City, from time to time.

"Cost Centers" means the cost areas to be used in the Cost Accounting System as set forth in the Use and Lease Agreements, or if none of the Use and Lease Agreements is in effect, then as determined by the City from time to time. Such Cost Centers shall initially consist of the Airfield Area, Terminal Building, Outside Terminal

Area, Other Areas, Cargo City, North Philadelphia Airport, Ramp Area and Overseas Terminal, all as defined in the Use and Lease Agreements.

"Credit Facility" means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that is provided by a commercial bank, insurance company or other institution, with a current long term rating (or whose obligations thereunder are guaranteed by a financial institution with a long term rating) from Moody's and S&P (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is, at the time in question, rating Bonds Outstanding under the General Ordinance) not lower than the credit rating of any Series of Bonds which has no Credit Facility, to provide support for a Series of Bonds, and shall include any Substitute Credit Facility.

"Debt Service Account" means the Debt Service Account of the Sinking Fund established in Section 4.04 of the General Ordinance.

"Debt Service Requirements," with reference to a specified period, means:

A. amounts required to be paid into any mandatory sinking fund established for the Bonds, for the benefit of Bondholders during the period;

B. amounts needed to pay the principal or redemption price of Bonds maturing during the period and not to be redeemed at or prior to maturity through any sinking fund established for the Bonds, for the benefit of the Bondholders;

C. interest payable on Bonds during the period, with adjustments for (i) capitalized interest and accrued interest, (ii) any investment income realized from investments in the Aviation Capital Fund, Sinking Fund Reserve Account and Renewal Fund to the extent that such investment proceeds are deposited in or credited to the Debt Service Account of the Sinking Fund, and (iii) all net amounts payable to the City under a Qualified Swap during such period (other than termination amounts payable by a Qualified Swap Provider due as a result of termination of a Qualified Swap); and

D. all net amounts, if any, due and payable by the City under a Qualified Swap (other than termination amounts payable to a Qualified Swap Provider due as a result of termination of a Qualified Swap), a Credit Facility, or a Standby Agreement for Bonds during such period secured by a parity pledge of Project Revenues as set forth in a Determination or Supplemental Ordinance pursuant to which the related Bonds were issued.

For purposes of estimating Debt Service Requirements for any future period, (i) any Option Bond outstanding during such period shall be assumed to mature on the stated maturity date thereof, except that the principal amount of any Option Bond that has been tendered for payment before its stated maturity date and has not at the time of such estimate been remarketed, shall be deemed to accrue on the date required for payment pursuant to the terms of the Standby Agreement; and (ii) Debt Service Requirements on Bonds for which the City has entered into a Qualified Swap shall be calculated assuming that the interest rate on such Bonds shall equal the stated fixed or variable rate payable by the City on the Qualified Swap or, if applicable and if greater than such stated rate, the applicable rate for any Bonds issued in connection with the Qualified Swap adjusted, in the case of a variable rate obligation, as provided in Section 5.01 of the General Ordinance; provided that if the Qualified Swap Provider's payments under the Qualified Swap are based on an index, then, Debt Service Requirements on such Bonds shall be calculated using the sum of (i) the interest rate on the Bonds, and (ii) the difference between the fixed rate obligation of the City under the Swap Agreement and such index; provided, further that, for purposes of projecting the difference in (ii) above, the City shall be entitled to assume that the difference will be equal to the average differential during the period of twenty-four (24) consecutive calendar months preceding the date of calculation or, if the Swap Agreement was entered into less than twenty-four (24) months prior thereto, the average differential since the date the Swap Agreement was entered into.

Calculation of Debt Service Requirements with respect to Variable Rate Bonds and Balloon Bonds shall be subject to adjustment as permitted by Section 5.01(b) of the General Ordinance.

"Determination" means a determination by the Bond Committee regarding certain matters relating to the issuance of a Series of Bonds, made pursuant to the General Ordinance or the Supplemental Ordinance providing for the issuance of such Series of Bonds.

"Director of Finance" means the chief financial officer of the City as established by the Philadelphia Home Rule Charter.

"Division of Aviation" means the division of the Department of Commerce of the City responsible for the maintenance, improvement, repair and operation of the Airport System and for the construction of additional facilities for the Airport System or any successor division or Department of the City which is charged by law with such responsibility.

"Effective Date" shall have the meaning set forth in Article I of the General Ordinance.

"Exchange Agreement" means, to the extent from time to time permitted by applicable law, any interest exchange agreement, interest rate swap agreement, currency swap agreement or other contract or agreement, other than a Qualified Swap that has not been deemed to be an Exchange Agreement pursuant to Section 3.12 of the General Ordinance, authorized, recognized and approved by a Supplemental Ordinance or Determination as an Exchange Agreement and providing for (i) certain payments by the City, and (ii) payments by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose obligations under an Exchange Agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability are rated at all times in one of the three highest rating categories (without regard to gradation) by Moody's and S&P (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance) or the equivalent thereof by any successor thereto as of the date the Exchange Agreement is entered into; which payments by the City and counterparty are calculated by reference to fixed or variable rates.

"Existing Bonds" means any Bonds to the extent the lien of such bonds is not defeased on or prior to the Effective Date of the General Ordinance, which Existing Bonds shall be specified in a certificate of the Director of Finance on the Effective Date and thereafter shall be secured by the General Ordinance.

"Financial Consultant" means a firm of investment bankers, a financial consulting firm, a firm of certified public accountants or any other firm which is qualified to calculate amounts required to be rebated to the United States pursuant to Section 148(f) of the Code.

"Fiscal Agent" means a bank or other entity designated as such pursuant to Section 7.01 of the General Ordinance or its successor.

"Fiscal Year" means the fiscal year of the City.

"Fitch" means Fitch Investors Service and any successor thereto.

"General Airport Revenue Bond Ordinance of 1978" means the General Airport Revenue Bond Ordinance of 1978, approved March 16, 1978, as amended and supplemented from time to time.

"General Obligation Bonds" means the general obligation bonds of the City issued and outstanding from time to time to finance, in whole or in part, improvements to the Airport System and adjudged, pursuant to the Constitution and laws of the Commonwealth of Pennsylvania, to be self-sustaining on the basis of expected Project Revenues.

"Government Obligations" means direct noncallable obligations of, or obligations of the principal of and interest on which are fully and unconditionally guaranteed as to full and timely payment by, the United States of America.

"Interdepartmental Charges" means the actual charges for services performed for the Division of Aviation by all officers, departments, boards or commissions of the City which are included in the computation of Operating Expenses of the Division of Aviation and allocable to the Airport System.

"Independent" means a person who is not a salaried employee or elected or appointed official of the City; provided, however, that the fact that such person is retained regularly by or transacts business with the City shall not make such person an employee within the meaning of this definition.

"Investment Banker's Certificate" means a written estimate of an investment banker selected by the City and experienced in underwriting indebtedness of the character of the Bonds in question.

"Maturity Value" with respect to Capital Appreciation Bonds means the amount due on the maturity date.

"Moody's" means Moody's Investors Service and any successor thereto.

"Net Operating Expenses" means Operating Expenses exclusive of Interdepartmental Charges. On and after the date on which a transaction described in Section 9.01 of the General Ordinance is completed, Net Operating Expenses may include Interdepartmental Charges at the written direction of the City.

"Non-Parity Sinking Fund Reserve Requirement" means any Sinking Fund Reserve Requirement referred to in clause (ii) of the definition of "Sinking Fund Reserve Requirement" as specified in a Supplemental Ordinance.

"Non-Parity Sinking Fund Reserve Account" means any account of the Sinking Fund Reserve Account created pursuant to a Supplemental Ordinance for a particular Series of Bonds that will not be secured by the Parity Sinking Fund Reserve Account, and for which a Non-Parity Sinking Fund Reserve Requirement applies.

"Northeast Philadelphia Airport" means the airport facility operated by the Division of Aviation, and located in the northeast portion of the City as such facility currently exists or hereafter may be developed, extended or improved from time to time.

"NSS General Obligation Bonds" means the general obligation bonds of the City issued and outstanding from time to time to finance, in whole or in part, improvements to the Airport System that have not been adjudged to be self-sustaining on the basis of expected Project Revenues.

"Operating Expenses" means all costs and expenses of the Division of Aviation necessary and appropriate to operate and maintain in good operable condition in each Fiscal Year those portions of the Airport System from which revenues are derived that are included within the definition of Project Revenues, and shall include, without limitation, salaries and wages, purchases of services by contract, interest on temporary borrowings, costs of materials, supplies and equipment that can be expensed, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Airport System which does not have a probable useful life to the City of at least five years, pension and welfare plan requirements, unemployment compensation requirements and workmen's compensation requirements, taxes and payments in lieu of taxes, insurance premiums, provision for claims, refunds (including credits to Scheduled Airlines on account of Payments-in-Aid, if required by the Use and Lease Agreements) and uncollectible receivables and Interdepartmental Charges, all in accordance with the accrual basis of accounting adjusted to meet the particular requirements of the Use and Lease Agreements and the General Ordinance, consistently applied, but shall exclude depreciation, Debt Service Requirements, debt service on General Obligation Bonds and NSS General Obligation Bonds, and all costs and expenses allocable to the Outside Terminal Area and the Overseas Terminal; provided, however, if (i) the written election of the City is obtained and filed with the Fiscal Agent, and (ii) so long as any Use and Lease Agreement or the UPS Agreement is in effect, the prior written consent of the Scheduled Airlines and UPS (provided that the written consent of UPS shall be obtained only to the extent required, as determined in the sole discretion of the City) to amend the Use and Lease Agreements is obtained, then "Operating Expenses" shall mean:

> All costs and expenses of the Airport System necessary and appropriate to operate and maintain in good operating condition during each Fiscal Year those portions of the Airport System from which revenues are derived and which are included within the definition of Project Revenues, and shall

include, without limitation, salaries and wages, purchases of services, interest on temporary borrowings to be paid from Bonds, costs of materials, supplies and equipment that can be expensed, maintenance costs, costs of any property or the replacement thereof or for any work or project, related to the Airport System having an estimated life or usefulness and a cost less than minimum standards for capitalization established by the Division of Aviation's accounting policies (provided such minimum standards shall in no event be less than the standards set forth in the City Charter of the City) pension and welfare plan and worker's compensation requirements, unemployment compensation requirements, taxes and payments in lieu of taxes, insurance premiums, provisions for claims, refunds (including credits to Scheduled Airlines on account of Payments-in-Aid, if required by the Use and Lease Agreements) and uncollectible receivables and Interdepartmental Charges, all consistently determined in accordance with the accrual basis of accounting adjusted to meet the particular requirements of the Use and Lease Agreements and the General Ordinance, consistently applied, but Operating Expenses shall exclude depreciation, amortization, and except as expressly set forth above, Debt Service Requirements and amounts due under Subordinate Obligations and Exchange Agreements. Operating Expenses shall also exclude debt service on General Obligation Bonds and NSS General Obligation Bonds. Operating Expenses shall also exclude all costs and expenses allocable to the Outside Terminal Area and the Overseas Terminal unless the City has elected to include revenues of the Outside Terminal Area or Overseas Terminal as Project Revenues pursuant to Section 4.02 of the General Ordinance. Aggregate financing payments under capitalized lease agreements shall be payable as Operating Expenses to the extent payments under such capitalized lease agreements either (i) do not constitute Capital Expenditures under the Use and Lease Agreements, or (ii) constitute Capital Expenditures under the Use and Lease Agreements and have not been disapproved by the Majority-in-Interest under the Use and Lease Agreements. Any financing payments on capitalized lease agreements not satisfying the requirements of either clause (i) or (ii) above, may be payable in accordance with Section 4.06 (i) of the General Ordinance.

"Option Bond" means any Bond which by its terms may be tendered by and at the option of the Holder thereof for payment by the City prior to its stated maturity date or the maturity date of which may be extended by and at the option of the Holder thereof.

"Ordinance" means the General Ordinance, as amended from time to time by one or more Supplemental Ordinances in accordance with Article V or Article X of the General Ordinance.

"Original Value" with respect to Capital Appreciation Bonds means the principal amount paid by the initial purchasers on the date of original issuance.

"Outside Terminal Area" shall have the meaning ascribed in the Use and Lease Agreements.

"Outstanding," when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being issued and delivered subject to the General Airport Revenue Bond Ordinance of 1978 or the General Ordinance except (i) any Bonds canceled by the Fiscal Agent at or prior to such date; (ii) Bonds (or portion of Bonds) for the payment or redemption of which moneys, equal to the principal amount, Accreted Value or redemption price thereof, as the case may be, with interest (except to the extent of any Capital Appreciation Bonds) to the date of maturity or redemption date, shall be held in trust under the General Ordinance and set aside for such payment or redemption, provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as provided in Article VI of the General Ordinance or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice; (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III or Section 6.06 of the General Ordinance; and (iv) Bonds deemed to have been paid as provided in Section 11.01 of the General Ordinance.

"Overseas Terminal" shall have the meaning ascribed in the Use and Lease Agreements.

"Parity Sinking Fund Reserve Requirement" means the Sinking Fund Reserve Requirement described in clause (i) of the definition of " Sinking Fund Reserve Requirement."

"Parity Sinking Fund Reserve Account" means the Sinking Fund Reserve Account created pursuant to the first paragraph of Section 4.09 of the General Ordinance.

"Passenger Facility Charges" means all passenger facility charges collected pursuant to applicable law.

"Payments-in-Aid" means both Payments-in-Aid of Outside Terminal Area and Payments-in-Aid of Terminal Building Operation.

"Payments-in-Aid of Outside Terminal Area" means the payment-in-aid of the Outside Terminal area required to be made by the Scheduled Airlines pursuant to the Use and Lease Agreements.

"Payments-in-Aid of Terminal Building Operation" means the payments-in-aid of the Terminal Building operations required to be made by the Scheduled Airlines pursuant to the Use and Lease Agreements.

"Permitted Investments" shall mean any of the following obligations, but only to the extent the same are legal for investment of funds of the City at the time, under applicable law:

(a) Government Obligations;

(b) Qualified Rebate Fund Securities;

(c) Bonds, notes or other obligations of United States government agencies issued by the Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, General Services Administration, Government National Mortgage Association, Resolution Funding Corporation, U.S. Maritime Administration, Small Business Administration, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Student Loan Marketing Association;

(d) Interest-bearing time or demand deposits, or certificates of deposit with a maturity date of no longer than twenty four months from the date of the investment, or other similar arrangements with any institution (including the Fiscal Agent or its affiliates) with a bond or deposit rating at all times in the higher of (i) the rating on the Bonds Outstanding under the General Ordinance, or (ii) one of the three highest rating categories (without regard to gradation), by S&P and Moody's (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance); with a maturity date of no longer than twenty four months from the date of the investment, provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation through the Bank Insurance Fund or Savings Association Insurance Fund, or to the extent not insured, are secured by a pledge of collateral as provided by laws applicable to funds of the City of Philadelphia;

(e) Commercial paper (having original maturities of not more than 270 days) rated at all times P-1 or A-1+ by Moody's and S&P, respectively, however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance;

(f) Investments in money market funds rated at all times in one of the two highest rating categories (without regard to gradation) by S&P and Moody's (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance);

(g) Repurchase agreements with a term not exceeding twenty four months with the Fiscal Agent or any bank with a capital and surplus of at least $100,000,000 and a bond or deposit rating at all times in the higher of (i) the rating on the Bonds Outstanding under the General Ordinance, or (ii) one of the three highest rating categories of S&P and Moody's (provided that, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance) which bank is a member of the Federal Reserve System, or with government bond dealers recognized as primary dealers by the Federal Reserve Bank of New York, that are collateralized with Permitted Investments described in (a) or (b) above, having a market value at the time of purchase (inclusive of accrued interest) at least equal to 102% of the full amount of the repurchase agreement and which Permitted Investments shall be held by a third party custodian which is a bank or trust company pursuant to a third party custodial agreement;

(h) General Obligation bonds of corporations rating in one of the two highest rating categories (without regard to gradation) by Moody's and S&P, provided that, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance;

(i) Collateralized mortgage obligations which are rated in one of the two highest rating categories (without regard to gradation) by Moody's and S&P, with a maturity date no later than two years from the date of investment; provided that the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance;

(j) Obligations of the Commonwealth or any municipality or other political subdivision of the Commonwealth with a maturity date no later than two years from the date of investment, rated by Moody's and S&P in one of the three highest rating categories (without regard to gradation); provided that, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bond Outstanding under the General Ordinance; and

(k) Any other obligation approved in writing by S&P and Moody's to the extent that either is rating Bonds Outstanding under the General Ordinance at the time.

"Philadelphia Home Rule Charter" means the Philadelphia Home Rule Charter, as amended or superseded by any new home rule charter, adopted pursuant to authorization of the First Class City Home Rule Act approved April 21, 1949, P. L. 665 §1 et seq. (53 P. S. § 13101 et seq.).

"Pledged Amounts" shall have the meaning set forth in Section 4.02 of the General Ordinance.

"Prior Bonds" means the bonds issued under the General Airport Revenue Bond Ordinance of 1978 designated as Airport Revenue Bonds, Series 1978, 1984, 1985 and 1988.

"Project" shall have the meaning assigned to it in the Act, as the same may be amended from time to time.

"Project Revenues" means all of the revenues, rents, rates, tolls or other charges imposed upon all lessees, occupants and users of the Airport System and all moneys received by or on behalf of the City from all sources during any Fiscal Year (except as hereinafter excluded) from or in connection with the ownership, operation, improvements and enlargements of the Airport System, or any part thereof and the use thereof, including, without limitation, revenues pledged or appropriated for the benefit of the Airport System, all rentals, rates, charges, Payments-in-Aid, landing fees, use charges, concession revenues, income derived from the City's sale of services, fuel, oil, and other supplies or commodities, and all other charges received by the City or accrued by it from the Airport System, and all interest on and the profits from investment of moneys derived from the foregoing and all accounts, contract rights an general intangibles representing the Project Revenues, but excepting and excluding all revenues, rents, rates, tolls or other charges generated by or allocable to the Overseas Terminal and the Outside Terminal Area (other than Payments-in-Aid of the Outside Terminal Area), further excepting and excluding any and all Passenger Facility Charges or any taxes which the City may from time to time impose upon a user of the Airport System, further excepting and excluding all governmental grants and contributions in aid of capital projects, and further excepting and excluding such rentals as may be received pursuant to leases of Special Purpose Facilities, further excepting and excluding all net amounts payable to the City under a Qualified Swap (other than termination amounts payable from a Qualified Swap Provider due as a result of termination of a Qualified Swap); provided, however, if (i) the written election of the City is obtained and filed with the Fiscal Agent, and (ii) so long as any Use and Lease Agreement is in effect, the prior written consent of the Scheduled Airlines to amend the Use and Lease Agreements is obtained then, Project Revenues shall mean:

> All of the revenues, rents, rates, tolls or other charges imposed upon all lessees, occupants and users of the Airport System and all moneys received by or on behalf of the City from all sources during any Fiscal Year (except as hereinafter excluded) from or in connection with the ownership, operation,

improvements and enlargements of the Airport System, or any part thereof and the use thereof, including without limitation, revenues pledged or appropriated for the benefit of the Airport System, all rentals, rates, charges, Payments-in-Aid of Terminal Building Operation, landing fees, use charges, concession revenues, income derived from the City's sale of services, fuel, oil, and other supplies or commodities, and all other charges received by the City or accrued by it from the Airport System, and any investment income realized from the investment of the foregoing, except as provided below, and all accounts, contract rights and general intangibles representing the Project Revenues all consistently determined in accordance with the accrual basis of accounting adjusted to meet the particular requirements of the Use and Lease Agreements (if any of the Use and Lease Agreements are in effect) and the General Ordinance.

Project Revenues as defined in the preceding paragraph shall not include (a) unless pledge pursuant to a Supplemental Ordinance pursuant to Section 4.02 of the General Ordinance, all revenues, rents, rates, tolls or other charges generated by or allocable to the Overseas Terminal or the Outside Terminal Area (except for Payments-in-Aid of Outside Terminal Area not expressly withdrawn from the pledge under the General Ordinance pursuant to Section 4.02 thereof), (b) any and all Passenger Facility Charges, or any taxes which the City may from time to time impose upon users of the Airport System, (c) any governmental grants and contributions in aid of capital projects, (d) such rentals as may be received pursuant to Special Facility Agreements for Special Purpose Facilities, (e) proceeds of the sale of Bonds and any income realized from the investment of proceeds of the sale of Bonds maintained in the Aviation Capital Fund and income realized from investments of amounts maintained in the Renewal Fund and Sinking Fund Reserve Account, (f) except as required by applicable laws, rules or regulations, net proceeds from the sale of Airport assets, including the sale or transfer of all or substantially all of the assets of the Airport System under Section 9.01 of the General Ordinance unless the Division of Aviation determines to include any such net proceeds as Project Revenues, and such determination is evidenced by written notification by the City to the Fiscal Agent, (g) proceeds of insurance or eminent domain (other than proceeds that provide for lost revenue due to business interruption or business loss), (h) Payments-in-Aid of Outside Terminal Area in the event such payments are withdrawn from the pledge under the General Ordinance pursuant to Section 4.02 thereof, and (i) net amounts payable to the City under a Qualified Swap (other than termination amounts payable to a Qualified Swap Provider due as a result of termination of a Qualified Swap).

"Qualified Escrow Securities" means funds which are represented by (a) demand deposits, interest-bearing time accounts, savings deposits or certificates of deposit, but only to the extent such deposits or accounts are fully insured by the Federal Deposit Insurance Corporation or any successor United States governmental agency, or to the extent not insured, fully secured and collateralized by Government Obligations having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such deposits or accounts, (b) if at the time permitted under the Act, noncallable obligations of the Commonwealth of Pennsylvania or any political subdivision thereof or any agency or instrumentality of the Commonwealth of Pennsylvania or any political subdivision thereof for which cash, Government Obligations or a combination thereof have been irrevocably pledged to or deposited in a segregated escrow account for the payment when due of principal or redemption price of and interest on such obligations, and any such cash or Government Obligations pledged and deposited are payable as to principal or interest in such amounts and on such dates as may be necessary without reinvestment to provide for the payment when due of the principal or redemption price of and interest on such obligations, and such obligations are rated by Moody's and S&P (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is then rating Bonds Outstanding under the General Ordinance) in the highest rating category (without regard to gradations) assigned by each such rating service to obligations of the same type, or (c) noncallable Government Obligations. In each case such funds (i) are subject to withdrawal, maturing or payable at the option of the holder, at or prior to the dates needed for disbursement, provided such deposits or accounts, whether deposited by the City or by such depository, are insured or secured as public deposits with securities having at all times a market value exclusive of accrued interest equal to the principal amount thereof, (ii) are irrevocably pledged for the payment of such obligations and (iii) are sufficient, together with the interest to disbursement date payable with respect thereto, if also pledged, to meet such obligations in full.

"Qualified Rebate Fund Securities" means either:

(a) Government Obligations; or

(b) rights to receive the principal of or the interest on Government Obligations through (i) direct ownership, as evidenced by physical possession of such Government Obligations or unmatured interest coupons or by registration as to ownership on the books of the issuer or its duly authorized paying agent or transfer agent, or (ii) purchase of certificates or other instruments evidencing an undivided ownership interest in payments of the principal of or interest on Government Obligations held under book-entry with the New York Federal Reserve Bank; or

(c) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and which are rated at the time purchased, based on the escrow, in the highest rating category of S&P and Moody's.

"Qualified Swap" or "Swap Agreement" means, with respect to a Series of Bonds, any financial arrangement that (i) is entered into by the City with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) provides that (a) the City shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of all or any portion of the Outstanding Bonds of such Series, and that such entity shall pay to the City an amount based on the interest accruing on a principal amount initially equal to the same principal amount of such Bonds, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement, (b) the City shall pay to such entity an amount based on the interest accruing on the principal amount of all or any portion of the Outstanding Bonds of such Series at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the City an amount based on interest accruing on a principal amount equal to the same principal amount of such Bonds at an agreed fixed rate or that one shall pay to the other any net amount due under such arrangement or, (c) the City shall be paid by a Qualified Swap Provider an amount, based on a notional amount equal to the principal amount of all or any portion of the Outstanding Variable Rate Bonds of such Series, if the interest rate on such Series of Variable Rate Bonds exceeds a previously agreed upon rate, and/or the City shall pay to the Qualified Swap Provider an amount, based on a notional amount equal to the principal amount of all or any portion of the Outstanding Variable Rate Bonds of such Series, if the interest rate on such Series of Variable Rate Bonds is less than a previously agreed upon rate; (iii) has been approved of in writing by the Scheduled Airlines and UPS (provided that the written consent of UPS shall be obtained only to the extent required, as determined in the sole discretion of the City); and (iv) which has been designated in writing to the Fiscal Agent by the City as a Qualified Swap with respect to the Bonds.

"Qualified Swap Provider" means, with respect to a Series of Bonds, an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at the higher of (i) A by Moody's and A by S&P, or the equivalent thereof by any successor thereto, or (ii) the then current rating on Bonds outstanding under the General Ordinance, without taking into account Bonds the rating on which is based upon a Credit Facility for such Bonds, provided if all Bonds Outstanding under the General Ordinance are rated based upon one or more Credit Facilities, then the senior unsecured long term obligations or claims paying ability of the provider shall be at least equal to A by Moody's and S&P.

"Rate Covenant" means the rate covenant applicable pursuant to Section 5.01 of the General Ordinance.

"Rating Agency" means Moody's, S&P or Fitch, to the extent that any of such rating services have issued a credit rating on the Bonds which is in effect at the time in question or, upon discontinuance of any of such rating services, such other nationally recognized rating service or services if any such rating service has issued a credit rating on the Bonds at the request of the City and such credit rating is in effect at the time in question.

"Rebate Bond Year," for purposes of Section 4.14 of the General Ordinance and in order to facilitate compliance with the arbitrage rebate requirements of the Code, shall mean the period or periods specified in a Supplemental Ordinance or Determination for a Series of Bonds.

"Rebate Fund" means the Rebate Fund established in Section 4.04 of the General Ordinance.

"Record Date" means (i) with respect to any Variable Rate Bond, the Business Day immediately preceding an interest payment date or a redemption date or the maturity date, or such other date as set forth in the related Supplemental Ordinance, and (ii) with respect to Bonds bearing interest in a fixed rate mode or Bonds bearing interest at a prescribed fixed rate, the fifteenth (15th) day (regardless of whether it is a Business Day) of the calendar month next preceding an interest payment date, a redemption date or maturity date, or such other date as set forth in the related Supplemental Ordinance.

"Remarketing Agent" means a Remarketing Agent appointed in the manner provided in the applicable Supplemental Ordinance or Determination authorizing the issuance of Variable Rate Bonds.

"Remarketing Agreement" means an agreement providing for the remarketing of tendered Variable Rate Bonds by a Remarketing Agent, as more fully set forth and defined in the Supplemental Ordinance authorizing any Series of Variable Rate Bonds.

"Renewal Fund" means the Renewal Fund established in Section 4.04 of the General Ordinance.

"Renewal Fund Requirement" means $2,500,000 or such other amount as determined by the Consultant from time to time to be appropriate taking into account the size and operations of the Airport System.

"Required Rebate Fund Balance" shall have the meaning set forth in Section 4.14 of the General Ordinance.

"Scheduled Airlines" means the airlines that are signatories to the Use and Lease Agreements.

"Second Supplemental Ordinance" means the Second Supplemental Ordinance to the General Ordinance.

"Series" when applied to Bonds means, collectively, all of the Bonds of a given issue authorized by Supplemental Ordinance, as provided in the General Ordinance, and may also mean, if appropriate, a subseries of any Series if, for any reason, the City should determine to divide any Series into one or more subseries of Bonds, or multiple series of Bonds, as the case may be.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw Hill and any successor thereto.

"Sinking Fund" means the Sinking Fund established in Section 4.04 of the General Ordinance.

"Sinking Fund Depositary" means the bank named as such in Section 7.01 of the General Ordinance.

"Sinking Fund Installment" means an amount so designated which is established pursuant to Section 3.01 of the General Ordinance.

"Sinking Fund Reserve Account" means the Sinking Fund Reserve Account established in Section 4.04 of the General Ordinance.

"Sinking Fund Reserve Requirement" means (i) with respect to all Bonds (whether interest thereon is includable in, or excludable from, gross income for Federal income tax purposes) which the City determines will be secured by the Parity Sinking Fund Reserve Account, an amount equal to the lesser of (A) the greatest amount of Debt Service Requirements on Bonds payable in any one Fiscal Year, determined as of any particular date, or (B) the maximum amount permitted by the Code to be maintained without yield restriction for bonds, the interest on which is not includable in gross income for federal income tax purposes, and (ii) with respect to all Bonds which the City determines to secure with a Non-Parity Sinking Fund Reserve Account (whether interest thereon is includable in, or excludable from, gross income for Federal income tax purposes), the amount, if any, required to be deposited or maintained in the subaccount of the Sinking Fund Reserve Account as specified in a Supplemental Ordinance. For purposes of determining the Sinking Fund Reserve Requirement, Debt Service Requirements will be computed without regard to any Qualified Swap, Credit Facility or Standby Agreement, and the Debt Service Requirements attributable to any (i) Balloon Bonds, or Variable Rate Bonds shall be calculated in the manner set forth in Section 5.01(b) of the General Ordinance, or based upon the assumed fixed rate of interest as set forth in the Supplemental

Ordinance or Determination for such Bonds, and (ii) Option Bonds shall be calculated in the manner set forth in the last paragraph under the definition of Debt Service Requirements.

"Special Facility Agreement" means an agreement entered into by the City and one or more other parties, relating to the design, construction, and/or financing of any facility, improvement, structure, equipment, or assets acquired or constructed on any land or in or on any structure or buildings that is or are part of the Airport System, all or a portion of the payments to the City under which (a) are intended to be excluded from Amounts Available for Debt Service, and (b) may be pledged to the payment of Special Facility Revenue Bonds.

"Special Facility Revenue Bonds" means any City revenue bonds or notes authorized and issued for the purpose of acquiring, constructing, or improving a Special Purpose Facility leased to, or contracted for operation by, any person or persons, under a specific lease or contract requiring the user or users thereof to provide for the payment of rentals or sums adequate to pay all principal, interest, redemption price, reserve requirements, if any, as required in the legislation authorizing the Special Facility Revenue Bonds (the "debt service charges") on the Special Facility Revenue Bonds.

"Special Purpose Facility" means any facility acquired or constructed for the benefit or use of any person or persons and the costs of construction and acquisition of which are paid for (a) by the obligor under a Special Facility Agreement, (b) from the proceeds of Special Facility Revenue Bonds, or (c) both.

"Standby Agreement" with respect to a Series of Bonds, means an irrevocable letter of credit and related reimbursement agreement, line of credit, standby bond purchase agreement or similar agreement providing for the purchase of all or a portion of the Bonds of such Series, as amended, supplemented or extended from time to time.

"Standby Purchaser," with respect to a Series of Bonds, means the provider of the Standby Agreement for such Series of Bonds.

"Subordinate Obligation" means any obligation referred to in, and complying with the provisions of, Section 5.04(h) of the General Ordinance.

"Subordinate Obligation Fund" means the Subordinate Obligation Fund established in Section 4.04 of the General Ordinance.

"Subordinate Obligation Ordinance" means the ordinance, and any supplements or amendments thereto authorizing the issuance of a series of Subordinate Obligations.

"Substitute Credit Facility" means any letter of credit, standby bond purchase agreement, line of credit, surety bond, insurance policy or other insurance commitment or similar agreement (other than a Qualified Swap or an Exchange Agreement) that replaces a Credit Facility and is provided by a commercial bank, insurance company or other financial institution with a then current long term credit rating (or whose obligations thereunder are guaranteed by a financial institution with a long term rating) from Moody's and S&P (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is, at the time in question, then rating Bonds Outstanding under the General Ordinance) not lower than the credit rating of any Series of Bonds which has no Credit Facility; provided that in no event shall such substitution take place unless Moody's and S&P acknowledge in writing that such substitution, in and of itself, will not result in a lowering, suspension or withdrawal of the rating on the Bonds secured by such Credit Facility.

"Supplemental Ordinance" means an ordinance supplemental to the General Ordinance enacted pursuant to the Act and the General Ordinance by the Council of the City.

"Tender Agent," with respect to a Series of Bonds, means any commercial bank or trust company organized under the laws of any state of the United States or any national banking association designated as a tender agent for such Series of Bonds, and its successor or successors hereafter appointed in the manner provided in the applicable Supplemental Ordinance or Determination.

"Uncertificated Bond" means any Bond which is fully registered as to principal and interest and which is not represented by an instrument.

"UPS" means United Parcel Service and its successors.

"UPS Agreement" means that certain agreement between the City and United Parcel Service dated as of December 18, 1985, as amended from time to time.

"Use and Lease Agreements" mean the Airline - Airport Use and Lease Agreements which were effective as of July 1974, as amended from time to time, between the City and the Scheduled Airlines providing for the construction of capital improvements to the Airport System, the financing of such improvements, the use and occupancy of portions of the Airport System by the Scheduled Airlines and the rates, rents and charges to be paid by the Scheduled Airlines for such use and occupancy as therein provided.

"Variable Rate Bond" means any Bond, the rate of interest on which is subject to change prior to maturity and cannot be determined in advance of such change.

SUMMARY OF OPERATIVE PROVISIONS OF THE GENERAL ORDINANCE

The following is a summary of certain operative provisions of the General Ordinance. Reference should be made to the General Ordinance for a full and complete statement of its provisions and the meaning of any capitalized terms used herein but not otherwise defined.

Authorization, Scope and Purpose; Effective Date

The General Ordinance was enacted pursuant to the provisions of The First Class City Revenue Bond Act for the purpose of amending and restating in full, the General Airport Revenue Bond Ordinance of 1978, approved on March 16, 1978, as supplemented and amended. The General Ordinance became effective immediately and without any further action by City Council upon the consent of the Holders of at least 67 percent of the Outstanding Bonds (the "Effective Date"). On the Effective Date, the General Airport Revenue Bond Ordinance of 1978 and all supplements thereto were no longer in force or with any effect; provided that supplements to the General Airport Revenue Bond Ordinance of 1978 relating to Existing Bonds were deemed to be supplements to the General Ordinance on and after the Effective Date, to the extent such supplements were not inconsistent with the General Ordinance.

Concerning the Bonds

Form and Terms of Bonds. The aggregate principal amount of Bonds which may be issued or assumed, authenticated and delivered under the General Ordinance is unlimited, but prior to the issuance or assumption of such Series of Bonds, the City shall enact a Supplemental Ordinance authorizing such Series and the maximum aggregate principal amount of such Series and comply with all conditions in Section 5.04 of the General Ordinance (described under "Conditions and Provisions Relating to Issuing Bonds" hereinafter) and all conditions in the Act pertaining to the issuance or assumption of Airport revenue bonds.

A Series of Bonds may be secured by a Credit Facility or Standby Agreement meeting the requirements of the General Ordinance and the applicable Supplemental Ordinance. In connection with the issuance of its Bonds or at any time thereafter so long as a Series of Bonds remains Outstanding, the City also may enter into Qualified Swaps or Exchange Agreements if the Bond Committee determines that any such Qualified Swap or Exchange Agreement will assist the City in more effectively managing its interest costs. The City's payment obligation under any Qualified Swap (other than termination amounts payable to a Qualified Swap Provider due as a result of termination of a Qualified Swap) shall be made from the Sinking Fund and its payment obligation under any such Exchange Agreement shall be made in accordance with Section 4.06(e) of the General Ordinance. Unless otherwise acknowledged in writing by S&P, that execution and delivery of such Qualified Swap Agreement or Exchange Agreement will not, in and of itself, result in a downgrade, suspension or withdrawal of the credit ratings on any

Bonds Outstanding under the General Ordinance, the City will not enter into any Qualified Swap or Exchange Agreement.

Notwithstanding anything to the contrary in the General Ordinance, any Qualified Swap or Exchange Agreement entered into after June 15, 2005, may only be executed if authorized by Resolution of the City Council.

Issuance of Bonds

Purpose of Bonds; Combination of Projects for Financing Purposes. The Bonds issued or assumed under the General Ordinance shall be issued or assumed for the purpose (i) of paying the costs of Projects relating to the Airport System of the City (exclusive of the Outside Terminal Area and the Overseas Terminal, unless the revenues therefrom are pledged under the General Ordinance in accordance with Section 4.02 thereof), (ii) of reimbursing any fund of the City from which such costs shall have been paid or advanced together with interest thereon, (iii) of funding any of such costs for which the City shall have outstanding bond anticipation notes or other obligations, (iv) of refunding any Bonds or bonds of the City issued for the foregoing purposes, or (v) of refunding any General Obligation Bonds or NSS General Obligation Bonds.

Pledge of Revenues; Grant of Security Interest; Limitation on Recourse

The City, pursuant to the General Ordinance, pledges for the security and payment of all Bonds and thereby grants to Bondholders a lien on and security interest in: (i) all Project Revenues, (ii) amounts payable to the City under a Qualified Swap, (iii) except as provided in Section 4.09 of the General Ordinance (with respect to a non-parity reserve fund), all amounts on deposit in or credited to the Aviation Funds and (iv) proceeds of the foregoing ((i)-(iv) collectively are referred to herein as, the "Pledged Amounts"). The City may pledge Passenger Facility Charges pursuant to a Supplemental Ordinance and such Passenger Facility Charges, and proceeds thereof, shall constitute Pledged Amounts; provided, however, that if as a result of applicable law, rules and regulations, such Passenger Facility Charges may only be pledged to secure one or more specified Series of Bonds, such pledged Passenger Facility Charges, and proceeds thereof, shall constitute Pledged Amounts solely with respect to such Series of Bonds; provided, further, that Passenger Facility Charges shall not constitute Pledged Amounts or Amounts Available for Debt Service under the General Ordinance unless the City first receives written confirmation from all Rating Agencies then rating any Bonds Outstanding under the General Ordinance, that the pledge of Passenger Facility Charges in and of itself will not result in a downgrade, suspension or withdrawal of rating on any Bonds Outstanding under the General Ordinance, without taking into account Bonds the rating on which is based upon one or more Credit Facilities for such Bonds, provided that if all Bonds Outstanding under the General Ordinance are rated based upon a Credit Facility, then Passenger Facility Charges may be pledged only upon receipt by the City of written consent by the providers of all such Credit Facilities. To the extent that the Fiscal Agent maintains such Pledged Amounts, the Fiscal Agent shall hold and apply the security interest granted by the General Ordinance in the Pledged Amounts, in trust, for the equal and ratable benefit and security of all present and future Holders of Bonds issued pursuant to the provisions of the General Ordinance and each Supplemental Ordinance, without preference, priority or distinction of any one Bond over any other Bond; provided however, that the pledge of the General Ordinance may also be for the benefit of the provider of a Credit Facility, Standby Agreement or Qualified Swap (other than with respect to termination amounts payable to a Qualified Swap Provider due as a result of termination of a Qualified Swap), or any other person who undertakes to provide moneys for the account of the City for the payment of principal or redemption price of and interest on any Series of Bonds, on an equal and ratable basis with Bonds, to the extent provided by any Supplemental Ordinance or Determination.

Amounts constituting (i) Payments-in-Aid of Outside Terminal Area may be withdrawn from the pledge of the General Ordinance, and (ii) revenues, rents, rates, tolls or other charges generated or allocable to the Outside Terminal Area or Overseas Terminal may be pledged under the General Ordinance as Project Revenues, only if there shall be delivered to the Fiscal Agent: (A) a written statement, supported by appropriate schedules and summaries, that on the basis of historical, and estimated future annual financial operations of the Airport System, from which Amounts Available for Debt Service are to be derived, the Airport System will, in the opinion of the Consultant, yield Amounts Available for Debt Service for each of the five Fiscal Years (or three Fiscal Years in the event that the Consultant is professionally unable to provide an opinion for a period in excess of three Fiscal Years) ended immediately following the withdrawal from the pledge of amounts described in clause (i) above, or the pledge of amounts described in clause (ii) above, sufficient to comply with the Rate Covenant and (B) for so long as any of the Use and Lease Agreements are in effect, with the prior written consent of the Scheduled Airlines to amend the Use and Lease Agreements so that they reflect the foregoing modifications. For purposes of clause (ii) above and the statement in clause (A) above, the definition of "Operating Expenses" shall be deemed to include projected operating expenses of the Outside Terminal Area and/or Overseas Terminal, and Debt Service Requirements shall be deemed to include the debt service on any Bonds assumed or to be assumed under the General Ordinance, and any Qualified Swap, Credit Facility or Standby Agreement related thereto which is secured by a parity pledge of Project Revenues.

Neither the Bonds nor the City's reimbursement or other contractual obligations under any Credit Facility, Standby Agreement, Qualified Swap or Exchange Agreement shall constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any Constitutional or statutory provision or limitation of indebtedness. No Bondholder or beneficiary of any of the foregoing agreements shall ever have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal and redemption price of or interest on the Bonds or the making of any payments under the General Ordinance. The Bonds and the obligations evidenced thereby and by the foregoing agreements, shall not constitute a lien on any property of or in the City, except as set forth in this section.

Bonds to be Parity Bonds

All Bonds issued under the General Ordinance shall be parity Bonds equally and ratably secured by the pledge of and grant of the security interest described in the preceding section, except as provided for in the preceding section and the section below entitled "Sinking Fund Reserve Account" without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Bond over any other Bond or as between principal and interest.

Subordinate Obligations issued pursuant to a Subordinate Obligation Ordinance shall be secured (i) by a pledge of and grant of the security interest in Project Revenues to the extent required to be deposited in the Subordinate Obligations Fund and (ii) the amounts on deposit in or credited to the Subordinate Obligations Fund subject and subordinate to the payment of the amounts described in clauses (a) through (d) of the section below entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts" from Amounts Available for Debt Service and subject to the elimination of any deficiency in any fund or account established under the General Ordinance or under any Supplemental Ordinance.

Pursuant to the General Ordinance, the City reserves the right, and nothing in the General Ordinance shall be construed to impair such right, to finance improvements to the Airport System by the issuance of its General Obligation Bonds, NSS General Obligation Bonds, Special Facility Revenue Bonds or Subordinate Obligations under ordinances other than Supplemental Ordinances; provided that in the case of any Airport System revenue bonds or notes for the payment of which Project Revenues shall be used or pledged, payment of such Airport System revenue bonds shall be subject and subordinate to the payment from such Project Revenues of the payments described in the section below entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts" and subject to the elimination of any deficiency in any fund or account established under the General Ordinance or under any Supplemental Ordinance.

Establishment of Funds and Accounts

The following funds and accounts are established pursuant to the General Ordinance and shall be held by the City: (a) Aviation Operating Fund; (b) Aviation Capital Fund; and (c) Rebate Fund.

The following funds and accounts are established pursuant to the General Ordinance or, have heretofore been established and shall be maintained by the Fiscal Agent: (a) Sinking Fund and within such Sinking Fund, a Sinking Fund Reserve Account, a Debt Service Account and a Charges Account; (b) Subordinate Obligation Fund; and (c) Renewal Fund.

On the Effective Date of the General Ordinance, the City transferred or caused to be transferred or credited on its books and records all amounts maintained in or credited to the funds and accounts created under the General Airport Revenue Bond Ordinance of 1978 as set forth in the General Ordinance.

Nothing in the General Ordinance shall be construed to prevent the City from establishing, in connection with the issuance of one or more Series of Bonds, additional funds or accounts to be held for the benefit of one or more Series of Bonds issued under the General Ordinance, as set forth in Supplemental Ordinances; provided that, no such additional funds or accounts shall be established unless, in the opinion of Bond Counsel, establishment of additional funds or accounts would not (i) adversely affect the exclusion of interest on Bonds, if any, from gross income for federal income tax purposes, or (ii) materially adversely affect the security or interests of Bondholders. If required by law, rules or regulations, the City shall establish and maintain a separate account within the Sinking Fund for pledged Passenger Facility Charges.

Segregation of Aviation Funds; Deposit of Project Revenues into Aviation Operating Fund.

(a) The Aviation Funds shall be held separate and apart from all other funds and accounts of the City and the Fiscal Agent and the funds and accounts therein shall not be commingled with, loaned or transferred among themselves or to any other City funds or accounts except as expressly permitted in the General Ordinance.

