NEW ISSUES/BOOK-ENTRY ONLY

In the respective opinions of Co-Bond Counsel to be delivered upon the issuance of the Series 2005D Bonds and the Series 2007A Bonds, under existing law and assuming compliance by the Authority with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be met subsequent to the issuance of the Series 2005D Bonds and the Series 2007A Bonds, with which the Authority has certified, represented and covenanted its compliance, (i) interest on the Series 2005D Bonds is excluded from gross income for federal income tax purposes and is not included in the computation of the federal alternative minimum tax imposed on individuals, trusts, estates and, subject to certain exceptions, corporations, and (ii) interest on the Series 2007A Bonds is excluded from gross income for federal income tax purposes except for any period during which such Series 2007A Bonds are held by a person who is a "substantial user" of the facilities financed or a "related person" as those terms are used in Section 147(a) of the Code, but is an item of tax preference in calculating the federal alternative minimum tax liability of individuals, trusts, estates and corporations. Also, in the respective opinions of Co-Bond Counsel to be delivered upon the issuance of the Series 2005D Bonds and the Series 2007A Bonds, under existing law, interest on the Series 2005D Bonds and the Series 2007A Bonds is exempt from income taxation by the Commonwealth of Virginia and is exempt from all taxation of the District of Columbia except estate, inheritance and gift taxes. See "TAX MATTERS" for a more detailed discussion.

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

$11,450,000 Airport System Revenue Refunding Bonds Series 2005D (Non-AMT)	$164,460,000 Airport System Revenue Refunding Bonds Series 2007A (AMT)

Dated: Date of Delivery — Due: October 1 in the years as shown herein

Interest on the Metropolitan Washington Airports Authority's (the "Authority") $11,450,000 Airport System Revenue Refunding Bonds, Series 2005D (the "Series 2005D Bonds"), will be payable on April 1, 2006, and semiannually thereafter on each April 1 and October 1. Interest on the $164,460,000 Airport System Revenue Refunding Bonds, Series 2007A (the "Series 2007A Bonds"), will be payable on October 1, 2007, and semiannually thereafter on each April 1 and October 1. The Series 2005D Bonds and the Series 2007A Bonds are issuable only in fully registered form in denominations of $5,000 or any integral multiple thereof. When issued, the Series 2005D Bonds and the Series 2007A Bonds will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"), to which payments of principal and interest will be made. Purchasers will acquire beneficial interests in the Series 2005D Bonds and the Series 2007A Bonds, in principal amounts shown below, in book-entry form only. DTC will remit such payments to its participants who will be responsible for remittance to beneficial owners. See "THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS – Book-Entry Only System."

Proceeds of the Series 2005D Bonds will be used, together with other funds of the Authority, to (i) advance refund a portion of the Authority's outstanding Airport System Revenue Bonds, Series 1997A, (ii) fund a deposit to the Series 2005D Reserve Account in the Debt Service Reserve Fund, and (iii) pay costs of issuing the Series 2005D Bonds.

Proceeds of the Series 2007A Bonds will be used, together with other funds of the Authority, to (i) currently refund a portion of the Authority's outstanding Airport System Revenue Bonds, Series 1997B, (ii) fund a deposit to the Series 2007A Reserve Account in the Debt Service Reserve Fund, and (iii) pay costs of issuing the Series 2007A Bonds.

The Series 2007A Bonds will be dated the date of their delivery, which is expected to be on or about July 3, 2007. The delayed delivery of the Series 2007A Bonds may expose prospective purchasers to additional risks. See "BONDHOLDER DELAYED DELIVERY RISKS."

The Series 2005D Bonds will be issued under and secured by the Amended and Restated Master Indenture of Trust dated as of September 1, 2001, as previously supplemented and amended (the "Master Indenture"), and the Twenty-fourth Supplemental Indenture of Trust, dated as of October 1, 2005 (the "Twenty-fourth Supplemental Indenture") and the Series 2007A Bonds will be issued under and secured by the Master Indenture and the Twenty-fifth Supplemental Indenture, dated as of July 1, 2007 (the "Twenty-fifth Supplemental Indenture" and, together with the Master Indenture and the Twenty-fourth Supplemental Indenture, the "Indenture"), each between the Authority and Manufacturers and Traders Trust Company (successor to Allfirst Bank), as Trustee. Except to the extent payable from the proceeds of the Series 2005D Bonds and the Series 2007A Bonds and any other moneys available for such payment, the Series 2005D Bonds and the Series 2007A Bonds will be payable from, and secured by a pledge of, Net Revenues of the Authority, as described herein, which pledge will be on a parity with the pledge of Net Revenues securing the Authority's outstanding Bonds and other Bonds which may be issued in the future under the Indenture, as may be further supplemented. The Series 2005D Bonds and the Series 2007A Bonds will not be subject to acceleration upon an event of default or otherwise.

THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS SHALL NOT CONSTITUTE A DEBT OF THE DISTRICT OF COLUMBIA OR OF THE COMMONWEALTH OF VIRGINIA OR ANY POLITICAL SUBDIVISION THEREOF NOR A PLEDGE OF THE FAITH AND CREDIT OF THE DISTRICT OF COLUMBIA OR OF THE COMMONWEALTH OF VIRGINIA OR ANY POLITICAL SUBDIVISION THEREOF. THE ISSUANCE OF THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS UNDER THE PROVISIONS OF THE DISTRICT ACT AND THE VIRGINIA ACT SHALL NOT DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATE THE DISTRICT OF COLUMBIA OR THE COMMONWEALTH OF VIRGINIA OR ANY POLITICAL SUBDIVISION THEREOF TO ANY FORM OF TAXATION WHATSOEVER. THE AUTHORITY HAS NO TAXING POWER.

The Series 2005D Bonds and the Series 2007A Bonds will mature on October 1 in the years and in the principal amounts, and will bear interest at the rates, as shown herein. The Series 2005D Bonds and the Series 2007A Bonds are subject to optional redemption prior to maturity as more fully described herein.

The scheduled payment of the principal and interest on the Series 2005D Bonds and the Series 2007A Bonds when due will be insured by financial guaranty insurance policies to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the delivery of the Series 2005D Bonds and the Series 2007A Bonds, as more fully described in "THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS – Security and Source of Payment – Bond Insurance."

The Series 2005D Bonds and the Series 2007A Bonds are offered when, as and if issued and received by the Underwriters. Legal matters with respect to the validity of the Series 2005D Bonds and the Series 2007A Bonds are subject to the approval of Co-Bond Counsel to the Authority, Hogan & Hartson L.L.P., Washington, D.C., and Lewis, Munday, Harrell & Chambliss, Washington, D.C. Certain legal matters will be passed upon for the Authority by Edward S. Faggen, Vice President and General Counsel to the Authority, and for the Underwriters by their co-counsel, Hunton & Williams LLP, Washington, D.C. and McKenzie & Associates, Washington, D.C. It is expected that the Series 2005D Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about October 12, 2005. It is expected that the Series 2007A Bonds will be available for delivery on or about July 3, 2007.

Bear, Stearns & Co. Inc. (with respect to the Series 2005D Bonds)	**Lehman Brothers** (with respect to the Series 2007A Bonds)

This cover page, including the inside cover pages, contains certain information for quick reference only. It is not a summary of this Official Statement. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

September 15, 2005

Metropolitan Washington Airports Authority

$11,450,000
Airport System Revenue Refunding Bonds
Series 2005D
(Non-AMT)

Year October 1	Principal Amount	Interest Rate	Yield	CUSIP Number
2008	$1,205,000	5.00%	3.08%	592646RE5
2009	1,265,000	5.00%	3.18%	592646RF2
2010	1,330,000	5.00%	3.28%	592646RG0
2021	2,430,000	5.00%	4.09%*	592646RH8
2022	2,550,000	5.00%	4.13%*	592646RJ4
2023	2,670,000	5.00%	4.16%*	592646RK1

* Priced to the first call date of October 1, 2015.

Bear, Stearns & Co. Inc.

Metropolitan Washington Airports Authority

$164,460,000
Airport System Revenue Refunding Bonds
Series 2007A
(AMT)

Year October 1	Principal Amount	Interest Rate	Yield	CUSIP Number
2008	$6,955,000	5.00%	3.82%	592646QN6
2009	7,300,000	5.00%	3.85%	592646QP1
2010	7,665,000	5.00%	3.91%	592646QQ9
2011	8,045,000	5.00%	3.99%	592646QR7
2012	8,455,000	5.00%	4.08%	592646QS5
2013	8,875,000	5.00%	4.18%	592646QT3
2014	9,315,000	5.00%	4.27%	592646QU0
2015	9,785,000	5.00%	4.35%	592646QV8
2016	10,270,000	5.00%	4.43%	592646QW6
2017	10,790,000	5.00%	4.49%	592646QX4
2018	11,325,000	5.00%	4.53%*	592646QY2
2019	11,895,000	5.00%	4.57%*	592646QZ9
2020	12,485,000	5.00%	4.61%*	592646RA3
2021	13,110,000	5.00%	4.65%*	592646RB1
2022	13,770,000	4.75%	4.75%	592646RC9
2023	14,420,000	4.75%	4.79%	592646RD7

* Priced to the first call date of October 1, 2017.

Lehman Brothers

Banc of America Securities LLC
Merrill Lynch & Company
Raymond James & Associates

Bear, Stearns & Co. Inc.
Morgan Keegan & Company, Inc.
Siebert Brandford Shank & Co., LLC

Ferris Baker Watts, Inc.
M.R. Beal & Company
UBS Financial Services Inc.

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METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

1 Aviation Circle
Washington, D.C. 20001-6000
(703) 417-8700

MEMBERS OF THE AUTHORITY

Mame Reiley, Chairman
Honorable H.R. Crawford, Vice Chairman
Robert Clarke Brown
Honorable William W. Cobey Jr.
Anne Crossman
Mamadi Diané
Norman M. Glasgow, Jr.
William A. Hazel
Weldon H. Latham
Leonard Manning
David T. Ralston, Jr.
Charles D. Snelling
Honorable David G. Speck

SENIOR MANAGEMENT

President and Chief Executive Officer	James E. Bennett
Executive Vice President and Chief Operating Officer	Margaret E. McKeough
Vice President and Secretary	Gregory Wolfe
Vice President and General Counsel	Edward S. Faggen
Vice President for Finance and Chief Financial Officer	Lynn Hampton
Vice President for Audit	Valerie Holt
Vice President for Engineering	Frank D. Holly
Vice President for Communications	Jonathan Gaffney
Vice President for Information Systems & Telecommunications	George R. Ellis
Vice President for Business Administration	Steven C. Baker*
Vice President for Air Service Planning & Development	Mark Treadaway
Vice President for Human Resources	Arl Williams
Acting Vice President and Airport Manager - National	Harlan Byers
Vice President and Airport Manager - Dulles	Christopher U. Browne
Vice President for Public Safety	Elmer H. Tippett, Jr.

AUTHORITY CONSULTANTS

Co-Bond Counsel	Hogan & Hartson L.L.P. Lewis, Munday, Harrell & Chambliss
Co-Financial Advisors	First Albany Capital Inc. P.G. Corbin & Company, Inc.
Airport Consultant	PB Aviation

* Mr. Baker will assume his position on October 3, 2005.

This Official Statement is provided in connection with the initial offering and sale of the Series 2005D Bonds and the Series 2007A Bonds referred to herein and may not be reproduced or be used, in whole or in part, for any other purpose. The information contained in this Official Statement has been derived from information provided by the Authority and other sources which are believed to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. 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 2005D Bonds and the Series 2007A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein speak as of their date unless otherwise noted and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority since the date hereof.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Series 2005D Bonds and the Series 2007A Bonds or passed upon the adequacy or accuracy of this Official Statement. Any representation to the contrary is a criminal offense.

The Bond Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of information regarding the municipal bond insurance policies and the Bond Insurer set forth under the heading "THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS – Security and Source of Payment – Bond Insurance." Additionally, the Bond Insurer makes no representation regarding the Series 2005D Bonds and the Series 2007A Bonds or the advisability of investing in the Series 2005D Bonds and the Series 2007A Bonds.

The information relating to the Bond Insurer set forth under the caption "THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS – Security and Source of Payment – Bond Insurance" has been provided by the Bond Insurer. Neither the Authority nor the Underwriters have confirmed the accuracy or completeness of information relating to the Bond Insurer. The Authority and the Underwriters, therefore, make no representation as to the accuracy or completeness of such information.

The order and placement of information in this Official Statement, including the appendices, are not an indication of relevance, materiality or relative importance, and this Official Statement, including the appendices, must be read in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provision or section in this Official Statement.

THIS OFFICIAL STATEMENT IS BEING PROVIDED TO PROSPECTIVE PURCHASERS EITHER IN BOUND PRINTED FORM ("ORIGINAL BOUND FORMAT") OR IN ELECTRONIC FORMAT ON THE FOLLOWING WEBSITE: www.emuni.com. THIS OFFICIAL STATEMENT MAY BE RELIED UPON ONLY IF IT IS IN ITS ORIGINAL BOUND FORMAT OR AS PRINTED IN ITS ENTIRETY DIRECTLY FROM SUCH WEBSITE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS AT A LEVEL ABOVE THAT WHICH OTHERWISE MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PART I
TABLE OF CONTENTS

	Page
INTRODUCTION	I -1
The Authority	I -2
Net Revenues	I -2
The Airports	I -2
Certain Factors Affecting the Air Transportation Industry	I -3
Use of Proceeds	I -4
The Authority's Capital Construction Program	I -4
Funding of the Capital Construction Program	I -5
Security and Source of Payment	I -6
Bond Insurance	I -6
Redemption	I -6
Certain Investment Considerations	I -6
Report of the Airport Consultant	I -7
Prospective Financial Information	I -8
Recent Developments	I -9
Miscellaneous	I -9
THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS	I -10
General	I -10
Book-Entry Only System	I -10
Redemption of the Series 2005D Bonds and the Series 2007A Bonds	I -10
Security and Source of Payment	I -11
General	I -11
Debt Service Reserve Fund	I -11
Bond Insurance	I -12
The Policies	I -12
Ambac Assurance Corporation	I -13
Available Information	I -13
Incorporation of Certain Documents by Reference	I -14
Additional Bonds	I -14
Other Indebtedness	I -15
Events of Default and Remedies; No Acceleration or Cross Defaults	I -15
Estimated Sources and Uses of Funds	I -16
Refunding Plan	I -16
DEBT SERVICE SCHEDULES	I -18
Debt Service Schedule for the Series 2005D Bonds and the Series 2007A Bonds	I -18
Debt Service Schedule for Outstanding Debt	I -19
AUTHORITY INDEBTEDNESS	I -20
Outstanding Bonds of the Authority	I -20
Subordinated Bonds	I -20
Commercial Paper Program	I -21
Interest Rate Swaps	I -21
Special Facility Bonds	I -22
PFC Secured Indebtedness	I -22
BONDHOLDER DELAYED DELIVERY RISKS	I -23
RECENT DEVELOPMENTS	I -25
The Authority	I -25
Air Trade Area and Airports Activity	I -25
Airlines Serving the Airports	I -25
Recent Enplanement Activity	I -26
Certain Factors Affecting the Air Transportation Industry and the Airports	I -26
Cost of Aviation Fuel	I -26
Low-cost Carriers and Low-fare Divisions of Legacy Carrier	I -26
Financial Condition of the Airlines	I -26
US Airways	I -26
United	I -27
Independence Air	I -27
American	I -27
Delta	I -28
Northwest	I -28
2001-2011 CCP	I -28
Authority Financials Information	I -29
Fiscal Year 2005 Results Through June 30, 2005	I -30
TAX MATTERS	I -31
The Series 2005D Bonds and the Series 2007A Bonds	I -31
LEGAL MATTERS	I -33
LITIGATION	I -34
RATINGS	I -34
UNDERWRITING	I -35
VERIFICATION AGENT	I -35
MISCELLANEOUS	I -36

PART II
TABLE OF CONTENTS

Page
THE AUTHORITY II-1
General II-1
The Authority II-2
Senior Management II-2
Employees and Labor Relations II-5
Lease of the Airports to the Authority II-5
Regulations and Restrictions Affecting the Airports II-7
Historical Operating Restrictions II-7
Additional Security Restrictions at National II-8
Federal Funding Regulations II-9
Possible Future Restrictions on National . . II-9
Noise Abatement Programs II-9
CERTAIN AGREEMENTS FOR USE OF THE AUTHORITY'S FACILITIES II-10
Airport Use Agreement and Premises Lease . II-10
Terminal Concession Agreements II-12
Parking Facility Agreements II-12
Rental Car Facility Agreements II-13
THE AIR TRADE AREA AND AIRPORTS ACTIVITY II-13
The Air Trade Area II-13
Airlines Serving the Airports II-16
Airports Activity II-17
Historical Activity II-17
National II-18
Dulles II-19
Recent Enplanement Activity II-19
Baltimore/Washington International Airport II-25
CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS II-26
General II-26
Aviation Security Requirements and Related Costs II-26
Effect of Recent Events on the Authority . . . II-28
International Conflict and the Threat of Terrorism II-28
Cost of Aviation Fuel II-29
Low-cost Carriers and Low-fare Divisions of Legacy Carriers II-29
FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS II-29
General II-29
US Airways II-30
United II-31
Independence Air II-32
American II-32
Delta II-32
Other Airlines Serving the Airports II-33
Effect of Airline Bankruptcies II-34
Assumption or Rejection of Agreements II-34
PFCs II-34
Information Concerning the Airlines II-35
THE AUTHORITY'S FACILITIES AND MASTER PLANS II-35
Facilities at National and Dulles II-35
National II-35
Dulles II-36
The Authority's Master Plans II-37
National II-37
Dulles II-37
THE 2001-2011 CCP II-38
Overview II-38
National II-39
Capital Construction Projects at National . . II-41
Dulles II-42
Deferred Projects II-45
Capital Construction Projects at Dulles . . . II-47
Environmental Approvals II-49
PLAN OF FUNDING FOR THE 2001-2011 CCP II-50
Funding Source: Bond Proceeds II-50
Funding Source: Federal and State Grants . II-50
Funding Source: PFCs II-51
THE BONDS II-53
Book-Entry Only System II-53
Method of Selecting the Bonds for Redemption II-54
Notice of Redemption II-54
Security and Source of Payment for the Bonds II-55
General II-55
Rate Covenant II-56
Flow of Funds II-57
Additional Bonds II-58
AUTHORITY FINANCIAL INFORMATION II-59
Management's Discussion of Financial Information II-59
Fiscal Year 2004 Financial Results II-61
Fiscal Year 2005 Budget II-65
Internal Controls II-66
Risk Based Auditing II-67
Insurance II-67

CERTAIN INVESTMENT CONSIDERATIONS II-67
Air Transportation Industry Factors II-67
Geopolitical Risks II-68
Aviation Security Concerns II-68
Cost of Aviation Fuel II-69
Certain Factors Affecting the Airports II-69
Regulations and Restrictions Affecting the Airports II-69
Airlines Serving the Airports II-69
Effect of Bankruptcy on the Airline Agreement II-70
Expiration and Possible Termination of Airline Agreement II-70
Limitations on Bondholders' Remedies II-70
Cost and Schedule of Capital Construction Program II-70
Competition II-71
Travel Substitutes II-71
Assumptions in the Report of the Airport Consultant II-72
Forward Looking Statements II-72
REPORT OF THE AIRPORT CONSULTANT II-72
The Report of the Airport Consultant II-72
CONTINUING DISCLOSURE II-73
FINANCIAL ADVISORS II-74
AIRPORT CONSULTANT II-74
INDEPENDENT AUDITORS II-74
MISCELLANEOUS II-74
Relationship of Parties II-74
Prospective Financial Information II-75

APPENDICES

APPENDIX A - Report of the Airport Consultant A-1
APPENDIX B - Annual Financial Report for Years Ended December 31, 2004 and 2003 . . . . . B-1
APPENDIX C - Definitions and Summary of Certain Provisions of the Indenture C-1
APPENDIX D - Summary of Certain Provisions of the Airport Use Agreement and Premises Lease D-1
APPENDIX E - Book-Entry Only System E-1
APPENDIX F - Proposed Forms of Opinions of Co-Bond Counsel F-1
APPENDIX G - Form of Continuing Disclosure Agreement G-1
APPENDIX H - Specimen Municipal Bond Insurance Policy H-1

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Part I

of the

OFFICIAL STATEMENT

relating to

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

$11,450,000 Airport System Revenue Refunding Bonds Series 2005D (Non-AMT)	$164,460,000 Airport System Revenue Refunding Bonds Series 2007A (AMT)

INTRODUCTION

This Official Statement is furnished in connection with the offering by the Metropolitan Washington Airports Authority (the "Authority") of its $11,450,000 Airport System Revenue Refunding Bonds, Series 2005D (the "Series 2005D Bonds"), and its $164,460,000 Airport System Revenue Refunding Bonds, Series 2007A (the "Series 2007A Bonds"). The Series 2005D Bonds will be issued under and secured by the Amended and Restated Master Indenture of Trust dated as of September 1, 2001, as previously supplemented and amended (the "Master Indenture"), and the Twenty-fourth Supplemental Indenture of Trust, dated as of October 1, 2005 (the "Twenty-fourth Supplemental Indenture"), and the Series 2007A Bonds will be issued under and secured by the Master Indenture and the Twenty-fifth Supplemental Indenture of Trust, dated as of July 1, 2007 (the "Twenty-fifth Supplemental Indenture" and, together with the Master Indenture and the Twenty-fourth Supplemental Indenture, the "Indenture"), each between the Authority and Manufacturers and Traders Trust Company, successor to Allfirst Bank, as trustee (the "Trustee"). The Series 2005D Bonds and the Series 2007A Bonds, the Authority's outstanding Bonds previously issued under the Master Indenture, and any additional Bonds subsequently issued under the Indenture, as may be further supplemented, are referred to collectively in this Official Statement as the "Bonds."

Upon the issuance of the 2005D Bonds, $3.3 billion aggregate principal amount of Bonds will be outstanding, assuming the inclusion of $420 million of Commercial Paper Notes ("CP Notes"). The Series 2007A Bonds will be delivered pursuant to a Forward Delivery Bond Purchase Agreement (the "Forward Delivery Bond Purchase Agreement") in order for the refunding of a portion of the Authority's outstanding Airport System Revenue Bonds, Series 1997B (the "Series 1997B Bonds") to qualify as a current refunding. The Series 2007A Bonds are expected to be issued and delivered on or about July 3, 2007 (the "Series 2007A Bonds Issue Date"). The Authority has agreed to update this Official Statement as of a date no earlier than 10 days prior to the Series 2007A Bonds Issue Date. Certain risks associated with the delayed delivery of the Series 2007A Bonds are described in "BONDHOLDER DELAYED DELIVERY RISKS."

This Official Statement consists of the cover page, the inside cover pages, the table of contents, Part I, Part II and the appendices. Part I and Part II and all appendices should be read in their entirety. Part I of the Official Statement, which is dated September 15, 2005, contains, among other things, information relating to

the specific terms of the Series 2005D Bonds and the Series 2007A Bonds and updates certain information contained in Part II. Part II of the Official Statement, which is dated March 31, 2005, contains information regarding the Authority, the Airport Use Agreement and Premises Lease (the "Airline Agreement"), the Air Trade Area and the Airports activity, certain factors affecting the air transportation industry, the financial condition of certain airlines serving the Airports, the Authority's 2001-2011 CCP, plan of funding for the 2001-2011 CCP, certain provisions applicable to all Bonds, the Authority's financial information, certain investment considerations and the Report of the Airport Consultant. Part II has not been updated to reflect any changes that may have occurred since March 31, 2005. Part I of the Official Statement should be read together with Part II of the Official Statement. Unless otherwise defined in Part I, all terms used herein shall have the same meanings set forth in APPENDIX C – "Definitions and Summary of Certain Provisions of the Indenture."

The Authority

The Authority is a public body politic and corporate, created with the consent of the Congress of the United States by the District of Columbia Regional Airports Authority Act of 1985, as amended, codified at D.C. Code Ann. §§9-901 et seq. (2001) (the "District Act"), and Chapter 598 of the Acts of Virginia General Assembly of 1985, as amended, codified at Va. Code Ann. §5.1-152-178 (2001) (the "Virginia Act" and, together with the District Act, the "Acts"). Pursuant to an Agreement and Deed of Lease effective June 7, 1987, as amended (the "Federal Lease"), the Authority assumed operating responsibility for Ronald Reagan Washington National Airport ("National") and Washington Dulles International Airport ("Dulles" and, together with National, the "Airports") upon the transfer of a leasehold interest in the Airports from the United States federal government to the Authority in accordance with the Metropolitan Washington Airports Act of 1986 (Title VI, P.L. 99-500 as reenacted in P.L. 99-591, effective October 18, 1986, as amended by P.L. 102-240, effective December 18, 1991, and P.L. 104-264, effective October 9, 1996) codified at 49 U.S.C. §§49101-49112 (collectively, the "Federal Act"). The Federal Lease was amended in 2003, to extend its term to 2067. See Part II, "THE AUTHORITY – Lease of the Airports."

The Board of Directors of the Authority (the "Board") adopted resolutions at its meeting on August 3, 2005, authorizing the issuance of the Series 2005D Bonds and the Series 2007A Bonds.

Net Revenues

The Series 2005D Bonds and the Series 2007A Bonds are secured by a pledge of Net Revenues of the Authority. The principal sources of Net Revenues are the rates and charges generated under the Airline Agreement between the Authority and certain airlines that have executed the Airline Agreement (the "Signatory Airlines"), fees received from non-signatory airlines using the Airports and payments under concession contracts at the Airports. See "Security and Source of Payment" below and Part II, "CERTAIN AGREEMENTS FOR USE OF THE AUTHORITY'S FACILITIES."

The Airports

National was opened for service in 1941. It is located on approximately 860 acres along the Potomac River in Arlington County, Virginia, approximately three miles from Washington, D.C. It has three interconnected terminal buildings, three runways and 44 aircraft gates. As of August 2005, National was served by 28 airlines. US Airways is the dominant carrier at National in terms of numbers of flights and enplanements. US Airways and its regional affiliates accounted for 36.2% of enplanements at National in 2004. See Part II, "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS,"

"THE AUTHORITY'S FACILITIES AND MASTER PLANS – Facilities at National and Dulles," and "THE AIR TRADE AREA AND AIRPORTS ACTIVITY – Historical Activity."

Dulles was opened for service in 1962. It is located on approximately 11,830 acres (exclusive of the Dulles Access Highway) in Fairfax and Loudoun Counties, Virginia, approximately 26 miles west of Washington, D.C. In addition to a main terminal, it has five midfield concourses (A, B, C, D and G), three runways and approximately 120 aircraft gates. As of August 2005, Dulles was served by 49 airlines, including 11 major/national airlines, 14 regional/commuter airlines, 20 foreign flag carriers and 4 all-cargo carriers. United Airlines ("United") maintains a domestic hub and European international gateway operation at Dulles. United and its regional affiliates accounted for 55.9% of domestic and international commercial enplanements at Dulles in 2004. See Part II, "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS," "THE AUTHORITY'S FACILITIES AND MASTER PLANS – Facilities at National and Dulles" and "THE AIR TRADE AREA AND AIRPORTS ACTIVITY – Historical Activity."

Certain Factors Affecting the Air Transportation Industry

The general economic downturn in the latter part of 2000 and the resulting recession, the terrorist attacks of September 11, 2001, the conflicts in Iraq and Afghanistan, increased security requirements in air transportation, the threat of future terrorist attacks, the outbreak of severe acute respiratory syndrome ("SARS") and significant increases in fuel prices have adversely affected the air transportation industry, including operations at the Airports.

As a result of terrorists hijacking aircraft from three airports, including one aircraft from Dulles, and crashing them into the Pentagon, the World Trade Center towers in New York City and a site in Pennsylvania on September 11, 2001, the federal government suspended all air traffic in the United States for two days and closed National until October 4, 2001. Airlines at National were not permitted to resume all air carrier operations at pre-September 11, 2001 levels until April 27, 2002. General aviation is authorized to resume at National on October 18, 2005, but only for aircraft operators that meet strict security measures, such as inspections and background checks of crews and passengers, inspections of property and armed security officers being present onboard. As a result of the events of September 11, 2001, new federal safety and security measures were instituted at all domestic airports, including the Airports. In addition, Congress enacted legislation imposing new security requirements on all airlines and airports and addressing, to a certain extent, the financial impact of the attacks on the airline industry and National. See "LITIGATION" below and Part II, "CERTAIN INVESTMENT CONSIDERATIONS," "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS," and "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS."

The events of September 11, 2001, subsequent events affecting the air transportation industry, and certain structural weaknesses in the airline industry have led to negative financial operating results for most airlines serving the Airports and an increasing number of airlines seeking protection under Chapter 11 of the U.S. Bankruptcy Code. US Airways filed for protection under Chapter 11 of the U.S. Bankruptcy Code on August 11, 2002, emerged from bankruptcy in March 2003, and filed again for Chapter 11 protection on September 12, 2004. US Airways recently announced a merger with America West Group Holdings ("America West") as part of its plan to emerge from its second bankruptcy by the end of September 2005. United filed for Chapter 11 bankruptcy protection on December 9, 2002. United submitted a reorganization plan to the bankruptcy court on September 7, 2005, and has announced that it plans to emerge from bankruptcy by early

2006. Air Canada filed for bankruptcy in both the United States and Canada on April 1, 2003. It emerged from bankruptcy in September 2004, and continues with ongoing restructuring efforts. American Trans Air ("ATA") filed for bankruptcy on October 26, 2004, but continues to operate at the Airports. Delta Airlines ("Delta") and Northwest Airlines ("Northwest") filed for bankruptcy protection on September 14, 2005. Independence Air is experiencing liquidity problems and as a result, in September 2005, it reduced its flight schedules at Dulles by 15%. While a number of other airlines are experiencing financial difficulties or have declared bankruptcy in recent years, none are of the size nor have the presence at the Airports as do US Airways, United, Delta, and Independence Air. All airlines continue to be adversely impacted by the record high prices of fuel. See "RECENT DEVELOPMENTS" and Part II, "CERTAIN INVESTMENT CONSIDERATIONS" and "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS."

In recent years, low-cost carriers have accounted for an increasing share of domestic passenger traffic nationwide. Low-cost carriers increased their share of passenger traffic nationwide from approximately 10% in the early 1990s to approximately 24% in 2004. Increased competition from low-cost carriers has placed additional pressure on the legacy carriers to institute further cost-cutting measures, reduce their fares to remain competitive and introduce their own low-fare divisions. See Part II, "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS – Low-cost Carriers and Low-fare Divisions of Legacy Carriers" and "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS."

Activity at the Airports has been and continues to be affected by a number of factors that cannot be controlled by the Authority. The difficult financial condition of the air transportation industry, generally, and the financial condition of US Airways, United, Delta and Independence Air, in particular, the record high cost of fuel, continued security concerns arising from the conflicts in the Middle East, specifically in Iraq and Afghanistan, and the continued threat of terrorist attacks in the United States and abroad, may be viewed as contributing to uncertainty about the viability of specific levels of air service demand and may make it more difficult than in the past to forecast future airline activity and Authority revenues. See "RECENT DEVELOPMENTS" and Part II, "CERTAIN INVESTMENT CONSIDERATIONS," "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS" and "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS."

Use of Proceeds

Proceeds of the Series 2005D Bonds will be used, together with other funds of the Authority, to (i) advance refund a portion of the Authority's outstanding Airport System Revenue Bonds, Series 1997A (the "Series 1997A Bonds"), (ii) fund a deposit to the Series 2005D Reserve Account in the Debt Service Reserve Fund, (iii) pay costs of issuing the Series 2005D Bonds.

Proceeds of the Series 2007A Bonds will be used, together with other funds of the Authority, to (i) currently refund a portion of the Authority's outstanding Airport System Revenue Bonds, Series 1997B (the "Series 1997B Bonds"), (ii) currently fund a deposit to the Series 2007A Reserve Account in the Debt Service Reserve Fund, and (iii) pay costs of issuing the Series 2007A Bonds.

The Authority's Capital Construction Program

The Authority initiated its capital construction program (the "Capital Construction Program" or the "CCP") in 1988 to expand, modernize and maintain the Airports. Under the CCP, the Authority has constructed and will continue to construct many of the principal elements of the Master Plans, as defined herein, that are

necessary for the development of the Airports, and will renovate certain existing facilities. See Part II, "THE AUTHORITY'S FACILITIES AND MASTER PLANS." In 2000, the Authority approved an expansion of the CCP for Dulles, referred to as the Dulles Development ("d^2") program. In 2000, the d^2 program and other CCP projects at National and Dulles were expected to be completed between 2001 and 2006 and were projected to cost $4.2 billion.

In the spring of 2002, following the events of September 11, 2001, the Authority reexamined the CCP, and in particular, future development at Dulles. As a result, it delayed the start dates of several projects, deferred some projects until it determines that demand and circumstances warrant their reactivation and added several new projects to the CCP. The active portion of the CCP is referred to as the "2001-2011 CCP." In connection with the Authority's periodic reviews of the CCP, the Authority has made certain additional adjustments to the 2001-2011 CCP since the spring of 2002, including adding new projects, deferring some active projects, reactivating some projects that were deferred and deleting certain projects from the CCP entirely.

Based on actual and projected expenditures through 2011, as of March 21, 2005, Authority management estimated the total cost of the 2001-2011 CCP at approximately $3.9 billion. Since 2001, approximately $1.4 billion of projects in the 2001-2011 CCP have been completed, including the pedestrian tunnel from the parking garage to Terminal A and Terminal A airside facade renovations at National, as well as the Daily Parking Garages 1 and 2, the Main Terminal rehabilitation, the four-gate Concourse B expansion, the south baggage basement and the airside and landside pedestrian tunnels at Dulles, among others. Most of the remaining projects in the 2001-2011 CCP are expected to be completed by 2009. To accommodate recent passenger growth at the Airports, the Authority is contemplating adding several new projects to the 2001-2011 CCP, as well as reactivating some of the projects that were deferred. The cost of these proposed additional projects is not reflected in the $3.9 billion cost estimate of the 2001-2011 CCP. The Authority will consider these projects during its 2006 Budget approval process. See "RECENT DEVELOPMENTS – 2001-2011 CCP" and Part II, "THE 2001-2011 CCP" and "PLAN OF FUNDING FOR THE 2001-2011 CCP."

Funding of the Capital Construction Program

The Airline Agreement defines capital expenditures and permits the Authority to recover the costs of such capital expenditures within Airline Supported Areas (as defined in the Airline Agreement) from the rates and charges imposed under the Airline Agreement. Under the Airline Agreement, the Signatory Airlines are deemed to have consented to the funding of the capital projects under the CCP that require their consent unless a majority-in-interest ("MII") disapproves such capital projects, which had not occurred. See APPENDIX D – "Summary of Certain Provisions of the Airport Use Agreement and Premises Lease." Costs of capital projects not located in Airline Supported Areas will be paid from other available Authority funds.

The Authority plans to finance the 2001-2011 CCP with a combination of Bonds, CP Notes, passenger facility charges ("PFCs"), federal and state grants and other available Authority funds. As of March 21, 2005, the Authority expected to issue approximately $2.1 billion aggregate principal amount of additional Bonds through 2011, exclusive of refunding Bonds, which will generate approximately $1.3 billion of construction funds. The Authority also expected to receive approximately $515 million in grants and approximately $929 million in PFC revenues to finance a portion of the costs of the 2001-2011 CCP. See Part II, "PLAN OF FUNDING FOR THE 2001-2011 CCP."

Security and Source of Payment

The Series 2005D Bonds and the Series 2007A Bonds will be secured on a parity with other Bonds issued under the Indenture by a pledge of the Net Revenues derived by the Authority from the operation of the Airports, all as described in the Indenture. **The Bonds do not constitute a debt of the District of Columbia or of the Commonwealth of Virginia or any political subdivision thereof, nor a pledge of the faith and credit of the District of Columbia or of the Commonwealth of Virginia or any political subdivision thereof.** The Authority has no taxing power. See Part II, "THE BONDS – Security and Source of Payment for the Bonds – General," and APPENDIX C – "Definitions and Summary of Certain Provisions of the Indenture" hereto.

Bond Insurance

Simultaneously with the issuance of the Series 2005D Bonds and the Series 2007A Bonds, Ambac Assurance Corporation (the "Bond Insurer") will issue its financial guaranty insurance policies for the Series 2005D Bonds and the Series 2007A Bonds (the "Policies"). The Policies guarantee the scheduled payments of principal of and interest on the Series 2005D Bonds and the Series 2007A Bonds when due as set forth in the form of the Policies included as APPENDIX H to this Official Statement. Certain information with respect to the Policies and the Bond Insurer is included in this Official Statement. See "THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS - Security and Source of Payment – Bond Insurance" and APPENDIX H. So long as the Bond Insurer is not in default under the Policies, it will be deemed to be the sole Holder of the Series 2005D Bonds and the Series 2007A Bonds secured by such Policies for purposes under the Indenture of (i) exercising the right to vote upon supplemental indentures requiring the consent of Holders and (ii) exercising rights of Holders upon an Event of Default (other than the right of Holders to receive notices of default). See APPENDIX C – "Definitions and Summary of Certain Provisions of the Indenture."

Redemption

The Series 2005D Bonds and the Series 2007A Bonds are subject to optional redemption prior to maturity as described under "THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS – Redemption of the Series 2005D Bonds and the Series 2007A Bonds."

Certain Investment Considerations

The Series 2005D Bonds and the Series 2007A Bonds may not be suitable for all investors. Prospective purchasers of the Series 2005D Bonds and the Series 2007A Bonds should read this entire Official Statement and give careful consideration to certain factors affecting the air transportation industry and the Airports, including air transportation security concerns, geopolitical risks, cost of aviation fuel, financial condition of airlines serving the Airports, regulations and restrictions affecting the Airports, cost and schedule of the CCP, expiration and possible termination of the Airline Agreement, limitations on Bondholders' remedies, competition, and others. Prospective purchasers also should consider the additional risks associated with the delayed delivery of the Series 2007A Bonds. See "BONDHOLDER DELAYED DELIVERY RISKS," "RECENT DEVELOPMENTS" and Part II, "CERTAIN INVESTMENT CONSIDERATIONS."

Report of the Airport Consultant

The Authority retained PB Aviation to serve as the airport consultant (the "Airport Consultant") in which capacity the Airport Consultant prepared the Report of the Airport Consultant dated March 21, 2005 (the "Report of the Airport Consultant") in connection with the issuance of the Authority's Airport System Revenue Bonds, Series 2005A-C (the "Series 2005A-C Bonds"). The Report of the Airport Consultant is included in APPENDIX A. **The Report of the Airport Consultant has not been updated in connection with the issuance of the Series 2005D Bonds and the Series 2007A Bonds or to reflect other changes occurring after the date of the Report of the Airport Consultant. The financial projections included in this Official Statement and the Report of the Airport Consultant were completed in March 2005. Accordingly, the assumptions in the financial projections and the Report of the Airport Consultant did not specifically consider any effects of the more recent filings for Chapter 11 bankruptcy protection by Delta and Northwest, the recent significant increase in jet fuel prices, Hurricane Katrina, or any other secondary effects of the preceding events. These events could change the financial projections included in this Official Statement and in the Report of the Consultant. At the time the Series 2005D Bonds are delivered, the Airport Consultant is expected to confirm that no information has come to its attention that would cause it to change its conclusions set forth in the Report of the Airport Consultant**.

The following table from the Report of the Airport Consultant sets forth the Airport Consultant's forecasts for the period from 2005 through 2013 of Authority Net Revenues and debt service coverage that is based on: (i) assumed debt service on the Series 2005A-C Bonds, (ii) assumed debt service on the Bonds bearing interest at a variable rate including the Airport System Revenue Commercial Paper Notes, Series One (the "Series One CP Notes"), the Airport System Revenue Commercial Paper Notes, Series Two (the "Series Two CP Notes"), the Series 2002C Bonds and the Series 2003D Bonds, (iii) the actual debt service on all other outstanding Bonds, and (iv) assumed debt service on the additional Bonds expected to be issued to finance the 2001-2011 CCP. The following table has not been updated to reflect the projected debt service savings resulting from the refunding of the Series 1997A Bonds and the Series 1997B Bonds through the issuance of the Series 2005D Bonds and the Series 2007A Bonds, respectively.

Projected Debt Service Coverage
(Net of Capitalized Interest)[1]

Fiscal Year	Net Revenues	Outstanding Bonds Debt Service	Series 2005A-C Bonds Debt Service[2]	Additional Bonds & CP Notes Debt Service[3]	Total Bonds Debt Service[4]	Coverage (All Debt)
2005	$237,139,716	$143,510,924	$ 6,605,169	$ 4,301,719	$154,417,812	1.54
2006	251,631,402	150,824,033	22,275,629	9,426,835	182,526,496	1.38
2007	273,330,623	155,268,695	23,105,334	18,131,406	196,505,435	1.39
2008	298,348,865	159,562,336	23,570,449	33,137,479	216,270,264	1.38
2009	367,736,328	172,899,223	26,290,284	78,971,866	278,161,373	1.32
2010	393,710,737	175,658,813	26,703,597	90,724,673	293,087,083	1.34
2011	405,062,476	176,293,803	26,768,866	91,130,284	294,192,953	1.38
2012	416,802,296	176,390,641	26,775,445	91,172,251	294,338,338	1.42
2013	429,078,810	176,469,655	26,779,086	91,173,436	294,422,177	1.46

[1] With the exception of the Series One CP Notes and the Series Two CP Notes, interest on the Bonds was assumed to be capitalized through the respective completion dates of the individual projects being financed.

[2] The Series 2005A Bonds were assumed to be issued at a par of $320 million and are comprised of (a) $168,675,000 assumed to be amortized from 2030 to 2035, and issued at a rate of 5.57%, and (b) $151,325,000 assumed to be amortized from 2009 to 2020, and issued at a rate of 5.00%. The Series 2005B Bonds were assumed to be issued at a par amount of $36,935,000 and were assumed to be amortized from 2005 to 2023, and issued at a rate of 4.70%. The Series 2005C Bonds were assumed to be issued at a par amount of $30 million, amortized from 2020 to 2035, and issued at a rate of 6.31%.

[3] Fixed rate additional Bonds were assumed to be issued at a par amount of $2.1 billion bearing interest at a rate of 7% and assumed to be reinvested at a rate of 2%. The 2006 Bonds were assumed to be amortized from 2007 to 2029. The 2007 Bonds were assumed to be amortized from 2008 to 2037. The 2008 Bonds were assumed to be amortized from 2009 to 2038. The 2009 Bonds were assumed to be amortized from 2010 to 2039. Additional Bonds were assumed to be issued through 2009. The $175 million tax-exempt portion of the Series One CP Notes was assumed at the January 26, 2005 RBI (4.89%) plus 0.75% or 5.64%. The $45 million taxable portion of the Series One CP Notes was assumed at Bloomberg January 26, 2005 taxable (5.66%) plus 0.75% or 6.41%. The $155 million tax-exempt portion of the Series Two CP Notes was assumed at the January 26, 2005 RBI (4.89%) plus 0.75% or 5.64%. The $45 million taxable portion of the Series Two CP Notes was assumed at Bloomberg January 26, 2005 taxable (5.66%) plus 0.75% or 6.41%.

[4] Totals may not add due to rounding.

Source: Report of the Airport Consultant

The Report of the Airport Consultant is based on a number of assumptions and projections as discussed further in Part II, "REPORT OF THE AIRPORT CONSULTANT" and APPENDIX A – "Report of the Airport Consultant." The Report of the Airport Consultant has been included herein in reliance upon the knowledge and experience of PB Aviation as the Airport Consultant. As noted in the Report of the Airport Consultant, any forecast is subject to uncertainties; therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. See Part II, "CERTAIN INVESTMENT CONSIDERATIONS," "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS," "REPORT OF THE AIRPORT CONSULTANT" and APPENDIX A – "Report of the Airport Consultant" for a discussion of factors, data and information that may affect forecasts related to the air transportation industry and the Airports.

Prospective Financial Information

The prospective financial information included in this Official Statement has been prepared by the Airport Consultant and is the responsibility of the Authority. PricewaterhouseCoopers LLP has neither examined nor compiled the accompanying prospective financial information and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or offer any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report included in APPENDIX B of this Official Statement relates to the Authority's historical financial information. It does not extend to the prospective financial information

and should not be read to do so. This prospective financial information was prepared using techniques that are consistent with industry practices for similar studies in connection with airport revenue bond sales and was not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information.

Recent Developments

Part I of this Official Statement includes certain information that was not available for inclusion in Part II or has changed since publication of the Authority's Official Statement dated March 31, 2005. Among the new information is an update of the financial condition of certain airlines serving the Airports, some changes in investment considerations, the unaudited financial statements of the Authority dated June 30, 2005, as well as other information. See "RECENT DEVELOPMENTS." Purchasers of the Series 2005D Bonds and the Series 2007A Bonds should read this Official Statement in its entirety.

Miscellaneous

This Official Statement contains brief descriptions of, among other things, the Series 2005D Bonds and the Series 2007A Bonds, the Authority, the Airports and the CCP. Such descriptions do not purport to be comprehensive or definitive. **All references in this Official Statement to documents are qualified in their entirety by reference to such documents, and references to the Series 2005D Bonds and the Series 2007A Bonds are qualified in their entirety by reference to the forms of the Series 2005D Bonds and the Series 2007A Bonds included in the Twenty-fourth Supplemental Indenture and the Twenty-fifth Supplemental Indenture, respectively.**

The Report of the Airport Consultant is included in APPENDIX A. Certain financial statements of the Authority are included in APPENDIX B. Definitions and a summary of certain provisions of the Indenture are included in APPENDIX C. A summary of certain provisions of the Airline Agreement between the Authority and the Signatory Airlines is included in APPENDIX D. A description of the book-entry system maintained by DTC is included in APPENDIX E. The proposed forms of the opinions to be delivered by Co-Bond Counsel to the Authority, Hogan & Hartson L.L.P. and Lewis, Munday, Harrell & Chambliss, in connection with the Series 2005D Bonds and the Series 2007A Bonds are included in APPENDIX F. Circular 230 changes, expected to be in effect before the Series 2007A Bonds are issued in July 2007, may require modifications to the form of the Co-Bond Counsel opinion. See "BONDHOLDER DELAYED DELIVERY RISKS." The Authority has executed a Continuing Disclosure Agreement (the "Disclosure Agreement") with Digital Assurance Certification L.L.C. ("DAC"), the form of which is included in APPENDIX G, to assist the Underwriters in complying with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the United States Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended, and as in effect as of the date hereof, by providing annual financial and operating data, and material event notices required by the Rule. See Part II, "CONTINUING DISCLOSURE" and APPENDIX G – "Form of Continuing Disclosure Agreement." A specimen of the Policies is included in APPENDIX H.

The information in this Official Statement is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Authority or the Airports since the date hereof. This Official Statement is not to be construed as a contract or agreement between the Authority or the Underwriters and purchasers or owners of any of the Series 2005D Bonds and the Series 2007A Bonds.

Inquiries regarding information about the Authority and its financial matters contained in this Official Statement may be directed to E. Lynn Hampton, Vice President for Finance and Chief Financial Officer, at (703) 417-8700 or email at bondholders.information@mwaa.com. Certain financial information with respect to the Authority also may be obtained through the Authority's website at www.mwaa.com/financial and after the Series 2005D Bonds and the Series 2007A Bonds are issued, through the website of DAC at www.dac-ey.com. DAC serves as Disclosure Dissemination Agent for the Authority. See Part II, "CONTINUING DISCLOSURE."

THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS

General

The Series 2005D Bonds and the Series 2007A Bonds are being issued in two separate Series under the Indenture. The Series 2005D Bonds will be dated their date of delivery, which will be on or about October 12, 2005, will bear interest from that date, payable beginning on April 1, 2006, and semiannually thereafter on each April 1 and October 1 at the interest rates, and will mature on October 1 in the years, set forth on the inside cover pages of this Official Statement. The Series 2007A Bonds will be dated their date of delivery, which will be on or about July 3, 2007, will bear interest from that date, payable beginning on October 1, 2007, and semiannually thereafter on each April 1 and October 1 at the interest rates, and will mature on October 1 in the years, set forth on the inside cover pages of this Official Statement. See "BONDHOLDER DELAYED DELIVERY RISKS." The Series 2005D Bonds and the Series 2007A Bonds will be issued in denominations of $5,000 or integral multiples thereof and will be subject to optional redemption prior to maturity as described below under "Redemption of the Series 2005D Bonds and the Series 2007A Bonds."

Book-Entry Only System

The Series 2005D Bonds and the Series 2007A Bonds will be issued as fully registered bonds without coupons and are initially to be registered in the name of Cede & Co., as nominee for DTC as Securities depository for the Series 2005D Bonds and the Series 2007A Bonds. For more information regarding the Book-Entry Only System, See Part II, "THE BONDS – Book-Entry Only System" and APPENDIX E – "Book-Entry Only System."

Redemption of the Series 2005D Bonds and the Series 2007A Bonds

The Series 2005D Bonds may not be called for optional redemption by the Authority prior to October 1, 2015. The Series 2005D Bonds maturing on or after October 1, 2016, shall be subject to optional redemption prior to maturity by the Authority, on and after October 1, 2015, in whole or in part at any time, at 100% of the principal amount of the Series 2005D Bonds to be redeemed plus accrued interest to the date fixed for redemption.

The Series 2007A Bonds may not be called for optional redemption by the Authority prior to October 1, 2017. The Series 2007A Bonds maturing on or after October 1, 2018, shall be subject to optional redemption prior to maturity by the Authority, on and after October 1, 2017, in whole or in part at any time, at 100% of the principal amount of the Series 2007A Bonds to be redeemed plus accrued interest to the date fixed for redemption.

For information regarding the method of selecting the Series 2005D Bonds and the Series 2007A Bonds for redemption and information regarding the notice of redemption, see Part II, "THE BONDS – Method of Selecting the Bonds for Redemption" and "THE BONDS – Notice of Redemption."

Security and Source of Payment

General

The Series 2005D Bonds and the Series 2007A Bonds will be secured on a parity with other Bonds issued by the Authority under the Indenture by a pledge of Net Revenues derived by the Authority from the operation of the Airports and by the Series 2005D Bond and the Series 2007A Bond proceeds deposited in certain funds held by the Trustee. No property of the Authority is subject to any mortgage for the benefit of the owners of the Series 2005D Bonds and the Series 2007A Bonds. **The Series 2005D Bonds and the Series 2007A Bonds shall not constitute a debt of the District of Columbia or of the Commonwealth of Virginia or any political subdivision thereof nor a pledge of the faith and credit of the District of Columbia or of the Commonwealth of Virginia or any political subdivision thereof. The Authority has no taxing power.** For information regarding the Rate Covenant, the Flow of Funds and other provisions of the Indenture, see Part II, "THE BONDS – Security and Source of Payment for the Bonds" and APPENDIX C – "Definitions and Summary of Certain Provisions of the Indenture."

Debt Service Reserve Fund

Under the Indenture, the Authority has covenanted to deposit, or cause to be deposited, amounts sufficient to maintain the respective Series 2005D and Series 2007A Reserve Accounts in the Debt Service Reserve Fund for each Series of Bonds in an amount equal to their respective Debt Service Reserve Requirements.

Under conditions specified in the Indenture, the Authority may fund the Debt Service Reserve Requirement for any Series of Bonds, including the Series 2005D Bonds and the Series 2007A Bonds, by delivering a letter of credit or other credit facility to the Trustee in substitution for, or in lieu of, moneys held in the Debt Service Reserve Fund for such Series. The Indenture requires that the provider of any such credit facility have a credit rating in one of the two highest rating categories by two Rating Agencies (as defined therein). In the event the Debt Service Reserve Requirement is funded with a letter of credit or other credit facility, there would be no interest earnings on the account in the Debt Service Reserve Fund for such Series of Bonds. See the description under the heading "Debt Service Reserve Fund Deposit" in APPENDIX C – "Definitions and Summary of Certain Provisions of the Indenture."

The Trustee is required to draw on the respective Series 2005D or Series 2007A Reserve Account in the Debt Service Reserve Fund whenever the amount held in the Interest Account or the Principal Account for such Series of Bonds is insufficient to pay interest on or principal of such Series of Bonds on the date such payments are due. To the extent not needed to maintain the Debt Service Reserve Requirement for the Series 2005D Bonds or the Series 2007A Bonds, the earnings in the respective Series 2005D or Series 2007A Reserve Account will be transferred to the Revenue Fund and used in accordance with the provisions of such fund.

If the amount on deposit in the respective Series 2005D or Series 2007A Reserve Account in the Debt Service Reserve Fund at any time is less than the Debt Service Reserve Requirement with respect to the

applicable Series, such deficiency is required to be made up as set forth in Part II, "THE BONDS – Security and Source of Payment for the Bonds – *Flow of Funds*."

Bond Insurance

The following information was provided by the Bond Insurer for inclusion in this Official Statement. Reference is made to APPENDIX H for a specimen of the Policies. Neither the Authority nor the Underwriters make any representation as to its accuracy or completeness.

The Policies

The Bond Insurer has made a commitment to issue the Policies relating to the Series 2005D Bonds and the Series 2007A Bonds effective as of the respective dates of issuance of the Series 2005D Bonds and the Series 2007A Bonds. Under the terms of the Policies, the Bond Insurer will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2005D Bonds and the Series 2007A Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Policies). The Bond Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which the Bond Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series 2005D Bonds and the Series 2007A Bonds and, once issued, cannot be canceled by the Bond Insurer.

The Policies will insure payment only on stated maturity dates in the case of principal, and on stated dates for payment, in the case of interest. In the event of any acceleration of the principal of the Series 2005D Bonds or the Series 2007A Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Series 2005D Bond or a Series 2007A Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Policies do not insure any risk other than Nonpayment, as defined in the Policies. Specifically, the Policies do not cover:

- payment on acceleration, as a result of a call for redemption or as a result of any other advancement of maturity;

- payment of any redemption, prepayment or acceleration premium; and

- nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Policies, payment of principal requires surrender of the Series 2005D Bonds or the Series 2007A Bonds, as applicable, to the Insurance Trustee together with an appropriate

instrument of assignment so as to permit ownership of such Series 2005D Bonds or Series 2007A Bonds to be registered in the name of the Bond Insurer to the extent of the payment under the Policies. Payment of interest pursuant to the Policies requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to the Bond Insurer.

Upon payment of the insurance benefits, the Bond Insurer will become the owner of the Series 2005D Bonds or the Series 2007A Bonds, as applicable, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2005D Bonds and Series 2007A Bonds and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $8,720,000,000 (unaudited) and statutory capital of $5,287,000,000 (unaudited) as of June 30, 2005. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services ("S&P"), a Division of The McGraw-Hill Companies, Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service ("IRS") to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Policies shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Series 2005D Bonds and the Series 2007A Bonds.

Ambac Assurance makes no representation regarding the Series 2005D Bonds and the Series 2007A Bonds or the advisability of investing in the Series 2005D Bonds and the Series 2007A Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS - Security and Source of Payment for the Series 2005D Bonds and the Series 2007A Bonds - Bond Insurance."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the SEC. These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549-5546. Please call the SEC at 202-551-3400 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;

1. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;

2. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;

3. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005;

4. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005;

5. The Company's Current Report on Form 8-K dated and filed on July 20, 2005;

6. The Company's Current Report on Form 8-K dated July 28, 2005 and filed on August 2, 2005;

7. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2005 and filed on August 9, 2005; and
8. The Company's Current Report on Form 8-K dated September 8, 2005 and filed on September 9, 2005.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

Neither the Authority nor the Underwriters take any responsibility for the accuracy or completeness of any information provided by or available from the Bond Insurer.

Additional Bonds

Subject to certain terms and conditions, additional Bonds may be issued from time to time to finance the Authority's CCP and to refund certain Bonds and other indebtedness of the Authority. Additional Bonds will be equally and ratably secured on a parity with the Series 2005D Bonds and the Series 2007A Bonds and other Bonds outstanding at the time of issuance. See Part II, "THE BONDS – Security and Source of Payment for the Bonds – Additional Bonds," "PLAN OF FUNDING FOR THE 2001-2011 CCP" and APPENDIX C – "Definitions and Summary of Certain Provisions of the Indenture."

Other Indebtedness

In addition to financing its CCP with the proceeds of Bonds, the Authority is authorized under the Indenture to issue other debt to finance its capital needs. The Indenture permits the Authority at any time to issue (a) bonds, notes or other obligations payable from and secured by revenues other than Revenues and Net Revenues, including, but not limited to, Special Facility Bonds, and (b) bonds, notes or other obligations payable from Net Revenues, including revenue anticipation notes, on a basis subordinate to the Bonds, including Subordinated Bonds. For a more detailed discussion on the Authority's Subordinated Bonds, Commercial Paper Program, Interest Rate Swaps, Special Facility Bonds and PFC Secured Indebtedness, see "AUTHORITY INDEBTEDNESS."

Events of Default and Remedies; No Acceleration or Cross Defaults

"Events of Default" under the Indenture and related remedies are described in the summary of certain provisions of the Indenture attached as APPENDIX C, in particular in the section "Defaults and Remedies." The occurrence of an Event of Default does not grant any right to accelerate payment of the Series 2005D Bonds or the Series 2007A Bonds to either the Trustee or the Holders of any Bonds. An Event of Default with respect to one Series of Bonds will not be an Event of Default with respect to any other Series unless such event or condition on its own constitutes an Event of Default with respect to such other Series. The Trustee is authorized to take certain actions upon the occurrence of an Event of Default, including initiating proceedings to enforce the obligations of the Authority under the Indenture. Since (a) Net Revenues are Revenues net of all amounts needed to pay Operation and Maintenance Expenses, and (b) the Authority is not subject to involuntary bankruptcy proceedings, the Authority may be able to continue indefinitely collecting Revenues and applying them to the operation of the Airports, even if an Event of Default has occurred and no payments are being made on the Series 2005D Bonds or the Series 2007A Bonds.

Estimated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of the proceeds of the Series 2005D Bonds and the Series 2007A Bonds and other available funds:

	Series 2005D Bonds	Series 2007A Bonds	Total
SOURCES:			
Par Amount of Bonds	$11,450,000	$164,460,000	$175,910,000
Net Original Issue Premium	795,158	4,885,561	5,680,719
Releases from Debt Service and Debt Service Reserve Funds of 1997A and 1997B Bonds	1,722,021	24,052,154	25,774,175
Total Sources	$13,967,179	$193,397,715	$207,364,894
USES:			
Deposit to Redemption Account for the Series 1997A Bonds	$12,557,438	-	$ 12,557,438
Deposit to Redemption Account for the Series 1997B Bonds	-	$175,715,619	175,715,619
Deposit to Series 2005D Reserve Account in Debt Service Reserve Fund	1,224,516	-	1,224,516
Deposit to Series 2007A Reserve Account in Debt Service Reserve Fund	-	15,109,275	15,109,275
Underwriters' Discount and Costs of Issuance[1]	185,225	2,572,821	2,758,047
Total Uses	$13,967,179	$193,397,715	$207,364,894

[1] Includes cost of the Policies.

Refunding Plan

Proceeds of the Series 2005D Bonds will be deposited into a Redemption Account held by the Trustee to legally defease a portion of the outstanding Series 1997A Bonds. Under a Refunding Agreement dated as of October 1, 2005, relating to the portion of the Series 1997A Bonds being refunded with the Series 2005D Bonds (the "Series 1997A Refunding Agreement"), the Trustee will use such amount, together with other funds of the Authority, to purchase permitted investments that mature at such times and in such amounts as will be sufficient to pay the principal of, the redemption price and accrued interest on all of the Series 1997A Bonds being redeemed to the date set for redemption. The sufficiency of such amounts has been verified by American Municipal Tax-Exempt Compliance, as the verification agent. See "VERIFICATION AGENT" herein.

Pursuant to the Series 1997A Refunding Agreement, the following maturities of, or sinking fund payments for, the Series 1997A Bonds will be redeemed by the Trustee on October 1, 2007.

Year	Principal	Redemption Premium
2008	$ 1,295,000	$ 12,950
2009	1,360,000	13,600
2010	1,430,000	14,300
2021*	2,535,000	25,350
2022*	2,670,000	26,700
2023*	2,810,000	28,100
	$12,100,000	$ 121,000

* Remaining sinking fund maturities of the 2023 term bond.

Proceeds of the Series 2007A Bonds will be deposited into a Redemption Account held by the Trustee to legally defease a portion of the outstanding Series 1997B Bonds. Under a Refunding Agreement dated as of July 1, 2007, relating to the portion of the Series 1997B Bonds being refunded with the Series 2007A Bonds (the "Series 1997B Refunding Agreement"), the Trustee will use such amount, together with other funds of the Authority, to purchase permitted investments that mature at such times and in such amounts as will be sufficient to pay the principal of, the redemption price and accrued interest on all of the Series 1997B Bonds being redeemed to the date set for redemption. The sufficiency of such amounts will be verified by E. Lynn Hampton, the Chief Financial Officer of the Authority.

Pursuant to the Series 1997B Refunding Agreement, the following maturities of, or sinking fund payment for, the Series 1997B Bonds will be paid or redeemed by the Trustee on October 1, 2007.

Year	Principal	Redemption Premium
2007	$ 6,240,000	$ 0
2008	6,590,000	65,900
2009	6,950,000	69,500
2010	7,335,000	73,350
2011	7,735,000	77,350
2012	8,145,000	81,450
2013	8,600,000	86,000
2014	9,085,000	90,850
2015 *	9,605,000	96,050
2016 *	10,130,000	101,300
2017 **	10,690,000	106,900
2018 **	11,305,000	113,050
2019 **	11,955,000	119,550
2020 **	12,640,000	126,400
2021 ***	13,365,000	133,650
2022 ***	14,105,000	141,050
2023 ***	14,880,000	148,800
	$ 169,355,000	$ 1,631,150

* Sinking fund maturities of the 2016 term bond.
** Sinking fund maturities of the 2020 term bond.
*** Sinking fund maturities of the 2023 term bond.

DEBT SERVICE SCHEDULES

Debt Service Schedule for the Series 2005D Bonds and the Series 2007A Bonds

The following table sets forth the annual debt service requirements on the Series 2005D Bonds and the Series 2007A Bonds.

Year Ended	Series 2005D Bonds			Series 2007A Bonds[1]		
October 1	Principal	Interest	Total[2]	Principal	Interest	Total[2]
2006		$555,007	$555,007			
2007		572,500	572,500		$1,992,839	$1,992,839
2008	$1,205,000	572,500	1,777,500	6,955,000	8,152,525	15,107,525
2009	1,265,000	512,250	1,777,250	7,300,000	7,804,775	15,104,775
2010	1,330,000	449,000	1,779,000	7,665,000	7,439,775	15,104,775
2011		382,500	382,500	8,045,000	7,056,525	15,101,525
2012		382,500	382,500	8,455,000	6,654,275	15,109,275
2013		382,500	382,500	8,875,000	6,231,525	15,106,525
2014		382,500	382,500	9,315,000	5,787,775	15,102,775
2015		382,500	382,500	9,785,000	5,322,025	15,107,025
2016		382,500	382,500	10,270,000	4,832,775	15,102,775
2017		382,500	382,500	10,790,000	4,319,275	15,109,275
2018		382,500	382,500	11,325,000	3,779,775	15,104,775
2019		382,500	382,500	11,895,000	3,213,525	15,108,525
2020		382,500	382,500	12,485,000	2,618,775	15,103,775
2021	2,430,000	382,500	2,812,500	13,110,000	1,994,525	15,104,525
2022	2,550,000	261,000	2,811,000	13,770,000	1,339,025	15,109,025
2023	2,670,000	133,500	2,803,500	14,420,000	684,950	15,104,950
Total	$11,450,000	$7,263,257	$18,713,257	$164,460,000	$79,224,664	$243,684,664

[1] The Series 2007A Bonds are not expected to be delivered until July 2007.
[2] Totals may not add due to rounding.

Source: P.G. Corbin & Company and Authority Records

Debt Service Schedule for Outstanding Debt

The following table sets forth the debt service for the Series 2005D Bonds and the Series 2007A Bonds, the Series One CP Notes, the Series Two CP Notes and all other currently outstanding Bonds of the Authority. This table reflects the delayed delivery of the Series 2007A Bonds, but it does not take into account additional Bonds the Authority may issue during the period of time between the delivery of the Series 2005D Bonds on October 12, 2005, and the expected delivery of the Series 2007A Bonds on or about July 3, 2007.

Year Ended October 1	Series 2005D and 2007A Debt Service	Outstanding Debt Service[1]	Series One and Series Two Notes Debt Service[2]	Total Debt Service[3]
2006	$ 555,007	$ 210,610,061	$ 26,879,017	$ 238,044,084
2007	2,565,339	199,696,328	26,880,665	229,142,333
2008	16,885,025	193,764,946	26,880,966	237,530,937
2009	16,882,025	193,613,864	26,880,196	237,376,085
2010	16,883,775	193,727,024	26,877,625	237,488,423
2011	15,484,025	195,465,822	26,882,521	237,832,368
2012	15,491,775	195,522,001	26,878,668	237,892,444
2013	15,489,025	195,651,102	26,875,579	238,015,706
2014	15,485,275	195,707,378	26,877,279	238,069,931
2015	15,489,525	195,780,632	26,877,551	238,147,707
2016	15,485,275	195,931,612	26,880,421	238,297,308
2017	15,491,775	196,020,185	26,879,671	238,391,631
2018	15,487,275	196,180,738	26,879,328	238,547,341
2019	15,491,025	187,323,933	26,883,174	229,698,132
2020	15,486,275	190,479,484	26,879,748	232,845,507
2021	17,917,025	173,805,876	26,878,076	218,600,977
2022	17,920,025	154,639,599	26,881,697	199,441,321
2023	17,908,450	144,420,030	26,883,907	189,212,387
2024		162,009,753	26,883,244	188,892,996
2025		112,369,076	26,878,247	139,247,323
2026		112,427,634	26,877,456	139,305,090
2027		137,591,499	26,883,923	164,475,422
2028		128,045,900	26,880,455	154,926,355
2029		115,737,321	26,880,593	142,617,914
2030		141,153,102	26,882,144	168,035,245
2031		141,273,208	26,877,917	168,151,125
2032		121,390,063	26,880,964	148,271,027
2033		97,793,455	26,883,606	124,677,061
2034		75,652,393	26,878,409	102,530,802
2035		36,770,125	26,878,181	63,648,306
Total	$ 262,397,921	$ 4,790,554,143	$ 806,401,222	$ 5,859,353,286

[1] Interest on the $217.045 million of the Series 2002C Bonds which are the subject of the 2001 Swap Agreement has been calculated using a rate of 4.445%, representing the average fixed rate payable by the Authority under the 2001 Swap Agreements. Interest on the remainder of the Series 2002C Bonds which are not subject to the 2001 Swap Agreements has been calculated using an assumed interest rate of 4%. The outstanding debt service includes the debt service on the portion of the Series 1997B Bonds being refunded by the Series 2007A Bonds until the Series 2007A Bonds Issue Date.

[2] With respect to the $220 million Series One CP Notes and the $200 million Series Two CP Notes authorized to be outstanding at any time, annual debt service is determined by assuming (a) the Series One CP Notes and the Series Two CP Notes are to be amortized over a 30-year period beginning on the date of calculation, (b) level debt service, and (c) the interest rate is equal to the rate published by The Bond Buyer as the Bond Buyer 25 Revenue Bond Index which was 4.87% as of September 8, 2005.

[3] Totals may not add due to rounding.

Source: P.G. Corbin & Company and Authority Records

AUTHORITY INDEBTEDNESS

Outstanding Bonds of the Authority

The following table lists the Authority's outstanding Bonds as of September 1, 2005.[†]

Series of Bonds	Originally Issued Par Amount	Outstanding as of September 1, 2005
1997A*	$ 40,680,000	$ 15,640,000
1997B*	209,320,000	180,805,000
1998A	20,415,000	18,580,000
1998B	279,585,000	241,715,000
1999A	100,000,000	94,050,000
2001A	286,165,000	272,950,000
2001B	13,835,000	13,095,000
2002A	222,085,000	215,435,000
2002B	27,915,000	26,945,000
2002C	265,735,000	248,545,000
2002D	107,235,000	104,115,000
2003A	185,000,000	181,915,000
2003B	44,135,000	43,800,000
2003C	52,565,000	50,725,000
2003D	150,000,000	147,775,000
2004A	13,600,000	13,600,000
2004B	250,000,000	250,000,000
2004C-1	97,730,000	97,730,000
2004C-2	111,545,000	111,545,000
2004D	218,855,000	218,855,000
2005A	320,000,000	320,000,000
2005B	19,775,000	19,775,000
2005C	30,000,000	30,000,000
Total	$ 3,066,175,000	$ 2,917,595,000

† Does not include the Series One CP Notes or the Series Two CP Notes.
* A portion of the Series 1997A Bonds will be refunded with the proceeds of the Series 2005D Bonds. A portion of the 1997B Bonds will be refunded with the proceeds of the Series 2007A Bonds.

Subordinated Bonds

Currently, there are no outstanding Subordinated Bonds. The Authority has the ability to issue additional debt on a subordinated basis to the Bonds, but currently has no plans to do so. Under the Indenture, Subordinated Bonds are to be secured by a pledge of the Authority's Net Revenues, which pledge is to be subordinated to the pledge of Net Revenues securing the Bonds.

Commercial Paper Program

The Authority has authorized a commercial paper program in an aggregate principal amount not to exceed $500 million outstanding at any time. The Authority currently has in place two credit facilities allowing the Authority to draw up to $420 million in Commercial Paper Notes at any given time.

The issuance of up to $220 million of the Series One CP Notes is authorized pursuant to the Amended and Restated Eleventh Supplemental Indenture dated as of November 1, 2004, as further amended on March 1, 2005, between the Authority and the Trustee. The Series One CP Notes are structured as Short Term/Demand Obligations under the Indenture and secured by certain pledged funds including Net Revenues on parity with the Bonds. They are further secured by an irrevocable direct pay letter of credit issued by JPMorgan Chase Bank, which expires in March 2008. The Authority's obligation to repay amounts drawn under such letter of credit is secured by a promissory note issued by the Authority to JPMorgan Chase Bank and is secured by and payable from Net Revenues and other pledged funds on a parity with the Series One CP Notes and the Bonds. Currently, no Series One CP Notes are outstanding. The Authority has the ability to have outstanding up to $220 million of Series One CP Notes at any time.

The issuance of up to $200 million of the Series Two CP Notes is authorized pursuant to the Twenty-second Supplemental Indenture dated as of January 1, 2005, between the Authority and the Trustee. The Series Two CP Notes are structured as Short Term/Demand Obligations under the Indenture and are secured by certain pledged funds including Net Revenues on parity with the Bonds. They are further secured by an irrevocable direct pay letter of credit issued on a several but not joint basis by WestLB AG, acting through its New York Branch, individually and as an agent, and Landesbank Baden-Württemberg, acting through its New York Branch (collectively, the "Banks"), which expires in December 2015, but allows the Banks under certain circumstances to terminate the facility every five years. The Authority's obligation to repay amounts drawn under such letter of credit is secured by a promissory note issued by the Authority to the Banks and is secured by and payable from Net Revenues and other pledged funds on a parity with the Series Two CP Notes and the Bonds. Currently, $96 million of Series Two CP Notes are outstanding. The Authority retains the ability to have outstanding up to $200 million of Series Two CP Notes at any time.

Interest Rate Swaps

On July 31, 2001, the Authority entered into two forward floating-to-fixed interest rate swap agreements (collectively, the "2001 Swap Agreements") with Lehman Brothers Special Financing Inc. ("LBSF") and Merrill Lynch Capital Services, Inc. ("MLCS"), respectively. The purpose of the 2001 Swap Agreements was to lock in prevailing fixed interest rates in contemplation of the refunding of the Authority's then outstanding $259,830,000 Airport System Revenue Bonds, Series 1992A (the "Series 1992A Bonds"). The 2001 Swap Agreements with LBSF and MLCS have notional amounts of $150.475 million and $75.230 million, respectively. Each 2001 Swap Agreement provides for certain payments to or from LBSF and MLCS equal to the difference between the fixed rates (4.46% to LBSF and 4.445% to MLCS) payable by the Authority and 72% of one month U.S. dollar LIBOR-BBA payable by LBSF and MLSC. Payments under the 2001 Swap Agreements commenced on October 1, 2002. The 2001 Swap Agreements relate to the payments due on a portion of the Airport System Revenue Variable Rate Refunding Bonds, Series 2002C (the "Series 2002C Bonds") issued to refund the Series 1992A Bonds, thereby effectively converting the floating rate on such portion of the Series 2002C Bonds to fixed rate obligations. S&P has assigned the Authority an overall Debt Derivative Profile of "1" on a scale of "1" to "5", with "1" representing the lowest risk and "5" representing the highest risk.

On May 13, 2005, the Authority entered into forward floating-to-fixed interest rate swap agreements (collectively, the "2005 Swap Agreements") with Wachovia Bank, N.A. ("Wachovia") and Bank of Montreal ("Bank of Montreal") to provide protection against rising interest rates for a portion of the financings the Authority expects to undertake in 2006 and 2007 to fund ongoing capital needs. The 2005 Swap Agreements with Wachovia and Bank of Montreal that have an effective date of October 1, 2006, have notional amounts of $65 million and $35 million, respectively, and provide for certain payments to or from Wachovia and Bank of Montreal equal to the difference between the fixed rate (3.4975%), payable by the Authority, and 72% of one month U.S. dollar LIBOR-BBA payable by Wachovia and Bank of Montreal. The 2005 Swap Agreements with Wachovia and Bank of Montreal that have an effective date of October 1, 2007, have notional amounts of $125 million and $75 million, respectively, and provide for certain payments to or from Wachovia and Bank of Montreal equal to the difference between the fixed rate (3.55%), payable by the Authority, and 72% of one month U.S. dollar LIBOR-BBA payable by Wachovia and Bank of Montreal. If the 2005 Swap Agreements are not terminated by the Authority prior to their respective effective dates, the Authority plans to apply those 2005 Swap Agreements to the payments due on variable rate bonds that it may issue in 2006 and 2007, thereby effectively converting the floating rate on the future series of variable rate bonds to fixed rate obligations.

The Authority's obligations under the 2001 Swap Agreements and the 2005 Swap Agreements constitute Junior Lien Obligations of the Authority secured by a pledge of the Authority's Net Revenues that is subordinate to the pledge of Net Revenues securing the Bonds and any Subordinated Bonds issued in the future. Termination payments owed by the Authority for the 2001 Swap Agreements and the 2005 Swap Agreements, if any, would be payable from funds subordinated to Bonds, Subordinated Bonds and Junior Lien Obligations.

Special Facility Bonds

Special Facility Bonds are generally defined as any revenue bonds, notes or other obligations of the Authority other than Bonds, Subordinated Bonds or Junior Lien Obligations, issued to finance any Special Facility, as defined in the Indenture, that are payable from and secured solely by the proceeds of such obligations and by rentals, payments and other charges payable by the obligor under the applicable Special Facility Agreement, as defined in the Indenture. To date, the Authority has issued $14.2 million of Special Facility Bonds to finance an in-flight kitchen facility at National for Caterair International, Inc. ("Caterair"). In 1996, Caterair subleased the in-flight kitchen facility to Sky Chefs, Inc. Caterair assigned its rights under the Special Facility Bond documents to Sky Chefs, Inc., and Sky Chefs, Inc. assumed and guaranteed Caterair's obligations thereunder.

PFC Secured Indebtedness

The Authority has used and expects to use PFCs to fund a portion of the CCP. To provide liquidity to fund these capital projects, the Authority has issued its Flexible Term PFC Revenue Notes (the "PFC Notes") in a commercial paper mode in which the interest rate is reset for periods of one to 270 days. The PFC Notes were authorized in a maximum principal amount of $255 million. The PFC Notes are secured by a pledge of the Authority's PFC revenue and mature on December 31, 2009. Bank of America, N.A. ("Bank of America") provides a letter of credit to secure the payment of principal and interest on the PFC Notes. Banc of America Securities LLC and Wachovia Bank, National Association serve as the syndication and remarketing agents for the PFC Notes. The Authority intends to finance additional CCP projects with $672 million of revenues generated from the collection of PFCs at both Airports pursuant to a PFC application approved by the FAA on August 17, 2005. As a result, the Authority plans to increase the maximum principal amount of the PFC Notes from $255 million to $500 million and to extend the maturity of the PFC Notes to June 1, 2017. The Authority

currently is negotiating with Bank of America to also increase the amount of the letter of credit to $500 million and extend the expiration date of the letter of credit.

In February 2001, the Authority received FAA approval to increase PFC collection authority from $3.00 to $4.50 on each qualified enplaning passenger. The Authority's agreement with Bank of America includes a covenant that, in the event the Authority's ability to impose or use PFCs is revoked, the Authority will, to the extent it may lawfully do so, issue Bonds secured by Net Revenues, to repay all outstanding PFC Notes. This covenant is subject to all applicable conditions precedent to the Authority's ability to issue Bonds, including the additional Bonds test of the Indenture. In accordance with a provision in the Vision 100-Century of Aviation Reauthorization Act. P.L. 108-176, enacted by Congress on December 17, 2003 (the "2003 FAA Reauthorization Act"), after October 1, 2008, the Secretary of Transportation may not approve an Authority application to impose additional PFCs. See Part II, "PLAN OF FUNDING FOR THE 2001-2011 CCP – Funding Sources – Funding Source: PFCs."

BONDHOLDER DELAYED DELIVERY RISKS

The Authority anticipates that the Series 2007A Bonds will be issued and delivered on or about July 3, 2007. Issuance and delivery of the Series 2007A Bonds will be dependent upon the receipt by the Authority of the opinion of Co-Bond Counsel in the proposed forms set forth in APPENDIX F and of certain other documents required by the Forward Delivery Bond Purchase Agreement for the Series 2007A Bonds, satisfaction of certain other conditions, including issuance by the Bond Insurer of the Policy with respect to the Series 2007A Bonds, and payment of the purchase price by the underwriters of the Series 2007A Bonds, for whom Lehman Brothers is the senior manager and acts as the representative (the "2007A Underwriters"), in accordance with such Forward Delivery Bond Purchase Agreement.

Co-Bond Counsel Opinion. Co-Bond Counsel could be prevented from rendering its opinion on the Series 2007A Bonds Issue Date with respect to the Series 2007A Bonds as a result of (i) changes or proposed changes, prior to the Series 2007A Bonds Issue Date, in federal or state laws, court, decisions, regulations or proposed regulations or rulings of administrative agencies or (ii) the failure of the Authority to provide closing documents, satisfactory to Co-Bond Counsel, of the type customarily required in connection with the issuance of tax-exempt bonds, such as certificates to the effect that the proceedings of the Authority with respect to the issuance of the Series 2007A Bonds have not been amended or repealed by executive, legislative or administrative action or that the proposed use or investment of the proceeds of the Series 2007A Bonds has not changed in a manner that might have an adverse effect on the proposed tax-exempt status of the Series 2007A Bonds.

Federal Tax Changes. The Forward Delivery Bond Purchase Agreement for the Series 2007A Bonds obligates the Authority to deliver and the 2007A Underwriters to purchase the Series 2007A Bonds if, among other conditions, the Authority delivers an opinion of Co-Bond Counsel in the proposed forms set forth in APPENDIX F to the effect that the interest on the Series 2007A Bonds is not included in the gross income of the holders thereof for federal income tax purposes. Changes in federal law could (a) eliminate the tax-exemption of interest payable on "state or local bonds," such as the Series 2007A Bonds, or (b) diminish the value of the federal tax-exemption granted interest on such bonds under the current system of federal income taxation. Notwithstanding that such federal law changes could diminish the value of the federal tax-exemption of interest payable on "state or local bonds," the Authority might be able to satisfy the requirements for the delivery of the Series 2007A Bonds contained in the Forward Delivery Bond Purchase Agreement and, in such event, the 2007A Underwriters would be required to accept delivery of the Series 2007A Bonds. Prospective

purchasers are encouraged to consult their tax advisors regarding any proposed or pending federal law changes and the consequences of such changes to the purchasers.

Circular 230. The IRS has issued final and proposed regulations governing practice before the IRS in a publication commonly referred to as "Circular 230." The proposed changes to Circular 230 are expected to be in effect before the Series 2007A Bonds are issued in July 2007. The changes, when final, will be binding on Co-Bond Counsel to the Authority. While it is expected that the proposed changes will result in certain modifications in practice and documentation in connection with the issuance of the Series 2007A Bonds, with which the Authority expects to comply, the changes to Circular 230 also may require, in the opinion of Co-Bond Counsel, modifications to the form of bond counsel opinion and related disclosure to investors, the exact nature of which cannot be predicted with certainty at this time.

Updated Official Statement. During the period of time between the date hereof and the issuance and delivery of the Series 2007A Bonds (the "Delayed Delivery Period"), certain information contained in this Official Statement may require material changes. The Authority has agreed to update this Official Statement as of a date not earlier than 10 days prior to the Series 2007A Bonds Issue Date, and to provide a reasonable number of copies of the updated Official Statement to the 2007A Underwriters at such time. With this exception, the Authority and the 2007A Underwriters have not agreed to, nor are they obligated to, provide updates to the information contained in this Official Statement during the Delayed Delivery Period.

Secondary Market Risk. The 2007A Underwriters are not obligated to make a secondary market in the Series 2007A Bonds and no assurances can be given that a secondary market will exist for the Series 2007A Bonds during the Delayed Delivery Period. Prospective purchasers of the Series 2007A Bonds should assume that the Series 2007A Bonds will be illiquid throughout the Delayed Delivery Period.

Rating Risk. Please see "Ratings" herein for information related to the ratings on the Series 2007A Bonds and any conditions related thereto. No assurance can be given that on the Series 2007A Bonds Issue Date the rating assigned to such bonds will be the same as the ratings currently assigned to the Series 2007A Bonds.

Market Value Risk. The market value of the Series 2007A Bonds as of the delivery date thereof may be affected by a variety of factors, including, without limitation, general market conditions, the rating on the Series 2007A Bonds, the financial condition and operation of the Authority and adverse changes in federal and state income tax and other laws. Thus, the market value of the Series 2007A Bonds on their delivery date could be greater or less than the agreed purchase price, and the difference could be substantial. Neither the Authority nor the 2007A Underwriters make any representation as to the market value of the Series 2007A Bonds as of the Series 2007A Bonds Issue Date.

Termination of Forward Delivery Bond Purchase Agreement. The 2007A Underwriters may terminate their obligations under the Forward Delivery Bond Purchase Agreement, without any liability, if at any time prior to the 2007A Bond Issue Date any of number of events occur which materially and adversely affect the market price or marketability of the Series 2007A Bonds or the ability of the Underwriters to enforce contracts for sale of the Series 2007A Bonds, including any outbreak of hostilities or other local, national or international calamity or crisis, a declaration of a general banking moratorium or the general suspension of trading on the New York Stock Exchange, an imposition of any material restrictions not now in force with respect to the Series 2007A Bonds or a material increase of any such restrictions now in force, or the adoption of any new legislation or any change in the law adversely affecting tax-exempt bonds.

RECENT DEVELOPMENTS

The following is a summary of certain recent developments since March 31, 2005, that may include material changes to the information included in Part II of this Official Statement. Part II of this Official Statement has not been updated since March 31, 2005.

The Authority

The Board. Since March 31, 2005, there have been certain changes in the composition of the Board. Leonard Manning was appointed to the Board by the Mayor of the District of Columbia and confirmed by the Council of the District of Columbia to replace Jeffrey Earl Thompson whose term had expired. Mr. Manning's term expires in January 5, 2011. The Honorable William W. Cobey Jr., was appointed to the Board by the President of the United States and confirmed by the U.S. Senate to replace the Honorable John Paul Hammerschmidt whose term had expired. Mr. Cobey's term expires in May 30, 2010.

Senior Management. In August 2005, Steven C. Baker was selected to fill in the vacancy as the Vice President for Business Administration. His biography is set forth below.

Steven C. Baker will assume his position of the Vice President for Business Administration on October 3, 2005. He is a graduate of Cornell University (B.A., Economics, 1982) and University of Pennsylvania (M.B.A., 1986, and J.D. 1986). Prior to joining the Authority, Mr. Baker served as the Deputy Aviation Director of the Miami International Airport where he directed the financial, operational and construction functions of the Miami International Airport. Mr. Baker also was Vice President of Portfolio Management for the Harold A. Dawson Company where he oversaw the management of urban mixed-use (residential-office-retail) developments. Mr. Baker served for five years as Deputy Aviation General Manager of Business and Finance at Hartsfield Atlanta International Airport. At Hartsfield, Mr. Baker oversaw the financial, marketing, information systems, concessions, parking and ground transportation functions. Prior to Hartsfield, Mr. Baker had six years of varied aviation experience as Vice President of Aviation Resource Partners, Inc., Counsel for American Airlines, Inc., and Regional Administrator for United Airlines, Inc.

Regulations and Restrictions Affecting the Airports. As of October 18, 2005, general aviation will be permitted at National so long as strict security requirements are complied with, including screening and background checks of crews and passengers, property checks, and armed officers are present onboard the general aviation flights.

Air Trade Area and Airports Activity

Airlines Serving the Airports

With the exception of South African Airways commencing service between Dulles and Johannesburg in July 2005, and Frontier Airlines moving its flights from Dulles to National, there have been no significant changes in the airlines serving the Airports since March 31, 2005.

According to the Authority, the merger of US Airways and America West is not expected to have any adverse effect on US Airways' service at the Airports. Likewise, according to the Authority, the recent filings for bankruptcy protection by Delta and Northwest are not expected to have any significant impact on the level of activity by those carriers at either Airport.

Recent Enplanement Activity

From January through July 2005, total enplanements at National were 5,226,042, an increase of 13.41% compared to the same period in 2004. During the month of July 2005, enplanements at National were 20.57% above the July 2000 enplanement levels.

Domestic enplanements at Dulles have reached new records in 2005, primarily as a result of Independence Air's stimulation of the traffic in the Dulles market. From January through July 2005, domestic enplanements at Dulles were 6,646,008, an increase of 49.69% compared to the same period in 2004, and international enplanements were 1,431,443, an increase of 7.94% compared to the same period in 2004.

Certain Factors Affecting the Air Transportation Industry and the Airports

Cost of Aviation Fuel

Since January 2005, the price of oil has increased by 50%. In the first week of September 2005, the price of oil reached a record high of $70.85 per barrel. Hurricane Katrina's devastation of Alabama, Mississippi and Louisiana and other areas along the Gulf of Mexico coast caused severe damage to oil rigs and refineries in the Gulf of Mexico, shutting down 10% of U.S. refining capacity and cutting the daily jet fuel production by 13%. As a result of this shortage of refinery capacity, jet fuel prices have increased substantially. According to the Air Transportation Association, following Hurricane Katrina, jet fuel prices hit a record high of $1.99 per gallon, a 25% increase over the prior week. Such increases added approximately $25 million a day to the air transportation industry fuel costs. These significant and prolonged increases in the costs of fuel have had, and are likely to continue to have, an adverse impact on the air transportation industry by increasing airline operating costs, hampering airline recovery plans and reducing airline profitability.

