NEW ISSUE **BOOK-ENTRY ONLY**

In the opinion of K&L Gates LLP, Bond Counsel, assuming compliance with certain covenants of the Port, interest on the Series 2010A PFC Bonds is excludable from gross income for federal income tax purposes under existing law. Interest on the Series 2010B PFC Bonds is excludable from gross income for federal income tax purposes under existing law, except for interest on any Series 2010B PFC Bond for any period during which such bond is held by a "substantial user" of the facilities financed or refinanced by such bonds, or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Interest on the Series 2010A PFC Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax; however, interest on the Series 2010A PFC Bonds is included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. Interest on the Series 2010B PFC Bonds is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. See "TAX MATTERS" herein.

Port of Seattle

$146,465,000
Passenger Facility Charge Revenue Refunding Bonds

$79,770,000
Passenger Facility Charge Revenue Refunding Bonds, Series 2010A

$66,695,000
Passenger Facility Charge Revenue Refunding Bonds, Series 2010B (AMT)

Dated: Date of delivery **Due: As shown on the inside cover page**

The Port of Seattle (the "Port") is issuing its Passenger Facility Charge Revenue Refunding Bonds, Series 2010A (the "Series 2010A PFC Bonds") and its Passenger Facility Charge Revenue Refunding Bonds, Series 2010B (the "Series 2010B PFC Bonds" and, together with the Series 2010A PFC Bonds, the "Series 2010 PFC Bonds") to (i) refund certain outstanding Port of Seattle Passenger Facility Charge Revenue Bonds, Series 1998 (the "Series 1998 PFC Bonds"); and (ii) pay costs of issuance.

Interest on the Series 2010 PFC Bonds from their date of delivery is payable on June 1 and December 1 of each year, commencing June 1, 2011. The Series 2010A PFC Bonds are subject to optional redemption prior to their scheduled maturities as described herein. The fiscal agency of the State of Washington (the "State"), currently The Bank of New York Mellon, is the registrar, authenticating agent and paying agent for the Series 2010 PFC Bonds. When issued, the Series 2010 PFC Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2010 PFC Bonds. Purchases of beneficial interests in the Series 2010 PFC Bonds will be made in book entry form, in denominations of $5,000 and integral multiples thereof within a series and maturity. Purchasers will not receive certificates representing their interests in the Series 2010 PFC Bonds, except as described herein. So long as DTC or its nominee is the registered owner of the Series 2010 PFC Bonds, payments of principal of and interest on the Series 2010 PFC Bonds will be made directly to DTC or to such nominee. Disbursements of such payments to DTC's Direct Participants are the responsibility of DTC, and disbursements of such payments to the Beneficial Owners are the responsibility of the Direct Participants and the Indirect Participants as more fully described herein.

The Series 2010 PFC Bonds are limited obligations of the Port and are payable solely from certain passenger facility charge revenues, on a parity with the Port's remaining Outstanding Series 1998 PFC Bonds and any Future PFC Bonds as defined and described herein. **No other revenues of the Port are pledged to the payment of the Series 2010 PFC Bonds.** Neither the full faith and credit of the Port nor the taxing power of the Port is pledged to the payment of the Series 2010 PFC Bonds. The Series 2010 PFC Bonds are not obligations of the State or any political subdivision of the State other than the Port.

The Series 2010 PFC Bonds are offered when, as and if issued, subject to receipt of the approving legal opinion of K&L Gates LLP, Seattle, Washington, Bond Counsel and Disclosure Counsel to the Port. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. It is expected that delivery of the Series 2010 PFC Bonds will be made by *Fast Automated Securities Transfer* through DTC in New York, New York, on or about December 1, 2010.

Goldman, Sachs & Co.

Barclays Capital **Morgan Stanley** **Siebert Brandford Shank & Co., LLC**

November 9, 2010.

Port of Seattle
$79,770,000
Passenger Facility Charge Revenue Refunding Bonds, Series 2010A

Due (December 1)	Principal Amount	Interest Rate	Yield	CUSIP No.*
2017	$13,220,000	5.00%	2.79%	735387BL5
2020	15,440,000	5.00	3.56	735387BM3
2021	16,210,000	5.00	3.78†	735387BN1
2022	17,025,000	5.00	3.96†	735387BP6
2023	17,875,000	5.00	4.09†	735387BQ4

Port of Seattle
$**66,695,000**
Passenger Facility Charge Refunding Bonds, Series 2010B (AMT)

Due (December 1)	Principal Amount	Interest Rate	Yield	CUSIP No.*
2011	$10,090,000	1.50%	0.79%	735387BR2
2012	10,245,000	5.00	1.70	735387BS0
2013	10,755,000	5.00	2.07	735387BT8
2014	11,295,000	5.00	2.45	735387BU5
2015	11,860,000	5.00	2.75	735387BV3
2016	12,450,000	5.00	3.13	735387BW1

† Priced to the par call date of December 1, 2020.

PORT OF SEATTLE

PORT COMMISSION

Name	Office	Term Expires
Bill Bryant	Chair and President	December 31, 2011
Gael Tarleton	Vice-Chair and Vice President	December 31, 2011
Rob Holland	Secretary	December 31, 2013
John Creighton	Assistant Secretary	December 31, 2013
Tom Albro	Commissioner	December 31, 2013

CERTAIN EXECUTIVE STAFF

Tay Yoshitani, Chief Executive Officer
Kurt Beckett, Chief of Staff
Dan Thomas, Chief Financial and Administrative Officer
Mark Reis, Managing Director, Aviation Division
Ralph Graves, Managing Director, Capital Development Division
Craig Watson, General Counsel

PORT HEADQUARTERS

2711 Alaskan Way
Seattle, Washington 98121
Telephone (206) 787-3000
www.portseattle.org *

BOND COUNSEL AND DISCLOSURE COUNSEL

K&L Gates LLP
Seattle, Washington

FINANCIAL ADVISOR

Seattle-Northwest Securities Corporation
Seattle, Washington

INDEPENDENT AUDITORS

Moss Adams LLP
Seattle, Washington

INDEPENDENT CONSULTANTS

Ricondo & Associates, Inc.
Cincinnati, Ohio

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

No dealer, broker, sales representative or other person has been authorized by the Port to give any information or to make any representations with respect to the Series 2010 PFC Bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Port. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2010 PFC Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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.

The information set forth herein has been obtained by the Port from Port records and from other sources that are believed by the Port to be reliable, but the Port does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale of the Series 2010 PFC Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Port since the date hereof.

This Official Statement is not to be construed as a contract or agreement between the Port and purchasers or owners of any of the Series 2010 PFC Bonds.

Neither the Port's independent auditors nor any other independent accountants have compiled, examined, or performed any additional procedures with respect to the financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the financial information.

The initial public offering prices or yields set forth on the inside cover hereof may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2010 PFC Bonds to certain dealers, unit investment trusts or money market funds at prices lower than the public offering prices stated on the inside cover hereof.

Certain statements contained in this Official Statement, including the appendices, reflect not historical facts but forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "forecast" and "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

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

OFFICIAL STATEMENT

RELATING TO

Port of Seattle
Passenger Facility Charge Revenue Refunding Bonds

$79,770,000	**$66,695,000**
Passenger Facility Charge Revenue Refunding Bonds, Series 2010A	**Passenger Facility Charge Revenue Refunding Bonds, Series 2010B (AMT)**

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, inside cover page, table of contents and appendices, is to provide information concerning the issuance by the Port of Seattle (the "Port") of its Passenger Facility Charge Revenue Refunding Bonds, Series 2010A (the "Series 2010A PFC Bonds") and its Passenger Facility Charge Revenue Refunding Bonds Series 2010B (the "Series 2010B PFC Bonds" and, together with the Series 2010A PFC Bonds, the "Series 2010 PFC Bonds").

The Series 2010 PFC Bonds, the Port's outstanding Passenger Facility Charge Revenue Bonds, Series 1998 (the "Series 1998 PFC Bonds") and any additional bonds payable from Passenger Facility Charge revenue on a parity with the Outstanding Series 1998 PFC Bonds and the Series 2010 PFC Bonds (the "Future PFC Bonds"), are referred to collectively as the "First Lien PFC Bonds." The First Lien PFC Bonds are payable solely from revenues received by the Port from Passenger Facility Charges ("PFCs"), authorized by the Federal Aviation Administration (the "FAA") and imposed by the Port on eligible enplaning passengers at Seattle-Tacoma International Airport (the "Airport") as described under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 PFC BONDS."

The Series 2010 PFC Bonds are being issued pursuant to the laws of the State of Washington (the "State") and pursuant to Resolution No. 3284, as amended, adopted on July 16, 1998 (the "PFC Master Resolution"), and Resolution No. 3643 (the "PFC Series Resolution" and together with the PFC Master Resolution, the "PFC Resolution"), approved by the Commission of the Port (the "Commission") on October 26, 2010. The fiscal agency of the State, currently The Bank of New York, is being appointed to act as paying agent and registrar (the "Registrar") for the Series 2010 PFC Bonds, and Wells Fargo Bank, N.A., as successor in interest to Norwest Bank Minnesota, N.A., is currently the standby trustee (the "Standby Trustee") under the PFC Master Resolution.

Section 18 of the PFC Series Resolution amends certain provisions of the PFC Master Resolution. The amendments are to be effective on the date on which all Outstanding Series 1998 PFC Bonds are no longer Outstanding. Upon the issuance of the Series 2010 PFC Bonds (and therefore the refunding of a portion of the Outstanding Series 1998 PFC Bonds), the remaining Outstanding Series 1998 PFC Bonds are scheduled to mature December 1, 2019. Among other things, the amendments revise the First Lien Sufficiency Covenant to provide that the Port will at all times establish, maintain and collect PFC Revenue which, together with Additional Pledged Revenue, <u>if any,</u> will be sufficient to meet its scheduled Debt Service obligations. The full text of all of the amendments is included in Section 18 of the PFC Series Resolution attached as Appendix E. By purchasing the Series 2010 PFC Bonds, the owners of the Series 2010 PFC Bonds will be deemed to have approved the amendments to the PFC Master Resolution set forth in Section 18 of the PFC Series Resolution.

Capitalized terms used in this Official Statement but not defined have the meanings set forth in the PFC Resolution, a copy of which is included in this Official Statement as Appendix E.

The Port

The Port is a municipal corporation of the State, organized on September 5, 1911. The Port owns and operates the Airport, the Port's marine facilities at the Seattle harbor, and various industrial and commercial properties. See "THE PORT OF SEATTLE."

Purpose of the Series 2010 PFC Bonds

The Series 2010 PFC Bonds are being issued to (i) refund a portion of the Series 1998 PFC Bonds and (ii) pay costs of issuance. See "PLAN OF REFUNDING."

Security and Sources of Payment for the Series 2010 PFC Bonds

The First Lien PFC Bonds are limited obligations of the Port, payable solely (except as described below) from and secured equally by a pledge of PFC Revenue. **No other revenues of the Port are pledged to the payment of the First Lien PFC Bonds.**

PFCs are passenger facility charges authorized from time to time under the Aviation Safety and Capacity Expansion Act of 1990, as amended or replaced from time to time, including amendments pursuant to the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (together the "PFC Act"), as implemented by the FAA pursuant to published regulations (the "PFC Regulations"). "PFC Revenue" means all revenue received by the Port from time to time from PFCs pursuant to the Record of Decision dated June 24, 1998 (the "June 1998 Approval"), as the same may be amended from time to time, and any other record of decision (and amendments) relating to PFCs imposed or to be imposed by the Port at the Airport (the "PFC Authority") pursuant to the PFC Act and PFC Regulations including any investment income with respect thereto after such PFCs have been remitted to the Port as provided in the PFC Regulations, all of which are pledged to PFC Bonds.

The Port is required to apply to the FAA for approval before imposing or using the proceeds of PFCs for PFC projects. No additional approvals are required from the FAA, however, before using PFCs to pay debt service on the Series 2010 PFC Bonds. See "THE PFC PROGRAM" and "THE PFC PROGRAM AT THE PORT."

Pursuant to the PFC Act and to the Port's approvals from the FAA, the Port may, with certain exceptions, charge each paying passenger who enplanes at the Airport a PFC (currently authorized by the PFC Act to be imposed at a level of $4.50 per eligible passenger enplanement). The annual amount of PFC Revenue received by the Port thus depends upon the number of eligible passenger enplanements at the Airport and the PFC level authorized under the PFC Act. See "THE AIRPORT" and Appendix A for information about air traffic at the Airport. The PFC Act requires air carriers and their agents to collect the PFCs and to remit to the Port once each month the proceeds of such collections, less a handling fee and less interest earned prior to such remittance. The FAA, however, may terminate or reduce the Port's authority to impose PFCs, subject to informal and formal procedural safeguards set forth in the PFC Regulations, if the FAA determines that the Port is in violation of the PFC Act, the PFC Regulations, PFC approvals or other federal requirements. See "THE PFC PROGRAM" and "CERTAIN INVESTMENT CONSIDERATIONS."

Payment of the principal of and interest on the Series 2010 PFC Bonds is further secured by amounts on deposit in the First Lien Reserve Account. "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 PFC BONDS—Reserve Account."

Neither the full faith and credit of the Port nor the taxing power of the Port is pledged for the payment of the principal of or interest on the Series 2010 PFC Bonds. The Series 2010 PFC Bonds are not obligations of the State or any political subdivision of the State other than the Port. The Series 2010 PFC Bonds are not secured by a lien on properties or improvements at the Airport or by a pledge of any revenues (other than PFC Revenue) derived by the Port from the operation of the Airport generally.

Audited Financial Statements

The financial statements of the Enterprise Fund and the Warehousemen's Pension Trust Fund of the Port as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008, and 2007 are included in this Official Statement as Appendix B. See "INDEPENDENT AUDITORS" and Appendix B.

Report of the Independent Consultant

Ricondo & Associates, Inc., Cincinnati, Ohio (the "Independent Consultant") has prepared its Report of the Independent Consultant dated as of October 29, 2010 (the "Independent Consultant's Report"), which is included in Appendix A. The Independent Consultant reviewed the Port's enplanement and other aviation activity projections for the Airport, and the Port's projections for PFC Revenue, in preparing the Report of the Independent Consultant and developing the findings and conclusions contained therein. The Independent Consultant's Report notes that it is the opinion of Ricondo & Associates, Inc., based on its review, that the Port's projections and underlying assumptions provide a reasonable basis from which to prepare the projections for PFC Revenue reflected in the Independent Consultant's Report.

The Independent Consultant's Report should be read in its entirety for an understanding of the findings, underlying assumptions and projections. As noted in the Independent Consultant's Report, any projection is subject to uncertainties. Inevitably, some assumptions used to develop projections will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between projections and actual results, and those differences may be material. See "REPORT OF THE INDEPENDENT CONSULTANT" in Appendix A.

Continuing Disclosure

The Port has covenanted for the benefit of the holders and beneficial owners of the Series 2010 PFC Bonds to provide certain financial information and operating data and to give notices of certain events, if material, to assist the Underwriters in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5). See "CONTINUING DISCLOSURE" and Appendix F.

Investment Considerations

The Series 2010 PFC Bonds may not be suitable for all investors. Prospective purchasers of the Series 2010 PFC Bonds should give careful consideration to the information set forth in this Official Statement. Prospective purchasers of the Series 2010 PFC Bonds should evaluate the investment considerations and merits of an investment in the Series 2010 PFC Bonds and confer with their own tax and financial advisors before considering a purchase of the Series 2010 PFC Bonds.

A number of risk factors may adversely affect PFC Revenues. This Official Statement describes passenger enplanements at the Airport, including certain risks that may affect enplanement levels or the Port's receipt of PFC Revenues. See "CERTAIN INVESTMENT CONSIDERATIONS." It is impossible for the Port to specify or to anticipate all risks associated with its PFC Revenues. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

Miscellaneous

Brief descriptions of the Series 2010 PFC Bonds, the PFC Resolution and certain statutes and agreements are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to such instruments, documents and statutes and to any other documents, statutes, agreements or other instruments described herein are qualified in their entirety by reference to each such document, statute, or other instrument.

PLAN OF REFUNDING

The Series 2010 PFC Bonds are issued to (i) refund the Outstanding Series 1998 PFC Bonds identified under the subheading — "Refunding Plan" to achieve debt service savings; and (ii) pay costs of issuance.

Estimated Sources and Uses of Series 2010 PFC Bond Proceeds (1)

	Series 2010A PFC Bonds	Series 2010B PFC Bonds	Total
Sources			
Principal Amount	$ 79,770,000	$ 66,695,000	$146,465,000
Original Issue Premium	8,111,479	5,239,261	13,350,739
Amount transferred from First Lien Reserve Account	162,670	136,007	298,678
Total	$ 88,044,149	$ 72,070,268	$160,114,417
Uses			
Refunding Account Deposit	$ 87,470,000	$ 71,635,000	$159,105,000
Costs of Issuance (2)	574,149	435,268	1,009,417
Total	$ 88,044,149	$ 72,070,268	$160,114,417

(1) Totals may not foot due to rounding.

(2) Represents costs of issuing the Series 2010 PFC Bonds, including Underwriters' discount, legal fees, fees of the Financial Advisor and the Independent Consultant, printing costs and rating agency costs.

Refunding Plan

The Port has designated the following Series 1998 PFC Bonds (collectively the "Refunded Bonds") listed below for refunding. The following table identifies the Refunded Bonds by maturity date, principal amount and redemption terms.

Refunded Bonds

Maturity Date	Interest Rate	Principal Amount to be Refunded	Redemption Date	Redemption Price	CUSIP Number
Passenger Facility Charge Revenue Bonds, Series 1998A (Non-AMT)					
12/1/2016	5.00%	$ 670,000	12/1/2010	100%	735387AR3
12/1/2017	5.00	14,380,000	12/1/2010	100	735387AT9
12/1/2023	5.00	72,420,000	12/1/2010	100	735387AB8
		$ 87,470,000			
Passenger Facility Charge Revenue Bonds, Series 1998B (AMT)					
12/1/2011	5.25%	10,555,000	12/1/2010	100%	735387AM4
12/1/2012	5.25	11,110,000	12/1/2010	100	735387AN2
12/1/2013	5.375	11,690,000	12/1/2010	100	735387AP7
12/1/2014	5.25	12,325,000	12/1/2010	100	735387AQ5
12/1/2016	5.30	25,955,000	12/1/2010	100	735387AS1
		$ 71,635,000			

Source: Port of Seattle.

The Port will use proceeds of the Series 2010 PFC Bonds to pay and redeem the Refunded Bonds on the date fixed for their redemption. The resolution authorizing the issuance of the Refunded Bonds provides that upon the defeasance or redemption of the Refunded Bonds, the Refunded Bonds will cease to be entitled to any lien, benefit or security under the resolution authorizing their issuance and that the Refunded Bonds will no longer be deemed to be outstanding.

DESCRIPTION OF THE SERIES 2010 PFC BONDS

General

Series 2010 PFC Bonds. The Series 2010 PFC Bonds are to be dated as of their date of delivery. The Series 2010 PFC Bonds are to bear interest from their date, payable semiannually on June 1 and December 1 of each year, commencing June 1, 2011, at the rates set forth on the inside cover page of this Official Statement. The Series 2010 PFC Bonds are to mature, subject to prior redemption, in the amounts and on the dates set forth on the inside cover page of this Official Statement. Interest is to be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Book-Entry Only Form. The Series 2010 PFC Bonds are being issued in fully registered form in denominations of $5,000 and integral multiples thereof within a series and maturity and when issued will be registered in the name of Cede & Co. (or such other name as may be requested by an authorized representative of DTC), as registered owner and nominee of DTC. DTC will act as securities depository for the Series 2010 PFC Bonds. Individual purchases may be made only in book-entry form. Purchasers will not receive certificates representing their interest in the Series 2010 PFC Bonds purchased. So long as Cede & Co. is the registered owner of the Series 2010 PFC Bonds, as nominee of DTC, references herein to "Owners," "Bondholders" or "Registered Owners" mean Cede & Co. (or such other nominee) and not the Beneficial Owners of the Series 2010 PFC Bonds. In this Official Statement, the term "Beneficial Owner" means the person for whom its DTC Participant acquires an interest in the Series 2010 PFC Bonds.

So long as Cede & Co. is the registered owner of the Series 2010 PFC Bonds, the principal of and interest on the Series 2010 PFC Bonds are payable by wire transfer to Cede & Co., as nominee for DTC which, in turn, is to remit such amounts to the Direct Participants for subsequent disbursement to the Beneficial Owners. See "BOOK-ENTRY SYSTEM" in Appendix D.

Optional Redemption

The Series 2010A PFC Bonds maturing on and after December 1, 2021, are subject to redemption at the option of the Port on and after December 1, 2020, as a whole or in part on any date, within the maturities to be selected by the Port (and randomly within a maturity in accordance with the operational procedures of DTC then in effect), at a redemption price equal to 100 percent of the principal amount thereof, plus interest accrued to the date fixed for redemption.

The Series 2010B Bonds are not subject to redemption prior to maturity.

Partial Redemption; Notice of Redemption; Cessation of Interest

The PFC Resolution provides that for so long as the Series 2010 PFC Bonds are held in book-entry form, the selection for redemption of Bonds within a series and maturity shall be made in accordance with the operational arrangements of DTC then in effect. See "BOOK-ENTRY SYSTEM" in Appendix D. Series 2010 PFC Bonds within a series and maturity to be redeemed are to be selected by the Registrar randomly (in all cases in accordance with the operational arrangements of DTC) in increments of $5,000 within a series and maturity.

The PFC Resolution also provides that, unless waived by any owner of Series 2010 PFC Bonds to be redeemed, official notice of any such redemption (which notice, in the case of an optional redemption, shall state that redemption is conditioned upon the receipt by the Registrar of sufficient funds for redemption) shall be given by the Registrar on behalf of the Port by mailing a copy of an official redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Series 2010 PFC Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Registrar. The PFC Resolution provides that the requirement to give notice of redemption shall be deemed complied with when notice is mailed to the Registered Owners at their last addresses shown on the Bond Register, whether or not such notice is actually received by the Registered Owners. The PFC Resolution also provides that so long as the Series 2010 PFC Bonds are in book–entry form with DTC, notice of redemption shall be given to Beneficial Owners of Series 2010 PFC Bonds (or portions thereof) to be redeemed in accordance with the operational arrangements then in effect at DTC and that neither the Port nor the Registrar shall be obligated or responsible to confirm that any notice of redemption is, in fact, provided to Beneficial Owners.

The PFC Resolution permits the Port to condition any notice for optional redemption on the receipt by the Registrar of sufficient funds for such optional redemption. The PFC Resolution provides that official notice of redemption having been given, the Series 2010 PFC Bonds or portions of Series 2010 PFC Bonds to be redeemed will, on the redemption date (provided, in the case of a conditional optional redemption notice, that sufficient funds are on deposit with the Registrar) become due and payable at the redemption price therein specified and that, in the case of an optional redemption if and to the extent sufficient funds have been provided to the Registrar, from and after the date fixed for redemption such Series 2010 PFC Bonds or portions of Series 2010 PFC Bonds shall cease to bear interest. As provided in the PFC Resolution, upon surrender of such Series 2010 PFC Bonds for redemption in accordance with said notice, such Series 2010 PFC Bonds shall be paid by the Registrar at the redemption price. Additional redemption notices are to be given to securities repositories as provided in the PFC Resolution.

Purchase of Series 2010 PFC Bonds

The Port has reserved the right to use at any time any PFC Revenue on deposit in the PFC Capital Fund available after providing for the payments required by paragraph First through Fourth of Section 2(a) of the PFC Master Resolution or other legally available funds to purchase any of the Series 2010 PFC Bonds offered to the Port at any price deemed reasonable to the Port's Chief Financial and Administrative Officer. See Appendix E.

Defeasance

The PFC Series Resolution provides that in the event money and/or non-callable Government Obligations maturing or having guaranteed redemption prices at the option of the owner thereof at such times and bearing interest in amounts (together with such money, if any) sufficient to redeem and retire part or all of the Series 2010 PFC Bonds of any series in accordance with their terms are irrevocably set aside in a special account and pledged to effect such redemption or retirement, and if the Series 2010 PFC Bonds (or portion thereof) of such series are to be redeemed prior to maturity, irrevocable notice, or irrevocable instructions to give notice of such redemption, has been delivered to the Registrar, then no further payments need be made to the First Lien Bond Account or any subaccount therein for the payment of the principal of and premium, if any, and interest on such Series 2010 PFC Bonds (or portion thereof) and the Series 2010 PFC Bonds of such series (or portion thereof) shall cease to be entitled to any lien, benefit or security of the PFC Resolution, except the right to receive the funds so set aside and pledged and such notices of redemption, if any, and such Series 2010 PFC Bonds (or portion thereof) shall no longer be deemed to be outstanding under the PFC Resolution or under any resolution authorizing the issuance of bonds or other indebtedness of the Port.

As currently defined in chapter 39.53 of the Revised Code of Washington, "Government Obligations" means (i) direct obligations of or obligations, the principal and interest on which are unconditionally guaranteed by the United States of America and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-import Bank of the United States, federal land banks or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the federal savings and loan insurance corporation, to the extent insured or guaranteed as permitted under any other provision of State law.

The definition of "Government Obligations" in the PFC Series Resolution incorporates any future statutory revision.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 PFC BONDS

Pledge of PFC Revenues

The Series 2010 PFC Bonds are special fund obligations of the Port payable solely from, and secured by, a pledge of PFC Revenue and Additional Pledged Revenue, if any, and, until applied in accordance with the terms of the PFC Master Resolution, all moneys on deposit in the funds and accounts created under the PFC Master Resolution, other than any rebate funds and any accounts created for Subordinate Lien PFC Obligations. See "– Flow of Funds" and Appendix E – "COPIES OF THE PFC MASTER RESOLUTION AND PFC SERIES RESOLUTION."

Net of the collection fee and the investment income the air carriers are permitted to retain, PFCs are to be deposited by the Port to the credit of the PFC Revenue Fund. In the PFC Master Resolution, the Port reserves the right to include other income, revenue or receipts as "Additional Pledged Revenue." Any such Additional Pledged Revenue pledged to the payment of First Lien PFC Bonds also would be deposited to the PFC Revenue Fund. The PFC Revenue Fund and the other Funds and Accounts created under the PFC Resolution are to be held, administered and invested by the Treasurer, unless and until the Port is required to direct the Treasurer to transfer such Funds and Accounts to the Standby Trustee as described below under "– Flow of Funds." The Chief Financial Officer of the Port is the Port's Treasurer.

Limited Obligations

The Series 2010 PFC Bonds are limited obligations of the Port. Neither the full faith and credit of the Port nor the taxing power of the Port is pledged for the payment of the principal of or interest on the Series 2010 PFC Bonds. The Series 2010 PFC Bonds are not obligations of the State or any political subdivision of the State other than the Port. The Series 2010 PFC Bonds are not secured by a lien on properties or improvements at the Airport or by a pledge of any revenues (other than PFC Revenue) derived by the Port from the operation of the Airport generally.

Flow of Funds

The PFC Master Resolution creates a PFC Revenue Fund, a First Lien Bond Account, a First Lien Reserve Account and a PFC Capital Fund. Each of these Funds and Accounts is to be held by the Treasurer, unless and until such Funds and Accounts are required to be transferred to the Standby Trustee following (i) a notice from the FAA instructing air carriers to remit PFC collections directly to the Standby Trustee because of an alleged violation of the PFC Act or (ii) a direction of the holders of a majority in aggregate principal amount of First Lien PFC Bonds Outstanding following a Default under the PFC Master Resolution. See "THE PFC PROGRAM – Termination of Authority to Impose PFCs" and "–Informal Resolution Process."

Pursuant to the PFC Master Resolution, the Port is required to deposit to the PFC Revenue Fund, upon receipt, all PFC Revenue received by the Port (and any Additional Pledged Revenue that may be pledged to the payment of First Lien PFC Bonds) and, on or before the 25th day of each month, to transfer from the PFC Revenue Fund the following amounts, in the following order, to the following Funds and Accounts:

- First: to make the Monthly First Lien Debt Service Deposit to the First Lien Bond Account;
- Second: to make all payments required to be made to the First Lien Reserve Account, to maintain in such Account an amount equal to the First Lien Reserve Account Requirement for the First Lien PFC Bonds or to make the First Lien Reserve Account deposit described below under "First Lien Reserve Account;"
- Third: to make all payments required on a monthly basis to be made to any other bond redemption fund or debt service account created to pay the principal of and premium, if any, and interest on any Subordinate Lien PFC Obligations;
- Fourth: to make all payments required to be made to any other reserve account created to secure the payment of the principal of and interest on any Subordinate Lien PFC Obligations; and

- Fifth: to the PFC Capital Fund. Amounts in the PFC Capital Fund may be used (i) to pay Costs of Projects as defined in the PFC Resolutions, (ii) to be transferred to the PFC Revenue Fund, (iii) to make necessary additions, improvements or repairs to or extensions or replacements of Projects as defined in the PFC Master Resolution, if permitted by PFC Regulations, (iv) to the extent permitted by PFC Regulations, for any other lawful purposes, or (v) to pay (or be pledged to pay) debt service on any other obligation incurred by the Port to pay Costs of Projects as defined in the PFC Resolution, and, until so applied, shall be pledged to the payment of and subject to a lien and charge in favor of Registered Owners of the PFC Bonds,

To date, no Additional Pledged Revenue has been pledged to pay First Lien PFC Bonds, and the Port has not issued Subordinate Lien PFC Obligations.

Reserve Account

The Port deposited a portion of the proceeds of the Series 1998 PFC Bonds in the First Lien Reserve Account, in an amount equal to the First Lien Reserve Account Requirement. Upon the closing of the Series 2010 PFC Bonds, the First Lien Reserve Requirement will be $20,128,600 and the Port will reduce the balance in the First Lien Reserve Account accordingly.

The First Lien Reserve Account Requirement is defined in the PFC Master Resolution as the lowest of (i) Maximum Annual Debt Service with respect to Outstanding First Lien PFC Bonds; (ii) 125% of Average Annual Debt Service with respect to Outstanding First Lien PFC Bonds; and (iii) 10% of the initial principal amount of each Series of First Lien PFC Bonds then Outstanding. The PFC Master Resolution requires that upon the issuance of any additional First Lien PFC Bonds the Port deposit to the credit of the First Lien Reserve Account, from the proceeds of such First Lien PFC Bonds or from other sources, the amount required to make the balance then on deposit in the First Lien Reserve Account equal to the First Lien Reserve Account Requirement for all First Lien PFC Bonds then Outstanding.

Moneys held in the First Lien Reserve Account are to be transferred to the First Lien Bond Account on a First Lien Payment Date if and to the extent that amounts on deposit in the First Lien Bond Account are insufficient to pay the principal of or the interest on the First Lien PFC Bonds as the same become due. The PFC Master Resolution requires that any deficiency in the First Lien Reserve Account because of a transfer to the First Lien Bond Account be made up within one year and that annually (i) the amount of the First Lien Reserve Account Requirement be recalculated, (ii) the market value of securities then credited to the First Lien Reserve Account be determined and (iii) any deficiency in the First Lien Reserve Account because of an investment loss be made up in equal monthly installments within six months after the date of such valuation. Money on deposit in the First Lien Reserve Account in excess of the First Lien Reserve Account Requirement is to be transferred to the First Lien Bond Account and applied to the payment of regularly scheduled debt service on the First Lien PFC Bonds as provided in the PFC Master Resolution.

In lieu of depositing moneys to the First Lien Reserve Account or in substitution for moneys and securities then on deposit in the First Lien Reserve Account, the Port may deposit with the Registrar one or more irrevocable letters of credit or irrevocable surety bond policies issued by a bank or bond insurance company with a credit rating in one of the two highest rating categories of each Rating Agency then maintaining an underlying rating on the First Lien PFC Bonds. See Appendix E – “COPIES OF THE PFC MASTER RESOLUTION AND THE SERIES RESOLUTION.”

Additional First Lien PFC Bonds

The PFC Master Resolution permits the Port to issue additional First Lien PFC Bonds on a parity with the Series 1998 PFC Bonds and the Series 2010 PFC Bonds. Before issuing any additional First Lien PFC Bonds (other than Refunding First Lien PFC Bonds that comply with the requirements described below under "– Refunding First Lien PFC Bonds") and before issuing any Refunding First Lien PFC Bonds to refund Subordinate Lien PFC Obligations or to refund other bonds that are not "First Lien PFC Bonds" under the PFC Master Resolution, the Port must deliver, among other things, either a certificate executed by a Designated Port Representative or a certificate of an independent and nationally recognized aviation consultant as further described below.

The PFC Master Resolution requires that a certificate of the Designated Port Representative state (i) that the First Lien Sufficiency Covenant described below will be met upon the issuance of the additional First Lien PFC Bonds, and (ii) that PFC Revenue (adjusted as described below), interest earnings on the First Lien Reserve Account to the extent such earnings are available for transfer to the First Lien Bond Account and Additional Pledged Revenue if any has been pledged to First Lien Bonds (collectively, "Pledged Revenue") received for any period of 12 consecutive months selected by the Port out of the 18 months (24 months, after the Outstanding Series 1998 PFC Bonds are no longer Outstanding) next preceding the date of issuance of such additional First Lien PFC Bonds (the "Base Period"), as shown in the audited or unaudited financial statements of the Port, were not less than 150 percent of Maximum Annual Debt Service (calculated as described in the definition of "Debt Service" in Appendix E) on all First Lien PFC Bonds that will be Outstanding upon the issuance of the proposed additional First Lien PFC Bonds. In preparing such certificate, the Designated Port Representative is required to take into account any Forecast PFC Rate Adjustment as if such new rate had been in effect during the Base Period and may take into account any Additional Pledged Revenue only if each Rating Agency then maintaining an underlying rating on the First Lien PFC Bonds has confirmed, on or prior to the date of the Designated Port Representative's Certificate, that such Additional Pledged Revenue will not in and of itself cause such Rating Agency to reduce or to withdraw its then-current underlying rating on the First Lien PFC Bonds then Outstanding. As defined in the PFC Master Resolution, "Forecast PFC Rate Adjustment" means (i) any required reduction in the rate of the levy of PFCs that constitute PFC Revenue or (ii) any increase in the rate of the levy of PFCs if the Port has taken all actions and has received all approvals required to impose such PFCs and if legislation has been enacted to permit such increase in the rate of levy of PFCs. From and after the date on which the Series 1998 PFC Bonds are no longer Outstanding, the First Lien Sufficiency Covenant described in (i) above will be replaced by an amended First Lien Sufficiency Covenant as described under the heading "—First Lien Sufficiency Covenant."

In lieu of a certificate of a Designated Port Representative, a certificate of an independent and nationally recognized aviation consultant may be delivered, forecasting that (i) the First Lien Sufficiency Covenant will be met upon the issuance of the additional First Lien PFC Bonds, and (ii) in each of the five full calendar years (commencing with the first such year following the date of issuance of the additional First Lien PFC Bonds), the amount of Pledged Revenue estimated to be collected by the Port in such year (adjusted as described below) will not be less than 150 percent of Maximum Annual Debt Service on all First Lien PFC Bonds to be Outstanding after the issuance of the proposed additional First Lien PFC Bonds. In preparing such forecasts of Pledged Revenue, the independent aviation consultant is required to take into account any Forecast PFC Rate Adjustment by assuming that such rate is in effect during the full five-year period and may take into account any Projected Additional Pledged Revenue (defined below) estimated to be received during the full five-year period and reasonable projections of PFC Revenue based upon the methodology set forth in the certificate, taking into account any projected change in the number of enplanements during the five-year period following the issuance of the additional First Lien PFC Bonds. From and after the date on which the Series 1998 PFC Bonds are no longer Outstanding, the First Lien Sufficiency Covenant described in (i) above will be replaced by an amended First Lien Sufficiency Covenant as described under the heading "— First Lien Sufficiency Covenant".

Refunding First Lien PFC Bonds. Before issuing any refunding First Lien PFC Bonds, the Port must comply with the additional First Lien PFC Bond requirements described above or deliver, among other things, a certificate of a Designated Port Representative stating that after giving effect to the issuance of such refunding First Lien PFC Bonds, Annual Debt Service on such Refunding First Lien PFC Bonds to be issued will not be more than the Annual Debt Service on the First Lien PFC Bonds to be refunded. The PFC Master Resolution provides, however, that such restriction shall not prevent the Port from issuing First Lien PFC Refunding Bonds that mature later than the First Lien PFC Bonds to be refunded.

See Sections 4, 5 and 6 of the PFC Master Resolution, and the future amendments in Section 18 of the PFC Series Resolution, in Appendix E for the requirements that must be met prior to the issuance of additional First Lien PFC Bonds.

Subordinate Lien PFC Obligations

The Port may issue Subordinate Lien PFC Obligations for any purpose for which PFCs may be used or for refunding purposes, provided that the resolution authorizing such Subordinate Lien PFC Obligations provides that so long as any First Lien PFC Bonds are Outstanding, the maturity date of such Subordinate Lien PFC Obligations may not be accelerated (except any indirect acceleration through reimbursement obligations to the provider of a credit facility as a result of a mandatory tender for purchase) and that following the occurrence of a Default under the PFC Master Resolution, neither PFC Revenue nor Additional Pledged Revenue, if any, may be used to pay the principal and interest on the Subordinate Lien PFC Obligations unless all payments then due on any of the First Lien PFC Bonds have been paid. The Port has not issued any Subordinate Lien PFC Obligations. See Section 7 of the PFC Master Resolution in Appendix E.

First Lien Sufficiency Covenant

So Long As the Series 1998 PFC Bonds are Outstanding. The following First Lien Sufficiency Covenant is applicable only until the date on which the Series 1998 PFC Bonds are no longer Outstanding. From and after the date on which the Series 1998 PFC Bonds are no longer Outstanding, the First Lien Sufficiency Covenant described below will be replaced by an amended First Lien Sufficiency Covenant as described under the subheading "*—When the Series 1998 PFC Bonds are No Longer Outstanding"* below.

The Port covenants in the PFC Master Resolution that the Port will at all times establish, maintain and collect PFC Revenue that, together with Projected Additional Pledged Revenue, will be sufficient to meet the First Lien Sufficiency Covenant. The Port also covenants that it will undertake to measure compliance with the First Lien Sufficiency Covenant as of the end of each fiscal year. The Port covenants that if the First Lien Sufficiency Covenant is not met, the Port either will take one of the actions described below or will not spend any moneys on deposit in the PFC Capital Fund except to pay debt service on the First Lien PFC Bonds, to make deposits to the First Lien Reserve Account, to pay the debt service on Subordinate Lien PFC Obligations or to make deposits to a reserve account for Subordinate Lien PFC Obligations.

"First Lien Sufficiency Covenant" means the requirement that Unspent PFC Authority plus Projected Additional Pledged Revenue, is at least equal to 105 percent of Projected Aggregate Debt Service with respect to all Outstanding First Lien PFC Bonds. "Projected Additional Pledged Revenue" means anticipated receipts of Additional Pledged Revenue, provided that such Additional Pledged Revenue may be included by the Port in determining its compliance with the First Lien Sufficiency Covenant only if each Rating Agency then maintaining an underlying rating on First Lien PFC Bonds has confirmed that such Additional Pledged Revenue will not in and of itself cause such Rating Agency to reduce or to withdraw its then-current underlying rating on the First Lien PFC Bonds then Outstanding, unless such rating confirmation has previously been provided. "Unspent PFC Authority" means the aggregate dollar amount of PFCs authorized to be collected by the Port under PFC Authority, minus the dollar amount of Adjusted Costs. "Adjusted Costs" means Costs of Projects as defined in the PFC Master Resolution paid or legally obligated to be paid from PFC Revenue to date, minus Projected Aggregate Debt Service with respect to First Lien PFC Bonds, minus amounts then on deposit in the funds and accounts created under the PFC Master Resolution and available for the payment of debt service on PFC Bonds and minus Costs of Projects paid from the proceeds of PFC Bonds.

As of December 31, 2009, the amount of the Port's Unspent PFC Authority was estimated to be approximately $532,014,062, providing for First Lien Sufficiency Covenant coverage of 1.86 times. See "THE PFC PROGRAM AT THE PORT" and Appendix E.

When the Series 1998 PFC Bonds are No Longer Outstanding. As of the first date on which the Series 1998 PFC Bonds are no longer Outstanding, the First Lien Sufficiency Covenant is amended as follows: The Port will at all times establish, maintain and collect PFC Revenue which, together with Additional Pledged Revenue, if any, will be sufficient to meet its scheduled Debt Service obligations. See Section 18 of the PFC Series Resolution included at Appendix E.

The Port covenants in the PFC Master Resolution that if the First Lien Sufficiency Covenant is not met, the Port will (i) redeem or defease First Lien PFC Bonds and/or Subordinate Lien PFC Obligations in principal amounts sufficient to permit the Port to comply with the First Lien Sufficiency Covenant; and/or (ii) identify Additional Pledged Revenue sufficient to permit a Consultant to certify compliance with the First Lien Sufficiency Covenant; and/or (iii) obtain an amendment to existing PFC Authority or new PFC Authority; and/or (iv) identify and agree to use other legally available funds of the Port to pay Projected Costs not already paid, in an amount sufficient (together with amounts realized as a result of the options described above) to meet the First Lien Sufficiency Covenant. See Section 9(a) of the PFC Master Resolution in Appendix E.

The PFC Master Resolution provides that any failure of the Port to meet the First Lien Sufficiency Covenant shall not constitute a Default unless, prior to curing such failure, the Port fails to take one of the actions described in (i) through (iv) above and, while such failure continues, the Port disburses money from the PFC Capital Fund for purposes other than the payment of debt service on PFC Bonds or deposits to reserve accounts therefor.

PFC Covenants

The PFC Resolution includes a number of other covenants of the Port, including covenants that the Port will comply with the PFC Act, the Airport Noise and Capacity Act of 1990, as amended (the "Noise Act"), PFC Regulations applicable to the Port, and with any conditions set forth in the PFC Authority and that the Port will not take any action or omit to take any action that would, pursuant to the PFC Regulations, cause the termination or reduction of the Port's authority to impose PFCs or that would prevent the collection and application of PFC Revenue as contemplated by the PFC Master Resolution. See "THE PFC PROGRAM—Termination of Authority to Impose PFCs." In the PFC Master Resolution the Port also covenants that it will impose PFCs to the full extent authorized and approved by the FAA in its June 1998 Approval and that, except as required by the FAA, the Port will not unilaterally decrease the level of the PFCs to be collected from any passenger. See "CERTAIN INVESTMENT CONSIDERATIONS—No Termination Protection for Series 2010 PFC Bonds." The Port also covenants that it will not impose any noise or access restriction at the Airport not in compliance with the Noise Act, that it will take all action reasonably necessary to cause all Collecting Carriers to collect and remit to the Port all PFCs at the Airport required by the PFC Regulations to be so collected and remitted, that it will contest any attempt by the FAA to terminate, reduce or suspend the Port's authority to impose, receive or use PFCs prior to the charge expiration date or the date total approved passenger facility charge revenue has been collected, that it will diligently seek approval to use PFC Revenue for the projects within the time periods set forth in the PFC Regulations, that it will begin implementation of the projects within the time periods set forth in the PFC Regulations and the June 1998 Approval. and that it will use reasonable efforts to obtain in a timely manner all permits and approvals required to construct and operate the projects. See "THE PFC PROGRAM."

Covenants as to Operations and Maintenance

The Port covenants in the PFC Master Resolution that it will not take any action or omit to take any action that would cause the FAA, the Department of Transportation or any other state or federal agency to suspend or to revoke the Port's operating certificates for the Airport, that it will at all times use reasonable efforts to keep the Airport open for take-offs and landings, that it will keep or cause to be kept all Airport facilities in good repair, working order and condition and will keep or cause to be kept all Airport facilities insured, if such insurance is available at reasonable rates and upon reasonable conditions, against such risks, in such amounts and with such deductibles as the Commission or a Designated Port Representative deems necessary.

Outstanding First Lien PFC Bonds

As of November 1, 2010, the Port had Outstanding $200,155,000 aggregate principal amount of Series 1998 PFC Bonds. Prior to the issuance of the Series 2010 PFC Bonds, the Series 1998 PFC Bonds are the Port's only Outstanding First Lien PFC Bonds. Upon the refunding of the Refunded Bonds with the proceeds of the Series 2010 PFC Bonds, $31,020,000 aggregate principal amount of Series 1998 PFC Bonds will remain Outstanding, with a final scheduled maturity of December 1, 2019.

Remedies; No Acceleration; No Extraordinary Mandatory Redemption for Series 2010 PFC Bonds

Upon the occurrence and continuance of a default under the PFC Master Resolution, payment of the principal of and accrued interest on the PFC Bonds, including the Series 2010 PFC Bonds, is not subject to acceleration. Payments of debt service on PFC Bonds are required to be made only as they become due. In the event of multiple defaults in payment of principal or interest on the Series 2010 PFC Bonds, the Series 2010 PFC Bond owners could be required to bring a separate action for each such payment not made. Any such action to compel payment or for money damages would be subject to the limitations on legal claims and remedies. See Section 15 of the PFC Master Resolution in Appendix E and "CERTAIN INVESTMENT CONSIDERATIONS – Limited Obligations; Limitations of Remedies."

Unlike the Outstanding Series 1998 PFC Bonds, the Series 2010 PFC Bonds are not subject to extraordinary mandatory redemption in the event that the Port's PFC authority is reduced or terminated. See "CERTAIN INVESTMENT CONSIDERATIONS –No Termination Protection for Series 2010 PFC Bonds."

THE PFC PROGRAM

General

Overview. PFCs are fees collected from enplaned paying passengers to finance eligible, approved airport-related project costs, subject to FAA regulation. Airport operators are required to apply to the FAA for approval before imposing or using PFCs. Since the Port implemented its PFC program in 1992, it has obtained FAA authorizations, pursuant to four PFC application approvals, together with amendments thereto, to impose and use approximately $1.3 billion of PFC Revenues for various projects including the projects financed with the proceeds of the Series 1998 PFC Bonds to be refunded with the Series 2010 PFC Bonds.

PFC Level. The Port has FAA approval to impose a PFC of $4.50 per paying enplaned passenger, the maximum allowable under current law. Under the PFC Regulations, funding of terminal projects at the $4.50 PFC level is conditioned on a finding that the Port has made adequate provision for the airside needs of the Airport, including runways, taxiways, aprons and aircraft gates. In addition, a project for a medium or large airport, such as the Airport, is eligible only if the project will make a significant contribution to improving air safety and security, increasing competition among air carriers, reducing current or anticipated congestion, or reducing the impact of aviation noise on people living near the Airport.

Handling and Collection of PFCs. PFCs are imposed by the Port and collected and remitted to the Port (net of a handling fee retained by the Collecting Carriers and described below, currently equal to $0.11 for each PFC collected) by the airlines from eligible passengers enplaning at the Airport. The annual amount of PFC Revenue collected by the Port depends upon the PFC level, the number of eligible passenger enplanements at the Airport, the amount of the airline handling fee, and the timely remittance of PFCs by the airlines.

The PFC Act. The PFC Act permits a public agency that controls a commercial service airport to charge each paying passenger enplaning at the airport a PFC. The proceeds from PFCs are to be used to finance approved eligible airport-related projects, including paying debt service on indebtedness incurred to carry out the projects. "Eligible airport-related projects" include airport development or planning, terminal development, airport noise compatibility measures and construction of gates and related areas at which passengers board or exit aircraft.

PFCs are collected on behalf of airports by air carriers, certain foreign air carriers and their agents ("Collecting Carriers"). PFCs are charged to paying passengers enplaning at the Airport. PFCs may not be collected, therefore, from a passenger enplaning at the airport if the passenger did not pay for the ticket (for example, if the passenger obtained the ticket with a frequent flier award coupon without monetary payment). In addition, public agencies may request that a class of air carrier not be required to collect PFCs if that class constitutes one percent or less of the total number of passengers enplaned annually at the airport. The Port has not requested any such exemption from the FAA.

The PFC Act and the PFC Regulations are subject to amendment and to repeal. Legislation is currently pending, for example, in the U.S. Congress that would permit public agencies to elect to charge PFCs above the current $4.50 maximum rate. On May 21, 2009, the U.S. House of Representatives passed H.R. 915. The bill would increase the maximum PFC level to $7.00. On March 22, 2010, the U.S. Senate passed its comparable H.R. 1586, which did not include any provision increasing the PFC level above $4.50. H.R. 1586 would, however, create a pilot program under which six airports would control the PFC rate charged (with no maximum level). The House and Senate bills will need to be reconciled in conference committee and a consolidated version of the bill passed in both the House and Senate before the bill will become law. It is uncertain whether the final bill, if passed, would in fact increase the

PFC level. The projections included in Appendix A are based on a PFC at the $4.50 level, and do not assume any increase in the PFC above this level.

PFC Application and Approval Process; Use of Excess PFC Revenues

Airline and Public Notice. The PFC Regulations specify the procedures for a public agency to obtain approval to impose a PFC and use PFC revenue on a project. The PFC Regulations also establish the procedures for the FAA's review and approval of applications and amendments, and establish requirements for use of excess PFC revenue. In addition to providing public notice and an opportunity for comment, a public agency must provide written notice to air carriers and foreign air carriers having a significant business interest at the airport where the PFC is proposed, before filing an application for PFC authority with the FAA. With certain exceptions, the public agency is required to convene a meeting to present proposed projects to air carriers and foreign air carriers operating at the airport, within 30 to 45 days of this notice. Within 30 days following the meeting, each carrier must provide the public agency with a written certification of its agreement or disagreement with the proposed project.

FAA Application. A public agency may apply for PFC authority at any commercial service airport it controls. A public agency may use PFC revenue only for approved projects. The application must include, among other things, a summary of substantive comments by carriers or the public disagreeing with a project and, and the public agency's reasons for continuing despite of such disagreements. After reviewing the application and public comments received from any Federal Register notice, the FAA is required to issue a final decision approving or disapproving the application, in whole or in part, within 120 days after the FAA received the application.

Amendments with FAA Approval. A public agency may file a request to the FAA to amend the FAA's decision with respect to an approved PFC. An amendment may increase or decrease the level of PFC the public agency may collect from each passenger, increase or decrease the total approved PFC revenue, change the scope of an approved project, delete an approved project, or establish or change a class of carriers. The PFC Regulations require the FAA to approve, partially approve or disapprove the amendment request and notify the public agency of the decision within 30 days of receipt of the request.

Changes Without FAA Approval. Without approval of the FAA, but with written notice to the Collecting Carriers and to the FAA, the level of the PFCs charged or the total amount of approved PFC revenue may be decreased or the total amount of PFC revenue to be collected may be increased by an amount not exceeding 25 percent of the approved amount of PFC revenue. Increases in excess of 25 percent may not be instituted without the approval of the FAA. Any change will be effective as of the first day of a month that is at least 60 days after the date the Collecting Carriers are notified of the change.

FAA approval is not required in connection with the refinancing of debt issued to finance approved PFC-eligible projects. The public agency is required to notify the FAA of the reduction in the PFC amount that will result from debt savings so that the approved amount can be adjusted accordingly.

Use of Excess PFC Revenues. If the PFC revenue remitted to the public agency, plus interest earned thereon, exceeds the allowable cost of the project, the public agency must use the excess funds for approved projects or to retire outstanding PFC-financed bonds. When the authority to impose a PFC has expired or has been terminated, accumulated PFC revenue is required to be used for approved projects or retirement of outstanding PFC-financed bonds.

PFC Collections and Expenditures at the Port

The Port has instituted and maintained PFC accounting and management procedures as required by the PFC Regulations. The Port is required by the PFC Regulations to keep any PFC revenue remitted to it by Collecting Carriers on deposit in an interest-bearing account or in other interest-bearing instruments used by the Port's Airport capital fund. Typically, the airlines remit their PFC payments on a monthly basis to a bank lock box account. When an airline PFC payment is five days overdue, the Port sends a letter to the airline as a reminder and warns of possible interest charges for failure to remit payment. If after a 10-day grace period no payment is received, the Port begins charging interest, currently at a rate of 18% per annum, retroactive to the first day the remittance was overdue.

The Port is required by the PFC Regulations to establish and maintain for each approved application a separate accounting record. The accounting record is to identify the PFC revenue received from the Collecting Carriers, interest earned on such revenue, the amounts used on each project, and the amount reserved for currently approved projects. At least annually during the period the PFC is collected, held or used, the Port is required to provide for an audit of its PFC account by an accredited independent public accountant.

The Port has also instituted and maintained procedures designed to monitor PFC expenditures. The Port works with the local FAA office to determine in advance eligible and ineligible costs, and identifies and codes ineligible expenditures to avoid spending PFCs on ineligible costs. Under the PFC Regulations, the FAA may periodically audit and review the Port's use of PFC revenue, to ensure that the Port is in compliance with the requirements of the PFC Act and PFC Regulations.

Collection and Segregation of PFCs by Airlines

The PFC Regulations require that Collecting Carriers establish and maintain a financial management system to account for PFC collections. PFCs collected by Collecting Carriers are required by the PFC Regulations to be remitted to the Port on a monthly basis. Collecting Carriers must account for PFC revenue separately. PFC revenue may be commingled with the carrier's other sources of revenue except for "Covered Air Carriers" as described below. PFC revenues held by a Collecting Carrier or its agent after collection at the Airport must be held in trust for the beneficial interest of the Port. The PFC Regulations provide that a Collecting Carrier holds neither a legal nor an equitable interest in the PFC Revenue except for any handling fee collected or interest earned on unremitted proceeds.

The PFC Act was amended to provide that a Collecting Carrier that is the subject of a bankruptcy proceeding after December 12, 2003 (a "Covered Air Carrier") may not commingle PFCs with its other revenue and must maintain a separate segregated account with revenue equal to its average monthly PFC collections. If a Covered Air Carrier fails to segregate PFCs it collects, the PFC Act provides that the trust fund status of the PFCs is not lost because of any inability to identify and trace them in the Covered Air Carrier's commingled accounts. In addition, a Covered Air Carrier may not grant a security interest in PFCs it collects to any third party. All Collecting Carriers are required to disclose in their financial statements both the existence and the amount of the PFCs it collects as trust funds, in which it holds no pledgeable interest. See "CERTAIN INVESTMENT CONSIDERATIONS – Airline Bankruptcy."

Under the PFC Regulations, the FAA may periodically audit and review the collection and remittance by the Collecting Carriers of PFC revenue, to ensure collecting carriers are in compliance with the requirements of the PFC Act and PFC Regulations. See "CERTAIN INVESTMENT CONSIDERATIONS – Collection of the PFCs."

Termination of Authority to Impose PFCs

General. The FAA may terminate the Port's authority to impose PFCs, subject to informal and formal procedural safeguards set forth in the PFC Regulations, if the FAA determines that (i) the Port is in violation of certain provisions of the Noise Act relating to airport noise and access restrictions, (ii) PFC collections and investment income thereon are not being used for approved projects in accordance with the FAA's approvals or with the PFC Act and the PFC Regulations, (iii) implementation of the approved projects does not commence within the required time periods or (iv) the Port is otherwise in violation of the PFC Act, the PFC Regulations or the PFC approvals. The Port has not received notice of any informal or formal proceeding to terminate the Port's authority to impose PFCs.

Informal Resolution Process. Pursuant to the provisions of the PFC Act, the PFC Regulations require an informal process for resolution of possible violations of the PFC Act, PFC Regulations or PFC approvals. Under the PFC Regulations, the FAA is required to undertake informal resolution with the public agency or any other affected party if, after review, the FAA cannot determine that PFC revenue is being used for the approved projects in accordance with the terms of the FAA's approval to impose a PFC for those projects or with the PFC Act. The PFC Regulations provide that the FAA may not begin proceedings to terminate authority to impose a PFC until the Administrator determines that informal resolution is unsuccessful. A public agency may also request that the FAA agree in the PFC approval to a specific, informal resolution process that the FAA will follow if it suspects the public agency has committed such a violation. The June 1998 Approval includes an agreement by the FAA, in connection with the projects financed by the Outstanding Series 1998 PFC Bonds, to follow a specific informal resolution process in the event the FAA suspects that the Port has violated the PFC Act, the PFC Regulations or the PFC approvals.

Formal Termination Process. The formal termination process prescribed in the PFC Regulations is to be initiated upon the FAA's filing of a notice, followed by a period of not less than 60 days during which the Port may submit further comments and take corrective action. The PFC Regulations provide that if corrective action is not taken as prescribed in the notice, the FAA is required to hold a public hearing at least 30 days after notifying the Port and publishing a notice of the hearing in the Federal Register. After the public hearing, the Port would have 10 days after receiving notice of the FAA's decision to advise the FAA in writing that it will complete any corrective action prescribed in the FAA's decision within 30 days or to provide the FAA with a list of Collecting Carriers, after which the FAA would notify the Collecting Carriers to terminate or to modify the PFC accordingly. Under the PFC Regulations, if the FAA determines that revenue derived from a PFC is excessive or is not being used as approved, the FAA may reduce the amount of airport grant funds otherwise payable to the Port. See "CERTAIN INVESTMENT CONSIDERATIONS—No Termination Protection for Series 2010 PFC Bonds."

THE PFC PROGRAM AT THE PORT

PFC Approvals

Since the Port implemented its PFC program in 1992, it has obtained FAA authorizations, pursuant to four PFC application approvals, together with amendments thereto, to impose and use approximately $1.3 billion of PFC revenues (currently at the $4.50 PFC level since October 1, 2001) for various projects.

The Series 1998 PFC Bonds expected to be refunded in part with the proceeds of the Series 2010 PFC Bonds were issued to pay costs of a number of PFC-eligible projects, principally the expansion of the Airport's Concourse A; the replacement or reconstruction of the passenger conveyance system providing transit connections for passengers and employees between the Main Terminal and the North and South Satellite Terminals; and construction of the Airport's third runway. These Series 1998 PFC Bond-financed projects were approved in the June 1998 Approval are all complete and have since been approved for PFC funding at the $4.50 level. Upon refinancing of a portion of these Series 1998 PFC Bond-financed project costs through the issuance of the Series 2010 PFC Bonds, the Port will notify the FAA that the approved PFC amount for these projects should be reduced to reflect debt service savings achieved through the refunding.

As of the date of the June 1998 Approval, the total amount of the Port's Unspent PFC Authority was approximately $1,123,699,000. As of December 31, 2009, the total amount of the Port's Unspent PFC Authority was approximately $532,014,062, as shown on the following table.

Port of Seattle
PFC First Lien Sufficiency Covenant
2005-2009

	2005	2006	2007	2008	2009
Unspent PFC Authority	$ 493,641,555	$ 462,618,521	$ 424,251,211	$ 384,680,899	$ 532,014,062(1)
Plus: Additional Pledged Revenue	0	0	0	0	0
Remaining Unspent PFC Authority	$ 493,641,555	$ 462,618,521	$ 424,251,211	$ 384,680,899	$ 532,014,062
Projected Remaining First Lien PFC Bond Debt Service	$ 367,627,468	$ 347,205,040	$ 326,779,113	$ 306,355,435	$ 285,930,508
First Lien Sufficiency Covenant Coverage(2)	1.34	1.33	1.30	1.26	1.86

(1) Includes an increase implemented by written notice to the Collecting Carriers and to the FAA (an increase of less than 25 percent of the approved amount of PFC revenue).

(2) Minimum required First Lien Sufficiency Covenant Coverage is 1.05, until the date the Series 1998 PFC Bonds are no longer Outstanding. This table shows First Lien Sufficiency Coverage for the years 2005 through 2009 pursuant to this covenant. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 PFC BONDS--First Lien Sufficiency Covenant" (for a description of the covenant in effect) and Section 18 of PFC Series Resolution included at Appendix E (for the covenant that will become effective on the date that the Series 1998 PFC Bonds are no longer Outstanding). See also Table IV-5 in the Report of the Independent Consultant, which illustrates the sufficiency of PFC collections to meet the Port's PFC obligations, calculated pursuant to a methodology that is set forth in that table and that is different than the First Lien Sufficient Coverage covenant methodology.

Application of PFC Revenue

Under the PFC Resolution, the Port applies PFC Revenue first to pay debt service on First Lien PFC Bonds, second to make any required deposit to the First Lien Reserve Account, third to pay subordinate PFC obligations (none are currently outstanding), fourth to make required deposits to any subordinate lien reserve account, and finally to pay costs of PFC-eligible projects and for other legally permitted uses.

The Port uses PFC revenues remaining after the first four priorities described above to pay PFC-eligible project costs. Until 2008, these payments were for direct project costs. The Port may, but is not obligated to, use all or a portion of remaining PFC revenues to pay debt service on revenue bonds issued by the Port to pay costs of PFC-eligible projects. Beginning in 2008, the Port has applied a portion of PFCs remaining after the first four priorities described above to pay a portion of its revenue bond debt service, and plans to continue doing so.

Port of Seattle
Historical Application of PFC Revenue
2005-2009

	2005	2006	2007	2008	2009
Enplaned Passengers	14,632,137	14,990,647	15,661,235	16,084,939	15,610,198
Enplaned Passengers Paying a PFC	12,712,766	13,225,707	13,828,115	14,005,290	13,380,992
Percent PFC-Eligible	86.9%	88.2%	88.3%	87.1%	85.7%
Beginning Balance	$ 10,927,356	$ 11,466,532	$ 21,950,677	$ 17,990,483	$ 30,118,241
Plus: Annual PFC Collections(1)	55,681,913	58,060,853	60,705,426	61,483,221	58,742,555
Plus: Interest Income(2)	1,515,482	1,804,075	2,103,038	2,062,449	1,560,912
Total Deposits	$ 57,197,395	$ 59,864,928	$ 62,808,464	$ 63,545,670	$ 60,303,467
Available Amounts	68,124,751	71,331,460	84,759,141	81,536,153	90,421,708
Less: Debt Service (First Lien PFC Bonds)	20,424,427	20,422,428	20,425,927	20,423,677	20,424,928
Less: Pay-As-You-Go Expenditures and Debt Service on Port Revenue Bonds(3)	36,233,792	28,958,355	46,342,731	30,994,235	37,567,592
Ending Balance	$ 11,466,532	$ 21,950,677	$ 17,990,483	$ 30,118,241	$ 32,429,188

(1) Note that PFC collections figures are based on "PFC Quarterly Status Report – Revenue and Expenditures" filed with FAA and reported on a cash basis; thus the PFC collections shown above do not match the amounts reported in the Port of Seattle Financial Statements.
(2) Includes interest on PFC Capital and Revenue Fund as well as on First Lien PFC Reserve Account.
(3) During 2008 and 2009, the Port used PFC Revenue for Port revenue bond debt service related to PFC-eligible projects.

THE PORT OF SEATTLE

Introduction

The Port is a municipal corporation of the State organized on September 5, 1911, under provisions of the laws of the State, now codified at RCW 53.04.010 et seq. In 1942, the local governments in King County, Washington (the "County") selected the Port to operate the Airport. The Port owns and operates the Port's marine facilities at the Seattle harbor, the Airport and various other properties.

In 2009, the Aviation Division, the Seaport Division and the Real Estate Division accounted for approximately $328 million (73 percent), $91 million (20 percent) and $30 million (7 percent) of the Port's total operating revenues, respectively. The Capital Development Division and Corporate Departments operate as service units, are not revenue-generating components of the Port, and allocate their expenses to other divisions.

Port Management

The Port Commission. Port policies are established by the five-member Commission elected at large by the voters of the County for four-year terms. The Commission appoints the Chief Executive Officer.

The current Commissioners are:

BILL BRYANT — Chair and President of the Commission; Chair of Bryant Christie Inc.; member of the Pacific Council, Washington Council on International Trade Executive Committee, Board of Stewardship Partners, University of Washington's European Union Studies Center's Executive Committee. Mr. Bryant was elected to the Commission in November 2007 and also served as Commission Chair and President in 2009.

GAEL TARLETON — Vice-Chair and Vice-President; served as a volunteer Board member and former Board Chair for the Seattle-based Foundation for Russian-American

Economic Cooperation. Ms. Tarleton is also the co-founder of the Pacific Northwest chapter of Women in International Security and was a World Affairs Council Fellow. Ms. Tarleton was elected to the Commission in November 2007.

ROB HOLLAND	—	Secretary of the Commission; owner of Gulf Energy Consult, LLC. Mr. Holland previously served in marketing and trade positions with the Port of Tacoma, Horizon Lines Shipping, and Seaport Petroleum. Mr. Holland was awarded a fellowship in 2004 at the ENO Transportation Institute in Washington, D.C. for his work on international energy policy and received the Rodney Slater Scholars Award for African American contribution to transportation industry. Mr. Holland was elected to the Commission in November 2009.
JOHN CREIGHTON	—	Assistant Secretary of the Commission; selected to serve as President of the Commission for two consecutive terms in 2007 and 2008. Mr. Creighton was appointed by Governor Gregoire to the Freight Mobility Strategic Investment Board; has experience as corporate attorney; is past co-president of the Seattle World Trade Club and member of the boards of the Seattle Convention and Visitors Bureau, the US-Japan Leadership Program and the Chief Seattle Council; and serves as Chairman of the Board of the Pathways Initiative of the National Urban League of Metropolitan Seattle. Mr. Creighton has served on the Commission since 2005.
TOM ALBRO	—	Member of the Commission; owner of Seattle Monorail Services; and prior owner and manager of Pro-Scribe, a medical documentation firm. Mr. Albro has served as a member of the Municipal League's candidate evaluation committee, board of directors and chair (2000-2002); was selected as an American Marshall Memorial Fellow; served as a member of the Planning and Host Committee of the Marshall Forum in 2006; and has served on the Downtown Urban Center Planning Group and the King County Metro - North Seattle Sounding Board. Mr. Albro was elected to the Commission in November 2009.

Certain Executive Staff. Through resolutions and directives, the Commission sets policy for the Port. The policies set by the Commission are implemented by the Port's Chief Executive Officer and his staff. Brief resumes of the Chief Executive Officer and certain other aviation related staff members are included below.

TAY YOSHITANI, CHIEF EXECUTIVE OFFICER, was named CEO of the Port in 2007. As Chief Executive Officer, Mr. Yoshitani directs the Port's staff in carrying out the policies established by the Commission. Prior to joining the Port, Mr. Yoshitani was a Senior Advisor to the National Association of Waterfront Employers in Washington, D.C. Previously, he served as executive director and deputy executive director of the Port of Oakland, executive director of the Maryland Port Administration and as deputy executive director of the Port of Los Angeles. Born in Japan, he is a graduate of the U.S. Military Academy at West Point and holds a master's degree in business administration from Harvard University. He received airborne and ranger training in the Army prior to service in Vietnam and was discharged with the rank of captain.

KURT BECKETT, CHIEF OF STAFF, joined the Port in November 2007 as the External Affairs Director and in 2010 was promoted to Chief of Staff. He previously served as Chief of Staff for U.S. Senator Maria Cantwell since 2004 and as her deputy chief of staff since 2001. He also previously worked for Congressman Norm Dicks for nearly 10 years, most recently as District Director. Beckett is a graduate of the University of Washington.

DAN THOMAS, CHIEF FINANCIAL AND ADMINISTRATIVE OFFICER, has been with the Port since 1990 and has served as Chief Financial Officer since August 2000. Mr. Thomas served as the Port's Director of Finance and Budget from 1997 through August 2000. As Chief Financial and Administrative Officer, Mr. Thomas oversees the accounting, finance, treasury, budgeting, risk management, human resources, health and safety, labor relations, and information technology functions. He holds a bachelor's degree in economics from Pennsylvania State University and a master's of business administration in finance from the University of Washington.

MARK REIS, MANAGING DIRECTOR, AVIATION DIVISION, became Managing Director of the Aviation Division in 2004 after serving as Deputy Managing Director for four years. Prior to holding that position, he was the general manager of commercial development at the Airport and Director of Finance for the Port. Prior to joining the Port, Mr. Reis was executive director of two Seattle-based non-profit organizations, the Northwest Conservation Coalition and the Northwest Renewable Resources Center. From 1978 to 1980, he worked for the U.S. House of Representatives Committee on Interior and Insular Affairs on energy legislation. Mr. Reis earned a bachelor's degree in environmental studies from Western Washington University and a master's degree in public administration from the John F. Kennedy School of Government at Harvard University.

RALPH GRAVES, MANAGING DIRECTOR, CAPITAL DEVELOPMENT DIVISION, is responsible for overseeing all capital development projects and for managing the Port's new Central Procurement Office. Mr. Graves joined the Port in August 2008. Mr. Graves served as a member of the U.S. Army Corps of Engineers for 29 years, serving as Deputy District Engineer in Baltimore and as District Engineer in both Honolulu and Seattle. Upon leaving the Corps of Engineers, he worked for Parsons Brinckerhoff, working on the Alaskan Way Viaduct project in Seattle. Mr. Graves graduated from the United States Military Academy (West Point). He has a Master's degree in Civil Engineering from the University of California--Berkeley, and a PhD in Civil Engineering from Stevens Institute of Technology.

CRAIG WATSON, GENERAL COUNSEL, has been an attorney with the Port since 1990 and was named General Counsel in April 2005. Mr. Watson's duties include providing legal advice to the Chief Executive Officer and Port Commission, supervising a staff of six in-house attorneys, overseeing workplace responsibility, and managing outside legal counsel. At the Port, Mr. Watson has worked on labor and employment law, construction-related matters, personal injury cases and insurance coverage matters. Previously, he worked for the Portland-based law firm of Bullivant Houser Bailey in its Seattle office as a civil litigator specializing in property loss and personal injury matters. Mr. Watson received his law degree in 1984 from Willamette University in Salem, Oregon. After law school, he served as a clerk at the Oregon Court of Appeals.

THE AIRPORT

The Airport is located approximately 12 miles south of downtown Seattle. The Airport is relatively isolated from other comparable airport facilities. Other airports that currently provide commercial passenger and cargo service include: Portland International Airport in Oregon, approximately 160 miles to the south of the Airport; Vancouver International Airport in British Columbia, approximately 155 miles to the north of the Airport; and Spokane International Airport in eastern Washington, approximately 270 miles to the east of the Airport. In addition, the Seattle region contains several smaller airports that offer cargo services, general aviation services and some commercial passenger service (and can accommodate additional commercial passenger service).

Passenger Activity at the Airport

In 2009, the Airport was the 17th busiest airport nationwide in terms of total passengers, according to statistics published by the Airports Council International-North America. The Port served a total of approximately 31 million total Airport passengers in 2009. Currently, the Airport has facilities for commercial passengers, air cargo, general aviation and maintenance on a site of approximately 2,800 acres. Airport facilities include the Main Terminal, the South and North Satellites accessed via an underground train, and a parking garage. A consolidated rental car facility currently is under construction. The Airport has three runways that are 11,900 feet, 9,425 feet and 8,500 feet in length.

Passenger Enplanements. The Airport served approximately 15.6 million enplaned passengers in 2009. Approximately 1.3 million (8.4 percent) of enplaned passengers on non-stop flights traveled to international destinations in 2009.

The following table illustrates the growth in enplanements at the Airport from 1999 through 2009. Between 1998 and 2009, the number of enplaned passengers at the Airport increased at a compounded annual growth rate of 1.8 percent per year.