(b) The City shall, upon receipt of any Project Revenues, deposit such Project Revenues into the Aviation Operating Fund. Any Passenger Facility Charges that constitute Amounts Available for Debt Service under the General Ordinance, shall be deposited directly into the appropriate account or subaccount of the Sinking Fund to the extent required to pay debt service on Bonds. The City and Fiscal Agent also shall cause to be deposited into the Aviation Operating Fund, Sinking Fund Reserve Account, Sinking Fund, and Renewal Fund proceeds of Bonds as designated by Supplemental Ordinance or Determination and any other funds directed to be deposited into the Aviation Operating Fund, Sinking Fund Reserve Account, Sinking Fund, or Renewal Fund by the City. The Fiscal Agent shall, at the written direction of the City, disburse from the Aviation Operating Fund the amounts and at the times specified below in the section entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts."

(c) (i) If at any time sufficient moneys are not available in the Aviation Operating Fund to pay Operating Expenses and to make the transfers required by the section below entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts", or if a deficiency exists in the Aviation Capital Fund, then, subject to the requirements of (ii) and (iii) below, amounts on deposit in the Aviation Capital Fund and Renewal Fund may be loaned, at the written direction of the City, to the Aviation Operating Fund for the payment of such Operating Expenses and to make transfers required by the section below entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts", to the extent of the deficiency, and amounts on deposit in the Aviation Operating Fund and Renewal Fund may be loaned, at the written direction of the City, to the Aviation Capital Fund, to the extent of the deficiency. Notwithstanding anything to the contrary in this subparagraph (c), during any Fiscal Year, loans from the Aviation Capital Fund and loans from the Aviation Operating Fund pursuant to this section at any time shall not exceed in the aggregate 5% of the Division of Aviation's budgeted Operating Expenses net of Debt Service Requirements for such Fiscal Year.

(ii) Loans from the Aviation Capital Fund to the Aviation Operating Fund shall be made only to the extent of unencumbered capital amounts in the Aviation Capital Fund, and may be spent only for purposes authorized under applicable federal, state and local law. Any amounts borrowed from the Aviation Capital Fund shall be repaid on the earlier to occur of: (1) the date the funds are required by the Division of Aviation for purposes of the Aviation Capital Fund, (2) the date proceeds of Bonds, bonds or notes become available to the City for reimbursement of the expenditures made with the money borrowed, or (3) the last day of the twelve-month period beginning on the date the loan was made, in which case repayment may be made from the Renewal Fund;

(iii) Loans from the Aviation Operating Fund to the Aviation Capital Fund shall be made only to the extent of any surplus in the Aviation Operating Fund; provided that a Consultant delivers a written certification to the Fiscal Agent that the Division of Aviation will have, after making the loan, sufficient funds in the Aviation Operating Fund to pay all Operating Expenses when payable and the Debt Service Requirements up to and including the later of: the last day of the Fiscal Year in which the loan takes place or, the next interest payment date. Amounts loaned to the Aviation Capital Fund shall be used for the following purposes: (1) capital projects previously approved by the Scheduled Airlines in accordance with the Use and Lease Agreements, or (2) capital projects for which an appropriation has been made. Any amounts borrowed shall be repaid no later than the date the funds are required by the Division of Aviation for purposes of the Aviation Operating Fund.

Transfer from Aviation Operating Fund to Other Funds and Accounts. Amounts on deposit in the Aviation Operating Fund Operating Fund shall be applied by the City or the Fiscal Agent, as the case may be, in the following manner and in the following order of priority:

(a) to pay operating expenses of the Outside Terminal Area and Overseas Terminal from amounts not constituting Project Revenues so long as revenues, rates, tolls or other charges generated or allocable to such areas are not pledged Project Revenues;

(b) to pay such sums constituting Net Operating Expenses in a timely manner;

(c) for deposit in the appropriate accounts of the Sinking Fund, the amount necessary to provide for the timely payment of Debt Service Requirements;

(d) for deposit in the Sinking Fund Reserve Account or the appropriate subaccount thereof, the amount, if any, required to eliminate any deficiencies therein; provided, however, in the event there are insufficient amounts available to replenish all of the accounts or subaccounts within the Sinking Fund Reserve Account, the amount to be deposited in each Sinking Fund Reserve Account or subaccount shall be determined by dividing the Sinking Fund Reserve Requirement on the Outstanding Bonds secured thereby by the sum of the Sinking Fund Reserve Requirements on all Bonds Outstanding under the General Ordinance and multiplying that result by the total amount available to be deposited under subparagraph (d);

(e) for deposit in the Renewal Fund, the amount, if any, required to eliminate any deficiency therein, and to pay amounts due and payable under Exchange Agreements;

(f) To pay termination amounts to a Qualified Swap Provider due as a result of the termination of a Qualified Swap and termination amounts payable to JP Morgan Chase Bank – New York with respect to Payments upon Early Termination on the Interest Rate Swap Transaction effective June 15, 2005;

(g) for deposit in the Subordinate Obligation Fund (i) the amount necessary to provide for the timely payment of the principal or redemption price of and interest on Subordinate Obligations, (ii) on or before the dates that other payments are due under any credit facility, liquidity facility or swap agreement constituting Subordinate Obligations, to deposit the amount necessary to make such payments, (iii) forward to the paying agent in respect of bond anticipation notes (payable by exchange for, or out of the proceeds of the sale of Subordinate Obligations) the amount necessary to provide for the timely payment of interest thereon (to the extent not capitalized), and (iv) deposit in the applicable subaccount of the sinking fund reserve account for a series of Subordinate Obligations the amounts, if any, required to eliminate any deficiency in such account;

(h) to pay to the City the amount necessary to provide for the timely payment of the principal or redemption price of and interest on General Obligation Bonds;

(i) to pay any Interdepartmental Charges;

(j) to pay to the City the amount necessary to provide for the timely payment of the principal or redemption price of and interest of other general obligation debt incurred for the Airport System; and

(k) any amounts remaining in the Aviation Operating Fund following any transfer then required to be made pursuant to subparagraphs (a)-(j) above, may be used at the written direction of the City for any Airport System purposes.

Notwithstanding anything in the foregoing to the contrary, termination amounts payable to a Qualified Swap Provider due as a result of termination of a Qualified Swap may be payable in any order of priority as determined by the City; provided that in no event shall such termination amounts be payable prior to any payments or deposits required in subparagraphs (a)-(e) above.

The City shall establish expenditure authority from the Aviation Operating Fund to enable it to pay Operating Expenses and the other items permitted by this section. Notwithstanding the foregoing, nothing in the General Ordinance shall prevent the City from directing the transfer of amounts on deposit in any fund or account established under the General Ordinance into the Rebate Fund in the amounts and at the time specified by Section 4.14 thereof.

Sinking Fund. Except as set forth in Sections 4.02, 4.04 and 4.09 of the General Ordinance, the Sinking Fund shall be a consolidated fund for the equal and proportionate benefit of the Holders of all Bonds from time to time Outstanding, Credit Facilities, Standby Agreements, and Qualified Swap Agreements secured by a parity pledge of Project Revenues and payable pursuant to subparagraph (c) of the section above entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts", and each account therein may be invested and reinvested on a consolidated basis in accordance with Section 9 of the Act.

The Fiscal Agent, as directed by the City by Supplemental Ordinance, Determination or other written direction, shall pay out of the Debt Service Account of the Sinking Fund to the designated paying agent or agents (i) on or before each interest payment date for any of the Bonds the amount required for the interest payable on such date; and (ii) on or before each principal, redemption or prepayment date for any Bonds, the amount required for the principal, redemption or prepayment payable on such date, and (iii) on or before the respective due dates the amounts, if any, due under any Swap Agreements (other than termination amounts payable to a Qualified Swap Provider due as a result of termination of a Qualified Swap). Such amounts shall be applied by the designated paying agent or agents on the due dates thereof. The Fiscal Agent shall also pay out of the Debt Service Account of the Sinking Fund the accrued interest included in the purchase price of Bonds purchased for retirement and on or before the due dates any amounts owing by the City under any Credit Facility or Standby Agreement, payable from the Debt Service Account, on account of advances to pay principal of or interest or redemption premium on Bonds.

Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) if so directed by the City, shall be applied by the Fiscal Agent, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to the purchase of Bonds of the Series, maturity and interest rate within each maturity for which such Sinking Fund Installment was established. All purchases of Bonds pursuant to this paragraph shall be made at prices not exceeding the applicable sinking fund redemption price of such Bonds plus accrued interest, and such purchases shall be made by the Fiscal Agent as directed by the City. As soon as practicable after the 42nd day preceding the due date of any such Sinking Fund Installment, the Fiscal Agent shall proceed to call for redemption, by giving notice as provided in Section 6.03 of the General Ordinance, on such due date Bonds of the Series, maturity and interest rate within each maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment after making allowance for any Bonds purchased pursuant to Section 4.10 of the General Ordinance which the City has directed the Fiscal Agent to apply as a credit against such Sinking Fund Installment as provided in Section 4.08 thereof. The Fiscal Agent shall pay out of the Sinking Fund to the appropriate paying agent or agents, on or before such redemption date (or maturity date) the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing) and such amount shall be applied by such paying agent or agents to such redemption (or payment). All expenses in connection with the purchase or redemption of Bonds shall be paid by the City from Amounts Available for Debt Service, or other amounts available therefor.

In the event of the refunding of any Bonds, the Fiscal Agent shall, if the City so directs in writing, withdraw from the Sinking Fund all, or any portion of, the amounts accumulated therein with respect to principal or interest on the Bonds being refunded and deposit such amounts with itself or another financial institution serving as escrow agent to be held for the payment of the principal or redemption price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to Section 11.01 of the General Ordinance. In the event of a refunding, the City may also direct the Fiscal Agent to withdraw from the Sinking Fund all, or a portion of, the amounts accumulated therein with respect to principal and interest on the Bonds being refunded and deposit such amounts in any fund or account established under the General Ordinance.

If any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity or otherwise or at the date fixed for redemption thereof, if moneys sufficient to pay such Bond shall have been deposited with the Fiscal Agent, it shall be the duty of the Fiscal Agent to hold such moneys, without liability to the City, any Bondholder or any other person for interest thereon, for the benefit of the owner of such Bond. Notwithstanding the foregoing, any moneys in the Sinking Fund for the payment of the interest, principal or redemption premium of Bonds unclaimed for two (2) years after the due date shall be repaid to the Aviation Operating Fund but such repayment shall not discharge the obligation, if any, for which such moneys were previously held in the Sinking Fund; provided, however, that such repayment shall not be made unless, at the time of such repayment, there shall exist no deficiency in any fund or account established under the General Ordinance or any Supplemental Ordinance.

The Fiscal Agent shall pay, solely out of the Charges Account to the appropriate payees any fees, expenses and other amounts due and payable from the Charges Account, under any Credit Facility or Standby Agreement, with respect to Bonds, to the extent such amounts are not paid from the Debt Service Account.

Credits Against Sinking Fund Installments. If at any time Bonds of any Series or maturity for which Sinking Fund Installments shall have been established are purchased or redeemed other than pursuant to the third paragraph of the section above entitled "Sinking Fund" or are deemed to have been paid pursuant to Section 11.01 of the General Ordinance and, with respect to such Bonds which have been deemed paid, irrevocable instructions have been given to the Fiscal Agent to redeem or purchase the same on or prior to the due date of the Sinking Fund Installment to be credited under this section, the City may from time to time and at any time by written notice to the Fiscal Agent specify the portion, if any, of such Bonds so purchased, redeemed or deemed to have been paid and not previously applied as a credit against any Sinking Fund Installment which are to be credited against future Sinking Fund Installments. Such notice shall specify the amounts of such Bonds to be applied as a credit against such Sinking Fund Installment or Sinking Fund Installments and the particular Sinking Fund Installment or Installments against which such Bonds are to be applied as a credit; provided, however that none of such Bonds may be applied as a credit against a Sinking Fund Installment to become due less than forty-two (42) days after such notice is delivered to the Fiscal Agent. All such Bonds to be applied as a credit shall be surrendered to the Fiscal Agent for cancellation on or prior to the due date of the Sinking Fund Installment against which they are being applied as a credit. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

Sinking Fund Reserve Account. There is created under the General Ordinance a parity Sinking Fund Reserve Account within the Sinking Fund to be known as the "Parity Sinking Fund Reserve Account." Unless the applicable Supplemental Ordinance designates a Non-Parity Sinking Fund Reserve Requirement, the City shall deposit, or cause to be deposited in the Parity Sinking Fund Reserve Account from the proceeds of the sale of each Series of Bonds, or from other amounts available therefor, an amount which, when added to the existing balance in the Parity Sinking Fund Reserve Account, will be equal to the Parity Sinking Fund Reserve Requirement immediately after the issuance of such Series of Bonds. All amounts in the Parity Sinking Fund Reserve Account shall be available to pay the principal, redemption price or interest on any other Series of Bonds secured by the Parity Sinking Fund Reserve Account.

If a Supplemental Ordinance for a Series of Bonds designates a Non-Parity Sinking Reserve Requirement for such Series of Bonds, the Supplemental Ordinance pursuant to which such Bonds were issued shall either create a separate Non-Parity Sinking Fund Reserve Subaccount, or create or designate a previously created subaccount within the Sinking Fund Reserve Account. Notwithstanding anything to the contrary in this section, the City shall not create a Non-Parity Sinking Fund Reserve Account or designate a Non-Parity Sinking Fund Reserve Requirement unless the City first obtains written confirmation from S&P (such confirmation shall only be required if S&P is then rating Bonds Outstanding under the General Ordinance) that such action, in and of itself, will not result in a downgrade, suspension or withdrawal of the credit rating on any Bonds Outstanding under the General Ordinance. The City shall, under direction of the Director of Finance, deposit in the specified Non-Parity Sinking Fund Reserve Subaccount created pursuant to any Supplemental Ordinance, the amount required to be deposited pursuant to the Supplemental Ordinance for such Series of Bonds. The money and investments in each Non-Parity Sinking Fund Reserve Subaccount shall be held and maintained in an amount equal at all times to the applicable

Non-Parity Sinking Fund Reserve Requirement for such Series secured thereby, as provided in the Supplemental Ordinance authorizing such Series of Bonds. All amounts in each Non-Parity Sinking Fund Reserve Subaccount shall be available solely to secure the Bonds specified in the Supplemental Ordinance pursuant to which such subaccount was created.

If at any time and for any reason, the moneys in the Debt Service Account of the Sinking Fund shall be insufficient to pay as and when due, the principal of (and premium, if any) or interest on any Bond or Bonds or other obligations payable from the Debt Service Account then due (including any amounts payable out of the Sinking Fund under Swap Agreements), the Fiscal Agent is authorized and directed (i) with respect to Bonds secured by the Parity Sinking Fund Reserve Account, to withdraw an amount equal to the deficiency from the Parity Sinking Fund Reserve Account, and use such amount to pay debt service on the Bonds secured thereby, and (ii) with respect to Bonds secured by a Non-Parity Sinking Fund Reserve Subaccount, to withdraw an amount equal to the deficiency from such Non-Parity Sinking Fund Reserve Subaccount and use such amount to pay debt service on the Bonds secured thereby. If by reason of such withdrawal or for any other reason there shall be a deficiency in the Sinking Fund Reserve Account or any subaccount thereof, the City covenants to restore such deficiency promptly from Project Revenues, in no event later than the next interest payment date for Bonds Outstanding under the General Ordinance.

Any money in the Sinking Fund Reserve Account or any subaccount thereof in excess of the applicable Sinking Fund Reserve Requirement shall be transferred on an annual basis to the Debt Service Account of the Sinking Fund at the written direction of the City.

Notwithstanding the foregoing provisions, in lieu of the required deposits into the Sinking Fund Reserve Account or any subaccount thereof, the City may cause to be deposited into any account or subaccount of the Sinking Fund Reserve Account an unconditional and irrevocable surety bond or an insurance policy payable to the Fiscal Agent for the account of the Holders of the Series of Bonds in question or an irrevocable letter of credit in an amount equal to the difference between the Sinking Fund Reserve Requirement for the related Series of Bonds and the remaining sums, if any, then on deposit in the applicable account or subaccount of the Sinking Fund Reserve Account. The surety bond, insurance policy or letter of credit (each, a "Sinking Fund Reserve Facility") shall be payable (upon the giving of notice as required thereunder) on any payment date on which moneys will be required to be withdrawn from the applicable account or subaccount of the Sinking Fund Reserve Account and applied to the payment of debt service on the related Series of Bonds and such withdrawal cannot be met by amounts on deposit in the applicable account or subaccount of the Sinking Fund Reserve Account or provided from amounts held in any other Fund under the General Ordinance that are available to pay debt service on such Series of Bonds.

The insurer providing such surety bond or insurance policy shall be an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in not lower then the second highest rating category (without regard to gradations) by Moody's and S&P (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is, at the time in question, rating Bonds Outstanding under the General Ordinance). The letter of credit issuer shall be a bank or trust company which is rated not lower than the second highest rating category (without regard to gradations) by Moody's and S&P (however, the rating by Moody's and S&P, or either of them, shall only be required to the extent such Rating Agency is, at the time in question, rating Bonds Outstanding under the General Ordinance), and the letter of credit itself shall be rated in at least the second highest category of such Rating Agencies. If a disbursement is made pursuant to a Sinking Fund Reserve Facility provided pursuant to this subsection, the City shall be obligated either (i) to reinstate the maximum limits of such Sinking Fund Reserve Facility or (ii) to deposit into the applicable account or subaccount of the Sinking Fund Reserve Account, funds in the amount of the disbursement made under such Sinking Fund Reserve Facility, or a combination of such alternatives, as shall provide that the amount in the applicable account or subaccount of the Sinking Fund Reserve Account equals the Sinking Fund Reserve Requirement for the related Series of Bonds within a time period not longer than would be required to restore the applicable account or subaccount of the Sinking Fund Reserve Account by operation of this section and from the same source of funds as provided herein. Upon the occurrence of any reduction or suspension of any credit rating with respect to such Sinking Fund Reserve Facility (or the provider thereof) required by this section, the City shall replace the Sinking Fund Reserve Facility with a new one that meets the aforesaid rating requirements; provided however that with respect to any letter of credit that is a Sinking Fund Reserve Facility, the City may in lieu of replacing such Sinking Fund Reserve Facility, cause the Sinking Fund

Reserve Facility to be drawn upon to the full extent possible and deposit such monies in the subaccount of the Sinking Fund Reserve Account in which the Sinking Fund Reserve Facility was held. In addition, 30 days prior to the expiration date of any Sinking Fund Reserve Facility, that is a letter of credit the City shall either extend the term of such Sinking Fund Reserve Facility by at least one year or deposit cash in the face amount of the Sinking Fund Reserve Facility in question in the appropriate account or subaccount of the Sinking Fund Reserve Account in replacement of such Sinking Fund Reserve Facility, and if the City fails to take either of such actions by such date, the Fiscal Agent shall within five Business Days thereafter draw down upon the Sinking Fund Reserve Facility that is a letter of credit to the full extent possible and deposit the proceeds of such draw in the appropriate subaccount of the Sinking Fund Reserve Account.

Subordinate Obligation Fund. Subject to the third paragraph of this section, the Fiscal Agent upon direction of the Director of Finance, shall apply amounts in the Subordinate Obligation Fund to the payment of the principal of, redemption premium, if any, and interest on Subordinate Obligations and to payments due under any credit facility, qualified swap or standby agreement in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided, in the Subordinate Obligation Ordinance or Supplemental Ordinance or Determination.

At any time and from time to time the City may deposit in the Subordinate Obligation Fund for the payment of Subordinate Obligations amounts received from any source other than Project Revenues which is not inconsistent with the General Ordinance, any Supplemental Ordinance or any Subordinate Obligation Ordinance or Determination.

If at any time the amounts in the Sinking Fund shall be less than the current requirement of such fund pursuant to subparagraphs (b) and (c) of Section 4.06 of the General Ordinance and there shall not be on deposit in the Sinking Fund Reserve Account, the Aviation Operating Fund or the Renewal Fund available moneys sufficient to cure such deficiency, then the Fiscal Agent shall withdraw from the Subordinate Obligation Fund and deposit in the Sinking Fund the amount necessary (or all the moneys in said fund, if less than the amount necessary) to eliminate such deficiency.

Any moneys in the Subordinate Obligation Fund for the payment of Subordinate Obligations, unclaimed for two (2) years after the due date shall be repaid to the City but such repayment shall not discharge the obligation, if any, for which such moneys were previously held in the Subordinate Obligation Fund; provided, however, that such repayment shall not be made unless, at the time of such repayment, there shall exist no deficiency in any fund or account established under the General Ordinance, any Supplemental Ordinance or any Subordinate Obligation Ordinance.

Aviation Capital Fund. Proceeds of Bonds issued for capital purposes shall be deposited into the Aviation Capital Fund and disbursed according to established procedures of the City for purposes permitted by the Act, other applicable law and the Bonds and such other purposes as are permitted under the General Ordinance.

Renewal Fund. All amounts credited to the Renewal Fund on or after the Effective Date shall be maintained in accordance with this section. Payments from the Renewal Fund shall be made only for the following purposes: (a) to pay the cost of major repairs, renewals and replacements of Airport System facilities for purposes of meeting unforeseen contingencies and emergencies arising from the operation of the Airport System, or (b) to pay expenses chargeable as Operating Expenses if Project Revenues are insufficient, for whatever reason to cover such Operating Expenses in any Fiscal Year, (c) to pay debt service on the Bonds, or (d) to repay any loan in accordance with Section 4.05(c)(ii)(3) of the General Ordinance.

The City shall withdraw from the Renewal Fund the sum or sums necessary to make such payments and shall apply the same to such purpose. If by reason of such withdrawal or any other reason, funds on deposit in the Renewal Fund are less than the Renewal Fund Requirement, the City shall deposit in the Renewal Fund the amount of such deficiency, but only from Project Revenues as the same shall become available, by regular quarterly deposits which shall not be required to exceed the total of $500,000 in any Fiscal Year, and the availability of which shall be determined in accordance with the priorities specified in the section herein entitled "Transfer from Aviation Operating Fund to Other Funds and Accounts."

If at any time the moneys and investments in the Renewal Fund are in excess of the Renewal Fund Requirement, the amount of such excess on order of the Director of Finance, shall be paid over by the City to the Debt Service Account of the Sinking Fund, to be used and applied as are all other moneys deposited in or on deposit therein.

Rebate Fund. The Rebate Fund shall be maintained by the City for so long as any Series of Bonds is Outstanding, and for sixty (60) days thereafter (or such other period as may be specified by the Code and applicable regulations), for the purpose of paying to the United States Treasury the amount required to be rebated pursuant to Section 148(f) of the Code. All amounts in the Rebate Fund, including income earned from investment of amounts in the Rebate Fund, shall be held by the City free and clear of the lien created by the General Ordinance.

Management of Funds and Accounts. The moneys on deposit in the funds and accounts established under the General Ordinance, to the extent not currently required, shall be invested and secured as required by Section 9 of the Act, all at the direction and under the management of the Director of Finance or such other chief fiscal officer of the City as may hereinafter be established.

Investment of Funds and Accounts. All moneys deposited in any fund or account established under the General Ordinance or under any Supplemental Ordinance may be invested by the City or by the Fiscal Agent, at the oral (confirmed in writing promptly thereafter) or written direction of the City, in any Permitted Investments (except as otherwise provided in the General Ordinance with respect to the Sinking Fund, Sinking Fund Reserve Account and Rebate Fund); provided that any investments with respect to amounts on deposit in the Sinking Fund (other than the Sinking Fund Reserve Account) shall mature or shall be subject to redemption by the holder thereof upon demand at par no later than the date when such amounts are needed for the purposes of such funds or accounts.

Interest earnings on amounts on deposit (i) in the Aviation Operating Fund shall be credited to the Aviation Operating Fund; (ii) in the Sinking Fund shall be credited to the Sinking Fund to the extent needed to meet Debt Service Requirements and additional interest earnings may be credited to the Aviation Operating Fund so long as such credit will not adversely impact the tax-exempt status of tax-exempt Bonds Outstanding under the General Ordinance; (iii) in the Sinking Fund Reserve Account shall be credited to the Sinking Fund Reserve Account to the extent needed to satisfy the Sinking Fund Reserve Requirements and additional interest earnings shall be credited to the Debt Service Account of the Sinking Fund; (iv) in the Subordinate Obligation Fund shall be credited to the Subordinate Obligation Fund to the extent needed to satisfy payment provisions for the Subordinate Obligations and additional interest earnings may be credited to the Aviation Operating Fund; (v) in the Renewal Fund, shall be credited to the Renewal Fund to the extent needed to meet the Renewal Fund Requirements and any additional interest earnings shall be credited to the Debt Service Account of the Sinking Fund; (vi) in the Aviation Capital Fund shall be credited to the appropriate account of the Aviation Capital Fund; and (vii) in the Rebate Fund shall be credited to the Rebate Fund.

Valuation of Funds and Accounts. In computing the assets of any fund or account established under the General Ordinance, investments and accrued interest thereon shall be deemed a part thereof. Such investments shall be valued on June 30 of each Fiscal Year at the lower of the cost or current market value thereof if the applicable maturity is more than one (1) year and at par if the applicable maturity is equal to or less than one (1) year plus accrued interest, or at the redemption price thereof, if then redeemable at the option of the holder; provided that investments in any reserve fund or reserve account of the Sinking Fund established pursuant to a Supplemental Ordinance may be valued as provided in the Supplemental Ordinance establishing it. The annual valuation shall apply for all purposes of the General Ordinance except if Bonds are issued or a fund deficit occurs based on the annual valuation, in which cases a valuation shall be made on the date Bonds are issued or the deficit is eliminated, as the case may be.

Covenants of City

Rate Covenant.

(a) The City covenants with Bondholders that it will, at a minimum, impose, charge and recognize as revenues in each Fiscal Year such rentals, charges and fees as shall, together with that portion of the Aviation Operating Fund balance attributable to Amounts Available for Debt Service and carried forward at the beginning of such Fiscal Year and together with all other Amounts Available for Debt Service to be received in such Fiscal Year, equal to not less than the greater of:

(1) The sum of:

(i) all Net Operating Expenses payable during such Fiscal Year;

(ii) 150% of the amount required to pay the Debt Service Requirements during such Fiscal Year;

(iii) the amount, if any, required to be paid into the Sinking Fund Reserve Account during such Fiscal Year; and

(iv) the amount, if any, required to be paid into the Renewal Fund during such Fiscal Year; or

(2) The sum of:

(i) all Operating Expenses payable during such Fiscal Year; and

(ii) (A) all Debt Service Requirements during such Fiscal Year (B) all debt service requirements during such Fiscal Year in respect of all outstanding General Obligation Bonds issued for improvements to the Airport System and all outstanding NSS General Obligation Bonds issued for improvements to the Airport System, exclusive of General Obligation Bonds and NSS General Obligation Bonds issued for improvements to the Outside Terminal Area and the Overseas Terminal, unless revenues, rents, rates, tolls or other charges generated by or allocable to the Overseas Terminal and the Outside Terminal Area are pledged in a Supplemental Ordinance in accordance with Section 4.02 of the General Ordinance, (C) all debt service requirements during such Fiscal Year on Subordinate Obligations and any other subordinate indebtedness secured by any Amounts Available for Debt Service, (D) all amounts required to repay loans among funds made pursuant to Section 4.05(c) of the General Ordinance, (E) the amount, if any, required to be paid into the Sinking Fund Reserve Account or Renewal Fund during such Fiscal Year and (F) all amounts required to be paid under Exchange Agreements.

Provided, however, if (i) the written election of the City is obtained and filed with the Fiscal Agent, and (ii) so long as any Use and Lease Agreements or the UPS Agreement is in effect, the prior written consent of the Scheduled Airlines and UPS (provided that the written consent of UPS shall be obtained only to the extent required, as determined in the sole discretion of the City) to amend the Use and Lease Agreements is obtained, then the foregoing rate covenant shall no longer be effective, and the rate covenant in the section below entitled "Alternative Rate Covenant" shall be substituted in lieu of the foregoing for all purposes.

(b) (1) In the event that any Bonds Outstanding are, or any proposed series of Bonds, are to be Balloon Bonds, then Debt Service Requirements on such Balloon Bonds shall be calculated for purposes of projecting compliance with this section or the section below entitled "Conditions of and Provisions Relating to Issuing Bonds", or for purposes of determining the Sinking Fund Reserve Requirement for a particular series of Balloon Bonds, whether for any period prior to or after the date of calculation, as follows:

(i) If such Balloon Bonds are not Capital Appreciation Bonds, by assuming that such Bonds will be amortized on the basis of level debt service over the Assumed Amortization Period beginning on the date on which principal on Balloon Bonds is payable and that such Bonds bear interest at the Assumed Interest Rate; and

(ii) If such Balloon Bonds are Capital Appreciation Bonds, by assuming that the Accreted Value of such Bonds at maturity is to be amortized on the basis of level principal payments over the Assumed Amortization Period.

(2) The City shall be entitled to assume, in calculating Debt Service Requirements on any Variable Rate Bonds for purposes of projecting compliance with this section or funding the Sinking Fund Reserve Account, that such Variable Rate Bonds will bear interest at a rate equal to (i) the average interest rate on the Variable Rate Bonds during the period of twenty-four (24) consecutive calendar months preceding the date of calculation or (ii) if the Variable Rate Bonds were not Outstanding during the entire twenty-four (24) month period, the average interest rate on the Variable Rate Bonds since their date of issue or (iii) such other rate as may be specified in a Supplemental Ordinance or Determination.

(3) If a series of Bonds to be issued will be Variable Rate Bonds, then for purposes of calculating the Debt Service Requirements on the proposed series of Bonds under this section or the section below entitled "Conditions of and Provisions Relating to Issuing Bonds", the rate of interest to be borne by such Variable Rate Bonds shall be deemed to be the Bond Buyer's 25 Bond Revenue Index, or any successor standard index for long-term, tax exempt, investment grade revenue bonds for a date within 90 days of the issuance of such Variable Rate Bonds.

The City represents that it has, by its Code of Ordinances, as amended, authorized the imposition of rents, rates, fees and charges by the Department of Commerce by contract, lease or otherwise sufficient from time to time to comply with the Rate Covenant and covenants with the Holders of Bonds that it will not repeal or materially adversely dilute or impair such authorization.

Operation of System

The City covenants with the Holders of all Bonds Outstanding under the General Ordinance that so long as such Bonds shall remain Outstanding it will continuously maintain the Airport System or cause the Airport System to be maintained in good condition and will continuously operate the Airport System or cause the Airport System to be operated; provided that the City may dispose of such portions of the Airport System which are no longer necessary or required for Airport purposes; and provided further that this covenant shall not apply to any portion of the Airport System assigned or conveyed pursuant to Article IX of the General Ordinance.

Conditions of and Provisions Relating to Issuing Bonds

The City covenants with the Holders of all Bonds Outstanding under the General Ordinance that so long as any such Bonds shall remain Outstanding it will not issue or assume any Series of Bonds thereunder without first complying with the conditions set forth in subparagraphs (a) through (d) below and further covenants to comply with the provisions of subparagraphs (e) through (h) below:

(a) *Enactment of Supplemental Ordinance*. Prior to the issuance or assumption of any Series of Bonds (but only following the filing of the report and opinion required by Section 8 of the Act) the City shall enact a Supplemental Ordinance meeting the requirements of Section 5.04(a) of the General Ordinance.

(b) *Filing of Transcript*. Prior to the issuance or assumption of any Series of Bonds, the Director of Finance shall, in addition to the filing requirements of Section 12 of the Act, file with the Fiscal Agent a transcript of the proceedings authorizing the issuance of such Series of Bonds meeting the requirements of Section 5.04(b) of the General Ordinance.

(c) *Delivery of Consultant's Report*. Prior to the issuance or assumption of any Series of Bonds pursuant to a Supplemental Ordinance (except that no Consultant's report shall be required in the case of issuance of any Series of Bonds for the purpose of refunding another Series of Bonds so long as the City certifies in writing that the Debt Service Requirements in any year on the proposed refunding Bonds do not exceed the Debt

Service Requirements in any such year on the Bonds to be refunded), the City shall cause to be filed with the Fiscal Agent a report of Consultants setting forth the qualifications of the Consultants and containing, among other things, a statement, supported by appropriate schedules and summaries, that, on the basis of historical and estimated future annual financial operations of the Aviation System from which pledged Amounts Available for Debt Service are to be derived, (1) for either the immediately preceding Fiscal Year of the City, or any period of 12 full consecutive months during the 18-month period preceding the delivery of the Consultant's report, the Aviation System yielded pledged Amounts Available for Debt Service sufficient to satisfy the Rate Covenant, (2) no deficiency exists in the Sinking Fund Reserve Account and (3) the Airport System will, in the opinion of the Consultants, yield pledged Amounts Available for Debt Service for each of the five Fiscal Years (or three Fiscal Years in the event that the Consultant is professionally unable to provide an opinion for a period in excess of three Fiscal Years) ended immediately following the issuance or assumption of the Bonds, sufficient to comply with the Rate Covenant.

(d) *Opinions of Counsel*. Upon the issuance of any Series of Bonds, the City shall cause to be filed with the Fiscal Agent (i) an opinion of Bond Counsel to the effect that (1) the Bonds have been duly issued or assumed for a permitted purpose under the Act and the General Ordinance and (2) all conditions precedent to the issuance or assumption of the Bonds pursuant to the Act and the General Ordinance have been satisfied, and (ii) an opinion of the City Solicitor to the effect that (1) all documents delivered by the City in connection with the issuance of the Bonds have been duly and validly authorized, executed and delivered, (2) such execution and delivery and all other actions taken by the City in connection with the issuance of the Bonds have been duly authorized by all necessary actions of City Council, and (3) nothing has come to their attention that would lead them to believe that an event of default under the General Ordinance has occurred, and is continuing. The Fiscal Agent may conclusively rely upon such opinions.

(e) *Execution of Documents*. The Mayor, the City Solicitor, the City Controller, the Director of Finance and such other officers of the City as may be appropriate are authorized in connection with the issuance or assumption of any Series of Bonds under the General Ordinance to prepare, execute and file on behalf of the City such statements, documents, certificates or other material as may accurately and properly reflect the financial condition of the City or other matters relevant to the issuance or payment of such Bonds and as may be required or appropriate to comply with applicable State or Federal laws or regulation.

(f) *Disposition of Proceeds*. Unless otherwise provided in the applicable Supplemental Ordinance or Determination, accrued interest on Bonds shall be deposited in the Sinking Fund, an amount sufficient to satisfy the requirements of Section 4.09 of the General Ordinance shall be deposited in the Sinking Fund Reserve Account and the balance of the proceeds of the Bonds shall be deposited in the Bond Proceeds Account of the Aviation Capital Fund and shall be disbursed therefrom, in accordance with established procedures of the City, as provided in Section 4.11 of the General Ordinance, provided, however, that if such Bonds shall be issued for the purpose of funding or refunding Bonds previously issued by the City such proceeds shall, unless otherwise directed by the Supplemental Ordinance, be deposited in a special fund or account to be established with and held by the Fiscal Agent or another entity acting as an escrow agent and invested (if appropriate) and disbursed under the direction of the Director of Finance for the purpose of retiring the Bonds being funded or refunded.

(g) *Refunding Bonds*. If the City shall, by Supplemental Ordinance, authorize the issuance of refunding Bonds pursuant to Section 10 of the Act, in the absence of specific direction or inconsistent authorization in the Supplemental Ordinance, the Director of Finance is authorized by the General Ordinance in the name and on behalf of the City to take all such action, including the irrevocable pledge of proceeds and the income and profit from the investment thereof for the payment and redemption of the refunded Bonds, bonds or notes including the publication of all required redemption notices or the giving of irrevocable instructions therefor, as may be necessary or appropriate to accomplish the funding or refunding and to comply with the requirements of Section 10 of the Act.

(h) *Subordinate Obligations*. The City may, at any time, or from time to time, issue Subordinate Obligations for any purpose permitted under the Act pursuant to a Subordinate Obligation Ordinance. Subordinate Obligations shall be payable out of, and may be secured by a security interest in and a pledge and assignment of Project Revenues; provided, however, that any such security interest in and pledge and assignment of Project Revenues and amounts on deposit in the Subordinate Obligation Fund shall be, and shall be expressed to be, subordinate in all respects to the security interest in, and pledge and assignment of the Pledged Amounts for the security of Bonds.

Delivery of Reports

The City covenants with the Holders of all Bonds Outstanding under the General Ordinance that so long as such Bonds shall remain Outstanding it will, within one hundred twenty (120) days following the close of each Fiscal Year of the City or as soon thereafter as is practicable (not exceeding one hundred fifty (150) days following the close of each Fiscal Year), file with the Fiscal Agent a report of the operation of the Airport System exclusive of the Outside Terminal Area and the Overseas Terminal unless revenues, rents, rates, tolls or other charges generated by or allocable to the Overseas Terminal and Outside Terminal Area are pledged in a Supplemental Ordinance in accordance with Section 4.02 of the General Ordinance, setting forth, among other things, in reasonable detail financial data concerning, and consolidated for, the Airport System and the Cost Centers exclusive of the Outside Terminal Area and the Overseas Terminal unless revenues, rents, rates, tolls or other charges generated by or allocable to the Overseas Terminal and Outside Terminal Area are pledged in a Supplemental Ordinance in accordance with Section 4.02 of the General Ordinance for such Fiscal Year, including a statement of revenue, expenses, and net revenue (in each case not inconsistent with the statement of income, expenses, and other accounts of the City audited by the City Controller) prepared by the City or its Division of Aviation in accordance with the accrual basis of accounting adjusted to meet the particular requirements of the Use and Lease Agreements and the General Ordinance consistently applied, showing compliance with the Rate Covenant and containing any required information as to the Cost Centers prepared in accordance with the Cost Accounting System, accompanied by a certificate of the Director of Commerce that the Airport System is in good operating condition and by a certificate of the Director of Finance that as of the date of such report the City has complied with all of the covenants in the General Ordinance and in all Supplemental Ordinances on its part to be performed. Such report shall be furnished to the Fiscal Agent in such reasonable number of copies as shall be required to meet the written requests of Bondholders therefor on a first come first served basis.

Disposition of Insurance Proceeds and Proceeds from the Sale of Assets

In the event that any assets of the Airport System are destroyed or the City shall sell any assets of the Airport System (except in the event of the sale or transfer of all or substantially all of the assets of the Airport System under Section 9.01 of the General Ordinance), the City shall apply such amounts, at the direction of the Director of Finance or such other chief fiscal officer of the City as may hereinafter be established (i) to the retirement of the principal amount of debt incurred in respect to the Airport System; (ii) to the reconstruction, repair or replacement of assets of the Airport System; (iii) to the making of capital additions or improvements to the Airport System or (iv) to the deposit in one of the Aviation Funds for any other Airport System purpose; provided that, if the insurance proceeds or the proceeds from the sale of assets are less than or equal to one and five-tenths percent (1.5%) of the depreciated value of property, plant and equipment of the Airport System, as shown on the financial statements of the City for the preceding Fiscal Year, such amounts may be used for any Airport System purpose.

Bonds Not to Become Arbitrage Bonds

The City covenants for the benefit of the Bondholders that, notwithstanding any other provision of the General Ordinance or any other instrument, it will neither make nor instruct the Fiscal Agent to make any investment or other use of amounts on deposit in the funds and accounts established under the General Ordinance or other proceeds of the Bonds which would cause any Series of Bonds issued under the General Ordinance as tax-exempt to be arbitrage bonds under Section 148 of the Code and the regulations thereunder to the extent that the same are applicable at the time of such investment; it will file any reports required to be filed pursuant to the Code; and it will not take or fail to take any action so as to render any Series of Bonds issued under the General Ordinance as tax-exempt to be arbitrage bonds under Section 148 of the Code.

Prohibition Against Certain Uses of Funds; Enforcement

(a) The City covenants that while any Bonds are Outstanding under the General Ordinance, it will not direct the Fiscal Agent to transfer, loan or advance proceeds of the Bonds or Amounts Available for Debt Service from the Aviation Funds to any City account for application other than for Airport System purposes.

(b) If, on any date when a deposit is required to be made of the Project Revenues, the City fails to comply with any provision of the General Ordinance, the Fiscal Agent is authorized to and shall seek, by mandamus or other suit, action or proceeding at law or in equity, the specific enforcement or performance of the obligation of the City to cause the Project Revenues to be transferred to the Aviation Operating Fund, and still have any and all other rights and remedies of a fiscal agent under the General Ordinance, any Supplemental Ordinance, the Act or otherwise at law or in equity.

Credit Facilities, Standby Agreements and Qualified Swaps

All or any of the foregoing covenants of the City for the benefit of the Bondholders may also be for the benefit of the providers of any Credit Facility, Standby Agreement and any Qualified Swap to the extent provided in a Supplemental Ordinance or Determination.

Fiscal Agent

Fiscal Agent. The Fiscal Agent under the General Airport Revenue Bond Ordinance of 1978 or its successor, shall be Fiscal Agent as of the Effective Date for the General Ordinance. The City may appoint a successor Fiscal Agent by Supplemental Ordinance to act as Fiscal Agent under the General Ordinance, and in connection with the Bonds issued thereunder. The Fiscal Agent shall also act as depository of the Sinking Fund and the Subordinate Obligation Fund, and may act as paying agent and Bonds Registrar.

Nothing in the General Ordinance shall be construed to prevent the City, in accordance with law, from engaging other Fiscal Agents from time to time or to engage other paying agents of the Bonds or any Series thereof in addition to, or as a successor to the Fiscal Agent. Any entity appointed by the City as Fiscal Agent under the General Ordinance shall be a trust company or national or state bank having trust powers and combined capital and surplus of at least fifty million ($50,000,000) dollars and be qualified to serve pursuant to the Act. Any entity appointed by the City as Fiscal Agent under the General Ordinance as a successor to the Fiscal Agent shall assume all rights and obligations of the Fiscal Agent thereunder.

Subject to the foregoing, the proper officers of the City are authorized to enter into contracts or to confirm existing agreements governing the maintenance of funds and accounts and records, the disposal of canceled Bonds, the rights, duties, privileges and immunities of the Fiscal Agent, and such other matters as are authorized by the Act and as are customary and appropriate and to confirm the agreement of the Fiscal Agent, in its several capacities, to comply with the provisions of the Act and of the General Ordinance.

The Fiscal Agent shall keep on file a copy of each report and its accompanying certificates delivered to it pursuant to the General Ordinance for a period of ten (10) years and shall exhibit the same to, and permit the copying thereof by, any Bondholder, or his authorized representative at all reasonable times.

Resignation of Fiscal Agent. The Fiscal Agent may resign and be discharged of the duties created by the General Ordinance by written resignation filed with the Director of Finance not less than sixty (60) days before the date when such resignation is to take effect. Such resignation shall take effect on the day specified in such notice provided that a successor Fiscal Agent has been appointed and has accepted its role as Fiscal Agent. If a successor Fiscal Agent is appointed prior to the date specified in the notice, the resignation shall take effect immediately on the appointment and acceptance of such successor, and the City shall give the notices required in the following section.

Appointment of Successor Fiscal Agent. If the Fiscal Agent or any successor Fiscal Agent resigns, is replaced, or is dissolved or if its property or business is taken under the control of any state or Federal court or administrative body, a vacancy shall exist in the office of the Fiscal Agent, and the City shall appoint a successor within thirty (30) days of such vacancy and shall mail notice of such appointment to the Bondholders and to the registered depositories at their registered addresses by first class mail, postage prepaid, within thirty (30) days of such appointment. If no successor is appointed within such thirty (30) day period, the Fiscal Agent and any Bondholder may petition any court of competent jurisdiction to appoint a successor.

Defaults and Remedies

Defaults and Statutory Remedies: Notice to Bondholders. If the City shall fail or neglect to pay or to cause to be paid the principal of, redemption premium, if any, or interest on any Bond or any Series of Bonds issued under the General Ordinance, whether at stated maturity or upon call for prior redemption or if the City, after written notice to it, shall fail or neglect to make any payment owed by it as a result of a Credit Facility or Standby Agreement and secured by a parity pledge of Project Revenues entered into with respect to Bonds and the provider of the Credit Facility or Standby Agreement provides written notification to the Fiscal Agent of such failure or neglect, or if the City shall fail to comply with any provision of any Bonds or with any covenant of the City contained in the General Ordinance, then, under and subject to the terms and conditions stated in the Act, the Holder or Holders of any Bond or Bonds shall be entitled to all of the rights and remedies, including the appointment of a trustee, provided in the Act; provided, however, that the remedy provided in Section 20(b)(4) of the Act may be exercised only upon the failure of the City to pay, when due, principal and redemption price (including principal due as a result of a scheduled mandatory redemption) and interest on a Series of Bonds.