Low-cost Carriers and Low-fare Divisions of Legacy Carrier

As a result of the commencement of operations at Dulles by Independence Air in 2004, Dulles surpassed Baltimore Washington International Airport ("BWI") in terms of its share of enplanements in the regional market. In light of the financial difficulties of Independence Air, the Authority cannot predict whether Independence Air will continue its level of activity at Dulles or whether the increased aviation activity at Dulles will continue the shift of the domestic traffic in the regional market back to Dulles. The Authority also cannot predict the effect of the America West and US Airways merger, resulting in a new low-cost carrier that may compete with Independence Air, on enplanements at Dulles.

Financial Condition of the Airlines

US Airways

According to information obtained from US Airways' filings with the SEC, US Airways reported a net loss of $191 million in the first quarter of 2005, compared to a net loss of $177 million in the first quarter of 2004, and a net loss of $62 million in the second quarter of 2005, compared to a net profit of $34 million in the second quarter of 2004. US Airways' enplanements at the Airports in 2004 represented 11.5% of the combined enplanements at both Airports.

According to information obtained from US Airways' website, on May 19, 2005, US Airways and America West announced intentions to merge as part of US Airways' planned emergence from bankruptcy protection. If the merger is effectuated, the airlines are expected to operate under the US Airways brand and are expected to be headquartered in Tempe, Arizona. US Airways has indicated that it expects the merger to close in September 2005, when US Airways also plans to emerge from bankruptcy protection. US Airways filed its reorganization plan and disclosure statement with the bankruptcy court on June 30, 2005. The reorganization plan confirmation hearing has been scheduled for September 16, 2005. US Airways has received commitments of approximately $565 million of new equity investments and other commitments to participate by suppliers and business partners that are expected to provide the company with approximately $1.5 billion in liquidity upon exiting bankruptcy.

United

According to information obtained from United's filings with the SEC, United reported a net loss of $1.1 billion in the first quarter of 2005, compared to a loss of $459 million in the first quarter of 2004, and a net loss of $1.43 billion in the second quarter of 2005, compared to a loss of $247 million in the second quarter of 2004. United's enplanements at the Airports in 2004 represented 23% of the combined enplanements at both Airports. On September 7, 2005, United filed a reorganization plan and a disclosure statement with the bankruptcy court. A hearing on that filing has been scheduled for October 11, 2005. United has stated that it intends to exit from bankruptcy protection early in 2006.

Independence Air

According to information obtained from Independence Air's filings with the SEC, Independence Air reported a net loss of $105 million in the first quarter of 2005, compared to a net profit of $3.6 million in the first quarter of 2004, and a net loss of $98.5 million in the second quarter of 2005, compared to a net loss of $27.1 million in the second quarter of 2004. Independence Air's enplanements at Dulles in 2004 represented 6.3% of the combined enplanements at both Airports. According to Independence Air's recent SEC filing, Independence Air faces significant cash flow issues and cannot provide assurance that its efforts to address those cash flow issues will be successful. In the same SEC filing, Independence Air stated that it may seek to restructure under the protection of Chapter 11 of the U.S. Bankruptcy Code, and that there are no assurances, "should [it] be required to seek such protection, that it will not be required to liquidate under Chapter 7." As of September 2005, Independence Air has reduced its flight schedule at Dulles by 15%. The Authority is not able to predict whether and at what level Independence Air will continue to operate at the Airports.

American

According to information obtained from American's filings with the SEC, American reported a net loss of $162 million in the first quarter of 2005, compared to a net loss of $166 million in the first quarter of 2004, and a net profit of $58 million in the second quarter of 2005, compared to a net loss of $6 million in the second quarter of 2004. American's enplanements at the Airports in 2004 represented 6.9% of the combined enplanements at both Airports. The second quarter of 2005 was the company's first profitable quarter since the fourth quarter of 2000. The Authority is not able to predict whether and at what level American will continue to operate at the Airports.

Delta

According to information obtained from Delta's filings with the SEC, Delta reported a net loss of $1.1 billion in the first quarter of 2005, compared to a net loss of $383 million in the first quarter of 2004, and a net loss of $382 million in the second quarter of 2005, compared to a net loss of $2 billion in the second quarter of 2004. Delta's enplanements at the Airports in 2004 represented 8.1% of the combined enplanements at both Airports. On September 14, 2005, Delta filed for bankruptcy protection. As of the date of this Official Statement, Delta owes to the Authority approximately $2.159 million in pre-petition debt, which includes amounts owed by Comair and estimated landing fees. The Authority is not able to predict whether and at what level Delta will continue to operate at the Airports.

Northwest

Northwest's enplanements at the Airports in 2004 represented 4.3% of the combined enplanements at both Airports. Northwest filed for bankruptcy protection on September 14, 2005. As of the date of this Official Statement, Northwest owes to the Authority approximately $275,300 in pre-petition debt, which includes estimated landing fees. The Authority is not able to predict whether and at what level Northwest will continue to operate at the Airports.

2001-2011 CCP

As a result of the recent passenger growth at the Airports, the Authority is contemplating adding several new projects to the 2001-2011 CCP, as well as reactivating some of the projects that were deferred. For example, the Authority is planning on adding a new parking level on the existing garages at National, which will provide approximately 1,400 new parking spaces to accommodate current and future parking demand. At Dulles, the Authority is evaluating concepts for modifications to the international arrivals building in order to accommodate future passenger growth. A pipeline and a jet fuel settling tank complex are being developed to ensure adequate levels of jet fuel are being supplied to the airlines. In addition, the Authority has resumed the design of the Tier 2 Concourse at Dulles which previously had been deferred by the Authority. The Authority will consider these projects during its 2006 Budget approval process.

Authority Financial Information

The unaudited Statements of Revenues, Expenses and Changes in Net Assets for the six months ended June 30, 2004, and June 30, 2005, are presented below.

HISTORICAL FINANCIAL RESULTS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Six Months Ended June 30,	
	2004 (Unaudited)	2005 (Unaudited)
OPERATING REVENUES		
Concessions	$ 79,590,795	$ 96,918,908
Rents	72,916,010	77,832,776
Landing Fees	35,405,445	38,078,616
Utility Sales	6,090,278	5,505,490
Passenger Fees	13,713,540	12,908,728
Other	3,426,018	3,928,052
	211,142,086	235,172,570
OPERATING EXPENSES		
Materials, Supplies, Services	55,590,902	64,063,996
Salaries and related benefits	48,808,000	55,439,826
Utilities	9,604,080	10,559,883
Lease from U.S. Government	2,171,847	2,232,685
Depreciation and amortization	59,671,262	65,675,564
	175,846,091	197,971,954
OPERATING INCOME	35,295,995	37,200,616
NON-OPERATING REVENUES (EXPENSES)		
Passenger Facility Charges, Financing costs	(794,636)	(568,724)
Investment Income	1,360,520	10,191,238
Interest Expense	(42,570,302)	(54,834,182)
Federal Compensation	-	-
Federal Compensation Transfers	-	-
Unrealized swap income (loss)	8,219,834	(10,167,478)
	(33,784,584)	(55,379,146)
GAIN/(LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,511,411	(18,178,530)
CAPITAL CONTRIBUTIONS		
Passenger facility charges	35,079,814	47,607,712
Federal and State Grants	12,495,089	5,028,024
	47,574,903	52,635,736
NET ASSETS		
Increase in Net Assets	49,086,314	34,457,206
Total Net assets, beginning of year	654,948,324	741,159,273
Total Net assets, end of period	$ 704,034,638	$ 775,616,479

Fiscal Year 2005 Results Through June 30, 2005

The financial results for the first six months of 2005, reflect continuing enplanement growth at Dulles and the return to the pre-September 11, 2001 traffic levels at National. Monthly operating revenues reached record highs in 2005, exceeding $40.0 million for the month of May. Total operating revenues for the six months ending June 30, 2005, increased by $24.0 million compared to the same period in 2004. Total concession revenues at both Airports for the six months ending June 30, 2005, increased by $17.3 million, or 21.8%, compared to the same period in 2004. Parking revenue (a component of concession revenues) increased by $11.0 million, or 24.4%, compared to 2004. Rents increased $4.9 million and landing fees increased $2.7 million compared to the same period in 2004.

Operating expenses for the six months ending June 30, 2005, increased by $22.1 million compared to the six months ending June 30, 2004. In particular, Material, Supplies and Services increased $8.5 million. Over 40.0% of the growth in Material, Supplies and Services can be attributed to busing services for Concourse G at Dulles and concession management fees associated with the increase in the parking activity. As a result of the $114.8 million increase in the Authority's depreciable assets, depreciation expense increased 10%, or $6.0 million, compared to the same period in 2004. Salaries and related benefits increased $6.6 million. As a result of the implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the Authority recorded $3.2 million of other post-employment benefits relating to health care costs in the six month period ending June 30, 2005.

As of June 30, 2005, actual operating revenues were at 51.0% of budgeted revenues. Concession revenues were at 54.5% of budgeted revenues, exceeding the budget by $6.4 million. Rents were slightly below budgeted levels at 49.1% and landing fees were at 50.3% of budgeted levels.

As of June 30, 2005, operating expenses were at 46.4% of budgeted levels. Personnel compensation and benefits were below budgeted levels at 46.7% and 48.3%, respectively. Materials, Supplies and Services exceeded budgeted levels by 3.0% and Utilities were at 54.8% of budgeted levels. Operating costs for telecommunications, the Washington Flyer Ground Transportation program and the Vastera Building were all significantly below budgeted levels.

The following table provides unaudited concession revenues by major category for the six months ended June 30, 2004, and June 30, 2005.

Total Concession Revenues by Major Category

	Six Months Ended June 30, 2004 (Unaudited)	Six Months Ended June 30, 2005 (Unaudited)	Net Change (Unaudited)
Parking	$ 45,158,940	$ 56,160,251	$ 11,001,311
Rental Car	13,732,052	15,367,549	1,635,497
Terminal Concessions			
Food & Beverage	3,604,712	4,627,666	1,022,954
News Stands & Retail	4,042,733	5,031,950	989,217
Duty Free	1,073,564	1,544,849	471,285
Display Advertising	3,150,000	3,150,000	-
In-flight Catering	2,716,122	2,758,749	42,627
Fixed Base Operator	2,320,806	2,761,929	441,123
All Other	3,791,866	5,515,965	1,724,099
	$ 79,590,795	$ 96,918,908	$ 17,328,113

TAX MATTERS

The following discussion is a summary of the opinions of Co-Bond Counsel to the Authority that are to be rendered on the tax status of interest on the Series 2005D Bonds and the Series 2007A Bonds and of certain federal income tax considerations that may be relevant to prospective purchasers of Series 2005D Bonds and the Series 2007A Bonds. This summary is based on existing law, including current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed regulations under the Code, and current administrative rulings and court decisions, all of which are subject to change.

The Series 2005D Bonds and the Series 2007A Bonds

Upon issuance of the Series 2005D Bonds and the Series 2007A Bonds, Co-Bond Counsel to the Authority, Hogan & Hartson L.L.P., and Lewis, Munday, Harrell & Chambliss, will each provide opinions, expected to be in the proposed forms set forth in APPENDIX F hereto, to the effect that, under existing law, (i) interest on the Series 2005D Bonds is excluded from gross income for federal income tax purposes and is not included in the computation of the federal alternative minimum tax imposed on individuals, trusts, estates and, except for provided in the following paragraph, corporations, and (ii) interest on the Series 2007A Bonds is excluded from gross income for federal income tax purposes except for any period during which such Series 2007A Bonds are held by a person who is a "substantial user" of the facilities financed or a "related person," as those terms are used in Section 147(a) of the Code, but is an item of tax preference in calculating the federal alternative minimum tax liability of individuals, trusts, estates and corporations.

For corporations only, the Code requires that alternative minimum taxable income be increased by 75% of the excess (if any) of the corporation's adjusted current earnings over its other alternative minimum taxable income. Adjusted current earnings include interest on the Series 2005D Bonds. An increase in a corporation's alternative minimum taxable income could result in imposition of tax to the corporation under the corporate alternative minimum tax provisions of Section 55 of the Code.

The foregoing opinions will assume compliance by the Authority with certain requirements of the Code that must be met subsequent to the issuance of the Series 2005D Bonds and the Series 2007A Bonds. The Authority will certify, represent and covenant to comply with such requirements. Failure to comply with such requirements could cause the interest on the Series 2005D Bonds and the Series 2007A Bonds to be included in gross income, or could otherwise adversely affect such opinions, retroactive to the date of issuance of the Series 2005D Bonds and the Series 2007A Bonds.

The opinions of Co-Bond Counsel also will provide to the effect that, under existing law, interest on the Series 2005D Bonds and the Series 2007A Bonds is exempt from income taxation by the Commonwealth of Virginia and is exempt from all taxation of the District of Columbia except estate, inheritance and gift taxes.

Co-Bond Counsel have further advised the Authority and the Underwriters that under existing law and to the extent interest on any Series 2005D Bonds and Series 2007A Bonds is excluded from gross income for federal income tax purposes, any original issue discount on such Series 2005D Bonds and Series 2007A Bonds will be treated as interest that is excluded from gross income for federal income purposes with respect to such holder, and will increase such holder's tax basis in any such Series 2005D Bonds and the Series 2007A Bonds. Generally, original issue discount is the excess of the stated redemption price at maturity of any Series 2005D Bond and Series 2007A Bond over the issue price of the Series 2005D Bonds and the Series 2007A Bonds. Purchasers of any such Series 2005D Bonds and Series 2007A Bonds should consult with their own tax advisors

regarding the proper computation and accrual of original issue discount. In particular, purchasers of any Series 2007A Bonds should be aware that the accrual of original issue discount in each year may be treated as an item of tax preference in calculating any alternative minimum tax liability in such year even though no cash attributable to such original issue discount has been received in such year.

If a holder purchases a Series 2005D Bond or a Series 2007A Bond for an amount that is greater than its stated redemption price at maturity, such holder will be considered to have purchased a Series 2005D Bond or a Series 2007A Bond with "amortizable bond premium" equal in amount to such excess. A holder must amortize such premium using a constant yield method over the remaining term of the Series 2005D Bond and the Series 2007A Bond, based on the holder's yield to maturity. As bond premium is amortized, the holder's tax basis in such Series 2005D Bond and Series 2007A Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or other disposition of the Series 2005D Bond and the Series 2007A Bond prior to its maturity. No federal income tax deduction is allowed with respect to amortizable bond premium on a Series 2005D Bond and a Series 2007A Bond. Purchasers of the Series 2005D Bonds and the Series 2007A Bonds with amortizable bond premium should consult with their own tax advisors regarding the proper computation of amortizable bond premium and with respect to state and local tax consequences of owning such Series 2005D Bonds and Series 2007A Bonds.

Other than the matters specifically referred to above, Co-Bond Counsel express and will express no opinions regarding the federal, state, local or other tax consequences of the purchase, ownership and disposition of the Series 2005D Bonds and the Series 2007A Bonds. Prospective purchasers of the Series 2005D Bonds and the Series 2007A Bonds should be aware, however, that the Code contains numerous provisions under which receipt of interest on the Series 2005D Bonds and the Series 2007A Bonds may have adverse federal tax consequences for certain taxpayers. Such consequences include the following: (1) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2005D Bonds and the Series 2007A Bonds or, in the case of financial institutions, that portion of a holder's interest expense allocated to interest on the Series 2005D Bonds and the Series 2007A Bonds; (2) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Series 2005D Bonds and the Series 2007A Bonds; (3) interest on the Series 2005D Bonds and the Series 2007A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code; (4) passive interest income, including interest on the Series 2005D Bonds and the Series 2007A Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; and (5) Section 86 of the Code requires recipients of certain Social Security and certain railroad retirement benefits to take into account, in determining the inclusion of such benefits in gross income, receipts or accrual of interest on the Series 2005D Bonds and the Series 2007A Bonds.

The IRS has an ongoing program of auditing state and local government obligations, which may include randomly selected bond issues for audit, to determine whether interest paid to the holders is properly excludable from gross income for federal income tax purposes. It cannot be predicted whether the Series 2005D Bonds and the Series 2007A Bonds will be audited. If an audit is commenced, under current IRS procedures the holders of the Series 2005D Bonds and the Series 2007A Bonds may not be permitted to participate in the audit process. Moreover, public awareness of an audit of the Series 2005D Bonds and the Series 2007A Bonds could adversely affect their value and liquidity.

Amendments to federal and state tax laws are proposed from time to time and could be enacted in the future. There can be no assurance that any such future amendments will not adversely affect the value of the Series 2005D Bonds and the Series 2007A Bonds or the exclusion of interest on the Series 2005D Bonds and the Series 2007A Bonds from gross income from the date of issuance of the Series 2005D Bonds and the Series 2007A Bonds or any other date, or that such changes will not result in other adverse federal or state tax consequences.

Possible Changes to the Form of Co-Bond Counsel Opinion. The IRS has issued final and proposed regulations governing practice before the IRS in a document commonly referred to as "Circular 230." The proposed changes to Circular 230 are expected to be in effect before the Series 2007A Bonds are issued in July 2007. The changes, when final, will be binding on Co-Bond Counsel to the Authority. While it is expected that the proposed changes will result in certain modifications in practice and documentation in connection with the issuance of the Series 2007A Bonds, with which the Authority expects to comply, the changes to Circular 230 also may require, in the opinion of Co-Bond Counsel, modifications to the form of bond counsel opinion and related disclosure to investors, the exact nature of which cannot be predicted with certainty at this time.

Prospective purchasers of Series 2005D Bonds and the Series 2007A Bonds should consult their own tax advisors as to the applicability and extent of federal, state, local or other tax consequences of the purchase, ownership and disposition of Series 2005D Bonds and the Series 2007A Bonds in light of their particular tax situation.

LEGAL MATTERS

Certain legal matters relating to the authorization of the Series 2005D Bonds and the Series 2007A Bonds will be subject to the approving opinions of Co-Bond Counsel to the Authority, Hogan & Hartson L.L.P., Washington, D.C., and Lewis, Munday, Harrell & Chambliss, Washington, D.C., which will be furnished upon delivery of the Series 2005D Bonds and the Series 2007A Bonds. The proposed forms of such opinions are set forth in APPENDIX F of this Official Statement (the "Bond Opinions"). Circular 230 changes, expected to be in effect before the Series 2007A Bonds are issued in July 2007, may require modifications to the form of the Co-Bond Counsel opinion. See "BONDHOLDER DELAYED DELIVERY RISKS." The Bond Opinions will be limited to matters relating to authorization and validity of the Series 2005D Bonds and the Series 2007A Bonds and to the status of interest on the Series 2005D Bonds and the Series 2007A Bonds as described in "TAX MATTERS." Hogan & Hartson L.L.P. and Lewis, Munday, Harrell & Chambliss also serve as co-special counsel to the Authority to advise the Authority in connection with the preparation of this Official Statement. It is not within the scope of engagement of co-special counsel, however, to render advice as to the accuracy or completeness of this Official Statement that may be relied on by anyone in making a decision to purchase the Series 2005D Bonds and the Series 2007A Bonds.

Certain legal matters will be passed upon for the Authority by Edward S. Faggen, Vice President and General Counsel of the Authority, for the Underwriters by their Co-Counsel, Hunton & Williams LLP, Washington, D.C. and McKenzie & Associates, Washington, D.C., and for the Bond Insurer by its General Counsel.

The Trustee has not participated in the preparation of this Official Statement and takes no responsibility for its content.

LITIGATION

The Authority is a defendant in multiple suits arising from the September 11, 2001, terrorist hijacking and crash into the Pentagon. In accordance with federal law, these suits have been consolidated into a single proceeding in the Southern District of New York. The Authority is defending itself vigorously in this litigation against the allegations that it had a legal duty to prevent terrorists from hijacking American Airlines Flight 77 from Dulles. Also, the Authority believes that under Section 201 of the Aviation Security Act, the liability of the Authority for all claims, whether compensatory or punitive, arising from the terrorist related aircraft crash of September 11, 2001, cannot be an amount greater than the liability insurance coverage maintained by the Authority on the date of the event. The Authority is not able to predict the outcome of such litigation or the extent to which such litigation may have a material impact on the financial condition of the Authority.

The Authority also is involved in various claims and lawsuits arising in the ordinary course of business that are covered by insurance or that the Authority does not believe to be material. The Authority believes that any liability assessed against the Authority as a result of claims or lawsuits that are not covered by insurance or reserves would not materially adversely affect the financial position of the Authority. No litigation is pending, or, to the knowledge of the Authority, threatened against the Authority (a) seeking to restrain or enjoin the issuance, sale or delivery of the Series 2005D Bonds and the Series 2007A Bonds or the collection of Net Revenues pledged under the Indenture, or (b) in any way contesting or affecting any authority for the issuance of the Series 2005D Bonds and the Series 2007A Bonds or the validity or binding effect of the Series 2005D Bonds and the Series 2007A Bonds, the resolutions of the Authority authorizing and implementing the Series 2005D Bonds and the Series 2007A Bonds or the Indenture, or (c) in any way contesting the creation, existence, powers or jurisdiction of the Authority, or the validity or effect of the Federal Act, the Federal Lease, the Virginia Act or the District Act or any provision thereof, or the application of the proceeds of the Series 2005D Bonds and the Series 2007A Bonds.

RATINGS

The Series 2005D Bonds and the Series 2007A Bonds are expected to be assigned ratings of "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch, with the understanding that upon delivery of the Series 2005D Bonds and the Series 2007A Bonds, the Policies insuring the payment when due of principal and interest on certain of the Series 2005D Bonds and the Series 2007A Bonds will be issued by the Bond Insurer. The ratings assigned by Moody's, S&P and Fitch are based upon the claims paying ability of the Bond Insurer and are not based on the creditworthiness of the Authority. As of the date of this Official Statement, the underlying ratings on the Series 2005D Bonds and the Series 2007A Bonds assigned by the rating agencies are "Aa3" by Moody's, "A+" by S&P, and "AA-" by Fitch.

On September 18, 2001, Moody's placed the rating for the Authority's unenhanced Bonds on "Watchlist" with "Negative Outlook." On February 15, 2002, Moody's removed the Authority from "Watchlist," affirmed the Authority's "Aa3" rating and assigned a "Negative Outlook." Moody's reaffirmed the rating on April 14, 2004, but changed the outlook to "Stable." On March 15, 2005, Moody's reaffirmed the Authority's rating and changed the outlook to "Positive." Moody's affirmed this rating on September 13, 2005. S&P placed the Authority's debt on "CreditWatch Negative" on September 20, 2001, and downgraded the Authority on February 28, 2002, to "A+" with "Stable Outlook." S&P reaffirmed this rating on March 15, 2005, but changed the outlook to "Positive." S&P reaffirmed this rating on September 13, 2005. Fitch placed the Authority's debt on "Rating Watch Negative" on October 5, 2001, and on May 15, 2002, confirmed the Authority's "AA-" rating with "Stable Outlook." Fitch reaffirmed that rating on September 13, 2005. The Authority furnished to such

rating agencies the information contained in this Official Statement and certain other materials and information about the Authority. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies and assumptions by the rating agencies.

A rating, including any related outlook with respect to potential changes in such ratings, reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the Series 2005D Bonds and the Series 2007A Bonds. An explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any of such rating agencies if, in the judgment of any of them, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Series 2005D Bonds and the Series 2007A Bonds.

UNDERWRITING

The underwriter of the Series 2005D Bonds, Bear, Stearns & Co. Inc. (the "2005D Underwriter"), has agreed to purchase the Series 2005D Bonds at an underwriting discount of $60,541.21, from the public offering price, pursuant to a bond purchase agreement (the "2005D Bond Purchase Agreement") entered into by and between the Authority and the 2005D Underwriter. The 2005D Underwriter will be obligated to purchase all of the Series 2005D Bonds if any Series 2005D Bonds are purchased.

The 2007A Underwriters have agreed to purchase the Series 2007A Bonds at an underwriting discount of $846,143.84 from the public offering price, pursuant to the Forward Delivery Bond Purchase Agreement entered into by and between the Authority and the 2007A Underwriters. The 2007A Underwriters will be obligated to purchase all of the Series 2007A Bonds if any Series 2007A Bonds are purchased.

The Underwriters reserve the right to join with other underwriters in offering each of the Series 2005D Bonds and the Series 2007A Bonds. The obligations of the Underwriters to accept delivery of each Series of the Series 2005D Bonds and the Series 2007A Bonds are subject to various conditions set forth in the 2005D Bond Purchase Agreement with respect to the Series 2005D Bonds and the Forward Delivery Purchase Agreement with respect to the Series 2007A Bonds.

VERIFICATION AGENT

At the time of delivery of the Series 2005D Bonds to the 2005D Underwriter, American Municipal Tax-Exempt Compliance is expected to deliver a report as to the mathematical accuracy of certain computations contained in the schedules provided to them by the Financial Advisors relating to the adequacy of the Redemption Account investments and cash balances to provide for payment of principal of, interest on and premiums due in connection with the refunding of a portion of the Series 1997A Bonds relied upon by Co-Bond Counsel to the Authority to support their opinions described under "TAX MATTERS - Tax Status of Interest on the Series 2005D Bonds and the Series 2007A Bonds."

MISCELLANEOUS

All of the appendices are integral parts of this Official Statement and must be read together with Part I and Part II of this Official Statement. The description of the Indenture does not purport to be comprehensive or definitive, and prospective purchasers of the Series 2005D Bonds and the Series 2007A Bonds are referred to the Indenture for the complete terms thereof. During the offering period of the Series 2005D Bonds and the Series 2007A Bonds, copies of the Indenture may be obtained from the Authority. The text of the Master Indenture may be obtained from the Authority's website at www.mwaa.com/financial. So far as any statements made in this Official Statement involve matters of opinion, forecasts or estimates, whether or not expressly stated, they are set forth as such and not as representation of fact. Historical data is presented for information purposes only and is not intended to be a projection of future results.

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

By /s/ Mame Reiley
Mame Reiley
Chairman

Part II

of the

OFFICIAL STATEMENT

of the

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

dated March 31, 2005

Part II of the Official Statement contains general information regarding the Authority, the Airline Agreement, the Air Trade Area and the Airports activity, certain factors affecting the air transportation industry and the Airports, financial condition of certain airlines serving the Airports, the Authority's 2001-2011 CCP, plan of funding for the 2001-2011 CCP, certain financial information relating to the Authority, and the Report of the Airport Consultant. Part II of the Official Statement should be read together with Part I of the Official Statement. Unless otherwise defined in Part II, all terms used herein shall have the same meanings set forth in APPENDIX C – "Definitions and Summary of Certain Provisions of the Indenture."

THE AUTHORITY

General

The Authority was created under the Virginia Act and the District Act, with the consent of the Congress of the United States, for the purpose of operating, maintaining and improving the Airports. In the Federal Act, Congress authorized the Secretary of Transportation (the "Secretary") to lease the Airports to the Authority. The Authority is a public body politic and corporate, and is independent of the District of Columbia, the Commonwealth of Virginia and the federal government. The Authority has the powers and jurisdiction set forth in the Acts, including the authority (a) to plan, establish, operate, develop, construct, enlarge, maintain, equip and protect the Airports; (b) to issue revenue bonds for any of the Authority's purposes payable solely from the fees and revenues from the Airports pledged for their payment; (c) to fix, revise, charge and collect rates, fees, rentals and other charges for the use of the Airports; (d) to make covenants and to do such things as may be necessary, convenient or desirable in order to secure its bonds; and (e) to do all things necessary or convenient to carry out its express powers. The Authority has no taxing power.

The Authority also is empowered to adopt rules and regulations governing the use, maintenance and operation of its facilities. Regulations adopted by the Authority governing aircraft operations and maintenance, motor vehicle traffic and access to Authority facilities have the force and effect of law. The Authority also is empowered to acquire real property or interests therein for construction and operation of the Airports. It has the power of condemnation, in accordance with Title 25 of the Code of Virginia, for the acquisition of property interests for airport and landing field purposes. On June 7, 1987 (the "Lease Effective Date"), operating responsibility for the Airports was transferred to the Authority by the federal government pursuant to the

Federal Lease. The Federal Lease is discussed in more detail below under "Lease of the Airports to the Authority."

The Authority

The Acts provide that the Authority shall consist of a 13-member Board. Five members of the Board are appointed by the Governor of Virginia with the advice and consent of the Virginia General Assembly, three are appointed by the Mayor of the District of Columbia ("the Mayor") with the advice and consent of the Council of the District of Columbia (the "Council"), two are appointed by the Governor of Maryland, and three are appointed by the President of the United States with the advice and consent of the United States Senate. Directors serve staggered six-year terms and each continues to serve until a successor is appointed.

The current members of the Board are:

Name	Appointing Authority	Term Expires
Mame Reiley, Chairman	Governor of Virginia	November 23, 2008
Honorable H.R. Crawford, Vice Chairman	Mayor of the District of Columbia	January 5, 2007
Robert Clarke Brown	President of the United States	November 22, 2005
Anne Crossman	Governor of Virginia	November 23, 2008
Mamadi Diané	Mayor of the District of Columbia	January 5, 2009
Norman M. Glasgow, Jr.	Governor of Maryland	December 1, 2004*
Honorable John Paul Hammerschmidt	President of the United States	May 30, 2004*
William A. Hazel	Governor of Virginia	November 23, 2006
Weldon H. Latham	Governor of Maryland	December 1, 2008
David T. Ralston, Jr.	Governor of Virginia	November 23, 2006
Charles D. Snelling	President of the United States	May 30, 2006
Honorable David G. Speck	Governor of Virginia	November 23, 2010
Jeffrey Earl Thompson	Mayor of the District of Columbia	January 5, 2005*
William W. Cobey Jr.**	President of the United States	
Leonard Manning***	Mayor of the District of Columbia	

* Serves until successor is appointed.
** On February 28, 2005, the President of the United States nominated Mr. Cobey to replace Mr. Hammerschmidt. As of March 31, 2005, his nomination had not yet been confirmed by the U.S. Senate.
*** On March 1, 2005, the Mayor of the District of Columbia nominated Mr. Manning to replace Mr. Thompson. The Council of the District of Columbia is expected to act on his nomination on April 5, 2005.

Senior Management

Authority operations are conducted under the supervision of the Authority staff. The current senior management of the Authority include:

JAMES E. BENNETT. Mr. Bennett became the President and Chief Executive Officer of the Authority on May 3, 2003. Mr. Bennett had served as the Executive Vice President and Chief Operating Officer of the Authority since April 1996. He is a graduate of Auburn University (B.A., Aviation Management, 1978) and University of Michigan (M.P.A., 1986). He was the Assistant Aviation Director for the City of Phoenix Aviation Department from 1988 until joining the Authority staff. He holds the designation of Accredited Airport Executive from the AAAE. He currently serves on the Board of Airports Council International – North America, as former Chairman and Board member of the International Association

of Airport Executives, board member of the Southeast Chapter of AAAE and a member of the Policy Review Committee. He is a former Chair of the Arlington Chamber of Commerce, a member of the Board of Loudoun County Economic Development Commission and a member of the Executive Committee of the Greater Washington Initiative.

MARGARET E. MCKEOUGH. Ms. McKeough is the Executive Vice President and Chief Operating Officer of the Authority. Ms. McKeough previously served for over five years as the Authority's Vice President for Business Administration. Prior to joining the Authority, Ms. McKeough was the Deputy Aviation Director for Business and Properties at Phoenix Sky Harbor International Airport and managed various business programs in the Phoenix Economic Development Department. Ms. McKeough is a graduate of Providence College (B.A., Political Science, 1983) and the University of Connecticut (M.P.A., 1985).

GREGORY WOLFE. Mr. Wolfe is Vice President and Secretary of the Authority. A graduate of Harvard College (A.B., 1968) and the Harvard Law School (J.D., 1971), Mr. Wolfe worked in the General Counsel's Office in the United States Department of Transportation ("DOT") from 1971 to 1987, specializing in aviation and highway legal issues. In 1984, he became Executive Director of the Advisory Commission on the Reorganization of the Metropolitan Washington Airports. Subsequently, as staff counsel to the Secretary of Transportation, he was assigned full-time to the transfer of the Airports, and was involved in developing the Acts and the Federal Act and in negotiating the Federal Lease. He was appointed Secretary and Counsellor to the Board in July 1987.

EDWARD S. FAGGEN. Mr. Faggen is Vice President and General Counsel of the Authority. He is a graduate of Brooklyn College (B.A., Political Science,1967) and Rutgers University School of Law (J.D., 1970), and began working for the FAA in 1970. He first served in the Airports Branch of the General Legal Services Division of the FAA, and then with its Environmental Law Staff. He was appointed Counsel to the FAA's Metropolitan Washington Airports organization in 1978. He has been Chairman of the Legal Committee of the North American region of the ACI-NA, and remains active in the committee.

LYNN HAMPTON. Ms. Hampton is Vice President for Finance and Chief Financial Officer of the Authority. She is a graduate of the University of Louisville (B.S.C., Accounting, 1978, and M.B.A., 1983). She was Director of Finance for the City of Arlington, Texas from 1985 until her appointment in January 1989. Ms. Hampton is a former member of the Municipal Securities Rulemaking Board. She is a Certified Public Accountant. Ms. Hampton is a past Chair of the Alexandria Chamber of Commerce and Chair of the ACI-World Economic Committee. She also is Vice Chair of the Board of Directors of Vantage Trust Company and a member of the Board of Directors of Access Group, Inc.

VALERIE HOLT. Ms. Holt, a Certified Public Accountant, is the Vice President for Audit. She holds undergraduate degrees from George Washington University (B.A., Accounting, 1984) and Eastern Michigan University (B.S., Sociology, 1970) and a graduate degree from the University of Michigan (M.S.W., Social Work, 1972). Her responsibilities include providing audit services to ensure that the Authority has an effective system of internal controls for its accounting, finance, administration, operations and technology management. Ms. Holt joined the Authority in June 2001. She previously served as the Chief Financial Officer and the Controller for the District of Columbia and as a Director for the District of Columbia Financial Responsibility and Management Assistance Authority. She has eight years of public accounting experience including employment with two "Big Four" firms.

FRANK D. HOLLY, JR. Mr. Holly is Vice President for Engineering. He is responsible for managing the Authority's Capital Construction Program for both Airports. A graduate of Hampton University (B.S., Architecture, 1960) and the University of Missouri-Rolla (M.S., Engineering Management, 1970), Mr. Holly was an active duty officer in the Army Corps of Engineers before retiring in the grade of Colonel in 1989. During his Army career, he was involved in managing large scale development programs in the U.S. and overseas. After military service, he became Deputy Commissioner of Aviation, Department of Aviation, Chicago, Illinois. In that position he was directly responsible for managing the engineering and maintenance functions at Chicago O'Hare International Airport. He joined the Authority in 1992, in his present position.

JONATHAN GAFFNEY. Mr. Gaffney is Vice President for Communications. He manages the Authority's Government Relations Program, Public and Media Affairs, Community and Business Relations, Marketing and the Noise Abatement Office. He is a graduate of the University of Pittsburgh (M.A., Public and International Affairs, 1988) and Quinnipiac College (B.S., Health Administration, 1983). A Commander in the United States Naval Reserve, he served for four years as a senior staff member in the United States House of Representatives prior to joining the Authority in May 1995.

GEORGE R. ELLIS. Mr. Ellis is Vice President for Information Systems and Telecommunications. He is a graduate of City College of New York (B.S.E.E., 1977) in electrical engineering and earned his M.S. in telecommunications management from Golden Gate University in August 2000. He joined the Authority in 1998 after 28 years with AT&T's Transmission Engineering, Planning and Marketing departments. Mr. Ellis also directed the IBM and UPS Global Network Management Centers at AT&T's White Plains, New York location.

MARK TREADAWAY. Mr. Treadaway is Vice President for Air Service Planning and Development. He is a graduate of the University of Texas (B.B.A., 1978) and has an M.B.A. from the American Graduate School of International Management (Thunderbird Campus) in Phoenix, Arizona, 1980. He joined the Authority in 1992 holding several positions in marketing and air service development. Prior to joining the Authority, he gained experience in strategic business planning and account management while employed at advertising agencies, Apple Computer, Inc. and a consulting firm.

ARL WILLIAMS. Mr. Williams is Vice President for Human Resources. He is a graduate of the Benedictine College (B.A., Economics, 1966), Notre Dame Law School (J.D., 1969), and Duke University (M.B.A., 1979). Mr. Williams joined the Authority in 1998 after serving as Labor Relations Representative for Xerox Corporation, Deputy Director of Administration and subsequently Associate Director of Civil Rights for the U.S. Environmental Protection Agency, Director of Human Resources for the National Center for State Courts, and Director of Human Resources for the District of Columbia Courts.

KEITH W. MEURLIN. Mr. Meurlin is Vice President and Airport Manager at Dulles. He is retiring from this position effective April 2, 2005, and will be succeeded by Christopher U. Browne, the current Vice President and Airport Manager at National. Mr. Meurlin is a graduate of the University of Vermont (B.A., Political Science, 1972) and the University of Southern California (M.S., Systems Management, 1977). He joined the Airport staff in 1977 as Operations Duty Officer, later served as acting Chief of the Engineering and Maintenance Division, and headed Dulles' Operations Division for more than nine years until appointed to his present position in 1989. Mr. Meurlin serves on the Board of Directors of the Loudoun County Chamber of Commerce and the Reston Chamber of Commerce.

Since 1999 he has served as Chair of the Loudoun County United Way Campaign. He currently serves in the United States Air Force Reserves at the rank of Major General.

CHRISTOPHER U. BROWNE. Mr. Browne is the Vice President and Airport Manager at National. Effective April 2, 2005, Mr. Browne will become the Vice President and Airport Manager at Dulles. Mr. Browne is a graduate of Dartmouth College (B.A., History, 1980). He joined the Airport staff in 1988 as an Operations Duty Officer and was promoted to the Manager of the Operations Division in 1995. He was subsequently promoted to his current position in 1998. Mr. Browne retired from the Navy in March 2000 after seven years of active duty and 13 years in the United States Naval Reserves, during which time he attained the rank of Commander.

HARLAN BYERS. Effective April 2, 2005, Harlan Byers will serve as the acting Vice President and Airport Manager at National until that position is filled. He is a graduate of Pennsylvania State University (B.S., Architectural Engineering, 1965). He joined the staff at National in 1970 and was promoted to Manager of Engineering Branch in 1971. Mr. Byers was promoted to Manager of the Engineering and Maintenance Department in 1989. He served as the acting Airport Manager at National from February to September 1998.

ELMER H. TIPPETT, JR. Mr. Tippett is Vice President for Public Safety. He has management responsibility for fire, police, river rescue and security issues. He is a graduate of the American University (B.S., Criminal Justice, 1977), the F.B.I. National Academy and the National Executive Institute. Mr. Tippett joined the Authority in 1993 after serving as Superintendent of the Maryland State Police and Deputy Chief of Police for Prince George's County, Maryland.

Employees and Labor Relations

As of March 1, 2005, the Authority employed approximately 1,181 full and part-time employees, of whom approximately 720 are represented by labor unions in five bargaining units. The Authority is not subject to the National Labor Relations Act and also is outside the jurisdiction of the Federal Labor Relations Authority. As required by the Federal Lease, the Board adopted a Labor Code in November 1988 which became effective February 1, 1989. This Labor Code established an Employee Relations Council (the "ERC") consisting of nine members who are named to two-year terms by mutual agreement between the President of the Authority and the labor organizations representing Authority employees. The ERC is composed of three panels: the Impasse Panel, the Representation Matters Panel and the Unfair Labor Practices Panel. Through these panels, the ERC acts upon petitions for exclusive representation, resolves negotiability disputes and investigates unfair labor practice allegations. Pursuant to the terms of the Virginia Act, Authority employees are prohibited from striking.

Lease of the Airports to the Authority

The Airports were transferred to the Authority on June 7, 1987, for an initial term of 50 years ending June 6, 2037. The term of the Federal Lease may be extended by mutual agreement and execution of a written extension by the Secretary of Transportation and the Authority. The Federal Lease was amended April 30, 2003, to extend the term to June 6, 2067. The Federal Lease transferred a leasehold interest in all of the Airports' then existing real property, including access highways and related facilities, and transferred title to all equipment, materials, furnishings and other personal property appurtenant to or located on the Airports' property (other than particular property required for federal air traffic control responsibilities). Since the

transfer, the Authority has acquired title to approximately 710 acres of land and aviation easements over approximately 158 acres of land adjacent to Dulles for airport expansion. On March 15, 2005, the Authority acquired an additional 830 acres of land to accommodate the new runways at Dulles and other future development. All land acquired after the transfer is not subject to the Federal Lease except that, pursuant to the most recent amendments to the Federal Lease, any after-acquired land in the Authority's possession at the expiration of the lease will revert to the federal government. Previously, the Federal Lease was amended in 1991 and 1998 to reflect changes in federal law eliminating the Authority's Board of Review and increasing the number of federal appointees to the Board.

Under the Federal Lease, the Authority was granted full power and dominion over, and complete discretion in the operation and development of, the Airports and, subject to limited exceptions, has assumed all rights, liabilities and obligations of the FAA's Metropolitan Washington Airports organization. Pursuant to the Federal Lease, the Authority adopted all existing labor agreements in effect on the Lease Effective Date, and provided for the transfer to the Authority of employees who were employees of the FAA and the continuation of various employment benefits, including coverage of certain United States Civil Service retirement benefits. The Authority has satisfied its legal requirement to fund the pension and other benefit obligations.

The Federal Lease provides for an annual base rental payable to the United States Treasury, which was initially $3,000,000 for the one-year period that commenced June 7, 1987. This amount is subject to annual adjustment for inflation and interest. The adjusted lease payment for the year ended June 6, 2004, was $4,331,097.

The Authority is required to place funds into a reserve for rental payments on a monthly basis and to make rental payments in semiannual installments. Any interest earned on the deposited funds also is required to be paid to the United States. Payments under the Federal Lease are to be made by the Authority from funds legally available for such purpose, after the Authority has satisfied its contractual obligations in respect of debt service on its bonds and other indebtedness, and paid or set aside the amounts required for payment of the operating and maintenance expenses of the Airports. The Authority has made all rental deposits and payments on a timely basis.

Under the Federal Lease, the Authority may not use certain Revenues from one Airport for operation and maintenance at the other Airport. This restriction does not extend to debt service, amortization or depreciation. The Federal Lease requires the Authority to use the same basis in calculating general aviation landing fees at the Airports as is used in setting air carrier fees.

The Federal Lease imposes certain restrictions on the Authority in the operation of the Airports. For example, the Authority may not (a) increase or decrease the number of Instrument Flight Rule takeoffs and landings permitted at National by the FAA's High Density Rule as in effect on October 18, 1986, which rule limits, with certain exceptions, the number of air carrier flights that can be scheduled to 37 per hour, (b) impose any limitation on the number of passengers taking off or landing at National, nor (c) change the hours of operation or the types of aircraft serving either of the Airports, except by regulation adopted after a public hearing. See "Regulations and Restrictions Affecting the Airports" below.

The Federal Lease requires the Authority to maintain a risk financing plan for its casualty and property losses, covering such items as are customarily insured by enterprises of a similar nature. The Authority's risk financing plan includes risk retention, risk transfer to commercial insurers or participation in group risk

financing plans. The Authority is required to consult with qualified actuaries and risk management consultants in developing its risk management plan. The Authority has adopted a risk financing plan in accordance with the requirements of the Federal Lease. See "AUTHORITY FINANCIAL INFORMATION – Insurance."

The following constitute "events of default" under the Federal Lease: (a) the failure of the Authority to make rental payments when due or within 30 days thereafter; (b) the use of any of the leased property for purposes other than airport purposes (and the continuation thereof for 30 days after notice from the Secretary, unless good faith efforts to remedy the default are underway); and (c) the breach of any other provision of the Federal Lease (and the continuation thereof for 30 days after notice from the Secretary, unless good faith efforts are underway to remedy such default). In the case of any default listed in (a) or (c) above, the Secretary may request the United States Attorney General to bring an appropriate action to compel compliance by the Authority. In the case of defaults in payments under the Federal Lease, the Secretary also is authorized to assess penalties and interest at specified rates. In the case of a default described in (b) above, the Secretary is required to direct the Authority to bring the use of Airport property into conformity with the Federal Lease and to retake that property if the Authority does not comply within a reasonable period. The Federal Lease does not provide for termination in the event of default except in the case of use of Airport property for non-airport purposes.

Although the Authority is not required to follow federal contracting statutes and regulations, under the terms of the Federal Lease, the Authority is obligated to implement contracting procedures to achieve, to the maximum extent practicable, full and open competition. In 2003, the Authority published revised contracting procedures that further enhance the open competition requirements.

Regulations and Restrictions Affecting the Airports

The operations of the Authority and its ability to generate revenues are affected by a variety of legislative, legal, contractual and practical restrictions. These include, without limitation, restrictions in the Federal Act, limitations imposed by the Federal Lease and provisions of the Airline Agreement. Both Airports are subject to the extensive federal regulations applicable to all airports and, following the September 11, 2001 attacks, the FAA instituted additional special operating restrictions for National. The following summarizes some of the applicable regulations and restrictions.

Historical Operating Restrictions

National is subject to federal statutory and regulatory restrictions that do not apply to most other airports in the United States. The FAA regulation known as the High Density Rule limits the number of air carrier, regional air carrier and general aviation flights that can be scheduled at National. The High Density Rule has been in effect since 1969 and is intended to promote air traffic efficiency and relieve congestion. The maximum number of air carrier flights that can be scheduled is 37 per hour, with some exceptions. However, Congress has authorized modest increases in the number of flights. In addition to the air carrier flights, the regulation allows 11 regional air carrier flights and 12 general aviation operations per hour. As of March 2005, general aviation continued to be prohibited from operating at National. See "Additional Security Restrictions at National" below.

By statute, nonstop flights to and from National generally are limited to destinations no more than 1,250 statute miles away (the "Perimeter Rule"). Until November 2003, only six daily round-trip scheduled air carrier flights could operate nonstop between National and points beyond the 1,250 mile perimeter. In November

2003, Congress authorized 20 additional slots at National, 12 of which are for nonstop flights beyond the 1,250 mile perimeter. On April 1, 2004, the DOT awarded the additional slots at National to nine airlines. The 12 slots for non-stop flights beyond the 1,250 mile perimeter were awarded to Alaska Airlines, America West Airlines, Frontier and United. The remaining eight slots were awarded to AirTran, Comair, Midwest, Spirit and US Airways. While the Perimeter Rule restricts long distance flights at National, it also, in effect, promotes such flights to and from Dulles and BWI. Authority management believes that a significant change to the Perimeter Rule could cause a redistribution of air service among the Airports and BWI.

Additional Security Restrictions at National

Immediately after September 11, 2001, National was closed and did not reopen until October 4, 2001. A phased resumption of flight activity was permitted although the federal government imposed limits on the number of flights, the size of aircraft, the flight path, the number of cities served and the hours of operation. As of April 27, 2002, all of these restrictions were removed and National was authorized to resume full pre-September 11, 2001 operations subject to the High Density Rule, the Perimeter Rule and the continued prohibition of general aviation aircraft operations. Although airlines were authorized to resume all regularly scheduled commercial operations, the government waived until October 26, 2002, the minimum use requirement under the High Density Rule for High Density Airports, including National, to allow the air carriers some schedule flexibility to address security requirements, aircraft utilization plans, passenger demand and other operational issues.

In addition to the enhanced security restrictions applicable to all airports, the federal government has imposed special restrictions on National to address security issues resulting from the proximity of National's flight paths to national landmarks and federal buildings in the Washington, D.C. area. All passengers are required to remain seated aboard aircraft for 30 minutes after departure from National and for 30 minutes prior to arrival at National. Pilots are required to follow special identification procedures in order to land at National and failure to follow those procedures may result in the aircraft being diverted to Dulles. Furthermore, as a result of the conflict in Iraq and the heightened security alerts, the FAA again suspended the minimum use requirements for slots at National and the other High Density Airports from March 19, 2003, through October 25, 2003.

General aviation has been excluded from National since September 11, 2001. Although the 2003 FAA Reauthorization Act requires the Department of Homeland Security to develop a plan for the resumption of general aviation activity at National, and in early 2005, legislation was introduced in Congress that would require that National be reopened for general aviation traffic within six months of passage of the legislation, at this time, the Authority cannot predict when or whether the current restrictions on general aviation operations will be removed or if additional restrictions will be imposed and whether such restrictions will limit the ability of the Authority to generate revenue at National. See "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS."

Federal Funding Regulations

The FAA has the power to terminate the authority to impose PFCs if the Authority's PFC revenues are not used for approved projects, if project implementation does not commence within the time periods specified in the FAA's regulations or if the Authority otherwise violates FAA regulations. The Authority's plan of funding for the 2001-2011 CCP is premised on certain assumptions with respect to the timing and amounts of the Authority's PFC applications, and the availability of PFCs to fund PFC-eligible portions of certain projects in the 2001-2011 CCP. In the event that PFCs are lower than those expected, the Authority may elect to delay certain projects or seek alternative sources of funding, including the possible issuance of additional Bonds. See "PLAN OF FUNDING FOR THE 2001-2011 CCP – Funding Sources – Funding Source: PFCs."

The Federal Act currently provides that after October 1, 2008, the Secretary of Transportation may not approve an application of the Authority (i) for an airport development grant under the AIP programs, or (ii) to impose PFCs. The Authority expects that authorization for additional federal funding will be extended by an amendment to the Federal Act, as has occurred in the past.

Possible Future Restrictions on National

Based on restrictions imposed by the federal government at National as a result of the events of September 11, 2001, it is possible that, for security reasons, the federal government could again restrict flights or close National for extended periods or permanently. If closure or similar restrictions were to occur, the Authority would expect to seek compensation from the federal government for the losses and damages incurred, as it did when National was closed for 23 days as a result of the events of September 11, 2001. No assurances can be given, however, that any compensation would be forthcoming from the federal government.

Noise Abatement Programs

Since 1993, the Authority has had an aircraft noise compatibility program at National that is approved by the FAA under 14 C.F.R. Part 150, the FAA program for addressing noise issues between airports and neighboring communities. The Authority's program includes noise abatement flight corridors, nighttime noise limits, aircraft thrust management procedures and nighttime engine run-up limitations. In accordance with FAA requirements, in June 2001, the Authority initiated a Part 150 review of its noise compatibility program for National to determine if there are changes in the type and number of aircraft operating at National that would warrant changes to the program. The Part 150 review process requires extensive public involvement through public meetings, coordination with local government officials and a public comment period, as well as a technical analysis of aircraft noise in the community. The Authority had expected to complete the review in 18 months, but as a result of the events of September 11, 2001, and the subsequent restrictions placed on National, the study was delayed until aircraft activity reached a level that more closely equated to pre-September 11, 2001, levels. The study resumed in December 2002. The Authority is obligated to spend 10% of the funds it is entitled to receive under the Airport Improvement Program ("AIP") program at National for noise abatement purposes but was granted a waiver of this expenditure requirement for 2002, in light of the delay in the Part 150 review.

The Authority also has a Part 150 program for Dulles that focuses primarily on noise compatibility planning. The original Dulles design included buffers between the ends of the runways and the airfield boundary. Plans for the new runways also include buffers. The Authority worked in conjunction with the planning departments in Fairfax County and Loudoun County to provide for compatible land use in the vicinity

of Dulles, specifically in those areas projected to be adversely affected by significant aircraft noise in the future. The original Part 150 program for Dulles was completed by the FAA in 1985. In 1993 the noise exposure analysis was updated to reflect the phase-out of older, noisier aircraft as mandated by Congress. Both counties have adopted land-use plans that provide for development compatible with the predicted noise exposure from the planned five runways at Dulles.

CERTAIN AGREEMENTS FOR USE OF THE AUTHORITY'S FACILITIES

Airport Use Agreement and Premises Lease

The Authority has entered into the Airline Agreement, on substantially identical terms, with substantially all of the airlines providing service at National and/or Dulles. The Airline Agreement provides for the use and occupancy of facilities at the Airports and establishes the rates and charges, including landing fees and terminal rents to be paid by the Signatory Airlines. Airline rates and charges are calculated using a methodology where costs, including debt service and debt service coverage, are allocated to the separate cost centers at each Airport to which the cost is attributable and payments by each Signatory Airline are based on the Signatory Airline's pro rata use of facilities at each of the Airports. Each Signatory Airline's payments include its pro rata share of the Authority's total requirements in the airline cost centers (including a component representing debt service plus debt service coverage of 25%), less transfers from the prior year. Airline fees pay for the cost centers of facilities utilized by air carriers. The Authority's other revenues, principally concession revenue, pay for other cost centers such as roadways, parking areas and non-airline revenue generating portions of the terminal. See APPENDIX D – "Summary of Certain Provisions of the Airport Use Agreement and Premises Lease."

The Airline Agreement has rate making features that are designed to ensure that the Authority's debt service and related coverage obligations under the Indenture are met. The Airline Agreement authorizes the Authority to make immediate rate adjustments in the event that projected revenues are not adequate to meet the rate covenant under the Indenture, which adjustments are referred to as "Extraordinary Coverage Protection Payments" under the Airline Agreement. The Indenture requires that there be 125% coverage on the debt service on the Bonds. Under the Airline Agreement, the Authority sets its rates and charges at each Airport to recover its costs in the airline-supported cost centers. The Authority recovers its capital costs at each Airport by charging 100% of debt service plus debt service coverage of 25% to satisfy the 125% debt service coverage covenant included in the Indenture. Under the Airline Agreement, in the event that the 125% debt service coverage is not met at an Airport, the rate adjustment will occur at that Airport where the coverage was not met. In the event that the Authority is unable to adjust rates sufficiently at the Airport that failed to generate the required 125% debt service coverage, under the Airline Agreement, the Authority shall adjust the rates at the other Airport as necessary to fulfill the Authority's obligation to meet the debt service coverage covenant required by the Indenture. See APPENDIX D – "Summary of Certain Provisions of the Airport Use Agreement and Premises Lease."

An airline that files for bankruptcy has the right to reject its Airline Agreement with the Authority. In the event the Authority does not recover all of its costs pursuant to the Airline Agreement with a bankrupt carrier, the Authority may adjust the rates and charges for all Signatory Airlines in a subsequent rate period to recover the rates and charges due from the bankrupt carrier. As a result, if a Signatory Airline were to reject its lease of space at either Airport, the unrecovered rental costs could be allocated among the remaining airline tenants.

If an airline is not a Signatory Airline, such airline is required to pay rates and charges set by the Authority in accordance with its regulations and resolutions of the Board and consistent with FAA requirements that such rates and charges be reasonable and non-discriminatory. While the Authority believes that its rate-making methodologies, including its allocation of costs for purposes of establishing rates and charges, are reasonable, no assurance can be given that challenges by an airline will not be made to the rates and charges established by the Authority or its methods of allocating particular costs. See "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS – Effect of Airline Bankruptcies."

The Airline Agreement expires on September 30, 2014, but may be terminated by the Authority on September 30 of any year on 180 days notice to the Signatory Airlines. Except in the following circumstance, the Signatory Airlines cannot terminate the Airline Agreement while Bonds are outstanding. The Signatory Airlines have a right to terminate the Airline Agreement if the Authority determines to issue Bonds for a project in the airline-supported areas costing $25 million or more that requires an MII approval of the Signatory Airlines and such approval is not obtained. If MII approval is not obtained, the Authority must defer the issuance of Bonds for that project for one year. Thereafter, the Authority may issue Bonds for the project. However, if a MII of the Signatory Airlines continues to disapprove the project after one year has elapsed, a Signatory Airline has 60 days to give to the Authority notice of intent to terminate its Airline Agreement in 180 days. Even if a Signatory Airline gives timely notice to the Authority, the Authority may elect not to issue Bonds, in which case the Signatory Airline's notice of intent to terminate will not be effective. Under the Airline Agreement, the Authority is permitted to negotiate the Airline Agreement prior to its expiration. The Authority has initiated discussions with the Signatory Airlines about possible changes to the Airline Agreement without terminating the Airline Agreement.

The Airline Agreement is not assigned or pledged to the Trustee as security for the Bonds. The Airline Agreement may be amended at any time without the consent of the Holders of Bonds. If for any reason the Airline Agreement is amended, expires or is terminated, the Authority will set airline rates and charges in accordance with a successor agreement or its regulations and resolutions of the Board, consistent with FAA requirements that such rates and charges be reasonable and in an amount sufficient to satisfy the rate covenant in the Indenture. Such amendments, successor agreement or regulations could affect the Net Revenues projected by the Airport Consultant in the Report of the Airport Consultant. See APPENDIX A – "Report of the Airport Consultant" and APPENDIX D – "Summary of Certain Provisions of the Airport Use Agreement and Premises Lease."

The Airline Agreement also provides that, in accordance with a formula, the Authority will share its revenue, after certain expenses, referred to as Net Remaining Revenues ("NRR"), with the Signatory Airlines. To calculate the Authority's and the Signatory Airlines' respective shares of NRR, the total amount of NRR is first segregated by Airport. NRR at each Airport is then reduced by depreciation, debt service coverage on Subordinated Bonds and coverage in the tenant equipment cost centers allocable to each Airport, with the Signatory Airlines receiving 100% of an amount equal to the debt service coverage on Subordinated Bonds and coverage in the tenant equipment cost centers and the Authority receiving 100% of an amount equal to depreciation. The remaining amount of NRR at each Airport is divided equally between the Authority and the Signatory Airlines up to a plateau of $16 million at National and $24 million at Dulles (both in 1989 dollars). The remainder is split with 25% allocated to the Authority and 75% allocated to the Signatory Airlines. The Signatory Airlines' share of NRR is used to lower airline rates and charges in the year following the year that the NRR is earned. The Authority uses its share of NRR to fund its Capital, Operating and Maintenance Investment Program.

Terminal Concession Agreements

The Authority has agreements to lease space to certain concessionaires who provide food, beverages, specialty retail, newspapers and other sundry items to users of the Airports. The Authority has a developer contract with HMSHost for the food and beverage operations at National, which expires on June 30, 2005, and under which HMSHost sub-contracts for each food and beverage facility. As of March 2005, the Authority had issued a request for proposals and was reviewing and evaluating submissions for a new contract for the food and beverage operations at National. The Authority has a contract with Westfield Concession Management, Inc. ("Westfield") that expires on June 30, 2010, under which Westfield subcontracts all specialty retail and newsstand operations at National and receives a fee from the Authority for leasing and managing these facilities.

The Authority awarded a five-year "fee manager" contract effective April 1, 2004, to Westfield for food and beverage operations at Dulles. Under the contract, Westfield sub-leases all of the food and beverage facilities at Dulles and retains a percentage of the total rent due to the Authority. Under the same contract as with National that expires on June 30, 2010, Westfield also sub-contracts all of the specialty retail and newsstand operations at Dulles and receives a fee from the Authority for leasing and managing these facilities.

Concession contracts generally obligate the concessionaire to pay the higher of a percentage of gross revenues or a minimum annual guarantee ("MAG") to the Authority. Typically these contracts extend for a period of three to five years, although some contracts extend for longer periods. The Authority awards concession contracts on the basis of competitive procedures. Terminal concession revenue represented 16.9% of total concession revenue and 6.7% of total operating revenue in 2004. See table entitled "TOTAL CONCESSION REVENUES BY MAJOR CATEGORY" under "AUTHORITY FINANCIAL INFORMATION."

Parking Facility Agreements

The parking facilities at the Airports are operated under two separate management contracts. The contract at National was awarded to AeroLink Transportation, Inc. on April 1, 2004, for an initial two-year term with an option to renew the contract for three additional years at the sole discretion of the Authority. The contract at Dulles was awarded to District of Columbia Parking Associates on October 1, 2004, for an initial two-year term with an option to renew the contract for three additional years at the sole discretion of the Authority. Under the structure of these management contracts, the Authority retains all of the gross receipts from the public parking operation and reimburses the operator through periodic transfers to cover the operator's salaries, fringe benefits, various overhead expenses, other direct costs, and general and administrative expenses. The operator is compensated through an annual fee and is also eligible for an annual performance-based incentive fee. Each off-airport public parking operator also pays the Authority 4% of gross receipts derived from conducting business at Dulles to the extent that gross receipts exceed $300,000. Parking revenue represented 54.5% of concession revenue at National and 59.1% of concession revenue at Dulles in 2004. Parking revenue represented 57.3% of total concession revenue and 22.5% of total operating revenue at the Airports in 2004. See table entitled "TOTAL CONCESSION REVENUES BY MAJOR CATEGORY" under "AUTHORITY FINANCIAL INFORMATION."

Rental Car Facility Agreements

There currently are five on-airport rental car operators at National: Avis, Budget, Dollar, Hertz and National Car Rental. Although National Car Rental and Budget are in bankruptcy proceedings, the owners of both brands have assumed their contracts with the Authority and continue to operate at National. The Authority receives the greater of a MAG payment or 10% of the gross receipts of each on-airport rental car operator as a concession fee. Each on-airport rental car operator at National also currently assesses its customers and remits to the Authority a daily customer contract fee of $2.50 established by the Authority to recover the debt service associated with the construction of the rental car facilities. The off-airport rental car companies include Thrifty, Enterprise and Alamo. Off-airport companies use a common bus which goes directly to the terminals and pay the Authority 8% of the gross receipts generated from their airport business. Alternatively, they may operate their own bus to a point away from the terminals where passengers transfer to an airport shuttle bus to the terminal and pay 4% of the gross receipts generated from their airport business over $300,000. Contracts with rental car operators at National were awarded in March 2001, and expire in February 2006.

There currently are eight on-airport rental car operators at Dulles: Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National Car Rental and Thrifty. Although National Car Rental and Budget are in bankruptcy proceedings, the owners of both brands have assumed their contracts with the Authority and continue to operate at Dulles. Thrifty now operates from the facilities formerly occupied by Alamo.

The Authority rebid the Dulles on-airport rental car contracts in the fall of 2002. The new contracts became effective April 1, 2003, and expire in March 2008. The Authority receives the greater of a MAG payment or 10% of the gross receipts from each on-airport rental car operator as a concession fee. Under the prior contract, the cumulative minimum guarantee for the five-year contract term was approximately $31 million, and under the new contract the cumulative minimum guarantee for five years is approximately $42 million. Each off-airport operator also pays the greater of a MAG payment or 4% of gross receipts.

Rental car revenue represented 16.1% of concession revenue and 6.3% of total operating revenue in 2004. See table entitled "TOTAL CONCESSION REVENUES BY MAJORITY CATEGORY" under "AUTHORITY FINANCIAL INFORMATION."

THE AIR TRADE AREA AND AIRPORTS ACTIVITY

The Air Trade Area

The Airport Consultant defines the Air Trade Area for the Airports as the District of Columbia; the Maryland counties of Calvert, Charles, Frederick, Montgomery and Prince George's; the Virginia counties of Arlington, Clarke, Fairfax, Fauquier, Loudoun, Prince William, Spotsylvania, Stafford and Warren; the independent Virginia cities of Alexandria, Fairfax, Falls Church, Fredericksburg, Manassas and Manassas Park; and the West Virginia county of Jefferson.

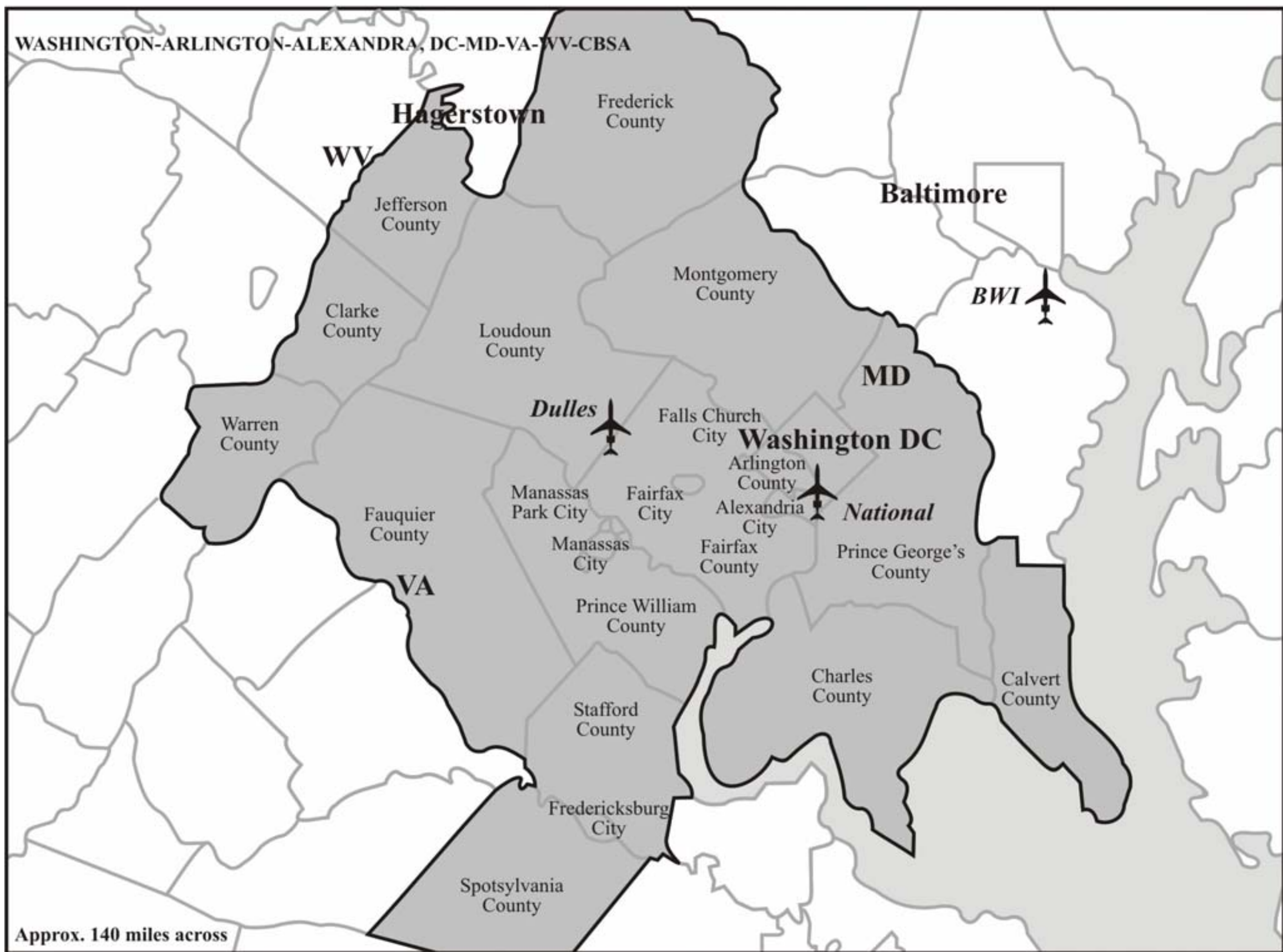
The population of the Air Trade Area increased at an annual compounded growth rate of 1.6% from 1990 to 2003, which was higher than the 1.2% population growth rate experienced by the United States during the same period. The Air Trade Area ranked fourth during 2003 in total Effective Buying Income[2] of the 922 Core-Based metropolitan statistical areas in the United States. Effective Buying Income is the disposable

[2] *Sales & Marketing Management*, 2004 Survey of Buying Power and Media Markets, September 2004.

income after taxes and mandatory non-tax payments, such as personal contributions to Social Security and federal retirement payroll deductions. There is a large concentration of higher income households in the Air Trade Area, a strong indicator of the Air Trade Area's ability to support frequent use of air transportation.

The Air Trade Area's unemployment rate has been consistently below the national rate each year for the past 10 years. From 1994 to 2004, the Air Trade Area's nonagricultural employment increased at an annual compounded growth rate of 2.0%. The majority of the industry classifications in the Air Trade Area experienced positive growth between 1994 and 2004, with the largest growth in employment occurring in the construction sector (annual compounded growth rate of 4.6%).

Air Trade Area



Source: Report of the Airport Consultant

Airlines Serving the Airports

Listed below are airlines which served the Airports in the month of February 2005:

NATIONAL[1]

MAJORS/NATIONALS

- AirTran Airways
- Alaska Airlines
- America West Airlines
- American Airlines
- ATA
- Continental Airlines
- Delta Air Lines
- Frontier Airlines
- Midwest Airlines
- Northwest Airlines
- Spirit Airlines
- United Airlines
- US Airways[7]

FOREIGN FLAG CARRIERS

- Air Canada

REGIONALS/COMMUTERS

- American Eagle[3]
- Atlantic Southeast[2]
- Chautauqua[3,5]
- Colgan Air[5,7]
- Comair[2]
- Continental Express[4]
- Mesa[5]
- Mid-Atlantic[5]
- Piedmont Airlines[5]
- Pinnacle[8]
- PSA[5,7]
- Trans States[3,5]

DULLES[1]

MAJORS/NATIONALS

- Alaska Airlines
- AirTran Airways
- America West Airlines
- American Airlines
- Continental Airlines
- Delta Air Lines
- Frontier Airlines
- Independence Air
- jetBlue Airways
- Northwest Airlines
- United Airlines
- US Airways[7]

FOREIGN FLAG CARRIERS

- Air Canada
- Air France
- Alitalia
- All Nippon Airways
- Austrian Airlines
- bmi British Midland
- British Airways
- British West Indies Airways
- Grupo TACA
- KLM-Royal Dutch Airlines
- Korean Air
- Lloyd Aero Boliviano-LAB
- Lufthansa German Airlines
- Saudi Arabian Airlines
- Scandinavian Airlines
- Transmeridian Airlines
- Virgin Atlantic Airways

REGIONALS/COMMUTERS

- Air Midwest
- Air Wisconsin[6,7]
- American Eagle[3]
- Atlantic Southeast[2]
- Chautauqua[3,6]
- Colgan Air[5]
- Comair[2]
- Continental Express Jet[4]
- Mesa[5,6]
- PSA[5]
- Pinnacle[8]
- Shuttle America[3,6]
- Trans States[6]

ALL-CARGO CARRIERS

- ABX Air
- Astar/DHL
- FedEx

[1] Reflects code sharing between major/national and regional carriers only and not agreements between and among major/national carriers. Chartered carriers enplaning fewer than 1,000 passengers or less than 300 metric tons of cargo are not shown on this table.
[2] Operates under a code sharing agreement with Delta.
[3] Operates under a code sharing agreement with American.
[4] Operates under a code sharing agreement with Continental.
[5] Operates under a code sharing agreement with US Airways.
[6] Operates under a code sharing agreement with United.
[7] Provides domestic, and international/transborder service.
[8] Operates under a code sharing agreement with Northwest Airlines.

Source: The Authority

Airports Activity

In February 2005, daily nonstop service was provided from National to 61 cities nationwide as well as Montreal and Toronto, Canada and Nassau, Bahamas. In 2004, over 87% of the revenue traffic at National was from origin and destination ("O&D") passengers and traffic to the top 20 domestic O&D markets represented 60.5% of the total domestic O&D passengers. National's three largest domestic O&D markets in 2004 were New York, Chicago, and Boston. See "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS."

Dulles serves primarily medium to long-haul markets, which is partly a function of the Perimeter Rule (as defined herein) at National. See "THE AUTHORITY – Regulations and Restrictions Affecting the Airports." Since 1986, Dulles has served as a hub for United and in June 2004, became the headquarters and the hub for Independence Air, which until August 3, 2004, operated as Atlantic Coast Airlines ("Atlantic Coast"), United's primary code-sharing feeder at Dulles. United has replaced Atlantic Coast with other affiliates and has continued operating its United Express service from Dulles. See "FINANCIAL CONDITIONS OF CERTAIN AIRLINES SERVING THE AIRPORTS – Independence Air." In February 2005, daily nonstop service was provided from Dulles to 75 cities nationwide and to 26 international nonstop destinations. In 2004, approximately 69.9% of the revenue traffic at Dulles was from O&D passengers and 31.1% from connecting passengers. Traffic to the top 20 domestic O&D markets represented 63.0% of the total O&D passengers. The three largest domestic O&D markets at Dulles in 2004, were Los Angeles, San Francisco and Atlanta.

Historical Activity

The following table summarizes total commercial enplanements at National and Dulles between 1993 and 2004. Enplanements for 2001 must be considered in the context of the events of September 11, 2001. See "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS." In 1996, the Authority changed its fiscal year from an annual period ending September 30 to an annual period ending December 31, effective January 1, 1997. Aviation activity information set forth in this Official Statement has been restated to reflect calendar year data.

Historical Commercial Enplanements[1,2]

	National		Dulles					
Year	Total Enplanements	Annual Growth	Domestic Enplanements	Annual Growth Domestic	International Enplanements	Annual Growth International	Total Enplanements	Annual Growth
1993	8,038,227	4.4%	4,196,379	-9.8%	1,210,425	19.5%	5,406,804	-4.6%
1994	7,746,928	-3.6%	4,415,079	5.2%	1,349,019	11.5%	5,764,098	6.6%
1995	7,692,554	-0.7%	4,788,325	8.5%	1,359,462	0.8%	6,147,787	6.7%
1996	7,560,338	-1.7%	5,005,818	4.5%	1,369,526	0.7%	6,375,344	3.7%
1997	7,877,087	4.2%	5,318,459	6.2%	1,481,781	8.2%	6,800,240	6.7%
1998	7,895,144	0.2%	6,188,759	16.4%	1,615,194	9.0%	7,803,953	14.8%
1999	7,500,866	-5.0%	7,993,273	29.2%	1,841,705	14.0%	9,834,978	26.0%
2000	7,855,373	4.7%	7,888,431	-1.3%	2,083,201	13.1%	9,971,632	1.4%
2001	6,563,504	-16.4%	6,937,533	-12.1%	1,961,394	-5.8%	8,898,927	-10.8%
2002	6,460,451	-1.6%	6,497,774	-6.3%	2,017,724	2.9%	8,515,498	-4.3%
2003	7,102,415	9.9%	6,371,646	-1.9%	1,994,840	-1.1%	8,366,486	-1.7%
2004	7,951,662	12.0%	9,014,584	41.5%	2,309,602	15.8%	11,324,186	35.4%
Annual Compounded Growth								
1993-2003		-1.2%		4.3%		5.1%		4.5%
1993-2000		-0.3%		9.4%		8.1%		9.1%
2000-2004		0.3%		3.4%		2.6%		3.2%

[1] Excludes passengers enplaned on general aviation and military flights.
[2] Eplanement figures have been reconciled to the Authority's records and may not match figures released in previous issues.

Source: Authority Records

National

National experienced virtually flat overall passenger traffic growth in the 1990s, in part due to the slot restrictions imposed by the High Density Rule. Between 1993 and 2000, enplanements at National declined at an annual compounded rate of 0.3%, fluctuating from an increase of 4.7% in 2000 to a decline of 5.0% in 1999. Among the more significant factors affecting fluctuations in enplanements at National during this period (in addition to factors affecting airports generally) were the higher enplanement capacity at National that resulted from refinements to the Airport's nonstop service perimeter, changes in the composition of the air carrier fleet serving National, the diversion of some traffic to Dulles caused by hubbing activity at Dulles, the diversion of some traffic to Baltimore/Washington International Airport ("BWI") caused by the entrance of low-cost carriers, disruptions caused by the Persian Gulf War and the initiation of low-fare/high-frequency service at Dulles by AirTran Airways (formerly ValuJet), Western Pacific,[3] Delta Express and MetroJet.[4]

From January through August 2001, enplanements at National increased by 7.9% compared to the same period in 2000, primarily as a result of the continuing shift of US Airways passengers to National from Dulles and a significant increase in America West's enplanements after it received an exemption to the non-stop Perimeter Rule. Annual enplanements for 2001 decreased by 16.4% over 2000, however, as a result of the closure of National and a gradual resumption of activity following the events of September 11, 2001. Enplanements declined an additional 1.6% in 2002.

[3] Western Pacific filed for Chapter 11 protection under the Federal Bankruptcy Code on October 6, 1997, and is no longer operating.

[4] MetroJet ceased operations in December 2001.

Dulles

Dulles experienced steady growth in the 1990s, ending the decade with a significant surge in passenger traffic. Between 1993 and 2000, domestic enplanements increased at an annual compounded growth rate of 9.4%, as compared to an annual rate of 4.7% for total domestic enplanements nationwide. Fluctuations in domestic enplanements at Dulles were largely due to hubbing activity by United and US Airways and the initiation of low-fare service by AirTran, Western Pacific, Delta Express and MetroJet. In 1999, domestic enplanements increased 29.2% from the previous year due to expanded service by United and the opening of the new regional concourse (Concourse A) serving Atlantic Coast and United Express passengers. In addition, 1999 was MetroJet's first full year of operation at Dulles. In 2000, Dulles' domestic enplanements declined by 1.3%, primarily as a result of US Airways' enplanements shifting from Dulles to National. A continuing shift in US Airways' passenger traffic to National and the adverse impact of the events of September 11, 2001, on travel demand contributed to an 12.1% decrease in domestic enplanements at Dulles in 2001 compared to 2000. In 2002, domestic enplanements declined an additional 6.3%.

Between 1993 and 2000, international enplanements increased at an annual compounded growth rate of 8.1% at Dulles, as compared to an annual rate of 4.2% for international enplanements nationwide. International enplanements increased in the early 1990s primarily due to United's increased international presence at Dulles, which was enhanced by the transfer of certain international routes from Pan Am to United in April 1992, United's initiation of service to other major international cities, and the opening of United's Federal Inspection Service ("FIS") facility that was designed to better accommodate the processing of a greater number of international passengers. In 1999 and 2000, total international enplanements at Dulles increased 14.0% and 13.1%, respectively, due to new and increased service by United, Sabena Airlines ("Sabena"), Swissair and BWIA West Indies Airways.[5] In the aftermath of the events of September 11, 2001, international enplanements declined by 5.8% in 2001, compared to 2000. International enplanements recovered in 2002, increasing by 2.9%.

Recent Enplanement Activity

Although enplanements at the Airports declined significantly after the events of September 11, 2001, the overall recovery in passenger traffic at the Airports has been consistent with the average recovery rate at other U.S. airports. Enplanements began recovering at National once flight restrictions were fully lifted in April 2002. By early 2003, enplanements at National were at 90% of the 2000 enplanement levels, outperforming the recovery at U.S. airports nationally. Recovery at National continued throughout the remainder of 2003, and into 2004. Total enplanements at National were 7,102,415 in 2003, compared to 6,460,451 in 2002, representing an increase of 9.9%. In 2004, enplanements were 7,951,662, an increase of 12.0% compared to 2003, and 1.2% above the 2000 enplanements level.

At Dulles, recovery of the domestic passenger traffic fluctuated in comparison to the U.S. average in 2002 and in 2003. By the last quarter of 2003, however, the recovery of domestic traffic matched the U.S. average, which was at 88% of the 2000 enplanement levels. In 2003, domestic enplanements at Dulles were 6,371,646 compared to 6,497,774 in 2002, representing a decrease of 1.9%. In 2004, domestic enplanements reached record levels as a result of Independence Air's stimulation of the Dulles market. Domestic

[5] Sabena ceased operations in March 2002. Swissair also ceased operations but was replaced immediately by SWISS with no gap in service. SWISS ceased operations in 2003.

enplanements at Dulles were 9,014,584 in 2004, an increase of 41.5% compared to 2003. International enplanements at Dulles recovered quickly after September 11, 2001. Despite the conflict in Iraq and the SARS outbreak in Asia and Canada in 2003, international enplanements at Dulles recovered to a greater degree than international enplanements at airports nationally, and in the last quarter of 2003 were 5% higher than those in the same quarter of 2000. Growth continued in 2004, when international enplanements reached 2,309,602, an increase of 15.8%, compared to 2003.

The following tables show passenger enplanements at National and Dulles by airline between 2000 and 2004.

ENPLANEMENT MARKET SHARE BY AIRLINE AT NATIONAL

Airline	2000	Share	2001	Share	2002	Share	2003	Share	2004	Share
US Airways[1]	2,569,040	32.7%	2,049,010	31.2%	1,808,516	28.0%	1,929,521	27.2%	2,125,546	26.7%
Delta[2]	1,458,645	18.6%	1,247,114	19.0%	1,139,754	17.6%	1,050,133	14.8%	1,095,415	13.8%
American[3]	1,265,585	16.1%	945,310	14.4%	921,433	14.3%	955,780	13.5%	921,936	11.6%
Northwest	580,364	7.4%	480,359	7.3%	522,216	8.1%	587,036	8.3%	622,144	7.8%
United	411,947	5.2%	372,984	5.7%	392,739	6.1%	398,713	5.6%	441,683	5.6%
Continental	544,747	6.9%	409,712	6.2%	326,253	5.1%	306,612	4.3%	309,128	3.9%
Mesa (US Airways Express)	126,588	1.6%	227,204	3.5%	122,977	1.9%	113,511	1.6%	265,276	3.3%
Chautauqua (US Airways Express)	-	-	-	-	-	-	115,102	1.6%	225,935	2.8%
American Eagle	70,044	0.9%	66,060	1.0%	133,539	2.1%	198,460	2.8%	215,408	2.7%
Comair (Delta Connection)	22,759	0.3%	-	-	46,716	0.7%	243,627	3.4%	214,242	2.7%
PSA (US Airways Express)	95,775	1.2%	34,511	0.5%	128,069	2.0%	111,727	1.6%	191,904	2.4%
Midwest	105,799	1.3%	109,329	1.7%	142,933	2.2%	149,368	2.1%	166,059	2.1%
American TransAir	99,549	1.3%	105,944	1.6%	121,712	1.9%	126,474	1.8%	165,032	2.1%
America West	55,432	0.7%	122,536	1.9%	122,745	1.9%	131,354	1.8%	153,659	1.9%
AirTran Airways	-	-	-	-	-	-	26,303	0.4%	138,707	1.7%
Spirit	10,161	0.1%	46,762	0.7%	-	-	8,854	0.1%	110,303	1.4%
Air Canada	108,709	1.4%	78,937	1.2%	83,654	1.3%	79,436	1.1%	94,135	1.2%
Continental Express	1,593	0.0%	10,735	0.2%	58,954	0.9%	90,836	1.3%	90,655	1.1%
Alaska	-	-	3,019	0.0%	32,149	0.5%	33,895	0.5%	77,325	1.0%
Frontier	10,511	0.1%	24,879	0.4%	36,058	0.6%	39,044	0.5%	72,757	0.9%
Atlantic Southeast (Delta Connection)	-	-	-	-	5,423	0.1%	54,430	0.8%	65,488	0.8%
Piedmont (US Airways Express)	164,970	2.1%	70,872	1.1%	189,691	2.9%	100,245	1.4%	47,334	0.6%
Allegheny (US Airways Express)	5,058	0.1%	2,933	0.0%	66,799	1.0%	86,410	1.2%	24,344	0.3%
Other[4]	148,097	1.9%	155,294	2.4%	58,121	0.9%	165,544	2.3%	117,247	1.5%
TOTAL[5,6,7]	7,855,373	100.0%	6,563,504	100.0%	6,460,451	100.0%	7,102,415	100.0%	7,951,662	100.0%

[1] Includes activity for US Airways Shuttle.
[2] Includes activity for Delta Shuttle and Delta Express.
[3] Includes activity for Trans World Airlines in all years.
[4] Includes activity by charter flights and by certain scheduled airlines no longer serving National.
[5] Percentages may not add to 100 percent due to rounding.
[6] Excludes military and general aviation passenger enplanements.
[7] Enplanements figures have been reconciled to the Authority's records and may not match figures released in previous issues.

Source: Authority Records
Compiled by the Airport Consultant

ENPLANEMENT MARKET SHARE BY AIRLINE AT DULLES

Domestic Enplanements

Airline	2000	Share	2001	Share	2002	Share	2003	Share	2004	Share
United	3,392,374	43.0%	3,065,872	44.2%	2,563,838	39.5%	2,459,604	38.6%	3,064,079	34.0%
Independence Air	-	-	-	-	-	-	-	-	1,221,575	13.6%
Atlantic Coast (United Express)[1]	1,592,006	20.2%	1,602,357	23.1%	1,583,496	24.4%	1,500,700	23.6%	817,453	9.1%
Air Wisconsin (United Express)	-	-	-	-	49,376	0.8%	179,975	2.8%	641,015	7.1%
Delta[2]	639,591	8.1%	604,116	8.7%	665,661	10.2%	531,773	8.3%	474,913	5.3%
JetBlue	-	-	8,948	0.1%	219,135	3.4%	342,582	5.4%	444,592	4.9%
American[3]	546,645	6.9%	500,831	7.2%	511,972	7.9%	438,793	6.9%	410,792	4.6%
Trans States (United Express)	-	-	-	-	-	-	2,707	0.0%	288,287	3.2%
Mesa (United Express)	-	-	-	-	-	-	-	-	282,517	3.1%
Northwest	207,152	2.6%	235,265	3.4%	189,204	2.9%	174,280	2.7%	204,563	2.3%
Chautauqua (United Express)	-	-	-	-	-	-	-	-	154,760	1.7%
Continental Express	63,648	0.8%	66,287	1.0%	69,276	1.1%	92,012	1.4%	153,109	1.7%
AirTran Airways	195,219	2.5%	190,661	2.7%	153,497	2.4%	166,607	2.6%	129,738	1.4%
America West	321	0.0%	-	-	5,551	0.1%	85,113	1.3%	120,987	1.3%
Shuttle America (United Express)	-	-	-	-	2,391	0.0%	-	-	110,075	1.2%
US Airways	757,791	9.6%	303,648	4.4%	125,972	1.9%	118,315	1.9%	97,310	1.1%
Comair (Delta Connection)	86,885	1.1%	50,640	0.7%	74,551	1.1%	83,012	1.3%	73,264	0.8%
American Eagle	-	-	13,074	0.2%	33,351	0.5%	50,993	0.8%	59,727	0.7%
Alaska	-	-	7,349	0.1%	48,727	0.7%	64,502	1.0%	48,612	0.5%
Frontier	-	-	-	-	-	-	-	-	40,950	0.5%
Chautauqua (American Connection)	-	-	-	-	-	-	4,588	0.1%	35,389	0.4%
Atlantic Southeast (Delta Connection)	-	-	-	-	-	-	-	-	34,090	0.4%
Continental	66,623	0.8%	89,553	1.3%	71,950	1.1%	39,506	0.6%	27,616	0.3%
Pinnacle	-	-	-	-	-	-	-	-	25,726	0.3%
Colgan Air (US Airways Express)	30,045	0.4%	56,210	0.8%	34,321	0.5%	17,983	0.3%	20,463	0.2%
Mesa (US Airways Express)	80,350	1.0%	1,394	0.0%	-	-	-	-	19,969	0.2%
PSA (US Airways Express)	33,152	0.4%	893	0.0%	-	-	-	-	3,207	0.0%
Other[4]	196,629	2.5%	140,435	2.0%	95,505	1.5%	18,601	0.3%	9,806	0.1%
TOTAL[5,6,7]	7,888,431	100.0%	6,937,533	100.0%	6,497,774	100.0%	6,371,646	100.0%	9,014,584	100.0%

1 On June 16, 2004, Atlantic Coast commenced operations as Independence Air. Atlantic Coast terminated its code-sharing relationship with United on August 3, 2004.
2 Includes activity for Delta Express.
3 Includes activity for Trans World Airlines in all years.
4 Includes activity by charter flights and by certain scheduled airlines no longer serving Dulles.
5 Percentages may not add to 100 percent due to rounding.
6 Excludes military and general aviation passenger enplanements.
7 Enplanement data has been reconciled to the Authority's records and may not match figures released in previous issues.