Seattle-Tacoma International Airport
Historical Enplaned Passengers
1998 – 2009

Year	Domestic	Percentage Increase/ (Decrease)	International	Percentage Increase/ (Decrease)	Total Enplaned Passengers	Percentage Increase/ (Decrease)
1998	11,810,210	--	1,057,777	--	12,867,987	--
1999	12,606,377	6.7%	1,195,759	13.0%	13,802,136	7.3%
2000	12,962,578	2.8	1,211,174	1.3	14,173,752	2.7
2001	12,344,569	(4.8)	1,161,411	(4.1)	13,505,980	(4.7)
2002	12,247,185	(0.8)	1,115,129	(4.0)	13,362,314	(1.1)
2003	12,250,155	0.0	1,105,512	(0.9)	13,355,667	(0.0)
2004	13,153,619	7.4	1,210,623	9.5	14,364,242	7.6
2005	13,407,973	1.9	1,224,164	1.1	14,632,137	1.9
2006	13,764,088	2.7	1,226,559	0.2	14,990,647	2.5
2007	14,313,379	4.0	1,348,292	9.9	15,661,235	4.5
2008	14,647,483	2.3	1,437,456	6.6	16,084,939	2.7
2009	14,296,186	(2.4)	1,314,012	(8.6)	15,610,198	(3.0)

Source: Port of Seattle.

The following table shows monthly enplanement data for the first nine months commencing January 2010 compared to the same periods in 2009.

Seattle-Tacoma International Airport
Historical Enplaned Passengers
January– September (2009-2010)

	Current Year (2010)	Prior Year (2009)	Percentage Increase/ (Decrease)
January	1,090,822	1,065,064	2.4%
February	1,018,486	1,026,610	(0.8)
March	1,245,817	1,285,406	(3.1)
April	1,181,924	1,197,314	(1.3)
May	1,288,096	1,319,104	(2.4)
June	1,497,263	1,482,860	1.0
July	1,606,725	1,601,044	0.4
August	1,627,389	1,605,840	1.3
September	1,375,159	1,341,320	2.5

Source: Port of Seattle.

O&D Passenger Traffic. Most of the Airport's passenger activity is origin and destination ("O&D") activity, meaning that passengers either begin or end their trips at the Airport, as opposed to connecting through the Airport to other airports. In 2009 (the last year for which data is available), the estimated percentage of O&D passenger traffic at the Airport was 73.5 percent, based upon 2009 O&D data from the U.S. Department of Transportation's database, adjusted by the Port to include foreign carriers. Since 2000, the Airport's estimated percentage of O&D passenger traffic has ranged from 77.7 percent (2000) to 73.5 percent (2009).

Seattle-Tacoma International Airport
Historical Estimated Percentage of O&D Passenger Traffic
2000 – 2009

	Total Airport O&D Percentage
2000	77.7%
2001	76.8
2002	75.8
2003	74.8
2004	74.4
2005	76.6
2006	76.2
2007	75.5
2008	74.6
2009	73.5

Source: O&D data from the U.S. Department of Transportation's database, adjusted by the Port to include foreign carriers.

O&D traffic at the Airport has historically been primarily to and from medium- and long-haul markets (cities at least 500 miles from Seattle). As shown in the following table, in 2009 all but two of the Airport's top 26 domestic O&D markets were medium- or long-haul markets.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Seattle-Tacoma International Airport
Top Domestic Passenger Origin-Destination Markets and Airline Service
(with at least one percent of market share)
2009

Rank	Market of Origin or Destination(1)	Approximate Air miles from Seattle	Share of market, based on enplaned passengers(2)
1	Los Angeles, California	954	11.9%
2	San Francisco Bay Area, California	678	9.9
3	Las Vegas, Nevada	866	4.4
4	New York, New York	2,421	4.0
5	Phoenix, Arizona	1,107	3.7
6	San Diego, California	1,050	3.1
7	Denver, Colorado	1,024	3.1
8	Chicago, Illinois	1,721	2.9
9	Spokane, Washington	224	2.3
10	Honolulu, Hawaii	2,677	2.2
11	Dallas/Ft. Worth, Texas	1,660	2.1
12	Sacramento, California	605	2.0
13	Washington, D.C.	2,329	1.9
14	Minneapolis/St. Paul, Minnesota	1,399	1.9
15	Salt Lake City, Utah	689	1.8
16	Atlanta, Georgia	2,182	1.6
17	Boston, Massachusetts	2,496	1.6
18	Anchorage, Alaska	1,449	1.5
19	Boise, Idaho	399	1.4
20	Orlando, Florida	2,553	1.4
21	Houston, Texas	1,874	1.3
22	Baltimore, Maryland	2,335	1.3
23	South Florida	2,717	1.2
24	Kahului, Maui	2,640	1.2
25	Philadelphia, Pennsylvania	2,378	1.0
26	Detroit, Michigan	1,927	1.0
	Subtotal		71.8%
	All other cities		28.2
	Total		100.0%

Note: Totals may not foot due to rounding.
(1) Each market includes the major airports within the market.
(2) Compiled by the Port from U.S. Department of Transportation Statistics, T-100 Domestic Market Schedule T2.
Source: Port of Seattle.

Passenger Airline Diversity. Passenger enplanements at the Airport are spread over a relatively diverse air carrier base, with Alaska Airlines, Inc. ("Alaska") accounting for the largest share of enplaned passengers (34.3 percent) at the Airport in 2009. Alaska and its affiliate, Horizon Air Industries, Inc. ("Horizon") have a regional hub and together accounted for 48.1 percent of enplaned passengers at the Airport in 2009. Alaska and Horizon are separately certificated airlines both owned by the Alaska Air Group. Five other airlines combined accounted for an additional 38.0 percent of enplanements during this same period.

The following table illustrates the market shares in 2009 of the passenger airlines with a one-percent or greater share of enplaned passengers at the Airport.

Seattle-Tacoma International Airport
Airlines Ranked by Enplaned Passenger Traffic
2009

Airline	Share
Alaska Airlines	34.3%
Horizon Airlines	13.8
Alaska Air Group	48.1%
Delta Airlines (1)	12.5%
Southwest Airlines (2)	8.8
United Airlines (3)(4)	8.0
American Airlines	4.4
Continental Airlines (4)	4.3
US Airways	3.3
Virgin America	1.9
Hawaiian Airlines	1.4
JetBlue Airways	1.4
Frontier Airlines	1.1
Others (5)	4.8
Airport Total	100.0%

(1) Includes Delta connections (operated by SkyWest, ExpressJet and Mesaba Airlines) and historical service by Northwest Airlines.
(2) On September 27, 2010, Southwest Airlines announced a proposed merger with AirTran.
(3) Includes United Express (operated by SkyWest).
(4) On October 1, 2010, United Airlines and Continental Airlines merged.
(5) Includes all airlines with less than one-percent share of enplaned passengers at the Airport.

Source: Port of Seattle.

AIRPORT CAPITAL PLAN FUNDING

Each year, the Port engages in a capital planning process to review the Capital Improvement Program (the "CIP") and to develop a capital budget and a draft plan of finance for the following year. Once approved by the Commission, the next year of the CIP forms the basis of the Port's capital budget, which, together with the Port's operating forecast, is the key component of the Port's draft plan of finance. The draft plan of finance is designed to provide guidance on long-term funding as planning and investment decisions are made during the year.

The table below summarizes the Port's Committed and Business Plan Prospective Airport capital expenditures (excluding financing costs) for the 2010-2016 period. This plan was developed in November 2009 and updated in June 2010. In conjunction with the 2011 budget, the Port will update both its CIP and its capital funding plan. Committed Projects are ongoing projects or projects that are ready to move forward and for which a funding commitment will be secured. Business Plan Prospective Projects are considered critical for achieving business plan goals and have business unit or division approval but are less certain in timing or scope and can be deferred.

Port of Seattle
Airport Capital Improvement Plan
2010-2016

Division	Total (millions) [1]
Committed Projects	$ 697
Business Plan Prospective	$ 806
Total Airport CIP	$ 1,503

(1) Excludes financing costs.
Source: Port of Seattle.

Aviation Division Committed Capital Plan. With the completion of all major projects included in the Aviation Division's 1999 $2.6 billion Phase I capital program, and with the revised passenger forecast calling for slower growth, the emphasis of the Aviation Division capital program is shifting from capacity enhancement projects to renewal and replacement. The major exception to this shift in project focus is the Port's consolidated rental car facility, currently under construction. The consolidated rental car facility is intended to accommodate all rental car companies desiring to rent space at the Airport. The total budget, including land acquisition and the construction of a bus maintenance facility, is $412 million. Additional projects in the Aviation Division's committed capital plan include the replacement of terminal escalators (including replacement of 42 aging escalators over a seven-year period), noise mitigation (involving the buy-out or insulation of single-family houses, multi-family buildings, and institutional buildings), installation of pre-conditioned air for heating and cooling of aircraft while parked at Airport gates, and buying out the lease of the U.S. Postal Service Airmail Center together with demolition of the building, and the construction of aircraft parking hardstands.

Funding. Funding for the Airport's capital improvement program is expected to be derived from a variety of sources, including PFCs, net income, federal grants, existing bond proceeds, customer facility charges, proceeds of additional Port general revenue obligations and proceeds of the Port's tax levy. The Airport's current funding plans include the use of an estimated $84 million of PFCs. The Port's current funding plans do not include additional PFC Bonds. In addition to the Airport capital improvement plan, the Port funds Seaport, Real Estate and Corporate capital improvement plans, and certain public expense projects. A portion of the funding of the Corporate projects is allocated to the Airport.

CERTAIN INVESTMENT CONSIDERATIONS

The purchase of the Series 2010 PFC Bonds involves investment risk. Prospective purchasers of the Series 2010 PFC Bonds should consider carefully all of the information set forth in this Official Statement, including its appendices, evaluate the investment considerations and merits of an investment in the Series 2010 PFC Bonds and confer with their own tax and financial advisors when considering a purchase of the Series 2010 PFC Bonds.

The Series 2010 PFC Bonds are secured solely by a pledge of PFC Revenues. The Port's ability to receive PFCs generated by passenger enplanements in amounts sufficient to pay debt service on the First Lien PFC Bonds depends on many factors, some of which are not subject to the control of the Port.

There are many factors outside of the Port's control that can affect passenger activity levels at the Airport. Some known factors include the level of economic activity both within and outside of the area served by the Port, general demand for air travel, the financial condition of the airline industry, regulation of the Port and Airport operations, global health, security and other geopolitical concerns, and natural disasters. Also outside of the Port's control are potential changes to the federal PFC program.

Factors subject to the Port's control, to some degree, include the Port's determination, subject to the requirements of the PFC Master Resolution, whether and when to issue additional PFC indebtedness either on a parity with or subordinate to the Series 2010 PFC Bonds, and the application of PFC revenues within the requirements of the PFC Master Resolution and consistent with the PFC Regulations.

The following section discusses some of the factors affecting PFC Revenues. The following discussion cannot, however, describe all of the factors that could affect PFC Revenues. In addition to these known factors, other factors could affect the Port's ability to derive PFC Revenues sufficient to pay debt service on the First Lien PFC Bonds. For further discussion of the factors affecting PFC Revenues, see the Report of the Independent Consultant in Appendix A.

Limited Obligations; Limitation of Remedies

The principal of and interest on the Series 1998 PFC Bonds, the Series 2010 PFC Bonds, and on any additional First Lien PFC Bonds are payable solely from Pledged Revenue. Such funds are the only moneys pledged by the Port to secure payment of the First Lien PFC Bonds. No Port properties or general revenues, including general revenues from operation of the Airport, are pledged to the payment of the First Lien PFC Bonds. No mortgage or security interest or other lien in or on any properties of the Airport, including properties financed with proceeds received from the sale of the First Lien PFC Bonds, has been or will be granted for the benefit of PFC Bondholders.

Under the terms of the PFC Resolution, payments of debt service on First Lien PFC Bonds are required to be made only as they become due and the occurrence of a default does not grant a right to accelerate payment of the First Lien PFC Bonds. In the event of multiple defaults in payment of principal or interest on the First Lien PFC Bonds, the First Lien PFC Bond owners could be required to bring a separate action for each such payment not made. Remedies for defaults are limited to such actions which may be taken at law or in equity. See Appendix E.

Various State laws, constitutional provisions, and federal laws and regulations apply to the obligations created by the issuance of the Series 2010 PFC Bonds. There can be no assurance that there will not be any change in, interpretation of, or addition to the applicable laws and provisions will not be changed, interpreted, or supplemented in a manner that would have a material adverse effect, directly or indirectly, on the affairs of the Port.

In the event of a default in the payment of principal of or interest on the First Lien PFC Bonds, the remedies available to the owners of the First Lien PFC Bonds upon a default are in many respects dependent upon judicial action, which is often subject to discretion and delay under existing constitutional law, statutory law, and judicial decisions, including the federal Bankruptcy Code. Bond Counsel's opinion as to enforceability to be delivered simultaneously with delivery of the Series 2010 PFC Bonds will be qualified by certain limitations, including limitations imposed by bankruptcy, reorganization, insolvency, and equity principles. See the proposed forms of bond counsel opinions included in Appendix C.

Collection of the PFCs

The ability of the Port to collect PFCs annually that together with PFCs on hand are sufficient to meet its PFC Bond obligations depends upon a number of factors including the operation of the Airport by the Port, the number of eligible passenger enplanements at the Airport, the then-permitted PFC level and the Port's authority to collect PFCs at that level, the use of the Airport by Collecting Carriers, the efficiency and ability of the Collecting Carriers to collect and remit PFC moneys to the Port, and the handling fee retained by the Collecting Carriers. The Port relies upon the Collecting Carriers' collection and remittance of PFCs, and both the Port and the FAA rely upon the airlines' reports of enplanements and collection statistics. These and other factors could affect the amount of PFC Revenue actually collected by the Port each year, causing PFC Revenue to be less than the amount projected and, depending on the severity of the shortfall, to be less than the amount required to enable the Port to pay the principal of and interest on the First Lien PFC Bonds. See "THE PFC PROGRAM," including "—Collection and Segregation of PFCs by Airlines."

PFC Revenues could fall short of projections if, for example, the numbers of enplaned passengers at the Airport is significantly below the numbers projected by the Port and reviewed by the Independent Consultant in projecting annual PFC Revenue, if the handling fees retained by the Collecting Carriers are increased or if the PFC Act is amended to reduce the PFC level.

Given PFC Revenues collected to date and projected PFC Revenue as shown in the Report of the Independent Consultant, the Port estimates that it will have collected approximately $1.33 billion in PFC Revenue by

September 1, 2018. This is the amount of PFC Revenue the FAA has authorized the Port to collect and use (also referred to as PFC Authority), as of October 29, 2010. The Port may only use PFC Revenue for projects and amounts specified in PFC approvals received from the FAA. The First Lien Sufficiency Covenant generally requires that Unspent PFC Authority be equal to or exceed remaining PFC bond debt service obligations at all times. If the Port collects cumulative PFC Revenue equal to its PFC Authority prior to the final maturity date of any outstanding PFC Bonds, the Port will be required to reserve PFC Revenue, along with Additional Pledged Revenues (if any), sufficient to meet the then-remaining PFC Bond debt service obligations. The Port expects to submit future PFC applications and receive future PFC approvals from the FAA that would increase the Port's PFC Authority. Any increase in the Port's PFC Authority would extend the period of time required to fully collect authorized PFC Revenue. See Section 9 of the PFC Master Resolution and Section 18 of the PFC Series Resolutions included in Appendix E.

General Demand for Air Travel

As described in the Report of the Independent Consultant, the level of air traffic at the Airport is influenced by demographic trends and economic activity. The Report notes that air travel demand is directly correlated to population growth, age, education and income in the air trade area. Demand for air travel is also subject to national and global economic conditions and the threat of terrorism. Demand is also affected by the state of the airline industry including travel capacity and cost, including the cost of fuel. Airlines serving the Airport could merge, consolidate or liquidate. The Port cannot provide any assurance regarding demographic trends, economic conditions or conditions of the airline industry or any particular airline, or regarding any resulting impact on air traffic at the Airport.

Assumptions in the Report of the Independent Consultant

The Report of the Independent Consultant should be read in its entirety for an understanding of all of the assumptions described in the Report. See "INTRODUCTION—Report of the Independent Consultant." Inevitably, some assumptions used to develop projections will not be realized and unanticipated events will occur. Therefore, actual results achieved during the projection period will vary from the projections and the variations may be material. The projection period extends through 2016 and does not extend through the maturity of the Series 2010 PFC Bonds. See Appendix A.

Seismic and Other Considerations

The Airport is in an area of seismic activity, with frequent small earthquakes and occasionally moderate and larger earthquakes. The Port can give no assurance regarding the effect of an earthquake or other natural disaster or that proceeds of insurance carried by the Port would be sufficient, if available, to rebuild and reopen Airport facilities or that Airport facilities could or would be rebuilt and reopened in a timely manner following a major earthquake or other natural disaster. Any resulting reduction in air travel would have a corresponding reduction in the collection of PFCs and could affect the ability to pay PFC Bond debt service when due.

Additional Indebtedness

The PFC Master Resolution provides that the Port may issue bonds having a lien upon PFC Revenues on a parity with that of the First Lien PFC Bonds under certain circumstances. The Port also is permitted to issue bonds with a lien on PFCs subordinate to that of the First Lien PFC Bonds. The Port's ability to collect adequate PFC Revenues to provide sufficient liquidity to meet all of its debt service obligations when due, and provide adequate coverage to address unanticipated decreases in PFC Revenues, depends in part on the amount of PFC-secured indebtedness it incurs. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 PFC BONDS – Additional First Lien PFC Bonds."

PFC-Related Laws and Regulation

Limitations apply to the Port's use of PFCs as described under the heading "THE PFC PROGRAM." In addition, the Port operates the Airport pursuant to an airport operating certificate issued annually by the FAA and the Airport is required to obtain other permits and/or authorizations from the FAA and from other regulatory agencies. The Port is bound by contractual agreements included as a condition to receiving grants under the FAA's grant programs. Federal law also governs certain aspects of rate-setting and restricts grants of exclusive rights to conduct an aeronautical activity at an airport that receives or has received federal grants and other property.

The Port is required to comply with the provisions of federal security statutes including the Aviation Security Act, and with the regulations of the Transportation Security Administration. Failure by the Port (or by its contractors or tenants) to comply with, or violations of, statutory and regulatory requirements could result in the loss of grant funds, including specifically PFCs, and other consequences. See "THE PFC PROGRAM—Termination of Authority to Impose PFCs—Informal Resolution Process" and "–Formal Termination Process."

The Port's authority to impose PFCs may be terminated as a whole if the Port violates the provisions of the Noise Act. There are procedural safeguards to ensure that the Port's authority to impose PFCs at the Airport will not be summarily terminated because of violations of the Noise Act. In general, the Port can prevent termination of its PFC authority by suspending the effectiveness of any noise or access restriction in question, until the legal sufficiency of the restriction, and its impact on the Port's authority to impose PFCs at the Airport, has been determined.

Termination of PFCs

The Port's authority to impose and use PFCs is subject to certain terms and conditions provided in the PFC Act, the PFC Regulations and the PFC approvals. If the Port fails to comply with these requirements, the FAA may take action to terminate or to reduce the Port's authority to impose or to use PFCs. Some of the events that could cause the Port to violate these provisions are not within the Port's control. There can be no assurance that remaining PFC Revenue would be sufficient to pay the Series 2010 PFC Bonds in such event. See "THE PFC PROGRAM."

No Termination Protection for Series 2010 PFC Bonds

The FAA agreed in its June 1998 Approval that for each approved project, in the event of a suspected violation by the Port of the PFC Act, the PFC Regulations or any PFC approval that has not been satisfactorily addressed in the informal resolution process or in any formal termination procedure, the FAA will not terminate the Port's authority to impose a PFC, but will instead, reduce the total amount of the Port's remaining PFC authority to impose and use a PFC to the amount necessary to pay debt service to the earliest date on which the Port can redeem such bonds, including the amount necessary to redeem the Series 1998 PFC Bonds on such date.

The FAA's agreement is applicable only to bond-financed projects approved in the June 1998 Approval and is based in part upon (1) the inclusion in the PFC Master Resolution of provisions for an accelerated mandatory redemption date for the Series 1998 PFC Bonds upon the issuance by the FAA of its notice that the Port's PFC authority has been so reduced; and (2) the FAA's approval of the applicable provisions of the PFC Master Resolution and the series resolution for the Series 1998 PFC Bonds. The FAA approved the applicable provisions of these PFC resolutions and provided an opinion to the effect that upon the issuance of the Series 1998 PFC Bonds, all preconditions to the FAA's covenants set forth in the June 1998 Approval were satisfied.

The termination protection described above is available only for the Series 1998 PFC Bonds. The June 1998 Approval does not specifically reference the Series 2010 Bonds and the Port has not requested that the FAA provide the same agreement with respect to the Series 2010 Bonds. Accordingly the Series 1998 PFC Bondholders and the Series 2010 PFC Bondholders could be afforded different protections upon a termination by the FAA of the Port's authority to impose and collect PFCs, although the Series 1998 PFC Bonds and the Series 2010 PFC Bonds are both First Lien PFC Bonds. In the event of a termination of PFCs by the FAA, the Port's authority to impose PFCs for the payment of the principal of an interest on the Series 2010 PFC Bonds will terminate following completion of informal and formal termination proceedings under the PFC Regulations. Although the Port will be permitted to collect PFCs in an amount sufficient to pay debt service on any Series 1998 PFC Bonds that remain outstanding pursuant to the provisions of the 1998 Approval, it is unlikely that PFC Revenue under these circumstances will be sufficient to pay or redeem all First Lien PFC Bonds. See "THE PFC PROGRAM—Termination of Authority to Impose PFCs."

Amendments

There is no assurance that the PFC Act will not be repealed or amended or that the PFC Regulations or the Port's approvals from the FAA will not be amended in a manner that would adversely affect the Port's ability to collect and use PFC Revenues in amounts sufficient to make timely payments of principal and interest on the Series 2010 PFC Bonds.

Airline Bankruptcy

A number of airlines serving the Airport have filed for bankruptcy in recent years, and some airlines have ceased operations at the Airport. Additional bankruptcies, liquidations or major restructuring of airlines serving the Airport could occur.

The PFC Act, as amended in December 2003, provides certain statutory protections to eligible public agencies imposing PFCs, with respect to PFC collections in the event of an airline bankruptcy. It is unclear, however, whether the Port would be able to recover the full amount of PFC trust funds collected or accrued with respect to a Covered Air Carrier in the event of a liquidation or cessation of business, and whether the Port would experience significant delay in connection with such recovery. The PFC Act requires an airline that files for bankruptcy protection, or that has an involuntary bankruptcy proceeding commenced against it, to segregate PFC revenue in a separate account for the benefit of the eligible public agencies entitled to such revenue. The PFC Regulations require segregation of PFC revenue in an account for the benefit of all entitled public agencies, and do not require a further segregation of PFC revenue to be remitted specifically to the Port. Prior to the amendments made to the PFC Act allowing PFCs collected by airlines to constitute a trust fund, at least one bankruptcy court indicated that PFC revenues held by an airline in bankruptcy would not be treated as a trust fund and would instead by subject to the general claims of the unsecured creditors of such airline. Although the amended PFC Act should provide some protection for eligible public agencies in connection with PFC revenues collected by an airline in bankruptcy, the Port can provide no assurance as to the approach bankruptcy courts will follow in the future.

The Port also cannot predict whether a Covered Air Carrier that files for bankruptcy would have properly accounted for PFCs owed to the Port or whether the bankruptcy estate would have sufficient moneys to pay the Port in full for PFCs owed by such carrier. See "THE PFC PROGRAM – Collection and Segregation of PFCs by Airlines."

Forward Looking Statements

Certain statements contained in this Official Statement, including the projections and other forward looking statements included in Appendix A and other appendices, reflect not historical facts but forecasts and "forward looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "project," "forecast," "anticipate," "expect," "intend," and "believe" and similar expressions are intended to identify forward looking statements. All projections, forecasts, assumptions and other forward looking statements are expressly qualified in their entirety by the cautionary statements set forth in this official statement.

FIRST LIEN PFC BOND DEBT SERVICE

Historical PFC Debt Service Coverage. The following table shows historical debt service coverage for the Series 1998 PFC Bonds for the years 2005 through 2009, calculated in conformity with the method of calculation prescribed in the PFC Resolution.

Port of Seattle
Historical Debt Service Coverage
Passenger Facility Charge Revenue Bonds

For the Years Ended December 31

Fiscal Year	2005	2006	2007	2008	2009
PFC collections	$ 55,681,913	$ 58,060,853	$ 60,705,426	$ 61,483,221	$ 58,742,555
PFC Capital and Revenue Fund interest income	785,728	1,026,713	1,091,606	1,199,702	1,007,380
PFC Revenue	56,467,641	59,087,566	61,797,032	62,682,923	59,749,935
First Lien PFC Bond Reserve Account interest income	729,755	777,362	1,011,432	862,747	553,532
Subtotal	$ 57,197,395	$ 59,864,928	$ 62,808,464	$ 63,545,670	$ 60,303,467
First Lien PFC Bond Debt Service	20,424,427	20,422,428	20,425,927	20,423,677	20,424,928
Debt Service Coverage (PFC Revenue)(1)	2.76	2.89	3.03	3.07	2.93

Source: Port of Seattle
(1) This coverage calculation is based only on PFC Revenue (excluding interest on the First Lien PFC Bond Reserve Account).

PFC Bond Debt Service. The following table lists debt service for the Port's First Lien PFC Bonds.

Port of Seattle
Debt Service for First Lien PFC Bonds

		Series 2010 PFC Bonds			
Year Ending Dec. 31	Debt Service for the Series 1998 PFC Bonds(1)	Principal	Interest	Total Series 2010 PFC Bond Debt Service	Aggregate First Lien PFC Bond Debt Service
2011	$ 1,706,100	$ 10,090,000	$ 6,970,100	$ 17,060,100	$ 18,766,200
2012	1,706,100	10,245,000	6,818,750	17,063,750	18,769,850
2013	1,706,100	10,755,000	6,306,500	17,061,500	18,767,600
2014	1,706,100	11,295,000	5,768,750	17,063,750	18,769,850
2015	1,706,100	11,860,000	5,204,000	17,064,000	18,770,100
2016	1,706,100	12,450,000	4,611,000	17,061,000	18,767,100
2017	1,706,100	13,220,000	3,988,500	17,208,500	18,914,600
2018	16,801,100	--	3,327,500	3,327,500	20,128,600
2019	16,800,875	--	3,327,500	3,327,500	20,128,375
2020	--	15,440,000	3,327,500	18,767,500	18,767,500
2021	--	16,210,000	2,555,500	18,765,500	18,765,500
2022	--	17,025,000	1,745,000	18,770,000	18,770,000
2023	--	17,875,000	893,750	18,768,750	18,768,750
TOTAL	$45,544,675	$ 146,465,000	$54,844,350	$201,309,350	$246,854,025

Note: Totals may not foot due to rounding.
(1) Does not include the Series 1998 PFC Bonds being refunded by the Series 2010 PFC Bonds.

OTHER MATTERS

Investment Policy

As of December 31, 2009, the Port had total cash, cash equivalents, and investments in the Port Investment Pool totaling $909,460,000. See Note 2 in the audited financial statements of the Port included in Appendix B. As of December 31, 2009, the Port had more than $483 million in cash and cash equivalents, short-term investments and long-term investments. This number excludes restricted cash and cash equivalent and restricted short-term and long-term investments. See Note 2 in the financial statements included in Appendix B.

The Port has an adopted investment policy, which was last amended on October 23, 2007. For the purpose of purchasing investments, the Port pools its own funds, including funds established with bond proceeds. Investment earnings from the pool are allocated monthly to each participating fund based upon the average daily balance of each fund.

Under the Port's current investment policy, the Port may invest in (i) U.S. Treasury securities; (ii) U.S. agency securities including mortgage backed securities of these agencies limited to (1) collateralized mortgage pools having a stated final maturity not exceeding the maturity limits of the investment policy (10 years), and (2) planned amortization and sequential pay classes of collateralized mortgage obligations collateralized by 15-year agency-issued pooled mortgage securities having a stated final maturity not exceeding the maturity limits of the investment policy; (iii) certificates of deposit with Washington State banks authorized by the State's Public Deposit Protection Commission; (iv) bankers' acceptances, on the secondary market, issued by any of the top 50 world banks in terms of assets; and (v) repurchase agreements, provided that (1) the repurchase agreement may not exceed 60 days; (2) the underlying collateral must be a security authorized by the investment policy for purchase; and (3) all underlying securities used for repurchase agreements are settled on a delivery versus payment basis. Securities collateralizing repurchase agreements must be marked to market daily and have a value of at least 102 percent of the cost of the repurchase agreement for terms less than 30 days and 105 percent for terms in excess of 30 days. Other permitted investments include reverse repurchase agreements with terms not exceeding 60 days, commercial paper purchased on the secondary market, rated no lower than A1/P1 as authorized by Washington State Investment Board Guidelines, and certain municipal bonds rated "A" or better by at least one nationally-recognized credit rating agency.

The Port's current investment policy diversification parameters allow for 100 percent of the portfolio be invested in U.S. Treasury securities, 60 percent in U.S. agency securities, excluding agency discount notes, 20 percent in agency discount notes, 10 percent in agency mortgage-backed securities, 15 percent in certificates of deposit, 20 percent in bankers' acceptances, 20 percent in commercial paper, 15 percent in overnight repurchase agreements, 25 percent in term repurchase agreements, and five percent in reverse repurchase agreements.

Environmental Concerns

The Port has been notified by federal and State environmental agencies that it is potentially liable for some or all of the costs of environmental investigation and cleanup activities on some of its Port-owned property. In addition, the Port has been notified that it is one of several entities potentially liable for natural resources damages in Elliott Bay and the Duwamish River. In each of these matters, the Port is cooperating with the notifying agency and taking appropriate action with other parties to investigate and remediate environmental damage or contamination. Currently, it is not possible to determine the full extent of the Port's liability in these matters. The Port has developed a procedure consistent with the accounting rules to establish and maintain adequate financial reserves for environmental cleanups, to the extent that such liabilities can be reasonably estimated. As of December 31, 2009, the Port had reserves for environmental cleanups in the amount of approximately $37.5 million. Where appropriate, the Port is pursuing financial reimbursement from state funding agencies, other potentially liable parties and from its insurers. See Note 1–Environmental Reserves and Note 10 in Appendix B.

The State Environmental Policy Act requires all governmental bodies (including the Port) to prepare and file an environmental impact statement if the consequences of any action that is taken significantly affect the environment. The Port follows procedures to assure compliance with the statute and with the State's other environmental statutes.

INSURANCE

General Overview

The Port has a comprehensive risk management program designed to protect the Port financially against loss from adverse events to its property, operations, third-party liabilities and employees. The Port's insurance year for liability coverage runs from October 1, 2010 to October 1, 2011. The Port's insurance year for property coverage runs from July 1, 2010 to July 1, 2011. The Port utilizes the services of Alliant Insurance Services for the placement of its liability insurance. The Port also utilizes Alliant Insurance Services to purchase its property insurance. Alliant was selected through a competitive selection process in 2009. All of the Port's insurance carriers are rated "A" or better by the A.M. Best & Company and include Chartis, Lexington, Navigators Insurance, and National Union.

Property Insurance

The Port maintains a comprehensive property insurance program for loss of, and damage to, Port property including business interruption and equipment breakdown with a $1 billion ($1,000,000,000) per occurrence limit at a $500,000 per occurrence deductible. Terrorism coverage is provided with a sub-limit of $250 million per occurrence. Coverage for flood is capped at an annual aggregate of $25 million above a flat $500,000 deductible. Property insurance coverage extends to contractors of the Port, in addition to the Port, for property damage to the capital improvements that are in the course of construction. This "course of construction" coverage has a maximum limit of $50 million per project. Projects under construction with values that exceed $50 million must be specifically underwritten. The Port does not purchase earthquake insurance for its property unless it is part of a stand-alone builder risk property insurance policy specific to a project under construction.

Builder Risk Property Insurance

Builder Risk insurance applies to large projects, namely above $50 million in completed value, for which a specific policy is issued to cover potential losses that occur during the construction period. In June 2008, the Port purchased a specific three-year, stand alone builder risk property insurance policy to cover the construction of consolidated rental car facility. The policy covers the Port and its contractor's interest in the property. Limits on this policy are $280 million with smaller sublimits to cover the perils of windstorm, flood, earthquake, and terrorism. The policy deductible is $50,000 per occurrence. Earthquake limits are capped at $150,000,000. In December 2009, the Port purchased a second specific builder risk policy to cover the Spokane Street/East Marginal Way Grade Separation Project. The policy has limits of $20 million and includes coverage for damage caused by earth movement (earthquake).

Liability Insurance

The Port purchases excess non-aviation commercial general liability insurance which covers losses involving actual or alleged bodily injury and property damage that arises from claims made against the Port by third parties. The excess general liability limit is $50 million per occurrence with a $1 million per claim retention. This excess liability coverage is for the Port's non-aviation operations, automobile, employee benefits, and foreign liability exposures. Coverage includes claims resulting from bodily injury and property damage arising from terrorism acts.

The Port purchases a separate airport operator's liability insurance policy, which covers liability claims from third parties that involve property damage and bodily injury that arise out of airport operations. The limit of liability is $300 million with a $50,000 per claim retention. Coverage for events stemming from terrorism and/or war is excluded. In 2007, the Port added Robinson Aviation (ramp tower control vendor) as an insured onto this policy to cover the liability exposure of aircraft movement on the ramp area.

Separate liability policies have been purchased to cover the Port's public officials' and employment practices liability ($10 million limit/$1 million per claim retention); fiduciary liability ($5 million limit/no-deductible), and police professional liability ($10 million limit/$1 million per claim retention). The Port also purchases an employee dishonestly policy (formerly called a fidelity bond) protecting the Port from liability due to the dishonesty of Port employees. This policy has a $5 million limit. The Port self-insures its workers' compensation exposure.

Third Party Agreements

Contractors, tenants, and lessees, are required to carry at least $1 million of commercial general liability insurance ($10 million for large construction projects and higher-risk projects) and automobile liability insurance of at least $1 million ($5 million for automobiles operated on the non-movement part of the aircraft operations area and $10 million for automobiles operated on the aircraft movement area of the aircraft operations area). The Port requires airline tenants at the Airport to provide between $50 million and $300 million per occurrence liability limits. Contractors must also provide proof of workers' compensation coverage for their employees as well as Washington State "stop-gap" coverage that covers employers' liability. The Port requires all contractors, tenants, and lessees, to include the Port as an "additional insured" on their policies of commercial general liability insurance. All contracts and lease agreements require that the Port, and its employees, officers, and commissioners are to be held harmless and indemnified for all actual and alleged claims that arise out of the acts of the Port's contractors, consultants, vendors and lessees.

Owner Controlled Insurance Program

The Airport Capital Improvement Program ("ACIP") construction projects (built between 2001 and 2008) were insured against third party claims under an Owner Controlled Insurance Program ("OCIP") that expired on December 31, 2008. All ACIP work completed prior to the OCIP termination date continues to be covered for potential future claims for property damage and bodily injury through December 31, 2014. All potential claims that may arise from errors and omissions involving professional work will be potentially covered under the OCIP program if the claim is reported prior to December 31, 2016. The OCIP insured the Port, construction managers, eligible and enrolled contractors, and other designated parties for work performed under the ACIP. Certain contractors and subcontractors and their employees were excluded from this program.

INITIATIVES AND REFERENDA

Under the State Constitution, the voters of the State have the ability to initiate legislation and to modify existing laws through the powers of initiative and referendum. An initiative measure is submitted to the voters (if an initiative to the people) or to the Legislature (if an initiative to the Legislature) if the Secretary of State certifies the receipt of a petition signed by at least eight percent of the number of voters registered and voting for the office of governor at the preceding regular gubernatorial election. Certified initiatives to the people are placed on the ballot for the next State-wide general election.

Certified initiatives to the Legislature are submitted to the Legislature at its regular session each January. Once an initiative to the Legislature has been submitted, the Legislature must take one of the following three actions: (i) adopt the initiative as proposed, in which case the initiative becomes law without a vote of the people; (ii) reject or refuse to act on the proposed initiative, in which case the initiative must be placed on the ballot at the next State general election; or (iii) approve an amended version of the proposed initiative, in which case both the amended version and the original initiative must be placed on the next State general election ballot.

A bill passed by the Legislature is referred to the people for final approval or rejection if the Secretary of State certifies the receipt of a petition signed by at least four percent of the number of voters registered and voting for the office of governor at the preceding regular gubernatorial election. Certain actions of the Legislature necessary for the immediate preservation of the public peace, health or safety and the support of State government or its existing institutions are exempt from the referendum process.

Proposed initiatives to the people must be filed within ten months prior to the next State general election, and the petition signatures must be filed not less than four months before such general election. Proposed initiatives to the Legislature must be filed within ten months prior to the next regular session of the Legislature, and the petition signatures must be filed not less than ten days before such regular session of the Legislature. A referendum measure may be filed any time after the Governor has signed the act that the sponsor wants referred to the ballot. Petition signatures must be filed within 90 days after the final adjournment of the legislative session at which the act was passed.

An initiative or referendum approved by a majority of voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

In recent years there have been a number of initiatives filed in Washington, including initiatives targeting fees and taxes imposed by local jurisdictions or subjecting local jurisdictions to additional requirements. The Port cannot predict whether this trend will continue, whether any filed initiatives will receive the requisite signatures to be certified to the ballot, whether such initiatives will be approved by the voters, whether, if challenged, such initiatives will be upheld by the courts, and whether any future initiative could have a material adverse impact on the Port's PFC Revenues or operations.

LITIGATION

No Litigation Concerning the Series 2010 PFC Bonds

As of the date of this Official Statement, there is no litigation, to the knowledge of the Port, pending or threatened, challenging the authority of the Port to issue the Series 2010 PFC Bonds or seeking to enjoin the issuance of the Series 2010 PFC Bonds.

Other Litigation

The Port is a defendant in various legal actions and claims that arise during the normal course of business. Some of these claims may be covered by insurance. The Port is not aware of any legal actions that, in the opinion of Port management, will have a material adverse effect on PFC Revenues.

CONTINUING DISCLOSURE

The Port is covenanting for the benefit of the holders and beneficial owners of the Series 2010 PFC Bonds to provide certain financial information and operating data (the "Annual Disclosure Report") by not later than six months following the end of the Port's fiscal year (which currently would be June 30, 2011, for the report for the 2010 fiscal year), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Disclosure Report is to be filed with the Municipal Securities Rulemaking Board ("MSRB"). The notices of material events are to be filed by the Port with the MSRB. The specific nature of the information to be contained in the Annual Disclosure Report and in notices of material events is set forth in Appendix F. These covenants are made by the Port in the PFC Series Resolution to assist the purchaser of the Series 2010 PFC Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Port has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

TAX MATTERS

Series 2010A PFC Bonds. In the opinion of Bond Counsel, interest on the Series 2010A PFC Bonds is excludable from gross income for federal income tax purposes under existing law. Interest on the Series 2010A PFC Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Series 2010A PFC Bonds is included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on certain corporations.

Series 2010B PFC Bonds. In the opinion of Bond Counsel, interest on the Series 2010B PFC Bonds is excludable from gross income for federal income tax purposes, except for interest on any Series 2010B PFC Bond for any period during which such bond is held by a "substantial user" of the facilities financed by the bonds, or by a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2010B Bonds is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, and is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code.

Other Considerations. Federal income tax law contains a number of requirements that apply to the Series 2010 PFC Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the Series 2010 PFC Bonds and the facilities financed or refinanced with proceeds of the Series 2010 PFC Bonds and certain other matters. The Port has covenanted to comply with all applicable requirements.

Bond Counsel's opinion is subject to the condition that the Port comply with the above-referenced covenants and, in addition, will rely on representations by the Port and its advisors with respect to matters solely within the knowledge of the Port and its advisors, respectively, which Bond Counsel has not independently verified. If the Port fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Series 2010 PFC Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2010 PFC Bonds, regardless of the date on which the event causing taxability occurs.

Except as expressly stated above, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Series 2010 PFC Bonds. Owners of the Series 2010 PFC Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Series 2010 PFC Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the Series 2010 PFC Bonds should be aware that ownership of the Series 2010 PFC Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Series 2010 PFC Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the Series 2010 PFC Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations such as the Series 2010 PFC Bonds are in many cases required to be reported to the Internal Revenue Service (the "IRS"). Additionally, backup withholding may apply to any such payments made to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and the Port's compliance with its covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the Series 2010 PFC Bonds. Owners of the Series 2010 PFC Bonds are advised that, if the IRS does audit the Series 2010 PFC Bonds, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the Port as the taxpayer, and the owners of the Series 2010 PFC Bonds may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the Series 2010 PFC Bonds until the audit is concluded, regardless of the ultimate outcome.

No Bank Qualification. The Series 2010 PFC Bonds have not been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

Premium. An amount equal to the excess of the purchase price of a Series 2010 PFC Bond over its stated redemption price at maturity constitutes premium on that Series 2010 PFC Bond. A purchaser of a Series 2010 PFC Bond must amortize any premium over that Series 2010 PFC Bond's term using constant yield principles, based on the Series 2010 PFC Bond's yield to maturity. As premium is amortized, the purchaser's basis in the Series 2010 PFC Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the Series 2010 PFC Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Series 2010 PFC Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and the state and local tax consequences of owning such Series 2010 PFC Bonds.

LEGAL MATTERS

Issuance of the Series 2010 PFC Bonds is subject to receipt of the legal opinions of K&L Gates LLP, Seattle, Washington, Bond Counsel and Disclosure Counsel to the Port, and to certain other conditions. See Appendix D. Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies ("S&P") and Fitch Ratings have assigned their ratings of "A1," "A+," and "A," respectively, to the Series 2010 PFC Bonds. Certain information was supplied by the Port to such rating agencies to be considered in evaluating the Series 2010 PFC Bonds.

The foregoing ratings express only the views of the rating agencies and are not recommendations to buy, sell or hold the Series 2010 PFC Bonds. An explanation of the significance of each of the ratings may be obtained from the rating agency furnishing the rating. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, or any of them, if, in their or its judgment, circumstances so warrant. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Series 2010 PFC Bonds.

THE REGISTRAR

The principal of and interest and redemption premium, if any, on the Series 2010 PFC Bonds are payable by the fiscal agency of the State, currently The Bank of New York Mellon in New York, New York (the "Registrar"). For so long as the Series 2010 PFC Bonds remain in a "book-entry only" transfer system, the Registrar will make such payments to DTC, which, in turn, is obligated to remit such principal payments to the DTC participants for subsequent disbursement to the Beneficial Owners of the Series 2010 PFC Bonds. See Appendix D.

UNDERWRITING

The Series 2010A PFC Bonds are to be purchased from the Port at an aggregate purchase price of $87,520,846.97 (the principal amount of the Series 2010A PFC Bonds, less Underwriters' discount of $360,631.53, and plus original issue premium of $8,111,478.50), and the Series 2010B PFC Bonds are to be purchased from the Port at an aggregate purchase price of $71,678,279.10 (the principal amount of the Series 2010B PFC Bonds, less Underwriters' discount of $255,981.65, and plus original issue premium of $5,239,260.75), in each case subject to the terms of a bond purchase contract between the Port and the Underwriters. The bond purchase contract between the Port and Goldman, Sachs & Co., on its own behalf and on behalf of Barclays Capital Inc., Morgan Stanley & Co. Incorporated and Siebert Brandford Shank & Co., LLC, provides that the Underwriters will purchase all of the Series 2010 PFC Bonds if any are purchased and that the obligation of the Underwriters to accept and pay for the Series 2010 PFC Bonds is subject to certain terms and conditions set forth therein, including the approval by counsel of certain legal matters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Port, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Port.

The initial public offering prices or yields set forth on the inside cover page may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2010 PFC Bonds to certain dealers, unit investment trusts or money market funds at prices lower than the public offering prices stated on the inside cover pages.

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

INDEPENDENT AUDITORS

The financial statements of the Enterprise Fund and the Warehousemen's Pension Trust Fund of the Port as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008, and 2007, included herein as Appendix B, have been audited by Moss Adams LLP, independent accountants, as stated in its report appearing herein. The audited financial statements of the Port of Seattle are public documents. The Port of Seattle has not requested that Moss Adams LLP provide consent for inclusion of its audited financial statements in this Official Statement, and Moss Adams has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Further, Moss Adams LLP has not participated in any way in the preparation or review of this Official Statement.

MISCELLANEOUS

The purpose of this Official Statement is to supply information to purchasers of the Series 2010 PFC Bonds. The summaries provided in this Official Statement and in the appendices attached hereto of the Series 2010 PFC Bonds and the documents referred to herein do not purport to be comprehensive or definitive, and all references to the documents summarized are qualified in their entirety by reference to each such document. All references to the Series 2010 PFC Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. Copies of the documents referred to herein are available for inspection during the period of the offering at the principal office of the Port.

Certain statements contained in this Official Statement, including the appendices, reflect not historical facts but forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "project," "forecast," "anticipate," "expect," "intend," and "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this official statement.

Statements in this Official Statement, including matters of opinion, projections and forecasts, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Port and the purchasers of the Series 2010 PFC Bonds.

/s/ Daniel R. Thomas
Chief Financial Officer

APPENDIX A

REPORT OF THE INDEPENDENT CONSULTANT

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

Port of Seattle
Seattle-Tacoma International Airport
Passenger Facility Charge Revenue Refunding Bonds
Series 2010

REPORT OF THE INDEPENDENT CONSULTANT

Ricondo & Associates, Inc.
105 East Fourth Street, Suite 1700
Cincinnati, OH 45202
513.651.4700 telephone
513.412.3570 facsimile

[THIS PAGE INTENTIONALLY LEFT BLANK]

RICONDO®
& ASSOCIATES

October 29, 2010

Mr. Dan Thomas
Chief Financial and Administrative Officer
Port of Seattle
Pier 69
2711 Alaskan Way
Seattle, WA 98121

Re: ***Port of Seattle***
Passenger Facility Charge Revenue Refunding Bonds
Series 2010A and Series 2010B
Appendix A: Report of the Independent Consultant

Dear Mr. Thomas:

This report sets forth findings, assumptions, and projections of air traffic and financial analyses in conjunction with the planned issuance by the Port of Seattle (the Port) of its Passenger Facility Charge (PFC) Revenue Refunding Bonds, Series 2010A and Series 2010B (AMT) (collectively, the Series 2010 PFC Bonds), to refund a portion of the Port's outstanding Series 1998 PFC Bonds (as defined below). This report is intended for inclusion in the Official Statement for the Series 2010 PFC Bonds as Appendix A: Report of the Independent Consultant.

The Port, a municipal corporation of the State of Washington, owns and operates the Airport, the Port's marine facilities at the Seattle harbor, and various industrial and commercial properties. The Port has four divisions—the Aviation Division, the Seaport Division, the Real Estate Division, and the Capital Development Division—and several supporting professional and technical services departments. The Port is governed by a five-member commission (the Commission) elected at large by the voters of King County.

As described in more detail below, the Port's First Lien PFC Bonds are payable from and secured equally by a pledge of PFC Revenue received from PFCs imposed by the Port at the Airport. First Lien PFC Bonds are not currently (and are not expected to be) secured by a pledge of any revenue, other than PFC Revenue, derived by the Port from the general operation of the Airport or the Port's other divisions. Therefore, detailed information, including projected operating revenue and expenses, related to the general operation of the Aviation Division and the Port's other divisions is not included in this report.

Series 2010 PFC Bonds

Proceeds of the Series 2010 PFC Bonds will be used to: (1) refund a portion of the Port's outstanding Series 1998 PFC Bonds and (2) pay the costs of issuance of the Series 2010 PFC Bonds, all as more fully described in this report.

The Port will issue the Series 2010 Bonds and refund a portion of the Series 1998 PFC Bonds only if the Port can achieve sufficient debt service savings; therefore, the Port expects that debt service on the Series 2010 PFC Bonds will be less than the debt service associated with the Series 1998 PFC Bonds being refunded. For purposes of the PFC Bond financial projections reflected in this report and the accompanying financial tables, however, the debt service on the Series 2010 PFC Bonds has conservatively been assumed to be equal to the debt service on the refunded Series 1998 PFC Bonds for the Fiscal Years[1] 2010 to 2016 (the Projection Period). Currently, the Port does not anticipate issuing any other PFC Bonds (after the issuance of Series 2010 PFC Bonds) during the Projection Period, although the Port reserves the right to do so.

PFC Bond Resolution

The Port intends to issue the Series 2010 PFC Bonds pursuant to Resolution No. 3284 (adopted by the Port Commission on July 16, 1998), as amended, and Resolution No. 3643, as amended (adopted by the Port Commission on October 26, 2010), referred to collectively in this report as the PFC Bond Resolution.

The Series 2010 PFC Bonds, the Port's outstanding Series 1998 PFC Bonds, and any additional bonds payable from PFC Revenue on a parity with the Series 1998 PFC Bonds and the Series 2010 PFC Bonds, are referred to collectively as the First Lien PFC Bonds. All of the Port's currently outstanding PFC Bonds are First Lien PFC Bonds. The First Lien PFC Bonds are payable solely from, and secured by, a pledge of PFC Revenue and Additional Pledged Revenue, if any. PFC Revenue means all revenue received by the Port from time to time from PFCs authorized by the Federal Aviation Administration (FAA) and imposed by the Port on eligible enplaning passengers at the Airport, and investment income therefrom. No additional approvals are required from the FAA for PFC Revenue to be used to pay debt service on the Series 2010 PFC Bonds. Additional Pledged Revenue means any income, receipt, or revenue of the Port (other than PFC Revenue) legally available and pledged irrevocably to the payment of debt service on PFC Bonds. The financial projections reflected in this report and in the accompanying financial tables do not assume any Additional Pledged Revenue during the Projection Period.

Given PFC Revenues collected to date and projected PFC Revenue as shown in this report, the Port estimates that it will have collected approximately $1.33 billion in PFC Revenue by September 1, 2018. This is the amount of PFC Revenue the FAA has authorized the Port to collect and use (also

[1] The Port's fiscal year is the 12-month period ending December 31.

referred to as PFC Authority), as of October 29, 2010. The Port may only use PFC Revenue for projects and amounts specified in PFC approvals (including debt service) received from the FAA. The First Lien Sufficiency Covenant generally requires that Unspent PFC Authority be equal to or exceed remaining PFC bond debt service obligations at all times. If the Port collects cumulative PFC Revenue equal to its PFC Authority prior to the final maturity date of any outstanding PFC Bonds, the Port will be required to reserve PFC Revenue, along with Additional Pledged Revenues (if any), sufficient to meet the then-remaining PFC Bond debt service obligations. Table IV-5 of this report illustrates the Port's ability to pay Projected Aggregate First Lien Debt Service from unspent and available PFC Authority through the final maturity date of the Series 2010 PFC Bonds (2023), assuming, for the purposes of calculations on Table IV-5, that the Port does not receive any future PFC approvals from the FAA. The Port expects to submit future PFC applications and receive future PFC approvals from the FAA that would increase the Port's PFC Authority. Any increase in the Port's PFC Authority would extend the period of time required to fully collect authorized PFC Revenue.

The PFC Bond Resolution allows for the issuance of Subordinate Lien PFC Obligations but none have been issued to date. For purposes of this report and the accompanying tables, any reference to PFC Bonds, unless otherwise stated, refers to First Lien PFC Bonds and assumes that no subordinate lien PFC bonds will be issued during the Projection Period.

As discussed below, this report presents projections of PFC Bond debt service coverage and PFC sufficiency. Except as noted otherwise, capitalized terms in this report are used as defined in the PFC Bond Resolution.

Review of Port Projections and Findings

The Port prepared the aviation activity projections for the Airport and the PFC Bond financial projections included in this report. Ricondo & Associates, Inc. reviewed the Port's aviation activity projections and the PFC Bond financial projections in preparing this report and developing the findings and conclusions contained therein.

It is the opinion of Ricondo & Associates, Inc. that the Port's aviation activity projections, PFC Bond financial projections, and underlying assumptions are reasonable. Based on the assumptions, information, and analyses described in this report, we provide the following findings and opinions:

1. PFC Revenue is projected to be sufficient to meet deposits required (including principal and interest payments) under the PFC Bond Resolution in each year of the Projection Period.
2. Debt Service coverage for First Lien PFC Bonds is projected to be at least 2.87 times in each year of the Projection Period.

3. PFC Authority (unspent and available) is projected to be sufficient to pay Projected Aggregate First Lien Debt Service in each year 2010 to 2023 (the final maturity date of the Series 2010 PFC Bonds).

Additional findings and opinions include:

Economic Base

Demand for air service is highly correlated to demographic trends and economic activity within the Airport's Air Trade Area (i.e., the geographical area primarily served by the Airport):

- There is typically a direct relationship between population growth and long-term air travel demand. Air Trade Area population is projected to grow at a compounded annual growth rate (CAGR) of 1.1 percent during the Projection Period, similar to the projected population growth rates for the State of Washington and the United States.
- People between the ages of 35 and 54 tend to travel the most, and individuals with a college degree are more likely to travel by air. In 2009, Air Trade Area residents between the ages of 35 and 54 made up 30.3 percent of the population, a greater percentage than in the State of Washington (28.5 percent) and the United States (28.1 percent). Approximately 37.4 percent of the Air Trade Area population over the age of 25 holds a bachelor's degree or higher advanced degree (e.g., graduate or professional degree), significantly higher than in both the State (31.0 percent) and the United States (27.9 percent).
- As household income increases, air travel becomes more affordable and, therefore, is used more frequently. 46.8 percent of households in the Air Trade Area had household incomes of $60,000 or more in 2009, significantly higher than the percentage of households in this income category for the State (40.8 percent) and the United States (37.4 percent).
- Fortune 500 employers are well represented in the Air Trade Area through companies such as Boeing, Microsoft, Amazon.com, Starbucks and Nordstrom. The Air Trade Area has established notable industry clusters in life sciences, aerospace manufacturing and software and online services.
- Annual unemployment rates for the Air Trade Area were below those for the State of Washington and the United States from 2005-2009. The Air Trade Area's unemployment rate (non-seasonally adjusted) was 8.4 percent in August 2010. This rate was lower than the unemployment rates (non-seasonally adjusted) experienced by both the State (8.8 percent) and the United States (9.5 percent) during the same period.
- Nonagricultural employment in the Air Trade Area increased at a CAGR of 0.4 percent between 1999 and 2009, compared to 0.7 percent and 0.1 percent for the State of Washington and the United States, respectively, during this same period. Between 1999 and 2009, Air Trade Area employment growth occurred in the Information (CAGR of 2.6 percent), Services (1.4 percent) and Government (1.3 percent) sectors.

- Although Air Trade Area housing prices are down 24.1 percent from their July 2007 peak (compared with a 28.1 percent decrease from the peak nationally), the Air Trade Area housing market is in the process of stabilizing with housing prices projected to increase 25.5 percent from 2010 to 2014.
- The Air Trade Area benefits from various recreational and cultural resources that contribute to the quality of life in the Air Trade Area and help attract visitors. According to recent studies by the King County Convention and Visitors Bureau, spending by overnight visitors to King County increased from \$3.6 billion in 2002 to \$6.8 billion in 2009 and approximately 51 percent of visitors arrived by air.
- Despite the nationwide recession, the Washington State Economic Revenue and Forecast Council is anticipating job growth in the State of Washington, and by implication the Air Trade Area, through 2013 (the end of the Council's projection period). During the anticipated economic recovery, both the Air Trade Area and the State of Washington are expected to outperform the nation based on their strength in exports and their relatively stable aerospace and software industries.

As evidenced by the diversity of its industries, business opportunities and cultural, recreational and educational resources, the economic base of the Air Trade Area is capable of supporting increased demand for air travel at the Airport during the Projection Period.

Air Traffic

- Classified by the FAA as a large hub facility based on its percentage of nationwide enplaned passengers, the Airport ranked 17th nationwide in total passengers in 2009, with 31.2 million enplaned and deplaned passengers.[2]
- The Airport is relatively isolated from major alternative commercial service airports. Vancouver International, Portland International, and Spokane International airports are located approximately 155, 160, and 270 driving miles, respectively, from the Airport.
- As of September 2010, the Airport had scheduled passenger service provided by 16 U.S. flag carriers and 10 foreign flag carriers. The Airport has had the benefit of a relatively large and stable air carrier base, which has helped promote competitive pricing and scheduling diversity in the Airport's major markets. Since 2005, no single airline has had more than a 36.3 percent share of enplaned passengers at the Airport.
- With the exception of Spokane and Boise, each of the Airport's top origin-destination (O&D) markets in 2009 (cities with at least a 1.0 percent share of 2009 total O&D passengers) is located at least 600 miles or more from the Airport, with 19 of the top O&D markets located at least 1,000 miles or more from the Airport. Given the distance to these top markets, for

[2] *ACI Traffic Data 2009*, Airports Council International.

most passengers driving is generally not a reasonable alternative to taking a flight from the Airport.

- Based on a review of the Port's airline traffic projections, reflecting a CAGR of 1.6 percent between 2009 and 2016, a review of historical growth trends in passenger traffic at the Airport (including a CAGR of 1.8 percent for enplaned passengers between 1998 and 2009), analysis of scheduled airline service and recent announcements, and linear regression modeling of key socioeconomic variables, it is our opinion that the Port's projections of enplaned passenger traffic at the Airport can realistically be attained during the Projection Period and provide a reasonable basis from which to prepare financial projections.
  - During prior periods of nationwide passenger declines, and similarly during periods of nationwide growth, the Port's passenger activity levels have generally fared better than the nation's. Following the events of September 11, 2001 and the economic slowdown between 2000 to 2003, enplaned passengers at the Airport returned to the peak 2000 level within four years, whereas enplaned passengers nationwide returned to the peak 2000 level in five years. The Port's current projection of enplaned passengers reflects a return to the 2008 level (16.1 million) in five years (in 2013).
  - Comparing 2010 year-to-date (YTD) (Jan – Sep) to the same period in 2009, enplaned passengers at the Airport have increased 0.1 percent. The Port's enplaned passenger forecast incorporated in this report and the accompanying tables reflects a 1.6 percent decrease for 2010 and a 1.0 percent increase for 2011. As part of the Port's 2011 Budget process, the Port has reviewed its current enplaned passenger forecast reflected in this report and the accompanying tables. Based on the enplaned passenger information for 2010 through September and on information for fourth quarter seat capacity, the Port expects 2010 enplaned passengers to increase approximately 0.5 percent (rather than decrease 1.6 percent as reflected in this report and the accompanying tables) and 2011 enplaned passengers to increase 1.0 percent (a growth rate assumption unchanged from what is reflected in this report and the accompanying tables, based on longer-term seat capacity information). For purposes of this report, the more conservative forecast for 2010 reflecting a 1.6 percent decrease in enplaned passengers has been used.
  - The Port's projection of a 2.4 percent CAGR of enplaned passengers for the longer-term (2012 through 2016) is lower than the CAGR of 2.9 percent for enplaned passengers at the Airport between 2004 and 2008. Enplaned passenger growth at the Airport between 2004 and 2008 (following the recovery in 2004 and prior to the decrease in 2009) can be characterized as a period of normal growth for the Airport, as it was a period that was not affected by significant nationwide events.
- The Port's projection of enplaned passengers at the Airport for the longer-term (2012 through 2016) reflects a lower CAGR at 2.4 percent relative to the growth rates the FAA is projecting for nationwide domestic enplaned passengers at 2.8 percent and nationwide total enplaned

passengers at 2.9 percent for the same period, even though historically passenger growth at the Airport has been higher than the nation.

- For the 12-month periods ending September 30, 1998 through 2009, enplaned passengers at the Airport grew at a CAGR of 1.9 percent, compared to a CAGR of 0.8 percent for total U.S. enplaned passengers for the same period. The higher growth during this period is reflected in the Airport's share of total U.S. enplaned passengers increasing from 1.965 percent in 1998 to 2.211 percent in 2009. In addition, enplaned passengers at the Airport decreased 4.3 percent for the 12-month period ending September 30, 2009, whereas total U.S. enplaned passengers decreased 7.3 percent for the same period.
- O&D passenger activity at the Airport increased from 10.0 million O&D enplaned passengers in 1998 to 11.5 million in 2009. This increase represents a CAGR of 1.2 percent during this period compared to the 0.8 percent growth in total U.S. enplaned passengers.

The techniques used in this report are consistent with industry practices for similar studies in connection with revenue bond sales. While we believe the approach and assumptions utilized are reasonable, some assumptions regarding future trends and events may not materialize. Achievement of projections described in this report, therefore, is dependent upon the occurrence of future events, and variations may be material.

Sincerely,

Ricondo & Associates, Inc.

RICONDO & ASSOCIATES, INC.

TABLE OF CONTENTS

LIST OF TABLES

Table No.

LIST OF EXHIBITS

Exhibit No.

I. Introduction

1.1 Background

The Port of Seattle (the Port), a municipal corporation of the State of Washington (the State), was established in 1911. In 1942, the local governments in King County selected the Port to operate Seattle-Tacoma International Airport (the Airport). In addition, the Port owns and operates marine facilities at the Seattle harbor and various industrial and commercial properties.

The Port's Aviation Division operates the Airport, the 17th busiest airport nationwide in terms of total passengers in 2009.[1] The Seaport Division operates the nation's ninth busiest marine container cargo port.[2] The Port also serves as a bulk cargo port, handles related terminal infrastructure maintenance, and operates two passenger cruise terminals and other large vessel moorage facilities. The Port's Real Estate Division manages the Port's recreational and commercial marinas and various commercial and industrial properties. The Capital Development Division provides procurement and project management services to the operating divisions. In addition, there are a number of Corporate departments that provide services to the operating divisions including accounting, legal, and human resources.

First Lien PFC Bonds are not currently (and are not expected to be) secured by a pledge of any revenue, other than PFC Revenue, derived by the Port from the general operation of the Airport or the Port's other divisions. Therefore, detailed information, including projected operating revenue and expenses, related to the general operation of the Aviation Division and the Port's other divisions is not included in this report.

The Port is governed by a five-member commission (the Commission) elected at large by the voters of King County for terms of four years. Through resolutions and directives, the Commission sets policy and provides direction to the Port's Chief Executive Officer who, with other executive staff, implements policies and administers the day-to-day activities of the Port. The Port budgeted for 1,680 regular full-time equivalent employees (FTEs) in its Fiscal Year 2010 Budget.[3]

1.1.1 Proposed Issuance of PFC Refunding Bonds

As described in later sections of this report, the Port plans to issue its Port of Seattle Passenger Facility Charge (PFC) Revenue Refunding Bonds, Series 2010A and Series 2010B (Non-AMT) (collectively, the Series 2010 PFC Bonds) to (1) refund a portion of the Port's outstanding Series 1998 PFC Bonds; and (2) pay costs of issuance associated with the Series 2010 PFC Bonds.

The Port will issue the Series 2010 PFC Bonds and refund the Series 1998 PFC Bonds only if sufficient debt service savings can be achieved; therefore, the Port expects that debt service on the Series 2010 PFC Bonds will be less than the debt service associated with the Series 1998 PFC Bonds being refunded. For purposes of the PFC Bond financial projections reflected in this report and the accompanying financial tables, however, the debt service on the Series 2010 PFC Bonds has conservatively been assumed to be equal to the debt service on the refunded Series 1998 PFC Bonds for the period 2010 through 2016.

---

1 *ACI Traffic Data 2009*, Airports Council International.

2 According to 2009 American Association of Port Authorities data for domestic and international twenty-foot equivalent units, or TEUs.

3 The Port's fiscal year is the 12-month period ending December 31.

The Port intends to issue the Series 2010 PFC Bonds pursuant to Resolution No. 3284 (adopted by the Port Commission on July 16, 1998), as amended, and Resolution No. 3643, as amended (adopted by the Port Commission on October 26, 2010), referred to collectively in this report as the PFC Bond Resolution.

The Series 2010 PFC Bonds, the Port's outstanding Series 1998 PFC Bonds, and any additional bonds payable from PFC Revenue on a parity with the Series 1998 PFC Bonds and the Series 2010 PFC Bonds, are referred to collectively as the First Lien PFC Bonds. All of the Port's currently outstanding PFC Bonds are First Lien PFC Bonds. The First Lien PFC Bonds are payable solely from, and secured by, a pledge of PFC Revenue and Additional Pledged Revenue, if any. PFC Revenue means all revenue received by the Port from time to time from PFCs authorized by the Federal Aviation Administration (FAA) and imposed by the Port on eligible enplaning passengers at the Airport, and investment income therefrom. No additional approvals are required from the FAA for PFC Revenue to be used to pay debt service on the Series 2010 PFC Bonds. Additional Pledged Revenue means any income, receipt, or revenue of the Port (other than PFC Revenue) legally available and pledged irrevocably to the payment of debt service on PFC Bonds. The financial projections reflected in this report and in the accompanying financial tables do not assume any Additional Pledged Revenue during the Projection Period.

Given PFC Revenues collected to date and projected PFC Revenue as shown in this report, the Port estimates that it will have collected approximately $1.33 billion in PFC Revenue by September 1, 2018. This is the amount of PFC Revenue the FAA has authorized the Port to collect and use (also referred to as PFC Authority), as of October 29, 2010. The Port may only use PFC Revenue for projects and amounts specified in PFC approvals (including debt service) received from the FAA. The First Lien Sufficiency Covenant generally requires that Unspent PFC Authority be equal to or exceed remaining PFC bond debt service obligations at all times. If the Port collects cumulative PFC Revenue equal to its PFC Authority prior to the final maturity date of any outstanding PFC Bonds, the Port will be required to reserve PFC Revenue, along with Additional Pledged Revenues (if any), sufficient to meet the then-remaining PFC Bond debt service obligations. Table IV-5 of this report illustrates the Port's ability to pay Projected Aggregate First Lien Debt Service from unspent and available PFC Authority through the final maturity date of the Series 2010 PFC Bonds (2023), assuming, for the purposes of calculations on Table IV-5, that the Port does not receive any future PFC approvals from the FAA. The Port expects to submit future PFC applications and receive future PFC approvals from the FAA that would increase the Port's PFC Authority. Any increase in the Port's PFC Authority would extend the period of time required to fully collect authorized PFC Revenue.

The PFC Bond Resolution allows for the issuance of Subordinate Lien PFC Obligations but none have been issued to date. For purposes of this report and the accompanying tables, any reference to PFC Bonds, unless otherwise stated, refers to First Lien PFC Bonds.

The PFC Bond Resolution requires that certain covenants be met while PFC Revenue Bonds are outstanding and that certain financial tests be met before future PFC Revenue Bonds can be issued. As discussed below, this report presents estimates of debt service coverage for each year of the Projection Period to demonstrate the Port's ability to meet certain requirements of the PFC Bond Resolution. Except as noted otherwise, capitalized terms in this report are used as defined in the PFC Bond Resolution.

As stated in Section 1.1 above, First Lien PFC Bonds are not currently (and are not expected to be) secured by a pledge of any revenues, other than PFC Revenue, derived by the Port from the general operation of the Airport or the Port's other divisions. Therefore, detailed information, including projected operating revenues and expenses, related to the general operation of the Aviation Division and the Port's other divisions is not included in this report.

1.1.2 Overview of Aviation Division Operations

The Port's Aviation Division, which generated approximately 73.1 percent of total Port operating revenues in 2009,[4] operates the Airport. The Airport is located approximately 15 driving miles south of downtown Seattle, in King County, Washington, serving passengers primarily from King, Kitsap, Pierce, Snohomish and Thurston counties (the Air Trade Area). The Airport is relatively isolated from other comparable facilities. Other airports that currently provide commercial passenger and cargo service include: Portland International Airport in Oregon, approximately 160 driving miles to the south of the Airport; Vancouver International Airport in British Columbia, approximately 155 driving miles to the north of the Airport; and Spokane International Airport in eastern Washington, approximately 270 driving miles to the east of the Airport. In addition, the Air Trade Area contains several smaller airports, some of which currently offer or plan to offer cargo services, regional commercial passenger services and general aviation services.

The Airport is classified by the Federal Aviation Administration (FAA) as a large-hub facility based on the latest available enplaned passenger data. Historically, the Airport has primarily served passengers beginning or ending their trips at the Airport (also known as origin-destination passengers), as opposed to passengers connecting at the Airport.

In 2009, the Airport was the 17th busiest airport nationwide in terms of total passengers, according to statistics published by the Airports Council International-North America (ACI-NA). The Airport served approximately 15.6 million enplaned passengers (passengers embarking on an airplane, representing approximately 50 percent of total passengers enplaning and deplaning at the Airport) in 2009. International enplanements represented approximately 8.4 percent of total enplanements at the Airport in 2009.

The Airport has facilities for commercial passengers, air cargo, general aviation and maintenance on a site of approximately 2,800 acres. Airport facilities include the Main Terminal, the South Satellite, the North Satellite, and a parking garage. The Airport has three runways that are 11,900 feet, 9,425 feet, and 8,500 feet in length, respectively. The Port is currently constructing a five-story consolidated rental car facility approximately one driving mile north of the Main Terminal at the Airport.

1.2 Report Summary

This Report of the Independent Consultant is organized as follows:

- **Chapter 1—Introduction.** Provides an overview of the Port and its governance; a summary of the proposed issuance of the Series 2010 PFC Bonds; and a general description of the Aviation Division.
- **Chapter 2—Economic Base for Air Transportation**. Provides a description of the general economy of the Air Trade Area and relevant economic and demographic trends.
- **Chapter 3—Aviation Division Demand.** Presents historical and projected aviation activity at the Airport.
- **Chapter 4—PFC Bond Financial Analysis.** Presents a review of the PFC Bond Resolution; the PFC program at the Airport; the Series 2010 PFC Bonds; historical and projected PFC

[4] Per the Port's Comprehensive Annual Financial Report for the year ended December 31, 2009.

Revenue; projected PFC Bond debt service coverage; and the sufficiency of PFC collections to meet the Port's PFC obligations through 2023, the final maturity date of the Series 2010 PFC Bonds.

The Projection Period considered in this report extends through 2016. The Port prepared the aviation activity projections for the Airport and the PFC Revenue Bond financial projections, as reflected in this report. Ricondo & Associates, Inc. reviewed the Port's aviation activity projections and PFC Revenue Bond financial projections in preparing this report and developing the findings and conclusions contained herein. It is the opinion of Ricondo & Associates, Inc. that the Port's aviation activity projections, PFC Bond financial projections, and underlying assumptions are reasonable.