Upon the occurrence of an event of default specified in this section, or if an event occurs which could lead to a default with the passage of time and of which the Fiscal Agent has actual notice, the Fiscal Agent shall, within thirty (30) days, given written notice thereof by first-class mail to all Bondholders.

Remedies Not Exclusive; Effect of Delay in Exercise of Remedies. No remedy in the General Ordinance or in the Act conferred upon or reserved to the trustee, if any, or to the Holder of any Bond is intended to be exclusive (except as specifically provided in the Act) of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given under the General Ordinance or now or hereafter existing at law or in equity or by statute.

No delay or omission of a trustee, if one be appointed pursuant to Section 20 of the Act, or of any Holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or an acquiescence therein; and every power and remedy given by Article VIII of the General Ordinance, by the Act or otherwise may be exercised from time to time, and as often as may be deemed expedient.

Remedies to be Enforced Only Against Pledged Amounts. Any decree or judgment for the payment of money against the City by reason of default under the General Ordinance shall be enforceable only against the Pledged Amounts, and no decree or judgment against the City upon an action brought under the General Ordinance shall order or be construed to permit the occupation, attachment, seizure, or sale upon execution of any other property of the City.

Conveyance of System and Assignment, Assumption and Release of Obligations

Conveyance and Assignment, Assumption and Release. Nothing in the General Ordinance shall prevent the City from conveying and assigning to a municipal authority created pursuant to the Municipality Authorities Act of 1945, as amended, or an authority created pursuant to any other applicable statute or to another entity (the "Authority") all or substantially all (or less than substantially all, as provided below) of its right, title and interest in the Airport System and thereupon becoming released from all of its obligations under the General Ordinance, under any Supplemental Ordinance and under the Bonds and related obligations, including, but not limited to Credit Facilities, Standby Agreements, Qualified Swaps and Exchange Agreements, (i) if the Authority assumes in writing the City's obligations (1) to operate or cause the Airport System to be operated and to maintain or cause the Airport System to be maintained in good condition; and (2) to pay the principal, redemption premium, if any, and interest on all Outstanding Bonds and Subordinate Obligations, and all payments due under Credit Facilities, Standby Agreements, Qualified Swaps and Exchange Agreements entered into pursuant to the General Ordinance and then outstanding according to the terms thereof; and (ii) if the instrument of assumption provides the Bondholders or the trustee or entity serving in a similar capacity and acting on behalf of the Bondholders with the substantial equivalent of all of the rights and remedies provided in the General Ordinance and the Act; provided, however, that before the City may consummate such a conveyance and assignment and obtain a release of its obligations under the General Ordinance, under any Supplemental Ordinance and under the Bonds and related obligations, including but not limited to Credit Facilities, Standby Agreements, Qualified Swaps, and Exchange Agreements, the following conditions shall have been satisfied:

(a) the City and the Fiscal Agent shall have received an opinion of the City Solicitor substantially to the effect that the conveyance to the Authority of all or substantially all of the City's right, title and interest in the Airport System, the assignment to the Authority of the obligations of the City under the General Ordinance, any Supplemental Ordinance, the Bonds and any Subordinate Obligations to make payments of principal, redemption premium, if any, and interest on the Bonds, and the release of the City from all of its obligations under the General Ordinance, under any Supplemental Ordinance, under the Bonds or any Subordinate Obligations, and under related obligations, including, but not limited to, Credit Facilities, Standby Agreements, Qualified Swaps and Exchange Agreements, have been duly authorized by the City and do not violate any applicable law, ordinance, resolution or regulation of the City or any applicable court decision;

(b) the City and the Fiscal Agent shall have received an opinion of the solicitor of the Authority substantially to the effect that (i) the acquisition by the Authority of all or substantially all of the City's right, title and interest in the Airport System and the assumption by the Authority of the City's obligations under the General Ordinance, under any Supplemental Ordinance, under the Bonds, and any Subordinate Obligations to make payments of principal, redemption premium, if any, and interest on the Bonds and any Subordinate Obligations and related obligations, including, but not limited to, Credit Facilities, Standby Agreements, Qualified Swaps and Exchange Agreements, have been duly authorized by the Authority and do not violate any law, ordinance, resolution or regulation applicable to the Authority or any applicable court decision; (ii) the instrument under which the Authority assumes the obligations of the City under the General Ordinance, under any Supplemental Ordinance and under the Bonds, and any Subordinate Obligations to make payments of principal, redemption premium, if any, and interest on the Bonds and any Subordinate Obligations constitutes a valid and binding obligation of the Authority enforceable in accordance with its terms except as enforcement may be limited by bankruptcy, insolvency or other similar laws or equitable principles affecting the enforcement of creditors' rights; (iii) the security interest granted by the Authority pursuant to subparagraph (d) creates a valid and effective lien in favor of Holders of Bonds and security interest in the Pledged Amounts to be generated by the Airport System; and (iv) the rates and charges established by the Authority and referred to below in subparagraph (e) have been duly authorized and enacted in accordance with applicable law;

(c) the City and the Fiscal Agent shall have received an opinion of Bond Counsel substantially to the effect that (i) the conveyance of all or substantially all of the City's right, title and interest in the Airport System to the Authority; the release of the City from its obligations under the General Ordinance, under any Supplemental Ordinance and under the Bonds and any Subordinate Obligations; and the assumption by the Authority of the City's obligations under the General Ordinance, under any Supplemental Ordinance, under the Bonds and Subordinate Obligations to make payments of principal, redemption premium, if any, and interest on the Bonds and Subordinate Obligations, and under related obligations, including, but not limited to, Credit Facilities, Standby Agreements, Qualified Swaps and Exchange Agreements, will not have an adverse effect on the exemption of interest on any series of Bonds issued as tax-exempt Bonds; (ii) the instrument under which the Authority assumes the obligations of the City under the General Ordinance, under any Supplemental Ordinance and under the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds constitutes a valid and binding obligation of the Authority enforceable in accordance with its terms except as enforcement may be limited by bankruptcy, insolvency or other similar laws or equitable principles affecting the enforcement of creditors' rights, and (iii) the security interest granted by the Authority pursuant to subparagraph (d) creates a valid and effective lien in favor of the Holders of Bonds and security interest in the Pledged Amounts;

(d) the Authority shall, concurrently with the conveyance, assignment, assumption and release described above, grant to the trustee or entity serving in a similar capacity and acting on behalf of Bondholders a security interest in Pledged Amounts following the conveyance, assignment, assumption and release;

(e) the City and the Fiscal Agent shall have received a report of a Consultant, concluding that for each of the three (3) twelve (12) month periods following the conveyance, assignment, assumption and release described above, or for each of the three (3) fiscal years of the Authority commencing with the first full fiscal year of the Authority following the conveyance, assignment, assumption and release described above, the Airport System is projected to generate Amounts Available for Debt Service in an amount which is sufficient to enable the

Authority to comply with the Rate Covenant determined in accordance with consistently applied accounting principles for each of the three twelve (12) month periods or three (3) fiscal years, as the case may be;

(f) the Authority shall have the authority, so long as Bonds remain Outstanding, to establish, and shall have established and shall have agreed to maintain rates and charges in connection with the operation of the Airport System at a level sufficient, in the opinion of a Consultant, as contained in a report filed with the Fiscal Agent, to generate Amounts Available for Debt Service in an amount which is sufficient to enable the Authority to comply with the Rate Covenant determined in accordance with consistently applied accounting principles;

(g) the Authority shall have agreed, so long as Bonds remain Outstanding, to incur or assume no parity debt payable from Amounts Available for Debt Service following the conveyance, assignment, assumption and release unless (1) in the case of debt incurred or assumed for the purpose of financing capital improvements, extensions, or expansions to the Airport System, or acquisition or assumption of such other assets for use in the operation, maintenance, and administration of the Airport System, or (2) in the case of debt incurred or assumed for the purpose of refinancing existing debt, the Authority first shall have obtained a report of a Consultant, concluding that on the basis of historical and estimated future annual financial operations of the Airport System from which Amounts Available for Debt Service are to be derived, (A) for either the immediately preceding Fiscal Year of the City, or any period of 12 full consecutive months during the 18-month period preceding the delivery of the Consultant's report, the Airport System yielded Amounts Available for Debt Service sufficient to satisfy the Rate Covenant, (B) no deficiency exists in the Sinking Fund Reserve Account and (C) the Airport System will, in the opinion of the Consultants, yield Amounts Available for Debt Service for each of the five Fiscal Years (or, if interest on all or a portion of the proposed debt is to be capitalized, following the Fiscal Year up to which interest has been capitalized on the debt or a portion thereof; provided that in the event that the Consultant is professionally unable to provide an opinion for a period in excess of three Fiscal Years, then such opinion may be for such three year period) ended immediately following the issuance or assumption of the Bonds, sufficient to comply with the Rate Covenant; provided, however, no Consultant's report is required to be delivered in the case of debt incurred or assumed for the purpose of refinancing existing debt, so long as the Authority certifies in writing that the Debt Service Requirements in any year on the proposed refinancing obligations do not exceed the Debt Service Requirements in any such year on the obligations to be refinanced. For purposes of the foregoing sentence and subparagraphs (e) and (f), the phrases "Amounts Available for Debt Service" and "Debt Service Requirements" shall have the meaning assigned in Section 2.01 of the General Ordinance with the exception that references therein to Bonds shall be deemed to include reference to Subordinate Obligations, General Obligation Bonds or NSS General Obligation Bonds which continue to be Outstanding after such transfer, additional debt of the Authority payable from revenues of the Airport System and the debt, if any, which the Authority proposes to incur or assume; and

(h) the Authority shall have agreed to incur or assume no obligation secured, or to be secured, by a pledge of Pledged Amounts senior to the pledge securing the Bonds.

In consideration of such conveyance and transfer, the Authority may finance and pay to the City compensation in an amount agreed upon between the City and Authority. Any such financing and payment of compensation to the City shall be disregarded in determining whether the Authority's instrument of assumption provides the Bondholders or the trustee or entity serving in a similar capacity on behalf of the Bondholders with the substantial equivalent of all of the rights and remedies provided in the General Ordinance and the Act.

Notwithstanding the foregoing, the City may convey to the Authority less than substantially all of its right, title and interest in the Airport System if a Consultant shall first have certified that the assets of and/or rights and interest in the Airport System which the City proposes to exclude from the conveyance to the Authority are not material to the ability of the Airport System to generate revenues following the conveyance. If less than substantially all of the assets of and/or rights and interest in the Airport System are conveyed to the Authority pursuant to this paragraph, references in the preceding paragraphs of this section to "all or substantially all of the City's right, title and interest in the Airport System" shall be deemed modified to reflect a conveyance of less than substantially all of the City's right, title and interest in the Airport System.

In connection with the conveyance to the Authority of all or substantially all of the City's right, title and interest in the Airport System, the City shall convey and assign to the Authority all amounts on deposit in the funds and accounts established under the General Ordinance, provided that any reserve funds shall be transferred as trust funds established for the benefit of the Series of Bonds for which such reserve funds were initially established. The Fiscal Agent shall take such actions as are necessary to terminate its security interest in the Project Revenues and funds and accounts established under the General Ordinance. If the City transfers less than substantially all of its right, title and interest in the Airport System then the City shall convey and assign to the Authority an amount of the balances on deposit in funds and accounts established under the General Ordinance proportionate to the amount of Bonds assumed or defeased. The City Controller shall certify the balances on deposit in the funds and accounts established under the General Ordinance as of the date of the conveyance. To the extent permitted by law, the City Controller will have the right to audit the books of any public Authority created by the City of Philadelphia pursuant to the laws of the Commonwealth of Pennsylvania, and the City Controller will be compensated by such public Authority for reasonable costs incurred in connection with the audit of such books.

Anything in the General Ordinance to the contrary notwithstanding, upon conveyance of all or substantially all of the assets of the Airport System to the Authority pursuant to Article IX of the General Ordinance, the provisions of the General Ordinance shall no longer be enforceable against the City.

Nothing contained in Article IX of the General Ordinance shall be construed to prohibit the City from conveying and assigning all or substantially all (or less than substantially all, as provided in Article IX) of its right, title and interest in the Airport System to an entity owned by private persons provided that the requirements of Article IX of the General Ordinance are otherwise satisfied.

Alternative Rate Covenant.

(a) The Authority may elect, upon conveyance of all or substantially all of the City's right, title and interest in the Airport System, to include in the resolution of the Authority the following rate covenant in lieu of the Rate Covenant contained in Article V of the General Ordinance, and such election shall state whether such election shall become effective as of the date of conveyance, or as of the first day of the immediately succeeding Fiscal Year. If such election states that it shall become effective beginning on the first day of the immediately succeeding Fiscal Year, then the Rate Covenant in Section 5.01 of the General Ordinance shall remain in effect from the date of conveyance until the last day of the Fiscal Year in which the conveyance took place.

The Authority covenants with the Bondholders that it will, at a minimum, impose, charge and collect in each Fiscal Year such rents, rates, fees and charges, together with any Amounts Available for Debt Service carried forward at the beginning of such Fiscal Year, as shall yield Amounts Available for Debt Service which shall be equal to the greater of the following amounts:

> (A) the lesser of (1) The sum of: (i) all Net Operating Expenses incurred during such Fiscal Year; (ii) 150% of Debt Service Requirements payable during the Fiscal Year; (iii) the amount, if any, required to be paid into the Sinking Fund Reserve Account during such Fiscal Year; and (iv) the amount, if any, required to be paid into the Renewal Fund during the Fiscal Year, or (2) The sum of: (i) all Operating Expenses incurred during such Fiscal Year; (ii) 125% of Debt Service Requirements payable during the Fiscal Year; (iii) the amount, if any, required to be paid into the Sinking Fund Reserve Account during such Fiscal Year; and (iv) the amount, if any, required to be paid into the Renewal Fund during the Fiscal Year; or
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> (B) (1) The sum of: (i) all Operating Expenses incurred during such Fiscal Year, (ii) all Debt Service Requirements during such Fiscal Year, (iii) all debt service requirements during such Fiscal Year in respect of all outstanding General Obligation Bonds or NSS General Obligation Bonds issued for improvements to the Airport System, exclusive of General Obligation Bonds issued for improvements to the Outside Terminal Area and the Overseas Terminal unless revenues, rents, rates, tolls or other charges generated by or allocable to the Overseas Terminal and the Outside Terminal Area are pledged in a Supplemental Ordinance in accordance with Section 4.02 of the General Ordinance, (iv) all debt service requirements during such Fiscal Year on Subordinate Obligations and any other subordinate indebtedness secured by any Amounts Available for Debt Service, (v) all amounts required to repay loans among funds made pursuant to Section 4.05(c) of the General Ordinance, (vi) the amount, if any, required to be paid into the

Sinking Fund Reserve Account or Renewal Fund during such Fiscal Year and (vii) all amounts required to be paid under Exchange Agreements.

(b) Promptly upon any material change in the circumstances which were contemplated at the time such rents, rates, fees and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, the Authority shall review the rents, rates, fees and charges as necessary to enable the Authority to comply with the foregoing requirements; provided that such rents, rates, fees and charges shall in any event produce moneys sufficient to enable the Authority to comply with its covenants in the resolution.

Amendments and Modifications

Amendments and Modifications. In addition to the enactment of Supplemental Ordinances supplementing or amending the General Ordinance in connection with the issuance of successive Series of Bonds, the General Ordinance and any Supplemental Ordinance may be further supplemented, modified or amended: (a) to cure any ambiguity, formal defect or omission therein or to make such provisions in regard to matters or questions arising thereunder which shall not be inconsistent with the provisions thereof and which shall not adversely affect the interests of Bondholders; (b) to grant to or confer upon Bondholders, or a trustee, if any, for the benefit of Bondholders any additional rights, remedies, powers, authority, or security that may be lawfully granted or conferred; (c) to incorporate modifications requested by any Rating Agency or Credit Facility provider to obtain or maintain a credit rating on any Series of Bonds; (d) to comply with any mandatory provision of state or Federal law or with any permissive provision of such law or regulation which does not substantially impair the security or right to payment of the Bonds but no amendment or modification shall be made with respect to any Outstanding Bonds to alter the amount, rate or time of payment, respectively, of the principal thereof or the interest thereon or to alter the redemption provisions thereof without the written consent of the Holders of all affected Outstanding Bonds; and (e) except as aforesaid, in such other respect as may be authorized in writing by the Holders of sixty-seven percent (67%) in principal amount or Original Value in the case of Capital Appreciation Bonds of the Bonds Outstanding and affected. In the case of a Credit Facility, Standby Agreement or Qualified Swap, if and to the extent provided in the Supplemental Ordinance and Determination of Bonds related thereto, the provider thereof may be the representative of the Bondholders of such Series or portion of such Series for purposes of Bondholder consent, approval or authorization. The written authorization of Bondholders of any supplement to or modification or amendment of the General Ordinance or any Supplemental Ordinance need not approve the particular form of any proposed supplement, modification or amendment but only the substance thereof. Bonds, the payment for which has been provided for in accordance with Section 6.04 of the General Ordinance, shall be deemed to be not Outstanding.

Miscellaneous

Deposit of Funds for Payment of Bonds. When interest on, and principal or redemption price (as the case may be) of, all Bonds issued under the General Ordinance, and all amounts owed under any Credit Facility and Standby Agreement entered into under the General Ordinance, have been paid, or there shall have been deposited with the Fiscal Agent or an entity which would qualify as a Fiscal Agent under Section 7.01 thereof an amount, evidenced by moneys or Qualified Escrow Securities the principal of and interest on which, when due, will provide sufficient moneys to fully pay the Bonds at the maturity date or date fixed for redemption thereof, and all amounts owed under any Credit Facility and Standby Agreement entered into under the General Ordinance, the pledge and grant of a security interest in the Pledged Amounts under the General Ordinance shall cease and terminate, and the Fiscal Agent and any other depository of funds and accounts established thereunder shall turn over to the City or to such person, body or authority as may be entitled to receive the same all balances remaining in any funds and accounts established under the General Ordinance.

If the City deposits with the Fiscal Agent or such other qualified entity moneys or Qualified Escrow Securities sufficient to pay, together with interest thereon, the principal or redemption price of any particular Bond or Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on the Bond or Bonds shall cease to accrue on the due date and all liability of the City with respect to such Bond or Bonds shall likewise cease, except as provided in the following paragraph. Thereafter such Bond or Bonds shall be deemed not to be outstanding under the General Ordinance and shall have recourse solely and exclusively to the funds so deposited for any claims of whatsoever nature with respect to such

Bond or Bonds, and the Fiscal Agent or such other qualified entity shall hold such funds in trust for such Holder or Holders.

Moneys deposited with the Fiscal Agent or such other qualified entity pursuant to the preceding paragraphs which remain unclaimed two (2) years after the date payment thereof becomes due shall, upon written request of the City, if the City is not at the time to the knowledge of the Fiscal Agent or such other qualified entity (the Fiscal Agent having no responsibility to independently investigate), in default with respect to any covenant in the General Ordinance or the Bonds contained, be paid to the City; and the Holders of the Bond for which the deposit was made shall thereafter be limited to a claim against the City; provided, however, that before making any such payment to the City, the Fiscal Agent or such other qualified entity shall, at the expense of the City, publish in a newspaper of general circulation published in Philadelphia, Pennsylvania, a notice of said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than thirty (30) days after the date of publication of such notice, the balance of such moneys then unclaimed will be paid to the City.

This section shall not be construed to limit the procedure set forth in Section 10 of the Act for calculating the principal or redemption price of and interest on any Bonds for the purpose of ascertaining the sufficiency of revenues for the purpose of Sections 7(a)(5) and 8(a)(iii) of the Act for the purpose of determining the outstanding net debt of the City if General Obligation Bonds of the City are refunded pursuant to the Act.

No deposit of funds shall be made pursuant to Section 11.01 of the General Ordinance if, in the opinion of Bond Counsel, such action shall cause the interest on any Series of Bonds initially issued as tax exempt Bonds, to become subject to Federal income tax.

Ordinances are Contracts With Bondholders. The General Ordinance and Supplemental Ordinances adopted pursuant thereto are contracts with the Holders of all Bonds from time to time Outstanding under the General Ordinance and thereunder and shall be enforceable in accordance with the provisions thereof and the laws of Pennsylvania.

THE FIFTH SUPPLEMENTAL ORDINANCE

The 2005A Bonds will be issued under and are subject to the Fifth Supplemental Ordinance which supplements the provisions of the General Ordinance. Reference is made to the Fifth Supplemental Ordinance and the General Ordinance for complete details of the terms of the 2005A Bonds. All capitalized and defined terms used in the following summary of the Fifth Supplemental Ordinance which are not otherwise defined in this Official Statement are defined as in the General Ordinance.

The Fifth Supplemental Ordinance authorizes the Mayor, the City Controller and the City Solicitor, or a majority of them (the "Bond Committee"), on behalf of the City of Philadelphia (the "City"), to borrow, by the issuance and sale of one or more series of Airport Revenue Bonds of the City (the "Bonds"). The Bonds are to be issued under and pursuant to The First Class City Revenue Bond Act of October 18, 1972, Act No. 234 (the "Act"), and are to be secured by the General Ordinance. The aggregate principal amount of the Bonds shall not exceed one hundred twenty-five million dollars ($125,000,000) exclusive of costs of issuance (including underwriters' discount), original issue discount, capitalized interest, funding of deposits to the Sinking Fund Reserve Account and similar items, and in the event the Bonds are issued with such items, the Bond Committee is authorized to increase the aggregate principal amount of the Bonds so issued, by the amount of such items.

As indicated in the Fifth Supplemental Ordinance, the Bonds shall bear interest from the dated date thereof to maturity or prior redemption, if any, at prescribed fixed or variable rates (not exceeding any limitation prescribed by law) as specified or provided in the Determination. The Bonds shall contain series or subseries designations, terms and provisions (including without limitation, interest payment dates, record dates, redemption provisions, denominations, provisions for payments by wire transfer and provision for issuance of the Bonds in book entry form) as the Bond Committee shall determine to be in the best interest of the City and which are not inconsistent with the provisions of the Fifth Supplemental Ordinance, of the Act or of the General Ordinance. In connection with the issuance of the Bonds, the Bond Committee is authorized by the Fifth Supplemental Ordinance to enter into such Qualified Swaps, Exchange Agreements or similar instruments as it may determine and as are permitted by the General Ordinance, provided, as amended and supplemented by the Fifth Supplemental Ordinance.

The Fifth Supplemental Ordinance provides that the Bonds shall not pledge the credit or taxing power of the City, or create any debt, charge or lien against the tax, general revenues or property of the City other than the revenues pledged by the General Ordinance. The Bond Committee is authorized on behalf of the City to enter into agreements (the "Agreements") with any bank, insurance company or other appropriate entity providing credit enhancement or payment or liquidity sources for the account of the City for the Bonds, including, without limitation, letters of credit, lines of credit and insurance. Such Agreements may provide for payment or acquisition of the Bonds if the City does not pay the Bonds when due and may provide for repayment with interest to the bank or other institution from the date of such payment or acquisition. The City Council determines that a private negotiated sale of the Bonds is in the best interest of the City. The Bond Committee is authorized, by the Fifth Supplemental Ordinance, to make all such covenants and to take any and all necessary or appropriate or other actions in connection with the consummation of the transactions contemplated by the Fifth Supplemental Ordinance.

The Fifth Supplemental Ordinance provides that the Bonds shall be issued for the purpose of paying for projects which consist of such capital improvements to the Airport System as may, from time to time, heretofore have been, or hereafter be, included in the capital budget of the City; the construction of such other improvements to, and facilities in, the Airport System, and the acquisition, demolition or replacement of such other property of a capital nature for use in the operation, maintenance and administration of the Airport System as the Director of Commerce may, from time to time, deem necessary or desirable for the prudent management of the Airport System and secure, to the extent required by the Home Rule Charter, the approval of the City Council therefor; and the permanent funding of the cost, if any, of any of the foregoing projects that have been, or hereafter may be, temporarily funded by advances from other funds of the City, or by the Airlines, or by notes issued in anticipation of the issuance of the Bonds, together with interest thereon. Such capital improvements to the Airport system include: (i) expansion and modernization of Terminals D and E; (ii) improvements to Terminal A East; (iii) improvements to Terminals B and C; (iv) improvements to Runway 9R-27L; and (v) other capital improvements at the Airport System. Proceeds of the sale of Bonds shall be used to pay "Project Costs", as such term is defined in the Act, including, but without limitation, the establishment of the sinking fund reserve required by and other funds permitted by, the General Ordinance and the payment of the costs of issuance of the Bonds.

The Fifth Supplemental Ordinance provides that in accordance with Treasury Regulation §1.150-2, the City states its intentions that it may use a portion of the proceeds of the Bonds to reimburse the Division of Aviation for expenditures originally paid prior to the date of issuance of the Bonds. All original expenditures which may be reimbursed will be capital expenditures and other permissible amounts under Treasury Regulation §1.150-2(d)(3). Once the Bonds are issued, the City shall allocate, or cause to be allocated, Bond proceeds to reimburse prior capital expenditures, if any. The Fifth Supplemental Ordinance further details the allocation procedures to be followed by the City and the timing and payment of such allocations in accordance with Treasury Regulations.

Pursuant to the Act, it is determined in the Fifth Supplemental Ordinance, based on the report of the Director of Finance filed pursuant to the Act and attached as Exhibit A to the Fifth Supplemental Ordinance, that the pledged Amounts Available for Debt Service will be sufficient to comply with the rate covenant contained in the General Ordinance and also to pay all costs, expenses and payments required to be paid therefrom, in the order and priority stated in the General Ordinance.

The City covenants in the Fifth Supplemental Ordinance that, so long as any Bond shall remain unpaid, it will make payments or cause payments to be made out of the Sinking Fund established pursuant to the General Ordinance or any of the other Aviation Funds available therefor, at such times and in such amounts as shall be sufficient for the payment of the interest thereon and the principal thereof when due. Prior to approval of the Fifth Supplemental Ordinance by City Council, the City shall cause to be delivered to the Chief Clerk of City Council an opinion of the City Solicitor in the form attached to the Fifth Supplemental Ordinance as Exhibit B to the effect, *inter alia,* that the holders of the Bonds will have no claim upon the taxing power or general revenues of the City nor any lien upon any of the property of the City other than the Pledged Amounts pledged for the Bonds.

The City covenants in the Fifth Supplemental Ordinance that it will make no investment or other use of the proceeds of the Bonds which would cause the Bonds to be "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended, and Treasury Regulations promulgated thereunder (the "Code"), and that the City will comply with the requirements of Section 148 of the Code throughout the term of the Bonds as more fully described in the determination of the Bond Committee. The Director of Finance is authorized to execute on behalf of the City a report of the issuance of the Bonds as required by Section 149(e) of the Code.

The Fifth Supplemental Ordinance provides, in the text of the Form of Bond included therein, that the Bonds shall be special obligations of the City payable solely from the pledged rentals, revenues and moneys and neither the credit nor the taxing power of the City is pledged for the payment of the principal of or interest on the Bonds, nor shall the Bonds be or be deemed to be a general obligation of the City. The Bonds together with all parity bonds of the City issued under the General Ordinance and all subsequent supplemental ordinances, shall be equally and ratably secured under the General Ordinance, to the extent set forth in the General Ordinance, by a pledge of Pledged Amounts which shall include Project Revenues defined to include revenues, rents, rates, tolls or other charges imposed and moneys received by or on behalf of the City from or in connection with the ownership and operation of the Airport System (exclusive of certain revenues as described in the General Ordinance), as more fully defined in the General Ordinance, together with certain other amounts as set forth in the General Ordinance. The City covenants, so long as the Bonds shall remain outstanding, it will pay or cause to be paid from the pledged Amounts Available for Debt Service deposited in the Sinking Fund, and other amounts available therefor, the principal of, redemption premium, if any, and interest on the Bonds as the same shall become due and payable.

The Fifth Supplemental Ordinance authorizes the Director of Finance to execute and deliver a continuing disclosure agreement relating to the Bonds, meeting the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5). The City covenants and agrees that it will comply with and carry out all of the provisions of such continuing disclosure agreement.

The Fifth Supplemental Ordinance amends Section 3.12 of the General Ordinance by adding a new paragraph at the end thereof to read as follows: “Notwithstanding anything to the contrary in this Ordinance, any Qualified Swap or Exchange Agreement entered into after June 15, 2005 may only be executed if authorized by Resolution of the City Council.”

INSURANCE AND REIMBURSEMENT AGREEMENT

Below is a summary of the Insurance and Reimbursement Agreement, by and among the City, Wachovia Bank, National Association and MBIA Insurance Corporation. All capitalized terms used in the following summary of the Insurance and Reimbursement Agreement are defined as in the Insurance and Reimbursement Agreement and may be differently referenced in other portions of this Official Statement. Capitalized terms not otherwise defined in the Insurance and Reimbursement Agreement have the meanings ascribed to such terms in the General Ordinance. This summary is in all respects subject to and qualified in its entirety by reference to the Insurance and Reimbursement Agreement in its complete form.

Certain Definitions

“Agreement” means the Insurance and Reimbursement Agreement dated as of August 1, 2005, including any amendments or any supplements to the Agreement as permitted in the Agreement.

“Authorized Officer,” with respect to the City, means the Director of Finance, and any other individual authorized by the Director of Finance to perform the act or sign the document in question.

“Bond Committee Determination” means the Bond Committee Determination dated July 27, 2005.

“Bond Purchase Agreement” means the Bond Purchase Agreement between the City and Bear, Stearns & Co. Inc., dated July 27, 2005.

“Bonds” means the Series A Bonds.

“Business Day” means any day other than (a) a Saturday or Sunday, (b) a Commonwealth legal holiday or (c) any day which shall be in the city in which the Fiscal Agent or MBIA is located, a legal holiday or a day on which banks in any of such cities are required or authorized by law or other government action to close.

“Commonwealth” means the Commonwealth of Pennsylvania.

“Counsel” means nationally recognized municipal bond counsel acceptable to MBIA.

"Fifth Supplemental Ordinance" means the Fifth Supplemental Ordinance to the General Ordinance approved June 29, 2005 (Bill No. 050369).

“Insurance Fiscal Agent” shall have the meaning ascribed thereto in the Agreement.

“Issuance Date” means the date upon which the Policy is issued.

“MBIA” means MBIA Insurance Corporation, a New York stock insurance corporation.

“MBIA Commitment” means MBIA’s Revised July 27, 2005 Commitment to Issue a Financial Guaranty Insurance Policy dated May 11, 2005 to insure certain amounts due on the Bonds.

“MBIA Permitted Investments” shall mean any of the following obligations, to be used for all purposes, excluding defeasance investments in refunding escrow accounts, but only to the extent the same are legal for investment of funds of the City at the time, under applicable law:

(a) Government Obligations;

(b) Qualified Rebate Fund Securities;

(c) Bonds, notes or other obligations of United States government agencies issued by the Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, General Services Administration, Government National Mortgage Association, Resolution Funding Corporation, U.S. Maritime Administration, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association;

(d) Interest-bearing time or demand deposits, or certificates of deposit with a maturity date of no longer than twenty-four months from the date of the investment, or other similar arrangements with any institution (including the Fiscal Agent or its affiliates) with a bond or deposit rating at all times in the higher of (x) the rating on the bonds outstanding, or (y) one of the three highest rating categories (without regard to gradation), by S&P and Moody's; with a maturity date of no longer than twenty four months from the date of the investment, provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation through the Bank Insurance Fund or Savings Association Insurance Fund;

(e) Commercial paper (having original maturities of not more than 270 days) rated at all times P-1 or A-1+ by Moody's and S&P, respectively;

(f) Investments in money market funds rated at all times in one of the two highest rating categories (without regard to gradation) by S&P and Moody's;

(g) Repurchase agreements with a term not exceeding twenty four months with the Fiscal Agent or any bank with a capital and surplus of at least $100,000,000 and a bond or deposit rating at all times in the higher of (x) the rating on the bonds outstanding, or (y) one of the three highest rating categories of S&P and Moody's which bank is a member of the Federal Reserve System, or with government bond dealers recognized as primary dealers by the Federal Reserve Bank of New York, that are collateralized with Permitted Investments described in (i) or (ii) above, having a market value at the time of purchase (inclusive of accrued interest) at least equal to 102% of the full amount of the repurchase agreement and which Permitted Investments shall be held by a third party custodian which is a bank or trust company pursuant to a third party custodial agreement;

(h) Bond or notes issued by any state or municipality with a maturity date no later than two years from the date of investment, rated in one of the two highest rating categories by Moody's and S&P (without regard to gradation); and

(i) Any other obligation approved in writing by the MBIA, S&P and Moody's to the extent that either is rating the Bonds outstanding at the time.

"Ordinance" means the General Ordinance and the Fifth Supplemental Ordinance.

"Policy" means the Financial Guaranty Insurance Policy for the Bonds, including any endorsements thereto, issued by MBIA in connection with the Bonds.

"Prime Rate" means for any date of determination, the rate of interest as it is publicly announced by Citibank, N.A. at its principal office in New York, New York as its prime lending rate for unsecured commercial loans within the United States (any change in such prime rate of interest to be effective on the date such change is announced by Citibank, N.A.); provided, however, that if Citibank, N.A. ceases to announce a prime lending rate for unsecured commercial loans within the United States, then "Prime Rate" shall mean the average of the prime lending rates for unsecured commercial loans within the United States as announced by three leading commercial banks selected by MBIA from time-to-time.

"Reimbursement Rate" means for any date of determination, the Prime Rate plus 3%. The Reimbursement Rate shall be computed on the basis of a year of 365 days calculating the actual number of days elapsed. In no event shall the Reimbursement Rate exceed the maximum rate permissible under any applicable law limiting interest rates.

"Related Documents" means the Bonds, the Ordinance, Bond Committee Determination, the Bond Purchase Agreement, the Resolution and any other transaction document or agreement contemplated by the Bonds or the Agreement.

Representations, Warranties and Covenants of the City

In the Agreement, the City represents and warrants to, and covenants with, MBIA that:

(a) The City is organized and is duly established and existing under the laws of the Commonwealth and has approved the issuance of the Bonds.

(b) The City has the full power and authority to execute and deliver the Agreement and to enter into the transactions contemplated therein and in the Related Documents, and the execution and delivery of such Agreement and Related Documents has been duly authorized by the City, and all necessary approvals for the execution, delivery and performance of such Agreement and Related Documents by the City have been obtained.

(c) The execution and delivery of the Agreement and each of the Related Documents, the consummation of the transactions contemplated thereby and the fulfillment of or compliance with the terms and conditions of the Agreement and each Related Document by the City do not conflict with or result in any material breach or violation of any of the terms, conditions or provisions of any applicable laws, including regulations, or any material agreement or instrument to which the City is now a party or by which it is bound, or constitute a default under any of the foregoing which default would materially and adversely affect the consummation of the transactions contemplated thereby and by the terms of the Related Documents.

(d) The Agreement and each Related Document to which the City is a party, when executed and delivered by the City, assuming the due authorization, execution and delivery by the other parties thereto, will constitute the legal, valid and binding obligations of the City, enforceable against the City in accordance with their terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equitable principles.

(e) The City shall provide or cause to be provided to MBIA at or prior to the disbursement of the proceeds of the Bonds by the City (i) conformed copies of the Agreement and the Related Documents and (ii) such opinions of legal Counsel and certified resolutions of the City evidencing necessary or appropriate corporate action by the City, and other documents as may reasonably be requested by MBIA.

(f) The City thereby makes to MBIA the same representations, warranties and the same covenants made by the City, as are set forth in each of the Related Documents which representations, warranties and covenants, as well as the related defined terms contained therein, are incorporated in the Agreement by reference with the same effect as if each and every such representation, warranty and covenant and defined term were set forth in the Agreement in its entirety. Any amendment to such representations, warranties and covenants or defined terms in any of the Related Documents and any termination, defeasance, discharge or replacement of any of the Related Documents shall be effective to amend, terminate, replace or discharge such representations, warranties, covenants and defined terms of the specified documents if adopted in accordance with their respective requirements, but shall not be effective to amend the Agreement without the prior written consent of MBIA if such action shall materially adversely affect the rights of MBIA under the Agreement.

(g) The City will make available to MBIA:

(i) simultaneously upon execution thereof, copies of the General Ordinance and Fifth Supplemental Ordinance and all amendments relating to the Related Documents; and

(ii) as soon as available, and in any event within 240 days after the close of each fiscal year of the City, two copies of the complete statement of financial position, statement of operations, and statement of cash flows of the City, including the balance sheet, statement of changes in net assets and statement of cash flows of the City, and accompanied by an independent auditor's report stating that (a) its audit was in accordance with generally accepted auditing standards and (b) the financial statements present fairly (in all material respects) the financial position of the City as of the end of such fiscal year; and

(iii) as soon as available, and in any event within 45 days after each of the first three fiscal quarters of each fiscal year of the City, two copies of the City's statement of financial position and statement of operations.

(iv) simultaneously with the delivery of financial statements referred to in clause (ii) and (iii) above, a certificate of an Authorized Officer stating that after due inquiry there does not exist on the date of such certificate any event of default or event which with notice or lapse of time or both would constitute an event of default of which the City is aware or, if any event of default does exist, stating that such event exists and setting forth the details thereof and the action that the City is taking or proposes to take with respect thereto.

The City agrees to permit MBIA to examine, visit and inspect, at any reasonable time, upon reasonable prior notice, the property constituting the projects financed or refinanced with the net proceeds of the Bonds, and its facilities, and any accounts, books and records, including its receipts, disbursements, contracts, investments and any other matters relating thereto and to its financial standing and to supply such reports and information as MBIA may reasonably require.

The City's chief financial officer shall, at the reasonable request of MBIA, discuss the City's financial matters with MBIA or a designee and provide MBIA with copies of any documents reasonably requested by MBIA.

(h) The City agrees to permit MBIA to examine and inspect, at any reasonable time, upon reasonable notice, the books of record and account of the City relating to its transactions pursuant to the Ordinance, and all other records relating to its transactions pursuant to the Ordinance and the Bonds. The City further agrees to promptly notify MBIA in writing of the happening of any event resulting in the loss of the tax-exempt status of the Bonds or placing the same in jeopardy with respect to the Bonds.

(i) Notwithstanding anything to the contrary in the Ordinance or any other Related Document, the City agrees that there shall be no acceleration of the Bonds without the prior written consent of MBIA.

(j) The City agrees not to use MBIA's name in any public document including, without limitation, a press release or presentation, announcement or forum without MBIA's prior consent; provided however, such prohibition on the use of MBIA's name shall not relate to the use of MBIA's standard approved form of disclosure in public documents issued in connection with the current Bonds to be issued in accordance with the terms of the MBIA Commitment; and provided further such prohibition shall not apply to the use of MBIA's name in order to comply with public notice, meeting or reporting requirements.

(k) The City shall not enter into any agreement nor shall it consent to or participate in any arrangement pursuant to which Bonds are tendered or purchased for any purpose other than the redemption and cancellation or legal defeasance of such Bonds without the prior written consent of MBIA.

(l) The City agrees that it will not permit any interest exchange agreement, interest rate swap agreement, currency swap agreement or other contract or agreement that is not a Qualified Swap to be secured by and payable under the Ordinance on a parity with the Bonds.

(m) MBIA shall be deemed to be the Owner of the Bonds for all purposes of the General Ordinance, except the giving of notice of default to Owners, for so long as it has not failed to comply with its payment obligations under the Policy. MBIA shall be deemed to be the Owner of each Bond which it insures for the purpose of exercising all rights and privileges available to Owners of Bonds for so long as it has not failed to comply with its payment obligations under the Policy.

(n) For purposes of the Bonds, "Defeasance obligations" shall mean Qualified Escrow Securities. MBIA shall be provided with an opinion of counsel acceptable to MBIA that the Bonds have been legally defeased. Additionally, MBIA shall be entitled to receive fifteen (15) business days notice of any advance refunding of the Bonds and a verification report with respect to the sufficiency of the amounts deposited in the defeasance escrow to defease the Bonds.

(o) When used in reference to the Bonds, "Outstanding" shall have the meaning ascribed to it in the General Ordinance and the Act. For purposes of the Bonds only, notwithstanding anything in the Agreement to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by MBIA pursuant to the Policy, the Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City, and the assignment and pledge of revenues and all covenants, agreements and other obligations of the City to the registered owner shall continue to exist and shall run to the benefit of MBIA, and MBIA shall be subrogated to the rights of such registered owner.

(p) A breach of a covenant in the Agreement will be considered a breach of a covenant with respect only to the Bonds for purposes of the General Ordinance.

(q) Any supplement to the General Ordinance pursuant to Section 5.04 and Article X of the General Ordinance which requires the consent of Owner of the Bonds shall also be subject to the prior written consent of MBIA as if it were the Owner of the Bonds and a copy of such supplement shall be provided to Standard & Poor's. MBIA shall be given written notice of any other supplements to the General Ordinance pursuant to Section 5.04 and Article X of the General Ordinance not described in the Agreement. The Agreement may be amended by the parties without Owner consent but all amendments shall require the prior written consent of MBIA. Any rating agency rating the Bonds must receive notice of each amendment and a copy thereof at least fifteen (15) days in advance of execution or adoption.

(r) The City agrees that Permitted Investments under the Ordinance must also be MBIA Permitted Investments.

Representations, Warranties and Covenants of the Fiscal Agent.

In the Agreement, the Fiscal Agent represents and warrants to, and covenants with, MBIA that:

(a) The Fiscal Agent is organized and duly established and existing under the laws of the Commonwealth and is authorized under the laws of the Commonwealth to act as fiscal agent under the Ordinance.

(b) The Fiscal Agent has the full power and authority to execute and deliver the Agreement and to enter into the transactions contemplated by the Agreement and the Related Documents to which it is a party. The execution and delivery of such Agreement and the Related Documents to which it is a party has been duly authorized by the Fiscal Agent, and all necessary approvals for the execution, delivery and performance by the Fiscal Agent of the Agreement and the Related Documents have been obtained.

(c) The execution and delivery of the Agreement and each of the Related Documents, the consummation of the transactions contemplated thereby and the fulfillment of or compliance with the terms and conditions of the Agreement and each Related Document to which it is a party by the Fiscal Agent do not conflict with or result in any material breach or violation of any of the terms, conditions or provisions of any applicable laws, including regulations, or any material agreement or instrument to which the City is now a party or by which it is bound, or constitute a default under any of the foregoing which default would materially and adversely affect the consummation of the transactions contemplated in the Agreement and by the terms of the Related Documents.

(d) The Agreement and each Related Document to which the Fiscal Agent is a party, when executed and delivered by the Fiscal Agent, assuming the due authorization, execution and delivery by the other parties thereto, will constitute the legal, valid and binding obligations of the Fiscal Agent, enforceable against the Fiscal Agent in accordance with their terms, except as such enforceability may be limited by laws affecting creditors' rights generally and general equitable principles.

(e) The Fiscal Agent shall provide or cause to be provided to MBIA at or prior to the disbursement of the proceeds of the Bonds by the City such opinions of legal Counsel and certified resolutions of the Fiscal Agent evidencing necessary or appropriate corporate action by the Fiscal Agent, and other documents as may reasonably be requested by MBIA, including documents evidencing any required approvals of the transactions contemplated to be undertaken by the Fiscal Agent under the Agreement and the Related Documents to which it is a party.

(f) The Fiscal Agent makes to MBIA the same representations, warranties and the same covenants made by the Fiscal Agent, as are set forth in each of the Related Documents to which it is a party, which are incorporated in the Agreement by reference with the same effect as if set forth in the Agreement.

MBIA's Payments Under the Policy

(a) In the event that, on the second business day, and again on the business day, prior to the payment date on the Bonds, the Fiscal Agent has not received sufficient moneys to pay all principal of and interest on the Bonds due on the second following or following, as the case may be, business day, the Fiscal Agent shall immediately notify MBIA or its designee on the same business day of the amount of the deficiency.

(b) If the deficiency is made up in whole or in part prior to or on the payment date, the Fiscal Agent shall so notify MBIA or its designee.

(c) In addition, if the Fiscal Agent has notice that any Owner has been required to disgorge payments of principal or interest on the Bonds to a Fiscal Agent in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy laws, then the Fiscal Agent shall notify MBIA or its designee of such fact.