Source: Authority Records
Compiled by the Airport Consultant

ENPLANEMENT MARKET SHARE BY AIRLINE AT DULLES

International Enplanements

Airline	2000	Share	2001	Share	2002	Share	2003	Share	2004	Share
United	850,389	40.8%	739,139	37.7%	801,230	39.7%	768,233	38.5%	932,830	40.4%
British Airways	192,643	9.2%	155,961	8.0%	181,694	9.0%	187,934	9.4%	189,690	8.2%
Lufthansa	166,574	8.0%	174,875	8.9%	153,186	7.6%	149,399	7.5%	163,817	7.1%
Air France	124,421	6.0%	119,792	6.1%	127,684	6.3%	139,751	7.0%	156,142	6.8%
Air Canada	114,982	5.5%	126,224	6.4%	110,409	5.5%	95,265	4.8%	95,776	4.1%
Virgin Atlantic	115,034	5.5%	105,259	5.4%	91,551	4.5%	82,415	4.1%	92,312	4.0%
Austrian	47,454	2.3%	58,962	3.0%	74,721	3.7%	76,242	3.8%	82,215	3.6%
TACA International	42,694	2.0%	57,470	2.9%	71,528	3.5%	72,989	3.7%	81,316	3.5%
KLM Royal Dutch	-	-	-	-	-	-	39,718	2.0%	70,856	3.1%
All Nippon	77,451	3.7%	59,254	3.0%	65,680	3.3%	62,181	3.1%	68,744	3.0%
SAS	-	-	31,423	1.6%	60,007	3.0%	58,086	2.9%	68,727	3.0%
Korean Air	50,041	2.4%	37,840	1.9%	45,177	2.2%	46,316	2.3%	58,695	2.5%
bmi British Midland	-	-	26,094	1.3%	44,047	2.2%	30,482	1.5%	54,386	2.4%
Alitalia	-	-	-	-	-	-	-	-	42,678	1.8%
Atlantic Coast (United Express)[1]	-	-	-	-	6,655	0.3%	73,145	3.7%	41,414	1.8%
BWIA West Indies	12,885	0.6%	18,268	0.9%	17,694	0.9%	15,665	0.8%	17,452	0.8%
Ethiopian Airlines	8,428	0.4%	6,839	0.3%	7,331	0.4%	7,672	0.4%	13,422	0.6%
Aeroflot	9,150	0.4%	9,643	0.5%	10,972	0.5%	8,605	0.4%	9,916	0.4%
Saudi Arabian	15,139	0.7%	15,984	0.8%	12,393	0.6%	8,637	0.4%	8,750	0.4%
LAB	-	-	-	-	-	-	-	-	8,167	0.4%
Northwest	81,650	3.9%	72,763	3.7%	77,183	3.8%	25,068	1.3%	-	-
Other[2]	174,266	8.4%	145,604	7.4%	58,582	2.9%	47,037	2.4%	52,297	2.3%
TOTAL[3,4,5]	2,083,201	100.0%	1,961,394	100.0%	2,017,724	100.0%	1,994,840	100.0%	2,309,602	100.0%

1 On June 16, 2004, Atlantic Coast commenced operations as Independence Air. Atlantic Coast terminated its code-sharing relationship with United on August 3, 2004.
2 Includes activity by charter flights and by certain scheduled airlines no longer serving Dulles.
3 Percentages may not add to 100 percent due to rounding.
4 Excludes military and general aviation passenger enplanements.
5 Enplanement data has been reconciled to the Authority's records and may not match figures released in previous issues.

Sources: Authority Records
Compiled by the Airport Consultant

COMBINED NATIONAL AND DULLES ENPLANEMENT MARKET SHARE BY AIRLINE

Airline	2000	Share	2001	Share	2002	Share	2003	Share	2004	Share
United	4,654,710	26.1%	4,177,995	27.0%	3,757,807	25.1%	3,626,550	23.4%	4,438,592	23.0%
US Airways[1]	3,326,831	18.7%	2,352,658	15.2%	1,934,488	12.9%	2,047,836	13.2%	2,222,856	11.5%
Delta[2]	2,098,236	11.8%	1,851,230	12.0%	1,805,415	12.1%	1,581,906	10.2%	1,570,328	8.1%
American[3]	1,812,230	10.2%	1,446,141	9.4%	1,433,405	9.6%	1,394,573	9.0%	1.332.728	6.9%
Independence Air	-	-	-	-	-	-	-	-	1,221,575	6.3%
Atlantic Coast (United Express)[4]	1,592,006	8.9%	1,602,357	10.4%	1,590,151	10.6%	1,573,845	10.2%	858,867	4.5%
Northwest	869,166	4.9%	788,387	5.1%	788,603	5.3%	786,384	5.1%	826,707	4.3%
Air Wisconsin (United Express)	-	-	-	-	49,376	0.3%	179,975	1.2%	641,015	3.3%
JetBlue	-	-	8,948	0.1%	219,135	1.5%	342,582	2.2%	444,592	2.3%
Continental	611,370	3.4%	499,265	3.2%	398,203	2.7%	346,118	2.2%	336,744	1.7%
Trans States (United Express)	-	-	-	-	-	-	2,707	0.0%	288,287	1.5%
Comair (Delta Connection)	109,644	0.6%	50,640	0.3%	121,267	0.8%	326,639	2.1%	287,506	1.5%
Mesa (US Airways Express)	206,938	1.2%	228,598	1.5%	122,977	0.8%	113,511	0.7%	285,245	1.5%
Mesa (United Express)	-	-	-	-	-	-	-	-	282,517	1.5%
American Eagle	70,044	0.4%	79,134	0.5%	166,890	1.1%	249,453	1.6%	275,135	1.4%
America West	55,753	0.3%	122,536	0.8%	128,296	0.9%	216,467	1.4%	274,646	1.4%
AirTran Airways	195,219	1.1%	190,661	1.2%	153,497	1.0%	192,910	1.2%	268,445	1.4%
Continental Express	65,241	0.4%	77,022	0.5%	128,230	0.9%	182,848	1.2%	243,764	1.3%
Chautauqua (US Airways Express)	-	-	-	-	-	-	115,102	0.7%	225,935	1.2%
PSA (US Airways Express)	128,927	0.7%	35,404	0.2%	128,069	0.9%	111,727	0.7%	195,111	1.0%
Air Canada	223,691	1.3%	205,161	1.3%	194,063	1.3%	174,701	1.1%	189,911	1.0%
British Airways	192,643	1.1%	155,961	1.0%	181,694	1.2%	187,934	1.2%	189,690	1.0%
Midwest	105,799	0.6%	109,329	0.7%	142,933	1.0%	149,368	1.0%	166,059	0.9%
American TransAir	99,549	0.6%	105,944	0.7%	121,712	0.8%	126,474	0.8%	165,032	0.9%
Lufthansa	166,574	0.9%	174,875	1.1%	153,186	1.0%	149,399	1.0%	163,817	0.8%
Air France	124,421	0.7%	119,792	0.8%	127,684	0.9%	139,751	0.9%	156,142	0.8%
Chautauqua (United Express)	-	-	-	-	-	-	-	-	154,760	0.8%
Alaska	-	-	10,368	0.1%	80,876	0.5%	98,397	0.6%	125,937	0.7%
Frontier	10,511	0.1%	24,879	0.2%	36,058	0.2%	39,044	0.3%	113,707	0.6%
Spirit	10,161	0.1%	46,762	0.3%	-	-	8,854	0.1%	110,303	0.6%
Shuttle America (United Express)	-	-	-	-	2,391	0.0%	-	-	110,075	0.6%
Atlantic Southeast	-	-	-	-	5,423	0.0%	54,430	0.4%	99,578	0.5%
Virgin Atlantic	115,034	0.6%	105,259	0.7%	91,551	0.6%	82,415	0.5%	92,312	0.5%
Austrian	47,454	0.3%	58,962	0.4%	74,721	0.5%	76,242	0.5%	82,215	0.4%
TACA International	42,694	0.2%	57,470	0.4%	71,528	0.5%	72,989	0.5%	81,316	0.4%
KLM Royal Dutch	-	-	-	-	-	-	39,718	0.3%	70,856	0.4%
All Nippon	77,451	0.4%	59,254	0.4%	65,680	0.4%	62,181	0.4%	68,744	0.4%
SAS	-	-	31,423	0.2%	60,007	0.4%	58,086	0.4%	68,727	0.4%
Korean Air	50,041	0.3%	37,840	0.2%	45,177	0.3%	46,316	0.3%	58,695	0.3%
bmi British Midland	-	-	26,094	0.2%	44,047	0.3%	30,482	0.2%	54,386	0.3%
Piedmont (US Airways Express)	164,970	0.9%	70,872	0.5%	189,691	1.3%	100,245	0.6%	47,334	0.2%
Alitalia	-	-	-	-	-	-	-	-	42,678	0.2%
Chautauqua (American Connection)	-	-	-	-	-	-	4,588	0.0%	35,389	0.2%
Pinnacle	-	-	-	-	-	-	-	-	25,726	0.1%
Allegheny (US Airways Express)	5,058	0.0%	2,933	0.0%	66,799	0.4%	86,410	0.6%	24,344	0.1%
Colgan Air (US Airways Express)	30,045	0.2%	56,210	0.4%	34,321	0.2%	17,983	0.1%	20,463	0.1%
BWIA International	12,885	0.1%	18,268	0.1%	17,694	0.1%	15,665	0.1%	17,452	0.1%
Ethiopian	8,428	0.0%	6,839	0.0%	7,331	0.0%	7,672	0.0%	13,422	0.1%
Aeroflot	9,150	0.1%	9,643	0.1%	10,972	0.1%	8,605	0.1%	9,916	0.1%
Saudi Arabian	15,139	0.1%	15,984	0.1%	12,393	0.1%	8,637	0.1%	8,750	0.0%
LAB	-	-	-	-	-	-	-	-	8,167	0.0%
Other[5]	518,922	2.9%	441,333	2.9%	212,208	1.4%	231,182	1.5%	179,350	0.9%
TOTAL[6,7,8]	17,827,005	100.0%	15,462,431	100.0%	14,975,949	100.0%	15,468,901	100.0%	19,275,848	100.0%

1 Includes activity for US Airways Shuttle.
2 Includes activity for Delta Shuttle and Delta Express.
3 Includes activity for Trans World Airlines in all years.
4 On June 16, 2004, Atlantic Coast commenced operations as Independence Air. Atlantic Coast terminated its code-sharing relationship with United on August 3, 2004, and with Delta on November 3, 2004.
5 Includes activity by charter flights and by certain scheduled airlines no longer serving National and Dulles .
6 Percentages may not add to 100 percent due to rounding.
7 Excludes military and general aviation passenger enplanements.
8 Enplanement data has been reconciled to the Authority's records and may not match figures released in previous issues.

Sources: Authority Records
Compiled by the Airport Consultant

Baltimore/Washington International Airport

Portions of the Air Trade Area also are served by BWI, which is located northeast of Washington, D.C., approximately 30 miles from National and 46 miles from Dulles. BWI is operated by the State of Maryland Department of Transportation. The Federal Lease and the Federal Act provide for the voluntary inclusion of BWI among the airports operated by the Authority. At the time the Authority was created, State of Maryland officials declined to have BWI included in the Authority.

According to information on BWI's website, the number of enplaned and deplaned passengers at BWI in 2004 totaled 10.2 million. This represents a 3.1% increase in commercial traffic compared to 2003. International enplaned and deplaned passengers totaled 453,749 in 2004, a 3.3% increase over 2003. The five airlines with the largest number of enplaned and deplaned passengers at BWI in 2004 were Southwest Airlines ("Southwest") (4.8 million), AirTran (877,564), American (694,013), United (733,742) and Delta (670,526).

Since 1991, BWI's share of air passengers in the Washington-Baltimore region has grown. BWI accounted for 27.8% of total enplaned passengers in the region in 1991 and the Airports accounted for 72.2%. In 2004, approximately 34.8% of passengers in the region were enplaned at BWI and 65.2% were enplaned at the Airports, reflecting both growth in the number of air travelers served at BWI and some diversion of traffic away from the Airports. This diversion is primarily related to the presence of low-cost carriers at BWI, especially Southwest. In a recent study, DOT noted that airports in multi-airport regions, such as National and Dulles, can be vulnerable to diversion of local O&D traffic to alternative regional airports that have a strong low-cost presence, such as BWI. Low-cost carriers accounted for approximately 65% of total departing seat capacity at BWI in February 2005. Also affecting growth of the Airports is the inability of National to accommodate any significant increase in passengers during peak periods because of physical constraints and slot restrictions. Largely as a result of the constraints at National, as air travel increased in recent years to and from the Air Trade Area, growth was accommodated by BWI and Dulles. Between 1991 and 2004, National's share of enplaned passengers in the region declined from 41.9% to 26.9%. A significant amount of diversion from National also occurred after the events of September 11, 2001, as a result of the closure of National. National was closed for 23 days and restrictions on commercial flight operations were not removed until April 2002.

With respect to regional domestic O&D traffic, BWI's share increased from 23.1% in 1992 to 41.2% in 2004. National's share decreased from 52.2% to 31.4%, and Dulles' share increased slightly from 24.7% to 27.4%. While domestic O&D traffic at National decreased at an annual average of 0.3% between 1992 and 2004 and increased 5.7% at Dulles, at BWI it grew at an annual average of 9.0% during that same period.[6]

The launch of Independence Air at Dulles in June 2004 and the resulting proliferation of lower fares at Dulles caused a shift in domestic passenger traffic from BWI to Dulles. The Authority cannot predict, however, whether Independence Air will continue operating at the same levels at Dulles and how that may affect the regional enplanement market shares in the long-term.

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[6] Domestic O&D data was only available up to and including the nine months ended September 30, 2004. As a result, figures presented for regional shares of domestic O&D traffic in 2004 and average annual growth rates in domestic O&D traffic between 1992 and 2004 are estimated.

Washington-Baltimore Regional Area Total Enplaned Passenger Market Share[1]

Airport	1994	1999	2000	2001	2002	2003	2004
National	38.9%	28.8%	28.4%	25.6%[2]	26.4%	28.5%	26.9%
Dulles	29.0%	37.7%	36.1%	34.7%	34.8%	33.6%	38.3%
BWI	32.1%	33.5%	35.5%	39.7%	38.8%	37.9%	34.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

[1] This table is based on total enplanements in the Washington-Baltimore Regional Area during each respective calendar year. The totals may not add due to rounding. BWI market share for 2004 was estimated based on 11 months of data.

[2] Reflects the impact of the FAA's closure of National for 23 days after the events of September 11, 2001, and the ensuing federally-imposed restrictions on air carrier activities at National for several months thereafter.

Source: Compiled by the Airport Consultant

CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS

General

No assurance can be given with respect to the levels of aviation activity that will be achieved at the Airports in future fiscal years. Traffic at the Airports is sensitive to a variety of factors including (1) the growth in the population and economy of the Air Trade Area served by the Airports, (2) national and international economic conditions, (3) air carrier economics and air fares, (4) the availability and price of aviation fuel, (5) air carrier service and route networks, (6) the capacity of the air traffic control system, (7) the capacity of the Airports/airways system, and (8) safety concerns arising from international conflicts and the possibility of additional terrorist attacks. Several of these factors, including slow or negative traffic growth in many areas, increased competition among air carriers, bankruptcies, consolidation and mergers among air carriers, increased fuel, labor, equipment and other costs, costs of compliance with new security regulations and requirements, health concerns such as SARS, increased threat of possible future terrorist attacks and increases in the requirements for and the cost of debt capital, have combined recently to reduce profits materially and to cause significant losses for all but a few air carriers.

Aviation Security Requirements and Related Costs

The terrorist attacks of September 11, 2001, severely affected the air transportation industry. As an immediate measure, the federal government imposed a temporary suspension of commercial and general aviation air travel in the United States that adversely affected the air transportation system. At National, due to its proximity to prominent national landmarks and federal government buildings in Washington, D.C., the FAA prohibited all air carrier and general aviation aircraft activity for 23 days and did not authorize a full resumption of all commercial activity until April 2002. General aviation aircraft activity at National continues to be prohibited by the FAA. Although the 2003 FAA Reauthorization Act requires the Department of Homeland Security to develop a plan for the resumption of general aviation at National, it remains uncertain when, or if, the federal government will permit the resumption of such activity. Revenue from general aviation activity historically has not accounted for a material portion of the Authority's Revenue.

As a result of the events of September 11, 2001, the FAA instituted numerous safety and security measures for all U.S. airports including National and Dulles. The measures include, but are not limited to, prohibiting unticketed persons beyond security checkpoints and enhancing the search and security checks of

all passengers and baggage. Air carrier operators at National are subject to enhanced security procedures including a high utilization of air marshals and in-flight procedures for the passengers and the pilots to reduce the risk of airborne security-related incidents.

On November 19, 2001, the Aviation and Transportation Security Act (the "Aviation Security Act") was enacted into law. The Aviation Security Act provided, among other things, for the establishment of the Transportation Security Administration (the "TSA"). Under the Aviation Security Act, the cost for and the provision of airport security was transferred to and now is administered by the federal government through TSA instead of private companies. TSA assumed responsibility for airport security at the Airports in September 2002. The Aviation Security Act also permits the deployment of air marshals on all flights and requires deployment of air marshals on all "high risk" flights, including many flights to and from National.

Like many other airport operators, the Authority experienced increased operating costs due to compliance with federally-mandated and other security and operating requirements. The airlines and the federal government are primarily responsible for, and will bear most of the capital costs associated with, implementing the new security measures. The Aviation Security Act requires that TSA-approved explosive detection systems ("EDS") be deployed at all U.S. airports to screen all checked baggage. EDS equipment purchased by the federal government has been installed at the Airports. In some cases, installation of EDS equipment necessitated structural modifications to terminal buildings and substantially all of the cost of those modifications and the installation was borne by the TSA. The design and installation associated with the EDS requirement resulted in a modest increase in the cost of the Authority's 2001-2011 CCP. In May 2002, the Authority received $3.1 million from the federal government for direct reimbursement of security costs under Section 119 of the Aviation Security Act. The Authority adheres to security initiatives based on the policy and guidelines established by the TSA. The Airports are currently in compliance with all federally mandated security requirements. The Authority plans to perform certain building modifications to better accommodate in-line baggage screening equipment if additional funds become available from TSA. See "THE 2001-2011 CCP."

In addition to costs relating to installation of the new EDS, the Authority's operating costs increase when "Code Orange" (high) or "Code Red" (severe) national threat levels are declared by the Department of Homeland Security and procedures are implemented consistent with those declarations. Since the institution of the alert system, the national threat level has never been raised to Code Red, but it has been raised to Code Orange a number of times. Each time the Department of Homeland Security raises the threat level to Code Orange, the Authority's operating costs increase by approximately $30,000 per Airport per week.

In January 2004, the Department of Homeland Security deployed the United States Visitor and Immigrant Status Indicator Technology, better known as US-VISIT. Effective September 30, 2004, the US-VISIT program also applies to visitors from countries whose citizens are allowed to travel within the United States for up to 90 days without a visa. This extension of the US-VISIT program effectively exempts from its requirements only diplomats and visitors from Mexico and Canada. US-VISIT uses scanning equipment to collect arrival and departure data for visitors who require a visa to enter the United States. The equipment gathers fingerprints and a digital photograph of each visitor and verifies the visitor's identity and compliance with immigration laws. Entry procedures became operational in 115 U.S. airports and 14 U.S. seaports on January 5, 2004. Exit procedures will be phased in at airports and seaports during 2004. Entry and exit US-VISIT procedures were implemented at the 50 busiest border crossings by December 31, 2004, and must be implemented at all border crossings by December 31, 2005.

Effect of Recent Events on the Authority

As a result of the events of September 11, 2001, and the resulting negative effects on the financial condition of the air transportation industry, the Authority reassessed its revenues and capital plans, and made certain adjustments. It reduced expenditures in 2001 and adopted budgets for fiscal years 2002 and 2003 that reduced costs and deferred spending. Exclusive of debt service, the budget for 2002 was 1.3% less than the operation and maintenance budget originally approved for 2001. The Authority reevaluated and made certain adjustments to its CCP for the Airports, resulting in a capital budget for 2002 that was 27.2% less than previously planned. In December 2001, the Authority received a $40 million payment from the federal government as compensation for the extended closure and restricted flight activity at National. The federal compensation was used by the Authority to replace revenue lost in 2001 and 2002, replenish unencumbered reserves that were expended, compensate concessionaires for a portion of their losses and provide a credit to the landing fees of the airlines operating at National in 2002. The budget for 2004 continued certain operating constraints that were instituted beginning in 2001. As a result of the Airports experiencing a tremendous growth in activity in 2004, the budget for 2005 alleviated some of these constraints while minimizing the increase to airline rates and charges. See "PLAN OF FUNDING FOR THE 2001-2011 CCP" and "AUTHORITY FINANCIAL INFORMATION."

Enplanements at the Airports, collections of PFCs and the receipt of Revenues were adversely affected by the events of September 11, 2001, and the financial condition of the air transportation industry. In 2001, total enplanements (excluding general aviation and military) declined by 16.4% at National and 10.8% at Dulles, comparing to 2000. In 2002, total enplanements (excluding general aviation and military) further declined by 1.6% at National and 4.3% at Dulles, comparing to 2001. Passenger traffic at National began recovering in April 2002 and by early 2003, it reached 90% of 2000 enplanement levels. Passenger traffic at Dulles reached 88% of the 2000 enplanement levels by the end of 2003. Recovery at both Airports continued into 2004, with both Airports reaching record enplanement levels. Although enplanements in 2004 exceeded the pre-September 11, 2001, levels, no assurances can be given that enplanements will not be adversely affected in the future by a variety of factors that are outside of the control of the Authority.

International Conflict and the Threat of Terrorism

In the recent past, the threat of terrorism has had a negative impact on air travel. In February 2004, then Secretary of the Department of Homeland Security, Tom Ridge, stated that the U.S. government consistently receives intelligence that terrorists remain interested in using aircraft for future terrorist attacks.

The conflicts in Iraq and Afghanistan had a negative effect on air travel domestically and internationally. As a result of the conflicts and related terrorist threats, airlines significantly reduced the number of transatlantic flights and airline revenues and cash flow were adversely affected. Uncertainty associated with war and the increased threats of future terrorist attacks may continue to have an adverse impact on air travel in the foreseeable future. In 2003, Congress passed legislation to provide airlines and airports with additional financial assistance to help offset some of the adverse economic effects of the conflicts in Iraq and Afghanistan and the increased threat of terrorism on air travel.

Although enplanements in 2004 exceeded the pre-September 11, 2001 levels, no assurance can be given that enplanements will not be affected adversely by any international conflict or act of terrorism.

Cost of Aviation Fuel

According to the Air Transportation Association, fuel is the second largest cost component of airline operations after labor and continues to be an important and uncertain determinate of an air carrier's operating economics. There has been no shortage of aviation fuel since the "fuel crisis" of 1974, but any increase in fuel prices causes an increase in airline operating costs. The average price of oil in 2004 was $41.27 per barrel. Oil prices in January 2005 were nearly 41% higher than in January 2004. In March 2005, the price of oil rose to more than $57 per barrel, reaching a record high, and oil industry analysts have predicted that the price could go higher. According to the Air Transportation Association, a one-dollar increase in the price of oil per barrel equates to approximately $425 million in annual additional expense for U.S. airlines. Significant and prolonged increases in the cost of aviation fuel are likely to have an adverse impact on air transportation industry profitability and hamper the recovery plans and cost-cutting efforts of certain airlines.

Low-cost Carriers and Low-fare Divisions of Legacy Carriers

In recent years, low-cost carriers have accounted for an increasing share of the domestic passenger traffic. Nationally, low-cost carriers increased their share of passenger traffic from approximately 10% in the early 1990s to approximately 24% in 2004. Largely as a result of Southwest commencing service at BWI in 1993, BWI moved from enplaning the fewest passengers in the region in 1994 to enplaning the most passengers in 2003. Increased competition from low-cost carriers has placed additional pressure on the legacy carriers to institute further cost-cutting measures, reduce their fares to remain competitive and introduce their own low-fare divisions.

Low-cost carriers and low-fare divisions of legacy carriers have expanded service at Dulles as well. AirTran (then ValuJet) and Delta Express commenced service in the early 1990s. More recently, jetBlue began service in November 2001, Frontier and United's low-fare division, Ted, began service in April 2004, and Atlantic Coast commenced low-fare service of its new carrier, Independence Air, in June 2004. See "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS." As a result of the commencement of Independence Air operations, in 2004, Dulles surpassed BWI in terms of its share of the region's enplanements. The Authority cannot predict whether Independence Air will continue its level of activity at Dulles or whether its effect will continue the shift of the region's domestic traffic back to Dulles. The Authority also cannot predict the effect of the growing low-cost carrier service at BWI.

As a result of these events and other factors, historical results presented in this Official Statement, including the historical financial and enplanement figures contained in this Official Statement, may not be indicative of future operating results of the Authority. See "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS."

FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS

General

The Authority derives a substantial portion of its operating revenues from landing and facility rental fees. The financial strength and stability of the airlines using the Airports, together with numerous other factors, influence the level of aviation activity at the Airports and revenues of the Authority. Individual airline decisions regarding level of service, particularly hubbing activity at the Airports also affect total enplanements. Since September 11, 2001, substantially all airlines have been downgraded by the rating agencies, several have

declared Chapter 11 bankruptcy, including United and US Airways, and many airlines have implemented service reductions and layoffs of employees in response to a reduction in passenger demand.

US Airways

For the year ended December 31, 2004, US Airways and its regional affiliates represented approximately 37.5% of the airline rentals, fees and charges component of operating revenues at National. No other airline represented over 18.2% of that component of operating revenues at National. According to information obtained from its filings with the SEC, US Airways reported net operating losses of $2.1 billion in 2001 and $1.6 billion in 2002. US Airways filed for bankruptcy protection under Chapter 11 on August 11, 2002, and emerged from bankruptcy on March 31, 2003. As a result of US Airways emerging from bankruptcy on March 31, 2003, the US Airways' pre-reorganization and post-reorganization financial statements are not comparable and the airline is required to report its results for the first three months and the last nine months of 2003 separately. US Airways reported a net operating income of $1.6 billion for the three months ended March 31, 2003, and a net operating loss of $174 million for the nine months ended December 31, 2003. The results for the three months ended March 31, 2003, include a number of reorganization items, such as a discharge of liabilities. US Airways reported a net loss of $611 million in 2004.

On September 12, 2004, for the second time in two years, US Airways filed for bankruptcy protection under Chapter 11. US Airways has secured concessions from every labor group, an agreement with the ATSB that allows US Airways access to cash from the balance of the $1 billion ATSB-backed loan granted to US Airways in 2003, and an agreement with its largest creditor, General Electric Co., that allows US Airways access to planes it ordered some time ago and a deferment of large aircraft lease and debt payments. The agreement will require US Airways to emerge from bankruptcy protection in the near future.

In March 2005, US Airways reached agreements with Air Wisconsin and Republic Airways Holding, Inc. ("Republic") on two equity and financing packages each of which includes a $125 million investment upon US Airways' emergence from bankruptcy protection. Both agreements have been approved by the bankruptcy court. As part of the agreement with Republic, US Airways has an option to obtain additional financing through the sale of 113 commuter slots at National, which Republic would lease back to US Airways.

Upon emerging from the first bankruptcy, US Airways confirmed its Airline Agreement with the Authority. Since entering bankruptcy the second time, it has not confirmed its Airline Agreement, but continues to operate at the Airports. At the time of its first bankruptcy, US Airways owed the Authority approximately $1.3 million in pre-petition claims which it paid over a nine-month period beginning in June 2003, and ended in March 2004. At the time of filing its second bankruptcy, US Airways owed the Authority approximately $1.1 million, which remains outstanding as of March 2005.

The Authority received a request by US Airways to construct a terminal for commuter or regional aircraft at National. Plans for a regional terminal at National previously were included in the Authority's CCP, but the project was not undertaken at US Airways' request. Prior to the pending bankruptcy, US Airways had renewed its interest in the terminal as a result of emphasis on the use of more regional jets in its fleet mix. The project, if pursued, would be an "additional project" under the Airline Agreement and US Airways would be responsible for leasing most or all of the premises.

United

For the year ended December 31, 2004, United and its regional affiliates represented approximately 52.0% of the airline rentals, fees and charges component of operating revenues at Dulles. No other airline represented over 8.6% of that component of operating revenues at Dulles. According to information obtained from its filings with the SEC, United reported net operating losses before special items totaling $1.8 billion in 2001 and $2.1 billion in 2002. On December 9, 2002, shortly after the ATSB rejected its application for a $1.6 billion loan guaranty, United filed for bankruptcy protection under Chapter 11 but continues to operate at the Airports during reorganization. United reported a net operating loss of $1.7 billion in 2003, and a net operating loss of $1.2 billion in 2004.

On June 17, 2004, the ATSB rejected United's amended application for a $1.6 billion loan guaranty. United resubmitted a loan application to ATSB on June 22, 2004, seeking a $1.1 billion loan guaranty, but was rejected by the ATSB in a final determination issued on June 28, 2004.

United has not yet submitted a reorganization plan to the bankruptcy court. The bankruptcy court has continued to grant United's requests for an extension of time to exclusively file its reorganization plan. United has stated that it expects to emerge from bankruptcy in the fall of 2005. Although United's labor groups previously approved $2.56 billion in concessions, United contends that it needs to secure another $725 million in cuts to emerge from bankruptcy.

Under United's Airline Agreement with the Authority, United was obligated to occupy and to pay rates and charges for the cost of the Tier 2 Concourse and related projects of the CCP at Dulles. Shortly before United declared bankruptcy, it requested that the Authority not proceed with the planned construction of the Tier 2 Concourse until United determined whether it needed and could afford the costs of all of the planned improvements. The Authority deferred its plans to move forward with the Tier 2 Concourse. In January 2004, the Authority agreed to permit United to construct a new regional terminal at Dulles, known as Concourse G. Construction of Concourse G was completed on June 29, 2004, at a cost to United of approximately $22 million. Upon United's emergence from bankruptcy, the Authority expects to purchase Concourse G from United at a cost of approximately $18.8 million and will recover such costs over a ten-year period pursuant to the terms of the Airline Agreement.

Although United remains in bankruptcy, United and the Authority have agreed to terms that will cure United's defaults to the Authority. United has assumed its Airline Agreement with the Authority to use and lease space at the Airports except that the agreement to build the Tier 2 Concourse and lease it to United has been eliminated. United has agreed to pay all of its outstanding debt to the Authority for rents, landing fees and other services, totaling approximately $4.5 million, upon its emergence from bankruptcy. United also has agreed to reimburse the Authority $20.3 million over a 10-year period for the expenses the Authority incurred in designing the Tier 2 Concourse project. These agreements, including the Authority's agreement to acquire Concourse G upon United's emergence from bankruptcy, were approved by the bankruptcy court on March 19, 2004.

In February 2004, United announced the expansion of Ted, its new low-fare division, at Dulles by offering service to Fort Lauderdale, Orlando, Tampa and Las Vegas. As of February 2005, United was operating 17 daily Ted flights out of Dulles, accounting for 6.1% of United's domestic mainline operations at Dulles.

On August 3, 2004, United terminated its relationship with its regional affiliate Atlantic Coast, which until then operated 94% of United Express' daily operations at Dulles. United replaced Atlantic Coast with several other regional carriers and United's existing affiliates continue to operate portions of the United Express service at Dulles.

Independence Air

On June 16, 2004, Atlantic Coast, a former United and Delta regional affiliate, commenced operations as Independence Air, a carrier based at Dulles with 78 daily departures to nine destinations. By October 2004, Independence Air expanded its service to 35 destinations and 301 daily departures. Independence Air operates at Concourse A. Independence Air's low fares evoked a strong competitive response from United, as a result of which Dulles reached record domestic enplanement levels in 2004, increasing by 41.5% compared to 2003.

For the last six months of 2004, Independence Air represented approximately 8.6% of the total airline rentals, fees and charges component of the operating revenues at Dulles. According to a preliminary filing submitted to the SEC on February 27, 2005, Independence Air reported an estimated net loss of $192.2 million in 2004, compared to a net income of $82.8 million in 2003. In February 2005, Independence Air completed a financial restructuring that included rescheduling and deferring rent payments with its aircraft creditors, reducing its regional jet fleet and terminating certain aircraft leases. According to its March 16, 2005, SEC filing, this financial restructuring provided Independence Air "an opportunity to continue operating through 2005 and into 2006." Independence Air may again face liquidity concerns, however, if passenger traffic does not reach anticipated levels and fuel costs continue at high levels, which may force the airline to seek bankruptcy protection under Chapter 11. The Authority is not able to predict whether and at what level Independence Air will continue to operate at Dulles.

American

For the year ended December 31, 2004, American and its commuter affiliates represented approximately 16.6% of the total airline rentals, fees and charges component of the operating revenues at National and 4.2% at Dulles. According to information obtained from American's filings with the SEC, American reported net losses after special items of $1.8 billion in 2001, $3.5 billion in 2002, $1.0 billion in 2003, and $761 million in 2004. In a January 19, 2005, press release, the chief executive officer of American stated that the fourth quarter results were an expected but disappointing end to a very difficult year "reflecting high fuel prices and a tough revenue environment." He expects 2005 to be another very difficult year for American. The Authority is not able to predict whether and at what level American will continue to operate at the Airports.

Delta

For the year ended December 31, 2004, Delta and its commuter affiliates represented approximately 18.2% of the total airline rentals, fees and charges component of the operating revenues at National and 5.3% at Dulles. According to information obtained from Delta's filings with the SEC, Delta reported net losses of $1.2 billion in 2001, $1.3 billion in 2002, $773 million in 2003, $5.2 billion in 2004. In the last quarter of 2004, Delta reached an agreement with its pilots on contractual changes designed to deliver $1 billion in long-term, annual cost savings and obtained commitments from two different companies for $1 billion of financing. In a March 10, 2005, filing with the SEC, however, Delta stated that it believes it will "record a substantial net loss in 2005, and that [its] cash flows from operations will not be sufficient to meet all of [its] liquidity needs for that period." The airline further stated that, if it is not successful in further reducing its expenses, it will need to

restructure under Chapter 11 bankruptcy protection. The Authority is not able to predict whether and at what level Delta will continue to operate at the Airports.

Other Airlines Serving the Airports

Several other airlines operating at the Airports have experienced financial difficulties during the last few years. Midway Airlines ("Midway") filed for bankruptcy protection under Chapter 11 in August 2001. Midway initially continued to operate in reorganization. It discontinued service at Dulles in September 2001, and at National in July 2002. Midway resumed operations at National in January 2003, under a contract with US Airways as a US Airways Express carrier. In October 2003, Midway filed for Chapter 7 liquidation and ceased all of its operations. Midway currently owes the Authority approximately $286,000. TransWorld Airlines ("TWA") filed for bankruptcy and in April 2001, TWA was acquired by American. National Airlines, Inc. ("National Airlines"), Legend Airlines, Inc. ("Legend") and Swissair also filed for protection from creditors under the U.S. Bankruptcy Code. Sabena, which commenced service at Dulles on October 31, 2000, has since liquidated. Air Canada filed for bankruptcy under United States and Canadian law on April 1, 2003. Air Canada emerged from bankruptcy protection in September 2004, and is current on all of its obligations to the Authority. ATA filed for bankruptcy on October 26, 2004, and owes the Authority approximately $51,500 in pre-petition debt. There has been no cessation or interruption of service by ATA at National. The Authority is pursuing its rights against each of these bankrupt or defunct airlines. The Authority does not consider the amounts owed by such airlines to be material.

The Authority cannot predict the duration or extent of reductions and disruptions in air travel or the extent of any adverse impact on Revenues, PFC collections, passenger enplanements, operations or the financial condition of the Authority. In addition, the Authority cannot predict how these reductions will affect the Airports, or whether these reductions and other factors will result in more airline bankruptcies. All airlines, including US Airways and United, which have filed for reorganization under the U.S. bankruptcy laws, have remitted all material payments due to the Authority under the Airline Agreements, except that United and US Airways owe the Authority for pre-bankruptcy petition debt. United has assumed its obligations under the Airline Agreement. United also has agreed, upon emergence from bankruptcy, to reimburse the Authority for certain costs related to Dulles facilities, but such payments are not yet due. US Airways has not assumed its obligations under the Airline Agreement. The Authority is not able to predict how long any airline in bankruptcy protection will continue operating at the Airports or whether any of these airlines will liquidate or substantially restructure their operations. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. Further, the Authority cannot predict nor can it give any assurance that the airlines serving the Airports will continue to pay or to make timely payment of their obligations under the Airline Agreement. The Authority cannot predict the likelihood of future incidents similar to the events of September 11, 2001, the likelihood of future air transportation disruptions or the impact on the Airports or the airlines from such incidents or disruptions.

For additional information regarding airlines generally and United and US Airways specifically, see APPENDIX A – "Report of the Airport Consultant."

Effect of Airline Bankruptcies

Assumption or Rejection of Agreements

In the event an airline that has executed an Airline Agreement or other agreement with the Authority seeks protection under the bankruptcy laws, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the Authority (a) within 60 days (or later if ordered by the court) with respect to its Airline Agreement or leases of non-residential real property, or (b) prior to the confirmation of a plan of reorganization with respect to any other agreement. Bankruptcy courts are courts of equity, however, and as such can, and often do, grant exceptions to statutory limitations. In the event of assumption and/or assignment of any agreement to a third party, an airline would be required to cure any pre- and post-petition monetary defaults and provide adequate assurance of future performance under the applicable Airline Agreement or other agreements.

Rejection of an Airline Agreement or other agreement or executory contract will give rise to an unsecured claim of the Authority for damages, the amount of which in the case of an Airline Agreement or other agreement is limited by the U.S. Bankruptcy Code generally to the amount unpaid prior to bankruptcy plus the greater of (i) one year of rent or (ii) 15% of the total remaining lease payments, not to exceed three years. The amount ultimately received in the event of a rejection of an Airline Agreement or other agreement could be considerably less, however, than the maximum amount allowed under the U.S. Bankruptcy Code. Amounts unpaid as a result of a rejection of an Airline Agreement by an airline in bankruptcy can be passed on to the remaining Signatory Airlines under the Airline Agreement, thereby increasing such airlines' cost per enplanement, although there can be no assurance that such other airlines would be financially able to absorb the additional costs.

TWA, US Airways, United, Air Canada and ATA were each operating at the Airports under an Airline Agreement at the time of their respective filings for bankruptcy protection. TWA's Airline Agreement was assigned to and assumed by American. Air Canada assumed its Airline Agreement with the Authority while it was under bankruptcy protection. Since then, Air Canada has emerged from bankruptcy and is continuing to operate at the Airports. United has assumed its Airline Agreement and is paying its obligations. Neither US Airways nor ATA has assumed or rejected their respective Airline Agreements, but both continue to operate at the Airports.

With respect to an airline in bankruptcy proceedings in a foreign country, such as those of Air Canada, the Authority is unable to predict what types of orders and/or relief could be issued by foreign bankruptcy tribunals, or the extent to which any such orders would be enforceable in the United States.

PFCs

Pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508), the Wendel H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) and the 2003 FAA Reauthorization Act (collectively, the "PFC Acts"), the FAA has approved the Authority's applications to require airlines to collect and remit to the Authority a $4.50 PFC for each enplaning revenue passenger at the Airports. See "PLAN OF FUNDING FOR THE 2001-2011 CCP – Funding Sources – Funding Source: PFCs."

The PFC Acts provide that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the Authority) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC

collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. Airlines generally are permitted, however, to commingle PFC collections with other revenues and also are entitled to retain interest earned on PFC collections until such PFC collections are remitted. If an airline is in liquidation or bankruptcy proceedings, however, it is prohibited from commingling PFC collections with other revenues and from granting a security interest in the PFC collections to a third party. The Authority cannot predict whether an airline that files for bankruptcy protection would have properly accounted for the PFCs or whether the bankruptcy estate would have sufficient moneys to pay the Authority in full for the PFCs owed by such airline. PFCs are not pledged to the repayment of the Bonds. The Authority recovered all of its PFCs from TWA and US Airways. United and Air Canada are current in the payment of PFCs owed to the Authority.

Information Concerning the Airlines

Certain of the airlines (or their respective parent corporations) are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the SEC. Certain information, including financial information, concerning such airlines (or their respective parent corporations) is disclosed in reports and statements filed with the SEC. Such reports and statements can be inspected and copies obtained at prescribed rates at the SEC's principal offices at 450 Fifth Street, N.W., Washington, D.C. 20549, and should be available for inspection and copying at the SEC's regional offices located at 233 Broadway, New York, New York 10279, and 500 W. Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain information on the hours of operation of the Public Reference Room by calling the SEC at 1-800-SEC-0380. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Some of the airlines are required to file periodic reports of financial and operating statistics with the DOT. Such reports can be inspected at the Office of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs Administration, DOT, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from the DOT at prescribed rates.

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

The Authority has no responsibility for the completeness or accuracy of information available from the DOT or SEC, including, but not limited to, updates of information on the SEC's Internet site or links to other Internet sites accessed through the SEC's site.

THE AUTHORITY'S FACILITIES AND MASTER PLANS

Facilities at National and Dulles

National

National was opened for service in 1941. It is located on approximately 860 acres of land along the Potomac River in Arlington County, Virginia, approximately three miles from Washington, D.C. National's ability to grow is constrained to a significant extent by the High Density Rule and its physical location. Its proximity to Washington, D.C. also makes operations at National particularly subject to restrictive federal

legislation and regulation. See "THE AUTHORITY – Regulations and Restrictions Affecting the Airports" and "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS."

National has three terminals. Terminal A is listed on the National Register of Historic Places and provides nine aircraft gates. The interconnected Terminals B and C opened on July 27, 1997, with 35 gates and approximately one million square feet of floor space spread over three levels. Terminals B and C have direct connections to the Metrorail public transit system and public parking garages through two enclosed pedestrian bridges. There are three runways at National: 1/19 - 6,869 feet; 15/33 - 5,204 feet; and 4/22 - 4,911 feet. The runways and associated taxiways are capable of handling up to a Boeing 767-300 aircraft.

Parking facilities at National consist of three covered public garages with approximately 6,300 spaces, 2,300 public surface parking spaces and 2,900 employee parking spaces.

Dulles

Dulles was opened for service in 1962. It is located on approximately 11,830 acres of land (exclusive of the Dulles Access Highway) in Fairfax and Loudoun Counties, Virginia, approximately 26 miles west of Washington, D.C. Dulles has a main terminal and five midfield concourses (Concourses A, B, C, D and G) that are reached via mobile lounges that transport passengers from the Main Terminal. The Main Terminal at Dulles is eligible for listing on the National Register of Historic Places but is not currently listed on such register. The Dulles Access Highway, a limited-access highway that is subject to the Authority's jurisdiction under the Federal Lease, is the primary route into Dulles. Ground transportation to Dulles is provided via limousine and taxi services, which are provided by concessionaires, and bus transportation provided by the Authority and the Washington Metropolitan Area Transit Authority. There currently are three runways: 1L/19R - 11,500 feet; 1R/19L - 11,500 feet; and 12/30 - 10,500 feet. The runways and associated taxiways are capable of handling up to Group V aircraft which is equivalent to a Boeing 747-400.

The Main Terminal at Dulles was expanded in 1996 from 600 feet in length and 500,000 square feet to 1,240 feet in length, with a total of 1.1 million square feet. An international arrivals building, which opened in 1991, provides customs, agriculture and immigration service facilities and can serve up to 2,400 passengers an hour. Concourse B opened in February 1998 and was expanded in the spring of 2003, to a total of 550,000 square feet to serve 20 aircraft positions for international and domestic airlines. Regional Concourse A opened in May 1999, with more than 71,000 square feet to accommodate 36 regional aircraft positions. Concourses A and B are joined by a pedestrian bridge.

Concourse D opened in December 1985 to serve 10 aircraft positions and Concourse C opened in May 1986 to serve 12 aircraft positions. As passenger demand increased, more gates were constructed at both Concourses C and D. The two concourses eventually were joined in 1988 and now have a combined total of 608,627 square feet to accommodate 47 aircraft positions for both international and domestic airlines.

Concourse G opened in June 2004. Concourse G serves as the commuter concourse for United Airlines' express carriers. Concourse G is a temporary structure built and financed entirely by United Airlines. The concourse is approximately 26,000 square feet and includes passenger holdrooms, concessions, restrooms, and operational support space to accommodate approximately 24 regional aircraft. Upon United's emergence from bankruptcy, the Authority expects to purchase Concourse G from United at a cost of approximately $18.8 million and will recover such costs over a ten-year period pursuant to the terms of the Airline Agreement.

There are a total of six cargo buildings at Dulles. The first cargo building, Cargo 1, was completed in November 1962, and consists of 25,000 square feet. The last cargo building, Cargo 6, was completed in August 2001, and consists of 94,000 square feet. The total amount of cargo space for all six cargo buildings is 483,957 square feet.

The Authority recognizes the possibility that a new, 550-seat aircraft, such as the A380, may operate at Dulles in the 2007-2011 time period. While Dulles' existing and planned runway/taxiway system meets FAA design standards for this aircraft in terms of runway – taxiway separations, the FAA is currently evaluating whether airports, such as Dulles, will be required to widen runway and taxiway pavements. These aircraft are likely to occupy two gates at terminal facilities during the boarding and unloading process. Concourse B currently can, and the Tier 2 Concourse will be designed to, accommodate these aircraft.

There are currently approximately 20,500 public surface parking spaces, 8,325 parking garage spaces and 8,000 employee parking spaces at Dulles.

In 2003, the Smithsonian opened the National Air and Space Museum Dulles Center at the Airport (the "Center"). The Authority has title to, and is required to maintain, two roadways that were built by the Smithsonian and must allow Center patrons and invitees ingress to and egress from the Center.

The Authority's Master Plans

The Master Plan for each Airport establishes the framework for the CCP and may be amended from time to time by the Authority. All major improvements to the Airports must be in accordance with the approved Master Plan for each Airport. The Master Plans adopted by the Authority's Board include the Airports' Land Use Plans and the Airports' Layout Plans (the "ALPs"). The ALPs have been approved by the FAA, and any future amendments also must be approved by the FAA.

National

The Master Plan for National became effective on April 15, 1988, and has been amended periodically. All major elements of the Master Plan at National have been completed with the exception of renovation of Terminal A.

Dulles

The Master Plan for Dulles was adopted and approved by the FAA prior to the Lease Effective Date and has been amended periodically. The Master Plan for Dulles contemplates construction of two additional runways, construction of permanent midfield concourses and an automated people-mover ("APM") system, expansion of the Main Terminal, future mass transit along a right-of-way in the Dulles Access Highway corridor, expansion of automobile parking facilities, construction of additional roads on airport land and expansion of the capacity of the existing roads. Only one additional runway is included in the plans and budget for the 2001-2011 CCP.

THE 2001-2011 CCP

Overview

The Capital Construction Program initiated by the Authority in 1988 provides for planning, designing and constructing certain facilities at National and Dulles as contemplated by the Master Plans. Between 1988 and 2000, major capital projects completed under the CCP at National include, among others, a new main terminal, three parking garages and an airport traffic control tower. Major capital projects completed under the CCP at Dulles include expansion and rehabilitation of the Main Terminal and construction of Concourses A and B, an international arrivals building and runway and road improvements, among others.

In 2000, the Authority approved an expansion of the CCP for Dulles, referred to as the d^2 program. The d^2 program, and certain other CCP projects at National and Dulles, were expected to be completed between 2001 and 2006. In the aftermath of the events of September 11, 2001, and in the face of the deteriorating financial condition of many airlines, the Authority re-examined the CCP in the spring of 2002. As a result, the Authority delayed the start dates of several projects, deferred some projects until it determines that demand and circumstances warrant their reactivation and added several new projects to the CCP. The active portion of the CCP that is scheduled for completion by 2011, is referred to herein as the "2001-2011 CCP."

In connection with the Authority's periodic reviews of the CCP, the Authority has made certain additional adjustments to the 2001-2011 CCP since the spring of 2002, including adding new projects, deferring some active projects, reactivating some projects that were deferred, and deleting certain projects from the CCP entirely.

The Authority currently estimates the cost of the 2001-2011 CCP to be approximately $3.9 billion, of which $1.4 billion of projects have been completed, including the pedestrian tunnel from the parking garage to Terminal A and Terminal A airside facade renovations at National, as well as the Daily Parking Garages 1 and 2, the Main Terminal rehabilitation, the 4-gate Concourse B expansion, the south baggage basement and the airside and landside pedestrian tunnels at Dulles, among others.

The Authority expects most of the remaining projects in the 2001-2011 CCP to be completed by 2009. The cost of the deferred projects currently is estimated at $1.6 billion. The Authority expects to reassess its capital needs on a regular basis and modify its construction schedule as necessary to accommodate passenger and aircraft activity, security needs and other factors, which could result in changes to the 2001-2011 CCP.

The 2001-2011 CCP includes the following project categories:

Summary of the 2001-2011 CCP[1]
($000s)

Description	National Project Costs	Dulles Project Costs	Total Project Costs
Airfield	$ 28,924	$ 660,451	$ 689,375
Airport Buildings	287,495	1,141,722	1,429,216
Systems & Services	12,891	282,123	295,014
Ground Transportation	14,685	210,183	224,869
Aviation	51	32,169	32,220
Non-Aviation	0	12,011	12,011
Passenger Conveyance	0	850,728	850,728
Maintenance	239	92,315	92,555
Public Safety	10,251	16,090	26,340
Administration	31,870	226,089	257,959
Tenant Equipment	824	5	829
Total[2]	$ 387,229	$ 3,523,886	$ 3,911,115

[1] The costs presented in this table represent expenditures to date and inflation of future expenditures at 3.0% per annum.
[2] The totals may not add due to rounding.

Source: Report of the Airport Consultant

National

The 2001-2011 CCP includes the following projects at National:

- **Rehabilitation of Terminal A**. This project includes the restoration and rehabilitation of the existing historic Terminal A to improve air carrier and commuter aircraft accommodations. Work includes demolition of additions to the original terminal, installation of new loading bridges, reconfiguration and/or relocation of ticketing and baggage claim areas, rehabilitation of the heating/cooling systems, and other related improvements. To date, the Terminal A airside facade restoration, the south finger demolition and miscellaneous architectural and mechanical upgrades have been completed.

- **Terminals B and C Security Enhancements.** The project was completed in 2004, and it included installation of security bollards and additional police kiosk structures at Terminals B and C.

- **Consolidated Communications Center.** This project will provide a centralized communications center which will accommodate public safety calls, public assistance calls and other functions for both Airports.

- **Regional Terminal.** US Airways has requested that the Authority construct a new terminal at National to accommodate US Airways regional jets. This project involves the construction of a new 10-gate terminal and a one-story building of approximately 30,000 square feet. This project will not be commenced until the Authority and US Airways reach a mutually satisfactory agreement.

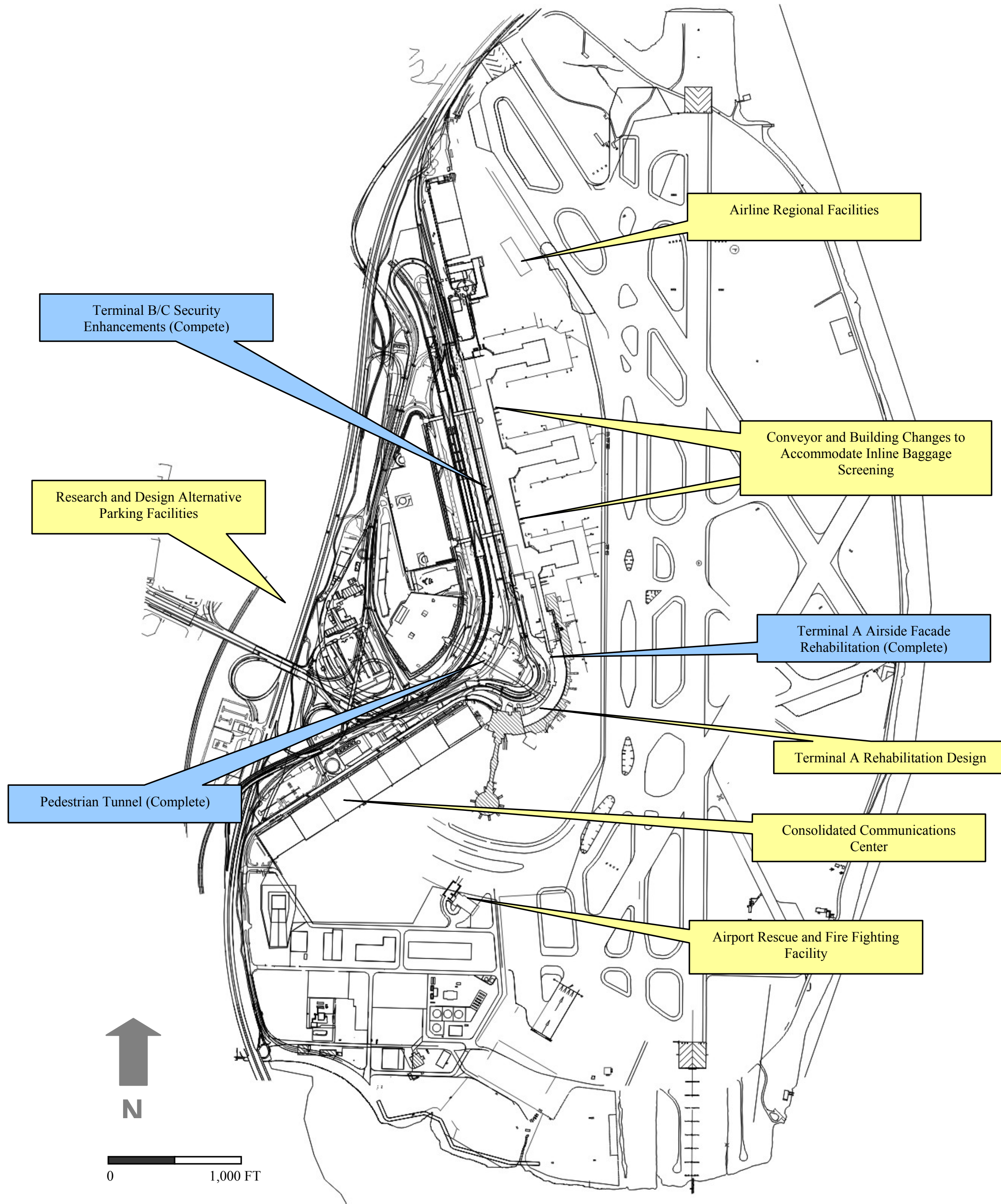
- **Terminal Modifications for In-Line Baggage Screening.** In order to satisfy new security requirements and to better accommodate in-line baggage screening equipment, certain modifications to the terminal buildings are required at National. The Authority does not expect to undertake this project unless it receives substantial federal grants to help defray its costs.

- **Airport Rescue and Fire Fighting Facility.** The project contemplates the construction of a new airport rescue and fire fighting facility to replace the existing facility. The project includes ramp intersection improvements for vehicle access and demolition of the existing facility and conversion of its site for aircraft parking.

- **Research and Design of Alternative Parking Facilities.** The Authority is evaluating alternatives to increase parking at National, such as adding an additional level to any or all of the public parking garages at National, converting the taxi hold area to public parking or developing a new surface parking lot.

- **Enterprise Resource Program.** An Authority-wide Enterprise Resource Planning System will provide a comprehensive integrated system encompassing core administration functional areas, link business processes, integrate data and share information across applications and among users.

Scheduled Capital Construction Projects at National
2001-2011 CCP



Competed Projects

Active Projects

Ronald Reagan Washington National Airport

Dulles

The 2001-2011 CCP includes the following projects at Dulles:

- **Main Terminal Rehabilitation.** Main Terminal rehabilitation includes the renovation of the ticketing and baggage claim levels of the original Main Terminal, including new ticket counter kiosks and baggage claim devices, a new below-grade southeast baggage basement, and a new two level east baggage basement.

- **Main Terminal Security Mezzanine/APM Station.** The security mezzanine completes the Main Terminal expansion by creating two large subsurface screening mezzanines and the Main Terminal APM station. In the future, passengers will move from the security mezzanine and connect to either the APM station, pedestrian tunnel or T-Gates at the Main Terminal.

- **Main Terminal T-Gate Rehabilitation.** New terminal facilities are being constructed using modular building technology to replace the Main Terminal T-Gate area built in the 1980s. The original T-Gate concourses were constructed as temporary facilities. The permanent facility will include passenger holdrooms, restrooms, concessions, airline support areas and other improvements. Construction of the first five gates in the eastern section of the T-Gate area was near completion as of March 2005. The construction of the western section of this project and five remaining eastern T-Gates has been deferred by the Authority.

- **Concourse B 4-Gate Addition.** This project was completed in the spring of 2003 and added four new gates and a passenger hold room area to the west side of Concourse B, new aircraft apron and hydrant fueling, airline swing space, and concession, lounge and tenant areas.

- **North Utility System Upgrades.** Landside, terminal and airside utility services will be upgraded. The services include gas, electricity, water, heating/cooling and telecommunications. Existing facility upgrades include new north area buildings and utility tie-ins, expanded potable water storage and voice and data telecommunication infrastructure.

- **Domestic APM System.** The first phase of the domestic APM system will move passengers between the Main Terminal and stations at Concourses A, B and C. The concourse stations will allow for boarding the APM in each direction. Escalators, elevators and stairs will provide the connection between the concourse level and the station. The APM system will largely replace the mobile lounge system as the principal means of transportation between the Main Terminal and midfield concourses. In addition to the domestic APM system, a separate international APM system is planned to transport arriving international passengers to the Main Terminal International Arrivals Building ("IAB") from the midfield concourses. The 2001-2011 CCP includes limited design work for the international APM and construction of selected facilities for future interfaces. Construction of the international APM system has been deferred at this time.

- **Parking Garages and Surface Parking.** Two new parking garages north and west of the Main Terminal provide approximately 8,325 public parking spaces. The Daily 2 Parking Garage opened to the public in March 2002, and the Daily 1 Parking Garage opened in April 2003. An underground pedestrian walkway that connects the Daily 1 Parking Garage to the Main Terminal was completed in March 2004. The two-phased construction of a new employee remote surface parking lot in an

area north of the Airport is currently underway. Phase I was completed in 2001 and Phase II is expected to be completed in May 2005.

- **North Area Road Improvements.** The growing passenger demand at Dulles will increase traffic on the landside access roads. This project allows for a multi-year program of widening, grade separation, interchange improvements and extensions on various sections of the Dulles roadway system.

- **Pedestrian Walkback Tunnel.** A pedestrian tunnel with moving walkways that provides a transportation alternative to the APM system was constructed between the Main Terminal and Concourse B. The tunnel contains moving walkways in each direction, signage, lighting, a fresh air system and fire protection.

- **Fourth Runway and Associated Taxiways.** The construction of a new runway will provide additional airfield capacity to reduce delays in aircraft departures and arrivals. This project includes an environmental assessment, the design and the construction of a new runway. As proposed, the runway will be parallel to the existing north-south runways with a parallel taxiway, and taxiways connecting to the adjacent runway and taxiways. The runway will be 9,473 feet in length, 150 feet wide, with 35 foot shoulders on each side and will include four high-speed exit taxiways. The runway will be equipped with an instrument landing system and associated lighting systems.

- **Runway 12/30 Rehabilitation.** Full depth reconstruction of the 10,500-foot Runway 12/30 was completed in 2004, and included replacing the existing concrete pavement with a deeper concrete pavement. This project was necessitated by the age of the runway and the need to use the runway for heavier aircraft than originally envisioned when it was built in 1960s.

- **Airfield Taxilanes and Aprons.** Construction of several airfield taxilanes, aprons, and aircraft hydrant fueling will provide better access to the runways and improve ground flow to the gates and aircraft hardstands.

- **Airport Traffic Control Tower.** A new tower with improved line-of-sight to the runways over the terminal and concourse areas will be constructed to replace the existing tower. This new tower will include site and infrastructure improvements and a support building with vehicular parking and access utilities, and FAA control and communications requirements.

- **Aircraft Rescue and Firefighting Facility.** A new public safety facility was constructed to accommodate firefighters, emergency medical technicians and rescue equipment. Also, included in the project was the construction of rescue response roads and utility connections to the building.

- **United Regional Terminal-Concourse G.** On June 29, 2004, United completed construction of a temporary new facility, known as Concourse G, designed to accommodate its United Express fleet of regional jets. This project changes the existing infrastructure at Concourses C and D and adds infrastructure to support the development of small aircraft gates at Concourses C and D apron and at Hold Apron VI for passenger boarding. The project includes a 11,000 square feet apron level passenger waiting area facility comprised of trailers, as well as a vertical circulation connector building to Concourses C and D between gates D-2 and C-28. United paid the costs of constructing the facility, which was approximately $22 million. United and the Authority agreed that, upon

completion, and once United has emerged from bankruptcy, the Authority will purchase the facility from United at a cost of approximately $18.8 million, and will recover such costs over a ten-year period pursuant to the Airline Agreement.

- **Concourses C and D Rehabilitation.** This project involves the rehabilitation of Concourses C and D to effectively extend the useful operating life for an additional 10 years. The project includes design and replacement of 70 rooftop air conditioning units and general facility refurbishments including exterior repairs and upgrades, electrical and plumbing upgrades and repairs, fire protection upgrades and modifications to the baggage conveying system.

- **Mobile Lounge Rehabilitation.** Mobile lounges require recurring maintenance and repairs due to normal wear. This project will provide necessary maintenance to keep the fleet operational for six to 10 years, until the domestic APM system becomes operational. The project includes replacement of engines and axles as well as brake modifications and emergency egress improvements.

- **Terminal Modifications for In-Line Baggage Screening.** In order to satisfy new security requirements and to better accommodate in-line baggage screening equipment, certain modifications to the terminal buildings are required at Dulles. The Authority does not expect to undertake this project unless it receives substantial federal grants to help defray its costs.

- **Access Highway Rehabilitation.** This project will provide for milling and overlay of all four lanes of the access highway from Route 28 to Route 123, exclusive of the sections recently rehabilitated.

- **Airport Operations Area ("AOA") Security Cameras.** This project entails the design and installation of security cameras on doors leading to the AOA to provide increased surveillance and control of the secure area.

- **Main Terminal Expansion Joint Replacement.** Replacement of the horizontal and vertical expansion joints at the Main Terminal is necessary to eliminate water infiltration into the Terminal.

- **Tier 3 East Concourse/APM Station-Design.** This project provides for planning and design of the eastern portion of the Tier 3 Concourse, including the fit-out of the shell of the APM station being constructed.

- **Tier 3 East Apron Design.** This project entails the design of a portion of the future Tier 3 apron and associated drainage and hydrant fueling to be used as an aircraft hardstand area until needed for the future Tier 3 Concourse.

- **Concourse B 12-Gate West Expansion.** This project includes an addition to the west side of Concourse B to provide holdroom, concession, restroom and baggage basement area and other associated facilities to accommodate 12 narrowbody aircraft.

- **Concourse Modifications for Airbus A-380.** This project provides for design and construction of two gates, associated loading bridges, and other ground support equipment on the B Concourse that require modification to accommodate upper deck boarding of the A-380 aircraft.

- **Jet Fuel Pipeline Extension and Related Facilities.** Planning, design and construction of on-airport facilities are required to accommodate the extension of a jet fuel pipeline to the Airport to increase the supply and storage of jet fuel.

- **Stallion Branch Sanitary Trunkline.** This project will provide for both design and construction of a sanitary sewer line which is required to connect to the existing Potomac Interceptor with recently completed and future facilities in the southern portion of Dulles.

- **Enterprise Resource Program.** An Authority-wide Enterprise Resource Planning System will provide a comprehensive integrated system encompassing core administration functional areas, link business processes, integrate data and share information across applications and among users.

- **Cargo Building 6.** This project provides for the construction of a final, 27,000 square-foot portion of Cargo Building 6.

- **Tier 2 Concourse Design.** The Tier 2 Concourse is contemplated to be a 44-gate, three-level midfield concourse with full basement that would replace the existing Concourses C and D.

- **South Utility System Expansion Design.** This project will develop a southern utility service complex which includes gas, electricity, water, heating/cooling and telecommunications to serve the planned Tier 2 Concourse through a utility tunnel. Planned work includes the construction of a new south utility building, utility tunnel, trunk lines and a south area electrical substation and distribution center.

- **Pedestrian Walkback Extension Design.** This project will extend the existing pedestrian walkback tunnel from Concourse B to the planned Tier 2 Concourse.

- **Domestic APM System Extension Design.** The western section of the domestic APM system will be extended from Concourse B to the western side of the planned Tier 2 Concourse.

Deferred Projects

As a result of the events of September 11, 2001, and the Authority's periodic reviews of the CCP, the Authority has deferred certain projects originally authorized as part of the CCP, but expects to reassess its construction program on a regular basis and make further adjustments based on passenger and airline activity, security considerations and other factors. Some design work will continue on a portion of these projects to ensure compatibility with other on-going projects and to permit construction to proceed as soon as the Authority determines that activity levels warrant their activation. The cost of these deferred projects, currently estimated at $1.6 billion, is not included in the cost of the 2001-2011 CCP. All deferred projects are at Dulles and include:

- **Tier 2 Concourse Construction.** The Tier 2 Concourse is contemplated to be a 44-gate, three-level midfield concourse with full basement that would replace the existing Concourses C and D.

- **International APM System.** In addition to the loop domestic APM system, plans call for the ultimate development of an international APM system to transport arriving international passengers to the Main Terminal IAB.

- **West T-Gates.** The West T-Gates will be immediately adjacent to the Main Terminal IAB. The tunnel for the international APM runs under the West T-Gates. As a result, construction of the West T-Gates will be deferred until after the construction of the international APM system.

- **Construction of South Utility System Expansion.** The Authority plans to develop a southern utility service complex, including gas, electricity, water, heating/cooling and telecommunications, to serve the planned Tier 2 Concourse through a utility tunnel. Planned work includes the construction of a new south utility building, south utility tunnel, trunk lines and south area electrical substation and distribution center.

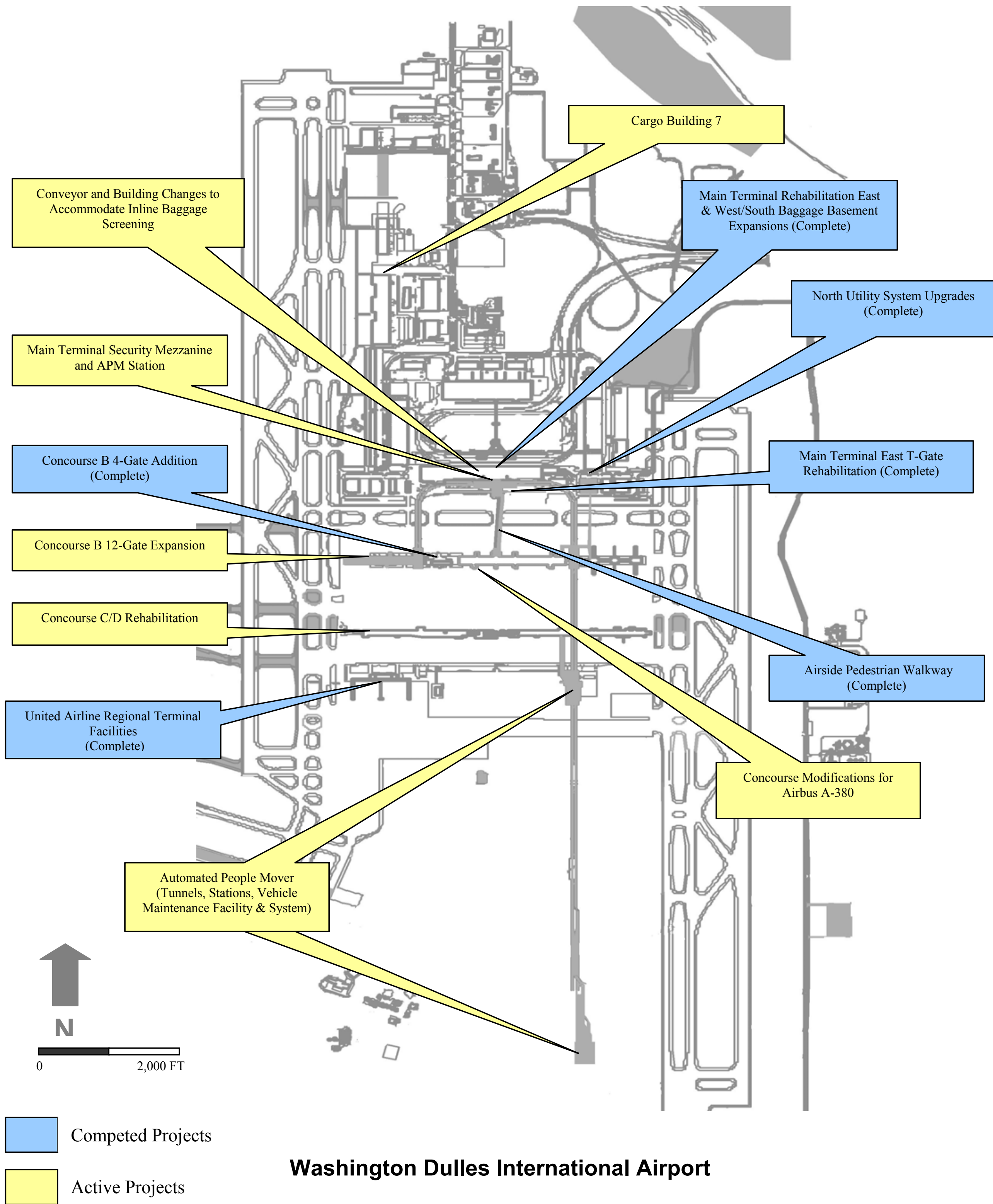
- **Construction of Pedestrian Walkback Extension.** The pedestrian walkback tunnel will be extended from Concourse B to the planned Tier 2 Concourse.

- **Construction of Domestic APM System Extension.** The western leg of the domestic APM system will be extended from Concourse B to the western side of the planned Tier 2 Concourse.

- **Cargo Building 7.** The construction of a new 145,000 square foot cargo building and the associated aprons north of Cargo Building 6 are contingent on the completion of Cargo Building 6.

- **East T-Gates Phase II.** This project includes the construction of five additional east T-Gates immediately adjacent to the Main Terminal IAB.

Scheduled Capital Construction Projects at Dulles
Terminal Area Projects



Competed Projects

Active Projects

Washington Dulles International Airport

Scheduled Capital Construction Projects at Dulles
Airfield, Roads and Parking Projects

Employee Remote Surface Parking

Stallion Branch Sanitary Trunkline

North Area Road Improvements

Access Highway Rehabilitation

Fourth Runway and Associated Taxiways

Daily 1 Parking Garage (Complete)

Landside Pedestrian Walkway (Complete)

Airfield Pavement Panel Replacement

Daily 2 Parking Garage (Complete)

Airfield Taxilanes and Aprons (Tier 2 Apron)

Runway 12/30 Rehabilitation (Complete)

Airport Traffic Control Tower

Jet Fuel Pipeline Extension and Related Facilities

Taxiway F (Complete)

Tier 3 Northeast Apron (Complete)

Taxiway J Extension (Complete)

Aircraft Rescue and Firefighting Facility (Complete)

Competed Projects

Active Projects

Washington Dulles International Airport

Environmental Approvals

Portions of the 2001-2011 CCP require approval by the FAA to use federal grant funds and are subject to environmental review and approval as required by the National Environmental Policy Act ("NEPA"). The nature of the review depends on the potential for a project or a group of interrelated projects to produce a significant impact on the natural or human environment. The three levels of NEPA review are categorical exclusions, environmental assessments, and environmental impact statements ("EIS").

The categorical exclusion is a determination by the FAA that the action or project falls into a category of action that the FAA has identified, based on its experience, as having minimal likelihood of causing a significant environmental impact. Examples include replacement of airfield paving and extension of a taxiway. No additional environmental consideration is required for a project that falls within this category unless there are extraordinary circumstances that would cause the project to be further reviewed. An example of an extraordinary circumstance might be when an action is highly controversial on environmental grounds, and there is no agreement on the effect of the proposed action on the environment.

An environmental assessment is a formal, detailed evaluation of environmental conditions to determine whether a proposed action is likely to have a significant environmental impact. It involves a consideration of alternative actions and the process includes an opportunity for public review and comment. Two possible outcomes of an environmental assessment are a "finding of no significant impact" or a decision that an EIS is required.

An EIS is prepared by the FAA when there is a federal action with a potentially significant impact on the environment. Public involvement is required to determine the scope of the environmental review and the issues and alternatives to be addressed. A draft EIS is published for public review and comment, including a public hearing. The FAA then prepares a final EIS and eventually makes a decision on the project.

Portions of the 2001-2011 CCP are categorically excluded from further environmental review. An environmental assessment and a finding of no significant impact has been completed and issued by the FAA for the Tier 2 Concourse and related projects, including the APM system, as well as the new air traffic control tower at Dulles. These projects may proceed without further environmental reviews.

The new runways at Dulles will require a full EIS which is being prepared by the FAA. The EIS process for the fourth runway commenced in 2002, and is expected to be completed by the end of 2005. As of March 2005, the draft EIS was released by the FAA and the period for public review and comment had ended. At the conclusion of the process, the FAA will issue a Record of Decision which, if the decision is to proceed with the runway, would allow the Authority to receive federal grant funds for the project.

Some of the construction will adversely affect existing wetlands at Dulles. Construction of the runways and many of the south area projects will require wetland mitigation. The Authority will provide appropriate mitigation such as purchasing wetland credits for near-term construction and developing a long-range wetland mitigation program for future work.

It is not possible at this time to predict whether or when the Authority will receive all necessary permits and approvals to proceed with all of the projects currently planned. As a result, there can be no assurances regarding the receipt of all necessary permits and approvals or the timing for undertaking and completing the projects currently planned.

PLAN OF FUNDING FOR THE 2001-2011 CCP

The cost of projects in the 2001-2011 CCP is expected to be $3.9 billion when adjusted for inflation. The Authority plans to finance such projects with the proceeds of Bonds, CP Notes, federal and state grants, PFCs and other available Authority funds. The following table sets forth current estimated funding sources for the 2001-2011 CCP:

2001-2011 CCP
Sources of Funding
($000's)

Proceeds from Prior Bonds[1]	$ 1,110,825
Series 2005A Bonds	80,286
Series 2005C Bonds	28,400
Future Bonds[2]	1,247,828
Subtotal[3]	$ 2,467,339
PFCs	928,637
Federal and State Grants	515,140
2001-2011 CCP[3]	$ 3,911,115

[1] Includes only that portion of the Series 1997A-B Bonds, Series 1998A-B Bonds, Series 2001A-B Bonds, Series 2002A-B Bonds, Series 2003A Bonds, Series 2003C Bonds, Series 2003D Bonds, Series 2004B Bonds, the Series One CP Notes and BANs that funded construction costs in 2001 and thereafter.
[2] Includes assumed interest earnings on construction fund deposits.
[3] Totals may not add due to rounding.

Sources: Report of the Airport Consultant and P. G. Corbin & Company

Funding Source: Bond Proceeds

To fund a portion of the costs of the 2001-2011 CCP, the Authority previously issued Bonds totaling approximately $1.5 billion, Bond Anticipation Commercial Paper Notes ("BANs") totaling approximately $250 million and Commercial Paper Notes totaling $100 million. Of this approximately $1.85 billion, approximately $940 million of bond proceeds, $64 million of BANs proceeds and $100 million of CP Notes proceeds, aggregating to $1.1 billion, were applied to the funding of the 2001-2011 CCP, with the balance of the proceeds being used to fund capitalized interest, reserve requirements and financing costs. After the issuance of the Series 2005A-C Bonds, additional Bonds are expected to fund approximately $1.3 billion of project costs (adjusted for inflation) in the 2001-2011 CCP, excluding reserve requirements, capitalized interest and financing costs.

Funding Source: Federal and State Grants

The FAA's AIP consists of entitlement funds and discretionary funds. Entitlement funds are distributed through grants by a formula based on the number of enplanements and the amount of landed weight of arriving cargo at individual airports. The FAA issues Letters of Intent ("LOI") for grants from the discretionary fund based on the FAA's assessment of national priorities. The LOI represents the FAA's intention to obligate funds from future federal budget appropriations for the program. On March 1, 2002, the Authority submitted an LOI request for $27.4 million to finance several projects at Dulles. Upon consultation with the FAA, in January 2003, the projects included in the LOI were submitted for funding through the annual discretionary "Pay Go" process. In February 2005, the Authority submitted to the FAA a new LOI request for $207 million to finance a portion of the design and construction of the fourth runway and associated taxiways and the cost of the environmental study of Dulles.

The AIP was reauthorized for fiscal years 2000-2003 in legislation enacted in April 2000, and in the 2003 FAA Reauthorization Act for federal fiscal years 2004-2007. Since 2001, the Authority has received $483 million in entitlement and discretionary grants and, assuming subsequent passage of continuing authorizing legislation, the Authority expects to receive an additional $32 million between 2005 and 2011.

In February 2004, the Authority submitted to the TSA an LOI request for $173.7 million to finance the building modifications to better accommodate the in-line baggage screening system at each Airport. Although the Department of Homeland Security has Congressional authorization to provide grants to airports for up to 75% of the cost of such modifications, thus far, Department of Homeland Security has made grants to very few airports.

The Commonwealth of Virginia through the aviation portion of its Transportation Trust Fund provides grants to Virginia airport operators. Since 1995, the Authority has received approximately $15.0 million in state grants. The Authority expects to receive an additional $8.3 million between 2005 and 2011.

Revenues received by the Authority pursuant to these federal and state grants are expressly excluded from the definition of "Revenues" under the Indenture and will not be pledged to secure the Bonds.

Funding Source: PFCs

The Authority began collecting a $3.00 PFC in 1994 and increased the PFC to $4.50 in May 2001. An airport must apply to the FAA for the authority to impose a PFC and to use the PFC moneys collected for specific FAA-approved projects. Since National and Dulles collect a $4.50 PFC, federal entitlement grant moneys that otherwise would have been received under the AIP have been reduced by 75%.

The Authority submitted and gained approval of three PFC applications, with associated amendments, covering both Airports in the amount of $719.5 million. The Authority expects to submit a new application for $822 million in the first quarter of 2005. As of December 31, 2004, the Authority had collected $244.2 million (including interest earned) at National and $258.1 million (including interest earned) at Dulles under the first and second PFC applications. The Authority will begin to collect PFCs under the third PFC application after the amounts authorized under the second PFC application have been collected. The collection dates for current PFC applications at National will expire on April 1, 2008, and at Dulles on December 1, 2006. It is expected that the authorization to collect the PFCs will be extended.

The following table sets forth a summary of the Authority's approved PFC applications.

Approved PFC Applications[1]

PFC Application	Approval Date	Initial Approved Amount	Amended Approved Amount	Total Amount Collected as of December 31, 2004[2]
#1a - National	August 1993	$ 166,739,071	$ 166,410,356	$ 166,410,356
#1b - Dulles	October 1993	199,852,390	221,916,682	221,916,682
#2a - National	May 2000	120,027,100	156,397,000	77,810,621
#2b - Dulles	May 2000	81,748,000	81,748,200	36,191,477
#3a - National	July 2002	33,895,949	33,895,949	–
#3b - Dulles	September 2002	59,102,550	59,102,550	–
Total		$ 661,365,060	$ 719,470,737	$ 502,329,136

[1] PFC application Numbers 1 and 2 were originally for the collection of $3.00 per enplaning passenger. The FAA approved amendments to PFC applications Numbers 1 and 2 for National and Dulles, authorizing the Authority to collect an additional $1.50 PFC per enplaning passenger.
[2] Includes interest income earned on PFCs held by the Authority and restricted to use for PFC projects.

To provide liquidity for the funding of projects under the CCP, the Authority has delivered to the Bank of America PFC Notes in an amount up to $255 million, secured by a pledge of the Authority's PFC revenues. The maturity date of the PFC Notes is December 31, 2009. The agreement with Bank of America includes a covenant by the Authority to issue Bonds to repay the principal of the PFC Notes in the event that the Authority's ability to impose or use PFCs is revoked. This covenant is subject to all applicable conditions precedent to the Authority's ability to issue Bonds for the projects funded with the PFC Notes, including the conditions stated in the Airline Agreement and the additional Bonds test of the Indenture. In addition, the Authority may expand the PFC Note program or institute an alternative financing mechanism to leverage additional PFCs. See Part I, "AUTHORITY INDEBTEDNESS – PFC Secured Indebtedness."

The FAA is authorized to terminate the authority to impose PFCs if the Authority's PFC revenues are not being used for FAA-approved projects, if project implementation does not commence within the time periods specified in the FAA's regulations or if the Authority otherwise violates FAA regulations. An amendment in the 2003 FAA Reauthorization Act allows the Secretary of Transportation to authorize an airport operator, including the Authority, to use PFC revenues to finance non-approved projects if such use is necessary due to the financial need of an airport. The authority to impose a PFC also may be terminated if the Authority violates certain informal and formal procedural safeguards which must be followed. See also "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS – Effect of Airline Bankruptcies – PFCs."

The calculation of Net Revenues pledged under the Indenture expressly excludes the proceeds of any PFC or similar charge levied by or on behalf of the Authority unless the Authority takes action to treat these funds as Net Revenues. The Authority has not taken any such actions, and therefore, any PFC or similar charge collected by the Authority currently is not pledged to secure the Bonds.

The following table sets forth the annual collections of PFCs, plus interest income, from 1994 through 2004.

PFC Collections

Calendar Year[1]	National	Dulles	Total[2]
1994	$ 18,894,159	$ 11,164,708	$ 30,058,867
1995	19,895,052	13,585,354	33,480,406
1996	20,415,577	17,255,415	37,670,992
1997	19,922,714	16,080,610	36,003,324
1998	20,653,430	18,889,787	39,543,217
1999	19,024,173	24,096,445	43,120,618
2000	19,873,021	24,126,617	43,999,638
2001[3]	23,169,094	28,150,741	51,319,835
2002	25,050,752	31,582,074	56,632,826
2003	27,498,164	31,014,365	58,512,529
2004	29,824,841	42,162,043	71,986,884
	$244,220,977	$258,108,159	$ 502,329,136

[1] The Authority changed its fiscal year from an annual period ending September 30 to an annual period ending December 31 effective January 1, 1997.
[2] Represents actual annual PFC collections but does not include accruals.
[3] The Authority began collection of a $4.50 PFC in May 2001.

THE BONDS

Book-Entry Only System

The Bonds will be issued as fully registered bonds without coupons and are initially to be registered in the name of Cede & Co., as nominee for DTC as securities depository for the Bonds. Purchases by beneficial owners are to be made in book-entry form. If at any time the book-entry only system is discontinued for the Bonds, the Bonds will be exchangeable for other fully registered certificated Bonds of the same series in any authorized denominations, maturity and interest rate. See APPENDIX E – "Book-Entry Only System." Interest will be payable by check or draft mailed to the Holder as of the Record Date. The Trustee may impose a charge sufficient to reimburse the Authority or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Bond. The cost, if any, of preparing each new Bond issued upon such exchange or transfer, and any other expenses of the Authority or the Trustee incurred in connection therewith, will be paid by the person requesting such exchange or transfer. At the request of any Holder of at least $1,000,000 principal amount of the Bonds, payment of interest will be made by wire transfer as directed by such Holder. Payment of principal of the Bonds will be made upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO., ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (ii) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS; (iii) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF ANY BONDS; (iv) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO ANY

BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS; OR (vi) ANY OTHER MATTER RELATING TO DTC OR THE BOOK-ENTRY ONLY SYSTEM.

Method of Selecting the Bonds for Redemption

In the event that less than all of the outstanding Bonds of a Series are to be redeemed, the maturities to be redeemed or the method of their selection will be determined by the Authority. In the event that less than all of any Bonds of a maturity are to be redeemed, the Bonds of such maturity to be redeemed will be selected by lot in such manner as the Trustee determines.

Upon the selection and call for redemption of, and the surrender of, any Bonds for redemption in part only, the Authority will cause to be executed, authenticated and delivered to or upon the written order of the Holder thereof, at the expense of the Authority, a new bond or bonds in fully registered form, of authorized denominations and like tenor, in an aggregate face amount equal to the unredeemed portion of the Bonds.

Notice of Redemption

Any notice of redemption of any Bonds must specify (a) the date fixed for redemption, (b) the principal amount of the Bonds or portions thereof to be redeemed, (c) the applicable redemption price, (d) the place or places of payment, (e) that payment of the principal amount and premium, if any, will be made upon presentation and surrender to the Trustee or Paying Agent, as applicable, of the Bonds to be redeemed, (f) that interest accrued to the date fixed for redemption will be paid as specified in such notice, (g) that on and after the redemption date, interest on the Bonds which have been redeemed will cease to accrue, and (h) the designation, including Series, and the CUSIP and serial numbers of any Bonds to be redeemed and, if less than the face amount of any Bond is to be redeemed, the principal amount to be redeemed.

Any notice of redemption will be sent by the Trustee not less than 30 nor more than 60 days prior to the date set for redemption by first class mail (a) at the address shown on the Register, to the Holder of each Bond to be redeemed in whole or in part, (b) to all organizations registered with the SEC as securities depositories, (c) to the Municipal Securities Rulemaking Board, and (d) to at least two information services of national recognition which disseminate redemption information with respect to tax-exempt securities. Failure to give any notice specified in (a), or any defect therein, will not affect the validity of any proceedings for the redemption of any Bonds with respect to which no such failure has occurred, and failure to give any notice specified in (b), (c) or (d) or any defect therein, will not affect the validity of any proceedings for the redemption of any Bonds with respect to which the notice specified in (a) is correctly given. Notwithstanding the foregoing, during any period that the Securities Depository or its nominee is the registered owner of the Bonds, notices will be sent to such Securities Depository or its nominee. During such period, the Trustee shall not be responsible for mailing notices of redemption to anyone other than such Securities Depository or its nominee.

If at the time of notice of any optional redemption of the Bonds there has not been deposited with the Trustee moneys available for payment pursuant to the Indenture and sufficient to redeem all of the Bonds called for redemption, the notice may state that it is conditional in that it is subject to the deposit of sufficient moneys by not later than the redemption date, and if the deposit is not timely made the notice shall be of no effect.

Security and Source of Payment for the Bonds

General

The Bonds will be secured on a parity with other Bonds issued by the Authority under the Indenture by a pledge of Net Revenues under the terms set forth in the Indenture. In addition, the Bonds will be secured respectively by the Bond proceeds deposited in certain funds held by the Trustee, all as described in the Indenture. No property of the Authority is subject to any mortgage for the benefit of the owners of the Bonds. Under the Indenture, Net Revenues means Revenues, plus transfers, if any, from the General Purpose Fund to the Revenue Fund, after provision is made for the payment of Operation and Maintenance Expenses. See APPENDIX C – "Definitions and Summary of Certain Provisions of the Indenture."