II. Economic Base for Air Transportation

The demand for air transportation at a particular airport is, to a large degree, a function of the demographic and economic characteristics of the airport's air trade area (i.e., the geographical area served by an airport). The correlation between demand at the Airport and the economic vitality of its surrounding counties is particularly strong, as most of the Airport's passenger activity is origin and destination (O&D) in nature, meaning that passengers either begin or end their trips at the Airport (whether they reside, work, commute for work in the Seattle-Tacoma area, or travel to the Seattle-Tacoma area for business or vacation), as opposed to connecting through the Airport to reach another destination. Based on detailed Port calculations using actual passenger data, O&D passengers accounted for approximately 74 percent of total passengers at the Airport in CY 2009.[1] Therefore, passenger activity at the Airport reflects demand generated through local, national, and international economic conditions and the airlines' ability to serve this demand, rather than the operational and scheduling decisions of a particular airline.

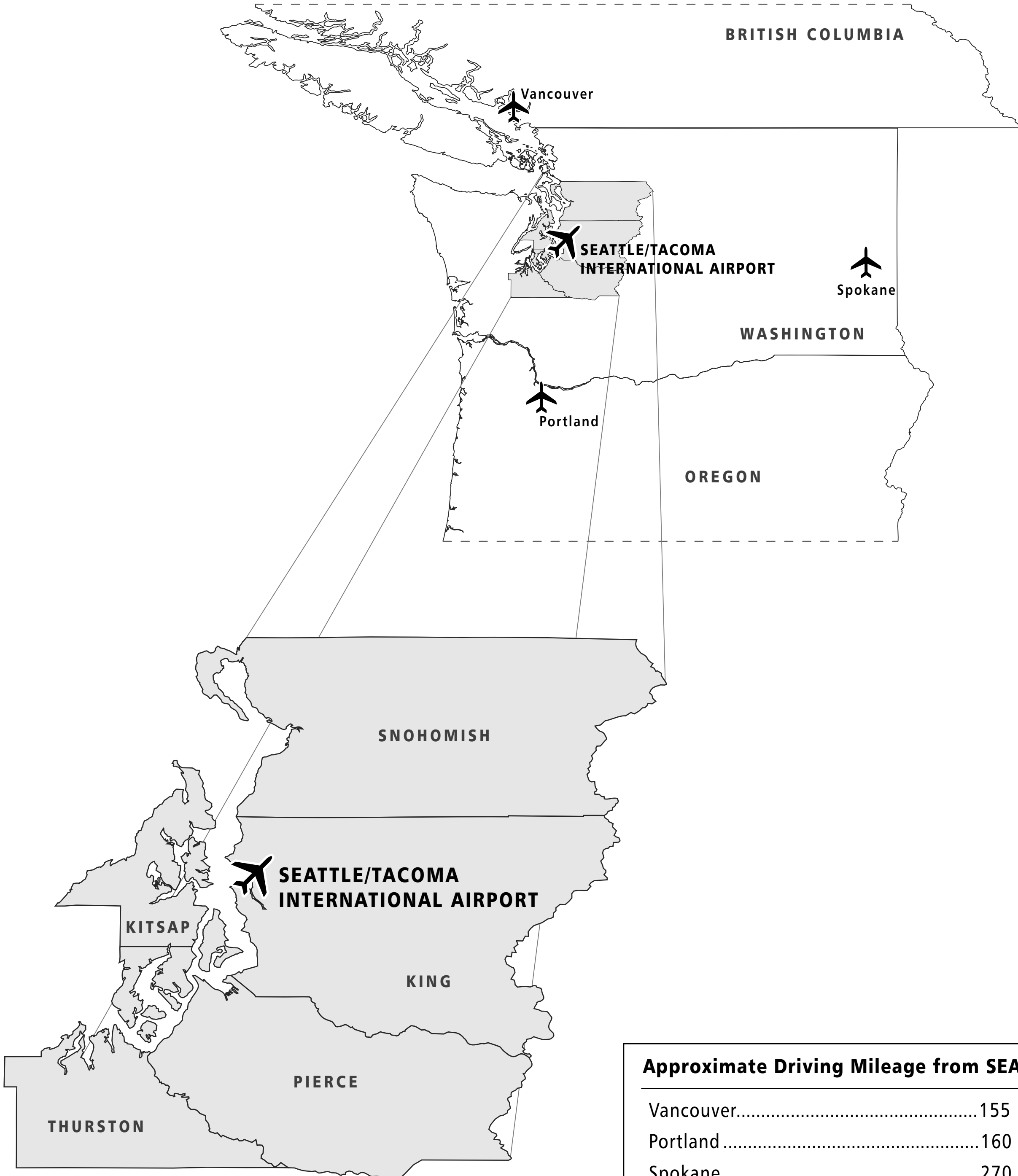
This chapter profiles the Seattle-Tacoma regional economy, including current conditions and trends. This chapter presents data that indicates that the economic base of the Airport's Air Trade Area (as defined below) is capable of generating increased demand for air travel at the Airport during the Projection Period.

2.1 Air Trade Area

The Airport's Air Trade Area represents the region around the Airport that captures the majority of the Airport's O&D passengers. Based on the most recent enplaned passenger survey conducted at the Airport,[2] 85 percent of the surveyed passengers originated from the State of Washington counties adjacent to the Airport as follows: 63 percent from King County; 11 percent from Pierce County; 8 percent from Snohomish and Island Counties (combined); and 3 percent from Kitsap County, including the Olympic Peninsula. The remaining 15 percent of the surveyed passengers originated from the more rural areas of the State of Washington (northern, eastern and southern parts of the State), as well as the states of Oregon and Idaho and also from Canada. The Airport's Air Trade Area covers three metropolitan statistical areas (MSAs) as follows: the Seattle-Tacoma-Bellevue MSA (King, Snohomish and Pierce Counties), the Olympia MSA (Thurston County) and the Bremerton-Silverdale MSA (Kitsap County). Therefore, for the purposes of these analyses, the Airport's Air Trade Area (hereinafter referred to as the Air Trade Area) is comprised of the five State of Washington counties of King (the county in which the Airport is located), Kitsap, Pierce, Snohomish and Thurston.

Exhibit II-1 depicts the Air Trade Area's geographical location in the State of Washington and its proximity to the neighboring State of Oregon and to Canada. Exhibit II-1 also illustrates the relative isolation of the Airport from major alternative commercial service airports: Vancouver International Airport (located approximately 155 driving miles from the Airport), Portland International Airport (located approximately 160 driving miles from the Airport) and Spokane International Airport (located approximately 270 driving miles from the Airport). A smaller alternative commercial

[1] The Airport's fiscal year is the same as the calendar year.
[2] The Gilmore Research Group, "Summary Report 2006 Enplaning Passenger Survey, Revised January 2007 by the Port of Seattle."



Approximate Driving Mileage from SEA	
Vancouver	155
Portland	160
Spokane	270

Source: Premier USA, Map Art, 2007.
Prepared by: Ricondo & Associates, Inc., June 2010.

Exhibit II-1

Air Trade Area and Proximity to Major Alternative Commercial Service Airports

service airport is Bellingham International Airport (located approximately 108 driving miles from the Airport) and an alternative cargo service airport is Boeing Field (located approximately 7 driving miles from the Airport). Pending FAA approval, commercial service also may commence at Snohomish County Airport/Paine Field (located approximately 37 miles from the Airport), at some point during the Projection Period. As of the date of this report, the FAA has not approved the use of Snohomish County Airport/Paine Field for commercial passenger airline service and is not anticipated to do so until at least early 2011; however, two airlines have expressed interest in providing air service at that airport (including Horizon Air expressing interest in approximately six daily departures to Portland, Oregon and Allegiant Air expressing interest in two weekly departures to Las Vegas in the first year that service is allowed). Based on the level of service that these airlines have expressed interest in, it does not appear that the potential introduction of such commercial service at Snohomish County Airport/Paine Field would have a material impact on the Port's projections of enplaned passengers at the Airport during the Projection Period.

2.2 Demographic Profile

2.2.1 Population Growth

Actual and projected population growth in a region is a key indicator for assessing demand for air travel. **Table II-1** presents historical and projected population for the Air Trade Area, the State of Washington, and the entire United States. Based on 2009 population counts, King County (where the City of Seattle is located) was the most populous county in the Air Trade Area, accounting for 49.1 percent of the Air Trade Area's total population, with 1,916,441 inhabitants compared with 3,899,689 inhabitants in the Air Trade Area. The Air Trade Area's share of population within the State of Washington was approximately 58.5 percent in 2009 (down slightly from 59.1 percent in 2000).

As shown in Table II-1, the Air Trade Area's population increased at a compounded annual growth rate (CAGR) of 1.6 percent between 1990 and 2009, reflecting slightly slower growth compared to the State of Washington (1.7 percent) and faster growth compared to the United States (1.1 percent). Within the Air Trade Area, the highest growth in population during this period occurred in Thurston, Snohomish, and Pierce counties, with 2.4 percent, 2.1 percent, and 1.6 percent CAGRs, respectively.

The Air Trade Area's largest counties have been among the faster-growing of the largest 100 United States counties since 2000, according to the U.S. Census Bureau. Ranked by CAGR over this period, Snohomish County ranked 26th, Pierce County 28th and King County 35th.

As reflected in Table II-1, based on Woods and Poole Economics, Inc.'s projected population counts for 2016, the Air Trade Area's population is projected to grow at a CAGR of 1.1 percent between 2009 and 2016 (compared to 1.2 percent for the State of Washington and 1.0 percent for the United States). A number of counties in the Air Trade Area are projected to experience above-trend growth over the period of 2009 to 2016; the population of Kitsap County is projected to grow at a CAGR of 1.8 percent, followed by Thurston County at 1.7 percent, and Snohomish County at 1.6 percent.

2.2.2 Age Distribution

Table II-2 shows that the median age in the Air Trade Area in 2009 (36.5 years) was slightly lower than in the State of Washington (36.9 years) and the United States (36.8 years).

According to survey data from the Travel Industry Association (TIA), air travel frequency in the United States varies by age group, and people between the ages of 35 and 54 tend to travel the most.

Table II-1

Historical & Projected Population

Area	Historical			Projected	Compounded Annual Growth Rate			
	1990	2000	2009	2016	1990-2000	2000-2009	1990-2009	2009-2016
King County	1,507,319	1,737,034	1,916,441	2,021,037	1.4%	1.1%	1.3%	0.8%
Kitsap County	189,731	231,969	240,862	272,324	2.0%	0.4%	1.3%	1.8%
Pierce County	586,203	700,820	796,836	863,010	1.8%	1.4%	1.6%	1.1%
Snohomish County	465,642	606,024	694,571	778,497	2.7%	1.5%	2.1%	1.6%
Thurston County	161,238	207,355	250,979	282,433	2.5%	2.1%	2.4%	1.7%
Air Trade Area	2,910,133	3,483,202	3,899,689	4,217,301	1.8%	1.3%	1.6%	1.1%
State of Washington	4,866,692	5,894,121	6,664,195	7,254,955	1.9%	1.4%	1.7%	1.2%
United States	248,709,873	281,421,906	307,006,550	328,569,385	1.2%	1.0%	1.1%	1.0%

Sources: U.S. Department of Commerce, Bureau of the Census, Population Estimates, May 2010 (historical) and Woods and Poole Economics, Inc., *2010 Complete Economic and Demographic Data Source (CEDDS),* 2009 (projected).

Prepared by: Ricondo & Associates, Inc., October 2010.

Table II-2

Age Distribution (2009)

	Air Trade Area[2/]	State of Washington	United States
Total Population	3,407,848	6,664,195	307,006,556
By Age Group			
17 and Under	22.8%	23.6%	24.3%
18 - 34	25.0%	23.9%	23.5%
35 - 54[1/]	30.3%	28.5%	28.1%
55+	21.8%	24.0%	24.1%
Total	100.0%	100.0%	100.0%
Median Age	36.5 years	36.9 years	36.8 years

Note:

1/ Data from the Travel Industry Association shows that this age group travels more frequently by air than other age groups.

2/ Data only available for Seattle-Tacoma-Bellevue MSA

Source: U.S. Department of Commerce, Bureau of the Census, *American Community Survey 2009* .

Prepared by: Ricondo & Associates, Inc., October 2010.

TIA data shows that people between the ages of 35 and 54 account for 46 percent of air trips, while persons between the ages of 18 and 34 account for 26 percent of air trips, and persons 55 years and older account for 27 percent of air trips.[3]

Data in Table II-2 shows that in 2009, Air Trade Area residents between the ages of 35 and 54 comprise approximately 30.3 percent of the population, compared with 28.5 percent of the population of the State of Washington and 28.1 percent of the population of the United States. The Air Trade Area's greater percentage of the population in the age category that travels most frequently nationwide represents an important source of demand for air service at the Airport.

2.2.3 Education

Educational attainment of residents can also be a key indicator of an area's demand for air service, as evidenced by a 2007 study by Arbitron, Inc. that found that individuals with a college degree are more likely to travel by air.[4]

According to 2009 data shown in **Table II-3**, approximately 37.4 percent of the Air Trade Area population over the age of 25 holds a bachelor's degree or higher advanced degree (e.g., graduate or professional degree). This percentage is significantly higher than that of both the State of Washington and the United States where, respectively, 31.0 percent and 27.9 percent of the population over the age of 25 hold a bachelor's degree or higher advanced degree.

2.3 Income

Another key indicator regarding demand for air travel is air trade area wealth, which can be measured by assessing levels of personal income. Personal income is the sum of wages and salaries, other labor income, proprietors' income, rental income of persons, dividend income, personal interest income, and transfer payments less personal contributions for government social insurance. Personal income is a composite measurement of market potential; and indicates the general level of affluence of local residents, which corresponds to an area's ability to afford air travel, as well as an area's attractiveness to business and leisure travelers (lower income areas often have weaker business ties to the rest of the nation and a less developed tourism infrastructure).

Table II-4 presents historical per capita personal income between 2002 and 2009 for the Air Trade Area, the State of Washington and the United States. As shown, per capita personal income was significantly higher than equivalent measures for the State of Washington and the United States between 2002 and 2009. Per capita personal income for the Air Trade Area increased at a CAGR of 4.2 percent between 2002 and 2009, compared with CAGRs of 4.0 percent for the State of Washington and 3.9 percent for the United States during this same period.

Table II-4 also presents projections of per capita personal income for 2016. According to data from Woods and Poole Economics, Inc., per capita personal income for the Air Trade Area is projected to increase at a CAGR of 4.2 percent, from $49,855 in 2009 to $66,522 in 2016. The 2009-2016 projection for the Air Trade Area is similar to projections for the State of Washington, which is

---

[3] Travel Industry Association, "2006 Domestic Travel Market Report."

[4] Arbitron, Inc., "The Arbitron Airport Television Study: Getting TV Commercials Out of the House and in Front of Affluent Consumers," June 2007.

Table II-3

Educational Attainment (2009)

Population 25 years and over	Air Trade Area[2/] 2,320,986	State of Washington 4,445,351	United States 201,952,383
Less Than High School Diploma	8.8%	10.4%	14.7%
High School Graduate	21.5%	24.0%	28.5%
Some College or Associate's Degree	32.3%	34.6%	28.9%
Bachelor's Degree[1/]	24.4%	19.9%	17.6%
Graduate or Professional Degree[1/]	13.0%	11.1%	10.3%
Total	100.0%	100.0%	100.0%

Note:

1/ Data from Arbitron, Inc. shows that individuals with a bachelor's degree or higher travel by air more frequently than individuals with lower levels of educational attainment.

2/ Data only available for Seattle-Tacoma-Bellevue MSA.

Source: U.S. Department of Commerce, Bureau of the Census, *American Community Survey 2009* .

Prepared by: Ricondo & Associates, Inc., October 2010.

Table II-4

Per Capita Personal Income

	Per Capita Personal Income (in current dollars)			Per Capita Personal Income Differential	
Year	Air Trade Area	State of Washington	United States	Between Air Trade Area and State of Washington	Between Air Trade Area and United States
Historical					
2002	$37,344	$32,606	$30,838	$4,738	$6,506
2003	$37,915	$33,214	$31,530	$4,701	$6,385
2004	$41,072	$35,347	$33,157	$5,725	$7,915
2005	$41,929	$36,227	$34,690	$5,702	$7,239
2006	$44,990	$38,639	$36,794	$6,351	$8,196
2007	$48,200	$41,203	$38,615	$6,997	$9,585
2008	$49,459	$42,356	$39,755	$7,103	$9,704
2009	$49,855	$42,826	$40,255	$7,029	$9,600
Projected					
2016	$66,522	$57,056	$54,499	$9,466	$12,023
Compounded Annual Growth Rate					
2002-2009	4.2%	4.0%	3.9%		
2009-2016	4.2%	4.2%	4.4%		

Percentage of Households in Income Categories (2009)			
Income Category (in 2000 $)	Air Trade Area	State of Washington	United States
Less than $29,999	23.4%	27.1%	30.4%
$30,000 to $59,999	29.8%	32.1%	32.2%
$60,000 to $74,999	14.2%	13.3%	11.8%
$75,000 to $99,999	15.1%	13.3%	11.7%
$100,000 or More	17.5%	14.2%	13.9%

Note: As household income increases, air transportation becomes more affordable and, therefore, is used more frequently.

Source: Woods and Poole Economics, Inc., *2010 Complete Economic and Demographic Data Source (CEDDS)* , 2009.

Prepared by: Ricondo & Associates, Inc., October 2010.

expected to grow at an identical rate, and the United States as a whole, which is projected to grow at slightly faster 4.4 percent annual rate.

An additional indicator of wealth, and thus a market's potential to generate demand for air transportation, is the percentage of households in the higher income categories. An examination of this indicator is important in that as household income increases, air transportation becomes more affordable and, therefore, is used more frequently. Table II-4 also presents percentages of households in selected household income categories for 2009. As shown, 46.8 percent of households in the Air Trade Area had household incomes of $60,000 or more in 2009, which was significantly higher than the 40.8 percent of households in this income category for the State of Washington and the 37.4 percent of households in this income category nationwide.

2.4 Employment

2.4.1 Labor Force Trends and Unemployment Rates

A growing labor force and low unemployment rates are indicators of demand for air travel in an air trade area. A growing labor force and low unemployment rates are also indicative of more potential opportunities for business travel and higher disposable income levels that facilitate leisure travel.

As shown in **Table II-5**, the Air Trade Area's civilian labor force experienced moderate growth between 1999 and 2009, ranging from approximately 1,854,000 workers in 1999 to approximately 2,147,000 workers in 2009. Over the 10-year period from 1999 to 2009, the CAGR for the Air Trade Area civilian labor force was 1.5 percent, compared to 1.4 percent and 1.0 percent for the State of Washington and the United States, respectively, during this same period. The period from 2007 to 2009 showed signs of faster growth in the Air Trade Area's civilian labor force, with a CAGR of 1.9 percent, approximately equal to the State of Washington's growth rate (2.0 percent) and significantly faster the United States' growth rate (0.3 percent) during this period.

As also shown in Table II-5, during the period between 1999 and 2008, Air Trade Area non-seasonally adjusted unemployment peaked at a 6.8 percent rate in 2003. Beginning in 2005 and continuing through 2009, the Air Trade Area experienced lower unemployment rates than the State of Washington and the United States in general.

In 2009, however, similar to the experiences of both the State of Washington and the United States, the unemployment rate in the Air Trade Area increased markedly. The Air Trade Area's unemployment rate (non-seasonally adjusted) was 8.4 percent in August 2010. This rate was significantly lower than the unemployment rate (non-seasonally adjusted) experienced by both the State of Washington (8.8 percent) and the United States (9.5 percent) during the same period.

2.4.2 Major Employers in the Air Trade Area

Table II-6 shows the diversity of the major employers in the Air Trade Area in 2009, with multiple sectors represented, such as retail, healthcare, government, telecommunications and academia. Table II-6 includes the major employers in the Air Trade Area with 1,000 or more employees. Air Trade Area employers with more than 10,000 employees include: Amazon.com, City of Seattle, Joint Base Lewis-McChord, King County, Microsoft, Navy Region Northwest, Providence Health & Services Washington, The Boeing Company, State of Washington, University of Washington, and the U.S. Postal Service.

Table II-5

Civilian Labor Force & Unemployment Rates

	Civilian Labor Force (000's)		
Year	Air Trade Area	State of Washington	United States
1999	1,854	3,066	139,368
2000	1,862	3,050	142,583
2001	1,873	3,053	143,734
2002	1,892	3,105	144,863
2003	1,909	3,146	146,510
2004	1,935	3,199	147,401
2005	1,969	3,256	149,320
2006	2,023	3,317	151,428
2007	2,066	3,390	153,124
2008	2,115	3,476	154,287
2009	2,147	3,529	154,142
Compounded Annual Growth Rate			
1999-2009	1.5%	1.4%	1.0%
1999-2002	0.7%	0.4%	1.3%
2002-2007	1.8%	1.8%	1.1%
2007-2009	1.9%	2.0%	0.3%

	Non-Seasonally Adjusted Unemployment Rates		
Year	Air Trade Area	State of Washington	United States
1999	4.1%	4.8%	4.2%
2000	4.4%	5.0%	4.0%
2001	5.5%	6.2%	4.7%
2002	6.7%	7.3%	5.8%
2003	6.8%	7.4%	6.0%
2004	5.7%	6.2%	5.5%
2005	5.0%	5.5%	5.1%
2006	4.5%	4.9%	4.6%
2007	4.1%	4.6%	4.6%
2008	4.9%	5.4%	5.8%
2009	8.5%	8.9%	9.3%
August 2010	8.4%	8.8%	9.5%

Source: U.S. Department of Labor, Bureau of Labor Statistics, September 2010.
Prepared by: Ricondo & Associates, Inc., October 2010.

Table II-6

Major Employers in the Air Trade Area in 2009

Employer	Product or Service
10,000 Employees or More	
Amazon.com, Inc.	Retail
City of Seattle	Government
Joint Base Lewis-McChord	Government
King County	Government
Microsoft Corp.	Software and Computer Services
Navy Region Northwest	Government
Providence Health & Services Washington	Healthcare
The Boeing Co.	Aviation & Aerospace Industry Manufacturer
State of Washington	Government
University of Washington	Academic -- Universities & Colleges
U.S. Postal Service	Government
5,000 Employees or More	
Alaska Air Group Inc.	Airline
Costco Wholesale Corp.	Wholesale/Retail
Fred Meyer Stores	Retail
Group Health Cooperative	Healthcare
MultiCare Health System	Healthcare
Lowe's Cos. Inc	Retail
Macy's	Retail
Nordstrom Inc.	Retail
QFC - Quality Food Centers	Retail
United Parcel Service	Transportation/Logistics
Virginia Mason Medical Center	Healthcare
Wal-Mart Stores Inc.	Retail
Weyerhaeuser Company	Forestry
1,000 Employees or More	
AT&T	Telecommunications
Bank of America	Financial Services
City of Tacoma	Government
Expedia	Travel Services
Liberty Mutual Group	Financial Services
PACCAR Inc.	Truck Manufacturer
Pierce County	Government
Port of Seattle	Government
Qwest[1/]	Telecommunications
Safeway Inc.	Retail
Starbucks Co.	Retail
Swedish Medical Center	Healthcare

Note:
1/ In April 2010, Qwest announced plans to be acquired by CenturyTel, the nation's fifth-largest local phone company.

Sources: Puget Sound Business Journal, *Book of Lists* , January 2010 (originally published on August 21, 2009) and Ricondo & Associates, Inc., June 2010.
Prepared by: Ricondo & Associates, Inc., October 2010.

Numerous companies listed in the 2010 Fortune 500 list (ranked by 2009 revenues) are headquartered in the Air Trade Area, including Costco Wholesale (ranked 25th), Microsoft (ranked 36th), Amazon.com (ranked 100th), Starbucks (ranked 241st), Nordstrom (ranked 270th), Paccar (ranked 282nd) and Weyerhaeuser (ranked 379th).

2.5 Economic Base

This section reviews the local economy in greater detail to examine more closely the basis for the economic strength of the Air Trade Area and in particular, to assess the strength of those industry sectors and subsectors that are significant generators of air travel demand (e.g., manufacturing and financial).

An analysis of nonagricultural employment trends by major industry sector is presented in **Table II-7,** which compares the Air Trade Area's employment trends to those for the State of Washington and the United States for 1999, 2008 and 2009. As shown, nonagricultural employment in the Air Trade Area increased from approximately 1,601,000 workers in 1999 to approximately 1,668,700 workers in 2009. This increase represents a CAGR of 0.4 percent during this period, compared to 0.7 percent and 0.1 percent for the State of Washington and the United States, respectively, during this same period. Between 2008 and 2009, as the economic recession took hold, nonagricultural employment in the Air Trade Area decreased at an annual rate of 5.0 percent, a rate that was slightly faster than the 4.5 percent decrease experienced by the State of Washington during this period and the 4.3 percent decrease experienced by the United States during this period. According to the Washington State Economic Revenue and Forecast Council, both the Air Trade Area and the State of Washington did not begin losing jobs until well after nationwide recession began in December 2007. Similar to the State of Washington and the United States, the Air Trade Area industry sector experiencing the greatest percentage decrease in employment between 2008 and 2009 was construction.

Three major industry sectors in the Air Trade Area experienced positive employment growth between 1999 and 2009, with growth occurring in the information (compounded annual growth rate of 2.6 percent), services (1.4 percent) and government (1.3 percent) sectors. A 2.6 percent decrease in manufacturing employment between 1999 and 2009 was not unique to the Air Trade Area, as manufacturing employment nationwide decreased by an even faster 3.7 percent rate during this period. In 2009, as shown in **Exhibit II-2**, with the exception of government and information and services and, to a lesser extent, manufacturing, the Air Trade Area's sectors of nonagricultural employment are generally in concert with those of the State of Washington and the United States on a percentage basis in 2009.

A shift in the Air Trade Area's employment base occurred between 1999 and 2009, as manufacturing employment decreased from 14.1 percent of total employment in 1999 to 10.4 percent in 2009 (-3.7 percentage points); and services employment increased from 35.1 percent of total employment in 1999 to 38.8 percent in 2009 (+3.7 percentage points). These trends in the Air Trade Area's employment base were consistent with changes in the employment base in the State of Washington and in the United States, as manufacturing employment decreased by 3.6 percentage points and 4.4 percentage points, respectively, and services employment increased by 3.3 and 4.7 percentage points, respectively, during this same period.

Table II-7

Employment Trends by Major Industry Sector

Air Trade Area [1/]

Nonagricultural Employment (000's)

Industry	1999	2008	2009	Compounded Annual Growth Rate 1999-2009	Annual Growth Rate 2008-2009
Services	562.0	671.2	648.2	1.4%	(3.4%)
Government	231.7	261.4	263.5	1.3%	0.8%
Trade	255.1	263.1	247.8	(0.3%)	(5.8%)
Manufacturing	225.0	187.3	172.8	(2.6%)	(7.7%)
Construction [2/]	95.8	121.1	95.0	(0.1%)	(21.6%)
Financial	100.0	101.7	94.4	(0.6%)	(7.2%)
Information [3/]	67.8	89.0	87.9	2.6%	(1.2%)
Transportation/Utilities	63.6	62.5	59.1	(0.7%)	(5.4%)
Total	1,601.0	1,757.3	1,668.7	0.4%	(5.0%)

State of Washington

Nonagricultural Employment (000's)

Industry	1999	2008	2009	Compounded Annual Growth Rate 1999-2009	Annual Growth Rate 2008-2009
Services	919.3	1,102.1	1,074.3	1.6%	(2.5%)
Government	474.2	546.3	549.1	1.5%	0.5%
Trade	424.7	457.5	433.3	0.2%	(5.3%)
Manufacturing	343.4	291.2	265.9	(2.5%)	(8.7%)
Construction [2/]	164.3	208.0	165.7	0.1%	(20.3%)
Financial	142.8	152.4	142.8	0.0%	(6.3%)
Information [3/]	85.1	105.6	103.6	2.0%	(1.9%)
Transportation/Utilities	94.3	95.9	91.0	(0.4%)	(5.1%)
Total	2,648.1	2,959.0	2,825.7	0.7%	(4.5%)

United States

Nonagricultural Employment (000's)

Industry	1999	2008	2009	Compounded Annual Growth Rate 1999-2009	Annual Growth Rate 2008-2009
Services	47,385	55,524	54,236	1.4%	(2.3%)
Government	20,307	22,509	22,544	1.1%	0.2%
Trade	20,863	21,226	20,152	(0.3%)	(5.1%)
Manufacturing	17,322	13,406	11,883	(3.7%)	(11.4%)
Construction [2/]	7,143	7,929	6,737	(0.6%)	(15.0%)
Financial	7,648	8,145	7,758	0.1%	(4.8%)
Information [3/]	3,419	2,984	2,807	(2.0%)	(5.9%)
Transportation/Utilities	4,909	5,067	4,795	(0.2%)	(5.4%)
Total	128,996	136,790	130,912	0.1%	(4.3%)

Notes:

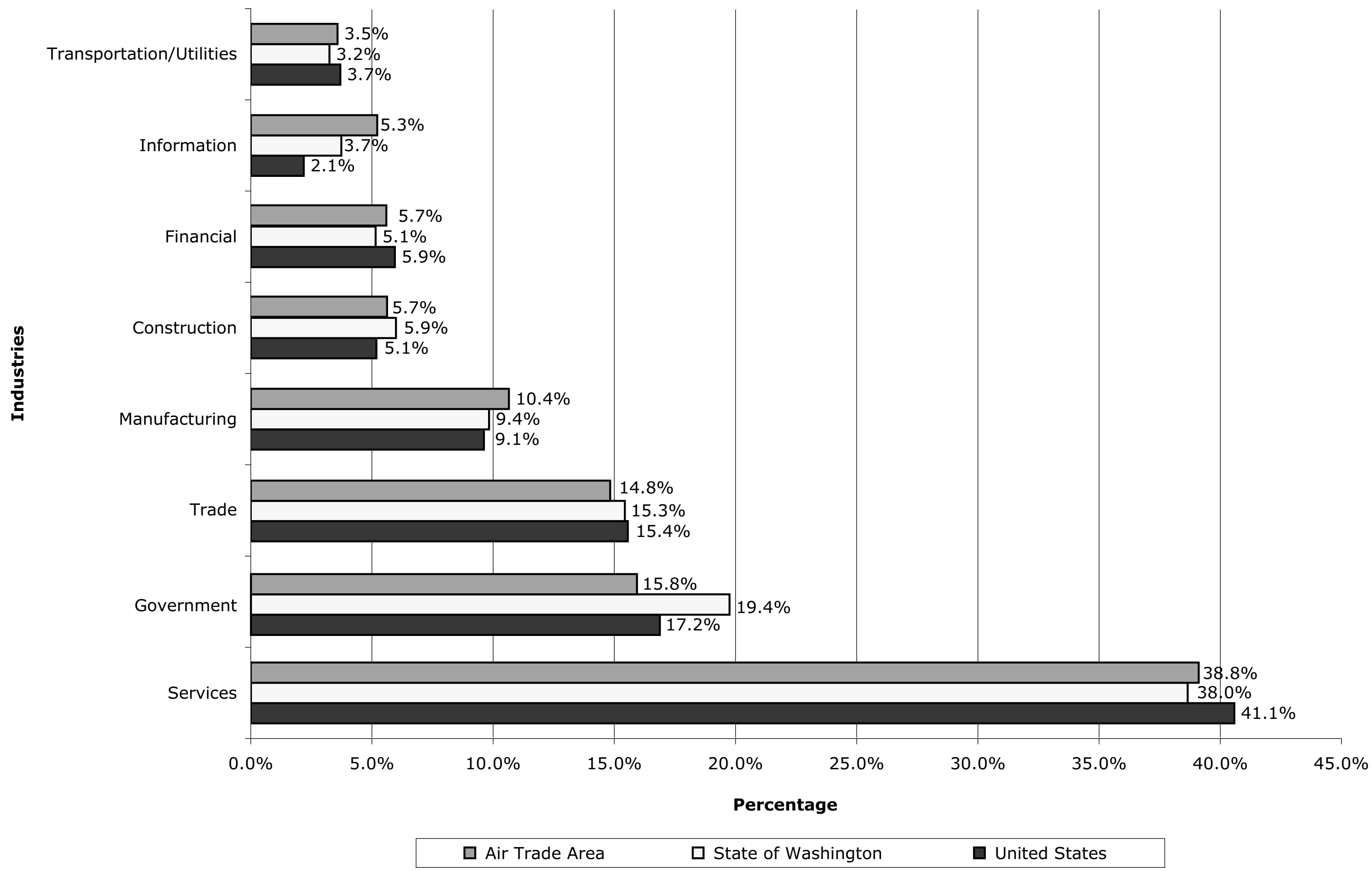
1/ Only includes employment from the Seattle-Tacoma-Bellevue MSA. Both the Olympia MSA and the Bremerton-Silverdale MSA did not contain complete information by industry division.

2/ Includes mining employment.

3/ The information sector includes communications, publishing, motion picture and sound recording, and on-line services.

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

Prepared by: Ricondo & Associates, Inc., October 2010.



Source: U.S. Department of Labor, Bureau of Labor Statistics, June 2010.
Prepared by: Ricondo & Associates, Inc., June 2010.

Exhibit II-2

Percentage of 2009 Nonagricultural Employment by Industry

2.5.1 Services

Employment in the services sector in the Air Trade Area increased at a CAGR of 1.4 percent between 1999 and 2009, compared with a 1.6 percent increase for the State of Washington and a 1.4 percent increase for the United States. In 2009, the services sector in the Air Trade Area employed approximately 648,200 workers, representing 38.8 percent of the total nonagricultural workforce. This percentage is lower than in the United States, where services jobs accounted for 41.4 percent of nonagricultural employment in 2009. The following services represented slightly more than 90 percent of the Air Trade Area's total services industry workforce in 2007: professional and business (34.2 percent); education and health (31.9 percent); and leisure and hospitality (24.1 percent).

The services sector provides an anchor for the Air Trade Area's economic base. As emphasized by enterpriseSeattle, a Seattle-based regional economic development agency, in its *King County Economic Base* report,[5] professional services jobs (e.g., engineering, architecture) help meet the needs of the Air Trade Area's producers, add value to their output, and provide a competitive advantage to the Air Trade Area's economy by helping to attract new companies. Air Trade Area health care employment is projected to continue growing in the future, while higher education and research will retain their importance as the demand for a highly educated workforce increases across all industries.

Air Trade Area services sector employment also has shown resiliency during periods of recessionary economic conditions. From 2001-2003, employment in the services sector continued to experience positive growth (0.4 percent CAGR during this period) while the majority of the other sectors in the Air Trade Area experienced a decline in employment. From 2008 to 2009, services sector employment in the Air Trade Area declined at a slower rate than total nonagricultural employment in the Air Trade Area (declines of 3.4 percent and 5.0 percent, respectively).

2.5.1.1 Higher Education/Research & Development

The Air Trade Area is home to several nationally renowned colleges and universities that offer a wide range of programs and opportunities. The University of Washington (Seattle, Tacoma and Bothell campuses) is the major public university in the Air Trade Area. As of Autumn 2009, the University had approximately 48,900 students enrolled. Several private institutions also offer undergraduate and graduate programs in the Air Trade Area: Seattle University, City University, Seattle Pacific University, Pacific Lutheran University, University of Puget Sound and the Art Institute of Seattle.

Many of the educational institutions listed above also are involved with various research and development (R&D) initiatives. According to the University of Washington, the University receives more federal research funding (approximately $1.15 billion in its fiscal year 2009) than any other public university in the country and the second most federal research funding of all universities in the country. The University's Human Interface Technology Lab is a multi-disciplinary research and development lab whose work centers around developing technology that improves interaction between humans and computers. Several other organizations specializing in R&D that are located in the Air Trade Area include: Fred Hutchinson Cancer Research Center, Intel Labs Seattle and the Washington Technology Center.

[5] enterpriseSeattle, "King County Economic Base," 2010.

2.5.1.2 Health Care/Life Sciences

The Air Trade Area has a strong concentration of health care facilities including diagnostic and treatment facilities, clinics and hospitals. Among them are the University of Washington Medical Center and the Seattle Children's Hospital and Regional Medical Center. These two institutions have joined with the Fred Hutchinson Cancer Research Center to create the Seattle Cancer Care Alliance, whose mission is to provide cancer care and support cancer clinical research and education. Other large health care facilities in the Air Trade Area include: Harborview Medical Center, Swedish Medical Center and Virginia Mason Medical Center.

Life sciences are a significant economic driver in the Air Trade Area. According to the Puget Sound Regional Council, approximately 160 life sciences companies employing more than 12,500 individuals are located in King County. According to the Prosperity Partnership, an Air Trade Area-based economic development organization, the life sciences cluster exceeds the average U.S. employment concentration ratio in this area by 28 percent. The Air Trade Area ranked eleventh among the nation's leading life sciences industry clusters according to a May 2009 report from the Milken Institute, an economic think tank.[6] Additionally, the University of Washington also reports that it receives more total National Institutes of Health research funding than any other public university in the United States.

2.5.1.3 Recreation and Tourism

The Air Trade Area benefits from various recreational and cultural resources that contribute to the quality of life in the Air Trade Area and help attract visitors. Seattle offers many outdoor and indoor activities such as museums, art galleries, and parks. Specific attractions include Pioneer Square, Pike Place Market, the Seattle Waterfront, Seattle Aquarium, Seattle Art Museum and the Space Needle. The communities and cities surrounding Seattle also provide many recreational and cultural activities as well, including waterfront areas, wine country activities, and hiking, camping, skiing, and other outdoor activities. The Air Trade Area serves as a gateway to both Mt. Rainier National Park and Olympic National Park, two of the most visited national parks in the United States.

Sports activities and entertainment are well represented in the Air Trade Area with events being hosted at several venues such as the Key Arena at Seattle Center (home of the Women's National Basketball Association's Seattle Storm and numerous concerts and family entertainment events); the retractable-roofed Safeco Field (home of Major League Baseball's Seattle Mariners); Qwest Field (home of the National Football League's Seattle Seahawks and the Major League Soccer's Seattle Sounders FC) and the ShoWare Center (home of the Western Hockey League's Seattle Thunderbirds). The Puget Sound area is home to approximately fifty golf courses. The Air Trade Area annually plays host to the Boeing Classic PGA Tour Champions Tour event, and the Pacific Northwest Golf Association organizes many amateur golf tournaments throughout the year.

According to recent studies by the King County Convention and Visitors Bureau, spending by overnight visitors to King County increased from $3.6 billion in 2002 to $6.8 billion in 2009 and approximately 51 percent of visitors arrived by air. The most prominent venue for conventions in the Air Trade Area is the Washington State Convention Center, which has approximately 308,000 sq. ft. of meeting space and averages over 400,000 visitors per year.

---

6 The Institute ranked metropolitan areas based on biotech employment, research and development capacity, investment and other measures.

Over the past decade, the Air Trade Area's cruise business has grown steadily from just six ships and 6,600 passengers in 1999. The 2008 season was the first time that the Air Trade Area surpassed Vancouver, British Columbia in cruise passenger volumes. In 2009, the Port hosted 218 vessels and a record 875,433 passengers, nearly all bound for Alaska. According to the Port, Seattle's cruise industry is responsible for more than 4,447 jobs, $425 million in annual business revenue, and $18.9 million in state and local tax revenues.

2.5.2 Government

Employment in the government sector in the Air Trade Area increased at a CAGR of 1.3 percent between 1999 and 2009, compared to 1.5 percent for the State of Washington and 1.1 percent for the United States. In 2009, the government sector in the Air Trade Area employed approximately 263,500 workers, representing 15.8 percent of the total nonagricultural workforce. This percentage is lower than in the United States where government jobs accounted for 17.2 percent of nonagricultural employment in 2009.

Until recently, government employment in the Air Trade Area has proven to be recession resistant as the sector gained jobs at a 0.8 percent compounded annual rate between 2008 and 2009 compared with CAGRs of 0.5 and 0.2 percent, respectively for the State of Washington and the nation over the same period. As shown in Table II-6, government employers are among the major employers in the Air Trade Area. Government employers employing more than 10,000 in the Air Trade Area include local governments (City of Seattle and King County), state government (State of Washington) and the federal government (Joint Base Lewis-McChord, Navy Region Northwest, and U.S. Postal Service) and state universities (University of Washington).

While the federal government is still hiring, state and local government hiring is beginning to be impacted by growing budget pressures. According to the Washington State Economic Revenue and Forecast Council, state and local governments in the State of Washington shed 5,400 jobs between June 2010 and August 2010.

The military workforce in the State of Washington plays a significant role in the local economy of many of its counties, including those in the Air Trade Area. Three out of the five counties of the Air Trade Area are home to major bases and significant installations of the U.S. armed forces: Joint Base Lewis-McChord, comprised of McChord Air Force Base and an Army base, Ft. Lewis (Pierce County); Naval Base Kitsap, the Naval Undersea Warfare Center Division Keyport and the Puget Sound Naval Shipyard and Intermediate Maintenance Facility (Kitsap County); and the Naval Station Everett (Snohomish County).

Of the approximately $11.4 billion in federal contracts performed in the State of Washington in federal fiscal year 2009 (October 1, 2008 through September 30, 2009), the top two counties in terms of expenditures, King and Pierce, were located in the Air Trade Area. In 2009, according to the Federal Procurement Data System, the largest share of federal procurement dollars spent in the State of Washington by any federal agency was spent by the U.S. Department of Defense. It is reasonable, therefore, to assume that a significant portion of statewide military contract expenditures, in the form of U.S. Department of Defense contracts, are expended throughout the Air Trade Area counties (e.g., to firms such as The Boeing Company).

2.5.3 Trade

Employment in the trade sector in the Air Trade Area decreased at a compounded annual rate of 0.3 percent between 1999 and 2009, compared with a 0.2 percent increase for the State of Washington and a 0.3 percent decrease for the United States. In 2009, the trade sector in the Air Trade Area employed approximately 247,800 workers, representing 14.8 percent of the total nonagricultural workforce. This percentage is lower than in the United States where trade jobs accounted for 15.4 percent of nonagricultural employment in 2009. Of the Air Trade Area employees in the trade sector, approximately 68 percent were engaged in retail trade.

One indicator of growth in the trade sector is retail sales, defined as all net sales (gross sales minus refunds and allowances for returns) for establishments engaged primarily in retail trade. **Table II-8** presents total retail sales for the Air Trade Area, the State of Washington and the United States between 2002 and 2009. As shown in Table II-8, between 2002 and 2007 total retail sales in the Air Trade Area grew at a CAGR of 2.6 percent, which was less than the growth that the State of Washington experienced and greater than the growth the United States experienced during this period (2.7 and 2.4 percent, respectively). Between 2007 and 2009, as the recession took hold, Air Trade Area retail sales decreased at a compounded annual rate of 5.3 percent, greater than the decrease the State of Washington experienced but less than the decrease the United States experienced during this period (5.2 and 5.5 percent decreases, respectively).

Table II-8 also presents projections of total retail sales for 2016. According to data from Woods and Poole Economics, Inc., total retail sales for the Air Trade Area are projected to increase from approximately $50.2 billion in 2009, to approximately $60.0 billion in 2016. This increase represents a CAGR of 2.6 percent during this period, compared to a 2.7 percent rate for the State of Washington and 2.3 percent for the United States.

International trade is a vital component of the Air Trade Area's economy. According to the Office of Trade and Industry Information of the U.S. Department of Commerce's International Trade Administration, more than 40 percent of Washington manufacturing jobs depend upon international trade (the highest share for any state). Export-supported jobs linked to manufacturing account for almost 10.4 percent of the State of Washington's total private-sector employment (the third highest share for any state). Similarly, businesses in the Air Trade Area have taken advantage of overseas markets and expanded their operations internationally. Many of the Air Trade Area's top companies (e.g., The Boeing Company) depend upon offshore plants and suppliers for manufacturing and assembly as well as for raw materials. This expanding international business activity generates demand for both international air travel and air freight services. In 2009, according to the Foreign Trade Division of the U.S. Department of Commerce's Bureau of the Census, total trade activity, including air freight, between the Seattle Customs District (which includes the Air Trade Area) and the rest of the world was valued at $119.5 billion.

2.5.4 Manufacturing

Nationwide, the manufacturing sector generated the highest amount of travel spending, including demand for air travel services, of any industry sector in 2009 according to the National Business Travel Association. Employment in the manufacturing sector in the Air Trade Area decreased at a compounded annual rate of 2.6 percent between 1999 and 2009, compared with a 2.5 percent decrease for the State of Washington and a 3.7 percent decrease for the United States. Despite the decrease in employment, the manufacturing sector remains an important sector in the Air Trade Area.

Table II-8

Total Retail Sales
(In 2004 Dollars, Amounts in Millions)

Year	Air Trade Area	State of Washington	United States
Historical			
2002	$49,286	$75,508	$3,536,043
2003	$50,286	$77,256	$3,616,903
2004	$52,072	$80,249	$3,749,550
2005	$53,745	$82,952	$3,864,722
2006	$55,370	$85,408	$3,950,657
2007	$55,953	$86,410	$3,980,329
2008	$54,190	$83,767	$3,834,703
2009	$50,207	$77,685	$3,554,629
Projected			
2016	$59,991	$93,395	$4,173,243
Compounded Annual Growth Rate			
2002 - 2007	2.6%	2.7%	2.4%
2007 - 2009	-5.3%	-5.2%	-5.5%
2009 - 2016	2.6%	2.7%	2.3%

Source: Woods and Poole Economics, Inc., *2010 Complete Economic and Demographic Data Source (CEDDS)* , 2009.
Prepared by: Ricondo & Associates, Inc., October 2010.

In 2009, the manufacturing sector in the Air Trade Area employed approximately 172,800 workers, representing 10.4 percent of the total nonagricultural workforce. This percentage is higher than in the United States where manufacturing jobs accounted for 9.1 percent of nonagricultural employment in 2009.

As of August 2010, according to the Bureau of Labor Statistics database, the Air Trade Area's manufacturing sector is led by the transportation equipment manufacturing industry. This industry represented approximately 53 percent of the Air Trade Area's total manufacturing employment, the majority of which was aerospace product and parts manufacturing. The computer and electronic products and food products manufacturing industries, each representing approximately nine percent of total manufacturing employment, also make up significant percentages of manufacturing employment.

The aerospace manufacturing industry plays a unique role in the economy of the both the Air Trade Area and the State of Washington in general. According to an April 2009 study prepared for the Economic Development Council of Snohomish County, where The Boeing Company's commercial aircraft business unit is headquartered, the Air Trade Area has the highest concentration of aerospace companies in the world.[7] There are more than 250 aerospace companies in the State of Washington that account for more than $36 billion in economic value to the state. Boeing is the State of Washington's largest employer and has its main assembly plants (including one of the assembly plants for the new B-787 aircraft) for commercial aircraft in the Air Trade Area. Boeing has an estimated "jobs multiplier" effect such that every Boeing job leads to nearly four additional jobs in the State of Washington.[8]

Recognizing the importance of the aerospace manufacturing industry to the Air Trade Area, various government entities and economic development organizations are actively engaged in efforts to monitor and maintain the Air Trade Area's competitiveness in retaining and attracting employers in this industry. An example of these efforts was the May 2009 creation, by Governor Christine Gregoire, of the Washington Council on Aerospace, formed, in part, to address Boeing's increased interest in relocating production facilities to the Deep South (e.g., South Carolina, where the second B-787 assembly plant is being built and is anticipated to begin production in July 2011).

More generally, a collaborative effort among the Counties of King, Snohomish and Pierce to retain and attract manufacturing sector employers has led to the identification of eight highly concentrated manufacturing/industrial centers: Paine Field/Boeing Everett (Snohomish County); Ballard/Interbay, Overlake, Duwamish, North Tukwila, and Kent (King County); and Port of Tacoma and Frederickson (Pierce County). These three counties actively protect and promote the development of manufacturing industrial centers for "high technology uses, warehouse and distribution activities, major port facilities, commercial fishing, and related waterfront uses."[9] The Puget Sound Regional Council's "2020 Vision Plan" and "Draft Vision 2040 Plan" both address the manufacturing/industrial sectors as essential drivers of the Air Trade Area economy. Vision 2040

---

7 Deloitte Consulting, "Aerospace Industry Competitiveness Study," April 2009.

8 Washington Alliance for a Competitive Economy, "Competitiveness Brief: What if Boeing Left Washington?" April 2009. In April 2010, Boeing laid off approximately 500 workers in the Air Trade Area. Most of the layoffs were in Boeing's Engineering, Operations & Technology unit, while some were in the Commercial Airplanes and Defense, Space & Security units.

9 Puget Sound Regional Council, "Trends -- Central Puget Sound Manufacturing Industrial Centers," 2003.

emphasizes the need for "protecting these areas from incompatible uses and providing them with adequate public facilities and services. Good access to the region's transportation system, in particular, will help contribute to their continued success. Manufacturing/industrial centers accommodate a significant amount of the regional employment."[10]

2.5.5 Construction

Employment in the construction sector in the Air Trade Area decreased at a compounded annual rate of 0.1 percent between 1999 and 2009, compared with a 0.1 percent increase for the State of Washington and a 0.6 percent decrease for the United States. In 2009, the construction sector in the Air Trade Area employed approximately 95,000 workers, representing 5.7 percent of the total nonagricultural workforce. This percentage is slightly higher than in the United States where construction jobs accounted for 5.1 percent of nonagricultural employment in 2009.

Between 1999 and 2005, while new residential development was expanding rapidly in other parts of the United States, development in the Air Trade Area remained relatively more subdued. As shown in **Table II-9**, residential building permit units increased slightly from 28,387 units in 1998 to 29,700 in 2005; and building permit valuation increased from approximately $3.0 billion to approximately $5.2 billion during this same period. These figures represent CAGRs of 0.8 percent and 9.5 percent, respectively. As also shown, these respective growth rates were lower than those for the State of Washington and the United States during this same period.

New residential development in the Air Trade Area has been somewhat less impacted than the United States as a whole by the nationwide slowing of the residential real estate market over the past three years. Between 2005 and 2009, as reflected in Table II-9, Air Trade Area residential building permit units decreased at a compounded annual rate of 25.2 percent compared with a 27.9 percent decrease for the United States. Over this same period, Air Trade Area building permit valuation decreased at a compounded annual rate of 23.6 percent compared with a 26.6 percent decrease for the United States. The most recent S&P/Case-Shiller Home Price Index data shows a similar trend, with housing prices in the Air Trade Area in August 2010 down 24.1 percent when compared to the peak of the market in July 2007 (versus a 28.1 percent decrease from peak nationally). In August 2010, research firm Fiserv projected that Air Trade Area home prices had bottomed in early 2010 and will grow by 25.5 percent from 2010 to 2014.

As shown in **Table II-10**, Q2 2010 vacancy rates for both office and industrial space in the Air Trade Area are approximately equal (17.9 percent vs. 18.0 percent for office space in the United States) and lower (9.8 percent vs. 10.6 percent for industrial space in the United States), respectively, than those experienced nationwide during this same period. The outlook for the commercial office real estate market in the Air Trade Area remains relatively better than the national average, as an expected recovery in employment, combined with minimal deliveries of new office space is expected to limit rising vacancies. According to the 2010 Marcus & Millichap National Office Property Index (NOPI), a snapshot analysis that ranks 44 office markets nationwide based on a series of 12-month forward-looking supply and demand indicators, the Seattle market was the twelfth healthiest office market in the nation.

---

[10] Puget Sound Regional Council, "Draft Vision 2040," 2007. The concepts discussed in the Draft Vision 2040 document were incorporated into the final Vision 2040 document that was adopted by the Council in 2008.

Table II-9

Residential Building Permits and Valuation -- 1999-2009
(Dollar Amounts in Thousands)

Year	Air Trade Area		State of Washington		United States	
	Units	Valuation	Units	Valuation	Units	Valuation
1999	28,387	$3,043,362	42,752	$4,577,773	1,663,533	$181,246,047
2000	25,342	$2,890,743	39,021	$4,426,088	1,592,267	$185,743,681
2001	24,187	$3,041,098	38,345	$4,689,002	1,636,676	$196,242,858
2002	24,521	$3,568,038	40,200	$5,473,185	1,747,678	$219,188,681
2003	24,075	$3,865,223	42,825	$6,346,021	1,889,214	$249,693,105
2004	27,754	$4,477,413	50,089	$7,534,896	2,070,077	$292,413,691
2005	29,700	$5,247,427	52,988	$8,741,714	2,155,316	$329,254,468
2006	30,183	$5,326,932	50,033	$8,539,795	1,838,903	$291,314,492
2007	29,376	$5,147,514	47,397	$8,129,631	1,398,415	$225,236,551
2008	17,656	$3,141,675	28,919	$5,063,320	905,359	$141,623,457
2009	9,298	$1,784,485	17,011	$3,185,821	582,963	$95,410,298
Compounded Annual Growth Rate						
1999-2005	0.8%	9.5%	3.6%	11.4%	4.4%	10.5%
2005-2009	-25.2%	-23.6%	-24.7%	-22.3%	-27.9%	-26.6%

Source: U.S. Department of Commerce, Bureau of the Census, June 2010.
Prepared by: Ricondo & Associates, Inc., October 2010.

Table II-10

Seattle Commercial Real Estate Market Vacancy Rates

	Grubb & Ellis Vacancy Rates for Q2 2010
Office Vacancy Rates	
Air Trade Area	17.9%
United States	18.0%
Differential	+0.1 pts.
Industrial Vacancy Rates	
Air Trade Area	9.8%
United States	10.6%
Differential	+0.8 pts.

Sources: Grubb & Ellis, Second Quarter 2010 National and Seattle Office and Industrial Market Trends Reports, August 2010.

Prepared by: Ricondo & Associates, Inc., October 2010.

2.5.6 Financial

The financial sector comprises financial, insurance and real estate services. Nationwide, the financial sector generated the second highest amount of travel spending, including demand for air travel services, of any industry sector in 2009 according to the National Business Travel Association. Employment in the financial sector in the Air Trade Area decreased at a compounded annual rate of 0.6 percent between 1999 and 2009, compared with no growth for the State of Washington and a 0.1 percent increase for the United States. In 2009, the financial sector in the Air Trade Area employed approximately 94,400 workers, representing 5.7 percent of the total nonagricultural workforce. This percentage is slightly lower than in the United States where financial jobs accounted for 5.9 percent of nonagricultural employment in 2009.

Over the past few years, the Air Trade Area banking sector has faced significant headwinds. On September 25, 2008, Washington Mutual Bank, one of the Air Trade Area's largest employers, was seized and placed into the receivership of the Federal Deposit Insurance Corporation, which sold the bank to JPMorgan Chase. As the integration of Washington Mutual into JPMorgan Chase progressed over 2009, there were phased layoffs of approximately 3,400 employees at Washington Mutual's former headquarters, located in the Air Trade Area.

Nine banks in the State of Washington have failed this year, while about one-fourth of the banks and savings institutions based in the State of Washington are operating under toughened regulatory scrutiny known as "cease-and-desist" orders. The largest financial institution in terms of assets to fail in the State of Washington in 2010, Frontier Bank of Everett, Washington, had $3.5 billion in assets and 51 branches when it was seized by regulators on April 30, 2010.

Table II-11 presents total bank deposits for the Air Trade Area, the State of Washington and the United States between 1999 and 2009. Total bank deposits represent an indicator of the economic activity of the financial sector. As shown, total bank deposits for the Air Trade Area increased at a CAGR of 7.2 percent during this period, compared to 7.0 percent for the State of Washington and 7.2 percent for the United States.

Venture capital investments in the State of Washington and in the Northwest contribute to the economic development and dynamism of the Air Trade Area through the creation of new ventures, the availability of additional funding to hire new employees and the spending of research and development funds. In Q3 2010, businesses in the State of Washington received approximately $171 million in venture capital investments.[11] The Northwest Region ranked tenth out of the nineteen United States regions that received venture capital investments in Q3 2010, and received approximately $193 million (4 percent of the total U.S. venture capital investments in Q3 2010) in investments.[12] In the Northwest Region, during Q2 2010 (latest data available by industry), the top five industries for venture capital investment were: (1) medical devices and equipment (26 percent of total dollars invested), (2) biotechnology (20 percent), (3) industrial/energy (19 percent), (4) software (13 percent), and (5) computers and peripherals (4 percent). The remaining venture capital funds (18 percent) invested in the Northwest Region were invested in a variety of other industries.

---

[11] PricewaterhouseCoopers, "MoneyTree Report Q3 2010," August 2010.
[12] In the MoneyTree Report, the Northwest Region was defined as the states of Washington, Oregon, Idaho, Montana and Wyoming.

Table II-11

Total Bank Deposits

	Total Bank Deposits ($000,000)		
Fiscal Year	Air Trade Area	State of Washington	United States
Historical			
1999	$38,599	$57,817	$3,783,554
2000	$39,837	$60,234	$4,003,744
2001	$43,882	$65,539	$4,326,207
2002	$47,130	$70,560	$4,606,092
2003	$56,511	$81,522	$5,132,110
2004	$60,978	$87,424	$5,464,782
2005	$62,873	$91,469	$5,933,763
2006	$68,571	$99,586	$6,449,864
2007	$72,194	$105,673	$6,702,053
2008	$77,834	$112,331	$7,025,791
2009	$77,460	$113,334	$7,559,616
Compounded Annual Growth Rate			
1999-2009	7.2%	7.0%	7.2%

Note: Fiscal Year Ending June 30th.

Source: Federal Deposit Insurance Corporation (FDIC), *Summary of Deposits Report* , October 2009.
Prepared by: Ricondo & Associates, Inc., October 2010.

2.5.7 Information

The information sector combines communications, publishing, motion picture and sound recording, and online services. Employment in the information sector in the Air Trade Area increased at a CAGR of 2.6 percent between 1999 and 2009, compared with a 2.0 percent increase for the State of Washington and a 2.0 percent decrease for the United States. Between 2008 and 2009, Air Trade Area information employment decreased at a 1.2 percent compounded annual rate, slower than the decrease experienced by the State of Washington (1.9 percent) and significantly slower than the decrease experienced by the United States during this period (5.9 percent). In 2009, the information sector in the Air Trade Area employed approximately 87,900 workers, representing 5.3 percent of the total nonagricultural workforce. This percentage is significantly higher than in the United States where information jobs accounted for 2.1 percent of nonagricultural employment in 2009.

Information, particularly information technology, is a prominent industry in the Air Trade Area. The economic vibrancy of the Air Trade Area is supported by the headquarters of several world-renowned software publishers and online services companies such as Microsoft, Nintendo of America, Expedia and Amazon.com:

- Microsoft, headquartered in Redmond, Washington, is a worldwide leader in computer software, services and solutions. Founded in 1975, Microsoft currently employs approximately 88,180 employees worldwide, 39,738 of whom are employed in the Air Trade Area. Microsoft reported $18.8 billion in net income in FY 2010 (ended June 2010). In 2009 and the first half of 2010, Microsoft laid-off 5,000 workers worldwide including approximately 900 in the State of Washington. While Air Trade Area employment has been negatively impacted by this decision, the impact has been tempered by Microsoft's continued hiring in the Air Trade Area in growth areas of the company, particularly in new product development.[13]
- Nintendo of America, Inc., headquartered in Redmond, Washington, is a worldwide leader in the creation of interactive entertainment. Nintendo Company (the parent of Nintendo of America) reported $2.4 billion in net income in the FY ended March 2010.
- Expedia, Inc., headquartered in Bellevue, Washington, is a leading internet-based travel company providing travel products and services to leisure and corporate travelers. Expedia Inc. currently employs approximately 1,700 workers in the Air Trade Area. Expedia Inc. owns several subsidiaries such as Expedia.com, Hotels.com, Hotwire.com, TripAdvisor, and Egencia. Expedia, Inc. reported $299.5 million in net income for CY 2009.
- Amazon.com, headquartered in Seattle, Washington, is a worldwide leader in e-commerce. Amazon.com reported $902 million in net income for CY 2009. As of 2010, Amazon.com employed approximately 24,300 full and part-time employees, a large portion of whom were employed in the Air Trade Area. Amazon is building a new headquarters complex in the Air Trade Area (South Lake Union area of Seattle) that is expected to be fully completed by 2012 (first phase was completed in April 2010) and would accommodate new employees and employees who are currently scattered at several different sites in downtown Seattle.

The success of the Air Trade Area's software publishing industry led to the Air Trade Area's ranking as the nation's second best high-tech center in a June 2009 Milken Institute report. The report ranked

[13] Tech Flash, "Microsoft Cutbacks Generate Only a Trickle of Seattle Tech Startups," May 7, 2010.

metropolitan areas based on several factors including the number of employees in 19 different high-tech fields, salaries paid and the relative size of the industry compared to the entire area.

The Air Trade Area also has a well developed information technology infrastructure. In March 2010, *Forbes* Magazine named Seattle the United States' third "most wired city."[14] The ranking is developed by determining the percentage of Internet users with high-speed connections, the number of companies providing high-speed Internet and the number of public wireless Internet hot spots in a particular city.

2.5.8 Transportation/Utilities

Employment in the transportation/utilities sector in the Air Trade Area decreased at a compounded annual rate of 0.7 percent between 1999 and 2009, compared with a 0.4 percent decrease for the State of Washington and a 0.2 percent decrease for the United States. In 2009, the transportation/utilities sector in the Air Trade Area employed approximately 59,100 workers, representing 3.5 percent of the total nonagricultural workforce. This percentage is approximately equal to the percentage in the United States where transportation/utilities jobs accounted for 3.7 percent of nonagricultural employment in 2009.

2.5.8.1 Transportation

The Air Trade Area is supported by a comprehensive transportation network that provides convenient access to the Air Trade Area. This extensive transportation network includes the following components:

- Seattle-Tacoma International Airport: The Airport is operated by the Port of Seattle and is located approximately 15 driving miles south of downtown Seattle. In CY 2009, the Airport enplaned and deplaned approximately 31.2 million passengers and approximately 270,000 tons of cargo (freight and mail combined). Further information on Airport demand can be found in Chapter 3 of this report.
- Air Trade Area Seaports: The Port of Seattle together with the Port of Tacoma constitute the third-largest load center for containerized cargo in the United States after Los Angeles/Long Beach and New York/New Jersey.[15] In 2009, Port of Seattle container volumes totaled approximately 1.6 million twenty-foot equivalent units (TEUs), ranking the Port ninth-busiest in North America by 2009 TEUs. The Port of Seattle is located in a natural deep water harbor. The Port of Seattle owns four major container terminals that account for most of the container volumes in the harbor.
- Ground Transportation: The Air Trade Area is served by a ground transportation network that includes the following modes of transportation: buses (Community Transit, King County Metro, Pierce Transit and Greyhound); light-rail trains (Sound Transit); and the Washington State Ferries. Connections to the Airport are provided by bus, several shuttle, shared-ride and courtesy service providers (such as Airporter Shuttle and Quick Shuttle) and, as of December 2009, Sound Transit light-rail, which connects the Airport to downtown Seattle.

---

[14] In the 2009 ranking, Seattle was named the "most wired city."

[15] In May 2009, the Port of Tacoma announced that due to falling cargo volumes, it was necessary to eliminate approximately 50 employees from its staff of 225.

- Rail Service: The Union Pacific railroad and BNSF Railway connect the Air Trade Area with the nation's transcontinental freight rail network. Amtrak provides passenger rail service to and from the Air Trade Area and Vancouver, Canada to the north, Los Angeles to the south and Chicago to the east.
- Interstate Highways: Two major interstate highways, Interstate 5 and Interstate 90, intersect in the Air Trade Area. Interstate 5 is the main north-south route from Canada to Mexico along the west coast of the United States. Interstate 90 is the principal northern transcontinental route east from the Air Trade area to Boston, Massachusetts.

2.5.8.2 Utilities

Electricity producers located in the State of Washington have made the State the leading hydroelectric power generator in the nation, and hydroelectric power currently accounts for nearly three-fourths of electricity generation in the State of Washington. Hydroelectric power is partly responsible for the State of Washington having the fourth-lowest average retail price for electricity in the nation, according to the U.S. Energy Information Administration, making it advantageous for businesses to locate in the Air Trade Area. New jobs are likely to be created in the Air Trade Area in the wind power, solar, and renewable fuels (e.g. wood waste or methane) industries over the Projection Period as State of Washington voters passed an initiative in 2006 requiring certain large utilities in the State to produce 15 percent of their energy from these, and other, renewable sources by 2020.

2.6 Economic Outlook

According to the Washington State Economic Revenue and Forecast Council (the Council), in recent months the State of Washington's economic recovery, similar to the national economy, has entered a "soft patch" but a "double-dip" recession is still believed to be unlikely.[16] During the anticipated economic recovery, the Council still expects the State of Washington, and by implication the counties in the Air Trade Area, to outperform the nation, based on their strength in exports (and relative underexposure to the Eurozone in non-transportation exports), and relatively stable aerospace and software publishing industries.[17] Air Trade Area and State of Washington employment lagged the nation's during the recent economic downturn (i.e., peaked in mid-2008 instead of November 2007 as the nation did) and is expected to recover at about the same rate as the nation through 2013 (the end of the Council's projection period). The Council projects employment growth of 1.3 percent in 2011 and for the pre-recession peak in overall employment to be reached by the second quarter of 2013. At present, Air Trade Area and State of Washington home prices appear to be in the process of stabilizing (housing price declines and foreclosure rates were not as bad as the nation's during the recent recession) and the Council projects that the recovery in real personal income is expected to be more robust than the nation's.

---

16 Washington State Economic Revenue and Forecast Council, "Economic Review," September 3, 2010.

17 The continuing recovery of the Air Trade Area's aerospace sector is evidenced by Boeing's announcements in recent months indicating that they would increase production at their Renton commercial aircraft plant by over 20 percent over the next few years. Washington State Economic Revenue and Forecast Council, "Economic and Revenue Update," October 11, 2010.

2.7 Summary

Table II-12 provides an overview of the key economic indicators presented in Tables II-1 through II-11. A summary of the socioeconomic trends in the Air Trade Area and additional factors supporting air travel demand includes the following:

- **Population:** The Air Trade Area had approximately 3.9 million residents in 2009. Actual and projected population growth in a region is a leading indicator for assessing demand for air travel. Air Trade Area population is projected to grow at a CAGR of 1.1 percent during the Projection Period, similar to the projected growth rates for the State of Washington and the United States.
- **Age Distribution and Education:** Market research has shown that people between the ages of 35 and 54 tend to travel the most and that individuals with a college degree are more likely to travel by air. In 2009, Air Trade Area residents between the ages of 35 and 54 made up 30.3 percent of the population, compared with 28.5 percent of the population of the State of Washington and 28.1 percent of the population of the United States. Approximately 37.4 percent of the Air Trade Area population over the age of 25 holds a bachelor's degree or higher advanced degree (e.g., graduate or professional degree). This percentage is significantly higher than that of both the State of Washington and the United States where, respectively, 31.0 percent and 27.9 percent of the population over the age of 25 hold a bachelor's degree or higher advanced degree.
- **Income:** Historically, the Air Trade Area's per capita personal income has been significantly higher, on an absolute basis, than equivalent measures for the State of Washington and the United States. Over the Projection Period, Air Trade Area personal income is expected to grow at a CAGR identical to the State of Washington (4.2 percent) and slightly lower than the United States (4.4 percent). Also, 46.8 percent of households in the Air Trade Area had household incomes of $60,000 or more in 2009, which was significantly higher than the 40.8 percent of households in this income category for the State of Washington and the 37.4 percent of households in this income category nationwide. This suggests that, generally, the ability of the Air Trade Area's population to draw on discretionary income to spend money on air travel is greater than for the populations of the State of Washington and the United States and that the area will remain attractive to business and leisure travelers (lower income areas often have weaker business ties to the rest of the nation and a less developed tourism infrastructure).
- **Unemployment:** Annual unemployment rates for the Air Trade Area have been below those for the State of Washington and the United States from 2005-2009. The Air Trade Area's unemployment rate (non-seasonally adjusted) was 8.4 percent in August 2010. This rate was lower than the unemployment rates experienced by both the State of Washington and the United States during the same period (8.8 and 9.5 percent, respectively). Relatively low unemployment rates are indicative of more potential opportunities for business travel and higher disposable income levels that facilitate leisure travel.
- **Nonagricultural Employment:** Nonagricultural employment in the Air Trade Area increased at a CAGR of 0.4 percent between 1999 and 2009, compared to 0.7 percent and 0.1 percent for the State of Washington and the United States, respectively, during this same period. Three major industry sectors in the Air Trade Area experienced positive employment growth between 1999 and 2009, with growth occurring in the information (CAGR of 2.6 percent), services (1.4 percent) and government (1.3 percent) sectors.

Table II-12

Summary of Key Economic Indicators

	Air Trade Area	State of Washington	United States
Note: Highest/best values or rates in each row are shown in bold and underlined font.			
Population Growth[1/]			
1990-2009	1.6%	**1.7%**	1.1%
2009-2016	1.1%	**1.2%**	1.0%
Per Capita Personal Income			
2009	**$49,855**	$42,826	$40,255
2016	**$66,522**	$57,056	$54,499
% in $60,000-Above	**46.8%**	40.8%	37.4%
Growth In Civilian Labor Force[1/]			
1999-2009	**1.5%**	1.4%	1.0%
1999-2002	0.7%	0.4%	**1.3%**
2002-2007	**1.8%**	**1.8%**	1.1%
2007-2009	1.9%	**2.0%**	0.3%
Unemployment Rate [2/]			
1999	**4.1%**	4.8%	4.2%
2005	**5.0%**	5.5%	5.1%
2009	**8.5%**	8.9%	9.3%
August 2010	**8.4%**	8.8%	9.5%
Growth in Nonagricultural Employment Sectors, 1999-2009[1/]			
Services	1.4%	**1.6%**	1.4%
Government	1.3%	**1.5%**	1.1%
Trade	-0.3%	**0.2%**	-0.3%
Manufacturing	-2.6%	**-2.5%**	-3.7%
Construction	-0.1%	**0.1%**	-0.6%
Financial	-0.6%	0.0%	**0.1%**
Information	**2.6%**	2.0%	-2.0%
Transportation/Utilities	-0.7%	-0.4%	**-0.2%**
Growth In Total Retail Sales[1/]			
2002 - 2007	2.6%	**2.7%**	2.4%
2007 - 2009	-5.3%	**-5.2%**	-5.5%
2009 - 2016	2.6%	**2.7%**	2.3%
Residential Building Permit Units[1/]			
1999-2005	0.8%	3.6%	**4.4%**
2005-2009	-25.2%	**-24.7%**	-27.9%
Residential Valuation[1/]			
1999-2005	9.5%	**11.4%**	10.5%
2005-2009	-23.6%	**-22.3%**	-26.6%
Commercial Real Estate Vacancy Rates, Q2 2010			
Office	**17.9%**	N/A	18.0%
Industrial	**9.8%**	N/A	10.6%
Bank Deposits[1/]			
1999-2009	**7.2%**	7.0%	**7.2%**

Notes:

1/ Compounded annual growth rate.

2/ Non-seasonally adjusted rate.

Sources: Various sources indicated on Tables II-1 through II-11 of this chapter.

Prepared by: Ricondo & Associates, Inc., October 2010.