(d) The Fiscal Agent is irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Owners of the Bonds as follows:

(1) If and to the extent there is a deficiency in amounts required to pay interest on the Bonds, the Fiscal Agent shall (a) execute and deliver to U.S. Bank Trust National Association, or its successors

under the Policy (the "Insurance Fiscal Agent"), in form satisfactory to the Insurance Fiscal Agent, an instrument appointing MBIA as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to MBIA of the claims for interest to which such deficiency relates and which are paid by MBIA, (b) receive as designee of the respective Owners (and not as Fiscal Agent) in accordance with the tenor of the Policy payment from the Insurance Fiscal Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Owners; and

(2) If and to the extent of a deficiency in amounts required to pay principal of the Bonds, the Fiscal Agent shall (a) execute and deliver to the Insurance Fiscal Agent in form satisfactory to the Insurance Fiscal Agent an instrument appointing MBIA as agent for such Owner in any legal proceeding relating to the payment of such principal and an assignment to MBIA of any of the Bonds surrendered to the Insurance Fiscal Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Fiscal Agent and available for such payment (but such assignment shall be delivered only if payment from the Insurance Fiscal Agent is received), (b) receive as designee of the respective Owners (and not as Fiscal Agent) in accordance with the tenor of the Policy payment therefor from the Insurance Fiscal Agent, and (c) disburse the same to such Owners.

(e) Payments with respect to claims for interest on and principal of Bonds disbursed by the Fiscal Agent from proceeds of the Policy shall not be considered to discharge the obligation of the City with respect to such Bonds, and MBIA shall become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(f) Irrespective of whether any such assignment is executed and delivered, the City and the Fiscal Agent agree for the benefit of MBIA that:

(1) They recognize that to the extent MBIA makes payments, directly or indirectly (as by paying through the Fiscal Agent), on account of principal of or interest on the Bonds, MBIA will be subrogated to the rights of such Owners to receive the amount of such principal and interest from the City, with interest thereon as provided and solely from the sources stated in the General Ordinance and the Bond Committee Determination and the Bonds; and

(2) They will accordingly pay to MBIA the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the General Ordinance and the Bonds, but only from the sources and in the manner provided in the Agreement for the payment of principal of and interest on the Bonds to Owners, and will otherwise treat MBIA as the owner of such rights to the amount of such principal and interest

(g) In connection with the issuance of additional Bonds, the City shall deliver to MBIA a copy of the disclosure document, if any, circulated with respect to such additional Bonds.

(h) Copies of any amendments made to the documents executed in connection with the issuance of he Bonds which are consented to by MBIA shall be sent to Standard & Poor’s Corporation.

(i) MBIA shall receive notice of the resignation or removal of the Fiscal Agent and the appointment of a successor thereto.

(j) MBIA shall receive copies of all notices required to be delivered to Owners and, on an annual basis, copies of the City’s and the Airport’s audited financial statements and Annual Budget.

(k) Any notice that is required to be given to an Owner of the Bonds or to the Fiscal Agent pursuant to the General Ordinance shall also be provided to MBIA. All notices required to be given to MBIA under the General Ordinance shall be in writing.

(l) The City agrees to reimburse MBIA immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorneys' fees and expenses, incurred by MBIA in connection with (i) the enforcement by MBIA of the City's obligations, or the preservation or defense of any rights of MBIA, under the General Ordinance and any other document executed in connection with the issuance of the Bonds, and (ii) any consent, amendment, waiver or other action with respect to the General Ordinance or related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, MBIA reserves the right to charge a fee in connection with its review of any such consent, amendment or waiver, whether or not granted or approved.

Agreement to Indemnify

To the extent not prohibited by law, the City shall indemnify MBIA against any and all liability, claims, loss, costs, damages, attorneys' fees and other expenses which MBIA may sustain or incur by reason of or in consequence of:

(a) the failure of the City to perform or comply with the covenants or conditions of the Agreement or any of the Related Documents;

(b) enforcing any covenants, conditions or legal obligations with respect to the Bonds or the transactions contemplated thereby, or under the Related Documents or the Agreement that are required to be complied with by the City;

(c) any action, proceeding (administrative, regulatory or legal) or suit threatened or brought in connection with the Bonds, the Related Documents, the Agreement or with respect to the City's rights or obligations under the Ordinance, including all litigation or potential litigation, costs of defense and/or settlement by MBIA of any such threatened or pending action, proceeding, suit or judgment; or

(d) recovering or attempting to recover losses or expenses paid or incurred in connection with the Bonds, the Related Documents, the Policy, the Agreement or the transactions contemplated thereby.

Costs and expenses shall include a reasonable allocation of compensation and overhead attributable to the time of employees of MBIA spent in connection with the actions described in clauses (b), (c) and (d) above. The City agrees to reimburse MBIA immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorneys' fees and expenses.

An itemized statement of costs incurred by MBIA for any of the purposes specified in Article III of the Agreement shall be prima facie evidence of the liability of the City and, if the City fails to reimburse MBIA within ten Business Days of receipt of such statement of payments, interest shall be computed on such amount from the date of the payment made by MBIA at the Reimbursement Rate.

Payment, Reimbursement and Other Rights of MBIA

Payment and Reimbursement Rights of MBIA. In the Agreement, the City agrees to make the following payments to MBIA:

(a) On or prior to the Issuance Date, the premium, as required to be paid pursuant to the MBIA Commitment. Such premium shall be nonrefundable without regard to (i) whether MBIA makes any payment under the Policy, (ii) any other circumstances relating to the Bonds or (iii) provision being made for payment of the Bonds prior to maturity;

(b) The reimbursement of all payments made by MBIA under the terms of the Policy or the Agreement;

(c) All other amounts required to be paid to MBIA by the City pursuant to the terms of the Agreement or in connection with the transactions contemplated by the Bonds, the Related Documents, the Agreement, the Policy upon written notice from MBIA of the amounts so owed;

(d) Any and all charges, fees, costs and expenses which MBIA may pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Agreement or any of the Related Documents, (ii) the pursuit of any remedies thereunder or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect thereto, or related thereto, whether or not executed or completed, (iv) the violation by the City of any law, rule or regulation, or any judgment, order or decree applicable to it in connection with, or affecting, the Agreement, any of the Related Documents or any of the obligations thereunder or (v) any litigation or other dispute in connection with the Agreement or any of the Related Documents or transactions contemplated thereby upon written notice from MBIA of the amounts so owed; and

(e) Interest on the amounts owed in clauses (a), (b), (c) or (d) above from the date of any payment due or paid at the Reimbursement Rate as described in Article IV of the Agreement. In no event shall any agreed-to or actual exaction as consideration for the indebtedness created in the Agreement exceed the limits imposed or provided by the law applicable to this transaction for the use or detention of money or for forbearance in seeking its collection.

Optional Deposits by MBIA. MBIA shall at any time, and from time to time, with respect to a payment date on the Bonds, have the option to deliver amounts to the Fiscal Agent for deposit into the bond payment account for either of the following purposes: (i) to provide funds in respect of the payment of fees or expenses of any provider of services to the Fiscal Agent or (ii) to provide monies with respect to any payment date on the Bonds to the extent that without such provision of funds, a claim would be required to be made on the Policy. Any such amounts provided by MBIA shall be reimbursable amounts as due under the Agreement.

Subrogation Rights and Security of MBIA

To the extent of payments made and expenses incurred by MBIA in connection with the Policy and the Agreement, MBIA shall be fully subrogated to the Owners rights under the Ordinance to seek payment of amounts owed by the City. The City acknowledges and agrees, that upon payment of a claim under the Policy, MBIA will be subrogated to the rights of the Owners. The City will at any time, and from time to time, at the request of MBIA execute any instrument, document or agreement, and take any other action, that MBIA may consider necessary or desirable to effect these rights of subrogation.

To the extent provided by the Bond Committee Determination, the City grants MBIA a security interest in the Pledged Amounts (excluding PFCs which are pledged under Section 4.02 of the Ordinance) to secure, in the order of priority as provided in the Bond Committee Determination, all amounts which may become due under the Agreement. The City agrees that it will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, any and all financing statements, if applicable, and all other further instruments as may be required by law or as shall reasonably be requested by MBIA for the perfection of the security interest granted under the Agreement and for the preservation and protection of all rights of MBIA under the Agreement. The parties hereto agree that the pledge and covenants contained in the Agreement shall survive the payment of the Bonds and the defeasance of the Ordinance.

Events of Default

Events of Default Described. The happening of any one or more of the following events shall constitute an "Event of Default" and, upon the occurrence of any such Event of Default, MBIA may exercise the remedies specified in the Agreement:

(a) Failure by the City to make any payment required by Article III or IV in the Agreement;

(b) The dissolution or liquidation of the City, or the voluntary initiation by the City of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the City of any such proceeding, which remains undismissed or unstayed for 90 days, or failure by the City to promptly have discharged any execution, garnishment or attachment of such consequence as would materially impair the ability of the City to carry on its operations, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors or the failure generally by the City to pay its debts as they become due;

(c) Any representation of or warranty by the City made in the Agreement or the Related Documents is untrue in any material respect;

(d) Except as otherwise provided in (a) above, the failure of the City to observe or perform in any material respect any covenant, condition or provision of the Agreement, if such failure shall not have been remedied or cured within 30 days after the City's receipt of written notice thereof by MBIA;

(e) The occurrence and continuation of an event of default (however defined but excluding any event described in subparagraphs (a), (b), (c), (f) or (g) of this Section) under any of the Related Documents, if such event of default shall not have been cured or otherwise remedied within any related cure period set forth in the applicable Related Document;

(f) Any acceleration of the Bonds without the prior written consent of MBIA; or

(g) Any material provision of the Agreement or the Related Documents to which the City is a party shall at any time for any reason cease to be valid and binding, unless by their terms they cease to be valid and binding, on the City or shall be declared to be null and void by a final, nonappealable order of a court having competent jurisdiction, or the validity or enforceability of any thereof shall be contested by the City or any governmental agency or authority, or if the City shall deny that it has any further liability or obligation under the Agreement or the Related Documents to which it is a party.

Remedies

Whenever an Event of Default referred to in the "Events of Default Described" section above shall have happened and be continuing, MBIA may take any one or more of the following remedial steps:

(a) Exercise its rights of subrogation pursuant to Ordinance;

(b) Exercise any rights of subrogation it may have under the Policy;

(c) Take whatever other action at law or in equity as may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Agreement or to enforce performance and observance of any obligation, agreement or covenant of the City under the Agreement or under any Related Document;

(d) Accelerate any or all amounts due under the Agreement to the extent acceleration is a permitted remedy with respect to the Bonds; or

(e) Pursue any remedy it may have under any of the Related Documents or the Ordinance.

No Remedy Exclusive

Unless otherwise expressly provided, no remedy in the Agreement conferred or reserved is intended to be exclusive of any other available remedy, but each remedy shall be cumulative and shall be in addition to other remedies given under the Agreement or under any Related Document or existing at law or in equity. No delay or omission to exercise any right or power accruing under the Agreement or under any Related Document upon the happening of any Event of Default set forth above shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle MBIA to exercise any remedy reserved to it in Article VI of the Agreement, it shall not be necessary to give any notice, other than such notice as may be required in Article VI of the Agreement.

Settlement

MBIA shall have the exclusive right to decide and determine whether any claim, liability, suit or judgment made or brought on the Policy shall or shall not be paid, compromised, resisted, defended, tried or appealed, and MBIA's decision thereon, if made in good faith, shall be final and binding upon the City.

Obligations of the City Absolute

The obligations of the City to make payments under the Agreement shall be absolute, unconditional and irrevocable and shall be paid strictly in accordance with the terms of the Agreement under all circumstances whatsoever, including, without limitation, the following circumstances:

(a) any lack of validity or enforceability of any of the Related Documents;

(b) any amendment or waiver of or any consent to departure from all or any of the Related Documents;

(c) the existence of any claim, setoff, defense or other right which the City may have at any time against the Fiscal Agent or any other person or entity other than MBIA, whether in connection with the Agreement, the transactions contemplated in the Agreement or in the Related Documents or any unrelated transactions;

(d) any statement or any other document presented under or in connection with the Policy or the MBIA Commitment proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever; or

(e) payment by MBIA under the Policy under circumstances which do not comply with the terms of the Policy, provided, however, that such payments shall not have resulted from gross negligence or willful misconduct on the part of MBIA.

FINANCIAL GUARANTY AGREEMENT

Below is a summary of the Financial Guaranty Agreement, between the City and MBIA Insurance Corporation. A Financial Guaranty Agreement will be executed for the 2005A Bonds. The summary below summarizes the Financial Guaranty Agreement for the 2005A Bonds. All capitalized terms used in the following summary of the Financial Guaranty Agreement are defined as in the Financial Guaranty Agreement and may be differently referenced in other portions of this Official Statement. This summary is in all respects subject to and qualified in its entirety by reference to the Financial Guaranty Agreement in its complete form.

Certain Definitions

For all purposes of the Agreement and the Surety Bond, except as otherwise expressly provided in the Agreement or unless the context otherwise requires, all capitalized terms shall have the meaning as set out below, which shall be equally applicable to both the singular and plural forms of such terms.

"Agreement" means the Financial Guaranty Agreement.

"Closing Date" means August 4, 2005.

"Commitment" means the commitment to issue Municipal Bond Guaranty Insurance in the form attached as Annex C to the Agreement.

"Debt Service Payments" means those payments required to be made by or on behalf of the Issuer which will be applied to payment of principal of and interest on the Obligations.

"Demand for Payment" means the certificate submitted to the Insurer for payment under the Surety Bond substantially in the form attached to the Surety Bond as Attachment l.

"Document" means the General Ordinance and the Fifth Supplemental Ordinance to the General Ordinance approved June 29, 2005 (Bill No. 050369).

"Event of Default" shall mean those events of default set forth in Section 4.1 of the Agreement.

“General Ordinance” shall mean the Issuer’s Amended and Restated General Airport Revenue Bond Ordinance (Bill No. 950282) approved July 16, 1995, as amended and supplemented.

"Insurer" has the same meaning as set forth in the first paragraph of the Agreement.

"Issuer" means the City of Philadelphia, Pennsylvania.

"Obligations" means the City of Philadelphia, Pennsylvania, Airport Revenue Bonds, Series 2005A.

"Owners" means the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer or any designee of the Issuer for such purpose.

"Paying Agent" means Wachovia Bank, National Association.

"Premium" means $166,000 payable to the Insurer on or prior to the Closing Date.

"Reimbursement Period" means, with respect to a particular Surety Bond Payment, the period commencing on the date of such Surety Bond Payment and ending on the earlier of the date of cancellation of the Surety Bond due to nonpayment of Premium when due or on the expiration of one year following such Surety Bond Payment.

"Reimbursement Rate" means Citibank's prime rate plus three (3) percent per annum, as of the date of such Surety Bond Payment, said "prime rate" being the rate of interest announced from time to time by Citibank, N.A., New York, New York, as its prime rate. The rate of interest shall be calculated on the basis of the actual number of days elapsed over a 360-day year.

"State" means the Commonwealth of Pennsylvania.

"Surety Bond" means that surety bond attached to the Agreement as Annex A and issued by the Insurer guaranteeing, subject to the terms and limitations thereof, Debt Service Payments required to be made by the Issuer under the Document.

"Surety Bond Coverage" means the amount available at any particular time to be paid under the terms of the Surety Bond, which amount shall never exceed the Surety Bond Limit.

"Surety Bond Limit" has the meaning ascribed to it in the Agreement

"Surety Bond Payment" means an amount equal to the Debt Service Payment required to be made by the Issuer pursuant to the Document less (i) that portion of the Debt Service Payment paid by or on behalf of the Issuer, and (ii) other funds legally available for payment to the Owners, all as certified in a Demand for Payment.

Surety Bond

(a) The Insurer will issue the Surety Bond in accordance with and subject to the terms and conditions of the Commitment.

(b) The maximum liability of the Insurer under the Surety Bond and the coverage and term thereof shall be subject to and limited by the terms and conditions of the Surety Bond.

Premium. In consideration of the Insurer agreeing to issue the Surety Bond under the Agreement, the Issuer therein agrees to pay or cause to be paid the Premium set forth in Annex B to the Agreement. The Premium on the Surety Bond is not refundable for any reason.

Certain Other Expenses. The Issuer will pay all reasonable fees and disbursements of the Insurer's special counsel related to any modification of the Agreement or the Surety Bond.

Reimbursement and Indemnification; Obligations of Issuer and Security Therefor

Reimbursement for Payments Under the Surety Bond and Expenses; Indemnification.

(a) The Issuer will reimburse the Insurer, within the Reimbursement Period, without demand or notice by the Insurer to the Issuer or any other person, to the extent of each Surety Bond Payment with interest on each Surety Bond Payment from and including the date made to the date of the reimbursement at the lesser of the Reimbursement Rate or the maximum rate of interest permitted by then applicable law.

(b) The Issuer also agrees to reimburse the Insurer immediately and unconditionally upon demand, to the extent permitted by state law, for all reasonable expenses incurred by the Insurer in connection with the Surety Bond and the enforcement by the Insurer of the Issuer's obligations under the Agreement, the Document, and any other document executed in connection with the issuance of the Obligations, together with interest on all such expenses from and including the date incurred to the date of payment at the rate set forth in subsection (a) above.

(c) The Issuer agrees to indemnify the Insurer, to the extent permitted by state law, against any and all liability, claims, loss, costs, damages, fees of attorneys and other expenses which the Insurer may sustain or incur by reason of or in consequence of (i) the failure of the Issuer to perform or comply with the covenants or conditions of the Agreement or (ii) reliance by the Insurer upon representations made by the Issuer or (iii) a default by the Issuer under the terms of the Document or any other documents executed in connection with the issuance of the Obligations.

(d) The Issuer agrees that all amounts owing to the Insurer pursuant to the Agreement must be paid in full prior to any optional redemption or refunding of the Obligations.

Allocation of Payments. In the Agreement, the Insurer and the Issuer agree that each payment received by the Insurer from or on behalf of the Issuer as a reimbursement to the Insurer, as required above, shall be applied by the Insurer first, toward payment of any unpaid premium; second, toward repayment of the aggregate Surety Bond Payments made by the Insurer and not yet repaid, payment of which will reinstate all or a portion of the Surety Bond Coverage to the extent of such repayment (but not to exceed the Surety Bond Limit); and third, upon full reinstatement of the Surety Bond Coverage to the Surety Bond Limit, toward other amounts, including, without limitation, any interest payable with respect to any Surety Bond Payments then due to the Insurer.

Draws on the Surety Bond and all other alternative credit instruments on which there is available coverage shall be made on a pro rata basis (calculated by reference to coverage then available under the Surety Bond and each such alternative credit instrument) after applying available cash and investments in the reserve fund. Repayment of draws, expenses and interest thereon of the Insurer and alternative credit instrument providers shall be made on a pro rata basis (calculated by reference to the coverage then available under the Surety Bond and each such alternative credit instrument) prior to replenishment of any cash draws on the reserve fund.

Security for Payments; Instruments of Further Assurance. To the extent, but only to the extent, that the Document, or any related indenture, trust agreement, ordinance, resolution, mortgage, security agreement or similar instrument, if any, pledges to the Owners or any trustee therefor, or grants a security interest or lien in or on any collateral, property, revenue or other payments ("Collateral and Revenues") in order to secure the Obligations or provide a source of payment for the Obligations, the Issuer grants to the Insurer a security interest in or lien on, as the case may be, and pledges to the Insurer all such Collateral and Revenues as security for payment of all amounts due under the Agreement and under the Document or any other document executed in connection with the issuance of the Obligations, which security interest, lien and/or pledge created or granted under this section shall be immediately subordinate only to the interests of the Owners and any trustee therefor in such Collateral and Revenues and the rights of the Owners to receive regularly scheduled principal and interest (including mandatory sinking fund redemptions) on the Obligations, in each case, except as otherwise provided. The Issuer agrees that it will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, any and all financing statements, if applicable, and all other further instruments as may be required by law or as shall reasonably be requested by the Insurer for the perfection of the security interest, if any, granted under this section and for the preservation and protection of all rights of the Insurer under this section.

Unconditional Obligation. The obligations under the Agreement are absolute and unconditional and will be paid or performed strictly in accordance with the Agreement, subject to the limitations of the Document, irrespective of:

(a) any lack of validity or enforceability of, or any amendment or other modification of, or waiver with respect to the Obligations, the Document or any other document executed in connection with the issuance of the Obligations; or

(b) any exchange, release or nonperfection of any security interest in property securing the Obligations or the Agreement or any obligations under the Agreement; or

(c) any circumstances that might otherwise constitute a defense available to, or discharge of, the Issuer with respect to the Obligations, the Document or any other document executed in connection with the issuance of the Obligations; or

(d) whether or not such obligations are contingent or matured, disputed or undisputed, liquidated or unliquidated.

Insurer's Rights. The Issuer shall repay the Insurer to the extent of payments made and expenses incurred by the Insurer in connection with the Obligations and the Agreement. The obligation of the Issuer to repay such amounts shall be immediately subordinate only to the rights of the Owners to receive regularly scheduled principal and interest on the Obligations.

On-Going Information Obligations of Issuer.

(a) Quarterly Reports. The Issuer will make available to the Insurer within 45 days of the close of each quarter interim financial statements covering all fund balances under the Document, a statement of operations (income statement), balance sheet and changes in fund balances. These statements need not be audited by an independent certified public accountant, but if any audited statements are produced, they must be provided to the Insurer;

(b) Annual Reports. The Issuer will make available to the Insurer annual financial statements audited by an independent certified public accountant within 240 days of the end of each fiscal year;

(c) Access to Facilities, Books and Records. The Issuer will grant the Insurer reasonable access to the project financed by the Obligations and will make available to the Insurer, at reasonable times and upon reasonable notice all books and records relative to the project financed by the Obligations; and

(d) Compliance Certificate. On an annual basis the Issuer will provide to the Insurer a certificate confirming compliance with all covenants and obligations under the Agreement and under the Revenue Agreement, the Document or any other document executed in connection with the issuance of the Obligations.

Amendments to Documents

So long as the Agreement is in effect, the Issuer agrees that it will not agree to amend the Document or any other document executed in connection with the issuance of the Obligations, without the prior written consent of the Insurer, except that additional Bonds (as defined in the General Ordinance) may be issued in accordance with Section 5.04 of the General Ordinance without such consent, so long as no amounts remain due and unpaid under the Agreement.

Events of Default

The following events shall constitute Events of Default under the Agreement:

(a) The Issuer shall fail to pay to the Insurer when due any amount payable under the Agreement

(b) The Issuer shall fail to pay to the Insurer any amount payable under the Agreement and such failure shall have continued for a period in excess of the Reimbursement Period; or

(c) Any material representation or warranty made by the Issuer under the Document or the Agreement or any statement in the application for the Surety Bond or any report, certificate, financial statement, document or other instrument provided in connection with the Commitment, the Surety Bond, the Obligations, or herewith shall have been materially false at the time when made; or

(d) Except as otherwise provided in this section, the Issuer shall fail to perform any of its other obligations under the Document, or any other document executed in connection with the issuance of the Obligations, or under the Agreement, provided that such failure continues for more than 30 days after receipt by the Issuer of written notice of such failure to perform; or

(e) The Issuer shall (i) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of, or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take action for the purpose of effecting any of the foregoing; or

(f) An involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Issuer, or of a substantial part of its property, under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law or (ii) the appointment of a receiver, trustee, custodian, sequestrator or similar official for the Issuer or for a substantial part of its property; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall continue unstayed and in effect for 30 days.

Remedies

If an Event of Default shall occur and be continuing, then the Insurer may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Agreement or to enforce performance of any obligation of the Issuer to the Insurer under the Document or any related instrument, and any obligation, agreement or covenant of the Issuer under the Agreement; provided, however, that the Insurer may not take any action to direct or require acceleration or other early redemption of the Obligations or adversely affect the rights of the Owners. All rights and remedies of the Insurer under this section are cumulative and the exercise of any one remedy does not preclude the exercise of one or more of the other available remedies.

Settlement

The Insurer shall have the exclusive right to decide and determine whether any claim, liability, suit or judgment made or brought against the Insurer, the Issuer or any other party on the Surety Bond shall or shall not be paid, compromised, resisted, defended, tried or appealed, and the Insurer's decision thereon, if made in good faith, shall be final and binding upon the Insurer, the Issuer and any other party on the Surety Bond. An itemized statement of payments made by the Insurer, certified by an officer of the Insurer, or the voucher or vouchers for such payments, shall be prima facie evidence of the liability of the Issuer, and if the Issuer fails to immediately reimburse the Insurer upon the receipt of such statement of payments, interest shall be computed on such amount from the date of any payment made by the Insurer at the rate set forth in subsection (a) of “Reimbursements for Payments Under the Surety Bonds and Expenses” above.

Interest Computations

All computations of interest due under the Agreement shall be made on the basis of the actual number of days elapsed over a year of 360 days.

USE AND LEASE AGREEMENTS

Below is a summary of the Use and Lease Agreements, as amended, which the City has entered into with each of the Scheduled Airlines. The City has entered into a supplemental amendment to its Use and Lease Agreement with US Airways. A summary of this supplemental amendment is also set forth below. All capitalized terms used in the following summary of the Use and Lease Agreements are defined as in the Use and Lease Agreements and may be differently referenced in other portions of this Official Statement. This summary is in all respects subject to and qualified in its entirety by reference to the summarized agreements in their complete form.

Use of Airport. Grants to the Scheduled Airlines the use, in common with others, of the Airport and appurtenances, including the Terminal Building, the Ramp Area and the Airfield for the purpose of operating an air transportation system and related facilities for the carriage of persons, property, baggage cargo and mail.

Parking Areas. Provides that the City will make available to the Scheduled Airlines, in connection with others, adequate vehicular parking space for employees and passengers, with the City having the right to impose charges for such service.

Term. Provides that the term of each Use and Lease Agreement shall end June 30, 2006.

Rentals and Fees. Provides that each of the Scheduled Airlines shall pay, without deduction or set off:

1. Monthly rentals for terminal space and ramp areas used and, upon invoicing, all miscellaneous charges;

2. Outside Terminal Area Payments-in-Aid and Payments-in-Aid of the Terminal Building Operation, subject to adjustment as hereinafter described; and

3. Monthly Landing Fees with each Scheduled Airline furnishing the City during the succeeding month a report giving the data necessary to calculate such charges.

Payments-in-Aid of Terminal Building Operation. Provides that each Scheduled Airline shall make monthly Payments-in-Aid of the Terminal Building Operation, if required, in accordance with a formula based upon expenses allocable to the Terminal Building in accordance with the Cost Accounting System. Each Scheduled Airline's rent for space occupied exclusively by it, or jointly with other Scheduled Airlines, is based upon expenses allocable to the Terminal Building in accordance with the Cost Accounting System. All revenues attributable to the Terminal Building, other than revenues derived from Scheduled Airlines, are subtracted from the expenses allocable to the remainder of the Terminal Building to arrive at the aggregate amount of Payments-in-Aid of Terminal Building Operation.

Scheduled Airlines shall also pay their share of Payments-in-Aid of the Terminal Building operation proportionately in accordance with the amount of space leased by each.

If, during a Fiscal Year, the actual expenses for the Terminal Building are forecast by the City to exceed by ten percent or more actual Project Revenues relating to the Terminal Building, the City may, upon sixty (60) days notice to the Scheduled Airlines, increase the monthly Payments-in-Aid of Terminal Building Operation.

If Project Revenues from sources other than from the Scheduled Airlines exceed expenses, the City shall credit the Scheduled Airlines with such excess revenues in direct proportion to each Scheduled Airline's cumulative share of the Payments-in-Aid of Terminal Operation, which credits shall not exceed the cumulative amount of Payments-in-Aid of Terminal Operation theretofore made by each such Scheduled Airline.

OTA Payments-in-Aid. The Scheduled Airlines shall make monthly rental payments as OTA Payments-in-Aid if expenses exceed revenues for the Outside Terminal Area. Such Payments-in-Aid are to be limited to fifty percent of such estimated excess or $1,100,000, whichever is the lesser.

If, during a Fiscal Year, the excess of expenses over revenues allocable to the Outside Terminal Area is less than $2,200,000, and the actual expenses relating to the Outside Terminal Area are forecast by the City to exceed by ten percent or more than actual revenues, the City may increase the monthly Payments-in-Aid to cover any deficit, but not in an amount in excess of $1,100,000.

Scheduled Airlines shall pay their share of such OTA Payments-in-Aid proportionately in accordance with the amount of space in the Terminal Building leased by each. If revenues from the Outside Terminal Area exceed Outside Terminal Area expenses, the City shall apportion as a credit among the Scheduled Airlines fifty percent (50%) or such lesser share of such excess revenues as shall represent the Scheduled Airlines' cumulative share of the Outside Terminal Area deficits. At such time as the credits for a Scheduled Airline on a cumulative basis exceed its cumulative Payments-in-Aid of the Outside Terminal Area, such excess credits shall be credited against the Scheduled Airline's cumulative share of Payments-in-Aid of Terminal Operation, but only to the extent of such Payments-in-Aid of Terminal Operation.

Landing Fees. The Landing fee, based upon the Scheduled Airline's revenue aircraft arrivals at the Airport, is comprised of costs incurred in the Airfield Area, Cargo City, Other Areas, and Northeast Philadelphia Airport.

Method of Adjusting Landing Fees.

By not less than 90 days before the end of each Fiscal Year, the Scheduled Airlines shall submit to the City in writing their composite landed weight forecast for the next Fiscal Year. Not less than 90 days prior to the end of such current Fiscal Year, the City shall submit in writing to the Scheduled Airlines its budgetary forecast for the airfield Area, Other Areas, Cargo City and Northeast Philadelphia Airport for the next Fiscal Year. From such data and consistent with the Cost Accounting System, the City shall compute the Landing Fees it regards as necessary for the next Fiscal Year.

Landing Fees shall be determined as follows:

The City shall compute revenues from sources other than Scheduled Airlines forecast to be received from the Airfield Area, Other Areas, Cargo City and Northeast Philadelphia Airport. The City shall then compute the total of expenses to be incurred in the aforesaid cost centers. The excess, if any, of such expenses over revenues from sources other than the Scheduled Airlines shall be the "Net Expenses."

After calculating Net Expenses in the Airfield Area, Other Area, Cargo City and Northeast Philadelphia Airport, the City shall divide the resulting forecast of Net Expenses by the composite landed weight forecast provided by the Scheduled Airlines to arrive at a cents-per-thousand Pounds Landing Fee rate for the next Fiscal Year.

1. If, in a Fiscal Year, the City forecasts a deficit in the operations of the Airfield Area, Other Areas, Cargo City or Northeast Philadelphia Airport, and such deficit (which shall be the combined deficit for all of the aforesaid Cost Centers) is forecast to exceed Net Expenses by ten percent (10%) or more, and such deficit is occasioned by revenues less than those forecast at the beginning of the Fiscal Year, the City may increase the monthly Landing Fees in amounts sufficient to assure that no deficit shall occur.

2. If the City estimates that a deficit will occur in the operation of the Airfield Area, Other Areas, Cargo City or Northeast Philadelphia Airport at the end of the then current Fiscal Year, and such deficit is occasioned either by expenses greater or revenues less than those forecast at the beginning of the Fiscal Year, the City may include the deficit as an element of expense for the next Fiscal Year if the Scheduled Airlines has been advised in writing when the city was aware that expenses for a particular area exceeded by five percent (5%) the total budgetary forecast for such area.

3. If the City experiences an excess of revenues over expenses in the operation of the Airfield Area, Other Areas, Cargo City or Northeast Philadelphia Airport at the end of any Fiscal Year and such excess is occasioned either by expenses less than or revenues greater than those forecast at the beginning of or during the Fiscal Year, the amount of such shall be applied to reduce the Landing Fee rate calculated for the next Fiscal Year.

Method of Adjusting Terminal Building Rentals.

Before the end of each Fiscal Year, the Scheduled Airlines shall submit to the City in writing any additions to their leased areas for the next Fiscal Year. Before the end of such current Fiscal Year, the City shall submit in writing to the Scheduled Airlines its budgetary forecast for the Terminal Building for the next Fiscal Year. From such date and consistent with the Cost Accounting System, the City shall calculate the Terminal Building rentals it regards as necessary for the next Fiscal Year.

To determine Terminal Building rentals, the City shall calculate its cost per square foot to arrive at the basic per square foot per year Terminal Building rental rate for leased space. Added to this rate is a surcharge as required, due to excess space not leased by the Scheduled Airlines.

1. If, in a Fiscal Year, the City forecasts a deficit in the operation of the Terminal Building, and such deficit is forecast to exceed the estimated total annual Terminal Building expenses by ten percent (10%) or more, and such deficit is occasioned by revenues less than those forecast at the beginning of the Fiscal Year, the City may increase the monthly Terminal Building rentals in amounts sufficient to assure that no deficit shall occur.

2. If the City estimates a deficit in the operation of the Terminal Building at the end of the then current Fiscal Year, and such deficit is occasioned either by expenses greater or revenues less than those forecast at the beginning of the Fiscal Year or collected during the Fiscal Year, the City may include the deficit as an element of expense for the next Fiscal Year, if the Scheduled Airline had been advised in writing when the City was aware that expenses for the Terminal Building exceeded by five percent (5%) the total budgetary forecast therefor.

3. If the City receives an excess of Scheduled Airlines' rentals over the expenses in the operation of the Terminal Building at the end of any Fiscal Year, and such excess is occasioned by expenses less than those forecast at the beginning of or during the Fiscal Year, the City shall reduce Terminal Building rentals of the scheduled Airlines to the extent of such excess in the next Fiscal Year.

Method of Adjusting Ramp Area Rentals.

Not less than ninety (90) days prior to the end of each Fiscal Year, the City shall submit in writing to each of the Scheduled Airlines its budgetary forecast of Ramp Area expenses for the next Fiscal Year. From such data and consistent with the Cost Accounting System, the City shall propose the Ramp Area rentals it regard as necessary for the next Fiscal Year and shall forward such proposed Ramp Area rentals to each of the Scheduled Airlines.

To determine Ramp Area rentals the City shall reduce the proposed Ramp Area rental to a rate per lineal foot per year by dividing the annual Ramp Area expenses forecast for the next Fiscal Year by the number of ramp lineal feet assigned to the Scheduled Airlines to arrive at an equalized rate per lineal foot per year.

The calculation of the Ramp Area rental rate shall include as the only element of cost the debt service incurred by the City in the Ramp Area. All Scheduled Airlines shall pay the same Ramp Area rental rate per lineal foot. If airlines or air transportation companies other than the Scheduled Airlines lease portions of the Ramp Area, the income so generated shall be credited to reduce the rental rate per lineal foot payable by Scheduled Airlines.

Any surplus or deficits experienced by the City in the operation of the Ramp Area during any Fiscal Year shall be included as a credit or an element of costs, as appropriate, in the calculation of Ramp Area rental rates payable by the Scheduled Airlines in the next Fiscal Year.

Review of Adjusted Rentals and Fees. The Scheduled Airlines and the City agree to use their best efforts to adjust the rentals and fees to their mutual satisfaction and agree that the decision of a Majority-in-Interest as to rentals and fees shall be binding on the Scheduled Airlines. In the event that a Majority-in-Interest and the City fail to reach agreement concerning the rentals and fees, the Scheduled Airlines, where a Majority-in-Interest so determines, or the City, may submit disputes concerning the amount of rentals and fees to arbitration.

Compliance with Rate Covenant. Each Scheduled Airline agrees that the City shall impose, charge and collect and such Scheduled Airline agrees to pay such rentals, charges and fees as may be required by covenants contained in the Authorizing Legislation and to otherwise comply with the Rate Covenant.

Capital Expenditures.

Capital expenditures must be approved by the Majority-in-Interest unless:

1. The Capital Expenditure is being made in the Overseas Terminal;

2. The Capital Expenditure is required by a Federal or state agency having jurisdiction over Airport operations;

3. The Capital Expenditure is of an emergency nature which, if not made, would result in the closing of the Airport within forty-eight (48) hours;

4. The Capital Expenditure is to be made in the terminal Building after the City has fully credited the Scheduled Airlines for their Payments-in-Aid of Terminal Operation and it will not, upon its completion, increase Terminal Building expenses to such an extent that Payments-in-Aid of Terminal Operation would be required;

5. The Capital Expenditure is to be made in the Outside Terminal Area after the City has fully credited the Scheduled Airlines for both Outside Terminal Area Payments-in-Aid and Payments-in-Aid of Terminal Operation and it will, upon its completion, increase Outside Terminal Area expenses to such an extent that Outside Terminal Area Payments-in-Aid would be required; or

6. The Capital Expenditure results from a final judgment or settlement in the matter of *Airportels Inc. v. City of Philadelphia*, Philadelphia Court of Common Pleas May Term 1973 No.3516.

Covenants of the City. The City covenants that it will efficiently manage and operate the Airport System on the basis of sound business and airport management principles and with efficient and prudent control of operating expenses; that it will operate the Airport System in such a manner as to maximize revenues from concessionaires, lessees and other users; and that it shall require all users of the Airfield Area to pay for their use thereof.

Subordination. The Use and Lease Agreements and all rights of the Scheduled Airlines are subordinated and subject to the lien and provisions of any pledge, transfer, hypothecation or assignment made at any time by the City to secure Airport Revenue Bonds and conditions of the legislation authorizing the same.

Damage to or Destruction of the Terminal Building.

The City shall procure and keep in force at all times insurance insuring the Terminal Building against loss by fire and extended coverage perils. Such policy shall be in an amount not less than eighty percent (80%) of the replacement cost of the Terminal Building and shall be reviewed and adjusted, if necessary, by the City at least every three (3) years.

If, prior to payment and discharge of all general obligation bonds or, pursuant to provisions of the authorizing legislation, all Airport Revenue Bonds and additional Airport Revenue Bonds, the Terminal Building shall be damaged or partially or totally destroyed by fire, flood, windstorm and other casualty, there shall be no abatement or reduction in the rentals and fees payable by the Scheduled Airlines; provided, however, that such payments shall be reduced by any proceeds of business interruption insurance maintained for the purpose of insuring against loss of such rentals and fees. The portion of the Terminal Building so damaged or destroyed shall be promptly repaired, rebuilt or restored with such changes, alterations and modifications (including the substitution and addition of other property) as may be designated by the City and as shall not impair the character of the Terminal Building; further provided, however, that the City shall not be obligated to expend any amount in excess of the net proceeds of the insurance covering such casualty.

Liability Insurance. The Scheduled Airlines shall, at their own expense, maintain property primary liability insurance with a reputable insurance company or companies licensed to do business in the Commonwealth of Pennsylvania in the minimum single limit (or equivalent split limits) of $10,000,000. The Scheduled Airlines shall carry additional amounts of liability insurance from time to time in such amounts as are generally regarded as necessary or advisable in connection with the operation of the business of an airline.

Defaults. In the event of the failure of a Scheduled Airline to pay the rentals and fees set forth in the Use and Lease Agreements, the City may impose an interest charge of one hundred and twenty-five percent (125%) per annum of the then existing prime rate of First Pennsylvania Bank N.A. (or its equivalent in the event there shall be no prime rate) on all amounts due from the date due until paid. The City may also elect to terminate the Scheduled Airline's rights under the Use and Lease Agreements and re-enter and take possession of the leased premises.

Termination of Lease in Entirety:

The City's Rights to Terminate. The City may terminate a Use and Lease Agreement in its entirety, subject to and in the manner provided in Section 1703 thereof, upon or after the occurrence of any one or more of the following events and may exercise all rights of entry and re-entry, with or without process of law, upon the demised premises;

1. The filing by a Scheduled Airline of any request for relief under any state insolvency statute;

2. The filing by a Scheduled Airline of any petition for relief as a bankrupt or a debtor under the Bankruptcy Act;

3. The adjudication of a Scheduled Airline as a bankrupt or a debtor pursuant to any involuntary bankruptcy or reorganization proceedings under the Bankruptcy Act;

4. The appointment of a receiver or trustee of a Scheduled Airline's assets by a court of competent jurisdiction or a voluntary agreement with a Scheduled Airline's creditors;

5. The voluntary abandonment by a Scheduled Airline of the conduct of its air transportation business at the Airport; or

6. The substantial breach by a Scheduled Airline of any of the covenants or agreements therein contained and the failure of Airline to remedy such breach in accordance with Section 1703 thereof.

Scheduled Airlines Right to Terminate.

A Scheduled Airline may cancel its Use and Lease Agreement in its entirety, and terminate all of its obligations thereunder, upon or after the happening of any one of the following events:

1. Issuance of a permanent injunction by any court of competent jurisdiction substantially restraining or preventing all the Scheduled Airlines from using all or major portions of the Airport for airport purposes and its remaining in force for one hundred and twenty (120) days; provided, however, that the City shall not have taken such steps as may be necessary to effect an appeal to appropriate appellate courts;

2. Any action of any governmental authority, board, agency or officer having jurisdiction thereof preventing a Scheduled Airline from conducting its air transportation business in its entirety at the Airport by a taking, directly or indirectly, in whole or substantial part, of the demised premises or premises required for actual operation of a Scheduled Airline's aircraft to and from Airport; provided, however, that the City shall be entitled to provide comparable substitute facilities within sixty (60) days from the date a Schedule Airline is prevented from conducting its business;

3. The taking through the process of eminent domain of all or a substantial part of the premises and space leased by a Scheduled Airline; provided, however, that the City shall be entitled to provide a Scheduled Airline with comparable substitute facilities within sixty (60) days of the date of taking; or

4. The involuntary termination by any governmental authority, board, agency or officer having jurisdiction of a Scheduled Airline's certificate of public convenience and necessity authorizing it to serve Philadelphia, Pennsylvania, resulting in the termination of all of a Scheduled Airline's rights to service the Airport.

Summary of First Supplemental Amendment to US Airways' Use and Lease Agreement

The City has entered into a supplemental amendment dated as of July 1, 1998 (the "First Supplemental Amendment") to its Use and Lease Agreement with US Airways in order to lease to US Airways a portion of the US Airways Project Facility. The First Supplemental Amendment amended US Airways' Use and Lease Agreement in the following key areas:

New Premises. The First Supplemental Amendment provides that portions of the US Airways' Project Facility are included with and be added to the premises leased to US Airways pursuant to US Airways' Use and Lease Agreement with the City. In Terminal One these new premises are comprised of the equivalent of nine (9) B-777/A-330 Type 4 Aircraft Parking Positions, as well as certain Baggage Claim Areas, Federal Inspection Areas, terminal offices, and VIP Areas. In the Commuter Terminal these new premises are comprised of the equivalent of thirty-eight (38) regional jet Aircraft Parking Positions, as well as certain Baggage Claim Areas, terminal offices, and a VIP Area. The Ramp Control Tower is leased to US Airways pursuant to the First Supplemental Amendment.

Use of New Premises: The First Supplemental Amendment provides that in addition to other terms and conditions of US Airways' Use and Lease Agreement, US Airways' use of its new premises are subject as follows:

Terminal One:

US Airways' Aircraft Parking Positions in Terminal One are leased on a preferential use basis upon completion of the Renovations. (Prior to such completion, the Aircraft Parking Positions in Terminal One are leased to US Airways on a common use basis). "Preferential use" signifies that the City, in accordance with the priorities set forth below, may grant a Requesting Airline the right of shared or temporary use of US Airways' Aircraft Parking Positions in Terminal One, including rights of ingress and egress, and the right to use loading bridges and other equipment which are reasonably necessary for the effective use of such facilities. US Airways will accommodate such Requesting Airline in a commercially reasonable manner, which manner of accommodation will be subject to the approval of the Director of Aviation, provided that:

1. The Requesting Airline has agreed to pay City the amounts required for use of the assigned portion of US Airways' Aircraft Parking Positions on a per passenger basis, seventy-five percent (75%) of which the City will credit against the "rental" and fees payable by US Airways, with the balance applied by the City as revenue attributable to the Domestic Terminal sub-cost center, and

2. No other common use Aircraft Parking Position within Terminal One or within the area of the International Terminal cost center is available, and the turn times of US Airways' First Priority Tier flights as listed below shall not be shortened by such use, provided such turn times shall not exceed:

   (a) For aircraft of two hundred (200) or more seats, one hundred and fifty (150) minutes servicing time, plus an additional fifteen (15) minutes prior to and after such servicing time from scheduled arrival and departure times.

   (b) For aircraft with fewer than two hundred (200) seats, one hundred and twenty (120) minutes servicing time, plus an additional fifteen (15) minutes prior to and after such servicing time from scheduled arrival and departure times.