Revenues are generally defined in the Indenture as all revenues of the Authority received or accrued except (a) interest income on, and any profit realized from, the investment of moneys in any fund or account to the extent that such income or profit is not transferred to, or retained in, the Revenue Fund or the Bond Fund; (b) interest income on, and any profit realized from, the investment of moneys in any fund or account funded from the proceeds of Special Facility Bonds; (c) amounts received by the Authority from, or in connection with, Special Facilities unless such funds are treated as Revenues by the Authority; (d) the proceeds of any passenger facility charge or similar charge levied by, or on behalf of, the Authority, including PFCs, unless such funds are treated as Revenues by the Authority; (e) grants-in-aid, donations, and/or bequests; (f) insurance proceeds which are not deemed to be revenues in accordance with generally accepted accounting principles; (g) the proceeds of any condemnation awards; (h) the proceeds of any sale of land, buildings or equipment; and (i) any other amounts which are not deemed to be revenues in accordance with generally accepted accounting principles or which are restricted as to their use. Unless otherwise provided in a supplemental indenture, there also shall be excluded from the term "Revenues" (a) any Hedge Termination Payments received by the Authority and (b) any Released Revenues in respect of which the Authority has filed with the Trustee the request of an Authority Representative, an Airport Consultant's or an Authority Representative's certificate, an Opinion of Bond Counsel and the other documents contemplated in the definition of the term "Released Revenues" set forth in the Indenture.

Under the Indenture, Operation and Maintenance Expenses generally means all expenses of the Authority paid or accrued for the operation, maintenance, administration and ordinary current repairs of the Airports. Operation and Maintenance Expenses do not include (a) the principal of, premium, if any, or interest payable on any Bonds, Subordinated Bonds and Junior Lien Obligations; (b) any allowance for amortization or depreciation of the Airports; (c) any other expense for which (or to the extent to which) the Authority is or will be paid or reimbursed from or through any source that is not included or includable as Revenues; (d) any extraordinary items arising from the early extinguishment of debt; (e) rentals payable under the Federal Lease; and (f) any expense paid with amounts from the Emergency Repair and Rehabilitation Fund.

The Authority is obligated to deposit all moneys from the Revenue Fund into the various funds and accounts created under the Indenture on a monthly basis. See "Flow of Funds" below. Amounts held by the Authority in the Revenue Fund are not pledged to secure the Bonds.

Each of the Bonds is secured by a pledge of and lien on certain proceeds of the sale of such Series, and the earnings thereon, held in certain funds and accounts created under the Indenture. These funds and accounts include the Bond Fund and, with respect to each Series, the applicable account in the Debt Service Reserve

Fund, held by the Trustee, and the applicable account in the Construction Fund, if any, held by a custodian on behalf of the Trustee.

The Bonds shall not constitute a debt of the District of Columbia or of the Commonwealth of Virginia or any political subdivision thereof nor a pledge of the faith and credit of the District of Columbia or of the Commonwealth of Virginia or any political subdivision thereof. Except to the extent payable from proceeds of the applicable Series of Bonds and investment earnings thereon, the Bonds shall be payable from Net Revenues of the Authority pledged for such payment and certain funds established under the Indenture. The issuance of Bonds, including the Bonds, under the provisions of the Acts shall not directly, indirectly or contingently obligate the District of Columbia or the Commonwealth of Virginia or any political subdivision thereof to any form of taxation whatsoever. The Authority has no taxing power.

Rate Covenant

Pursuant to the Indenture, the Authority has covenanted that it will take all lawful measures to fix and adjust from time to time the fees and other charges for the use of the Airports, including services rendered by the Authority, pursuant to the Airline Agreement or otherwise, calculated to be at least sufficient to produce Net Revenues to provide for the larger of either:

(a) The amounts needed for making the required deposits in each fiscal year to the Principal Accounts, the Interest Accounts, and the Redemption Accounts, the Debt Service Reserve Fund, the Subordinated Bond Funds, the Subordinated Reserve Funds, the Junior Lien Obligations Fund, the Federal Lease Fund and the Emergency Repair and Rehabilitation Fund; or

(b) An amount not less than 125% of the Annual Debt Service with respect to Bonds for such fiscal year.

The Authority has covenanted that if, upon the receipt of the audit report for a fiscal year, the Net Revenues in such fiscal year are less than the amount specified above, the Authority will require the Airport Consultant to make recommendations as to the revision of the Authority's schedule of rentals, rates, fees and charges, and upon receiving such recommendations or giving reasonable opportunity for such recommendations to be made, the Authority, on the basis of such recommendations and other available information, will take all lawful measures to revise the schedule of rentals, rates, fees and charges for the use of the Airports as may be necessary to produce the specified amount of Net Revenues in the fiscal year following the fiscal year covered by such audit report.

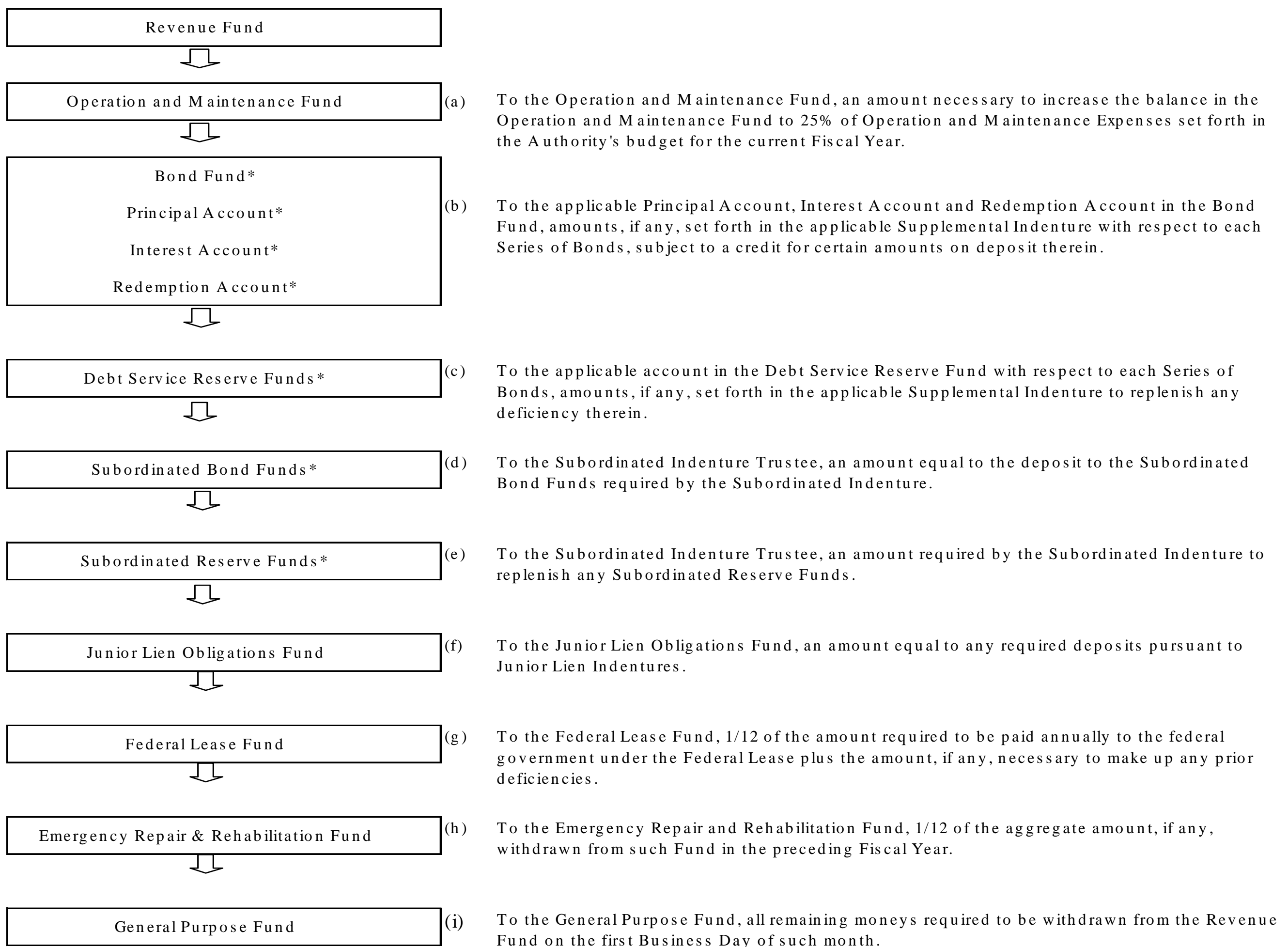
In the event that Net Revenues for any fiscal year are less than the amount specified, but the Authority has promptly complied with these remedial requirements, there will be no Event of Default under the Indenture; provided, however, that if, after the Authority has complied with these remedial requirements, Net Revenues are not sufficient to provide for the specified amount in the fiscal year in which such adjustments are required to be made (as evidenced by the audit report for such fiscal year), such failure will be an Event of Default under the Indenture. See APPENDIX C – "Definitions and Summary of Certain Provisions of the Indenture – Rate Covenant and Defaults and Remedies."

The Airline Agreement provides a mechanism for setting rates and charges for use of the Airports and provides for the leasing of certain Airport facilities. The Airline Agreement will not be assigned or pledged to the Trustee as security for the Bonds. If for any reason the Airline Agreement is amended, expires or is

terminated, the Authority will set airline rates and charges in accordance with a successor agreement or its regulations and resolutions of the Board and consistent with Federal Aviation Administration (the "FAA") requirements that such rates and charges be reasonable and in an amount sufficient to meet the rate covenant under the Indenture. See APPENDIX D – "Summary of Certain Provisions of the Airport Use Agreement and Premises Lease" and "CERTAIN AGREEMENTS FOR USE OF THE AUTHORITY'S FACILITIES."

Flow of Funds

The Authority is required to deposit all Revenues upon receipt, and may deposit amounts from any available source, in the Revenue Fund. On the first Business Day of each month (1) amounts in the Revenue Fund, excluding any transfers from the General Purpose Fund during the current fiscal year, and (2) 1/12 of the amount of any transfers from the General Purpose Fund during the current fiscal year, are to be withdrawn from the Revenue Fund and deposited or transferred in the following amounts and order of priority:



* Funds or Accounts held by the Trustee.

Amounts in the Revenue Fund are not pledged to secure the Bonds. Amounts in the Operation and Maintenance Fund are required to be used by the Authority to pay Operation and Maintenance Expenses and are not pledged to secure the Bonds. Amounts transferred to the Subordinated Indenture Trustee, if any, will be pledged to secure the Subordinated Bonds, if any, and will not be subject to the pledge securing the Bonds. Amounts in the Junior Lien Obligations Fund secure the Junior Lien Obligations and are not pledged to secure the Bonds. Amounts deposited in the Federal Lease Fund are not and will not be pledged to secure the Bonds. Amounts in the Emergency Repair and Rehabilitation Fund may be used by the Authority to pay the costs of emergency repairs and replacements to the Airports and are not pledged to secure the Bonds. Amounts in the General Purpose Fund will be available for use by the Authority for any lawful purpose and are not pledged to secure the Bonds.

Additional Bonds

The Authority has issued, and expects to issue in the future, additional Bonds. Under the Indenture, the Authority is permitted to issue one or more Series of additional Bonds on a parity with the outstanding Bonds, if:

> The Authority has provided to the Trustee the following evidence indicating that, as of the date of issuance of such additional Bonds, the Authority is in compliance with the rate covenant as evidenced by: (a) the Authority's most recent audited financial statements, and the Authority's unaudited statements for the period, if any, from the date of such audited statements through the most recently completed fiscal quarter, and (b) if applicable, evidence of compliance with the Indenture's requirement of remedial action (discussed under "Rate Covenant" above); and either
>
> > (i) an Airport Consultant has provided to the Trustee a certificate stating that, based upon reasonable assumptions, projected Net Revenues will be sufficient to satisfy the rate covenant (disregarding any Bonds that have been or will be paid or discharged immediately after the issuance of the additional Bonds proposed to be issued) for each of the next three full fiscal years following issuance of the additional Bonds, or each full fiscal year from issuance of the additional Bonds through two full fiscal years following completion of the Projects financed by the additional Bonds proposed to be issued, whichever is later; provided that, if Maximum Annual Debt Service with respect to all Bonds to be outstanding following the issuance of the proposed Bonds in any fiscal year is greater than 110% of Annual Debt Service for such Bonds in any of the test years, then the last fiscal year of the test must use such Maximum Annual Debt Service; provided further, that if capitalized interest on any Bonds and proposed additional Bonds is to be applied in the last fiscal year of the period described in this sentence, the Airport Consultant must extend the test through the first full fiscal year for which there is no longer capitalized interest, or
> >
> > (ii) an Authority Representative has provided to the Trustee a certificate stating that Net Revenues in the most recently completed fiscal year were not less than the larger of (1) the amounts needed for making the required deposits to the Principal Accounts, the Interest Accounts, and the Redemption Accounts in the Bond Fund, the Debt Service Reserve Fund, the Subordinated Bond Fund, the Subordinated Reserve Fund, the Junior Lien Obligations Fund, the Federal Lease Fund, and the Emergency Repair and Rehabilitation Fund or (2) 125% of (a) Annual Debt Service on Bonds Outstanding in such fiscal year (disregarding any Bonds that have been paid or discharged, or will be paid or discharged immediately after the issuance of such

additional Bonds proposed to be issued), plus (b) Maximum Annual Debt Service with respect to such additional Bonds proposed to be issued.

With respect to additional Bonds proposed to be issued to refund outstanding Bonds, the Authority may issue such refunding Bonds if the test described above is met, or if the Authority has provided to the Trustee evidence that (a) the aggregate Annual Debt Service in each fiscal year with respect to all Bonds to be outstanding after issuance of such refunding Bonds will be less than the aggregate Annual Debt Service in each such fiscal year through the last fiscal year in which Bonds are outstanding prior to the issuance of such refunding Bonds, and (b) the Maximum Annual Debt Service with respect to all Bonds to be outstanding after issuance of such refunding Bonds will not exceed the Maximum Annual Debt Service with respect to all Bonds outstanding immediately prior to such issuance.

The issuance of the Bonds will be in compliance with paragraph (i) above.

AUTHORITY FINANCIAL INFORMATION

Management's Discussion of Financial Information

The Authority's financial report for the years ended December 31, 2004, and 2003, attached as APPENDIX B, includes three financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by Governmental Accounting Standards Board ("GASB") principles. For the year ended December 31, 2004, the Authority early implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The Authority has allocated funding in 2005 for the early implementation of GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. A trust was established in February 2005 to account for the retirees' post-employment benefits other than pensions. Statements of Revenues, Expenses and Changes in Net Assets for the past five years are presented below.

HISTORICAL FINANCIAL RESULTS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years Ended				
	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004
OPERATING REVENUES					
Concessions	$ 144,060,722	$ 124,641,449	$ 132,817,916	$ 146,095,903	$ 173,962,671
Rents	119,658,542	122,382,146	127,554,998	130,802,693	143,389,783
Landing Fees	58,757,490	55,780,359	63,967,382	67,637,206	76,274,293
Utility sales	13,113,004	12,322,825	10,589,091	11,867,943	12,035,206
Passenger fees	24,898,129	24,445,948	27,521,305	27,878,919	29,474,743
Other	10,000,628	7,242,324	6,387,300	5,355,589	7,149,375
	370,488,515	346,815,051	368,837,992	389,638,253	442,286,071
OPERATING EXPENSES					
Materials, Supplies, Services	106,389,644	113,922,626	123,970,251	134,105,363	130,127,540
Salaries and related benefits	78,970,537	84,481,594	91,748,027	95,192,233	98,858,597
Utilities	21,592,399	17,568,654	15,657,374	16,754,386	18,754,511
Lease from U. S. Government	4,058,360	4,169,260	4,238,185	4,303,764	4,375,347
Depreciation and amortization	93,726,636	99,325,739	105,035,788	114,950,487	126,177,767
	304,737,576	319,467,873	340,649,625	365,306,223	378,293,762
OPERATING INCOME	65,750,939	27,347,178	28,188,367	24,332,020	63,992,309
NON-OPERATING REVENUES (EXPENSES)					
Passenger facility charges, financing costs	(7,028,863)	(4,537,821)	(2,029,218)	(1,137,715)	(1,525,026)
Investment income	25,551,888	17,536,753	13,277,813	5,896,185	10,385,775
Interest expense	(96,627,010)	(93,132,374)	(98,256,099)	(95,610,127)	(89,368,779)
Federal compensation	-	40,000,000	3,064,970	-	-
Federal compensation transfers	-	(1,651,663)	(279,370)	-	-
Realized swap income (loss)	-	-	-	-	(3,662,018)
Unrealized swap income (loss)	-	(1,566,958)	(26,024,249)	5,572,334	1,601,347
	(78,103,985)	(43,352,063)	(110,246,153)	(85,279,323)	(82,568,701)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(12,353,046)	(16,004,885)	(82,057,786)	(60,947,303)	(18,576,392)
CAPITAL CONTRIBUTIONS					
Passenger facility charges	48,367,121	47,233,127	59,071,341	58,438,038	76,060,174
Federal and State grants	15,351,455	16,819,846	14,613,471	14,378,325	28,727,167
Other capital property contributed	-	237,237	-	6,044,900	-
	63,718,576	64,290,210	73,684,812	78,861,263	104,787,341
NET ASSETS					
Increase (decrease) in net assets	51,365,530	48,285,325	(8,372,974)	17,913,960	86,210,949
Total net assets, beginning of year	545,756,483	597,122,013	645,407,338	637,034,364	654,948,324
Total net assets, end of year	$ 597,122,013	$ 645,407,338	$ 637,034,364	$ 654,948,324	$ 741,159,273

Source: Authority Records

In 2003, the Authority changed the presentation of concession management expenses to include them as a component of Materials, Supplies, Equipment, Contract Services and Other Expenses rather than as a direct offset to concession revenue, as had been previously done. Although the presentation has changed, there was no change in operating income, net assets or cash flows for the year.

Fiscal Year 2004 Financial Results

The financial results in 2004 reflect the recovery from the events of September 11, 2001, and the resulting passenger and airline activity changes. The majority of the operating revenues at the Airports are directly related to the number of passengers and aircraft operations. Operating revenues in 2004 of $442.3 million were $52.6 million greater than operating revenues in 2003, and reflect a turnaround in airline activity at the Airports. The Authority's revenues are derived primarily from rents and charges for the use of the Airport's facilities, including landing fees received from both signatory and non-signatory airlines using the Airports, and concession contracts at the Airports including off-airport rental car operations. See "CERTAIN AGREEMENTS FOR USE OF THE AUTHORITY'S FACILITIES." Revenues from concessions historically have accounted for a substantial portion of the Authority's revenues. The Airline Agreement requires the Signatory Airlines to pay actual costs while the majority of concessionaires pay a percentage of revenue or a minimum annual guarantee payment.

In 2004, landing fees of $76.3 million increased $8.6 million, a 12.8% increase over 2003. This increase is related to the cost of managing increased aircraft parking positions at Dulles and the cost of airfield perimeter fencing at National. Rent revenue increased $12.6 million, a 9.6 % increase over 2003, reflecting the recovery of the cost of the new ticket counter and baggage areas at Dulles and additional rental areas at National. Utility sales revenue increased as a result of higher gas and electric fees. Passenger fees now include fees paid by the TSA. In 2002 and 2003, the Authority increased the airline share of NRR in the terminal cost centers at National to maintain airline rental rates near prior year rates until the recovery of airline activity at National. In 2004, NRR was shared according to the Airline Agreement. Passenger fees at Dulles increased $1.6 million, a 5.7% increase over 2003, reflecting the increased cost of operations of the mobile lounges and the cost of busing to the temporary Concourse G.

For the year ended December 31, 2004, the Authority's accounts receivable included $4 million in pre-petition debt and certain post-petition administrative claims against United. On March 19, 2004, the bankruptcy court approved United's assumption of leases and its plan to cure all defaults at the Airports. See "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS." In September 2004, US Airways filed for bankruptcy protection for the second time. The Authority's accounts receivable for the year ended December 31, 2004, included $1.1 million in pre-petition debt owed to the Authority by US Airways. The Authority has not established a reserve for pre-petition of United or US Airways. United and US Airways are current on their post-bankruptcy obligations.

In 2004, concession revenue increased $27.9 million or 19.1% from 2003, and as a percent of total revenues, increased to 39.3% from 37.5% in 2003. Automobile parking revenue and rental car revenue represented 73.4% of concession revenue and 28.9% of total revenue. The average daily occupancy of the new structured parking garages at Dulles increased from 31.5% in December of 2003, to 54.5 % in December of 2004. There are 25,223 parking spaces at Dulles with 2,516 hourly, 8,325 daily, 1,427 valet and 12,955 economy spaces. The parking garages at Dulles had an average occupancy of 75.9% in 2004. There are 7,776 parking spaces at National with 455 hourly, 4,878 daily and 2,443 economy spaces. Average occupancy for all public parking at National was 81.9% in 2004.

The following table details concession revenues by major category for the past five years.

TOTAL CONCESSION REVENUES BY MAJOR CATEGORY
(000's)

	Year Ended 12/31/00	Year Ended 12/31/01	Year Ended 12/31/02	Year Ended 12/31/03	Year Ended 12/31/04
Parking	$ 79,366.0	$ 67,232.4	$ 69,159.6	$ 79,789.8	$ 99,681.8
Rental cars	26,410.1	21,314.1	25,650.6	26,502.8	28,024.5
Terminal Concession					
Food and beverage	6,396.9	5,139.9	6,240.1	6,937.9	7,862.8
Newsstand and Retail	6,550.2	5,426.3	6,246.9	6,637.3	9,197.5
Duty Free	2,461.4	1,919.4	1,732,4	2,016.9	2,719.7
Display advertising	1,500.0	5,544.6	5,432.2	6,342.4	6,300.0
In-flight Caterers	7,406.3	7,080.2	6,228.1	5,205.7	5,548.9
Fixed base operator	4,847.8	4,238.3	4,020.3	4,381.6	4,802.7
All other	8,614.9	6,362.9	8,107.7	8,281.5	9,824.8
Total	$143,553.6	$124,258.1	$132,817.9	$146,095.9	$173,962.7

Source: Authority Records

Operating expenses for fiscal year ended December 31, 2004, increased $13.0 million or 3.6% over 2003. Depreciation and amortization expense of $126.2 million increased $11.2 million over 2003, and accounted for 86.5% of the increase in operating expenses. Depreciation and amortization expense increased 9.8% primarily from the capitalization of projects completed in 2004. Operating expenses, other than security related expenditures, at both Airports were considerably reduced immediately following September 11, 2001. A hiring freeze implemented in September of 2001 continued through 2004. All operational expenses are carefully reviewed during the budget development and procurement processes.

After September 11, 2001, the Airports were required by the federal government to provide increased police presence. The Authority contracted in 2002 and 2003 with the Virginia State Police, Arlington County Police and Loudoun County Police to provide the supplemental police services. The third party security service engagement ended in September of 2003. The Authority's public safety personnel have been providing the required additional security since that time. The costs of the contracted police service in 2003 and 2002 were $4.1 million and $6.0 million, respectively. The increases in salaries and related benefits for 2004 and 2003 are principally related to the increased security needs for additional public safety personnel and related overtime. Utility costs increased because of higher utility rates.

Increased claims in the insurance market since September 11, 2001, resulted in quotes for insurance that were significantly higher than in prior years. The Authority responded to the increase in insurance cost by negotiating higher retention levels, while increasing related insurance reserves. General liability, property insurance and workers compensation insurance costs in 2004, 2003 and 2002 were $5.6 million, $5.3 million and $3.3 million, respectively. The claims paid directly by the Authority over the three-year period were as follows: $2.0 million in 2004, $2.6 million in 2003, and $2.2 million in 2002.

Expense Classification	2004	2003	Increase (Decrease) from 2003	Percent of Increase (Decrease) from 2003
Materials, supplies, equipment, contract services and other	$ 130,127,540	$ 134,105,363	$ (3,977,823)	(3.0%)
Salaries and related benefits	98,858,597	95,192,233	3,666,364	3.9%
Utilities	18,754,511	16,754,386	2,000,125	11.9%
Lease from United States Government	4,375,347	4,303,764	71,583	1.7%
Depreciation and amortization	126,177,767	114,950,487	11,227,280	9.8%
Total	$ 378,293,762	$ 365,306,233	$ 12,987,529	3.6%

Fiscal year 2004 operating income was $64.0 million, an increase of $39.7 million compared to 2003. The operating results of 2004 reflect both the increased activity at the Airports and the Authority's efforts to maintain conservative airline rates and charges and increase concession revenues. The Authority's decision to waive certain concession rents and landing fees and offset expenses with the Authority's share of NRR resulted in reduced operating income in 2003 and 2002. In 2004, NRR was shared in accordance with the Airline Agreement.

In 2004, non-operating revenues of $12.0 million were $0.5 million higher than in 2003, principally because of higher interest rates earned on the Authority's investment portfolio offset by a smaller gain on an interest rate swap transaction. The swap transaction represents risk management activity taken in August of 2001 to assure that the interest on bonds issued to refund the Series 1992A Bonds would not exceed interest rate of 5.0%. The change in the market value of the swap in 2004 was a gain of $1.6 million compared to a gain of $5.6 million in 2003. In 2002, the Authority received a federal payment of $3.1 million as reimbursement for certain security related expenses incurred from September 11, 2001, through May 2002. In 2004, non-operating expenses of $94.6 million decreased by $2.2 million from 2003, as a result of lower interest rates achieved through the refunding of certain outstanding debt in the Authority's debt portfolio.

Capital contributions include PFCs, federal and state grants and other capital property acquired. PFCs revenue in 2004 of $76.1 million was $17.6 million higher than in 2003 reflecting the increased passenger activity at the Airports. PFCs are imposed when an airline ticket is purchased and do not mirror the enplanement activity of an airport. Federal and state grants of $28.7 million were $14.3 million more than 2003 grant revenues reflecting the increased grant eligible airfield activity at Dulles. PFCs and federal and state grants provide partial funding for certain capital construction projects.

In 2003, the Authority recorded $6.0 million in capital contributions in recognition of a portion of the Aircraft Haul Road and a portion of the Museum Access Road built by the Smithsonian and the Virginia Department of Transportation during the construction of the Center which is located on 176.5 acres of Dulles. The title to these access ways vested with the Authority upon completion of the Center and acceptance by the Authority. The Authority is required to maintain these roadways and allow the Center patrons and invitees ingress to and egress from the Center.

The change in net assets is an indicator of whether the overall fiscal condition of the Authority has improved or declined during the year. The change in net assets for the years ended December 31, 2004, and 2003, was an increase of $86.2 million and an increase of $17.9 million, respectively. In 2002, the change in

net assets was a decrease of $8.4 million. Without the loss on the market value of the swap in 2002, net assets would have increased $17.7 million.

For the year ended December 31, 2004, and in its seventeenth full year of operations, the Authority's financial position remained strong with assets of $3.7 billion and liabilities of $3.0 billion. Current assets increased by $60.8 million from 2003. Since September 11, 2001, the Authority has maintained five months of its operating cash portfolio in securities that mature within six months to provide extra liquidity. At December 31, 2004, the Authority had $3.0 billion in capital assets (net of depreciation), an increase of $253.2 million from December 31, 2003.

Net assets, which represent the residual interest in the Authority's assets after liabilities are deducted, were $741.2 million on December 31, 2004, an increase of $86.2 million from 2003, and an increase of $104.1 from 2002. The account "Invested in Capital Assets, Net of Debt" decreased by $83.9 million to $344.6 million because the increase in total liabilities related to the CCP exceeded the increase in the assets in the CCP. This was caused by the decrease in unspent construction proceeds as of December 31, 2004, as compared to December 31, 2003. As of December 31, 2003, $170.0 million in unspent proceeds were reclassified to "Restricted Assets" to offset the assets still available from the Bond proceeds. The restricted and unrestricted remaining net assets are derived from the Authority operations since the Authority's inception in 1987, as well as grant and PFC collections. The 2004 restricted net assets of $170.5 million are subject to external restrictions on how they may be used under the Master Indenture and federal regulations. A debt service reserve of $172.3 million, maintained in accounts held by the Authority's Trustee, offset by the corresponding debt, is included in Restricted Net Assets. The remaining 2004 unrestricted assets of $226.0 million, an increase of $35.8 million from 2003, may be used to meet any of the Authority's ongoing operations subject to approval by the Board.

NET REMAINING REVENUE SCHEDULE AND CALCULATION OF DEBT SERVICE COVERAGE

	Year Ended 12/31/01	Year Ended 12/31/02	Year Ended 12/31/03	Year Ended 12/31/04
Airline Revenues[1]				
Landing and Apron Fees	$ 72,308,411	$ 75,720,896	$ 74,299,070	$ 84,169,259
Rentals	153,911,019	161,741,047	160,496,271	168,647,028
Security & Other Fees	3,663,157	3,860,983	2,632,277	1,229,330
Other Rents	24,553,623	20,054,684	21,167,721	21,705,305
Utility Reimbursements	12,322,826	10,589,092	11,867,943	12,035,204
Concessions[2,3]	91,994,934	101,244,928	113,172,477	143,813,888
Investment Earnings	15,472,164	9,642,956	8,727,243	8,356,729
Federal Compensation	13,271,670	6,400,187	0	0
Other	3,840,984	4,331,635	3,674,732	5,529,747
TOTAL REVENUES[1]	391,338,789	393,586,408	396,037,734	445,486,490
O&M Expenses	184,710,157	194,253,500	196,015,612	210,846,684
Washington Ground Transportation	1,981,624	621,556	234,154	(215,963)
Washington Flyer Magazine	355,790	(245,616)	183,686	-
NET REVENUES	204,291,218	198,956,968	199,604,282	234,855,769
Debt Service on Bonds Issued under Master Indenture[4]	122,585,407	135,250,234	141,828,530	140,079,210
TOTAL DEBT SERVICE	122,585,407	135,250,234	141,828,530	140,079,210
O&M Reserve Requirement Increment	812,322	1,524,204	198,364	1,134,725
Federal Lease Payment	4,169,260	4,238,186	4,303,765	4,375,347
NET REMAINING REVENUE[5]	$ 76,724,229	$ 57,944,344	$ 53,273,623	$ 89,266,487
DEBT SERVICE COVERAGE[5]	1.67x	1.47x	1.41x	1.68x

[1] Includes credit for Signatory Airlines' share of NRR from the prior year, which offsets the amount of rates and charges that are due from the Signatory Airlines in the respective fiscal year.

[2] Concession Revenue for Washington Ground Transportation is not included.

[3] In 2003, the Authority changed the presentation of concession management expenses to include them in Materials, Supplies and Services Expense rather than netted against Concession Revenue as shown.

[4] Reflects actual amount of debt service paid on outstanding Bonds and BANs in the respective fiscal year.

[5] Calculations of NRR and coverage are made in conformance with provisions of the Indenture and the Airline Agreement and are not determined in accordance with GAAP.

Source: Authority Records

Fiscal Year 2005 Budget

The President and Chief Executive Officer prepares the Authority's annual budget and submits it to the Board for approval. The 2005 Budget, which includes the 2005 Operations and Maintenance Budget ("2005 O&M Budget"), the 2005 Capital, Operating and Maintenance and Investment Program ("2005 COMIP Budget"), and the 2005 Capital Construction Budget ("2005 CCP Budget"), was approved by the Board in December 2004 (the "2005 Budget").

The Authority is committed to ensuring that adequate resources are available to efficiently and safely operate and maintain the Airports. The funding levels provided in the 2005 Budget take into consideration the uncertainties of the air transportation industry and continue the restriction on the Authority's operating expenses, including hiring restrictions, review of all procurements, including consultant contracts, to determine whether they are essential to the Airports' operations, continued deferral of certain projects and equipment purchases, and the elimination of some nonessential programs. The 2005 O&M Budget projected a 14.9% increase in operating revenues and an 11.4% increase in operating expenses (excluding debt service) over the 2004 O&M Budget. The increase in revenues is principally related to expected increases in activity levels at both Airports. The major increase in expenses results primarily from early implementation of GASB 43 and GASB 45. The 2005 Budget includes $6.5 million, the estimated annual required contribution as provided by the Authority's actuaries, for implementation of these GASB standards.

Budgeted revenues of $473.8 million for 2005 reflect a $61.6 million increase from 2004 revenues of $412.2 million. The increase in budgeted revenues is principally related to the expected increase in activity levels of both Airports. Operating revenues received from the airlines are on a cost recovery basis.

NRR is projected to decrease from $89.3 million in 2004 to $72.2 million in 2005. Under the Airline Agreement, NRR is allocated between the Authority and the Signatory Airlines according to an established formula. The Signatory Airlines' share of NRR in 2004 (transfers included in the 2005 operating revenues) was $54.0 million. See "CERTAIN AGREEMENTS FOR USE OF THE AUTHORITY'S FACILITIES - Airport Use and Premises Lease."

Budgeted operating expenses are $237.1 million, a $24.3 million or 11.4% increase from 2004 expenses of $212.8 million (excluding debt service and O&M Reserve Requirement). The total budgeted expenses, including debt service but excluding O&M Reserve Requirement, are $407.8 million, which is a $48.5 million or a 13.5% increase over 2004 expenses of $359.3 million.

The Authority believes that the 2005 Budget provides sufficient funding to operate and maintain the Airports. The 2005 COMIP Budget totals $29.6 million and includes major ongoing repair work and planning and improvement initiatives. A portion of the Authority's share of NRR will be used to fund new projects in the 2005 COMIP Budget. The 2005 CCP Budget's total expenditures for both the new program and previously approved projects are $371.9 million.

Internal Controls

The Authority has an internal control structure that is designed to provide management with reasonable assurance that the Authority's resources are safeguarded against waste, loss, and misuse, and reliable data are recorded, maintained, and fairly disclosed in reports. The current internal controls provide the Authority with a solid base of reliable financial records from which financial statements are prepared. These accounting controls ensure that accounting data is reliable and available to facilitate the preparation of financial statements on a timely basis. The Authority is the recipient of federal financial assistance and is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with general and specific laws and regulations related to the AIP and the Aviation Security Act.

Risk Based Auditing

The functions of the Authority's Office of Audit include oversight of the annual financial statement audit performed by external auditors as well as internal audits of internal controls. The Office of Audit conducts internal audits to provide the Authority's management and the Board with reasonable assurance that 1) risks are being managed; 2) management and delivery capacity are being maintained; 3) adequate control is being exercised; and 4) appropriate results are being achieved. The Office of Audit assesses organization-wide risk to evaluate the allocation of internal audit resources and to develop each annual audit plan in a manner that gives appropriate consideration to risks affecting the Authority.

Insurance

The Authority was required under the Federal Lease to have certain insurance in force on the Lease Effective Date and has obtained property and casualty policies, including airport liability insurance to protect its operations. Additionally, the Authority created an Owner Controlled Wrap-Up Insurance Program ("OCWIP") to provide builders' risk, workers' compensation, environmental, general and special liability insurance to protect all enrolled contractors and their subcontractors of all tiers. The OCWIP is designed to reduce conflict among contractors and insurance providers, increase the liability protection for all participants, and reduce the total cost of the insurance for the improvements. As a result of the events of September 11, 2001, quotes for insurance were significantly higher than in prior years and some insurance was no longer commercially available. The Authority has acquired commercial insurance coverage for war risks, including terrorism, however, on both the liability insurance and property insurance policies. Both policies have specified limits and exclusions.

CERTAIN INVESTMENT CONSIDERATIONS

The Bonds may not be suitable for all investors. Prospective purchasers of the Bonds should give careful consideration to the information set forth in this Official Statement, including, in particular, the matters referred to in the following summary.

Air Transportation Industry Factors

The Revenues of the Authority are affected substantially by the economic health of the air transportation industry and the airlines serving the Airports. Historically, the financial performance of the air transportation industry generally has correlated with the strength of the national economy. Certain factors that may materially affect the Air Trade Area, the Airports and the airlines include, but are not limited to, growth of population and the economic health of the region and the nation, airline service and route networks, national and international economic and political conditions, changes in demand for air travel, service and cost competition, mergers, the availability and cost of aviation fuel and other necessary supplies, levels of air fares, fixed costs and capital requirements, the cost and availability of financing, the capacity of the national air traffic control system, national and international disasters and hostilities, the cost and availability of employees, labor relations within the airline industry, regulation by the federal government, environmental risks and regulations, noise abatement concerns and regulation, the financial health and viability of the airline industry, bankruptcy and insolvency laws, acts of war or terrorism and other risks. As a result of these and other factors, many airlines have operated at a loss in the past and many have filed for bankruptcy, ceased operations and/or merged with other airlines. In addition, the legacy carriers have taken many actions to restructure and reduce costs including reducing their workforce, renegotiating their labor agreements, consolidating connecting activity and replacing mainline jets

with regional jets. See "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS," "THE AIR TRADE AREA AND AIRPORTS ACTIVITY" and "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS."

Geopolitical Risks

The terrorist attacks of September 11, 2001, the conflicts in Iraq and Afghanistan and the threat of more terrorist attacks generally decreased passenger traffic levels at the Airports and nationally. While traffic activity in 2004 exceeded the pre-September 11, 2001 levels, the Authority cannot assess the threat of terrorism and the probability of another attack on American soil or against Americans traveling abroad. Should new attacks occur against the air transportation industry, the travel industry, cities, utilities, infrastructure, office buildings or manufacturing plants, the effects on travel demand could be substantial.

Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of international hostilities (such as those that have occurred in Iraq and Afghanistan) and terrorist attacks, may influence passenger travel behavior and air travel demand. These concerns intensified in the aftermath of the events of September 11, 2001. Travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the switching from air to surface travel modes.

Intensified security precautions were instituted by government agencies, airlines and airport operators after the events of September 11, 2001. These precautions include the strengthening of aircraft cockpit doors, the federal program to allow and train domestic commercial airline pilots to carry firearms during flights, extensive background checks of airport employees, changes to prescribed flight crew responses to attempted hijackings, increased presence of armed air marshals, federalization of airport security functions under the TSA, revised procedures and techniques for the screening of baggage for weapons and explosives and technology for the screening of passengers, such as US-VISIT. No assurance can be given that these precautions will be successful. Also, the possibility of international hostilities and/or further terrorists attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

The Aviation Security Act requires all United States airports to use explosive detection systems ("EDS") to screen all checked baggage unless an alternative system and/or timetable has been approved by the TSA. As of March 2005, all checked baggage at National and Dulles was screened by EDS. The Aviation Security Act also requires that eventually all passenger bags, mail and cargo be screened to prevent the carriage of weapons (including chemical and biological weapons), explosives or incendiary devices; however, no regulations regarding these enhanced security measures have been proposed as of March 2005. See "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS – Aviation Security Requirements and Related Costs."

After the events of September 11, 2001, the United States government launched a military offensive against Afghanistan and Iraq, and has warned that these hostilities may continue for years. The Authority cannot predict the duration or the effects of these hostilities on the air transportation system, the likelihood of any retaliation or the likelihood of any future terrorist attacks. Any such action could directly or indirectly reduce

passenger traffic and depress airline industry revenues and Authority Revenues. The Authority cannot predict the effect of any future government-required security measures on passenger activity at the Airports. Nor can the Authority predict how the government will staff the security screening functions or the effect on passenger activity of government decisions regarding its staffing levels.

Cost of Aviation Fuel

According to the Air Transportation Association, aviation fuel is the second largest item of airline expense after labor. Fuel costs fluctuate in response to market forces and exposure to these fluctuations is largely outside of airline management control except through hedging techniques. The price of aviation fuel increased sharply starting in the second half of 2003, through the majority of 2004, and is expected to remain at high levels during 2005. Significant increases in the cost of fuel for a prolonged period of time have and may continue to adversely affect airline industry profitability and could jeopardize the recovery plans of all airlines including United and US Airways. See "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS" – Cost of Aviation Fuel."

Certain Factors Affecting the Airports

Enplanements at the Airports, collections of PFCs and the receipt of Revenues may continue to be negatively affected by security restrictions on the Airports and the financial condition of the air transportation industry. Like many airport operators, the Authority has experienced increased operating costs due to compliance with federally mandated and other security and operating changes. In addition, the FAA or the Department of Homeland Security may, given the proximity of the Airports to Washington, D.C., require further enhanced security measures and impose additional restrictions on the Airports, which may affect future Authority results. The Authority cannot predict the likelihood of future incidents similar to the terrorist attacks of September 11, 2001, the likelihood of future air transportation disruptions or the impact on the Airports or the airlines from such incidents or disruptions. See "Possible Future Restrictions on National" and "Airlines Serving the Airports" below, and "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS" and "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS." Also see "LITIGATION" for a discussion of certain litigation resulting from the events of September 11, 2001.

Regulations and Restrictions Affecting the Airports

The operations of the Authority and its ability to generate revenues are affected by a variety of legislative, legal, contractual and practical restrictions, including restrictions in the Federal Act, limitations imposed by the Federal Lease, provisions of the Airline Agreement and extensive federal regulations applicable to all airports. For a description of these restrictions and regulations, see "THE AUTHORITY – Regulations and Restrictions Affecting the Airports."

Airlines Serving the Airports

The Authority derives a substantial portion of its operating revenues from landing, facility rental and concession fees. The financial strength and stability of the airlines using the Airports, together with numerous other factors, influence the level of aviation activity at the Airports. In addition, individual airline decisions regarding level of service, particularly hubbing activity at the Airports and aircraft size such as use of regional jets, can be expected to affect total enplanements.

US Airways, the dominant carrier at National, and United, the dominant carrier at Dulles, have been experiencing financial difficulties as a result of which both airlines filed for bankruptcy protection. Other airlines serving the Airports, including Delta, American and Independence Air, are also experiencing financial difficulties. For additional financial information concerning these airlines, see "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS." No assurances can be given that any of these airlines will continue operations or maintain their current level of operations at the Airports. If one or more of these airlines discontinues operations at the Airports, its current level of activity may not be replaced by other carriers.

Effect of Bankruptcy on the Airline Agreement

In the event of bankruptcy proceedings involving one or more of the Signatory Airlines, the debtor airline or its bankruptcy trustee must determine within a time period determined by the court whether to assume or reject the applicable Airline Agreement. In the event of assumption, the debtor airline would be required to cure any prior defaults and to provide adequate assurance of future performance under the relevant document. Rejection of the Airline Agreement by any Signatory Airline would give rise to an unsecured claim of the Authority for damages, the amount of which may be limited by the U.S. Bankruptcy Code. The amounts unpaid as a result of a rejection of the Airline Agreement by a Signatory Airline in bankruptcy can be passed on to the remaining Signatory Airlines. If the bankruptcy of one or more Signatory Airlines were to occur, however, there can be no assurance that the remaining Signatory Airlines would be able, individually or collectively, to meet their obligations under the Airline Agreement. See "CERTAIN AGREEMENTS FOR USE OF THE AUTHORITY'S FACILITIES – Airport Use Agreement and Premises Lease," "FINANCIAL CONDITION OF CERTAIN AIRLINES SERVING THE AIRPORTS – Effect of Airline Bankruptcies" and APPENDIX C – "Summary of Certain Provisions of the Airport Use Agreement and Premises Lease."

Expiration and Possible Termination of Airline Agreement

Pursuant to the Airline Agreement, each Signatory Airline has agreed to pay the rates and charges for its use of the Airports. The Airline Agreement will expire on September 30, 2014, but the Authority has an annual right to terminate the Airline Agreement on 180 days notice effective each September 30. Under certain limited conditions, a Signatory Airline may terminate the Airline Agreement. See "CERTAIN AGREEMENTS FOR USE OF THE AUTHORITY'S FACILITIES – Airport Use Agreement and Premises Lease." Under the Airline Agreement, the Authority is permitted to renegotiate the Airline Agreement prior to its expiration. As of March 2005, the Authority was in discussions with the Signatory Airlines about possible changes to the Airline Agreement without terminating the Airline Agreement.

Limitations on Bondholders' Remedies

The occurrence of an Event of Default under the Indenture does not grant a right to either the Trustee or the Bondholders to accelerate payment of the Bonds. As a result, the Authority may be able to continue indefinitely collecting Revenues and applying them to the operation of the Airports even if an Event of Default has occurred and no payments are being made on the Bonds. See "THE BONDS – Events of Default and Remedies; No Acceleration or Cross Default."

Cost and Schedule of Capital Construction Program

The costs and the schedule of the projects included in the CCP depend on various sources of funding, including additional Bonds, CP Notes, PFCs, and federal grants, and are subject to a number of uncertainties.

The ability of the Authority to complete the 2001-2011 CCP may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material, and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation, (xi) environmental issues, including environmental approvals that the Authority has not obtained at this time, and (xii) additional security improvements and associated costs mandated by the federal government. A delay in the completion of certain projects under the 2001-2011 CCP could delay the collection of revenues in respect of such projects, increase costs for such projects, and may cause the rescheduling of other projects. In addition, any of the deferred projects could be implemented at any time adding to the cost of the 2001-2011 CCP. Dulles' ability to increase capacity, which is necessary to efficiently accommodate forecasted increases in aircraft operations and enplaned passengers, is largely dependent upon completion of certain projects in the 2001-2011 CCP. There can be no assurance that the cost of construction of the 2001-2011 CCP projects will not exceed the currently estimated dollar amount or that the completion of the projects will not be delayed beyond the currently projected completion dates. Any schedule delays or cost increases could result in the need to issue additional Bonds and may result in increased costs per enplaned passenger to the airlines, which may place the Airports at a competitive disadvantage to other airports. See "THE 2001-2011 CCP."

Competition

Portions of the Air Trade Area are served by BWI. BWI experienced rapid growth in enplanements from 1991 through 2003, primarily due to the increasing presence of low-cost carriers at BWI. BWI moved from enplaning the fewest passengers in the Air Trade Area in 1991 to enplaning the most passengers in 2003. With the expected continued growth of low-cost carriers and proposed improvements in transportation to and from the region, BWI will likely continue to be a strong competitor for the region's domestic traffic. In 2004, however, Dulles surpassed BWI in terms of enplanements due to passenger traffic growth caused by the startup of Independence Air at Dulles and the resulting competitive response by United and other airlines serving Dulles. The significant increase of low-cost seat capacity at Dulles in 2004, slowed traffic growth at BWI and it appears to have resulted in the return to Dulles of some portion of the Region's domestic passenger traffic that had migrated to BWI.

The use of business jets has been expanding rapidly and may hold down the return of high-yield business travel on commercial airlines at the Airports. While the effects cannot be quantified, if the current ban on general aviation at National is lifted, travel to and from National might be more susceptible to the use of business jets than many other domestic airports.

The Authority also may continue to experience increases in its operating costs due to compliance with federally mandated and other security and operating changes that are unique to the Airports. Such increased costs may increase the cost per enplaned passenger to the airlines, which could result in the Airports being at a competitive disadvantage relative to other airports and transportation modes. See "THE AIR TRADE AREA AND AIRPORTS ACTIVITY" and "CERTAIN FACTORS AFFECTING THE AIR TRANSPORTATION INDUSTRY AND THE AIRPORTS."

Travel Substitutes

Teleconference, video-conference and web-based meetings continue to improve in quality and price and are often considered a satisfactory alternative to face-to-face business meetings. Events such as the terrorist attacks of September 11, 2001, have accelerated this trend. While the effects cannot be quantified, it is possible

that business travel to and from National may be more susceptible to such travel substitutes than many other domestic airports.

Assumptions in the Report of the Airport Consultant

The Report of the Airport Consultant incorporates numerous assumptions as to the utilization of the Airports and other matters and states that any forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material. See "REPORT OF THE AIRPORT CONSULTANT" and APPENDIX A – "Report of the Airport Consultant."

Forward Looking Statements

This Official Statement, and particularly the information contained in Part I under the captions "INTRODUCTION," and "THE BONDS," and in Part II under the captions "THE AUTHORITY'S FACILITIES AND MASTER PLANS," "PLAN OF FUNDING FOR THE 2001-2011 CCP," "THE BONDS," "REPORT OF THE AIRPORT CONSULTANT" and APPENDIX A – "Report of the Airport Consultant," contains statements relating to future results that are "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "intend," "expect," and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. Among the factors that may cause projected revenues and expenditures to be materially different from those anticipated are an inability to incur debt at assumed rates, construction delays, increases in construction costs, general economic downturns, factors affecting the airline industry in general, federal legislation and/or regulations, and regulatory and other restrictions, including but not limited to those that may affect the ability to undertake the timing or the costs of certain projects. Any forecast is subject to such uncertainties. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

REPORT OF THE AIRPORT CONSULTANT

The Report of the Airport Consultant

The Report of the Airport Consultant is attached in APPENDIX A. The Report of the Airport Consultant has not been updated to reflect the final terms of the Bonds or other changes occurring after the date of the Report of the Airport Consultant. The Report of the Airport Consultant was based on a number of assumptions and contains projections and statements relating to operating and financial results that may not be realized. The assumptions used reflect the best information available to the Authority and reliance on the knowledge and experience of the Airport Consultant. The Authority's future operating and financial performance, however, may vary from the projections and such variances may be material. Among other things, the Report of the Airport Consultant assumed the issuance of future debt by the Authority at particular interest rates and the completion of certain planned construction at assumed costs. The Report of the Airport Consultant also assumed only the cost of constructing the 2001-2011 CCP then planned by the Authority and the issuance of the debt necessary to finance such projects.

Regulatory and other restrictions may adversely affect the ability of the Authority to achieve the projections in the Report of the Airport Consultant. See "THE AUTHORITY – Regulations and Restrictions

Affecting the Airport." Other factors affecting the achievement of the projections include, without limitation, the Authority's ability to incur debt at assumed interest rates and unexpected construction delays or cost increases (which may reflect special costs of the Authority's projects as well as general increase in construction costs). Such projections also may be affected by the factors affecting the airline industry in general.

The Report of the Airport Consultant also includes two sensitivity analyses taking into account the potential impact of future unforeseen negative events. The first sensitivity analysis makes a number of assumptions, including zero growth at National and the reduction of Dulles' enplanement and landed weight forecasts resulting from the loss of both hubbing operations at the Airport. This sensitivity analysis also assumes (i) a 15% reduction in O&D enplanements, taking into account a drop in air service that would accompany the termination of hubbing operations, and (ii) a 75% reduction in connecting enplanements to reflect the loss of the majority of connecting traffic at Dulles, as well as other assumptions that are described in greater detail in the Report of the Airport Consultant. Based on the first sensitivity analysis, the maximum cost per enplaned passenger would be $17.15 at National and $37.15 at Dulles.

The second sensitivity analysis assumes an increase in debt service of 30% caused by fluctuations in interest rates, capitalized interest and construction cost estimates. As a result, the maximum cost per enplaned passenger would increase to $15.31 at National and $24.25 at Dulles. Except for the increase in debt service, all other items are held constant.

In each sensitivity, the estimated debt service coverage remains at or higher than the 125% rate covenant requirement of the Indenture during the projection period, in some cases by invoking "Extraordinary Coverage Protection Payments" under the Airline Agreement. See APPENDIX A - "Report of the Airport Consultant."

The Report of the Airport Consultant has been included herein in reliance upon the knowledge and experience of PB Aviation as the Airport Consultant. As noted in the Report of the Airport Consultant, any forecast is subject to uncertainties. Therefore, there are likely to be differences between forecast and actual results, and those differences may be material.

CONTINUING DISCLOSURE

The Authority has entered into the Disclosure Agreement with DAC meeting the requirements of the Rule promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended. The Disclosure Agreement requires the Authority to file with DAC (i) certain annual financial information and operating data and (ii) certain event notices. Under the Disclosure Agreement, DAC will serve as the Authority's Disclosure Dissemination Agent for purposes of filing annual disclosure required by the Rule with all nationally recognized municipal securities information repositories ("NRMSIRs") and with any Virginia state information depository ("SID") and event notices with the Municipal Securities Rulemaking Board. DAC also will provide certain financial information of the Authority through DAC's web site at http://www.dac-ey.com.

The form of the Disclosure Agreement is attached as APPENDIX G. The Authority may amend the Disclosure Agreement in the future so long as such amendment is consistent with the Rule as then in effect. No SID currently exists for Virginia. Neither the Authority nor the Underwriters make any representation as to the scope of services provided by any NRMSIR or the charges for such services.

The Disclosure Agreement requires the Authority to provide only limited information at specified times. While the Authority expects to provide substantial additional information, as it has in the past, it is not legally obligated to do so. A default by the Authority under the Disclosure Agreement is not an Event of Default with respect to the Bonds. The Disclosure Agreement permits any bondholder to seek specific performance of the Authority's obligations thereunder after 30 days prior written qualifying notice to the Authority and 30 days to cure, but no assurance can be given as to the outcome of any such proceeding. In connection with the issuance of its outstanding Bonds, the Authority has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide certain annual financial information and material event notices.

FINANCIAL ADVISORS

First Albany Capital Inc. and P.G. Corbin & Company, Inc. (collectively, the "Financial Advisors") served as financial advisors to the Authority in connection with the issuance of the Bonds. The Financial Advisors have prepared the debt issuance plan for funding a portion of the 2001-2011 CCP based on information provided by the Authority. In addition, they have assisted in the preparation of this Official Statement. The Financial Advisors have not undertaken to make an independent verification of, or to assume responsibility for, the accuracy, completeness or fairness of the information contained in this Official Statement.

AIRPORT CONSULTANT

PB Aviation has served as the Airport Consultant to the Authority with respect to the issuance of the Bonds and in such capacity prepared the Report of the Airport Consultant.

INDEPENDENT AUDITORS

The financial statements of the Authority as of December 31, 2004, and 2003, and for the years then ended, included in this Official Statement as APPENDIX B, have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report.

MISCELLANEOUS

Relationship of Parties

In addition to serving as Co-Bond Counsel to the Authority, Hogan & Hartson L.L.P. also serves as counsel to the Authority on certain other matters. Hunton & Williams LLP previously served as co-bond counsel to the Authority and currently serves as bond counsel in connection with the PFC Notes. PB Aviation, a division of Parsons Brinckerhoff Quade and Douglas, Inc., serves as the Airport Consultant and Parsons Brinckerhoff is one of four companies participating in a joint venture and serving as the Authority's CCP Manager. Manufacturers and Traders Trust Company (successor to Allfirst Bank) serves as the Trustee for the Bonds, the Series One CP Notes and the Series Two CP Notes, as trustee for the Authority's pension plan and safe keeper of certain operating funds of the Authority. Manufacturers and Traders Trust Company also has participated in the Bank of America letter of credit which provides liquidity for the Authority's PFC Notes.

David T. Ralston, Jr., a member of the Board and a partner in the law firm of Foley & Lardner, has disclosed that his firm has represented in the past and currently represents a consortium of airports and airport authorities, including the Authority, in bankruptcy proceedings involving United, US Airways and ATA.

The Honorable David G. Speck, a member of the Board, is employed by Wachovia Securities, a subsidiary of Wachovia Bank, National Association, which serves as the remarketing agent for the Authority's PFC Notes.

Prospective Financial Information

The prospective financial information included in this Official Statement has been prepared by the Airport Consultant and is the responsibility of the Authority. PricewaterhouseCoopers LLP has neither examined nor compiled the accompanying prospective financial information and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or offer any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report included in APPENDIX B of this Official Statement relates to the Authority's historical financial information. It does not extend to the prospective financial information and should not be read to do so.

This prospective financial information was prepared using techniques that are consistent with industry practices for similar studies in connection with airport revenue bond sales and was not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information.

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METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

AIRPORT SYSTEM REVENUE BONDS, SERIES 2005A, (AMT)
AIRPORT SYSTEM REVENUE REFUNDING BONDS, SERIES 2005B, (NON-AMT)
TAXABLE AIRPORT SYSTEM REVENUE BONDS, SERIES 2005C

REPORT OF THE AIRPORT CONSULTANT

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PB Aviation
A Division of
Parsons Brinckerhoff
Quade & Douglas, Inc.

312 Elm Street, Suite 2500
Cincinnati, Ohio 45202-2720
(513) 639-2100
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March 21, 2005

Ms. Mame Reiley, Chairman
Mr. James E. Bennett, President and Chief Executive Officer
Metropolitan Washington Airports Authority
1 Aviation Circle
Washington, D.C. 20001-6000

Re: Metropolitan Washington Airports Authority
Airport System Revenue Bonds, Series 2005A
Airport System Revenue Refunding Bonds, Series 2005B
Taxable Airport System Revenue Bonds, Series 2005C
Appendix A: Report of the Airport Consultant

Dear Ms. Reiley and Mr. Bennett:

This report sets forth findings, assumptions, and forecasts of air traffic and financial analyses performed by PB Aviation, a division of Parsons Brinckerhoff Quade and Douglas, Inc. (PB Aviation), in conjunction with the planned issuance by the Metropolitan Washington Airports Authority (Authority) of its $320,000,000 Airport System Revenue Bonds, Series 2005A (Series 2005A Bonds), $36,935,000 Airport System Revenue Refunding Bonds, Series 2005B (Series 2005B Bonds), and $30,000,000 Taxable Airport System Revenue Bonds, Series 2005C, (Series 2005C Bonds) (collectively defined as the Series 2005A-C Bonds). This report is intended for inclusion in the Official Statement for the Series 2005A-C Bonds as Appendix A: Report of the Airport Consultant.

The Authority has authorized and plans to issue the Series 2005A-C Bonds in April 2005. The Series 2005A Bonds are being issued by the Authority to provide funds which will be used, together with other funds of the Authority, to pay a portion of the costs of certain capital projects at Ronald Reagan Washington National Airport (National) and Washington Dulles International Airport (Dulles) (collectively, Airports), refund a portion of the Authority's outstanding Airport System Revenue Commercial Paper Notes, Series Two (Series Two CP Notes), fund a deposit to the Series 2005A Reserve Account in the Debt Service Reserve Fund, pay capitalized interest on the Series 2005A Bonds and certain outstanding Bonds, and pay costs of issuing the Series 2005A Bonds. The Series 2005B Bonds are being issued by the Authority to provide funds which will be used, together with other funds of the Authority, to refund a portion of certain of the Authority's Outstanding Bonds, fund a deposit to the Series 2005B Reserve Account in the Debt Service Reserve Fund, and pay costs of issuing the Series 2005B Bonds. The Series 2005C Bonds are being issued by the Authority to pay a portion of the cost of certain capital projects at the Airports, fund a deposit to the Series 2005C Reserve Account in the Debt Service Reserve Fund, and pay costs of issuing the Series 2005C Bonds.

The Authority initiated its Capital Construction Program (CCP) in 1988 to expand, modernize and maintain the Airports. Under the CCP, the Authority has constructed and will continue to construct many of the principal elements of the Master Plans that are necessary for the development of the Airports, and will renovate certain existing facilities.

In 2000, the Authority approved an expansion of the CCP for Dulles, referred to as the Dulles Development (d^2) program. The d^2 program and other CCP projects at National and Dulles were expected to be completed between 2001 and 2006 and were projected to cost $4.2 billion. In the spring of 2002, following the aftermath of September 11, 2001, the Authority re-examined the CCP. As a result, the Authority delayed the start dates of several projects, deferred some projects until it determines that demand and circumstances warrant their reactivation and added several new projects to the CCP. The active portion of the CCP that is scheduled for completion by 2011 is referred to herein as the 2001-2011 CCP. In connection with the Authority's periodic reviews of the CCP, the Authority has made certain additional adjustments to the 2001-2011 CCP since the spring of 2002, including adding new projects, deferring some active projects, reactivating some projects that were deferred and deleting certain projects from the CCP entirely.

Based on expenditures to date and projected expenditures through 2011, Authority management currently estimates the cost of the 2001-2011 CCP at approximately $3.9 billion. Since 2001, approximately $1.4 billion of projects in the 2001-2011 CCP have been completed, including the pedestrian tunnel from the parking garage to Terminal A and Terminal A airside façade renovations at National, as well as the Daily Parking Garages 1 and 2, the Main Terminal rehabilitation, the 4-gate Concourse B expansion, the south baggage basement and the airside and landside pedestrian tunnels at Dulles, among others. The Authority expects most of the remaining projects to be completed by 2009.

This report includes examinations of the underlying economic base of the Airports' Core-Based Statistical Area (CBSA) or Air Trade Area, which may affect the demand for air transportation (Chapter 1); historical and projected air traffic activity at the Airports (Chapter 2); a summary of the CCP (Chapter 3); and historical and projected Revenues and Operation and Maintenance (O&M) Expenses, with consideration for the anticipated financial impacts of the new and expanded facilities at the Airports (Chapter 4).

On the basis of the assumptions and analyses described in this report, PB Aviation is of the opinion that Net Revenues during the projection period will be adequate to meet and exceed the Authority's rate covenant requirement set forth in the Amended and Restated Master Indenture of Trust dated as of September 1, 2001, and the Twenty-third Supplemental Indenture of Trust dated as of April 1, 2005 (collectively, the Indenture). In addition, debt service will not generate unreasonable rates and charges to the users of the facilities at the Airports when compared to rates and charges at other airports undertaking similar capital programs. Additional findings of these analyses include the following:

Economic Base

- Certain economic data suggests that the U.S. and Air Trade Area's economies have experienced growth since the economic downturn and the recession which, according to the National Bureau of Economic Research (NBER), began in March 2001 and ended in November 2001. In addition, the Air Trade Area's economy is one of the strongest economies in the nation.

- The Air Trade Area consists of a highly diversified, multi-cultural population, when compared to the other eight most populous CBSAs in the nation for 2003. This provides it with a distinct advantage in today's global economy.

- The Air Trade Area outpaced the U.S. in population growth over the last 13 years and is projected to continue growing at a faster rate than the Washington D.C.-Maryland-Virginia Area[1] and the U.S. through 2010.

- Residents in the Air Trade Area are among the most affluent in the United States. In 2003, the per capita Effective Buying Income (EBI) in the Air Trade Area was 21.8 percent higher than the per capita EBI in the Washington D.C.-Maryland-Virginia Area and 37.1 percent higher than the U.S. Approximately 53.6 percent of the Air Trade Area's households have an EBI of $50,000 or more, compared to only 35.4 percent for the U.S.

- Employment in the Air Trade Area has been growing faster than its labor force. The Air Trade Area's unemployment rate has been consistently below that of the Washington D.C.-Maryland-Virginia Area and the U.S. As of November 2004, the unemployment rate in the Air Trade Area was 3.2 percent, lower than the Washington D.C.-Maryland-Virginia Area at 3.9 percent and the U.S. at 5.5 percent.

- The Air Trade Area has a diversified employment base, with professional services, government, trade, and transportation and public utilities as the four largest industry sectors. Government employment, as a percentage of total nonagricultural employment, decreased from approximately 40 percent in 1970 to approximately 22 percent in 2004, indicating diversification toward other industries, including a number of industries that have benefited from increased Federal government procurement spending.

Air Traffic

- The Air Trade Area will remain an important center of air traffic activity in the eastern United States, with a significant number of airlines providing service at the Airports to many major domestic and international markets.

- The demand side of the airline industry is improving. The U.S. and other economies have stabilized and started to expand, since the 2001 economic downturn, resulting in increased

[1] The Washington D.C.-Maryland-Virginia Area encompasses the entire District of Columbia, State of Maryland, and Commonwealth of Virginia.

demand for air travel, including business travel. This increased demand is being accommodated, generally, at lower fare levels than in the past, with the result that revenues for the so-called legacy airlines are not increasing proportionately.

- On the supply side, the legacy carriers continue to struggle. In oversupplied markets, they are often forced to charge fares below their costs in order to maintain their traditional passenger bases. These airlines are restructuring their business models, changing work rules, and implementing fare initiatives in an effort to return to profitability. Some carriers serving the Air Trade Area have sought Chapter 11 bankruptcy protection. US Airways, which had emerged from bankruptcy in March 2003, filed again in September 2004. United has operated under Chapter 11 bankruptcy protection since December 2002. Low-cost carrier ATA filed for bankruptcy in October 2004, citing high fuel costs and fare competition.

- The Airports have relatively diversified air service, which promotes competitive pricing and scheduling choices. Enplanements at National in 2004 were spread among several air carriers; US Airways, together with its US Airways Express operators, had the largest share at 36.9 percent, followed by Delta (17.3 percent) and American (14.9 percent). At Dulles, United and its United Express operators accounted for 59.4 percent of domestic enplanements in 2004, with four other carriers accounting for a further 30.6 percent of the domestic total. United accounted for 40.4 percent of international enplanements at Dulles in 2004, with the next-ranking carrier (British Airways) accounting for 8.2 percent of the international total.

- In the first week of February 2005, nonstop service from National was provided by 2,702 weekly flights to 64 cities in the U.S., Canada, and the Bahamas. Nonstop service from Dulles was provided by 4,045 weekly flights to 75 U.S. cities, as well by 294 weekly flights to 26 international destinations in the U.K. and Europe, Japan, Canada, Mexico, Latin America, and the Caribbean.

- In the 12 months ended September 2004, traffic to the Airports' top 20 domestic origin and destination (O&D) markets represented 60.5 percent of total domestic O&D passengers at National and 63 percent at Dulles. Total O&D traffic accounted for approximately 87 percent of total revenue passengers at National and 70 percent of total revenue passengers at Dulles.

- The regional jet proportion of domestic flight departures at Dulles has changed significantly, increasing from zero in 1996 to about 70 percent in February 2005. Although the high percentage is largely due to the effect of Independence Air, this shift of operations from mainline jets to regional jets is consistent with a broader U.S. trend of greater regional jet utilization. The regional jet share of flight departures at National also increased, from 9.7 percent in February 2001 to 40.2 percent in February 2005, reflecting a shift by some carriers from smaller-capacity (35 to 50 seats) to larger-capacity (70 or more seats) regional jet aircraft. Over the same period, mainline jets dropped from 74.6 percent to 58.8 percent of National's total flights and the share of turboprop aircraft declined from 15.7 percent to less than 1 percent.

- Air service at Baltimore/Washington International Airport (BWI), particularly the low-cost carriers (LCCs) that accounted for nearly 65 percent of all seats offered in February 2005, competes with National and Dulles for domestic O&D traffic to and from the Air Trade Area. BWI is located approximately 30 miles north of downtown Washington, D.C. Domestic O&D passengers who use BWI pay about one-third less, on average, than those who use the Airports, for trips of roughly equal distance. BWI moved from reporting the fewest passengers among the three airports in 1991 to enplaning the most in 2003. In 2004, however, Dulles once again surpassed BWI. BWI offers domestic air service comparable to that available at National and Dulles and will likely continue to attract a significant share of domestic passenger traffic to and from the Air Trade Area.

- In 2004, enplanements at Dulles increased by 3.0 million passengers (35.4 percent). In mid-June 2004, Independence Air, the reincarnation of former United and Delta regional affiliate Atlantic Coast Airlines, established a hub at Dulles. By October 2004, Independence Air operated over 300 flights per day to 36 destinations. Independence Air's low-fare service evoked a strong competitive response from United. Total scheduled seat capacity at Dulles increased by almost 50 percent in 2004, which along with lower fares, significantly stimulated passenger traffic. As a result, Dulles increased its share of total passenger traffic to and from the Air Trade Area in 2004. Much of the growth at Dulles over the past year has been fueled by a significant increase in seats, produced by non-LCCs that have been offered at relatively low fares; it is unlikely that such a situation can be sustained. Consequently, and because the futures for both United and Independence Air are uncertain, the traffic forecast for Dulles reflects conservative assumptions.

- For National, enplanements are forecast to be approximately 9.7 million in 2013. This forecast calls for traffic at National to experience an increase of 7.5 percent in 2005, to grow at an annual rate of 2.3 percent from 2005 to 2008, and 1.2 percent from 2008 to 2013. In 2013, National is expected to account for 42.5 percent of all enplanements at National and Dulles, up from 41.3 percent in 2004.

- For Dulles, enplanements are forecast to be approximately 13.2 million in 2013. The forecast is based, among other factors, upon an assumption that most of the capacity added since mid-2004 will be withdrawn during the second half of 2005. Accordingly, although this forecast envisions a 6 percent enplanement increase in 2005, it envisions a 15.4 percent drop in 2006. Thereafter, enplanements are forecast to grow at 3.8 percent per year, on average, through the forecast period. In 2013, Dulles is forecast to account for 57.5 percent of all enplanements at Dulles and National, taken together, down from 58.7 percent in 2004.

Financial Analyses

- The 2001-2011 CCP is financially feasible, and will provide facilities to satisfy future airline and air passenger needs.

- The revenues realized from the Airline Agreement and other contracts or regulations of the Authority, which are currently in place or are anticipated to be in place during the term of the Series 2005A-C Bonds provide sufficient funds to satisfy all O&M expenses, debt service,

debt service coverage requirements, and fund deposit requirements.

- On September 12, 2004, for the second time in two years, US Airways filed for bankruptcy protection under Chapter 11. Since entering bankruptcy the second time, US Airways has not confirmed its Airline Agreement, but continues to operate at the Airports. At the time of filing its second bankruptcy, US Airways owed the Authority approximately $1.1 million, which remains outstanding.

- On December 9, 2002, United filed for bankruptcy protection under Chapter 11 but continues to operate at the Airports during reorganization. On January 21, 2005, United obtained approval from the bankruptcy court for an additional four months to exclusively file its reorganization plan, extending the deadline from January 31 to April 30, 2005. United's chief executive officer has stated that he expects the company to emerge from bankruptcy in the fall of 2005. United has assumed its obligations under the Airline Agreement and has agreed to pay all of its outstanding pre-petition obligations to the Authority totaling approximately $4.5 million, upon its emergence from bankruptcy. United also has agreed to reimburse the Authority $20.3 million over a 10-year period for the expenses the Authority incurred in designing the Tier 2 Concourse project.

- Federal and state grants and PFCs have been assumed to fund a portion of future project costs. If the Authority does not receive the anticipated funds, the projects could be deferred until funding sources become available through grants, PFCs, Authority funds, and/or from the proceeds of additional Bonds.

- On a per enplanement basis, total Signatory Airline rentals, fees, and charges are projected to increase from $10.55 in 2005 to a high of $13.66 in 2012 and 2013 at National; and from $11.45 in 2005 to a high of $21.67 in 2010 at Dulles.

- The debt service coverage ratio (Net Revenues divided by total annual debt service, which includes previously issued Bonds, Series 2005A-C Bonds, and an estimated $2.1 billion in additional Bonds) of 125 percent required by the rate maintenance covenant in the Indenture is exceeded in each year from actual 2004 and projected 2005 through 2013. Debt service coverage ranges from a maximum of 1.68x in 2004 to a minimum of 1.32x in 2009.

- Certain sensitivity analyses were prepared to determine the impacts of decreased enplanement forecasts and increased debt service on the Signatory Airline cost per enplanement and debt service coverage. Based on the sensitivity analyses conducted, the projected Signatory Airline cost per enplaned passenger results in a maximum of $16.24 at National and a maximum of $35.85 at Dulles. In each of the sensitivities, the estimated debt service coverage remains at or higher than the 125 percent rate covenant requirement of the Indenture during the projection period.

The methodologies used in this report are consistent with industry practices for similar studies in connection with airport revenue bond sales. While PB Aviation believes the approach and assumptions utilized are reasonable, some assumptions regarding future trends and events may not

materialize. For example, certain assumptions either utilized by or provided to PB Aviation for preparation of financial projections developed in this report are different from assumptions that appeared in the Report of the Airport Consultant for the Series 2003A-D Bonds (the Series 2003A-D Report). These assumptions include a shift in the construction phasing of certain projects and the addition of certain projects, both resulting in a change in the timing for future issuances of debt and revised expense and revenue projections for operations of the Authority. These revisions are discussed in greater detail in the corresponding chapters of this report.

Achievement of the projections described in this report, therefore, is dependent upon the occurrence of certain assumed future events, and variations may be material. Except as defined otherwise, the capitalized terms used in this report are as defined in the Indenture and/or the Airline Agreement.

Sincerely,

PB Aviation, Inc.

PB Aviation

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TABLE OF CONTENTS

Page

1. ECONOMIC BASE FOR AIR TRANSPORTATION A-15
   - 1.1 Air Trade Area A-15
   - 1.2 Status of the Economy A-17
   - 1.3 Population A-21
   - 1.4 Immigration and Cultural Diversity A-23
   - 1.5 Income A-25
   - 1.6 Employment A-27
   - 1.7 Summary A-31
2. AIR TRAFFIC A-33
   - 2.1 Overview A-33
   - 2.2 Industry Context A-39
   - 2.3 National A-57
   - 2.4 Dulles A-74
3. CAPITAL CONSTRUCTION PROGRAM A-103
   - 3.1 Existing Airport Facilities A-103
   - 3.2 Capital Construction Program A-104
   - 3.3 The 2001-2011 Capital Construction Program A-105
   - 3.4 Plan of Funding for the 2001-2011 CCP A-112
4. FINANCIAL ANALYSIS A-117
   - 4.1 Estimated Debt Service Requirements A-117
   - 4.2 Operation and Maintenance Expenses A-120
   - 4.3 Nonairline Revenues A-122
   - 4.4 Airline Revenues A-124
   - 4.5 Authority's Cash Position A-129
   - 4.6 Application of Revenues/Rate Covenant A-129
   - 4.7 Sensitivity Analysis A-133

LIST OF TABLES

Page

1-1 Comparison of Leading Indices A-17
1-2 Historical and Projected GRP and GDP A-19
1-3 Historical and Projected Population.......... A-22
1-4 Effective Buying Income A-26
1-5 Civilian Labor Force, Employment, and Unemployment.......... A-28
1-6 Employment Trends by Major Industry Division A-30

2-1 Enplanement Trends at National and Dulles A-34
2-2 Enplanement Forecast Summary at National and Dulles.......... A-38
2-3 Chronology of Events A-42
2-4 Domestic O&D Passenger Trends at National, Dulles and BWI.......... A-52
2-5 Airport Shares of the Region's Top 20 Domestic O&D City Markets.......... A-53
2-6 Comparison of Domestic Scheduled Passenger Air Service at National, Dulles, and BWI.......... A-54
2-7 Top U.S. International Gateway Airports International Daily Departing Flights and Seats to Trans-Atlantic Destinations.......... A-56
2-8 National's Domestic Scheduled Passenger Air Service, by Aircraft Type A-58
2-9 Scheduled Passenger Jet Service in National's Top 20 Domestic O&D Passenger Markets.......... A-59
2-10 Carrier Shares of National's Enplaned Passengers A-61
2-11 History of National's Enplaned Passengers by Market Segment A-64
2-12 National's Top 20 Domestic O&D City Markets.......... A-66
2-13 National's Enplaned Passenger Forecast Trends.......... A-69
2-14 National's Flight Departure Forecast Trends A-72
2-15 National's Aircraft Landed Weight Forecast Trends A-73
2-16 Dulles' Domestic Scheduled Passenger Air Service, By Aircraft Type and Length of Haul A-77
2-17 Scheduled Passenger Jet Service in Dulles' Top 20 Domestic O&D Passenger Markets A-79
2-18 Dulles' Carrier Shares of Domestic Enplaned Passengers.......... A-81
2-19 Dulles' Top 20 Domestic O&D City Markets.......... A-85
2-20 Trends in Dulles' International Air Service.......... A-87
2-21 Dulles' Carrier Shares of International Enplaned Passengers.......... A-88
2-22 Dulles' Departing Passengers on International Flights A-92
2-23 Dulles' Enplaned Passenger Forecast Trends.......... A-95
2-24 Dulles' Carrier Shares of Air Cargo Handled A-98
2-25 Dulles' Flight Departure Forecast Trends A-100
2-26 Dulles' Aircraft Landed Weight Forecast Trends A-102

LIST OF TABLES (Continued)

Page

3-1 Summary of the 2001-2011 CCP A-105
3-2 2001-2011 CCP Sources of Funding A-112
3-3 Approved PFC Applications A-114

4-1 Application of Bond Proceeds 2001-2011 CCP A-117
4-2 Summary of Debt Service Requirements Payable from Revenues A-119
4-3 Projected O&M Expenses A-121
4-4 Projected Nonairline Revenues A-123
4-5 Projected Signatory Airline Rentals, Fees, and Charges A-125
4-6 Authority's Cash Reserves as of 12/31/04 .... A-129
4-7 Application of Revenues – National A-130
4-8 Application of Revenues – Dulles A-131
4-9 Application of Revenues – Combined A-132
4-10 Comparison of Sensitivity Analysis A-135

LIST OF EXHIBITS

Page

1-1 Air Trade Area....A-16
1-2 Comparison of Job Market and Unemployment Rates A-20
1-3 Geographic Distribution of the Air Trade Area's 2003 Population....A-22
1-4 Comparison of Foreign Born Resident Population by Continent of Origin for Top Nine CBSAs....A-24
1-5 Unemployment Rate....A-29

2-1 Index of Total Enplaned Passengers at National, Dulles, BWI, and the U.S. A-36
2-2 Total Enplaned Passengers – Historical and Forecast at National and Dulles A-39
2-3 Comparison of Enplanements at National, Dulles, and BWI....A-50
2-4 Airport Shares of Total Regional Enplanements....A-51
2-5 History of National's Enplaned Passengers A-57
2-6 National's Enplaned Passenger Market Share....A-62
2-7 National's Departing Seats on US Airways, US Airways Shuttle, and US Airways Express Flights A-63
2-8 National's Total Enplaned Passengers – Historical and Forecast....A-70
2-9 History of Dulles' Enplaned Passengers A-74
2-10 Total Enplanements at National and Dulles A-75
2-11 Changes in Dulles' Domestic Enplanements by Major Carrier....A-82
2-12 Dulles' Domestic Departing Seats on United and United Express....A-83
2-13 Dulles' Domestic O&D Passengers....A-84
2-14 Dulles' Domestic-to-Domestic Connecting Passengers....A-86
2-15 Changes in Dulles' International Enplaned Passengers A-88
2-16 Dulles' International Departing Seats on United and United Express....A-88
2-17 Dulles' International O&D Passengers....A-90
2-18 Dulles' International Gateway Connecting Passengers A-91
2-19 Dulles' Total Enplaned Passengers-Historical and Forecast A-96
2-20 History of Dulles' Air Cargo Handled, by Carrier Type A-97

1. ECONOMIC BASE FOR AIR TRANSPORTATION

In the greater Washington area, the principal component of air travel demand is origination and destination (O&D) traffic as approximately 87 percent of total passengers at National and 70 percent of total passengers at Dulles consists of O&D traffic. The O&D component of air travel demand depends largely upon the demographic and economic characteristics of an airport's air trade area. This section of the Report defines the air trade area (Air Trade Area) of National and Dulles, and presents demographic and economic data that demonstrate the capability of the Airports' Air Trade Area to support current and future air travel demand.

1.1 AIR TRADE AREA

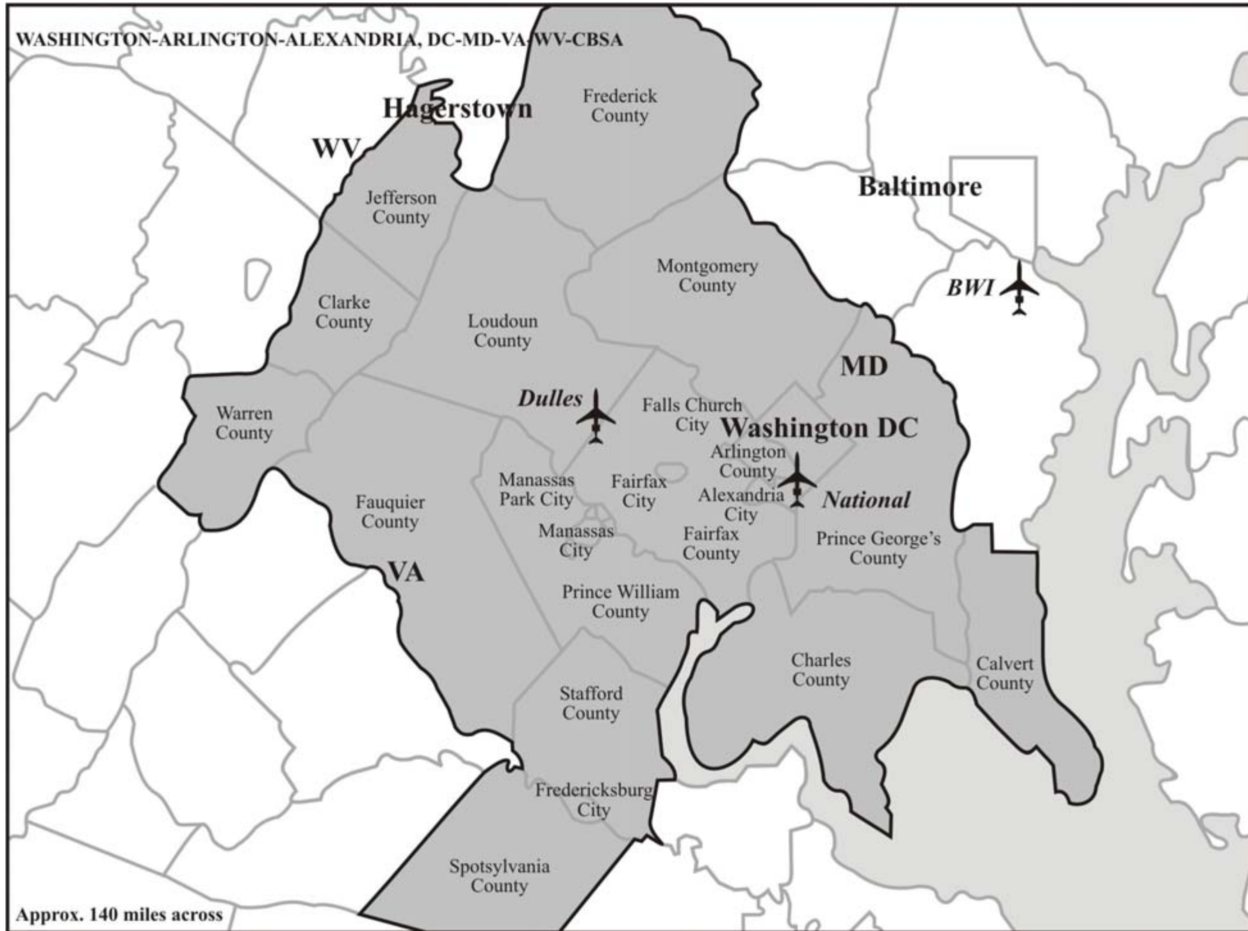
In June 2003, the U.S. Office of Management and Budget announced revisions to its geographic Census definitions and replaced Metropolitan Statistical Areas (MSAs) with Core-Based Statistical Areas (CBSA). The CBSA classification includes designations of Metropolitan and Micropolitan areas. These designations are based on the population of a particular CBSA.

This report delineates the newly defined Washington-Arlington-Alexandria, DC-VA-MD-WV CBSA as the primary Air Trade Area for the Airports, based on geographical boundaries and the location of alternative commercial air service facilities. As shown in **Exhibit 1-1**, the Air Trade Area is comprised of the following jurisdictions: the District of Columbia; the Maryland counties of Calvert, Charles, Frederick, Montgomery, and Prince George's; the Virginia counties of Arlington, Clarke, Fairfax, Fauquier, Loudoun, Prince William, Spotsylvania, Stafford, and Warren; the independent Virginia cities of Alexandria, Fairfax, Falls Church, Fredericksburg, Manassas, and Manassas Park;[1] and the West Virginia county of Jefferson.

The new CBSA designation results in the elimination of Culpeper and King George's counties in Virginia and Berkeley County in West Virginia from the Air Trade Area as defined in the Series 2003A-D Report. Where possible, the historical data presented in this report has been adjusted to reflect the revised Air Trade Area.

[1] These six Virginia cities are separate jurisdictions and are not included in any county statistics.

Exhibit 1-1
AIR TRADE AREA



Source: Prepared by PB Aviation

Portions of the Air Trade Area are also served by BWI, which is located approximately 30 miles northeast of Washington, D.C. and is operated by the Department of Transportation of the State of Maryland. Each of the three airports (National, Dulles, and BWI) serve similar overlapping geographic markets in the Air Trade Area. However, the composition of the type of traveler is different at each airport. National primarily serves the short-haul business market providing shuttle service to the Northeast corridor; Dulles is a hub for United Airlines and Independence Air and primarily serves the long-haul domestic and international market; and BWI, with the greatest presence of low-fare carriers, serves the largest proportion of leisure travelers, 57 percent according to the most recent *2002 Regional Air Passenger Survey* conducted by the National Capital Region Transportation Planning Board, of the Metropolitan Washington Council of Governments. The three airports are described in greater detail in Chapter 2 of this report.

In analyzing the demographic and economic trends in the Air Trade Area, this report also includes comparative data from the Washington D.C.-Maryland-Virginia Area, which encompasses a larger demographic area than the Air Trade Area. The Washington D.C.-Maryland-Virginia Area encompasses the entire District of Columbia, State of Maryland, and Commonwealth of Virginia.

1.2 STATUS OF THE ECONOMY

During the second half of the 1990s, the U.S. economy experienced a period of sustained economic growth. A period of economic slowdown beginning in the later half of 2000 developed into a recession in March 2001, as determined by National Bureau of Economic Research (NBER), and contributed to reduced air travel, primarily in the business travel segment. In July 2003, NBER further determined that the 2001 recession had ended in November 2001**.** The U.S. economy slowly recovered from the recession in 2002 and 2003 and in 2004 experienced growth at levels similar to that of the late 1990s.

The events of September 11, 2001, the conflicts in Afghanistan and Iraq, and a periodically heightened Homeland Security threat level also negatively affected air travel during 2001 and 2002. As the economy recovered from the recession in 2003 and experienced growth in 2004, growth in air travel also improved.

Table 1-1 presents the leading indices for the U.S. and the Air Trade Area. The U.S. Leading Index measures the trend of the overall U.S. economy in the next three to six months. The U.S. Leading Index data presented in the table was compiled from a report prepared by The Conference Board, a business funded research group. The Air Trade Area's Leading Index is designed to forecast the performance of the metropolitan area. The Air Trade Area's Leading Index data presented in the table was compiled from a report prepared by George Mason University, Center for Regional Analysis (CRA).

Table 1-1
COMPARISON OF LEADING INDICES

	Leading Indices			
Month	United States	Percent Change	Air Trade Area [1]	Percent Change
November, 2003	114.0	0.3%	109.0	0.3%
December, 2003	114.3	0.3%	109.7	0.6%
January, 2004	114.7	0.3%	109.8	0.1%
February, 2004	114.8	0.1%	110.0	0.2%
March, 2004	115.7	0.8%	110.1	0.1%
April, 2004	115.8	0.1%	111.0	0.8%
May, 2004	116.3	0.4%	110.5	-0.5%
June, 2004	116.2	-0.1%	111.1	0.5%
July, 2004	116.0	-0.2%	110.4	-0.6%
August, 2004	115.6	-0.3%	110.7	0.3%
September, 2004	115.3	-0.3%	111.6	0.8%
October, 2004	114.9	-0.3%	111.1	-0.4%
November, 2004	115.2	0.3%	110.5	-0.5%
% Change Nov 03 - Nov 04		1.1%		1.4%
% Change May 04 - Nov 04		-0.9%		0.0%

[1] The data presented for the Air Trade Area in this table has not been updated to reflect the redefinition of the Washington-Arlington-Alexandria DC-MA-VA-WV CBSA.