- **Business Climate:** In Kiplinger's Magazine July 2010 issue, Seattle was rated second in a ranking of the "10 Best Cities for the Next Decade," due to the city's reputation for innovation (based on "smart people," "great ideas" and "collaboration [between governments, universities and business communities]"). Fortune 500 employers are also well represented in the Air Trade Area through companies such as Boeing, Microsoft, Amazon.com, Starbucks and Nordstrom. The Air Trade Area has established notable industry clusters in life sciences, aerospace manufacturing, and software and online services.
- **Other Factors Supporting Air Travel Demand:** The Air Trade Area offers a variety of healthcare, educational, cultural and recreational resources that stimulate demand for inbound and outbound air travel. According to recent studies by the King County Convention and Visitors Bureau, spending by overnight visitors to King County increased from $3.6 billion in 2002 to $6.8 billion in 2009 and approximately 51 percent of visitors arrived by air.
- **Economic Outlook:** Despite the recent nationwide recession, the Washington State Economic Revenue and Forecast Council is projecting increased job growth in the State of Washington, and by implication the counties in the Air Trade Area, through 2013 (the end of the Council's projection period). During the anticipated economic recovery, the Air Trade Area and the State of Washington are expected to outperform the nation based on their strength in exports, and their relatively stable aerospace and software industries. Also, the Air Trade Area and State of Washington housing markets are in the process of stabilizing with Air Trade Area housing prices projected to increase 25.5 percent from 2010 to 2014.

The economic base of the Air Trade Area is strong and diversified, and is capable of supporting the projected demand for air travel at the Airport shown in Table III-9 of this report. This projected demand is expected to be sustained by the Air Trade Area's projected population growth, the significant percentage of households in higher income categories and the presence of Fortune 500 companies headquartered in the Air Trade Area.

III. Aviation Division Demand

This chapter describes historical and projected aviation activity at the Airport and discusses key factors affecting these activity levels. Unless noted otherwise, data reflected for years in the tables and text in this chapter are shown on a calendar year basis.

3.1 Airlines Serving the Airport

As of September 2010, the Airport had scheduled passenger service provided by 16 U.S. airlines and 10 foreign flag airlines. In addition, charter air service was provided at the Airport by five airlines and all-cargo service was provided by six airlines. Scheduled service at the Airport is provided by 12 of the 15 major U.S. passenger airlines.[1] These airlines include AirTran Airways, Alaska Airlines, American Airlines, Continental Airlines, Delta Air Lines, Frontier Airlines, Hawaiian Airlines, JetBlue Airways, SkyWest Airlines, Southwest Airlines, United Airlines, and US Airways. **Table III-1** lists the airlines serving the Airport as of September 2010.

Table III-2 presents the historical air carrier base at the Airport since 2000. As shown, the Airport has had the benefit of a relatively large and stable air carrier base during the years depicted, which has helped promote competitive pricing and scheduling diversity in the Airport's major markets.

Specific points concerning the Airport's historical air carrier base are presented below:

- Ten of the 12 major airlines currently serving the Airport have operated at the Airport for each of the years depicted in Table III-2.
- Between 2001 and 2009, 13 airlines initiated service at the Airport, including the foreign flag airlines Air Canada Jazz, China Airlines, Korean Air Lines, AeroMexico, Air France, Hainan Airlines, Lufthansa, and Icelandair. International enplaned passengers at the Airport increased at a CAGR of 1.6 percent between 2001 and 2009. Three of the 13 airlines that initiated service at the Airport between 2001 and 2009 (AeroMexico, ExpressJet, and Mesa) no longer serve the Airport.
- Icelandair initiated four nonstop flights a week to Reykjavik in July 2009, making it the only Nordic airline serving the West Coast. Nonstop connections through its Reykjavik hub include, among others, flights to Barcelona, Berlin, Dusseldorf, Frankfurt, London, Madrid, and Paris.
- Currently, seven low-cost carriers serve the Airport, with Southwest having the largest share of enplaned passengers among the low-cost carrier group. Southwest initiated service at the Airport in 1994, Frontier in 1996, Sun Country Airlines in 1999, JetBlue Airways in 2001, AirTran in 2006, Midwest Airlines in 2007, and Virgin America in 2008.

3.2 Historical Passenger Activity

This section presents historical trends in enplaned passengers at the Airport and the major factors influencing these trends, as well as historical originating passengers and historical market shares of enplaned passengers by airline.

---

[1] As defined by the U.S. Department of Transportation, major U.S. airlines are airlines with gross operating revenues during any calendar year of more than $1 billion.

Table III-1

Airlines Serving the Airport [1/]

Scheduled U.S. Passenger Airlines (16)	Foreign Flag Airlines (10)
AirTran [2/]	Air Canada
Alaska	Air Canada Jazz
American	Air France
Continental [3/]	Asiana
Delta	British Airways
Frontier	EVA Airways
Hawaiian	Hainan
Horizon Air	Icelandair
JetBlue	Korean
Midwest	Lufthansa
SkyWest (Delta Connection/United Express)	
Southwest [2/]	
Sun Country	
United [3/]	
US Airways	
Virgin America	

Charter Airlines (5)	All-Cargo Airlines (6)
Allegiant	Airpac
Miami Air International	Cargolux
North American	China Cargo
Ryan International	Empire
Xtra Airways	FedEx
	Martinair Holland Cargo

Note:

1/ As of September 2010.

2/ On September 27, 2010, Southwest announced a merger with AirTran, subject to shareholder and Justice Department approval in 2011.

3/ On August 27, 2010, United and Continental received Justice Department approval for their proposed merger after agreeing to lease landing and take-off rights at Newark-Liberty International Airport to Southwest. Shareholders of United and Continental approved the merger in September 2010 and the merger closed on October 1, 2010.

Source: Port of Seattle, September 2010.

Prepared by: Ricondo & Associates, Inc., October 2010.

Table III-2

Air Carrier Base

Airline	Calendar Years										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 [1/]
Number of Airlines	20	22	23	22	24	25	24	28	30	28	26
Air Canada	●	●	●	●	●	●	●	●	●	●	●
Alaska	●	●	●	●	●	●	●	●	●	●	●
American	●	●	●	●	●	●	●	●	●	●	●
Asiana	●	●	●	●	●	●	●	●	●	●	●
British Airways	●	●	●	●	●	●	●	●	●	●	●
Continental	●	●	●	●	●	●	●	●	●	●	●
Delta [2/]	●	●	●	●	●	●	●	●	●	●	●
EVA Airways	●	●	●	●	●	●	●	●	●	●	●
Frontier	●	●	●	●	●	●	●	●	●	●	●
Hawaiian	●	●	●	●	●	●	●	●	●	●	●
Horizon Air	●	●	●	●	●	●	●	●	●	●	●
Southwest	●	●	●	●	●	●	●	●	●	●	●
United	●	●	●	●	●	●	●	●	●	●	●
US Airways [3/]	●	●	●	●	●	●	●	●	●	●	●
SkyWest	●	●	●	●	●	●	●	●	●	●	●
Sun County	●	●	●	●	●	●	●	●	●	●	●
JetBlue		●	●	●	●	●	●	●	●	●	●
Air Canada Jazz			●	●	●	●	●	●	●	●	●
Korean						●	●	●	●	●	●
AirTran							●	●	●	●	●
Air France								●	●	●	●
Midwest								●	●	●	●
Hainan									●	●	●
Lufthansa									●	●	●
Virgin America									●	●	●
Icelandair										●	●
Airlines No Longer Serving the Airport											
Aeromexico								●	●	●	
SAS Scandinavian	●	●	●	●	●	●	●	●	●	●	
ExpressJet								●	●		
China					●	●	●	●	●		
ATA	●	●	●	●	●	●	●	●	●		
Mesa					●	●	●	●			
Aeroflot	●	●	●	●	●	●					
Big Sky		●	●	●	●	●					
Air Georgian	●	●	●								
Canadian Regional											

Notes:
1/ As of July 2010.
2/ Includes historical service by Northwest.
3/ Includes historical service by America West.

Source: Official Airline Guide, Inc., September 2010.
Prepared by: Ricondo & Associates, Inc., October 2010.

3.2.1 Enplaned Passengers

Classified by the FAA as a large-hub facility based on its percentage of nationwide enplaned passengers,[2] the Airport was ranked 17th nationwide in total passengers in 2009 with 31.2 million enplaned and deplaned passengers.[3] **Table III-3** presents historical data for enplaned passengers at the Airport between 1998 and 2009, and for the Airport and the U.S. for the 12-month periods ending September 30, 1998 through 2009.

As shown on Table III-3, passenger activity at the Airport increased from 12.9 million enplaned passengers in 1998 to 15.6 million in 2009. This increase represents a CAGR of 1.8 percent during this period. Only three of the 29 large-hub airports experienced an increase in domestic enplaned passengers in 2009 from 2007 levels – San Francisco International, Charlotte International, and Denver International airports. Ranked from highest percentage increase (1st) to highest percentage decrease (29th), the Airport was fifth-best among large-hub airports with a 1.1 percent decrease in enplaned passengers during this period (see **Exhibit III-1**).

Table III-3 also presents historical data for local and visitor originating passengers at the Airport between 1998 and 2009. As shown, originating passenger activity at the Airport increased from 10.0 million passengers in 1998 to 11.5 million in 2009. This increase represents a CAGR of 1.2 percent during this period. As also shown, the percentage of originating passengers at the Airport ranged from a low of 73.5 percent in 2009 to a high of 78.1 percent in 1998.

Specific details concerning trends in enplaned passengers at the Airport between 1998 and 2010 year-to-date (YTD) are discussed below:

- **1998 - 2000.** Enplaned passengers at the Airport increased at a CAGR of 5.0 percent between 1998 and 2000, increasing from 12.9 million enplaned passengers in 1998 to 14.2 million enplaned passengers in 2000. Strong growth during this period was primarily due to Southwest establishing and expanding service in the mid-1990's, which forced Alaska Air Group (Alaska and its sister airline Horizon Air) to adopt a lower fare structure to remain competitive. Frontier, another low cost carrier, started service at the Airport in 1996, also adding competitive fares to the market. The lower fares, new service, and a strong local and national economy helped stimulate the overall passenger market during this period.
- **2001 - 2003.** Passenger activity at the Airport decreased from 14.2 million enplaned passengers in 2000 to 13.4 million in 2003, a compounded annual decrease of 2.0 percent during this period. This decrease in activity for the Airport was primarily due to the terrorist attacks of September 11, 2001 (hereinafter referred to as September 11) and a nationwide economic slowdown.
- **2004 - 2008.** Enplaned passengers at the Airport increased from 13.4 million in 2003 to 16.1 million in 2008, the highest enplaned passenger level at the Airport to date. This increase represents a CAGR of 3.8 percent during this period. The 7.6 percent growth in passenger activity in 2004 from 2003 levels can be attributed to the recovery from both September 11 and the economic slowdown that occurred between 2000 and 2003, as well as expansion of service by certain airlines, most notably Alaska, Horizon Air, and Continental. Enplanement

---

[2] As defined by the FAA, a large-hub airport enplanes at least 1.0 percent of nationwide enplaned passengers during a calendar year (CY). For CY 2009 (the last year for which such information was reported by the FAA), this lower bound was 8.3 million enplaned passengers.

[3] *ACI Traffic Data 2009*, Airports Council International.

Table III-3

Historical Enplaned Passengers

12-Month Period Ending December 31							12-Month Period Ending September 30					
12-Month Period Ending Dec. 31	Airport Originating Passengers	Airport Growth	Airport Enplaned Passengers	Airport Growth	Airport Originating Percentage		12-Month Period Ending Sept. 30	Airport Enplaned Passengers	Airport Growth	U.S. Total Enplaned Passengers	U.S. Growth	Airport Share of U.S.
1998	10,049,898	-	12,867,987	-	78.1%		1998	12,667,758	-	644,700,000	-	1.965%
1999	10,669,051	6.2%	13,802,136	7.3%	77.3%		1999	13,606,831	7.4%	665,800,000	3.3%	2.044%
2000	11,013,005	3.2%	14,173,752	2.7%	77.7%		2000	14,119,691	3.8%	697,600,000	4.8%	2.024%
2001	10,372,593	(5.8%)	13,505,980	(4.7%)	76.8%		2001	13,973,775	(1.0%)	682,500,000	(2.2%)	2.047%
2002	10,128,634	(2.4%)	13,362,314	(1.1%)	75.8%		2002	13,105,095	(6.2%)	626,300,000	(8.2%)	2.092%
2003	9,990,039	(1.4%)	13,355,667	(0.0%)	74.8%		2003	13,276,313	1.3%	641,200,000	2.4%	2.071%
2004	10,686,996	7.0%	14,364,242	7.6%	74.4%		2004	14,165,503	6.7%	689,000,000	7.5%	2.056%
2005	11,208,217	4.9%	14,632,137	1.9%	76.6%		2005	14,575,150	2.9%	737,000,000	7.0%	1.978%
2006	11,422,873	1.9%	14,990,647	2.5%	76.2%		2006	14,923,816	2.4%	740,000,000	0.4%	2.017%
2007	11,824,232	3.5%	15,661,235	4.5%	75.5%		2007	15,366,764	3.0%	765,300,000	3.4%	2.008%
2008	11,999,364	1.5%	16,084,939	2.7%	74.6%		2008	16,265,353	5.8%	759,100,000	(0.8%)	2.143%
2009	11,473,496	(4.4%)	15,610,198	(3.0%)	73.5%		2009	15,568,582	(4.3%)	704,000,000 [1/]	(7.3%)	2.211%

Compounded Annual Growth Rate	Airport Originating Passengers	Airport Enplaned Passengers		Compounded Annual Growth Rate	Airport Enplaned Passengers	U.S. Total Enplaned Passengers
1998 - 2000	4.7%	5.0%		1998 - 2000	5.6%	4.0%
2002 - 2008	2.9%	3.1%		2002 - 2008	3.7%	3.3%
2007 - 2009	(1.5%)	(0.2%)		2007 - 2009	0.7%	(4.1%)
1998 - 2008	1.8%	2.3%		1998 - 2008	2.5%	1.6%
1998 - 2009	1.2%	1.8%		1998 - 2009	1.9%	0.8%

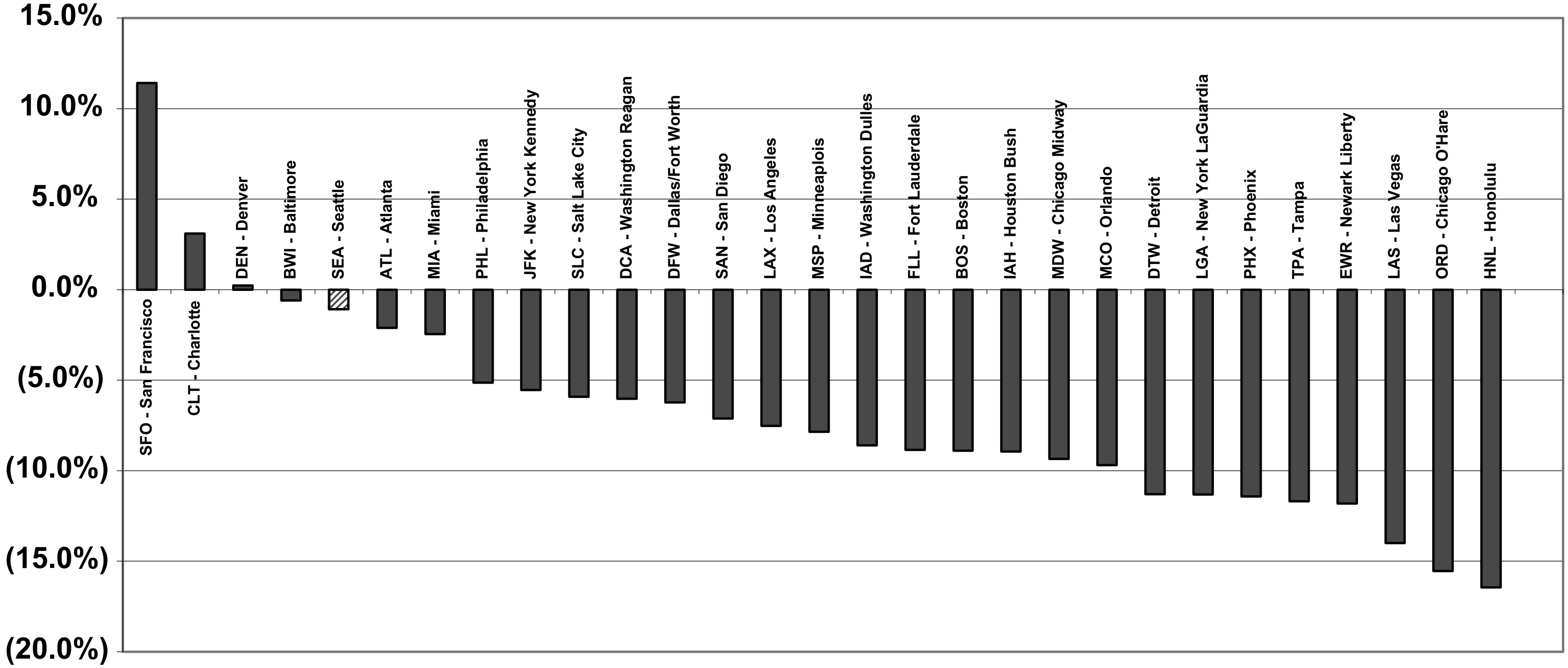
Year to Date: Jan. - Sep.	Airport Enplaned Passengers	Airport Growth
2009	11,924,562	-
2010	11,931,681	0.1%

Notes:

[1/] Estimated by the FAA.

Sources: Port of Seattle (Airport activity); FAA (U.S. activity), September 2010.

Prepared by: Ricondo & Associates, Inc., October 2010.



Source: Bureau of Transportation Statistics T-100 Data, June 2010.
Prepared by: Ricondo & Associates, Inc., June 2010.

Exhibit III-1

Percentage Change in Domestic Enplaned Passengers at Large Hub Airports in 2009 from 2007 growth in 2005 and 2006 was 1.9 percent and 2.5 percent, respectively. In 2007, international enplaned passengers at the Airport grew 9.4 percent (with new service to Mexico City and Paris). In 2008, Hainan, Lufthansa, and Virgin America all initiated service at the Airport (and Alaska and Virgin America engaged in competition in the Los Angeles and San Francisco markets), contributing to the 2.7 percent increase in enplaned passengers in 2008 from 2007 levels.

- **2009 – 2010 YTD.** Enplaned passengers at the Airport decreased from 16.1 million in 2008 to 15.6 million in 2009, a 3.0 percent decrease during this period. During 2009, passenger airline capacity at the Airport (measured in terms of scheduled departing seats) was 6.7 percent lower than that for 2008 (19.5 million seats and 20.8 million seats, respectively). Alaska/Horizon Air reduced capacity by 6.0 percent, Delta/Delta Connection reduced capacity by 7.9 percent, Southwest reduced capacity by 16.4 percent, and United/United Express reduced capacity by 6.8 percent. Combined, these airlines accounted for 65.5 percent of the decrease in scheduled seats between 2008 and 2009. For the first nine months of 2010, enplaned passengers at the Airport are 0.1 percent higher than enplaned passengers for the same period in 2009. For each of the months of June, July, August, and September of 2010, enplaned passengers at the Airport were higher than for the same period in the preceding year. As discussed later in this chapter, based on the enplaned passenger information for 2010 through September and on information for fourth quarter seat capacity, the Port expects 2010 enplaned passengers to increase approximately 0.5 percent, although for purposes of this report and the accompanying tables, the Port's more conservative forecast for 2010 reflecting a 1.6 percent decrease in enplaned passengers has been assumed.

To provide a direct comparison between enplaned passengers at the Airport to enplaned passenger data for the U.S., which is reported by the FAA for federal fiscal years (FFYs) ending September 30, Table III-3 reflects enplaned passengers for both the Airport and the U.S. for FFY 1998 through FFY 2009. As shown, the Airport's share of U.S. enplaned passengers increased from 1.965 percent in FFY 1998 to 2.211 percent in FFY 2009, reflecting the Airport's higher growth during this period. Other observations concerning enplaned passengers at the Airport and the U.S. include:

- Enplaned passengers at the Airport increased at a CAGR of 5.6 percent between FFY 1998 and FFY 2000, compared to 4.0 percent for the nation.
- The Airport experienced smaller decreases in passenger activity in FFY 2001 and FFY 2002 when compared to the nation, which were caused primarily by the events of September 11 and a nationwide economic slowdown.
- The Airport recovered to pre-September 11 levels in FFY 2004 compared to the U.S., which recovered in FFY 2005.
- Enplaned passengers at the Airport increased at a CAGR of 3.7 percent between FFY 2002 and FFY 2008, compared to 3.3 percent for the nation.
- The Airport experienced a smaller decrease in passenger activity in FFY 2009 when compared to the decrease estimated for the nation by the FAA, (caused primarily by airlines cutting back on capacity systemwide and a nationwide economic slowdown).

As illustrated by the data presented in Table III-3, during prior periods of nationwide decline, and similarly during periods of nationwide growth, the Port's passenger activity levels have generally fared better than the nation's.

3.2.2 Enplaned Passengers by Airline

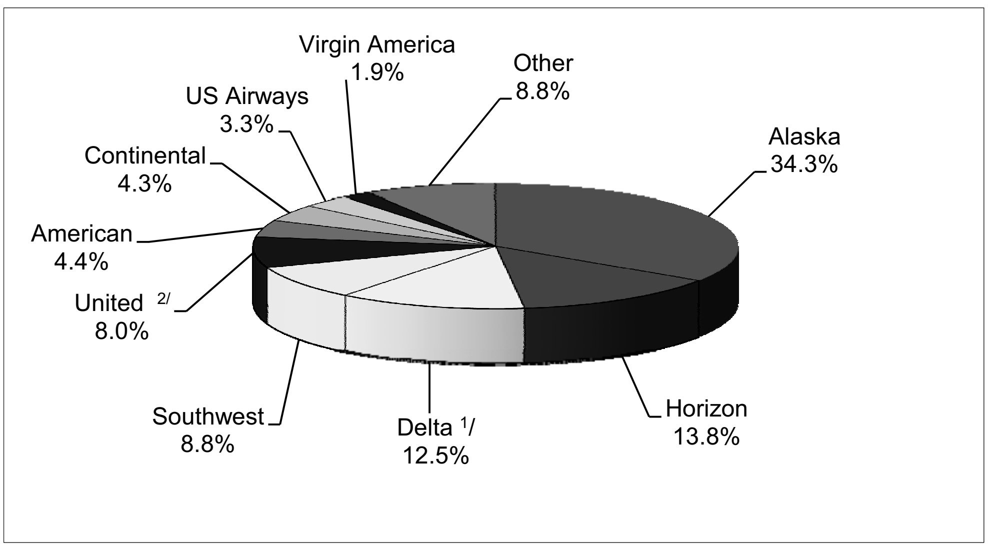
Other than Horizon Air and SkyWest, services at the Airport historically have been oriented toward the major/national airlines (i.e., passenger airlines having the majority of its scheduled and/or nonscheduled service using aircraft with more than 90 seats). The Airport is a hub for Alaska and Horizon Air, which were ranked 1st and 2nd, respectively, each year in total enplaned passengers at the Airport since at least 2002. Alaska and Horizon Air are owned by the same parent corporation but operate under separate FAA certificates.

Table III-4 presents the historical share of enplaned passengers by airline at the Airport between 2005 and 2009. As shown, enplaned passengers are spread over several airlines, with no single airline having more than approximately 36 percent of enplaned passengers at the Airport in any year during the years depicted. As also shown, Alaska and Horizon Air had a combined 48.1 percent share of enplaned passengers at the Airport in 2009, which is below the average market share of dominant airlines and their affiliates at the 29 large-hub airports (an average of approximately 50 to 55 percent combined market share). Three other airlines combined accounted for an additional 29.3 percent of enplaned passengers during this same period (Delta with a 12.5 percent share, Southwest with an 8.8 percent share, and United with an 8.0 percent share).[4] No major shifts in airline market shares of enplaned passengers have occurred at the Airport during the first eight months of 2010.

Exhibit III-2 below illustrates the percentage of enplaned passengers by airline for 2009.

Exhibit III-2

2009 Enplaned Passengers by Airline



Notes:
1/ Also includes service by Northwest and the Delta Connection carriers Mesaba and SkyWest.
2/ Also includes service by the United Express carrier SkyWest.

Source: Port of Seattle, June 2010.
Prepared by: Ricondo & Associates, Inc., October 2010.

3.3 Historical Air Service

An important airport characteristic is the distribution of its O&D markets, which is a function of air travel demands from local and visiting air travelers and available services and facilities. **Table III-5**

[4] Delta's 2009 share of enplaned passengers also includes service by Northwest and the Delta Connection carriers Mesaba and SkyWest. United's share 2009 share also includes service by the United Express carrier SkyWest.

Table III-4

Historical Enplaned Passengers by Airline

		Calendar Years									
		2005		2006		2007		2008		2009	
Rank in 2009	Airline	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share
1	Alaska	5,228,162	35.7%	5,434,755	36.3%	5,501,785	35.1%	5,523,387	34.3%	5,361,060	34.3%
2	Horizon	1,698,170	11.6%	1,777,052	11.9%	2,054,540	13.1%	2,280,037	14.2%	2,147,090	13.8%
3	Delta 1/	1,955,509	13.4%	1,867,292	12.5%	2,056,174	13.1%	2,064,961	12.8%	1,950,196	12.5%
4	Southwest	1,230,624	8.4%	1,313,040	8.8%	1,359,622	8.7%	1,425,062	8.9%	1,374,667	8.8%
5	United 2/	1,513,893	10.3%	1,507,619	10.1%	1,417,312	9.0%	1,285,294	8.0%	1,241,888	8.0%
6	American	812,169	5.6%	847,239	5.7%	806,906	5.2%	736,657	4.6%	680,356	4.4%
7	Continental	535,087	3.7%	628,183	4.2%	681,872	4.4%	678,505	4.2%	673,128	4.3%
8	US Airways 3/	638,446	4.4%	562,934	3.8%	495,190	3.2%	509,186	3.2%	510,353	3.3%
9	Virgin America	-	-	-	-	-	-	188,984	1.2%	300,588	1.9%
11	JetBlue	74,471	0.5%	112,574	0.8%	115,564	0.7%	173,469	1.1%	217,618	1.4%
12	Hawaiian	164,728	1.1%	150,345	1.0%	228,122	1.5%	197,592	1.2%	212,673	1.4%
13	Frontier	144,438	1.0%	158,185	1.1%	162,495	1.0%	161,123	1.0%	166,297	1.1%
	Other 4/	636,440	4.3%	631,429	4.2%	781,653	5.0%	860,682	5.4%	774,284	5.0%
	Airport Total	14,632,137	100.0%	14,990,647	100.0%	15,661,235	100.0%	16,084,939	100.0%	15,610,198	100.0%

Notes:
1/ Includes historical service by Northwest and the Delta Connection carriers ExpressJet, Mesaba, and SkyWest.
2/ Includes historical service by the United Express carrier SkyWest.
3/ Includes historical service by America West.
4/ Includes all airlines with less than 1.0 percent share of enplaned passengers at the Airport in 2009.

Source: Port of Seattle, June 2010.
Prepared by: Ricondo & Associates, Inc., October 2010.

Table III-5

Top Domestic Passenger Origin-Destination Markets and Nonstop Airline Service - 2009

Rank	Market of Origin or Destination	Air Miles From Seattle	O&D Share of Market [1/a/]	Average Daily Departures [b/]
1	Los Angeles [2/]	954	11.9%	36
2	San Francisco [3/]	678	9.9%	37
3	Las Vegas	866	4.4%	12
4	New York [4/]	2,421	4.0%	11
5	Phoenix	1,107	3.7%	13
6	San Diego	1,050	3.1%	7
7	Denver	1,024	3.1%	15
8	Chicago [5/]	1,721	2.9%	14
9	Spokane	224	2.3%	22
10	Honolulu	2,677	2.2%	5
11	Dallas [6/]	1,660	2.1%	11
12	Sacramento	605	2.0%	9
13	Washington [7/]	2,329	1.9%	5
14	Minneapolis	1,399	1.9%	9
15	Salt Lake City	689	1.8%	11
16	Atlanta	2,182	1.6%	7
17	Boston	2,496	1.6%	3
18	Anchorage	1,449	1.5%	17
19	Boise	399	1.4%	8
20	Orlando	2,553	1.4%	2
21	Houston [8/]	1,874	1.3%	7
22	Baltimore [9/]	2,335	1.3%	1
23	South Florida [10/]	2,717	1.2%	1
24	Kahului	2,640	1.2%	3
25	Philadelphia	2,378	1.0%	2
26	Detroit	1,927	1.0%	3
	Subtotal		71.8%	271
	All other cities		28.2%	150
	Total [11/]		100%	421

Notes:

1/ (a&b) Includes cities with at least one percent market share and based on CY 2009 O&D data.
2/ Los Angeles International, Bob Hope (Burbank), John Wayne (Orange County), Ontario International, and Long Beach airports.
3/ San Francisco, Oakland, and Mineta San Jose international airports.
4/ John F. Kennedy, LaGuardia, and Newark Liberty international airports.
5/ Chicago O'Hare and Midway airports.
6/ Dallas/Fort Worth International and Dallas Love airports.
7/ Washington Dulles International and Reagan Washington National airports.
8/ Houston Intercontinental and Houston Hobby airports
9/ Baltimore has only seasonal nonstop service from Sea-Tac.
10/ Miami, Fort Lauderdale-Hollywood, and West Palm Beach international airports.
11/ Remaining domestic cities and nonstop international departures included in the total.

Sources: (a) U.S. DOT OD1A database (May 2010); (b) Official Airline Guide (OAG) schedule for CY 2009, May 2010.
Prepared by: Ricondo & Associates, Inc., October 2010.

presents historical data on the Airport's top O&D markets in 2009 (cities with at least 1.0 percent share of 2009 total O&D passengers). The Airport served primarily medium to long-haul markets in the periods depicted, with an average stage length (i.e., passenger trip distance) of 1,422 miles in 2009. The Airport's relatively long average stage lengths during these periods reflect the Airport's geographical location.

As shown, the Los Angeles market was the top-ranked O&D market for the Airport in 2009, with an 11.9 percent share of total O&D passengers and 36 average daily departures, the second-highest average number of daily departures from the Airport in 2009. The Bay Area was ranked second, with a 9.9 percent share of total O&D passengers at the Airport in 2009 and 37 average daily departures, the highest average number of daily departures. As also shown, the Airport averaged approximately 420 daily departures during 2009.

3.4 Factors Affecting Aviation Demand

This section discusses qualitative factors that could influence future aviation activity at the Airport.

3.4.1 National Economy

Air travel demand is directly correlated to consumer income and business profits. As consumer income and business profits increase, so does demand for air travel. In 2008, the combination of declines in construction activity, losses in housing-related securities, rising oil prices and a falling stock market eventually tipped the economy into recession. The nation's non-seasonally adjusted unemployment rate rose from 5.4 percent in January 2008 to 10.6 percent in January 2010, the highest rate since March 1983. The nation's non-seasonally adjusted unemployment rate was 9.6 percent in August 2010. U.S. GDP remained positive or slightly negative for the first three quarters of 2008, before entering a sharp decline of 5.4 percent in the fourth quarter of 2008. U.S. GDP continued to decrease through the second quarter of 2009, followed by an increase of 2.2 percent, 5.6 percent, and 3.0 percent from the third quarter of 2009 to the first quarter of 2010. The rise in real GDP in recent quarters reflects stronger consumer spending compared to previous quarters. According to the latest projection from the Congressional Budget Office (CBO), U.S. GDP is projected to grow by 2.8 percent in 2010, by 2.0 percent in 2011, and by an average of 4.1 percent in 2012 through 2014.[5] If the economic downturn continues or worsens (e.g., double-dip recession), aviation demand nationwide will be negatively impacted.

3.4.2 State of the Airline Industry

Following the restructuring years after the events of September 11, the airline industry finally gained ground in 2007 with virtually every U.S. airline posting profits. In 2007, the major airlines had managed to restrain capacity in a growing economy. In 2008 and through the first half of 2009, the combination of record high fuel prices, weakening economic conditions, and a weak dollar resulted in the worst financial environment for U.S. network and low-cost carriers since the September 11 terrorist attacks. In 2008, many of the domestic network competitors announced significant capacity reductions, increases in fuel surcharges, fares and fees, and other measures to address the challenges. In the aftermath of the events of September 11, the U.S. airline industry saw a material decline in the demand for air travel. The result was five years of reported industry operating losses, totaling more than $28 billion dollars (excluding extraordinary charges and gains). Whereas the capacity reductions following the events of September 11 were the direct result of terror threats targeting the

---

[5] Source: Congressional Budget Office, *The Budget and Economic Outlook: An Update*, available online at http://www.cbo.gov/ftpdocs/ 117xx/doc11705/2010_08_19_SummaryforWeb.pdf, last accessed in August 2010.

traveling public, the industry reductions starting in late 2008 and continuing through the first half of 2009 were primarily driven by significant increases in fuel costs over a span of two and a half years, a weak dollar exacerbating the impact of increased fuel costs for U.S. airlines, and the contraction of the U.S. economy. After nearly $10 billion losses in 2009, the International Air Transport Association (IATA) predicts a $2.5 billion profit for the global industry in 2010. Globally, passenger traffic is forecast to rise 7.1 percent in 2010. Even though recovery is uneven across different regions, North American airlines profits are projected by the Air Transport Association (ATA) to be $1.9 billion in 2010.

3.4.3 Cost of Aviation Fuel

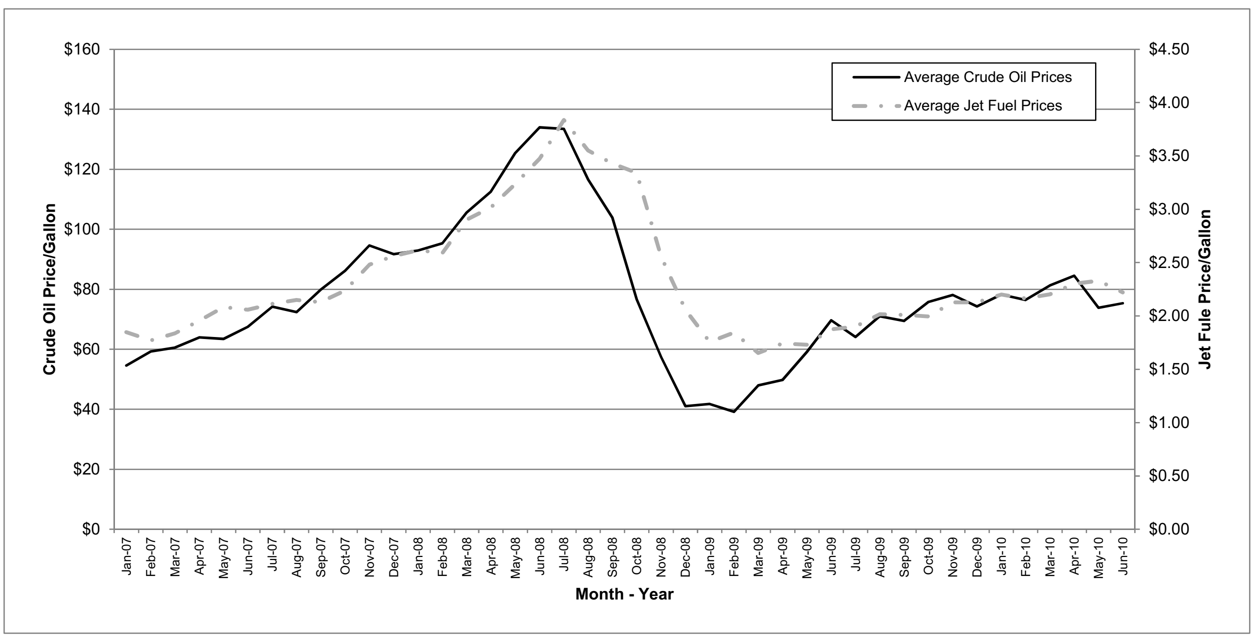
The price of fuel is one of the most significant forces affecting the airline industry today. In 2000, jet fuel accounted for nearly 14 percent of airline industry operating expenses and, historically, fuel expense was the second highest operating expense for the airline industry behind labor. In 2008, jet fuel surpassed labor as an airline's largest operating expense and, according to the ATA, fuel comprised approximately 30.6 percent of an airline's total operating costs while labor represented approximately 20.3 percent of the total. As oil prices fell in the first quarter of 2009, fuel expenses retreated and labor once again became the airline industry's largest operating expense representing 25.8 percent of total operating expenses while fuel was at 21.3 percent. In the first half of 2010, fuel once again was the largest percentage of total operating expense at 25.5 percent followed by labor at 24.7 percent.

The average price of jet fuel was $0.82 per gallon in 2000 compared to $1.90 per gallon in 2009, an increase of 132 percent. The average price of jet fuel was $2.22 per gallon in June 2010. According to the ATA, every one-cent increase in the price per gallon of jet fuel increases annual airline operating expenses by approximately $190 million to $200 million.

Exhibit III-3 shows the monthly averages of jet fuel and crude oil prices from January 2007 through June 2010.

Exhibit III-3

Historical Monthly Averages of Jet Fuel and Crude Oil Prices



Source: Air Transport Association (ATA), September 2010.
Prepared by: Ricondo & Associates, Inc., October 2010.

If jet fuel prices approach or surpass their mid-2008 peak, aviation demand nationwide may be negatively impacted due to potential route reductions the airlines might make or higher ticket prices the airlines might impose in efforts to remain profitable.

3.4.4 Threat of Terrorism

As has been the case since the events of September 11, the recurrence of terrorism incidents against either domestic or world aviation during the Projection Period remains a risk to achieving the activity projections contained herein. Any terrorist incident aimed at aviation would have an immediate and significant adverse impact on the demand for aviation services.

3.5 Projections of Aviation Demand

The Port prepared the aviation activity projections that were used to prepare the financial projections reflected in this report. Ricondo & Associates, Inc. reviewed these projections for their reasonableness for use in this report, as discussed below.

3.5.1 The Port's Projections and Underlying Assumptions

For purposes of ongoing planning, the Port maintains and periodically reviews and updates a long-range projection of aviation activity at the Airport. As shown in **Table III-6**, the Port's enplaned passenger forecast incorporated in this report and the accompanying tables projects that enplaned passengers at the Airport will decrease 1.6 percent in 2010, increase slightly in 2011, and then have a modest rebound of 3.0 percent in 2012. Thereafter, enplaned passengers are projected to increase at an annual rate of 2.2 percent through 2016. As a result, the Port is projecting enplaned passengers at the Airport to increase from 15.6 million in 2009 to 17.4 million in 2016, a CAGR of 1.6 percent during this period. The CAGR for historical enplaned passengers at the Airport from 1998 to 2009 was 1.8 percent. By comparison, in an earlier projection provided May 2009, the Port had projected enplaned passengers at the Airport would reach 17.7 million in 2016. Although the outer year figures are similar, the current projection has smaller decreases and rebounds associated with the near-term outlook, as the 7.0 percent decrease in enplaned passengers projected for 2009 in the earlier projection did not materialize (only a 3.0 percent decrease occurred during this period). As such, and taking into account current conditions, the Port adjusted the annual growth in the longer term downward from 3.0 percent to 2.2 percent.

3.5.1.1 Near-Term Projection – 2010 and 2011

The Port's enplaned passenger forecast incorporated in this report and the accompanying tables projects enplaned passengers to decrease 1.6 percent in 2010 (from 15.6 million in 2009 to 15.4 million in 2010) and increase 1.0 percent in 2011 (to 15.5 million). Key assumptions made by the Port for this near-term projection include:

- In spite of signs of economic recovery, some risks remain (e.g., a double-dip recession). Therefore, low growth is assumed until 2012.
- Airlines will maintain high load factors and yields in the next few years through capacity discipline.[6]

[6] Based on U.S. DOT Bureau of Transportation Statistics, the Airport's passenger load factor was approximately 83 percent in 2009; and based on U.S. DOT OD1A database, the Airport's yield (the average amount a passenger pays to fly one mile from the Airport) was approximately $0.0981, compared to $0.1196 estimated by the FAA for nationwide travel.

Table III-6

Historical and Projected Port Enplaned Passengers

Calendar Year	Actual Enplanements	Annual Growth
1998	12,867,987	-
1999	13,802,136	7.3%
2000	14,173,752	2.7%
2001	13,505,980	(4.7%)
2002	13,362,314	(1.1%)
2003	13,355,667	(0.0%)
2004	14,364,242	7.6%
2005	14,632,137	1.9%
2006	14,990,647	2.5%
2007	15,661,235	4.5%
2008	16,084,939	2.7%
2009	15,610,198	(3.0%)
	Port Projection	
2010 1/	15,361,000	(1.6%)
2011 1/	15,515,000	1.0%
2012	15,980,000	3.0%
2013	16,332,000	2.2%
2014	16,691,000	2.2%
2015	17,058,000	2.2%
2016	17,433,000	2.2%

Compounded Annual Growth Rate	
1998 - 2009	1.8%
2004 - 2008	2.9%
2009 - 2016	1.6%

Note:

1/ YTD 2010 (Jan-Sep) actual enplanements have increased 0.1% over the same period in 2009. As part of the 2011 Budget process, the Port has reviewed its enplaned passenger projection and expects 2010 enplaned passengers to increase approximately 0.5% (vs. the original projection of a 1.6% decrease) and 2011 enplaned passengers to increase approxiately 1.0% (unchanged from the original projection). For the purposes of this report, the original Port projection has been incorporated (i.e., the more conservative decrease of 1.6% for 2010 enplaned passengers has been assumed).

Sources: Port of Seattle (Airport activity and projection; October 2010).
Prepared by: Ricondo & Associates, Inc., October 2010.

Comparing 2010 YTD (Jan – Sep) to the same period in 2009, enplaned passengers at the Airport have increased 0.1 percent. As part of the Port's 2011 Budget process, the Port has reviewed its current enplaned passenger forecast reflected in this report and the accompanying tables. Based on the enplaned passenger information for 2010 through September and on information for fourth quarter seat capacity, the Port expects 2010 enplaned passengers to increase approximately 0.5 percent (rather than decrease 1.6 percent as reflected in this report and the accompanying tables) and 2011 enplaned passengers to increase 1.0 percent (a growth rate assumption unchanged from what is reflected in this report and the accompanying tables, based on longer-term seat capacity information). For purposes of this report, the more conservative forecast for 2010 reflecting a 1.6 percent decrease in enplaned passengers has been assumed.

3.5.1.2 Longer-Term Projection – 2012 through 2016

The Port projects enplaned passengers to increase from 15.5 million in 2011 to 17.4 million in 2016, resulting in a CAGR of 2.4 percent during this period. Key assumptions made by the Port for this longer-term projection include:

- Modest rebound of 3.0 percent for passenger activity in 2012. Following decreases in 2001, 2002, and 2003, enplaned passengers at the airport rebounded 7.6 percent in 2004.
- For 2013 through 2016, a longer-term annual growth rate of 2.2 percent is projected, equal to passenger growth rate reflected in the FAA Terminal Area Forecast (TAF) for the Airport, developed by the FAA in December 2009.
- The percentage of originating passengers will remain at approximately 70 to 75 percent during the Projection Period (this percentage was 73.5 percent in 2009), as there have been no indications or announcements from the airlines serving the Airport that this percentage would change from existing levels.
- The Alaska Air Group is assumed to be profitable and to keep the Airport as a primary hub.
- On August 27, 2010, United and Continental received Justice Department approval for their proposed merger after agreeing to lease landing and take-off rights at Newark Liberty International Airport to Southwest. Shareholders from United and Continental approved the merger in September 2010 and the merger closed on October 1, 2010. Since their respective routes from the Airport generally don't overlap, they complement rather than compete, the merger of United and Continental is not likely to result in lower activity by these carriers at the Airport. United and Continental represent passenger market shares of approximately 8.0 percent and 4.3 percent, respectively, at the Airport.
- On September 27, 2010, Southwest Airlines announced it had entered into an agreement to purchase AirTran Airways, providing opportunities to expand its network and diversify into new markets (e.g., Hartsfield-Jackson Atlanta International Airport and Ronald Reagan Washington National Airport) and also provide access to certain leisure markets in the Caribbean and Mexico. Southwest Airlines and AirTran Airways represent passenger market shares of approximately 8.8 percent and 0.8 percent, respectively, at the Airport and currently only serve one common market from the Airport (Baltimore, which, as shown on Table III-5, represented an approximate 1.3 percent share of the Airport's domestic O&D enplaned passengers in 2009). The merger is not expected to have a material adverse impact on enplanements and operations at the Airport.

The 2.4 percent CAGR for the Port's projection of enplaned passengers for the longer-term through 2016 is lower than the CAGR of 2.9 percent for enplaned passengers at the Airport between 2004 and 2008. Enplaned passenger growth at the Airport between 2004 and 2008 (following the recovery in 2004 and prior to the decrease in 2009) could generally be characterized as a period of normal growth for the Airport, as it was a period that was not affected by significant nationwide events.

3.5.2 Review of the Port's Projections and Assumptions

Ricondo & Associates, Inc. reviewed the Port's projections, as well as the underlying assumptions relative to historical trends in aviation activity at the Airport, scheduled airline service, recent airline announcements, and other factors affecting aviation demand. Ricondo & Associates, Inc. also analyzed the Port's projections based on linear regression modeling of local socioeconomic and demographic data, as described below. On the basis of our review and analysis and the fact that enplaned passengers are projected to increase at a CAGR between 2009 and 2016 that is less than the CAGR for actual 1998 to 2009 enplaned passengers, it is our opinion that the Port's underlying air traffic assumptions and projections of aviation activity at the Airport provide a reasonable basis from which to prepare the financial projections reflected in this report.

Statistical linear regression modeling was analyzed, with local socioeconomic factors as the independent variable and enplaned passengers as the dependent variable. Socioeconomic factors utilized in these analyses included population, income, and employment. Of interest in the analyses, among other factors, was how well each socioeconomic variable explained the annual variations in enplaned passengers at the Airport (i.e., the model's correlation coefficient).

Regression analysis was conducted on Airport enplaned passengers and each socioeconomic variable. The coefficient of determination (R^2) for the socioeconomic factors, which measures how well each variable explained the annual variations in enplaned passengers at the Airport, ranged from a high of approximately 95 percent for the population model to a low of approximately 93 percent for the income model. Based on applying annual growth rates associated with each regression model to the enplaned passenger level projected by the Port for 2010, the Air Trade Area could support enplaned passengers at the Airport in a range of 17.2 million to 17.7 million by 2016, compared to the 17.4 million enplaned passengers projected by the Port.

IV. PFC Bond Financial Analysis

This chapter examines the financial framework for the Port's outstanding PFC Bonds and the planned Series 2010 PFC Bonds; the Port's PFC approvals; the projections of PFC Bond debt service and PFC Revenue; the projections of PFC Bond debt service coverage; and the sufficiency of PFC collections to meet the Port's PFC obligations through 2023, the final maturity date of the Series 2010 PFC Bonds.

The Series 2010 PFC Bonds are being issued to refund all or a portion of the Port's outstanding Series 1998 PFC Bonds.

The Port prepared the PFC financial projections contained in this chapter for 2010 through 2016 (the Projection Period). R&A reviewed the Port's PFC financial projections in this chapter, including the methodologies and underlying assumptions incorporated therein, and determined that they are reasonable for the purposes of this analysis.

4.1 PFC Bond Resolution

The Port intends to issue the Series 2010 PFC Bonds pursuant to Resolution No. 3284 (adopted by the Port Commission on July 16, 1998), as amended, and Resolution No. 3643, as amended (adopted by the Port Commission on October 26, 2010), referred to collectively in this report as the PFC Bond Resolution.

The Series 2010 PFC Bonds, the Port's outstanding Series 1998 PFC Bonds, and any additional bonds payable from PFC Revenue on a parity with the Series 1998 PFC Bonds and the Series 2010 PFC Bonds are referred to collectively as the First Lien PFC Bonds. All of the Port's currently outstanding PFC Bonds are First Lien PFC Bonds. The First Lien PFC Bonds are payable solely from, and secured by, a pledge of PFC Revenue and Additional Pledged Revenue, if any. PFC Bonds may also be payable and secured by a Credit Facility as defined in the PFC Bond Resolution. PFC Revenue means all revenue received by the Port from time to time from PFCs authorized by the FAA and imposed by the Port on eligible enplaning passengers at the Airport, and investment income therefrom. No additional approvals are required from the FAA for PFC Revenue to be used to pay debt service on the Series 2010 PFC Bonds. Additional Pledged Revenue means any income, receipt, or revenue of the Port (other than PFC Revenue) legally available and pledged irrevocably to the payment of debt service on PFC Bonds. The financial projections reflected in this report and in the accompanying financial tables do not assume any Additional Pledged Revenue during the Projection Period.

The PFC Bond Resolution allows for the issuance of Subordinate Lien PFC Obligations but none have been issued to date and the Port does not expect to issue any during the Projection Period. For purposes of this report and the accompanying tables, any reference to PFC Bonds, unless otherwise stated, refers to First Lien PFC Bonds.

The PFC Bond Resolution requires that certain covenants be met while PFC Revenue Bonds are outstanding and that certain financial tests be met before future PFC Revenue Bonds can be issued. As discussed below, this report presents estimates of future debt service coverage to demonstrate the Port's ability to meet certain requirements of the PFC Bond Resolution. Except as noted otherwise, capitalized terms in this report are used as defined in the PFC Bond Resolution.

Certain amendments to the PFC Bond Resolution are to become effective on the date on which all Series 1998 PFC Bonds are no longer Outstanding. The full text of all of the amendments is included in Section 18 of the PFC Series Resolution attached as Appendix E to the Official Statement for the Series 2010 PFC Bonds.

4.1.1 Covenants Related to PFC Bonds

The Port covenants in the PFC Bond Resolution to comply with all provisions of the PFC Act, applicable PFC Regulations, and the Port's PFC Approvals, each of which are described in the Official Statement for the Series 2010 PFC Bonds. The Port also covenants that it will not take any action or omit to take any action with respect to PFC Revenue, the Airport, or otherwise if such action or omission would cause the termination or reduction of the Port's authority to impose a PFC or prevent the collection and use of PFC Revenue as contemplated in the PFC Bond Resolution.

Pursuant to the First Lien Sufficiency Covenant of the PFC Bond Resolution, the Port covenants to manage the PFC program at the Airport so that, at all times, Unspent PFC Authority plus Projected Additional Pledged Revenue, if any, is at least equal to 105 percent of Projected Aggregate Debt Service for Outstanding First Lien PFC Bonds.

Unspent PFC Authority means the aggregate dollar amount of PFCs authorized to be collected by the Port minus Adjusted Costs. Adjusted Costs means the Costs of Projects paid or legally obligated to be paid from PFC Revenue to date, minus Projected Aggregate Debt Service, minus amounts then on deposit in the funds and accounts created under the PFC Bond Resolution and available for the payment of debt service on PFC Bonds, and minus Costs of Projects paid from proceeds of PFC Bonds.

The Port has made certain other covenants in the PFC Bond Resolution regarding, among other things, imposing a PFC at the Airport, the PFC level, and the maintenance of the Airport. Please refer to the PFC Bond Resolution for a more detailed description of covenants made by the Port in connection with PFC Bonds.

4.1.2 Additional PFC Bonds

The Port is authorized under the PFC Bond Resolution, subject to meeting certain conditions, to issue additional PFC Bonds on parity with the Series 1998 PFC Bonds and the Series 2010 PFC Bonds. Before issuing any additional First Lien PFC Bonds (other than the Refunding First Lien PFC Bonds as described below), the Port must deliver, among other things, either a certificate executed by a Designated Port Representative or a certificate of an independent and nationally recognized aviation consultant stating that certain requirements related to PFC Revenue and future PFC Bond debt service are met, as detailed in the PFC Bond Resolution.

First Lien PFC Refunding Bonds may be issued for the purpose of refunding First Lien PFC Bonds with a certificate of a Designated Port Representative stating that Annual Debt Service on such First Lien PFC Refunding Bonds to be issued would not be more than the Annual Debt Service on the First Lien PFC Bonds to be refunded were such refunding not to occur.

Please refer to the PFC Bond Resolution for a more detailed description of requirements associated with issuing additional PFC Bonds. The Port has not committed, nor does it currently intend, to issue any additional First Lien PFC Bonds (subsequent to the Series 2010 PFC Bonds) or subordinate lien PFC bonds during the Projection Period, although the Port reserves the right to do so.

4.2 Airport PFC Program

As reflected on **Table IV-1**, the Port is currently authorized by the FAA, pursuant to four PFC application approvals, to impose and use approximately $1.3 billion of PFC Revenue (consisting of PFC collections and associated interest income) for approved PFC projects at the Airport. The Port

Table IV-1
Summary of FAA Approvals

FAA Approvals	Date Approved [1/]	Approved Use/ PFC Authority [2/]
Application #1	August 13, 1992	$27,911,096
Application #2	October 25, 1993	48,790,226
Application #3	December 29, 1995	292,882,278
Application #4	June 24, 1998	963,656,707
Total Approved Use/PFC Authority		$1,333,240,307

Notes:
1/ Represents the date that the application was originally approved.
2/ Represents applications as amended. All applications were amended from the original authority. Generally, applications are amended so that the application and the final project costs are aligned.

Sources: Port of Seattle, October 2010.

Prepared by: Ricondo & Associates, Inc., October 2010.

is authorized to collect PFC Revenue until the date on which the amount of PFC Revenue collected equals the amount of PFC Revenue authorized for the Port by the FAA (this amount is referred to as the Port's PFC Authority).

The Port received its first approval from the FAA to impose a PFC in August 1992. Between November 1, 1992 and September 30, 2001, the Port collected a $3.00 PFC per eligible enplaned passenger under the terms of FAA approvals of three PFC applications and amendments to those applications submitted between 1992 and 1996. The Port subsequently received FAA approval to increase its PFC level to $4.50 per eligible enplaned passenger under the terms of an amendment to its fourth PFC application and began collecting at the $4.50 level on October 1, 2001. Pursuant to FAA regulations, the current $4.50 PFC level collected by the Port results in a 75% reduction in AIP passenger entitlement grants.

Through June 30, 2010, the Port had received approximately $814.6 million in PFC Revenue (including interest), of which approximately $791.9 million had been spent for approved PFC projects (either on a pay-as-you-go basis or used to pay debt service on PFC Bonds and other revenue bonds of the Port).

Given PFC Revenues collected to date and projected PFC Revenue as shown in this report, the Port estimates that it will have collected PFC Revenue equal to its current PFC Authority of approximately $1.33 billion by September 1, 2018. The Port may only use PFC Revenue for projects and amounts specified in PFC approvals (including debt service) received from the FAA. The First Lien Sufficiency Covenant generally requires that Unspent PFC Authority be equal to or exceed remaining PFC bond debt service obligations at all times. If the Port collects cumulative PFC Revenue equal to its PFC Authority prior to the final maturity date of any outstanding PFC Bonds, the Port will be required to reserve PFC Revenue, along with Additional Pledged Revenues (if any), sufficient to meet the then-remaining PFC Bond debt service obligations. Table IV-5 of this report illustrates the Port's ability to pay Projected Aggregate First Lien Debt Service from unspent and available PFC Authority through the final maturity date of the Series 2010 PFC Bonds (2023), assuming, for the purposes of calculations on Table IV-5, that the Port does not receive any future PFC approvals from the FAA. The Port expects to submit future PFC applications and receive future PFC approvals from the FAA that would increase the Port's PFC Authority. Any increase in the Port's PFC Authority would extend the period of time required to fully collect authorized PFC Revenue.

PFC revenues are first used by the Port to pay debt service on outstanding PFC Bonds. After paying debt service on outstanding PFC Bonds, the Port uses PFC revenues to pay for certain FAA-approved, PFC-eligible Aviation Division projects, using certain PFC revenues to pay for approved project costs on a pay-as-you-go basis or using or pledging and assigning certain PFC revenues to pay debt service associated with Port revenue bonds used to fund approved projects costs. PFC revenues are not included in the definition of Revenues as it pertains to the Port's revenue bonds.

Legislation is currently pending in the U.S. Congress that would permit public agencies to elect to charge PFCs above the current $4.50 maximum rate. On May 21, 2009, the U.S. House of Representatives passed H.R. 915. The bill would increase the maximum PFC level to $7.00. On March 22, 2010, the U.S. Senate passed its comparable H.R. 1586, which did not include any provision increasing the PFC level above $4.50. H.R. 1586 would, however, create a pilot program under which six airports would control the PFC rate charged (with no maximum level). The House and Senate bills will need to be reconciled in conference committee and a consolidated version of the bill passed in both the House and Senate before the bill will become law. It's uncertain whether the final bill, if passed, would in fact increase the PFC level.

The financial projections and the financing plan reflected in this report and in the accompanying tables assume the Port's current $4.50 PFC level is in place for the entire Projection Period. If federal PFC regulations are changed and the maximum PFC level is increased, the Port plans to apply to the FAA for authorization to collect the higher PFC level at the Airport.

4.3 PFC Bond Debt Service

The planned Series 2010 PFC Bonds are being issued to refund all or a portion of the Port's outstanding Series 1998 PFC Bonds. The Port will issue the Series 2010 Bonds and refund all or a portion of the Series 1998 PFC Bonds only if the Port can achieve sufficient debt service savings; therefore, the Port expects that debt service on the Series 2010 PFC Bonds will be less than the debt service associated with the Series 1998 PFC Bonds being refunded. For purposes of PFC Bond financial projections, however, debt service on the Series 2010 PFC Bonds has conservatively been assumed to be equal to Series 1998 PFC Bond debt service for the period 2010 through 2016. **Table IV-2** presents actual PFC Bond debt service associated with outstanding Series 1998 PFC Bonds for 2009 through 2016.

Refer to the Official Statement for additional information on the estimated sources of funds and uses of the proceeds of the Series 2010 PFC Bonds and the refunding plan.

4.4 PFC Collections

Table IV-3 presents enplaned passengers, PFC-eligible enplaned passengers, and PFC collections (excluding any PFC Revenue Fund interest income) for 2006 through 2016. The Port collected a PFC from an average of 87.3 percent of enplaned passengers at the Airport for the period 2006 to 2009. For 2010 through 2016, it was assumed that the Port will impose a $4.50 PFC and that 87.0 percent of total enplaned passengers at the Airport will pay a PFC.

As shown in Table IV-3, PFC collections are projected to increase from approximately $58.7 million in 2009 to approximately $66.4 million in 2016. The projected increase in PFC collections is primarily attributable to projected passenger enplanement growth over the period.

4.5 PFC Bond Debt Service Coverage

Table IV-4 presents projections of PFC Revenue, First Lien PFC Reserve Account interest income, PFC Bond debt service, and the calculation of PFC Bond debt service coverage for the Projection Period. As shown, PFC Bond debt service coverage based on PFC collections alone is projected to be 2.87 times or greater during each year of the Projection Period.

4.6 PFC Sufficiency Projection

Table IV-5 projects the sufficiency of PFC collections to meet the Port's PFC obligations through 2023 (the final maturity date of the Series 2010 PFC Bonds). The Port manages the PFC program at the Airport so that it meets the First Lien Sufficiency Covenant, which is described in Section 4.1.1. Table IV-5 is not a calculation of the First Lien Sufficiency Covenant, but does illustrate that available and unspent PFC Authority is projected to be at least 185 percent of the Projected Aggregate First Lien Debt Service for each year through 2023.

Table IV-2

PFC Revenue Bond Debt Service
Fiscal Years Ending December 31

	Actual	Estimated	Projected					
PFC Revenue Bonds	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Series 1998A	$ 6,079,600	$ 6,079,600	$ 6,079,600	$ 6,079,600	$ 6,079,600	$ 6,079,600	$ 6,079,600	$ 6,749,600
Series 1998B	14,345,328	14,345,003	14,343,428	14,344,290	14,341,015	14,347,678	14,345,615	13,673,205
PFC Revenue Bond Debt Service 1/	$ 20,424,928	$ 20,424,603	$ 20,423,028	$ 20,423,890	$ 20,420,615	$ 20,427,278	$ 20,425,215	$ 20,422,805

Note:

1/ The refunding of the Series 1998 PFC Bonds will only be completed if debt service savings can be achieved; therefore, the Port expects that debt service on the Series 2010 PFC Bonds will be less than the debt service associated with the Series 1998 PFC Bonds being refunded. For purposes of the PFC Bond financial projections, however, Series 2010 PFC Bond debt service has conservatively been assumed to be equal to Series 1998 PFC Bond debt service for the period 2011 through 2016.

Sources: Port of Seattle, October 2010.

Prepared by: Ricondo & Associates, Inc., October 2010.

Table IV-3
PFC Collections
Fiscal Years Ending December 31

	Calculation for FY 2006 - 2009	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Calculation for FY 2010-2016	Estimated 2010	Projected 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016
Enplaned Passengers	[A]	14,990,647	15,661,235	16,084,939	15,610,198	[a]	15,361,000	15,515,000	15,980,000	16,332,000	16,691,000	17,058,000	17,433,000
Annual % change			4.5%	2.7%	-3.0%		-1.6%	1.0%	3.0%	2.2%	2.2%	2.2%	2.2%
Passenger Facility Charge (PFC) Level		$ 4.50	$ 4.50	$ 4.50	$ 4.50		$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50
LESS: Carrier Compensation [1/]		0.11	0.11	0.11	0.11		0.12	0.12	0.12	0.12	0.12	0.12	0.12
Net PFC Level	[B]	$ 4.39	$ 4.39	$ 4.39	$ 4.39	[b]	$ 4.38	$ 4.38	$ 4.38	$ 4.38	$ 4.38	$ 4.38	$ 4.38
Enplaned Passengers Paying a PFC	[C]=[E] / [B]	13,225,707	13,828,115	14,005,290	13,380,992	[c]=[a]x[d]	13,364,000	13,498,000	13,903,000	14,209,000	14,521,000	14,840,000	15,167,000
Percent of Enplaned Passengers Paying a PFC	[D]=[C] / [A]	88.2%	88.3%	87.1%	85.7%	[d]=87%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%
FY 2006-2009 Average	87.3%												
PFC Collections	[E]	$ 58,060,853	$ 60,705,426	$ 61,483,221	$ 58,742,555	[e]=[b]x[c]	$ 58,534,000	$ 59,121,000	$ 60,895,000	$ 62,235,000	$ 63,602,000	$ 64,999,000	$ 66,431,000

Note:
1/ For the purposes of internal planning, the Port assumes a handling fee of $0.12 for projections (as compared to $0.11 per statute) to account for refunded tickets upon which airlines can retain the handling fee.

Sources: Port of Seattle, October 2010.
Prepared by: Ricondo & Associates, Inc., October 2010.

Table IV-4

PFC Revenue Bond Debt Service Coverage

Fiscal Years Ending December 31

		Actual 2009	Estimated 2010	Projected 2011	2012	2013	2014	2015	2016
PFC Collections	[A]	$ 58,742,555	$ 58,534,000	$ 59,121,000	$ 60,895,000	$ 62,235,000	$ 63,602,000	$ 64,999,000	$ 66,431,000
PFC Fund Interest Income [1/]	[B]	1,007,380	627	0	0	0	0	0	0
PFC Revenue	[C] = [A]+[B]	$ 59,749,935	$ 58,534,627	$ 59,121,000	$ 60,895,000	$ 62,235,000	$ 63,602,000	$ 64,999,000	$ 66,431,000
First Lien PFC Reserve Account Interest Income	[D]	$ 553,532	$ 500,000	$ 380,000	$ 720,000	$ 720,000	$ 720,000	$ 720,000	$ 720,000
Available PFC Revenue	[E]=[C]+[D]	$ 60,303,467	$ 59,034,627	$ 59,501,000	$ 61,615,000	$ 62,955,000	$ 64,322,000	$ 65,719,000	$ 67,151,000
PFC Revenue Bond Debt Service	[F]	$ 20,424,928	$ 20,424,603	$ 20,423,028	$ 20,423,890	$ 20,420,615	$ 20,427,278	$ 20,425,215	$ 20,422,805
PFC Revenue Bond Debt Service Coverage									
From PFC Collections only	=[A] / [F]	2.88	2.87	2.89	2.98	3.05	3.11	3.18	3.25
PFC Revenue	=[C] / [F]	2.93	2.87	2.89	2.98	3.05	3.11	3.18	3.25
From Available PFC Revenue	=[E] / [F]	2.95	2.89	2.91	3.02	3.08	3.15	3.22	3.29

Note:

1/ The Port receives interest income on amounts in the PFC Revenue Fund; however, for the purposes of this analysis, future PFC Fund Interest Income is not assumed.

Sources: Port of Seattle, October 2010.

Prepared by: Ricondo & Associates, Inc., October 2010.

Table IV-5 (Page 1 of 2)

PFC Sufficiency Projection [1/]

(Based on total PFC Authority As of October 29, 2010) [2/]

Fiscal Years Ending December 31

		2010	2011	2012	2013	2014	2015	2016
Annual PFC Collections		$ 58,534,627	$ 59,121,000	$ 60,895,000	$ 62,235,000	$ 63,602,000	$ 64,999,000	$ 66,431,000
Cumulative PFC Collections		$ 843,748,109	$ 902,869,109	$ 963,764,109	$ 1,025,999,109	$ 1,089,601,109	$ 1,154,600,109	$ 1,221,031,109
Total PFC Authority as of October 28, 2010	[A]	$ 1,333,240,307						
PFC Authority Unspent	[B]		$ 506,618,726	$ 452,385,726	$ 415,863,657	$ 384,293,796	$ 352,052,211	$ 319,513,491
PFC Expenditures								
PFC Bond Debt Service		$ 20,424,603	$ 20,423,028	$ 20,423,890	$ 20,420,615	$ 20,427,278	$ 20,425,215	$ 20,422,805
Pay-as-you-go expenditures		21,156,128	5,843,000	5,628,000	-	500,000	-	-
Revenue Bond Debt Service Offset		32,256,561	27,966,972	10,470,179	11,149,246	11,314,308	12,113,505	11,642,781
Total PFC Expenditures	[C]	$ 73,837,292	$ 54,233,000	$ 36,522,069	$ 31,569,861	$ 32,241,586	$ 32,538,720	$ 32,065,586
Cumulative PFC Expenditures	[D]	$ 826,621,582	$ 880,854,581	$ 917,376,650	$ 948,946,511	$ 981,188,097	$ 1,013,726,817	$ 1,045,792,403
PFC Authority Unspent								
Through 2010	[E]=[A]-[D]	$ 506,618,726						
Projected	[F]=[B]-[C]		$ 452,385,726	$ 415,863,657	$ 384,293,796	$ 352,052,211	$ 319,513,491	$ 287,447,905
Projected Aggregate PFC Bond Debt Service	[G]	$ 285,930,508	$ 265,505,905	$ 245,082,878	$ 224,658,988	$ 204,238,373	$ 183,811,095	$ 163,385,880
PFC Revenue Bond Debt Service current	[H]	20,424,603	20,423,028	20,423,890	20,420,615	20,427,278	20,425,215	20,422,805
Remaining Projected Aggregate PFC Bond Debt Service	[I]=[G]-[H]	$ 265,505,905	$ 245,082,878	$ 224,658,988	$ 204,238,373	$ 183,811,095	$ 163,385,880	$ 142,963,075
Projected PFC Sufficiency								
Through 2010	=[E]/[I]	1.91						
Projected	=[F]/[I]		1.85	1.85	1.88	1.92	1.96	2.01

Table IV-5 (Page 2 of 2)

PFC Sufficiency Projection [1/]

(Based on total PFC Authority As of October 29, 2010) [2/]

Fiscal Years Ending December 31

		2017	2018 [3/]	2019	2020	2021	2022	2023
Annual PFC Collections		$ 67,893,000	$ 44,316,198	$ -	$ -	$ -	$ -	$ -
Cumulative PFC Collections		$ 1,288,924,109	$ 1,333,240,307	$ -	$ -	$ -	$ -	$ -
Total PFC Authority	[A]							
PFC Authority Unspent	[B]	$ 287,447,905	$ 255,576,918	$ 225,178,329	$ 194,781,289	$ 164,379,068	$ 131,445,556	$ 98,177,476
PFC Expenditures								
PFC Bond Debt Service		$ 20,426,100	$ 20,422,100	$ 20,421,875	$ 20,426,000	$ 20,420,750	$ 20,423,750	$ 20,422,500
Pay-as-you-go expenditures		1,329,000	-	-	-	2,538,000	2,415,557	-
Revenue Bond Debt Service Offset		10,115,887	9,976,489	9,975,165	9,976,221	9,974,762	10,428,773	10,429,219
Total PFC Expenditures	[C]	$ 31,870,987	$ 30,398,589	$ 30,397,040	$ 30,402,221	$ 32,933,512	$ 33,268,080	$ 30,851,719
Cumulative Total PFC Expenditures	[D]	$ 1,077,663,390	$ 1,108,061,979	$ 1,138,459,019	$ 1,168,861,240	$ 1,201,794,752	$ 1,235,062,832	$ 1,265,914,551
PFC Authority Unspent								
Through 2010	[E]=[A]-[C]							
Projected	[F]=[B]-[C]	$ 255,576,918	$ 225,178,329	$ 194,781,289	$ 164,379,068	$ 131,445,556	$ 98,177,476	$ 67,325,757
Projected Aggregate PFC Bond Debt Service	[G]	$ 142,963,075	$ 122,536,975	$ 102,114,875	$ 81,693,000	$ 61,267,000	$ 40,846,250	$ 20,422,500
PFC Revenue Bond Debt Service current	[H]	20,426,100	20,422,100	20,421,875	20,426,000	20,420,750	20,423,750	20,422,500
Remaining Projected Aggregate PFC Bond Debt Service	[I]=[G]-[H]	$ 122,536,975	$ 102,114,875	$ 81,693,000	$ 61,267,000	$ 40,846,250	$ 20,422,500	$ -
Projected PFC Sufficiency								
Projected	=[F]/[I]	2.09	2.21	2.38	2.68	3.22	4.81	N/A

Notes:

1/ This table projects the sufficiency of PFC collections to meet the Port's PFC obligations. The calculation methodology is not the same as the First Lien Sufficiency Coverage Covenant in the Resolution.

2/ This table reflects PFC expenditures for the Port's current PFC Authority as of October 29, 2010, only. The Port expects to submit future PFC applications and to receive future PFC approvals from the FAA that would increase the Port's PFC Authority and extend the period in which the Port can collect PFC Revenue.

3/ The Port estimates that it will have collected $1.333 billion in PFC Revenue (equal to its current PFC Authority as of October 29, 2010) in 2018. As this table only reflects expenditures for its current PFC Authority as of October 29, 2010, PFC collections beyond that date are not reflected.

Sources: Port of Seattle, October 2010.