In the event that City determines that a Requesting Airline is in need of such US Airways Aircraft Parking Positions (or part thereof) to accommodate passengers or aircraft, City will assign the following priorities in designating such Aircraft Parking Positions for temporary or shared use:

1. First Priority Tier: US Airways' scheduled arriving and departing international flights, US Airways' scheduled domestically arriving flights that will depart as an international flight, US Airways' international charter flights and, subject to the following sentence, US Airways' internationally arriving flights that will depart as domestic flights. An international arriving flight of US Airways that will depart as a domestic flight will lose its First Priority Tier status for the domestic leg and become a Sixth Priority Tier flight if:

    (a) a non-Airline arriving international flight needs the Aircraft Parking Position at which the departing domestic flight is parked and there is no available common use Aircraft Parking Position for such arriving international flight in Terminal One or the International Terminal, and

    (b) there is a US Airways leased Aircraft Parking Position available elsewhere at the Airport that is designed to handle the aircraft type of the US Airways' departing domestic flight.

2. Second Priority Tier: Scheduled arriving international flights by scheduled airlines, followed in priority by non-scheduled airlines.

3. Third Priority Tier: Scheduled departing international flights by scheduled airlines, followed in priority by non-scheduled airlines.

4. Fourth Priority Tier: Charter arriving international flights by scheduled airlines, followed in priority by non-scheduled airlines.

5. Fifth Priority Tier: Charter departing international flights by scheduled airlines, followed in priority by non-scheduled airlines.

6. Sixth Priority Tier: Arriving and departing domestic flights by US Airways, followed in priority by scheduled airlines, then followed in priority by non-scheduled airlines.

For purposes of use and priority determinations set forth above, US Airways shall mean US Airways, any wholly owned subsidiary of US Airways, any airline under common ownership with US Airways, and any code share airline with which US Airways may have a marketing relationship.

US Airways' lease of baggage claim areas and Federal Inspection areas are on a non-exclusive access and use basis in Terminal One.

US Airways' lease of terminal offices, VIP Area, and the Ramp Control Tower are on an exclusive use basis in Terminal One.

<u>*Commuter Terminal*</u>:

US Airways' Aircraft Parking Positions in the Commuter Terminal are leased on a preferential use basis. "Preferential use" signifies that the City, in accordance with the priorities set forth below, may grant a Requesting Airline the right of shared or temporary use of US Airways' Aircraft Parking Positions in the Commuter Terminal, including rights of ingress and egress, and the right to use loading bridges and other equipment which are reasonably necessary for the effective use of such facilities. US Airways will accommodate such Requesting Airline in all or such portion of US Airways' Aircraft Parking Positions in a commercially reasonable manner, which manner of accommodation will be subject to the approval of the Director of Aviation, provided that:

1. The Requesting Airline has agreed to pay City the amounts required for use of the assigned portion of US Airways' Aircraft Parking Positions on a per passenger basis, seventy-five percent (75%) of which the City will credit against the "rental" and fees payable by US Airways, with the balance applied by the City as revenue attributable to the Domestic Terminal sub-cost center, and,

2. The turn times of US Airways' First Priority Tier flights as listed below shall not be shortened by such use, provided such turn times shall not exceed sixty (60) minutes servicing time, plus an additional fifteen (15) minutes prior to and after such servicing time from scheduled arrival and departure times.

In the event that City determines that a Requesting Airline is in need of the foregoing Aircraft Parking Positions to accommodate passengers or aircraft, City will assign the following priorities in designating such Aircraft Parking Positions for temporary or shared use:

1. First Priority Tier: US Airways' scheduled and charter arriving and departing flights.

2. Second Priority Tier: Scheduled and charter arriving and departing flights by scheduled airlines, followed in priority by non-scheduled airlines.

3. Third Priority Tier: Unscheduled arriving and departing flights by US-Airways, followed in priority by scheduled airlines, then followed in priority by non-scheduled airlines.

For purposes of use and priority determinations set forth above, US Airways shall mean US Airways, any wholly owned subsidiary of US Airways, any airline under common ownership with US Airways, and any code share airline with which US Airways may have a marketing relationship.

US Airways' lease of baggage claim areas are on a non-exclusive access and use basis in the Commuter Terminal.

US Airways' lease of terminal offices and VIP Area are on an exclusive use basis in the Commuter Terminal.

Certain Rights of the City and US Airways:

Terminal One.

The First Supplemental Amendment provides that if, during the term of US Airways' Use and Lease Agreement, US Airways is able to schedule and operate an average of twenty (20) or more international flights per day from Terminal One for a period of no less than ninety (90) days, US Airways will have the right to add an amount of additional, contiguous, preferential space equivalent to one (1) Aircraft Parking Position in Terminal One to its leasehold under the First Supplemental Amendment; provided, however, that City may recapture such space in the event that US Airways is unable to maintain an average schedule of twenty (20) or more international flights per day from Terminal One, determined on a rolling six (6) month basis. For purposes of this Agreement, one "international flight" are comprised of both the arriving and departing operations (i.e., twenty (20) international flights shall require forty (40) operations).

Commuter Terminal.

The First Supplemental Amendment provides that approximately six (6) months prior to the anticipated Occupancy Term Commencement Date for the Commuter Terminal, US Airways shall submit to the Director of Aviation its anticipated schedule of operations for the Commuter Terminal, which schedule shall indicate the flight frequency and fleet mix expected to utilize the Commuter Terminal. The City shall have the right, but not the obligation, to recapture a contiguous portion of US Airways' Aircraft Parking Positions in the Commuter Terminal to the extent that the Director of Aviation's review of the schedule indicates, in the Director of Aviation's reasonable discretion, that US Airways can operate its scheduled flights with fewer than thirty-eight (38) Aircraft Parking Positions. A similar review will occur approximately every six (6) months during the term, commencing upon the completion of the third (3rd) month after the Occupancy Term Commencement Date for the Commuter Terminal. If such review indicates, in the reasonable discretion of the Director of Aviation, that US Airways requires additional Aircraft Parking Positions then US Airways shall have the right to add such contiguous Aircraft Parking Position(s) to its preferential leasehold in the Commuter Terminal, provided that such Aircraft Parking Positions are not being utilized by another airline. If such review indicates that, taking into account the flight frequency and fleet mix, in the reasonable discretion of the Director of Aviation, US Airways can operate its scheduled flights with fewer

Aircraft Parking Positions in the Commuter Terminal, then City shall similarly have the right to recapture such contiguous space that is not needed by US Airways in the reasonable discretion of the Director of Aviation; provided, however, that City shall not recapture any Aircraft Parking Positions to the extent that, prior to the one-hundred eightieth (180th) day following US Airways' receipt of City's recapture notice, US Airways is able to demonstrate to the reasonable satisfaction of the Director of Aviation that US Airways needs such space to accommodate its scheduled flights.

Term for New Premises: The First Supplemental Amendment provides that the terms for the new premises commences, respectively, upon the dates on which, pursuant to the Terminal Lease, City shall enter into possession of Terminal One, the Commuter Terminal, the Ramp Control Tower, and shall terminate on June 30, 2006, unless sooner terminated as provided in the Use and Lease Agreement.

Costing of New Leasehold Areas: Space in Terminal One, the Commuter Terminal, and the Ramp Control Tower are charged consistent with the accounting methodology of the Use and Lease Agreement. This methodology are expanded to include a proportionate use rate mechanism for non-exclusive baggage claim space and a per deplaning passenger charge for Federal Inspection area use. The First Supplemental Amendment provides that the cost of special equipment and services provided for and requested by US Airways exceeding the standards set forth on Exhibit E of the Use and Lease Agreement will be recovered from US Airways through the imposition of a "services" and "equipment rental" surcharge payable as follows:

1. Services Surcharge: a monthly sum equivalent to the City's actual monthly cost for providing such services.

2. Equipment Surcharge: a sum equivalent to the City's actual cost for providing such equipment, including all debt service costs associated therewith. The foregoing are paid by US Airways in equal monthly installments amortized to the end of the Term.

Subordination Provision: The First Supplemental Amendment provides that the rights of US Airways created under the First Supplemental Amendment will be under and subject to the terms and conditions of the Terminal Lease and the Ground Lease during their respective terms.

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APPENDIX V

CERTAIN INFORMATION CONCERNING THE CITY OF PHILADELPHIA

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APPENDIX V

CERTAIN INFORMATION CONCERNING THE CITY OF PHILADELPHIA

THE GOVERNMENT OF THE CITY OF PHILADELPHIA

General

The City was incorporated in 1789 by an Act of the Commonwealth of Pennsylvania General Assembly (predecessors of the City under charters granted by William Penn in his capacity as proprietor of the colony of Pennsylvania may date to as early as 1684). In 1854 the General Assembly, by an act commonly referred to as the Consolidation Act, made the City's boundaries coterminous with the boundaries of Philadelphia County (the same boundaries that exist today) (the "County"), abolished all governments within these boundaries other than the City and the County and consolidated the legislative functions of the City and the County. Article 9, Section 13 of the Pennsylvania Constitution abolished all county offices in the City and provides that the City performs all functions of county government and that laws applicable to counties apply to the City.

Since 1952, the City has been governed under a Home Rule Charter authorized by the General Assembly (First Class City Home Rule Act, Act of April 21, 1949, P.L. 665, Section 17) and adopted by the voters of the City. The Home Rule Charter, as amended and supplemented to this date, provides, among other things, for the election, organization, powers and duties of the legislative branch (the "City Council"); the election, organization, powers and duties of the executive and administrative branch; and the basic rules governing the City's fiscal and budgetary matters, contracts, procurement, property and records. The Home Rule Charter, as amended, now also provides for the governance of the School District of Philadelphia (the "School District") as a home rule school district. Certain other constitutional provisions and Commonwealth statutes continue to govern various aspects of the City's affairs, notwithstanding the broad grant of powers of local self-government in relation to municipal functions set forth in the First Class City Home Rule Act.

Under the Home Rule Charter, as now in effect, there are today two principal governmental entities in Philadelphia: (1) the City, which performs ordinary municipal functions as well as traditional county functions; and (2) the School District, which has boundaries coterminous with the City and has responsibility for all public primary and secondary education.

The court system in Philadelphia, consisting of Common Pleas, Municipal and Traffic Courts, is part of the Commonwealth of Pennsylvania judicial system. Although judges are paid by the Commonwealth, most other court costs are paid by the City, with partial reimbursement from the Commonwealth.

Elected and Appointed Officials

The Mayor is elected for a term of four years and is eligible to succeed himself for one term. Each of the seventeen members of the City Council is also elected for a four-year term which runs concurrently with that of the Mayor. There is no limitation on the number of terms that may be served by members of the City Council. Of the members of the City Council, ten are elected from districts and seven are elected at-large, with a minimum of two of the seven representing a party or parties other than the majority party. The District Attorney and the City Controller are elected at the mid-point of the terms of the Mayor and City Council.

The City Controller's responsibilities derive from the Home Rule Charter, various City ordinances and state and federal statutes, and contractual arrangements with auditees. The City Controller must follow GAGAS, Generally Accepted Government Auditing Standards established by the federal Government Accountability Office (formerly known as the General Accounting Office), and GAAS, Generally Accepted Auditing Standards promulgated by the American Institute of Certified Public Accountants. As of June 15, 2005, the Office of the City Controller had 125 employees, including 78 auditors, 34 of whom are certified public accountants.

The City Controller post-audits and reports on the City's combined financial statements, federal assistance received by the City, the performance of City departments and the finances of the School District. The City Controller also conducts a pre-audit program of expenditure documents required to be submitted for approval, such as invoices, payment vouchers, purchase orders and contracts. Documents are selected for audit on a category and statistical basis. The Pre-Audit Division verifies that expenditures are authorized and accurate in accordance with the Charter and other pertinent legal and contractual requirements before any moneys are paid by the City Treasurer. The Pre-Audit Technical Unit, consisting of auditing and engineering staff, inspects and audits capital project design, construction and related expenditures. Other responsibilities of the City Controller include investigation of allegations of fraud, preparation of economic reports, certification of the City's debt capacity and the capital nature and useful life of the capital projects, and opining to the Pennsylvania Intergovernmental Cooperation Authority on the reasonableness of the assumptions and estimates in the City's five-year financial plans.

The principal officers of the City's government appointed by the Mayor are the Managing Director of the City (the "Managing Director"), the Director of Finance of the City (the "Director of Finance"), who is the chief financial and budget officer and is selected from three names submitted to the Mayor by a Finance Panel, the City Solicitor (the "City Solicitor"), who is head of the Law Department, and the City Representative and Director of Commerce (the "City Representative and Director of Commerce"). These officials, together with the Mayor and the other members of the Mayor's cabinet, constitute the major policy-making group in the City's government.

The Managing Director is responsible for supervising the operating departments and agencies of the City that render the City's various municipal services. The City Solicitor acts as legal advisor to the Mayor, the City Council, and all of the agencies of the City government. The City Solicitor is also responsible for all of the City's contracts and bonds, for assisting City Council, the Mayor, and City agencies in the preparation of ordinances for introduction in City Council, and for the conduct of litigation involving the City. The City Representative and Director of Commerce is charged with the responsibility of giving wide publicity to any items reflecting the activities and accomplishments of the City, its inhabitants, and commerce and industry, and is charged with the responsibility of promoting and developing commerce and industry.

The Director of Finance is responsible for the financial functions of the City including development of the annual operating budget, the capital budget, and capital program; the City's program for temporary and long-term borrowing; supervision of the operating budget's execution, the collection of revenues through the Department of Revenue, purchasing, and some aspects of property management through the Procurement Department; and the oversight of pension administration as Chairperson of the Board of Pensions and Retirement. The Director of Finance is also responsible for the appointment and supervision of the City Treasurer, whose office manages the City's cash resources, and assists in the development and administration of the City's debt policies.

The City's former Director of Finance, Janice D. Davis, resigned from her position effective August 13, 2004 to become the Chief Financial Officer of the City of Atlanta, Georgia. The City is currently conducting a nationwide search for a new Director of Finance. Currently, the duties of the Director of Finance are being handled by Vincent J. Jannetti, Acting Director of Finance.

The following are brief biographies of Mayor Street, his chief of staff, his cabinet and the City Controller:

John F. Street, Mayor, was sworn in as Philadelphia's 97th mayor on January 3, 2000 and was re-elected to a second 4-year term on November 4, 2003. Elected to Philadelphia City Council in 1979, Mayor Street took his City Council seat in 1980. For nearly 20 years he represented the City's Fifth Councilmanic District, distinguishing himself as a fighter for working people and neighborhoods. He was unanimously elected City Council President in 1992 and again in 1996. Mayor Street received his B.A. from Oakwood College in Huntsville, Alabama, and a J.D. from Temple University Law School.

Joyce S. Wilkerson, Chief of Staff, began practicing law as a legal service attorney first in California and later in Philadelphia. Ms. Wilkerson worked as Housing Counsel at the Philadelphia Redevelopment Authority where she represented the Redevelopment Authority in its capacity as issuer of housing bonds. More recently, Ms. Wilkerson served as Chief Staff Attorney to the City Council of Philadelphia. Ms. Wilkerson has a B.A. degree from the University of Pennsylvania and a J.D. degree from Boalt Hall School of Law at the University of California, Berkeley.

Vincent J. Jannetti, Acting Secretary of Financial Oversight and Director of Finance, was appointed in December 2004. Mr. Jannetti is a life-long Philadelphian and a City employee for over 30 years. Mr. Jannetti was most recently Deputy Director of Finance for Debt Management as well as Executive Director of the Sinking Fund Commission, responsible for overseeing the issuance of new debt as well as budgeting and payment of debt service on City general obligation bonds and revenue bonds. Mr. Jannetti earned a Bachelor of Science in Business Administration from Villanova University.

Romulo L. Diaz, Jr, was appointed on April 1, 2005 as City Solicitor. The City Solicitor of the City of Philadelphia is the City's chief legal officer, the head of the City's Law Department, and a member of the Mayor's Cabinet. Prior to his appointment, Mr. Diaz was Chair of the Commercial and Regulatory Law Group of the City's Law Department, which he joined in March 2002. Prior thereto, he held numerous legal, management and policy positions at increasing levels of trust and responsibility in the federal government, including assistant administrator for management at the U.S. Environmental Protection Agency, and Deputy Chief of Staff and Counselor to the Secretary of Energy. He received the Secretary of Energy's Gold Award for coordinating the Department of Energy's reform efforts that streamlined the Department's regulations and paperwork burden. He chaired several international groups, including NATO's Petroleum Planning Committee from 1992-1995 during a major realignment of the North Atlantic Alliance. Mr. Diaz received his J.D. from the University of Texas School of Law and B.A. from the University of Texas at Austin. He is licensed to practice in Pennsylvania, New Jersey, the District of Columbia and Texas. He is a Charter Fellow of the Federal Bar Association; Treasurer of the Hispanic Bar Association of Pennsylvania; and a Director of Servicemembers Legal Defense Network and the Pan American Association of Philadelphia.

Pedro A. Ramos, Managing Director, was appointed in April 2005. Prior to his appointment as Managing Director, Mr. Ramos served as City Solicitor from March 2004. Mr. Ramos was a Vice President and the Chief of Staff to University of Pennsylvania President, Dr. Judith Rodin. Mr. Ramos joined the Penn President's Office in January 2002. Mr. Ramos' legal career started at Ballard Spahr Andrews & Ingersoll, LLP, where he worked since his graduation from law school through December 2001, when he left the partnership to work at Penn. His primary area of practice was employee benefits. Mr. Ramos is also a former member and president of the Board of Education of The School District of Philadelphia. Mr. Ramos has served on several boards in the Philadelphia community. Mr. Ramos is a 1992 *cum laude* graduate of the University of Michigan Law School, a 1987 graduate of the University of Pennsylvania, and a 1983 graduate of Central High School in Philadelphia.

George R. Burrell, Jr., Secretary of External Affairs, was appointed in January 2000. While serving as a member of City Council, Mr. Burrell served as Chair of the Committees on Labor and Civil Service and Licenses and Inspections. In 1974, he began his law practice as a corporate attorney with Ragan Henry, Esquire. He later joined the law firm of Wolf Block Schorr and Solis-Cohen in 1977. In both firms, Mr. Burrell served as Chairman of their Governmental Relations Department. In 1985, before his election as an at-large member of the Philadelphia City Council, he founded Burrell, Waxman, Donaghy, and Lee. Mr. Burrell graduated from the University of Pennsylvania Wharton School in 1969. He received a J.D. from the University of Pennsylvania Law School in 1974.

Stephanie W. Naidoff, the City Representative and Director of Commerce, was appointed on March 8, 2004. Earlier, she was the founding President of the Kimmel Center for the Performing Arts from 1997 to 2001. Before taking on that assignment, she had a long career as an attorney starting out in Federal service with the U.S. Department of Health and Human Services, then as General Counsel to Thomas Jefferson University and then with the law firm of Morgan, Lewis and Bockius. She is a graduate of the University of Pennsylvania Law School in 1966 and Goucher College in 1963.

Debra A. Kahn, Secretary of Education, has served as the Executive Director of Philadelphia Futures, Assistant to the President of Temple University, Vice President of Corporate Communications and Public Affairs at PNC Bank, and the Director of Policy and Planning for Mayor William J. Green. She has provided volunteer services for several civic and community organizations, including service as a founding board member for the Greater Philadelphia Food Bank. From 1991 to 1997, Ms. Kahn served as a member of the Philadelphia Board of Education. She received a B.A. in government from Franklin and Marshall College. She holds a Master's Degree in political science from the Eagleton Institute of Politics at Rutgers University.

Sylvester M. Johnson, Police Commissioner/Secretary of Public Safety. Mr. Johnson is a thirty-six year veteran of the Philadelphia Police Department. Prior to his current appointment, Mr. Johnson was, since April 1998, Deputy Commissioner of Operations under former Police Commissioner John F. Timoney. Mr. Johnson attended Philadelphia Community College, Temple University, the Senior Management Institute for Police at Harvard University, Pennwalt Corporation's Targeted Management Training, the United States Secret Service Dignitary Protection Training, the Federal Bureau of Investigation's ("FBI") National Academy Class 172, and the FBI National Executive Institute.

Richard L. Lombardo was appointed Acting Secretary for Strategic Planning and Executive Director of the City Planning Commission in June 2005. From 2001 to 2005, Mr. Lombardo served as the Deputy Executive Director of the City Planning Commission and was responsible for directing the staff in major planning work and for preparing the agency's work program and budget. From 1982 until 2001, he was Director of the Development Planning and Zoning Division of the agency. In this capacity he supervised a professional planning staff involved in development and environmental review on all development projects in the City. Mr. Lombardo received a B.S. degree from St. Joseph's University and a Master's Degree from Villanova University.

Kevin R. Hanna was appointed Secretary of Housing and Neighborhood Preservation by the Mayor in December 2002. Mr. Hanna has more than 20 years' experience in economic development and banking finance. Before joining the City of Philadelphia, he served for five years as the first president of the Atlanta Development Authority (ADA), an independent public authority created by the City of Atlanta to promote the growth of its downtown area and the redevelopment of its surrounding communities. Prior to 1996, Mr. Hanna was vice president, public finance, First Union Capital Markets, Atlanta. Mr. Hanna earned a Bachelor of Science in Economics degree from Davidson (N.C.) College where he is on the Board of Trustees. He received a Master of Business Administration degree with concentration in banking finance from the University of North Carolina at Chapel Hill and was awarded a fellowship by the Consortium for Graduate Studies in Business.

Dianah L. Neff, Chief Information Officer, was appointed in May 2001. Prior to that Ms. Neff served as deputy City Manager and Chief Information Officer for the City of San Diego, California. Before that she served as Chief Information Officer of the City of Bellevue, Washington. Ms. Neff has also served as Director of Information Systems for the County of San Bernadino, California and Director of Information Resources for the City of Palo Alto, California, where she oversaw efforts to make Palo Alto the first city in the nation on the World

Wide Web. Prior to her work in government, Ms. Neff had fourteen years' experience in the private sector working for high-tech software and hardware firms in the Silicon Valley. Ms. Neff holds a Bachelor's Degree in marketing and economics from San Jose State University.

Jonathan A. Saidel, City Controller, is serving his fourth term as Philadelphia's elected City Controller, an office independent of the Mayor. He is an attorney and certified public accountant, and received a Juris Doctor degree from the Delaware Law School of Widener University and a Bachelor of Business in Accounting degree from Temple University. In recent years, Mr. Saidel has been an adjunct professor in graduate programs at Drexel University, Saint Joseph's University and the University of Pennsylvania. Philadelphia: A New Urban Direction, a book offering analysis and recommendations for improving Philadelphia's competitive position, researched and written by Mr. Saidel and the staff of the Office of the City Controller, was published by Saint Joseph's University Press in 1999.

Government Services

Municipal services provided by the City include: police and fire protection; health care; certain welfare programs; construction and maintenance of local streets, highways, and bridges; trash collection and disposal; provision for recreational programs and facilities; maintenance and operation of the water and wastewater systems (the "Water and Wastewater Systems"); the acquisition and maintenance of City real and personal property, including vehicles; maintenance of building codes and regulation of licenses and permits; maintenance of records; collection of taxes and revenues; purchase of supplies and equipment; construction and maintenance of airport facilities; and maintenance of a prison system. The City owns the assets that comprise the Philadelphia Gas Works ("PGW" or the "Gas Works"). PGW serves residential, commercial, and industrial customers in the City. PGW is operated by Philadelphia Facilities Management Corporation ("PFMC"), a non-profit corporation specifically organized to manage and operate the PGW for the benefit of the City.

Local Government Agencies

There are a number of significant governmental authorities and quasi-governmental non-profit corporations that also provide services within the City.

The Southeastern Pennsylvania Transportation Authority ("SEPTA"), which is supported by transit revenues and Federal, Commonwealth, and local funds, is responsible for developing and operating a comprehensive and coordinated public transportation system in the southeastern Pennsylvania region.

The Philadelphia Parking Authority is responsible for the construction and operation of parking facilities in the City and at the Philadelphia International Airport and, by contract with the City, for enforcement of on-street parking regulations.

The Philadelphia Municipal Authority (formerly The Equipment Leasing Authority of Philadelphia) ("PMA") was originally established for the purpose of buying equipment and vehicles to be leased to the City. PMA's powers have been expanded to include, without limitation, the construction and leasing of municipal solid waste disposal facilities, correctional facilities, and other municipal buildings.

The Redevelopment Authority of the City of Philadelphia (the "Redevelopment Authority") and the Philadelphia Housing Authority develop and/or administer low and moderate income rental units and housing in the City. The Redevelopment Authority, supported by Federal funds through the City's Community Development Block Grant Fund and by Commonwealth and local funds, is responsible for the redevelopment of the City's blighted areas.

The Hospitals and Higher Education Facilities Authority of Philadelphia, formerly The Hospitals Authority of Philadelphia (the "Hospitals Authority") assists non-profit hospitals by financing hospital construction projects. The City does not own or operate any hospitals. The powers of the Hospitals Authority have been expanded to permit the financing of construction of buildings and facilities for certain colleges and universities and other health care facilities and nursing homes.

The Philadelphia Industrial Development Corporation ("PIDC") and its affiliate, the Philadelphia Authority for Industrial Development ("PAID"), coordinate the City's efforts to maintain an attractive business environment and to attract new businesses to the City and retain existing ones.

The Pennsylvania Convention Center Authority (the "Convention Center Authority") constructed and maintains, manages, and operates the Pennsylvania Convention Center, which opened on June 25, 1993.

School District

The School District was established by the Educational Supplement to the City's Home Rule Charter to provide free public education to the City's residents. Under the Home Rule Charter, its board is appointed by the Mayor and must submit a lump sum statement of expenditures to the City annually. Such statement is used by City Council in making its determination to authorize the levy of taxes on behalf of the School District. Certain financial information regarding the School District is included in the City's Comprehensive Annual Financial Report. It has no independent taxing powers and may levy only the taxes authorized on its behalf by the City and the Commonwealth. Under the Home Rule Charter, the School District is managed by a nine-member Board of Education appointed by the Mayor from a list supplied by an Educational Nominating Panel that is chosen by the Mayor. In some matters, including the incurrence of short-term and long-term debt, both the City and the School District are governed primarily by the laws of the Commonwealth. The School District is a separate political subdivision of the Commonwealth and the City has no property interest in or claim on any revenues or property of the School District.

The School District was declared distressed by the Secretary of Education of the Commonwealth pursuant to Section 691(c) of the Public School Code of 1949, as amended (the "School Code"), on December 22, 2001. During a period of distress under Section 691(c) of the School Code, all of the powers and duties of the Board of Education granted under the School Code or any other law are suspended and all of such powers and duties are vested in the School Reform Commission (the "School Reform Commission") provided for under the School Code. The School Reform Commission is responsible for the operation, management and educational program of the School District during such period. It is also responsible for financial matters related to the School District. The School Code provides that the members of the Board of Education continue to serve during the time the School District is governed by the School Reform Commission, and that the establishment of the School Reform Commission shall not interfere with the regular selection of the members of the Board of Education. During the tenure of the School Reform Commission, the Board of Education will perform those duties delegated to it by the School Reform Commission.

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

General

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created on June 5, 1991 by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the "PICA Act"). PICA was established to provide financial assistance to cities of the first class. The City is the only city of the first class in the Commonwealth. The PICA Act provides that, upon request by the City to PICA for financial assistance and for so long as any bonds issued by PICA remain outstanding, PICA shall have certain financial and oversight functions. Under the PICA Act, PICA no longer has the authority to issue bonds for new money purposes, but may refund bonds previously issued by it. PICA has the power, in its oversight capacity, to exercise certain advisory and review procedures with respect to the City's financial affairs, including the power to review and approve five-year financial plans prepared at least annually by the City, and to certify non-compliance by the City with the then-existing five-year plan adopted by the City pursuant to the PICA Act. Under the PICA Act, such certification would require the Secretary of the Budget of the Commonwealth to withhold payments due to the City from the Commonwealth or any of its agencies (including, with certain exceptions, all grants, loans, entitlements and payment of the portion of the PICA Tax, hereinafter described, otherwise payable to the City). See "Source of Payment of PICA Bonds" below.

On June 16, 1992, PICA, at the request of the City, issued $474,555,000 Special Tax Revenue Bonds (City of Philadelphia Funding Program), Series of 1992 (the "1992 PICA Bonds"). The proceeds of the 1992 PICA Bonds were used (i) to make grants to the City to fund the Fiscal Year 1991 General Fund cumulative deficit ($153.5 million) and the then-projected Fiscal Year 1992 General Fund deficit ($71.4 million); (ii) to make grants to the City to pay the costs of certain capital projects to be undertaken by the City; and (iii) to make a grant to the City to provide it with financial assistance to enhance productivity in the operation of City government. It had been anticipated that the proceeds of the 1992 PICA Bonds would also be used to fund the City's projected Fiscal Year 1993 General Fund deficit; however, because no deficit occurred, a grant from PICA for this purpose was not required. These proceeds, in the amount equal to $23.5 million, were instead used to provide funds for other City purposes.

On July 29, 1993, PICA, at the request of the City, issued $643,430,000 Special Tax Revenue Bonds (City of Philadelphia Funding Program), Series of 1993 (the "1993 PICA Bonds"), the proceeds of which were used to make grants to the City to pay the costs of certain capital projects to be undertaken by the City and to make a grant to the City to provide for the defeasance of certain outstanding general obligation bonds of the City in the aggregate amount of $336,225,000.

On September 14, 1993, PICA issued $178,675,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 1993A (the "1993A PICA Bonds"), the proceeds of which were used to advance refund $136,670,000 principal amount of the 1992 PICA Bonds.

On December 15, 1994, PICA, at the request of the City, issued $122,020,000 Special Tax Revenue Bonds (City of Philadelphia Funding Program) Series of 1994 (the "1994 PICA Bonds"), the proceeds of which were used to make grants to the City to pay the costs of certain capital projects to be undertaken by the City.

On May 30, 1996, PICA issued $343,030,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 1996 (the "1996 PICA Bonds"), the proceeds of which were used to advance refund $304,160,000 principal amount of the 1992 PICA Bonds and $120,180,000 principal amount of the 1994 PICA Bonds.

On April 15, 1999, PICA issued $610,005,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 1999, the proceeds of which were used to advance refund $610,730,000 principal amount of the 1993 PICA Bonds.

On June 16, 2003, PICA issued $165,550,000 Special Tax Revenue Refunding Bonds (City of Philadelphia Funding Program), Series of 2003, the proceeds of which were used to refund $163,185,000 principal amount of the 1993A PICA Bonds.

As of the close of business on June 30, 2005, the principal amount of PICA bonds outstanding was $723,585,000.

Source of Payment of PICA Bonds

The PICA Act authorized the City to impose a tax for the sole and exclusive purposes of PICA. In connection with the adoption of the Fiscal Year 1992 budget and the adoption of the first Five-Year Plan, the City reduced the wage, earnings, and net profits tax on City residents by 1.5% and enacted a 1.5% tax on wages, earnings and net profits of City residents (the "PICA Tax"). Proceeds of the PICA Tax are solely the property of PICA. The PICA Tax, collected by the City's Department of Revenue, is deposited in the "Pennsylvania Intergovernmental Cooperation Authority Tax Fund" (the "PICA Tax Fund") of which the State Treasurer is custodian. The PICA Tax Fund is not subject to appropriation by City Council or the General Assembly of the Commonwealth.

The PICA Act authorizes PICA to pledge the PICA Tax to secure its bonds and prohibits the Commonwealth and the City from repealing the PICA Tax or reducing the rate of the PICA Tax while any bonds secured by the PICA Tax are outstanding.

The PICA Act requires that proceeds of the PICA Tax in excess of amounts required for (i) debt service, (ii) replenishment of any debt service reserve fund for bonds issued by PICA, and (iii) certain PICA operating expenses, be deposited in a trust fund established pursuant to the PICA Act exclusively for the benefit of the City and designated the "City Account." Amounts in the City Account are required to be remitted to the City not less often than monthly, but are subject to withholding if PICA certifies the City's non-compliance with the then-current five-year plan.

The PICA Act establishes a "Bond Payment Account" for PICA as a trust fund for the benefit of PICA bondholders and authorizes the creation of a debt service reserve fund for bonds issued by PICA. Since PICA has issued bonds secured by the PICA Tax, the PICA Act requires that the State Treasurer pay the proceeds of the PICA Tax held in the PICA Tax Fund directly to the Bond Payment Account, the debt service reserve fund created for bonds issued by PICA and the City Account.

The total amount of PICA Tax remitted to PICA by the State Treasurer for each of the Fiscal Years 1995 through 2006 is set forth below:

Year	Amount
1995	$ 209.6 million
1996	218.8 million
1997	218.2 million
1998	236.1 million
1999	245.8 million
2000	256.6 million
2001	273.6 million
2002	278.0 million
2003	281.5 million
2004	285.0 million
2005	295.0 million (estimated)
2006	305.3 million (budgeted)

PICA bonds are payable from the PICA revenues, including the PICA Tax, pledged to secure PICA's bonds, the Bond Payment Account and any debt service reserve fund established for such bonds and have no claim on any revenues of the Commonwealth or the City.

Five-Year Plans of the City

One of the conditions precedent to the issuance of bonds by PICA was the development by the City and approval by PICA of a five-year financial plan. The original five-year plan, which covered Fiscal Years 1992 through 1996, was prepared by the Mayor, approved by City Council on April 29, 1992 and by PICA on May 18, 1992. In each subsequent year, the City updated the previous year's five-year plan, each of which was adopted by City Council, signed by the Mayor and approved by PICA. The Thirteenth Five-Year Plan was presented to Council on March 18, 2004, and approved by PICA on July 7, 2004. In the Thirteenth Five-Year Plan, the City projects a balanced budget in each of the five years covered by the plan through a continued strategy based upon implementation of management initiatives, productivity improvements, cost containments, certain workforce restructurings, and revenue enhancements. An amendment to the Thirteenth Five-Year Plan was presented to PICA on November 15, 2004, and was approved by PICA on December 21, 2004.

The Mayor presented the Fourteenth Five-Year Plan to City Council and to PICA on January 25, 2005. City Council approved the Fourteenth Five-Year Plan on June 16, 2005. On June 21, 2005, PICA requested the City to make revisions to the Fourteenth Five Year Plan relating to the City's estimates of certain revenues. The City is responding to the PICA requests and will submit a revised Fourteenth Five Year Plan to PICA by July 20, 2005. In the Fourteenth Five-Year Plan, the City projects a balanced budget in each of the five years covered by the plan through a continued strategy based upon implementation of management initiatives, productivity improvements, cost containments, certain workforce restructurings, and revenue enhancements.

CITY FINANCIAL PROCEDURES

Except as otherwise noted, the financial statements, tables, statistics, and other information contained in this Official Statement have been prepared by the Office of the Director of Finance and can be reconciled to the financial statements in the City's Comprehensive Annual Financial Report and Notes therein.

Independent Audit and Opinion of the City Controller

The City Controller has examined and expressed opinions on the basic financial statements of the City of Philadelphia contained in the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2004 (the "Fiscal Year 2004 Comprehensive Annual Financial Report"). The City Controller has examined and expressed opinions on the City's basic financial statements for the fiscal years ended June 30, 2002 and June 30, 2003 and on the City's general purpose financial statements for all prior years.

The City Controller has not examined and expressed an opinion on the financial statements for the Aviation Fund contained in this Official Statement or on any other financial data contained in this Official Statement. Such financial statements for the Aviation Fund have been prepared by the Division of Aviation and approved by the Director of Finance.

The City Controller has not participated in the preparation of this Official Statement nor in the preparation of the budget estimates and projections and cash flow statements and forecasts set forth in various tables contained in this Official Statement. Consequently, the City Controller expresses no opinion with respect to any of the data contained in this Official Statement other than what is contained in the Fiscal Year 2004 Comprehensive Annual Financial Report.

Fund Structure

The major operations of the City are conducted through the Principal Operating Funds (Debt Related), which include the General Fund. In addition, the City has three other Principal Operating Funds that are not debt related ("Non-Debt Related Funds"), two of which are financed solely from grants from the Commonwealth and Federal governments. Collectively, the Principal Operating Funds (Debt Related and Non-Debt Related Funds) are referred to herein as the "Principal Operating Funds."

Principal Operating Funds

The Unrestricted Debt Related Funds include the General Fund, the resources of which are available for any City purpose, and the County Liquid Fuels Tax Fund and the Special Gasoline Tax Fund, the resources of which are available only for servicing general obligation debt issued for construction of public roads or streets. The Other Debt Related Funds include the Water Fund and the Aviation Fund, the resources of which are not generally available for City purposes, other than the operations of the City's Water Department and the City's Division of Aviation, respectively.

The Non-Debt Related Funds, the resources of which are not available for other City purposes, include the Grants Revenue Fund, the Community Development Fund, the Hotel Room Rental Tax Fund, the Car Rental Tax Fund and the HealthChoices Behavioral Health Revenues Fund.

Fund Accounting

Funds are groupings of activities that enable the City to maintain control over resources that have been segregated for particular purposes or objectives. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. The governmental funds are used to account for the financial activity of the City's basic services, such as: general government; economic and neighborhood development; public health, welfare and safety; cultural and recreational; and streets, highways and sanitation. The fund financial activities focus on a short-term view of the inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. The financial information presented for the governmental funds is useful in evaluating the City's short term financing requirements.

The City maintains twenty individual governmental funds. The City's Comprehensive Annual Financial Report presents data separately for the general fund, grants revenue fund and health-choices behavioral health fund, which are considered to be major funds. Data for the remaining seventeen funds are combined into a single aggregated presentation.

Proprietary funds. The proprietary funds are used to account for the financial activity of the City's operations for which customers are charged a user fee; they provide both a long and short-term view of financial information. The City maintains three enterprise funds that are a type of proprietary funds - airport, water and wastewater operations, and industrial land bank.

Fiduciary funds. The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for PGW's employees' retirement reserve assets. Both of these fiduciary activities are reported in the City's Comprehensive Annual Financial Report as separate financial statements of fiduciary net assets and changes in fiduciary net assets.

Basis of Accounting and Measurement Focus

Governmental funds account for their activities using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as in the case of full accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due; however, those expenditures may be accrued if they are to be liquidated with available resources.

Imposed non-exchange revenues, such as real estate taxes, are recognized when the enforceable legal claim arises and the resources are available. Derived tax revenues, such as wage, business privilege, net profits and earnings taxes, are recognized when the underlying exchange transaction has occurred and the resources are available. Grant revenues are recognized when all the applicable eligibility requirements have been met and the resources are available. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue that is considered to be program revenue includes: (1) charges to customers or applicants for goods received, services rendered or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program specific revenues; therefore, all taxes are considered general revenues.

The City's financial statements reflect the following three funds as major Governmental Funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.

The HealthChoices Behavioral Health Fund accounts for resources received from the Commonwealth. These resources are restricted to providing managed behavioral health care to Philadelphia residents.

The Grants Revenue Fund accounts for the resources received from various federal, state and private grantor agencies. The resources are restricted to accomplishing the various objectives of the grantor agencies.

The City also reports on Permanent Funds, which are used to account for resources legally held in trust for use by the park and library systems of the City. There are legal restrictions on the resources of the funds that require the principal to remain intact, while only the earnings may be used for the programs.

The City reports on the following Fiduciary Funds:

The Municipal Pension Fund accumulates resources to provide pension benefit payments to qualified employees of the City and certain other quasi-governmental organizations.

The Philadelphia Gas Works Retirement Reserve Fund accounts for contributions made by PGW to provide pension benefit payments to its qualified employees under its noncontributory pension plan.

The City reports the following major Proprietary Funds:

The Water Fund accounts for the activities related to the operation of the City's water delivery and sewage systems.

The Aviation Fund accounts for the activities of the City's airports.

The Industrial Land Bank Fund accounts for the activities of the City's inventory of commercial land sites.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Water Fund are charges for water and sewer service. The principal operating revenue of the Aviation Fund is charges for the use of the airport. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The principal operating revenues of the Industrial Land Bank Fund come from sales of land sites, while the operating expenses are comprised of land purchases and improvements made thereon. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Legal Compliance

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). In accordance with the Philadelphia Home Rule Charter, the City has formally established budgetary accounting control for its operating and capital improvement funds.

The operating funds of the City, consisting of the General Fund, seven Special Revenue Funds (County Liquid Fuels Tax, Special Gasoline Tax, HealthChoices Behavioral Health, Hotel Room Rental Tax, Grants Revenue, Community Development and Car Rental Tax Funds) and two Enterprise Funds (Water and Aviation Funds), are subject to annual operating budgets adopted by City Council. Included with the Water Fund is the Water Residual Fund. These budgets appropriate funds for all City departments, boards and commissions by major class of expenditure within each department. Major classes are defined as: personal services; purchase of services; materials and supplies; equipment; contributions, indemnities and taxes; debt service; payments to other funds; and advances and other miscellaneous payments. The appropriation amounts for each fund are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. All transfers between major classes (except for materials and supplies and equipment, which are appropriated together) must have councilmanic approval. Appropriations that are not expended or encumbered at year-end are lapsed.

The City Capital Improvement Fund budget is adopted annually by the City Council. The Capital Improvement budget is appropriated by project for each department. All transfers between projects exceeding twenty percent of each project's original appropriation must be approved by City Council. Any funds that are not committed or expended at year-end are lapsed.

Schedules prepared on the legally enacted basis differ from the generally accepted accounting principles (GAAP) basis in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures.

Budget Procedure

At least ninety days before the end of the Fiscal Year the operating budget for the next Fiscal Year is prepared by the Mayor and must be submitted to City Council for adoption. The budget, as adopted, must be balanced and provide for discharging any estimated deficit from the current Fiscal Year and make appropriations for all items to be funded with City revenues. The Mayor's budgetary estimates of revenues for the ensuing Fiscal Year and projection of surplus or deficit for the current Fiscal Year may not be altered by City Council. Not later than the passage of the operating budget ordinance, City Council must enact such revenue measures as will, in the opinion of the Mayor, yield sufficient revenues to balance the budget.

At least thirty days before the end of each Fiscal Year, City Council must adopt by ordinance an operating budget and a capital budget for the ensuing Fiscal Year and a capital program for the six ensuing years. Within ten days after the adoption of each of such ordinances and their receipt by the Mayor, the Mayor must act upon such ordinances or the ordinances become effective.

The capital program is prepared annually by the City Planning Commission to present the capital expenditures planned for each of the six ensuing Fiscal Years, including the estimated total cost of each project and the sources of funding (local, state, Federal, and private) estimated to be required to finance each project. The capital program is reviewed by the Mayor and transmitted to City Council for adoption with his recommendation thereon. See Table A-11 for a summary of the City's capital improvement program for the Fiscal Years 2006 through 2011.

The capital budget ordinance, authorizing in detail the capital expenditures to be made or incurred in the ensuing Fiscal Year from funds that City Council appropriates, is adopted by City Council concurrently with the capital program. The capital budget must be in full conformity with that part of the capital program applicable to the Fiscal Year that it covers.

Awards

For the twenty-fourth consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded its prestigious Certificate of Achievement for

Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. The City received this recognition by publishing a report that was well organized and readable and satisfied both generally accepted accounting principles and applicable legal requirements.

CITY CASH MANAGEMENT AND INVESTMENT POLICIES

Consolidated Cash

The Act of the General Assembly of the Commonwealth of June 25, 1919, P.L. 581, Art. XVII, § 6, gives the City the authority to make temporary inter-fund loans between operating and capital funds.

The Consolidated Cash Account provides for the physical commingling of the cash of all City Funds, except those which, for legal or contractual reasons, cannot be commingled (e.g., the Municipal Pension Fund, sinking funds, certain capital project funds, sinking fund reserves, funds of PGW, the Water Fund, the Aviation Fund and certain other restricted purpose funds). A separate accounting is maintained for the equity of each member fund in the Consolidated Cash Account. The City manages the Consolidated Cash Account pursuant to written procedures adopted by the Office of Director of Finance.

To the extent that any member fund temporarily experiences the equivalent of a cash deficiency, the required advance is made from the Consolidated Cash Account, in the amount necessary to result in a zero balance in the cash equivalent account of the borrowing fund. All subsequent net receipts of a borrowing fund are applied in repayment of the advance.

All advances are made within the budgetary constraints of the borrowing funds. Within the General Fund, this system of inter-fund advances has historically resulted in the temporary use of tax revenues or other operating revenues for capital purposes and the temporary use of capital funds for operating purposes.