Sources: The Conference Board, U.S. Leading Index; George Mason University, Center for Regional Analysis, Air Trade Area Leading Index; Compiled by PB Aviation

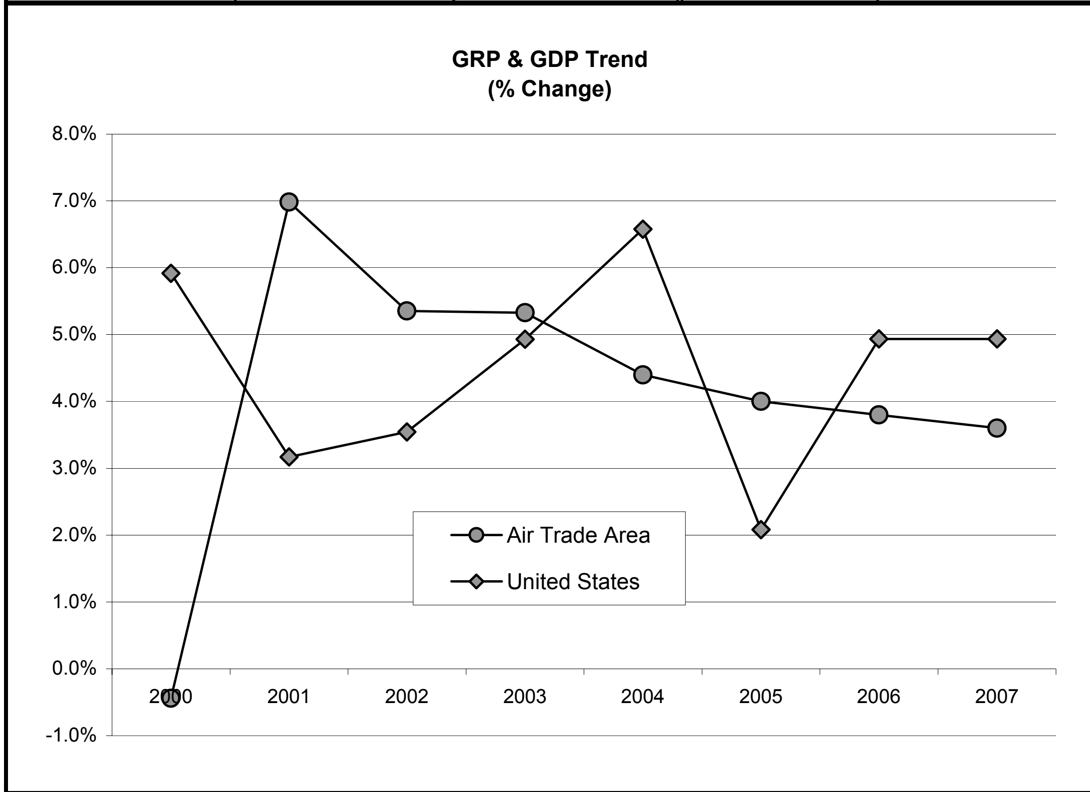
As shown in Table 1-1, the U.S. Leading Index increased by 0.8 percent in March 2004 representing the largest monthly increase for the 12-month period presented. This increase was followed by slight monthly decreases and increases ranging from a decrease of 0.3 percent to an increase of 0.4 percent. As also shown in the table, the Air Trade Area's leading index increased by 0.8 percent in April 2004 and September 2004. From November 2003 through November 2004, the leading index for the Air Trade Area increased 1.4 percent while the U.S. Leading Index increased 1.1 percent, suggesting that the Air Trade Area's economy grew at a slightly faster pace than the nation. At 2004 levels, the U.S. and Air Trade Area's Leading Indices were well above their pre-September 11, 2001 levels. Economic health is a critical variable in supporting demand and utilization of air transportation. It should be noted that rates of economic growth could vary between the District of Columbia, Maryland, and Virginia, and some parts of the economy may grow at much slower rates than others.

Table 1-2 presents a comparison of the Air Trade Area's Gross Regional Product (GRP) and the nation's Gross Domestic Product (GDP). From 2000 to 2003, growth in the Air Trade Area's economic output outpaced the nation as a whole. In 2004, according to the U.S. Office of Management and Budget, the nation's GDP experienced a growth peak of 6.6 percent, which is higher than the GRP for that time period. Because this growth is similar to growth experienced for the GRP between 2000 and 2001, this indicates the Air Trade Area is ahead of the nation in terms of economic recovery. The Air Trade Area's GRP is predicted to increase at a higher rate than the nation's GDP for 2005, but at levels lower than the nation for 2006 and 2007.

As also shown in Table 1-2, the per capita gross product of the Air Trade Area is approximately 30 percent higher than that of the nation during the historical years depicted. This translates into each person in the Air Trade Area (taken on average) producing approximately 30 percent more in the value of product (goods and services) than in the United States on average. The gap in per capita output is expected to continue to rise through 2007. These statistics are reinforced when looking at the Effective Buying Income (EBI) figures in Table 1-4 which reflect that residents in the Air Trade Area had approximately 40 percent more disposable income in 2003 and are projected to have more disposable income in 2008, than the national average.

Table 1-2
HISTORICAL AND PROJECTED GRP AND GDP
(amounts in billions)

	GRP [1]		GDP		Per Capita GRP [1]		Per Capita GDP	
Year	Air Trade Area	% Change	United States	% Change	Air Trade Area	% Change	United States	% Change
Historical								
2000	$215	-0.4%	$9,817	5.9%	$44,786	-4.2%	$34,884	2.6%
2001	$230	7.0%	$10,128	3.2%	$46,675	4.2%	$35,562	1.9%
2002	$242	5.4%	$10,487	3.5%	$48,167	3.2%	$36,367	2.3%
2003	$255	5.3%	$11,004	4.9%	$50,094	4.0%	$37,842	4.1%
2004	$266	4.4%	$11,728	6.6%	$50,594	1.0%	$39,912	5.5%
Projected								
2005	$277	4.0%	$11,972	2.1%	$51,986	2.8%	$40,324	1.0%
2006	$287	3.8%	$12,563	4.9%	$53,308	2.5%	$41,880	3.9%
2007	$298	3.6%	$13,183	4.9%	$54,563	2.4%	$43,494	3.9%
Annual Compounded Growth								
2000-2004	5.5%		4.5%		3.1%		3.4%	
2004-2007	3.8%		4.0%		2.5%		2.9%	

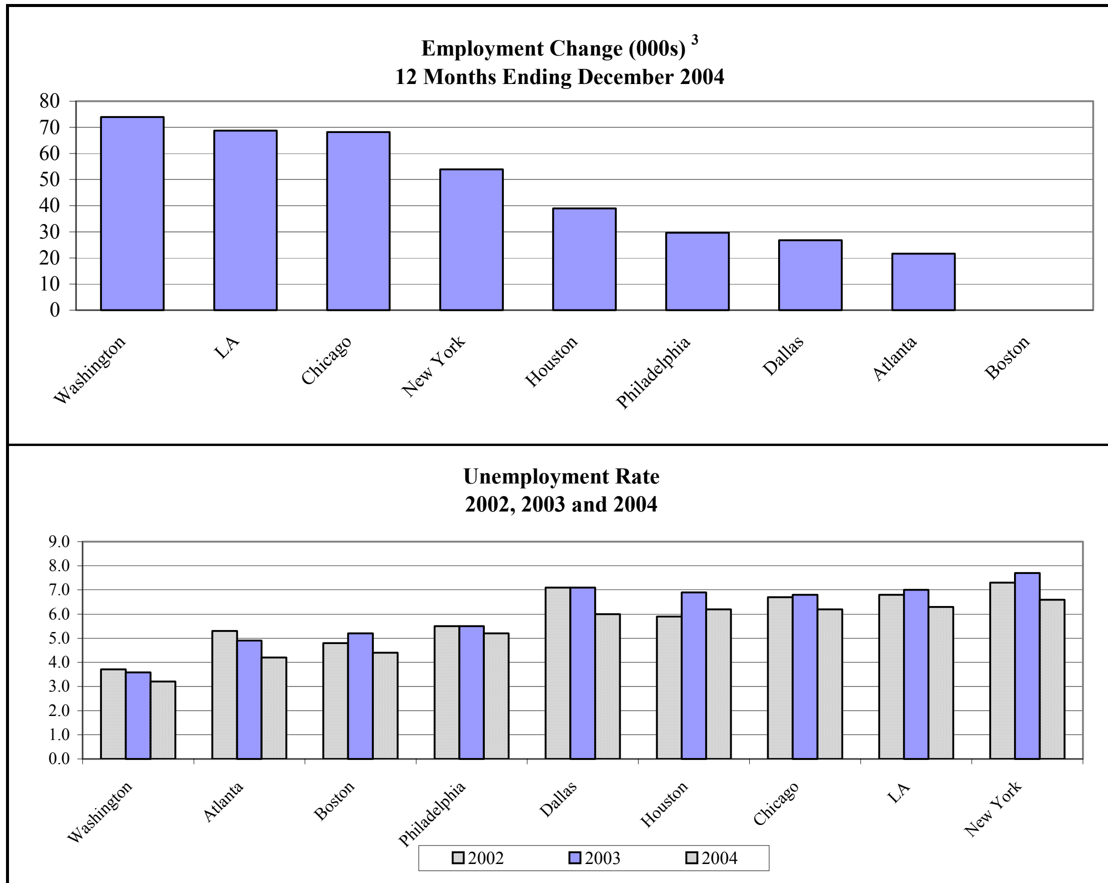


[1] The GRP data presented for the Air Trade Area in this table has not been updated to reflect the redefinition of the Washington-Arlington-Alexandria DC-MA-VA-WV CBSA.

Sources: George Mason University, Center for Regional Analysis; National Policy Association (NPA) Data Services, Inc.; U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; U.S. Office of Management and Budget; U.S. Conference of Mayors; Compiled by PB Aviation

Since 2001, the Air Trade Area's economy had the highest gain in employment out of the nation's top nine CBSAs (based on population) and has the lowest unemployment rate. **Exhibit 1-2** presents the change in employment and unemployment rate for the top nine CBSAs. As depicted in Exhibit 1-2, all but one of the metropolitan areas and the U.S. as a whole have seen an increase in the net number of jobs, with the Air Trade Area experiencing the highest net gain despite being ranked seventh in terms of population. As also shown, the Air Trade Area has the lowest unemployment rate and experienced a decrease in unemployment rates from 2002 to 2003 when some of the other CBSAs experienced an increase in this rate during the same time period.

Exhibit 1-2
COMPARISON OF JOB MARKET AND UNEMPLOYMENT RATES [1, 2]



[1] The CBSAs presented in this table are the top nine CBSAs according to 2003 population.

[2] The data presented for the Air Trade Area in this table reflects the redefinition of the Washington-Arlington-Alexandria DC-MA-VA-WV CBSA; however, the data for the other CBSAs presented may not reflect the redefinition, if any by the U.S. Office of Management and Budget of a particular CBSA.

[3] The Boston CBSA experienced no significant change in employment during this time period.

Sources: U.S. Bureau of Labor Statistics, Compiled by PB Aviation

According to CRA, in 2004 the Air Trade Area's economy experienced its best year since 2000 and in 2005 the Air Trade Area's economy is expected to stabilize after this period of growth. CRA also predicts an additional growth in jobs for 2005, with the Air Trade Area's economy peaking and growing at a slower pace from 2006 onward. Current indicators of a healthy labor market show signs of economic strength in the Air Trade Area's economy, but uncertainty lies in the potential for additional terrorist attacks on U.S. interests, the possibility of additional armed conflict in various

areas of the world, heightened domestic security threat levels, and the duration of the continued lag in business spending, particularly for travel.

The remainder of this chapter will discuss specifically the demographic and economic characteristics that demonstrate the capability of the Air Trade Area to support growth in air travel demand.

1.3 POPULATION

Table 1-3 presents the historical and projected population in the Air Trade Area, the Washington D.C.-Maryland-Virginia Area, and the U.S. In 2003, the population of the Air Trade Area was approximately 5.1 million, or 37.9 percent of the total population of the Washington D.C.-Maryland-Virginia Area. Within the Air Trade Area, the largest concentration of population can be found in the combined jurisdictions of Fairfax County, Fairfax City, and Falls Church City (20.3 percent); Montgomery County (18.1 percent); Prince George's County (16.5 percent); and the District of Columbia (11.1 percent) (**Exhibit 1-3**).

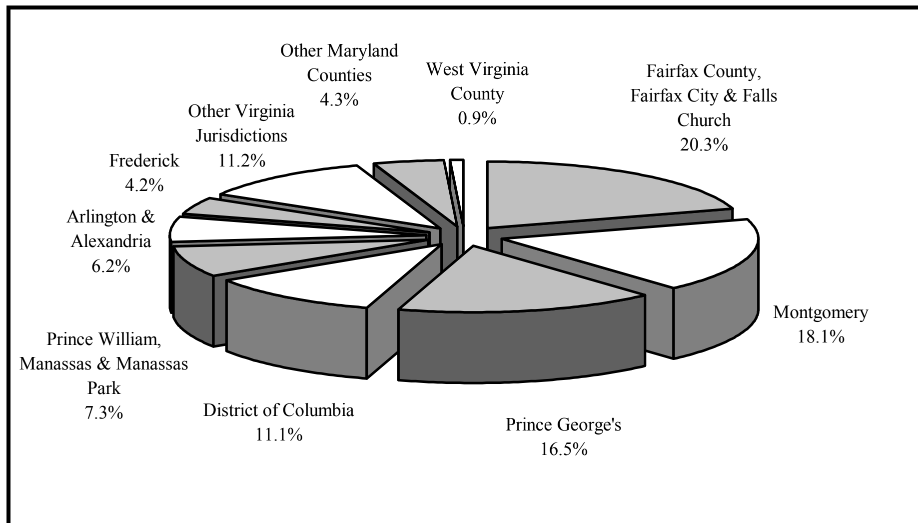
Table 1-3
HISTORICAL AND PROJECTED POPULATION

	Historical [1]			Projected	Annual Compounded Growth		
					Historical		
Area	1990	2000	2003	2010	1990-2000	1990-2003	2003-2010
District of Columbia	606,900	572,059	563,384	548,319	-0.6%	-0.6%	-0.4%
State of Maryland							
Calvert County	51,372	74,563	84,110	98,665	3.8%	3.9%	2.3%
Charles County	101,154	120,546	133,049	151,428	1.8%	2.1%	1.9%
Frederick County	150,208	195,277	213,662	241,713	2.7%	2.7%	1.8%
Montgomery County	757,027	873,341	918,881	989,313	1.4%	1.5%	1.1%
Prince George's County	729,268	801,515	838,716	839,955	0.9%	1.1%	0.0%
Commonwealth of Virginia							
Arlington County & Alexandria City	282,119	317,736	316,796	323,537	1.2%	0.9%	0.3%
Clarke County	12,101	12,652	13,364	14,121	0.4%	0.8%	0.8%
Fairfax County, Fairfax City & Falls Church City	847,784	1,001,624	1,032,921	1,183,144	1.7%	1.5%	2.0%
Fauquier County	48,741	55,139	61,137	66,824	1.2%	1.8%	1.3%
Loudoun County	86,129	169,599	221,746	249,405	7.0%	7.5%	1.7%
Prince William County, Manassas & Manassas Park City	250,377	326,238	373,480	433,143	2.7%	3.1%	2.1%
Spotsylvania County & Fredericksburg City	76,430	109,674	128,027	147,978	3.7%	4.0%	2.1%
Stafford County	61,236	92,446	111,021	125,297	4.2%	4.7%	1.7%
Warren County	26,142	31,584	33,871	37,032	1.9%	2.0%	1.3%
State of West Virginia							
Jefferson County	35,926	42,190	46,270	49,723	1.6%	2.0%	1.0%
AIR TRADE AREA	4,122,914	4,796,183	5,090,435	5,651,325	1.5%	1.6%	1.5%
Wash D.C.-Maryland-Virginia Area	11,575,726	12,947,060	13,440,978	14,520,721	1.1%	1.2%	1.1%
United States	248,710,000	281,421,906	290,788,976	312,302,711	1.2%	1.2%	1.0%

[1] The total historical population data for the Air Trade Area differs from the information presented in the Series 2003A-D Report as a result of the redefinition of the Washington-Arlington-Alexandria DC-MA-VA-WV CBSA.

Sources: U.S. Department of Commerce, Bureau of the Census (all areas: 1990, 2000, 2003), National Policy Association (NPA) Data Services, Inc. (2010), Compiled by PB Aviation and ARP Consulting

Exhibit 1-3
GEOGRAPHIC DISTRIBUTION OF
THE AIR TRADE AREA'S 2003 POPULATION



Source: U.S. Bureau of the Census, Compiled by PB Aviation and ARP Consulting

Population growth in the Air Trade Area has consistently outpaced population growth in the Washington D.C.-Maryland-Virginia Area and the U.S. For the 13 years ending 2003, the population of the Air Trade Area grew at an annual compounded rate of 1.6 percent, compared to 1.2 percent for both the Washington D.C.-Maryland-Virginia Area and the U.S. Within the Air Trade Area, population data by jurisdiction reveal a trend of out-migration from the District of Columbia. Between 1990 and 2003, the population of the District of Columbia decreased by 0.6 percent per year, on average, while the population of all the other jurisdictions in the Air Trade Area expanded at rates ranging from 0.8 percent to 7.5 percent per year. The highest annual population growth rates occurred in Loudoun County (7.5 percent), Stafford County (4.7 percent), followed by the combined jurisdictions of Spotsylvania County and the City of Fredericksburg (4.0 percent), indicating an increase in the population base immediately surrounding Dulles and south of the Airports to support growth in aviation activity and air service.

Based on the population projections in Table 1-3, the annual population growth rate of the Air Trade Area, utilizing 2003 as a base, is projected to be 1.5 percent through 2010, and will continue to exceed the annual population growth rates of the Washington D.C.-Maryland-Virginia Area (1.1 percent) and the U.S. (1.0 percent). The populations of Calvert County; the combined jurisdictions of Fairfax County and Fairfax City and Falls Church City; Prince William County; the combined jurisdictions of Manassas and Manassas Park City; and the combined jurisdictions of Spotsylvania and Fredericksburg City are projected to expand at rates above 2.0 percent per year. The population of the District of Columbia has been in decline for over 30 years and is projected to decline further at a rate of 0.4 percent annually. According to CRA, the number of households and the availability of housing have remained constant in the District while population has decreased indicating a downward trend in the size of households that reside in the District. According to the Metropolitan Washington Council of Governments (COG) *Growth Trends to 2025: Cooperative Forecasting in the Washington Region*, population growth in the Air Trade Area will be spurred by the strength of the regional economy, high rates of in-migration and international immigration, and less rapid declines in average household size.

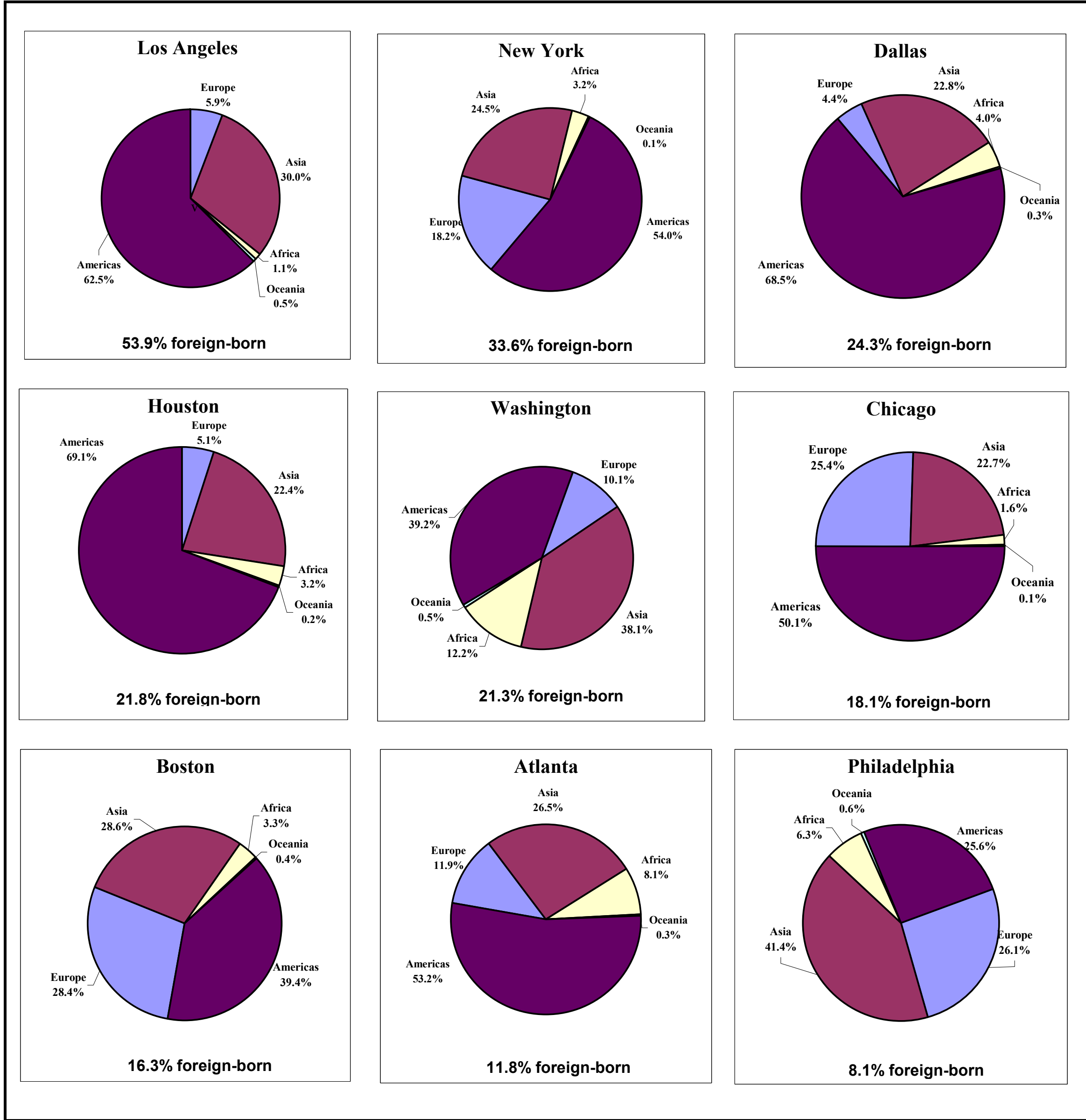
According to the COG forecast, the region will experience significant changes at both ends of the age pyramid (i.e., the number of persons over age 65 will double while the number of children will increase by approximately 30 percent).

1.4 IMMIGRATION AND CULTURAL DIVERSITY

The Air Trade Area consists of a highly diversified, multi-cultural population, which provides it with a distinct advantage in today's global economy. According to the U.S. Census Bureau, the nation's percentage of foreign born residents to the total population is nearly 12 percent while the Air Trade Area has over 21 percent of the overall population being born outside of the U.S. This is advantageous for the Air Trade Area since the foreign born resident population contributes to the demand for air travel, specifically international air travel, to and from homeland countries and other international destinations for both leisure and business purposes. An equally important factor in the Air Trade Area's demand for air travel are the relatives, friends, and business associates who travel to the Air Trade Area as a result of the high concentration of various foreign born peoples and their respective business and political interests.

The Air Trade Area ranks fifth in total foreign born population when compared to the top nine CBSAs. **Exhibit 1-4** shows the diversity of the top nine CBSAs in the United States by continent of birth. The Air Trade Area's foreign born residents come from all around the globe and are more diverse than the nation as whole and other metropolitan areas. Of the nearly 800,000 foreign born residents, 39.2 percent are from the Americas (Latin America, South America, Caribbean, and North America-Non-U.S.) representing the largest foreign born sub-population. Almost as abundant is the Asian born sub-population at 38.1 percent, which is the second highest concentration of the CBSAs presented. European born peoples account for 10.1 percent of the foreign born population, and the Air Trade Area contains 12.2 percent African born people, which is the highest of the CBSAs presented.

Exhibit 1-4
COMPARISON OF FOREIGN-BORN RESIDENT POPULATION BY CONTINENT OF ORIGIN FOR TOP NINE CBSAs[1]



[1] The CBSAs presented in this table are the top nine CBSAs according to the 2003 population.

[2] The data presented for the Air Trade Area in this table has not been updated to reflect the redefinition of the Washington-Arlington-Alexandria DC-MA-VA-WV CBSA. The data for the other CBSAs presented may not reflect the redefinition, if any by the U.S. Office of Management and Budget of a particular CBSA.

Sources: U.S. Department of Commerce, Bureau of the Census, Compiled by PB Aviation

In addition to the increased demand for air travel, the diversity of the region stimulates the local economy through broader trade and increased business opportunities. Immigrants and foreign expatriates provide a growing economic base while boosting the Air Trade Area's appeal to tourism, offering world renowned eateries, shopping, cultural events and festivals.

As the headquarters for the Federal government, the Air Trade Area has numerous embassies, consulates, foreign dignitaries, and multi-national corporations that utilize air travel as a critical means of transportation. Similarly, U.S. government workers and local businesses rely on air travel for corporate and intra-governmental business.

1.5 INCOME

The demand for air travel increases with income, as consumers with higher incomes tend to travel by air more frequently. The level of income in a particular area indicates the relative affluence of local residents. Changes in the level of income over time indicate changes in economic well-being and reflect local economic and employment trends.

Income can be measured in terms of EBI, which is the disposable income after taxes and mandatory non-tax payments, such as personal contributions to Social Security and federal retirement payroll deductions. In 2003, the most recent year for which data is available, the Air Trade Area recorded the fourth highest total EBI among 922 CBSAs.[2] Between 1994 and 2003, the share of the Air Trade Area of the Washington D.C.-Maryland-Virginia Area's total EBI was relatively stable, ranging from a low of 44.9 percent in 1995 to a high of 47.3 percent in 2001. In addition, the share of the U.S. total EBI of the Air Trade Area remained stable ranging from approximately 2.3 percent to 2.4 percent during this same period (**Table 1-4**). The share of the Air Trade Area of the Washington D.C.-Maryland-Virginia Area total EBI, as well as the nation's EBI, is projected to grow in the next five years to 48.1 percent and 2.56 percent, respectively.

Dividing total EBI by population yields the per capita EBI, as presented in Table 1-4 for the Air Trade Area, the Washington D.C.-Maryland-Virginia Area, and the U.S. From 1994 through 2003, the per capita EBI in the Air Trade Area was consistently higher than that of the Washington D.C.-Maryland-Virginia Area and the U.S. In 2003, the per capita EBI in the Air Trade Area was approximately $25,595, 21.8 percent higher than the per capita EBI in the Washington D.C.-Maryland-Virginia Area and 37.1 percent higher than the per capita EBI in the U.S. Between 1995 and 2003, the per capita EBI in the Air Trade Area increased at an annual compounded rate of 2.8 percent. This increase was lower than the nominal income growth rate in the Washington D.C.-Maryland-Virginia Area (3.1 percent) and equal to that of the U.S. (2.8 percent). According to *Sales and Marketing Management*, per capita EBI in the Air Trade Area is projected to exceed per capita EBI in the Washington D.C.-Maryland-Virginia Area and the U.S. in 2008, the last year for which EBI projections are available. Specifically, per capita EBI in the Air Trade Area is projected to increase at an annual compounded growth rate of 2.7 percent from 2003 through 2008, compared to 2.7 percent for the Washington D.C.-Maryland-Virginia Area and 2.4 percent for the U.S.

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[2] *Sales and Marketing Management, 2004 Survey of Buying Power and Media Markets*, September 2004.

Table 1-4
EFFECTIVE BUYING INCOME

Year	Per Capita Effective EBI			Air Trade Area's Share	
	Air Trade Area [1]	Wash D.C.-Maryland-Virginia Area	United States	Wash D.C.-Maryland-Virginia Area	United States
Historical [2]					
1994	$23,284	$18,537	$16,918	45.2%	2.30%
1995	$20,459	$16,410	$14,965	44.9%	2.28%
1996	$21,206	$17,022	$15,555	45.0%	2.27%
1997	$22,220	$17,811	$16,281	45.2%	2.27%
1998	$23,193	$18,553	$16,895	45.7%	2.30%
1999	$24,228	$19,469	$17,691	46.1%	2.32%
2000	$25,144	$20,197	$18,426	46.2%	2.33%
2001	$26,042	$20,553	$18,491	47.3%	2.43%
2002	$24,785	$20,472	$18,375	45.5%	2.34%
2003	$25,595	$21,012	$18,662	46.6%	2.43%
Projected					
2008	$29,177	$23,995	$21,044	48.1%	2.56%
Annual Compounded Growth					
1995 - 2003	2.8%	3.1%	2.8%		
2003 - 2008	2.7%	2.7%	2.4%		

Income Category	% of Households (2003 EBI)		
	Air Trade Area	Wash D.C.-Maryland-Virginia Area	United States
Less than $20,000	12.3%	18.7%	22.4%
$20,000 - $34,999	16.4%	21.0%	23.3%
$35,000 - $49,999	17.7%	19.1%	19.0%
$50,000 or more	53.6%	41.2%	35.4%
Total	100.0%	100.0%	100.0%

[1] The historical per capita EBI differs from the information presented in the Series 2003A-D Report as a result of the redefinition of the Washington-Arlington-Alexandria DC-MA-VA-WV CBSA.

[2] EBI data beginning in 1995 are not directly comparable to data in previous years due to a change in certain components of the EBI.

Source: *Sales & Marketing Management, Survey of Buying Power and Media Markets;* Compiled by PB Aviation and ARP Consulting

An additional indicator of the market potential for air transportation demand is the percentage of households in the higher income categories. An examination of this indicator is important because as personal income increases, air transportation becomes more affordable and, therefore is used more frequently. According to a recent Air Transport Association *Air Travel Survey*, approximately 91 percent of those in higher income categories (over $40,000 per year) have used air transportation. This amount decreases to approximately 72 percent for those in lower income categories (less than $40,000). Table 1-4 presents the distribution of households by income categories in 2003. There is a larger concentration of households with an EBI of $50,000 or more in the Air Trade Area (53.6 percent), when compared to the Washington D.C.-Maryland-Virginia Area (41.2 percent) and the U.S. (35.4 percent). With a total of 75,200 households with an EBI of $150,000 or more in 2003, the Air Trade Area ranked fifth behind the CBSAs of New York, Los Angeles, Chicago, and San Francisco in the number of households in this income category.[3]

[3] *Sales and Marketing Management, 2004 Survey of Buying Power and Media Markets*, September 2004.

1.6 EMPLOYMENT

Table 1-5 presents historical data on civilian labor force, employment, and unemployment in the Air Trade Area, the Washington D.C.-Maryland-Virginia Area, and the U.S. The civilian labor force comprises members of the population, who are at least 16 years old and are either employed or actively seeking employment. The civilian labor force in the Air Trade Area increased from approximately 2.5 million in 1994 to approximately 2.8 million in 2004 at an annual compounded growth rate of 1.4 percent. The growth rate of the civilian labor force in the Air Trade Area is greater than the growth rate in the Washington D.C.-Maryland-Virginia Area (1.0 percent) and the U.S. (1.2 percent). Employment increased faster than the civilian labor force: 1.5 percent per year in the Air Trade Area, 1.2 percent per year in the Washington D.C.-Maryland-Virginia Area and the U.S. from 1994 through 2004. Consequently, unemployment declined by 1.2 percent per year in the Air Trade Area, 1.8 percent per year in the Washington D.C.-Maryland-Virginia Area, and increased 0.2 percent per year in the U.S. between 1994 and 2004.

Table 1-5
CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Year	Air Trade Area	Washington, D.C.- Maryland-Virginia Area	United States
		Labor Force (000's)	
1994	2,457	6,405	131,056
1995	2,481	6,495	132,304
1996	2,468	6,465	133,943
1997	2,458	6,469	136,297
1998	2,502	6,530	137,673
1999	2,567	6,608	139,368
2000	2,638	6,708	142,583
2001	2,693	6,829	143,734
2002	2,738	6,933	144,863
2003	2,762	6,980	146,510
2004 [2]	2,826	7,097	147,401
		Annual Compounded Growth	
1994 - 2004	1.4%	1.0%	1.2%
		Employment (000's)	
1994	2,386	6,077	123,060
1995	2,407	6,173	124,900
1996	2,402	6,155	126,708
1997	2,399	6,171	129,558
1998	2,453	6,277	131,463
1999	2,534	6,392	133,488
2000	2,611	6,504	136,891
2001	2,647	6,570	136,933
2002	2,674	6,635	136,485
2003	2,701	6,674	137,736
2004 [2]	2,775	6,822	139,252
		Annual Compounded Growth	
1994 - 2004	1.5%	1.2%	1.2%
		Unemployment (000's)	
1994	103	329	7,996
1995	106	322	7,404
1996	98	310	7,236
1997	92	298	6,739
1998	82	253	6,210
1999	68	216	5,880
2000	64	203	5,692
2001	84	259	6,801
2002	102	298	8,378
2003	99	305	8,774
2004 [2]	90	275	8,149
		Annual Compounded Growth	
1994 - 2004	-1.2%	-1.8%	0.2%

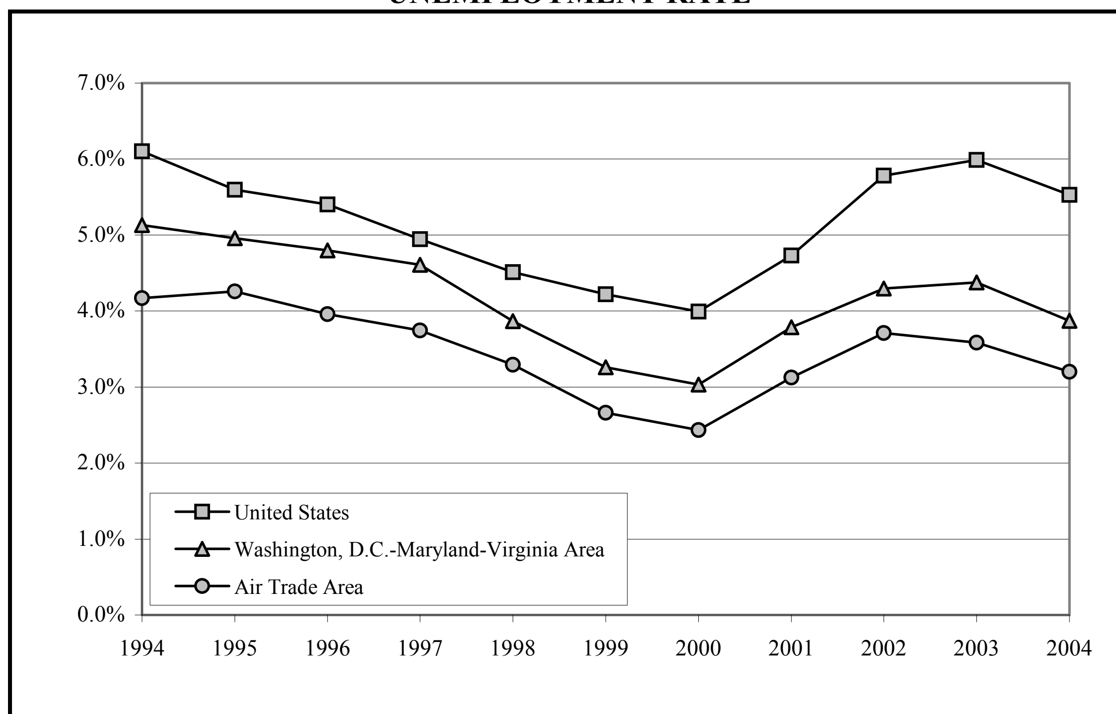
[1] Certain labor force data does not match that presented in the Series 2003A-D Report due to a revision of estimates by the U.S. Bureau of Labor Statistics and a redefinition of the Washington-Arlington-Alexandra, DC-MD-VA-WV CBSA.

[2] Data for this year was estimated using the average of monthly data from January 2004 to November 2004 for the Air Trade Area and the Washington D.C.-Maryland-Virginia Area.

Source: U.S. Bureau of Labor Statistics, Compiled by PB Aviation and ARP Consulting

Exhibit 1-5 depicts the unemployment rates between 1994 and 2004. Unemployment in the Air Trade Area decreased from 1994 through 2000 followed by a rise in unemployment until 2002. The Air Trade Area has experienced much lower unemployment rates in each of the 11 years presented in the exhibit and has seen the unemployment rate decrease over the same period at a faster pace then the nation as a whole but slightly slower than the Washington D.C.-Maryland-Virginia Area. In 2003, the Air Trade Area's unemployment rate fell while the Washington D.C.-Maryland-Virginia Area and the nation continued to face growing unemployment. The exhibit also shows that the unemployment rate in 2004 for the Air Trade Area (3.2 percent) remained lower than the Washington D.C.-Maryland-Virginia Area (3.9 percent) and the U.S. (5.5 percent).

Exhibit 1-5
UNEMPLOYMENT RATE



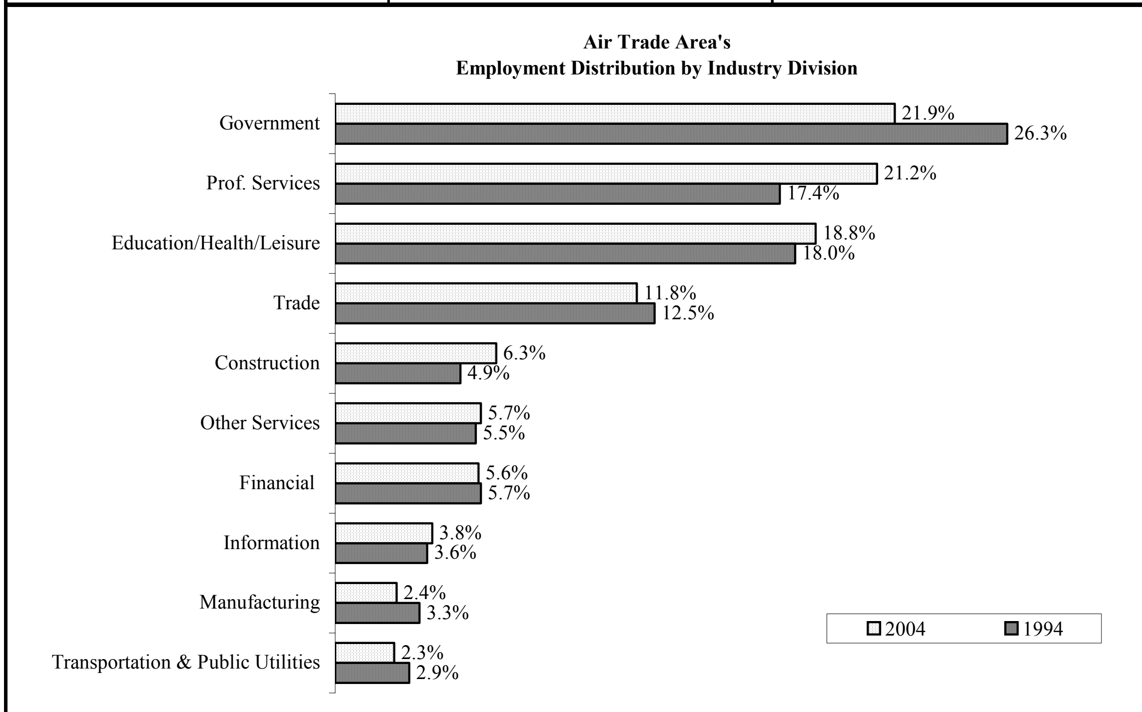
Source: U.S. Bureau of Labor Statistics, Compiled by PB Aviation and ARP Consulting

Economic stability not only depends on low unemployment, but also on the diversity of the employment base. **Table 1-6** presents the composition of non-agricultural employment by industry for 1994 and 2004, the most recent data available. The industry employment data in Table 1-6 shows that the Air Trade Area has a diversified economy, with government, professional services, education/health/leisure, and trade as the four largest industry sectors. Construction led employment growth from 1994 through 2004 in the Air Trade Area at 4.6 percent, compared to 2.7 percent for the U.S. However, employment in manufacturing and transportation and public utilities in the Air Trade Area decreased while employment in all the other industry sectors increased. This points to an important structural change in the Air Trade Area economy – diversification away from the government sector. The chart in Table 1-6 illustrates this structural change more clearly. As shown in the chart, the government's share of total non-agricultural employment in the Air Trade Area decreased from 26.3 percent in 1994 to 21.9 percent in 2004. In contrast, the services' (professional services,

education/health/leisure and other services) share of total non-agricultural employment increased from 40.9 percent in 1994 to 45.7 percent in 2004.

Table 1-6
EMPLOYMENT TRENDS BY MAJOR INDUSTRY DIVISION [1]

Industry	Air Trade Area Nonagricultural Employment (000's) 1994	2004	Annual Compounded Growth	United States Nonagricultural Employment (000's) 1994	2004	Annual Compounded Growth
Government	625.7	634.3	0.1%	19,275	21,600	1.1%
Prof. Services	412.5	613.9	4.1%	12,174	16,452	3.1%
Education/Health/Leisure	428.7	545.0	2.4%	22,907	29,243	2.5%
Trade	297.0	342.3	1.4%	18,738	20,675	1.0%
Construction [2]	115.7	180.9	4.6%	5,754	7,510	2.7%
Other Services	129.9	164.9	2.4%	4,428	5,405	2.0%
Financial	135.1	162.1	1.8%	6,867	8,048	1.6%
Information	85.0	111.0	2.7%	2,738	3,169	1.5%
Manufacturing	78.2	70.1	-1.1%	17,021	14,379	-1.7%
Transportation & Public Utilities	68.3	67.2	-0.2%	4,390	4,806	0.9%
Total	2,376	2,892	2.0%	114,292	131,287	1.4%



[1] Table values may differ from Series 2003 Bonds Official Statement due to U.S. Bureau of Labor Statistics updates to employment category definitions and the redefinition of the Washington-Alexandria-Arlington, DC-MD-VA-WV CBSA.

[2] Includes mining.

Source: U.S. Bureau of Labor Statistics, Compiled by PB Aviation and ARP Consulting

Government employment includes federal, state, and local government. As the location of the seat of federal government, the Air Trade Area historically has a higher percentage of employment in government than the nation. The diversification of the Air Trade Area's economy into other industry

sectors has taken place over a long period of time, dating from 1970 when the government share of local non-agricultural employment was approximately 40 percent. From 1990 to 2003, the level of government non-agricultural employment remained relatively stable while professional services non-agricultural employment increased approximately 40 percent. According to the CRA, the increase in the professional services sector was largely due to an increase in Federal government procurement spending of approximately 250 percent during the same time period.

According to the *2004 Regional Report* of the Greater Washington Initiative, the local economy leads the nation with more people in technology occupations[4]; has one of the largest bioscience clusters in the nation; has the second-largest number of companies listed on the Deloitte and Touche Technology Fast 500 list; and has had the largest number of *Inc.* 500 list of fastest-growing companies for the past seven years.

1.7 SUMMARY

In summary, the Air Trade Area is supported by a diversified economic base. Some of the characteristics that contribute to the economic health of the Air Trade Area include:

- Stable and Recovering Economy – Certain economic data suggests that the U.S. and Air Trade Area's economies have experienced growth since the economic downturn and the recession which, according to NBER, began in March 2001 and ended in November 2001. In addition, the Air Trade Area's economy is one of the strongest economies in the nation.

- Diverse International Demographics – The Air Trade Area consists of a highly diversified, multi-cultural population, when compared to the other eight most populous CBSAs in the nation for 2003. This provides it with a distinct advantage in today's global economy.

- Strong Population Growth – The Air Trade Area outpaced the U.S. in population growth over the last 13 years and is projected to continue growing at the same rate as the Washington D.C.-Maryland-Virginia Area and faster than the U.S. through 2010.

- High Disposable Income - Residents in the Air Trade Area are among the most affluent in the United States. In 2003, the per capita EBI in the Air Trade Area was 21.8 percent higher than the per capita EBI in the Washington D.C.-Maryland-Virginia Area and 37.1 percent higher than the U.S. Approximately 53.6 percent of the Air Trade Area's households have an EBI of $50,000 or more, compared to only 35.4 percent for the U.S.

- Steady Employment Growth and Low Unemployment – Employment in the Air Trade Area has been growing faster than the labor force. The Air Trade Area's unemployment rate has been consistently below that of the Washington D.C.-Maryland-Virginia Area and the U.S. As of November 2004, the unemployment rate in the Air Trade Area was 3.2 percent, lower than the Washington D.C.-Maryland-Virginia Area at 3.9 percent and the U.S. at 5.5 percent.

[4] Technology occupations include workers in computer, engineering and science fields.

- Diversified Employment Base – The Air Trade Area has a diversified employment base, with professional services, government, trade, and transportation and public utilities as the four largest industry sectors. Government employment, as a percentage of total nonagricultural employment, decreased from approximately 40 percent in 1970 to approximately 22 percent in 2004, indicating diversification toward other industries, including a number of industries that have benefited from increased Federal government procurement spending.

The strength of the Air Trade Area's economy is expected to support steady growth in aviation activity at the Airports.

2. AIR TRAFFIC

This section contains an overview of activity at the Airports, including historical passenger traffic trends over the 1991-2004 period and a summary of the passenger forecasts through 2013. Developments in the airline industry, key factors affecting future traffic, and inter-airport competition are then discussed. Each of the Airports is then addressed, with a discussion of trends in air service, passenger and cargo traffic, and aircraft landed weight.

2.1 OVERVIEW

In 2004, the Airports together enplaned 19.3 million passengers, the highest volume of enplanements they have ever recorded. This included 18.8 million revenue passengers and approximately 493,000 non-revenue passengers (see **Table 2-1**).[1]

National enplaned 8.0 million passengers and accounted for 41.3 percent of total enplanements at the Airports in 2004, down from 58.0 percent in 1991. Dulles recorded 11.3 million enplanements in 2004, representing 58.7 percent of total enplanements at the Airports, up from 42.0 percent in 1991. National and Dulles ranked 32nd and 28th, respectively, among U.S. airports in 2003, and, combined, they ranked 12th among U.S. cities in terms of total air passengers.[2]

(1) Historical Traffic Trends

National experienced flat passenger traffic growth through the 1990s, in part due to the slot restrictions imposed by the High Density Rule.[3] Enplanements generally fluctuated between 7.5 and 8.0 million. In 2001, enplanements dropped to 6.6 million, primarily due to the closure of National from September 11, 2001, through October 4, 2001. Restrictions on passenger flight operations were not completely lifted until April 2002, and although traffic rebounded relatively quickly, total passenger traffic for 2002 showed a further decline of 1.6 percent. Over the subsequent two years, enplanements at National increased 23 percent and surpassed the 2000 level in 2004, reporting nearly 8.0 million enplanements.

Flights at National are generally restricted to nonstop distances of not more than 1,250 miles under the Perimeter Rule. Certain exceptions to the Rule have been granted since 2000. US Airways and its Express partners accounted for the largest share (36.9 percent) of total passengers at the airport, followed by Delta (17.3 percent) and American (14.9 percent). In recent years, National experienced a substantial shift in the type of aircraft operated. Regional jets accounted for 40.2 percent of passenger flights in February 2005, compared to only 9.7 percent in February 2001. Over the same period, mainline jets dropped from 74.6 to 58.8 percent of the airport total, and the share of turboprop aircraft declined from 15.7 to less than 1 percent.

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1 Revenue passengers include all passengers for whom an air carrier receives remuneration, including those flying on frequent flyer program tickets. Non-revenue passengers include passengers such as airline staff for which little or only token remuneration is received by an air carrier.

2 Airport rankings are based on 2003 data, the most recent data available from Airports Council International.

3 The High Density Rule and the Perimeter Rule are both described in Section 2.2, sub-section (3).

Approximately 87 percent of revenue passenger traffic at National was origin-destination (O&D) in character in 2004. The remaining traffic was comprised of connecting and non-revenue passengers. Only minimal cargo tonnage is handled at National.

Table 2-1
ENPLANEMENT TRENDS
AT NATIONAL AND DULLES
(passengers in thousands)

	National			Dulles				
		Non-		Revenue		Non-		**Authority**
Year	Revenue	revenue	**Total[1]**	Dom.	Intl.	revenue	**Total[1]**	**Total[1]**
1991	7,213	221	**7,433**	4,442	686	254	**5,383**	**12,816**
1992	7,405	298	**7,703**	4,420	966	279	**5,665**	**13,368**
1993	7,754	284	**8,038**	4,060	1,158	189	**5,407**	**13,445**
1994	7,409	338	**7,747**	4,231	1,277	257	**5,764**	**13,511**
1995	7,435	255	**7,691**	4,678	1,290	163	**6,131**	**13,821**
1996	7,279	281	**7,560**	4,786	1,267	317	**6,370**	**13,931**
1997	7,577	299	**7,875**	4,854	1,370	552	**6,776**	**14,651**
1998	7,524	371	**7,895**	5,612	1,531	662	**7,804**	**15,699**
1999	7,110	391	**7,501**	7,336	1,703	770	**9,809**	**17,310**
2000	7,478	378	**7,855**	7,228	1,948	796	**9,972**	**17,827**
2001	6,279	285	**6,563**	6,378	1,857	665	**8,899**	**15,462**
2002[2]	6,201	260	**6,460**	6,033	1,946	536	**8,515**	**14,976**
2003[2]	6,850	252	**7,102**	6,208	1,963	195	**8,366**	**15,469**
2004	7,695	257	**7,952**	8,847	2,241	236	**11,324**	**19,276**
Year-over-year Percent Change								
1992	2.7%	35.3%	**3.6%**	-0.5%	40.8%	9.8%	**5.2%**	**4.3%**
1993	4.7	-4.7	**4.4**	-8.1	19.8	-32.4	**-4.6**	**0.6**
1994	-4.4	18.7	**-3.6**	4.2	10.3	35.8	**6.6**	**0.5**
1995	0.3	-24.3	**-0.7**	10.6	1.1	-36.7	**6.4**	**2.3**
1996	-2.1	10.2	**-1.7**	2.3	-1.8	95.0	**3.9**	**0.8**
1997	4.1	6.1	**4.2**	1.4	8.1	74.1	**6.4**	**5.2**
1998	-0.7	24.3	**0.3**	15.6	11.7	19.9	**15.2**	**7.2**
1999	-5.5	5.4	**-5.0**	30.7	11.2	16.4	**25.7**	**10.3**
2000	5.2	-3.4	**4.7**	-1.5	14.4	3.3	**1.7**	**3.0**
2001	-16.0	-24.7	**-16.5**	-11.8	-4.7	-16.4	**-10.8**	**-13.3**
2002	-1.2	-8.8	**-1.6**	-5.4	4.8	-19.4	**-4.3**	**-3.1**
2003	10.5	-2.8	**9.9**	2.9	0.9	-63.6	**-1.7**	**3.3**
2004	12.3	1.6	**12.0**	42.5	14.1	21.0	**35.4**	**24.6**
Average Annual Compound Growth								
1991-1996	0.2%	5.0%	**0.3%**	1.5%	13.1%	4.5%	**3.4%**	**1.7%**
1996-2001	-2.9	0.2	**-2.8**	5.9	7.9	16.0	**6.9**	**2.1**
1991-2001	-1.4	2.6	**-1.2**	3.7	10.5	10.1	**5.2**	**1.9**

[1] Figures may not sum to totals due to rounding.
[2] May differ from Series 2003A-D Report due to revised DOT data.
Sources: The Authority; DOT, Schedules T-3, T-100, and 298C T-1; DOT, Air Passenger Origin-Destination *Survey,* reconciled to Schedules T-100 and 298C T-1

Dulles experienced steady growth in the 1990s, ending the decade with a significant surge in passenger traffic. Enplanements increased steadily from 5.4 million in 1991 to 6.8 million in 1997 and then grew to 9.8 million over the following two years. United, and particularly its United Express partner, Atlantic Coast, together accounted for two-thirds of the traffic build-up in 1998. The rapid growth in 1999 was largely the result of US Airways

introducing its lower-fare MetroJet service in December 1998, the competitive fare responses of the other airlines, and the traffic stimulation that followed. Traffic subsided in 2001 in the face of a declining economy, the events of September 11, 2001, and the exit of MetroJet. Dulles accommodated the air traffic displaced from National in the fall of 2001, hence, its decline in 2001 (down 10.8 percent) was less than that at National. However, the restoration of normal operations at National in 2002 was one of the factors that led to a further decline of 4.3 percent in 2002 traffic at Dulles. Enplanements at Dulles were down 1.7 percent in 2003.

In 2004, Dulles experienced an increase of 3.0 million enplanements (up 35.4 percent). In mid-June 2004, Independence Air, the reincarnation of former United and Delta regional affiliate Atlantic Coast Airlines, established a hub at Dulles. By October 2004, Independence Air operated over 300 flights per day to 36 destinations. Independence Air's low fares evoked an aggressive competitive response from United (Dulles' largest carrier). Total domestic scheduled seat capacity at Dulles increased by almost 50 percent in 2004, compared with 2003. The sharp increase in seats and lower fares in the Dulles market significantly stimulated domestic passenger traffic and resulted in an increase in Dulles' share of air travel to and from the Air Trade Area.

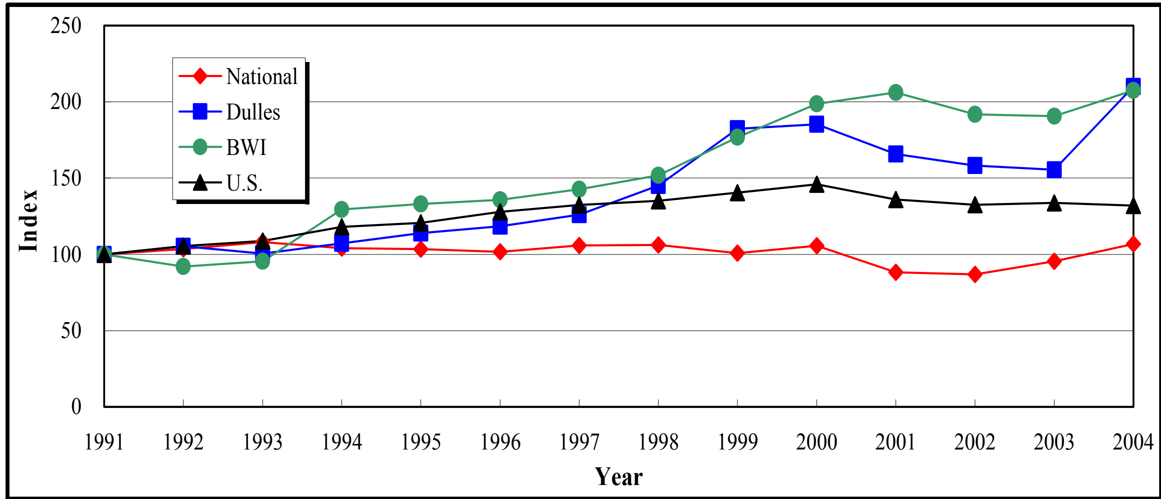
Because of the capacity and perimeter restrictions at National, almost all of the longer-haul domestic flights, as well as most of the international carriers and all of the all-cargo flights operate at Dulles. That airport faces few constraints in terms of capacity expansion, and it is generally expected that it will be able to accommodate the air service requirements of the Air Trade Area for the foreseeable future. United operates a domestic hubbing operation, in conjunction with its Dulles-based United Express partners (Air Wisconsin, Chautauqua, Mesa, Shuttle America, and Trans States), and an international gateway operation that serves as a primary trans-Atlantic gateway for United and its Star Alliance partners. Cargo is a large and growing component of the Dulles operation.

Because of the diversity of air service at Dulles, passenger traffic is less homogeneous than at National. Domestic enplanements make up nearly 79.8 percent of the airport total, with international traffic comprising the remainder (20.2 percent). O&D travelers account for 70 percent of total revenue passengers, and connections make up the remaining 30 percent.

National and Dulles face a challenge from air service provided at other airports in two respects. Southwest Airlines and the other LCCs operating at BWI attracted 70 percent of the growth in domestic O&D travel to and from the Washington D.C.-Maryland-Virginia Area from 1993 to 2003. In February 2005, LCCs accounted for 31.0 and 7.4 percent of domestic seats at Dulles and National, respectively, compared to almost two-thirds of domestic seats at BWI. There is evidence, however, that lower fares offered at Dulles since the inception of Independence Air service may have stemmed some of the traffic diversion and perhaps recaptured some traffic that had migrated to BWI. The other challenge posed by the market is competition for international gateway traffic. Although Dulles ranks as the fourth largest U.S. gateway for trans-Atlantic air travelers (after New York-Kennedy, Newark, and Chicago-O'Hare), carriers operating service to Europe at other gateway airports compete aggressively for that traffic. **Exhibit 2-1** illustrates the relative changes in passenger traffic at the three Area airports and the U.S. overall. Traffic at National remained virtually flat over the 13-year period. Traffic at Dulles and BWI showed a similar growth profile

through the 1990's, outpacing the countrywide pattern, but began to diverge in 2000. BWI traffic plateaued in the past four years while Dulles traffic declined through 2003 and then increased sharply in 2004.

Exhibit 2-1
INDEX OF TOTAL ENPLANED PASSENGERS[1]
AT NATIONAL, DULLES, BWI, AND THE U.S.[2]
(for the 12 months ended December 31; 1991=100)



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[1] Includes both revenue and non-revenue passengers. Excludes enplanements on general aviation and military flights.
An index shows trends in data which otherwise might be difficult to compare graphically.
[2] U.S. enplaned passenger figures in 2004 are estimated based on the 6 month period ending June 30, 2004.
BWI enplaned passenger figures have been annualized based on the 11 months ended November 30, 2004.
Sources: DOT, Schedule T100 and T3; The Authority, Maryland Aviation Administration

(2) Forecast Passenger Trends

The air traffic forecasting environment is becoming somewhat more predictable than it was in the immediate post-September 11, 2001 period. On the demand side, the U.S. and global economies have stabilized and started to expand, resulting in increased demand for air travel, including business travel. On the supply side, however, the airline industry continues to struggle. Many of the legacy airlines are restructuring their business models, changing work rules, and implementing fare initiatives in an effort to return to profitability. Some airlines will succeed in balancing the variables of demand, capacity, and cost in the context of competitive pricing, and others will not. Consequently, this supply side restructuring will not affect airports equally and may impede future traffic growth.

The forecasts of enplaned passengers presented herein are for the purpose of this Report only. The forecasts represent estimates of the general direction and magnitude of changes in the number of passengers enplaned at National and Dulles through 2013. Actual passenger levels realized in individual years may be above or below the expected trends represented by these forecasts. Assumptions regarding key factors that have the potential to affect passenger levels at the Airports, both positively and negatively, accompany the forecasts.

Total enplanements at the Airports are forecast to be 22.9 million in 2013 (see **Table 2-2**), which represents an average annual increase of 1.9 percent per year between 2004 and 2013. This forecast is more conservative than the latest FAA Terminal Area Forecasts, released in January 2005, which call for 6.5 percent average annual growth of passenger traffic at the Airports taken together (2.2 percent at National and 8.9 percent at Dulles) from 2004 to 2013. Over the same nine-year period, the FAA forecasts 3.5 percent average annual passenger traffic growth at the countrywide level, and 4.7 percent per year at BWI.

For National, enplanements are forecast to be approximately 9.7 million in 2013, including relatively strong growth to 8.6 million passengers by 2005 and a much lower rate of growth thereafter. In 2013, National is expected to account for 42.5 percent of all enplanements at the Airports, up from 41.3 percent in 2004.

At Dulles, the traffic outlook is not nearly as predictable as at National, particularly over the next few years. United Airlines and Independence Air have been engaged in a fare war at Dulles, which served to stimulate traffic to record levels in 2004 and continued to do so in the first quarter of 2005. Much of the growth at Dulles over the past year has been fueled by a significant increase in seats, produced by non-LCCs, that have been offered at relatively low fares. It is uncertain whether such a situation can be sustained. Consequently, it is anticipated that traffic will increase in 2005 (up 6.0 percent) due, in large part, to continued competition between United and Independence Air during the first half of the year. It is assumed, however, for the purpose of this forecast, that a substantial decline in capacity will occur at Dulles in the second half of 2005. This is forecast to produce a 15.4 percent decline in total passenger traffic at Dulles in 2006, entirely due to a 21.7 percent drop in domestic enplanements. Beyond 2006, enplanements are forecast to return to a more consistent pattern of growth, averaging increases of 3.8 percent per year and reaching 13.2 million enplanements by 2013. Dulles is forecast to account for 57.5 percent of all enplanements at the Airports in 2013, down from 58.7 percent in 2004.

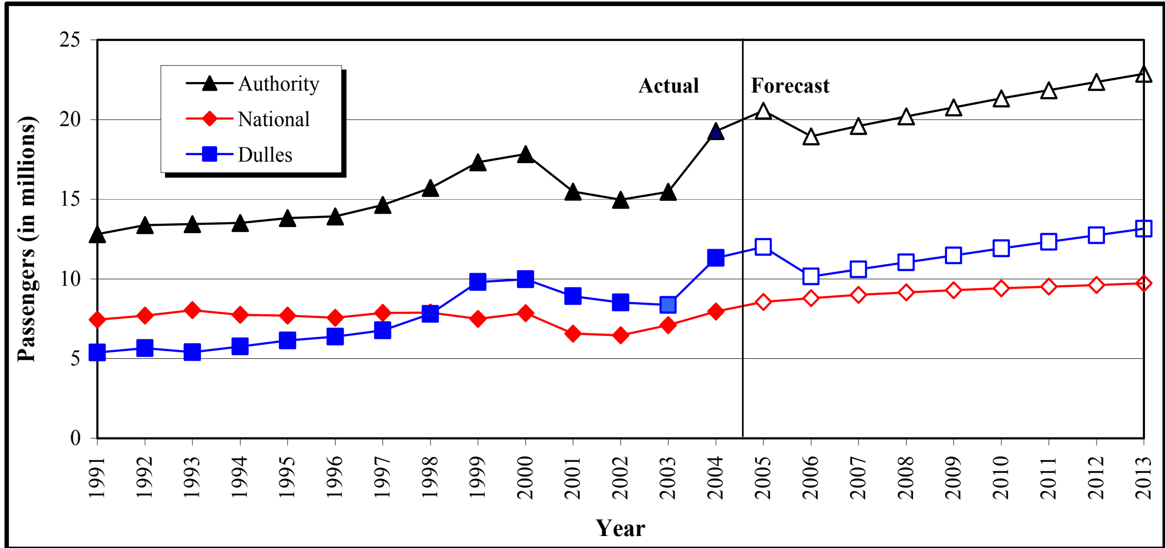
See **Exhibit 2-2** for a graphical depiction of enplanements, both actual and forecast, at the Airports over the 1991-2013 period.

Table 2-2
ENPLANEMENT FORECAST SUMMARY
AT NATIONAL AND DULLES
(passengers in thousands)

	National				Dulles					Authority
		Non-		%	Revenue		Non-		%	**Authority**
Year	Revenue	revenue	**Total[1]**	Share	Dom.	Intl.	revenue	**Total[1]**	Share	**Total[1]**
2000	7,478	378	**7,855**	44.1%	7,228	1,948	796	**9,972**	55.9%	**17,827**
2001	6,279	285	**6,563**	42.4	6,378	1,857	665	**8,899**	57.6	**15,462**
2002	6,200	260	**6,460**	43.1	6,033	1,946	536	**8,515**	56.9	**14,976**
2003A	6,875	228	**7,102**	45.9	6,208	1,963	195	**8,366**	54.1	**15,469**
2004P	7,695	257	**7,952**	41.3	8,847	2,241	236	**11,324**	58.7	**19,276**
2005F	8,270	281	**8,551**	41.6	9,275	2,425	300	**12,000**	58.4	**20,551**
2006	8,515	290	**8,805**	46.5	7,265	2,576	309	**10,150**	53.5	**18,955**
2007	8,701	297	**8,998**	45.9	7,555	2,727	318	**10,600**	54.1	**19,598**
2008	8,853	302	**9,155**	45.3	7,840	2,872	328	**11,040**	54.7	**20,195**
2009	8,984	306	**9,290**	44.7	8,115	3,023	338	**11,475**	55.3	**20,765**
2010	9,097	311	**9,408**	44.1	8,390	3,177	348	**11,915**	55.9	**21,323**
2011	9,201	315	**9,516**	43.6	8,641	3,326	358	**12,325**	56.4	**21,841**
2012	9,298	319	**9,617**	43.0	8,890	3,481	369	**12,740**	57.0	**22,357**
2013	9,392	323	**9,715**	42.5	9,140	3,640	380	**13,160**	57.5	**22,875**
Year-over-year Percent Change										
2001	-16.0%	-24.7%	**-16.5%**		-11.8%	-4.7%	-16.4%	**-10.8%**		**-13.3%**
2002	-1.2	-8.5	**-1.6**		-5.4	4.8	-19.4	**-4.3**		**-3.1**
2003	10.9	-12.5	**9.9**		2.9	0.9	-63.6	**-1.7**		**3.3**
2004	11.9	12.7	**12.0**		42.5	14.1	21.0	**35.4**		**24.6**
2005	7.5	9.5	**7.5**		4.8	8.2	27.1	**6.0**		**6.6**
2006	3.0	3.2	**3.0**		-21.7	6.2	3.0	**-15.4**		**-7.8**
2007	2.2	2.3	**2.2**		4.0	5.8	3.0	**4.4**		**3.4**
2008	1.7	1.8	**1.7**		3.8	5.3	3.0	**4.2**		**3.0**
2009	1.5	1.5	**1.5**		3.5	5.2	3.0	**3.9**		**2.8**
2010	1.3	1.4	**1.3**		3.4	5.1	3.0	**3.8**		**2.7**
2011	1.1	1.3	**1.1**		3.0	4.7	3.0	**3.4**		**2.4**
2012	1.1	1.3	**1.1**		2.9	4.7	3.0	**3.4**		**2.4**
2013	1.0	1.3	**1.0**		2.8	4.6	3.0	**3.3**		**2.3**
Average Annual Compound Growth										
2004-2005	7.5%	9.5%	**7.5%**		4.8%	8.2%	27.1%	**6.0%**		**6.6%**
2005-2006	3.0	3.2	**3.0**		-21.7	6.2	3.0	**-15.4**		**-7.8**
2006-2013	1.4	1.6	**1.4**		3.3	5.1	3.0	**3.8**		**2.7**
2004-2013	2.2	2.6	**2.3**		0.4	5.5	5.4	**1.7**		**1.9**

[1] Figures may not sum to totals due to rounding.
A=Actual; P signifies that the breakdown between Revenue and Non-revenue passengers in 2004 was projected on the basis of data for the first nine months; F=Forecast.
Sources: Tables 2-13 and 2-24 herein

Exhibit 2-2
TOTAL ENPLANED PASSENGERS—HISTORICAL AND FORECAST[1]
AT NATIONAL AND DULLES



[1] Includes both domestic and international, and revenue and non-revenue passengers. Excludes enplanements on general aviation and military aircraft.
Sources: Tables 2-13 and 2-24 herein

2.2 INDUSTRY CONTEXT

(1) Historical Development

The 20-year period from 1985 through 2004 has been very eventful for the aviation industry. The chronology of events in **Table 2-3** is presented to provide a historical context in which to place the activities and trends that have occurred at National, Dulles, and BWI. Following a national economic recession and the Persian Gulf War at the beginning of the 1990s, the U.S. economy enjoyed 10 years of growth that was the longest economic expansion on record in the United States. In 2000, the economy began to decline and, in March 2001, began an eight-month recession from which it slowly and erratically recovered during 2002 and 2003. In 2004, the national economic recovery accelerated, culminating in the highest one-year economic growth since 1999.

LCCs proliferated during the 1990s and continued to expand rapidly through 2004. Nationally, LCCs increased their share of passenger traffic from approximately 10 percent in the early 1990s to approximately 24 percent by 2004. Between 1998 and 2004, LCCs introduced service to both smaller-volume and longer-haul markets, and they began competing more aggressively for business passengers. Now, according to the U.S. General Accountability Office, there is LCC service in markets that serve about 85 percent of U.S. passengers. LCCs benefit from offering passengers an affordable, simple, and easy-to-understand airfare structure, high levels of operational reliability, and operation typically at secondary airports perceived by many passengers to be more convenient. Of particular

significance for the Region was the introduction in late 1993 of service by Southwest at BWI, which was that airline's first east coast focus city.[4] By 2004, BWI ranked third in the Southwest system in terms of enplaned passengers. At Dulles, JetBlue introduced LCC service in 2001, and Independence Air (formerly Atlantic Coast Airlines, a regional feeder affiliated with United and Delta), while not categorized by DOT as an LCC, initiated low-fare service at the airport in 2004.

The combination of the perceived high price of business travel and the inconvenience of new security processes significantly dampened business travel demand after 2001. Substitutes for commercial air travel (e.g., video conferencing, personal cars, fractional ownership of private aircraft) have become more competitive and attractive in recent years. Amtrak introduced high-speed train service ("Acela Express") between Washington D.C., New York, and Boston in December 2000 and this service competes for "shuttle" passengers at National. In 2004, business air travel showed strong signs of recovery nationally, as better economic conditions, competitive business fares, and improved security-screening times made air travel more attractive for business travelers.

Domestic and international airline code-shares and alliances were formed to maximize synergies and extend airline route systems. United formed the Star Alliance in 1997, enhancing international service options at Dulles and making Dulles a more competitive international gateway for trans-Atlantic service. US Airways became a member of the Star Alliance in May 2004.

September 11, 2001, had particular significance for airports serving Washington D.C. Dulles and BWI, like all domestic airports, were closed for three days. National, however, remained closed to all operations until October 4, 2001, at which time DOT began to phase in commercial operations. Restrictions on commercial service at National were not fully lifted until April 27, 2002, and general aviation operations are still not permitted. Congress has directed the Secretary of Homeland Security to develop and implement a security plan, however, to permit general aviation aircraft to land and take off at National, while ensuring the security of the National Capital Region's airspace.[5]

Airline bankruptcies were prevalent at the beginning of the 1990s (Eastern, Pan Am, Midway, and Presidential), in early 2001 (TWA), and again in the 20 months following September 2001 (Midway, US Airways, United, Hawaiian, Air Canada). In 2004, the legacy carriers continued to experience financial hardships. As each fought to defend its passenger base in an oversupplied market, fares declined sharply to levels that typically did not cover its costs. Sharply rising fuel costs exacerbated the financial challenges facing both the legacy carriers and LCCs. US Airways, which had emerged from bankruptcy in March 2003, filed again for Chapter 11 protection in September 2004. Low-cost carrier ATA filed for bankruptcy in October 2004, citing high fuel costs and fare competition. In February 2005,

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4 Because the areas from which Dulles, National, and BWI draw their domestic O&D passengers overlap significantly, reference is made herein to the three-airport Region (or simply, "the Region"). This is not meant to define a specific geographic region, such as the Air Trade Area or the Washington DC-Maryland-Virginia Area defined in Chapter 1, but rather to refer to the total air traffic handled at the three airports.

5 Pursuant to Section 823 of the Vision 100—Century of Flight Aviation Reauthorization Act (P.L. 108-176).

United and US Airways were still operating under Chapter 11 bankruptcy protection, and the remaining legacy carriers were struggling to avoid bankruptcy.

Federal legislation enacted in 2000 (the Aviation Investment and Reform Act for the 21st Century, commonly referred to as AIR-21) required the phasing out of the High Density Rule at the other slot-controlled airports (i.e., JFK, LaGuardia, Chicago-O'Hare) but not at National. AIR-21 granted 24 additional flights, including 12 "beyond-perimeter" flights outside the Airport's 1,250-mile perimeter restriction. In December 2003, federal legislation again increased the maximum number of slots at National, granting an additional 12 "beyond-perimeter" flights and eight "within-perimeter" flights. The 2003 legislation also increased the number of exemptions allowed per hour (from 2 to 3) and removed the hub size restriction on some "within-perimeter" exemptions. The legislation also allowed the operation of regional jets with up to 76 seats in slots at National that had been limited to aircraft with 55 seats or less. For the purpose of the forecasts presented in this document, it is assumed that the High Density Rule will remain unchanged.

Regional jets were introduced into service in rapidly accelerating numbers during the past 12 years. In February 2005, carriers affiliated with American, Air Canada, Continental, Delta, Northwest, US Airways, and United operated regional jets at Dulles, and carriers affiliated with Air Canada, American, Continental, Delta, Northwest, and US Airways operated regional jets at National. On May 12, 2003, US Airways announced it had placed a firm order to purchase 170 regional jets and 380 options for 50- to 76-seat aircraft but they have since failed to meet the conditions required for continued financing and therefore has ceased taking delivery of new regional jet aircraft. Because of the High Density Rule, the carriers' increased use of regional jets at National could reduce the number of passengers using the airport to the extent they are used to replace operations by larger jets.

Table 2-3
CHRONOLOGY OF EVENTS

Year	Month	Event
1985	December	-Concourse D opens at Dulles
1986	May	-Concourse C opens at Dulles
1987	January	-Continental establishes hubbing operation at Dulles, but discontinues by April 1988
	June	-Dulles and National are transferred to Authority
1989		-Concourses C and D at Dulles are extended and connected
	March	-Eastern files for Chapter 11 bankruptcy
1990	May	-American purchases route authorities and much of the operating infrastructure in Latin America from Eastern
	July	-A national economic recession begins, continuing until March 1991
1991		-International arrivals building at Dulles opens (2,400 passengers per hour)
	January	-Eastern ceases operations
		-Pan Am files for Chapter 11 bankruptcy
		-Persian Gulf War starts with aerial bombing of Iraq under the name "Operation Desert Storm," ending in February 1991
	March	-U.S. economy begins 10-year period of economic growth
	December	-United acquires Latin American route authorities from Pan Am
		-Pan Am ceases operations
1992	April	-Pan Am's London and Paris routes are transferred to United
		-United increases international presence at Dulles with service to London, Paris, Brussels, Madrid, and Milan
1993		-United downsizes its domestic operation at Dulles and shifts much of its north-south service to Atlantic Coast Airlines
	September	-Southwest begins service at BWI as its first East Coast market
1994	January	-AirTran (then ValuJet) initiates -LCC service at Dulles
1995	February	-United States and Canada reach agreement on removing many of the barriers to increased scheduled air service between the two countries
1996		-Main Terminal at Dulles is expanded by more than double the original size
	May	-Valujet flight crashes into the Everglades after takeoff from Miami
	October	-Delta launches its low-fare Delta Express service, based at Orlando
		-United opens its new satellite FIS facility on Concourse C at Dulles
	December	-Delta Express initiates low-fare service at Dulles
1997	May	-United joins with Lufthansa, Air Canada, SAS, Thai, and Varig to announce formation of the Star Alliance
	July	-Terminals B/C open at National (35 gates)

Year	Month	Event
1998	February	-Concourse B opens at Dulles (20 domestic and international gates)
	June	-US Airways launches its low-fare MetroJet service in the eastern U.S.
	September	-American joins with British Airways, Canadian, and other code-sharing airline partners to announce formation of the Oneworld Alliance
	December	-US Airways introduces low-fare MetroJet service at Dulles
1999	May	-Regional airline Concourse A opens at Dulles to serve United Express (36 regional aircraft parking positions)
2000		-US Airways reduces Dulles service and focuses on National
	June	-Delta joins with Air France, Mexicana, and Korean Air to announce formation of the SkyTeam Alliance
	July	-Several airlines are granted exemptions to the Perimeter Rule. ATA, Midway, Midwest Express, and Spirit are awarded slots within the perimeter, and America West, Frontier, National, and TWA are awarded slots outside the perimeter
	December	-Amtrak inaugurates high-speed train service (Acela Express) between Washington, New York, and Boston
2001	January	-TWA files for Chapter 11 bankruptcy
		-American announces an agreement to purchase the assets of TWA
	March	-A national economic recession begins, continuing until November
		-Delta Connection/Comair suspends service for four months in response to a strike by its pilots
	August	-Midway files for Chapter 11 bankruptcy
	September	-Terrorists attack in New York and Washington DC, followed by an unprecedented 3-day shutdown of the U.S. air transportation system; National is closed for 3 weeks
	October 4	-Limited operations authorized at National
	November	-JetBlue begins service at Dulles
	December	-US Airways terminates its MetroJet operation at Dulles
		-American's integration of TWA assets is complete
2002	April	-Airlines are permitted to resume full operations at National
	March	-Swissair acquired by Crossair and renamed "Swiss"
	July	-Midway Airlines ceases operation
		-US Airways and United enter into comprehensive marketing agreements
	August	-US Airways files for Chapter 11 bankruptcy
	December	-United Airlines files for Chapter 11 bankruptcy
		-Major U.S. airports deploy explosive detection systems (EDS) to screen all checked baggage pursuant to the Aviation and Transportation Security Act
2003	March	-U.S. begins the conflict in Iraq
		-WHO recognizes SARS—outbreaks are concentrated in Asia (China, Vietnam, and Indonesia) and Canada (Toronto)
		-DOT approves Delta, Continental, and Northwest marketing alliance
		-US Airways emerges from Chapter 11 bankruptcy protection
	April	-Air Canada files for bankruptcy protection

		-Delta launches low-fare brand Song with flights from northeast U.S. to Florida
		-Saddam Hussein's regime in Iraq is ousted by U.S. and coalition forces, and transition period begins
	May	-Four-gate extension of Concourse B opens at Dulles
	July	-WHO removes all SARS-related travel advisories
	December	-Federal legislation creates 20 additional slots, including 12 new slot exemptions to the Perimeter Rule
2004	February	-United launches its low-cost brand Ted at Dulles on existing routes to Orlando, Tampa, and Las Vegas and to new destination, Ft. Lauderdale.
	May	-US Airways joins United as member of Star Alliance
		-United completes the shift of its Latin American hubbing operation from Miami to Dulles
	June	-Atlantic Coast begins service as Independence Air at Dulles and winds down its role as a United Express carrier by September
	September	-US Airways files for Chapter 11 bankruptcy for a second time
		-Air Canada emerges from bankruptcy
	October	-ATA files for Chapter 11 bankruptcy
2005	January	-DOT approves Southwest's first codeshare agreement, with ATA
		-Delta implements fare initiative, including reduced fare levels, fewer restrictions, and simplified fare structure; other carriers announce similar fare restructuring

(2) Challenges Facing the Airline Industry

While the U.S. economy experienced a recovery in 2004, the airline industry continued to struggle. Airlines had difficulty passing increased fuel costs through to passengers because airlines tend to lack pricing power in a highly competitive market environment. The combination of excess capacity and high fuel costs has created a competitive atmosphere that is not sustainable. The legacy airlines are attempting to construct new business models that will profitably balance demand, capacity, yield, and costs. Price transparency, a product of widespread Internet access, has moved the industry closer to a commodity rather than a service. The falling value of the U.S. dollar made travel to many international destinations less affordable for U.S. residents (but made the U.S. a more attractive destination to foreign travelers). A recent fare initiative by the legacy airlines has lowered fares and raised the competitive stakes even further, and the more mature LCCs are finding themselves challenged by both the legacy airlines and new-entrant LCCs.

In January 2005, Delta, which was on the brink of bankruptcy in late 2004 but was able to avoid filing through aggressive pay concessions and cost cutting, announced a complete fare restructuring, which simplifies ticket pricing, removes some restrictions (e.g. Saturday night stays), lowers unrestricted fares primarily used by business travelers, and caps walk-up fares. American and other legacy airlines made similar announcements in the weeks that followed, and it appears that the proposed changes may create a new structural norm in the industry. These changes have implications for fleet size and mix, route structures, cost structure, and pricing levels, as the legacy airlines attempt to re-invent themselves and regain competitive ground lost.

The Authority's two largest airlines—US Airways at National and United at Dulles—filed for bankruptcy in 2002. US Airways emerged from Chapter 11 in April 2003 and then filed again for bankruptcy protection in September 2004, while United Airlines is still in bankruptcy and has not yet developed a plan to emerge from bankruptcy. The difference between pre-2000 airline bankruptcies and the ones occurring more recently is that the industry has changed over that period. With the proliferation of LCCs and the expansion of -LCC service into smaller and long-haul markets, there is less reliance on the legacy carriers. Industry consolidation is generally perceived as both inevitable and necessary; the question is which carriers will be the first to consolidate.

US Airways has negotiated cost-saving contracts from every employee group, a new aircraft finance deal with GE Capital (GECAS), an arrangement with the Air Transportation Stabilization Board (ATSB), and two financing agreements that will become equity infusions of $125 million each if and when the airline emerges from bankruptcy, currently targeted for June 2005. In February 2005, Pension Benefit Guarantee Corp. (PBGC) assumed responsibility for pensions representing 51,000 US Airways employees at a cost of $3 billion, giving the airline an advantage over its pension debt-ridden peers.

United has operated under Chapter 11 bankruptcy protection for more than two years, since December 2002. Although the airline negotiated concessions from its unions during 2004, it contended recently that it needs an additional $725 million a year in concessions in order to emerge from bankruptcy. United has asked the U.S. Bankruptcy Court to void contracts with its union workgroups that do not agree to concessions. United has received

repeated extensions to its initial exclusivity period, which protects it from rival reorganization plans, and it is unknown when, or if, United will ultimately emerge from bankruptcy.

(3) Key Factors Affecting Future Traffic

Key factors that will affect future airline traffic at National and Dulles include the following:

- ***Demand.*** In general, business demand responds to increases in economic activity, and leisure demand responds to an improved climate of consumer confidence. Both will suffer from the threat of war, terrorism, the inconvenience caused by increased security measures, and other factors that weaken the propensity to travel, especially travel by air.

- ***Mix of Business and Leisure Travel.*** Trips for leisure purposes have come to represent an increasing share of all trips. While leisure demand has generally been regarded as price-sensitive and business demand as price-insensitive, business travelers are showing evidence of an increasing sensitivity to price, in part because -LCC service options are increasingly available in business markets. These trends are expected to continue.

- ***Short-term Economic Outlook.*** As discussed in Chapter 1, economic data suggest that the U.S. and Air Trade Area's economies (the latter being one of the strongest in the nation) have stabilized and expanded in 2004. Population and job growth are expected to continue.

- ***Long-term Economic Outlook.*** Passenger traffic is subject to cyclical fluctuations based largely on economic conditions. These fluctuations will occur from time to time producing variations around the long-term trend, unless their depth and duration are severe. Economic conditions over the long term are not expected to affect long-term passenger trends at Dulles and National.

- ***Extraordinary or Catastrophic Events***. Extraordinary or catastrophic events might include, for example, war, acts of terrorism, epidemics of contagious diseases, natural disasters such as earthquakes, economic depression, price deflation, currency devaluation, labor strikes, or an extended contraction in the supply of aviation fuel. Although these events cannot be predicted and the probability of occurrence is generally regarded as low, the negative effects of such an event could be substantial.

- ***Terrorism.*** The probability of a terrorist attack cannot be assessed, although it is likely that the probability is greater than zero and increasing over time as knowledge, skills, and resources become available to people motivated to commit such acts. Attacks could occur against the aviation industry, the travel industry, cities, utilities, infrastructure, office buildings, or manufacturing plants, and the effects on travel demand could be substantial. New York and Washington D.C., because of their symbolic values and because they were targeted before, would

seem to present more likely targets than many other cities in the country. For the purpose of the forecasts developed herein, however, it is assumed that concerns about terror will not further dampen the propensity to travel by air, and that demand at Dulles and National will not be adversely affected by specific acts of terror committed during the forecast period.

- ***High Density Rule.*** National is subject to federal statutory and regulatory restrictions that do not apply to most other airports in the United States. The High Density Rule, which has been in effect since 1969, limits the number of air carrier, regional air carrier and general aviation flights that can be scheduled at National. Subsequent legislation has exempted a number of additional flights. General aviation non-commercial operations have been prohibited at National since the events of September 11, 2001, although legislation was recently introduced in Congress that would require that National be reopened to general aviation traffic within six months of enactment of the legislation.

- ***Perimeter Rule.*** By statute, nonstop flights to and from National generally are limited to destinations not more than 1,250 statute miles away (the "Perimeter Rule"). The Perimeter Rule was amended in 2000 to allow six daily round-trip scheduled nonstop air carrier flights between National and points beyond the 1,250-mile perimeter. In 2003, Vision-100 legislation directed DOT to grant exemptions for service beyond the 1,250-mile perimeter if it finds that the proposed service would 1) provide air transportation with domestic network benefits in areas beyond the perimeter, 2) increase competition by new entrant air carriers or in multiple markets, 3) maintain travel options for communities served by small and medium hub airports within the perimeter, and 4) not result in meaningful travel delays. Six additional "beyond perimeter" daily nonstop roundtrip flights were authorized in December 2003. While the Perimeter Rule restricts long distance flights at National, it also, in effect, promotes such flights to and from Dulles and BWI.

- ***Airfare and Service Trends.*** Air travel decisions are made in the context of air service and airfare offers. The restructuring of fleets, capacity, costs, and work rules at the traditional network airlines will improve their ability to price profitably at lower, more competitive fare levels. The spread in fares is expected to continue to narrow between LCCs like Southwest and JetBlue and traditional airlines like United and US Airways. As this occurs, fares are expected to play a less significant role in the airport choice decision.

- ***Low-Cost Carrier Service.*** As noted earlier, LCCs have come to account for an increasing share of the domestic passenger market over the last 14 years. They are increasing their marketing to business travelers and are entering longer-haul markets. LCCs threaten traditional carriers in most markets, except for (a) smaller connecting markets that cannot be served economically on a nonstop basis, (b) some long-haul markets where on-board amenities are more highly valued, and (c) most international markets.

- ***Regional Jets.*** United and US Airways, as part of their respective plans of reorganization, have sought to reduce the number of narrow-body aircraft and expand the number of regional jets they operate. This is part of a larger effort to increase operational flexibility, to preserve and expand their revenue base, and to maintain the scope of their networks. The deployment of regional jets is expected to enable these airlines to maintain service and frequencies that might otherwise be reduced or eliminated, and thereby preserve revenues. Regional jet activity has increased at the Airports in recent years. Regional jets already represent more than 30 percent of daily flights at National and, over the past year, soared to 70 percent of the total at Dulles.

- ***Jet Fuel.*** Jet fuel prices in early 2005 were substantially higher than has been the case in recent years. Jet fuel is the second largest item of airline expense after labor. Fuel costs fluctuate in response to external market forces. Exposure to these fluctuations is largely outside of management control. Their effects, however, may be managed through hedging techniques. Airlines such as Southwest and Continental have been able to enter more and better hedge agreements, giving them an operational advantage over more financially-constrained airlines, such as United and US Airways.

- ***Airline Bankruptcy/Failure.*** In situations where a dominant airline, having declared Chapter 11 bankruptcy, emerges from the restructuring process with its network essentially intact, the impact on traffic at its major airports is typically relatively minor. However, where the airline either a) emerges from bankruptcy with a much different pattern of service at one or more of its major airports (e.g., a downsized hubbing operation) and a substantially-altered overall network structure, or b) does not emerge from the process but, rather, liquidates, then traffic—particularly connecting traffic—can be significantly reduced at its major hub airports. At National, it is assumed that US Airways will emerge from Chapter 11 protection during 2005 and that its level of service will be more intensive than its pre-bankruptcy pattern. At Dulles, it is assumed that United will emerge from the Chapter 11 process and will maintain both its domestic and international hubbing activity. In both cases, an expanded role for the two airlines' branded feeder carriers is envisioned.