Prepared by: Ricondo & Associates, Inc., October 2010.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

AUDITED FINANCIAL STATEMENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

INDEPENDENT AUDITOR'S REPORT

To the Port Commission
Port of Seattle
Seattle, Washington

We have audited the accompanying financial statements of the Enterprise Fund and the Warehousemen's Pension Trust Fund of the Port of Seattle (the "Port") as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008, and 2007, which collectively comprise the Port's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund and the Warehousemen's Pension Trust Fund as of December 31, 2009 and 2008, and the changes in financial position and cash flows for the Enterprise Fund, and the changes in net assets for the Warehousemen's Pension Trust Fund for the years ended December 31, 2009, 2008, and 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Port's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

Moss Adams LLP

Seattle, Washington
April 28, 2010

PORT OF SEATTLE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") of the Port of Seattle's (the "Port") activities and financial performance provides an introduction to the financial statements of the Port for the fiscal year ended December 31, 2009, including the Port operations within the Enterprise Fund and the Warehousemen's Pension Trust Fund, with selected comparative information for the years ended December 31, 2008 and 2007. The Enterprise Fund accounts for all activities and operations of the Port except for the activities included within the Warehousemen's Pension Trust Fund. This includes the Port's major business activities, which are comprised of the Aviation, Seaport, and the Real Estate divisions. Enterprise Funds are used to account for operations and activities that are financed at least in part by fees or charges to external users. The Warehousemen's Pension Trust Fund accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. The Port became the sole administrator for the Warehousemen's Pension Plan and Trust effective May 25, 2004. The MD&A presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section. The notes are essential to thoroughly understand the data contained in the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The report includes the following three basic financial statements for the Port Enterprise Fund: the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The report also includes the following two basic financial statements for the Warehousemen's Pension Trust Fund: statements of net assets and statements of changes in net assets.

ENTERPRISE FUND

Financial Position Summary

The statements of net assets present the financial position of the Enterprise Fund of the Port at the end of the fiscal year. The statements include all assets and liabilities of the Enterprise Fund. Net assets, the difference between total assets and total liabilities, is an indicator of the current fiscal health of the organization and the enterprise's financial position over time. A summarized comparison of the Enterprise Fund assets, liabilities, and net assets at December 31, 2009, 2008, and 2007 is as follows (in millions):

	2009	2008	2007
ASSETS:			
Current, long-term, and other assets	$ 1,169.1	$ 819.9	$ 1,265.1
Capital assets	5,429.5	5,345.4	5,169.3
Total assets	$ 6,598.6	$ 6,165.3	$ 6,434.4
LIABILITIES:			
Current liabilities	$ 520.6	$ 418.2	$ 752.1
Long-term liabilities	3,326.1	3,107.2	3,192.3
Total liabilities	$ 3,846.7	$ 3,525.4	$ 3,944.4
NET ASSETS:			
Invested in capital assets—net of related debt	$ 2,218.5	$ 2,236.2	$ 2,107.1
Restricted assets	111.7	68.8	93.5
Unrestricted net assets	421.7	334.9	289.4
Total net assets	$ 2,751.9	$ 2,639.9	$ 2,490.0

Assets exceeded liabilities by $2.8 billion, a $112.0 million increase over total net assets as of December 31, 2008 compared to $2.6 billion, and a $154.6 million increase over total net assets as of December 31, 2007. For each year presented, the largest portion of the Enterprise Fund's net assets represents its investment in capital assets, less the related debt outstanding used to acquire those capital assets. The Port uses these capital assets to provide services to its tenants, passengers, and customers of the Aviation, Seaport and Real Estate divisions; consequently, these assets are not available for future spending. Although the Port's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves cannot be used to liquidate liabilities. From 2008 to 2009, there was a decrease of $17.7 million in invested in capital assets net of related debt due to a reduction of the capital program in 2009. From 2007 to 2008, there was an increase of $129.1 million in invested in capital assets net of related debt from the continued creation of new assets.

As of December 31, 2009 and 2008, the restricted net assets of $111.7 million and $68.8 million, respectively, are mainly comprised of net assets from unspent bond proceeds restricted for debt reserves in accordance with bond covenants and Passenger Facility Charges ("PFCs") which is subject to Federal regulations on their uses. From 2008 to 2009 and from 2007 to 2008, there was an increase of $42.9 million and a decrease of $24.7 million, respectively, in restricted net assets due to the timing of spending from PFCs during the periods, addition of $32.1 million in restricted debt reserves for the Series 2009 Bonds issuance, and reduction of $9.0 million in restricted bond proceeds from 2007 to 2008 applied to scheduled principal payments of related bonds.

As of December 31, 2009 and 2008, the unrestricted net assets of $421.7 million and $334.9 million, respectively, may be used to satisfy the Port's ongoing obligations. However, amounts from Airport operations must be used solely for the Aviation Division's ongoing obligations. Cash and cash equivalents, and investment balances related to such Airport operations total $267.2 million and $230.5 million for the years ended 2009 and 2008, respectively. The increase in this category from 2008 is largely due to curtailing spending in 2009.

Statements of Revenues, Expenses, and Changes in Net Assets

The change in net assets is an indicator of whether the overall fiscal condition of the Enterprise Fund has improved or worsened during the year. Following is a summary of the statements of revenues, expenses, and changes in net assets (in millions) for the years ended December 31, 2009, 2008, and 2007:

	2009	2008	2007
Operating revenues	$ 449.4	$ 478.5	$ 457.9
Operating expenses	245.8	274.6	236.9
Operating income before depreciation	203.6	203.9	221.0
Depreciation	157.1	144.2	141.6
Operating income	46.5	59.7	79.4
Nonoperating (expense) income—net	(11.3)	42.5	31.2
Capital contributions	76.8	52.4	94.9
Increase in net assets	112.0	154.6	205.5
Net assets—beginning of year	2,639.9	2,490.0	2,284.5
Restatement—Implementation of GASB 49 (Note 1)		(4.7)	
Net assets—end of year	$ 2,751.9	$ 2,639.9	$ 2,490.0

Financial Operation Highlights

A summary of operating revenues follows (in millions):

	2009	2008	2007
OPERATING REVENUES:			
Services	$ 164.0	$ 187.8	$ 168.7
Property rentals	274.6	286.2	279.4
Fuel hydrant facility revenues	7.8	2.9	8.0
Operating grant and contract revenues	3.0	1.6	1.8
Total	$ 449.4	$ 478.5	$ 457.9

During 2009, operating revenue within the Enterprise Fund decreased 6.1% from the 2008 balance of $478.5 million to $449.4 million. Aviation Division operating revenues decreased $29.0 million due to (1) a decrease in landside revenues from decline in public parking, and (2) a decrease in aeronautical revenue resulting from lower operating costs and reduced debt service. Aeronautical revenues are derived from charging airlines landing fees and terminal rents that are set to fully recover capital and operating costs attributable to the airfield and terminal cost centers. Seaport Division operating revenues increased $4.4 million from 2008 due to (1) an increase in revenues from a new lease at Terminal 30, (2) higher cruise revenue from passenger fees collected in connection with the new Terminal 91 gangway, (3) the accounting recognition of the 2008 increase in the Port's container terminal rates for Terminal 5, which are required to be recognized on a straight-line basis over 5 years, and (4) reimbursement from King County for the Terminal 30 upland dredge disposal. Real Estate Division operating revenues decreased $4.7 million from 2008 primarily due to a decrease in event activity at Bell Harbor International Conference Center and the Bell Street Garage, partially offset by higher revenues at Shilshole Bay Marina related to higher occupancy.

During 2008, operating revenue within the Enterprise Fund increased 4.5% from a 2007 balance of $457.9 million to a 2008 balance of $478.5 million. Aviation Division operating revenues increased $11.2 million due to (1) an increase in landing fee revenue resulting from a rate increase to recover higher operating costs, and (2) an increase in parking revenues resulting from a rate increase in late 2007, while 2008 included a full year of the increase. Amounts were partially offset by a decrease in fuel hydrant facility revenues due to a refund of excess facilities rent paid by the lessee. Seaport Division operating revenues increased $7.6 million from 2007 due to (1) an increase in the container terminal lease rate, effective on January 1, 2008, (2) an increase in cruise revenues, largely due to higher passenger volumes, and (3) an increase in bulk terminal revenues due to higher grain volumes. Amounts were partially offset by a reduction in container terminal leased acres at Terminal 5 and crane rent. Real Estate Division operating revenues increased $2.1 million from 2007 primarily due to completion of construction at Shilshole Bay Marina in 2008 and an increase in event activity at Bell Harbor International Conference Center.

A summary of operating expenses before depreciation follows (in millions):

	2009	2008	2007
OPERATING EXPENSES BEFORE DEPRECIATION:			
Operations and maintenance	$ 183.1	210.0	178.9
Administration	43.6	44.4	38.8
Law enforcement	19.1	20.2	19.2
Total	$ 245.8	$ 274.6	$ 236.9

During 2009, operating expenses decreased 10.5% from $274.6 million to $245.8 million from prior year. A Portwide Expense Savings Plan was implemented in 2009 which included two-week furloughs and reduction of travel, training, and other discretionary expenses. Other savings were due to reversal of Other Postemployment Benefits ("OPEB") reserves due to the elimination of retiree medical subsidies, which offset voluntary and involuntary termination benefit costs that resulted from staff reductions in 2009. Aviation Division operating expenses decreased $20.5 million from 2008 due to (1) reduction in payroll costs of $4.6 million, (2) reduced contracted services and consultant support of $6.4 million, (3) reduced travel and training costs, and (4) non-recurring items from 2008. Seaport Division operating expenses increased slightly from 2008. The increase was due to (1) the expensing of former capital projects relating to Terminal 25 South Project, which was indefinitely deferred, (2) the incentive payment associated with the Long Term Cruise Agreement, and (3) significant expense projects in 2009 such as the Terminal 30 upland dredge disposal and Terminal 18 maintenance dredge projects. Real Estate Division operating expenses decreased $8.6 million over 2008 primarily due to expensing capitalized costs associated with the North Bay development project in 2008 and less activity at Bell Harbor International Conference Center in 2009.

During 2008, operating expenses increased 15.9% from $236.9 million to $274.6 million from prior year. Aviation Division operating expenses increased $23.6 million primarily due to (1) an increase in new full-time-equivalent positions to maintain the baggage system asset and an OPEB reserve adjustment for the firefighter ("LEOFF 1") plan members, (2) expensing of capital-related write-offs, (3) an increase in materials and supplies such as the purchase of deicer fluid due to 2008 snow storm, and (4) an increase in worker's compensation claims in the Maintenance Department. Seaport Division operating expenses increased $8.8 million from 2007. The increase was primarily caused by special expense projects including the upland disposal of Terminal 30 dredge materials, repair of Terminal 46 cranes, and expense elements of the Terminal 30/Terminal 91 project. Real Estate Division operating expenses increased $8.3 million over 2007 primarily due to expensing previously capitalized costs in connection with a plan to develop North Bay. Portwide operations and maintenance expenses increased due to additional resources required, such as the Central Procurement Office, to support and implement State performance audit recommendations, and a newly added Office of Social Responsibility. Administration expenses increased $5.6 million primarily due to increases in (1) salaries, wages and benefits from filling previously vacant positions, and (2) legal expenses relating to several audits.

As a result of the above, 2009 operating income before depreciation decreased only slightly from 2008, and decreased $17.1 million in 2008 from 2007.

During 2009, depreciation expense increased $12.9 million from 2008 and increased $2.6 million in 2008 from 2007, respectively, due to an overall increase in additions to capital assets year over year.

A summary of nonoperating income (expense)—net and capital contributions follows (in millions):

	2009	2008	2007
NONOPERATING INCOME (EXPENSE):			
Ad valorem tax levy revenue	$ 75.6	$ 75.7	$ 68.6
Passenger facility charges revenue	59.7	60.7	61.0
Customer facility charges revenue	21.9	22.9	21.8
Non-capital grants and donations	7.2	10.5	3.3
Investment income—net	17.3	39.0	61.0
Revenue and capital appreciation bond interest expense	(121.1)	(105.5)	(113.9)
Passenger facility charges revenue bond interest expense	(11.0)	(11.4)	(11.8)
General obligation bond interest expense	(15.8)	(17.1)	(15.7)
Public expense	(20.4)	(27.5)	(8.6)
Environmental expense—net	(14.7)	(5.7)	(4.9)
Other (expense) income—net	(10.0)	0.9	(29.6)
Total	$ (11.3)	$ 42.5	$ 31.2
CAPITAL CONTRIBUTIONS	$ 76.8	$ 52.4	$ 94.9

During 2009, nonoperating expense—net was $11.3 million, a $53.8 million decrease from 2008 nonoperating income—net. This was due primarily to (1) an increase in bond interest expense due to less interest being capitalized as fewer new capital projects came on line, (2) new debt service on 2009 bonds, (3) a decrease in investment income—net from declining interest rates coupled with lower portfolio balances, (4) an increase in environmental expenses, (5) higher litigation costs, and (6) a net loss from the sale/disposal of assets of which the largest loss related to the replacement of runway exit lights with newer technology. All demolitions were partially offset by a gain on a non-cash land exchange with Washington State Department of Transportation (“WSDOT”).

During 2008, nonoperating income—net was $42.5 million, a $11.3 million increase from 2007. This was due primarily to (1) a decrease in loss from the disposal of assets largely from the sale of Pier 48 resulting in a gain of $9.6 million, and (2) a receipt of retroactive environmental cleanup grant money of $7.8 million from the Department of Ecology for the Terminal 5 and Harbor Island superfund sites. These amounts were partially offset by (1) a decrease in investment income—net from declining interest rates coupled with lower portfolio balances, and (2) higher public expenses from the transfer of ownership of the Third Runway Navigational Aids System to the Federal Aviation Administration (“FAA”) with a cost of $24.0 million. Portwide environmental—net expenses increased due to the adoption of a new accounting standard implemented in 2008 to account for environmental reserves.

During 2009, capital contributions were $76.8 million, a $24.4 million increase from 2008. This was due primarily to an increase in grants and donations revenues specifically relating to Transportation Security Administration (“TSA”) Aviation grants and FAA grants from a reimbursement not previously anticipated and increased spending on grant funded projects.

During 2008, capital contributions were $52.4 million, a $42.5 million decrease from 2007. This was due primarily to a decrease in grants and donations revenues specifically relating to TSA Aviation grants and FAA grants from reduced spending on grant funded projects such as in-line baggage screening and Noise Program acquisition and insulated projects.

Increase in net assets for 2009 and 2008 was $112.0 million and $154.6 million, respectively, compared to $205.5 million in 2007. Though a lower increase than prior years, there was still positive net operating income and capital contributions for 2009 resulting in the corresponding increase in net assets.

WAREHOUSEMEN'S PENSION TRUST FUND

The Warehousemen's Pension Trust Fund accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. Effective May 25, 2004, the Port became the sole administrator of the Warehousemen's Pension Plan and Trust (the "Plan"). This plan was originally established to provide pension benefits for the employees at the Port's warehousing operations at Terminal 106. In late 2002, the Port terminated all warehousing operations following the departure of the principal customer who operated the facility. The Plan provides that only service credited and compensation earned prior to April 1, 2004, shall be utilized to calculate benefits under the Plan, and the Port agrees to maintain the frozen Plan and to contribute funds to the Plan in such amounts that may be necessary to enable the Plan to pay vested accrued benefits as they become due and payable to participants and beneficiaries of the Plan. A summarized comparison of the assets, liabilities, and net assets of the Warehousemen's Pension Trust Fund as of December 31, 2009, 2008 and 2007, and changes in net assets for the years ended December 31, 2009, 2008 and 2007 (in millions) are as follows:

	2009	2008	2007
Total assets	$ 10.1	$ 8.5	$ 13.1
Total liabilities			
Total net assets	$ 10.1	$ 8.5	$ 13.1
Total additions (deductions)	3.9	(2.3)	2.3
Total (deductions)	(2.3)	(2.3)	(2.2)
Increase (Decrease) in net assets	1.6	(4.6)	0.1
Net assets—beginning of year	8.5	13.1	13.0
Net assets—end of year	$ 10.1	$ 8.5	$ 13.1

Total net assets as of December 31, 2009 increased by $1.6 million from December 31, 2008 mainly due to an increase in fair value of investments of $2.3 million resulting from favorable market conditions compared to 2008.

Total net assets as of December 31, 2008 decreased by $4.6 million from December 31, 2007 mainly due to a $0.5 million loss on investments sold in 2008, and a decrease in fair value of investments of $3.7 million resulting from unfavorable market conditions compared to 2007.

Additional information on the Port's Warehousemen's Pension Trust Fund can be found in Note 15 in the accompanying notes to the financial statements.

CAPITAL ASSETS

The Port's capital assets as of December 31, 2009, amounted to $5.4 billion (net of accumulated depreciation). This investment in capital assets includes land, air rights, facilities improvements, equipment, furniture and fixtures, and construction work in progress. The total increase in the Port's investment in capital assets after accumulated depreciation for 2009 was 1.6%, or $84.2 million.

During 2009, completed projects totaling $331.9 million were closed from construction work in progress to their respective capital accounts. The major completed projects were (in millions):

Aviation Division:		
16L/34R Runway Reconstruction	$	60.1
Baggage Systems		13.2
North Expressway Relocation		30.2
Maintenance Warehouse Distribution Center Construction		10.9
Seaport Division:		
Terminal 30/Terminal 91 Conversion	$	119.4

Capital asset acquisitions are capitalized at cost and depreciated using the straight-line method. During 2009, the Port collected $75.3 million in property taxes through a King County ad valorem tax levy. Through this tax levy, PFCs, Federal and State grants, net increase in assets, and various bond issues, the Port funds capital assets. All capital assets are accounted for within the Enterprise Fund. Additional information on the Port's capital assets can be found in Note 3 in the accompanying notes to the financial statements.

DEBT ADMINISTRATION

As of December 31, 2009, the Port had outstanding revenue bonds and notes of $2.9 billion, a $320.7 million increase from 2008 primarily due to new revenue bonds issued, and offset by scheduled principal payments. During 2009, subordinate lien revenue notes (commercial paper) increased by $3.3 million from $153.5 million in 2008 to $156.8 million in 2009. On July 16, 2009, the Port issued $378.6 million of first lien revenue bonds (Series 2009A and Series 2009B), to finance, or to reimburse the Port for financing, a portion of the costs of a consolidated rental car facility and related project elements, to fund debt service reserve funds for each series of the 2009 Bonds, to capitalize a portion of the interest on the Series 2009 Bonds, and to pay the costs of issuing the series of 2009 Bonds.

As of December 31, 2009, the Port had outstanding general obligation bonds of $357.3 million, a $20.8 million decrease from 2008 due to scheduled principal payments.

As of December 31, 2009, the Port had outstanding PFC revenue bonds of $200.2 million, a $9.5 million decrease from 2008 due to scheduled principal payments.

As of December 31, 2009, the Port had outstanding Fuel Hydrant Special Facility Revenue bonds of $108.0 million, a $2.5 million decrease from 2008 due to $55,000 defeasance of debt on June 1, 2009 and a $2.4 million scheduled principal payment. The fuel facilities are leased to SeaTac Fuel Facilities LLC ("Lessee") for 40 years. The Port owns the fuel system and the Lessee is obligated to collect the fuel system fees and to make monthly rent payments including a base rent for the land to the Port and facilities rent to Wells Fargo Bank Northwest, National Association ("Trustee"). Facilities rent is established at an amount sufficient to pay monthly debt service, replenish any deficiency in the debt service reserve fund, and pay other fees associated with the bonds, including the Trustee fee. No tax funds or revenues of the Port (other than fuel facilities lease revenues) are pledged to pay the debt service on the bonds.

Below are the underlying ratings for Port of Seattle bonds as of December 31, 2009. Many of the Port's bond issues include credit enhancement; the credit ratings for those issues are the ratings of the bond insurer or letter of credit provider.

Current Bond Ratings	**Fitch**	**Moody's**	**S&P**
General obligation bonds	AA+	Aa1	AAA
First lien revenue bonds	AA	Aa2	AA-
Intermediate lien revenue bonds	A+	Aa3	A+
Subordinate lien revenue bonds	A	A1	A

Additional information on the Port's debt activity can be found in Note 5 in the accompanying notes to the financial statements.

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2009 AND 2008
(In thousands)

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 68,167	$ 29,862
Restricted cash and cash equivalents:		
Securities lending	77,338	
Bond funds and other	58,471	17,188
Fuel hydrant assets held in trust	6,423	6,305
Short-term investments	3,616	146,564
Restricted short-term investments:		
Bond funds and other	503	82,722
Accounts and contracts receivable, less allowance of $874 and $522 for doubtful accounts	31,024	35,459
Federal grants-in-aid receivable	11,384	13,300
Taxes receivable	2,144	1,837
Materials and supplies	5,779	6,012
Assets held for sale	74,133	
Prepayments and other current assets	3,971	3,887
Total current assets	342,953	343,136
NONCURRENT ASSETS:		
Long-term investments	412,058	271,848
Restricted long-term investments:		
Bond funds and other	366,645	159,996
Fuel hydrant assets held in trust	4,039	4,100
Deferred finance costs, net of accumulated amortization of $37,241 and $34,053	34,854	33,028
Other long-term assets	8,569	7,798
CAPITAL ASSETS:		
Land and air rights	1,919,043	1,880,096
Facilities and improvements	4,311,188	4,092,289
Equipment, furniture, and fixtures	357,404	333,353
Total capital assets	6,587,635	6,305,738
Less accumulated depreciation	1,372,829	1,255,022
Construction work in progress	214,705	294,635
Total capital assets—net	5,429,511	5,345,351
Total noncurrent assets	6,255,676	5,822,121
TOTAL	$ 6,598,629	$ 6,165,257

See notes to financial statements.

	2009	2008
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 79,452	$ 71,483
Payroll and taxes payable	38,908	35,736
Bond interest payable	42,433	40,968
Lease deposits and customer advances	10,393	6,831
Current security fund liability	14,188	15,813
Securities lending obligation	77,338	
Current maturities of long-term debt	257,870	247,325
Total current liabilities	520,582	418,156
LONG-TERM LIABILITIES:		
Other postemployment benefits obligation	8,014	13,136
Accrued environmental expenses	28,215	18,089
Accrued long-term expenses	12,697	4,354
Total long-term liabilities	48,926	35,579
LONG-TERM DEBT:		
Revenue and capital appreciation bonds	2,680,380	2,368,560
General obligation bonds	335,500	357,315
Passenger facility charges revenue bonds	190,125	200,155
Fuel hydrant special facility bonds	105,465	108,005
Unamortized bond (discounts) premiums—net of amortization	(34,252)	37,573
Total long-term debt	3,277,218	3,071,608
Total noncurrent liabilities	3,326,144	3,107,187
Total liabilities	3,846,726	3,525,343
NET ASSETS:		
Invested in capital assets—net of related debt	2,218,497	2,236,171
Restricted for:		
Debt reserves	68,551	34,569
Passenger facility charges	35,656	33,692
Customer facility charges	6,829	
Grants and other	686	535
Unrestricted	421,684	334,947
Total net assets	2,751,903	2,639,914
TOTAL	$ 6,598,629	$ 6,165,257

See notes to financial statements.

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007 (In thousands)

	2009	2008	2007
OPERATING REVENUES:			
Services	$ 163,983	$ 187,791	$ 168,679
Property rentals	274,584	286,139	279,378
Fuel hydrant facility revenues	7,845	2,926	8,054
Operating grant and contract revenues	3,023	1,667	1,777
Total operating revenue	449,435	478,523	457,888
OPERATING EXPENSES BEFORE DEPRECIATION:			
Operations and maintenance	182,995	209,960	178,957
Administration	43,636	44,438	38,761
Law enforcement	19,136	20,221	19,179
Total operating expenses before depreciation	245,767	274,619	236,897
NET OPERATING INCOME BEFORE DEPRECIATION	203,668	203,904	220,991
DEPRECIATION	157,068	144,208	141,588
OPERATING INCOME	46,600	59,696	79,403
NONOPERATING INCOME (EXPENSE):			
Ad valorem tax levy revenue	75,587	75,680	68,617
Passenger facility charges revenue	59,689	60,708	61,011
Customer facility charges revenue	21,866	22,947	21,802
Noncapital grants and donations	7,153	10,473	3,258
Investment income—net	17,251	39,004	61,072
Revenue and capital appreciation bond interest expense	(121,148)	(105,517)	(113,907)
Passenger facility charges revenue bond interest expense	(10,956)	(11,412)	(11,844)
General obligation bond interest expense	(15,785)	(17,059)	(15,720)
Public expense	(20,370)	(27,494)	(8,654)
Environmental expense—net	(14,676)	(5,659)	(4,903)
Other (expense) income—net	(10,003)	848	(29,599)
Total nonoperating (expense) income—net	(11,392)	42,519	31,133
INCOME BEFORE CAPITAL CONTRIBUTIONS	35,208	102,215	110,536
CAPITAL CONTRIBUTIONS	76,781	52,436	94,888
INCREASE IN NET ASSETS	111,989	154,651	205,424
TOTAL NET ASSETS:			
Beginning of year	2,639,914	2,489,980	2,284,556
Restatement—Implementation of GASB 49 (Note 1)		(4,717)	
End of year	$2,751,903	$ 2,639,914	$ 2,489,980

See notes to financial statements.

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(In thousands)

	2009	2008	2007
OPERATING ACTIVITIES:			
Cash received from customers	$ 464,464	$ 469,363	$ 473,577
Cash paid to suppliers for goods and services	(67,106)	(80,163)	(81,896)
Cash paid to employees for salaries, wages, and benefits	(178,611)	(162,668)	(151,260)
Operating grant and contract revenues	3,023	1,667	1,777
Other	309	2,500	(1,254)
Net cash provided by operating activities	222,079	230,699	240,944
NONCAPITAL AND RELATED FINANCING ACTIVITIES:			
Ad valorem tax levy receipts	75,280	75,397	68,603
Noncapital grant and contract revenues	7,153	10,473	3,258
Acquisition of assets held for sale	(74,133)		
Cash paid for environmental remediation	(8,036)	(11,007)	(6,929)
Public expense disbursements	(18,033)	(3,459)	(6,472)
Recovery receipts	5,876	16,167	2,920
Receipts from implicit financing		2,798	
Net cash (used in) provided by noncapital and related financing activities	(11,893)	90,369	61,380
CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuance and sale of revenue and capital appreciation bonds	304,690	200,000	240,163
Proceeds from issuance of commercial paper	77,380	28,860	90,940
Proceeds used for refunding of revenue bonds		(199,964)	
Acquisition and construction of capital assets	(242,224)	(335,033)	(398,059)
Principal payments on revenue bonds, PFC bonds, GO bonds, and commercial paper	(167,960)	(150,160)	(143,695)
Interest payments on revenue bonds, PFC bonds, GO bonds, and commercial paper	(155,827)	(165,437)	(168,863)
Proceeds from sale of capital assets	52	11,008	344
Receipts from capital contributions	77,049	57,016	91,585
Passenger facility charges receipts	58,742	60,539	60,068
Customer facility charges receipts	22,017	20,749	19,665
Net cash used in capital and related financing activities	(26,081)	(472,422)	(207,852)
INVESTING ACTIVITIES:			
Purchases of investment securities	(720,283)	(594,090)	(623,600)
Proceeds from sales and maturities of investments	594,814	676,508	497,273
Interest received on investments	21,025	27,604	34,267
Interest paid on securities lending	(18)	(3,083)	(8,612)
Interest income on securities lending	63	3,398	9,019
Cash collateral receipts from (remittance of) securities lending	77,338	(319,521)	319,521
Net cash (used in) provided by investing activities	(27,061)	(209,184)	227,868
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	157,044	(360,538)	322,340
CASH AND CASH EQUIVALENTS:			
Beginning of year	53,355	413,893	91,553
End of year	$ 210,399	$ 53,355	$ 413,893

See notes to financial statements.

(Continued)

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(In thousands)

	2009	2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH			
Operating income	$ 46,600	$ 59,696	$ 79,403
Miscellaneous nonoperating income (expense)	309	2,500	(1,254)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	157,068	144,208	141,588
Decrease (increase) in assets:			
Accounts and contracts receivable	(2,586)	(2,894)	2,698
Materials and supplies, prepayments, and other	4,979	10,077	6,290
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	1,209	5,719	(8,703)
Payroll and taxes payable	3,172	7,008	1,587
Accrued environmental expenses	3,720	2,734	112
Lease deposits and customer advances	14,355	(6,187)	12,316
Current security fund liability	(1,625)	754	855
Other postemployment benefit obligation	(5,122)	7,084	6,052
Net cash provided by operating activities	$ 222,079	$ 230,699	$ 240,944
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Transfer of ownership of the Third Runwy Navigational Aids System to Federal Aviation Administration ("FAA")	$	$ 24,035	$
Lands exchange with Washington Department of Transportation ("WSDOT")	$ 11,332	$	$

See notes to financial statements. (Concluded)

PORT OF SEATTLE

WAREHOUSEMEN'S PENSION TRUST FUND

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2009 AND 2008
(In thousands)

	2009	2008	2007
ASSETS:			
Cash and cash equivalents	$ 282	$ 198	$ 202
Investments—fair value:			
Common stock	6,552	4,261	7,892
Corporate bonds	3,148	3,898	4,860
Other assets	157	151	148
Total assets	10,139	8,508	13,102
LIABILITIES:			
Accounts payable	(5)	(6)	(8)
NET ASSETS—Held in trust for pension benefits and other purposes	$ 10,134	$ 8,502	$ 13,094

(A schedule of funding progress is presented on page 47)

See notes to financial statements.

PORT OF SEATTLE

WAREHOUSEMEN'S PENSION TRUST FUND

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(In thousands)

	2009	2008	2007
ADDITIONS:			
Employer contributions	$ 1,500	$ 1,500	$ 1,500
Investment earnings:			
Interest	1		1
Dividends	305	428	431
(Loss) Gain on investments sold	(145)	(504)	630
Net increase (decrease) in fair value of investments	2,287	(3,703)	(211)
Less investment expense	(16)	(17)	(28)
Net investment earnings (loss)	2,432	(3,796)	823
Total additions (deductions)	3,932	(2,296)	2,323
DEDUCTIONS:			
Benefits	2,194	2,176	2,141
Administrative expenses	44	41	40
Professional fees	62	79	62
Total deductions	2,300	2,296	2,243
CHANGE IN NET ASSETS	1,632	(4,592)	80
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES:			
Beginning of year	8,502	13,094	13,014
End of year	$ 10,134	$ 8,502	$ 13,094

See notes to financial statements.

PORT OF SEATTLE

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—The Port of Seattle (the “Port”) is a municipal corporation organized on September 5, 1911, through enabling legislation by consent of the voters within the Port district. In 1942, the local governments in King County selected the Port to operate the Seattle-Tacoma International Airport (the “Airport”). The Port is considered a special purpose government with a separately elected commission of five members and is legally separate and fiscally independent of other state or local governments. The Port has no stockholders or equity holders. All revenues or other receipts must be disbursed in accordance with provisions of various statutes, applicable grants, and agreements with the holders of its bonds.

Reporting Entity—The Port reports the following funds: the Enterprise Fund accounts for all activities and operations of the Port except for the activities included within the Warehousemen’s Pension Trust Fund.

The Enterprise Fund is used to account for operations and activities that are financed at least in part by fees or charges to external users. The Enterprise Fund comprises three operating divisions. The Aviation Division (“Aviation”) serves the predominant air travel needs of a five-county area. The Airport has 18 U.S.flag passenger air carriers (including regional and commuter air carriers) and 11 foreign-flag passenger air carriers providing nonstop service from the Airport to 98 cities, including 21 foreign cities. The Seaport Division (“Seaport”) focuses primarily on containerized cargo and passenger marine terminals as well as industrial property connected with maritime businesses. International containerized cargo arriving by ship is transferred to various modes of land transportation destined for other regions of the country. Domestic containerized cargo arriving by various modes of land transportation is transferred to outbound ships for distribution to other countries around the world. The Real Estate Division (“Real Estate”) manages moorage facilities, leases commercial and industrial buildings/properties, and plans and facilitates the development of selected real estate assets. The Port has labor workforces subject to various collective bargaining agreements. These workforces support the operations and maintenance of the divisions.

The Warehousemen’s Pension Trust Fund accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. On May 25, 2004, the Port became the sole administrator for the Warehousemen’s Pension Plan and Trust (the “Plan”). This plan was originally established to provide pension benefits for the employees at the Port’s warehousing operations at Terminal 106. In late 2002, the Port terminated all warehousing operations following the departure of the principal customer who operated the facility. As of May 25, 2004, the Plan is a governmental plan maintained and operated solely by the Port.

For financial reporting purposes, component units are entities which are legally separate organizations for which the Port is financially accountable, and other organizations for which the nature and significance of their relationship with the Port are such that exclusion would cause the Port’s financial statements to be misleading or incomplete. Based on these criteria, the following is considered as a component unit of the Port’s reporting entity.

The Industrial Development Corporation (“IDC”) is a blended component unit of the Port and is included within the accompanying financial statements. The IDC is a special purpose government with limited powers and governed by a Board of Directors, which is comprised of the same members as the Port Commission. The IDC has issued tax-exempt nonrecourse revenue bonds to finance industrial development for acquiring, constructing, and renovating transshipment and manufacturing facilities within the corporate boundaries of the Port. These revenue bonds are secured by revenues derived from the industrial development facilities funded by the revenue bonds and leased to the IDC. The Port has not recorded these obligations, or the related assets, on the accompanying financial statements of the Port, as the Port has no obligation for the outstanding bonds beyond what is provided in the leasing arrangements. A copy of the separate financial statements for IDC may be obtained at:

Port of Seattle
Pier 69,
P.O. Box 1209
Seattle, WA 98111

Basis of Accounting—The Port is accounted for on a flow of economic resources measurement focus. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that governments' proprietary activities apply all GASB pronouncements as well as the pronouncements of the Financial Accounting Standards Board ("FASB") and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed by GASB Statement No. 20, the Port has elected to implement FASB Statements and Interpretations issued after November 30, 1989. The more significant of the Port's accounting policies are described below.

Use of Estimates—The preparation of the Port's 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 revenue and expenses during the reporting period. Estimates and assumptions are used to record environmental reserves, litigated and non-litigated loss contingencies, insurance recoveries, allowances for doubtful accounts, grants-in-aid receivable, arbitrage liabilities, other postemployment benefits, and terminated benefits. Actual results could differ from those estimates.

Significant Risks and Uncertainties—The Port is subject to certain business and casualty risks that could have a material impact on future operations and financial performance. Business risks include economic conditions, collective bargaining disputes, security, litigation, Federal, State, and local government regulations, and changes in law. The Port has a comprehensive risk management program that financially protects the Port against loss from adverse casualty events to its property, operations, third-party liabilities, and employees. The Port carries excess commercial insurance to cover many of these risks of loss. The excess commercial insurance coverage is above a self-insured retention that the Port maintains. The Port is a qualified workers compensation self-insurer in the State and administers its own worker compensation claims. Claims or the amount of settlements have not exceeded its insurance coverage in each of the past three years.

Airline Rates and Charges—Under the terms of the signatory airline lease and operating agreements ("SLOA") effective from January 1, 2006 through December 31, 2012, the Port sets airline rates and charges using a hybrid-compensatory methodology. Under SLOA, rates for the landing fee and terminal rents are set to recover the operating and capital costs for the airfield and the terminal cost centers, respectively. Some of the key provisions in this agreement include the following: cost recovery formulas permitting the Port to charge the airlines 100% of annual debt service allocated to the airlines (unless the Port determines in its sole discretion that a charge above 100% and up to 125% of annual debt service is necessary to maintain the total Airport revenue bond coverage at 1.25 times the sum of the annual debt service).

Ad Valorem Tax Levy Revenue—Ad valorem taxes received by the Port are utilized for the acquisition and construction of facilities, for the payment of principal and interest on general obligation bonds issued for the acquisition or construction of facilities, for contributions to regional freight mobility improvement, for environmental expenses, for certain operating expenses, and for public expenses. The Port includes ad valorem tax revenues and interest on general obligation bonds as nonoperating income in the statements of revenues, expenses, and changes in net assets.

The King County ("County") Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior year. The lien date is January 1. Assessed values are established by the County Assessor at 100% of fair market value. A re-evaluation of all property is required every two years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed daily to the Port by the County Treasurer.

Passenger Facility Charges—As determined by applicable Federal legislation, passenger facility charges ("PFC") generate revenue to be expended by the Port for eligible capital projects and the payment of principal and interest on specific revenue bonds. PFC revenues received from the airlines are recorded as nonoperating income in the statements of revenues, expenses, and changes in net assets based upon passenger enplanement.

Customer Facility Charges—As determined by applicable State legislation, customer facility charges ("CFC") generate revenue to be expended by the Port for eligible capital projects, the payment of principal and interest on specific revenue bonds related to rental car facilities at the Airport, and certain operating expenses. CFC revenues received from the rental car companies are recorded as nonoperating income in the statements of revenues, expenses, and changes in net assets.

Federal Grants-in-Aid—The Port receives Federal grants-in-aid funds on reimbursement basis for all divisions, mostly related to construction of Airport and Seaport facilities and other capital activities along with operating and nonoperating grants to perform enhancements in both Airport and Seaport security.

Land, Facilities, and Equipment—Land, facilities, and equipment are stated at cost, less accumulated depreciation. Costs applicable to noise damage remedies and air rights, together with the cost of litigation, generally are capitalized as a cost of the property. The Port's policy is to capitalize all asset additions greater than $20,000 and with an estimated life of more than three years. The Port capitalizes interest during construction until the asset is placed into service, based on average construction expenditures and average actual debt service rates for bond funded construction excluding externally restricted acquisition of specified qualified assets financed with grants or proceeds from tax-exempt debt. For tax-exempt debt externally restricted for the acquisition of specified qualifying assets, the Port capitalizes the difference between interest expense on debt and interest earnings on reinvested debt proceeds until the asset is placed into service. Depreciation is computed on a straight-line basis. Buildings and improvements are assigned lives of 30 to 50 years, equipment 3 to 20 years, and furniture and fixtures 5 to 10 years. The Port periodically reviews its long-lived assets for impairment. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly.

Materials and Supplies—Materials and supplies are recorded at the lower of cost or market. The Port's policy is to expense materials and supplies when used in operations and to capitalize amounts used in capital projects as construction work in progress.

Employee Benefits—Eligible Port employees accrue paid time off and extended illness leave on every straight-time hour worked. The paid time off accrual rates increase based on length of service. A stipulated maximum of paid time off leave may be accumulated by employees while no maximum limit to amount of extended illness leave can be accumulated. Terminated employees are entitled to be paid for unused paid time off and, under certain conditions, a portion of unused extended illness leave.

The Port also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (the "457 Plan"). The 457 Plan is available to all salaried employees of the Port and to wage employees as negotiated. In 1998, the Port placed its deferred compensation plan assets in a separate trust as required under the Small Business Job Protection Act of 1996. The trust requirements were met by establishing a qualifying insurance contract, and as such, the related assets and liabilities are not included in the Port's financial statements.

On an annual basis, the Port has the option of offering a 401(a) supplemental savings plan (the "401(a) Plan") for salaried employees. The 401(a) Plan establishes a 401(a) tax-deferred savings account for each eligible employee. The Port matches employee contributions to the 401(a) Plan dollar-for-dollar up to a fixed maximum of $2,200. This matching contribution increases with tenure. Employees are able to direct the 401(a) funds to any investment options available under the 401(a) Plan.

Termination Benefits—As the Port continues to await the economic recovery of the airline and shipping industries, 2009 budget considerations resulted in both voluntary and involuntary termination of employees. In an effort to limit the number of involuntary reductions in force ("RIF"), the Port offered a Voluntary Separation Program ("VSP") to all employees.

Employees who elected the VSP received six days of severance for every year of completed service. For any extended illness time accrued, 100% of the balance was cashed out at the time of termination. The Port also provided health insurance coverage for six months following the end of the employee's service period. Additionally, the Port also provided up to six hours of transitional coaching services for employees elected VSP. Employees who were involuntarily terminated as a result of the RIF received five days of severance for every year of completed service. The Port also provided and paid for one month of COBRA insurance coverage following termination. Additionally, the Port also provided full outplacement services for all involuntarily terminated employees.

In total, 53 employees elected VSP, for an estimated termination benefit of $3,534,000. A total of 27 employees were terminated involuntarily, providing an estimated termination benefit of $309,000. As of December 31, 2009, termination benefit liabilities for VSP and RIF in the amount of $2,099,000 and $74,000, respectively, are included in current payroll and taxes payable on the statements of net assets.

Investments and Cash Equivalents—All short-term investments with a maturity of three months or less at date of purchase are considered to be cash equivalents. Investments are carried at fair value plus accrued interest receivable. Fair values are determined based on quoted market rates. Gains or losses due to market valuation changes are recognized in the statements of revenues, expenses, and changes in net assets.

Accounts Receivable and Allowance for Doubtful Accounts—Accounts receivable are recorded for invoices issued to customers in accordance with our contractual arrangements. Unbilled receivables are recorded when revenues are recognized upon service delivery and invoicing occurs at a later date. Finance charges and late fees are recognized on accounts receivable in accordance with contractual arrangements. Interest income on finance charges and late fees are minimal. The Port's policy for delinquent receivable is 90 days or more past due. The allowance for doubtful accounts is based on specific identification of troubled accounts and delinquent receivables. Accrual of accounts receivable, related finance charge and late fees are suspended once the accounts receivable is sent to a third party collection agency, put in dispute, in litigation or the customer has filed for bankruptcy. Accounts receivable are written-off against the allowance when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Environmental Reserves—The Port's policy requires accrual of pollution remediation obligation amounts when (a) one of the following specific obligating events is met and (b) the amount can be reasonably estimated. Obligating events include: imminent endangerment to the public; permit violation; named as party responsible for sharing costs; named in a lawsuit to compel participation in pollution remediation; or commenced or legally obligated to commence pollution remediation. Potential cost recoveries such as insurance proceeds, if any, are evaluated separately from the Port's pollution remediation obligation. Costs incurred for pollution remediation obligation are typically recorded as nonoperating environmental expenses unless the expenditures relate to the Port's principal ongoing operations, in which case they are recorded as operating expenses. Costs incurred for pollution remediation obligation can be capitalized if they meet specific criteria. Capitalization criteria include: preparation of property in anticipation of a sale; preparation of property for use if the property was acquired with known or suspected pollution that was expected to be remediated; performance of pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment; or acquisition of property, plant, and equipment that have a future alternative use not associated with pollution remediation efforts.

Debt Discount, Premium, and Issuance Costs—Debt discounts, premiums, and issuance costs relating to the issuance of bonds are amortized over the lives of the related bonds using the effective interest method.

Refunds of Debt—The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

It is the Port's practice when bonds are defeased that the proceeds of the new bonds are placed in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not recorded in the financial statements. The amount required to be held in trust as of December 31, 2009 and 2008 related to refundings of debt are detailed below (in thousands):

	2009	2008
2006 Refunding		
Series 2000A General obligation bonds	$ 7,300	$ 7,300
Series 2000A Revenue bonds	130,690	130,690
Series 1999A Special facilities revenue bonds (Terminal 18 Project)	59,740	59,740
2003 Refunding		
Series 1999B Special facilities revenue bonds (Terminal 18 Project)	3,350	3,350
Series 1999C Special facilities revenue bonds (Terminal 18 Project)	25,445	25,445
Total	$ 226,525	$ 226,525

Payments in Lieu of Taxes—The Port, on behalf of the State of Washington, collects applicable leasehold taxes from its tenants. The taxes are a pass-through to the State and are, therefore, not reflected as an expense or revenue by the Port.

Net Assets—As required by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, net assets (equity) have been classified on the statement of net assets into the following categories:

- Invested in capital assets—net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

- Restricted: Net assets subject to externally imposed stipulations on their use.

- Unrestricted: All remaining net assets that do not meet the definition of "invested in capital assets—net of related debt" or "restricted."

When both restricted and unrestricted resources are available for the same purpose, restricted assets are considered to be used first over unrestricted assets.

Nonexchange Transactions—GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, establishes uniform revenue and expense recognition criteria and financial reporting standards regarding when (i.e., in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. When the Port receives value without directly giving equal value in return, these transactions, which include taxes, intergovernmental grants, entitlements, other financial assistance, and nongovernmental contractual agreements are reported as revenue. When the Port gives value without directly receiving equal value in return, these transactions, which include expenses for district schools and infrastructure improvements to the State and region in conjunction with other agencies, are reported as public expense.

Operating and Nonoperating Revenues—Fees for services, rents, and charges for the use of Port facilities, Airport landing fees, operating grants, and other revenues generated from operations are reported as operating revenue. Ad valorem tax levy revenues, nonoperating grants and contributions, PFCs, CFCs, and other revenues generated from nonoperating sources are classified as nonoperating.

Recently Issued Accounting Pronouncements—In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which provides comprehensive guidance on identifying, accounting for, and reporting intangible assets. This statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. This statement establishes a specified-conditions approach for recognizing internally generated intangible assets. It also provides guidance on recognizing internally generated computer software and establishes specific guidance for the amortization of intangible assets. This statement is effective for periods beginning after June 15, 2009. The Port is currently evaluating the impact of the adoption of this standard on its financial statements.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* which addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by State and local governments. This statement is effective for periods beginning after June 15, 2009. While the adoption of this statement is not likely to have a material effect on the Port's financial statements, the impact of adopting the new rule is dependent on events in future periods as the Port currently does not have any derivative instruments. As such, the evaluation of such an impact cannot be determined.

In March 2009, the GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which incorporates the hierarchy of generally accepted accounting principles ("GAAP") for state and local governments into the GASB's authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. This statement is effective immediately upon its issuance. The adoption of this statement does not have a material effect on the Port's financial statements.

In March 2009, the GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' ("AICPA") Statements on Auditing Standards. This statement addresses three issues not included in the authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. This Statement is effective immediately upon its issuance. The adoption of this statement does not have a material effect on the Port's financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification ("ASC") and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*. This codification brings all authoritative GAAP that has been issued by a standard setter into one place. This statement is effective for annual reporting periods ending after September 15, 2009. The codification retains existing GAAP without changing it, and as such, the adoption of this statement will not have a material effect on the Port's financial statements.

In August 2009, the FASB issued ASU 2009-05, *Measuring Liabilities at Fair Value*, which provides guidance on measuring the fair value of liabilities under ASC 820. The requirements of this Statement are effective for annual reporting period beginning after August 28, 2009. The adoption of this statement will not have a material effect on the Port's financial statements.

Restatement—In 2008, beginning balance of net assets was restated due to adoption of GASB Statement No. 49 ("GASB 49"), *Accounting and Financial Reporting for Pollution Remediation Obligations*, which required the environmental reserves to be re-measured at the beginning of January 1, 2008 based on this new standard.

Reclassifications and Presentation—Certain reclassifications of prior years' balances have been made to conform with the current year presentations. Such reclassifications did not affect the total increase in net assets or total current or long-term assets or liabilities.

2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Deposits—All deposits are either covered by the Federal Deposit Insurance Corporation ("FDIC") or the Public Deposit Protection Commission of the State of Washington ("PDPC"). The PDPC is a statutory authority under Chapter 39.58 RCW. It constitutes a multiple financial institution collateral pool that can make pro rata assessments from all qualified public depositaries within the State. During 2009, the State legislature amended the statute. The key change in the 2009 statutory amendment is that now all public deposits in the State are either 100% collateralized or insured. Therefore, in accordance with GASB, *Codification of Governmental Accounting and Financial Reporting Standards*, Section 150.110, PDPC protection is of the nature of collateral, not of insurance. Pledged securities under the PDPC collateral pool are held by the Port's agent in the name of the Port.

Investments—Statutes authorize the Port to invest in savings or time accounts in designated qualified public depositaries or in certificates, notes, or bonds of the United States. The Port is also authorized to invest in other obligations of the United States or its agencies or of any corporation wholly owned by the government of the United States. Statutes also authorize the Port to invest in banker's acceptances purchased on the secondary market, in Federal Home Loan Bank notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, Federal Home Loan Mortgage Corporation bonds and notes, and Federal National Mortgage Association notes, bonds, debentures and guaranteed certificates of participation or the obligations of any other government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve System. The Port can also invest in commercial paper within the policies established by the State Investment Board, certificates of deposit with qualified public depositories, local and state general obligations, and revenue bonds issued by Washington State governments that are rated at least "A" by a nationally recognized rating agency. Additionally, the following mortgage backed securities of these agencies are allowed for purchase including: (1) collateralized mortgage pools having a stated final maturity not exceeding the maturity limits of the Port's investment policy and (2) planned amortization and sequential pay classes of collateralized mortgage obligations collateralized by 15-year agency-issued pooled mortgage securities and having a stated final maturity not exceeding the maturity limits of the Port's investment policy.

The Port's investment policy limits the maximum maturity of any security purchased to ten years. The Port's investment policy allows for 100% of the portfolio to be invested in United States Treasury bills, certificates, notes, and bonds. The Port's investment policy limits government agency securities to 60%, agency mortgage-backed securities to 10%, certificates of deposit to 15% but no more than 5% per issuer, banker's acceptances to 20% but no more than 5% per bank, commercial paper to 20% but no more than 3% per issuer, overnight repurchase agreements to 15%, term only repurchase agreements to 25%, reverse repurchase agreements to 5% and agency discount notes to 20% of the portfolio. Banker's acceptances can only be purchased on the secondary market and are limited to the largest 50 world banks listed each July in the American Banker. These banks must meet tier one and tier two capital standards. Commercial paper must be rated no lower than A1/P1 and meet Washington State Investment Board Guidelines.

The Port's investment policy allows entering into repurchase and reverse repurchase agreements with 60 days or less maturities. The Port's investment policy requires that securities underlying repurchase agreements must have a market value of at least 102% of the cost of the repurchase agreement with investment terms of less than 30 days, and 105% for terms longer than 30 days, but not to exceed 60 days. Collateral must be "marked to market" on a daily basis. Reverse repurchase agreement, when used for yield enhancement rather than cash management purposes, only "matched book" transactions will be utilized, meaning that the maturity date of the acquired security is identical to the end date of the reverse repurchase transaction. Reverse repurchase agreements will only be executed with Primary Government Bond Dealers.

As of December 31, 2009 and 2008, restricted investments—bond funds and other were $425,619,000 and $259,906,000, respectively, which generally represents unspent bond proceeds designated for capital improvements to the Port's facilities, including capitalized interest, and satisfying debt service reserve fund requirement, along with cash receipts from PFCs, CFCs and current security fund liability maintained under SLOA.

The tables below identify the type of investments, concentration of investments in any one issuer, and maturities of the Port Investment Pool as of December 31, 2009 and 2008 (in thousands). These tables do not address investments of debt proceeds held by bond trustees. As of December 31, 2009 and 2008, the Port's investment pool had 14.0% and 3.1% of the portfolio, respectively, invested in repurchase agreements collateralized with "AAA" rated agency securities and the remainder of the pool invested in "AAA" rated agency and treasury securities.

		Maturities (in Years)			Percentage
Investment Type	Fair Value	Less Than 1	1-3	More Than 3	of Total Portfolio
2009					
Repurchase Agreements *	$ 126,639	$ 126,639	$	$	14.0 %
Federal Agencies Securities:					
Federal Farm Credit Banks	139,178		10,042	129,136	15.4
Federal Home Loan Bank	79,435			79,435	8.8
Federal Home Loan Mortgage Corporation	116,219		41,789	74,430	12.9
Federal National Mortgage Association	171,834		30,267	141,567	19.0
United States Treasury Notes	270,418		245,237	25,181	29.9
Total Portfolio	903,723	126,639	327,335	449,749	100.0 %
Accrued interest receivable	5,737				
Total cash, cash equivalents, and investments	$ 909,460				
Percentage of Total Portfolio	100.0 %	14.0 %	36.2 %	49.8 %	
2008					
Repurchase Agreements	$ 22,056	$ 22,056	$	$	3.1 %
Federal Agencies Securities:					
Federal Farm Credit Banks	104,628	14,931	10,172	79,525	14.9
Federal Home Loan Bank	192,719	14,954	20,459	157,306	27.5
Federal Home Loan Mortgage Corporation	48,037		5,376	42,661	6.8
Federal National Mortgage Association	164,143	49,862		114,281	23.4
United States Treasury Notes	50,359	50,359			7.2
United States Treasury Bills	119,978	119,978			17.1
Total Portfolio	701,920	272,140	36,007	393,773	100.0 %
Accrued interest receivable	6,260				
Total cash, cash equivalents, and investments	$ 708,180				
Percentage of Total Portfolio	100.0 %	38.8 %	5.1 %	56.1 %	

* Includes cash and cash equivalents balances except for cash collateral from securities lending (applicable only in 2009).

Investment Authorized by Debt Agreements—Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements and subject to compliance with State law. During May 2003, the Port issued Fuel Hydrant Special Facility Revenue bonds in the amount of $121,140,000 to pay for all or a portion of the costs of the acquisition, design, and construction by the Port of jet aircraft fuel storage and delivery facilities at the Airport. The fuel hydrant facility financing is administered by Wells Fargo Bank Northwest, National Association (“Trustee”).

The tables below identify the type of investments, concentration of investments in any one issuer, and maturities of the Fuel Hydrant Investment Pool as of December 31, 2009 and 2008 (in thousands). As of December 31, 2009 and 2008, 38.4% and 39.0%, respectively, of the Fuel Hydrant Investment Pool was invested in “AAA” rated government agency securities. The remaining amount was invested in 2a7 qualified Wells Fargo Government Institutional Money Market Fund with maturity limits no longer than 13 months. The Wells Fargo Government Institutional Money Market Fund holds securities authorized by the statutes, which means at least 80% of the investments are invested in United States Government obligations, including repurchase agreements collateralized by United States Government obligations. The remainder of the Wells Fargo Government Institutional Money Market Fund was invested in high-quality short-term money market instruments.

Investment Type	Fair Value	Maturities (in Years) Less Than 1	1-3	More Than 3	Percentage of Total Portfolio
2009					
Wells Fargo Government Institutional Money Market Funds	$ 6,423	$ 6,423	$	$	61.6 %
Federal Agencies Securities:					
Federal Home Loan Mortgage Corporation	4,005		4,005		38.4
Total Portfolio	10,428	6,423	4,005		3901.6 %
Accrued interest receivable	34				
Total cash, cash equivalents, and investments	$ 10,462				
Percentage of Total Portfolio	100.0 %	61.6 %	38.4 %	0.0 %	
2008					
Wells Fargo Government Institutional Money Market Funds	$ 6,305	$ 6,305	$	$	61.0 %
Federal Agencies Securities:					
Federal National Mortgage Association	4,031			4,031	39.0
Total Portfolio	10,336	6,305		4,031	3961.0 %
Accrued interest receivable	69				
Total cash, cash equivalents, and investments	$ 10,405				
Percentage of Total Portfolio	100.0 %	61.0 %	0.0 %	39.0 %	

Interest Rate Risk—Interest rate risk is the risk that an investment's fair value decreases as market interest rate increases. Through its investment policy, the Port manages its exposure to fair value losses arising from increasing interest rates by setting maturity and duration limits for the Port's Investment Pool. The portfolio is managed similar to a short-term fixed income fund. The "modified" duration of the portfolio, by policy, has a 2.0 target plus or minus 50 basis points. For 2009 the "modified duration" of the portfolio ranged from 20-34 months. Securities in the portfolio cannot have a maturity longer than ten years. As of December 31, 2009 and 2008, the "effective" duration of the Port's Investment Pool portfolio was approximately thirteen months and eleven months, respectively.

The Fuel Hydrant Investment Pool is decreasing over time as the proceeds from the bonds are held by the Trustee to make monthly debt service payments, satisfy the debt service reserve fund requirement, pay other fees associated with the bonds, including the Trustee fee, and are available to the Port on a reimbursement basis as funds are spent for construction. As of December 31, 2009, and 2008, the effective duration of the Fuel Hydrant Investment Pool was ten months and fourteen days, respectively.

Custodial Credit Risk—Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Port will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. By the Port's policy, all security transactions, including repurchase agreements, are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the Port's safekeeping bank.

As of December 31, 2009 and 2008, the bank balance of $6,423,000 and $6,305,000, respectively, in the Fuel Hydrant Investment Pool was invested in the Wells Fargo Government Institutional Money Market Fund, was uninsured, and was registered in the name of the Trustee.

Securities Lending—State statutes permit the Port to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Port, which has contracted with a lending agent to lend securities owned by the Port, earns a fee for this activity. The lending agent lends securities and receives collateral, which can only be in the form of cash. The collateral, which must be valued at 102% of the fair value of the loaned securities, is priced daily and, if necessary action is taken to maintain the collateralization level at 102%. The cash is invested by the lending agent in securities, which comply with the Port's investment policy. During 2008, the Port's investment parameters for the lending agent became more restrictive allowing the lending agent to reinvest in treasury or agency securities only. The securities underlying the cash collateral are held by the Port's custodian. Since the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. There are no restrictions on the amount of securities that can be lent. The Port investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the Port.

The Port reports securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Cash collateral received resulting from these transactions is reported as liability in the statement of net assets.

The following table presents the fair value of underlying securities and the value of collateral held at December 31, 2009 (in thousands).

Type of Securities Lent	Fair Value of Underlying Securities	Cash Collateral
United States Treasury Notes	$ 75,124	$ 77,338
Total	$ 75,124	$ 77,338

No securities were lent as of December 31, 2008, therefore, no cash received as collateral on securities lending is reported as an asset and liability in the statement of net assets at December 31, 2008.

During fiscal year 2009 and 2008, the Port had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the Port. Furthermore, the contract with the lending agent requires them to indemnify the Port if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the Port for income distribution by the securities' issuers while the securities are on loan. There were no violations of legal or contractual provisions, nor any losses resulting from default of a borrower or lending agent during 2009 and 2008.

3. CAPITAL ASSETS

Capital assets consist of the following at December 31, 2009 and 2008 (in thousands):

	Beginning of Year	Additions	Retirements	End of Year
2009				
Capital assets, not being depreciated:				
Land and air rights	$ 1,880,096	$ 38,954	$ (7)	$ 1,919,043
Art collections and others	7,478	177		7,655
Total capital assets not being depreciated	1,887,574	39,131	(7)	1,926,698
Capital assets being depreciated:				
Facilities and improvements	4,092,060	252,971	(34,072)	4,310,959
Equipment, furniture, and fixtures	326,104	42,314	(18,440)	349,978
Total capital assets being depreciated	4,418,164	295,285	(52,512)	4,660,937
Total capital assets	6,305,738	334,416	(52,519)	6,587,635
Less accumulated depreciation for:				
Facilities and improvements	(1,048,960)	(134,561)	21,608	(1,161,913)
Equipment, furniture, and fixtures	(206,062)	(22,507)	17,653	(210,916)
Total accumulated depreciation	(1,255,022)	(157,068)	39,261	(1,372,829)
Construction work in progress	294,635	251,942	(331,872)	214,705
Total capital assets—net	$ 5,345,351	$ 429,290	$ (345,130)	$ 5,429,511

(Continued)

	Beginning of Year	Additions	Retirements	End of Year
2008				
Capital assets, not being depreciated:				
Land and air rights	$ 1,337,320	$ 543,588	$ (812)	$ 1,880,096
Art collections and others	7,196	285	(3)	7,478
Total capital assets not being depreciated	1,344,516	543,873	(815)	1,887,574
Capital assets being depreciated:				
Facilities and improvements	3,671,613	466,898	(46,451)	4,092,060
Equipment, furniture, and fixtures	316,979	21,100	(11,975)	326,104
Total capital assets being depreciated	3,988,592	487,998	(58,426)	4,418,164
Total capital assets	5,333,108	1,031,871	(59,241)	6,305,738
Less accumulated depreciation for:				
Facilities and improvements	(962,949)	(121,399)	35,388	(1,048,960)
Equipment, furniture, and fixtures	(194,432)	(22,809)	11,179	(206,062)
Total accumulated depreciation	(1,157,381)	(144,208)	46,567	(1,255,022)
Construction work in progress	993,574	364,138	(1,063,077)	294,635
Total capital assets—net	$ 5,169,301	$ 1,251,801	$ (1,075,751)	$ 5,345,351

(Concluded)

For the year ended December 31, 2009 and 2008, $7,018,000 and $1,581,000 was recorded in other expense—net, respectively, related to demolition costs, impairments, and asset sales. For the Aviation Division, $5,325,000 and $8,825,000 relate to losses from demolition in 2009 and 2008, respectively. The largest losses from demolition in 2009 were related to the replacement of runway exit lights with newer technology which was offset by a $6,273,000 gain on non-cash land exchange with WSDOT. For the Seaport Division, $1,338,000 and $1,896,000 relates to losses from demolition in 2009 and 2008, respectively. For the Real Estate Division, $92,000 relate to losses from demolition in 2009, while $9,265,000 relates to gain from sale of Pier 48 to WSDOT in 2008.

In December 2009, the Port completed its acquisition of the 42 mile Eastside Rail Corridor from Burlington Northern Santa Fe ("BNSF") Railway, as a key first step to preserve it in public ownership. To maximize the corridor's benefit to the entire region, the Port partnered with five local regional agencies, namely King County, Sound Transit, City of Redmond, Puget Sound Energy, and Cascade Water Alliance, to share the purchase and public ownership of this real property. As of December 31, 2009, the carrying amount of assets held for sale to go to these regional agencies is $74,133,000 which is subject to change based on completion of the future transactions with these regional agencies by mid-2010.

4. ACCOUNTING FOR LEASES

The Port enters into operating leases with tenants for the use of properties at various locations, including Seaport Division terminal land, facilities, and equipment; Aviation Division space and land rentals with minimum annual guarantees; and Real Estate Division commercial and industrial properties, industrial fishing terminals as well as recreational marinas. As the leased properties involved are in part used by internal Port operations, it is not reasonably determinable to segregate the value of the assets associated with producing minimum rental income from the value of the assets associated with an entire facility.

Minimum future rental income on noncancelable operating leases on Seaport terminal, Airport facilities and Real Estate properties are as follows (in thousands):

Years Ending December 31		
2010	$	93,696
2011		76,544
2012		74,518
2013		80,624
2014		77,495
Thereafter		1,983,530
Total	$	2,386,407

Effective June 2003, the Port entered into a lease agreement with SeaTac Fuel Facilities LLC in a fuel system lease whereby the members are some of the commercial air carriers currently operating at the Airport. The lessee payments of facilities rent are made directly to a trustee in the amounts and at the times required to pay the principal and premium, if any, and interest on the Special Facility Revenue bonds issued to pay for all or a portion of the costs of the acquisition, design, and construction by the Port of jet aircraft fuel storage and delivery facilities at the Airport. The fuel system is intended to be the exclusive system for storage and delivery to commercial air carriers of jet aircraft fuel at the Airport. The lease, which represents an unconditional obligation of the lessee, extends until the later of July 31, 2033, or the repayment of the 2003 bonds. SeaTac Fuel Facilities LLC was created by the consortium of airlines operating at the Airport for the purpose of entering the lease and managing the fuel hydrant system. The future rental income is based on debt service requirements which are as follows: $7,994,000 for 2010, $7,993,000 for 2011, $7,993,000 for 2012, $7,994,000 for 2013, $7,996,000 for 2014, and $143,149,000 for the years thereafter; these amounts are not included in the schedule above. All special facility lease revenues are restricted and are to be used solely for debt service on the bonds and not for Port operations.

5. LONG-TERM DEBT

The Port's long-term debt consists primarily of tax-exempt bonds. The majority of the Port's outstanding bonds are revenue bonds, which are secured by a pledge of net operating revenues of the Port. PFC revenue bonds are secured by a lien pledge of the revenues generated from the PFCs imposed by the Airport. The GO bonds and interest thereon are payable from ad valorem taxes. In connection with the issuance of the tax-exempt bonds, the Port agreed to certain covenants as defined in the resolutions. Outstanding long-term debt as of December 31, 2009, consists of the following (in thousands):

Bond Type (by Bond Issue)	Rates (%)	Maturity Dates	Beginning Balance	Principal Payments and Refundings	Issuance	Ending Balance
General obligation (GO) bonds:						
2000 GO bond	5.1–6.0	2010–2025	$ 87,850	$ 3,420		$ 84,430
2004 GO bond	4.5–5.25	2010–2023	228,585	17,330		211,255
2006 GO bond	3.75–5.0	2011–2029	61,630			61,630
Total			378,065	20,750		357,315
Revenue bonds:						
First lien:						
Series 1998 A	5.0–5.375	2010–2017	28,805	1,455		27,350
Series 2000 B	5.625–6.0	2010–2024	190,375	7,360		183,015
Series 2000 D	5.5–6.0	2010–2011	8,580	1,815		6,765
Series 2001 A	5.0	2031	176,105			176,105
Series 2001 B	5.1–5.625	2010–2024	226,890	9,105		217,785
Series 2001 C	5.5–5.625	2012–2014	12,205			12,205
Series 2001 D	5.75	2010–2017	49,760	4,315		45,445
Series 2003 A	5.0–5.25	2010–2033	188,190			188,190
Series 2003 B	4.25–5.5	2013–2029	153,875	6,975		146,900
Series 2004	4.9–5.75	2010–2017	19,105	1,605		17,500
Series 2007 A	3.75–5.0	2016–2019	27,880			27,880
Series 2007 B	3.75–5.0	2010–2032	198,215	5,100		193,115
Series 2009 A	5.25	2027-2028			20,705	20,705
Series 2009 B-1	5.74-7.0	2019-2036			274,255	274,255
Series 2009 B-2	7.4	2025-2031			83,600	83,600
Total			1,279,985	37,730	378,560	1,620,815
Intermediate lien:						
Series 2005 A	5.0–5.25	2010-2035	398,140	7,165		390,975
Series 2005 B	5.0	2009	2,950	2,950		
Series 2005 C	5.0	2010-2017	39,590	3,860		35,730
Series 2006 A	4.75–5.0	2025-2030	124,625			124,625
Total			565,305	13,975		551,330
Subordinate lien:						
Series 1997	0.4 *	2022	108,830			108,830
Series 1998	4.75–5.375	2010–2017	15,560	1,410		14,150
Series 1999 A	4.75–5.5	2016–2024	121,840			121,840
Series 1999 B	5.5	2010–2016	74,495	7,980		66,515
Series 2005	0.34 *	2035	62,925			62,925
Series 2008	0.4 *	2033	200,715			200,715
Commerical paper	0.3-0.6	2010	153,540	74,120	77,380	156,800
Total			737,905	83,510	77,380	731,775
Revenue bond totals			$2,583,195	$ 135,215	$ 455,940	$ 2,903,920

(Continued)

Bond Type (by Bond Issue)	Rates (%)	Maturity Dates	Beginning Balance	Principal Payments and Refunding	Issuance	Ending Balance
Passenger facility charge revenue bonds:						
Series 1998 A	5.0–5.5	2016–2023	$ 118,490	$	$	$ 118,490
Series 1998 B	5.25–5.375	2010–2016	91,195	9,530		81,665
Total			209,685	9,530		200,155
Fuel hydrant special facility bonds	4.0–5.5	2010–2033	110,415	2,465		107,950
Bond totals			3,281,360	167,960	455,940	3,569,340
Unamortized bond premiums (discounts)—net of amortization			37,573			(34,252)
Total debt			3,318,933			3,535,088
Less current maturities of long-term debt			247,325			257,870
Long-term debt			$3,071,608			$ 3,277,218

* Variable interest rates as of December 31, 2009

(Concluded)

During July 2009, the Port issued $20,705,000 in Series 2009A Revenue Bonds, $274,255,000 in Series 2009B-1 Taxable Revenue Bonds, and $83,600,000 in Series 2009B-2 Taxable Capital Appreciation Revenue Bonds. The 2009 Series Revenue Bonds were issued to finance, or to reimburse the Port for financing, a portion of the costs of a consolidated rental car facility and related project elements, to fund debt service reserve funds for each series of the 2009 Bonds, to capitalize a portion of the interest on the Series 2009 Bonds, and to pay the costs of issuing the series of 2009 Bonds. The bonds have coupon rates ranging from 5.25% to 7.40% with maturities ranging from 2019 to 2036. Interest on the 2009A and 2009B-1 Bonds is payable on May 1 and November 1 of each year, commencing November 1, 2009, and are subject to optional redemption prior to their scheduled maturities. Interest on the 2009B-2 Bonds will be compounded semiannually, but will be payable only upon maturity. The 2009B-2 bonds are not subject to optional redemption prior to their scheduled maturities.

As of December 31, 2009, the accreted value of the Series 2009B-2 Taxable Capital Appreciation Revenue Bonds was $22,749,000, and the ultimate accreted value of $83,600,000 will be reached at maturities during 2025 to 2031.

During June 2008, the Port issued $200,715,000 in Series 2008 Subordinate Lien Revenue Refunding Bonds to fully refund Series 2003C Subordinate Lien Revenue Bonds and to pay the costs of issuing the Series 2008 Bonds. The economic gain resulting from the refunding transaction was $96,091,000. The difference between the cash flows required to service the outstanding bonds and the cash flows required to service the new debt was a gain of $74,146,000. The Series 2008 Bonds interest is payable on the first Wednesday of each month commencing July 2, 2008. The Series 2008 Bonds are subject to mandatory tender for purchase and to optional redemption prior to their scheduled maturity. The Series 2008 Bonds are being issued as variable-rate bonds and are scheduled to mature on July 1, 2033.

During May 2003, the Port issued Fuel Hydrant Special Facility Revenue bonds in the amount of $121,140,000 to pay for all or a portion of the costs of the acquisition, design, and construction by the Port of jet aircraft fuel storage and delivery facilities at the Airport. The Port undertook the development of the fuel system to lower the cost of fuel service at the Airport, improve Airport safety by reducing the need for fuel trucks to operate on the airfield, and address environmental concerns created by the current fuel system. The fuel facility is leased for 40 years (including two five-year option periods) to SeaTac Fuel Facilities LLC ("Lessee"), a limited liability company formed by a consortium of airlines for the purpose of providing jet fuel storage and distribution at the Airport. The Port owns the system and the Lessee will oversee day-to-day management. The Lessee is obligated to collect the fuel system fees and to make monthly rent payments including a base rent for the land to the Port and facilities rent to Wells Fargo Bank Northwest, National Association ("Trustee"). Facilities rent is established at an amount sufficient to pay monthly debt service, replenish any deficiency in the debt service reserve fund, and pay other fees associated with the bonds, including the Trustee fee. In addition, the Lessee has provided a guaranty and a security agreement to the Trustee, securing the Lessee's obligation to pay principal and interest on the bonds. Interest on the Fuel Hydrant Special Facility Revenue bonds is payable on June 1 and December 1 of each year, commencing December 1, 2003.

Proceeds from the bonds are held by the Trustee and are available to the Port on a reimbursement basis as funds are spent for construction. The fuel hydrant facility was fully operational in 2006. During December 2008 and June 2009, the Port defeased $4,030,000 and $55,000, respectively, of Fuel Hydrant Special Facility Revenue bonds using a portion of the unspent bond proceeds held by the Trustee. At December 31, 2009 and 2008, there was $10,428,000 and $10,336,000, respectively, of Fuel Hydrant Special Facility Revenue bond proceeds and rent payments held for debt service reserve fund and debt service payments. For the year ending December 31, 2009, unspent bond proceeds were comprised of $6,423,000 and $4,005,000 in short-term restricted cash and long-term restricted cash and investments, respectively. For the year ending December 31, 2008, unspent bond proceeds were comprised of $6,305,000 and $4,031,000 in short-term restricted cash and long-term restricted investments, respectively.