Written procedures governing the City's cash management operations require the General Fund-related operating fund to borrow initially from the General Fund-related capital fund, and only to the extent there is a deficiency in such fund may the General Fund-related operating fund borrow money from any other funds in the Consolidated Cash Account.

Investment Practices

Cash balances in each of the City's funds are invested by the City Treasurer's Office through the use of money market mutual funds and professional money managers under contract with the City. The Director of Finance adopted a written Investment Policy (the "Policy") which went into effect in August 1994 and was revised most recently in April 2001.

The Policy delineates the authorized investments as approved by City Council Ordinance and the funds to which the Policy applies. The authorized investments include U.S. Government Securities, U.S. Treasuries, U.S. Agencies, Certificates of Deposit, Bankers Acceptance Notes, Eurodollar Deposits, Euro Certificates of Deposit, Commercial Paper, Corporate Bonds, Money Market Mutual Funds, Repurchase Agreements and Commonwealth of Pennsylvania securities, all of investment grade rating or better. Each category of instruments, excluding U.S. Government, Treasury and Agency securities which carry no limitation, is limited to investment of no more than 25% of the total portfolio, and no more than 10% of the total portfolio per institutional or corporate issuer. The Policy also restricts investments to those having a maximum maturity of two years. Daily liquidity is maintained through the use of SEC-registered money market mutual funds with the balance of funds invested by money managers in accordance with the Policy.

The Policy provides for an ad hoc Investment Committee consisting of the Director of Finance, the City Treasurer and the Deputy City Treasurer with ex-officio membership of a representative of each of the principal operating and capital funds, i.e., Water Fund, Aviation Fund, Philadelphia Gas Works and Philadelphia Municipal Authority. The Investment Committee meets quarterly with each of the investment managers to review each manager's performance to date and to plan for the next quarter. Investment managers are given any changes in investment instructions at these meetings. All changes in the Policy are approved by the Investment Committee.

The Policy expressly forbids the use of any derivative investment product whose yield or market value does not follow the normal swings in interest rates. Investment in derivatives such as "inverse floaters," leveraged variable rate debt and interest-only or principal-only Collateralized Mortgage Obligations are specifically forbidden. The use of any other derivative investment products is restricted to identified "core cash" in any fund but never to exceed 25% of any fund's balance at the time of purchase. If the market values fall 5% below cost, a written explanation is required from the investment manager outlining the reasons for the decline and outlining the steps, if any, that are needed to correct the situation.

General Fund Cash Flow

Because the receipt of General Fund revenues lags behind expenditures during most of each fiscal year, the City issues notes in anticipation of General Fund revenues and makes borrowings from the Consolidated Cash Account to finance its on-going operations. The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972. Each issue was repaid when due, prior to the end of the fiscal year.

The timing imbalance referred to above results from a number of factors, principally the following: (1) real property, business privilege tax and certain other taxes are not due until the latter part of the fiscal year; (2) the City makes the majority of the employer's contribution to the Municipal Pension Fund in July of each year; and (3) the City experiences lags in reimbursement from other governmental entities for expenditures initially made by the City in connection with programs funded by other governments.

DISCUSSION OF FINANCIAL OPERATIONS

Fiscal Year 2004 Results

The City ended Fiscal Year 2004 on the legally enacted basis with a fund balance deficit of $46.8 million. This deficit is largely the result of delayed State reimbursements for child welfare costs under Act 148. Over $90 million, representing the second and third quarter reimbursements and the fourth quarter advance, was received in September and was not accrued, in accordance with GASB guidelines. Had the funds been received on a timely basis, the FY2004 fund balance would have been $45.1 million. This would have been a decrease of $46.2 million from the FY2003 fund balance of $91.3 million.

Fiscal Year 2005 Estimates

The City's Fiscal Year 2005 budget was approved by City Council and signed by the Mayor on July 1, 2004. This budget was prepared by the City in conjunction with the Thirteenth Five-Year Plan. The Thirteenth Five-Year Plan, which covers Fiscal Years 2005-2009, was approved by PICA on July 7, 2004. On October 25, 2004 PICA notified the City that it would require a plan revision in light of interest arbitration awards and a contract settlement with District Council 47, of the American Federation of State, County and Municipal Employees, AFL-CIO, one of the labor unions representing the City's non-uniformed employees. The revised Five Year Plan was submitted to PICA by November 15, 2004, and approved by PICA on December 21, 2004.

Fiscal Year 2006 Budget

The City's Fiscal Year 2006 budget was approved by City Council on June 2, 2005 and signed by the Mayor on June 16, 2005. This budget was prepared by the City in conjunction with the Fourteenth Five-Year Plan. The Fourteenth Five-Year Plan, which covers Fiscal Years 2006-2010, was approved by City Council on June 16, 2005. On June 21, 2005, PICA requested the City to make revisions to the Fourteenth Five Year Plan relating to the City's estimates of certain revenues. The City is responding to the PICA requests and will submit a revised Fourteenth Five Year Plan to PICA by July 20, 2005.

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Table 1
City of Philadelphia General Fund
Summary of Operations (Legal Basis) (Amounts In Millions of USD)

	2001	2002	2003	2004	Estimated 2005	2006
REVENUES						
Real Property Taxes	363.4	373.6	361.1	377.7	391.1	394.3
Personal Property Taxes	0.8	0.0	0.0	0.0	0.0	0.0
Wage and Earnings Tax	1,047.2[b]	1,006.0	1013.4	1,049.6	1,073.1	1,086.7
Net Profits Tax	11.8	13.4	11.7	13.0	13.7	13.7
Business Privilege Tax	314.0[b]	295.8	286.1	309.2	315.1	316.2
Sales Tax	111.3	108.1	108.0	108.0	112.0	114.8
Other Taxes[a]	130.0[b]	148.2	156.3	202.2	240.6	217.9
Total Taxes	1,977.7	1,945.4	1,936.6	2,059.6	2,145.6	2,143.5
Locally Generated Non-Tax Revenue	204.5	207.1	245.2	207.4	212.9	243.7
Revenue from Other Governments	748.8	687.7	876.6	801.1	1,047.7	1,052.0
Receipts from Other City Funds	24.0	24.7	27.3	24.7	28.9	27.5
Total Revenue	2,955.1	2,866.9	3,085.7	3,092.8	3,435.0	3,466.8
OBLIGATIONS/APPROPRIATIONS						
Personnel Services	1,173.3	1,188.3	1,246.7	1,278.3	1,257.7	1,249.9
Purchase of Services	871.8	920.5	1,007.1	1,050.3	1,081.3	1,154.2
Materials, Supplies and Equipment	84.0	80.0	76.0	70.6	72.1	71.2
Employee Benefits	483.4	485.8	540.6	598.9	704.7	754.5
Indemnities, Contributions and Grants	82.4	123.8	122.9	95.1	111.1	109.3
City Debt Service	88.2	101.8	97.1	93.7	90.7	80.3
Other	72.9	30.2	32.4	32.0	36.7	38.6
Payments to Other City Funds	25.5	50.7	30.4	29.1	25.2	24.3
Total Obligations/Appropriations	2,881.5	2,981.1	3,153.2	3,248.2	3,379.6	3,482.3
Operating Surplus for the Year	73.6	(114.2)	(67.5)	(155.4)	55.5	(15.4)
Net Adjustments – Prior Year	(138.7)[c]	23.2	19.8	17.3	18.0	18.0
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance Prior Year	295.1	230.0	139.0	91.3	(46.8)	26.7
Cumulative Adjusted Year End Fund Balance (Deficit)	230.0	139.0	91.3	(46.8)	26.7	29.2

(a) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.
(b) Accounting accrual changes required by GASB #33 resulted in additional one-time tax revenue accruals in Fiscal year 2001. (Wage Tax, \$50.4 million; Business Privilege, \$5.2 million; Other Taxes, \$4.3 million)
(c) Reflects GASB #33's impact on prior year accruals.
FIGURES MAY NOT ADD DUE TO ROUNDING.

Table 2
City of Philadelphia
Principal Operating Funds (Debt Related)
Summary of Operations
(Legal Basis)
(Amounts in Millions of USD)

	2001	2002	2003	2004	Estimated 2005	2006
REVENUES						
General Fund	2,955.1	2,866.9	3,085.7	3,092.8	3,435.0	3,466.8
Water Fund[(a)]	410.3	404.2	440.8	438.3	464.3	505.9
Aviation Fund[(b)]	180.6	184.2	219.8	241.4	283.8	292.7
Other Operating Funds[(c)]	29.1	35.8	39.2	39.0	39.1	167.3
Total Revenue	3,575.1	3,491.1	3,785.5	3,810.4	4,222.2	4,432.8
OBLIGATIONS/APPROPRIATIONS						
Personnel Services	1,321.4	1,339.1	1,406.0	1,444.7	1,428.7	1,555.0
Purchase of Services	992.2	1,050.3	1,147.4	1,197.0	1,247.8	1,334.4
Materials, Supplies and Equipment	127.1	121.9	120.0	119.2	129.1	132.8
Employee Benefits	538.1	541.8	600.6	662.1	779.7	836.2
Indemnities, Contributions and Taxes	88.1	129.1	128.5	99.7	121.2	119.8
Debt Service[(d)]	296.2	330.7	358.0	344.6	356.0	356.2
Other	72.9	30.3	32.4	32.0	37.2	38.6
Payments to Other City Funds	75.5	97.5	93.9	95.5	100.6	91.0
Total Obligations/Appropriations	3,511.5	3,640.7	3,886.8	3,994.8	4,200.2	4,464.1
Operating Surplus (Deficit) for the Year	63.6	(149.6)	(101.3)	(184.4)	22.0	(31.4)
Net Adjustments Prior Year	(122.8)	43.1	50.2	41.0	35.1	36.1
Funding for Contingencies	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Fund Balance (Deficit) Prior Year End	330.3	289.6	183.1	132.0	(10.4)	46.7
Cumulative Adjusted Year End Fund Balance (Deficit)	271.1	183.1	132.0	(11.4)	46.7	51.4

(a) Revenues of the Water Fund are not legally available for payment of other obligations of the City until, on an annual basis, all revenue bond debt service requirements and covenants relating to those bonds have been satisfied, and then only to the extent of $4,994,000 per year, provided certain further conditions are satisfied. From Fiscal Year 1991 to Fiscal Year 2003, the maximum transfer, per administrative agreement, was $4,138,000. For Fiscal Year 2004, the budgeted transfer was not made. For Fiscal Year 2005, the transferred amount is budgeted at $4,994,000.
(b) Airport revenues are not available for other City purposes.
(c) Includes County Liquid Fuels Tax Fund, Special Gasoline Tax Fund and Water Residual Fund.
(d) Excludes PICA bonds.
FIGURES MAY NOT ADD DUE TO ROUNDING.

Quarterly Reporting to PICA

On November 16, 1992, the City submitted the first of its quarterly reports to PICA. This reporting is required under the PICA Act so that PICA may determine whether the City is in compliance with the then-current Five-Year Plan. Under the PICA Act, a "variance" is deemed to have occurred as of the end of a reporting period if (i) a net adverse change in the fund balance of a covered fund of more than 1% of the revenues budgeted for such fund for that fiscal year is reasonably projected to occur, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year, or (ii) the actual net cash flows of the City for a covered fund are reasonably projected to be less than 95% of the net cash flows of the City for such covered fund for that fiscal year originally forecast at the time of adoption of the budget, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year. The Mayor is required to provide a report to PICA that describes actual or current estimates of revenues, expenditures, and cash flows by covered funds compared to budgeted revenues, expenditures, and cash flows by covered funds for such previous quarterly or monthly period and for the year-to-date period from the beginning of the then-current fiscal year of the City to the last day of the fiscal quarter or month, as the case may be, just ended. Each such report is required to explain any variance existing as of such last day.

PICA may not take any action with respect to the City for variances if the City (i) within 30 days provides a written explanation of the variance that PICA deems reasonable; (ii) within 45 days proposes remedial action that PICA believes will restore overall compliance with the then-current Five-Year Plan; (iii) provides information in the immediately succeeding quarterly financial report demonstrating to the reasonable satisfaction of PICA that the City is taking remedial action and otherwise complying with the then-current Five-Year Plan; and (iv) submits monthly supplemental reports as required by the PICA Act.

The City submitted its Fourteenth Five Year Plan to PICA on January 25, 2005. The City's most recent quarterly report was submitted to PICA on May 16, 2005. On June 21, 2005, PICA requested the City to make revisions to the Fourteenth Five Year Plan relating to the City's estimates of certain revenues. The City is responding to the PICA requests and will submit a revised Fourteenth Five Year Plan to PICA by July 20, 2005.

REVENUES OF THE CITY

General

In 1932, the Pennsylvania General Assembly adopted an act (commonly referred to as the Sterling Act) under which the City was permitted to levy any tax that was not specifically pre-empted by the Commonwealth. Prior to 1939, the City relied heavily upon the real property tax as the mainstay of its revenue system. Acting under the Sterling Act and other legislation, the City has taken various steps over the years to reduce its reliance on real property taxes as a source of income, including: (1) enacting the wage, earnings, and net profits tax in 1939; (2) introducing a sewer service charge to make the sewage treatment system self-sustaining after 1945; (3) requiring under the Home Rule Charter that the water, sewer, and other utility systems be fully self-sustaining; and (4) enacting in 1952 the Mercantile License Tax (a gross receipts tax on business done within the City), which was replaced as of the commencement of Fiscal Year 1985 by the Business Privilege Tax.

Major Revenue Sources of Principal Operating Funds (Debt Related)

The City derives its revenues primarily from various taxes, non-tax revenues, and receipts from other governments. See Table 3 for revenues by major source for Fiscal Years 1997-2006 and Table 4 for General Fund tax revenues for Fiscal Years 2001-2006. The following description does not take into account revenues in the Non-Debt Related Funds. The tax rates for Fiscal Years 1995 through 2004 are contained in the Fiscal Year 2004 Comprehensive Annual Financial Report.

Real Property Taxes — A real estate tax on all taxable real property is levied at a rate of 82.64 mills on the assessed value of residential and commercial property located within the City's boundaries. From Fiscal Year 2003 onward, the City's portion of the rate is 34.74 mills and the School District's portion is 47.90 mills.

Wage, Earnings, and Net Profits Taxes — These taxes are levied on the wages, earnings, and net profits of all residents of the City and all non-residents employed within the City. The rate for both residents and non-residents was 4.3125% from Fiscal Year 1977 through Fiscal Year 1983. For Fiscal Years 1984 through 1991 the wage and earnings tax rate was 4.96% for residents and 4.3125% for non-residents and the net profits tax rate was 4.96% for both residents and non-residents.

In Fiscal Year 1992, the City reduced the City wage, earnings, and net profits tax on City residents by 1.5% and imposed the PICA Tax on wages, earnings and net profits at the rate of 1.5% on City residents. The table below sets forth the resident and non-resident wage and earnings tax rates for Fiscal Years 1995-2006, and the annual wage and earnings tax receipts in such fiscal years.

Fiscal Year	Resident Wage and Earnings Tax Rates*	Non-Resident Wage and Earnings Tax Rates	Annual Wage and Earnings Tax Receipts (including PICA Tax) (Amounts in Millions)
1995	4.9600%	4.3125%	$1,070.2
1996	4.8600	4.2256	1,096.3
1997	4.8400	4.2082	1,106.1
1998	4.7900	4.1647	1,158.1
1999	4.6869	4.0750	1,195.6
2000	4.6135	4.0112	1,242.3
2001	4.5635	3.9672	1,332.6
2002	4.5385	3.9462	1,297.3
2003	4.5000	3.9127	1,306.6
2004	4.4625	3.8801	1,347.6
2005 (est.)**	4.3310	3.8197	1,381.8
2006 (budget)	4.3010	3.7716	1,405.7

* Includes PICA Tax
** On January 1, 2005, the City began to use a calendar year period for wage tax purposes.

In the Thirteenth Five-Year Plan, which was approved by the Philadelphia City Council and PICA, the Mayor proposed further reductions in this tax rate for each of the Fiscal Years 2005-2009. The Thirteenth Five-Year Plan proposed reducing the wage tax from its current level of 4.4625% for residents and 3.8801% for non-residents to 4.169% for residents and 3.685% for non-residents by Fiscal Year 2009. Each approved Five-Year Plan since the one covering Fiscal Years 1996-2000 has included reductions in this tax rate for each of its fiscal years.

Business Privilege Tax — In May 1984, the City enacted an ordinance substituting the Business Privilege Tax for the Mercantile License Tax. The Business Privilege Tax has been levied since January 1985 on every entity engaging in business in the City.

The Business Privilege Tax is a composite tax. Tax rates vary according to business classification (regulated, non-regulated, persons registered under the Pennsylvania Securities Act of 1972, manufacturing, wholesale, or retail) and method of tax computation employed. The various methods of tax computation are as follows: effective Fiscal Year 1989, all regulated industries, banks, trust companies, insurance companies, and public utilities, among others, were taxed at an annual rate of 3.25 mills on annual receipts not to exceed 6.5% of their net income. The tax on annual receipts and net income of all businesses, other than regulated industries, was levied at 3.25 mills and 6.5%, respectively, provided that persons registered under the Pennsylvania Securities Act of 1972 shall in no event pay a tax of less than 5.711 mills on all taxable receipts plus the lesser of 4.302% of net income or 4.302 mills on gross taxable receipts.

Non-regulated industry manufacturers can opt for a lower 5.395% rate on receipts from sales after deducting the applicable cost of goods. Non-regulated wholesalers may choose a gross receipts tax on wholesale transactions at a lower rate of 7.55% after deducting applicable product and labor costs. Non-regulated retailers have the option of choosing the lower rate of 2.1% on receipts from retail sales after deducting applicable product and labor costs.

All persons subject to both the Business Privilege Tax and the Net Profits Tax are entitled to apply a credit of 60% of their Business Privilege Tax liability against what is due on the Net Profits Tax, which credit may be carried back or forward for up to three years.

In Fiscal Year 1996, the City began a program of reducing the gross receipts portion of the Business Privilege Tax from its previous level of 3.25 mills.

Fiscal Year	Business Privilege Tax/Gross Receipts
1996	3.000 mills
1997	2.950 mills
1998	2.875 mills
1999	2.775 mills
2000	2.650 mills
2001	2.525 mills
2002	2.400 mills
2003	2.300 mills
2004	2.100 mills
2005 (est.)	1.900 mills
2006 (budget)	1.750 mills

In the Fourteenth Five-Year Plan, the Mayor also proposed further reductions in this tax rate for each of Fiscal Years 2006-2010. The City proposes to accelerate the rate reductions for the gross receipts portion of the business privilege tax so that by Fiscal Year 2007, this tax will be only 58 percent of the rate that prevailed when the City began its tax cuts in 1996. There can be no assurance that the proposed reductions will be implemented.

All business activity is also assessed a one-time $200 licensing fee administered by the Department of Licenses and Inspections.

Sales and Use Tax — In connection with the adoption of the Fiscal Year 1992 Budget, the City adopted a 1% sales and use tax (the "City Sales Tax") for City general revenue purposes. The Commonwealth authorized the levy of this tax under the PICA Act. Vendors are required to pay this sales tax to the Commonwealth Department of Revenue together with the similar Commonwealth sales and use tax. The State Treasurer deposits the collections of this tax in a special fund and disburses the collections, including any investment income earned thereon, less administrative fees of the Commonwealth Department of Revenue, to the City on a monthly basis.

The City Sales Tax is imposed in addition to, and on the same basis as, the Commonwealth's sales and use tax. The City Sales Tax became effective September 28, 1991 and is collected for the City by the Commonwealth Department of Revenue. The table below sets forth the City Sales Tax collected in Fiscal Years 1996 through 2004, the estimated collection for Fiscal Year 2005 and the budgeted collection for Fiscal Year 2006.

Fiscal Year	**City Sales Tax Collections**
1996	$82.4 million
1997	91.4 million
1998	94.5 million
1999	101.4 million
2000	103.7 million
2001	111.3 million
2002	108.1 million
2003	108.0 million
2004	108.0 million
2005	112.0 million*
2006	114.8 million**

* Estimated tax collections for Fiscal Year 2005
**Adopted budget estimate for Fiscal Year 2006

Other Taxes — The City also collects real property transfer taxes, parking lot taxes, and other miscellaneous taxes such as the Amusement Tax.

Other Locally Generated Non-Tax Revenues — These revenues include license fees and permit sales, traffic fines and parking meter receipts, court related fees, stadium revenues, interest earnings and other miscellaneous charges and revenues of the City.

Revenue From Other Governments — The City's Fiscal Year 2005 Adopted General Fund estimate projects that approximately 29.9% of General Fund revenues will be received from other governmental jurisdictions, including: (1) $377.5 million from the Commonwealth for health, welfare, court, and various other specified purposes; (2) $362.3 million from the Federal government; and (3) $37.3 million from other governments, in which revenues are primarily principal and interest payments on loans made by the City on SEPTA's behalf and the Convention Center Service Fee offset. In addition, the projected net collections of the PICA Tax of $222.0 million are included in "Revenue from Other Governments." These amounts do not include the substantial amounts of revenues from other governments received by the Grants Revenue Fund, Community Development Fund, and other operating and capital funds of the City.

Revenues from City-Owned Systems

In addition to taxes, the City realizes revenues through the operation of various City-owned systems such as the Water and Wastewater Systems and PGW. The City has issued revenue bonds with respect to the Water and Wastewater Systems and PGW to be paid solely from and secured by a pledge of the respective revenues of these systems. The revenues of the Water and Wastewater Systems and PGW are not legally available for payment of other obligations of the City until, on an annual basis, all revenue bond debt service requirements and covenants relating to those bonds have been satisfied and then, in a limited amount and upon satisfaction of certain other conditions.

Effective June 1991, the revenues of the Water Department were required to be segregated from other funds of the City. Under the City's Restated General Water and Wastewater Revenue Bond Ordinance of 1989 (the "Water Ordinance"), an annual transfer may be made from the Water Fund to the City's General Fund in an amount not to exceed the lesser of (a) all Net Reserve Earnings, as defined below, or (b) $4,994,000. Net Reserve Earnings means the amount of interest earnings during the fiscal year on amounts in the Debt Reserve Account and Subordinated Bond Fund, as defined in the Water Ordinance. Commencing in Fiscal Year 1991, the $4,994,000 amount was reduced to $4,138,000 by administrative agreement that remained in effect through Fiscal Year 2003. No such transfer was made in Fiscal Year 1992; however, the transfer was made in each subsequent year through Fiscal Year 2003. For Fiscal Year 2004, the transfer was to have increased to $4,994,000 but no payment was made. The Water Department expects to resume making the $4,994,000 payment in Fiscal Year 2005.

The revenues of PGW are segregated from other funds of the City. Payments for debt service on Gas Works Revenue Bonds are made directly by PGW. In previous years, PGW has also made an annual payment of $18,000,000 to the City's General Fund. For Fiscal Year 2004 the City has agreed to forgo the $18,000,000 payment. The City's Five-Year Plan assumes that the $18,000,000 payment will be made in each of Fiscal Years 2005 – 2008 and that the City will grant back such payment to PGW in each such Fiscal Year. The $18,000,000 grant back was appropriated by the City for Fiscal Year 2005 and has been appropriated for Fiscal Year 2006.

Philadelphia Parking Authority

The Philadelphia Parking Authority ("PPA") was established by City ordinance pursuant to the Pennsylvania Parking Authority Law, P.L. 458, No. 208 (June 5, 1947). Various statutes, ordinances, and contracts authorized PPA to plan, design, acquire, hold, construct, improve, maintain and operate, own or lease land and facilities for parking in the City, including such facilities at Philadelphia International Airport (the "Airport"), and to administer the City's on-street parking program through an Agreement of Cooperation ("Agreement of Cooperation") with the City.

Revenues under the Lease Agreement with PPA – PPA owns and operates five parking garages at the Airport, as well as operating a number of surface parking lots at the Airport. The land on which these garages and surface lots are located is leased from the City, acting through the Department of Commerce, Division of Aviation, pursuant to a lease expiring in 2030 (the "Lease Agreement"). The Lease Agreement provides for payment of rent to the City, which is equal to gross receipts less operating expense, debt service on PPA's bonds issued to finance improvements at the Airport and reimbursement to PPA for capital expenditures and prior year operating deficits relating to its Airport operations, if any. The amount that was transferred from the PPA to the City's Aviation Operating Fund as rent on June 30, 2004 was $14,539,053. The City received transfers of rental payments in Fiscal Year 2002 and Fiscal Year 2003 that totaled $15,326,571 and $11,629,311, respectively. The Fiscal Year 2005 budget assumes a transfer in the amount of $16,124,000 under the Lease Agreement.

One component of the operating expenses is PPA's administrative costs. In 1999, at the request of the Federal Aviation Administration ("FAA"), PPA and the City entered into a letter agreement (the "FAA Letter Agreement") which contained a formula for calculating PPA's administrative costs and capped such administrative costs at 28% of PPA's total administrative costs for all of its cost centers. PPA owns and/or operates parking facilities at a number of non-Airport locations in the City. These parking facilities are revenue centers for purposes of the FAA Letter Agreement.

Act 9 Litigation – On February 9, 2004, the Commonwealth enacted Act 9, which provides for the extension of the term of the Agreement of Cooperation for a period of ten (10) years. Act 9 additionally requires that the PPA turn over to the Philadelphia School District the portion of the annual revenue from on-street parking operations which it collects on behalf of the City, net of the PPA's operating and administrative costs, that exceeds $25,000,000.

In April 2004, the City filed a lawsuit in the Commonwealth Court challenging the constitutionality of Act 9. The City named the PPA and the Governor of Pennsylvania as defendants in the lawsuit. Defendants filed preliminary objections to the lawsuit. The parties filed their briefs on the preliminary objections and oral arguments were held in September 2004. Following the Supreme Court's decision adverse to the City in related litigation, the parties filed supplemental briefs as to the impact of that decision on the Act 9 case. The Commonwealth Court ordered reargument on the case before the entire court, which occurred in early March 2005. The Commonwealth Court has not yet ruled on the pending preliminary objections.

Assessment and Collection of Real and Personal Property Taxes

The Board of Revision of Taxes (the "Board") appoints real estate assessors who annually assess all real estate located within the City. The assessors return assessments for each parcel of real estate to the Board. The Board may increase or decrease the property valuations contained in the returns of the assessors in order that such valuations conform with law. After the Board gives proper notice of all changes in property assessments, and after it has heard all assessment appeals, it then makes assessments and certifies the results to the Department of Revenue.

Real estate taxes, if paid by February 28, are discounted by 1%. If the tax is paid during the month of March, the gross amount of tax is due. If the tax is not paid by the last day of March, tax additions of 1.5% per month are added to the tax for each month that the tax remains unpaid through the end of the calendar year. Beginning in January of the succeeding year, the 15% tax additions that accumulated during the last ten months of the preceding years are capitalized and the tax is registered delinquent. Interest is then computed on the new tax base at a rate of 0.5% per month until the real estate tax is fully paid. Commencing in February of the second year, an additional 1% per month penalty is assessed for a maximum of seven months. See the Fiscal Year 2004 Comprehensive Annual Financial Report for assessed and market values of taxable realty in the City and for levies and rates of collections.

During Fiscal Year 1997 and subsequent to the adoption of the Fiscal Year 1998 budget, the City decided to abandon the collection of the Personal Property Tax due to uncertainty as to the outcome of litigation challenging specific aspects of the tax then pending in other jurisdictions of the Commonwealth. As a result, the City realized no Personal Property Tax revenues in Fiscal Year 1998 or in subsequent years. The Personal Property Tax had been levied on the value of certain personal property of the residents of the City.

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Table 3
City of Philadelphia
Summary of
Principal Operating Funds (Debt Related)
Revenues By Major Source
Fiscal Years 1997-2006
(Legal Basis)
(Amounts in Millions of USD)

Fiscal Year	Real & Personal Property Taxes[(a)]	Wage Earnings & Net Profits Taxes[(a)]	Business Privilege Tax[(a)]	Sales and Use Tax[(a)]	Other Taxes[(b)]	Total Taxes	Water & Wastewater Charges	Airport Charges	Other Locally Generated Charges	Total Local Revenue	Revenue from Other Gov'ts	Revenue from Other City Funds	Total Revenues
1997	358.2	885.4[(c)]	246.4	91.4	93.8	1,675.2	291.0	125.8	236.8	2,328.8	587.9	44.1	2,960.8
1998	333.9[(d)]	926.9[(c)]	237.4	94.5	122.1	1,714.8	288.8	126.6	253.7	2,383.9	620.7	46.1	3,050.7
1999	342.6	949.8[(c)]	254.5	101.4	118.3	1,766.6	290.5	143.2	259.9	2,460.2	639.9	103.1	3,203.2
2000	353.6	985.7[(c)]	290.1	103.7	123.5	1,856.6	296.1	149.4	258.0	2,560.1	708.3	79.9	3,348.3
2001	363.4	1,059.0[(e)]	314.0[(e)]	111.3	130.0[(e)]	1,997.7	285.8	175.7	251.3	2.710.5	781.7	90.5	3,580.0
2002	376.8	1,019.3	295.8	108.1	148.6	1,945.4	302.8	181.7	257.9	2,687.8	722.5	80.8	3,491.1
2003	361.1	1,025.1	286.1	108.0	156.3	1,936.6	329.6	219.4	327.4	2,813.0	909.7	62.8	3,785.5
2004	377.7	1,062.6	309.2	108.0	202.2	2,059.6	383.1	235.0	207.4	2,885.1	834.2	92.1	3,811.4
2005 (Estimate)	391.1	1,086.8	315.1	112.0	240.6	2,145.6	410.7	281.0	213.0	3,050.3	1,076.6	95.3	4,222.2
2006 (Budget)	394.3	1,100.4	316.2	114.8	217.9	2,143.5	463.1	289.9	243.8	3,140.3	1,081.3	211.1	4,432.8

(a) See Table 5 in the Fiscal Year 2004 Comprehensive Annual Financial Report for Tax Rates.
(b) Includes Real Estate Transfer Tax, Parking Tax, Amusement Tax, and Other Taxes.
(c) In Fiscal Year 1992, the City reduced the resident Wage and Earnings and Net Profits Taxes from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on the PICA bonds and PICA's expenses.
(d) The City ceased collecting the Personal Property Tax in Fiscal Year 1997.
(e) Accounting accrual changes required by GASB #33 resulted in additional one-time tax revenue accruals in Fiscal Year 2001. (Wage Tax, $50.4 million; Business Privilege, $5.2 million; Other Taxes, $4.3 million).
FIGURES MAY NOT ADD DUE TO ROUNDING.

Table 4
City of Philadelphia General Fund
Tax Revenues (a)
Fiscal Years 2001-2006
(Amounts In Millions of USD)

	2001	2002	2003	2004	Estimated 2005	Adopted Budget 2006
REAL PROPERTY TAXES						
Current	325.8	333.2	329.4	332.6	337.1	346.3
Prior	37.6	40.4	31.7	45.1	54.0	48.0
Total	363.4	373.6	361.1	377.7	391.1	394.3
PERSONAL PROPERTY TAXES						
Current[b]	0.0	0.0	0.0	0.0	0.0	0.0
Prior	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0	0.0	0.0
WAGE AND EARNINGS TAX[c]						
Current	1,023.1[d]	981.8	987.2	1,034.5	1,054.1	1,067.7
Delinquent	24.1	24.2	26.2	15.1	19.0	19.0
Total	1,047.2	1,006.0	1,013.4	1,049.6	1,073.1	1,086.7
BUSINESS TAXES						
Business Privilege						
Current	275.5	273.8	238.7	269.9	271.1	274.2
Delinquent	38.5	22.0	47.4	39.2	44.0	42.0
Sub-Total Business Privilege	314.0	295.8	286.1	309.2	315.1	316.2
Net Profits Tax						
Current	10.6	11.4	10.1	11.3	11.5	11.5
Delinquent	1.2	2.0	1.6	1.7	2.2	2.2
Sub-Total Net Profits Tax	11.8	13.4	11.7	13.0	13.7	13.7
Total Business Taxes	325.8	309.2	297.8	322.1	328.8	329.9
OTHER TAXES						
Sales and Use Tax	111.3	108.1	108.0	108.0	112.0	114.8
Amusement Tax	13.0[d]	13.8	14.1	18.3	16.5	19.0
Real Property Transfer Tax	77.0	96.7	103.4	141.3	180.0	147.5
Parking Taxes	39.0[d]	37.9	38.7	42.5	44.0	47.3
Other Taxes	0.5	0.1	0.1	.1	0.1	4.1
Sub-Total Other Taxes	241.3	256.6	264.3	310.2	352.6	332.7
TOTAL TAXES	1,977.7	1,945.4	1,936.6	2,059.6	2,145.6	2,143.5

(a) See Table 5 in the Fiscal Year 2004 Comprehensive Annual Financial Report for Tax Rates.
(b) The City ceased levying the Personal Property Tax during the latter part of Fiscal Year 1997.
(c) Beginning in Fiscal Year 1992, the City reduced the resident Wage and Earnings and Net Profits Tax from 4.96% to 3.46% and levied the PICA Tax at a rate of 1.50%, the proceeds of which are remitted to PICA for payment of debt service on PICA bonds and the PICA expenses. After paying debt service and expenses, net proceeds from the tax are remitted to the City as Revenue from Other Governments.
(d) See Note (e) on Table A-3.
FIGURES MAY NOT ADD DUE TO ROUNDING.

Table 5
Ten Largest Certified Market and Assessment Values
of Tax Abated Properties
January 1, 2005

	Location	2005 Certified Market Value	Total Assessment	Total Taxable Assessment	Total Exempt Assessment
1	2201 Park Towne Place	$48,000,000	$15,360,000	$13,452,400	$1,907,600
2	819-41 Chestnut Street	38,000,000	12,160,000	5,440,000	6,720,000
3	1600-18 Arch Street	37,661,200	12,051,584	2,550,400	9,501,184
4	3118-98 Chestnut Street	30,859,800	9,875,136	2,827,616	7,047,520
5	801 Market Street	30,000,000	9,600,000	1,544,000	8,056,000
6	200 West Washington Sq.	24,826,432	7,944,458	649,618	7,294,840
7	11000 East Roosevelt Blvd.	24,277,400	7,768,768	3,680,000	4,088,768
8	3175 John F. Kennedy Blvd.	24,010,000	7,683,200	2,400,000	5,283,200
9	1319-25 Market Street	22,950,000	7,344,000	1,568,000	5,776,000
10	111 South 15th Street	22,208,000	7,106,560	960,000	6,146,560

Source: City of Philadelphia, Board of Revision of Taxes.

EXPENDITURES OF THE CITY

The major City expenditures are for personal services, employee benefits, purchase of services (including payments to SEPTA), and debt service.

Personal Services (Personnel)

As of June 15, 2005, the City employed 27,583 full-time employees with the salaries of 22,981 employees paid from the General Fund. Additional employment is supported by other funds, including the Water Fund and the Aviation Fund.

Additional operating funds for employing personnel are contributed by other governments, primarily for categorical grants, as well as for the conduct of the community development program. These activities are not undertaken if funding is not received.

The following table sets forth the number of filled full-time positions of the City as of the dates indicated.

Table 6
City of Philadelphia
Filled, Full-Time Positions – All Operating Funds

	At June 30 Actual				Current Estimated	Adopted Budget
	2001	2002	2003	2004	2005	2006
General Fund						
Police	7,807	7,800	7,983	7,704	7,339	7,239
Streets	2,141	2,080	2,009	1,937	1,864	1,848
Fire	2,500	2,458	2,479	2,336	2,265	2,345
Health	861	856	782	756	692	680
Courts	2,038	2,039	2,058	2,039	2,026	1,852
Other	9,306	9,289	9,400	8,987	9,010	8,881
Total General Fund	24,653	24,372	24,582	23,759	23,196	22,845
Other Funds	4,649	4,700	4,659	5,035	4,665	5,381
TOTAL	29,302	29,072	29,241	28,794	27,861	28,226

Labor Agreements

Four major bargaining units represent City employees for collective bargaining purposes. District Councils 33 and 47 of the American Federation of State, County and Municipal Employees, AFL-CIO represents approximately 15,000 non-uniformed employees. The bargaining units for uniformed employees are the Fraternal Order of Police, Lodge 5 (the "FOP") and the Philadelphia Fire Fighters Association, Local 22, International Association of Fire Fighters AFL-CIO ("Local 22"), which together represent approximately 9,400 employees. The non-uniformed employees bargain under Act 195 of 1972, which allows for the limited right to strike over collective bargaining impasses. The uniformed employees bargain under Pennsylvania Act 111 of 1968, which provides for final and binding interest arbitration to resolve collective bargaining impasses. All contract expiration dates are June 30 unless otherwise noted.

In September 2004, a collective bargaining agreement was reached with District Council 47. This four-year contract includes a $750 payment to each member with no general wage increase in Fiscal Year 2005 and wage increases of 2, 3 and 4 percent effective July 1 of each succeeding year, respectively. In December 2004, a collective bargaining agreement was reached with District Council 33, which mirrored the agreement previously reached with District Council 47.

In 2003, an arbitration panel awarded Local 22 a 3% increase in wages effective July 1, 2002, a 3.5% wage increase effective July 1, 2003 and a 3% wage increase effective July 1, 2004. The three-year award also granted significant increases in health and welfare benefits to Local 22. That awarded contract expires in 2005. The City is currently in Act 111 interest arbitration with the firefighters. An award is expected in December 2005.

The present FOP contract contains a 3% increase in wages effective July 1, 2004, 3% effective July 1, 2005, 3% effective July 1, 2006 and a 4% increase effective July 1, 2007. The City and FOP are currently in hearings regarding the health insurance reopener for Fiscal Year 2006 and Fiscal Year 2007.

The following table presents employee wage increases for the Fiscal Years 1998 through 2008.

Table 7
City of Philadelphia
Employee Wage Increases
Fiscal Years 1998-2008

Fiscal Year	District Council No. 33		District Council No. 47		Fraternal Order of Police		International Association of Fire Fighters	
1998		(a)		(a)	4.0%	(b)	4.0%	(c)
1999	3.0%	(d)	3.0%	(d)	3.0%	(e)	3.0%	(f)
2000	4.0%	(g)	4.0%	(g)	4.0%	(h)	4.0%	(i)
2001	No increase	(j)	No increase	(j)	3.0%		3.0%	
2002	3.0%	(k)	3.0%	(k)	4.0%		4.0%	
2003	3.0%	(l)	3.0%	(l)	3.0%		3.0%	
2004	3.0%		3.0%		3.5%		3.5%	
2005	No increase	(m)	No increase	(m)	3.0%		3.0%	
2006	2.0%		2.0%		3.0%			
2007	3.0%		3.0%		4.0%			
2008	4.0%		4.0%					

(a) Second year of a four year contract: 3% effective December 15, 1997.
(b) Second year of a two year contract: 4% effective September 15, 1997.
(c) Second year of a four year contract: 4% effective September 15, 1997.
(d) Third year of a four year contract: 3% effective December 15, 1998.
(e) First year of a two year contract: 3% effective September 15, 1998.
(f) Third year of a four year contract: 3% effective September 15, 1998.
(g) Fourth year of a four year contract: 4% effective March 15, 2000.
(h) Second year of a two year contract: 4% effective September 15, 1999.
(i) Fourth year of a four year contract: 4% effective September 15, 1999.
(j) First year of a four year contract: cash bonus of $1,500 paid in August 2000.
(k) Second year of a four year contract: 3% effective December 15, 2001.
(l) Third year of a four year contract: 3% effective December 15, 2002.
(m) First year of a four year contract: cash bonus of $750 paid in October 2004 to District Council 47 members and in December 2004 to District Council 33 members.

Employee Benefits

The City provides various pension, life insurance, health, and medical benefits for its employees. General Fund employee benefit expenditures for Fiscal Years 2001 through 2006 are shown in the following table.

Table 8
City of Philadelphia
General Fund Employee Benefit Expenditures
Fiscal Years 2001-2006
(Amounts in Millions of USD)

	Actual				Estimated	Adopted Budget
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Pension Contribution	194.2	196.6	205.7	229.4	309.6	349.8
Health/Medical/Dental	186.7	187.6	226.6	253.7	272.8	283.2
Social Security	57.8	57.4	59.4	60.6	63.9	62.6
Other	44.6	44.2	48.9	55.2	58.4	58.9
Total	483.3	485.8	540.6	598.9	704.7	754.5

Municipal Pension Fund (Related to All Funds)

The City is required by the Home Rule Charter to maintain an actuarially sound pension and retirement system covering all officers and employees of the City. Court decisions have interpreted this requirement to mean that the City must make contributions to the Municipal Pension Fund sufficient to fund:

A. Accrued actuarially determined normal costs.

B. Amortization of the unfunded actuarial accrued liability ("UAAL") determined as of July 1, 1985. The portion of that liability attributable to a class action lawsuit by pension fund beneficiaries is amortized in level installments, including interest, over 40 years through June 30, 2009. The remainder of the liability is amortized over 34 years with increasing payments expected to be level as a percentage of each year's aggregate payroll.

C. Amortization in level dollar payments of the changes in the July 1, 1985 liability due to: nonactive member's benefit modifications (10 years); experience gains and losses (15 years); changes in actuarial assumptions (20 years); and active members' benefit modifications (20 years).

The pension fund was actuarially valued every two years through 1984, and beginning with the July 1, 1985 valuation report, is required to be actuarially valued each year.

The July 1, 1980 unfunded liability, as amended by subsequent reports, will be amortized over 38 years through annual contributions which will closely approximate a level percent of payroll. The Pennsylvania Municipal Pension Plan Funding Standard and Recovery Act, enacted December 18, 1984 adopted changes in funding of municipal pensions that have been reflected in the valuation report for July 1, 1985. In particular, this act generally requires that unfunded actuarial accrued liability be funded in annual level dollar payments. The City is permitted to amortize the July 1, 1985 UAAL over 40 years ending in 2025.

Based on an actuarial schedule providing payments increasing at 5.0% per annum, the unfunded accrued liability of $1.8 billion, as of July 1, 2002 should be fully amortized by 2019.

Non-uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service or upon attainment of age fifty-five. Upon retirement, non-uniformed employees may receive up to 80% of their average final compensation depending upon their years of credited service. Uniformed employees become vested in the Municipal Pension Plan upon the completion of ten years of service or upon attainment of age forty-five. Upon retirement, uniformed employees may receive up to 100% of their average final compensation depending upon their years of credited service.

Effective January 1, 1987 the City adopted a new plan ("Plan 87") to cover employees hired after January 8, 1987, as well as members in the previous Plan who elected to transfer to Plan 87. Except for elected officials, Plan 87 provides for less costly benefits and reduced employee contributions. For elected officials, Plan 87 provides for enhanced benefits, with participating elected officials required to pay for the additional normal cost. Police and Fire personnel became eligible for Plan 87 on July 1, 1988. Because of Court challenges, members of District Council 33 and Local 2187 of District Council 47 were not eligible for Plan 87 until October 2, 1992.

A comprehensive statement of operations of the City Municipal Pension Fund for Fiscal Years 1995 through 2004 is contained in the Fiscal Year 2004 Comprehensive Annual Financial Report.

Purchase of Services

The City accounts for a number of expenditures as purchase of services. The following table presents major purchases of services in the General Fund in Fiscal Years 2001 through 2006.

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Table 9
City of Philadelphia
Purchase of Services In The General Fund
Fiscal Years 2001-2006
(Amounts In Millions of USD)

	Actual				Estimated	Adopted Budget
	2001	2002	2003	2004	2005	2006
Human Services (a)	360.2	393.1	452.2	493.7	518.4	565.0
Public Health	62.0	73.6	68.2	69.1	60.2	63.9
Public Property(b)	140.3	144.3	135.1	132.4	132.9	136.3
Streets(c)	49.7	50.4	54.4	53.9	55.1	60.1
Sinking Fund-Lease Debt(d)	42.6	57.8	74.3	70.8	76.6	85.8
Legal Services(e)	27.1	29.5	30.9	33.4	33.5	33.6
First Judicial District	28.8	21.9	27.5	23.0	26.9	23.5
Licenses & Inspections(f)	23.7	25.9	2.9	6.0	3.3	11.6
Emergency(g)	11.8	11.6	13.9	12.0	13.4	11.0
All Other	125.6	142.9	147.7	156.0	161.1	163.5
Total	871.8	951.2	1,007.1	1,050.3	1,081.3	1,154.2

(a) Includes payments for care of dependent and delinquent children.
(b) Includes payments for SEPTA, space rentals, utilities, and telecommunications.
(c) Includes solid waste disposal costs.
(d) Includes Justice Center, Neighborhood Transformation Initiative and Stadium lease debt.
(e) Includes payments to the Defender Association to provide legal representation for indigents.
(f) Includes payments for demolition in Fiscal Years 2001, 2002 and 2006.
(g) Includes homeless shelter and boarding home payments.
FIGURES MAY NOT ADD DUE TO ROUNDING

City Payments to School District

In each fiscal year since Fiscal Year 1996, the City has made an annual grant of $15 million to the School District. Pursuant to negotiations with the Commonwealth to address the School District's current and future educational and fiscal situation, the Mayor and City Council agreed to provide the School District with an additional annual $20 million beginning in Fiscal Year 2002.