- ***Travel Substitutes.*** Teleconference, videoconference, and web-based meetings continue to improve in quality and price to the point where there are often satisfactory alternatives to face-to-face business meetings. The events of September 11, 2001, may have accelerated the trend somewhat.

- ***Business Jets.*** The use of business jets has been expanding in recent years and has been one of many factors holding down the return of high-yield business travel on commercial airlines. Industry experts believe that perceived benefits of better security and greater convenience will help expand the business jet segment. The economic viability for wider use of business jets remains to be seen, but the price of a seat on a chartered jet has been driven upward recently by rising fuel costs, while airfares for scheduled commercial air service have been trending downward. It is anticipated that, if the current ban on general aviation operations

at National is lifted, passenger air travel to and from National might be more susceptible to the use of business jets than many other domestic airports.

- ***Airport Choice.*** Residents of, and visitors to, the Region have a choice among airports. The choice of airports is governed largely by individual tradeoffs among the three regional airports in terms of the cost and convenience of ground access, air service frequency (and related factors), and airfare levels. In choosing an airport for an international flight, the predominant choice is Dulles. For a domestic flight, however, the choice is less clear. Conventional wisdom until 2004 held that, given the continued growth of Southwest and other LCCs, BWI would become linked at a faster rate to more domestic city-pairs, with more frequency, and at lower fares than National and Dulles, and that BWI would account for an increasing share of the domestic traffic in the Region. With the advent of Independence Air's low-fare service at Dulles, however, and recent initiatives by the legacy airlines to lower their fares, Dulles has increased its share of Regional traffic.

(4) Inter-Airport Competition

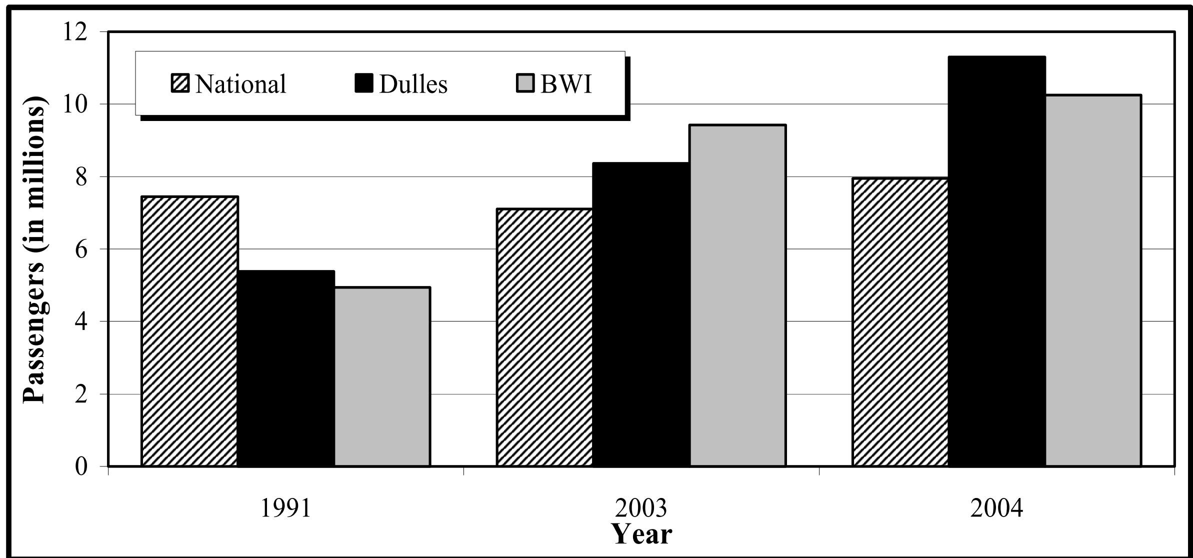
Services at other airports compete for domestic and international passenger traffic at National and Dulles. The competition for domestic traffic comes, in part, from the LCC service offered at BWI and, in the past year, the rapid growth in low-fare service at Dulles. Carriers operating international flights at other U.S. gateway airports compete for traffic that connects to and from international flights at Dulles.

Intra-Regional Airport Competition

BWI experienced rapid growth starting in the early 1990s. In 1991, 4.9 million passengers were enplaned at the airport; by 2004, enplanements had more than doubled, to 10.3 million. LCCs were the driving force behind that growth. Southwest Airlines introduced service at BWI in September 1993 and, by February 2005, was the largest airline at BWI, accounting for 51.3 percent of total scheduled seats. US Airways, which was the leading or second-ranking carrier at BWI throughout the 1990s, reduced its annual domestic seat capacity by 64 percent from 3.2 million in 2001 to 1.1 million in 2004, and it relinquished 17 of its 24 jet gates at BWI in February 2002. Southwest and other LCCs (AirTran, America West, and Frontier) comprised more than 50 percent of total enplanements at BWI for the first time in 2002.

Since 1991, as well, there has been a shift in the relative volumes of total air passengers using BWI, National, and Dulles. As shown in **Exhibit 2-3**, BWI moved from enplaning the fewest passengers in the Region in 1991 to enplaning the most passengers in 2003. In 2004, although each of the Region's airports experienced higher passenger volumes, Dulles surpassed BWI in terms of enplanements due to the considerable traffic stimulation and market share recapture resulting largely from the startup of Independence Air in June 2004.

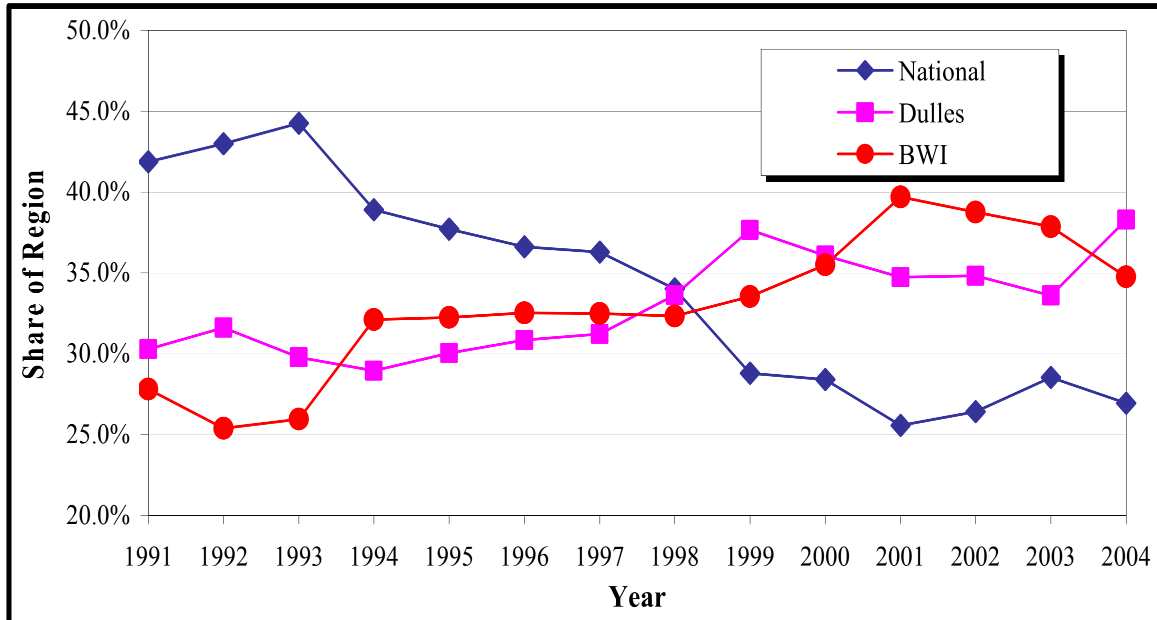
Exhibit 2-3
COMPARISON OF ENPLANEMENTS AT NATIONAL, DULLES, AND BWI



Sources: The Authority; Maryland Aviation Administration

A comparison of changes in the shares of the Region's enplanements is presented in **Exhibit 2-4**. BWI accounted for just over one-quarter of the total in 1991. By 2004, it had increased its share to nearly 35 percent. Over the same period, National's share declined from about 42 percent to 27 percent, and Dulles increased its share from 30 to 38 percent. After having experienced gains in share of the Region's enplanements for the nine years prior to 2001, BWI's share has declined in each of the three years since then.

Exhibit 2-4
AIRPORT SHARES OF TOTAL REGIONAL ENPLANEMENTS



Sources: The Authority; Maryland Aviation Administration

BWI competes with National and Dulles primarily for domestic O&D passenger traffic. BWI nearly doubled its share of the Region's total domestic O&D traffic from 23.1 percent in 1992 to 44.5 percent in 2003 (see **Table 2-4**). Most of BWI's share gain appears linked to National's constrained enplanement levels (National's share fell from 52.2 percent in 1992 to 32.0 percent in 2003, while Dulles' share fell from 24.7 percent in 1992 to 23.5 percent in 2003). National and Dulles together accounted for 55.5 percent of total Region enplanements in 2003, down from 76.9 percent in 1992. In the first nine months of 2004, however, Dulles accounted for a higher share of the Region's total domestic O&D traffic (27.4 percent) than it had during the same period in 2003 (23.6 percent), due to domestic O&D traffic stimulation by Independence Air and other competing airlines at Dulles.

The shift in domestic O&D traffic among Region airports over the 12-year period can be seen also in the growth rates experienced. In the eight years ending with 2000, domestic O&D traffic growth at BWI (13.5 percent per year, on average) was markedly stronger than at the Airports (1.8 percent per year, taken together). Over the 2000-2003 period, domestic O&D passenger traffic at BWI was relatively flat compared to an average annual drop of 3.9 percent at the Airports. However, in the first nine months of 2004, when domestic O&D passengers were up nearly 13.2 percent for the Region as a whole, both National and particularly Dulles experienced increases (up 12.3 and 31.4 percent, respectively) while the increase at BWI was 4.1 percent.

Table 2-4
DOMESTIC O&D PASSENGER TRENDS
AT NATIONAL, DULLES, AND BWI
(passengers in thousands)

	Domestic Outbound O&D Passengers					Share of Region Market			
Year	National	Dulles	Authority[1]	BWI	Region[1]	National	Dulles	Authority[1]	BWI
1992	6,373	3,018	9,390	2,823	12,213	52.2	24.7	76.9	23.1
1993	6,652	2,824	9,475	3,245	12,720	52.3	22.2	74.5	25.5
1994	6,241	2,663	8,905	4,403	13,307	46.9	20.0	66.9	33.1
1995	6,145	3,140	9,285	4,689	13,974	44.0	22.5	66.4	33.6
1996	5,979	3,265	9,244	5,071	14,315	41.8	22.8	64.6	35.4
1997	6,149	3,378	9,527	5,662	15,188	40.5	22.2	62.7	37.3
1998	6,003	4,013	10,016	6,248	16,264	36.9	24.7	61.6	38.4
1999	5,732	4,888	10,619	6,946	17,565	32.6	27.8	60.5	39.5
2000	6,108	4,689	10,797	7,780	18,577	32.9	25.2	58.1	41.9
2001	5,204	4,024	9,227	7,975	17,202	30.3	23.4	53.6	46.4
2002	5,218	3,866	9,085	7,492	16,577	31.5	23.3	54.8	45.2
2003	5,531	4,064	9,595	7,695	17,291	32.0	23.5	55.5	44.5
YTD 2003	4,045	3,016	7,061	5,726	12,786	31.6	23.6	55.2	44.8
YTD 2004[2]	4,542	3,963	8,506	5,963	14,469	31.4	27.4	58.8	41.2
Average Annual Compound Growth									
1992-2000	-0.5%	5.7%	1.8%	13.5%	5.4%				
2000-2003	-3.3	-4.7	-3.9	-0.4	-2.4				
1992-2003	-1.3	2.7	0.2	9.5	3.2				
YTD 2003-04	12.3	31.4	20.5	4.1	13.2				

[1] Figures may not sum to totals due to rounding.
[2] DOT, *Air Passenger Origin-Destination Survey,* data is currently available through September 30, 2004.
YTD=Year-to-date, January 1 through September 30.
Source: DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1

Table 2-5 compares domestic O&D passengers enplaned at each airport in the Region's top 20 markets during the 12 months ended September 30, 2004 (the most recent period for which O&D data was available). BWI served 38.9 percent of the traffic in the top 20 markets, compared to 61.1 percent at the Airports (32.4 percent at National and 28.7 percent at Dulles). In 10 of the top 20 markets, BWI enplaned more domestic O&D passengers than either National or Dulles. In eight of those 10 markets, BWI enplaned more domestic O&D passengers than National and Dulles combined.

Table 2-5

AIRPORT SHARES OF THE REGION'S TOP 20 DOMESTIC O&D CITY MARKETS

(passengers in thousands; ranked on Region total)

	City Market	Domestic Outbound O&D Passengers[2]					Share of Region Market[2]			
Rank[1]	*Airport*	National	Dulles	Authority	BWI	Region	National	Dulles	Authority	BWI
1	Los Angeles	130	507	637	322	959	13.6%	52.8%	66.4%	33.6%
	Los Angeles	*86*	*311*	*397*	*216*	*612*	*14.1*	*50.7*	*64.8*	*35.2*
	Long Beach	*5*	*164*	*169*	*1*	*170*	*2.9*	*96.4*	*99.2*	*0.8*
	Orange County	*23*	*17*	*40*	*51*	*91*	*25.0*	*19.0*	*44.0*	*56.0*
	Ontario	*13*	*12*	*25*	*41*	*66*	*20.2*	*17.6*	*37.7*	*62.3*
	Burbank	*3*	*3*	*6*	*13*	*19*	*16.5*	*16.0*	*32.5*	*67.5*
2	New York[3]	704	199	903	33	937	75.2	21.3	96.4	3.6
3	Chicago[4]	372	207	579	336	914	40.7	22.6	63.3	36.7
4	Atlanta	304	295	599	266	865	35.1	34.1	69.2	30.8
5	Boston	355	145	499	249	748	47.4	19.3	66.7	33.3
6	San Francisco[5]	103	412	516	203	719	14.4	57.4	71.7	28.3
7	Orlando	158	172	330	377	706	22.3	24.4	46.7	53.3
8	Ft. Lauderdale	199	167	366	201	567	35.1	29.5	64.6	35.4
9	Dallas/Ft. Worth[6]	181	117	298	223	521	34.7	22.5	57.2	42.8
10	Denver	118	211	329	130	459	25.7	46.0	71.7	28.3
11	Tampa	113	85	198	234	432	26.3	19.7	45.9	54.1
12	Las Vegas	72	100	173	244	417	17.3	24.1	41.4	58.6
13	Providence	52	27	79	290	369	14.2	7.3	21.4	78.6
14	Houston[7]	122	45	167	190	357	34.2	12.5	46.7	53.3
15	Phoenix	64	53	117	202	319	20.1	16.6	36.6	63.4
16	Manchester	18	34	53	258	310	5.9	11.0	17.0	83.0
17	San Diego	58	81	139	159	298	19.4	27.2	46.6	53.4
18	Seattle	78	116	194	99	293	26.7	39.5	66.2	33.8
19	Detroit	136	63	199	91	290	46.9	21.8	68.6	31.4
20	Minneapolis-St. Paul	148	57	206	79	284	52.2	20.1	72.3	27.7
	Top 20 Markets	3,485	3,093	6,578	4,184	10,762	32.4%	28.7%	61.1%	38.9%
	Other Markets	2,543	1,919	4,462	3,749	8,212	31.0	23.4	54.3	45.7
	Total—All Markets	6,029	5,012	11,040	7,933	18,973	31.8%	26.4%	58.2%	41.8%

[1] Top cities ranked by the sum of the three airports for the 12 months ended September 30, 2004.
[2] Figures may not sum to totals due to rounding.
[3] Market includes LaGuardia, Newark, and Kennedy airports.
[4] Market includes O'Hare and Midway airports.
[5] Market includes San Francisco, San Jose, and Oakland airports.
[6] Market includes Dallas/Ft. Worth Airport and Love Field.
[7] Market includes Bush and Hobby airports.
Source: DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1

From the mid-1990s through mid-2004, many fare-sensitive travelers found their needs better met at BWI (see **Table 2-6**). Although each of the Region's airports in February 2005 offered roughly the same number of domestic seats per week, BWI had a much higher concentration of seats (64.7 percent) provided by low-fare carriers than both Dulles (31.0 percent) and National (7.4 percent).[6] After June 2004, however, Independence Air dramatically increased the availability of low fares at Dulles, both in terms of flight departures and destinations served. In fact, in February 2005, low-fare carrier service was available at Dulles in as many markets as at BWI, albeit offering only about 60 percent as many seats. Until recently, Independence Air's service at Dulles consisted almost entirely of regional jet flights, whereas at BWI, LCCs and other carriers tend to use larger aircraft. In

[6] For the purpose of this analysis only, reference is made to "low-fare carriers". Although DOT does not categorize Independence Air as an LCC, the airline is included for purposes of comparison in this analysis as a low-fare carrier.

February 2005, 85 percent of the domestic flights at BWI were operated using mainline jet aircraft, compared to 58.8 percent at National and only 24.0 percent at Dulles.

Table 2-6
COMPARISON OF DOMESTIC SCHEDULED PASSENGER AIR SERVICE AT NATIONAL, DULLES, AND BWI

	Number of Cities Served[1]			Weekly Flight Departures			Weekly Departing Seats		
	1996	2001	2005	1996	2001	2005	1996	2001	2005
By Carrier Type									
All Carriers									
National	57	66	61	2,137	2,542	2,619	233,613	277,789	261,278
Dulles	63	77	75	2,027	3,117	4,045	136,335	227,618	293,186
BWI	59	56	58	1,735	2,491	2,269	164,152	283,767	283,314
Regular-fare Carriers									
National	57	62	58	2,095	2,411	2,481	228,249	261,728	241,913
Dulles	61	77	67	1,868	2,986	2,421	118,789	212,697	184,101
BWI	58	33	28	1,552	1,219	902	140,920	116,424	100,107
Low-Fare Carriers									
National	2	8	9	42	131	138	5,364	16,061	19,365
Dulles	12	5	43	159	131	1,624	17,546	14,921	109,085
BWI	9	33	42	183	1,272	1,367	23,232	167,343	183,207
By Aircraft Type									
Mainline Jet									
National	41	45	42	1,589	1,897	1,540	212,709	252,206	205,168
Dulles	32	35	30	742	1,125	966	106,173	159,584	139,809
BWI	42	45	52	1,068	1,913	1,929	140,196	263,518	268,624
Regional Jet									
National	-	15	42	-	247	1,054	-	12,152	55,295
Dulles	-	24	52	-	637	2,816	-	31,724	144,705
BWI	-	3	10	-	35	189	-	1,737	9,635
Turboprop									
National	21	22	2	548	398	25	20,904	13,431	815
Dulles	40	36	13	1,285	1,355	263	30,162	36,310	8,672
BWI	26	16	7	667	543	151	23,956	18,512	5,055

[1] Some cities are served by more than one carrier or aircraft type.
Source: *Official Airline Guide*, for the first week in February for each year shown

Based on the most recent fare data available (for the 12 months ended September 30, 2004), passengers paid about one-third less, on average, for domestic air travel from BWI than from National and Dulles, for trips of roughly equal distance. The average domestic O&D passenger at BWI paid $121 for a trip of about 1,083 miles, compared to about $169 at National and Dulles for a trip of similar distance (1,070 miles). However, these data do not fully reflect the impact of Independence Air at Dulles and the related competitive responses in the marketplace.

BWI is located about 30 miles north of downtown Washington, D.C. The airport has excellent roadway access and connections to the U.S. Interstate highway system, including I-95, I-195, and I-295. In addition, there are a number of public transportation options between Washington D.C. and BWI, including Amtrak and MARC (Maryland Rail Commuter)

service, bus service operated by Maryland Transit Administration, and Express Bus service operated by the Washington Metropolitan Area Transit Authority. BWI's $1.8 billion Near Term Development (Vision) Program includes provisions to increase terminal capacity, rental car facilities, and parking, and its longer-term plans include a Regional Intermodal Transportation Center to connect all of the intermodal services to the BWI terminal.

BWI offers domestic air service options that are competitive with those available at National and Dulles. With expected continued growth of Southwest at the airport, expansion of service by other LCCs, and the proposed improvements in highway and ground transportation to and from Washington D.C., BWI likely will continue to be a strong competitor for the Region's domestic air traffic. In the near term, however, the significant increase of low-cost seats at Dulles over the course of 2004 slowed traffic growth at BWI, and it appears to have resulted in the return to Dulles of some portion of the Region's domestic passenger traffic that had migrated to BWI.

International Gateway Competition

Passengers originating and terminating international trips, passengers connecting between domestic and international flights, and passengers connecting from one international flight to another, together make up the base of international traffic at a gateway airport. It is the international connecting passengers for whom carriers generally compete, with each carrier seeking to convince passengers to connect via the airport gateways where its international flights operate. To a much smaller extent, carriers also compete for passengers who represent international O&D traffic at a given U.S. gateway; the object for each carrier is to persuade those passengers to make use of their domestic flights in order to connect with their international flights at another U.S. gateway airport.

Dulles has a relatively large base of international traffic, as defined above. International O&D and connecting passengers are projected to make up approximately one-third of all enplanements at Dulles in 2004. Dulles ranked 10th among international gateway airports in the U.S. in terms of scheduled seats in February 2005. More significantly, perhaps, Dulles was the country's fourth largest trans-Atlantic international gateway in February 2005—larger than Miami, Atlanta, Los Angeles, and Boston—as shown in **Table 2-7**. Among East Coast airports, only the New York area airports offered more service across the Atlantic. Out of a daily average of 42 international flight departures at Dulles, 20 were destined for Europe, the Middle East, and Africa. There is some evidence to suggest that Washington D.C. is a relatively high-yield market for international service, especially to major European destinations.

Although Dulles primarily serves trans-Atlantic flights, United recently transferred a number of its South America flights from Miami to Dulles. As of February 2005, approximately eight daily international flight departures operated to destinations in Mexico, Latin America, and the Caribbean. In addition, 12 daily flights operated to Canada and two operated to Asia.

Table 2-7
TOP U.S. INTERNATIONAL GATEWAY AIRPORTS
DAILY INTERNATIONAL DEPARTING FLIGHTS AND SEATS
TO TRANS-ATLANTIC DESTINATIONS1

Rank	Airport	Flight Departures	Departing Seats	Seats by Carrier Flag U.S.	Foreign
1	New York-Kennedy	65.1	18,031	4,852	13,179
2	New York-Newark	36.0	8,949	4,276	4,674
3	Chicago-O'Hare	33.1	8,661	3,694	4,967
4	**Washington-Dulles**	**20.4**	**5,782**	**2,778**	**3,004**
5	Atlanta	20.7	4,737	3,227	1,510
6	Los Angeles	13.9	4,545	529	4,016
7	Miami	15.0	4,442	926	3,516
8	Boston	13.7	3,786	738	3,048
9	San Francisco	10.3	3,307	1,160	2,147
10	Philadelphia	11.6	3,042	2,094	948
11	Houston-Bush	9.1	2,520	1,171	1,349
12	Detroit	8.3	2,414	1,771	643
13	Orlando	5.0	1,649	0	1,649
14	Dallas-Ft. Worth	6.9	1,587	1,095	492
15	Minneapolis-St. Paul	4.6	1,232	1,124	108

[1] Average daily nonstop flights and seats to destinations in Europe, the Middle East, and Africa.
Source: *Official Airline Guide* , for the first week in February, 2005

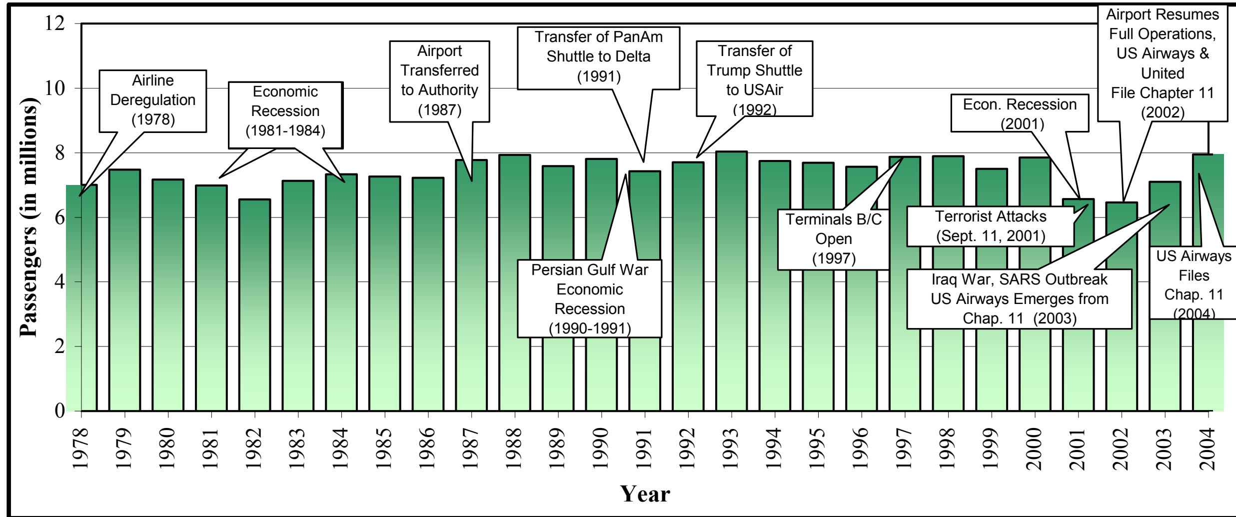
Foreign-flag carriers at Dulles accounted for 51.0 percent of the international capacity at Dulles in February 2005. United and its United Express partner, Air Wisconsin, comprised the remainder. Dulles is the main East Coast gateway for member carriers of the Star Alliance. Austrian, bmi British Midland, Lufthansa, and SAS operated European flights along with United at the airport, and Star Alliance carriers Air Canada and All Nippon operated service to Canada and Japan, respectively. Together, United and the other Star Alliance carriers represented 68.0 percent of the international seat capacity at Dulles. The remainder (32.0 percent) was provided by British Airways, TACA, Air France, Virgin Atlantic, Korean, KLM, Alitalia, and BWIA.

Dulles is the only airport in the Region that can support a high level of international service. Since international service typically relies to a large degree on domestic feed traffic, BWI, with its current low level of international service and without a hubbing interlining carrier, is not considered to be a serious competitor to Dulles for international gateway traffic in the foreseeable future. The primary potential for gateway competition with Dulles is for trans-Atlantic traffic. Consequently, the major competing gateways are located east of the Mississippi and include Boston, Chicago, New York-Kennedy, Newark, Philadelphia, Charlotte, and Atlanta.

2.3 NATIONAL

From the early 1980s until 2000, annual enplanement levels at National showed remarkable consistency, seldom fluctuating more than 5 percent above or below 7.5 million passengers. **Exhibit 2-7** provides a graphic depiction of passenger enplanements at National from 1970 through 2004, illustrating the departure from the consistent pattern that occurred in 2001 and 2002.

Exhibit 2-5
HISTORY OF NATIONAL'S ENPLANED PASSENGERS[1]



[1] Includes both domestic and international, and revenue and non-revenue passengers. Excludes enplanements on general aviation and military flights.
Source: The Authority; John F. Brown Company, Inc.

(1) Air Service Trends

One key trend at National is a reduction in total seats offered and a significant change in the mix of aircraft operated. In the past four years, the total number of domestic scheduled seats dropped 5.9 percent at National, representing nearly 2,500 fewer departing seats each day. **Table 2-8** compares domestic scheduled flight activity for a week in February 2005, a week in February 2001 (prior to September 11, 2001), and a week five years earlier in February 1996.

Table 2-8
NATIONAL'S DOMESTIC SCHEDULED PASSENGER AIR SERVICE, BY AIRCRAFT TYPE[1]

	For the first week of February:			Change	
	1996	2001	2005	1996-2001	2001-2005
Number of Cities Served[2]	**57**	**66**	**61**	**+9**	**-5**
Jet	41	53	60	+12	+7
Mainline Jet	*41*	*45*	*42*	*+4*	*-3*
Regional Jet	*0*	*15*	*42*	*+15*	*+27*
Turboprop	21	22	2	+1	-20
Weekly Flight Departures	**2,137**	**2,542**	**2,619**	**+405**	**+77**
Jet	1,589	2,144	2,594	+555	+450
Mainline Jet	*1,589*	*1,897*	*1,540*	*+308*	*-357*
Regional Jet	-	*247*	*1,054*	*+247*	*+807*
Turboprop	548	398	25	-150	-373
Weekly Departing Seats	**233,613**	**277,789**	**261,278**	**+44,176**	**-16,511**
Jet	212,709	264,358	260,463	+51,649	-3,895
Mainline Jet	*212,709*	*252,206*	*205,168*	*+39,497*	*-47,038*
Regional Jet	-	*12,152*	*55,295*	*+12,152*	*+43,143*
Turboprop	20,904	13,431	815	-7,473	-12,616
Average Seats per flight:	**109**	**109**	**100**	**-**	**-9**
Jet	134	123	100	-11	-23
Mainline Jet	*134*	*133*	*133*	*-1*	-
Regional Jet	-	*49*	*52*	*+49*	*+3*
Turboprop	38	34	33	-4	-1

[1] Domestic flights comprise 98 percent of all scheduled passenger service at National.
[2] Some cities are served by more than one aircraft type.
Source: *Official Airline Guide*

The use of regional jets to replace larger mainline jet flights as well as turboprop flights at National illustrates an industry-wide shift during the past several years in the strategic deployment of regional jets. The initial period of regional jet operations at National, between 1996 and 2001, coincided with a reduction in turboprop operations (down 27.4 percent). Between 2001 and 2005, however, regional jet flights at National quadrupled, while mainline jet flights declined (down 18.8 percent). These changes over the past four years produced a sharp increase in total jet flights (up 21.0 percent) but a slight decline in total jet seats (down 1.5 percent). Turboprop flights almost vanished at National, accounting for fewer than 4 flight departures a day compared to 57 daily flights in 2001.

Between 1996 and 2001, the average number of seats per jet flight at National fell from 134 to 123, and then declined still further to 100 in 2005. This decline was due to introduction of the (primarily) 50-seat regional jets into the mix of aircraft operated at National. Including turboprop operations, the average number of seats per flight declined from 109 in 1996 to 100 in 2005—and the entire decline occurred since 2001.

The effect of regional jet deployment on seat capacity on specific routes since 2001 is apparent in the figures laid out in **Table 2-9**. On some routes (from National to Orlando, Fort Lauderdale, Tampa, and Denver, for example) that are primarily served by mainline jet aircraft, an increase in the number of flights was accompanied by an increase in the number of available seats. Similarly, on other mainline jet routes (from National to Minneapolis-St. Paul and Miami, for example), a decline in the number of flights was associated with a decline in the number of available seats. However, routes on which regional jets were deployed in significant proportion (from National to the New York City airports, Boston, and many of the lesser-volume routes) saw material declines in the number of available seats despite increases in the number of flights.

Table 2-9
SCHEDULED PASSENGER JET SERVICE
IN NATIONAL'S TOP 20 DOMESTIC O&D PASSENGER MARKETS

	City Market	No. of Airlines. Serving[2]	Weekly Scheduled Jet Flight Departures				Weekly Departing Jet Seats			
Rank[1]	*Airport*	2005	1996	2001	2004	2005	1996	2001	2004	2005
1	New York	4	282	292	350	347	40,604	42,543	33,570	33,085
	LaGuardia	*3*	*182*	*222*	*251*	*258*	*27,734*	*33,466*	*26,622*	*26,953*
	Newark	*1*	*70*	*56*	*63*	*58*	*8,853*	*7,040*	*4,916*	*4,142*
	Kennedy	*2*	*30*	*14*	*36*	*31*	*4,017*	*2,037*	*2,032*	*1,990*
2	Chicago[3]	4	147	187	182	192	20,841	23,383	23,128	26,180
3	Boston	3	113	196	200	214	12,445	24,504	17,469	16,956
4	Atlanta	3	77	153	142	160	13,004	19,567	17,931	21,018
5	Ft. Lauderdale	2	18	35	49	49	2,484	4,214	6,234	6,328
6	Dallas[3]	2	84	103	89	86	12,060	14,302	11,279	10,594
7	Orlando	1	42	21	49	35	5,526	2,646	5,212	4,662
8	Minneapolis-St. Paul	1	47	53	46	46	6,716	6,776	6,400	6,136
9	Detroit	3	53	60	59	92	7,614	6,912	7,542	10,217
10	Los Angeles[4]	1	-	7	-	7	-	1,260	-	840
11	Houston[5]	2	36	53	50	70	4,585	6,410	5,560	7,033
12	Denver	2	-	7	7	27	-	966	868	3,712
13	Tampa	1	24	21	21	28	2,832	2,646	2,562	4,039
14	San Francisco[6]	-	-	-	-	-	-	-	-	-
15	Miami	1	48	70	56	49	6,690	9,548	8,239	7,109
16	Kansas City	2	17	23	23	39	2,232	2,646	2,790	3,567
17	Milwaukee	2	16	27	32	40	1,344	2,632	3,726	3,554
18	West Palm Beach	1	18	21	21	21	2,364	2,646	2,691	2,772
19	Seattle	1	-	-	7	14	-	-	840	1,680
20	Las Vegas	1	-	-	7	7	-	2,093	868	868
	Top 20 Markets	13	1,022	1,329	1,390	1,523	141,341	175,694	156,909	170,350
	Other Markets		567	815	783	1,071	71,368	88,664	63,548	90,113
	Total—All Markets	13	1,589	2,144	2,173	2,594	212,709	264,358	220,457	260,463

[1] Top 20 city markets ranked by total domestic outbound O&D passengers for the 12 months ended September 30, 2004.
[2] Certificated U.S. airlines operating scheduled passenger jet services. Each mainline carrier and its codesharing affiliates was counted as one airline.
[3] Includes O'Hare and Midway airports.
Source: *Official Airline Guide,* the first week in February for each year shown

Nineteen of National's top 20 O&D markets have nonstop scheduled service, 11 of which were served by more than one carrier in February 2005. Between 1996 and 2005, the Boston, Chicago, Atlanta, Fort Lauderdale, Detroit, Houston, Denver, Kansas City, and

Milwaukee routes gained competitive nonstop service while the Miami and Orlando routes lost nonstop competition. Five of the top 20 routes (New York, Chicago, Boston, Atlanta, and Detroit) were served by three carriers or more in February 2005.

(2) Airline Activity

From 2000 through 2004, although enplanement volumes fluctuated year-to-year at National, only minor shifts occurred in each carrier group's relative market share (**see Table 2-10**).

The most notable change in the distribution of enplanements at National was the shift in enplanements from flights operated by major carriers to flights operated by their regional affiliates, and the collective gain in enplanements by LCCs. In 2004, major carriers accounted for 73.6 percent of total enplanements at National, down from 90.5 percent in 2000; regional airlines accounted for 18.3 percent of total enplanements up from 7.1 percent; and LCCs accounted for 8.1 percent of total enplanements in 2004, up from 2.3 percent in 2000.

Since 2000, a total of 44 additional slot exemptions have been granted at National. The AIR-21 legislation created 24 new slots at National, 12 of which were allocated within the perimeter and 12 beyond the perimeter. In 2003, under the Vision-100 Century of Flight Aviation Authorization Act, DOT granted an additional 20 slot exemptions, comprising 12 beyond-perimeter slots and 8 within-perimeter slots.

Slots are awarded to airlines—whether incumbent or new entrant—that DOT believes are best equipped to maximize competitive benefits including, among other criteria, lower fares. This directive has tended to favor LCCs in recent years. Of the 20 slot exemptions created in 2003, for example, 10 were allocated to LCCs.

Due to the regulatory and physical constraints on capacity, there has been limited opportunity for significant growth of -LCC services at National. However, LCCs accounted for 8.1 percent of enplanements at National in 2004 and provided 7.4 percent of total departing seats in February 2005. It is worth noting that AirTran and Spirit initiated LCC service at National in recent years. AirTran currently operates three daily flights to Atlanta and one to Ft. Myers, while Spirit offers twice-daily service to Ft. Lauderdale and daily service to both Detroit and Myrtle Beach.

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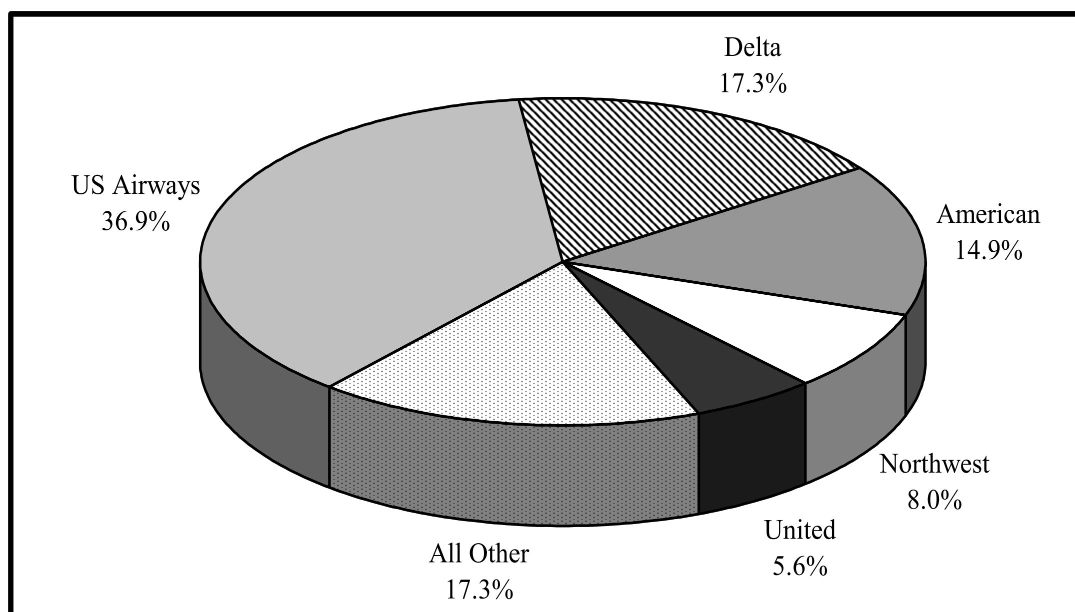
Table 2-10
CARRIER SHARES OF NATIONAL'S ENPLANED PASSENGERS[1]
(passengers in thousands; listed in descending order by 2004)

Sector	2000		2001		2002		2003		2004		AAG	% Change
Carrier	Psgrs.	Share	Psgrs.	Share	Psgrs.	Share	Psgrs.	Share	Psgrs.	Share	2000-2003	2003-2004
AIRPORT TOTAL	**7,835**	**100.0%**	**6,561**	**100.0%**	**6,460**	**100.0%**	**7,100**	**100.0%**	**7,952**	**100.0%**	**-3.2%**	**12.0%**
Domestic	**7,726**	**98.6%**	**6,480**	**98.8%**	**6,356**	**98.4%**	**6,971**	**98.2%**	**7,797**	**98.1%**	**-3.4%**	**11.8%**
US Airways	2,961	37.8	2,441	37.2	2,305	35.7	2,539	35.8	2,877	36.2	-5.0	13.3
US Airways (incl. Shuttle)	*2,569*		*2,049*		*1,797*		*1,896*		*2,088*			
US Airways Express	*392*		*392*		*508*		*643*		*789*			
Delta	1,523	19.4	1,248	19.0	1,201	18.6	1,355	19.1	1,379	17.3	-3.8	1.8
Delta (incl. DL Shuttle)	*1,459*		*1,247*		*1,140*		*1,050*		*1,095*			
Delta Connection	*64*		*1*		*61*		*305*		*284*			
American[2]	1,083	13.8	838	12.8	1,055	16.3	1,166	16.4	1,183	14.9	2.5	1.4
American	*1,013*		*772*		*921*		*956*		*922*			
American Eagle	*70*		*66*		*134*		*198*		*215*			
American Connection	-		-		-		*12*		*45*			
Northwest	580	7.4	480	7.3	522	8.1	587	8.3	633	8.0	0.4	7.8
Northwest	*580*		*480*		*522*		*587*		*622*			
Northwest Airlink	-		-		-		-		*10*			
United	412	5.3	373	5.7	393	6.1	399	5.6	442	5.6	-1.1	10.8
Continental	546	7.0	420	6.4	385	6.0	397	5.6	400	5.0	-10.1	0.6
Continental	*545*		*410*		*326*		*307*		*309*			
Continental Express	*2*		*11*		*59*		*91*		*91*			
Midwest	111	1.4	119	1.8	146	2.3	156	2.2	166	2.1	11.9	6.5
Midwest	*106*		*109*		*143*		*149*		*166*			
Midwest Connect	5.5		9.5		3.2		6.6		-			
ATA*	100	1.3	106	1.6	122	1.9	126	1.8	165	2.1	8.3	30.5
America West*	62	0.8	128	1.9	140	2.2	137	1.9	154	1.9	30.2	11.8
America West	*55*		*123*		*123*		*131*		*154*			
America West Express	*7*		*5*		*17*		*6*		-			
AirTran*	-	-	-	-	-	-	-	-	139	1.7	n.a.	n.a.
Spirit*	-	-	-	-	-	-	-	-	110	1.4	n.a.	n.a.
Alaska	-	-	3	0.0	32	0.5	34	0.5	77	1.0	n.a.	128.1
Frontier*	11	0.1	25	0.4	36	0.6	39	0.5	73	0.9	54.9	86.3
Midway*	65	0.8	46	0.7	20	0.3	-	-	-	-	n.a.	n.a.
TWA	252	3.2	174	2.6	-	-	-	-	-	-	n.a.	n.a.
Charter and Other	19	0.2	79	1.2	-	-	35	0.5	-	-	n.a.	n.a.
International	**109**	**1.4%**	**81**	**1.2%**	**104**	**1.6%**	**129**	**1.8%**	**155**	**1.9%**	**5.8%**	**20.3%**
Air Canada	109	1.4	79	1.2	84	1.3	79	1.1	94	1.2	-9.9	18.5
US Airways	0	0.0	0	0.0	21	0.3	49	0.7	61	0.8	n.a.	23.1
US Airways	-		-		*11*		*34*		*38*			
US Airways Express	-		-		*9*		*15*		*23*			
Other	-	-	2	0.0	-	-	-	-	-	-	n.a.	n.a.

[1] Includes both revenue and non-revenue passengers. Excludes enplanements on general aviation and military flights.
[2] American Airlines began reporting TWA traffic with its own in December 2001.
n.a.=not applicable; AAG=average annual compound growth; figures may not sum to totals due to rounding; *=LCC carrier.
Source: The Authority

The top two carriers at National (US Airways and Delta, with their codesharing affiliate carriers) together enplaned more than half (54.3 percent) of all passengers in 2004 (see **Exhibit 2-6**). American (14.9 percent), Northwest (8.0 percent), and United (5.6 percent) ranked next, and the other carriers accounted for the remaining 17.3 percent of the total.

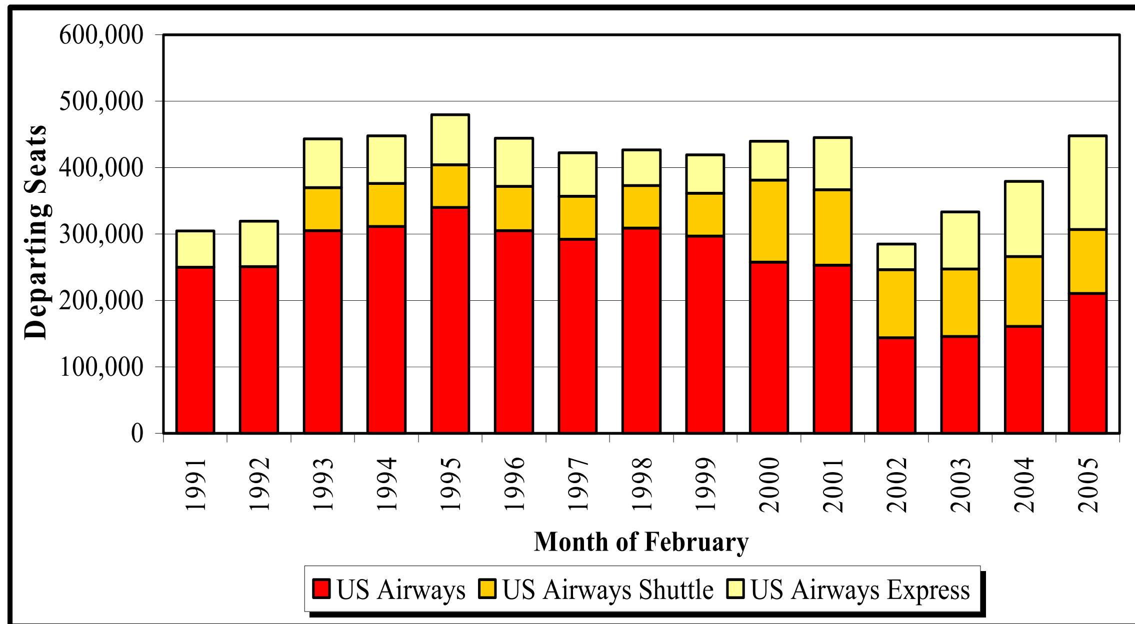
Exhibit 2-6
NATIONAL'S ENPLANED PASSENGER MARKET SHARE[1]
(2004)



[1] Carriers include codesharing affiliates, if any.
Source: The Authority

Through the 1990s, US Airways typically boarded about 3 million passengers each year at National. **Exhibit 2-7** shows how both the quantity and the composition of the carrier's traffic changed over the decade. US Airways increased mainline service and mounted its Shuttle operation at National by early 1993, maintaining that pattern through 1999. By early 2000, the carrier had expanded its Shuttle capacity but reduced its mainline capacity at the airport. Since the events of September 11, 2001, US Airways has reduced its mainline operations at National, maintained its Shuttle operation, and significantly increased Express operations. By early 2005, US Airways Express accounted for about 31 percent of all US Airways capacity at National. It is worth noting that, although the distribution of US Airways seats at National between mainline, Shuttle, and Express operations has changed in recent years, US Airways has ramped up its total capacity each year since September 11, 2001 and, in February 2005, offered as many seats as it did in February 2001 (prior to the events of September 11, 2001).

Exhibit 2-7
NATIONAL'S DEPARTING SEATS ON US AIRWAYS, US AIRWAYS SHUTTLE, AND US AIRWAYS EXPRESS FLIGHTS



Source: *Official Airline Guide,* the month of February for each year shown.

US Airways also has operated service at Dulles for many years, albeit typically at a relatively low level, linking that airport with two of its hub airports in Pittsburgh and Charlotte. Without reducing its operation at National, the carrier gradually ramped up its Dulles operation through the latter half of the 1990s. In 1999, US Airways nearly quadrupled its capacity at Dulles, affecting its traffic level at National only to a minor degree. The carrier pulled back its Dulles operation over the three subsequent years and, in 2004, it enplaned roughly the same passenger volume at that airport as it had in 1992.

It is worth noting that US Airways is not the only carrier with regional jet operations at National. Its codesharing affiliates, Mesa, Chautauqua, Mid-Atlantic, and PSA operated 88 daily departures during the first week of February 2005. The feeder partners of other major carriers also operated regional jet flights at the airport. American's regional affiliates (American Eagle and Trans States), taken together, operated the next highest number of regional jet flights at National, with 31 daily departures. The two Delta Connection carriers (Comair and Atlantic Southeast), taken together, operated 21 daily departures. An additional 22 daily departures were operated by Continental Express (9 daily departures), Northwest Airlink (5 daily departures), and Air Canada (8 daily departures).

(3) Enplaned Passenger Trends

A major part of the analysis leading to the forecast involves examining the composition of traffic by market segment. **Table 2-11** shows trends for domestic and

international O&D passengers and for both domestic-to-domestic and gateway connections.[7] In the 1996-2000 period, O&D traffic constituted between 86.3 and 88.3 percent of revenue enplanements at National, with connections accounting for the remainder. These proportions changed to 91.9 and 8.1 percent, respectively, in 2002, but returned to the former range in 2003 and 2004. Non-revenue passengers (mostly airline staff) added about 3.3 percent to the 2004 revenue passenger total.

Table 2-11
HISTORY OF NATIONAL'S ENPLANED PASSENGERS BY MARKET SEGMENT
(passengers in thousands)

	O&D Passengers				Connections			Total Enplaned Passengers		
	Scheduled		Charter	Total	Dom-to-		Total		Non-	
Year	Dom.	Intl.[1]	& Other	O&D[2]	Dom	Gateway[3]	Connect[2]	**Revenue**	revenue	**TOTAL[2]**
1996	5,979	416	12	6,408	805	66	871	**7,279**	281	**7,560**
1997	6,149	460	8	6,617	921	39	960	**7,577**	299	**7,875**
1998	6,003	483	4	6,490	1,009	25	1,034	**7,524**	371	**7,895**
1999	5,732	486	3	6,220	865	25	890	**7,110**	391	**7,501**
2000	6,108	490	4	6,601	843	33	876	**7,478**	378	**7,855**
2001	5,204	410	2	5,616	644	18	663	**6,279**	285	**6,564**
2002[4]	5,218	480	0	5,698	479	24	503	**6,201**	260	**6,461**
2003[4]	5,531	531	0	6,062	767	46	812	**6,875**	228	**7,102**
2004P	6,154	559	2	6,714	915	66	981	**7,695**	257	**7,952**
Average Annual Compound Growth										
1996-2000	0.5%	4.2%	-25.6%	0.7%	1.1%	-15.7%	0.1%	**0.7%**	7.6%	**1.0%**
Year-over-year Percent Change										
2000-2001	-14.8	-16.2	-51.6	-14.9	-23.5	-45.1	-24.4	**-16.0**	-24.7	**-16.4**
2001-2002	0.3	16.9	-100.0	1.5	-25.7	30.8	-24.2	**-1.2**	-8.5	**-1.6**
2002-2003	6.0	10.7	n.a.	6.4	60.1	92.2	61.7	**10.9**	-12.5	**9.9**
2003-2004	11.3	5.2	n.a.	10.8	19.3	44.2	20.7	**11.9**	12.7	**12.0**

[1]Includes O&D passengers that boarded domestic flights at National bound for international destinations via other U.S. gateway airports.
[2] Figures may not sum to totals due to rounding.
[3] Gateway connections represent passengers connecting from domestic flights to international flights, and vice versa.
[4] May differ from 2003A-D Report due to revised DOT data.
P=segment breakdown projected by John F. Brown Company, based on 9 months of actual data; n.a.=not applicable.
Source: Table 2-13

From 1996 to 2000, domestic O&D traffic grew slowly (0.5 percent per year), while international O&D traffic, mostly to Canada, showed strong growth due in large part to the U.S.-Canada open skies agreement that took effect in 1995. Connecting traffic at National was virtually flat over this period, with the exception of a brief spike in 1998.

Connecting traffic declined more in 2001 (down 24.4 percent) than O&D traffic (down 14.9 percent). However, over the subsequent three years, both of these segments of traffic recovered from the events of September 11, 2001. Indeed, in 2004, both O&D and connecting traffic volumes at National were higher than in 2000.

7 Note in Table 2-11 that market segmentation categorizes passengers not simply as domestic or international enplanements. For example, a passenger destined for Europe who departs on a domestic flight to Boston from National, with a connection there to an international flight to Paris, would be classified as a domestic enplanement but an international O&D passenger.

Table 2-12 presents O&D passengers and average fares paid in the 12 months ended September 30, 1996, 2001, and 2004 in National's top 20 domestic city markets.[8] In 2004, Passenger traffic in the top 20 markets was virtually identical (up 0.3 percent) as the same period three years earlier, and only 6 percent higher than in 1996. Individual markets experienced a mixed pattern of gains and losses. Passengers to Atlanta, Detroit, Ft. Lauderdale, Minneapolis-St. Paul, and Orlando showed significant increases from 2001 to 2004, due primarily to lower fares. AirTran and Spirit introduced nonstop service in the Ft. Lauderdale and Atlanta markets during this period. In contrast, O&D traffic volumes in markets such as Los Angeles, New York, Las Vegas, and San Francisco declined, in part due to LCC services to those destinations from either Dulles or BWI, or both.

[8] The passenger figures shown for 2001 show the effect of the closure of National from September 11, 2001 through October 3, 2001 and the gradual ramping up of activity that continued until April 2002.

Table 2-12
NATIONAL'S TOP 20 DOMESTIC O&D CITY MARKETS
(for the 12 months ended September 30; ranked by 2004 passengers)

		Domestic Outbound O&D Passengers						Average One-way Fare Paid[1]				
	City Market				as % of	AAG					AAG	
Rank	*Airport*	1996	2001	2004	2004 Total	1996-2001	2001-2004	1996	2001	2004	1996-2001	2001-2004
1	New York	1,006,440	878,000	704,280	11.7%	-2.7%	-7.1%	$117.38	$116.47	$116.54	-0.2%	0.0%
	LaGuardia	*781,380*	*744,470*	*632,370*	*10.5*	*-1.0*	*-5.3*	*114.32*	*108.88*	*108.70*	*-1.0*	*-0.1*
	Newark	*157,480*	*106,930*	*60,670*	*1.0*	*-7.5*	*-17.2*	*143.64*	*169.25*	*195.01*	*3.3*	*4.8*
	Kennedy	*67,580*	*26,600*	*11,240*	*0.2*	*-17.0*	*-25.0*	*91.58*	*115.20*	*142.07*	*4.7*	*7.2*
2	Chicago[2]	316,450	332,470	371,690	6.2	1.0	3.8	182.19	168.48	138.05	-1.6	-6.4
3	Boston	302,530	416,590	354,590	5.9	6.6	-5.2	178.54	136.76	166.26	-5.2	6.7
4	Atlanta	200,260	230,450	303,760	5.0	2.8	9.6	219.72	183.66	138.76	-3.5	-8.9
5	Ft. Lauderdale	90,890	149,540	198,580	3.3	10.5	9.9	114.08	104.15	92.76	-1.8	-3.8
6	Dallas/Ft. Worth[3]	174,450	192,340	180,600	3.0	2.0	-2.1	263.95	266.60	227.46	0.2	-5.2
7	Orlando	132,290	93,240	157,540	2.6	-6.8	19.1	122.24	135.39	128.25	2.1	-1.8
8	Minneapolis-St. Paul	133,640	106,290	148,350	2.5	-4.5	11.8	234.57	260.26	226.25	2.1	-4.6
9	Detroit	107,180	101,500	135,940	2.3	-1.1	10.2	210.13	210.21	160.97	0.0	-8.5
10	Los Angeles[4]	146,460	169,510	130,380	2.2	3.0	-8.4	257.39	224.31	193.94	-2.7	-4.7
11	Houston[5]	76,570	118,820	121,930	2.0	9.2	0.9	275.49	271.13	255.38	-0.3	-2.0
12	Denver	65,600	94,330	117,830	2.0	7.5	7.7	156.20	157.68	129.69	0.2	-6.3
13	Tampa	101,710	99,060	113,490	1.9	-0.5	4.6	125.28	137.99	136.79	2.0	-0.3
14	San Francisco[6]	133,790	126,240	103,190	1.7	-1.2	-6.5	258.28	237.92	182.87	-1.6	-8.4
15	Miami	134,560	114,880	95,650	1.6	-3.1	-5.9	159.74	189.97	176.57	3.5	-2.4
16	Kansas City	86,140	82,790	94,620	1.6	-0.8	4.6	172.61	188.99	138.18	1.8	-9.9
17	Milwaukee	59,090	64,740	81,930	1.4	1.8	8.2	159.91	171.23	106.47	1.4	-14.6
18	West Palm Beach	78,860	85,590	81,780	1.4	1.7	-1.5	121.38	122.79	114.96	0.2	-2.2
19	Seattle	62,080	59,240	78,150	1.3	-0.9	9.7	235.00	228.42	199.94	-0.6	-4.3
20	Las Vegas	33,940	95,250	72,130	1.2	22.9	-8.9	206.51	155.50	170.17	-5.5	3.1
	Top 20 Markets	3,442,930	3,610,870	3,646,410	60.5%	1.0%	0.3%	170.52	165.27	150.29	-0.6%	-3.1%
	Other Markets	2,649,540	2,501,010	2,382,130	39.5	-1.1	-1.6	178.48	188.01	187.86	1.0	0.0
	Total—All Markets	6,092,470	6,111,880	6,028,540	100.0%	0.1%	-0.5%	$173.99	$174.55	$165.14	0.1%	-1.8%

[1] Average fares exclude the dilutive effect of passengers traveling on frequent flyer reward program tickets.
[2] Market includes O'Hare and Midway airports.
[3] Market includes Dallas/Ft. Worth Airport and Love Field.
[4] Market includes Los Angeles, Orange County, Long Beach, Ontario, and Burbank airports.
[5] Market includes Bush and Hobby airports.
[6] Market includes San Francisco, San Jose, and Oakland airports.
AAG=average annual compound growth.
Source: DOT, *Air Passenger Origin-Destination Survey* , reconciled to Schedules T-100 and 298C T-1

Fares paid at National, on average, remained steady between 1996 and 2001, subject only to minor fluctuations in particular O&D markets. Although average fares paid by all passengers at National declined almost 2.0 percent per year from 2001 to 2004, the average fare paid in National's top 20 markets declined at a faster rate (3.1 percent per year) (see **Table 2-12**).

It is revealing, however, to compare average fares paid at National with those at Dulles. Fares at National tend to be higher than at Dulles in large O&D markets within the 1,250-mile perimeter, since capacity is limited, competition is less robust than in the Shuttle market, and higher-yield passengers tend to prefer flights at National. Fares at National, on the other hand, are much lower than at Dulles, on average, to destinations outside the 1,250-mile perimeter, in part because higher-yield travelers tend to prefer the nonstop flights available at Dulles and also because carriers at National offer lower fares to attract traffic to their connecting services in those markets.

(4) Market Strengths and Vulnerabilities

The market for passenger air service at National has a number of strengths that are attractive to carriers. These strengths include the following:

- National's proximity to Washington D.C. and environs.
- Traffic base comprised primarily of higher-yield O&D passengers.
- Resilient passenger demand, judging by the rate of recovery after September 11, 2001.

At the same time, some of the strengths cited above create vulnerabilities for National, which include the following:

- National's location near the seat of government (e.g., the U.S. Capitol, the Pentagon) poses security concerns and affects regulatory policies, adversely affecting National's operations.

- Carrier service decisions (e.g., use of regional jets rather than larger jet aircraft) can affect National's passenger capacity in a slot-controlled environment.

- Relatively low presence of LCCs, and strong competition for domestic O&D passengers from LCCs at nearby BWI and at Dulles.

(5) Enplaned Passenger Forecast

The traffic forecast for National was developed using quantitative methodology tempered with professional judgment. A market-based approach was used that aggregated estimates of market segments to produce a total airport forecast of enplaned revenue passengers. Trends were analyzed by market segments, and such trends were compared to regional and countrywide trends and to key factors affecting demand, capacity, and fares. Finally, a factor was added to the revenue enplanement forecast to account for non-revenue passengers.

In addition to the key factors affecting future traffic described earlier, a number of assumptions were made related specifically to the forecast at National. In particular, it was assumed that:

- The High Density Rule and the Perimeter Rule will continue in effect, with only minor waivers granted through the end of the forecast period.
- Enplanements will increase to the extent that load factor experience and seating capacity will allow.
- Carriers will continue to replace smaller-capacity aircraft, including some regional jets, with larger jets.
- Increases in LCC service will be gradual.
- The split between O&D traffic and connecting traffic will remain virtually unchanged through the forecast period.
- US Airways will emerge from bankruptcy and continue to serve the largest share of traffic through the forecast period.

Total enplanements are forecast to be approximately 9.7 million at National in 2013. For a detailed presentation of both historical and forecast passengers by market segment, refer to **Table 2-13**. The forecast is presented graphically in **Exhibit 2-8**.

Table 2-13
NATIONAL'S ENPLANED PASSENGER FORECAST TRENDS[1]

Year	DOMESTIC ENPLANEMENTS						INTERNATIONAL ENPLANEMENTS						
	Revenue Passengers on Scheduled Flights						Revenue Psgrs. On Sched. Flights						
	Originating		Connections from:										
	Domestic O&D	Bound for Intl. Destns.	Domestic Flights	International Flights	On Nonsched. "Charter" Flights	**DOMESTIC TOTAL**	International O&D	Connections from Domestic Flights	On Nonsched. "Charter" Flights	**INTL. TOTAL**	**Total Revenue Enplaned Passengers**	Non-Revenue Enplaned Passengers	**TOTAL ENPLANED PASSENGERS**
1991	6,141,500	359,770	633,720	15,760	4,053	**7,154,803**	42,836	14,930	0	**57,766**	**7,212,569**	220,585	**7,433,154**
1992	6,372,530	335,090	624,730	16,750	4,127	**7,353,227**	35,322	15,970	0	**51,292**	**7,404,519**	298,391	**7,702,910**
1993	6,651,540	345,360	674,170	21,180	3,597	**7,695,847**	37,948	20,150	0	**58,098**	**7,753,945**	284,282	**8,038,227**
1994	6,241,440	362,470	730,155	15,170	8,590	**7,357,825**	35,713	15,870	0	**51,583**	**7,409,408**	337,520	**7,746,928**
1995	6,145,300	376,900	798,560	22,840	4,123	**7,347,723**	62,904	24,700	6	**87,610**	**7,435,333**	255,398	**7,690,731**
1996	5,979,460	380,770	805,340	30,960	12,145	**7,208,675**	35,188	35,020	35	**70,243**	**7,278,918**	281,420	**7,560,338**
1997	6,148,740	443,090	921,115	18,890	7,633	**7,539,468**	17,311	19,860	42	**37,213**	**7,576,681**	298,547	**7,875,228**
1998	6,003,380	464,470	1,009,175	12,390	3,575	**7,492,990**	18,478	12,410	103	**30,991**	**7,523,981**	371,163	**7,895,144**
1999	5,731,640	483,750	864,735	12,560	2,631	**7,095,316**	1,994	12,250	132	**14,376**	**7,109,692**	391,174	**7,500,866**
2000	6,107,820	473,590	842,865	16,280	3,690	**7,444,245**	16,253	16,970	40	**33,263**	**7,477,508**	377,865	**7,855,373**
2001	5,203,810	380,210	644,390	9,100	1,758	**6,239,268**	30,173	9,140	47	**39,360**	**6,278,648**	284,503	**6,563,151**
2002	5,217,750	380,120	478,735	12,770	0	**6,089,375**	99,788	11,080	0	**110,868**	**6,200,843**	259,608	**6,460,451**
2003A	5,531,130	408,490	766,620	24,250	162	**6,730,652**	122,602	21,580	0	**144,182**	**6,874,834**	227,581	**7,102,415**
2004P	6,153,820	429,963	914,560	34,920	2,075	**7,535,338**	128,607	31,150	0	**159,757**	**7,695,095**	256,568	**7,951,662**
2005F	6,614,100	453,700	991,500	38,200	1,900	**8,099,400**	136,600	34,100	0	**170,700**	**8,270,100**	280,900	**8,551,000**
2006	6,812,000	466,400	1,018,300	39,500	1,900	**8,338,100**	141,400	35,200	0	**176,600**	**8,514,700**	289,900	**8,804,600**
2007	6,958,600	477,100	1,041,700	40,500	1,900	**8,519,800**	145,200	36,100	0	**181,300**	**8,701,100**	296,600	**8,997,700**
2008	7,077,100	486,200	1,061,500	41,400	1,900	**8,668,100**	148,200	36,900	0	**185,100**	**8,853,200**	301,900	**9,155,100**
2009	7,178,500	494,000	1,078,500	42,200	1,900	**8,795,100**	150,900	37,600	0	**188,500**	**8,983,600**	306,400	**9,290,000**
2010	7,266,300	500,900	1,093,600	42,900	1,900	**8,905,600**	153,300	38,200	0	**191,500**	**9,097,100**	310,700	**9,407,800**
2011	7,346,000	507,400	1,107,800	43,500	1,900	**9,006,600**	155,600	38,700	0	**194,300**	**9,200,900**	314,700	**9,515,600**
2012	7,422,200	513,000	1,120,000	44,100	1,900	**9,101,200**	157,800	39,200	0	**197,000**	**9,298,200**	318,800	**9,617,000**
2013	7,495,300	518,600	1,132,300	44,600	1,900	**9,192,700**	160,000	39,700	0	**199,700**	**9,392,400**	322,900	**9,715,300**
Average Annual Compound Growth													
Historical:													
1991-1996	-0.5%	1.1%	4.9%	14.5%		**0.2%**	-3.9%	18.6%		**4.0%**	**0.2%**	5.0%	**0.3%**
1996-2000	0.5	5.6	1.1	-14.8		**0.8**	-17.6	-16.6		**-17.0**	**0.7**	7.6	**1.0**
1991-2000	-0.1	3.1	3.2	0.4		**0.4**	-10.2	1.4		**-5.9**	**0.4**	6.2	**0.6**
2000-2001	-14.8	-19.7	-23.5	-44.1		**-16.2**	85.6	-46.1		**18.3**	**-16.0**	-24.7	**-16.5**
2001-2002	0.3	0.0	-25.7	40.3		**-2.4**	230.7	21.2		**181.7**	**-1.2**	-8.8	**-1.6**
2002-2003	5.6	6.8	59.4	72.3		**10.1**	26.3	89.5		**32.6**	**10.5**	-2.8	**9.9**
2003-2004P	11.3	5.3	19.3	44.0		**12.0**	4.9	44.3		**10.8**	**11.9**	12.7	**12.0**
Forecast:													
2004-2005	7.5%	5.5%	8.4%	9.4%		**7.5%**	6.2%	9.5%		**6.8%**	**7.5%**	9.5%	**7.5%**
2005-2008	2.3	2.3	2.3	2.7		**2.3**	2.8	2.7		**2.7**	**2.3**	2.4	**2.3**
2008-2013	1.2	1.3	1.3	1.5		**1.2**	1.5	1.5		**1.5**	**1.2**	1.4	**1.2**
2004-2013	2.2	2.1	2.4	2.8		**2.2**	2.5	2.7		**2.5**	**2.2**	2.6	**2.3**

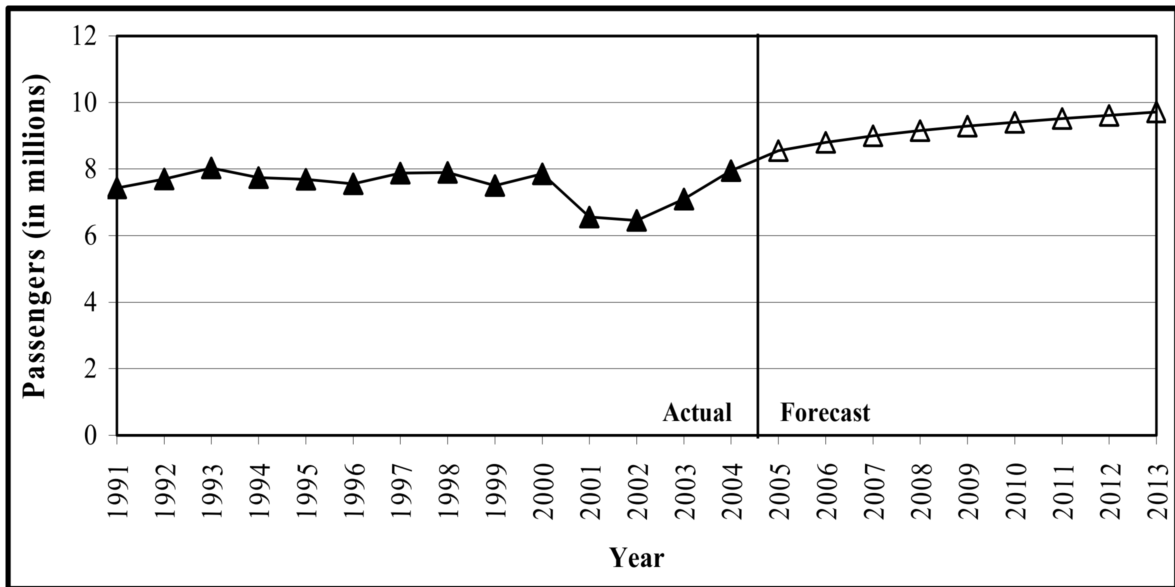
[1] Excludes passengers enplaned on general aviation and military flights.

A=Actual; P=Projected; F=Forecast.

Anomalies in carrier reporting to DOT caused international passengers in historical years to be under-reported.

Sources: *Historical*— The Authority; DOT, Schedules T-3, T-100, and 298C T-1; *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1; *Forecast*—John F. Brown Company, Inc.

Exhibit 2-8
NATIONAL'S TOTAL ENPLANED PASSENGERS—HISTORICAL AND FORECAST



Source: Table 2-13

Enplanements in 2004 reached 8.0 million, a 12.0 percent increase from 2003. As the economy continues to improve, enplanements are forecast to be 8.6 million in 2005, a further increase of 7.5 percent. The passenger growth rate is expected to decline thereafter, averaging growth of 2.3 percent per year, between 2005 and 2008. From 2008 through 2013, annual traffic growth is forecast to average 1.2 percent.

(6) Air Cargo Trends

Total air cargo tonnage handled at National has shown a declining trend since 1992. A number of factors have contributed to this trend..

The general trend in the air cargo industry over the past two decades has been a shift away from the passenger carriers to the integrated carriers (e.g., FedEx, UPS). More recently this trend was accelerated by legislation introduced after September 11, 2001, that banned mail over 16 ounces from passenger flights. In addition, the United States Postal Service awarded the express mail contract to FedEx, which operates from Dulles. Because National is land-constrained, all-cargo aircraft operations must use Dulles, BWI or other airports, restricting cargo at National to the belly compartments of passenger flights. The shift to a higher proportion of regional jet aircraft has reduced available belly capacity for air cargo among the passenger carriers operating at National.

In 2004, approximately 5,100 tons of air cargo were handled at National versus 306,000 tons at Dulles. US Airways accounted for one-third of total air cargo tonnage handled, followed by Continental and American with about 14 percent each, and America West, Delta, and United together accounting for about 26 percent.

(7) Flight Operations and Landed Weight Forecasts

The forecasts of flight operations and aircraft landed weight are derived from the passenger forecast presented earlier and trends in flight operations at National since 1996. Note that these forecasts exclude general aviation and military flights.

The number of passenger flight operations at National was virtually flat in the years 1996 through 2000, consistent with the maximum practical use of available slots under the High Density Rule. Flight operations during each of those years were just under 250,000. Departing seats totaled about 13 million, load factors fluctuated in the range of 55 to 58 percent, and aircraft seating capacity averaged about 110 seats per flight. In the first eight months of 2001, flight operations were on track to approximate these figures.

In the aftermath of the dip in the economy, the events of September 11, 2001, the decline in high-yield air travel, and the financial crisis in the airline industry, the carriers serving National made changes to their service levels. As discussed earlier, they replaced many of their larger narrow-body jet flights with regional jets. The outcome was a significant drop in the average number of seats per flight, from 110 in 2001 to 100.5 in 2002, and to 91.0 in 2003. At the same time, total departing seats dropped to 11.3 million in 2003, and passenger load factors rose above 60 percent.

Average aircraft size at National reached its lowest level in 2003, as traffic began to recover and load factors increased. In 2004, aircraft size increased as US Airways replaced a significant amount of its Express affiliates' turboprop capacity with, primarily, 50-seat regional jets. American also increased the size of some of the mainline jet aircraft it operated at the airport. In 2005, this trend to larger aircraft is expected to continue, driven largely by US Airways Express continuing to phase out turboprop operations in favor of regional jets, an increasing number of which will be in 70-seat configuration.[9] Over the longer term, airlines serving National are expected to increase aircraft size, albeit gradually, allowing them to add capacity at a faster rate than flights and to reduce their own unit costs. The total number of departing seats offered at National is expected to increase at a slower rate than enplanements through 2010. As a result, load factors will reach approximately 64 percent. Beyond 2010, total seats are expected to keep pace with passenger traffic growth. These changes will have the effect of producing about 276,800 flight operations annually by 2013, representing an average annual growth rate of 0.5 percent from 2004 (see **Table 2-14**).

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[9] Vision 100 changed the definition of "regional air carrier" to allow the operation of regional jets with up to 76 seats in slots designated for regional air carriers at National. Under previous legislation, any carrier operating regional jets with more than 55 seats were required to use air carrier slots intended for larger narrow- and wide-body jet aircraft. This change is expected to allow air carriers greater flexibility in flight scheduling at National.

Table 2-14
NATIONAL'S FLIGHT DEPARTURE FORECAST TRENDS[1]

Year	Rev. Enpl. Passengers ('000)	Rev. Psgr. Enpl. Load Factor	Departing Seats ('000)	Average Seats per Flight	Departing Passenger Flights	**TOTAL FLIGHT OPNS.[2]**
1996	7,279	52.6%	13,848	113.2	122,360	**244,720**
1997	7,577	57.0%	13,294	106.7	124,563	**249,126**
1998	7,524	57.6%	13,062	107.9	121,096	**242,192**
1999	7,110	54.9%	12,950	109.2	118,581	**237,162**
2000	7,478	55.1%	13,570	109.5	123,979	**247,958**
2001[3]	5,301	54.6%	9,710	110.2	88,102	**176,204**
2001	6,279	n.a.	n.a.	n.a.	103,502	**207,004**
2002	6,200	58.1%	10,672	100.5	106,171	**212,342**
2003	6,875	60.9%	11,296	91.0	124,191	**248,382**
2004A	7,695	62.1%	12,395	93.3	132,892	**265,784**
2005F	8,270	62.6%	13,211	99.0	133,400	**266,800**
2006	8,515	63.0%	13,515	102.0	132,500	**265,000**
2007	8,701	63.4%	13,724	104.0	132,000	**264,000**
2008	8,853	63.7%	13,898	105.0	132,400	**264,800**
2009	8,984	63.9%	14,059	105.5	133,300	**266,600**
2010	9,097	64.0%	14,214	106.0	134,100	**268,200**
2011	9,201	64.0%	14,376	106.0	135,600	**271,200**
2012	9,298	64.0%	14,528	106.0	137,100	**274,200**
2013	9,392	64.0%	14,676	106.0	138,400	**276,800**
Average Annual Compound Growth						
Historical:						
1996-2000	0.7%		-0.5%		0.3%	**0.3%**
2000-2001	-16.0		n.a.		-16.5	**-16.5**
2001-2002	-1.2		n.a.		2.6	**2.6**
2002-2003	10.9		5.8		17.0	**17.0**
2003-2004	11.9		9.7		7.0	**7.0**
Forecast:						
2004-2008	3.6%		2.9%		-0.1%	**-0.1%**
2008-2013	1.2		1.1		0.9	**0.9**
2004-2013	2.2		1.9		0.5	**0.5**

[1] Excludes general aviation and military flights.
[2] Sum of flight arrivals and departures.
[3] Based on data for January through August, 2001.
A=Actual; F=Forecast; n.a.=not available.
Sources: *Historical* —Metropolitan Washington Airports Authority; *Official Airline Guide* ; DOT, Schedules T-3, T-100, and 298C T-1; DOT, *Air Passenger Origin-Destination Survey,* reconciled to Schedules T-100 and 298C T-1;
Forecast—John F. Brown Company, Inc.

Not surprisingly, given the consistent level of operations between 1996 and 2000, annual aircraft landed weight ranged relatively narrowly between 12.1 and 12.8 billion pounds. Average landed weight per flight reflected only a slight variability, averaging between approximately 102,000 and 105,000 pounds. Between 2001 and 2003, total landed weight was flat at about 11.0 billion pounds; an increase in flight arrivals offset a decline in average landed weight per flight. In 2004, total landed weight increased 7.1 percent, due to a 7 percent increase in flight arrivals and a marginal increase in average landed weight per flight.

The forecast of landed weight reflects a 6.5 percent increase in 2005 and annual increases averaging about 1.3 percent thereafter, through 2013 (see **Table 2-15**).

Table 2-15
NATIONAL'S AIRCRAFT LANDED WEIGHT FORECAST TRENDS[1]

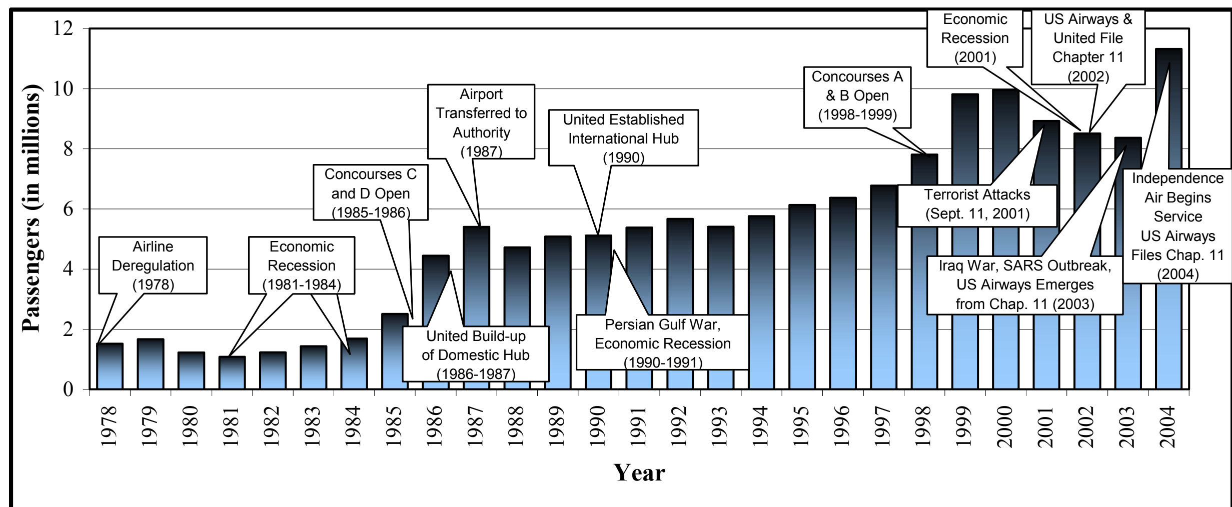
Year	Flight Arrivals	Avg. Landed Weight Per Flight (pounds)	Total Landed Weight (in millions of pounds)
1996	122,360	104,714	12,812.9
1997	124,563	102,714	12,794.3
1998	121,096	103,082	12,482.8
1999	118,581	101,896	12,082.9
2000	123,979	103,029	12,773.5
2001	103,502	107,029	11,077.7
2002	106,171	96,987	10,297.2
2003	124,191	88,683	11,013.6
2004A	132,892	88,788	11,799.2
2005F	133,400	94,200	12,566.3
2006	132,500	97,100	12,865.8
2007	132,000	99,000	13,068.0
2008	132,400	100,000	13,240.0
2009	133,300	100,400	13,383.3
2010	134,100	100,900	13,530.7
2011	135,600	100,900	13,682.0
2012	137,100	100,900	13,833.4
2013	138,400	100,900	13,964.6
Average Annual Compound Growth			
Historical:			
1996-2000	0.3%	-0.4%	-0.1%
2000-2001	-16.5	3.9	-13.3
2001-2002	2.6	-9.4	-7.0
2002-2003	17.0	-8.6	7.0
2003-2004	7.0	0.1	7.1
Forecast:			
2004-2008	-0.1%	3.0%	2.9%
2008-2013	0.9	0.2	1.1
2004-2013	0.5	1.4	1.9

[1] Excludes general aviation and military flights.
[2] Sum of flight arrivals and departures.
[3] Based on data for January through August, 2001.
A=Actual; F=Forecast; n.a.=not available.
Sources: *Historical* —Metropolitan Washington Airports Authority; *Official Airline Guide* ; DOT, Schedules T-3, T-100, and 298C T-1; DOT, *Air Passenger Origin-Destination Survey,* reconciled to Schedules T-100 and 298C T-1; *Forecast* —John F. Brown Company, Inc.

2.4 DULLES

The rate of passenger traffic growth at Dulles has varied over the past 30 years. As shown in **Exhibit 2-9**, however, traffic showed a strong upward trend over the latter half of that period. The rapid growth experienced in the years 1985 through 1987 was due to the short-lived service of New York Air followed by the build-up by United of its domestic hubbing operations at the airport. The traffic surge in 1998 and 1999 was created partly by expansion of service by United and Atlantic Coast and partly by US Airways' aggressive introduction of its MetroJet service, the competitive response by the other carriers, and the stimulation of traffic that followed. The dip in traffic in 2001 and 2002, while not as pronounced as the decline at National, was due in part to the retreat of US Airways from the Dulles market. After establishing a hub at Dulles in June 2004, Independence Air added a considerable amount of domestic capacity to that market, and the subsequent stimulation of traffic pushed enplanement volumes to record levels.

Exhibit 2-9
HISTORY OF DULLES' ENPLANED PASSENGERS[1]



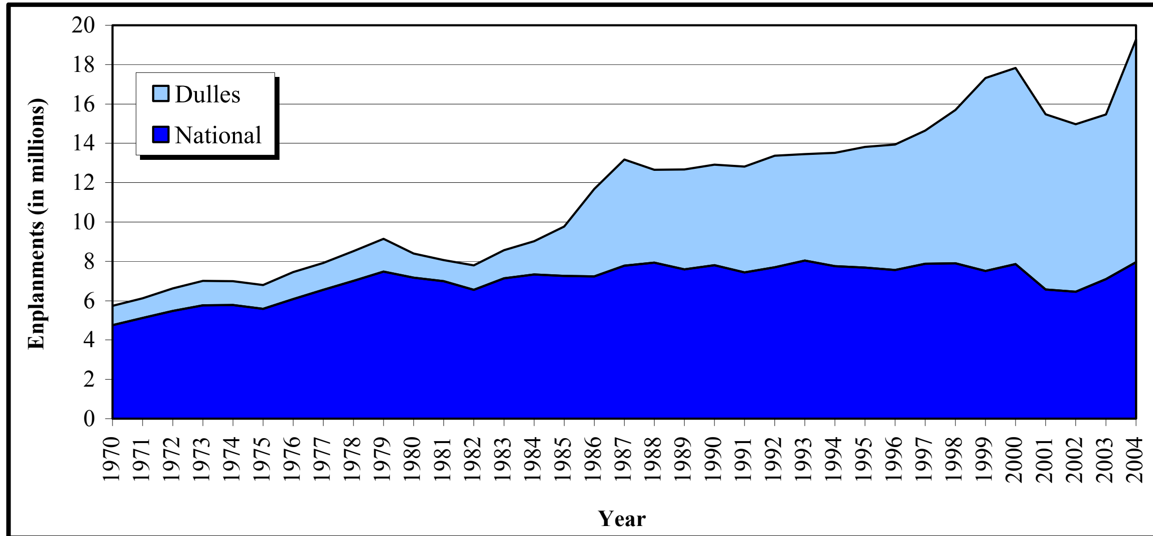
[1] Includes both domestic and international, and revenue and non-revenue passengers. Excludes enplanements on general aviation and military flights.
Sources: The Authority; John F. Brown Company, Inc.

(1) Airport Roles

Unlike National, which is dedicated primarily to serving domestic O&D travelers, Dulles plays a number of roles for the Authority, as follows:

- One key role that Dulles has played since the 1970s is in supplementing the limited capacity at National. As aircraft movements at National approached the maximum allowable under the High Density Rule in the mid-1980s, Dulles accommodated the continuing growth in air traffic—both passenger and cargo—to and from the Air Trade Area. **Exhibit 2-10** illustrates how the airport absorbed the traffic growth. It is worth noting, as well, that an increasing proportion of passengers who currently make use of air service at Dulles begin or end their journeys at locations in the Air Trade Area that make Dulles a more convenient airport than National.

Exhibit 2-10
TOTAL ENPLANEMENTS AT NATIONAL AND DULLES[1]



[1] Includes both revenue and non-revenue passengers on domestic and international flights. Excludes enplanements on general aviation on general aviation and military flights.
Source: The Authority

- Dulles plays two significant roles with respect to domestic traffic. One is in handling domestic services that cannot be accommodated at National for capacity or perimeter reasons. All flights (with a few exceptions) with stage lengths exceeding 1,250 miles must operate from Dulles. This includes most domestic operations destined for cities located west of Minneapolis-St. Paul, Kansas City, and Dallas-Fort Worth. It also includes flights to Puerto Rico and the U.S. Virgin Islands, and all international flights except those to eastern Canada, Bermuda, and the Bahamas. Less obvious, but equally important, are the cargo operations and supplemental flights in higher-volume, shorter-haul passenger markets where demand cannot be met by services operating at National. Finally, Dulles has accommodated expansions of service by incumbent carriers and service by new carriers. Examples include the introduction of substantial additional service by MetroJet in 1999, the launch of JetBlue service in 2001, and Independence Air in 2004.

- A second key domestic role played by Dulles is in providing a facility appropriate to the needs of a connecting hub. Since 1986, Dulles has been the location of a hub for United and a headquarters for United's former codesharing feeder carrier, Atlantic Coast (now Independence Air). United severed its relationship with Atlantic Coast in August 2004, but signaled its commitment to its Dulles hub when it replaced Atlantic Coast's capacity through agreements with Air Wisconsin, Chautauqua, Mesa, Shuttle America, and Trans States. Independence Air introduced a second hubbing operation at Dulles in the summer of 2004. Dulles has the runway and terminal capacity to meet hub peaking requirements

throughout the day, and it has the flexibility to expand its facilities as the scale of either hub increases over time.

- Dulles also plays two roles related to international traffic. It is, and most likely will continue to be, the primary international airport serving the Region. The airport's location is key to this role in three respects. First, Dulles is in the midst of one of the largest concentrations of population in the nation. Second, it serves the nation's capital, home to the federal government and numerous international organizations and foreign embassies. And third, its location along the Eastern Seaboard of the U.S. makes it a 'natural' gateway for international flights linking the U.S. with Europe and elsewhere. Evidence of this role is found, in part, in the number of foreign-flag carriers that operate at Dulles—carriers that rely largely on O&D travel to and from the Air Trade Area.

- The other key international role played by the airport is in serving as a trans-Atlantic gateway for United and its Star Alliance partners—roughly comparable in volume to the gateway operation at Chicago-O'Hare. As noted earlier, United and its Express partners provide the domestic feed for the U.K.- and Europe-bound flights operated by United, Lufthansa, Austrian, bmi British Midland, and SAS. The airport also serves as a connecting gateway for Star Alliance flights to and from Canada (Air Canada) and Japan (All Nippon).

(2) Domestic Air Service Trends

The 1996-2001 period saw a doubling of passenger jet operations at Dulles and a shift in the type of aircraft operated at the airport (see **Table 2-16**). Mainline jet operations increased by 51.6 percent, but a new element was the introduction of regional jet service by the codesharing feeder partners of major carriers. The smaller jets were used for service expansion and to replace both mainline jet and turboprop operations. By February 2001, regional jets accounted for 36.2 percent of all jet operations at the airport.