Fuel Hydrant Special Facility Revenue bonds in the amount of $105,465,000 and $108,005,000, respectively, are included in long-term debt as of December 31, 2009 and 2008.

The Commission authorized the sale of subordinate lien revenue notes (commercial paper) in an aggregate principal amount not to exceed $250,000,000 for the purpose of financing and refinancing capital improvements within the Port, for working capital, and for paying maturing revenue notes of the same series and/or reimbursing the credit providers for advances made. Commercial paper advances, short-term debt, outstanding totaled $156,800,000 and $153,540,000 at December 31, 2009 and 2008, respectively.

During 2009, the Commission authorized the sale of subordinate lien revenue bond anticipation notes, with the principal amount not to exceed $100,000,000, in the form of a line of credit, for the purpose of paying a portion of the costs of the consolidated rental car facility project. There were no borrowings against the line of credit during 2009, and accordingly no debt outstanding at December 31, 2009.

The Port monitors the existence of any rebatable arbitrage interest income associated with its tax-exempt debt. The rebate is based on the differential between the interest earnings from the investment of the bond proceeds as compared to the interest expense associated with the respective bonds. As of December 31, 2009, the Port has estimated that aggregate arbitrage rebates of $2,066,000 existed in conjunction with two revenue bonds series, specifically $769,000 for Series 2005 subordinate lien revenue bonds and $1,297,000 for Series 2007 revenue bonds. Amounts related to Series 2005 subordinate lien revenue bonds are recorded as accounts payable and accrued expenses, while the amounts related to the Series 2007 revenue bonds are recorded as accrued long-term expenses. The actual payment of arbitrage rebate, if any, will be due in 2010 and 2012 for the Series 2005 subordinate lien revenue bonds and Series 2007 revenue bonds, respectively. Other outstanding bond issues have potential arbitrage rebatable earnings; however, management estimates indicate that no additional potential arbitrage rebate liability exists as of December 31, 2009.

Interest expense costs capitalized were $9,718,000 and $29,133,000 as of December 31, 2009 and 2008, respectively.

Aggregate annual payments on revenue and GO bonds and commercial paper outstanding at December 31, 2009 are as follows (in thousands):

	Principal	Interest	Total
2010	$ 257,870	$ 158,890	$ 416,760
2011	106,440	153,398	259,838
2012	117,130	147,580	264,710
2013	123,425	141,254	264,679
2014	130,075	134,621	264,696
2015–2019	630,180	572,265	1,202,445
2020–2024	787,930	395,787	1,183,717
2025–2029	604,375	279,260	883,635
2030–2034	649,580	105,584	755,164
2035–2039	162,335	6,180	168,515
	$ 3,569,340	$ 2,094,819	$ 5,664,159

6. CONDUIT DEBT

The Port has the following conduit debt obligations totaling $207,920,000 and $208,930,000 as of December 31, 2009 and 2008, respectively, which are not a liability or contingent liability of the Port under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. The Port has not recorded these obligations, or the related assets, on the accompanying financial statements of the Port, as the Port has no obligation for the outstanding bonds beyond what is provided in the leasing arrangements.

In 1999, the Port issued special facility revenue bonds to pay, among other things, a portion of the costs of the expansion of Terminal 18. The Port has agreed to lease the site of Terminal 18 and the existing and future improvements thereon to Stevedoring Services of America, Inc., and its affiliate, SSA Terminals, LLC (“SSA”). The bonds are secured by lease payments paid by SSA to the trustee (Bank of New York). No tax funds or revenues of the Port (other than Terminal 18 lease revenue) are pledged to pay the debt service on the bonds, and no liens (other than the leasehold of the Terminal 18 properties) are pledged as collateral for the debt. In 2002, total facility completion triggered debt service payments from rental revenue on the special facility bonds. The Port records the net rental revenue after debt service in its statements of revenues, expenses, and changes in net assets. The special facility revenue bonds, Series 1999 B and C Special Facilities Revenue Bonds (Terminal 18 Project), conduit debt obligation outstanding amount is $126,920,000 and $127,930,000 at December 31, 2009 and 2008, respectively.

Since 1982, the Port, through its blended component unit, the IDC, has issued tax-exempt nonrecourse revenue bonds to finance industrial development for acquiring, constructing, and renovating transshipment and manufacturing facilities within the corporate boundaries of the Port. These revenue bonds are secured by revenues derived from the industrial development facilities funded by the revenue bonds and leased to the IDC. No tax funds or revenues of the Port (other than the IDC lease revenue) are pledged to pay the debt service on the bonds, and no liens (other than the IDC properties) are pledged as collateral for the debt. As of December 31, 2009 and 2008, industrial revenue bonds of $81,000,000 were outstanding.

7. LONG-TERM LIABILITIES

The following is a summary of the accrued environmental expenses, arbitrage rebate liability, accrued election expenses, deferred revenue, and other activities which make up the Port's long-term obligation balances for the years ended December 31, 2009 and 2008 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-Term Portion
2009						
Accrued environmental expenses	$ 27,187	$ 21,650	$ (11,290)	$ 37,547	$ 9,332	$ 28,215
Accrued arbitrage rebate liability	856	1,210		2,066	769	1,297
Accrued election expense	1,287	964		2,251	2,251	
Deferred revenue	8,913	17,533	(6,741)	19,705	9,172	10,533
Others	45	822		867		867
Total long-term liabilities	$ 38,288	$ 42,179	$ (18,031)	$ 62,436		
2008						
Accrued environmental expenses	$ 13,929	$ 33,044	$ (19,786)	$ 27,187	$ 9,098	$ 18,089
Accrued arbitrage rebate liability	1,660	256	(1,060)	856		856
Accrued election expense	2,270	1,287	(2,270)	1,287		1,287
Deferred revenue	11,055	5,994	(8,136)	8,913	6,747	2,166
Others		45		45		45
Total long-term liabilities	$ 28,914	$ 40,626	$ (31,252)	$ 38,288		

8. ENTERPRISE FUND PENSION PLANS

Public Employees' Retirement System ("PERS")—Substantially all of the Port's full-time and qualifying part-time employees, other than those covered under union plans, participate in PERS. This is a statewide local government retirement system administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer defined benefit public employee retirement plans. The PERS system includes three plans.

Participants who joined the system by September 30, 1977, are PERS Plan I members. Those joining thereafter are enrolled in PERS Plan II. In March 2000, Governor Gary Locke signed into law a new retirement plan for members of the PERS Plan II. The new plan, entitled PERS Plan III, provides members with a defined benefit plan similar to PERS Plan II and the opportunity to invest their retirement contributions in a defined contribution plan.

PERS Plan I members are eligible for retirement at any age after 30 years of service, at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is 2% of the average final compensation per year of service, capped at 60%. The average final compensation is based on the greatest compensation earned during any 24 eligible consecutive compensation months.

PERS Plan II members may retire at age 65 with five years of service or at age 55 with 20 years of service. The annual pension is 2% of the average final compensation per year of service. PERS Plan II retirements prior to 65 are actuarially reduced. On July 1 of each year following the first full year of retirement service, the benefit will be adjusted by the percentage change in the Consumer Price Index ("CPI") of Seattle, capped at 3% annually.

PERS Plan III members may retire at age 65 with five years of service or at age 55 with 10 years of service for the defined benefit allowance. PERS Plan III retirements prior to 65 are actuarially reduced. PERS Plan III is structured as a dual benefit program that will provide members with the following benefits:

- A defined benefit allowance similar to PERS Plan II calculated as 1% of the average final compensation per year of service (versus a 2% formula) and funded entirely by employer contributions.

- A defined contribution account consisting of member contributions plus the full investment return on those contributions.

Each biennium, the State Pension Funding Council adopts PERS Plan I employer contribution rates and PERS Plan II employer and employee contribution rates. Employee contribution rates for PERS Plan I are established by statute at 6% and do not vary from year to year. The employer and employee contribution rates for PERS Plan II are set by the director of the Department of Retirement Systems, based on recommendations by the Office of the State Actuary, to continue to fully fund PERS Plan II. Unlike PERS Plan II, which has a single contribution rate (which is currently 3.90%), with PERS Plan III, the employee chooses how much to contribute from six contribution rate options. Once an option has been selected, the contribution rate choice is irrevocable unless the employee changes employers.

All employers are required to contribute at the level established by State law. The methods used to determine the contribution requirements are established under State statute in accordance with Chapters 41.40 and 41.26 RCW.

The Port's covered payroll for PERS for the year ended December 31, 2009, was $75,875,000.

The Port's contribution rates during 2008 expressed as a percentage of covered payroll for employer ranged from 5.13% to 8.15% for PERS Plan I, PERS Plan II, and PERS Plan III. The employer rates do not include the employer administrative expense fee currently set at 0.16%. For employees, the rate was 6% for PERS Plan I and a range of 3.89% to 5.45% for PERS Plan II, and PERS Plan III depends on the option the employee has chosen.

Both the Port and the employees made the required contributions. The Port's required contributions for the years ended December 31 were as follows:

	PERS Plan I	PERS Plan II	PERS Plan III
2009	$ 364,621	$ 4,361,076	$ 634,677
2008	641,065	4,352,159	547,015
2007	588,579	3,212,007	314,017

The pension obligation was calculated on a pension system basis and cannot be disclosed on a plan basis. PERS does not make separate measurements of assets and pension obligations for individual employers.

Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF")—LEOFF is a cost-sharing multiple-employer defined benefit pension plan. Membership in the plan includes all full-time, fully compensated local law enforcement officers, and fire fighters. The LEOFF system includes two plans.

Participants who joined the system by September 30, 1977, are LEOFF Plan I members. Those joining thereafter are enrolled in LEOFF Plan II. Retirement benefits are financed from employee and employer contributions, investment earnings, and State contributions. Retirement benefits in both LEOFF Plan I and LEOFF Plan II are vested after completion of five years of eligible service.

LEOFF Plan I members are eligible to retire with five years of service at age 50. The service retirement benefit is dependent upon the final average salary and service credit years at retirement. On April 1 of each year following the first full year of retirement service, the benefit will be adjusted by the percentage change in the CPI of Seattle.

Term of Service	Percent of Final Average
5–9 years	1.0 %
10–19 years	1.5
20 or more years	2.0

LEOFF Plan II members are eligible to retire at the age of 50 with 20 years of service or at age 53 with five years of service. Retirement benefits prior to age 53 are actuarially reduced at a rate of 3% per year. The benefit is 2% of the final average salary per year of service. The final average salary is determined as the 60 highest paid consecutive service months. There is no limit on the number of service credit years, which may be included in the benefit calculation. On July 1 of each year following the first full year of retirement service, the benefit will be adjusted by the percentage change in the CPI of Seattle, capped at 3% annually.

LEOFF Plan I employer and employee contribution rates are established by statute, and the State is responsible for the balance of the funding at rates set by the Pension Funding Council to fully amortize the total costs of the plan. Employer and employee rates for LEOFF Plan II are set by the director of the Department of Retirement Systems, based on recommendations by the Office of the State Actuary, to continue to fully fund the plan. LEOFF Plan II employers and employees are required to contribute at the level required by State law. The methods used to determine the contribution rates are established under State statute in accordance with Chapters 41.26 and 41.45 RCW.

The Port’s covered payroll for LEOFF for the year ended December 31, 2009, was $16,473,000.

The Port’s required contribution rates during 2009 expressed as a percentage of covered payroll for LEOFF Plan I was 0% for both employer and employee. For LEOFF Plan II, the range of rates was 5.07% to 5.30% for employer and 8.45% to 8.83% for employees. The employer rates do not include the employer administrative expense fees currently set at 0.16% for LEOFF Plan I and LEOFF Plan II.

Both the Port and the employees made the required contributions. The Port’s required contributions for the years ended December 31 were as follows:

	LEOFF Plan I	LEOFF Plan II (Firefighters)	LEOFF Plan II (Police Officers)
2009	$ 386	$ 348,834	$ 857,363
2008	378	340,537	906,652
2007	507	297,803	813,532

Historical trend information regarding all of these plans is presented in Washington State's Department of Retirement Systems' annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Point Plaza West
1025 East Union Street
P.O. Box 48380
Olympia, WA 98504-8380

Internet Address: www.drs.wa.gov

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to pension benefits as described in Note 8, the Port provides other postemployment benefits ("OPEB").

Plan Descriptions—The Port administers and contributes to three single-employer defined benefit plans: (1) LEOFF Plan 1 Members' Medical Services Plan, (2) Retirees Medical Insurance Plan, and (3) Retirees Life Insurance Plan. Under the Washington State Department of Retirement Systems, the Port is required to pay for retired LEOFF Plan 1 members' medical services expenses. Under the Port's medical insurance contracts, the Port allows eligible retired employees and their dependents to continue their medical insurance coverage at their own expense by participating in the Port's medical insurance group plan. Starting in 2010, eligible retired employees and their dependents will no longer be implicitly or explicitly subsidized in the Port's medical insurance group plan. Eligible retired employees are also provided with life insurance coverage for a death benefit up to $25,000. The Port can establish and amend benefit provisions of these OPEB plans. There are no separate OPEB plans related financial reports issued.

Funding Policy and Annual OPEB Costs—For the LEOFF Plan 1 Members' Medical Services Plan, the Washington State Department of Retirement Systems establishes and may amend the contribution requirements of plan members and the Port. The contribution requirements of the Retirees Medical Insurance Plan and the Retirees Life Insurance Plan are established and may be amended by the Port. The Port's annual OPEB cost for the current year and the related information for each plan are as follows (in thousands):

	LEOFF Plan 1 Members' Medical Service Plan [(a)]	Retirees Medical Insurance Plan	Retirees Life Insurance Plan
Contribution rates:			
Port	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
Plan members	N/A	N/A	N/A
Annual required contribution	$ 406	$ 511	$ 536
Interest on net OPEB obligation	294		25
Adjustment to annual required contribution		(5,624)	(22)
Annual OPEB costs	700	(5,113)	539
Contribution made	(436)	(511)	(301)
Increase (Decrease) in net OPEB obligaiton	264	(5,624)	238
Net OPEB obligation beginning of year	6,919	5,624	593
Net OPEB obligation end of year	$ 7,183	$	$ 831

(a) As the LEOFF Plan 1 Members' Medical Service Plan has less than 100 plan members, the Port elected to use the Alternative Measurement Method to estimate the annual required contribution.

The schedule of employer contributions at December 31, 2009, 2008 and 2007 are as follows (in thousands):

Years Ended December 31	Annual OPEB Costs	Employer Contributions	Percentage Contributed	Net OPEB Obligation
LEOFF Plan 1 Members' Medical Service Plan				
2009	$ 700	$ 436	62.3 %	$ 7,183
2008	4,407	404	9.2	6,919
2007	3,058	142	4.6	2,916
Retirees Medical Insurance Plan				
2009	$ (5,113)	$ 511	(10.0)%	$
2008	3,405	546	16.0	5,624
2007	3,239	474	14.6	2,765
Retirees Life Insurance Plan				
2009	$ 539	$ 301	55.8 %	$ 831
2008	518	296	57.1	593
2007	495	124	25.1	371

Funding Status—As of December 31, 2009 and 2008, using the Alternative Measurement Method, the actuarial accrued liability for LEOFF Plan 1 Members' Medical Services Plan benefits was $7,183,000 and $6,919,000, respectively, all of which was unfunded.

For the other two OPEB plans, as of January 1, 2009, the most recent actuarial valuation data and the preceding actuarial valuation data, funding progress were as follows (in thousands):

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2009 Valuation						
Retirees Medical Insurance Plan	$	$ 511	0.0 %	$ 511	$ 65,218	0.8 %
Retirees Life Insurance Plan		7,480	0.0	7,480	78,331	9.5
November 1, 2006 Valuation						
Retirees Medical Insurance Plan	$	$ 31,107	0.0 %	$ 31,107	$ 56,054	55.5 %
Retirees Life Insurance Plan		7,007	0.0	7,007	67,296	10.4

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment rate of return, payroll growth rate and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions—Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the LEOFF Plan 1 Members' Medical Services Plan, the following simplifying assumptions were made when the Alternative Measurement Method was used:

- *Retirement age for active employees*—Based on the historical average retirement age for the covered group, active plan members were assumed to retire the year immediately following that in which the member would qualify for benefits.

- *Mortality*—Life expectancies were based on mortality tables from the U.S. Department of Health & Human Services. The 2004 United States Life Table for Males was used.

- *Healthcare cost trend rate*—The expected rate of increase in healthcare expenditure was based on projections of the Centers for Medicare and Medicaid Services. A rate of 5.6% was used initially, but was increased slightly to an ultimate rate of 7.2% after seven years.

- *Health insurance premiums*—2010 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

- *Investment rate of return*—a rate of 4.25% was used, which is an estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits.

Additionally, the unfunded actuarial accrued liability is not amortized as the LEOFF Plan 1 Members' Medical Services Plan is closed to new entrants and almost all of the plan members have retired.

For the Retirees Medical Insurance Plan and Retirees Life Insurance Plan, as of January 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability is determined by the independent actuary using the Projected Unit Credit actuarial cost method. The actuarial assumptions included a 4.25% investment rate of return, which is an estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits. Also, an initial annual medical cost trend rate of 7% and an initial annual prescription drug cost trend rate of 10% were used, which were reduced by decrements to an ultimate rate of 5% after 5 years for both cost trend rates. Based on the change to the substantive plan for the Retirees Medical Insurance Plan starting in 2010, the net benefit expense related to the Retirees Medical Insurance Plan beyond 2009 is assumed to be zero. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 30-year open period, assuming payroll growth of 3.5% per year.

10. ENVIRONMENTAL RESERVES

The Port has identified a number of contaminated sites on Aviation, Seaport, and Real Estate properties and facilities that must be investigated for the presence of hazardous substances and remediated in compliance with Federal and State environmental laws and regulations. Some Port facilities may require asbestos abatement, and some properties owned or operated by the Port may have unacceptable levels of contaminants in soil, sediments and/or groundwater. In some cases, the Port has been designated by the Federal government as a “Potentially Responsible Party”, and/or by the State government as a “Potentially Liable Person” for the investigation and cleanup of properties owned by the Port or where the Port may have contributed to site contamination. Although the Port may not bear ultimate liability for the contamination, under Federal and State law, the Port is presumptively liable as the property owner, and it is often practically and financially beneficial for the Port to take initial responsibility to manage and pay for the cleanup.

As of December 31, 2009 and 2008, the Port environmental reserves was $37,547,000 and $27,187,000, respectively, based on reasonable and supportable assumptions, measured at current value using the expected cash flow technique. The Port environmental reserves do not include cost components that are not yet reasonably measurable. The Port environmental reserves will change over time due to changes in costs of goods and services, changes in remediation technology, and changes in governing laws and regulations.

In many cases, the Port has successfully recovered Port-incurred investigation and cleanup costs from other responsible parties. The Port will continue to seek appropriate recoveries in the future. As of December 31, 2009 and 2008, the environmental reserves were reduced by $14,732,000 and $11,992,000, respectively, of estimated unrealized recoveries.

11. CONTINGENCIES

The Port is a defendant in various legal actions and claims. Although certain lawsuits and claims are significant in amount, the final dispositions are not determinable, and in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or results of operations of the Port. In some cases, the Port has provided reserves for these matters, which in the opinion of management, are adequate.

Amounts received or receivable under Federal grants-in-aid programs are subject to audit and adjustment by the granting agency. Any disallowed claims, including amounts already received, may constitute a liability of the Port. The amount, if any, of expenditures that may be disallowed cannot be determined at this time, although the Port expects such amounts, if any, to be insignificant.

12. COMMITMENTS

As of December 31, 2009, and 2008, the Port has authorized or made commitments for acquisition and construction as follows (in thousands):

	2009	2008
Funds committed:		
Airport facilities	$ 269,152	$ 160,634
Seaport terminals	13,345	51,686
Real Estate properties	316	1,692
Corporate	6,053	10,443
Funds authorized but not yet committed:		
Airport facilities	333,004	561,789
Seaport terminals	5,984	13,642
Real Estate properties	2,600	97,719
Corporate	2,516	1,208
Total	$ 632,970	$ 898,813

13. FAIR VALUE MEASUREMENTS

The fair value of the Enterprise Fund's cash equivalents and investments as well as outstanding debt is estimated using quoted market prices in the active market. The following table summarizes the fair values of financial instruments measured on a recurring basis as of December 31 (in thousands):

Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as of December 31
2009				
Cash, cash equivalents, and investments	$ 914,151	$	$	$ 914,151
Debt	3,594,914			$ 3,594,914
2008				
Cash, cash equivalents, and investments	$ 712,256	$	$	$ 712,256
Debt	3,149,344			3,149,344

14. BUSINESS INFORMATION

For the Enterprise Fund's three major business activities, operations consist of Seaport terminals, Airport facilities, and Real Estate properties. Indirect costs have been allocated to Seaport terminals, Airport facilities, and Real Estate properties using various methods based on estimated hours of work, revenue plus expenses, full-time equivalent positions, and other factors.

The Port's operating revenues are derived from various sources. The Seaport's operating revenues are principally derived from the leasing of Seaport terminal facilities. The Aviation's operating revenues are derived primarily from its airline agreements, concession agreements, and other business arrangements. The Real Estate's operating revenues are primarily derived from the leasing of commercial and industrial real estate, recreational marinas, and industrial fishing terminals.

The business information by division presented below includes fiscal year ending 2008 and forward, coinciding with the newly formed Real Estate Division in 2008 to allow the Seaport and Aviation divisions to concentrate on their core businesses.

Operating revenues, as reflected in the statements of revenues, expenses, and changes in net assets, from the Port's major sources for the year ended December 31, 2009 and 2008 are as follows (in thousands):

	2009	2008
Seaport Division:		
Property rentals	$ 71,330	$ 68,828
Equipment rentals	8,758	8,944
Operating grant and contract revenues	2,292	1,316
Other	8,311	7,165
Total Seaport Division operating revenues	$ 90,691	$ 86,253
Aviation Division:		
Property rentals	$ 200,520	$ 208,577
Landing fees	50,847	65,770
Parking	51,995	61,313
Operating grant and contract revenues	395	144
Other	24,484	21,438
Total Aviation Division operating revenues	$ 328,241	$ 357,242
Real Estate Division:		
Property rentals	$ 10,580	$ 11,660
Conference centers	7,536	11,833
Berthage and moorage	9,794	9,073
Utilities	1,225	1,089
Operating grant and contract revenues	19	
Other	978	1,142
Total Real Estate Division operating revenues	$ 30,132	$ 34,797

One major customer represented 14.7% and 13.3% of total Port's operating revenue in 2009 and 2008, respectively. For Seaport Division, the revenues from its major customers accounted for 71.2% and 76.7% of total operating revenues in 2009 and 2008, respectively. For Aviation Division, the revenues from one major customer accounted for 20.1% and 17.9% of total operating revenues in 2009 and 2008, respectively. No single major customer represents more than 10.0% of Real Estate Division operating revenues in 2009 and 2008.

Operating revenues, as reflected in the statements of revenues, expenses, and changes in net assets, from the Port's major customers for the year ended December 31, 2009 and 2008 are as follows (in thousands):

	2009			2008		
	Seaport	Aviation	Total	Seaport	Aviation	Total
Revenues	$ 64,562	$ 66,073	$ 130,635	$ 66,167	$ 63,774	$ 129,941
Number of major customers	4	1	5	4	1	5

Financial information by division for the year ended December 31, 2009 and 2008 is as follows (in thousands):

	2009			2008		
	Seaport	Aviation	Real Estate	Seaport	Aviation	Real Estate
Operating revenue	$ 90,691	$ 328,241	$ 30,132	$ 86,253	$ 357,242	$ 34,797
Operations and maintenance	28,116	130,554	24,325	27,153	149,865	32,942
Administration	10,224	29,074	3,339	9,967	29,556	3,561
Law enforcement	2,205	15,026	1,905	2,767	15,762	1,692
Total operating expenses before depreciation	40,545	174,654	29,569	39,887	195,183	38,195
Net operating income (loss) before depreciation	50,146	153,587	563	46,366	162,059	(3,398)
Depreciation	29,385	117,731	9,949	26,824	107,349	10,033
Operating income (loss)	20,761	35,856	(9,386)	19,542	54,710	(13,431)
Nonoperating income (expense):						
Ad valorem tax levy revenue	66,063	5,215	4,308	60,643	1,936	13,101
Passenger facility charges revenue		59,689			60,708	
Customer facility charges revenue		21,866			22,947	
Noncapital grants and donations	1,424	5,056	156	8,853	1,087	109
Investment income—net	4,432	12,560	259	12,240	26,570	215
Revenue and capital appreciation bond interest expense	(10,552)	(108,116)	(2,480)	(13,545)	(89,459)	(2,513)
Passenger facility charges revenue bond interest expense		(10,956)			(11,412)	
General obligation bond interest expense	(14,476)		(1,309)	(15,739)		(1,321)
Public expense	(13,521)	(6,847)		(2,808)	(24,686)	
Environmental expense—net	(6,595)		(8,081)	(5,007)		(652)
Other (expense) income—net	(5,244)	(6,309)	1,823	(2,694)	(5,678)	9,365
Total nonoperating income (expense)—net	21,531	(27,842)	(5,324)	41,943	(17,987)	18,304
Income before capital contributions	42,292	8,014	(14,710)	61,485	36,723	4,873
Capital contributions	2,340	74,323	72	2,919	49,460	57
Increase (Decrease) in net assets	$ 44,632	$ 82,337	$ (14,638)	$ 64,404	$ 86,183	$ 4,930
Identifiable capital assets	$ 1,179,136	$ 3,696,539	$ 298,437	$ 1,059,565	$ 3,647,728	$ 310,228
Other identifiable assets	223,907	1,015,700	128,350	332,395	709,772	63,585
Identifiable assets	$ 1,403,043	$ 4,712,239	$ 426,787	$ 1,391,960	$ 4,357,500	$ 373,813
Capital expenditures	$ 44,985	$ 191,901	$ 9,803	$ 88,169	$ 209,784	$ 21,241
Debt	$ 682,005	$ 2,712,345	$ 140,738	$ 712,251	$ 2,513,041	$ 93,641

15. WAREHOUSEMEN'S PENSION TRUST FUND

In late 2002, the Port terminated all warehousing operations at Terminal 106 following the departure of Hasbro, the principal customer operating at the facility. Prior to closing the warehouse, the Port had provided pension and health benefits to represented employees under a Collective Bargaining Agreement with Local #9 of the International Longshore and Warehouse Union ("ILWU"). The benefits were administered by two separate trusts, the Warehousemen's Pension Trust and the Local #9 Health & Welfare Trust. The Port made quarterly contributions to each trust in an amount sufficient to provide the required contractual benefits and the trusts were jointly administered by trustees appointed by both Local #9 and the Port.

Upon expiration of the contract with Local #9, the Port ceased making contributions to the Health & Welfare Trust and provided employees with the ability to maintain their health coverage by self-paying premiums through the Port's medical plan. The Port also ceased making contributions to the Warehousemen's Pension Trust.

On May 25, 2004, the Port became the sole administrator for the Warehousemen's Pension Plan (the "Plan") and Trust and commenced contributions to the Plan. A schedule of employer contributions is shown below. The Plan is a governmental plan maintained and operated solely by the Port.

Summary of Accounting Policies—The financial statements are prepared using the accrual basis of accounting. Port contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments policy—The Warehousemen's Pension Trust investment policy allows the Plan to invest in contracts with insurance companies that are rated no lower than A by at least two major rating agencies. The Plan is allowed to invest in commercial paper with A1/P1 rating. Certificates of deposit or banker's acceptances can only be purchased from domestic banks with net worth in excess of $2 billion and which satisfy tier 1 and tier 2 capital requirements. Bank deposits or short-term investment accounts must be maintained by the Plan's custodian. Repurchase agreements can only be entered with Federal Reserve reporting dealers and maintained in accordance with Federal Reserve guidelines. Only United States registered mutual funds or ERISA-qualified commingled funds whose investment strategies and governing documents have been reviewed and approved by the Board of Trustees can be purchased. The Plan's investment policy allows for 60% plus or minus 5% of the portfolio to be invested in equities securities and 40% plus or minus 5% of the portfolio to be invested in fixed income securities.

Method Used to Value Investments—Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price on the last business day of the year (Level 1).

As of December 31, 2009, and 2008, the Plan had the following investments measured on a recurring basis (in thousands).

	2009	2008
Vanguard Total Stock Market Index Fund	$ 3,489	$ 2,168
Vanguard Total International Stock Index Fund	3,063	2,093
Vanguard Total Bond Market Index Fund	2,067	516
Western Asset Core Bond Fund	1,081	3,382
Total	$ 9,700	$ 8,159

Investments Concentration of Credit Risk—The Plan places no limit on the amount the Plan may invest in any one issuer. As of December 31, 2009, and 2008, the Plan had the following investments of more than 5% of the total Plan's investments:

	2009	2008
Vanguard Total Stock Market Index Fund	36.0 %	26.5 %
Vanguard Total International Stock Index Fund	31.6	25.7
Vanguard Total Bond Market Index Fund	21.3	6.3
Western Asset Core Bond Fund	11.1	41.5

Investments Credit Risk—As of December 31, 2009 and 2008, the Plan's investment in Western Asset Core Bond Fund Portfolio was rated AA- and AA+, respectively by Standard & Poor's Investors Service. As of December 31, 2009 and 2008, the Plan's investment in Vanguard Total Stock Market Index Fund Portfolio were rated "three stars". As of December 31, 2009 and 2008, the Plan's in Vanguard Total International Stock Index Fund Portfolio were rated "four stars" and "three stars", respectively. As of December 31, 2009, and 2008, the Plan's investment in Vanguard Total Bond Market Index Fund Portfolio was rated "four stars" by Morningstar Inc.

Plan Description and Contribution Information—Membership of the plan consisted of the following at January 1, 2009, and 2008, the date of the latest actuarial valuation:

	2009	2008
Retirees and beneficiaries receiving benefits	141	139
Terminated plan members entitled to but not yet receiving benefits	71	78
Total	212	217

Plan Description—The Plan is a single-employer defined benefit plan. The Plan provides that only service credited and compensation earned prior to April 1, 2004, shall be utilized to calculate benefits under the Plan, and the Port agrees to maintain the frozen Plan and to contribute funds to the Plan in such amounts that may be necessary to enable the Plan to pay vested accrued benefits as they become due and payable to participants and beneficiaries in the ordinary course of business. There is no separate financial statement of the Plan issued.

Actuarial Assumptions—The actuarial present value of accumulated plan benefits is determined by the independent actuary using the Individual Entry Age Normal actuarial cost method, and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation dates and the expected date of payment.

The significant actuarial assumptions used in the valuations as of January 1, 2009, the date of the latest actuarial valuation, did not change from prior year, and were (a) life expectancy of participants (RP2000 Blue Collar Mortality Table was used), (b) retirement age of 55 and 10 years of service or age of 62, and (c) investment return. The valuations included an assumed average rate of return of investment of 7.0%, net of investment expenses. The unfunded actuarial accrued liability is being amortized as a level dollar amount over a 20-year closed period.

Annual Pension Cost and Net Pension Asset—The Port's annual pension costs and net pension asset to the Warehousemen's Pension Trust Fund for the current year were as follows (in thousands):

Annual required contribution	$ 1,659
Interest on net pension asset	161
Adjustment to annual required contribution	(217)
Annual pension cost	1,603
Contributions made	(1,500)
Decrease in net pension asset	(103)
Net pension asset beginning of year	668
Net pension asset end of year	$ 565

The net pension asset is included in prepayments and other current assets on the statements of net assets.

Funding Status—The schedule of funding progress at December 31, 2009, the most recent actuarial valuation data, and the five preceding years are as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio
12/31/2009	$ 10,139	$ 24,424*	$ 14,285	41.5 %
12/31/2008	8,508	24,949	16,441	34.1
12/31/2007	13,102	25,633	12,531	51.1
12/31/2006	13,014	26,559	13,545	49.0
12/31/2005	12,335	26,991	14,656	45.7
12/31/2004	12,662	27,530	14,868	46.0

This plan covers inactive participants. There are no related payroll costs.
*Estimated liabilities as of December 31, 2009 are based on January 1, 2009, data.

Schedule of Employer Contributions—The schedule of employer contributions at December 31, 2009, and the five preceding years are as follows (in thousands):

Years Ended December 31	Annual Required Contribution	Employer Contributions	Percentage Contributed	Net Pension Asset
2009	$ 1,659	$ 1,500	90.4 %	$ 565
2008	1,290	1,500	116.3	668
2007	1,325	1,500	113.2	395
2006	1,437	1,500	104.4	147
2005	1,456	1,000	68.7	7
2004	1,717	2,000	116.5	397

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

PROPOSED FORM OF BOND COUNSEL OPINIONS

[THIS PAGE INTENTIONALLY LEFT BLANK]

K&L GATES

K&L Gates LLP
925 Fourth Avenue
Suite 2900
Seattle, WA 98104-1158

T 206.623.7580 www.klgates.com

December 1, 2010

Port of Seattle
King County, Washington

Goldman, Sachs & Co.
New York, New York

Barclays Capital Inc.
Seattle, Washington

Morgan Stanley & Co. Incorporated
Seattle, Washington

Siebert Brandford Shank & Co., LLC
New York, New York

Re: Port of Seattle, Washington, Passenger Facility Charge Revenue Refunding Bonds, Series 2010A - $79,770,000

Ladies and Gentlemen:

We have acted as bond counsel to the Port of Seattle, Washington (the "Port") and have examined a certified transcript of the proceedings taken in the matter of the issuance by the Port, of its Passenger Facility Charge Revenue Refunding Bonds, Series 2010A, in the aggregate principal amount of $79,770,000 (the "Series 2010A Bonds"), issued pursuant to Resolution No. 3284, as amended, of the Port Commission (the "Master Resolution") and Resolution 3643 (the "Series Resolution", which Master Resolution and Series Resolution are herein collectively referred to as the "Bond Resolution") for the purpose refunding outstanding Passenger Facility Charge Revenue Bonds, Series 1998A (the "Series 1998A Bonds" and together with the Passenger Facility Charge Revenue Bonds, Series 1998B, the "Series 1998 Bonds") and to pay costs of issuance. Capitalized terms used herein which are not otherwise defined shall have the meanings given such terms in the Bond Resolution. Simultaneously with the issuance of the Series 2010A Bonds, the Port is issuing its Passenger Facility Charge Revenue Refunding Bonds, Series 2010B (the "Series 2010B Bonds").

The Series 2010A Bonds are subject to optional redemption as provided in the Purchase Contract.

From such examination it is our opinion, as of this date and under existing law, that:

1. The Series 2010A Bonds have been legally issued and constitute valid obligations of the Port, except to the extent that the enforcement of the rights and remedies of the owners of the Series 2010A Bonds and the Bond Resolution may be subject to bankruptcy, insolvency, reorganization,

moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases. Both principal of and interest on the Series 2010A Bonds are payable solely out of a special fund of the Port designated as the "Port of Seattle Passenger Facility Charge Revenue Bond Account, First Lien" (the "First Lien Bond Account").

2. The Port has obligated and bound itself to set aside and pay into the First Lien Bond Account out of PFC Revenue and the money in the PFC Revenue Fund amounts sufficient to pay the principal of and interest on the Series 2010A Bonds as the same become due. The Port has further bound itself to pay into the PFC Revenue Fund, as collected, all PFC Revenue and Additional Pledged Revenue, if any.

3. The Port has further pledged in the Bond Resolution that payments to be made out of PFC Revenue and Additional Pledged Revenue, if any, and moneys in the PFC Revenue Fund into the First Lien Bond Account and into the First Lien Reserve Account shall be a prior lien and charge upon PFC Revenue and Additional Pledged Revenue, if any, and moneys in the PFC Revenue Fund superior to all other charges of any kind or nature and equal in rank to the lien and charge thereon for amounts pledged to pay and secure payment of the Outstanding Series 1998 Bonds, the Series 2010B Bonds, and any other revenue bonds hereafter issued on a parity therewith as provided in the Bond Resolution. The Port has reserved the right to issue bonds in the future with a lien against the PFC Revenues and Additional Pledged Revenue, if any, equivalent to the lien thereon of the Series 2010A Bonds.

4. Interest on the Series 2010A Bonds is excludable from gross income for federal income tax purposes. Interest on the Series 2010A Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Series 2010A PFC Bonds is included in adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on certain corporations. The opinion set forth in this paragraph is subject to the condition that the Port comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2010A Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Port has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series 2010A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2010A Bonds.

The Port has <u>not</u> designated the Series 2010A Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

Except as stated herein, we express no opinion regarding any federal, state or local tax consequences arising with respect to ownership of the Series 2010A Bonds.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur

Very truly yours,

K&L GATES LLP

K&L | GATES

K&L Gates LLP
925 Fourth Avenue
Suite 2900
Seattle, WA 98104-1158

T 206.623.7580 www.klgates.com

December 1, 2010

Port of Seattle
King County, Washington

Goldman, Sachs & Co.
New York, New York

Barclays Capital Inc.
Seattle, Washington

Morgan Stanley & Co. Incorporated
Seattle, Washington

Siebert Brandford Shank & Co., LLC
New York, New York

Re: Port of Seattle, Washington, Passenger Facility Charge Revenue Refunding Bonds, Series 2010B - $66,695,000

Ladies and Gentlemen:

We have acted as bond counsel to the Port of Seattle, Washington (the "Port") and have examined a certified transcript of the proceedings taken in the matter of the issuance by the Port, of its Passenger Facility Charge Revenue Refunding Bonds, Series 2010B, in the aggregate principal amount of $66,695,000 (the "Series 2010B Bonds"), issued pursuant to Resolution No. 3284, as amended, of the Port Commission (the "Master Resolution") and Resolution 3643 (the "Series Resolution", which Master Resolution and Series Resolution are herein collectively referred to as the "Bond Resolution") for the purpose refunding outstanding Passenger Facility Charge Revenue Bonds, Series 1998B (the "Series 1998B Bonds" and together with the Passenger Facility Charge Revenue Bonds, Series 1998A, the "Series 1998 Bonds"), and to pay costs of issuance. Capitalized terms used herein which are not otherwise defined shall have the meanings given such terms in the Bond Resolution. Simultaneously with the issuance of the Series 2010B Bonds, the Port is issuing its Passenger Facility Charge Revenue Refunding Bonds, Series 2010A (the "Series 2010A Bonds").

The Series 2010B Bonds are not subject to redemption prior to their maturity.

From such examination it is our opinion, as of this date and under existing law, that:

1. The Series 2010B Bonds have been legally issued and constitute valid obligations of the Port, except to the extent that the enforcement of the rights and remedies of the owners of the Series 2010B Bonds and the Bond Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases. Both principal of and interest on the Series 2010B Bonds are payable

solely out of a special fund of the Port designated as the "Port of Seattle Passenger Facility Charge Revenue Bond Account, First Lien" (the "First Lien Bond Account").

2. The Port has obligated and bound itself to set aside and pay into the First Lien Bond Account out of PFC Revenue and the money in the PFC Revenue Fund amounts sufficient to pay the principal of and interest on the Series 2010B Bonds as the same become due. The Port has further bound itself to pay into the PFC Revenue Fund, as collected, all PFC Revenue and Additional Pledged Revenue, if any.

3. The Port has further pledged in the Bond Resolution that payments to be made out of PFC Revenue and Additional Pledged Revenue, if any, and moneys in the PFC Revenue Fund into the First Lien Bond Account and into the First Lien Reserve Account shall be a prior lien and charge upon PFC Revenue and Additional Pledged Revenue, if any, and moneys in the PFC Revenue Fund superior to all other charges of any kind or nature and equal in rank to the lien and charge thereon for amounts pledged to pay and secure payment of the Outstanding Series 1998 Bonds, the Series 2010A Bonds, and any other revenue bonds hereafter issued on a parity therewith as provided in the Bond Resolution. The Port has reserved the right to issue bonds in the future with a lien against the PFC Revenues and Additional Pledged Revenue, if any, equivalent to the lien thereon of the Series 2010B Bonds.

4. Interest on the Series 2010B Bonds is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code") provided that the continuing arbitrage requirements of Section 148 of the Code are complied with and that proceeds of the Series 2010B Bonds are not used to acquire used property or to provide prohibited facilities. Notwithstanding the foregoing, no opinion regarding tax-exemption is expressed for any Series 2010B Bond with respect to any period during which such Series 2010B Bond is held by a "substantial user" of the facility financed by the Series 2010B Bonds or a "related person" within the meaning of Section 147 of the Code. We are also of the opinion that the Series 2010B Bonds are private activity bonds. Interest on the Series 2010B Bonds is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals or corporations, and is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code. The opinions stated in this paragraph are subject to the condition that the Port comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2010B Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Port has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series 2010B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2010B Bonds.

The Port has <u>not</u> designated the Series 2010B Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

Except as stated herein, we express no opinion regarding any federal, state or local tax consequences arising with respect to ownership of the Series 2010B Bonds.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur

Very truly yours,

K&L GATES LLP

APPENDIX D

BOOK-ENTRY SYSTEM

[THIS PAGE INTENTIONALLY LEFT BLANK]

BOOK-ENTRY ONLY SYSTEM

The following information has been provided by The Depository Trust Company, New York, New York ("DTC"). The Port makes no representation regarding the accuracy or completeness thereof. Each actual purchaser of a 2010 Bond (a "Beneficial Owner") should therefore confirm the following with DTC or the Participants (as hereinafter defined).

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2010 PFC Bonds. The Series 2010 PFC Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2010 PFC Bond certificate will be issued for the aggregate principal amount of the Series 2010 PFC Bonds, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Series 2010 PFC Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010 PFC Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2010 PFC Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010 PFC Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2010 PFC Bonds, except in the event that use of the book-entry system for the Series 2010 PFC Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 2010 PFC Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2010 PFC Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010 PFC Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010 PFC 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.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Series 2010 PFC Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2010 PFC Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2010 PFC Bond documents. For example, Beneficial Owners of Series 2010 PFC Bonds may wish to ascertain that the nominee holding the Series 2010 PFC 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.

6. Redemption notices shall be sent to DTC. If less than all of the Series 2010 PFC Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2010 PFC Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Port as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2010 PFC Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Series 2010 PFC 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 Port or the Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Registrar, or the Port, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Port or the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Series 2010 PFC Bonds at any time by giving reasonable notice to the Port or the Registrar. Under such circumstances, in the event that a successor depository is not obtained, Series 2010 PFC Bond certificates are required to be printed and delivered.

10. To the extent permitted by law, the Port may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2010 PFC Bond certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Port believes to be reliable, but the Port takes no responsibility for the accuracy thereof.

APPENDIX E

COPIES OF THE PFC MASTER RESOLUTION AND PFC SERIES RESOLUTION

[THIS PAGE INTENTIONALLY LEFT BLANK]

CERTIFICATE

I, the undersigned, Secretary of the Port Commission of the Port of Seattle (the "Port"), DO HEREBY CERTIFY:

1. That the attached Resolution No. 3284, as amended, (the "Resolution") is a true and correct copy of a resolution of the Port as adopted at an open public meeting of the Port Commission held on the 16th day of July, 1998, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law; and to the extent required by law, due and proper notice of such meeting was given; that a quorum was present throughout the meeting and a legally sufficient number of members of the Port Commission voted in the proper manner for the passage of the Resolution; that all other requirements and proceedings incident to the proper passage of the Resolution have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

3. That the Resolution has not been amended, superseded or repealed since its adoption, and remains in full and force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand this 28th day of July, 1998.

Secretary, Port Commission
Port of Seattle

PFC
MASTER RESOLUTION

RESOLUTION NO. 3284, AS AMENDED

A RESOLUTION OF THE PORT COMMISSION OF THE PORT OF SEATTLE, WASHINGTON, AUTHORIZING PASSENGER FACILITY CHARGE REVENUE BONDS OF THE PORT DISTRICT TO BE ISSUED IN SERIES TO FINANCE AIRPORT CAPITAL IMPROVEMENTS.

ADOPTED: July 16, 1998

Prepared by:

PRESTON GATES & ELLIS LLP
Seattle, Washington

TABLE OF CONTENTS*

* This table of contents is not a part of this resolution as adopted but is provided for convenience of reference only.

RESOLUTION NO. 3284, AS AMENDED

A RESOLUTION OF THE PORT COMMISSION OF THE PORT OF SEATTLE, WASHINGTON, AUTHORIZING PASSENGER FACILITY CHARGE REVENUE BONDS OF THE PORT DISTRICT TO BE ISSUED IN SERIES TO FINANCE AIRPORT CAPITAL IMPROVEMENTS.

WHEREAS, the Port of Seattle (the "Port"), a municipal corporation of the State of Washington, owns and operates Seattle-Tacoma International Airport (the "Airport") and a system of marine terminals and other properties; and

WHEREAS, the Port is authorized by the Aviation Safety and Capacity Expansion Act of 1990, as amended (the "PFC Act") to impose and collect passenger facility charges for the purpose of financing capital improvements at the Airport;

NOW, THEREFORE, BE IT RESOLVED BY THE PORT COMMISSION OF THE PORT OF SEATTLE, WASHINGTON, as follows:

Section 1. Definitions. As used in this resolution, the following words and phrases shall have the meanings hereinafter set forth unless the context clearly shall indicate that another meaning is intended:

"Accreted Value" means (1) with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in the Series Resolution as the amount representing the initial principal amount of such PFC Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (2) with respect to Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of such PFC Bonds plus the amount of discounted principal which has accreted since the date of issue. In each case the Accreted Value shall be determined in accordance with the provisions of the Series Resolution authorizing the issuance of such PFC Bonds.

"Additional Pledged Revenue" means any income, receipt or revenue of the Port (other than PFC Revenue) legally available and pledged irrevocably by resolution of the Commission to the payment of the principal of and interest on First Lien PFC Bonds and/or Subordinate Lien PFC Obligations.

"Adjusted Costs" means Costs of Projects paid or legally obligated to be paid from PFC Revenue to date, minus Projected Aggregate Debt Service with respect to First Lien PFC Bonds,

minus amounts then on deposit in the funds and accounts created under this resolution and available for the payment of debt service on PFC Bonds and **minus** Costs of Projects paid from the proceeds of PFC Bonds.

"Aggregate Annual Debt Service" means Annual Debt Service for all Outstanding First Lien PFC Bonds and all First Lien PFC Bonds authorized but unissued under a Series Resolution.

"Airport" means Seattle-Tacoma International Airport.

"ANCA" means the Airport Noise and Capacity Act of 1990, as amended.

"Annual Debt Service" means the total amount of Debt Service for any PFC Bond or Series of PFC Bonds in any fiscal year or Base Period.

"Average Annual Debt Service" means the aggregate dollar amount of Debt Service with respect to PFC Bonds through the scheduled maturities thereof (stated maturity dates or mandatory redemption dates with respect to term debt), divided by the number of years remaining during which PFC Bonds are scheduled to mature or be subject to mandatory redemption (commencing with the year following the year of calculation).

"Balloon Maturity Bonds" means any PFC Bonds which are so designated in the Series Resolution pursuant to which such PFC Bonds are issued. Commercial paper (obligations with a maturity of not more than 270 days from the date of issuance) shall be deemed to be Balloon Maturity Bonds.

"Base Period" means any consecutive 12-month period selected by the Port out of the 18-month period next preceding the date of issuance of an additional Series of PFC Bonds.

"Bond Counsel" means a firm of lawyers nationally recognized and accepted as bond counsel and so employed by the Port for any purpose under this resolution applicable to the use of that term.

"Capital Appreciation Bonds" means PFC Bonds all or a portion of the interest on which is compounded, accumulated and payable only upon redemption or on the maturity date of such PFC Bonds; provided that if so provided in the Series Resolution authorizing their issuance, PFC Bonds may be deemed to be Capital Appreciation Bonds for only a portion of their term. On the date on which PFC Bonds no longer are Capital Appreciation Bonds, they shall be deemed Outstanding in a principal amount equal to their Accreted Value.

"Code" means the Internal Revenue Code of 1986, as amended, and shall include all applicable regulations and rulings relating thereto.

"Collecting Carriers" means air carriers and their agents who are required by the PFC Act to collect PFCs.

"Commission" means the Commission of the Port, or any successor thereto as provided by law.

"Consultant" means at any time an independent consultant or consultant firm nationally recognized in aviation matters or an engineer or engineering firm or other expert appointed by the Port to perform the duties of the Consultant as required by this resolution. The term Consultant shall also include an independent certified public accountant or public accounting firm appointed by the Port to make such calculation or to provide such certificate or an independent nationally recognized financial advisor or firm of financial advisors appointed by the Port for purposes of making calculations required by this resolution.

"Costs of Projects" means all costs paid or legally obligated to be paid by the Port in connection with the acquisition and construction of Projects, and the placing of the same in operation, including, but without limiting the generality of the foregoing, paying all or a portion of the principal of and/or interest on PFC Bonds or any portion thereof issued to finance the costs of such Projects to the extent permitted by the PFC Act and the PFC Regulations; paying amounts required to meet any reserve requirement for such Series of PFC Bonds; paying or reimbursing the Port or any fund thereof or any other person for expenses incident and properly allocable to the acquisition and construction of said Projects and the placing of the same in operation; and all other items of expense incident and properly allocable to the acquisition and construction of said additions and improvements, the financing of the same and the placing of the same in operation if and to the extent permitted by the PFC Act, the PFC Regulation and State law.

"Credit Facility" means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement or other financial instrument which obligates a third party to make payment or provide funds for the payment of financial obligations of the Port, including but not limited to payment of the principal of, interest on or purchase price of PFC Bonds or meeting reserve requirements therefor.

"Debt Service" means, for any period of time,

(1) with respect to any Outstanding Original Issue Discount Bonds or Capital Appreciation Bonds which are not designated as Balloon Maturity Bonds in the Series Resolution authorizing their issuance, the principal amount thereof shall be equal to the Accreted Value thereof maturing or scheduled for redemption in such period, and the interest, if any, payable during such period;

(2) with respect to any Outstanding Fixed Rate Bonds, an amount equal to (A) the principal amount of such PFC Bonds due or subject to mandatory redemption during such period and for which no sinking fund installments have been established, (B) the amount of any payments required to be made during such period into any sinking fund established for the payment of any such PFC Bonds, plus (C) all interest payable during such period on any such PFC Bonds Outstanding and with respect to PFC Bonds with mandatory sinking fund requirements, calculated on the assumption that mandatory sinking fund installments will be applied to the redemption or retirement of such PFC Bonds on the date(s) specified in the Series Resolution authorizing such PFC Bonds;

(3) with respect to First Lien PFC Bonds bearing variable rates of interest, an amount for any period equal to the amount which would have been payable for principal and interest on such First Lien PFC Bonds during such period computed on the assumption that the amount of First Lien PFC Bonds Outstanding as of the date of such computation would be amortized (i) in accordance with the mandatory redemption provisions, if any, set forth in the Series Resolution authorizing the issuance of such First Lien PFC Bonds, or if mandatory redemption provisions are not provided, during a period commencing on the date of computation and ending on the date 30 years after the date of issuance; (ii) at an interest rate equal to the highest rate payable by the Port with respect to such First Lien PFC Bonds; (iii) to provide for essentially level annual debt service of principal and interest over such period;

(4) with respect to all other Series of PFC Bonds Outstanding, other than Fixed Rate Bonds, Original Issue Discount Bonds or Capital Appreciation Bonds, specifically including but not limited to Balloon Maturity Bonds and PFC Bonds bearing variable rates of interest, an amount for any period equal to the amount which would have been payable for principal and interest on such PFC Bonds during such period computed on the assumption that the amount of PFC Bonds Outstanding as of the date of such computation would be amortized

(i) in accordance with the mandatory redemption provisions, if any, set forth in the Series Resolution authorizing the issuance of such PFC Bonds, or if mandatory redemption provisions are not provided, during a period commencing on the date of computation and ending on the date 30 years after the date of issuance (ii) at an interest rate equal to the yield to maturity set forth in the 40-Bond Index published in the edition of *The Bond Buyer* (or comparable publication or such other similar index selected by the Port with the approval of the Consultant, if applicable) selected by the Port and published within ten days prior to the date of calculation or, if such calculation is being made in connection with the Designated Port Representative's Certificate or the Independent Aviation Consultant's Certificate then within ten days prior to the date of such certificate, (iii) to provide for essentially level annual debt service of principal and interest over such period; and

(5) with respect to Derivative Products, the Port Payments required by contract to be paid to a Reciprocal Payor under any existing Derivative Product, offset by the Reciprocal Payments during the same period during the relevant period, on the assumption that if any such payment is not fixed at the time of execution of the Derivative Product, the amount of such payment will be calculated at the Estimated Average Derivative Rate prevailing during the remaining term of the Derivative Product.

With respect to any PFC Bonds payable in other than U. S. Dollars, Debt Service shall be calculated as provided in the Series Resolution authorizing the issuance of such PFC Bonds. Debt Service shall be net of any interest and principal funded out of PFC Bond proceeds or the proceeds of other funds or indebtedness.

Debt Service shall include reimbursement obligations to providers of Credit Facilities to the extent such reimbursement obligations are outstanding or as otherwise authorized in a Series Resolution.

"Default" means any of the events specified in Section 14 of this resolution.

"Derivative Facility" means a letter of credit, an insurance policy, a surety bond or other credit enhancement device, given, issued or posted as security for obligations under one or more Derivative Products.

"Derivative Payment Date" means any date specified in the Derivative Product on which a Port Payment is due and payable under the Derivative Product.

"Derivative Product" means a written contract or agreement between the Port and a Reciprocal Payor, which provides that the Port's obligations thereunder will be conditioned on the absence of: (i) a failure by the Reciprocal Payor to make any payment required thereunder when due and payable, and (ii) a default thereunder with respect to the financial status of the Reciprocal Payor; and

(a) under which the Port is obligated to pay, on one or more scheduled and specified Derivative Payment Dates, the Port Payments in exchange for the Reciprocal Payor's obligation to pay or to cause to be paid to the Port, on the same scheduled and specified Derivative Payment Dates, the Reciprocal Payments; *i.e.*, the contract must provide for net payments.

(b) for which the Port's obligations to make all or any portion of Port Payments may be secured by a pledge of and lien on Revenues on an equal and ratable basis with the Outstanding PFC Bonds;

(c) under which Reciprocal Payments are to be made directly into a bond fund for Outstanding PFC Bonds;

(d) for which the Port Payments are either specified to be one or more fixed amounts or are determined according to a formula set forth in the Derivative Product; and

(e) for which the Reciprocal Payments are either specified to be one or more fixed amounts or are determined according to a formula set forth in the Derivative Product.

"Derivative Product Account" means the Derivative Product Account, if any, created and established under Section 10 hereof.

"Designated Port Representative" means the Executive Director, the chief financial officer, director of finance and budget of the Port or such other person as may be directed from time to time by resolution of the Commission.

"Designated Port Representative's Certificate" means a certificate dated no earlier than 30 days earlier than the delivery of the Future First Lien PFC Project Bonds, executed by a Designated Port Representative and stating that

(i) the First Lien Sufficiency Covenant will be met upon the issuance of the Future First Lien PFC Project Bonds; and

(ii) Pledged Revenue received during the Base Period (as shown in the audited or unaudited financial statements of the Port) was not less than 150% of Maximum Annual Debt

Service on all First Lien PFC Bonds that will be Outstanding upon the issuance of such Future First Lien PFC Project Bonds;

provided, however, that in preparing such certificate, the Designated Port Representative

(1) shall take into account any Forecast PFC Rate Adjustment as if such new rate had been in effect during the entire Base Period and

(2) may take into account any Additional Pledged Revenue only if each Rating Agency then maintaining a rating on First Lien PFC Bonds has confirmed, on or prior to the date of the Designated Port Representative's Certificate that such Additional Pledged Revenue will not in and of itself cause such Rating Agency to reduce or to withdraw its then current underlying rating on the First Lien PFC Bonds then Outstanding.

"Estimated Average Derivative Rate" means:

(a) as to the variable rate payments to be made by either party at a First Lien level of security,

(i) if the Port is the variable rate payor, the maximum contractual rate specified in the Derivative Product contract, or

(ii) if the Reciprocal Payor is the variable rate payor, the lesser of the maximum contractual rate specified in such contract or the then-prevailing value of the variable rate formula, subject to provisions of subsection (c) hereof; and

(b) as to the variable rate payments made by either party at a Subordinate Lien level of security,

(i) if the Port is the variable rate payor, the greater of the then-prevailing value of the variable rate formula or the average of the variable rate formula during the immediately preceding 12 months, or

(ii) if the Reciprocal Payor is the variable rate payor, the lesser of the then-prevailing value of the variable rate formula or the average of the variable rate formula during the immediately preceding 12 months; and

(c) when the variable rate to be used in a Derivative Product is a designated hedge of one or more specified maturities of the variable rate PFC Bonds, the variable rate or rates under the Derivative Product will be deemed to be the same rate or rates estimated for the specified maturity or maturities of the specified PFC Bonds; and

(d) if two or more Derivative Products each specify the same index and formula for determining and setting their respective variable rates, on the same dates, and for the same periods of time, and with respect to identical derivative principal amounts, all such Derivative Products shall be deemed to have the same Estimated Average Derivative Rate, calculated in accordance with paragraphs (a)(i) and (a)(ii) of this definition and, where applicable, with respect to the first of such Derivative Products to become effective.

"FAA" means the Federal Aviation Administration, or the successor to its powers and authority.

"FAA Notice" means a notice from the FAA by certified mail to the Port and the Standby Trustee of suspected violation(s) of PFC Regulations.

"Favorable Opinion of Bond Counsel" means, with respect to any action, a written legal opinion of Bond Counsel, to the effect that such action is permitted under the laws of the State and under applicable resolutions of the Commission, including this resolution and will not impair the exclusion of interest on a PFC Bond from gross income for federal income tax purposes (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of such PFC Bond).

"First Lien Bond Account" means the special fund of the Port authorized to be created by Section 8(a) of this resolution for the purpose of paying the principal of, interest on and redemption price, if any, on First Lien PFC Bonds.

"First Lien PFC Bonds" means the obligations of any Series identified as "First Lien PFC Bonds" in the Series Resolution with respect to such Series.

"First Lien Payment Date" means each date on which the principal of and/or interest on First Lien PFC Bonds is scheduled to mature or to become due and payable.

"First Lien Reserve Account" means the special account authorized to be created pursuant to Section 8(b) of this resolution.

"First Lien Reserve Account Requirement" means the lowest of (i) Maximum Annual Debt Service with respect to Outstanding First Lien PFC Bonds; (ii) 125% of Average Annual Debt Service with respect to Outstanding First Lien PFC Bonds; and (iii) 10% of the initial principal amount of each Series of First Lien PFC Bonds then Outstanding.

"First Lien Sufficiency Covenant" means the requirement that (i) Unspent PFC Authority **plus** (ii) Projected Additional Pledged Revenue is at least equal to 105% of Projected Aggregate Debt Service with respect to all Outstanding First Lien PFC Bonds.

"Fixed Rate Bonds" means those PFC Bonds other than Capital Appreciation Bonds, Original Issue Discount Bonds or Balloon Maturity Bonds issued under a Series Resolution in which the rate of interest on such PFC Bonds is fixed and determinable through their final maturity or for a specified period of time. If so provided in the Series Resolution authorizing their issuance, PFC Bonds may be deemed to be Fixed Rate Bonds for only a portion of their term.

"Forecast PFC Rate Adjustment" means (i) any required reduction in the rate of the levy of PFCs that constitute PFC Revenue or (ii) any increase in the rate of the levy of PFCs if the Port has taken all actions and has received all approvals required to impose such PFCs and if legislation has been enacted to permit such increase in the rate of levy of PFCs.

"Future First Lien PFC Project Bonds" means PFC Project Bonds issued in the future (after the issuance of the first two Series) as First Lien PFC Bonds pursuant to a Series Resolution.

"Future First Lien PFC Refunding Bonds" means PFC Refunding Bonds (*i.e.*, PFC Bonds that refund previously issued First Lien PFC Bonds) issued in the future as First Lien PFC Bonds pursuant to a Series Resolution. "Government Obligations" has the meaning given such term in RCW Ch. 39.53, as now or hereafter amended.

"Independent Aviation Consultant" means a Consultant who is an independent consultant nationally recognized in aviation matters. "Independent Aviation Consultant's Certificate" means a certificate dated no earlier than 30 days earlier than the delivery of the Future First Lien PFC Project Bonds, executed by an Independent Aviation Consultant and stating that

(i) the First Lien Sufficiency Covenant is estimated to be met upon the issuance of the Future First Lien PFC Project Bonds; and

(ii) in each of the first five full calendar years (commencing with the first such year following the date of issuance of the Future First Lien PFC Project Bonds) following the date of issuance of the Future First Lien PFC Project Bonds), the amount of Pledged Revenue to be collected in each such year is estimated to be not less than 150% of Maximum Annual Debt

Service on all First Lien PFC Bonds to be Outstanding after the issuance of the proposed Future First Lien PFC Project Bonds;

provided, however, that in computing the amount of Pledged Revenue, the Independent Aviation Consultant:

(1) shall take into account any Forecast PFC Rate Adjustment on the assumption that such Forecast PFC Rate Adjustment will be in effect during the full five-year period;

(2) may take into account any Projected Additional Pledged Revenue estimated to be received during the full five-year period; and

(3) reasonable projections of PFC Revenue, based upon the methodology set forth in the certificate taking into account any projected change in the number of enplanements during the five-year period following the issuance of the Future First Lien PFC Project Bonds.

"Maximum Annual Debt Service" means the highest Annual Debt Service with respect to all First Lien PFC Bonds, including the Future First Lien PFC Project Bonds, if such calculation is made with respect to the delivery of a Designated Port Representative's Certificate or an Independent Aviation Consultant's Certificate.

"Monthly First Lien Debt Service Deposit" means an approximately equal amount to be deposited monthly in the First Lien Bond Account, such that the amount projected to be on hand in the First Lien Bond Account on the next succeeding First Lien Payment Date shall be sufficient to pay the principal of and interest on First Lien PFC Bonds then coming due, on the assumption that the deposit with respect to interest and with respect to principal shall be made in each month commencing with the month following the date of issuance of First Lien PFC Bonds or the date following which capitalized debt service is no longer available for deposit in the First Lien Bond Account.

"Original Issue Discount Bonds" means PFC Bonds which are sold at an initial public offering price of less than 90% of their face value and which are specifically designated as Original Issue Discount Bonds in the Series Resolution authorizing their issuance.

"Outstanding" in connection with PFC Bonds means, as of the time in question, all PFC Bonds authenticated and delivered under a Series Resolution, except:

(a) PFC Bonds theretofore cancelled or required to be cancelled under a Series Resolution;

(b) PFC Bonds which are deemed to have been paid in accordance with a Series Resolution; and

(c) PFC Bonds in substitution for which other PFC Bonds have been authenticated and delivered pursuant to a Series Resolution.

"Paying Agent" shall mean any person, firm, association, corporation or public body as designated and appointed from time to time by resolution of the Commission or by a Series Resolution to act as paying agent for one or more Series of PFC Bonds.

"PFC" means passenger facility charges authorized from time to time under the PFC Act.

"PFC Act" means the Aviation Safety and Capacity Expansion Act of 1990, Pub. L. 101-508, Title IX, Subtitle B, §§ 9110 and 9111, recodified as 49 U.S. § 40117, as amended or replaced from time to time.

"PFC Authority" means the Record of Decision dated June 24, 1998, as the same may be amended from time to time, and any other record of decision (and amendments) relating to PFCs imposed or to be imposed by the Port at the Airport.

"PFC Bonds" means the bonds, notes or other evidences of indebtedness issued from time to time in Series pursuant to and under authority of Sections 4 and 7 hereof. The term "PFC Bonds" may include reimbursement obligations of the Port to the issuer of a Credit Facility.

"PFC Capital Fund" means the fund of that name created pursuant to Section 2(b) of this resolution.

"PFC Project Bonds" means PFC Bonds, the proceeds of which will be used in whole or in part to pay Costs of Projects or to refund PFC Bonds or other indebtedness of the Port not previously issued as First Lien PFC Bonds.

"PFC Refunding Bonds" means PFC Bonds, the proceeds of which will be used to refund other obligations constituting First Lien PFC Bonds.

"PFC Regulations" means Part 158 of the Federal Aviation Regulations (14 CFR Part 158), as amended from time to time, and any other regulation issued with respect to the PFC Act.

"PFC Revenue" means all revenue received by the Port from time to time from PFCs pursuant to PFC Authority imposed by the Port at the Airport pursuant to the PFC Act and PFC Regulations including any investment income with respect thereto including proceeds thereof and gains from sales of investments after such revenue has been remitted to the Port as provided in the PFC Regulations, all of which are pledged to PFC Bonds.

"PFC Revenue Fund" means, collectively, all special accounts of the Port separately designated and maintained by the Port into which all PFC Revenue shall be deposited.

"Pledged Revenue" means PFC Revenue, Additional Pledged Revenue, if any has been pledged to First Lien PFC Bonds, and interest earnings on the First Lien Reserve Account to the extent that such earnings are available for transfer to the First Lien Bond Account.

"Port" means the Port of Seattle, a municipal corporation of the State of Washington, as now or hereafter constituted, or the corporation, authority, board, body, commission, department or officer succeeding to the principal functions of the Port or to whom the powers vested in the Port shall be given by law.

"Port Payments" means any payment, other than a termination payment, required to be made by or on behalf of the Port under a Derivative Product and which is determined according to a formula set forth in a Derivative Product.

"Project" or "Projects" means any additions, betterments, extensions, other improvements of or related to the Airport or other costs incurred for any purpose at or related to the Airport from time to time (whether or not located at the Airport), including, without limitation, the acquisition of land, which shall be authorized by the FAA and shall constitute an "approved project," as such term is defined in PFC Regulations Section 158.3.

"Projected Additional Pledged Revenue" means anticipated receipts of Additional Pledged Revenue provided that each Rating Agency then maintaining a rating on First Lien PFC Bonds has confirmed that such Additional Pledged Revenue will not in and of itself cause such Rating Agency to reduce or to withdraw its then current underlying rating on the First Lien PFC Bonds then Outstanding; unless such rating confirmation has previously been provided.

"Projected Aggregate Debt Service" means the aggregate amount of Annual Debt Service through the scheduled maturity(ies) of one or more Series of PFC Bonds or through any optional redemption date together with premium, if any, applicable to such one or more Series of PFC Bonds, in each case calculated with the goal of minimizing the aggregate dollar amount necessary to pay and redeem such Series of PFC Bonds whether at maturity or redemption prior to stated maturity.

"Projected Costs" means Costs of Projects minus Projected Aggregate Debt Service

"Qualified Insurance" means any non-cancellable municipal bond insurance policy or surety bond with an initial term prior to the final maturity date of the First Lien PFC Bonds of at least five years, issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies) (i) which insurance company or companies, as of the time of issuance of such policy or surety bond, are rated in one of the two highest Rating Categories by one or more of the Rating Agencies for unsecured debt or insurance underwriting or claims paying ability or (ii) by issuing its policies causes obligations insured thereby to be rated in one of the two highest Rating Categories by one or more of the Rating Agencies; *provided, however,* that the issuer of any Qualified Insurance is required to be rated in one of the two highest Rating Categories by each Rating Agency then maintaining an underlying rating with respect to the Series of PFC Bonds being secured thereby.

"Qualified Letter of Credit" means any irrevocable letter of credit with a minimum term prior to the final maturity date of First Lien PFC Bonds of five years issued by a financial institution, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is rated in one of the two highest Rating Categories by one or more of the Rating Agencies. If a Qualified Letter of Credit may expire in accordance with its terms prior to the stated maturity of any PFC Bonds to be secured thereby, the letter of credit shall require that (unless the Qualified Letter of Credit is replaced with cash, Qualified Insurance or another Qualified Letter of Credit) it be drawn upon in full prior to its expiration for deposit into the First Lien Reserve Account; *provided, however,* that the issuer of any Qualified Letter of Credit is required to be rated in one of the two highest Rating Categories by each Rating Agency then maintaining an underlying rating with respect to the Series of PFC Bonds being secured thereby.

"Rating Agencies" means Moody's Investors Service or its successors and assigns, Standard & Poor's Ratings Service or its successors and assigns, Fitch IBCA, Inc. or its successors and assigns and/or such other securities rating agency selected by the Port to provide a rating with respect to a Series of PFC Bonds, or any portion thereof, which Rating Agency, as of the applicable date, shall have assigned a rating to any Series of PFC Bonds or any portion thereof.

"Reciprocal Payment" means any payment to be made to, or for the benefit of, the Port under a Derivative Product by the Reciprocal Payor.

"Reciprocal Payor" means any bank or corporation, partnership or other entity whose guarantor maintains or who maintains for itself at least one of two highest Rating Categories from a Rating Agency and which is a party to a Derivative Product and which is obligated to make one or more Reciprocal Payments thereunder.

"Registrar" means any person, firm, association, corporation or public body as designated and appointed from time to time by resolution of the Commission or by a Series Resolution, to act as registrar for one or more Series of PFC Bonds.

"Series" means any separate Series of PFC Bonds issued pursuant to this resolution. A Series of Bonds may be First Lien PFC Bonds or Subordinate Lien PFC Obligations.

"Series Resolution" means a resolution authorizing the issuance of a Series of PFC Bonds, as such resolution may thereafter be amended or supplemented.

"Standby Trustee" means Norwest Bank Minnesota, N.A., Minneapolis, Minnesota.

"Subordinate Lien PFC Obligations" means the obligations of any Series identified as "Subordinate Lien PFC Bonds" in the Series Resolution with respect to such Series.

"Term Bonds" means the Bonds of any Series identified as "Term Bonds" in the Series Resolution with respect thereto.

"Treasurer" means the King County Finance Department, as *ex officio* treasurer of the Port, or any successor to the functions of the Treasurer.

"Unspent PFC Authority" means the aggregate dollar amount of PFCs authorized to be collected by the Port under PFC Authority minus the dollar amount of Adjusted Costs.

Rules of Interpretation. In this resolution, unless the context otherwise requires:

(a) The terms "hereby," "hereof," "hereto," "herein, "hereunder" and any similar terms, as used in this resolution, refer to this resolution as a whole and not to any particular article, section, subdivision or clause hereof, and the term "hereafter" shall mean after, and the term "heretofore" shall mean before, the date of this resolution;

(b) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa;

(c) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(d) Any headings preceding the text of the several articles and Sections of this resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this resolution, nor shall they affect its meaning, construction or effect;

(e) All references herein to "articles," "sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof.

(f) Whenever any consent or direction is required to be given by the Port, such consent or direction shall be deemed given when given by the Designated Port Representative or his or her designee, respectively, and all references herein to the Designated Port Representative shall be deemed to include references to his or her designee, as the case may be.

Section 2. Priority of Use of PFC Revenue/PFC Capital Fund.