Act 9 requires that the PPA transfer to the School District at the end of each fiscal year commencing with fiscal year 2004 that portion of the net revenues derived from the system of on-street parking operations which exceeds $25,000,000. The City has instituted a lawsuit in the Commonwealth Court challenging the constitutionality of Act 9. See "REVENUES OF THE CITY – Philadelphia Parking Authority – Act 9 Litigation".

City Loan to PGW

The City made a loan of $45 million to PGW during Fiscal Year 2001 to assist PGW in meeting its cash flow requirements. This loan is scheduled to mature in Fiscal Year 2007; however, the current Five-Year Plan projects that the loan will be repaid in the City's Fiscal Year 2009. The extension of the repayment date to Fiscal Year 2009 is subject to City Council approval. In addition, in order to assist PGW, (i) the City agreed to forgo the $18 million annual rental payment in Fiscal Year 2004, and (ii) the City's Five-Year Plan contemplates that in each of the Fiscal Years 2005 – 2008, the City will make a grant to PGW equal to the annual rental payment received from PGW in such Fiscal Years. The $18 million grant back was appropriated by the City for Fiscal Year 2005 and has been appropriated for Fiscal Year 2006.

City Payments to SEPTA

The City's Fiscal Year 2005 operating subsidy payment to SEPTA was $57.8 million. The Fiscal Year 2006 budget projects operating subsidy payments to SEPTA of $59.2 million. The Fourteenth Five-Year Plan provides that the City's contribution to SEPTA will increase to $64.7 million by Fiscal Year 2010.

DEBT OF THE CITY

The Constitution of the Commonwealth provides that the authorized debt of the City "may be increased in such amount that the total debt of said City shall not exceed 13.5% of the average of the annual assessed valuations of the taxable realty therein, during the ten years immediately preceding the year in which such increase is made, but said City shall not increase its indebtedness to an amount exceeding 3.0% upon such average assessed valuation of realty, without the consent of the electors thereof at a public election held in such manner as shall be provided by law." It has been judicially determined that bond authorizations once approved by the voters will not be reduced as a result of a subsequent decline in the average assessed value of City property.

The Constitution of the Commonwealth further provides that there shall be excluded from the computation of debt for purposes of the Constitutional debt limit, debt (herein called "self-supporting debt") incurred for revenue-producing capital improvements that may reasonably be expected to yield revenue in excess of operating expenses sufficient to pay interest and sinking fund charges thereon. In the case of general obligation debt, the amount of such self-supporting debt to be so excluded must be determined by the Court of Common Pleas of Philadelphia County upon petition by the City. Self-supporting debt is general obligation debt of the City, with the only distinction from tax-supported debt being that it is not used in the calculation of the Constitutional debt limit. Self-supporting debt has no lien on any particular revenues.

As of June 15, 2005, the Constitutional debt limitation for tax-supported general obligation debt was approximately $1,304,037,000 (based upon a formula of 13.5% of the assessed value of real estate within the City on a 10 year rolling average). The City has total authorized general obligation debt of $1,587,471,000, including approximately $364,474,000 of self-sustaining debt, which does not count against the constitutional debt limit. In addition, maturing serial bonds in the approximate amount of $29,884,000 were repaid in Fiscal Year

2005. As a result, $1,205,496,000 of general obligation debt subject to the constitutional debt limit was outstanding on June 15, 2005. A balance of $98,541,000 remained available for future authorization as of June 15, 2005.

The City is also authorized to issue revenue bonds pursuant to The First Class City Revenue Bond Act of 1972. Currently, the City issues revenue bonds to support the Division of Aviation, the Water Department and the PGW. Bonds so issued are excluded for purposes of the calculation of the Constitutional debt limit.

Short-Term Debt

The City has issued notes in anticipation of the receipt of income by the General Fund in each fiscal year since Fiscal Year 1972. Each note issue was repaid when due prior to the end of the fiscal year of issuance. The City issued $370 million of Tax and Revenue Anticipation Notes in July 2005. The notes are due on June 30, 2006. The City intends to repay these notes when due at maturity.

Long-Term Debt

Table 10 presents a synopsis of the bonded debt of the City and its component units at the close of Fiscal Year 2004. In addition, see the Fiscal Year 2004 Comprehensive Annual Financial Report for tables setting forth a ten year historical summary of tax-supported debt of the City and School District and the debt service requirements to maturity of the City's outstanding bonded indebtedness. As of June 30, 2005, the City's tax-supported general obligation debt issued and outstanding equaled $1,205,496,000.

Of the total balance of City tax-supported general obligation bonds outstanding at June 30, 2005, 10.8% is scheduled to mature within 5 years and 26.2% is scheduled to mature within 10 years.

Other Long-Term Debt Related Obligations

The City has entered into other contracts and leases to support the issuance of debt by public authorities related to the City pursuant to which the City is required to budget and appropriate tax or other general revenues to satisfy such obligations. As of June 30, 2005, the principal amount of the outstanding bonds of each of these authorities relating to the City's contract and lease obligations was as follows:

PMA	$230.0 million
PAID	$1,605.3 million
Parking Authority	$18.2 million
Redevelopment Authority	$282.8 million
Hospitals Authority	$23.4million
Convention Center Authority	$229.4 million

Source: Office of the Director of Finance

The bonds of the Parking Authority included in the previous table are payable from project revenues, and by the City only if and to the extent that net revenues are inadequate for this purpose. The City paid $0.6 million in Fiscal Year 2004 and $3.1 million in Fiscal Year 2005 toward the repayment of these bonds. See "REVENUES OF THE CITY – Philadelphia Parking Authority."

The Hospitals Authority has issued bonds on behalf of the Community College of Philadelphia ("CCP"). These bonds are secured by, among other things, payments to be made by the City as the local sponsor pursuant to the enabling legislation that authorized the creation of CCP. As the local sponsor, the City is obligated to pay up to 50% of the debt service on bonds issued on behalf of CCP. The principal amount of such bonds for which the City is obligated to make such payments was $23,355,000 as of June 30, 2005; this amount represents 50% of the $46,710,000 principal amount of bonds issued and outstanding for CCP purposes as of June 30, 2005.

Recent Financings

In May 2005, the City issued revenue bonds for the Water Department, including $250,000,000 Water and Wastewater Revenue Bonds, Series 2005A, which were issued to finance capital programs at the Water Department included in the City's capital budget, and $86,105,000 of Water and Wastewater Variable Rate Refunding Bonds, Series 2005B (the "2005B Bonds"). The 2005B Bonds were issued for the purpose of refunding a portion of the Water Department's Series 1995 Water and Wastewater Bonds.

In June 2005, the City issued revenue bonds for the Airport, including $41,000,000 Airport Variable Rate Revenue Bonds, Series 2005 B, which were issued to provide funding for the Airport's capital program, including improvements to the baggage security facilities and $189,500,000 of Airport Variable Rate Refunding Bonds, Series 2005C (the "2005C Bonds"). The 2005 C Bonds were issued to refund a portion of the Airport's 1995A bonds.

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Table 10
City of Philadelphia
City Related Bond Indebtedness
June 30, 2004
(Amounts In Millions of USD)

	Governmental Fund Types				Enterprise Funds			
	City General Fund	Municipal Authority Fund	PICA	Gov't Fund Totals	Water Fund	Aviation Fund	Enterprise Funds Totals	All Funds Totals
Bond Debt Outstanding, July 1, 2004								
Bonds Issued:								
General Obligation	250.0	0.0	0.0	250.0	0.0	0.0	0.0	250.0
General Obligation Refunding	0.0	217.5	0.0	217.5	0.0	0.0	0.0	217.5
Revenue Bonds	-	-	-	-	0.0	0.0	0.0	0.0
Revenue Funding	-	-	-	-	0.0	0.0	0.0	0.0
Total Bonds Issued	250.0	217.5	0.0	467.5	0.0	0.0	0.0	467.5
Bonds Matured-Refunded								
General Obligation	43.2	26.7	35.7	105.6	1.1	2.7	3.8	109.4
General Obligation Refunded	0.0	226.6	0.0	226.6	0.0	0.0	0.0	226.6
Revenue	-	-	-	-	68.0	33.6	101.6	101.6
Revenue Refunded	-	-	-	-	0.0	0.0	0.0	0.0
Total Bonds Matured-Refunded	43.2	253.3	35.7	332.2	69.1	36.3	105.4	437.6
Bonded Debt Outstanding June 30, 2005								
General Obligation								
Revenue	-	-	-	-				
Total Bonded Debt Outstanding								
Sinking Fund Assets Available for Payment of Principal	0.0	0.0	78.2	78.2	158.6	67.7	226.3	304.5
Net Debt	1021.0	248.5	692.5	1,962.0	1,579.8	1,025.2	2,605.0	4,567.0

Source: Office of Director of Finance

City Capital Improvement Program

The Capital Improvement Program for Fiscal Years 2006-2011 contemplates a total expenditure of $5,494,288,000 of which $2,288,365,000 is to be provided from Federal, Commonwealth, and other sources and the remainder through City funding. The following table shows the amounts anticipated to be spent each year from various sources of funds for capital projects. City Council adopted the Capital Improvement Program for Fiscal Years 2006-2011 on June 16, 2005.

Table 11
City of Philadelphia
Fiscal Years 2006-2011
Capital Improvement Program
(Amounts in Thousands of USD)

	2006	2007	2008	2009	2010	2011	Total
New Loans	68,148	53,584	49,899	49,061	47,570	45,712	313,974
Operating Revenue	31,738	5,550	5,250	5,250	5,250	5,250	58,288
Carried Forward Loans	209,412	0	0	0	0	0	209,412
Prefinanced Loans	1,000	1,000	1,000	1,000	1,000	1,000	6,000
PICA Prefinanced Loans	2,257	0	0	0	0	0	2,257
Tax-Supported Total	312,555	60,134	56,149	55,311	53,820	51,962	589,931
New Loans	209,747	264,276	320,248	381,913	296,347	325,216	1,797,747
Operating Revenue	68,720	17,968	18,168	17,668	17,868	18,068	158,460
Self-Sustaining Operating	641,785	0	0	0	0	0	641,785
Self-Sustaining Total	920,252	282,244	338,416	399,581	314,215	343,284	2,597,992
Revolving Funds	18,000	0	0	0	0	0	18,000
Federal	308,880	114,524	85,460	67,532	64,792	64,372	705,560
Federal Off Budget	123,762	145,602	169,708	167,101	129,665	93,970	829,808
State	47,425	10,211	6,665	4,448	5,738	4,608	79,095
State Off Budget	38,154	61,012	60,800	67,195	72,928	61,628	361,717
Private	107,837	29,020	29,020	28,520	28,520	28,520	251,437
Other Governments/Agencies	54,000	0	0	0	0		54,000
Other Governments/Off-Budget	643	789	1,115	1,255	1,621	1,325	6,748
Other Than City Funds	680,701	361,158	352,768	336,051	303,264	254,423	2,288,365
Total	1,931,508	703,536	747,333	790,343	671,299	649,669	5,494,288

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LITIGATION

Generally, judgments and settlements on claims against the City are payable from the General Fund, except for claims against the Water Department, the Aviation Division, and the Gas Works. Claims against the Water Department are paid first from the Water Fund and only secondarily from the General Fund. Claims against the Aviation Division, to the extent not covered by insurance, are paid first from the Aviation Fund and only secondarily from the General Fund. Claims against the Gas Works, to the extent not covered by insurance, are paid first from Gas Works revenues and only secondarily from the General Fund.

The Act of October 5, 1980, P.L. 693, No. 142, known as the "Political Subdivision Tort Claims Act," (the "Tort Claims Act") establishes a $500,000 aggregate limitation on damages for injury to a person or property arising from the same cause of action or transaction or occurrence or series of causes of action, transactions or occurrences with respect to governmental units in the Commonwealth such as the City. The constitutionality of that aggregate limitation has been repeatedly upheld by the Pennsylvania Supreme Court. In February 1987, an appeal of a decision upholding such constitutionality to the United States Supreme Court was dismissed for want of jurisdiction. However, under Pennsylvania Rule of Civil Procedure 238, delay damages in State Court cases are not subject to the $500,000 limitation. Moreover, the limit on damages is inapplicable to any suit against the City which does not arise under state tort law such as claims made against the City under Federal civil rights laws.

The aggregate loss resulting from general and special litigation claims was $30.2 million for Fiscal Year 2001, $30.0 million for Fiscal Year 2002, $24.2 million for Fiscal Year 2003, and $24.5 million for Fiscal Year 2004. Estimates of settlements and judgments from the General Fund are $26.2 million, $25.1 million, $25.1 million, $25.1 million, and $24.0 million for the Fiscal Years 2005 through 2009, respectively. In budgeting for settlements and judgments in the annual Operating Budget and projecting settlements and judgments for each Five-Year Plan, the City bases its estimates on past experience and on an analysis of estimated potential liabilities and the timing of outcomes, to the extent a proceeding is sufficiently advanced to permit a projection of the timing of a result. General and special litigation claims are budgeted separately from back-pay awards and similar settlements relating to labor disputes. Usually, some of the costs arising from labor litigation are reported as part of current payroll expenses. For Fiscal Year 2004, payments for claims arising from labor settlements in the General Fund amounted to $1.4 million of which $1.2 million was paid from the indemnities account, and $0.2 million from the operating budgets of the affected departments. Actual claims paid out from the General Fund for settlements and judgments averaged $27.5 million per year over the five years from Fiscal Year 2000 through Fiscal Year 2004.

In addition to routine litigation incidental to performance of the City's governmental functions and litigation arising in the ordinary course relating to contract and tort claims and alleged violations of law, certain special litigation matters are currently being litigated and/or appealed and adverse final outcomes of such litigation could have a substantial or long-term adverse effect on the City's General Fund. These proceedings involve: (i) environmental-related actions and proceedings in which it has been or may be alleged that the City is liable for damages, including but not limited to property damage and bodily injury, or that the City should pay fines or penalties or the costs of response or remediation, because of the alleged generation, transport, or disposal of toxic or otherwise hazardous substances by the City, or the alleged disposal of such substances on or to City-owned property; (ii) a class action suit alleging that the City failed to properly oversee management of funds in the deferred compensation plan of City employees; (iii) a civil rights claim; (iv) a labor arbitration award holding that the City should have used union employees rather than outside contractors since 1997 to provide home inspections for first time home buyers subsidized by the City's Office of Housing and Community Development and a claim for back-pay by current and former City paramedics; (v) a mandamus action to compel the Mayor to provide free trash collection to all condominiums and cooperatives; (vi) a claim made by a Philadelphia sports franchise alleging damages for the cancellation of a professional exhibition game allegedly because the field at Veterans' Stadium was not in playable condition; and (vii) a federal lawsuit was filed by twenty-four homeowners in the Osage-Pine neighborhood whose homes were destroyed in the MOVE bombing of 1985.

The ultimate outcome and fiscal impact, if any, on the City's General Fund of the claims and proceedings described in the preceding paragraph are not currently predictable. Various claims in addition to the lawsuits described above have been asserted against the Water Department and in some cases lawsuits have been instituted. Many of these Water Department claims have been reduced to judgment or otherwise settled in a manner requiring payment by the Water Department. The aggregate loss for Fiscal Year 2003 which resulted from these claims and lawsuits was $3.9 million, and $2.9 million for Fiscal Year 2004. The Water Department's budget for Fiscal Year 2005 contains an appropriation for Water Department claims in the amount of $6.5 million, although the current estimate is for only $3.0 million. The Water Fund is the first source of payment for any of the claims against the Water Department.

CRIMINAL INVESTIGATION

The Office of the U.S. Attorney and the Federal Bureau of Investigation are currently conducting an investigation, in the course of which they have subpoenaed certain records and communication devices of the City of Philadelphia, including records of the Division of Aviation. The Administration has responded to the subpoenas and has provided the items requested.

On June 29, 2004, a federal grand jury issued indictments against twelve individuals including former City Treasurer, Corey Kemp. The indictment against Mr. Kemp charges him with, among other things, conspiracy to commit honest services fraud, extortion and money laundering. These charges relate to Mr. Kemp's activities as City Treasurer, including the appointment of firms to participate in municipal bond and other financial transactions of the City. On May 9, 2005 Mr. Kemp was convicted of a number of the charges filed against him. Of the 11 other individuals indicted, five have entered guilty pleas, one is now deceased, one has been acquitted and four have been convicted of some of the charges.

On September 29, 2004, a federal grand jury issued indictments against seven individuals including John Christmas, former special assistant to the Chief of Staff for the Mayor, and Steven Vaughn, former Chief of Staff for the City Councilperson elected to represent the Eighth District. The indictment against Mr. Christmas charged him with scheming to defraud, conspiracy to commit mail fraud, perjury and making false statements. These charges related to certain activities of Mr. Christmas which allegedly resulted in the improper awarding of a City contract. On June 14, 2005, the jury acquitted Mr. Christmas of all of the charges against him, other than a perjury charge on which it was unable to reach a verdict and which was dismissed by the trial judge. The indictment against Mr. Vaughn charges him with scheming to defraud and conspiracy to commit mail fraud. These charges relate to certain activities of Mr. Vaughn which allegedly resulted in fraudulent representations made in the awarding of a City contract. Mr. Vaughn entered a plea of guilty to charges against him and has been sentenced .

The City is cooperating fully with federal investigators in pursuing their case.

ADDITIONAL INFORMATION

Current City Practices

It is the practice of the City in connection with the issuance and sale of each issue of the City's bonds or notes, to require in its contract with its underwriters that the underwriters deposit the official statement of the City relating to such issue of bonds or notes with a nationally recognized municipal securities information repository (a "Repository") as soon as practicable after delivery of such official statement. It is also the City's practice to file its Comprehensive Annual Financial Report ("CAFR"), which contains the audited combined financial statements of the City, with a Repository as soon as practicable after delivery of such report. The CAFR for the City's fiscal year ended June 30, 2004 was deposited with a Repository on February 23, 2005. The CAFR is prepared by the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' audit guide, Audits of State and Local Government Units. Upon written request to the Office of the Director of Finance and payment of the costs of duplication and mailing, the City will make available copies of the CAFR for the Fiscal Year ended June 30, 2004. Such a request should be request should be addressed to: Office of the Director of Finance, Municipal Services Building, Suite 1330, 1401 John F. Kennedy Boulevard, Philadelphia, PA 19102. The City also expects to provide financial and other information as to the City from time to time to Moody's Investors Service, Standard & Poor's Ratings Group and Fitch Ratings, in connection with the securities ratings assigned by those rating agencies to bonds or notes of the City.

The foregoing statement as to filing or furnishing of additional information reflects the City's current practices, but is not a contractual obligation to the holders of the City's bonds or notes.

CITY SOCIOECONOMIC INFORMATION

Introduction

The City includes within its boundaries an area of approximately 130 square miles and a resident population of approximately 1.52 million people. The City is in the heart of a nine-county metropolitan area with approximately 5.1 million residents. Air, rail, highway, and water routes provide easy access to the City.

The City is strategically located on the east coast with easy access to markets, resources, government centers, and transportation. The City's metropolitan area is the nation's fourth largest in terms of total retail sales and disposable income with approximately one-half of the population of the United States living within an overnight drive.

Quality of Life

The City is very livable with relatively low housing costs. The National Association of Realtors Affordability Index ranks the Philadelphia region as the 22nd most affordable housing market out of 180 sampled in the United States.

The City is rich in history, art, architecture, and entertainment. World-class cultural and historic attractions include the Philadelphia Museum of Art (which houses the third largest art collection in the United States), the Philadelphia Orchestra, Academy of Music, Pennsylvania Ballet, the Constitution Center, the Kimmel Center, Pennsylvania Academy of Fine Arts, Franklin Institute, Mann Music Center, Opera Company of Philadelphia, and the Rodin Museum. The South Philadelphia sports complex, currently consisting of Lincoln Financial Field, Citizen's Bank Park, the Wachovia Spectrum and the Wachovia Center, is home to the Philadelphia 76ers, Flyers, Phillies and Eagles. The City also offers its residents and visitors America's most historic square mile, which includes Independence Hall and the Liberty Bell, as well as Fairmount Park, which includes Pennypack Park and the country's first zoo, within its 8,000 acres.

The City is a center for health, education, and science facilities with presently more than 30 hospitals, seven medical schools, two dental schools, two pharmacy schools, as well as schools of optometry, podiatry and veterinary medicine, and the Philadelphia Center for Health Care Sciences in West Philadelphia. The City is one of the largest health care and health care education centers in the world, and a number of the nation's largest pharmaceutical companies are located in the Philadelphia area.

The City has eighty degree-granting institutions of higher education with a total enrollment of over 110,000 students. Included among these institutions are the University of Pennsylvania, Temple University, Drexel University, St. Joseph's University, and LaSalle University. Within a short drive from the City are such schools as Villanova University, Bryn Mawr College, Haverford College, Swarthmore College, Lincoln University, and the Camden Campus of Rutgers University. The undergraduate and graduate programs at these institutions help provide a well-educated and trained work force to the Philadelphia community.

The City also has major research facilities, including those located at its universities, the medical schools, the Wistar Institute, the Fox Chase Cancer Center, and the University City Science Center. The Children's Hospital of Philadelphia has recently completed the construction of a new $100 million biomedical research facility located within the Philadelphia Center for Health Care Sciences in West Philadelphia. A major new cancer research center is also planned by the University of Pennsylvania.

Demographics

During the ten year period between 1990 and 2000, the population of the City decreased from 1,585,577 to 1,517,550. During the same period, the population of the Philadelphia Primary

Metropolitan Statistical Area ("PMSA") increased by 5.0%, less than one-half the national rate of increase.

Table 12
Population
City, PMSA & Nation

	1990	2000	% Change 1990-2000
Philadelphia	1,585,577	1,517,550	-4.3%
Philadelphia PMSA*	4,856,881	5,100,931	5.0%
United States	248,709,873	281,421,906	13.2%

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

* The Philadelphia, PA-NJ Primary Metropolitan Statistical Area includes the counties of Bucks, Chester, Delaware, Montgomery, and Philadelphia in Pennsylvania and the counties of Burlington, Camden, and Gloucester in New Jersey. In 1993, Salem County, New Jersey was added to the Philadelphia, PA-NJ PMSA.

Table 13
Population Age Distribution

	Philadelphia				Pennsylvania			
Age	1990	% of Total	2000	% of Total	1990	% of Total	2000	% of Total
0-24	563,816	35.6	551,308	36.3	4,021,585	33.8	3,877,729	32.3
25-44	490,224	30.9	444,774	29.3	3,657,323	30.8	3,515,421	29.3
45-64	290,803	18.3	307,746	20.2	2,373,629	20.0	2,701,930	22.5
65-84	217,913	13.7	186,383	12.3	1,657,270	13.9	1,666,641	13.9
85 & up	22,801	1.4	27,339	1.8	171,836	1.4	232,295	1.9
Total	1,585,577	100.0	1,517,550	100.0	11,881,643	100.0	11,994,016	100.0

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

	United States			
Age	1990	% of Total	2000	% of Total
0-24	90,342,198	36.3	99,437,266	35.3
25-44	80,754,835	32.5	85,040,251	30.2
45-64	46,371,009	18.6	61,952,636	22.0
65-84	28,161,666	11.3	30,752,166	11.0
85 & Up	3,080,165	1.2	4,239,587	1.5
Total	248,709,873	100.0	281,421,906	100.0

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

The Economy

Philadelphia's economy is composed of diverse industries, with virtually all classes of industrial and commercial businesses represented. The City is a major business and personal service center with strengths in insurance, law, finance, health, education, and utilities.

The cost of living in Philadelphia is relatively moderate compared to other major metropolitan areas. The City, as one of the country's education centers, offers the business community a large, diverse, and industrious labor pool.

Table 14
Office Rental Rates in Cities
Throughout the United States
(In $ Per Square Foot)

	Sept, 1999	Sept, 2000	March, 2001	March, 2002	March, 2003	January, 2004	January, 2005
Atlanta	20.00	20.20	22.08	21.60	23.91	23.09	21.92
Chicago	25.99	28.16	24.03	24.02	22.30	29.97	28.47
Dallas	19.99	20.87	18.51	19.77	21.32	20.58	19.71
Denver	18.50	19.70	18.27	16.58	18.29	17.84	17.24
Houston	21.09	22.61	16.30	18.20	19.97	19.29	18.21
Los Angeles	20.16	20.64	27.30	27.42	27.62	25.56	26.55
New York	33.08	43.10	53.26	47.20	43.53	45.51	45.16
Philadelphia	19.80	21.28	23.49	22.16	23.97	23.24	21.97
Phoenix	19.81	20.28	21.57	21.11	20.90	20.38	19.39
Portland	20.25	21.50	20.50	20.00	21.55	20.59	19.65
San Francisco	47.00	78.21	61.80	30.20	28.01	27.15	27.75
St. Louis	19.09	19.35	17.97	17.83	21.93	20.52	19.91
Tampa	18.20	20.25	18.93	18.89	19.66	19.23	18.01
Washington, D.C.	32.90	35.76	30.52	30.63	39.08	31.05	35.95

Source: Insignia/ESG Commercial Market Report, National Market Overview.

Employment

The employment and unemployment rates and the total number of jobs within the City are reflected in Tables A-15 and A-16, respectively.

The employment changes within the City principally have been due to declines in the manufacturing sector and the relatively stronger performance of the service economy. The City's and region's economies are diversified, with strong representation in the health care, government, and education sectors but without the domination of any single employer or industry.

In accordance with the federal government's plans to close military facilities, the City saw several major closure actions in the 1990's, including the Philadelphia Navy Shipyard and Naval Station ("Navy Yard"), the Philadelphia Naval Hospital, and the former Defense Supply Center of Philadelphia. At the time of their closures, these facilities employed in excess of 20,000 people.

Since these closure actions and the subsequent transfer of property from the federal government, the City has seen substantial progress in the revitalization of these assets and rebuilding the lost employment base. Most significant, employment at the former Navy Yard complex has begun to climb. In March 2000, the Philadelphia Authority for Industrial Development ("PAID") took ownership of more than 1,000 acres at the site and has begun to implement aggressive redevelopment activities. To date, at least 47 companies have leased or purchased in excess of 2 million square feet of facilities at the complex, now known as the Philadelphia Naval Business Center ("PNBC"). In addition to this employment, the Navy has retained more than 2 million square feet of facilities. Together, the private and Navy facilities employ more than 5,500 people. Long term plans call for more than 10 million square feet of industrial and commercial space at PNBC, with employment targeted between 15,000-20,000.

Table 15
Labor Force Data Annual Average
Based On Residency

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*
Philadelphia (000)										
Labor Force	644.2	641.4	643.0	640.0	644.2	628.7	666.4	680.3	672.1	678.3
Employment	594.4	596.1	598.3	600.4	606.9	590.1	625.0	628.5	628.5	633.5
Unemployment	49.8	45.3	44.7	39.6	36.8	38.6	41.3	51.7	43.6	44.8
Unemployment Rate (%)	7.7	7.1	7.0	6.2	5.8	6.1	6.4	7.5	7.7	7.4
Philadelphia PMSA (000)										
Labor Force	2,428.5	2,464.2	2,502.1	2,493.1	2,515.4	2,503.2	2,534.8	2,649.2	2,645.0	2,660.6
Employment	2,286.3	2,334.1	2,380.5	2,385.5	2,412.9	2,403.5	2,425.1	2,502.3	2,519.5	2,544.3
Unemployment	142.2	130.1	121.6	107.6	104.6	99.8	109.7	146.9	125.2	116.3
Unemployment Rate (%)	5.9	5.3	4.9	4.3	4.1	4.0	4.3	5.5	4.7	4.4
United States (000,000)										
Labor Force	132.3	133.9	136.3	137.7	139.4	140.9	143.7	144.9	146.5	147.4
Employment	124.9	126.7	129.6	131.5	133.5	135.2	136.9	136.5	137.7	139.3
Unemployment	7.4	7.2	6.7	6.2	5.9	5.7	6.8	8.4	8.8	8.1
Unemployment Rate (%)	5.6	5.4	4.9	4.5	4.2	4.0	4.7	5.8	5.4	5.5

Source: Pennsylvania Department of Labor and Industry, Bureau of Research and Statistics. Pennsylvania Civilian Labor Force Series by County of Residence and Pennsylvania Civilian Labor Force Series by Labor Market Area.
(a) Important Notice: Labor force data beginning January 1994 are not comparable to earlier data due to the implementation of revised survey methodology by the U.S. Department of Labor.
* Preliminary

Table 16
Philadelphia
Total Monthly Employment And Monthly Unemployment Rates
Based On Residency
2000 – 2004

	Total Employment in 000's					Unemployment Rate %				
Month	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
January	582.3	589.3	590.5	612.9	661.8	6.1	6.2	7.1	8.3	7.7
February	581.7	588.9	586.1	614.1	662.2	6.1	6.4	7.3	8.4	7.4
March	583.6	592.8	589.0	618.0	667.8	5.9	6.1	7.3	7.6	7.4
April	585.3	593.4	592.8	618.8	668.0	5.5	5.7	6.6	7.3	6.8
May	586.6	596.8	594.5	618.4	672.0	6.1	6.4	7.8	7.8	7.4
June	595.2	605.6	600.0	626.2	680.9	6.2	6.6	7.7	8.0	8.1
July	598.8	609.9	605.8	631.5	687.1	6.4	6.6	8.0	7.9	7.5
August	596.9	606.0	604.1	631.7	682.2	6.1	6.5	7.7	7.3	7.6
September	586.8	600.1	596.6	622.7	676.7	6.9	6.7	7.9	7.6	7.7
October	592.4	601.1	597.2	623.6	677.0	6.5	6.7	7.7	7.8	7.6
November	594.7	602.1	598.2	627.3	679.1	6.5	6.6	7.7	7.4	7.2
December	597.0	602.9	599.6	628.5	678.3	5.3	5.8	7.2	6.5	6.6

Source: Pennsylvania Department of Labor and Industry, Bureau of Research & Statistics.

Table 17
Philadelphia City
Non-Farm Payroll Employment*
(Amounts In Thousands)

	1996	1997	1998	1999	2000	2001	2002	2003
Total Employment	673.5	667.5	675.3	685.2	695.9	687.8	686.8	679.0
Manufacturing	60.2	58.7	57.8	57.3	55.8	52.5	49.9	33.9
Non-Manufacturing	613.3	608.8	617.5	627.9	640.1	635.3	636.9	645.1
Construction & Mining	10.2	10.1	10.8	10.3	13.8	12.3	11.9	12.5
Transportation & Public Utilities	32.6	33.1	34.1	35.8	36.3	35.8	33.8	45.4
Wholesale & Retail Trade	113.9	117.2	112.5	112.3	118.4	118.1	120.2	122.3
Finance, Insurance & Real Estate	53.9	55.2	52.3	51.3	51.1	50.3	50.6	51.2
Services	278.0	279.5	291.8	293.1	298.8	300.3	302.8	299.2
Government	127.2	125.9	115.1	113.2	119.6	118.6	117.6	114.5

Source: Pennsylvania Department of Labor and Industry, Bureau of Research and Statistics.
* Includes persons employed within the City, without regard to residency.

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Table 18
City of Philadelphia
Largest Non-Governmental Employers In Philadelphia
June 30, 2004
(Listed Alphabetically)

Albert Einstein Medical
Aramark Food & Support Services Group
Cardone Industries, Inc.
Children's Hospital of Philadelphia
Comcast Corporation
Drexel University
Frankford Hospital
Independence Blue Cross
Pennsylvania Hospital of the Univ. of Penn. Health
Philadelphia Health & Ed.(MCP Hahnemann)
Philadelphia Newspapers, Inc.
Southeastern Pennsylvania Transportation Authority
Smith Kline Beecham Corporation
Sunoco, Inc.
Temple University
Temple University Hospital, Inc.
Tenet Health System Philadelphia, Inc.
Thomas Jefferson University
Thomas Jefferson University Hospitals
Towers, Perrin, Forster & Crosby, Inc.
University of Pennsylvania Hospital
University of Pennsylvania
Verizon Services Corporation
Wachovia Bank

Source: Philadelphia Department of Revenue

Table 19
Fortune 500
Largest Corporations
With Headquarters In Philadelphia, 2004

Corporation	Type of Industry	Ranking	Revenues ($ Millions)
Comcast	Telecommunications	89	$21,263
Cigna	Health Care/Insurance	101	$18,808
Sunoco	Petroleum Refining	123	$17,866
ARAMARK	Diversified Outsourcing Services	202	$ 9,712
Crown Holdings	Metal Products	282	$ 6,630
Rohm & Haas	Chemical	290	$ 6,421
Lincoln National	Insurance: Life & Health	339	$ 5,283

Source: Fortune Magazine.

Table 20
Total Industry Employment By Establishment
Annual Averages
(000s)
Philadelphia PMSA

	1996	1997	1998	1999	2000	2001	2002	2003
Non-Agricultural Employment	2,214.4	2,257.5	2,315.6	2,322.1	2,394.2	2,426.9	2,413.1	2,450.8
Goods Producing	384.9	393.0	396.2	387.0	398.6	390.3	380.3	332.1
Construction & Mining	79.1	87.8	90.4	86.3	99.1	108.0	107.2	101.9
Manufacturing	305.8	305.2	305.8	300.7	299.5	282.3	273.1	230.2
Durable Goods	146.6	146.0	147.4	143.7	142.8	133.3	125.6	115.8
Nondurable Goods	159.3	159.2	158.4	157.0	156.7	149.0	147.5	114.4
Service Producing	1,829.5	1,864.5	1,919.4	1,935.1	1,995.6	2,036.6	2,032.8	2,118.7
Transp. & Public Utilities	104.6	106.9	109.9	113.4	114.3	113.5	112.0	489.1
Wholesale & Retail Trade	493.3	498.3	506.8	503.2	526.3	539.3	534.2	118.1
Fin., Insurance & Real Estate	154.4	157.3	161.6	162.7	169.2	170.3	168.1	177.1
Services	774.8	806.6	848.5	859.0	886.0	900.6	904.3	1075.6
Government	302.3	295.4	292.6	296.8	299.8	312.9	314.2	315.4
Federal Government	65.0	58.1	55.9	57.7	57.8	57.2	57.5	58.0
State & Local Government	237.4	237.3	236.7	239.1	242.1	255.7	256.7	257.4

Source: Pennsylvania Department of Labor and Industry, Bureau of Labor Research and Statistics.

Income

The following table presents data relating to per-capita income for the City, the PMSA, and the United States. It illustrates that, for the past few years, real per-capita income has generally outpaced the urban cost of living index, suggesting that on average, the newly created service jobs have generated positive real income growth for City wage earners.

Table 21
Consumer Price Indices and Median Household Effective Buying Income

	1990	1997	1998	1999	2000	2001	2002	2003
CPI-U United States(a)	130.7	160.5	163.0	166.6	172.2	177.1	180.9	184.6
CPI-U Philadelphia PMSA	135.8	166.5	168.2	171.9	176.5	181.3	183.0	188.8
Buying Income(b)								
Philadelphia	$24,880	$29,561	$30,127	$31,621	$33,297	$29,995	$28,015	$28,150
Philadelphia Metro Area*	$33,277	$42,852	$44,425	$47,152	$49,717	$43,800	$41,820	$42,852
United States	$27,912	$34,618	$35,377	$37,233	N/A	N/A	N/A	$38,201

* Statistic is a measure of the Philadelphia, Camden & Wilmington Metropolitan Area. PMSA statistic was not available.
Source: (a) Consumer Price Index - All Urban Consumers. U.S. Bureau of Labor Statistics.
(b) "2003 Survey of Buying Power".

Table 22
Number of Households By Income Range In Philadelphia County

Income	Number of Households* 1990	Number of Households* 2000	Percentage of Households* 1990	Percentage of Households* 2000
Under $ 9,999	136,335	109,237	22.6	18.5
$10,000-14,999	59,331	49,035	9.9	8.3
$15,000-24,999	108,405	89,059	18.1	15.0
$25,000-49,999	190,237	171,215	31.7	29.0
$50,000 and over	106,432	171,737	17.6	29.1
Total	600,740	590,283	100.0%	100%

Source: U.S. Department of Commerce, Bureau of the Census.
* A household includes all the persons who occupy a housing unit.

Number of Households By Income Range In United States

Income	Number of Households (000's) 1990	Number of Households (000's) 2000	Percentage of Households 1990	Percentage of Households 2000
Under $9,999	14,214	10,067	15.5	9.5
$10,000-14,999	8,133	6,657	8.8	6.3
$15,000-24,999	16,124	13,5360	17.5	12.8
$25,000-49,999	31,003	30,965	33.7	29.3
$50,000 and over	22,519	44,312	24.5	42.1
Total	91,994	105,537	100.0%	100.0%

Source: U.S. Department of Commerce, Economics and Statistics Administration, 1990 Census of Population

Retail Sales

The following table reflects taxable sales for Philadelphia from fiscal years 1995 to 2004.

Table 23
Philadelphia
Taxable Retail Sales 1995-2004
($000's)

Fiscal Year	Taxable Sales
1995	8,636,921
1996	10,249,166
1997	9,637,833
1998	8,276,083
1999	9,604,970
2000	10,432,800
2001	11,107,100
2002	10,980,914
2003	10,933,524
2004	11,172,231

Source: Figures determined by dividing the Philadelphia local sales tax reported by the Pennsylvania Department of Revenue by the local sales tax rate of 0.01.

The following table compares retail sales activity among the City, the PMSA, Pennsylvania, and the United States.

Table 24
Retail Sales By Store Group ($000)
2004

	Philadelphia	CBSA**	Pennsylvania	United States
Total Retail Sales*	11,366,900	79,892,130	155,423,454	3,906,482,160
Food	1,959,887	10,862,213	22,867,092	526,193,765
Eating & Drinking	2,315,171	7,715,123	15,121,084	383,728,199
Gen. Merchandise	670,713	7,570,987	15,693,600	504,355,625
Furniture, Furnishings	479,110	4,114,101	6,323,992	203,238,293
Automotive	1,329,972	18,365,300	35,614,264	906,076,160

Source: Sales and Marketing Management, "2004 Survey of Buying Power"
* Total Retail Sales reflects net sales (less refunds and allowances for returns) for all establishments primarily engaged in retail trade. Receipts from repairs and other services are also included, but retail sales by wholesalers and service establishments are not.
**Core Based Statistical Area (CBSA) Philadelphia-Camden-Wilmington PA-NJ-DE-MD

Effective Buying Income and Household Income

Effective buying income ("EBI") is defined as all personal income less personal taxes, non-tax payments (fines, fees and penalties), and contributions to social security. EBI is also commonly referred to as disposable or after-tax income.

Table 25
City And USA Effective Buying Income
2004

			% of Household EBI		
	Total EBI ($000)	Median Household EBI	$20,000-34,999	$35,000-49,999	$50,000 and Over
Philadelphia (City)	$ 20,920,750	$28,150	24.8	16.6	22.9
Bucks Co.	15,020,125	52,073	17.0	18.4	52.4
Chester Co.	12,869,483	56,649	15.4	16.3	57.2
Delaware Co.	12,030,260	44,189	20.9	18.4	42.8
Montgomery Co.	21,115,723	52,566	17.2	17.7	52.9
Burlington Co., NJ	10,050,470	49,699	17.7	20.6	49.6
Camden Co., NJ	9,697,133	41,067	20.4	20.0	39.1
Gloucester Co., NJ	5,165,255	46,751	18.4	20.8	45.4
Salem Co., NJ	1,131,108	39,366	21.4	20.9	36.6
Pennsylvania	226,703,626	36,361	24.2	19.2	32.7
United States	5,466,880,008	38,201	n/a	n/a	n/a

Source: Sales and Marketing Management, "2004 Survey of Buying Power"

Transportation

The residents of the City and surrounding counties are served by a commuter transportation system operated by SEPTA. This system includes two subway lines, a network of buses and trolleys, and a commuter rail network joining Center City and other areas of the City to the airport and to the surrounding counties. A high speed train line runs from southern New Jersey to Center City and is operated by the Delaware River Port Authority. An important addition to the area's transportation system was the opening of the airport high speed line between Center City and the Philadelphia International Airport in 1985. The line places the airport less than 25 minutes from the Center City business district and connects directly with the commuter rail network and the Convention Center, which opened in June 1993. The opening of the commuter rail tunnel in 1984 provided a unified City transportation system linking the commuter rail system, the SEPTA bus, trolley, and subway lines, the high speed line to New Jersey, and the airport high speed line.

Amtrak, SEPTA, Norfolk Southern, CSX Transportation, Conrail and the Canadian Pacific provide inter-city commuter and freight rail services connecting Philadelphia to the other major cities and markets in the United States. More than 100 truck lines serve the Philadelphia area.

The City now has one of the most accessible downtown areas in the nation with respect to highway transportation by virtue of I-95; the Vine Street Expressway (I-676), running east-to-west through the Central Business District between I-76 and I-95; and the "Blue Route" (I-476) in suburban Delaware and Montgomery Counties which connects the Pennsylvania Turnpike and I-95 and thereby feeds into the Schuylkill Expressway (I-76) and thus into Center City Philadelphia.

The City owns Philadelphia International Airport ("PHL"), located seven miles southwest of Center City and a smaller reliever airport in Northeast Philadelphia. PHL is accessible by major highways within the City and from surrounding communities and SEPTA's high speed train line. PHL provides its passengers with service on twelve domestic carriers and eight regional carriers, while six foreign flag carriers and two U.S. carriers provide international service. In addition, there are six all-cargo carriers. PHL serves as a key connecting hub for USAirways. PHL opened a new commuter terminal in 2001 and a new international terminal in May 2003. In 2004, PHL ranked 17th in the nation in terms of total passengers, according to data reported by Airports Council International.

The Port of Philadelphia is one of the busiest ports in the United States, holding a leadership position in the handling of many labor-intensive cargoes. It is the leading handler among all U.S. ports of Chilean fruit entering the country and a leader in the handling of high-quality paper and other forest products. Containerized cargo is handled at the Port's two modern container-handling facilities, Packer Avenue Marine Terminal and Tioga Marine Terminal. The Port's publicly owned facilities are now benefiting from a $56 million Commonwealth capital program for facility modernization and expansion. The Port also services a growing number of cruise-ship calls. Foreign trade zones are located in the port district.

Water and Wastewater Systems

The water and wastewater systems of Philadelphia are owned by the City and operated by the City's Water Department. The water system provides water to the City (130 square mile service area), to Aqua Pennsylvania formerly Philadelphia Suburban Corporation, and to the Bucks County Water and Sewer Authority. The City obtains approximately 55 percent of its water from the Delaware River and the balance from the Schuylkill River. The water system serves approximately 471,000 properties through 3,300 miles of mains and provides fire protection through more than 27,800 fire hydrants.

The wastewater system services a total of 360 square miles of which 130 square miles are within the City and 230 square miles are in suburban areas. The total number of accounts is approximately 472,000. The wastewater system contains three water pollution control plants, a biosolids processing facility, 16 pumping stations, and approximately 2,960 miles of sewers. By order of the Delaware River Basin Commission, the City is required to achieve effluent limitations that are considered more stringent than those required to achieve secondary treatment levels as defined in the Federal Water Pollution Control Act, as amended, Municipal Solid Waste Disposal.

The City is responsible for collecting solid waste from sources other than industrial or commercial institutions. Approximately 3,000 tons of solid waste per day is collected by the City. Municipal solid waste is disposed of through a combination of private and City transfer stations with the City limits, and at various landfills operated outside of the City limits. The City significantly reduced its waste disposal costs over the past eight years after entering into new contracts effective in July 1994 and again in July 1998 with private contractors for landfill space. The current disposal contracts were extended through June 2005, which was the last of three City option years. The City anticipates entering into new contracts for the period beginning July 1, 2005.