Table 2-16
DULLES' DOMESTIC SCHEDULED PASSENGER AIR SERVICE,
BY AIRCRAFT TYPE AND LENGTH OF HAUL

	For the first week of February:				Change	
	1996	2001	2004	2005	2001-2004	2004-2005
Number of Cities Served[1]	**63**	**77**	**63**	**75**	**-14**	**+12**
Jet	32	56	53	69	-3	+16
Mainline Jet	*32*	*35*	*28*	*30*	*-7*	*+2*
Regional Jet	-	*24*	*35*	*52*	*+11*	*+17*
Turboprop	40	36	19	13	-17	-6
Weekly Flight Departures	**2,027**	**3,117**	**2,227**	**4,045**	**-890**	**+1,818**
Jet	742	1,762	1,822	3,782	+60	+1,960
Mainline Jet	*742*	*1,125*	*844*	*966*	*-281*	*+122*
Regional Jet	-	*637*	*978*	*2,816*	*+341*	*+1,838*
Turboprop	1,285	1,355	405	263	-950	-142
Weekly Departing Seats	**136,335**	**227,618**	**189,111**	**293,186**	**-38,507**	**+104,075**
Jet	106,173	191,308	177,341	284,514	-13,967	+107,173
Mainline Jet	*106,173*	*159,584*	*129,058*	*139,809*	*-30,526*	*+10,751*
Regional Jet	-	*31,724*	*48,283*	*144,705*	*+16,559*	*+96,422*
Turboprop	30,162	36,310	11,770	8,672	-24,540	-3,098
Average Seats per flight:	**67**	**73**	**85**	**72**	**+12**	**-13**
Jet	143	109	97	75	-12	-22
Mainline Jet	*143*	*142*	*153*	*145*	*+11*	*-8*
Regional Jet	-	*50*	*49*	*51*	*-1*	*+2*
Turboprop	23	27	29	33	+2	+4
Jet Departures by Length of Haul	**742**	**1,762**	**1,822**	**3,782**	**+60**	**+1,960**
Short-haul (<600 mi.)	383	1,089	1,122	2,814	+33	+1,692
Med.-short-haul (600-1,250 mi.)	184	374	351	573	*-23*	*+222*
Med.-long-haul (1,250-1,800 mi.)	51	74	75	90	*+1*	*+15*
Long-haul (>1,800 mi.)	124	225	274	305	+49	+31

[1] Some cities are served by more than one aircraft type.
Source: *Official Airline Guide*

Between February 2001 and February 2004 (i.e., prior to Independence Air), service contractions by the airline industry, in response to the weak economy, the decline in high-yield traffic, terrorism fears, and the industry's weak financial situation, resulted in a drop in service at Dulles. While mainline jet operations fell back to slightly higher than 1996 levels and turboprop flights declined by over two-thirds, regional jet flights increased significantly. In February 2004, regional jets accounted for 53.7 percent of all jet operations, and 25.5 percent of total seats, at the airport.

The impact of regional jets at Dulles, over this three-year period, was different than at National in at least one key respect. The net result of adding regional jets to the aircraft mix at National was a decline in the overall average seating capacity per flight. At Dulles, by contrast, the average number of seats per domestic flight increased, from 67 in 1996 to 85 in 2004. The regional jets replaced turboprop flights with either 19 or 30-to-50 seats. Most of

the remaining turboprop flights, operated with 30-seat aircraft, serve routes where traffic is simply too thin to support regional jets.

The other notable service trend at Dulles is the shift, since 1996, in the mix of domestic jet flights by stage length. In 1996, about 51.6 percent of all domestic jet flights were short-haul (less than 600 miles). By February 2004, they had nearly tripled in number and represented nearly 61.6 percent of domestic jet flights, primarily due to the expansion of hubbing activity by Atlantic Coast in the late 1990s.

With the launch of Independence Air in mid-June 2004, the scale of flight activity changed materially at Dulles. By February 2005, domestic scheduled flights and seats at Dulles were 82 and 55 percent, respectively, above the 2004 level. Independence Air offered almost half as many seats at Dulles in February 2005 as United and United Express combined. The majority of Independence Air's service was deployed on short-haul routes and, as a result, competed directly for passengers with United's new United Express feeder carriers. In February 2005, regional jet flights at Dulles almost tripled and accounted for about 70 percent of all domestic flights. Independence Air and United Express accounted for 46.8 and 42.5 percent, respectively, of regional jet operations at Dulles, with other feeder carriers accounting for the remainder.

An examination of changes in jet service levels in the top 20 O&D city-pair markets reveals a relatively consistent pattern of gains prior to 2001, but a much more inconsistent trend thereafter (**see Table 2-17**). Between 1996 and 2001, total jet seats increased in each of the top 20 O&D markets, with the exception of Phoenix, due in large part to United expanding its hub at Dulles. Service in the Atlanta, Orlando, and New York markets, in particular, increased significantly.

Between 2001 and 2004, domestic seat capacity declined 7.3 percent at Dulles; ten of the markets gained while ten lost capacity. Service to New York, Boston, and Minneapolis-St. Paul were particularly hard-hit, losing between 34 and 65 percent of weekly capacity. Service increased in most of the transcontinental city-pairs, with the exception of San Diego. JetBlue started service at Dulles in November 2001, accounting for gains in service to Los Angeles, San Francisco, and Ft. Lauderdale.

Domestic jet seats at Dulles were 60 percent higher in February 2005 than a year earlier, but the capacity increase in the top 20 O&D markets was only about 25 percent. Independence Air deployed its large fleet of regional jets primarily in lower-density markets. By February 2005, though, Independence Air had introduced nonstop service in seven of Dulles' largest O&D markets (Atlanta, Chicago, New York, Orlando, Boston, Tampa, and Detroit). The carrier operated about 30 percent of total seats offered in those markets. On February 7, 2005, the carrier announced that it would deploy its new Airbus 319 aircraft in mid-April to link Dulles with Los Angeles, San Francisco, and Seattle, and on May 1, 2005, would add San Diego.

Table 2-17
SCHEDULED PASSENGER JET SERVICE
IN DULLES' TOP 20 DOMESTIC O&D PASSENGER MARKETS

Rank[1]	City Market *Airport*	Airlines Serving[2] in 2005	Weekly Scheduled Jet Flight Departures 1996	2001	2004	2005	Weekly Departing Jet Seats 1996	2001	2004	2005
1	Los Angeles[3]	4	53	76	90	102	10,828	13,240	16,000	16,017
2	San Francisco[4]	2	35	67	76	87	7,676	11,421	13,713	12,838
3	Atlanta	4	71	139	151	193	9,190	19,599	16,787	19,178
4	Denver	1	39	56	55	54	8,478	10,809	10,048	9,612
5	Chicago[5]	3	44	69	88	146	7,533	11,629	11,494	14,848
6	New York[6]	4	18	129	125	321	2,778	10,858	7,164	16,625
7	Orlando	2	32	84	49	82	4,456	10,598	9,379	11,624
8	Ft. Lauderdale	2	11	15	21	35	1,306	1,712	3,276	5,334
9	Boston	2	81	119	50	114	10,528	13,951	4,900	9,494
10	Dallas/Ft. Worth	2	42	55	48	48	5,634	7,527	6,195	6,458
11	Seattle	2	12	19	34	21	2,256	3,044	4,308	2,730
12	Las Vegas	1	-	7	17	21	-	1,316	2,774	3,150
13	Tampa	2	23	35	21	49	2,752	4,802	3,376	6,808
14	San Diego	1	6	21	15	19	1,014	2,942	2,204	2,730
15	Miami	2	19	28	35	28	2,678	4,851	4,944	3,849
16	Detroit	3	35	39	55	103	3,180	3,957	4,100	6,800
17	Jacksonville	3	-	21	28	90	-	1,050	1,400	4,746
18	Minneapolis-St. Paul	2	12	40	21	41	1,200	4,564	2,268	3,506
19	Phoenix	2	6	7	21	21	1,128	1,008	3,108	2,744
20	San Juan	3	6	9	18	20	828	1,310	2,890	3,188
	Top 20 Markets	11	545	1,035	1,018	1,595	83,443	140,188	130,328	162,279
	Other Markets		197	727	804	2,187	22,730	51,120	47,013	122,235
	Total—All Markets	12	742	1,762	1,822	3,782	106,173	191,308	177,341	284,514

[1] Top 20 city markets ranked by total domestic outbound O&D passengers for the 12 months ended September 30, 2004.
[2] Certificated U.S. airlines operating scheduled passenger jet services. Mainline carrier and its codesharing affiliates were counted as one airline.
[3] Includes Los Angeles and Long Beach airports.
[4] Includes San Francisco, San Jose, and Oakland airports.
[5] Includes O'Hare and Midway airports.
[6] Includes LaGuardia, Newark, and Kennedy airports.
Source: *Official Airline Guide,* the first week in February for each year shown

There was a high level of competition in Dulles' largest air travel markets in February 2005. In all but three of the top 20 O&D markets, for example, Dulles air travelers had the choice of nonstop service offerings from at least two airlines. Las Vegas, San Diego, and Denver were served by only one carrier. By contrast, seven markets were served by three or more carriers.

(3) Domestic Airline Activity

Since 2000, domestic carrier concentration at Dulles, as measured by the proportion of enplanements accounted for by the top two carriers, ranged between approximately 73 and 77 percent. However, there have been some notable shifts in individual carriers' market shares at Dulles (see **Table 2-18** and the graphical presentation in **Exhibit 2-11**). Between

2000 and 2003, United, JetBlue, and American gained share at the expense of US Airways, after it discontinued MetroJet operations at Dulles. In 2004, Independence Air gained share at the expense of virtually every carrier at Dulles, accounting for 13.3 percent of domestic enplanements. United (including United Express) continued to account for the largest share of domestic enplanements at Dulles (59.4 percent in 2004).

LCCs have accounted for an increasing share of domestic enplanements at Dulles. Between 2000 and 2003, LCCs' share increased from 3.0 percent to 9.3 percent of domestic enplanements, due in large part to JetBlue establishing service at Dulles. The introduction of Independence Air service increased the LCC share to 21.7 percent of domestic enplanements in 2004.

Table 2-18
DULLES' CARRIER SHARES OF DOMESTIC ENPLANED PASSENGERS[1]
(passengers in thousands; listed in descending order by 2004; percent changes pertain to passengers)

Sector	2000		2001		2002		2003		2004		AAG	% Change
Carrier	Psgrs.	Share	Psgrs.	Share	Psgrs.	Share	Psgrs.	Share	Psgrs.	Share	2000-2003	2003-2004
DOMESTIC TOTAL	**7,888**	**100.0%**	**6,938**	**100.0%**	**6,498**	**100.0%**	**6,372**	**100.0%**	**9,015**	**100.0%**	**-6.9%**	**41.5%**
United	4,984	63.2	4,668	67.3	4,197	64.6	4,143	65.0	5,358	59.4	-6.0	29.3
United	*3,392*		*3,066*		*2,564*		*2,460*		*3,064*			
United Express	*1,592*		*1,602*		*1,633*		*1,683*		*2,294*			
Independence Air	-		-		-		-		1,222	13.6	n.a.	n.a.
Delta	726	9.2	671	9.7	740	11.4	615	9.6	582	6.5	-5.4	-5.3
Delta	*640*		*604*		*666*		*532*		*475*			
Delta Connection	*87*		*67*		*75*		*83*		*107*			
American[2]	461	5.8	447	6.4	545	8.4	496	7.8	506	5.6	2.5	2.1
American	*461*		*434*		*512*		*439*		*411*			
American Eagle	-		*13*		*33*		*51*		*60*			
American Connection	*0*		*0*		*0*		*6*		*36*			
JetBlue*	-	-	9	0.1	219	3.4	343	5.4	445	4.9	n.a.	29.8
Northwest	207	2.6	235	3.4	189	2.9	174	2.7	230	2.6	-5.6	32.1
Northwest	*207*		*235*		*189*		*174*		*205*			
Northwest Airlink	-		-		-		-		*26*			
Continental	130	1.7	156	2.2	141	2.2	132	2.1	181	2.0	0.3	37.4
Continental	*67*		*90*		*72*		*40*		*28*			
Continental Express	*64*		*66*		*69*		*92*		*153*			
US Airways	989	12.5	369	5.3	191	2.9	139	2.2	141	1.6	-48.1	1.7
US Airways	*758*		*304*		*126*		*118*		*97*			
US Airways Express	*232*		*65*		*65*		*20*		*44*			
AirTran*	195	2.5	191	2.7	153	2.4	167	2.6	130	1.4	-5.1	-22.1
America West*	6	0.1	8	0.1	6	0.1	85	1.3	121	1.3	144.9	42.1
America West	-		-		*6*		*85*		*121*			
America West Express	*5*		*8*		-		-		-			
Alaska	-	-	7	0.1	49	0.7	65	1.0	49	0.5	n.a.	-24.6
Frontier*	-	-	-	-	-	-	-	-	41	0.5		n.a.
National*	-	-	-	-	19	0.3	-	-	-	-	n.a.	n.a.
ATA*	-	-	18	0.3	-	0.0	-	-	-	-	n.a.	n.a.
TWA	86	1.1	67	1.0	-	-	-	-	-	-	n.a.	n.a.
Sun Country*	35	0.4	38	0.6	-	-	-	-	-	-	n.a.	n.a.
Western Pacific	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
Charter and Other	68	0.9	54	0.8	48	0.7	15	0.2	9	0.1	-39.7	-36.9

[1] Includes both revenue and non-revenue passengers. Excludes enplanements on general aviation and military flights.

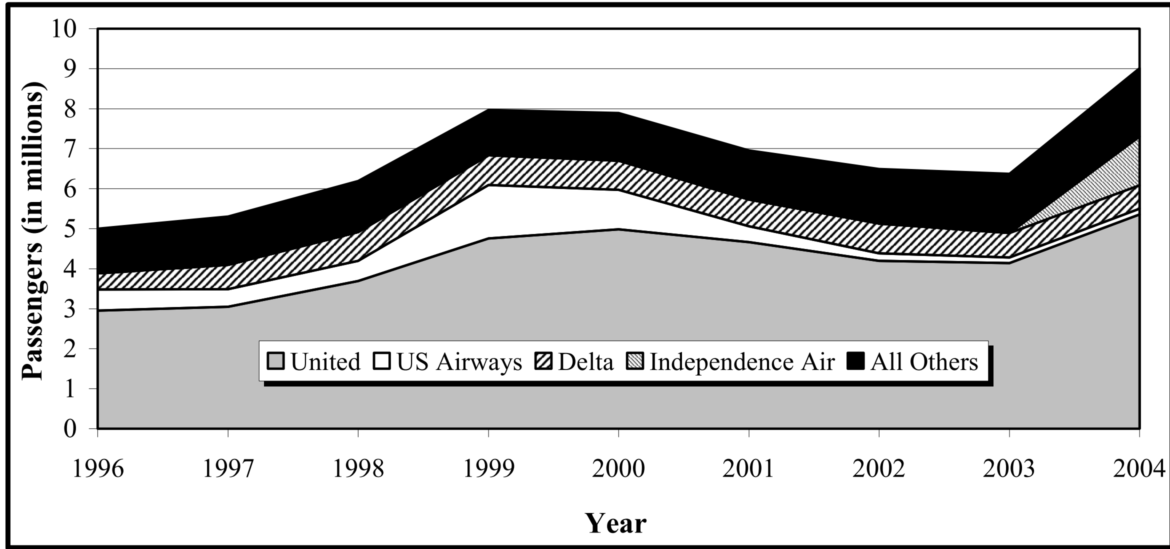
[2] American Airlines began reporting TWA traffic with its own in December 2001.

"-" indicates that a carrier enplaned fewer than 500 passengers.

n.a.=not applicable; AAG=average annual compound growth; figures may not sum to totals due to rounding; *=Low-Cost Carrier.

Source: The Authority

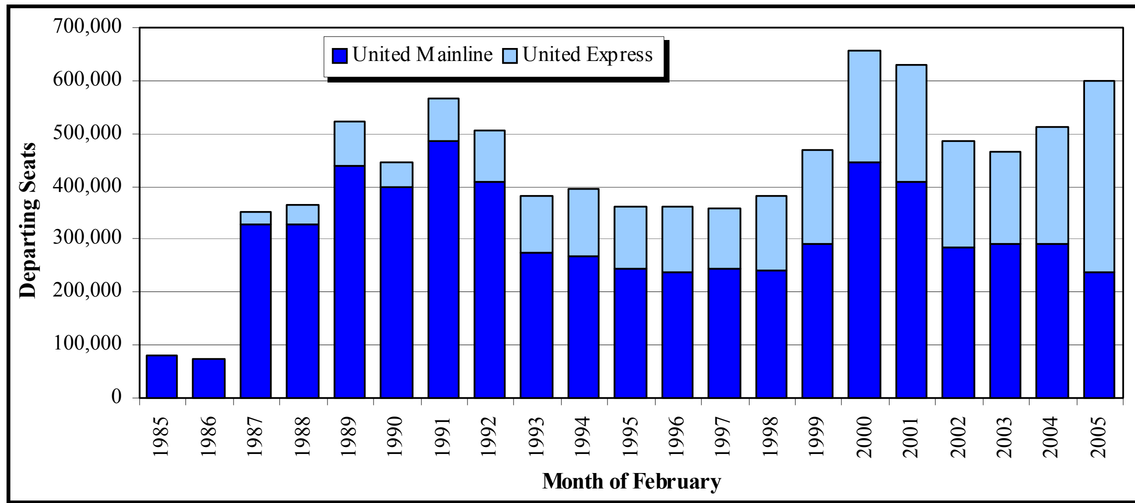
Exhibit 2-11
CHANGES IN DULLES' DOMESTIC ENPLANEMENTS BY MAJOR CARRIER[1]



[1] Includes both revenue and non-revenue passengers. Excludes enplanements on general aviation and military flights. Sum of mainline carrier and afflilates, if any.
Source: The Authority

United's domestic hubbing operation peaked twice at Dulles, once in 1991 and again in 2000 and 2001. As shown in **Exhibit 2-12**, United built up its domestic hub in the late 1980s but pulled back capacity starting in 1992. Over the next five years, its domestic capacity at the airport was virtually flat. From 1999 through 2001, however, and partly as a competitive response to the large infusion of MetroJet flights, United doubled the size of its hub at Dulles. Its subsequent retrenchment in the difficult operating environment since 2001 involved mostly cuts to the mainline operation, although the United Express (Atlantic Coast) component actually showed an increase by early 2004. In response to the new competition from Independence Air, United aggressively expanded its capacity at Dulles. United Express accounted for the entire increase and, by February 2005, for the first time offered more seats at Dulles than United's mainline flights.

Exhibit 2-12
DULLES' DOMESTIC DEPARTING SEATS ON UNITED AND UNITED EXPRESS



Source: *Official Airline Guide*, for the month of February for each year shown.

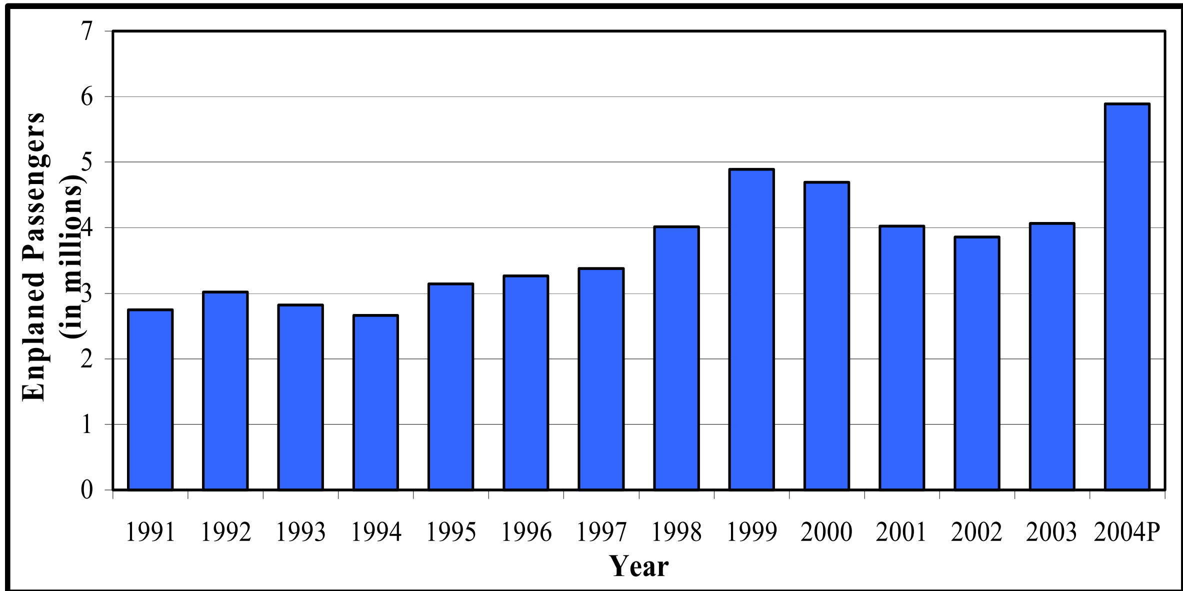
The Dulles hub ranks fourth, in terms of total available seat-miles (ASMs) in United's system. Its other major hubs are at Chicago, Denver, San Francisco, and Los Angeles. United's hub at Dulles has a predominantly east-west orientation, although it is possible that the carrier's new marketing relationship with US Airways may redress that shortcoming.

Measured by ASMs, United's domestic system (including United Express and Ted) was approximately 10 percent smaller in February 2005 compared with February 2001. Dulles' share of United's domestic system capacity increased over this period, however, from 6.2 percent to 7.5 percent.

(4) Domestic Market and Fare Trends

Whereas traffic at National was virtually flat through the 1990s, domestic O&D passengers at Dulles showed strong growth (see **Exhibit 2-13**). Setting aside the short-term surge in the 1999-2000 period, domestic O&D traffic grew 3.9 percent per year, on average, from 1991 to 2001. The drop in domestic O&D traffic at Dulles in 2002 (down 3.9 percent) was much less than at most other airports, cushioned by the additional traffic handled during the first three months of the year while operations at National were still restricted. After a 5.3 percent increase in 2003, domestic O&D passengers are estimated to have grown nearly 45 percent to 5.9 million passengers in 2004, stimulated mostly by Independence Air's entry into the Dulles market.

Exhibit 2-13
DULLES' DOMESTIC O&D PASSENGERS



P=Projected based on nine months of actual data.
Source: DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1

The top 20 domestic O&D city-pair markets at Dulles are very different from those at National (see **Table 2-19**). West Coast cities rank higher at Dulles, and the major East Coast cities rank lower. Dulles' top markets reflect a longer-haul passenger base (trips average about 1,250 miles, on average, compared to 900 miles at National).

The 1996 to 2001 period at Dulles was characterized by strong traffic growth and increasing fares. Although domestic O&D passenger traffic increased 3.9 percent per year, on average, there was a wide variation in the degree of growth in individual city-pair markets. Traffic to Miami, Minneapolis/St. Paul, and Jacksonville, for example, averaged growth of more than 15.0 percent per year, while traffic to Boston and Phoenix declined between 5.0 and 10.0 percent per year. The traffic variation related generally to differences in levels of service, carrier competition, and fare levels in the individual markets. Overall, domestic average fares paid at Dulles increased 1.7 percent per year over the five-year period, although fares declined in certain markets.

Since 2001, there has been a downward trend in fares at Dulles, as at most U.S. airports. Until mid-2004, however, the effect of lower fares on the overall level of O&D traffic at Dulles was largely offset by the even more competitive fare offerings at BWI. Certain markets at Dulles were more responsive to lower fares than others. For example, large reductions in fares to Los Angeles, San Francisco, and Ft. Lauderdale led to sharply increased traffic. In 2004, however, the launch of Independence Air exerted considerable downward pressure on fares at Dulles, such that traffic was significantly stimulated. Because of the nature of Independence Air's initial route structure, traffic gains were greater, on average, in lower-volume domestic O&D markets at Dulles than in the largest markets.

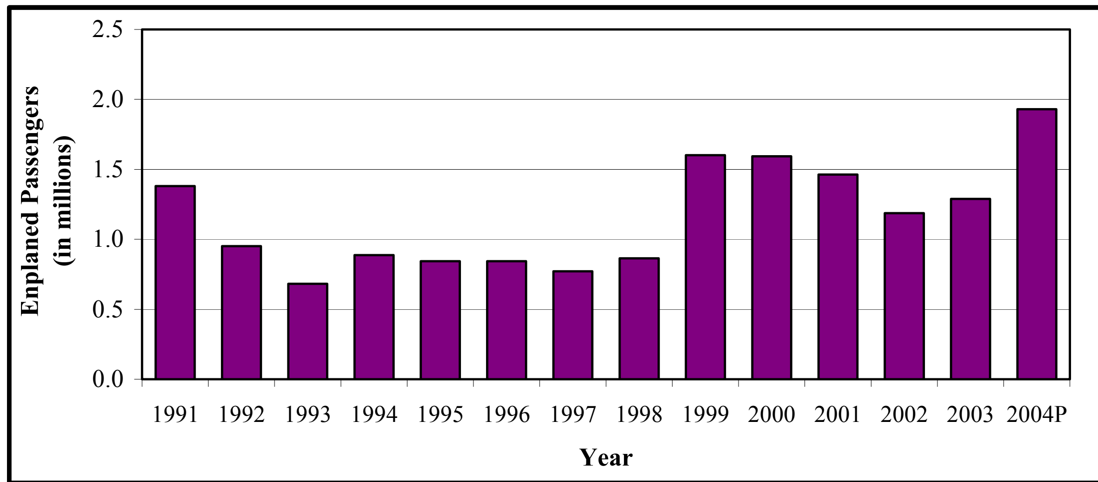
Table 2-19
DULLES' TOP 20 DOMESTIC O&D CITY MARKETS
(for the 12 months ended September 30; ranked by 2004 passengers)

		Domestic Outbound O&D Passengers						Average One-way Fare Paid[1]				
	City Market				as % of	AAG					AAG	
Rank	*Airport*	1996	2001	2004	2004 Total	1996-2001	2001-2004	1996	2001	2004	1996-2001	2001-2004
1	Los Angeles[2]	313,190	300,340	506,610	10.1%	-0.8%	19.0%	$322.07	$368.45	$226.69	2.7%	-14.9%
2	San Francisco[3]	267,090	273,290	412,310	8.2	0.5	14.7	377.31	495.89	245.49	5.6	-20.9
3	Atlanta	272,340	354,460	294,780	5.9	5.4	-6.0	104.68	138.91	107.16	5.8	-8.3
4	Denver	196,720	188,840	210,960	4.2	-0.8	3.8	229.42	300.16	236.48	5.5	-7.6
5	Chicago[4]	70,140	122,400	206,830	4.1	11.8	19.1	211.73	200.40	154.08	-1.1	-8.4
6	New York[5]	107,640	150,860	199,170	4.0	7.0	9.7	113.97	126.86	106.33	2.2	-5.7
7	Orlando	171,820	255,970	172,130	3.4	8.3	-12.4	97.54	105.61	126.67	1.6	6.2
8	Ft. Lauderdale	60,430	78,480	167,330	3.3	5.4	28.7	99.78	102.69	94.85	0.6	-2.6
9	Boston	281,980	172,870	144,680	2.9	-9.3	-5.8	91.86	139.64	127.06	8.7	-3.1
10	Dallas/Ft. Worth[6]	116,870	152,340	117,380	2.3	5.4	-8.3	255.75	260.40	231.43	0.4	-3.9
11	Seattle	75,160	81,990	115,590	2.3	1.8	12.1	321.18	410.93	264.83	5.1	-13.6
12	Las Vegas	30,470	42,050	100,410	2.0	6.7	33.7	243.35	273.57	197.36	2.4	-10.3
13	Tampa	53,840	107,440	84,920	1.7	14.8	-7.5	114.81	112.72	127.78	-0.4	4.3
14	San Diego	71,770	76,600	80,990	1.6	1.3	1.9	311.00	412.98	347.29	5.8	-5.6
15	Miami	26,410	71,510	64,960	1.3	22.0	-3.2	171.67	147.82	147.06	-2.9	-0.2
16	Detroit	41,970	38,750	63,120	1.3	-1.6	17.7	192.42	198.03	129.78	0.6	-13.1
17	Jacksonville	14,330	30,740	57,600	1.1	16.5	23.3	130.03	111.90	115.02	-3.0	0.9
18	Minneapolis-St. Paul	32,390	114,710	57,180	1.1	28.8	-20.7	232.80	162.08	203.56	-7.0	7.9
19	Phoenix	42,930	32,770	52,770	1.1	-5.3	17.2	314.91	332.03	232.80	1.1	-11.2
20	San Juan	24,080	28,390	49,910	1.0	3.3	20.7	200.19	248.54	176.50	4.4	-10.8
	Top 20 Markets	2,271,570	2,674,800	3,159,630	63.0%	4.1%	5.7%	206.15	232.43	181.42	2.4%	-7.9%
	Other Markets	1,017,920	1,340,850	1,852,320	37.0	3.9	11.4	198.68	200.80	162.56	0.2	-6.8
	Total—All Markets	3,289,490	4,015,650	5,011,950	100.0%	4.0%	7.7%	$203.83	$221.80	$174.40	1.7%	-7.7%

[1] Average fares exclude the dilutive effect of passengers traveling on frequent flyer reward program tickets.
[2] Market includes Los Angeles, Orange County, Ontario, Long Beach, and Burbank.
[3] Market includes San Francisco, San Jose, and Oakland airports.
[4] Market includes O'Hare and Midway airports.
[5] Market includes LaGuardia, Newark, and Kennedy airports.
[6] Market includes Dallas/Ft. Worth Airport and Love Field.
AAG=Average annual compound growth.
Source: DOT, *Air Passenger Origin-Destination Survey,* reconciled to Schedules T-100 and 298C T-1

The number of domestic-to-domestic connecting passengers at Dulles varied significantly in the years 1991 through 2004 (see **Exhibit 2-14**). This is consistent with the earlier discussion regarding United's pull-down, subsequent rebuilding of its domestic hubbing operation at Dulles and, more recently, the expansion of hubbing operations by United and Independence Air at the airport.

Exhibit 2-14
DULLES' DOMESTIC-TO-DOMESTIC CONNECTING PASSENGERS



P=Projected based on nine months of actual data.
Source: DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1

(5) International Air Service Trends

International service at Dulles has been characterized by strong growth. As shown in **Table 2-20**, international service increased from 1996 to 2001, and again in the following four years, in terms of the number of weekly departing seats and cities served. Service increases were recorded by both U.S. and foreign-flag carriers operating international flights at Dulles to all world areas, except for a decline in flights to the U.K. and Europe in recent years. This growth is evidence of both a strong base of demand for international air travel and an extensive traffic feed system to support international service.

Table 2-20
TRENDS IN DULLES' INTERNATIONAL AIR SERVICE

	Number of Cities Served			Number of Carriers			Weekly Departing Seats		
	1996	2001	2005	1996	2001	2005	1996	2001	2005
Total—All Destinations	**15**	**20**	**26**	**13**	**16**	**14**	**26,897**	**52,882**	**57,617**
By Carrier Flag:									
U.S.	8	8	15	3	2	1	14,644	22,533	28,220
Foreign	10	16	16	10	14	13	12,253	30,349	29,397
By World Area:									
UK & Europe	9	10	10	8	10	9	20,465	42,456	40,473
Canada	2	4	3	2	2	2	2,366	3,984	4,350
Latin Amer. & Carib.[1]	3	4	11	3	3	5	2,946	2,958	9,010
Asia	1	2	2	1	2	2	1,120	3,484	3,784
By Aircraft Type:									
Mainline Jet	13	18	23	11	16	13	24,531	50,282	53,267
Regional Jet	2	3	3	1	1	2	1,700	2,600	4,350
Turboprop	1	-	-	1	-	-	666	-	-

[1] Includes Mexico, Central America, South America, and the Caribbean.

Source: Official Airline Guide, the first week in February for each year shown

In total, international capacity at Dulles nearly doubled over the 1996-2005 period. There was a particularly strong increase in capacity to Latin America and the Caribbean in recent years, due largely to United shifting its Latin American operations from Miami to Dulles in 2003 and 2004.

(6) International Airline Activity

United accounted for the most international passengers (40 percent of the total) at Dulles in 2004. However, enplanements on foreign-flag carriers increased more from 2000 to 2004 than on U.S. carriers (12.1 percent compared to 9.3 percent). Four foreign-flag carriers that did not serve Dulles in 2000 (SAS, KLM, bmi British Midland, and Alitalia) accounted for 10.2 percent of total international enplanements in 2004. As shown in **Table 2-21**, foreign-flag carriers accounted for 55.6 percent of the international enplanements at the airport in 2004. Of the foreign-flag carriers, European carriers accounted for the largest share of international traffic (41.3 percent) in 2004, followed by flag carriers from Asia (5.5 percent), Caribbean & Latin America (4.6 percent), and Canada (4.1 percent).

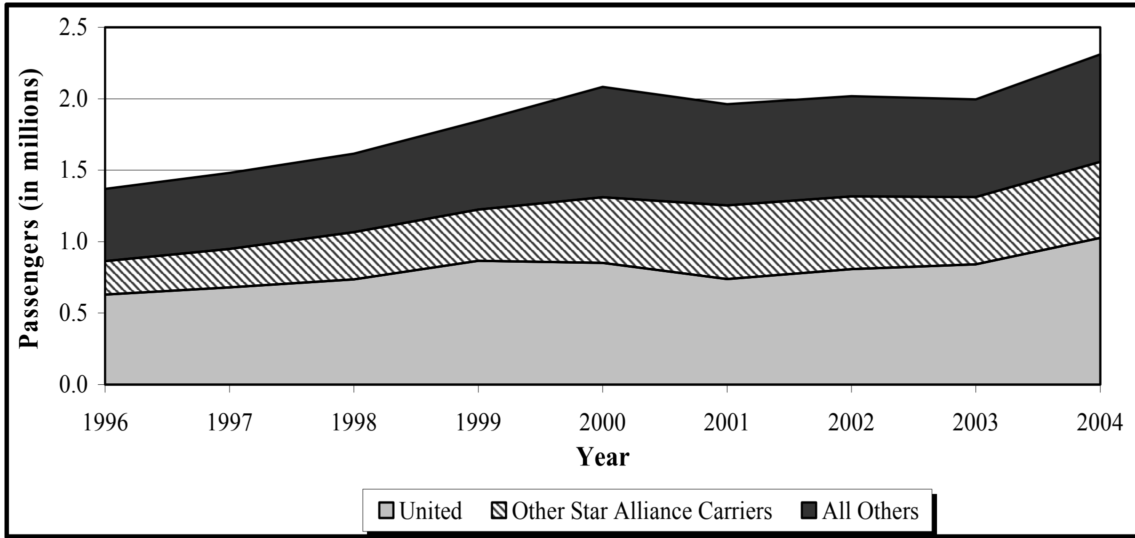
Table 2-21
DULLES' CARRIER SHARES OF INTERNATIONAL ENPLANED PASSENGERS[1]
(passengers in thousands; listed in descending order by 2004)

Sector/Flag	2000		2001		2002		2003		2004		% Change
Carrier	Psgrs.	Share	Psgrs.	Share	Psgrs.	Share	Psgrs.	Share	Psgrs.	Share	2000-2004
INTERNATIONAL TOTAL	**2,083**	**100.0%**	**1,961**	**100.0%**	**2,018**	**100.0%**	**1,995**	**100.0%**	**2,310**	**100.0%**	**10.9%**
U.S. Carriers	**939**	**45.1%**	**823**	**41.9%**	**886**	**43.9%**	**867**	**43.5%**	**1,027**	**44.4%**	**9.3%**
United[2]	850		739		801		768		933		
Air Wisconsin[2]	-		-		-		-		52		
Atlantic Coast[2,3]	-		-		7		73		41		
Northwest	82		73		77		25		-		
Delta	-		-		-		-		-		
Charter and Other	7		11		1		1		1		
Foreign-Flag Carriers	**1,144**	**54.9%**	**1,139**	**58.1%**	**1,132**	**56.1%**	**1,128**	**56.5%**	**1,283**	**55.6%**	**12.1%**
Europe/TransAtlantic[4]:	**842**	**40.4%**	**840**	**42.8%**	**821**	**40.7%**	**832**	**41.7%**	**953**	**41.3%**	**13.2%**
British Airways	193		156		182		188		190		
Lufthansa[2]	167		175		153		149		164		
Air France	124		120		128		140		156		
Virgin Atlantic	115		105		92		82		92		
Austrian[2]	47		59		75		76		82		
KLM	-		-		-		40		71		
SAS[2]	-		31		60		58		69		
bmi British Midland[2]	-		26		44		30		54		
Alitalia	-		-		-		-		43		
Aeroflot	9		10		11		9		10		
Saudi Arabian	15		16		12		9		9		
Sabena	49		44		-		-		-		
Spanair[2]	53		38		-		-		-		
Swissair/Swiss[5]	62		52		58		43		-		
Charter and Other	8		7		7		8		13		
Asia	**127**	**6.1%**	**97**	**5.0%**	**111**	**5.5%**	**108**	**5.4%**	**127**	**5.5%**	**0.0%**
All Nippon[2]	77		59		66		62		69		
Korean Air	50		38		45		46		59		
Caribbean & Latin America	**60**	**2.9%**	**76**	**3.9%**	**89**	**4.4%**	**91**	**4.6%**	**107**	**4.6%**	**79.7%**
TACA International	43		57		72		73		81		
BWIA West Indies	13		18		18		16		17		
Charter and Other	4		-		-		3		8		
Canada	**115**	**5.5%**	**126**	**6.4%**	**111**	**5.5%**	**95**	**4.8%**	**96**	**4.1%**	**-16.9%**
Air Canada[2]	115		126		110		95		96		
Charter and Other	0		-		0		0		-		

[1] Includes both revenue and non-revenue passengers. Excludes enplanements on general aviation and military flights.
[2] Denotes membership in the Star Alliance.
[3] As of August 2004 Atlantic Coast (now Independence Air) was no longer a United Express carrier or in the Star Alliance.
[4] Includes U.K., European, Middle Eastern, and African flag carriers.
[5] Crossair purchased Swissair and began operating as "Swiss" in March 2002. Swiss ceased operations at Dulles in October 2003.
"-" indicates that a carrier enplaned fewer than 500 passengers; AAG=average annual compound growth; figures may not sum to totals due to rounding.
Source: The Authority

The Star Alliance carriers were the top performers at Dulles over the 1996 to 2004 period. Excluding United, their enplanements more than doubled, from 233,000 to 533,700. In the same timeframe, United's international traffic increased 62.8 percent and the non-Star Alliance carriers grew 48.6 percent. The changing makeup of international traffic at Dulles over the past nine years is depicted in the chart in **Exhibit 2-15**. In 2004, United and its Star Alliance partners together accounted for about two-thirds of international enplanements at the airport.

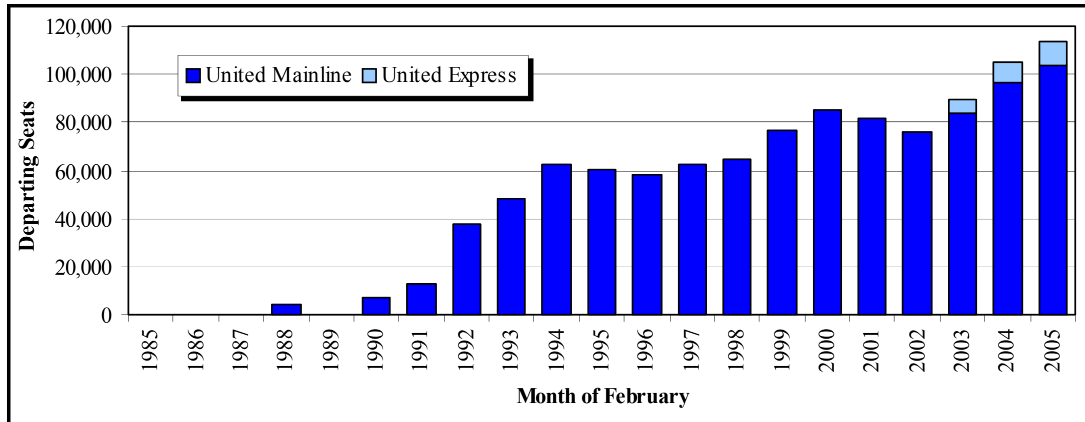
Exhibit 2-15
CHANGES IN DULLES' INTERNATIONAL ENPLANED PASSENGERS



[1] Includes revenue and nonrevenue passengers. Excludes passengers enplaned on general aviation or military flights. United includes passengers enplaned on United Express flights.
Source: The Authority

United's international service level at Dulles has varied since the early 1990s (see **Exhibit 2-16**).

Exhibit 2-16
DULLES' INTERNATIONAL DEPARTING SEATS
ON UNITED AND UNITED EXPRESS



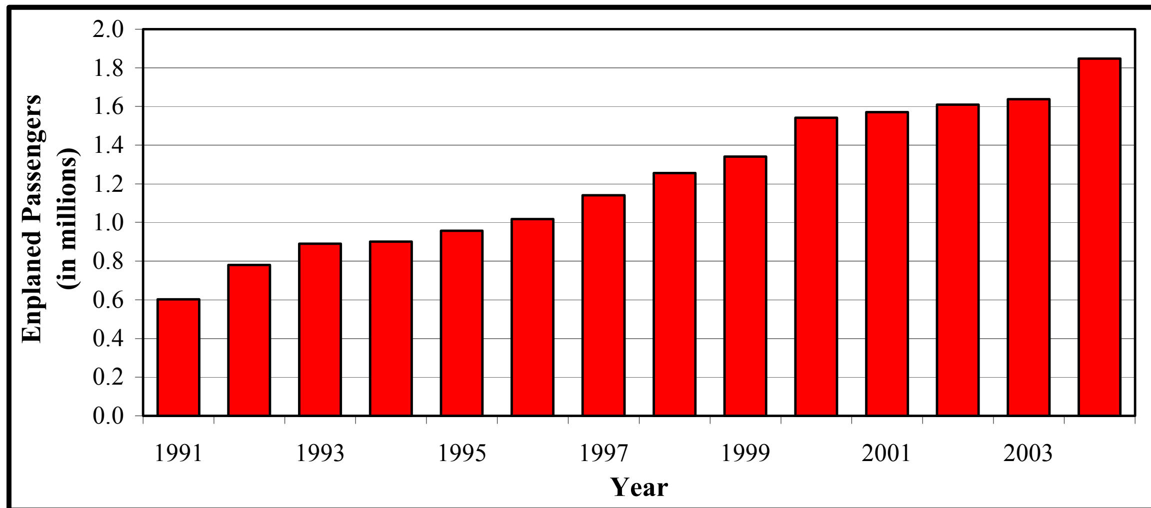
Source: *Official Airline Guide,* for the month of February for each year shown.

United increased its international capacity at the airport from fewer than 38,000 seats per month in 1992 to 62,000 seats per month in 1994. Seats remained steady through 1998, but increased thereafter and peaked again in 2000, at 85,200 seats per month. Despite declines in 2001 and 2002, United's international capacity at Dulles reached a new high in February 2005 (113,700 seats per month), in part due to United shifting its Latin American operations from Miami to Dulles.

(7) International Market Trends

Growth of international O&D traffic at Dulles has been steady since 1991 (see **Exhibit 2-17**). Increases averaged 9.0 percent per year over the 14-year period ending in 2004. In 2002, there was an increase from 2001 of 2.4 percent, compared to a 6.5 percent drop in international traffic nationwide. International traffic did not decline at Dulles even during a year marked by the war in Iraq and the SARS outbreak; the airport experienced a 1.8 percent increase in 2003. International O&D traffic is estimated to have increased 12.8 percent in 2004, led by strong demand for air travel to Europe and Latin America. Sustained strong growth over a decade and demonstrated resistance to decline in the face of economic recession and world events constitute further evidence of the durability of international demand at Dulles.

Exhibit 2-17
DULLES' INTERNATIONAL O&D PASSENGERS[1]

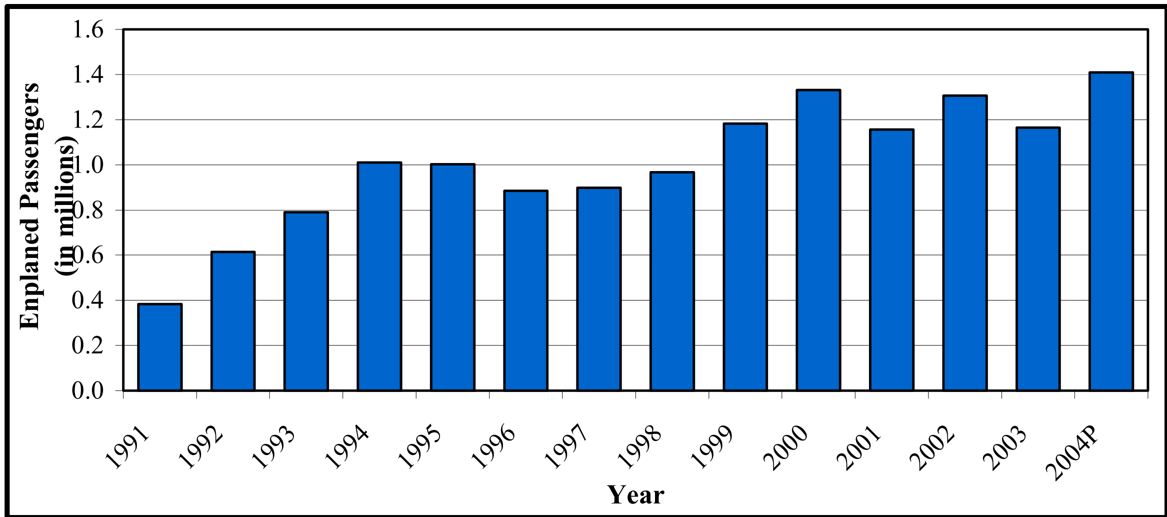


[1] Includes O&D passengers that boarded domestic flights at Dulles bound for international destinations via other U.S. gateway airports.
Also may include passengers connecting from one international flight to another.
Data for 2002 differs from Series 2003 A-D Report due to restatement of DOT data.
P=Projected based on nine months of actual data.
Source: Table 2-24

Gateway connections (i.e., connections from domestic flights to international flights, and vice versa) showed quite a different pattern of growth from O&D passengers (see **Exhibit 2-18**). Not coincidentally, the pattern closely resembles the profile of United's international departing seats at Dulles, presented earlier in **Exhibit 2-16**. Gateway

connections with United's international flights and, to a lesser extent, with flights operated by the other Star Alliance carriers, comprised most of the gateway connections at the airport. Consequently, the future rate of growth of this component of international traffic at Dulles is expected to resemble the growth of international service at the airport by United and its Star Alliance partners.

Exhibit 2-18
DULLES' INTERNATIONAL GATEWAY CONNECTING PASSENGERS[1]



[1] Gateway connections represent passengers connections from domestic flights to international flights, and vice versa.
P=Projected based on nine months of actual data.
Source: Table 2-24

Table 2-22 presents trends in international passengers at Dulles (O&D and connecting combined) for the four major world areas served by airlines at Dulles.

Table 2-22
DULLES' DEPARTING PASSENGERS ON INTERNATIONAL FLIGHTS[1]

Year	UK, Europe & Africa	Latin America & Caribbean[2]	Canada	Asia	**Total— All Destinations**
1991	521,265	104,553	245	71,140	**697,203**
1996	1,134,331	113,552	3,313	43,525	**1,294,721**
2001	1,574,448	113,347	85,752	89,935	**1,863,482**
2002	1,629,118	140,966	115,913	104,782	**1,990,779**
2003	1,452,944	217,970	147,835	107,627	**1,926,376**
YTD2003	811,390	120283	79,487	58,340	**1,069,500**
YTD2004	932,689	158,470	105,049	76,199	**1,272,407**
Average Annual Compound Growth					
1991-2001	11.7%	0.8%	n.c.	2.4%	**10.3%**
Percent Change					
2001-2002	3.5%	24.4%	35.2%	16.5%	**6.8%**
2002-2003	-10.8	54.6	27.5	2.7	**-3.2**
YTD2003-04	14.9	31.7	32.2	30.6	**19.0**

[1] Includes scheduled and non-scheduled (i.e., charter) passengers.
[2] Includes Mexico, Central America, South America, and the Caribbean.
Data in table will differ from Authority figures.
YTD=year to date ended July 31; AAG=Average annual compound growth; n.c.=not calculated.
Source: DOT, Schedule T-100

(8) Market Strengths and Vulnerabilities

Dulles has a number of strengths with regard to the air service market. Some of those strengths are as follows:

- The airport's location in a populous, high-income Air Trade Area.
- Highly diversified and multi-cultural population.
- Room for expansion of the airfield over the long term.
- United's domestic and international hubbing operation.
- A north-south domestic connecting market that is underdeveloped.
- Ability to accommodate new carriers and service expansion by incumbents.
- Strong international passenger market.
- The primary trans-Atlantic gateway for United and its Star Alliance partners.

The air service market poses uncertainty for Dulles primarily on three fronts, as follows:

- The current situation of two hubbing carriers (United and Independence Air) is likely untenable, certainly at the current level of operations. Independence Air's

strategy was to compete head-on with United, with the aim of capturing traffic through lower fares and engendering brand loyalty. However, United matched Independence Air's fares, offered incentives (e.g. frequent flyer miles), and expanded capacity in many of the city pairs served by Independence Air. Although Independence Air stimulated traffic and managed to carve out a material share at Dulles in spite of the aggressive response by United, the market did not embrace the new service to the degree that Independence Air management anticipated. A 45.7 percent load factor reported for January 2005 indicated that Independence Air was offering more capacity than demand would warrant. In its 10-K report filed with the SEC in March 2005, the carrier stated that it "has not achieved the load factor and yields projected in its original business model." The report goes on to state that "this revenue shortfall combined with unprecedented high fuel prices have cause Independence Air to sustain higher than anticipated losses and to expend more cash than it anticipated." To remedy this situation, Independence Air realigned operations at its Dulles hub, deferred until 2007 the delivery of 10 Airbus A319 aircraft scheduled to go into service between May 2005 and early 2006, and negotiated an agreement with its aircraft lessors to terminate leases on 24 of its 50-seat regional jets by July 2005. Independence Air officials also stated recently that the airline has submitted a bid, in response to an invitation from United, to operate regional services under the United Express brand.

- United, Dulles' anchor tenant, has operated under Chapter 11 bankruptcy protection for more than two years. Although the company has made significant strides in lowering its cost base, United's goal of emergence from bankruptcy later in 2005 presents its management with significant challenges. Dulles is not a 'fortress hub', but it does rely on United and its Express affiliate for about 60 percent of its domestic traffic and about 45 percent of its international enplanements. It remains to be seen whether the terms of United's survival will affect the nature of its hubbing operations at Dulles.

- A lesser risk to the airport, but nevertheless of some concern, is the continuing growth of Southwest and other LCCs at BWI, and the threat that poses to domestic O&D traffic growth at Dulles. A financially stronger United and robust growth of LCC service at Dulles would do much to mitigate that concern.

The roles that the airport plays, discussed earlier, are still valid looking forward. Dulles has capacity to serve Washington's air traffic growth over the long term. The airport will continue to serve the domestic long-haul, connecting, and international passenger markets that cannot be served at National. There is considerable capacity for growth of domestic hub traffic at the airport, as well. In the international arena, BWI does not pose a material threat to Dulles, in the forecast period at least, so Dulles will continue to serve the Air Trade Area's needs for international air service. Finally, with its strong links to United/Star Alliance and numerous other foreign-flag carriers, Dulles appears well situated to continue its role as a major gateway to trans-Atlantic destinations and to expand its links with the Caribbean and Latin America as well.

(9) Enplaned Passenger Forecast

As with National, the traffic forecast for Dulles was developed using quantitative methodology tempered with professional judgment. A market-based approach was used that aggregated estimates of market segments to produce a total airport forecast of enplaned revenue passengers. Trends were analyzed by market segments and such trends were compared to regional and countrywide trends and to key factors affecting demand, capacity, and fares. Finally, a factor was added to the revenue enplanement forecast to account for non-revenue passengers.

In preparing the forecast of passenger traffic at Dulles, the following assumptions were made:

- No physical or regulatory factors will constrain expansion of the airport as air traffic grows.
- Neither domestic nor international traffic will grow as strongly over the forecast period as it did in the 1990s.
- United will emerge from bankruptcy, maintain its domestic hub and international gateway at the airport, and continue to develop its Dulles traffic base.
- Given that the extraordinary addition of capacity at Dulles, which began in mid-2004, was introduced by non-LCCs yet has been offered at relatively low fares, this level of capacity will not be sustainable and much of the incremental capacity will be withdrawn during the second half of 2005.
- LCCs will continue to be attracted to Dulles, but United and the other legacy airlines will continue to provide the bulk of the service at the airport through the forecast period. As each legacy airline reduces its cost base, however, the distinction between LCC and legacy airline will blur.
- The airport will maintain its position within the Region as the primary provider of domestic long-haul and international air service.
- Star Alliance will continue to use the airport as its primary trans-Atlantic gateway.

Total enplanements are forecast to be approximately 13.2 million at Dulles in 2013. Refer to **Table 2-23** for a detailed presentation of both historical and forecast passengers by market segment. The forecast is presented graphically in **Exhibit 2-19.**

Table 2-23
DULLES' ENPLANED PASSENGER FORECAST TRENDS[1]

Fiscal Year	DOMESTIC ENPLANEMENTS – Revenue Passengers on Scheduled Flights – Originating: Domestic O&D	Originating: Bound for Intl. Destns.	Connections from: Domestic Flights	Connections from: International Flights	On Nonsched. "Charter" Flights	DOMESTIC TOTAL	INTERNATIONAL ENPLANEMENTS – Revenue Psgrs. On Sched. Flights: International O&D	Connections from Domestic Flights	On Nonsched. "Charter" Flights	INTL. TOTAL	Total Revenue Enplaned Passengers	Non-Revenue Enplaned Passengers	TOTAL ENPLANED PASSENGERS
1991	2,746,960	114,660	1,380,805	192,320	7,101	**4,441,846**	488,767	189,870	7,644	**686,281**	**5,128,127**	254,394	**5,382,521**
1992	3,017,580	139,320	950,915	300,590	11,136	**4,419,541**	640,091	314,110	11,783	**965,984**	**5,385,525**	279,445	**5,664,970**
1993	2,823,820	152,560	682,685	387,450	13,802	**4,060,317**	737,811	401,830	17,943	**1,157,584**	**5,217,901**	188,903	**5,406,804**
1994	2,663,090	168,470	885,975	491,440	21,975	**4,230,950**	732,902	518,260	25,424	**1,276,586**	**5,507,536**	256,562	**5,764,098**
1995	3,139,950	185,910	844,575	489,920	17,282	**4,677,637**	771,570	511,990	6,850	**1,290,410**	**5,968,047**	162,503	**6,130,550**
1996	3,264,760	205,710	843,590	436,790	35,293	**4,786,143**	812,639	447,870	6,776	**1,267,285**	**6,053,428**	316,874	**6,370,302**
1997	3,378,030	221,970	772,010	448,910	33,433	**4,854,353**	919,080	449,310	1,420	**1,369,810**	**6,224,163**	551,833	**6,775,996**
1998	4,012,920	224,300	864,680	482,180	27,608	**5,611,688**	1,030,670	484,520	15,345	**1,530,535**	**7,142,223**	661,739	**7,803,962**
1999	4,887,800	256,600	1,600,625	577,840	13,632	**7,336,497**	1,083,873	604,340	14,404	**1,702,617**	**9,039,114**	769,987	**9,809,101**
2000	4,688,990	277,280	1,592,140	656,360	13,528	**7,228,298**	1,263,557	674,820	9,403	**1,947,780**	**9,176,078**	795,554	**9,971,632**
2001	3,970,350	294,170	1,462,320	580,860	16,545	**6,324,245**	1,277,658	574,950	4,063	**1,856,671**	**8,180,916**	718,011	**8,898,927**
2002	3,859,440	318,400	1,187,075	654,150	14,343	**6,033,408**	1,291,366	652,770	2,045	**1,946,181**	**7,979,589**	535,909	**8,515,498**
2003A	4,064,040	261,050	1,287,575	579,610	15,582	**6,207,857**	1,377,606	584,490	1,401	**1,963,497**	**8,171,354**	195,132	**8,366,486**
2004P	5,887,580	312,210	1,929,305	705,600	12,200	**8,846,895**	1,536,113	703,140	2,022	**2,241,275**	**11,088,170**	236,016	**11,324,186**
2005F	6,123,100	317,000	2,066,500	754,500	13,900	**9,275,000**	1,657,500	765,000	2,500	**2,425,000**	**11,700,000**	300,000	**12,000,000**
2006	4,545,100	331,300	1,570,500	803,500	14,200	**7,264,600**	1,759,100	814,700	2,600	**2,576,400**	**9,841,000**	309,000	**10,150,000**
2007	4,735,600	346,200	1,606,900	851,700	14,500	**7,554,900**	1,859,400	864,700	2,700	**2,726,800**	**10,281,700**	318,300	**10,600,000**
2008	4,921,900	360,000	1,642,300	901,100	14,700	**7,840,000**	1,955,500	914,000	2,800	**2,872,300**	**10,712,300**	327,800	**11,040,100**
2009	5,095,400	374,400	1,678,400	951,600	14,900	**8,114,700**	2,054,600	965,200	2,900	**3,022,700**	**11,137,400**	337,600	**11,475,000**
2010	5,265,400	389,400	1,715,300	1,004,900	15,000	**8,390,000**	2,157,000	1,017,300	3,000	**3,177,300**	**11,567,300**	347,700	**11,915,000**
2011	5,414,400	403,000	1,753,000	1,055,100	15,200	**8,640,700**	2,254,900	1,068,200	3,100	**3,326,200**	**11,966,900**	358,100	**12,325,000**
2012	5,558,000	417,100	1,791,600	1,107,900	15,400	**8,890,000**	2,356,400	1,121,600	3,200	**3,481,200**	**12,371,200**	368,800	**12,740,000**
2013	5,701,200	431,700	1,831,000	1,160,600	15,600	**9,140,100**	2,461,700	1,175,000	3,300	**3,640,000**	**12,780,100**	379,900	**13,160,000**
Average Annual Compound Growth													
Historical:													
1991-1996	3.5%	12.4%	-9.4%	17.8%		**1.5%**	10.7%	18.7%		**13.1%**	**3.4%**	4.5%	**3.4%**
1996-2000	9.5	7.7	17.2	10.7		**10.9**	11.7	10.8		**11.3**	**11.0**	25.9	**11.9**
1991-2000	6.1	10.3	1.6	14.6		**5.6**	11.1	15.1		**12.3**	**6.7**	13.5	**7.1**
2000-2001	-15.3	6.1	-8.2	-11.5		**-12.5**	1.1	-14.8		**-4.7**	**-10.8**	-9.7	**-10.8**
2001-2002	-2.8	8.2	-18.8	12.6		**-4.6**	1.1	13.5		**4.8**	**-2.5**	-25.4	**-4.3**
2002-2003	5.3	-18.0	8.5	-11.4		**2.9**	6.7	-10.5		**0.9**	**2.4**	-63.6	**-1.7**
Projected:													
2003-2004	44.9%	19.6%	49.8%	21.7%		**42.5%**	11.5%	20.3%		**14.1%**	**35.7%**	21.0%	**35.4%**
Forecast:													
2004-2005	4.0%	1.5%	7.1%	6.9%		**4.8%**	7.9%	8.8%		**8.2%**	**5.5%**	27.1%	**6.0%**
2005-2006	-25.8	4.5	-24.0	6.5		**-21.7**	6.1	6.5		**6.2**	**-15.9**	3.0	**-15.4**
2006-2013	3.3	3.9	2.2	5.4		**3.3**	4.9	5.4		**5.1**	**3.8**	3.0	**3.8**
2004-2013	-0.4	3.7	-0.6	5.7		**0.4**	5.4	5.9		**5.5**	**1.6**	5.4	**1.7**

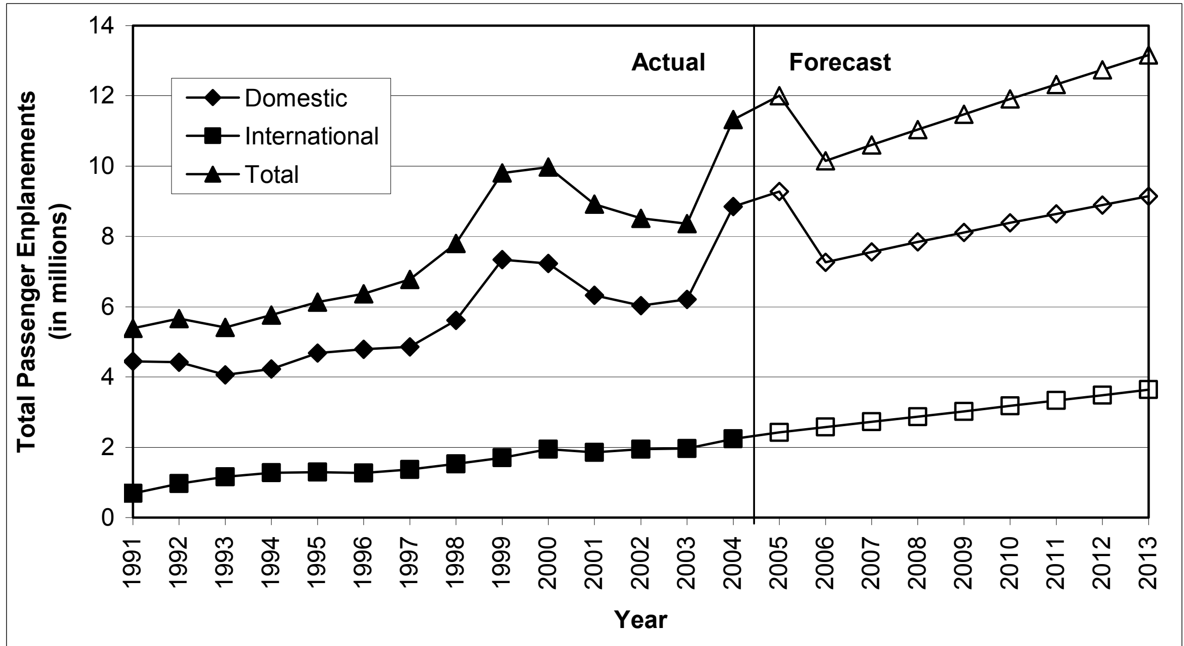
[1] Excludes passengers enplaned on general aviation and military flights.

A=Actual; P=Projected; F=Forecast.

Anomalies in carrier reporting to DOT caused international passengers in historical years to be under-reported.

Sources: *Historical*— The Authority; DOT, Schedules T-3, T-100, and 298C T-1; *Air Passenger Origin-Destination Survey*, reconciled to Schedules T-100 and 298C T-1.
Forecast— John F. Brown Company, Inc.

Exhibit 2-19
DULLES' TOTAL ENPLANED PASSENGERS—HISTORICAL AND FORECAST



Sources: Table 2-24

After a 35.7 percent increase in 2004, it is forecast that revenue passenger traffic will increase at a slower rate in 2005 (up 5.5 percent), with 4.8 percent domestic growth and 8.2 percent international growth. A significant draw-down of domestic capacity is anticipated at Dulles during the latter part of 2005, with Independence Air and other airlines, particularly United and United Express, reducing their service materially. The effect of capacity reductions will be most visible in 2006, when revenue enplanements are forecast to decline 15.9 percent, led entirely by a 21.7 percent drop in domestic passengers.

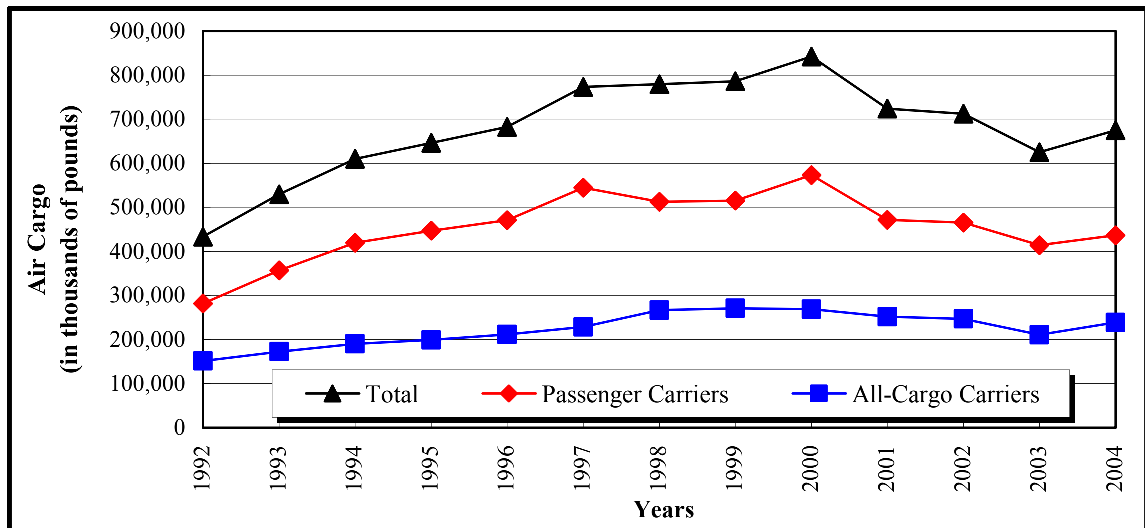
Beyond 2006, revenue enplanements are expected to return to a more consistent pattern of growth, driven more by demand for air travel than the scheduling decisions of an individual airline. Between 2006 and 2013, revenue enplaned passengers are forecast to increase 3.8 percent per year, on average, reaching 12.8 million enplanements in 2013. International traffic is forecast to grow 5.1 percent per year, on average, while domestic traffic is forecast to grow 3.3 percent per year.

In terms of total enplanements (i.e., including non-revenue passengers), it is worth noting that non-revenue traffic has represented a declining share of total enplanements at Dulles in recent years. This is attributable to lower demand (due to significant airline staff cuts and more efficient crew scheduling that require less deadheading) and reduced availability of seats (due to higher load factors) throughout the industry. The forecast envisions that non-revenue traffic will increase through the forecast period but will not return to the former proportion of revenue traffic. Specifically, the forecast calls for non-revenue passengers to not exceed 3.0 percent of total traffic, compared to the peak of 8.3 percent experienced in 2001.

(10) Air Cargo Trends

Dulles experienced a consistent increase from 1992 to 2000 in air cargo tonnage handled (see **Exhibit 2-20**). Cargo volumes then dropped 25.8 percent between 2001 and 2003, reflecting swings in the U.S. and global economies. In 2004, as the U.S. economy gained traction, air cargo handled at Dulles increased 8.0 percent.

Exhibit 2-20
HISTORY OF DULLES' AIR CARGO HANDLED, BY CARRIER TYPE[1]
(freight and mail)



[1] Sum of enplaned and deplaned air cargo.
Source: The Authority

Until 1997, the passenger carriers led cargo growth at the airport. Thereafter, however, cargo growth on passenger flights tended to plateau and the growth was accounted for by the all-cargo carriers. Most of the cargo decline in 2001 was borne by the passenger carriers. The passenger carriers handled almost two-thirds of all cargo at the airport in 2004, similar to the share they had 12 years before.

The cargo market at Dulles is dominated by two carriers: United and FedEx. Their combined share declined slightly, from 62.3 percent in 2000 to 60.6 percent in 2004, as shown in **Table 2-24**. United lost substantial share over the four years, falling from 40.5 percent of total air cargo in 2000 to 33.5 percent in 2003. This reflects reduced mainline operations and limited cargo capacity on the smaller aircraft. Over the same period, FedEx increased its share from 21.8 percent to 27.1 percent. The third-ranking carrier (Lufthansa) showed strong growth in recent years but still accounted for only 5.4 percent of the Dulles total in 2004. The attractiveness of the Air Trade Area for wide-body international flights will continue to generate belly capacity for cargo.

Table 2-24
DULLES' CARRIER SHARES OF AIR CARGO HANDLED[1]
(freight and mail in thousands of pounds; listed in descending order by 2004)

	2000		2001		2002		2003		2004		AAG	% Change
Carrier	Cargo	Share	Cargo	Share	Cargo	Share	Cargo	Share	Cargo	Share	2000-2003	2003-2004
DULLES TOTAL	**842,246**	**100.0%**	**723,622**	**100.0%**	**712,549**	**100.0%**	**625,316**	**100.0%**	**675,163**	**100.0%**	**-9.5%**	**8.0%**
United	340,876	40.5	268,955	37.2	259,464	36.4	217,877	34.8	226,214	33.5	-13.9	3.8
FedEx	183,596	21.8	185,080	25.6	202,276	28.4	160,314	25.6	182,741	27.1	-4.4	14.0
Lufthansa	29,172	3.5	27,359	3.8	25,386	3.6	28,611	4.6	36,144	5.4	-0.6	26.3
British Airways	38,255	4.5	26,270	3.6	28,510	4.0	32,185	5.1	34,454	5.1	-5.6	7.1
Airborne Express	28,938	3.4	26,484	3.7	26,846	3.8	26,897	4.3	25,420	3.8	-2.4	-5.5
Air France	21,638	2.6	21,773	3.0	19,242	2.7	18,775	3.0	24,171	3.6	-4.6	28.7
UPS	18,517	2.2	17,011	2.4	18,126	2.5	19,909	3.2	19,671	2.9	2.4	-1.2
All Nippon	19,343	2.3	15,177	2.1	19,066	2.7	18,544	3.0	19,109	2.8	-1.4	3.0
Austrian	8,190	1.0	12,774	1.8	16,122	2.3	15,465	2.5	16,349	2.4	23.6	5.7
SAS	-	-	6,612	0.9	13,014	1.8	11,887	1.9	15,830	2.3	n.a.	33.2
Virgin Atlantic	17,851	2.1	14,778	2.0	15,765	2.2	15,419	2.5	14,444	2.1	-4.8	-6.3
bmi British Midland	-	-	3,576	0.5	7,765	1.1	5,159	0.8	12,640	1.9	n.a.	145.0
DHL	-	-	-	-	-	-	3,089	0.5	10,298	1.5	n.a.	233.4
KLM	-	-	-	-	-	-	3,174	0.5	8,858	1.3	n.a.	179.1
Continental	7,123	0.8	5,534	0.8	5,690	0.8	4,876	0.8	6,219	0.9	-11.9	27.6
American[3]	23,417	2.8	15,739	2.2	11,967	1.7	10,643	1.7	5,985	0.9	-23.1	-43.8
Delta	7,284	0.9	5,653	0.8	5,639	0.8	5,022	0.8	4,552	0.7	-11.7	-9.4
Korean Air	981	0.1	1,199	0.2	2,754	0.4	2,174	0.3	1,855	0.3	30.4	-14.7
Saudi Arabian	1,336	0.2	3,122	0.4	1,543	0.2	1,139	0.2	1,068	0.2	-5.2	-6.2
Northwest	12,174	1.4	11,085	1.5	12,156	1.7	4,432	0.7	619	0.1	-28.6	-86.0
US Airways	3,280	0.4	1,698	0.2	730	0.1	513	0.1	513	0.1	-46.1	0.1
Mountain Air Cargo	441	0.1	1,014	0.1	53	0.0	60	0.0	2	0.0	-48.7	-96.7
Emery Worldwide	36,718	4.4	22,187	3.1	-	-	-	-	-	0.0	n.a.	n.a.
Sabena	12,002	1.4	7,822	1.1	-	-	-	-	-	0.0	n.a.	n.a.
Spanair	8,653	1.0	4,925	0.7	-	-	-	-	-	0.0	n.a.	n.a.
Trans World	2,515	0.3	1,190	0.2	-	-	-	-	-	0.0	n.a.	n.a.
Swissair/Swiss[2]	15,108	1.8	12,842	1.8	16,651	2.3	13,768	2.2	-	0.0	-3.0	-100.0
All Other	4,837	0.6	3,765	0.5	3,783	0.5	5,385	0.9	8,007	1.2	3.6	48.7

[1] Enplaned and deplaned cargo. Excludes air cargo carried on general aviation and military flights.
[2] Crossair purchased Swissair and began operating as "Swiss" in March 2002.
[3] American Airlines began reporting TWA air cargo with its own in December 2001.
Carriers shown above include affiliate carrier, if any.
n.a.=not applicable; AAG=average annual compound growth; figures may not sum to totals due to rounding.
Source: The Authority

(11) Flight Operations and Landed Weight Forecasts

The forecasts of flight operations and aircraft landed weight at Dulles are derived from the passenger forecast and analysis of past trends in flight operations. Operations growth was assumed to be unconstrained at the airport. These forecasts exclude general aviation and military flights.

Over the next two years, a sizeable reduction in passenger flight operations is anticipated at Dulles. Regional jets, rather than mainline jet aircraft, will account for the majority of the decline. Consequently, aircraft gauge at Dulles is expected to increase from an average of 84 seats per flight in 2004 to 95 seats per flight in 2006. As excess capacity is removed over the coming year, airlines are expected to operate at higher load factors. Beyond 2006, flights, seats, and passengers are expected to track each other very closely, with each averaging growth of approximately 4.0 percent per year. The net result of all these changes is that passenger flights are forecast to increase 0.3 percent per year, between 2004 and 2013, compared to 1.4 average annual growth forecast for total enplanements.

All-cargo flights have been relatively flat at Dulles since 2002 and accounted for 1.2 percent of flight operations in 2004. The number of all-cargo flights is forecast to gradually increase (1.0 percent per year) between 2004 and 2013.

Overall, commercial flight operations are forecast to peak briefly in 2005 at 408,000 operations, and then to decline to 307,000 in 2006. Thereafter, flight activity is expected to return to an upward trend, surpassing the 2004 level by 2013. In net terms, flight operations are forecast to increase 0.3 percent per year, on average, between 2004 and 2013 (see **Table 2-25**).

Table 2-25
DULLES' FLIGHT DEPARTURE FORECAST TRENDS[1]

Year	Rev. Enpl. Passengers ('000)	Rev. Psgr. Enpl. Load Factor	Departing Seats ('000)	Average Seats per Flight	Departing Flights[2] Passenger	All-Cargo	Total	**TOTAL FLIGHT OPNS.[3]**
1996	6,053	58.6%	10,328	83	125,142	3,975	129,117	**258,234**
1997	6,224	59.5%	10,466	80	130,120	4,323	134,443	**268,886**
1998	7,142	59.0%	12,114	81	149,845	4,292	154,137	**308,274**
1999	9,039	56.7%	15,940	83	192,558	3,785	196,343	**392,686**
2000	9,176	56.8%	16,168	85	190,635	3,564	194,199	**388,398**
2001[4]	5,792	57.3%	10,101	91	111,471	2,302	113,773	**227,546**
2001	8,181	n.a.	n.a.	n.a.	160,215	3,192	163,407	**326,814**
2002	7,980	60.2%	13,245	93	141,983	2,357	144,340	**288,680**
2003	8,171	67.6%	12,088	95	127,548	2,330	129,878	**259,756**
2004A	11,088	68.2%	16,265	84	194,088	2,378	196,466	**392,932**
2005F	11,700	67.5%	17,333	86	201,600	2,400	204,000	**408,000**
2006	9,841	68.5%	14,366	95	151,200	2,500	153,700	**307,400**
2007	10,282	68.0%	15,120	95	159,200	2,600	161,800	**323,600**
2008	10,712	67.5%	15,870	95	167,100	2,600	169,700	**339,400**
2009	11,137	67.5%	16,500	95	173,700	2,600	176,300	**352,600**
2010	11,567	67.5%	17,137	95	180,400	2,600	183,000	**366,000**
2011	11,967	67.5%	17,729	95	186,600	2,600	189,200	**378,400**
2012	12,371	67.5%	18,328	95	192,900	2,600	195,500	**391,000**
2013	12,780	67.5%	18,933	95	199,300	2,600	201,900	**403,800**
Average Annual Compound Growth								
Historical:								
1996-2000	11.0%		11.9%		11.1%	-2.7%	10.7%	**10.7%**
2000-2001	-10.8		n.a.		-16.0	-10.4	-15.9	**-15.9**
2001-2002	-2.5		n.a.		-11.4	-26.2	-11.7	**-11.7**
2002-2003	2.4		-8.7		-10.2	-1.1	-10.0	**-10.0**
2003-2004	35.7		34.6		52.2	2.1	51.3	**51.3**
Forecast:								
2004-2005	5.5%		6.6%		3.9%	0.9%	3.8%	**3.8%**
2005-2006	-15.9		-17.1		-25.0	4.2	-24.7	**-24.7**
2006-2013	3.8		4.0		4.0	0.6	4.0	**4.0**
2004-2013	1.6		1.7		0.3	1.0	0.3	**0.3**

[1] Load factor calculation based on enplanements and excludes "through " passengers.
[2] Excludes general aviation and military flights.
[3] Sum of flight arrivals and departures.
[4] Based on data for January through August, 2001.
A=Actual; F=Forecast; n.a.=not available.
Sources: *Historical*—Metropolitan Washington Airports Authority; Official Airline Guide; DOT, Schedules T-3, T-100, and 298C T-1; DOT, Air Passenger Origin-Destination Survey, reconciled to Schedules T-100 and 298C T-1; *Forecast*—John F. Brown Company, Inc.

During the rapid run-up in passenger flight operations in the 1996-2000 period, the carriers at Dulles reported a slight decline in average landed weight per flight. Over the following two years, however, the average landed weight per flight increased significantly, from 88,500 pounds in 2000 to 107,700 pounds in 2003. Allowing for some reporting inconsistencies by the carriers, these changes were roughly consistent with changes in average aircraft size as measured in seats. In 2004, this trend reversed, as Independence Air added almost 300 daily regional jet operations at Dulles and drove down average landed

weight to 92,500 pounds per flight. Total landed weight for passenger airlines increased about 30 percent in 2004. Average landed weight per passenger flight is forecast to increase to 108,000 pounds by 2007, and remain at that level through 2013.

While the number of all-cargo flights declined significantly from 1996 to 2000, the size of those aircraft increased. The average landed weight per all-cargo flight increased from 140,400 pounds in 1996 to 221,300 pounds in 2000. In 2002, the average landed weight increased sharply, to 287,300 pounds, but fell back to 256,300 pounds by 2004. The average landed weight of all-cargo flights is forecast to be 260,000 pounds through the forecast period.

The forecast of total landed weight will follow generally the same pattern as the enplanements forecast. There will be a net decline in landed weight at Dulles in 2006, as flight activity adjusts to the anticipated capacity reduction by Independence Air and other carriers. Between 2006 and 2013, total landed weight is forecast to increase at 4.0 per year on average, roughly matching the rate of growth forecast for enplanements. In 2013, landed weight will reach 22.2 billion pounds at Dulles, representing growth of 2.0 percent per year over the entire forecast period (see **Table 2-26**).

Table 2-26
DULLES' AIRCRAFT LANDED WEIGHT FORECAST TRENDS[1]

	Flight Arrivals			Avg. Landed Weight Per Flight (pounds)		Total Landed Weight (in millions of pounds)		
Year	Passenger	All-Cargo	Total	Passenger	All-Cargo	Passenger	All-Cargo	**TOTAL**
1996	125,142	3,975	129,117	90,660	140,397	11,345.4	558.1	**11,903.4**
1997	130,120	4,323	134,443	91,404	150,780	11,893.5	651.8	**12,545.3**
1998	149,845	4,292	154,137	90,682	190,573	13,588.2	817.9	**14,406.2**
1999	192,558	3,785	196,343	86,467	205,170	16,649.8	776.6	**17,426.4**
2000	190,635	3,564	194,199	88,471	221,323	16,865.7	788.8	**17,654.5**
2001	160,215	3,192	163,407	97,976	226,150	15,697.3	721.9	**16,419.1**
2002	141,983	2,357	144,340	103,621	287,291	14,712.4	677.1	**15,389.5**
2003	127,548	2,330	129,878	107,696	264,492	13,736.4	616.3	**14,352.7**
2004A	194,088	2,378	196,466	92,462	256,301	17,945.9	609.5	**18,555.3**
2005F	201,600	2,400	204,000	95,000	260,000	19,152.0	624.0	**19,776.0**
2006	151,200	2,500	153,700	107,000	260,000	16,178.4	650.0	**16,828.4**
2007	159,200	2,600	161,800	108,000	260,000	17,193.6	676.0	**17,869.6**
2008	167,100	2,600	169,700	108,000	260,000	18,046.8	676.0	**18,722.8**
2009	173,700	2,600	176,300	108,000	260,000	18,759.6	676.0	**19,435.6**
2010	180,400	2,600	183,000	108,000	260,000	19,483.2	676.0	**20,159.2**
2011	186,600	2,600	189,200	108,000	260,000	20,152.8	676.0	**20,828.8**
2012	192,900	2,600	195,500	108,000	260,000	20,833.2	676.0	**21,509.2**
2013	199,300	2,600	201,900	108,000	260,000	21,524.4	676.0	**22,200.4**
Average Annual Compound Growth								
Historical:								
1996-2000	11.1%	-2.7%	10.7%	-0.6%	12.1%	10.4%	9.0%	**10.4%**
2000-2001	-16.0	-10.4	-15.9	10.7	2.2	-6.9	-8.5	**-7.0**
2001-2002	-11.4	-26.2	-11.7	5.8	27.0	-6.3	-6.2	**-6.3**
2002-2003	-10.2	-1.1	-10.0	3.9	-7.9	-6.6	-9.0	**-6.7**
2003-2004	52.2	2.1	51.3	-14.1	-3.1	30.6	-1.1	**29.3**
Forecast:								
2004-2005	3.9%	0.9%	3.8%	2.7%	1.4%	6.7%	2.4%	**6.6%**
2005-2006	-25.0	4.2	-24.7	12.6	0.0	-15.5	4.2	**-14.9**
2006-2013	4.0	0.6	4.0	0.1	0.0	4.2	0.6	**4.0**
2004-2013	0.3	1.0	0.3	1.7	0.2	2.0	1.2	**2.0**

[1] Excludes general aviation and military flights.
A=Actual; F=Forecast; n.a.=not available.
Sources: *Historical*—Metropolitan Washington Airports Authority; Official Airline Guide; DOT, Schedules T-3, T-100, and 298C T-1; DOT, Air Passenger Origin-Destination Survey, reconciled to Schedules T-100 and 298C T-1; *Forecast*—John F. Brown Company, Inc.

3. CAPITAL CONSTRUCTION PROGRAM

This section describes the Airports' facilities that currently exist as well as the capital projects contemplated as part of the Authority's CCP. In addition, the plan of funding for the CCP, as defined herein, is presented.

3.1 EXISTING AIRPORT FACILITIES

(1) National

National was opened for service in 1941. It is located on approximately 860 acres along the Potomac River in Arlington County, Virginia, approximately three miles from Washington, D.C. National has three terminals. Terminal A is listed on the National Register of Historic Places and provides nine aircraft gates. The interconnected Terminals B and C opened on July 27, 1997, with 35 gates and approximately one million square feet of floor space spread over three levels. Terminals B and C have direct connections to the Metrorail public transit system and public parking garages through two enclosed pedestrian bridges. There are three runways at National: 1/19 – 6,869 feet; 15/33 – 5,204 feet; and 4/22 – 4,911 feet. The runways and associated taxiways are capable of handling up to a Boeing 767-300 aircraft.

Parking facilities at National consist of three covered public garages with approximately 6,300 spaces, 2,300 public surface parking spaces and 2,900 employee parking spaces.

(2) Dulles

Dulles was opened for service in 1962. It is located on approximately 11,830 acres of land (exclusive of the Dulles Access Highway) in Fairfax and Loudoun Counties, Virginia, approximately 26 miles west of Washington, D.C. Dulles has a main terminal and five midfield concourses (Concourses A, B, C, D, and G) that are reached via mobile lounges that transport passengers from the Main Terminal. The Main Terminal at Dulles is eligible for listing on the National Register of Historic Places but is not currently listed on such register. The Dulles Access Highway, a limited-access highway that is subject to the Authority's jurisdiction under the Federal Lease, is the primary route into Dulles. Ground transportation to Dulles is provided via limousine and taxi services, which are provided by concessionaires, and bus transportation provided by the Authority and the Washington Metropolitan Area Transit Authority. There currently are three runways: 1L/19R – 11,500 feet; 1R/19L – 11,500 feet; and 12/30 – 10,500 feet. The runways and associated taxiways are capable of handling up to Group V aircraft which is equivalent to a Boeing 747-400.

The Main Terminal at Dulles was expanded in 1996 from 600 feet in length and 500,000 square feet to 1,240 feet in length, with a total of 1.1 million square feet. An international arrivals building, which opened in 1991, provides customs, agriculture and immigration service facilities and can serve up to 2,400 passengers an hour. Concourse B opened in February 1998 and was expanded in the spring of 2003, to a total of 550,000 square feet to serve 20 aircraft positions for international and domestic airlines. Regional Concourse A opened in May 1999, with more than 71,000 square feet to accommodate 36 regional aircraft positions. Concourses A and B are joined by a pedestrian bridge.

Concourse D opened in December 1985 to serve 10 aircraft positions and Concourse C opened in May 1986 to serve 12 aircraft positions. As passenger demand increased, more gates were constructed to both Concourses C and D. The two concourses eventually were joined in 1988 and now have a combined total of 608,627 square feet to accommodate 47 aircraft positions for both international and domestic airlines.

Concourse G opened in June 2004. Concourse G serves as the commuter concourse for United Airlines' express carriers. Concourse G is a temporary structure built entirely by United Airlines. The concourse is approximately 26,000 square feet and includes passenger holdrooms, concessions, restrooms, and operational support space to accommodate approximately 24 regional aircraft. Upon United's emergence from bankruptcy, the Authority expects to purchase Concourse G from United at a cost of approximately $18.8 million and will recover such costs over a 10-year period pursuant to the terms of the Airline Agreement.

There are a total of six cargo buildings at Dulles. The first building, Cargo 1, was completed in November 1962, and consists of 25,000 square feet. The last cargo building, Cargo 6, was completed August 2001, and consists of 94,000 square feet. The total amount of cargo space for all six cargo buildings is 483,957 square feet.

The Authority recognizes the possibility that a new, 550-seat aircraft, such as the A380, may operate at Dulles in the 2007-2011 time period. While Dulles' existing and planned runway/taxiway system meets FAA design standards for this aircraft in terms of runway – taxiway separations, the FAA is currently evaluating whether airports, such as Dulles, will be required to widen runway and taxiway pavements. These aircraft are likely to occupy two gates at terminal facilities during the boarding and unloading process. Concourse B currently can, and the Tier 2 Concourse will be designed to, accommodate these aircraft.

There are currently approximately 20,500 public surface parking spaces, 8,325 parking garage spaces and 8,000 employee parking spaces at Dulles.

In 2003, the Smithsonian opened the National Air and Space Museum Dulles Center at the Airport (the Center). The Authority has title to, and is required to maintain, two roadways that were built by the Smithsonian and must allow Center patrons and invitees ingress to and egress from the Center.

3.2 CAPITAL CONSTRUCTION PROGRAM

The Authority initiated its Capital Construction Program (CCP) in 1988 to expand, modernize and maintain the Airports. Under the CCP, the Authority has constructed and will continue to construct many of the principal elements of the Master Plans that are necessary for the development of the Airports, and will renovate certain existing facilities.