(a) *Flow of Funds.* The Port's PFC Revenue and Additional Pledged Revenue, if pledged to First Lien PFC Bonds, shall be deposited in the PFC Revenue Fund as collected. The PFC Revenue Fund shall be held separate and apart from all other funds and accounts of the Port, and the PFC Revenue deposited therein shall be used only for the following purposes and in the following order of priority on or before the 25th day of each month following the date of adoption of this resolution and until so applied shall be pledged to the payment of and subject to a lien and charge in favor of Registered Owners of the PFC Bonds:

First, to make the Monthly First Lien Debt Service Deposit into the First Lien Bond Account (but only to the extent that such Monthly First Lien Debt Service Deposit is not made from amounts held as capitalized interest);

Second, to make all payments required to be made into the First Lien Reserve Account to maintain the required balance therein;

Third, to make all payments required on a monthly basis to be made into any other bond redemption fund and debt service account created to pay the principal of, premium, if any, and interest on any Subordinate Lien PFC Obligations;

Fourth, to make all payments required to be made into any other reserve account created to secure the payment of the principal of and interest on any Subordinate Lien PFC Obligations; and

Fifth, to the PFC Capital Fund.

(b) *PFC Capital Fund*. There is hereby authorized to be created and the Treasurer of the Port is directed to create a separate fund of the Port to be designated as the "PFC Capital Fund." Money in the PFC Capital Fund may be used and disbursed (i) to pay the Costs of Projects; or (ii) be transferred to the PFC Revenue Fund; or (iii) to make necessary additions, betterments, improvements and repairs to or extension and replacements of the Projects if permitted by PFC Regulations, or to the extent permitted by PFC Regulations, for any other lawful Port purposes; or (iv) to pay debt service on any other obligation incurred by the Port to pay Costs of Projects and, until so applied, shall be pledged to the payment of and subject to a lien and charge in favor of Registered Owners of the PFC Bonds. Money on hand in the PFC Capital Fund may be invested in any legal investment for funds of port districts in the State

Section 3. Authorization and Lien of PFC Bonds. Revenue bonds of the Port, unlimited in amount, to be known as the "Port of Seattle, Washington, Passenger Facility Charge Revenue Bonds," are hereby authorized to be issued in Series, and each such Series may be issued from time to time pursuant to this resolution in such amounts and upon such terms and conditions as the Commission may from time to time deem to be necessary or advisable, for any purposes of the Port now or hereafter permitted by law.

The PFC Bonds and the lien thereof created and established hereunder shall be obligations only of the only of the special funds established under this resolution or in the Series Resolution authorizing their issuance. The PFC Bonds shall be payable solely from and secured solely by PFC Revenue and Additional Pledged Revenue, if any; provided, however, that any Series of PFC Bonds also may be payable from and secured by a Credit Facility pledged specifically to or provided for that Series of PFC Bonds.

From and after the time of issuance and delivery of the PFC Bonds of each Series and so long thereafter as any of the same remain Outstanding, the Port hereby irrevocably obligates and binds itself to set aside and pay into the special funds created for the payment of each Series of PFC Bonds out of PFC Revenue and Additional Pledged Revenue, if any, on or prior to the date on which the interest on or principal of and interest on the PFC Bonds shall become due, the

amount necessary to pay such interest or principal and interest coming due on the PFC Bonds of such Series. The foregoing sentence shall constitute a pledge of PFC Revenue and Additional Pledged Revenue, if any, to the payment of PFC Bonds.

Said amounts so pledged to be paid into the First Lien Bond Account are hereby declared to be a prior lien and charge upon the PFC Revenue superior to all other charges of any kind or nature whatsoever except for charges equal in rank that may be made thereon to pay and secure the payment of the principal of and interest on First Lien PFC Bonds issued under authority of a Series Resolution in accordance with the provisions of Sections 4 and Section 5 or 6 of this resolution.

Any amounts pledged to be paid into a debt service fund and or reserve account created to pay and secure the payment of Subordinate Lien PFC Obligations shall, subject to the provisions of Section 2 and of the prior paragraph of this Section 3, have the lien position on PFC Revenue set forth in the Series Resolution authorizing their issuance.

The PFC Bonds shall not in any manner or to any extent constitute general obligations of the Port or of the State of Washington, or of any political subdivision of the State of Washington.

Section 4. Authorization of Series of PFC Bonds. The Port may issue hereunder from time to time one or more Series of PFC Bonds by means of a Series Resolution for any purpose of the Port for which PFC's may be used or for refunding purposes. All PFC Bonds authorized to be issued under Series Resolutions shall be First Lien PFC Bonds or Subordinate Lien PFC Obligations upon fulfillment of the conditions of this resolution and conditions, if any, established in future Series Resolutions, at the time of authorization or issuance of such PFC Bonds. As a condition precedent to the issuance of First Lien PFC Bonds (other than initial two Series issued in 1998), the Port shall comply with the limitations set forth in (i) Section 4 and (ii) Section 5 and/or Section 6. As a condition precedent to the issuance of Subordinate Lien PFC Obligations, the Port shall comply with the limitations set forth in (i) Section 4 and (ii) Section 7.

Each Series of PFC Bonds shall be authorized by a Series Resolution which shall, among other provisions, specify and provide for:

(a) the authorized principal amount, designation and Series of such PFC Bonds;

(b) the general purpose or purposes for which such Series of PFC Bonds is being issued, and the deposit, disbursement and application of the proceeds of the sale of the PFC Bonds of such Series;

(c) the date or dates, and the maturity date or dates, of the PFC Bonds of such Series, and the principal amount maturing on each maturity date;

(d) the interest rate or rates on the PFC Bonds of such Series (which may be a rate of zero) and the interest payment date or dates therefor, and whether such interest rate or rates shall be fixed, variable or a combination of both and, if necessary, the manner of determining such rate or rates;

(e) the circumstances, if any, under which the PFC Bonds of such Series will be deemed to be no longer Outstanding;

(f) the currency or currencies in which the PFC Bonds of such Series are payable;

(g) the denominations of, and the manner of dating, numbering, and, if necessary, authenticating, the PFC Bonds of such Series;

(h) the Paying Agent or Paying Agents, if any, for the PFC Bonds of such Series and the duties and obligations thereof;

(i) the place or places of payment of the principal, redemption price, if any, or purchase price, if any, of and interest on, the PFC Bonds of such Series;

(j) the tender agent or tender agents, if any, for the PFC Bonds of such Series and the duties and obligations thereof;

(k) the remarketing agent or remarketing agents, if any, for the PFC Bonds of such Series and the duties and obligations thereof;

(l) the Registrar or Registrars, if any, for the PFC Bonds of such Series and the duties and obligations thereof;

(m) the form or forms of the PFC Bonds of such Series and any coupons attached thereto, which may include but shall not be limited to, registered form, bearer form with or without coupons, and book-entry form, and the methods, if necessary, for the registration, transfer and exchange of the PFC Bonds of such Series;

(n) the terms and conditions, if any, for the redemption of the PFC Bonds of such Series prior to maturity, including the redemption date or dates, the redemption price or prices and other applicable redemption terms;

(o) the terms and conditions, if any, for the purchase of the PFC Bonds of such Series upon any optional or mandatory tender for purchase prior to maturity, including the tender date or dates, the purchase date or dates, the purchase price or prices and other applicable terms;

(p) the manner of sale of the PFC Bonds of such Series, with or without a premium or a discount, including the sale of Original Issue Discount Bonds;

(q) if so determined by the Port, the authorization of and any terms and conditions with respect to credit or liquidity support for the PFC Bonds of such Series and the pledge or provision of moneys, assets or security other than PFC Revenue to or for the payment of the PFC Bonds of such Series or any portion thereof;

(r) the lien position of such Series and findings of parity, if applicable; and

(s) any other provisions which the Port deems necessary or desirable in connection with the PFC Bonds of such Series.

Section 5. Initial First Lien PFC Bonds and Future First Lien PFC Project Bonds. On this date, the Port is adopting a Series Resolution authorizing the issuance of two Series of First Lien PFC Bonds, Passenger Facility Charge Revenue Bonds, Series 1998A in the aggregate principal amount of $118,490,000 and Passenger Facility Charge Re[illegible]e Bonds, Series 1998B in the aggregate principal amount of $144,010,000, each having an equal first lien on PFC Revenue. Following the issuance of such initial Series, except as provided in Section 4, the Port shall not issue any Series of Future First Lien PFC Project Bonds unless a Designated Representative's Certificate or an Independent Aviation Consultant's Certificate is delivered on or prior to the date of issuance of such Future First Lien PFC Project Bonds.

Section 6. Future First Lien PFC Refunding Bonds. The Port, by means of a Series Resolution adopted in compliance with the provisions of Section 4 hereof, may issue Future First Lien PFC Refunding Bonds hereunder as follows:

(a) Future First Lien PFC Refunding Bonds may be issued at any time for the purpose of refunding (including by purchase) First Lien PFC Bonds including amounts to pay principal thereof and redemption premium, if any, and interest thereon to the date of redemption (or purchase) making future First Lien Reserve Account deposits, making payment for Qualified Insurance or Qualified Letter of Credit and paying the expenses of issuing the First Lien PFC Refunding Bonds to purchase or refund the same and of effecting such refunding upon delivery of a Designated Port Representative's Certificate or an Independent Aviation Consultant's Certificate. Such Future First Lien PFC Refunding Bonds also may be issued without a Designated Port Representative's Certificate or an Independent Aviation Consultant's Certificate if the Annual Debt Service on such Future First Lien PFC Refunding Bonds shall not be more than the Annual Debt Service on the Fist Lien PFC Bonds to be refunded were such refunding not to occur; provided that such provision shall not prevent the Port from issuing Future First Lien PFC Refunding Bonds that mature later than the First Lien PFC Bonds to be refunded.

(b) Future First Lien PFC Refunding Bonds may be issued at any time for the purpose of refunding (including by purchase) any other bonds of the Port the proceeds of which were used to pay the Costs of Projects, including Subordinate Lien PFC Obligations, including amounts to pay principal thereof and redemption premium, if any, and interest thereon to the date of redemption of such bonds (or purchase) First Lien Reserve Account deposits, payment for Qualified Insurance or Qualified Letter of Credit and the expenses of issuing the First Lien PFC Bonds to purchase or refund the same and of effecting such refunding; provided, however, that prior to the issuance of such Future First Lien PFC Refunding Bonds, the Port must provide a Designated Port Representative's Certificate or Independent Aviation Consultant's Certificate.

(c) Future First Lien PFC Refunding Bonds may be issued for the purpose of refunding (including by purchase) at any time within one year prior to maturity, any First Lien PFC Bonds for the payment of which sufficient PFC Revenue, or Additional Pledged Revenues, if any, are not available without the requirement of a Designated Port Representative's Certificate or Independent Aviation Consultant's Certificate.

Section 7. Subordinate Lien PFC Obligations. The Port may issue Subordinate Lien PFC Obligations hereunder from time to time in one or more Series by means of a Series Resolution for any purpose of the Port for which PFCs may be used or for refunding purposes. Each Series Resolution authorizing a Series of Subordinate Lien PFC Obligations shall provide that the maturity date of Subordinate Lien PFC Obligations may not be accelerated (not including therein any indirect acceleration of the maturity thereof through reimbursement obligations to the provider of a credit facility occurring as a result of the mandatory tender for purchase of

Subordinate Lien PFC Obligations) and shall further provide that following the occurrence of a Default, neither PFC Revenue nor Additional Pledged Revenue, if any, may be used to pay the principal of or interest on Subordinate Lien PFC Obligations unless all payments required to be made with respect to matured principal of and interest on First Lien PFC Bonds have been fully paid and discharged.

Section 8. First Lien Bond Account and First Lien Reserve Account.

(a) *First Lien Bond Account.* A special fund of the Port designated the "Port of Seattle Passenger Facility Charge Revenue Bond Account, First Lien" (the "First Lien Bond Account") is hereby authorized to be created in the office of the Treasurer for the purpose of paying and securing the payment of the First Lien PFC Bonds. The First Lien Bond Account is pledged to the payment of First Lien PFC Bonds and shall be held separate and apart from all other funds and accounts of the Port and shall be a trust fund for the owners, from time to time, of the First Lien PFC Bonds.

The Port hereby irrevocably obligates and binds itself for so long as any First Lien PFC Bonds remain Outstanding to set aside and pay into the First Lien Bond Account from PFC Revenue or money in the PFC Revenue Fund including Additional Pledged Revenue, if pledged to be deposited therein, on or prior to the respective dates on which the same become due:

(1) such amounts as are required to pay the interest scheduled to become due and redemption premium, if any, on Outstanding First Lien PFC Bonds; and

(2) such amounts as are required to pay maturing principal or principal being redeemed of Outstanding First Lien PFC Bonds.

The forgoing sentence shall constitute a pledge by the Port of PFC Revenue to the First Lien Bond Account.

(b) *First Lien Reserve Account.* A First Lien Reserve Account (the "First Lien Reserve Account") is hereby authorized to be created for the purpose of securing the payment of the principal of, premium, if any, and interest on the First Lien PFC Bonds.

The Port hereby covenants and agrees that on the date of issuance of each Series of First Lien PFC Bonds, the Port will assure that the amount on hand in the First Lien Reserve Account shall be sufficient to meet the First Lien Reserve Account Requirement.

The First Lien Reserve Account Requirement shall be maintained by deposits of cash, a Qualified Letter of Credit or Qualified Insurance, or a combination of the foregoing. To the extent that the Port obtains a Qualified Letter of Credit or Qualified Insurance in substitution for cash or securities in the First Lien Reserve Account, all or a portion of the money on hand in the First Lien Reserve Account shall be transferred to the First Lien Bond Account. In computing the amount on hand in the First Lien Reserve Account, Qualified Insurance and/or a Qualified Letter of Credit shall be valued at the face amount thereof, and all other obligations purchased as an investment of moneys therein shall be valued at market at least annually. The market value of securities then credited to the First Lien Reserve Account shall be determined and any deficiency in the First Lien Reserve Account shall be made up in equal installments within six months after the date of such valuation. As used herein, the term "cash" shall include U.S. currency, cash equivalents and evidences thereof, including demand deposits, certified or cashier's check; and the deposit to the First Lien Reserve Account may be satisfied by the transfer of qualified investments to such account.

If the balance on hand in the First Lien Reserve Account is sufficient to satisfy the First Lien Reserve Account Requirement, interest earnings shall be applied as provided in the following sentences. Whenever there is a sufficient amount in the First Lien Bond Account and the First Lien Reserve Account to pay the principal of, premium, if any, and interest on all Outstanding First Lien PFC Bonds, the money in the First Lien Reserve Account may be used to pay such principal, premium, if any, and interest. So long as the money left remaining on deposit in the First Lien Reserve Account is equal to the First Lien Reserve Account Requirement, money in the First Lien Reserve Account shall be transferred to the First Lien Bond Account. The Port also may transfer out of the First Lien Reserve Account any money required in order to prevent any First Lien PFC Bonds from becoming "arbitrage bonds" under the Code.

If a deficiency in the First Lien Bond Account shall occur immediately prior to a First Lien Payment Date, such deficiency shall be made up from the First Lien Reserve Account by the withdrawal of cash therefrom for that purpose and by the sale or redemption of obligations held in the First Lien Reserve Account, in such amounts as will provide cash in the First Lien Reserve Account sufficient to make up any such deficiency with respect to the First Lien PFC Bonds, and if a deficiency still exists immediately prior to a First Lien Payment Date and after the withdrawal of cash, the Port shall then draw from any Qualified Letter of Credit or Qualified Insurance for the First Lien PFC Bonds in sufficient amount to make up the deficiency. Such draw shall be made at such times and under such conditions as such Qualified Letter of Credit or

such Qualified Insurance shall provide. Reimbursement shall be made over a twelve-month period to the issuer of any Qualified Letter of Credit or Qualified Insurance in accordance with the reimbursement agreement related thereto, and after making necessary provision for the payments required to be made in paragraph First of Section 2(a) of this resolution. If the Port shall have failed to make any payment required to be made under such reimbursement agreement for the First Lien PFC Bonds, the issuer shall be entitled to exercise all remedies available at law or under this resolution; provided, however, that no acceleration of the First Lien PFC Bonds shall be permitted, and no remedies which adversely affect Registered Owners of the First Lien PFC Bonds shall be permitted. Any deficiency created in the First Lien Reserve Account by reason of any such withdrawal shall be made up from the next available PFC Revenue but in no event later than within one year from Qualified Insurance or a Qualified Letter of Credit or out of Pledged Revenue after making necessary provision for the payments required to be made into the First Lien Bond Account within such year.

In making the payments and credits to the First Lien Reserve Account required by this Section 8(b), to the extent that the Port has obtained Qualified Insurance or a Qualified Letter of Credit for specific amounts required pursuant to this section to be paid out of the First Lien Reserve Account such amounts so covered by Qualified Insurance or a Qualified Letter of Credit shall be credited against the amounts required to be maintained in the First Lien Reserve Account by this Section 8(b) to the extent that such payments and credits to be made are to be made or insured by Qualified Insurance, or are to be made or guaranteed by a Qualified Letter of Credit. In the event of termination of a Qualified Letter of Credit or if the issuer of the Qualified Insurance or the Qualified Letter of Credit shall be insolvent or no longer in existence, the First Lien Reserve Account Requirement shall be satisfied (A) in equal monthly payments, within six months after the insolvency or incapacity, but no later than the date of cancellation or termination, with cash or with other Qualified Insurance or another Qualified Letter of Credit, or (B) in equal monthly payments, within six months after the insolvency of the issuer of a Qualified Letter of Credit or Qualified Insurance or termination of a Qualified Letter of Credit, out of Net Revenues (or out of other money on hand and legally available for such purpose) after making necessary provisions for the payments required to be made into the First Lien Bond Account.

(c) *Pledge and Lien*. Said amounts so pledged to be paid into the First Lien Bond Account and the First Lien Reserve Account by this resolution are hereby declared to be an equal and prior lien and charge upon the PFC Revenue and Additional Pledged Revenue, if any, superior to all other charges of any kind or nature whatsoever, except that the amounts so pledged are of equal lien to the lien and charge thereon of any lien and charge thereon which may hereafter be made to pay and secure the payment of the principal of, premium, if any, and interest on any Future First Lien PFC Bonds. Amounts, if any, pledged to be paid into the First Lien Bond Account and the First Lien Reserve Account from Additional Pledged Revenue shall constitute a lien and charge upon such Additional Pledged Revenue as provided by resolution of the Commission, subject to the prior liens thereon, if any, with respect to other Port obligations. The Port hereby specifically reserves the right to include other income, revenue or receipts at any time as Additional Pledged Revenue.

(d) *Use of Excess Money*. Money in the First Lien Bond Account not needed to pay the interest or principal and interest next coming due on any Outstanding First Lien PFC Bonds may be used to purchase or redeem and retire First Lien PFC Bonds within the limitations provided in Section 2 of this resolution. Money in the First Lien Bond Account shall be used solely to pay principal of, interest on and premium, if any, on First Lien PFC Bonds, whether at maturity or redemption or purchase in advance of maturity of such First Lien PFC Bonds. As provided in this resolution, the Monthly Debt Service Deposit shall be adjusted from time to time, so as to ensure compliance with requirements of the Code and to avoid excessive accumulations in the First Lien Bond Account.

Money on hand in the First Lien Reserve Account in excess of the First Lien Reserve Account Requirement shall be transferred to the First Lien Bond Account.

(e) *Credit Facilities*. To the extent that the Port shall have satisfied the First Lien Reserve Requirement with a Credit Facility, the Series Resolution may provide additional covenants and prescribe additional procedures with respect to such Credit Facility not inconsistent with this resolution.

Section 9 Specific Covenants. The Port hereby makes the following covenants and agreements with the owners and holders of each of the First Lien PFC Bonds for as long as any of the same remain Outstanding.

(a) *First Lien Sufficiency Covenant*. The Port will at all times establish, maintain and collect PFC Revenue which, together with Projected Additional Pledged Revenue, will be sufficient to meet the First Lien Sufficiency Covenant and undertake to measure compliance with the First Lien Sufficiency Covenant as of the end of each fiscal year.

If the First Lien Sufficiency Covenant is not met, the Port shall:

(i) redeem or defease First Lien PFC Bonds and/or Subordinate Lien PFC Obligations in amounts sufficient to permit the Port to comply with the First Lien Sufficiency Covenant; and/or

(ii) identify Additional Pledged Revenue sufficient to permit a Consultant to certify compliance with the First Lien Sufficiency Covenant; and/or

(iii) obtain an amendment to existing PFC Authority or new PFC Authority and/or

(iv) identify and agree to use other legally available funds of the Port to pay Projected Costs not already paid, in an amount sufficient (together with amounts realized as a result of the other options identified hereinabove) to meet the First Lien Sufficiency Covenant.

If the First Lien Sufficiency Covenant is not met, and the steps in (i) through (iv) have not been taken, the Port shall not spend any money on deposit in the PFC Capital Fund except to pay debt service on the First Lien PFC Bonds, to make deposits to the First Lien Reserve Account, to pay debt service on Subordinate Lien PFC Obligations or to make deposits in a reserve account for Subordinate Lien PFC Obligations.

The failure of the Port to meet the First Lien Sufficiency Covenant shall not constitute a Default unless, prior to curing such failure, the Port fails to take one of the actions described in (i) through (iv) above and, while such failure continues, the Port disburses money from the PFC Capital Fund for purposes other than the payment of debt service on PFC Bonds or required deposits to reserve accounts therefor.

(b) *Maintenance of the Airport*. The Port will at all times keep and maintain or cause to be maintained the Airport in good repair, working order and condition, and will at all times operate the same and the business or businesses in connection therewith in an efficient manner and at a reasonable cost.

(c) *Property and Liability Insurance*. The Port will keep all operating facilities insured, if such insurance is obtainable at reasonable rates and upon reasonable conditions, against such risks, in such amounts, and with such deductibles as the Commission or the Designated Port Representative shall deem necessary for the protection of the Port and of the owners of PFC Bonds then Outstanding.

(d) *Books and Records.* The Port will keep and maintain proper books of account and accurate records of all of its revenue, including tax receipts and PFC receipts, received from any source whatsoever, and of all costs of administration and maintenance and operation of all of its business that are in accordance with generally accepted accounting principles as in effect from time to time. On or before 120 days after each fiscal year, the Port will prepare or cause to be prepared an operating statement of all of the business of the Port for such preceding fiscal year. Each such annual statement shall contain a statement in detail of the PFC Revenue for such fiscal year and shall contain a statement as of the end of such year showing the status of all funds and accounts of the Port pertaining to the operation of its business and the status of all of the funds and accounts created by various resolutions of the Commission authorizing the issuance of outstanding bonds and other obligations payable from the PFC Revenue. Copies of such statements shall be placed on file in the main office of the Port, and shall be open to inspection at any reasonable time by the owners of PFC Bonds.

(e) *Compliance with Law.* The Port will comply with all provisions of the PFC Act, ANCA, the PFC Authority and the PFC Regulations applicable to the Port and all provisions thereof, and will not take any action or omit to take any action with respect to PFC Revenue, the Projects, the Airport or otherwise if such action or omission would, pursuant to the PFC Regulations, cause the termination or reduction of the Port's authority to impose passenger facility charges or prevent the collection and use of the PFC Revenue as contemplated by this resolution. The Port covenants that all money in the PFC Revenue Fund and the PFC Capital Fund will be used in compliance with all provisions of the PFC Act and the PFC Regulations applicable to the Port and all provisions of the PFC Authority. Without limiting the generality of the foregoing, the Port covenants that, to the extent necessary to comply with the foregoing covenant:

(i) The Port will diligently seek approval to use PFC Revenue for the Projects within the time periods set forth in the PFC Regulations and will begin implementation of the Projects within the time periods set forth in the PFC Regulations;

(ii) The Port (A) will impose PFCs to the full extent such imposition has been authorized and approved by the FAA in the FAA's Record of Decision, dated June 24, 1998, and (B) will not unilaterally decrease the level of the passenger facility charge to be collected from any passenger;

(iii) The Port will not impose any noise or access restriction at the Airport not in compliance with ANCA;

(iv) The Port will take all action reasonably necessary to cause all Collecting Carriers to collect and remit to the Port all PFCs at the Airport required by the PFC Regulations to be so collected and remitted; and

(v) The Port will contest any attempt by the FAA to terminate, reduce or suspend the Port's authority to impose, receive or use PFC at the Airport prior to the charge expiration date or the date total approved passenger facility charge revenue has been collected.

(f) *Operation and Maintenance.* The Port covenants that it will not take any action or omit to take any action that would cause the FAA, the Department of Transportation or any other state or federal agency to suspend or to revoke the Port's operating certificates for the Airport, that it will at all times use reasonable efforts to keep the Airport open for take-offs and landings and that it will use reasonable efforts to obtain in a timely manner all permits and approvals required to construct and operate the Projects.

<u>Section 10.</u> <u>Derivative Products</u>. The following shall be conditions precedent to the use of any Derivative Product on a parity with any Series of PFC Bond:

(a) *General Parity Tests.* The Derivative Product must satisfy the requirements for First Lien PFC Bonds, as described in Section 5 of this resolution or the applicable section of a Series Resolution authorizing a series of Subordinate Lien PFC Obligations, as the case may be.

(b) *Opinion of Bond Counsel.* The Port shall obtain an opinion of Bond Counsel on the due authorization and execution of such Derivative Product opining that the action proposed to be taken by the Port is authorized or permitted State law and by this resolution or the applicable provisions of any applicable Series Resolution and is not prohibited by the resolutions that authorized the issuance of the Outstanding PFC Bonds, as such resolutions may be amended or supplemented from time to time and will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on any PFC Bonds issued on a tax-exempt basis.

(c) *Payments.* Each Derivative Product shall set forth the manner in which the Port Payments and Reciprocal Payments are to be calculated and a schedule of Derivative Payment Dates.

(d) *Supplemental Agreements to Govern Derivative Products.* Prior to entering into a Derivative Product, the Commission shall adopt a resolution, which shall:

(1) create and establish a Derivative Product Account or provide for some other way to account for the use of a Derivative Product; establish general provisions for the retention of PFC Revenue in amounts sufficient to make, when due, Port Payments;

(2) establish general provisions for the rights of providers of Derivative Products or Derivative Facilities, and

(3) set forth such other matters as the Port deems necessary or desirable in connection with the management of Derivative Products as are not clearly inconsistent with the provisions of this resolution.

Except as may be otherwise provided in the resolution establishing a Derivative Product Account, additional PFC Bonds may be delivered in connection with any Derivative Product. This resolution may be amended in the future to reflect the lien position and priority of any payments made in connection with a Derivative Product and, *provided, further* that termination payments under Derivative Products may not attain a parity lien with any First Lien PFC Bonds.

Section 11. Adoption of Supplemental Resolutions and Purposes Thereof Without Consent. The Port may adopt at any time and from time to time and without the consent or concurrence of the owner of any PFC Bond, a resolution or resolutions amendatory or supplemental to this resolution for any one or more of the following purposes:

(a) To provide for the issuance of a Series of PFC Bonds pursuant to Section 4 hereof, and to prescribe the terms and conditions pursuant to which such PFC Bonds may be issued, paid or redeemed including, *inter alia*, provisions relating to defaults with respect to Subordinate Lien PFC Obligations, subject to the limitation of Section 14 hereof;

(b) To add covenants and agreements of the Port for the purpose of further securing the payment of the PFC Bonds; provided that such additional covenants and agreements

are not contrary to or inconsistent with the covenants and agreements of the Port contained in this resolution;

(c) To prescribe further limitations and restrictions upon the issuance of PFC Bonds and/or Derivative Products and the incurring of indebtedness by the Port payable from the PFC Revenue which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(d) To surrender any right, power or privilege reserved to or conferred upon the Port by the terms of this resolution;

(e) To confirm as further assurance any pledge or provision for payment of the PFC Bonds under and the subjection to any lien, claim or pledge created or to be created by the provisions of this resolution of the PFC Revenue or of any other moneys, securities or funds;

(f) To cure any ambiguity or defect or inconsistent provision in this resolution or to insert such provisions clarifying matters or questions arising under this resolution as are necessary or desirable; provided that such modifications shall not materially and adversely affect the security for the payment of any PFC Bonds;

(g) To qualify this resolution under the Trust Indenture Act of 1939, as amended as long as there is no material adverse effect on the security for the payment of PFC Bonds;

(h) To obtain or maintain a rating with respect to any Series of PFC Bonds;

(i) To modify the provisions of this resolution to obtain from any Rating Agency a rating on any Series of PFC Bonds or any portion thereof which is higher than the rating which would be assigned without such modification; or

(j) To modify any of the provisions of this resolution in any other respects; provided that such modifications shall not materially and adversely affect the security for the payment of any PFC Bond. Notwithstanding anything in subsection 10(d) or in this Section 11 to the contrary, without the specific consent of the owner of each PFC Bond, no such resolution amending or supplementing the provisions hereof or of any Series Resolution shall (1) permit the creation of a lien or charge on the PFC Revenue superior or prior to the payment of the First Lien PFC Bonds; (2) reduce the percentage of PFC Bondowners of which are required to consent to any such resolution amending or supplementing the provisions hereof; or (3) give to any PFC Bond or PFC Bonds any preference over any other PFC Bond or PFC Bonds secured hereby or violate the PFC Act or any PFC Authority or PFC Regulation. No resolution amending or supplementing the provisions hereof or any Series Resolution shall change the date of payment of the principal of any PFC Bond, or reduce the principal amount or Accreted Value of any PFC Bond, or change the rate or extend the time of payment of interest thereof, or reduce any premium payable upon the redemption or prepayment thereof, or advance the date upon which any PFC Bond may first be called for redemption prior to its fixed maturity date (except as provided in the Series Resolution authorizing the issuance of such PFC Bond) without the specific consent of the owner of that PFC Bond; and no such amendment shall change or modify any of the rights or obligations of any Paying Agent or other agent for a Series of PFC Bonds without its written assent thereto.

Section 12. Adoption of Supplemental Resolutions and Purposes Thereof With Consent.

(a) *Amendments With Registered Owners Consent.* Subject to the provisions of Section 11, this resolution may be amended from time to time by a Supplemental Resolution approved by the Registered Owners of a majority in aggregate principal amount of the First Lien PFC Bonds or Subordinate Lien PFC Obligations, as the case may be, then Outstanding; provided, that (A) no amendment shall be made which affects the security of some but fewer than all of the Registered Owners of the Outstanding First Lien PFC Bonds or a lien of Subordinate Lien PFC Obligations, as the case may be, without the consent of the Registered Owners of a majority in aggregate principal amount of the PFC Bonds so affected, and (B) except as expressly authorized hereunder, no amendment which alters the interest rates on any Outstanding First Lien PFC Bonds or a lien of Subordinate Lien PFC Obligations, as the case may be, the maturity dates or interest payment dates of any Outstanding First Lien PFC Bonds or a lien of Subordinate Lien PFC Obligations, as the case may be, without the consent of the Registered Owners of all Outstanding PFC Bonds affected thereby.

(b) *Amendments With Consent of Issuers of Credit Facilities.* Notwithstanding anything in this Section 12 or Sections 10(d) or 11 to the contrary, any amendment to this resolution shall require the prior written consent of the issuer(s) of Credit Facilities with respect to First Lien PFC Bonds so long as such issuer has not failed to honor a claim for payment thereunder. A Series Resolution shall not be considered as an amendment to this resolution. In addition, to the extent that any Series of PFC Bonds is secured by a Credit Facility, the issuer of

the Credit Facility shall be considered to be the Registered Owner for purposes of granting consents, waivers or approvals required or permitted to be obtained under this resolution.

(c) *Approval of FAA.* The approval of the FAA of any supplement or amendment to this resolution shall be required only to the extent that such amendment or supplement conflicts or is inconsistent with PFC Authority.

Section 13. Resolution and Laws a Contract with Bondowners. This resolution is adopted under the authority of and in full compliance with the Constitution and laws of the State of Washington, including RCW ch. 39.46, as amended and supplemented, and Title 53 of the Revised Code of Washington, as amended and supplemented. The FAA shall be a third party beneficiary under this resolution with respect to its rights under Section 15.

Section 14. Defaults. The Port hereby finds and determines that the collection, deposit and disbursement of PFC Revenue and Additional Revenue, if any, are essential to the payment and security of the PFC Bonds and the failure or refusal of the Port or any of its officers to perform the covenants and obligations of this resolution will endanger the collection and application of PFC Revenue and Additional Revenue, if any, and such other moneys, funds and securities to the purposes herein set forth. Accordingly, the provisions of this Section 14 are specified and adopted for the additional protection of the owners from time to time of the PFC Bonds. Any one or more of the following events shall constitute a "Default" under this resolution and each Series Resolution:

(a) The Port shall fail to make payment of the principal of any First Lien PFC Bonds when the same shall become due and payable whether by maturity or scheduled redemption prior to maturity;

(b) The Port shall fail to make payments of any installment of interest on any First Lien PFC Bonds when the same shall become due and payable;

(c) The Port shall default in the observance or performance of any other covenants, conditions, or agreements on the part of the Port contained in this resolution, and such default shall have continued for a period of 90 days; *provided, however*, that a breach of a covenant that results in a violation of the PFC Act, ANCA, PFC Authority or the PFC Regulations shall not be a Default hereunder unless and until such violation results in a termination or reduction in the Port's authority to impose or to impose and use PFCs.

A future Series Resolution authorizing Subordinate Lien PFC Obligations may provide for additional events constituting defaults with respect thereto: provided that such defaults thereunder shall not result in a Default hereunder.

Section 15. Remedies and Other FAA Provisions. Upon the occurrence of a Default under this resolution, the Port will notify Registered Owners of such Default. Upon receipt of an FAA Notice (a "Notice Event"), the Port immediately shall notify the Standby Trustee of the occurrence of such Notice Event. In addition, (i) upon the receipt of an FAA Notice or (ii) following a Default and receipt of a request from the Registered Owners of a majority in principal amount of the Outstanding PFC Bonds, the Port shall immediately direct the Treasurer to transfer the balance on hand in the PFC Revenue Fund, the First Lien Bond Account, the First Lien Reserve Account and the PFC Capital Fund to the Standby Trustee. Upon receipt of indemnity and assurances to its satisfaction that its expenses shall be paid, the Standby Trustee:

(i) upon receipt of an FAA Notice, to the extent permitted by law, shall act upon the direction of the FAA with respect to PFC Revenue after PFC Bonds have been paid, and/or

(ii) following the occurrence of a Default, the Standby Trustee in its own name and as the trustee of an express trust, may take any or all of the following actions:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Registered Owners and require the Port to carry out any agreements with or for the benefit of the Registered Owners of PFC Bonds and to perform its or their duties under this resolution and any Series Resolution;

(b) bring suit upon the PFC Bonds;

(c) by action or suit in equity require the Port to account as if it were the trustee of an express trust for the Registered Owners of PFC Bonds; or

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Registered Owners of PFC Bonds.

Notwithstanding anything herein to the contrary, the FAA shall have only those rights or remedies set forth in the then currently effective PFC Authority.

The Standby Trustee shall give notice of all Defaults known to the Standby Trustee, to the Registered Owners within 90 days after the occurrence thereof. The Standby Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive

committee, or a trust committee of directors and/or responsible officers, of the Standby Trustee in good faith determine that the withholding of such notice is in the interest of the Registered Owners.

Section 16. Application of PFC Revenue and Other Funds After Default. If a Default shall occur and be continuing, all PFC Revenue and any other funds then held or thereafter received by the Standby Trustee under any of the provisions of this resolution shall be applied by the Standby Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Standby Trustee to protect the interests of the Registered Owners of the PFC Bonds and payment of reasonable fees and charges and expenses of the Standby Trustee (including reasonable fees and disbursements of its counsel) incurred in and in connection with the performance of its powers and duties under this resolution;

(b) To the payment of the principal of and interest then due on the PFC Bonds (upon presentation of the PFC Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of this resolution, as follows:

(i) Unless the principal of all of the PFC Bonds shall have become due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof first to First Lien PFC Bonds and then to Subordinate Lien PFC Obligations and within such liens, ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any PFC Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective PFC Bonds, and, if the amount available shall not be sufficient to pay in full all the PFC Bonds, together with such interest, then to the payment thereof first to First Lien PFC Bonds and then to Subordinate Lien PFC Obligations and within such liens, ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference;

(ii) If the principal of all of the PFC Bonds shall have become due and payable, to the payment of the principal and interest then due and unpaid upon the PFC Bonds, with interest on the overdue principal at the rate borne by the PFC Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof first to First Lien PFC Bonds and then to Subordinate Lien PFC Obligations and within such lien, ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any First Lien PFC Bond over any other First Lien PFC Bond or of any Subordinate Lien PFC Obligation over any other Subordinate Lien PFC Obligation, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference; and

(iii) To the Port.

Section 17. Standby Trustee to Represent Registered Owners. The Standby Trustee is hereby irrevocably appointed (and the successive respective Registered Owners of the PFC Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Standby Trustee) as Standby Trustee and true and lawful attorney-in-fact of the Registered Owners of the PFC Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Registered Owners under the provisions of the PFC Bonds, this resolution, any Series Resolution and applicable provisions of any law. Upon the occurrence and continuance of a Default or other occasion giving rise to a right in the Standby Trustee to represent the Registered Owners, the Standby Trustee in its discretion may, and upon the written request of the Registered Owners of not less than 25% in aggregate principal amount of the PFC Bonds then Outstanding, and upon being indemnified against anticipated expenses and liabilities to its satisfaction therefor (which indemnity is a condition precedent to its duties hereunder, shall, proceed to protect or enforce its rights or the rights of such Registered Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Standby Trustee or in such Registered Owners under this resolution, each Series Resolution or any law; and upon instituting such proceeding, the Standby Trustee shall be

entitled, as a matter of right, to the appointment of a receiver of the PFC Revenue and other assets pledged under this resolution, pending such proceedings. All rights of action under this resolution or the PFC Bonds or otherwise may be prosecuted and enforced by the Standby Trustee without the possession of any of the PFC Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Standby Trustee shall be brought in the name of the Standby Trustee for the benefit and protection of all the Registered Owners of such PFC Bonds, subject to the provisions of this resolution.

Section 18. Registered Owners' Direction of Proceedings. Anything in this resolution to the contrary notwithstanding, the Registered Owners of a majority in aggregate principal amount of the PFC Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Standby Trustee, to direct the method of conducting all remedial proceedings taken by the Standby Trustee hereunder, upon indemnification satisfactory to the Standby Trustee, provided that such direction shall not be otherwise than in accordance with law and the provisions of this resolution, and that the Standby Trustee shall have the right to decline to follow any such direction which in the sole discretion of the Standby Trustee would be unjustly prejudicial to Registered Owners not parties to such direction. The Standby Trustee shall not be responsible for the propriety of or liable for the consequences of following such a direction given by the Registered Owners of a majority in aggregate principal amount of the PFC Bonds Outstanding.

Section 19. Limitation on PFC Bond Registered Owners' Right to Sue. No Registered Owner of any PFC Bond shall have the right to institute any suit, action or proceeding at law or in equity for the protection or enforcement of any right or remedy under this resolution, any Series Resolution or any other applicable law unless the Registered Owners of not less than 25% in aggregate principal amount of the PFC Bonds then Outstanding shall have made written request upon the Standby Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; and such Registered Owner or said Registered Owners shall have tendered to the Standby Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in complying with such request; and the Standby Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Standby Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Registered Owner of PFC Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Registered Owners of PFC Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this resolution or the rights of any other Registered Owners, or to enforce any right under this resolution, or any Series Resolution or other applicable law with respect to the PFC Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Registered Owners of the Outstanding PFC Bonds.

Section 20. Termination of Proceedings. In case any proceedings taken by the Standby Trustee or any one or more Registered Owners on account of any Default shall have been discontinued or abandoned for any reason or shall have been determined adversely or if the FAA Notice is withdrawn for any reason or if any Default is cured, the Standby Trustee or the Registered Owners, then in every such case the Port, the FAA, the Standby Trustee and the Registered Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Port, the FAA, the Standby Trustee and the Registered Owners shall continue as though no such proceedings had been taken. All funds and accounts shall be returned to the Treasurer of the Port. Receipt of notice from the Port and the FAA to the effect that the FAA's assertion of a violation of the PFC Act, ANCA, PFC Authority or PFC Regulations has been resolved or waived shall constitute a termination of the Default and caused by such violation proceedings hereunder.

Section 21. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Standby Trustee or the FAA or to the Registered Owners of the PFC Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

Section 22. No Waiver of Default. No delay or omission of the Standby Trustee or of any Registered Owner of the PFC Bonds to exercise any right or power arising upon the occurrence of 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 this resolution to the Standby Trustee or to the Registered Owners may be exercised from time to time and as often as may be deemed expedient.

Section 23. Duties, Immunities and Liabilities of Standby Trustee.

(a) The Standby Trustee shall, prior to the receipt of an FAA Notice or a Default, and after the curing of all Defaults which may have occurred or withdrawal or resolution of an FAA Notice, perform such duties and only such duties as are specifically imposed upon it as set forth in this resolution and no implied duties or responsibilities shall be read into this resolution against the Standby Trustee. The Standby Trustee shall, during the existence of any Default (which has not been cured) or following receipt of an FAA Notice and prior to resolution, exercise such of the rights and powers vested in it by this resolution, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs; provided that, if in the reasonable opinion of the Standby Trustee any such action may tend to invoke expense or liability to the Standby Trustee, it shall not be obligated to take such action unless it is first furnished with funds for payment of such expense or with indemnity therefor satisfactory to it.

(b) Upon 30 days' advance written notice to the Standby Trustee, the Port may unless a Default shall have occurred and then be continuing, and upon written request of the issuers of all Credit Facilities then in effect with respect to PFC Bonds (so long as such issuer(s) is/are not in default of its/their obligations) shall, remove the Standby Trustee at any time and shall remove the Standby Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Registered Owners of not less than a majority in aggregate principal amount of the PFC Bonds then Outstanding (or their attorneys duly authorized in writing) or, without the necessity of advance written notice, if at any time the Standby Trustee shall cease to be eligible in accordance with subsection (e) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Standby Trustee or its property shall be appointed, or any public officer shall take control or charge of the Standby Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Standby Trustee and thereupon shall appoint a successor Standby Trustee by an instrument in writing.

(c) The Standby Trustee may at any time resign by giving written notice of such resignation to the Port and the FAA and by giving the Registered Owners notice of such resignation by first class mail at the addresses shown on the Bond Register. In order to discharge this obligation, the Standby Trustee shall deliver a form of such notice to the Registrar with a request to distribute the same to Registered Owners. Upon receiving such notice of resignation, the Port shall promptly appoint a successor Standby Trustee by an instrument in writing. The Standby Trustee shall not be relieved of its duties until such successor Standby Trustee has accepted appointment.

(d) Any removal or resignation of the Standby Trustee and appointment of a successor Standby Trustee shall become effective only upon acceptance of appointment by the successor Standby Trustee. If no successor Standby Trustee shall have been appointed and have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Standby Trustee or any Registered Owner (on behalf of himself and all other Registered Owners) may petition any court of competent jurisdiction for the appointment of a successor Standby Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Standby Trustee. Any successor Standby Trustee appointed under this resolution shall signify its acceptance of such appointment by executing and delivering to the Port and to its predecessor Standby Trustee a written acceptance thereof, and thereupon such successor Standby Trustee, without any further act, deed or conveyance, shall become vested with all the money, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Standby Trustee, with like effect as if originally named Standby Trustee herein; but, nevertheless, at the request of the Port or the request of the successor Standby Trustee, such predecessor Standby Trustee shall, at the expense of the Port execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Standby Trustee all the rights, title and interest of such predecessor Standby Trustee in and to any property held by it under this resolution and shall pay over, transfer, assign and deliver to the successor Standby Trustee any money or other property subject to the trusts and conditions herein set forth, subject to Section 25 herein. Upon request of the successor Standby Trustee, the Port shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Standby Trustee all such money, estates, properties, rights,

powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Standby Trustee as provided in this subsection, such successor Standby Trustee shall mail a notice of the succession of such Standby Trustee to the trusts hereunder to the FAA and to the Registered Owners at the addresses shown on the Bond Register. The successor Standby Trustee shall effect this notice by giving a form of notice to the Registrar with a request to mail such notice to the Registered Owners.

(e) The Standby Trustee shall have no responsibility with respect to any information, statement or recital in the official statement or other disclosure material prepared or distributed with respect to the PFC Bonds.

(f) The Standby Trustee's rights to immunities, indemnity, and protection from liability hereunder and its rights to payment of fees and expenses shall survive its resignation or removal and the final payment or defeasance of the PFC Bonds or the discharge of this resolution.

(g) Upon an admission of insolvency or a filing of a petition under Chapter 9 of the United States Bankruptcy Code, the Port (i) immediately shall notify the Standby Trustee of the occurrence of such event; and (ii) upon receipt of indemnity and assurances to its satisfaction that its expenses shall be paid, the Standby Trustee shall, to the extent permitted by law, in its own name and as the trustee of an express trust on behalf of the Registered Owners, prosecute and defend the claims, if any, of the Registered Owners against the Port, including without limitation, claims of the Bondholders to PFC Revenue and any Additional Pledged Revenue.

Section 24. Merger or Consolidation. Any company into which the Standby Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party shall be the successor to such Standby Trustee and Standby Trustee's administration thereof without the executing or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 25. Liability of Standby Trustee.

(a) The recitals of facts herein and in the PFC Bonds shall be taken as statements of the Port, and the Standby Trustee shall have no responsibility for the correctness of the same or for the validity or sufficiency of this resolution, any Series Resolution or any security thereunder or for the PFC Bonds, or any representations therein. The Standby Trustee shall incur no responsibility in respect of any such documents, other than in connection with the duties or obligations herein or in the PFC Bonds assigned to or imposed upon it. The Standby Trustee shall not be liable in connection with the performance of its duties or exercise of discretion hereunder, except for its own negligence or willful misconduct. The Standby Trustee may become the Registered Owner of PFC Bonds as principal with the same rights it would have if it were not Standby Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of Registered Owners, whether or not such committee shall represent the Registered Owners of a majority in principal amount of the PFC Bonds then Outstanding.

(b) The Standby Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Standby Trustee was negligent in ascertaining the pertinent facts.

(c) The Standby Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the FAA or the Registered Owners of not less than 25% in aggregate principal amount of the PFC Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Standby Trustee or exercising any trust or power conferred upon the Standby Trustee under this resolution.

(d) The Standby Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this resolution.

(e) The Standby Trustee shall not be deemed to have knowledge of any default or Default unless and until it shall have actual knowledge thereof, or shall have received written notice thereof. Except as otherwise expressly provided herein, the Standby Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the PFC Bonds, or as to the existence of a default or Default thereunder. Except as otherwise provided in this resolution, the Standby Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it. The Standby Trustee shall not be responsible for filing or maintaining the priority of any financing statement.

(f) The permissive right of the Standby Trustee to perform acts under this resolution shall not be construed as a duty. The Standby Trustee shall not be required to give any PFC Bond or surety in respect of the execution of the trusts confined hereunder or otherwise in respect of the premises.

Section 26. Right to Rely on Documents. The Standby Trustee shall be protected in acting upon any notice, resolution, request, requisition, consent, order, certificate, direction, report, opinion, PFC Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties, but the Standby Trustee shall examine the evidence furnished to it in order to determine whether or not such evidence conforms to the requirements of this resolution. At the expense of the Port, the Standby Trustee may consult with counsel, who may but not need be counsel of or to the Port, with regard to legal questions concerning interpretation of this resolution or otherwise, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Standby Trustee shall not be bound to recognize any person other than the issuer(s) of Credit Facility/Facilities as the Registered Owner of a PFC Bond unless and until such PFC Bond is submitted for inspection, if required, and his title thereto is satisfactorily established, if disputed.

Whenever in the administration of the trusts imposed upon it by this resolution the Standby Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of the Port, and such certificate shall be full warrant to the Standby Trustee for any action taken or suffered in good faith under the provisions of this resolution in reliance upon such Certificate, but in its discretion the Standby Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

Section 27. Preservation and Inspection of Documents. All documents maintained by the Standby Trustee under the provisions of this resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the FAA, the issuer(s) of Credit Facility/Facilities, the Port and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions with reasonable prior notice.

Section 28. Compensation and Indemnification. The Standby Trustee shall be entitled to receive compensation from the Port for the services of the Standby Trustee and rendered under or pursuant to this resolution, which compensation shall be determined in accordance with the written fee schedule of the Standby Trustee furnished to the Port by the Standby Trustee and as may be supplemented or modified from time to time hereafter, or as of the date of appointment of any successor Standby Trustee (or which compensation, in the absence of any such written fee schedule, shall be reasonable compensation), and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under this resolution in accordance with the fee agreement between the Port and the Standby Trustee.

The Standby Trustee shall be under no obligation to institute any suit, to take any proceeding under this resolution, to enter any appearance or in any way defend in any suite in which it may be named as defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers hereunder, until it shall have reasonable grounds for believing that prompt repayment of all costs and expenses, outlays and counsel fees and other reasonable disbursements in connection therewith, and adequate indemnity against all risk and liability, is reasonably assured to it; provided that the Standby Trustee shall not be entitled to seek indemnity under the circumstances described in Section 23(a). However the Standby Trustee may begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Standby Trustee, without assurance of reimbursement or indemnity, and in such case the Standby Trustee shall be reimbursed or indemnified by the FAA or the Registered Owners requesting such action, if any, or by the Port in all other cases for all fees, costs, and expenses, liabilities, outlays and counsel fees and other reasonable disbursements properly incurred in connection therewith, unless such liability or disbursement is adjudicated to have resulted from the negligence or willful misconduct of the Standby Trustee. If the Registered Owners or the Port, as appropriate, shall fail to make such reimbursement or indemnification, the Standby Trustee may reimburse itself from any money in its possession under the provisions of this resolution (other than Credit Facility money), subject only to the prior lien of the PFC Bonds for the payment of the principal thereof and the premium (if any) and interest thereon.

None of the provisions contained in this resolution shall require the Standby Trustee to act or to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that prompt payment of fees or repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Section 29. Notices. Any notice to or demand upon the following parties shall be given by first class mail, return receipt requested, as set forth below, or to such other addresses as may from time to time be furnished, effective upon the receipt of notice thereof given as provided for in this Section 29.

If to the Port:	Port of Seattle 2711 Alaskan Way Pier 69 P.O. Box 1209 Seattle, WA 98111 Attention: Director of Finance and Budget
If to the FAA:	PFC Branch, APP530 Office of Airport Planning & Programming Airport's Financial Assistance Div. 800 Independence Avenue SW Washington, DC 20591
If to the Standby Trustee:	Norwest Bank Minnesota, N.A. Sixth and Marquette Avenue Minneapolis, MN 55479-0069 Attention: Corporate Trust Division
If to the Registrar:	The Bank of New York 101 Barclay Street, 21W New York, NY 10286 Attention: Corporate Trust Administration

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The registered ownership of PFC Bonds shall be proved by the Bond Register held by the Registrar.

Any request, consent, or other instrument or writing of the Registered Owner of any PFC Bond shall bind every future Registered Owner of the same PFC Bond and the Registered Owner of every PFC Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Standby Trustee or the Port in accordance therewith or reliance thereon.

Section 30. Severability. If any one or more of the provisions of this resolution shall be declared by any court of competent jurisdiction to be contrary to law, then such provision or provisions shall be deemed separable from, and shall in no way affect the validity of, any of the other provisions of this resolution or of the PFC Bonds issued pursuant to the terms hereof.

ADOPTED by the Port Commission of the Port of Seattle at a ~~regular~~ special meeting thereof, held this 16th day of July, 1998, and duly authenticated in open session by the signatures of the Commissioners present and voting in favor thereof.

PORT OF SEATTLE, WASHINGTON

GARY GRANT

JACK BLOCK

PATRICIA DAVIS

CLARE NORDQUIST

____

Commissioners

CERTIFICATE

I, the undersigned, Secretary of the Port Commission ("Commission") of the Port of Seattle, Washington (herein called the "Port"), DO HEREBY CERTIFY:

1. That the attached resolution numbered 3284 As Amended, (herein called the "Resolution") is a true and correct copy of a resolution of the Port, as finally adopted at a meeting of the Commission held on the 16th day of July, 1998, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a quorum of the Commission was present throughout the meeting and a legally sufficient number of members of the Commission voted in the proper manner for the adoption of said Resolution; that all other requirements and proceedings incident to the proper adoption of said Resolution have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this 16th day of July, 1998.

____

Secretary

PFC
SERIES RESOLUTION

PORT OF SEATTLE

RESOLUTION NO. 3643

A Resolution of the Port Commission of the Port of Seattle authorizing the sale and issuance of passenger facility charge revenue refunding bonds of the Port in the principal amount of not to exceed $165,000,000 for the purpose of refunding outstanding passenger facility charge revenue bonds; delegating authority for the sale of the bonds and the preparation and dissemination of a preliminary official statement and final official statement; authorizing the appointment of an escrow agent and execution of an escrow agreement; providing for continuing disclosure; providing for a negotiated sale of the bonds to Goldman, Sachs & Co., Barclays Capital Inc., Morgan Stanley & Co. Incorporated and Siebert Brandford Shank & Co., LLC; and amending Resolution No. 3284, as amended.

ADOPTED: OCTOBER 26, 2010

Prepared by:

K&L GATES LLP
Seattle, Washington

PORT OF SEATTLE
Resolution No. 3643
Table of Contents*

* This table of contents and the cover page are for convenience of reference and are not intended to be a part of this Series Resolution.

RESOLUTION NO. 3643

A Resolution of the Port Commission of the Port of Seattle authorizing the sale and issuance of passenger facility charge revenue refunding bonds of the Port in the principal amount of not to exceed $165,000,000 for the purpose of refunding outstanding passenger facility charge revenue bonds; delegating authority for the sale of the bonds and the preparation and dissemination of a preliminary official statement and final official statement; authorizing the appointment of an escrow agent and execution of an escrow agreement; providing for continuing disclosure; providing for a negotiated sale of the bonds to Goldman, Sachs & Co., Barclays Capital Inc., Morgan Stanley & Co. Incorporated and Siebert Brandford Shank & Co., LLC; and amending Resolution No. 3284, as amended.

WHEREAS, the Port of Seattle (the "Port"), a municipal corporation of the State of Washington, owns and operates Seattle-Tacoma International Airport (the "Airport"); and

WHEREAS, the Port has authorized the issuance of passenger facility charge revenue bonds in one or more series pursuant to Resolution No. 3284, as amended, adopted on July 16, 1998 (the "PFC Master Resolution"); and

WHEREAS, the passenger facility charge revenue bonds (defined as "PFC Bonds" in the PFC Master Resolution) authorized by the PFC Master Resolution shall be approved by Series Resolutions (as such term is defined in the PFC Master Resolution); and

WHEREAS, pursuant to the PFC Master Resolution and Resolution No. 3285, as amended, adopted by the Port Commission on July 16, 1998 (the "1998 Series Resolution"), on July 28, 1998, the Port issued its Passenger Facility Charge Revenue Bonds, Series 1998A (the "Series 1998A Bonds") and Passenger Facility Charge Revenue Bonds, Series 1998B (the "Series 1998B Bonds" and together with the Series 1998A Bonds, the "Outstanding PFC Bonds"), constituting First Lien PFC Bonds (as defined in the PFC Master Resolution, which remain outstanding as follows:

Series 1998A Bonds

Maturity Years (December 1)	Principal Amounts	Interest Rates
2016	$ 670,000	5.00%
2017	14,380,000	5.00
2019	31,020,000	5.50
2023	72,420,000	5.00

Series 1998B Bonds

Maturity Years (December 1)	Principal Amounts	Interest Rates
2010	$10,030,000	5.250%
2011	10,555,000	5.250
2012	11,110,000	5.250
2013	11,690,000	5.375
2014	12,325,000	5.250
2016	25,955,000	5.300

; and

WHEREAS, 1998 Series Resolution authorizes the redemption of the Series 1998A Bonds (other than the Series 1998A Bonds maturing on December 1, 2019, which are not subject to optional redemption) on and after December 1, 2008 in whole or in part at any time, with maturities to be selected by the Port, at the following prices, expressed as a percentage of par, plus accrued interest to the date fixed for redemption:

Redemption Dates	Redemption Prices
December 1, 2008 through November 30, 2009	101.0%
December 1, 2009 through November 30, 2010	100.5
December 1, 2010 and thereafter	100.0

; and

WHEREAS, 1998 Series Resolution authorizes the redemption of the Series 1998B Bonds on and after December 1, 2008 in whole or in part at any time, with maturities to be selected by the Port, at the following prices, expressed as a percentage of par, plus accrued interest to the date fixed for redemption:

Redemption Dates	Redemption Prices
December 1, 2008 through November 30, 2009	101.0%
December 1, 2009 through November 30, 2010	100.5
December 1, 2010 and thereafter	100.0

; and

WHEREAS, as a result of market conditions, it appears to the Port that a substantial debt service savings may be obtained by refunding the callable Outstanding PFC Bonds through the issuance and sale of first lien passenger facility charge revenue refunding bonds in the aggregate principal amount of up to $165,000,000 herein authorized (hereinafter defined as the "Series 2010 Bonds"); and

WHEREAS, it is deemed necessary and desirable that the Series 2010 Bonds be sold pursuant to negotiated sale as herein provided;

NOW, THEREFORE, BE IT RESOLVED BY THE PORT COMMISSION OF THE PORT OF SEATTLE, as follows:

Section 1. Definitions. Unless otherwise defined herein, the terms used in this Series Resolution, including the preamble hereto, which are defined in the PFC Master Resolution shall have the meanings set forth in the PFC Master Resolution. In addition, the following terms shall have the following meanings in this Series Resolution:

Annual Disclosure Report has the meaning given such term in Section 17(b) of this Series Resolution.

Bond Insurance Commitment means the commitment(s) of the Insurer, if any, to insure one or more series, or certain principal maturities thereof, of the Series 2010 Bonds.

Bond Insurance Policy means the policy(ies) of municipal bond insurance, if any, delivered by the Insurer at the time of issuance and delivery of Series 2010 Bonds to be insured pursuant to the Bond Insurance Commitment.

Bond Purchase Contract means the Bond Purchase Contract providing for the purchase of the Series 2010 Bonds by the Underwriters and setting forth certain terms authorized to be approved by the Chief Executive Officer as provided in Section 16 of this Series Resolution.

Bond Register means the registration records for the Series 2010 Bonds maintained by the Registrar.

Chief Executive Officer means the Chief Executive Officer of the Port, or any successor to the functions of his/her office.

Code means the Internal Revenue Code of 1986, as amended, and all applicable regulations and rulings relating thereto.

DTC means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Series 2010 Bonds pursuant to Section 6 of this Series Resolution.

Designated Port Representative, as defined in the PFC Master Resolution, means the Executive Director, the chief financial officer, director of finance and budget of the Port or such other person as may be directed from time to time by resolution of the Commission.

Escrow Agent means the Escrow Agent for the Refunded Bonds appointed by the Designated Port Representative pursuant to this Series Resolution if the Designated Port Representative determines that an escrow will be necessary or required to carry out the plan of refunding.

Escrow Agreement means the Escrow Deposit Agreement, dated as of the date of the closing and delivery of the Series 2010 Bonds, between the Port and the Escrow Agent to be executed in connection with the refunding of the Refunded Bonds, substantially in the form attached hereto as Exhibit A.

Future PFC Bonds mean those revenue bonds or other revenue obligations that will be issued by the Port in the future as First Lien PFC Bonds.

Government Obligations has the meaning given to such term in RCW Chapter 39.53, as amended.

Insurer means the bond insurance company or companies, if any, selected pursuant to Section 20 of this Series Resolution to issue the Bond Insurance Policy.

Letter of Representations means the blanket issuer letter of representations from the Port to DTC, dated August 28, 1995.

MSRB means the Municipal Securities Rulemaking Board or any successors to its functions. Until otherwise designated by the MSRB or the SEC, any information, reports or notices submitted to the MSRB in compliance with the Rule are to be submitted through the MSRB's Electronic Municipal Market Access system ("EMMA"), currently located at www.emma.msrb.org.

1998 Series Resolution means Resolution No. 3285, as amended, adopted by the Port Commission on July 16, 1998.

PFC Master Resolution means Resolution No. 3284, as amended, of the Commission adopted on July 16, 1998, as amended herein and as the same may hereafter be amended in accordance with its terms.

Refunded Bonds mean those Refunding Candidates designated by the Chief Executive Officer pursuant to authority delegated by Section 16 of this Series Resolution.

Refunding Candidates mean the outstanding Series 1998A Bonds, other than the Series 1998A Bonds maturing on December 1, 2019, and the Series 1998B Bonds maturing after December 1, 2010.

Registered Owner means the person named as the registered owner of a Series 2010 Bond in the Bond Register.

Registrar means the fiscal agency of the State of Washington, appointed by the Treasurer for the purposes of registering and authenticating the Series 2010 Bonds, maintaining the Bond Register and effecting transfer, of ownership of the Series 2010 Bonds. The term Registrar shall include any successor to the fiscal agency, if any, hereinafter appointed by the Treasurer.

Rule means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as amended from time to time.

Savings Target means a dollar amount equal to two and 75/100 percent (2.75%) of the principal amount of the Refunded Bonds.

SEC means the Securities and Exchange Commission.

Series 1998 Bonds mean, collectively, the Series 1998A Bonds and the Series 1998B Bonds.

Series 1998A Bonds mean the Port of Seattle, Washington, Passenger Facility Charge Revenue Bonds, Series 1998A issued on July 28, 1998, authorized by the 1998 Series Resolution and currently outstanding in the principal amount of $118,490,000.

Series 1998B Bonds mean the Port of Seattle, Washington, Passenger Facility Charge Revenue Bonds, Series 1998B issued on July 28, 1998, authorized to be issued by the 1998 Series Resolution and currently outstanding in the principal amount of $81,665,000.

Series 2010A Bonds mean Port of Seattle Passenger Facility Charge Revenue Refunding Bonds, Series 2010A.

Series 2010B Bonds mean Port of Seattle Passenger Facility Charge Revenue Refunding Bonds, Series 2010B.

Series 2010 Bonds mean the Series 2010A Bonds and Series 2010B Bonds.

Tax and Arbitrage Certificate means the federal tax certificate of the Port pertaining to the tax exemption of interest on the Series 2010 Bonds and the payment of any rebate amount to the United States.

Term Bonds mean the Series 2010 Bonds, if any, designated as "term bonds" in the Bond Purchase Contract.

Underwriters mean, collectively, Goldman, Sachs & Co., Barclays Capital Inc., Morgan Stanley & Co. Incorporated and Siebert Brandford Shank & Co., LLC.

Rules of Interpretation. In this Series Resolution, unless the context otherwise requires:

(a) The terms "hereby," "hereof," "hereto," "herein, "hereunder" and any similar terms, as used in this Series Resolution, refer to this Series Resolution as a whole and not to any particular article, section, subdivision or clause hereof, and the term "hereafter" shall mean after, and the term "heretofore" shall mean before, the date of this Series Resolution;

(b) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa;

(c) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(d) Any headings preceding the text of the several articles and Sections of this Series Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Series Resolution, nor shall they affect its meaning, construction or effect;

(e) All references herein to "articles," "sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof.

(f) Whenever any consent or direction is required to be given by the Port, such consent or direction shall be deemed given when given by the Designated Port Representative or his or her designee, respectively, and all references herein to the Designated Port Representative shall be deemed to include references to his or her designee, as the case may be.

Section 2. Plan of Finance. The Refunding Candidates are callable in whole or in part prior to their scheduled maturities and may be selected for refunding depending upon market conditions. The final selection of the maturities, if any, within each series of the Refunding Candidates designated as Refunded Bonds to be refunded by the Series 2010 Bonds shall be made by the Chief Executive Officer pursuant to the authority granted in Section 16 of this Series Resolution.

Section 3. Authorization of Series 2010 Bonds. The Port shall issue the Series 2010A Bonds as a series for the purpose of refunding the Refunding Candidates that are Series 1998A Bonds and the Series 2010B Bonds as a second series for the purpose of refunding the Refunding Candidates that are the Series 1998B Bonds (collectively with the Series 2010A Bonds referred to herein as the "Series 2010 Bonds"). The proceeds of the Series 2010 Bonds shall be used for the purpose of providing the funds necessary to refund the Refunded Bonds, to make a deposit to the First Lien Reserve Account, if necessary, and to pay all or a portion of the costs incidental to the foregoing and to the issuance of the Series 2010 Bonds.

The aggregate principal amount of the Series 2010 Bonds to be issued under this Series Resolution shall not exceed $165,000,000 and shall be determined by the Chief Executive Officer, pursuant to the authority granted in Section 16 of this Series Resolution.

Section 4. Bond Details.

The Series 2010A Bonds shall be designated as "Port of Seattle Passenger Facility Charge Revenue Refunding Bonds, Series 2010A," and the Series 2010B Bonds shall be designated as "Port of Seattle Passenger Facility Charge Revenue Refunding Bonds, Series 2010B." The Series 2010 Bonds of each series shall be registered as to both principal and interest, shall be issued in the aggregate principal amount set forth in the Bond Purchase

Contract, and shall be numbered separately in the manner and with any additional designation as the Registrar deems necessary for purposes of identification, shall be dated their date of delivery, shall be in the denomination of $5,000 each or any integral multiple of $5,000 within each series and maturity, shall bear interest from their date of delivery until the Series 2010 Bonds bearing such interest have been paid or their payment duly provided for. The Series 2010 Bonds of each series shall be issued in the aggregate principal amount, shall bear interest at the per annum rates, payable on the interest payment dates and shall mature, subject to prior redemption, in the principal amounts on the principal payment dates set forth in the Bond Purchase Contract and as approved by the Chief Executive Officer pursuant to Section 16 of this Series Resolution.

The Series 2010 Bonds shall be First Lien PFC Bonds and shall be obligations only of the First Lien Bond Account and the First Lien Reserve Account and shall be payable and secured as provided herein and in the PFC Master Resolution. The Series 2010 Bonds do not constitute an indebtedness of the Port within the meaning of the constitutional provisions and limitations of the State of Washington.

Section 5. Redemption and Purchase.

(a) *Optional Redemption*. The Series 2010 Bonds of each series may be subject to optional redemption and/ or extraordinary optional redemption on the dates, at the prices and under the terms set forth in the Bond Purchase Contract and as approved by the Chief Executive Officer pursuant to Section 16 of this Series Resolution.

(b) *Mandatory Redemption.* The Series 2010 Bonds of each series may be subject to mandatory redemption and/or extraordinary mandatory redemption to the extent, if any, set forth in the Bond Purchase Contract and as approved by the Chief Executive Officer pursuant to Section 16 of this Series Resolution.

(c) *Purchase of Series 2010 Bonds*. The Port reserves the right to use at any time any PFC Revenue on deposit in the PFC Capital Fund available after providing for the payments required by paragraph First through Fourth of Section 2(a) of the PFC Master Resolution or other legally available funds to purchase any of the Series 2010 Bonds offered to the Port at any price deemed reasonable to the Designated Port Representative.

(d) *Effect of Optional Redemption/Purchase*. To the extent that the Port shall have optionally redeemed or purchased for retirement any Term Bonds since the last scheduled mandatory redemption of such Term Bonds, the Port may reduce the principal amount of the Term Bonds of the same Series and maturity to be redeemed in like aggregate principal amount. Such reduction may be applied in the year specified by the Designated Port Representative.

(e) *Selection of Series 2010 Bonds for Redemption*. If Series 2010 Bonds are called for optional redemption, the maturities of Series 2010 Bonds to be redeemed shall be selected by the Port. If any Series 2010 Bonds to be redeemed (optional or mandatory) then are held in book-entry-only form, the selection of Series 2010 Bonds within that series to be redeemed within a maturity shall be made in accordance with the operational arrangements then in effect at DTC. If the Series 2010 Bonds to be redeemed are no longer held in book-entry-only form, the selection of such Series 2010 Bonds to be redeemed shall be made in the following manner. If the Port redeems at any one time fewer than all of the Series 2010 Bonds having the same maturity date, portions of Series 2010 Bonds of such maturity to be redeemed shall be selected by lot (or in such other random manner determined by the Registrar) in increments of $5,000. In the case of a Series 2010 Bond of a maturity having a denomination greater than $5,000, the Port and Registrar shall treat each Series 2010 Bond of that maturity as representing such number of separate Series 2010 Bonds each of the denomination of $5,000 as is obtained by dividing the

actual principal amount of such Series 2010 Bond of that maturity by $5,000. In the event that only a portion of the principal amount of a Series 2010 Bond is to be redeemed, upon surrender of such Series 2010 Bond at the principal office of the Registrar there shall be issued to the Registered Owner, without charge therefor, for the then-unredeemed balance of the principal amount thereof a Series 2010 Bond or, at the option of the Registered Owner, Series 2010 Bonds of like series, maturity and interest rate in any of the denominations herein authorized.

(f) *Notice of Redemption.* Written notice of any redemption of Series 2010 Bonds prior to maturity shall be given by the Registrar on behalf of the Port by first class mail, postage prepaid, not less than 20 days nor more than 60 days before the date fixed for redemption to the Registered Owners of Series 2010 Bonds that are to be redeemed at their last addresses shown on the Bond Register. This requirement shall be deemed complied with when notice is mailed to the Registered Owners at their last addresses shown on the Bond Register, whether or not such notice is actually received by the Registered Owners.

So long as the Series 2010 Bonds are in book-entry only form, notice of redemption shall be given to Beneficial Owners of Series 2010 Bonds to be redeemed in accordance with the operational arrangements then in effect at DTC, and neither the Port nor the Registrar shall be obligated or responsible to confirm that any notice of redemption is, in fact, provided to Beneficial Owners.

Each notice of redemption prepared and given by the Registrar to Registered Owners of Series 2010 Bonds (or portion thereof) to be redeemed shall contain the following information: (1) the redemption date, (2) the redemption price, (3) if fewer than all outstanding Series 2010 Bonds of a series are to be redeemed, the identification by maturity (and, in the case of partial redemption, the principal amounts) of the Series 2010 Bonds to be redeemed, (4) that (unless a notice of optional redemption is a conditional notice, in which case the notice shall state that interest shall cease to accrue from the date fixed for redemption only if and to the extent that funds have been provided to the Registrar for the redemption of such Series 2010 Bonds) on the date fixed for redemption the redemption price will become due and payable upon each Series 2010 Bond or portion called for redemption, and that interest shall cease to accrue from the date fixed for redemption, (5) that such Series 2010 Bonds are to be surrendered for payment at the principal office of the Registrar, (6) the CUSIP numbers of all Series 2010 Bonds being redeemed, (7) the dated date of the Series 2010 Bonds being redeemed, (8) the rate of interest for each Series 2010 Bond (or portion thereof) being redeemed, (9) the date of the notice, and (10) any other information deemed necessary by the Registrar to identify the Series 2010 Bonds (or portion thereof) being redeemed.

Upon the payment of the redemption price of Series 2010 Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the Series 2010 Bonds (or portion thereof) being redeemed with the proceeds of such check or other transfer.