Housing

While the City's housing market has remained relatively stable, recently home values have gone up, as shown on the table below:

Table 26
Characteristics of Housing Units

	1990	2000
Total Housing Units		
City of Philadelphia	674,899	661,959
Philadelphia PMSA	1,491,310	1,565,641
Pennsylvania	4,938,140	5,249,750
Percent Owner Occupied		
City of Philadelphia	62.0%	59.3%
Philadelphia PMSA	68.5%	68.4%
Median Value of Owner Occupied Housing		
City of Philadelphia	$48,400	59,700
Philadelphia PMSA	96,700	121,300
Pennsylvania	67,900	97,000
Number of Persons per Housing Unit		
City of Philadelphia	2.63	2.65

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

Economic Development

The last decade found the City riding one of the biggest development waves since the development of the Center City office towers in the mid-1980's. The City's economic development policies are being strategically driven under the auspices of an initiative called the Economic Stimulus Program, which began in 1994 as a $2.2 billion project, and was extended in 1997 for three years and continued in 2000 by the administration of Mayor John Street.

The gains of the Program are evident in a series of economic development accomplishments that include: a hotel construction boom that has given the City more than 4,000 new hotel rooms, all within walking distance of the $500 million Pennsylvania Convention Center; the Avenue of the Arts complex capped off by the $255 million Regional Performing Arts Center; the creation of economic development zones to enhance existing economic development efforts already underway; and the ongoing conversion of closed military installations to commercial use including the transformation of the former Philadelphia Naval Base into a world class commercial and industrial park with the most modern shipbuilding operation in North America.

Philadelphia International Airport

Philadelphia International Airport is ranked 17th among the nation's airports in terms of passenger traffic, serving 24.7 million passengers in calendar year 2003. In June 1998, a $140 million renovation of terminals B and C was completed. A year later, construction began on a $443 million development project to construct new international and regional terminals, funded by a 1998 Airport Revenue Bond issue. An additional $188 million in bond financing was provided for the project in July 2001. Construction of the regional terminal was completed in June 2001 and the new international terminal was completed in May 2003. The Parking Authority completed construction of two new Airport parking garages in the spring of 2003, which provided a total of 5,000 additional parking spaces. These Airport improvements are expected to have an economic impact of more than $2 billion over the first twenty (20) years of operation.

Hospitality and Tourism

One of the most encouraging trends for the City's economy has been the continuing growth in the hospitality and tourism industry. As one of the cornerstones of the City's economic development efforts in the 1990s, the hospitality and tourism sector continues to represent a significant growth opportunity for the City.

Pennsylvania Convention Center

At the center of the hospitality and tourism industry is the Pennsylvania Convention Center. The existence of the Center, one of the largest in the east and the attendant development of hotels within walking distance of it, have positioned the City to attract some of the largest conventions and shows in the country. This includes the annual Flower Show with an estimated $25 million economic impact as well as the American Library Association (an estimated $7 million economic impact) and SAP (an estimated $12 million economic impact). In 2000, the Republican National Convention was held in Philadelphia at the First Union Center, bringing significant revenues to the local economy. In 2003, a major labor agreement was entered into which addressed certain chronic labor problems which may have impacted the Convention Center's ability to remain competitive.

The Convention Center Authority has crafted a $460 million proposal that would enlarge the center from 440,000 square feet to 685,000 square feet of exhibit space, making it the 8th largest convention facility in the United States. No action has yet been taken with respect to this proposal.

Barnes Foundation

The Barnes Foundation recently won approval from the Montgomery County Orphans Court to move its prized art collection to Center City Philadelphia from the suburban community of Lower Merion, Pennsylvania. Its collection, which includes dozens of masterpieces by Matisse, Cezanne and Renoir, among others, was arranged by Albert Barnes himself in unique ensembles that are to be preserved when the gallery moves downtown. The Barnes Foundation's proposed new facility will be on the Benjamin Franklin Parkway, in a more central location, within several blocks of the Philadelphia Museum of Art, the Renoir Museum, the Moore College of Art and numerous other cultural institutions.

New Sports Stadium Complex

The Eagles' football stadium, Lincoln Financial Field, opened to great fanfare in August 2003, and Citizens Bank Park, the new baseball stadium for the Phillies, hosted its inaugural season home opener in April 2004. This opening capped the completion of a $1 billion investment by the City, the teams and the state to create a four-facility stadium complex that is unmatched anywhere in the United States. Both the Phillies and the Eagles signed 30-year leases.

New Center City Skyscrapers

Liberty Property Trust has announced the commencement of construction of Comcast Center, a 57 story $465 million project that will include two office buildings containing 1.25 million square feet as well as a glass enclosed winter garden and public plaza. The structures will include the tallest building in Philadelphia and will be the first major Center City office tower in more than ten years. The building is expected to be completed in 2007.

In addition, the Cira Center is being built over the railroad yards adjacent to Amtrak's 30th Street Station by Brandywine Realty Trust. The building will contain more than 725,000 square feet of office space and is almost 75% leased.

Ikea

The developer, Goldenberg Group had a groundbreaking ceremony in May 2003 for the new 21 acre Ikea Site, which opened August 2004. It is Ikea's first urban store in the United States and is located at Columbus Boulevard near Snyder Avenue. The building size is 311,000 square feet with an in store restaurant that seats 300. The expected employment is 380 people.

Special Economic Development Zones

Between 1995 and 2000, three special "zones" were created in Philadelphia to promote revitalization and economic development. They are the Federal Empowerment Zone, the target areas of Frankford/Port Richmond known as the Urban Industry Initiative, and the Keystone Opportunity Zone. These zones represent initiatives over and above day-to-day economic development activity. The Keystone Opportunity Zones, Empowerment Zones and Renewal Community Designation provide place-bas e exemptions within specific areas targeted for economic development.

Keystone Opportunity Zones ("KOZ")/ Keystone Opportunity Expansion Zones ("KOEZ")/ Keystone Opportunity Improvement Zones. In January 1999, the Commonwealth of Pennsylvania designated 12 Keystone Opportunity Zones (KOZs) in neighborhoods throughout Philadelphia. Zones that encompass underutilized and often vacant land were formed to encourage existing businesses to expand and new businesses to relocate in the targeted locations within struggling neighborhoods. Businesses that locate within a KOZ are exempt from such taxes as the Business Privilege Tax, use and occupancy tax, real estate tax, state business taxes and state sales tax on items consumed at the site, through December of 2010. In 2001, the Commonwealth approved designation of eight new zones as part of a second round of KOZs, newly entitled Keystone Opportunity Expansion Zones (KOEZs). Tax exemptions for businesses that locate in KOEZs are effective through September 30, 2013.

On December 31, 2002, in an effort to refine the existing programs, the Governor signed an Executive Order that designated several key sites in Philadelphia as Keystone Opportunity Improvement Zones (KOIZs). This Executive Order was signed pursuant to the KOZ Bill , signed December 9, 2002, in which new subzones could be added or existing subzones could be enhanced or enlarged to incorporate new property into existing KOZ and KOEZs. Since January 1999, the City has participated in deals with 109 new and existing companies, leveraged over $226 million in private investment, and fostered the creation of 2,472 jobs and the retention of

1,915 jobs. Over 2 million square feet has been constructed and over 1.2 million square feet has been rehabilitated.

Renewal Community Designation. This federal program offers employment and operating tax incentives to businesses locating within economically distressed areas through 2009, under the Community Renewal Tax Relief Act of 2000. In 2003, the City allocated $12 million in Commercial Revitalization Deductions, a tax benefit accelerating depreciation for businesses located in the Renewal Community. All six qualified applicants received allocations this year, which leveraged approximately $109 million in private investment and helped to create and retain 1,950 full-and part-time jobs. Additional Renewal Community benefits will include employment credits, increased tax deductions for environmental clean-up and capital investments, and no tax on capital gains for assets for over five years.

Philadelphia Industrial Development Corporation

The City's efforts to retain and attract industry are directed by the Philadelphia Industrial Development Corporation ("PIDC"). Established in 1958, PIDC is a non-profit venture of the City of Philadelphia and the Greater Philadelphia Chamber of Commerce. The many programs provided by PIDC include (i) direct mortgage funding in a subordinate position at reduced interest rates for fixed asset improvement to companies who intend to build or expand in Philadelphia; (ii) tax-exempt bond funding to eligible borrowers such as non-profit institutions through PAID; (iii) offering of fully improved parcels of land for sale in more than a dozen designated industrial parks and districts across the City; and (iv) offering of development assistance and project management to a range of Philadelphia's development and non-profit corporations.

Urban Industry Initiative

Urban Industry Initiative ("UII"), a grant-funded program, was established in Fiscal Year 1997 to retain neighborhood-based manufacturing jobs in Frankford, Port Richmond, Bridesburg, Juniata Park, and Horrowgate. UII has helped strengthen individual companies and their business relationships by organizing purchasing forums, connecting small businesses to large corporations, and strengthening the relationship between resident and neighborhood-based companies. In its seventh year, UII has expanded its target area within the lower Northeast and the Hunting Park industrial area. Over the life of the initiative, UII has made 36 loans worth over $1.8 million and assisted with 43 deals that have helped to create 230 new jobs, totaling over $11.5 million in the public and private neighborhood investments. In an effort to promote the employment opportunities in manufacturing, UII works with manufacturers and the school district to provide plant tours and internships. This year UII and the Commerce Department are launching a "Philadelphia Made" campaign to build awareness of the quality and value offered by Philadelphia companies and entrepreneurs. The UII also works with businesses to improve their physical environment. The PRIDE (Port Richmond Industrial Development Enterprise) district is the first industrial special services district in the state and will complete over $1 million of construction improvements to upgrade its neighborhood in 2004.

The Office of Defense Conversion Activities

PIDC serves as the City's point of contact for issues related to the acquisition and redevelopment of former military facilities. The City, as the only city in the country adversely affected by all four rounds of base closures, finds itself at the forefront of cities in converting former military installations to commercial and related uses. The largest of the City's closed facilities is the Philadelphia Navy Yard. PAID acquired these assets from the Navy in March 2000. The Philadelphia Navy Yard totals in excess of 1,000 acres and includes four discrete development zones capable of supporting all forms of industrial and commercial development. These zones include the Shipyard, the Girard Point Industrial Park, the Commerce Center and the Intermodal Yard.

With the acquisition of the Philadelphia Navy Yard in 2000, after nearly a decade of closure actions, lawsuits and negotiations, PAID has established a strong industrial presence at the site. There are more than 4 million square feet of occupied facilities on the site that are home to more than 6,000 employees. More than fifty private companies and four US Navy civilian operations are the source of this employment.

The largest and most significant industrial project at the Philadelphia Navy Yard has been the development of a state-of-the-art commercial shipbuilding facility. In partnership with local, state and federal government, Kvaerner ASA has constructed the world's most modern and technologically advanced shipyard. With construction of the $488 million facilities completed, Kvaerner Philadelphia Inc. now employs in excess of 900 workers on the site. The first two container ships have been sold to Matson Navigation, and construction of a third ship has started. The first vessel, the MV Manukai, was delivered to Matson in July 2003.

In December 2002, PAID entered into a development agreement with Liberty Property Trust to market, develop and lease a 60-acre portion of the Philadelphia Navy Yard as a first-class office campus. This campus will include 1.4 million square feet of Class A suburban style corporate office space.

In addition, in February 2003, PIDC and Liberty announced that development of a 75,000 square foot biotechnology building for AppTec Laboratory Services, a Minnesota based biotechnology service firm. The new facility opened in the spring of 2004 and will be home to more than 200 employees, 70% of whom have Ph.D. degrees.

PIDC has also made significant gains in the acquisition and redevelopment of other closed military sites. PAID acquired the 25 acre Capehart Housing Property from the Navy in March 2000 and subsequently sold the site to a private housing developer for the construction of 230 new, single family homes. These homes are now under construction and the first phase of homes have sold for an average price of $350,000.

In April 2000, PAID acquired the 50-acre former Philadelphia Naval Hospital. PAID entered into a lease with the Philadelphia Eagles football franchise for the eastern half of that site, where the Eagles have developed a new practice facility, team offices and an out patient physical rehabilitation center. On the balance of the site, PIDC constructed an interim parking lot to support the adjacent construction of two new sports stadiums. This portion of the site will ultimately be made available for private development.

The final major military closure site in the City was the former Defense Supply Center Philadelphia (DSCP), located at 20th Street and Oregon Avenue. PAID completed the acquisition of this 85-acre site from the Army in October 2001. Given the existence of a major underground plume of oil that is being remediated, the acquisition was structured to allow PAID to take the property's air rights initially, with the ground rights to follow upon completion of the remediation project. In addition, PAID has entered into the following agreements with private entities: (1) sold approximately 1 million square feet of buildings to Brite Star Manufacturing, where more than 300 people are employed in the manufacturing, warehousing, and distribution of holiday decorations; (2) sold an additional 750,000 square feet of buildings to a private real estate developer to be renovated and marketed for commercial and warehousing space; (3) sold a 3.5-acre parking lot for a new 55,000 square foot Acme supermarket that opened in September 2003; and (4) sold a 44-acre parcel to Forest City Ratner Company, a national developer of retail centers that will result in the development of a 550,000 square foot, $100 million retail center that will employ in excess of 1,000 people. The retail development began construction in October 2003 and is substantially complete.

Hospitals and Medical Centers

Hospitals and Medical Centers. The following table presents the most recent published data regarding hospitals and medical centers in Philadelphia. Due to mergers and consolidations that have occurred or may occur in the future, this table is accurate only as of its publication date.

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Table 27
City of Philadelphia
Hospitals and Medical Centers (as of 2004)

Institution	Beds
Albert Einstein Medical Center	561
Belmont Center for Treatment	145
Children's Hospital of Philadelphia	344
Children's Seashore House	30
Eastern PA Psychiatric Institute	109
Episcopal Hospital	21
Fairmount Behavioral Health System	146
Fox Chase Cancer Center	100
Frankford Hospital	405
Friends Hospital	192
Graduate Hospital, main campus	241
Hahnemann Hospital	437
Jeanes Hospital	161
John F. Kennedy Memorial	141
Kensington Hospital	45
Magee Rehabilitation Hospital	96
Medical College of Pennsylvania Hospital (1)	162
Nazareth Hospital	200
Temple East, Northeastern	170
North Philadelphia Health System	315
Northeast Hospital	166
Pennsylvania Hospital	380
Presbyterian Medical Center of the University of Pennsylvania Health System (2)	238
Roxborough Memorial Hospital	115
Saint Agnes Medical Center	151
Shriners Hospital for Crippled Children	59
St. Christopher's Hospital	120
St. Joseph's Hospital	146
Temple University Hospital	534
Thomas Jefferson University Hospital	812
University of Pennsylvania Medical Center	590
Veterans Affairs Medical Center	136
Wills Eye Hospital	40

Source: Delaware Valley Healthcare Council, Hospitals & Healthsystems Association of Philadelphia
(1) Formerly Known as Medical College Hospitals, main campus
(2) Formerly Known as Presbyterian Medical Center of Philadelphia

Children's Hospital Expansion. Children's Hospital of Philadelphia announced a five-year $650 million expansion program that began construction in February 2001 and will add more than one million square feet of treatment and research space at the Hospital's campus in West Philadelphia.

University of Pennsylvania/Civic Center. The University of Pennsylvania and Children's Hospital of Philadelphia are constructing a cancer research and treatment center on the former Civic Center site in West Philadelphia.

Additional Projects Under Construction

The following table lists additional projects currently under construction in the City.

Table 28
Projects Under Construction

Project	Estimated Cost
University of Pennsylvania/Civic Center	$450,000,000
City Hall Tower Restoration	200,000,000
Networks (High Tech Center)	85,000,000

Source: City of Philadelphia, Five-Year Financial Plan Fiscal Year 2003-Fiscal Year 2008.

APPENDIX VI

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

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

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Attest:

Assistant Secretary

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APPENDIX VII

Upon delivery of the 2005A Bonds, Saul Ewing LLP and the Law Offices of Denise Joy Smyler, both of Philadelphia, Pennsylvania, Co-Bond Counsel, will issue an opinion in substantially the following form:

August 4, 2005

Re: City of Philadelphia, Pennsylvania
<u>$124,985,000 Airport Revenue Bonds, Series 2005A</u>

To the Purchasers of the Within-Described 2005A Bonds:

We have acted as Co-Bond Counsel in connection with the authorization, issuance and sale by the City of Philadelphia, Pennsylvania (the "City") of its Airport Revenue Bonds, Series 2005A (the "2005A Bonds") in the aggregate principal amount of $124,985,000. The 2005A Bonds are being issued under and pursuant to the First Class City Revenue Bond Act of the Commonwealth of Pennsylvania, Act No. 234 of October 18, 1972, P.L. 955, as amended (the "Act") and the Amended and Restated General Airport Revenue Bond Ordinance approved June 16, 1995 (the "General Ordinance") as amended and supplemented including the Fifth Supplemental Ordinance approved June 29, 2005 (the "Fifth Supplemental Ordinance," together with the General Ordinance, as amended and supplemented, the "Ordinance"). The proceeds of the 2005A Bonds are being used for the purpose of: (i) paying the costs of certain capital improvements to Philadelphia International Airport, (ii) paying the cost of a surety bond to meet the Parity Sinking Fund Reserve Requirement, (iii) funding a portion of capitalized interest on the 2005A Bonds, and (v) paying certain costs of issuance and insurance of the 2005A Bonds.

The 2005A Bonds are issued in fully registered form and are dated, are in such denominations, bear interest, mature and are subject to redemption prior to maturity as set forth in the form of 2005A Bonds. The 2005A Bonds are payable as to principal or redemption price at the principal Philadelphia corporate trust office of Wachovia Bank, National Association (the "Fiscal Agent").

The 2005A Bonds, together with outstanding issues of Airport Revenue Bonds, Series 1997A, Series 1997B, Series 1998A, Series 1998B, Series 2001A, Series 2001B, Series 2005B and Series 2005C and all other airport revenue bonds hereafter issued for the purposes and upon the terms and conditions prescribed in the Ordinance (collectively, the "Bonds") are equally and ratably secured to the extent provided in the Ordinance, as the case may be, and the Act.

As Co-Bond Counsel for the City, we have examined the Act and such Constitutional provisions, statutes and regulations of the Commonwealth of Pennsylvania and such other records and documents of the City as we deemed necessary for the purposes of this opinion. We have also examined the proceedings authorizing the issuance and sale of the 2005A Bonds, including the General Ordinance and the Fifth Supplemental Ordinance; the transcript of proceedings filed by the City with the Court of Common Pleas of Philadelphia, together with evidence of the filing thereof, and certain statements, certifications, opinions, agreements, reports, affidavits, receipts and other documents which we have considered relevant, including, without limitation, an opinion of the City Solicitor of the City and a certification of officials of the City having responsibility for issuing the 2005A Bonds given pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations promulgated thereunder. We have also examined a fully executed and authenticated 2005A Bond and have assumed that all other 2005A Bonds have been similarly executed and authenticated.

In rendering the opinion set forth below, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments we have examined, including, without limitation, the authenticity of all signatures appearing thereon.

On the basis of the foregoing, we are of the opinion that:

1. Under the Constitution and laws of the Commonwealth of Pennsylvania, including the Act, the General Ordinance and the Fifth Supplemental Ordinance, the City is authorized to issue the 2005A Bonds, and the terms thereof comply with the requirements of the Act, the General Ordinance and the Fifth Supplemental Ordinance.

2. The General Ordinance and the Fifth Supplemental Ordinance have been duly enacted and constitute legal, valid and binding obligations of the City with respect to the 2005A Bonds and are enforceable against the City in accordance with their respective terms except as the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws, or by legal or equitable principles affecting creditors' rights generally.

3. The 2005A Bonds have been duly authorized and issued and are valid and binding obligations of the City, are enforceable against the City in accordance with their terms and are limited obligations of the City, payable solely out of the pledged project revenues and certain other funds and monies that have been pledged as provided in the General Ordinance for the timely payment of the principal thereof, at their respective maturities or redemption dates, and the interest thereon when due.

4. The 2005A Bonds do not pledge the credit or taxing power, nor create any debt or charge against the tax or general revenues of the City, nor do they create any lien against any property of the City other than the revenues, monies and funds pledged in the General Ordinance.

5. The issuance of the 2005A Bonds does not cause the debt of the City to exceed Constitutional debt limitations.

6. Interest (including accrued original issue discount) on the 2005A Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, except as to interest on any 2005A Bond during any period such 2005A Bond is held by a person who is a "substantial user" of the facilities financed with the 2005A Bond proceeds, or a "related person," as those terms are used in Section 147(a) of the Code. The opinion set forth in the preceding sentence is subject to the condition that the City comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the 2005A Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the 2005A Bonds to be includable in gross income retroactive to the date of issuance of the 2005A Bonds. The City has covenanted to comply with all such requirements. Interest on the 2005A Bonds is treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes.

We express no opinion regarding other federal tax consequences relating to the 2005A Bonds or the receipt of interest thereon.

7. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, the 2005A Bonds, and the interest thereon are free from taxation for state and local purposes within the Commonwealth of Pennsylvania, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2005A Bonds or the interest thereon.

We express no opinion with respect to, and assume no responsibility for, the accuracy or completeness of the Preliminary Official Statement or the Official Statement prepared in respect of the offering of the 2005A Bonds, and make no representation that we have independently verified the contents thereof.

Finally, we call to your attention that the rights of the holders of the 2005A Bonds and the enforceability thereof and of the General Ordinance and the Fifth Supplemental Ordinance may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws or equitable principles affecting creditors' rights generally.

Very truly yours,

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APPENDIX VIII

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

THE CITY OF PHILADELPHIA, PENNSYLVANIA
AIRPORT REVENUE BONDS, SERIES 2005A

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered as of this 4th day of August, 2005 by and between The City of Philadelphia, a corporation and body politic existing under the laws of the Commonwealth of Pennsylvania (the "City") and Digital Assurance Certification, L.L.C., as dissemination agent (the "Dissemination Agent"), in connection with the issuance by the City of $124,985,000, Aggregate Principal Amount, Airport Revenue Bonds, Series 2005A (the "Bonds").

The Bonds are being issued and secured under the provisions of The First Class City Revenue Bond Act, P.L. 955, Act No. 234 of the General Assembly of the Commonwealth of Pennsylvania approved October 18, 1972 (the "Act"); the Amended and Restated General Airport Revenue Bond Ordinance, approved June 16, 1995 (Bill No. 950282), as amended and supplemented (the "General Ordinance") and the Fifth Supplemental Ordinance to the General Ordinance approved June 29, 2005 (Bill No. 050369) (the "Fifth Supplemental Ordinance"). The General Ordinance, as amended and supplemented, including as supplemented by the Fifth Supplemental Ordinance, is herein referred to as the "Ordinance." Certain matters concerning the Bonds have been determined pursuant to the Ordinance by the Bond Committee of the City, consisting of the Mayor, the City Controller and the City Solicitor ("Bond Committee"), in an authorization for the Bonds dated July 27, 2005 ("Bond Authorization").

In consideration of the mutual covenants, promises and agreements contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

Section 1. Definitions.

In this Disclosure Agreement and any agreement supplemental hereto (except as otherwise expressly provided or unless the context clearly requires otherwise) terms defined in the recitals hereto shall have such meanings throughout this Disclosure Agreement, and, in addition, the following terms shall have the meanings specified below:

"Airport System" means the Philadelphia International Airport and the Northeast Philadelphia Airport, both of which are currently owned by the City and operated by the Division of Aviation of the City's Department of Commerce.

"Annual Financial Information" means the financial information and operating data with respect to the Airport System, delivered at least annually pursuant to Section 3 hereof, substantially similar to the type set forth in certain sections of the Official Statement as listed in Section 3(a)(2) hereof and in Appendix I to the Official Statement. The financial statements comprising the Annual Financial Information are prepared according to accounting methods and procedures which conform to generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board.

"Business Day" or "Business Days" means any day other than a Saturday or Sunday or, in the City, a legal holiday or a day on which banking institutions are authorized by law to close or a day on which the Dissemination Agent is closed.

"Disclosure Representative" means the Director of Finance of the City or such other official or employee of the City as the Director of Finance shall designate in writing to the Dissemination Agent.

"Fiscal Agent" means Wachovia Bank, National Association, as fiscal agent under the Fiscal Agent Agreement.

"Material Event" means any of the events listed in Section 4(a) of this Disclosure Agreement, if material within the meaning of the Rule.

"MSRB" means the Municipal Securities Rulemaking Board.

"National Repository" means any nationally recognized municipal securities information repository now or hereafter designated as such by the Securities and Exchange Commission for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission can be found at *www.sec.gov/info/municipal/nrmsir.htm*.

"Obligated Person" means the City and any airline or other entity using the Airport System pursuant to an agreement (for more than one year from the date in question) that includes debt service on the Bonds as part of the calculation of rates and charges, under which agreement such airline or other entity has paid amounts equal to at least 20% of the Project Revenues (as defined in the Ordinance) of the Airport System for each of the two prior Fiscal Years of the Airport System.

"Official Statement" means the City's Official Statement dated July 27, 2005 relating to the Bonds.

"Participating Underwriters" means any of the original underwriters of the Bonds required to comply with the Rule in connection with the purchase and reoffering of the Bonds.

"Registered Owner" or "Registered Owners" means the person or persons in whose name a Bond is registered on the books of the City maintained by the Fiscal Agent in accordance with the General Ordinance. For so long as the Bonds shall be registered in the name of the Securities Depository or its nominee, the term "Registered Owners" shall also mean and include, for the purposes of this Disclosure Agreement, beneficial owners and the owners of book-entry credits evidencing a beneficial ownership interest in the Bonds; provided, however, that the Dissemination Agent shall have no obligation to provide notice hereunder to owners of book-entry credits in the Bonds, except those who have filed their names and addresses with the Dissemination Agent for the purpose of receiving notices or giving direction under this Disclosure Agreement.

"Rule" means Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as such rule may be amended from time to time.

"Securities Depository" means The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or any successor thereto appointed pursuant to the Ordinance.

"State Information Depository" means any public or private repository designated by the Commonwealth of Pennsylvania as a state information depository within the meaning of the Rule. As of the date of this Disclosure Agreement, there is no State Information Depository.

All words and terms used in this Disclosure Agreement and defined above or elsewhere herein shall have the same meanings as set forth in the Bond Authorization, the Fiscal Agent Agreement, if defined therein, or in the Ordinance, if defined therein.

Section 2. Authorization and Purpose of Agreement. This Disclosure Agreement is authorized to be executed and delivered by the City pursuant to the Ordinance and the Bond Authorization in order to enable the Participating Underwriters to comply with the requirements of the Rule.

Section 3. Provision and Filing of Annual Financial Information.

(a) Within 240 days of the close of each fiscal year of the City, commencing with the fiscal year ending June 30, 2005, the Disclosure Representative shall file with the Dissemination Agent Annual Financial Information for such fiscal year. The Dissemination Agent shall file promptly upon receipt thereof the Annual Financial Information with each National Repository and with the State Information Depository, if any, the Annual Financial Information. Such Annual Financial Information shall include:

(1) commencing with the fiscal year ending June 30, 2005, a copy of the Comprehensive Annual Financial Report ("CAFR"), which contains the audited combined financial statements of the City, prepared by the office of the Director of Finance of the City in conformance with guidelines adopted by the Governmental Accounting Standards board and the American Institute of Certified Public Accountants' Audit Guide, Audits of State and Local Government Units; and

(2) commencing with the fiscal year ending June 30, 2005, to the extent such information is not contained in the CAFR, an update of the information in the Official Statement contained in "THE AIRPORT SYSTEM – Table 1 History of Applications to Use PFC Revenues," "-Table 2 PFC Revenues Through 3/31/05," "-Table 3 Historical Enplaned Passengers," "-Table 4 Airline Shares of Enplaned Passengers," and "FINANCIAL FACTORS – Table 5 Summary of Historical Project Revenues and Expenses of the Airport System City of Philadelphia" and Appendix I – "Financial Statements of the Division of Aviation."

(b) The Annual Financial Information will contain unaudited financial statements if audited financial statements are not available.

(c) The City agrees to use its reasonable best efforts to cause any Obligated Person (to the extent such entity is not otherwise required under federal law to do so) to make annual financial information available as required by the Rule. The City takes no responsibility for the accuracy or completeness of such filings by any Obligated Person. The City's obligations under this paragraph are limited to and satisfied by the City's transmitting a notice to such Obligated Person that it has become an Obligated Person under this Disclosure Agreement, by enclosing a copy of this Agreement and the Rule, and by requesting that such person transmit back to the City an acknowledgement and acceptance of such person's obligations under the Rule with regard to the Bonds.

(d) The City may provide the CAFR and the Annual Financial Information with respect to the Airport System by specific cross-reference to other documents which have been submitted to the Repositories or filed with the Securities and Exchange Commission.

(e) The City reserves the right to modify from time to time the specific types of information provided and the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the City; provided that the City agrees that any such modification will be done in a manner consistent with the Rule. The City may, at its option, satisfy its obligations by providing an official statement for one or more series of general obligation bonds or lease revenue bonds or by specific reference, in accordance with the Rule, to one or more official statements provided previously and available from the MSRB.

(f) As soon as audited financial statements for the City are available, commencing with the audited financial statements for the fiscal year ending June 30, 2005, the Disclosure Representative shall file the audited financial statements with the Dissemination Agent. The Dissemination Agent shall file promptly upon receipt thereof the audited financial statements with each National Repository and the State Information Depository, if any.

Section 4. **<u>Material Events.</u>**

(a) The City agrees that it shall provide through the Dissemination Agent, in a timely manner, each National Repository or to the MSRB and to the State Information Depository, if any, notice of the occurrence of any of the following events with respect to the Bonds if material within the meaning of the Rule (each a "Material Event"):

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements, if any, reflecting financial difficulties;

(5) substitution of credit or liquidity providers, if any, or their failure to perform;

(6) adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(7) modifications to the rights of the holders of the Bonds;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the Bonds; and

(11) rating changes.

The foregoing eleven events are quoted from the Rule. No mandatory redemption shall be deemed a material event.

(b) Whenever the City concludes that a Material Event has occurred, the Disclosure Representative shall promptly notify the Dissemination Agent in writing of such occurrence, specifying the Material Event. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with each National Repository or the MSRB and the State Information Depository, if any. Upon receipt, the Dissemination Agent shall promptly file such notice with each National Repository or the MSRB and the State Information Depository, if any. In addition, the Dissemination Agent shall file with each National Repository or the MSRB and the State Information Depository, if any, notice of any failure by the City or the Dissemination Agent to timely file the Annual Financial Information as provided in Section 3 hereof, including any failure by the City or the Disclosure Representative to provide the Annual Financial Information on or before the date specified in Section 3(a) hereof, no later than noon of the following Business Day. Any filing with each National Repository, the MSRB and the State Information Depository, if any, shall be accompanied by the form annexed hereto as Exhibit A and made a part hereof.

(c) Notwithstanding the foregoing, the Dissemination Agent shall, promptly after obtaining actual knowledge of an event listed in clauses (a)(1), (3), (4), (5), (8) or (9) of this Section 4, notify the Disclosure Representative of the occurrence of such event and shall, within three Business Days after giving notice to the Disclosure Representative, file notice of such occurrence with the MSRB and the State Information Depository, if any, unless the Disclosure Representative gives the Dissemination Agent written instructions not to file such notice because the event has not occurred or the event is not material within the meaning of the Rule.

(d) The Dissemination Agent shall prepare an affidavit of mailing for each notice delivered pursuant to clauses (b) and (c) of this Section 4 and shall deliver such affidavit to the City no later than three Business Days following the date of delivery of such notice.

(e) The Dissemination Agent shall request the return from each National Repository, the MSRB and the State Information Depository, if any, of acknowledgement or receipt of any notice delivered to each National Repository, the MSRB and the State Information Depository, if any. Upon the return of all completed acknowledgements of a notice, the Dissemination Agent shall prepare an affidavit of receipt specifying the date and hour of receipt of such notice by each recipient to the extent such information has been provided to the Dissemination Agent. Such affidavit of receipt shall be delivered to the City no later than three Business Days following the date of receipt by the Dissemination Agent of the last completed acknowledgement.

Section 5. Amendment; Waiver.

(a) Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend this Disclosure Agreement or waive any of the provisions hereof by a writing executed by each of the parties hereto, provided that no such amendment or waiver shall be executed by the parties hereto or be effective unless:

(i) the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in identity, nature or status of the Airport System, the City or the governmental operations conducted by the City;

(ii) this Disclosure Agreement, as amended by the amendment or waiver, would have been the written undertaking contemplated by the Rule at the time of original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver does not materially impair the interests of the Registered Owners of the Bonds.

(b) Evidence of compliance with the conditions set forth in clause (a) of this Section 5 shall be satisfied by the delivery to the Dissemination Agent of an opinion of counsel having recognized experience and skill in the issuance of municipal securities and federal securities law, acceptable to both the City and the Dissemination Agent, to the effect that the amendment or waiver satisfies the conditions set forth in clauses (a)(i), (a)(ii), and (a)(iii) of this Section 5.

(c) Notice of any amendment or waiver containing an explanation of the reasons therefor shall be given by the Disclosure Representative to the Dissemination Agent upon execution of the amendment or waiver and the Dissemination Agent shall promptly file such notice with each National Repository, the MSRB and the State Information Depository, if any. The Dissemination Agent shall also send notice of the amendment or waiver to each Registered Owner, including owners of book-entry credits who have filed their names and addresses with the Dissemination Agent.

Section 6. Other Information.

(a) Nothing in this Disclosure Agreement shall preclude the City from disseminating any other information with respect to the City or the Bonds, using the means of communication provided in this Disclosure Agreement or otherwise, in addition to the Annual Financial Information and the notices of Material Events specifically provided for herein, nor shall the City be relieved of complying with any applicable law relating to the availability and inspection of public records. Any election by the City to furnish any information not specifically provided for herein in any notice given pursuant to this Disclosure Agreement or by the means of communication provided for herein shall not be deemed to be an additional contractual undertaking and the City shall have no obligation to furnish such information in any subsequent notice or by the same means of communication.

(b) Nothing in this Disclosure Agreement shall relieve the Dissemination Agent of any of its duties and obligations under the Ordinance or the Bond Authorization.

(c) Except as expressly set forth in this Disclosure Agreement, the Dissemination Agent shall have no responsibility for any continuing disclosure to the Registered Owners, the MSRB, any National Repository or any State Information Depository.

Section 7. Default.

(a) In the event that the City or the Dissemination Agent fails to comply with any provision of this Disclosure Agreement, the Dissemination Agent or any Registered Owner of the Bonds shall have the right, by mandamus, suit, action or proceeding at law or in equity, to compel the City or the Dissemination Agent to perform each and every term, provision and covenant contained in this Disclosure Agreement. The Dissemination Agent shall be under no obligation to take any action in respect of any default hereunder unless it has received the direction in writing to do so by the Registered Owners of at least 25% of the outstanding principal amount of the Bonds and if, in the Dissemination Agent's opinion, such action may tend to involve expense or liability, unless it is also furnished with indemnity and security for expenses satisfactory to it.

(b) A default under the Disclosure Agreement shall not be or be deemed to be an Event of Default under the Bonds, the Ordinance , the Bond Authorization or the Act and the sole remedy in the event of a failure by the City or the Dissemination Agent to comply with the provisions hereof shall be the action to compel performance described in Section 7(a) above.

Section 8. Concerning the Dissemination Agent.

(a) The Dissemination Agent accepts and agrees to perform the duties imposed on it by this Disclosure Agreement, but only upon the terms and conditions set forth herein. The Dissemination Agent shall have only such duties in its capacity as are specifically set forth in this Disclosure Agreement. The Dissemination Agent may execute any powers hereunder and perform any duties required of it through attorneys, agents, and other experts, officers, or employees selected by it, and the written advice of such counsel or other experts shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon. The Dissemination Agent shall not be answerable for the default or misconduct of any attorney, agent, expert or employee selected by it with reasonable care. The Dissemination Agent shall not be answerable for the exercise of any discretion or power under this Disclosure Agreement or liable to the City or any other person for actions taken hereunder, except only its own willful misconduct or negligence.

(b) The City shall pay the Dissemination Agent reasonable compensation for its services hereunder, and also all its reasonable expenses and disbursements, including reasonable fees and expenses of its counsel or other experts, as shall be agreed upon by the Dissemination Agent and the City. Nothing in this Section 8(b) shall be deemed to constitute a waiver of governmental immunity by the City. The provisions of this Section 8(b) shall survive termination of this Disclosure Agreement.

(c) The Dissemination Agent may act on any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, or other paper or document which it in good faith believes to be genuine and to have been passed or signed by the proper persons or to have been prepared and furnished pursuant to any of the provisions of this Disclosure Agreement; and the Dissemination Agent shall be under no duty to make any investigation as to any statement contained in any such instrument, but may accept the same as conclusive evidence of the accuracy of such statement in the absence of actual notice to the contrary. The Dissemination Agent shall be under no obligation to institute any suit, or to take any action under this Disclosure Agreement, or to enter any appearance or in any way defend in any suit in which it may be made a defendant, or to take any steps in the execution of the duties hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified by the Registered Owners to its satisfaction against any and all costs and expenses, outlays and counsel fees and expenses and other reasonable disbursements, and against all liability; the Dissemination Agent may, nevertheless, begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Dissemination Agent, without indemnity.

Section 9. <u>Term of Disclosure Agreement.</u>

This Disclosure Agreement shall terminate as to each series of Bonds upon (1) payment or provision for payment in full of such series of Bonds; (2) repeal or rescission of Section (b)(5) of the Rule; or (3) a final determination that Section (b)(5) of the Rule is invalid or unenforceable.

Section 10. <u>Beneficiaries.</u>

This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent and the Registered Owners from time to time of the Bonds and nothing herein contained shall confer any right upon any other person.

Section 11. **Notices and Filings.**

(a) Any written notice to or demand may be served, presented or made to the persons named below and shall be sufficiently given or filed for all purposes of this Disclosure Agreement if deposited in the United States mail, first class postage prepaid, or in a recognized form of overnight mail or by telecopy with confirmation of receipt, addressed:

(i) to each National Repository and the State Information Depository, if any, at its address listed for such National Repository by the Security and Exchange Commission at *www.sec.gov/info/municipal/nrmsir.htm*

(ii) to the Dissemination Agent at:

DAC, an Ernst and Young Company LLP
250 Park Avenue South, Suite 305
Winter Park, FL 32789
Attention: Nicole Sheehan
Fax: (407) 515-6513

(iii) to the City or the Disclosure Representative at:

The City of Philadelphia
Office of the Director of Finance
Municipal Services Building
1401 J.F.K. Boulevard
Philadelphia, PA 19102;
Attention: Director of Finance
Fax: (215) 568-1947

(iv) to the MSRB at:

Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314
Telecopier No.: (703) 797-6700

or such other addresses as may be designated in writing to all parties hereto.

(b) Any filing under this Disclosure Agreement may be made to the National Repositories and State Information Depositories solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at *http://www.disclosureusa.org* unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 12. **No Personal Recourse.**

No personal recourse shall be had for any claim based on this Disclosure Agreement against any member, officer, or employee, past, present or future, of the City (including without limitation, the Disclosure Representative), or of any successor body as such, either directly or through the City or any such successor body, under any constitutional provisions, statute or rule of law or by the enforcement of any assessment or penalty or otherwise.

Section 13. **Controlling Law.**

The laws of the Commonwealth of Pennsylvania shall govern the construction and interpretation of this Disclosure Agreement.

Section 14. Removal and Resignation of the Dissemination Agent.

The City has appointed the Dissemination Agent as exclusive Dissemination Agent under this Disclosure Agreement. The City may, upon 30 days' written notice to the Dissemination Agent and the Fiscal Agent, replace or appoint a successor Dissemination Agent. Upon termination of the Dissemination Agent's services as Dissemination Agent, whether by notice of the City or the Dissemination Agent, the City agrees to appoint a successor Dissemination Agent or, alternately, agrees to assume all responsibilities of Dissemination Agent under this Disclosure Agreement for the benefit of the holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the City shall remain liable until payment in full for any and all sums owed and payable to the Dissemination Agent. The Dissemination Agent may resign at any time by providing thirty days' prior written notice to the City.

Section 15. Successors and Assigns.

All of the covenants, promises and agreements contained in this Disclosure Agreement by or on behalf of the City or by or on behalf of the Dissemination Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

Section 16. Headings for Convenience Only.

The descriptive headings of this Disclosure Agreement are inserted for convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 17. Counterparts.

This Disclosure Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 18. Entire Agreement.

This Disclosure Agreement sets forth the entire understanding and agreement of the City and the Dissemination Agent with respect to the matters herein contemplated and no modification or amendment of or supplement to this Disclosure Agreement shall be valid or effective unless the same is in writing and signed by the parties hereto.

Section 19. Severability.

In case any section or provision of this Disclosure Agreement or any covenant, stipulation, obligation, agreement, or action, or any part thereof, made, assumed, entered into or taken under this Disclosure Agreement, or any application thereof, is for any reason held to be illegal or invalid or is at any time inoperable, such illegality, invalidity or inoperability shall not affect the remainder thereof or any other section or provision or the Disclosure Agreement, or any other covenant, stipulation, obligation, agreement, act or action, or part thereof, made, assumed, entered into or taken under this Disclosure Agreement, which shall be construed and enforced as if such illegal or invalid or inoperable portion were not contained herein.

IN WITNESS WHEREOF, THE CITY OF PHILADELPHIA, PENNSYLVANIA has caused this Disclosure Agreement to be executed by the Acting Director of Finance and DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Dissemination Agent, has caused this Disclosure Agreement to be executed by one of its duly authorized officers, all as of the day and year first above written.

THE CITY OF PHILADELPHIA, PENNSYLVANIA

By:________________________________
Acting Director of Finance

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Dissemination Agent

By:________________________________
Authorized Officer

ACKNOWLEDGEMENT AND AGREEMENT:

US Airways, Inc. ("US Airways") hereby acknowledges its current status as an Obligated Person hereunder and the City's undertaking to provide information in accordance with the Rule as described herein. So long as it is an Obligated Person, US Airways agrees to make available, within 120 days after the end of its fiscal year (December 31), with respect to the information regarding US Airways set forth in the Official Statement under the caption "THE AIRPORT SYSTEM – Information Concerning the Scheduled Airlines" such information regarding itself and its operations as is required by the Rule.

US AIRWAYS, INC.

BY:______________________________________
Name:
Title:

EXHIBIT A

MUNICIPAL SECONDARY MARKET DISCLOSURE

INFORMATION COVER SHEET

This cover sheet and material event notice should be sent to the Municipal Securities Rulemaking Board or to all Nationally Recognized Municipal Securities Information Repositories, and the State Information Depository, if applicable, pursuant to Securities and Exchange Commission Rule 15c2-12 or any analogous state statute.

City's and/or Other Obligated Person's Name: ____
CUSIP Numbers (attach additional sheet if necessary):___________________________________

Nine-Digit CUSIP Number(s) to which this material event notice relates:___________________
____

Information relates to all securities issued by issuer having the following six-digit numbers: ____
____

Number of pages of attached material event notice:______________________________________

Description of Material Events Notice (Check One):

1. ___Principal and interest payment delinquencies
2. ___Non-Payment related defaults
3. ___Unscheduled draws on debt service reserves reflecting financial difficulties
4. ___Unscheduled draws on credit enhancements reflecting financial difficulties
5. ___Substitution of credit or liquidity providers, or their failure to perform
6. ___Adverse tax opinions or events affecting the tax-exempt status of the security
7. ___Modifications to rights of security holders
8. ___Bond calls
9. ___Defeasances
10. ___Release, substitution, or sale of property securing repayment of the security
11. ___Rating changes
12. ___Failure to provide annual financial information as required
13. ___Other material event notice (specify):
14. ___Financial information: Please check all appropriate spaces:

___CAFR (a) __ includes __ does not include Annual Financial information
(b) __ Audited? Yes __ No __
___ Annual Financial Information: Audited? Yes __ No __
_____ Operating Data
Fiscal Period Covered: ____________________________

* Financial Information should not be filed with the MSRB.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:____________________________
Name: ______________________________
Title:________________________________
Employer:____________________________
Address: _____________________________
City, State, Zip Code:_________________
Voice Telephone Number:_______________

Please print the material event notice attached to the cover sheet in 10-point type or larger.

The cover sheet and notice may be faxed to the MSRB at (703) 683-1930. Contact the MSRB at (202) 223-9503 with questions regarding this form or the dissemination of this notice.