(g) *Effect of Redemption*. On or prior to each date on which Series 2010 Bonds are subject to mandatory redemption and on or prior each date on which Series 2010 Bonds have been scheduled for optional redemption, unless the Port has revoked a notice of optional redemption (or unless the Port provided a conditional notice of optional redemption and the conditions for optional redemption set forth therein are not satisfied), the Port shall transfer to the Registrar amounts that, in addition to other money, if any, held by the Registrar for such purpose, will be sufficient to redeem, on the date fixed for redemption, all the Series 2010 Bonds to be redeemed. If and to the extent that funds have been provided to the Registrar for the optional

redemption of Series 2010 Bonds, then such Series 2010 Bonds (or portions thereof) shall become due and payable on the date fixed for redemption and interest on such Series 2010 Bond shall cease to accrue from and after such date.

(h) *Amendment of Notice Provisions*. The foregoing notice provisions of this section, including but not limited to the information to be included in redemption notices and the persons designated to receive notices, may be amended by additions, deletions and changes to maintain compliance with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

<u>Section 6</u>. <u>Registration, Exchange and Payments.</u>

(a) *Registrar/Bond Register*. The Port hereby specifies and adopts the system of registration and transfer for the Series 2010 Bonds approved by the Washington State Finance Committee from time to time through the appointment of state fiscal agencies for the purposes of registering and authenticating the Series 2010 Bonds, maintaining the Bond Register and effecting transfer of ownership of the Series 2010 Bonds. The Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient records for the registration and transfer of the Series 2010 Bonds (the “Bond Register”), which shall be open to inspection by the Port. The Registrar may be removed at any time at the option of the Treasurer upon prior notice to the Registrar, DTC, each party entitled to receive notice pursuant to Section 17 and a successor Registrar appointed by the Treasurer. No resignation or removal of the Registrar shall be effective until a successor shall have been appointed and until the successor Registrar shall have qualified and accepted the duties of the Registrar hereunder. The Registrar is authorized, on behalf of the Port, to authenticate and deliver Series 2010 Bonds transferred or exchanged in accordance with the provisions of such Series 2010 Bonds and this Series Resolution and to carry out all of the Registrar's powers and duties under this Series Resolution and the PFC Master Resolution. The Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Series 2010 Bonds.

(b) *Registered Ownership*. Except as provided in Section 6(c) and Section 17, the Port and the Registrar may deem and treat the Registered Owner of each Series 2010 Bond as the absolute owner for all purposes, and neither the Port nor the Registrar shall be affected by any notice to the contrary. Payment of any such Series 2010 Bond shall be made only as described in subsection (g) hereof, but the transfer of such Series 2010 Bond may be registered as herein provided. All such payments made as described in subsection (g) shall be valid and shall satisfy the liability of the Port upon such Series 2010 Bond to the extent of the amount or amounts so paid.

(c) *DTC Acceptance/Letter of Representations*. The Series 2010 Bonds shall initially be held in fully immobilized form by DTC acting as depository. To induce DTC to accept the Series 2010 Bonds as eligible for deposit at DTC, the Port has heretofore executed and delivered to DTC the Letter of Representations.

Neither the Port nor the Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Series 2010 Bonds for the accuracy of any records maintained by DTC or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of the principal of or interest on Series 2010 Bonds, any notice that is permitted or required to be given to Registered Owners under this Series Resolution (except such notices as shall be required to be given by the Port to the Registrar or, by the Registrar, to DTC), the selection by DTC or by any DTC participant of any person to receive payment in the event of a partial redemption of the Series 2010 Bonds, or

any consent given or other action taken by DTC as the Registered Owner. Except as provided in the Port's undertaking for ongoing disclosure with respect to the Series 2010 Bonds or as otherwise provided in a Bond Insurance Policy or Bond Insurance Commitment related thereto, so long as any Series 2010 Bonds are held in fully immobilized form hereunder, DTC or its successor depository shall be deemed to be the owner and Registered Owner for all purposes, and all references in this Series Resolution to the Registered Owners shall mean DTC or its nominee and shall not mean the owners of any beneficial interest in any Series 2010 Bonds.

(d) *Use of Depository*.

(1) The Series 2010 Bonds shall be registered initially in the name of "Cede & Co." (or such other name as may be requested by an authorized representative of DTC), as nominee of DTC, with a single Series 2010 Bond for each series and maturity in a denomination corresponding to the total principal therein designated to mature on such date. Registered ownership of such immobilized Series 2010 Bonds, or any portions thereof, may not thereafter be transferred except (A) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any substitute depository appointed by a Designated Port Representative pursuant to subsection (2) below or such substitute depository's successor; or (C) to any person as provided in subsection (4) below.

(2) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by a Designated Port Representative to discontinue the system of book-entry transfers through DTC or its successor (or any substitute depository or its successor), a Designated Port Representative may appoint a

substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(3) In the case of any transfer pursuant to clause (A) or (B) of subsection (1) above, the Registrar shall, upon receipt of all Outstanding Series 2010 Bonds, together with a written request from a Designated Port Representative, issue a single new Series 2010 Bond for each series and maturity of the Series 2010 Bonds then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of a Designated Port Representative.

(4) In the event that (A) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (B) a Designated Port Representative determines that it is in the best interest of the Beneficial Owners of the Series 2010 Bonds of a series that such owners be able to obtain such bonds in the form of Series 2010 Bond certificates, the ownership of such Series 2010 Bonds may then be transferred to any person or entity as herein provided, and shall no longer be held in fully immobilized form. The Designated Port Representative shall deliver a written request to the Registrar, together with a supply of definitive Series 2010 Bonds, to authenticate and deliver Series 2010 Bonds of the same series as herein provided in any authorized denomination. Upon receipt by the Registrar of all then Outstanding Series 2010 Bonds together with a written request on behalf of a Designated Port Representative to the Registrar, new Series 2010 Bonds shall be authenticated and delivered in the appropriate denominations and registered in the names of such persons as are requested in such written request.

(e) *Registration of the Transfer of Ownership or the Exchange of Series 2010 Bonds; Change in Denominations*. The transfer of any Series 2010 Bond may be registered and any

Series 2010 Bond may be exchanged, but no transfer of any Series 2010 Bond shall be valid unless the Series 2010 Bond is surrendered to the Registrar with the assignment form appearing on such Series 2010 Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Registrar. Upon such surrender, the Registrar shall cancel the surrendered Series 2010 Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee, a new Series 2010 Bond (or Series 2010 Bonds at the option of the Registered Owner) of the same date, series, maturity and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Series 2010 Bond, in exchange for such surrendered and canceled Series 2010 Bond. Any Series 2010 Bond may be surrendered to the Registrar, together with the assignment form appearing on such Series 2010 Bond duly executed, and exchanged, without charge, for an equal aggregate principal amount of Series 2010 Bonds of the same date, series, maturity and interest rate, in any authorized denomination. The Registrar shall not be obligated to register the transfer or exchange of any Series 2010 Bond during a period beginning at the opening of business on the 15th day of the month next preceding any interest payment date and ending at the close of business on such interest payment date, or, in the case of any proposed redemption of the Series 2010 Bonds, after the selection of such Series 2010 Bonds for redemption.

(f) *Registrar's Ownership of Series 2010 Bonds*. The Registrar may become the Registered Owner of any Series 2010 Bond with the same rights it would have if it were not the Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as member of, or in any other capacity with respect to, any committee formed to protect the rights of the Registered Owners of the Series 2010 Bonds.

(g) *Place and Medium of Payment*. Both principal of and interest on the Series 2010 Bonds shall be payable in lawful money of the United States of America. Interest on the Series 2010 Bonds shall be calculated on the basis of a 360-day year and twelve 30-day months. For so long as all Series 2010 Bonds are in fully immobilized form, payments of principal and interest shall be made as provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations.

In the event that the Series 2010 Bonds are no longer in fully immobilized form, interest on the Series 2010 Bonds shall be paid by check mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date, and principal and premium, if any, of the Series 2010 Bonds shall be payable by check upon presentation and surrender of such Series 2010 Bonds by the Registered Owners at the principal office of the Registrar; provided, however, that if so requested in writing prior to the opening of business on the 15th day of the month preceding any interest payment date by the Registered Owner of at least $1,000,000 aggregate principal amount of Series 2010 Bonds, interest will be paid thereafter by wire transfer on the date due to an account with a bank located within the United States.

Section 7. Use of Excess Money.

Money in the First Lien Bond Account not needed to pay the interest or principal and interest next coming due on any Outstanding First Lien PFC Bonds may be used to purchase or redeem and retire First Lien PFC Bonds within the limitations provided in Section 5 of this Series Resolution. Money in the First Lien Bond Account shall be used solely to pay principal of, interest on and premium, if any, on First Lien PFC Bonds, whether at maturity or redemption or to purchase in advance of maturity of such First Lien PFC Bonds. As provided in this Series

Resolution, the Monthly Debt Service Deposit shall be adjusted from time to time, so as to ensure compliance with requirements of the Code and avoid excessive accumulations in the First Lien Bond Account.

Money on hand in the First Lien Reserve Account in excess of the First Lien Reserve Account Requirement shall be transferred to one or more accounts in accordance with the priorities established in Section 2(a) of the PFC Master Resolution.

Section 8. Pledge of PFC Revenue and Additional Pledged Revenue; First Lien Reserve Account. Pursuant to the PFC Master Resolution, the First Lien Bond Account and the First Lien Reserve Account have been created for the purpose of paying and securing the payment of the principal of, premium, if any, and interest on all outstanding PFC First Lien Bonds. From and after the time of issuance and delivery of the Series 2010 Bonds and so long thereafter as any of the same remain Outstanding, the Port hereby irrevocably obligates and binds itself to set aside and pay into the First Lien Bond Account out of PFC Revenue and Additional Pledged Revenue, if any, on or prior to the date on which the interest on or principal of and interest on the Series 2010 Bonds shall become due, the amount necessary to pay such interest or principal and interest coming due on the Series 2010 Bonds. The foregoing sentence shall constitute a pledge of PFC Revenue and Additional Pledged Revenue, if any, to the Series 2010 Bonds. Said amounts so pledged to be paid into the First Lien Bond Account are hereby declared to be a prior lien and charge upon the PFC Revenue superior to all other charges of any kind or nature whatsoever except for charges equal in rank that may be made thereon to pay and secure the payment of the principal of and interest on the Outstanding First Lien PFC Bonds and any First Lien PFC Bonds issued in the future under authority of a Series Resolution in accordance with the provisions of Sections 4 and Section 5 or 6 of the PFC Master Resolution.

Section 9. Defeasance. In the event that money and/or noncallable Government Obligations maturing or having guaranteed redemption prices at the option of the owner at such time or times and bearing interest to be earned thereon in amounts (together with such money, if any) sufficient to redeem and retire part or all of the Series 2010 Bonds in accordance with their terms, are hereafter irrevocably set aside in a special account and pledged to effect such redemption and retirement, and, if the Series 2010 Bonds are to be redeemed prior to maturity, irrevocable notice, or irrevocable instructions to give notice of such redemption has been delivered to the Registrar, then no further payments need be made into the First Lien Bond Account or any subaccount therein for the payment of the principal of, premium, if any, and interest on the Series 2010 Bonds so provided for and such Series 2010 Bonds shall then cease to be entitled to any lien, benefit or security of the PFC Master Resolution or this Series Resolution, except the right to receive the funds so set aside and pledged and such notices of redemption, if any, and such Series 2010 Bonds shall no longer be deemed to be Outstanding hereunder or under the PFC Master Resolution or under any resolution authorizing the issuance of bonds or other indebtedness of the Port.

Within 45 days after any defeasance of Series 2010 Bonds, the Port shall provide notice of defeasance of Series 2010 Bonds to Registered Owners of Series 2010 Bonds being defeased and to each party entitled to receive notice in accordance with Section 17 of this Series Resolution.

Section 10. Refunding Procedures.

(a) *Application of Series 2010 Bond Proceeds*. The net proceeds of the Series 2010 Bonds (exclusive of any amounts that may be designated by the Designated Port Representative in a closing certificate to be allocated to pay costs of issuance, the costs of any Bond Insurance

Policy premium and to make a deposit to the First Lien Reserve Account, if necessary), together with other available funds of the Port in the amount specified by the Designated Port Representative, shall be used at the direction of the Designated Port Representative to effect a defeasance of the Refunded Bonds.

(b) *Defeasance of Refunded Bonds*. The net proceeds of the Series 2010 Bonds so deposited shall be utilized immediately upon receipt thereof to pay and redeem the Refunded Bonds or to purchase the Government Obligations specified by the Designated Port Representative (which obligations so purchased, are herein called “Acquired Obligations”) and to maintain such necessary beginning cash balance to defease the Refunded Bonds and to discharge the other obligations of the Port relating thereto under the 1998 Series Resolution authorizing their issuance, by providing for the payment of the interest on the Refunded Bonds to the dates fixed for redemption and the redemption price (the principal amount) on the redemption dates for the Refunded Bonds. When the final transfers have been made for the payment of such redemption price and interest on the Refunded Bonds, any balance then remaining shall be transferred to the account designated by the Port and used for the purposes specified by the Designated Port Representative.

(c) *Acquired Obligations.* The Acquired Obligations, if any, shall be payable in such amounts and at such times that, together with any necessary beginning cash balance, will be sufficient to provide for the payment of:

(1) the interest on the Refunded Bonds as such becomes due on and before the dates fixed for redemption of the Refunded Bonds; and

(2) the price of redemption of the Refunded Bonds on the dates fixed for redemption of the Refunded Bonds.

(d) *Authorizing Appointment of Escrow Agent.* The Commission hereby authorizes and directs the Designated Port Representative (if the Designated Port Representative determines that an escrow would be necessary or desirable to effect the defeasance of the Refunded Bonds) to select a financial institution to act as the escrow agent for the Refunded Bonds (the "Escrow Agent").

Section 11. Redemption of Refunded Bonds. The Commission hereby calls the Refunded Bonds for redemption on the redemption dates specified by the Designated Port Representative in accordance with the provisions of the 1998 Series Resolution authorizing the issuance, redemption and retirement of the Refunded Bonds, respectively, prior to their fixed maturities.

Said defeasance and call for redemption of the Refunded Bonds shall be irrevocable after the closing and delivery of the Series 2010 Bonds.

The Designated Port Representative may cause to be disseminated a conditional notice of redemption prior to the closing and delivery of the Series 2010 Bonds. If so appointed, the Escrow Agent shall be authorized and directed to provide for the giving of irrevocable notice of the redemption of the Refunded Bonds in accordance with the terms of 1998 Series Resolution authorizing the issuance of the Refunded Bonds and as described in the Escrow Agreement. The Treasurer is authorized and directed to provide whatever assistance is necessary to accomplish such redemption and the giving of notice therefor. The costs of mailing of such notice shall be an expense of the Port.

The Port or the Escrow Agent on behalf of the Port shall be authorized and directed to pay to the fiscal agency or agencies of the State of Washington, sums sufficient to pay, when due, the payments specified in Section 10(c) of this Series Resolution. All such sums shall be

paid from the moneys and the Acquired Obligations pursuant to the previous section of this Series Resolution, and the income therefrom and proceeds thereof.

If an Escrow Agent is appointed, the Port will ascertain that all necessary and proper fees, compensation and expenses of the Escrow Agent for the Refunded Bonds shall be paid when due. If an Escrow Agent is appointed, the Designated Port Representative is authorized and directed to execute and deliver the Escrow Agreement to the Escrow Agent when the provisions thereof have been fixed and determined for closing and delivery of the Series 2010 Bonds. The Escrow Agreement, if any, shall be substantially in the form of Exhibit A attached to this Series Resolution and by this reference hereby made a part of this Series Resolution.

Section 12. Tax Covenants.

(a) *Tax Covenant*. The Port covenants to undertake all actions required to maintain the tax-exempt status of interest on the Series 2010 Bonds under Section 103 of the Code as set forth in the Tax and Arbitrage Certificate.

(b) *No Bank Qualification*. The Series 2010 Bonds shall not be qualified tax-exempt obligations pursuant to Section 265(b) of the Code for investment by financial institutions.

Section 13. Lost, Stolen, Mutilated or Destroyed Series 2010 Bonds. In case any Series 2010 Bond shall be lost, stolen, mutilated or destroyed, the Registrar may execute and deliver a new Series 2010 Bond of like series, maturity, date, number and tenor to the Registered Owner thereof upon the owner's paying the expenses and charges of the Port in connection therewith and upon his/her filing with the Port evidence satisfactory to the Port that such Series 2010 Bond was actually lost, stolen or destroyed (including the presentation of a mutilated Series 2010 Bond) and of his/her ownership thereof, and upon furnishing the Port and the Registrar with indemnity satisfactory to both.

Section 14. Forms of Series 2010 Bonds and Registration Certificate.

(a) *Series 2010A Bonds*. The Series 2010A Bonds shall be in substantially the following form:

[DTC Legend]

UNITED STATES OF AMERICA

NO. ______ $____________

STATE OF WASHINGTON
PORT OF SEATTLE
PASSENGER FACILITY CHARGE REVENUE REFUNDING BOND, SERIES 2010A

Maturity Date: CUSIP No. _______

Interest Rate:

Registered Owner:

Principal Amount:

THE PORT OF SEATTLE, a municipal corporation organized and existing under and by virtue of the laws of the State of Washington (the "Port"), promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, solely from the special fund of the Port known as the "Port of Seattle Passenger Facility Charge Revenue Bond Account, First Lien" (the "First Lien Bond Account") created by Resolution No. 3284, as amended, of the Port Commission (together with Resolution No. 3643, as amended, hereinafter collectively referred to as the "Bond Resolution") the Principal Amount indicated above and to pay interest thereon from the First Lien Bond Account from _______, 2010, or the most recent date to which interest has been paid or duly provided for or until payment of this bond at the Interest Rate set forth above, payable semiannually on the first days of each _______ and _________, beginning on _________. The principal of, premium, if any, and interest on this bond are payable in lawful money of the United States of America. Interest shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the Port to The Depository Trust Company ("DTC"). Principal shall be paid as provided in the Letter of Representations to the Registered Owner or assigns upon presentation and surrender of this bond at the principal office of the fiscal agency of the State of Washington (collectively the "Registrar"). Capitalized terms used in this bond that are not specifically defined have the meanings given such terms in the Bond Resolution.

This bond is one of a series of bonds of the Port in the aggregate principal amount of $_________ of like date, tenor and effect, except as to number, amount, rate of interest and date of maturity and is issued pursuant to the Bond Resolution to refund certain passenger facility revenue bonds of the Port. Simultaneously herewith, the Port is issuing its Passenger Facility

Charge Revenue Refunding Bonds, Series 2010B (the "Series 2010B Bonds"), in the aggregate principal amount of $__________.

The bonds of this series maturing on and after ________ 1, ____ shall be subject to optional redemption in advance of their scheduled maturity on and after ____________ in whole or in part on any date at a price of par plus accrued interest to the date fixed for redemption.

[The bonds of this issue maturing on _______ 1, ___ shall be redeemed by the Port on _______ 1 of the following years in the following principal amounts at a price of par plus accrued interest to the date fixed for redemption:

Redemption Dates	Amounts
	$

* Final Maturity]

The bonds of this series are not private activity bonds. The bonds of this series are not "qualified tax exempt obligations" eligible for investment by financial institutions within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

The Port hereby covenants and agrees with the owner and holder of this bond that it will keep and perform all the covenants of this bond and the Bond Resolution.

The Port does hereby pledge and bind itself to set aside from PFC Revenue and Additional Pledged Revenue, if any, and to pay into the First Lien Bond Account and the First Lien Reserve Account the various amounts required by the Bond Resolution to be paid into and maintained in said Accounts, all within the times provided by said Bond Resolution.

Said amounts so pledged to be paid out of PFC Revenue and Additional Pledged Revenue, if any, into the First Lien Bond Account and the First Lien Reserve Account are hereby declared to be a first and prior lien and charge upon the PFC Revenue and Additional Pledged Revenue, if any, equal in rank to the lien and charge upon such PFC Revenue and Additional Pledged Revenue, if any, of the amounts required to pay and secure the payment of the outstanding Passenger Facility Charge Revenue Bonds, Series 1998, the Series 2010B Bonds and any revenue bonds of the Port hereafter issued on a parity with the bonds of this series.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Registrar.

It is hereby certified and declared that this bond and the bonds of this issue are issued pursuant to and in strict compliance with the Constitution and laws of the State of Washington and resolutions of the Port and that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed.

IN WITNESS WHEREOF, the Port of Seattle has caused this bond to be executed by the manual or facsimile signatures of the President and Secretary of the Port Commission, and the corporate seal of the Port to be impressed or a facsimile thereof imprinted hereon as of the ___ day of _______, 2010.

PORT OF SEATTLE

By _______________/s/________________
President, Port Commission

ATTEST:

____________/s/_________________
Secretary, Port Commission

CERTIFICATE OF AUTHENTICATION

Date of Authentication: ____________________

This bond is one of the bonds described in the within mentioned Bond Resolution and is one of the Passenger Facility Charge Revenue Refunding Bonds, Series 2010A of the Port of Seattle, dated __________, 2010.

WASHINGTON STATE FISCAL AGENCY, Registrar

By __________________________________
Authorized Signer

In the event any Series 2010A Bonds are no longer in fully immobilized form, the form of such Series 2010A Bonds may be modified to conform to printing requirements and the terms of this Series Resolution.

(b) *Series 2010B Bonds*. The Series 2010B Bonds shall be in substantially the following form:

[DTC Legend]

UNITED STATES OF AMERICA

NO. ______ $____________

STATE OF WASHINGTON
PORT OF SEATTLE
PASSENGER FACILITY CHARGE REVENUE REFUNDING BOND, SERIES 2010B

Maturity Date: CUSIP No. _______

Interest Rate:

Registered Owner:

Principal Amount:

THE PORT OF SEATTLE, a municipal corporation organized and existing under and by virtue of the laws of the State of Washington (the "Port"), promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, solely from the special fund of the Port known as the "Port of Seattle Passenger Facility Charge Revenue Bond Account, First Lien" (the "First Lien Bond Account") created by Resolution No. 3284, as amended, of the Port Commission, as amended (together with Resolution No. 3643, as amended, hereinafter collectively referred to as the "Bond Resolution") the Principal Amount indicated above and to pay interest thereon from the First Lien Bond Account from ________, 2010, or the most recent date to which interest has been paid or duly provided for or until payment of this bond at the Interest Rate set forth above, payable semiannually on the first days of each ______ and _________, beginning on ________. The principal of, premium, if any, and interest on this bond are payable in lawful money of the United States of America. Interest shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the Port to The Depository Trust Company ("DTC"). Principal shall be paid as provided in the Letter of Representations to the Registered Owner or assigns upon presentation and surrender of this bond at the principal office of the fiscal agency of the State of Washington (collectively the "Registrar"). Capitalized terms used in this bond that are not specifically defined have the meanings given such terms in the Bond Resolution.

This bond is one of a series of bonds of the Port in the aggregate principal amount of $________ of like date, tenor and effect, except as to number, amount, rate of interest and date of maturity and is issued pursuant to the Bond Resolution to refund certain outstanding passenger facility revenue bonds of the Port. Simultaneously herewith, the Port is issuing its Passenger Facility Charge Revenue Refunding Bonds, Series 2010A (the “Series 2010A Bonds”), in the aggregate principal amount of $________.

The bonds of this series maturing on and after ________ 1, ____ shall be subject to optional redemption in advance of their scheduled maturity on and after ____________ in whole or in part on any date at a price of par plus accrued interest to the date fixed for redemption.

[The bonds of this issue maturing on _______ 1, ___ shall be redeemed by the Port on _______ 1 of the following years in the following principal amounts at a price of par plus accrued interest to the date fixed for redemption:

Redemption Dates	Amounts
	$

* Final Maturity]

The bonds of this series are private activity bonds. The bonds of this series are not "qualified tax exempt obligations" eligible for investment by financial institutions within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

The Port hereby covenants and agrees with the owner and holder of this bond that it will keep and perform all the covenants of this bond and the Bond Resolution.

The Port does hereby pledge and bind itself to set aside from PFC Revenue and Additional Pledged Revenue, if any, and to pay into the First Lien Bond Account and the First Lien Reserve Account the various amounts required by the Bond Resolution to be paid into and maintained in said Accounts, all within the times provided by said Bond Resolution.

Said amounts so pledged to be paid out of PFC Revenue and Additional Pledged Revenue, if any, into the First Lien Bond Account and the First Lien Reserve Account are hereby declared to be a first and prior lien and charge upon the PFC Revenue and Additional Pledged Revenue, if any, equal in rank to the lien and charge upon such PFC Revenue and Additional Pledged Revenue, if any, of the amounts required to pay and secure the payment of the outstanding Passenger Facility Charge Revenue Bonds, Series 1998, the Series 2010A Bonds and any revenue bonds of the Port hereafter issued on a parity with the bonds of this series.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Registrar.

It is hereby certified and declared that this bond and the bonds of this issue are issued pursuant to and in strict compliance with the Constitution and laws of the State of Washington and resolutions of the Port and that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed.

IN WITNESS WHEREOF, the Port of Seattle has caused this bond to be executed by the manual or facsimile signatures of the President and Secretary of the Port Commission, and the

corporate seal of the Port to be impressed or a facsimile thereof imprinted hereon as of the ___ day of ____, 2010.

PORT OF SEATTLE

By ______/s/______
President, Port Commission

ATTEST:

______/s/______
Secretary, Port Commission

CERTIFICATE OF AUTHENTICATION

Date of Authentication: ____________________

This bond is one of the bonds described in the within mentioned Bond Resolution and is one of the Passenger Facility Charge Revenue Refunding Bonds, Series 2010B of the Port of Seattle dated _______, 2010.

WASHINGTON STATE FISCAL AGENCY, Registrar

By ________________________________
Authorized Signer

Section 15. Execution. The Series 2010 Bonds shall be executed on behalf of the Port with the manual or facsimile signature of the President of its Commission, shall be attested by the manual or facsimile signature of the Secretary thereof and shall have the seal of the Port impressed, imprinted or otherwise reproduced thereon.

Only such Series 2010 Bonds as shall bear thereon a Certificate of Authentication in the form hereinbefore recited, manually executed by the Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Series Resolution. Such Certificate of Authentication shall be conclusive evidence that the Series 2010 Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Series Resolution.

In case either of the officers of the Port who shall have executed the Series 2010 Bonds shall cease to be such officer or officers of the Port before the Series 2010 Bonds so signed shall have been authenticated or delivered by the Registrar, or issued by the Port, such Series 2010 Bonds may nevertheless be authenticated, delivered and issued and upon such authentication, delivery and issuance, shall be as binding upon the Port as though those who signed the same had continued to be such officers of the Port. Any Series 2010 PFC Bond may also be signed and attested on behalf of the Port by such persons as at the actual date of execution of such Series 2010 PFC Bond shall be the proper officers of the Port although at the original date of such Series 2010 PFC Bond any such person shall not have been such officer.

Section 16. Designation of Refunded Bonds; Sale of Series 2010 Bonds.

(a) *Designation of Refunded Bonds*. As outlined in Section 2 and Section 10 of this Series Resolution, the Refunding Candidates may be called for redemption prior to their scheduled maturities. All or some of the Refunding Candidates may be refunded with the proceeds of the Series 2010 Bonds authorized by this Series Resolution. The Chief Executive Officer may select some or all of the Refunding Candidates and designate those Refunding Candidates as the "Refunded Bonds" in the Bond Purchase Contract if and to the extent that the net present value aggregate savings with respect to Refunded Bonds to be realized as a result of the refunding of the Refunded Bonds, after payment of all costs of issuance of the allocable Series 2010 Bonds), is at least equal to the Savings Target.

(b) *Series 2010 Bond Sale.* The Series 2010 Bonds shall be sold at negotiated sale to the Underwriters pursuant to the terms of the Bond Purchase Contract. The Designated Port

Representative is hereby authorized to negotiate terms for the purchase of the Series 2010 Bonds and to execute the Bond Purchase Contract, with such terms (including the designation of the Refunded Bonds) as are approved by the Chief Executive Officer pursuant to this section and consistent with this Series Resolution and the PFC Master Resolution. The Port Commission has been advised by the Port's financial advisor that market conditions are fluctuating and, as a result, the most favorable market conditions may occur on a day other than a regular meeting date of the Commission. The Commission has determined that it would be in the best interest of the Port to delegate to the Chief Executive Officer for a limited time the authority with respect to each series to approve the final interest rates, maturity dates, aggregate principal amount, principal amounts and prices of each maturity, redemption rights, and other terms and conditions of the Series 2010 Bonds. The Chief Executive Officer is hereby authorized to approve with respect to each series, the final interest rates, maturity dates, aggregate principal amount, principal amounts of each maturity and redemption rights for the Series 2010 Bonds in the manner provided hereafter so long as the aggregate principal amount of the Series 2010 Bonds does not exceed the maximum principal amounts set forth in Section 3 and so long as the Savings Target is met (as described in subsection (a) of this Section 16). .

In determining the final interest rates, maturity dates, aggregate principal amount, principal maturities, redemption rights of the Series 2010 Bonds, the Chief Executive Officer, in consultation with Port staff and the Port's financial advisor, shall take into account those factors that, in his judgment, will result in the lowest true interest cost on the Series 2010 Bonds to their maturity, including, but not limited to current financial market conditions and current interest rates for obligations comparable in tenor and quality to the Series 2010 Bonds. Subject to the terms and conditions set forth in this section, the Designated Port Representative is hereby authorized to execute the final form of the Bond Purchase Contract, upon the Chief Executive Officer's approval of the final interest rates, maturity dates, aggregate principal amount, principal maturities and redemption rights set forth therein. Following the execution of the Bond Purchase Contract, the Chief Executive Officer shall provide a report to the Commission, describing the final terms of the Series 2010 Bonds approved pursuant to the authority delegated in this section. The authority granted to the Chief Executive Officer and the Designated Port Representative by this section shall expire on January 26, 2011. If a Bond Purchase Contract for the Series 2010 Bonds has not been executed by January 26, 2011, the authorization for the issuance of the Series 2010 Bonds shall be rescinded, and the Series 2010 Bonds shall not be issued nor their sale approved unless the Series 2010 Bonds shall have been re-authorized by resolution of the Commission. The resolution reauthorizing the issuance and sale of the Series 2010 Bonds may be in the form of a new series resolution repealing this Series Resolution in whole or in part (only with respect to the Series 2010 Bonds not issued) or may be in the form of an amendatory resolution approving a bond purchase contract or establishing terms and conditions for the authority delegated under this section.

Upon the adoption of this Series Resolution, the proper officials of the Port including the Designated Port Representative, are authorized and directed to undertake all other actions necessary for the prompt execution and delivery of the Series 2010 Bonds to the Underwriters thereof and further to execute all closing certificates and documents required to effect the closing and delivery of the Series 2010 Bonds in accordance with the terms of the Bond Purchase Contract.

The Designated Port Representative is authorized to ratify and to approve for purposes of the Rule, on behalf of the Port, the Official Statement (and any Preliminary Official Statement)

and any supplement thereto relating to the issuance and sale of the Series 2010 Bonds and the distribution of the Series 2010 Bonds pursuant thereto with such changes, if any, as may be deemed by him/her to be appropriate.

The Designated Port Representative and other Port officials, agents and representatives are hereby authorized and directed to do everything necessary for the prompt issuance, execution and delivery of the Series 2010 Bonds to the Underwriters and for the proper application and use of the proceeds of sale of the Series 2010 Bonds. In furtherance of the foregoing, the Designated Port Representative is authorized to approve and enter into agreements for the payment of costs of issuance, including Underwriters' discount, the fees and expenses specified in the Bond Purchase Contract, including fees and expenses of Underwriters and other retained services, including bond counsel, rating agencies, fiscal agency, escrow agent, financial advisory services, escrow structuring services and other expenses customarily incurred in connection with issuance and sale of bonds.

Section 17. Undertaking to Provide Ongoing Disclosure.

(a) *Contract/Undertaking*. This section constitutes the Port's written undertaking for the benefit of the beneficial owners of the Series 2010 Bonds to assist the Underwriters in complying with the Rule. For purposes of this section, "beneficial owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2010 Bonds, including persons holding Series 2010 Bonds through nominees or depositories.

(b) *Financial Statements/Operating Data*.

(1) *Annual Disclosure Report*. The Port covenants and agrees that not later than six months after the end of each fiscal year (the "Submission Date"), commencing

June 30, 2011 for the fiscal year ending December 31, 2010, the Port shall provide or cause to be provided to the MSRB an annual report (the "Annual Disclosure Report") that is consistent with the requirements of part (2) of this subsection (b). The Port may adjust such date if the Port changes its fiscal year by providing written notice of the change of fiscal year and the new reporting date to the MSRB. The Annual Disclosure Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in part (2) of this subsection (b); provided that any audited annual financial statements may be submitted separately from the balance of the Annual Disclosure Report and later than the Submission Date if such audited financial statements are not available by the Submission Date. If the Port's fiscal year changes, the Port shall give notice of such change in the same manner as notice is to be given of the occurrence of an event listed in subsection 17(c) hereof, and if for any fiscal year the Port does not furnish an Annual Disclosure Report to the MSRB, if any, by the Submission Date, the Port shall send to the MSRB notice of its failure to furnish such report pursuant to Section 17(d).

(2) *Content of Annual Disclosure Reports*. The Port's Annual Disclosure Report shall contain or include by reference the following:

(A) *Audited financial statements*. Audited financial statements, except that if any audited financial statements are not available by the Submission Date, the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the Port, and the Port's audited financial statements shall be filed in the same manner as the Annual Disclosure Report when and if they become available.

(B) *Operating Data and Financial Information.* Updated versions of the type of information contained in the Official Statement and identified in a closing certificate executed by the Designated Port Representative and referencing this section.

In lieu of providing the information in such Annual Disclosure Report, the Port may cross-reference to other documents available to the public on the MSRB's internet website and, if such document is a final official statement within the meaning of the Rule, available from the MSRB. The Port shall identify clearly each document so included by reference.

(c) *Material Events*. The Port agrees to provide or cause to be provided, in a timely manner to the MSRB notice of the occurrence of any of the following events with respect to the Series 2010 Bonds not in excess of ten business days after the occurrence of the event:

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the Internal Revenue service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2010 Bonds, or other material events affecting the tax status of the Series 2010 Bonds;

- Modifications to rights of owners, if material;
- Optional, contingent or unscheduled Series 2010 Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856, if material, and tender offers;
- Defeasances;
- Release, substitution or sale of property securing the repayment of the Series 2010 Bonds, if material;
- Rating changes;
- Bankruptcy, insolvency, receivership or similar event of the Port;
- The consummation of a merger, consolidation, or acquisition of the Port or the sale of all or substantially all of the assets of the Port, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material; and
- Appointment of a successor or additional Standby Trustee or the change of name of the Standby Trustee, if material.

Solely for purposes of information, but without intending to modify this agreement, with respect to the notice regarding property securing the repayment of the Series 2010 Bonds, the Port will state in its Preliminary and Final Official Statements that there is no property securing the repayment of the Series 2010 Bonds. The Port shall promptly determine whether the events described above are material.

(d) *Notice Upon Failure to Provide Financial Data*. The Port agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the annual financial information described in subsection (b) above on or prior to the Submission Date.

(e) *Format for Filings with the MSRB*. All notices, financial information and operating data required by this undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

(f) *Termination/Modification*. The Port's obligations to provide annual financial information and notices of material events shall terminate upon the legal defeasance (if notice of such defeasance is given as provided above) or payment in full of all of the Series 2010 Bonds. This section, or any provision hereof, shall be null and void if the Port (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this section, or any such provision, have been repealed retroactively or otherwise do not apply to the Series 2010 Bonds; and (2) notifies the MSRB, if any, of such opinion and the cancellation of this section. Notwithstanding any other provision of this Series Resolution, the Port may amend this Section 17 (including the items in the closing certificate referenced above) and any provision of this Section 17 may be waived, in accordance with the Rule; *provided that* (A) if the amendment or waiver relates to the provisions of subsections (b)(1), (b)(2) or (c) above, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2010 Bonds, or the type of business conducted; (B) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2010 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (C) the amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the beneficial owners of the Series 2010 Bonds.

In the event of any amendment of or waiver of a provision of this Section 17, the Port shall describe such amendment in the next Annual Disclosure Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Port. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under Subsection (c), and (ii) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

(f) *Registered Owner's and Beneficial Owners' Remedies Under this Section*. A Registered Owner's and the beneficial owners' right to enforce the provisions of this section shall be limited to a right to obtain specific enforcement of the Port's obligations hereunder, and any failure by the Port to comply with the provisions of this undertaking shall not be a default under this Series Resolution.

(g) *Additional Information*. Nothing in this Section 17 shall be deemed to prevent the Port from disseminating any other information, using the means of dissemination set forth in this Section 17 or any other means of communication, or including any other information in any

Annual Disclosure Report or notice of occurrence of a material event, in addition to that which is required by this Section 17. If the Port chooses to include any information in any Annual Disclosure Report or notice of the occurrence of a material event in addition to that specifically required by this Section 17, the Port shall have no obligation under this Series Resolution to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of a material event.

Section 18. Amendments to PFC Master Resolution. This section amends the PFC Master Resolution, which amendments shall be effective on the date on which the Outstanding PFC Bonds (issued prior to 2010) are no longer Outstanding (the "New Date"). By purchasing the Series 2010 Bonds and any First Lien PFC Bonds issued in the future, the owners of the Series 2010 Bonds and such First Lien PFC Bonds issued in the future will be deemed to have approved the amendments to the PFC Master Resolution set forth in this section.

(a) Section 1 of the PFC Master Resolution is hereby amended by amending the following definitions and adding the following additional definition (additions and amendments are underscored and bracketed).

"Base Period" means any consecutive 12-month period selected by the Port out of the **[~~18~~][24]**-month period next preceding the date of issuance of an additional Series of PFC Bonds.

"Debt Service" means, for any period of time,

(1) with respect to any Outstanding Original Issue Discount Bonds or Capital Appreciation Bonds which are not designated as Balloon Maturity Bonds in the Series Resolution authorizing their issuance, the principal amount thereof shall be equal to the Accreted Value thereof maturing or scheduled for redemption in such period, and the interest, if any, payable during such period;

(2) with respect to any Outstanding Fixed Rate Bonds, an amount equal to (A) the principal amount of such PFC Bonds due or subject to mandatory redemption during such period and for which no sinking fund installments have been established, (B) the amount of any payments required to be made during such period into any sinking fund established for the payment of any such PFC Bonds, plus (C) all interest payable during such period on any such PFC Bonds Outstanding and with respect to PFC Bonds with mandatory sinking fund requirements, calculated on the assumption that mandatory sinking fund installments will be applied to the redemption or retirement of such PFC Bonds on the date(s) specified in the Series Resolution authorizing such PFC Bonds;

(3) with respect to First Lien PFC Bonds bearing variable rates of interest, an amount for any period equal to the amount which would **[**be**]** payable for principal and interest on such First Lien PFC Bonds during such period computed on the assumption that the amount of First Lien PFC Bonds Outstanding as of the date of such computation would be amortized (i) in accordance with the mandatory redemption provisions, if any, set forth in the Series Resolution authorizing the issuance of such First Lien PFC Bonds, or if mandatory redemption provisions are not provided, during a period commencing on the date of computation and ending on the date 30 years after the date of issuance; (ii) at an interest rate equal to the highest rate payable by the Port with respect to such First Lien PFC Bonds; (iii) to provide for essentially level annual debt service of principal and interest over such period;

(4) with respect to all other Series of PFC Bonds Outstanding, other than Fixed Rate Bonds, Original Issue Discount Bonds or Capital Appreciation Bonds, specifically including but not limited to Balloon Maturity Bonds and PFC Bonds bearing variable rates of interest **[**as described in (3) above**]**, an amount for any period equal to the amount which would have been payable for principal and interest on such PFC Bonds during such period computed on the assumption that the amount of PFC Bonds Outstanding as of the date of such computation would be amortized (i) in accordance with the mandatory redemption provisions, if any, set forth in the Series Resolution authorizing the issuance of such PFC Bonds, or if mandatory redemption provisions are not provided, during a period commencing on the date of computation and ending on the date 30 years after the date of issuance (ii) at an interest rate equal to the yield to maturity set forth in the 40-Bond Index published in the edition of *The Bond Buyer* (or comparable publication or such other similar index selected by the Port with the approval of the Consultant, if applicable) selected by the Port and published within ten days prior to the date of calculation or, if such calculation is being made in connection with the Designated Port Representative's Certificate or the Independent Aviation Consultant's Certificate then within ten days prior to the date of such certificate, (iii) to provide for essentially level annual debt service of principal and interest over such period; and

(5) with respect to Derivative Products, the Port Payments required by contract to be paid to a Reciprocal Payor under any existing Derivative Product, offset by the Reciprocal Payments during the same period during the relevant period, on the assumption that if any such payment is not fixed at the time of execution of the Derivative Product, the amount of such payment will be calculated at the Estimated Average Derivative Rate prevailing during the remaining term of the Derivative Product.

With respect to any PFC Bonds payable in other than U. S. Dollars, Debt Service shall be calculated as provided in the Series Resolution authorizing the issuance of such PFC Bonds. Debt Service shall be net of any interest and principal funded out of PFC Bond proceeds or the proceeds of other funds or indebtedness. **[**From and after the New Date, (absent a written election by the Designated Port Representative to the contrary) Debt Service shall be calculated net of any federal subsidy legally available to pay the principal of or interest on the PFC Bonds in the year of calculation. Thereafter, such federal subsidy shall no longer be included in the definition of Additional Pledged Revenues or PFC Revenues.**]**

Debt Service shall include reimbursement obligations to providers of Credit Facilities to the extent such reimbursement obligations are outstanding or as otherwise authorized in a Series Resolution.

[~~"First Lien Sufficiency Covenant" means the requirement that (i) Unspent PFC Authority~~ **~~plus~~** ~~(ii) Projected Additional Pledged Revenue is at least equal to 105% of Projected Aggregate Debt Service with respect to all Outstanding First Lien PFC Bonds~~**]**

"Designated Port Representative's Certificate" means a certificate dated no earlier than 30 days earlier than the delivery of the Future First Lien PFC Project Bonds, executed by a Designated Port Representative and stating that **[**

~~(i) the First Lien Sufficiency Covenant will be met upon the issuance of the Future First Lien PFC Project Bonds; and~~

~~(ii)~~ **]**Pledged Revenue received during the Base Period (as shown in the audited or unaudited financial statements of the Port) was not less than 150% of Maximum Annual Debt Service on all First Lien PFC Bonds that will be Outstanding upon the issuance of such Future First Lien PFC Project Bonds;

provided, however, that in preparing such certificate, the Designated Port Representative

(1) shall take into account any Forecast PFC Rate Adjustment as if such new rate had been in effect during the entire Base Period and

(2) may take into account any Additional Pledged Revenue only if each Rating Agency then maintaining a rating on First Lien PFC Bonds has confirmed, on or prior to the date of the Designated Port Representative's Certificate that such Additional Pledged Revenue will not in and of itself cause such Rating Agency to reduce or to withdraw its then current underlying rating on the First Lien PFC Bonds then Outstanding.

"Independent Aviation Consultant's Certificate" means a certificate dated no earlier than 30 days earlier than the delivery of the Future First Lien PFC Project Bonds, executed by an Independent Aviation Consultant and stating that **[**

~~(i) the First Lien Sufficiency Covenant is estimated to be met upon the issuance of the Future First Lien PFC Project Bonds; and~~

~~(ii)~~ **]**in each of the first five full calendar years (commencing with the first such year following the date of issuance of the Future First Lien PFC Project Bonds) following the date of issuance of the Future First Lien PFC Project Bonds), the amount of Pledged Revenue to be collected in each such year is estimated to be not less than 150% of Maximum Annual Debt Service on all First Lien PFC Bonds to be Outstanding after the issuance of the proposed Future First Lien PFC Project Bonds;

provided, however, that in computing the amount of Pledged Revenue, the Independent Aviation Consultant:

(1) shall take into account any Forecast PFC Rate Adjustment on the assumption that such Forecast PFC Rate Adjustment will be in effect during the full five-year period;

(2) may take into account any Projected Additional Pledged Revenue estimated to be received during the full five-year period; and

(3) **[**may include**]** reasonable projections of PFC Revenue, based upon the methodology set forth in the certificate taking into account any projected change in the number of enplanements during the five-year period following the issuance of the Future First Lien PFC Project Bonds.

["New Date" means the date on which the Outstanding First Lien PFC Bonds (issued prior to 2010) are no longer Outstanding.**]**

"Standby Trustee" means **[**~~Norwest Bank Minnesota, N.A., Minneapolis, Minnesota~~**][**the financial institution appointed from time to time by the owners of a majority of the Outstanding PFC First Lien Bonds or if none has been appointed by the owners, then as may be appointed by the Port**]**.

(b) The second paragraph of Section 4 of the PFC Master Resolution is hereby amended to read as follows (additions are underscored and bracketed and deletions are shown as stricken and bracketed).

Each Series of Parity Bonds shall be authorized by a Series Resolution which shall, among other provisions, specify **[**~~and~~**][**or**]** provide for:

(c) The first paragraph of Section 9(a) of the PFC Master Resolution is hereby amended to read as follows (additions are underscored and bracketed and deletions are shown as stricken and bracketed).

(a) *First Lien Sufficiency Covenant*. The Port will at all times establish, maintain and collect PFC Revenue which, together with **[**~~Projected~~**]** Additional Pledged Revenue, **[**if any, **]**will be sufficient to meet **[**its scheduled Debt Service obligations**][**~~the First Lien Sufficiency Covenant and undertake to measure compliance with the First Lien Sufficiency Covenant as of the end of each fiscal year~~**]**.

As amended by this Section, the PFC Master Resolution is hereby ratified, approved and confirmed.

Section 19. Compliance with Parity Conditions. If and to the extent that any Outstanding PFC Bonds will remain outstanding upon the issuance of the Series 2010 Bonds, the Commission hereby finds and determines as required by Section 6 of the PFC Master Resolution, as follows:

First: The Series 2010 Bonds are being issued for the purpose of refunding First Lien PFC Bonds, and

Second: the Annual Debt Service on the Series 2010 Bonds shall not be more than the Annual Debt Service on the Refunded Bonds were such refunding not to occur and, therefore, shall be issued without a Designated Port Representative's Certificate or an Independent Aviation Consultant's Certificate.

The limitations contained in the conditions provided in Section 6 of the PFC Master Resolution having been complied with, the payments required herein to be made out of the PFC Revenue and Additional Pledged Revenue to pay and secure the payment of the principal of, premium, if any, and interest on the Series 2010 Bonds shall constitute a lien and charge upon such a charge and lien upon the PFC Revenue and Additional Pledged Revenue equal to the lien thereon of Outstanding First Lien PFC Bonds.

Section 20. Bond Insurance. The payments of the principal of and interest on either series, or principal maturities within either series, of the Series 2010 Bonds may be insured by the issuance of a Bond Insurance Policy. The Designated Port Representative, with the assistance of the Underwriters, shall solicit proposals from municipal bond insurance companies, and the Designated Port Representative, in consultation with the Port's financial advisor, is hereby authorized to select the proposal that is deemed to be the most cost effective and further to execute the Bond Insurance Commitment and other agreements with the Insurer, which may include such covenants and conditions as shall be approved by the Designated Port Representative.

Section 21. Severability. If any one or more of the covenants or agreements provided in this Series Resolution to be performed on the part of the Port shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants

and agreements in this Series Resolution and shall in no way affect the validity of the other provisions of this Series Resolution or of any First Lien PFC Bonds.

Section 22. Effective Date. This series resolution shall be effective immediately upon its adoption.

ADOPTED by the Port Commission of the Port of Seattle at a regular meeting thereof, held this ____ day of __________, 2010, and duly authenticated in open session by the signatures of the commissioners voting in favor thereof and the seal of the commission duly affixed.

PORT OF SEATTLE

____

____

____

____

____

Commissioners

EXHIBIT A

Escrow Deposit Agreement

PORT OF SEATTLE
PASSENGER FACILITY CHARGE REVENUE REFUNDING BONDS, SERIES 2010A
AND
PASSENGER FACILITY CHARGE REVENUE REFUNDING BONDS, SERIES 2010B

THIS ESCROW AGREEMENT, dated as of ____ ___, 2010 (herein, together with any amendments or supplements hereto, called the "Agreement") is entered into by and between the Port of Seattle (herein called the "Port") and ______________________ as escrow agent (herein, together with any successor in such capacity, called the "Escrow Agent"). The notice addresses of the Port and the Escrow Agent are shown on Exhibit A attached hereto and made a part hereof.

WITNESSETH:

WHEREAS, the Port heretofore has issued and there presently remain outstanding the obligations described in Exhibit B attached hereto (the "Refunded Bonds"); and

WHEREAS, pursuant to Resolution No. 3643 adopted on _________, 2010 (the "Bond Resolution"), the Port has determined to issue its Passenger Facility Charge Facility Revenue Refunding Bonds, Series 2010A (the "Series 2010A Bonds") and Passenger Charge Facility Revenue Refunding Bonds, Series 2010B (the Series 2010B Bonds" and together with the Series 2010 Bonds, the "Series 2010 Bonds"); and

WHEREAS, the proceeds of the Series 2010 Bonds are being used for the purpose of providing funds to pay the costs of refunding the Refunded Bonds; and

WHEREAS, pursuant to the Bond Resolution, the Refunded Bonds have been designated for redemption prior to their scheduled maturity dates and, after provision is made for such redemption, the Refunded Bonds will come due on ____________ (the "Call Date") as set forth in Exhibit C attached hereto and made a part hereof; and

WHEREAS, when Escrowed Securities have been deposited with the Escrow Agent for the payment of all principal and interest of the Refunded Bonds, then the Refunded Bonds shall no longer be regarded as outstanding except for the purpose of receiving payment from the funds provided for such purpose; and

WHEREAS, the issuance, sale, and delivery of the Series 2010 Bonds have been duly authorized to be issued, sold, and delivered for the purpose of obtaining the funds required to provide for the payment of the principal of, interest on and redemption premium (if any) on the Refunded Bonds on the Call Date as shown on Exhibit C attached hereto;

NOW, THEREFORE, in consideration of the mutual undertakings, promises and agreements herein contained, the sufficiency of which hereby are acknowledged, and to secure

the full and timely payment of principal of and the interest on the Refunded Bonds, the Port and the Escrow Agent mutually undertake, promise and agree for themselves and their respective representatives and successors, as follows:

Article 1. Definitions

Section 1.1. Definitions.

Unless the context clearly indicates otherwise, the following terms shall have the meanings assigned to them below when they are used in this Agreement:

Call Date means _______________.

Escrow Fund means the fund created by this Agreement to be established, held and administered by the Escrow Agent pursuant to the provisions of this Agreement.

Escrowed Securities means the noncallable Government Obligations described in Exhibit D attached to this Agreement, or cash or other noncallable obligations substituted therefor pursuant to Section 4.2 of this Agreement.

Government Obligations means direct, noncallable (a) United States Treasury Obligations, (b) United States Treasury Obligations - State and Local Government Series, (c) non-prepayable obligations which are unconditionally guaranteed as to full and timely payment of principal and interest by the United States of America or (d) REFCORP debt obligations unconditionally guaranteed by the United States.

Paying Agent means the fiscal agency of the State of Washington, as the paying agent for the Refunded Bonds.

Series 2010 Bonds means Port's Passenger Facility Charge Revenue Refunding Bonds, Series 2010A and Series 2010B authorized under the Bond Resolution for the purpose of refunding the Refunded Bonds.

Section 1.2. Other Definitions.

The terms "Agreement," "Port," "Escrow Agent," "Bond Resolution," "Refunded Bonds," and "Series 2010 Bonds" when they are used in this Agreement, shall have the meanings assigned to them in the preamble to this Agreement.

Section 1.3. Interpretations.

The titles and headings of the articles and sections of this Agreement have been inserted for convenience and reference only and are not to be considered a part hereof and shall not in any way modify or restrict the terms hereof. This Agreement and all of the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to achieve the intended purpose of providing for the refunding of the Refunded Bonds in accordance with applicable law.

Article 2. Deposit of Funds and Escrowed Securities

Section 2.1. Deposits in the Escrow Fund.

Concurrently with the sale and delivery of the Series 2010 Bonds the Port shall deposit, or cause to be deposited, with the Escrow Agent, for deposit in the Escrow Fund, the funds (from the proceeds of the Series 2010 Bonds and a cash contribution by the Port) sufficient to purchase the Escrowed Securities and pay costs of issuance described in Exhibit D attached hereto, and the Escrow Agent shall, upon the receipt thereof, acknowledge such receipt to the Port in writing.

Article 3. Creation and Operation of Escrow Fund

Section 3.1. Escrow Fund.

The Escrow Agent has created on its books a special trust fund and irrevocable escrow to be known as the Refunding Account (the "Escrow Fund"). The Escrow Agent hereby agrees that upon receipt thereof it will deposit to the credit of the Escrow Fund the funds and the Escrowed Securities described in Exhibit D attached hereto [and pay Costs of Issuance] as described in Exhibit D. Such deposit, all proceeds therefrom, and all cash balances from time to time on deposit therein (a) shall be the property of the Escrow Fund, (b) shall be applied only in strict conformity with the terms and conditions of this Agreement, and (c) are hereby irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds, which payment shall be made by a timely transfer of such amounts on the Call Date as are provided for in Section 3.2 hereof. When the final transfers have been made for the payment of such principal of and interest on the Refunded Bonds, any balance then remaining in the Escrow Fund shall be transferred to the Port, and the Escrow Agent shall thereupon be discharged from any further duties hereunder.

Section 3.2. Payment of Principal and Interest.

The Escrow Agent is hereby irrevocably instructed to transfer to the Paying Agent from the cash balance on deposit in the Escrow Fund, the amount required to pay the principal of the Refunded Bonds and interest thereon to the Call Date in the amount shown in Exhibit C attached hereto.

Section 3.3. Sufficiency of Escrow Fund.

The Port represents that, based upon the information provided by the Underwriters, the successive receipts of the principal of and interest on the Escrowed Securities will assure that the cash balance on deposit in the Escrow Fund will be at all times sufficient to provide moneys for transfer to the Paying Agent on the Call Date and in the amount required to pay the interest on the Refunded Bonds and the principal of the Refunded Bonds as the Refunded Bonds on the Call Date, all as more fully set forth in Exhibit E attached hereto. If, for any reason, at any time, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund shall be insufficient to transfer the amounts required by the Paying Agent to make the payment set forth in Section 3.2. hereof, the Port shall timely deposit in the Escrow Fund, from any funds that are lawfully available therefor, additional funds in the amounts required to make such payments. Notice of any such insufficiency shall be given promptly as hereinafter provided, but the Escrow Agent shall not in any manner be responsible for any insufficiency of funds in the Escrow Fund or the Port's failure to make additional deposits thereto.

Section 3.4. Trust Fund.

The Escrow Agent or its affiliate, shall hold at all times the Escrow Fund, the Escrowed Securities and all other assets of the Escrow Fund, wholly segregated from all other funds and securities on deposit with the Escrow Agent; it shall never allow the Escrowed Securities or any other assets of the Escrow Fund to be commingled with any other funds or securities of the Escrow Agent; and it shall hold and dispose of the assets of the Escrow Fund only as set forth herein. The Escrowed Securities and other assets of the Escrow Fund shall always be maintained by the Escrow Agent as trust funds for the benefit of the owners of the Refunded Bonds; and a special account thereof shall at all times be maintained on the books of the Escrow Agent. The owners of the Refunded Bonds shall be entitled to the same preferred claim and first lien upon the Escrowed Securities, the proceeds thereof, and all other assets of the Escrow Fund to which they are entitled as owners of the Refunded Bonds. The amounts received by the Escrow Agent under this Agreement shall not be considered as a banking deposit by the Port, and the Escrow Agent shall have no right to title with respect thereto except as a trustee and Escrow Agent under the terms of this Agreement. The amounts received by the Escrow Agent under this Agreement shall not be subject to warrants, drafts or checks drawn by the Port or, except to the extent expressly herein provided, by the Paying Agent.

Article 4. Limitation on Investments

Except for the initial investment in the Escrowed Securities, the Escrow Agent shall not have any power or duty to invest or reinvest any money held hereunder, or to make substitutions of the Escrowed Securities, or to sell, transfer, or otherwise dispose of the Escrowed Securities.

Article 5. Application of Cash Balances

Section 5.1. In General.

Except as provided in Section 2.1 and 3.2 hereof, no withdrawals, transfers or reinvestment shall be made of cash balances in the Escrow Fund. Cash balances shall be held by the Escrow Agent in United States currency as cash balances as shown on the books and records of the Escrow Agent and, except as provided herein, shall not be reinvested by the Escrow Agent; provided, however, a conversion to currency shall not be required (i) for so long as the Escrow Agent's internal rate of return does not exceed 20%, or (ii) if the Escrow Agent's internal rate of return exceeds 20%, the Escrow Agent receives a letter of instructions, accompanied by the opinion of nationally recognized bond counsel, approving the assumed reinvestment of such proceeds at such higher yield.

Article 6. Redemption of Refunded Bonds

Section 6.1. Call for Redemption.

The Port hereby irrevocably calls the Refunded Bonds for redemption on the Call Dates, as shown on Appendix A attached hereto.

Article 7. Records and Reports

Section 7.1. Records.

The Escrow Agent will keep books of record and account in which complete and accurate entries shall be made of all transactions relating to the receipts, disbursements, allocations and application of the money and Escrowed Securities deposited to the Escrow Fund and all proceeds thereof, and such books shall be available for inspection during business hours and after reasonable notice.

Section 7.2. Reports.

The Escrow Agent shall prepare and send to the Port a written report summarizing all transactions relating to the Escrow Fund during, including, without limitation, credits to the Escrow Fund as a result of interest payments on or maturities of the Escrowed Securities and transfers from the Escrow Fund for payments on the Refunded Bonds following the Call Date.

Article 8. Concerning the Paying Agents and Escrow Agent

Section 8.1. Representations.

The Escrow Agent hereby represents that it has all necessary power and authority to enter into this Agreement and undertake the obligations and responsibilities imposed upon it herein, and that it will carry out all of its obligations hereunder.

Section 8.2. Limitation on Liability.

The liability of the Escrow Agent to transfer funds for the payment of the principal of and interest on the Refunded Bonds shall be limited to the proceeds of the Escrowed Securities and the cash balances from time to time on deposit in the Escrow Fund. Notwithstanding any provision contained herein to the contrary, the Escrow Agent shall have no liability whatsoever for the insufficiency of funds from time to time in the Escrow Fund or any failure of the obligors of the Escrowed Securities to make timely payment thereon, except for the obligation to notify the Port promptly of any such occurrence.

The recitals herein and in the proceedings authorizing the Series 2010 Bonds shall be taken as the statements of the Port and shall not be considered as made by, or imposing any obligation or liability upon, the Escrow Agent.

The Escrow Agent is not a party to the proceedings authorizing the Series 2010 Bonds or the Refunded Bonds and is not responsible for nor bound by any of the provisions thereof (except to the extent that the Escrow Agent may be a place of payment and paying agent and/or a paying agent/registrar therefor). In its capacity as Escrow Agent, it is agreed that the Escrow Agent need look only to the terms and provisions of this Agreement.

The Escrow Agent makes no representations as to the value, conditions or sufficiency of the Escrow Fund, or any part thereof, or as to the title of the Port thereto, or as to the security afforded thereby or hereby, and the Escrow Agent shall not incur any liability or responsibility in respect to any of such matters.

It is the intention of the parties hereto that the Escrow Agent shall never be required to use or advance its own funds or otherwise incur personal financial liability in the performance of any of its duties or the exercise of any of its rights and powers hereunder.

The Escrow Agent shall not be liable for any action taken or neglected to be taken by it in good faith in any exercise of reasonable care and believed by it to be within the discretion or power conferred upon it by this Agreement, nor shall the Escrow Agent be responsible for the consequences of any error of judgment; and the Escrow Agent shall not be answerable except for its own neglect or willful misconduct, nor for any loss unless the same shall have been through its negligence or bad faith.

Unless it is specifically otherwise provided herein, the Escrow Agent has no duty to determine or inquire into the happening or occurrence of any event or contingency or the performance or failure of performance of the Port with respect to arrangements or contracts with others, with the Escrow Agent's sole duty hereunder being to safeguard the Escrow Fund, to dispose of and deliver the same in accordance with this Agreement. If, however, the Escrow Agent is called upon by the terms of this Agreement to determine the occurrence of any event or contingency, the Escrow Agent shall be obligated, in making such determination, only to exercise reasonable care and diligence, and in event of error in making such determination the Escrow Agent shall be liable only for its own willful misconduct or its negligence. In determining the occurrence of any such event or contingency the Escrow Agent may request from the Port or any other person such reasonable additional evidence as the Escrow Agent in its discretion may deem necessary to determine any fact relating to the occurrence of such event or contingency, and in this connection may make inquiries of, and consult with, among others, the Port at any time.

Section 8.3. Compensation.

The Port shall pay to the Escrow Agent a fee for performing the services hereunder and for the expenses incurred or to be incurred by the Escrow Agent in the administration of this Agreement pursuant to the terms of the Fee Schedule attached hereto as Appendix A. The Escrow Agent hereby agrees that in no event shall it ever assert any claim or lien against the Escrow Fund for any fees for its services, whether regular or extraordinary, as Escrow Agent, or in any other capacity, or for reimbursement for any of its expenses as Escrow Agent or in any other capacity.

Article 9. Miscellaneous

Section 9.1. Notice.

Any notice, authorization, request, or demand required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when mailed by registered or certified mail, postage prepaid addressed to the Port or the Escrow Agent at the address shown on Exhibit A attached hereto. The United States Post Office registered or certified mail receipt showing delivery of the aforesaid shall be conclusive evidence of the date and fact of delivery. Any party hereto may change the address to which notices are to be delivered by giving to the other parties not less than ten days prior notice thereof.

Section 9.2. Termination of Responsibilities.

Upon the taking of all the actions as described herein by the Escrow Agent, the Escrow Agent shall have no further obligations or responsibilities hereunder to the Port, the owners of the Refunded Bonds or to any other person or persons in connection with this Agreement.

Section 9.3. Binding Agreement.

This Agreement shall be binding upon the Port and the Escrow Agent and their respective successors and legal representatives, and shall inure solely to the benefit of the owners of the Refunded Bonds, the Port, the Escrow Agent and their respective successors and legal representatives.

Section 9.4. Severability.

In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, but this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 9.5. Washington Law Governs.

This Agreement shall be governed exclusively by the provisions hereof and by the applicable laws of the State of Washington.

Section 9.6. Time of the Essence.

Time shall be of the essence in the performance of obligations from time to time imposed upon the Escrow Agent by this Agreement.

EXECUTED as of the date first written above.

PORT OF SEATTLE

____
Chief Financial and Administrative Officer

[ESCROW AGENT]

____
as Authorized Signer

Exhibit A	—	Addresses of the Port and the Escrow Agent
Exhibit B	—	Description of the Refunded Bonds
Exhibit C	—	Schedule of Debt Service on Refunded Bonds
Exhibit D	—	Description of Beginning Cash Deposit (if any) and Escrowed Securities
Exhibit E	—	Escrow Fund Cash Flow
Appendix A		Fee Schedule

EXHIBIT A
Addresses of the Port and Escrow Agent

Port: Port of Seattle
2711 Alaskan Way
Pier 69
Seattle, WA 98121
Attention: Chief Financial and Administrative Officer

Escrow Agent:

EXHIBIT B

Description of the Refunded Bonds

Port of Seattle
Passenger Facility Charge Revenue Bonds, Series 1998A

Maturity Years (December 1)	Principal Amounts	Interest Rates
2016	$670,000	5.0%
2017	14,380,000	5.0
2023	72,420,000	5.0

Port of Seattle
Passenger Facility Charge Revenue Bonds, Series 1998B

Maturity Years (December 1)	Principal Amounts	Interest Rates
2011	$10,555,000	5.250%
2012	11,110,000	5.250
2013	11,690,000	5.375
2014	12,325,000	5.250
2016	25,955,000	5.300

EXHIBIT C
Schedule of Debt Service on the Refunded Bonds

Date	Interest	Principal/ Redemption Price	Total
	$		$
		$	
	$	$	$

EXHIBIT D
Escrow Deposit

I. Cash $___

II. Other Obligations

Description	Maturity Date	Principal Amount	Interest Rate	Total Cost
		$	%	$
		$		$

III. Costs of Issuance

EXHIBIT E
Escrow Fund Cash Flow

Date	Escrow Securities Principal	Cash Receipts	Cash Disbursement	Cash Balance
		$		$
	$	$	$	

APPENDIX A
Fee Schedule

Escrow Agent Fee: See Attached

CERTIFICATE

I, the undersigned, Secretary of the Port Commission (the "Commission") of the Port of Seattle, Washington (the "Port"), DO HEREBY CERTIFY:

1. That the attached resolution numbered 3643 (the "Resolution"), is a true and correct copy of a resolution of the Port, as finally adopted at a meeting of the Commission held on the ___ day of ___________, 2010, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a quorum of the Commission was present throughout the meeting and a legally sufficient number of members of the Commission voted in the proper manner for the adoption of said Resolution; that all other requirements and proceedings incident to the proper adoption of said Resolution have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this ___ day of ___________________, 2010.

____
Secretary

APPENDIX F

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Port of Seattle (the "Port") in connection with the issuance of its $146,465,000 Passenger Facility Charge Refunding Revenue Bonds, Series 2010 (the "Series 2010 PFC Bonds"). The Port covenants and agrees as follows:

For purposes of the Port's undertaking pursuant to the Rule (the "undertaking"), "beneficial owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2010 PFC Bonds, including persons holding Series 2010 PFC Bonds through nominees or depositories or other intermediaries.

(a) Financial Statements/Operating Data.

(1) *Annual Disclosure Report*. The Port covenants and agrees that not later than six months after the end of each fiscal year (the "Submission Date"), commencing June 30, 2011 for the fiscal year ending December 31, 2010, the Port shall provide or cause to be provided to the Municipal Securities Rulemaking Board ("MSRB"), an annual report (the "Annual Disclosure Report") that is consistent with the requirements of part (2) of this subsection (a). The Annual Disclosure Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in part (2) of this subsection (a); provided that any audited annual financial statements may be submitted separately from the balance of the Annual Disclosure Report and later than the Submission Date if such audited financial statements are not available by the Submission Date. If the Port's fiscal year changes, the Port shall give notice of such change in the same manner as notice is to be given of the occurrence of an event listed in subsection (b), and if for any fiscal year the Port does not furnish an Annual Disclosure Report to the MSRB, by the Submission Date, the Port shall send to MSRB notice of its failure to furnish such report pursuant to subsection (c).

(2) *Content of Annual Disclosure Reports*. The Port's Annual Disclosure Report shall contain or include by reference the following:

(A) *Audited financial statements*. Audited financial statements, except that if any audited financial statements are not available by the Submission Date, the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the Port, and the Port's audited financial statements shall be filed in the same manner as the Annual Disclosure Report when and if they become available.

(B) *Operating and Financial Information.* Annual financial information and operating data with respect to the Port, including without duplication historical financial information and operating data of the type provided in the final Official Statement for the Series 2010 PFC Bonds dated November 9, 2010 under the headings "THE PFC PROGRAM AT THE PORT" (including without limitation the table under the heading "Port of Seattle PFC First Lien Sufficiency Covenant"), "THE AIRPORT," and "FIRST LIEN PFC BOND DEBT SERVICE".

Any or all of the listed items may be included by specific reference to other documents, including official statements of debt issues of the Port, or of any related entity, that have been submitted to the MSRB. If the document included by reference is a final official statement, it must be available from the MSRB. The Port shall identify clearly each document so included by reference.

(b) *Material Events*. The Port agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of the occurrence of any of the following events with respect to the Series 2010 PFC Bonds, not in excess of ten business days after the occurrence of the event:

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;

- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the Internal Revenue service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the Series 2010 PFC Bonds;
- Modifications to rights of owners if material;
- Optional, contingent or unscheduled Series 2010 PFC Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856, if material, and tender offers;
- Defeasances;
- Release, substitution or sale of property securing the repayment of the Series 2010 PFC Bonds if material;
- Rating changes;
- Bankruptcy, insolvency, receivership or similar event of the Port;
- The consummation of a merger, consolidation, or acquisition of the Port or the sale of all or substantially all of the assets of the Port, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement to undertake such an actions, other than pursuant to its terms, if material; and
- Appointment of a successor or additional Standby Trustee or the change of name of the Standby Trustee, if material.

Solely for purposes of information, but without intending to modify the Port's undertaking, with respect to the notice regarding property securing the repayment of the Series 2010 PFC Bonds, that there is no property securing the repayment of the Series 2010 PFC Bonds. The Port shall promptly determine whether the events described above are material.

(c) *Notice Upon Failure to Provide Financial Data*. The Port agrees to provide or cause to be provided, in a timely manner, to the MSRB, notice of its failure to provide the annual financial information described in subsection (a) above on or prior to the Submission Date.

(d) *Format for Filings with the MSRB*. All notices, financial information and operating data required by this undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

(e) *Termination/Modification*. The Port's obligations to provide annual financial information and notices of material events shall terminate upon the legal defeasance (if notice of such defeasance is given as provided above) or payment in full of all of the Series 2010 PFC Bonds. The undertaking, or any provision hereof, shall be null and void if the Port (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the undertaking, or any such provision, have been repealed retroactively or otherwise do not apply to the Series 2010 PFC Bonds; and (2) notifies the MSRB of such opinion and the cancellation of the undertaking. The Port may amend the undertaking and any provision of the undertaking may be waived, in accordance with the Rule; *provided that* (A) if the amendment or waiver relates to the provisions of subsections (a)(1), (a)(2) or (b) above, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2010 PFC Bonds, or the type of business conducted; (B) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2010 PFC Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (C) the amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the beneficial owners of the Series 2010 PFC Bonds.

In the event of any amendment of or waiver of a provision of the undertaking, the Port shall describe such amendment in the next Annual Disclosure Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Port. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under subsection (b), and (ii) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

(f) *Registered Owner's and Beneficial Owners' Remedies Under the Undertaking*. A Registered Owner's and the beneficial owners' right to enforce the provisions of the undertaking shall be limited to a right to obtain specific enforcement of the Port's obligations under the undertaking, and any failure by the Port to comply with the provisions of the undertaking shall not be a default under the Resolution.

(g) *Additional Information*. Nothing in the undertaking shall be deemed to prevent the Port from disseminating any other information, using the means of dissemination set forth in the undertaking or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a material event, in addition to that which is required by the undertaking. If the Port chooses to include any information in any Annual Disclosure Report or notice of the occurrence of a material event in addition to that specifically required by this undertaking, the Port shall have no obligation under the Resolution to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of a material event.

PORT OF SEATTLE

By: ________________________________

Designated Port Representative

[THIS PAGE INTENTIONALLY LEFT BLANK]

Port of Seattle • Passenger Facility Charge Revenue Refunding Bonds, Series 2010A and Series 2010B

Port of Seattle

MIX
From responsible sources
FSC™ C017146
FSC
www.fsc.org

Printed by: ImageMaster, Inc.