In 2000, the Authority approved an expansion of the CCP for Dulles, referred to as the Dulles Development (d^2) program. The d^2 program and other CCP projects at National and Dulles were expected to be completed between 2001 and 2006 and were projected to cost $4.2 billion. In the

spring of 2002, following the aftermath of September 11, 2001, the Authority re-examined the CCP. As a result, the Authority delayed the start dates of several projects, deferred some projects until it determines that demand and circumstances warrant their reactivation and added several new projects to the CCP. The active portion of the CCP that is scheduled for completion by 2011 is referred to herein as the 2001-2011 CCP. In connection with the Authority's periodic reviews of the CCP, the Authority has made certain additional adjustments to the 2001-2011 CCP since the spring of 2002, including adding new projects, deferring some active projects, reactivating some projects that were deferred and deleting certain projects from the CCP entirely.

The Authority currently estimates the cost of the 2001-2011 CCP to be approximately $3.9 billion, of which $1.4 billion of the projects have been completed, including the pedestrian tunnel from the parking garage to Terminal A and Terminal A airside façade renovations at National, as well as the Daily Parking Garages 1 and 2, the Main Terminal rehabilitation, the 4-gate Concourse B expansion, the south baggage basement and the airside and landside pedestrian tunnels at Dulles, among others. The Authority expects most of the remaining projects in the 2001-2011 CCP to be completed by 2009. The Authority expects to reassess its capital needs on a regular basis and modify its construction schedule as necessary to accommodate passenger and aircraft activity, security needs and other factors, which could result in changes to the 2001-2011 CCP.

3.3 THE 2001-2011 CAPITAL CONSTRUCTION PROGRAM

Table 3-1 presents the 2001-2011 CCP by cost center:

Table 3-1
SUMMARY OF THE 2001-2011 CCP
(amounts in $000s)

Description	National	Dulles	Total
Airfield	$28,924	$660,451	$689,375
Airport Buildings	287,495	1,141,722	1,429,216
Systems & Services	12,891	282,123	295,014
Ground Transportation	14,685	210,183	224,869
Aviation	51	32,169	32,220
Nonaviation	0	12,011	12,011
Passenger Conveyance	0	850,728	850,728
Maintenance	239	92,315	92,555
Public Safety	10,251	16,090	26,340
Administration	31,870	226,089	257,959
Tenant Equipment	824	5	829
TOTAL[1]	**$387,229**	**$3,523,886**	**$3,911,115**

[1]Figures may not sum to totals due to rounding

Sources: Authority records, compiled by PB Aviation

The following is a discussion of the major projects in the 2001-2011 CCP by airport.

(1) National

- ***Rehabilitation of Terminal A*** – This project includes the restoration and rehabilitation of the existing historic Terminal A to improve air carrier and commuter aircraft

accommodations. Work includes demolition of additions to the original terminal, installation of new loading bridges, reconfiguration and/or relocation of ticketing and baggage claim areas, rehabilitation of the heating/cooling systems, and other related improvements. To date, the Terminal A airside façade restoration, the south finger demolition, and miscellaneous architectural and mechanical upgrades have been completed.

- ***Terminal B and C Security Enhancements* –** The project was completed in 2004 and included installation of security bollards and additional police kiosk structures at Terminals B and C.

- ***Consolidated Communications Center*** – This project will provide a centralized communications center which will accommodate public safety calls, public assistance calls and other functions for both Airports.

- ***Regional Terminal*** – US Airways has requested that the Authority construct a new terminal at National to accommodate US Airways regional jets. This project involves the construction of a new 10-gate terminal and a one-story building of approximately 30,000 square feet. This project will not be commenced until the Authority and US Airways reach a mutually satisfactory agreement.

- ***Terminal Modifications for In-Line Baggage Screening*** – In order satisfy new security requirements and to better accommodate in-line baggage screening equipment, certain modifications to the terminal buildings are required at National. The Authority does not expect to undertake this project unless it receives substantial federal grants to help defray its costs.

- ***Airport Rescue and Fire Fighting Facility*** – The project contemplates the design and construction of a new airport rescue and fire fighting facility to replace the existing facility. This project includes ramp intersection improvements for vehicle access and demolition of the existing facility and conversion of its site for aircraft parking.

- ***Research and Design of Alternative Parking Facilities*** – The Authority is evaluating alternatives to increase parking at National, such as adding an additional level to any or all of the public parking garages at National converting the taxi hold area to public parking or developing a new surface parking lot.

- ***Enterprise Resource Program*** – An Authority-wide Enterprise Resource Planning System will provide a comprehensive integrated system encompassing core administration functional areas, link business processes, integrate data and share information across applications and among users.

(2) Dulles

- ***Main Terminal Rehabilitation*** – Main Terminal rehabilitation includes the renovation of the ticketing and baggage claim levels of the original Main Terminal, including new

ticket counter kiosks and baggage claim devices, a new below-grade southeast baggage basement, and a new two level east baggage basement.

- ***Main Terminal Security Mezzanine/APM Station*** – The security mezzanine completes the Main Terminal expansion by creating two large subsurface screening mezzanines and the Main Terminal APM station. In the future, passengers will move from the security mezzanine and connect to either the APM station, pedestrian tunnel or T-Gates at the Main Terminal.

- ***Main Terminal T-Gate Rehabilitation*** – New terminal facilities are being constructed using modular building technology to replace the Main Terminal T-Gate area built in the 1980s. The original T-Gate concourses were constructed as temporary facilities. The permanent facility will include passenger holdrooms, restrooms, concessions, airline support areas and other improvements. Construction of the first five gates in the eastern section of the T-Gate area was near completion as of March 2005. The construction of the western section of this project and five remaining eastern T-Gates has been deferred by the Authority.

- ***Concourse B 4-Gate Addition*** – This project was completed in the spring of 2003 and added four new gates and a passenger holdroom area to the west side of Concourse B, new aircraft apron and hydrant fueling, airline swing space, and concession, lounge, and tenant areas.

- ***North Utility System Upgrades*** – Landside, terminal, and airside utility services will be upgraded. The services include gas, electricity, water, heating/cooling, and telecommunications. Existing facility upgrades include new north area buildings and utility tie-ins, expanded potable water storage, and voice and data telecommunication infrastructure.

- ***Domestic APM System*** – The first phase of the domestic APM system will move passengers between the Main Terminal and stations at Concourses A, B, and C. The concourse stations will allow for boarding the APM in each direction. Escalators, elevators, and stairs will provide the connection between the concourse level and the station. The APM system will largely replace the mobile lounge system as the principal means of transportation between the Main Terminal and midfield concourses. In addition to the domestic APM system, a separate international APM system is planned to transport arriving international passengers to the Main Terminal International Arrivals Building (IAB) from the midfield concourses. The 2001-2011 CCP includes limited design work for the international APM and construction of selected facilities for future interfaces. Construction of the international APM system has been deferred at this time.

- ***Parking Garages and Surface Parking*** – Two new parking garages north and west of the Main Terminal provide approximately 8,325 public parking spaces. The Daily 2 Parking Garage opened to the public in March 2002, and the Daily 1 Parking Garage opened in April 2003. An underground pedestrian walkway that connects the Daily 1 Parking Garage to the Main Terminal was completed in March 2004. The two-phased construction of a new employee remote surface parking lot in areas to the

north of the airport is currently underway. Phase I was completed in 2001and Phase II is expected to be completed in May 2005.

- ***North Area Road Improvements*** – The growing passenger demand at Dulles will increase traffic on the landside access roads. This project allows for a multi-year program of widening, grade separation, interchange improvements, and extensions on various sections of the Dulles roadway system.

- ***Pedestrian Walkback Tunnel*** – A pedestrian tunnel with moving walkways was constructed between the Main Terminal and Concourse B that provides a transportation alternative to the APM system. The tunnel contains moving walkways in each direction, signage, lighting, a fresh air system, and fire protection.

- ***Fourth Runway and Associated Taxiways*** – The construction of a new runway will provide additional airfield capacity to reduce delays in aircraft departures and arrivals. This project includes an environmental assessment, the design and the construction of a new runway. As proposed, the runway will be parallel to the existing north-south runways, with a parallel taxiway, and taxiways connecting to the adjacent runway and taxiways. The runway will be 9,473 feet in length, 150 feet wide, with 35 foot shoulders on each side and will include four highspeed exit taxiways. The runway will be equipped with an instrument landing system and associated lighting systems.

- ***Runway 12/30 Rehabilitation*** – Full depth reconstruction of the 10,500-foot Runway 12/30 was completed in 2004, and included replacing the existing concrete pavement with a deeper concrete pavement. This project was necessitated by age of the runway and the need to use the runway for heavier aircraft than originally envisioned when it was built in 1960s.

- ***Airfield Taxilanes and Aprons*** – Construction of several airfield taxilanes, aprons, and aircraft hydrant fueling will provide better access to the runways and improve ground flow to the gates and aircraft hardstands.

- ***Airport Traffic Control Tower*** – A new tower with improved line-of-sight to the runways over the terminal and concourse areas will be constructed to replace the existing tower. This new tower will include site and infrastructure improvements and a support building with vehicular parking and access utilities, and FAA control and communications requirements.

- ***Aircraft Rescue and Firefighting Facility (ARFF)*** – A new public safety facility was constructed to accommodate firefighters, emergency medical technicians, and rescue equipment. Also, included in the project was the construction of rescue response roads and utility connections to the building.

- ***United Regional Terminal-Concourse G*** – On June 29, 2004, United completed construction of a temporary new facility, known as Concourse G, designed to accommodate its United Express fleet of regional jets. This project changes the existing infrastructure at Concourses C and D and adds infrastructure to support the

development of small aircraft gates at Concourses C and D apron and at Hold Apron VI for passenger boarding. The project includes an 11,000 square feet apron level passenger waiting area facility comprised of trailers, as well as a vertical circulation connector building to Concourses C and D between gates D-2 and C-28. United paid the costs of constructing the facility, which was approximately $22 million. United and the Authority agreed that, upon completion, and once United has emerged from bankruptcy, the Authority will purchase the facility from United at a cost of approximately $18.8 million, and will recover such costs over a 10-year period pursuant to the Airline Agreement.

- ***Concourses C and D Rehabilitation*** – This project involves the rehabilitation of Concourses C and D to effectively extend the useful operating life for an additional 10 years. The project includes design and replacement of 70 rooftop air conditioning units and general facility refurbishments including exterior repairs and upgrades, electrical and plumbing upgrades and repairs, fire protection upgrades and modifications to the baggage conveying system.

- ***Mobile Lounge Rehabilitation*** – Mobile lounges require recurring maintenance and repairs due to normal wear. This project will provide necessary maintenance to keep the fleet operational for six to 10 years, until the domestic APM system becomes operational. The project includes replacement of engines and axles as well as brake modifications and emergency egress improvements.

- ***Terminal Modifications for In-Line Baggage Screening*** – In order to satisfy new security requirements and to better accommodate in-line baggage screening equipment, certain modifications to the terminal buildings are required at Dulles. The Authority does not expect to undertake this project unless it receives substantial federal grants to help defray its costs.

- ***Access Highway Rehabilitation*** **–** This project will provide for milling and overlay of all four lanes of the access highway from Route 28 to Route 123, exclusive of the sections recently rehabilitated.

- ***Airport Operations Area (AOA) Security Cameras*** – This project entails the design and installation of security cameras on doors leading to the AOA to provide increased surveillance and control of the secure area.

- ***Main Terminal Expansion Joint Replacement*** – Replacement of the horizontal and vertical expansion joints at the Main Terminal is necessary to eliminate water infiltration into the Terminal.

- ***Tier 3 East Concourse/APM Station-Design*** – This project provides for planning and design of the eastern portion of the Tier 3 Concourse, including the fit-out of the shell of the APM station being constructed.

- ***Tier 3 East Apron Design*** – This project entails the design of a portion of the future Tier 3 apron and associate drainage and hydrant fueling to be used as aircraft hardstand area until needed for the future Tier 3 Concourse.

- ***Concourse B 12-Gate West Expansion*** – This project includes an addition to the west side of Concourse B to provide holdroom, concession, restroom, and baggage basement area and other associated facilities to accommodate 12 narrowbody aircraft.

- ***Concourse Modifications for Airbus A-380*** – This project provides for design and construction of two gates, associated loading bridges, and other ground support equipment on the B Concourse that require modification to accommodate upper deck boarding of the A-380 aircraft.

- ***Jet Fuel Pipeline Extension and Related Facilities*** – Planning, design, and construction of on-airport facilities are required to accommodate the extension of a jet fuel pipeline to the Airport to increase the supply and storage of jet fuel.

- ***Stallion Branch Sanitary Trunkline*** – This project will provide for both design and construction of a sanitary sewer line which is required to connect to the existing Potomac Interceptor with recently completed and future facilities in the southern portion of Dulles.

- ***Enterprise Resource Program*** – An Authority-wide Enterprise Resource Planning System will provide a comprehensive integrated system encompassing core administration functional areas, link business processes, integrate data and share information across applications and among users.

- ***Cargo Building 6*** – This project provides for the construction of a final, 27,000 square-foot portion of Cargo Building 6.

- ***Tier 2 Concourse Design*** – The Tier 2 Concourse is contemplated to be a 44-gate, three-level midfield concourse with full basement that would replace the existing Concourses C and D.

- ***South Utility System Expansion Design*** – This project will develop a southern utility service complex which includes gas, electricity, water, heating/cooling and telecommunications to serve the planned Tier 2 Concourse through a utility tunnel. Planned work includes the construction of a new south utility building, utility tunnel, trunk lines and a south area electrical substation and distribution center.

- ***Pedestrian Walkback Extension Design*** – This project will extend the existing pedestrian walkback tunnel from Concourse B to the planned Tier 2 Concourse.

- ***Domestic APM System Extension Design*** – The western section of the domestic APM system will be extended from Concourse B to the western side of the planned Tier 2 Concourse.

(3) Deferred Projects

As a result of the events of September 11, 2001, and the Authority's routine reviews of the CCP, the Authority has deferred certain projects originally authorized as part of the CCP, but expects to reassess its construction program on a regular basis and make further adjustments based on passenger and airline activity, security considerations and other factors. Some design work will continue on a portion of these projects to ensure compatibility with other on-going projects and to permit construction to proceed as soon as the Authority determines that activity levels warrant their activation. The cost of these deferred projects, currently estimated at $1.6 billion, is not included in the cost of the 2001-2011 CCP. All deferred projects are at Dulles and include:

- ***Tier 2 Concourse Construction*** – The Tier 2 Concourse is contemplated to be a 44-gate, three-level midfield concourse with full basement that would replace the existing Concourses C and D.

- ***International APM System*** – In addition to the loop domestic APM system, plans call for the ultimate development of an international APM system to transport arriving international passengers to the Main Terminal IAB.

- ***West T-Gates*** – The West T-Gates will be immediately adjacent to the Main Terminal IAB. The tunnel for the international APM runs under the West T-Gates. As a result, construction of the West T-Gates will be deferred until after the construction of the international APM system.

- ***Construction of South Utility System Expansion*** – The Authority plans to develop a southern utility service complex including gas, electricity, water, heating/cooling, and telecommunications to serve the planned Tier 2 Concourse through a utility tunnel. Planned work includes the construction of a new south utility building, south utility tunnel, trunk lines, and south area electrical substation and distribution center.

- ***Construction of Pedestrian Walkback Extension*** **–** The pedestrian walkback tunnel will be extended from Concourse B to the planned Tier 2 Concourse.

- ***Construction of Domestic APM System Extension*** **–** The western leg of the domestic APM system will be extended from Concourse B to the western side of the planned Tier 2 Concourse.

- ***Cargo Building 7*** **–** The construction of a new 145,000 square foot cargo building and the associated aprons north of Cargo Building 6 are contingent on the completion of Cargo Building 6.

- ***East T-Gates Phase II*** **–** This project includes the construction of five additional east T-Gates immediately adjacent to the Main Terminal IAB.

3.4 PLAN OF FUNDING FOR THE 2001-2011 CCP

The Authority presently anticipates funding the 2001-2011 CCP through a combination of the proceeds of federal and state grants, passenger facility charges (PFCs), Authority funds, previously issued Bonds, Series 2005A-C Bonds, Commercial Paper Notes, additional Bonds to be issued on a parity with the Bonds, and investment earnings on the Bond proceeds. The following table presents current estimated funding sources for the 2001-2011 CCP. This table only reflects project costs and does not include financing costs and capitalized interest. To estimate the need for future funding sources, project costs were increased by inflation at a rate of 3.0 percent annually to the project's completion date. Each of these funding sources is discussed briefly in the following paragraphs. For purposes of this discussion, bonds issued under the Master Indenture, including Outstanding Bonds, the Series 2005A-C Bonds, and any additional Bonds issued on parity with the Series 2005A-C Bonds are collectively referred to as Bonds.

Table 3-2
2001-2011 CCP SOURCES OF FUNDING
(amounts in $000s)

Source	Amount
Proceeds from Prior Bonds [1]	$1,072,825
Series 2005 A (New Money)	111,488
Series 2005 C (New Money)	28,400
Future Bonds[2]	1,254,626
Subtotal[3]	$2,467,339
PFCs	928,637
Federal and State Grants	515,140
2001-2011 CCP[3]	**$3,911,115**

[1] Includes only that portion of the Series 1997A-B Bonds, Series 1998A-B Bonds, Series 2001A-B Bonds, Series 2002A-B Bonds, Series 2003A Bonds, Series 2003C Bonds, Series 2003D Bonds, Series 2004B Bonds, the Series One CP Notes and BANs that funded construction costs in 2001 and thereafter.

[2] Includes assumed interest earnings on construction fund deposits.

[3]Figures may not sum to totals due to rounding

Sources: PG Corbin (based on information provided by the Authority), compiled by PB Aviation

A detailed discussion of the funding sources of the CCP is as follows:

(1) Federal and State Grants

The FAA's Airport Improvement Program (AIP) consists of entitlement funds and discretionary funds. Entitlement funds are distributed through grants by formula based on the number of enplanements and the amount of landed weight of arriving cargo at individual airports. The FAA issues Letters of Intent (LOI) for grants from the discretionary fund based

on the FAA's assessment of national priorities. The LOI represents the FAA's intention to obligate funds from future federal budget appropriations for the program. On March 1, 2002, the Authority submitted an LOI request for $27.4 million to finance several projects at Dulles. Upon consultation with the FAA, in January 2003, the projects included in the LOI were submitted for funding through the annual discretionary "Pay Go" process. In February 2005, the Authority submitted to the FAA a new LOI request for $207 million to finance the design and construction of the fourth runway and associated taxiways and the cost of the environmental study of Dulles.

The AIP was reauthorized in the 2003 FAA Reauthorization Act for federal fiscal years 2004-2007. Since 2001, the Authority has received $483 million in entitlement and discretionary grants and, assuming subsequent passage of continuing authorizing legislation, the Authority expects to receive an additional $32 million between 2005 and 2011.

In February 2004, the Authority submitted to the FAA an LOI request for $173.7 million to finance the building modifications to better accommodate the in-line baggage screening system at each Airport. Although the Department of Homeland Security (DHS) has Congressional authorization to provide grants to airports for up to 75 percent of the cost of such modifications, thus far, DHS has made grants to very few airports.

The Commonwealth of Virginia through the aviation portion of its Transportation Trust Fund provides grants to Virginia airport sponsors. Since 1995, the Authority has received approximately $15.0 million in state grants. The Authority expects to receive an additional $8.3 million between 2005 and 2011.

Revenues received by the Authority pursuant to these federal and state grants are expressly excluded from the definition of "Revenues" under the Indenture and will not be pledged to secure the Bonds, including the Series 2005A-C Bonds.

(2) Passenger Facility Charges

The Authority began collecting a $3.00 PFC in 1994 and increased the PFC collected to $4.50 in May 2001. An airport must apply to the FAA for the authority to impose a PFC and to use the PFC moneys collected for specific FAA-approved projects. Since National and Dulles collect a $4.50 PFC, federal entitlement grant moneys that otherwise would have been received under the AIP have been reduced by 75 percent.

The Authority submitted and gained approval of three PFC applications, with associated amendments, covering both Airports in the amount of $719.5 million. The Authority expects to submit a new application for $822 million in the first quarter of 2005. As of December 31, 2004, the Authority had collected $244.2 million (including interest earned) at National and $258.1 million (including interest earned) at Dulles under the first and second PFC applications. The Authority will begin to collect PFCs under the third PFC application after the amounts authorized under the second PFC application have been collected. The collection dates for current PFC applications at National will expire on April 1, 2008, and at Dulles on December 1, 2006. It is expected that the authorization to collect the PFCs will be extended.

Table 3-3 sets forth a summary of the Authority's approved PFC applications.

Table 3-3
APPROVED PFC APPLICATIONS [1]

PFC Application	Approval Date	Initial Approved Amount	Amended Approved Amount	Total Amount Collected as of 12/31/04 [2]
#1a - National	August 1993	$166,739,071	$166,410,356	$166,410,356
#1b - Dulles	October 1993	199,852,390	221,916,682	221,916,682
#2a - National	May 2000	120,027,100	156,397,000	77,810,621
#2b - Dulles	May 2000	81,748,000	81,748,200	36,191,477
#3a - National	July 2002	33,895,949	33,895,949	0
#3b - Dulles	September 2002	59,102,550	59,102,550	0
Total		$661,365,060	$719,470,737	$502,329,136

[1] PFC application Numbers 1 and 2 were originally for the collection of $3.00 per enplaning passenger. The FAA approved amendments to PFC application Numbers 1 and 2 for National and Dulles, authorizing the Authority to collect an additional $1.50 PFC per enplaning passenger.

[2] Includes interest income earned on PFCs held by the Authority and restricted to use for PFC projects.

Source: Authority records, compiled by PB Aviation

To provide liquidity for the funding of projects under the CCP, the Authority has delivered to the Bank of America PFC Notes in an amount up to $255 million, secured by a pledge of the Authority's PFC revenues. The maturity date of the PFC Notes is December 31, 2009. The agreement with Bank of America includes a covenant by the Authority to issue Bonds to repay the principal of the PFC Notes in the event that the Authority's ability to impose or use PFCs is revoked. This covenant is subject to all applicable conditions precedent to the Authority's ability to issue Bonds for the projects funded with the PFC Notes, including the conditions stated in the Airline Agreement and the additional Bonds test of the Indenture. In addition, the Authority may expand the PFC Note program or institute an alternative financing mechanism to leverage additional PFCs.

The FAA is authorized to terminate the authority to impose PFCs if the Authority's PFC revenues are not being used for FAA-approved projects, if project implementation does not commence within the time periods specified in the FAA's regulations or if the Authority otherwise violates FAA regulations. An amendment in the 2003 FAA Reauthorization Act allows the Secretary of Transportation to authorize an airport operator, including the Authority, to use PFC revenues to finance non-approved projects if such use is necessary due to the financial need of an airport. The authority to impose a PFC also may be terminated if the Authority violates certain informal and formal procedural safeguards which must be followed.

The calculation of Net Revenues pledged under the Indenture expressly excludes the proceeds of any PFC or similar charge levied by or on behalf of the Authority unless the Authority takes action to treat these funds as Net Revenues. The Authority has not taken any such actions, and therefore, any PFC or similar charge collected by the Authority currently is not pledged to secure the Bonds.

(3) Commercial Paper Program

The Authority has authorized a commercial paper program in an aggregate principal amount not to exceed $500 million outstanding at any time. The Authority currently has in place two credit facilities allowing the Authority to draw up to $420 million in Commercial Paper Notes at any given time.

The issuance of up to $220 million of the Series One CP Notes is authorized pursuant to the Restated Eleventh Supplemental Indenture dated as of November 1, 2004, as further amended on March 1, 2005, between the Authority and the Trustee. The Series One CP Notes are structured as Short Term/Demand Obligations under the Indenture and are secured by certain pledged funds including Net Revenues on parity with the Bonds. They are further secured by an irrevocable direct pay letter of credit issued by JPMorgan Chase Bank, which expires in March 2008. The Authority's obligation to repay amounts drawn under such letter of credit is secured by a promissory note issued by the Authority to JPMorgan Chase Bank and is secured by and payable from Net Revenues and other pledged funds on a parity with the Series One CP Notes and the Bonds. Currently, no Series One CP Notes are outstanding. The Authority has the ability to have outstanding up to $220 million of Series One CP Notes at any time.

The issuance of up to $200 million of the Series Two CP Notes is authorized pursuant to the Twenty-second Supplemental Indenture dated as of January 1, 2005, between the Authority and the Trustee. The Series Two CP Notes are structured as Short Term/Demand Obligations under the Indenture and are secured by certain pledged funds including Net Revenues on parity with the Bonds. They are further secured by an irrevocable direct pay letter of credit issued on a several but not joint basis by WestLB AG, acting through its New York Branch, individually and as an agent, and Landesbank Baden-Württemberg, acting through its New York Branch (collectively, the "Banks"), which expires in December 2015, but allows the Banks under certain circumstances to terminate the facility every five years. The Authority's obligation to repay amounts drawn under such letter of credit is secured by a promissory note issued by the Authority to the Banks and is secured by and payable from Net Revenues and other pledged funds on a parity with the Series Two CP Notes and the Bonds. Currently, $200 million of Series Two CP Notes are outstanding, a portion of which the Authority plans to refund with the proceeds of the Series 2005A Bonds. The Authority retains the ability to have outstanding up to $200 million of Series Two CP Notes at any time.

(4) Bonds

As shown in Table 3-2, the Authority anticipates funding approximately $1.4 billion of the 2001-2011 CCP through the issuance of additional Bonds. Of this amount, approximately $139.9 million of the 2001-2011 CCP is anticipated to be funded with the Series 2005A-C Bonds and approximately $1.3 million is anticipated to be funded with future additional Bonds. Debt service associated with these Bonds is discussed in the next chapter.

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4. FINANCIAL ANALYSIS

This chapter examines the financial structure of the Authority, as well as the cost and financial implications of the 2001-2011 CCP. Also included in this chapter are estimates of Net Revenues and a discussion of compliance with the rate covenant requirement established by the Indenture.

4.1 ESTIMATED DEBT SERVICE REQUIREMENTS

The sources and uses of funds used to determine the Senior Bond debt service associated with the 2001-2011 CCP are presented in **Table 4-1**. As shown in the table, the Series 2005A Bonds are assumed to be issued at a par amount of $320.0 million, the Series 2005B Bonds are assumed to be issued at a par amount of $36.9 million, and the Series 2005C Bonds are assumed to be issued at a par amount of $30.0 million. The proceeds of the Series 2005A-C Bonds will be used to fund approximately $139.9 million in project costs. In addition, future additional Bonds are assumed to be issued through 2009 at a total par amount of $2.1 billion to fund approximately $1.3 billion in project costs for the 2001-2011 CCP.

Table 4-1
APPLICATION OF BOND PROCEEDS
2001-2011 CCP

	Previously Issued Bonds, CP [2]	Series 2005A Bonds	Series 2005B Bonds	Series 2005C Bonds	Future Bonds	Total
Deposit to Construction Fund						
Costs of Construction						
Net Deposit for Construction Costs	$1,063,796,061	$111,330,084	$0	$28,400,000	$1,245,641,106	$2,449,167,251
Capitalized Interest						
Net Deposit for Capitalized Interest	84,810,327	36,226,014	0	0	660,042,450	$781,078,791
Deposit to Debt Service Reserve Fund	90,774,069	27,102,352	2,966,798	1,600,000	127,833,356	250,276,576
Original Issue (Discount)/Premium [3]	2,147,792	(6,517,055)	0	0	0	(4,369,264)
Costs of Issuance [4]	22,315,494	10,858,605	979,353	0	25,608,088	59,761,540
Net Deposit to Refunding Escrow	0	141,000,000	36,764,327	0	0	177,764,327
Funds on Hand	0	0	(3,775,478)	0	0	(3,775,478)
Par Amount	$1,263,843,743	$320,000,000	$36,935,000	$30,000,000	$2,059,125,000	$3,709,903,743
Assumed Interest Earnings						
Construction Costs	$9,028,823	$158,133	$0	$0	$8,984,502	$18,171,457
Capitalized Interest	$1,735,476	$417,086	$0	$0	$31,689,388	$33,841,950

[1] Figures may not sum to totals due to rounding.

[2] Includes only that portion of the Series 1997A-B Bonds, Series 1998A-B Bonds, Series 2001A-B Bonds, Series 2002A-B Bonds, Series 2003A Bonds, Series 2003C Bonds, Series 2003D Bonds, Series 2004B Bonds, the Series One CP Notes and BANs that funded construction costs in 2001 and thereafter.

[3] The Future Bonds are assumed to be issued at par.

[4] Costs of issuance include the costs for bond insurance, if any, underwriter's discount, and Authority's costs.

Sources: PG Corbin (based on information provided by the Authority), compiled by PB Aviation

The projected debt service requirements associated with financing a portion of the completed portions of the CCP and the 2001-2011 CCP are presented in **Table 4-2**. The estimated annual debt service (net of capitalized interest) payable from Net Revenues is presented for 2004 through 2013 for the Authority's presently outstanding Bonds and CP Notes, and additional Bonds expected to be issued under the Indenture for the 2001-2011 CCP.

The debt service projections are based on the assumption that the financing requirements for a portion of the 2001-2011 CCP remaining after the issuance of the Series 2005A-C Bonds will be met through the issuance of additional Bonds. Certain assumptions regarding future bond issues that were projected in the Series 2003A-D Report have changed for this report, which is primarily the result of portions of the CCP being re-scheduled and/or increased through the 2004 and 2005 Budgets.

As shown in Table 4-2, outstanding Bonds debt service (net of capitalized interest) was \$135.5 million in 2004, increasing to \$176.5 million in 2013. Series 2005A-C Bond debt service (net of capitalized interest) is estimated by the Authority's financial advisor to be \$22.3 million in 2006, increasing to \$26.8 million in 2013. Additional Bond and CP Notes debt service (net of capitalized interest) is estimated to be \$4.6 million in 2004, increasing to \$91.2 million by 2013.

Table 4-2
SUMMARY OF DEBT SERVICE REQUIREMENTS
PAYABLE FROM REVENUES
(Net of Capitalized Interest)[1,2]

	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
NATIONAL										
Outstanding Bond Debt Service	$63,994,182	$63,876,181	$63,493,235	$63,727,295	$65,409,803	$68,801,696	$68,968,748	$69,543,075	$69,617,506	$69,639,257
Series 2005A-C Bond Debt Service [3]	0	3,643,426	9,809,755	9,658,329	9,735,621	10,652,956	10,662,029	10,716,394	10,718,143	10,721,243
Add'l Bond Dbt Svc and CP Dbt Svc [4]	2,308,250	1,226,411	693,324	2,685,111	10,791,364	19,438,551	19,875,308	20,268,471	20,293,979	20,296,287
NATIONAL DEBT SERVICE	$66,302,432	$68,746,018	$73,996,314	$76,070,735	$85,936,788	$98,893,203	$99,506,085	$100,527,939	$100,629,628	$100,656,787
DULLES										
Outstanding Bond Debt Service	$71,505,785	$79,634,742	$87,330,798	$91,541,400	$94,152,533	$104,097,527	$106,690,065	$106,750,728	$106,773,135	$106,830,398
Series 2005A-C Bond Debt Service [3]	0	2,961,743	12,465,874	13,447,005	13,834,828	15,637,328	16,041,568	16,052,473	16,057,302	16,057,842
Add'l Bond Dbt Svc and CP Dbt Svc [4]	2,270,992	3,075,308	8,733,511	15,446,295	22,346,115	59,533,315	70,849,365	70,861,814	70,878,273	70,877,149
DULLES DEBT SERVICE	$73,776,778	$85,671,794	$108,530,182	$120,434,700	$130,333,476	$179,268,170	$193,580,997	$193,665,014	$193,708,710	$193,765,390
TOTAL DEBT SERVICE										
Outstanding Bond Debt Service	$135,499,967	$143,510,924	$150,824,033	$155,268,695	$159,562,336	$172,899,223	$175,658,813	$176,293,803	$176,390,641	$176,469,655
Series 2005A-C Bond Debt Service [3]	0	6,605,169	22,275,629	23,105,334	23,570,449	26,290,284	26,703,597	26,768,866	26,775,445	26,779,086
Add'l Bond Dbt Svc and CP Dbt Svc [4]	4,579,243	4,301,719	9,426,835	18,131,406	33,137,479	78,971,866	90,724,673	91,130,284	91,172,251	91,173,436
TOTAL DEBT SERVICE	$140,079,210	$154,417,812	$182,526,496	$196,505,435	$216,270,264	$278,161,373	$293,087,083	$294,192,953	$294,338,338	$294,422,177

[1] Figures may not sum to totals due to rounding.

[2] With the exception of the Series One CP Notes and the Series Two CP Notes, interest on the Bonds is assumed to be capitalized through the respective completion dates of the individual projects being financed.

[3] The Series 2005A Bonds are assumed to be issued at a par of $320 million and are comprised of $168,675,000 issued to fund the costs of certain capital projects of the Authority, which is assumed to be amortized from 2030 to 2035, and issued at a rate of 5.57%, and $151,325,000 issued to refinance the Series Two CP Notes, which is assumed to be amortized from 2009 to 2020, and issued at a rate of 5.00%. The Series 2005B Bonds are assumed to be issued at a par amount of $36,935,000 and are assumed to be amortized from 2005 to 2023, and issued at a rate of 4.70%. The Series 2005C Bonds are assumed to be issued at a par amount of $30 million amortized from 2020 to 2035, and issued at a rate of 6.31%.

[4] Fixed-rate additional Bonds are assumed to be issued at a par amount of $2.1 billion bearing interest at a rate of 7% and assumed to be reinvested at a rate of 2%. The 2006 Bonds are assumed to be amortized from 2007 to 2029. The 2007 Bonds are assumed to be amortized from 2008 to 2037. The 2008 Bonds are assumed to be amortized from 2009 to 2038. The 2009 Bonds are assumed to be amortized from 2010 to 2039. Additional Bonds are assumed to be issued through 2009. The $175 million tax-exempt portion of the Series One CP Notes is assumed at the January 26, 2005 RBI (4.89%) plus 0.75% or 5.64%. The $45 million taxable portion of the Series One CP Notes is assumed at Bloomberg January 26, 2005 taxable (5.66%) plus 0.75% or 6.41%. The $155 million tax-exempt portion of the Series Two CP Notes is assumed at the January 26, 2005 RBI (4.89%) plus 0.75% or 5.64%. The $45 million taxable portion of the Series Two CP Notes is assumed at Bloomberg January 26, 2005 taxable (5.66%) plus 0.75% or 6.41%.

Sources: The Authority; PG Corbin; compiled by PB Aviation

4.2 OPERATION AND MAINTENANCE EXPENSES

O&M Expenses represent the day-to-day expenditures for the operation of the Airports, including the Consolidated Functions that support both Airports. The Consolidated Functions expenses include the Chief Executive Officer and immediate staff, general counsel, audit, air service development and planning, communications, finance, engineering, business administration, human resources, and information and telecommunication systems. O&M Expenses for the Board of Directors are also included in the Chief Executive Officer's category. For purposes of these analyses, Consolidated Function's O&M Expenses are included with the O&M Expenses at each respective airport, and are not discussed separately.

Certain O&M Expenses that were presented in the Series 2003A-D Report vary from the amounts presented in this report. The primary reason for this variance is the use of actual and budgeted amounts for 2004 and 2005, respectively instead of the projections that were included in the Series 2003A-D Report.

Table 4-3 presents 2004 actual O&M Expenses through December 31, 2004. The 2005 O&M Expenses shown in the table reflect the amounts presented in the 2005 Budget, which was approved by the Board in December 2004. As shown in the table, expenses at National are budgeted to be 2.5 percent lower in 2005 compared to actual 2004 amounts, and expenses at Dulles are budgeted to be 25.3 percent higher in 2005 over actual 2004 amounts. Total O&M Expenses for the Airports are budgeted to be 13.6 percent higher in 2005 over 2004 actuals. This is primarily the result of an increase of funds in the Performance Management Partnership (PMP) Program for incumbent staff raises; an increase in staffing primarily at Dulles, including the removal of the hiring freeze instituted in 2001 and the corresponding impact upon health and life insurance premium payments; early implementation of the Government Accounting Standards Board (GASB) 43 and 45, which requires healthcare and life insurance to be accrued during an employee's career; an increase in operating costs at Dulles related to the completion of Concourse G, an increase in custodial and contractual costs at Dulles due to contractual obligations, passenger growth, and facility expansion, and utility rate and consumption increases.

Estimates of future O&M Expenses at each airport are based on a review of historical trends, the anticipated effects of inflation (assumed at 4 percent annually), staffing requirements, projected increases in aviation activity, and the financial effects associated with the completion of a portion of the 2001-2011 CCP. At National, the increases resulting from the financial impacts of the completion of certain portions of the 2001-2011 CCP include an increase in Terminal A O&M Expenses in proportion to the space increase resulting from the completion of the rehabilitation in 2007. For Dulles, these increases are the result of the estimated completion of the fourth runway and associated taxiways, north area roadway improvements, portions of the APM, and utility building upgrades.

As shown in the table, total O&M Expenses for the Authority were $203.9 million in 2004 increasing to $333.1 million in 2013. This represents an annual compounded growth rate of approximately 4.6 percent from 2005 to 2013.

Table 4-3
PROJECTED O&M EXPENSES [1]

	Actual 2004	Budget 2005	Projected 2006	Projected 2007	Projected 2008	Projected 2009	Projected 2010	Projected 2011	Projected 2012	Projected 2013
NATIONAL										
Payroll & Employee Benefits	$42,938,620	$46,437,320	$48,294,813	$50,226,605	$52,346,853	$54,476,864	$56,655,939	$58,922,176	$61,279,064	$63,730,226
Utilities	6,042,537	6,571,520	6,834,381	7,107,756	7,392,066	7,687,749	7,995,259	8,315,069	8,647,672	8,993,579
Other Services	25,848,779	21,042,230	21,883,919	22,759,276	23,862,218	24,911,689	25,908,157	26,944,483	28,022,262	29,143,153
Supplies & Materials	3,882,788	4,078,260	4,241,390	4,411,046	4,613,838	4,805,540	4,997,761	5,197,672	5,405,578	5,621,802
Miscellaneous	6,863,132	5,464,360	5,682,934	5,910,252	6,284,438	6,568,815	6,831,567	7,104,830	7,389,023	7,684,584
Capital Expenditures [2]	205,045	0	213,247	221,777	230,648	239,874	249,468	259,447	269,825	280,618
	$85,780,900	$83,593,690	$87,150,684	$90,636,712	$94,730,061	$98,690,530	$102,638,151	$106,743,677	$111,013,424	$115,453,961
DULLES										
Payroll & Employee Benefits	$54,687,420	$70,770,327	$73,654,429	$76,612,226	$80,187,891	$86,207,578	$89,655,881	$93,242,116	$96,971,801	$100,850,673
Utilities	11,973,248	14,414,180	14,990,747	15,590,377	16,213,992	16,862,552	17,537,054	18,238,536	18,968,078	19,726,801
Other Services	33,711,994	41,129,642	43,081,684	44,843,085	48,918,401	52,729,100	54,838,264	57,031,795	59,313,067	61,685,590
Supplies & Materials	5,946,349	6,880,490	7,180,592	7,477,260	7,884,647	8,714,047	9,062,609	9,425,113	9,802,118	10,194,203
Miscellaneous	9,369,604	14,867,890	15,587,342	16,345,170	17,277,472	18,644,389	19,390,164	20,165,771	20,972,402	21,811,298
Capital Expenditures [2]	2,444,900	0	2,542,696	2,644,404	2,750,180	2,860,188	2,974,595	3,093,579	3,217,322	3,346,015
	$118,133,515	$148,062,529	$157,037,491	$163,512,522	$173,232,583	$186,017,854	$193,458,568	$201,196,910	$209,244,787	$217,614,578
O&M EXPENSES	**$203,914,415**	**$231,656,219**	**$244,188,175**	**$254,149,233**	**$267,962,644**	**$284,708,384**	**$296,096,719**	**$307,940,588**	**$320,258,211**	**$333,068,540**

[1] Figures may not sum to totals due to rounding.

[2] The decrease in capital expenditures in 2005 is the result of including all of the facility projects and equipment in the Capital, Operating, and Maintenance Investment Program instead of capital expenditures.

Sources: Authority records, 2004 and 2005; PB Aviation, 2006 through 2013

4.3 NONAIRLINE REVENUES

Nonairline revenues consist of all operating revenues generated at the Airports, excluding airline Landing Fees, Aircraft Parking Position Charges, Terminal Rentals, and other revenues generated by the Airline Agreement. Major sources of nonairline revenues include the following:

- Terminal concession revenues generated from fees paid by concessionaires at the Airports. Major sources of concession revenues include fees from food and beverage, inflight catering, hotel concessions, where applicable, and other retail operations, as well as fees from providers of ground transportation services and other major service providers.

- Car rental fees and rents paid by rental car companies operating at the Airports.

- The operation of public parking facilities and other parking services at the Airports.

- Building and land rentals from Airport tenants and concessionaires.

- Reimbursements from metered and/or billed utility service provided to the tenants and concessionaires where the utility service is not part of the rental charge. Reimbursements include utility charges for electric, gas, water, sewerage, steam, and air conditioning, where applicable.

Nonairline revenues are first classified by these major categories and then categorized by Cost Center for accounting purposes. Certain nonairline revenues that were previously projected in the Series 2003A-D Report have been adjusted. The primary reason for this variance is the use of actual and budgeted amounts for 2004 and 2005, respectively instead of the projections that were included in the Series 2003A-D Report and changes in forecasted enplanement levels, which in turn impact concession revenues.

Table 4-4 presents 2004 actual nonairline revenues through December 31, 2004. The nonairline revenues in that year represented 41.2 percent of operating revenues. The 2005 nonairline revenues shown in the table reflect the amounts in the 2005 Budget. As shown in the table, nonairline revenues at National are budgeted to be 1.7 percent higher in 2005 over actual 2004 amounts, and nonairline revenues at Dulles are budgeted to be 1.0 percent lower in 2005 compared to actual 2004 amounts.

Estimates of future nonairline revenues consider current lease terms, assumptions regarding future lease terms, anticipated passenger growth, and the effects of the 2001-2011 CCP at each respective airport. As a result, 2006 concession revenues at Dulles are projected to decrease to reflect the forecasted activity decrease described in Chapter 2. As shown in the table, total nonairline revenues were $177.4 million in 2004 and are estimated to increase to $271.2 million for 2013, which is equivalent to an annual compounded growth rate of approximately 5.5 percent from 2005 to 2013.

Table 4-4
PROJECTED NONAIRLINE REVENUES [1]

	Actual 2004	Budget 2005	Projected 2006	Projected 2007	Projected 2008	Projected 2009	Projected 2010	Projected 2011	Projected 2012	Projected 2013
NATIONAL										
Other Rents										
Building Rentals	$3,600,374	$3,601,500	$4,015,847	$4,215,752	$4,425,377	$4,642,680	$4,874,868	$5,117,744	$5,372,375	$5,640,347
Non-Airline Terminal Rentals	616,067	612,000	624,240	636,725	649,459	662,448	675,697	689,211	702,996	$717,056
Fuel Farm Rentals	4,309,122	4,394,100	5,006,863	5,207,489	5,415,707	5,627,133	5,854,567	6,089,478	6,333,157	$6,587,810
Miscellaneous Land Rentals	11,697	12,000	12,480	12,979	13,498	14,038	14,600	15,184	15,791	$16,423
Concessions										
Rental Cars	14,565,973	16,700,000	17,883,089	19,006,308	20,112,343	21,225,046	22,353,953	23,514,502	24,715,680	$25,967,043
Ground Handling	15,381	15,603	16,227	16,876	17,551	18,253	18,983	19,743	20,532	$21,354
Inflight Kitchen	787,629	804,000	860,958	915,034	968,283	1,021,853	1,076,202	1,132,075	1,189,905	$1,250,150
Parking-Percentage	24,489,620	25,950,000	27,521,196	28,968,527	30,359,542	31,731,096	33,097,459	34,481,010	35,893,900	$37,348,612
Fixed Base Operator	0	0	0	0	0	0	0	0	0	$0
Food & Beverage	3,185,527	3,032,000	3,184,360	3,319,282	3,444,894	3,565,568	3,682,996	3,799,702	3,916,996	$4,036,174
Retail	4,229,816	3,990,200	4,190,710	4,368,271	4,533,581	4,692,391	4,846,929	5,000,518	5,154,880	5,311,722
Services	72,418	2,655,842	2,708,959	2,763,138	2,818,401	2,874,769	2,932,264	2,990,909	3,050,728	3,111,742
Other Concessions	6,604,587	1,907,220	2,015,038	2,115,413	2,212,772	2,309,554	2,406,723	2,505,796	2,607,622	2,713,086
TSA Security Fee	843,295	879,800	897,396	915,344	933,651	952,324	971,370	990,798	1,010,614	1,030,826
Utilities	1,744,678	1,776,198	1,835,534	1,894,805	1,954,808	2,015,999	2,078,593	2,142,880	2,209,046	2,277,274
Other Revenues	1,555,133	1,418,312	1,475,044	1,534,046	1,595,408	1,659,224	1,725,593	1,794,617	1,866,402	1,941,058
	$66,631,317	$67,748,775	$72,247,941	$75,889,990	$79,455,276	$83,012,376	$86,610,799	$90,284,168	$94,060,622	$97,970,676
DULLES										
Other Rents										
Building Rentals	$6,360,553	$6,198,596	$7,327,537	$8,752,507	$9,493,321	$10,023,048	$10,300,134	$10,589,854	$10,890,945	$11,204,399
Non-Airline Terminal Rentals	960,771	896,950	941,798	979,469	1,018,648	1,059,394	1,101,770	1,145,841	1,191,674	1,239,341
Fuel Farm Rentals	4,254,868	4,260,000	6,294,409	8,876,099	10,184,624	11,098,442	11,540,270	12,002,650	12,483,123	12,983,406
Concessions										
Rental Cars	13,458,469	13,687,410	12,156,131	13,202,876	14,301,086	15,459,023	16,693,859	17,959,033	19,306,289	20,740,470
Ground Handling	69,968	60,000	62,400	64,896	67,492	70,192	72,999	75,919	78,956	82,114
Inflight Kitchen	4,761,277	5,056,900	4,491,159	4,877,886	5,283,626	5,711,434	6,167,651	6,635,078	7,132,830	7,662,698
Parking-Percentage	45,289,321	45,600,000	40,498,500	43,985,760	47,644,479	51,502,179	55,616,070	59,831,036	64,319,456	69,097,472
Fixed Base Operator	4,802,663	4,691,544	4,879,206	5,074,374	5,277,349	5,488,443	5,707,981	5,936,300	6,173,752	6,420,702
Food & Beverage	4,677,264	4,623,500	4,177,471	4,709,730	5,080,737	5,471,644	5,887,984	6,314,874	6,768,921	7,251,713
Retail	4,643,875	4,487,535	4,032,037	4,843,941	5,233,300	5,643,654	6,080,915	6,529,128	7,006,069	7,513,422
Services	2,205,040	1,856,860	1,893,849	1,979,656	2,069,068	2,162,339	2,259,890	2,361,001	2,466,721	2,577,262
Duty Free	2,700,051	2,533,400	2,323,925	2,871,553	3,115,989	3,374,984	3,651,806	3,936,260	4,240,248	4,564,500
Other Concessions	7,255,009	6,992,904	6,408,229	6,896,845	7,370,378	7,869,224	8,400,358	8,945,053	9,524,230	10,139,898
TSA Security Fee	386,035	395,975	403,895	411,972	420,212	428,616	437,188	445,932	454,851	463,948
Utilities	4,950,110	4,667,639	4,849,010	5,041,135	5,240,909	5,448,636	5,664,633	5,889,232	6,122,775	6,365,619
Mobile Lounge Fees	0	0	0	0	0	0	0	0	0	0
Other Revenues	3,974,614	3,601,500	3,745,560	3,895,382	4,051,198	4,213,246	4,381,775	4,557,046	4,739,328	4,928,901
	$110,749,888	$109,610,713	$104,485,114	$116,464,082	$125,852,414	$135,024,496	$143,965,286	$153,154,237	$162,900,167	$173,235,866
TOTAL NONA/L REV	**$177,381,205**	**$177,359,488**	**$176,733,055**	**$192,354,072**	**$205,307,691**	**$218,036,872**	**$230,576,084**	**$243,438,405**	**$256,960,789**	**$271,206,542**

[1] Figures may not sum to totals due to rounding.

Sources: Authority records, 2004 and 2005; PB Aviation, 2006 through 2013

4.4 AIRLINE REVENUES

The balance of the Revenues generated at the Airports each year is comprised of Terminal Rentals, Landing Fees, and Equipment Charges paid by the airlines. At Dulles, Signatory Airlines are also charged Aircraft Parking Position Charges, Jet Apron Fees, Airside Operations Building Rentals, International Arrivals Building (IAB) Fees, and Passenger Conveyance Charges. This section discusses the Signatory Airline Revenue estimates at both Airports in accordance with the terms of the Airline Agreement, and the formulas for establishing Signatory Airline rentals, fees, and charges.

Based on the Airline Agreement, the Authority is required to calculate and adjust annually rentals, fees, and charges that are payable by the Signatory Airlines throughout each respective Fiscal Year, based on costs attributable to each Airline Supported Area, reduced by Transfers allocated to each area. Transfers represent the Signatory Airlines' share of NRR as defined in the Airline Agreement. The Authority is also permitted by the Airline Agreement to make adjustments to the rentals, fees, and charges. The Airline Supported Areas at each Airport include:

National	***Dulles***	
Airfield	Airfield	Airside Operations Building
Terminal A	Concourse A	IAB Terminal
Terminals B and C	Concourse B	Concourse C IAB
Commuter Terminal	Concourses C and D	Passenger Conveyance
Equipment	Concourse G	Equipment
	Dulles Main Terminal	

Table 4-5 presents the various airline rentals, fees, and charges generated at both Airports. Certain of the Signatory Airline rentals, fees, and charges in this table vary from the levels provided in the Series 2003A-D Report. In general, the differences reflect changes in O&M Expenses and Debt Service due to the revisions in the 2001-2011 CCP and changes in forecasted activity levels.

Table 4-5
PROJECTED SIGNATORY AIRLINE RENTALS, FEES, AND CHARGES

	Budget 2005	Projected 2006	Projected 2007	Projected 2008	Projected 2009	Projected 2010	Projected 2011	Projected 2012	Projected 2013
NATIONAL									
Terminal A	$90.26	$94.72	$102.24	$127.61	$165.10	$167.45	$171.89	$174.31	$176.52
Terminals B and C	$148.28	$157.67	$158.78	$170.89	$192.03	$192.98	$193.33	$194.78	$195.58
Commuter Terminal	$0.00	$0.00	$0.00	$306.51	$283.75	$258.41	$258.25	$258.70	$258.27
Equipment Charges	$1,817,859	$1,779,763	$1,779,023	$1,778,775	$1,775,980	$1,776,853	$1,776,556	$1,776,890	$1,776,779
Landing Fee	$2.54	$2.63	$2.67	$2.78	$2.84	$2.93	$2.98	$3.02	$3.05
Airline Cost per Enplanement	**$10.55**	**$11.36**	**$11.34**	**$12.35**	**$13.60**	**$13.62**	**$13.62**	**$13.66**	**$13.66**
DULLES									
Concourse A	$58.27	$74.25	$84.13	$85.05	$118.58	$125.71	$125.82	$127.13	$128.30
Concourse B	$51.43	$62.00	$73.26	$65.74	$102.76	$115.33	$117.21	$117.68	$117.77
Concourse C and D	$25.38	$26.02	$31.14	$31.49	$59.00	$62.06	$61.86	$62.24	$62.55
Concourse G	$107.85	$106.28	$96.40	$96.42	$124.26	$130.29	$129.70	$129.53	$129.27
Main Terminal	$120.84	$151.55	$169.08	$172.63	$235.73	$255.19	$251.74	$250.99	$250.35
Airside Operations Building	$7.49	$9.35	$10.85	$11.03	$12.42	$12.99	$13.00	$13.01	$13.00
International Arrivals Building	$4.20	$4.68	$4.95	$4.71	$8.12	$8.13	$7.73	$7.42	$7.11
Concourse C IAB	$2.76	$4.14	$4.52	$4.42	$8.20	$8.25	$7.91	$7.65	$7.40
Passenger Conveyance Charge	$1.66	$2.09	$2.25	$2.20	$0.94	$0.89	$0.82	$0.78	$0.74
Equipment Charges	$952,336	$954,599	$953,213	$953,062	$949,456	$950,307	$950,407	$950,346	$950,432
Landing Fee	$1.99	$2.86	$3.14	$3.10	$3.67	$3.66	$3.57	$3.50	$3.42
Airline Cost per Enplanement	**$11.45**	**$15.95**	**$17.35**	**$17.30**	**$21.24**	**$21.67**	**$20.89**	**$20.29**	**$19.69**
Airline Cost per Enplanement (Excl IAB/FIS)	**$10.67**	**$14.78**	**$16.08**	**$16.07**	**$19.05**	**$19.45**	**$18.75**	**$18.20**	**$17.66**

Sources: Airline Agreement, PB Aviation

The following paragraphs describe the specific formulas for the generation of Signatory Airline Revenues at each airport.

(1) National

Airline rentals, fees, and charges at National are calculated for Terminal Rentals, Landing Fees, and Equipment Charges. A separate Terminal Rental rate per square foot is calculated for each of the Sub-Centers: Terminal A, Terminals B and C, and the Commuter Terminal.

As previously discussed, US Airways has requested that the Authority construct a new terminal at National to accommodate US Airways' regional jets. The proposal is for a new 10-gate terminal and a one-story building of approximately 30,000 square feet. This project will not proceed until the Authority and US Airways reach a mutually satisfactory agreement. In addition, certain modifications to the terminal buildings are required at National to better accommodate in-line baggage screening equipment. The Authority does not expect to undertake this project unless it receives substantial federal grants to help defray its costs. This analysis assumes that USAirways and the Authority reach agreement on the Commuter Terminal and federal grants are received for the in-line baggage system, therefore, the financial impacts of the completion of both of these projects are included in the numbers.

The Terminal Rental rate is calculated by taking the Sub-Center's Total Requirement less security and utility reimbursements, and dividing this net requirement by rentable Terminal space. This Terminal Rental rate is multiplied by the Signatory Airline Terminal space to determine the Signatory Airline requirement. The Signatory Airline's Transfer attributable to the Sub-Center is then deducted from this requirement to determine the adjusted Signatory Airline requirement. The adjusted Signatory Airline requirement is divided by Signatory Airline Terminal space to determine the average Signatory Airline Terminal Rental rate.

Sub–Center	2005	2013
Terminal A	$90.26 per square foot	$176.52 per square foot
Terminals B and C	$148.28 per square foot	$195.58 per square foot
Commuter Terminal		$258.27 per square foot

The Landing Fee formula at National includes the Total Requirement components for the Airfield Cost Center. This Total Requirement is reduced by the Airfield's portion of the Signatory Airlines' Transfer to arrive at a Net Requirement, which is divided by total landed weight (in thousands of pounds) to determine the Landing Fee. The non-Signatory Landing Fee is 1.25 times the Signatory Airline rate. The 2005 Signatory Landing Fee is estimated to be $2.54 per 1,000-pounds, and the 2013 Signatory Landing Fee is projected to be $3.05 per 1,000-pounds.

There is also a charge to the Signatory Airlines for the debt service and costs associated with Equipment. The Equipment items at National include loading bridges, 400 Hertz ground power units, baggage make-up and claim devices, and cabin air conditioning. The airlines are responsible for the payment of the O&M Expenses, debt service, and debt service coverage allocable to such equipment.

(2) Dulles

Airline rentals, fees, and charges at Dulles are calculated for Terminal Rentals, Airside Operation Building Rentals, IAB Terminal fees, Passenger Conveyance Charges, Landing Fees, Aircraft Parking Position Charges, Jet Apron Fees, and Equipment Charges. A separate Terminal Rental rate per square foot is calculated for each of the Sub-Centers: Concourse A, Concourse B, Concourses C and D, Concourse G, and Dulles Main Terminal.

As previously discussed, the Authority has deferred its plans to construct the Tier 2 Concourse. In Amendment No. 36 to the Airline Agreement dated May 16, 2001 between United and the Authority, United agreed to occupy and pay rates and charges on the Tier 2 Concourse. This analysis assumes this project is not undertaken.

United has agreed to reimburse the Authority $20.3 million over a 10-year period for the expenses the Authority incurred in designing the Tier 2 Concourse project. In addition, United paid the costs of constructing Concourse G, which was approximately $22 million. United and the Authority agreed that, upon completion, and once United has emerged from bankruptcy, the Authority will purchase the facility from United at a cost of approximately $18.8 million, and will recover such costs over a 10-year period pursuant to the Airline Agreement. In addition, certain modifications to the terminal buildings are required at Dulles to better accommodate in-line baggage screening equipment. The Authority does not expect to undertake this project unless it receives substantial federal grants to help defray the costs. This analysis assumes the transfer of Concourse G to the Authority occurs in 2005 and federal grants are received for the in-line baggage system, therefore, the financial impacts of the completion of these projects are included in the numbers.

For each Sub-Center, the Terminal Rental rate is calculated by taking the Sub-Center's Total Requirement less security and utility reimbursements, and dividing this net requirement by rentable Terminal space. This Terminal Rental rate is multiplied by the Signatory Airline Terminal space to determine the Signatory Airline requirement. The Signatory Airline's Transfer attributable to the Sub-Center is then deducted from this requirement to determine the adjusted Signatory Airline requirement. The adjusted Signatory Airline requirement is divided by Signatory Airline Terminal space to determine the average Signatory Airline Terminal Rental rate. The average Signatory Airline Terminal Rental rates are as follows:

Sub–Center	**2005**	**2013**
Concourse A	$58.27 per square foot	$128.30 per square foot
Concourse B	$51.43 per square foot	$117.77 per square foot
Concourse C and D	$25.38 per square foot	$62.55 per square foot
Concourse G	$107.85 per square foot	$129.27 per square foot
Dulles Main Terminal	$120.84 per square foot	$250.35 per square foot

There are also terminal building fees and charges assessed to the airlines at Dulles other than for the Terminal Sub-Centers. For each of these additional buildings, the formulas, which calculate these rentals, are described as follows:

- The Airside Operations Buildings at the Airport are used for the storage of airline equipment that supports the aircraft located on the hardstand positions on the midfield apron. The Airside Operations Building rental is determined by taking the Airside Operations Total Requirement, less utility reimbursements and its share of Signatory Airline Transfers, divided by total space in that building. As also shown in Table 4-5, the Airside Operations Building rental is estimated to be $7.49 per square foot in 2005, increasing to $13.00 per square foot in 2013.

- There is also a charge to the airlines for the use of the IAB Terminal. This charge is determined in the same manner as the other rentals, only for the requirements of the IAB Terminal. This Net Requirement is then divided by international deplanements to derive a rate, which for 2005 is estimated to be $4.20 per passenger, and projected at $7.11 per passenger in 2013.

- In 1996, United built the Concourse C IAB, a federal inspection facility (FIS) to process its international passengers. In November 1997, the Authority purchased this facility from United at which time a rental rate was developed. According to the agreement with United, the Authority recovers the 30-year debt service associated with the buyout through the rate base in a seven-year period. As a result, beginning in 2005, the Concourse C IAB rate will only recover the O&M expenses of operating the building. The Concourse C IAB rate is estimated to be $2.76 per deplanement in 2005, and projected to be $7.40 per deplanement in 2013.

- The Total Requirement of the Passenger Conveyance Cost Center is reduced by the mobile lounge fees and Transfers attributable to this Cost Center. The Passenger Conveyance charge is estimated to be $1.66 per enplanement in 2005, and is projected to decrease to $0.74 per enplanement in 2013. This reduction is the result of the substantial completion of the 2001-2011 CCP. According to Section 8.09.2 of the Airline Agreement, the costs included in this Cost Center related to the inter-Terminal and IAB People Mover component will be included in the calculations for rentals in the Terminal Sub Centers. The remaining amount, which represents the mobile lounge/planemate/bus component, remains in this Cost Center.

The Landing Fee formula at Dulles includes the Total Requirement components for the Airfield Cost Center. The Total Requirement is reduced by the Aircraft Parking Position Charge and Jet Apron Fees and the Airfield's portion of the Signatory Airlines' Transfer to arrive at a Net Requirement. This Net Requirement is divided by total landed weight (in thousands of pounds) to determine the Landing Fee. The Signatory Airline and general aviation portion of the Net Requirement is determined when the Landing Fee is multiplied by Signatory Airline and general aviation landed weight. The non-Signatory requirement is 1.25 times the Signatory Airline rate. The 2005 Signatory Landing Fee is estimated to be $1.99 per 1,000 pounds, and the 2013 Signatory Landing Fee is projected to be $3.42 per 1,000 pounds.

The Aircraft Parking Position Charge and the Dulles Jet Apron Fee are two other charges at Dulles. These fees are equal to 5 percent of the Airfield's Total Requirement. There is also a charge to the airlines for the debt service and costs associated with Equipment, which includes items such as loading bridges, 400 Hertz ground power units, baggage make-up and

claim devices, and cabin air conditioning. The airlines are responsible for the payment of the O&M Expenses, debt service and debt service coverage allocable to such equipment.

(3) Airline Cost per Enplaned Passenger

Based upon the airline rates and charges formulas presented earlier in this chapter, total Signatory Airline rentals, fees, and charges on a per enplanement basis are projected to increase from $10.55 in 2005 to a high of $13.66 in 2012 and 2013 at National; and from $11.45 in 2005 to a high of $21.67 in 2010 at Dulles.

4.5 AUTHORITY'S CASH POSITION

As a result of the impacts of the events of September 11, 2001, and the subsequent closure of National, the Authority's cash position and its ability to meet maturing obligations became an important element in determining financial liquidity. The Authority's reserves as of December 31, 2004, are presented in **Table 4-6**. As shown in the table, the Authority has ample reserves available to pay O&M Expenses and debt service in the event of any unforeseen circumstances.

Table 4-6
AUTHORITY'S CASH RESERVES AS OF 12/31/04 [1]
(amounts in $000s)

Reserve	Amount
Debt Service Reserve [2]	$172.3
O&M Fund Reserve [3]	39.5
Insurance Reserve	0.0
Emergency Reserve	5.4
Unencumbered reserve	98.1
Encumbered reserve	26.7
Total	**$342.0**

[1] Figures may not sum to totals due to rounding.
[2] Limited to payment of debt service as required under the Indenture.
[3] Limited to payment of O&M Expenses.

Sources: The Authority; Compiled by PB Aviation

4.6 APPLICATION OF REVENUES/RATE COVENANT

The estimated application of Revenues for each of the Airports is presented in **Tables 4-7** and **4-8**, and the consolidated Authority application of Revenues is presented in **Table 4-9**. The flow of funds structure utilized in this analysis reflects the structure as presented in the Indenture.

Table 4-7
APPLICATION OF REVENUES – NATIONAL [1]

	Actual 2004	Budget 2005	Projected 2006	Projected 2007	Projected 2008	Projected 2009	Projected 2010	Projected 2011	Projected 2012	Projected 2013
Airline Revenue [2]										
Landing Fees	$33,173,519	$33,711,955	$35,919,539	$37,732,705	$40,207,828	$42,004,607	$43,472,424	$45,148,623	$46,684,888	$48,139,967
Terminal Rentals	67,128,509	65,442,604	69,844,462	72,275,635	82,757,935	96,940,286	99,016,232	100,990,189	102,818,236	104,691,438
Equipment Charges	1,953,739	2,218,075	2,223,378	2,223,698	2,223,514	2,220,683	2,220,989	2,220,754	2,221,041	2,220,988
Other Rents	7,921,193	8,007,600	9,035,190	9,436,220	9,854,582	10,283,851	10,744,034	11,222,407	11,721,323	12,244,579
Utility Reimbursements	1,744,678	1,776,198	1,835,534	1,894,805	1,954,808	2,015,999	2,078,593	2,142,880	2,209,046	2,277,274
Concessions [3]	53,950,952	55,054,865	58,380,537	61,472,850	64,467,368	67,438,528	70,415,511	73,444,255	76,550,242	79,759,884
TSA Security Fees	843,295	879,800	897,396	915,344	933,651	952,324	971,370	990,798	1,010,614	1,030,826
Investment Earnings	3,047,153	4,029,692	5,538,098	6,203,775	7,758,639	7,753,734	8,200,888	8,383,031	8,529,632	8,680,733
Other [3]	1,555,133	1,418,312	1,475,044	1,534,046	1,595,408	1,659,224	1,725,593	1,794,617	1,866,402	1,941,058
TOTAL REVENUE	$171,318,171	$172,539,101	$185,149,177	$193,689,078	$211,753,732	$231,269,237	$238,845,634	$246,337,553	$253,611,424	$260,986,747
O&M Expenses [3]	85,780,900	83,593,690	87,150,684	90,636,712	94,730,061	98,690,530	102,638,151	106,743,677	111,013,424	115,453,961
Ground Transport Subsidy	0	0	0	0	0	0	0	0	0	0
Washington Flyer Subsidy	0	0	0	0	0	0	0	0	0	0
NET REVENUES	$85,537,271	$88,945,411	$97,998,493	$103,052,366	$117,023,671	$132,578,707	$136,207,483	$139,593,876	$142,597,999	$145,532,785
Senior Bond Debt Service	66,302,432	68,746,018	73,996,314	76,070,735	85,936,788	98,893,203	99,506,085	100,527,939	100,629,628	100,656,787
TOTAL BOND DBT SVC	$66,302,432	$68,746,018	$73,996,314	$76,070,735	$85,936,788	$98,893,203	$99,506,085	$100,527,939	$100,629,628	$100,656,787
COVERAGE (All Debt)	**1.29**	**1.29**	**1.32**	**1.35**	**1.36**	**1.34**	**1.37**	**1.39**	**1.42**	**1.45**
NET REVENUES	$85,537,271	$88,945,411	$97,998,493	$103,052,366	$117,023,671	$132,578,707	$136,207,483	$139,593,876	$142,597,999	$145,532,785
Bond Debt Service	66,302,432	68,746,018	73,996,314	76,070,735	85,936,788	98,893,203	99,506,085	100,527,939	100,629,628	100,656,787
O&M Rsv Rqmnt Increment	477,346	1,392,204	592,832	581,005	682,225	660,078	657,937	684,254	711,625	740,089
Federal Lease Payment	2,625,208	1,749,600	1,819,584	1,892,367	1,968,062	2,046,785	2,128,656	2,213,802	2,302,354	2,394,448
Washington Flyer Ground Trans Subsidy	0	0	0	0	0	0	0	0	0	0
NET REMAINING REV	$16,132,285	$17,057,589	$21,589,763	$24,508,259	$28,436,596	$30,978,641	$33,914,805	$36,167,880	$38,954,393	$41,741,460

[1] Figures may not sum to totals due to rounding.

[2] Reflects a credit from the Airlines' share of NRR from the prior year.

[3] Includes Telecommunication Operations.

Sources: Indenture; PB Aviation

Table 4-8
APPLICATION OF REVENUES – DULLES [1]

	Actual 2004	Budget 2005	Projected 2006	Projected 2007	Projected 2008	Projected 2009	Projected 2010	Projected 2011	Projected 2012	Projected 2013
Airline Revenue [2]										
Landing Fees	$50,985,692	$59,000,482	$65,374,411	$69,848,248	$73,440,666	$89,332,141	$92,218,747	$94,504,345	$97,024,641	$99,561,783
Terminal Rentals	81,845,849	96,746,964	107,112,748	111,277,460	117,809,051	169,320,366	181,900,202	184,590,630	188,061,504	191,806,288
Passenger Conveyance	17,634,333	24,787,570	25,244,580	26,126,424	26,977,140	13,881,300	17,109,422	18,460,859	19,262,464	20,092,346
Equipment Charges	1,671,484	1,184,218	1,191,443	1,191,502	1,191,362	1,187,728	1,187,852	1,187,977	1,187,942	1,188,020
Other Rents [3]	10,615,422	10,458,596	13,621,946	17,628,606	19,677,945	21,121,489	21,840,405	22,592,504	23,374,068	24,187,805
Utility Reimbursements	4,950,110	4,667,639	4,849,010	5,041,135	5,240,909	5,448,636	5,664,633	5,889,232	6,122,775	6,365,619
Concessions [3]	89,862,936	89,590,053	80,922,906	88,507,516	95,443,503	102,753,115	110,539,514	118,523,682	127,017,471	136,050,251
TSA Security Fees	386,035	395,975	403,895	411,972	420,212	428,616	437,188	445,932	454,851	463,948
Investment Earnings	5,309,576	6,067,635	8,429,702	10,106,333	10,549,591	13,732,636	15,925,883	16,157,103	16,447,840	16,759,443
Other [3, 4]	3,974,614	3,601,500	3,745,560	3,895,382	4,051,198	4,213,246	4,381,775	4,557,046	4,739,328	4,928,901
TOTAL REVENUE	$267,236,050	$296,500,633	$310,896,200	$334,034,579	$354,801,577	$421,419,274	$451,205,622	$466,909,310	$483,692,884	$501,404,403
O&M Expenses [3, 4]	118,133,515	148,062,529	157,037,491	163,512,522	173,232,583	186,017,854	193,458,568	201,196,910	209,244,787	217,614,578
Ground Transport Subsidy	(215,963)	243,800	243,800	243,800	243,800	243,800	243,800	243,800	243,800	243,800
Washington Flyer Subsidy	0	0	0	0	0	0	0	0	0	0
NET REVENUES	$149,318,498	$148,194,305	$153,614,909	$170,278,257	$181,325,194	$235,157,620	$257,503,254	$265,468,600	$274,204,297	$283,546,025
Senior Bond Debt Service	73,776,778	85,671,794	108,530,182	120,434,700	130,333,476	179,268,170	193,580,997	193,665,014	193,708,710	193,765,390
TOTAL BOND DBT SVC	$73,776,778	$85,671,794	$108,530,182	$120,434,700	$130,333,476	$179,268,170	$193,580,997	$193,665,014	$193,708,710	$193,765,390
COVERAGE (All Debt)	**2.02**	**1.73**	**1.42**	**1.41**	**1.39**	**1.31**	**1.33**	**1.37**	**1.42**	**1.46**
NET REVENUES	$149,318,498	$148,194,305	$153,614,909	$170,278,257	$181,325,194	$235,157,620	$257,503,254	$265,468,600	$274,204,297	$283,546,025
Bond Debt Service	73,776,778	85,671,794	108,530,182	120,434,700	130,333,476	179,268,170	193,580,997	193,665,014	193,708,710	193,765,390
O&M Rsv Rqmnt Increment	657,379	2,465,895	1,495,827	1,079,172	1,620,010	2,130,878	1,240,119	1,289,724	1,341,313	1,394,965
Federal Lease Payment	1,750,139	2,624,400	2,729,376	2,838,551	2,952,093	3,070,177	3,192,984	3,320,703	3,453,531	3,591,673
NET REMAINING REV	$73,134,202	$57,432,215	$40,859,524	$45,925,834	$46,419,615	$50,688,395	$59,489,154	$67,193,159	$75,700,743	$84,793,997

[1] Figures may not sum to totals due to rounding.

[2] Reflects a credit from the Airlines' share of NRR from the prior year.

[3] Includes Vastera Building.

[4] Includes Telecommunication Operations.

Sources: Indenture; PB Aviation

Table 4-9
APPLICATION OF REVENUES – COMBINED [1]

	Actual 2004	Budget 2005	Projected 2006	Projected 2007	Projected 2008	Projected 2009	Projected 2010	Projected 2011	Projected 2012	Projected 2013
Airline Revenue [2]										
Landing Fees	$84,159,211	$92,712,438	$101,293,950	$107,580,953	$113,648,494	$131,336,748	$135,691,171	$139,652,968	$143,709,529	$147,701,750
Terminal Rentals	148,974,359	162,189,568	176,957,210	183,553,095	200,566,986	266,260,652	280,916,434	285,580,819	290,879,740	296,497,726
Passenger Conveyance	17,634,333	24,787,570	25,244,580	26,126,424	26,977,140	13,881,300	17,109,422	18,460,859	19,262,464	20,092,346
Equipment Charges	3,625,223	3,402,294	3,414,820	3,415,200	3,414,876	3,408,412	3,408,842	3,408,731	3,408,983	3,409,008
Other Rents [3]	18,536,615	18,466,196	22,657,135	27,064,827	29,532,527	31,405,341	32,584,439	33,814,911	35,095,391	36,432,384
Utility Reimbursements	6,694,788	6,443,837	6,684,544	6,935,941	7,195,717	7,464,635	7,743,226	8,032,112	8,331,821	8,642,893
Concessions [3]	143,813,888	144,644,918	139,303,443	149,980,366	159,910,871	170,191,644	180,955,025	191,967,936	203,567,713	215,810,135
TSA Security Fees	1,229,330	1,275,775	1,301,291	1,327,316	1,353,863	1,380,940	1,408,559	1,436,730	1,465,464	1,494,774
Investment Earnings	8,356,729	10,097,327	13,967,799	16,310,108	18,308,229	21,486,370	24,126,771	24,540,134	24,977,472	25,440,176
Other [3, 4]	5,529,747	5,019,812	5,220,604	5,429,429	5,646,606	5,872,470	6,107,369	6,351,664	6,605,730	6,869,959
TOTAL REVENUE	$438,554,221	$469,039,735	$496,045,377	$527,723,657	$566,555,309	$652,688,511	$690,051,256	$713,246,863	$737,304,307	$762,391,150
O&M Expenses [3, 4]	203,914,415	231,656,219	244,188,175	254,149,233	267,962,644	284,708,384	296,096,719	307,940,588	320,258,211	333,068,540
Ground Transport Subsidy	(215,963)	243,800	243,800	243,800	243,800	243,800	243,800	243,800	243,800	243,800
Washington Flyer Subsidy	0	0	0	0	0	0	0	0	0	0
NET REVENUES	$234,855,769	$237,139,716	$251,613,402	$273,330,623	$298,348,865	$367,736,328	$393,710,737	$405,062,476	$416,802,296	$429,078,810
Senior Bond Debt Service	140,079,210	154,417,812	182,526,496	196,505,435	216,270,264	278,161,373	293,087,083	294,192,953	294,338,338	294,422,177
TOTAL BOND DBT SVC	$140,079,210	$154,417,812	$182,526,496	$196,505,435	$216,270,264	$278,161,373	$293,087,083	$294,192,953	$294,338,338	$294,422,177
COVERAGE (All Debt)	**1.68**	**1.54**	**1.38**	**1.39**	**1.38**	**1.32**	**1.34**	**1.38**	**1.42**	**1.46**
NET REVENUES	$234,855,769	$237,139,716	$251,613,402	$273,330,623	$298,348,865	$367,736,328	$393,710,737	$405,062,476	$416,802,296	$429,078,810
Bond Debt Service	140,079,210	154,417,812	182,526,496	196,505,435	216,270,264	278,161,373	293,087,083	294,192,953	294,338,338	294,422,177
O&M Rsv Rqmnt Increment	1,134,725	3,858,100	2,088,659	1,660,176	2,302,235	2,790,957	1,898,056	1,973,978	2,052,937	2,135,055
Federal Lease Payment	4,375,347	4,374,000	4,548,960	4,730,918	4,920,155	5,116,961	5,321,640	5,534,505	5,755,886	5,986,121
NET REMAINING REV	$89,266,487	$74,489,804	$62,449,286	$70,434,093	$74,856,211	$81,667,037	$93,403,959	$103,361,039	$114,655,136	$126,535,457

[1] Figures may not sum to totals due to rounding.

[2] Reflects a credit from the Airlines' share of NRR from the prior year.

[3] Includes Vastera Building.

[4] Includes Telecommunication Operations.

Sources: Indenture; PB Aviation

Estimated debt service coverage at the Airports is calculated by dividing Net Revenues by Bond debt service. The Indenture requires that the greater of either of the following be satisfied:

- Net Revenues to meet the required deposits to the Principal, Interest, and Redemption Accounts, Debt Service Reserve Fund, Subordinated Bond Fund, and Subordinated Bond Reserve Fund, Junior Lien Obligations Fund, Federal Lease Fund, and the Emergency Repair and Rehabilitation Fund; or

- Net Revenues not less than 125 percent of Annual Debt Service with respect to Bonds.

Table 4-9 presents the estimated debt service coverage calculation for the Airports. As shown, estimated debt service coverage remains higher than the 125 percent rate covenant requirement of the Indenture throughout the 2004 to 2013 period. In addition, debt service will not generate unreasonable rates and charges to the users of the facilities at the Airports when compared to other airports undertaking similar capital programs. Net Revenues during the projection period are adequate to meet, as well as exceed, the Authority's rate covenant requirement set forth in the Amended and Restated Master Indenture of Trust, dated as of September 1, 2001 and any Supplemental Indenture of Trust.

4.7 SENSITIVITY ANALYSIS

The techniques used in this report are consistent with industry practices for similar studies in connection with airport revenue bond sales. While PB Aviation believes the approach and assumptions utilized are reasonable, some assumptions regarding future trends and events may not materialize. Therefore, sensitivity analyses were prepared to determine the impacts of certain potential negative events. The Base Case represents the assumptions and resulting forecasts already presented in this report. To prepare the sensitivities, all variables were held constant in the Base Case except as described below:

- ***Sensitivity 1: Adjustments in the Enplanement Forecasts*** – For this sensitivity analysis, National’s Base Case enplanement forecast was adjusted to reflect a zero growth rate. Dulles' Base Case enplanement and landed weight forecasts were reduced to reflect the loss of hubbing operations at the airport. Beginning in 2006, O&D enplanements are reduced by 15 percent, taking into account the drop in air service that would accompany the termination of hubbing operations—essentially, the de-stimulation of traffic that would result. In addition, connecting enplanements were reduced by 75 percent to reflect the loss of the majority of the connecting traffic at Dulles. It is assumed that some connecting activity would remain, even in the absence of hubbing operations. The forecast of passenger aircraft landed weight at Dulles was reduced in proportion to the drop in enplanements.

  The reduction in activity reduces the Authority’s debt service coverage below the 125 percent rate covenant requirement. The Airline Agreement contains residual rate making features that are designed to ensure that the Authority’s debt service and related coverage obligations will be met. In the event that the total Revenues of the Authority from all cost centers are insufficient to meet the rate maintenance covenant required by the Indenture, the Airline Agreement provides that the Signatory Airlines will fund the

difference. This residual rate making feature is termed the Extraordinary Coverage Protection Payments. As a result of the debt service coverage being below the 125 percent rate covenant requirement, the Extraordinary Coverage Protection Payments is invoked under this sensitivity in order to meet coverage from 2006 through 2012. This in turn increases the airline cost per enplanement to a maximum of $16.24 at National and a maximum of $35.85 at Dulles.

- ***Sensitivity 2: Increase in Future Debt Service*** – For Sensitivity 2, debt service on future Bonds was increased by 30 percent to account for fluctuations in interest rates, capitalized interest, and construction cost estimates. As a result of this increase, the airline cost per enplanement increases to a maximum of $14.25 at National and a maximum of $22.87 at Dulles.

Table 4-10 presents the results of these sensitivity analyses compared to the Base Case. The table includes a comparison of the airline cost per enplanement for National and Dulles and debt service coverage. As shown in the table, the estimated debt service coverage remains higher than the 125 percent rate covenant requirement of the Indenture during the projection period after factoring in the impacts of the sensitivity analysis.

Table 4-10
COMPARISON OF SENSITIVITY ANALYSES

	Actual 2004	Budget 2005	Projected 2006	Projected 2007	Projected 2008	Projected 2009	Projected 2010	Projected 2011	Projected 2012	Projected 2013
National										
Airline Cost per Enplanement										
Base Case	$11.84	$10.55	$11.36	$11.34	$12.35	$13.60	$13.62	$13.62	$13.66	$13.66
Sensitivity 1	$11.84	$10.55	$11.70	$12.02	$13.46	$15.13	$15.43	$15.70	$16.00	$16.24
Sensitivity 2	$11.84	$10.55	$11.36	$11.38	$12.65	$14.18	$14.20	$14.21	$14.25	$14.24
Dulles										
Airline Cost per Enplanement										
Base Case	$12.34	$11.45	$15.95	$17.35	$17.30	$21.24	$21.67	$20.89	$20.29	$19.69
Sensitivity 1	$12.34	$11.45	$23.89	$27.83	$28.46	$35.85	$35.01	$33.56	$32.70	$32.38
Sensitivity 2	$12.34	$11.45	$15.96	$17.42	$17.51	$22.18	$22.87	$22.06	$21.41	$20.78
Debt Service Coverage										
Base Case	1.68	1.54	1.38	1.39	1.38	1.32	1.34	1.38	1.42	1.46
Sensitivity 1	1.68	1.54	1.25	1.25	1.25	1.25	1.25	1.25	1.26	1.28
Sensitivity 2	1.68	1.54	1.38	1.38	1.36	1.29	1.31	1.34	1.38	1.42

Source: PB Aviation

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ANNUAL FINANCIAL REPORT

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METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

Comprehensive Annual Financial Report

for the Year Ended December 31, 2004

TABLE OF CONTENTS

Page

Report of Independent Auditors

Management's Discussion and Analysis B-1

Financial Statements

Statements of Net Assets B-13
Statements of Revenues, Expenses and Changes in Net Assets B-15
Statements of Cash Flows B-16
Notes to Financial Statements B-18
A. Summary of Significant Accounting Policies B-18
B. Deposits and Investments B-23
C. Interest Rate Swap B-27
D. Accounts Receivable B-28
E. Restricted Assets B-28
F. Changes in Capital Assets B-29
G. Accounts Payable B-31
H. Pension Plans B-31
I. Postemployment Benefits and Deferred Compensation Plan B-37
J. Capital Debt B-38
K. Airport Use Agreement and Premises Lease B-46
L. Net Assets B-47
M. Lease Commitments B-48
N. Other Commitments and Contingencies B-50
O. Government Grants B-50
P. Litigation B-52
Q. Passenger Facility Charges B-52
R. Risk Management B-52
S. Fair Value of Financial Instruments B-53
T. Reclassification B-53
U. Subsequent Events B-54

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Report of Independent Auditors

To the Board of Directors
of the Metropolitan Washington Airports Authority:

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses, and changes in net assets and cash flows present fairly, in all material respects, the financial position of the Metropolitan Washington Airports Authority (the "Authority") at December 31, 2004 and December 31, 2003, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

The Management's Discussion and Analysis (MD&A) on pages B-1 through B-12 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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.

March 29, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

INTRODUCTION

The following discussion and analysis of the financial performance and activity of the Metropolitan Washington Airports Authority (the Authority) is to provide an introduction and understanding of the basic financial statements of the Authority for the year ended December 31, 2004 with selected comparative information for the years ended December 31, 2003 and December 31, 2002. This discussion has been prepared by the management and is unaudited; and should be read in conjunction with the financial statements, and the notes thereto, which follow this section.

Using the Financial Statements

The Authority's financial report includes three financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by Governmental Accounting Standards Board (GASB) principles. For the year ended December 31, 2004, the Authority early implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The Authority has allocated funding in 2005 for the early implementation of GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. A trust was established in February 2005 to account for the retirees' post-employment benefits other than pensions.

The Statements of Net Assets depict the Authority's financial position as of one point in time, normally December 31, and include all assets and liabilities of the Authority. The Statements of Net Assets demonstrate that the Authority's assets equal liabilities plus net assets. Net assets represent the residual interest in the Authority's assets after liabilities are deducted. Net assets are displayed in three components- invested in capital assets; net of related debt; restricted, and unrestricted.

The Statements of Revenues, Expenses and Changes in Net Assets report total operating revenues, operating expenses, non-operating revenues and expenses and other changes in net assets as of the end of a fiscal period normally the year ended December 31. Revenues and expenses are categorized as either operating or non-operating based upon management's policy as established in accordance with definitions set forth by GASB. Significant recurring sources of the Authority's revenues, including passenger facility charges (PFCs), investment income and federal, state and local grants, are reported as non-operating revenues. The Authority's interest expense is reported as non-operating expense.

The Statements of Cash Flows present information showing how the Authority's cash and cash equivalents position changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments as resulting from operating activities, capital and related financing activities and investing activities.

The Authority's Activity Highlights

The Authority has activity-based revenues which, in part, include parking, rental car, landing fees, international arrival fees and passenger conveyance fees. The terrorist attacks that occurred in New York, Pennsylvania and Washington, D.C. on September 11, 2001, resulted in reduced airport activity and consequently had a significant effect on the financial performance of the Authority. The aviation industry began to recover from the effects of the terrorist acts in 2002. In the spring of 2003, the conflict in Iraq and Afghanistan, and the occurrence of Sudden Acute Respiratory Syndrome (SARS), initially in Asia then spreading to North America, had a profound impact on international flight activity at Washington Dulles International Airport (Washington Dulles). As the year-end 2003 approached, the monthly activity levels at Washington Dulles and Ronald Reagan Washington National (Reagan National)– (collectively, the Airports) rebounded. For the full year 2004, passenger activity at the Airports exceeded passenger activity in all previous years. Independence Air, a new low-fare airline, began operations at Washington Dulles in June of 2004 adding significant passenger and operations activity at the Airport. This section includes a discussion of activity in order to better understand its affect on the financial performance of the Authority.

Enplanements at Reagan National for the 12 months of 2004 were 7,957,037 compared to 7,106,355 for the year 2003, an increase of 12.0%. General aviation activity of non-scheduled, privately owned aircraft was prohibited at Reagan National after the events of September 11, 2001 and the prohibition continues today. Total enplanements at Washington Dulles for the 12 months of 2004 were 11,428,867 compared to 8,458,687 in 2003, a 35.1 % increase. International enplanements for the 12 months of 2004 were 2,313,662 compared to 1,997,848 in 2003, a 15.8 % increase.

Enplanements and Operations Activity for 2002 to 2004

	2004	2003	2002
Enplanements			
Washington Dulles Domestic	9,115,205	6,460,839	6,571,484
Washington Dulles International	2,313,662	1,997,848	2,024,482
Reagan National	7,957,037	7,106,355	6,465,387
Operations			
Washington Dulles	469,634	335,397	372,636
Reagan National	268,556	250,802	215,691

In comparing Reagan National and Washington Dulles to the North American aviation industry, the Airports exceeded industry trends. In 2004, domestic passenger traffic exceeded trends by 7.2% at Reagan National. In 2004, domestic traffic at Washington Dulles exceeded the trends by 30.3% in domestic passenger traffic and 1.9% in international passenger traffic.

Enplanements Growth	MWAA	North America	Difference
Washington Dulles Domestic	35.1%	4.8%	30.3%
Washington Dulles International	15.8%	13.9%	1.9%
Reagan National	12.0%	4.8%	7.2%

At Reagan National, by year-end 2004, daily departures increased to 476 from 467 departures and includes an increase of 22 daily air carrier departures and a decrease of 13 daily regional departures. At Washington Dulles, by year-end 2004, daily domestic air carrier departures of 671 increased from 322 in 2003. International weekly departures decreased from 310 in 2003 to 309 in 2004, and are relatively stable.

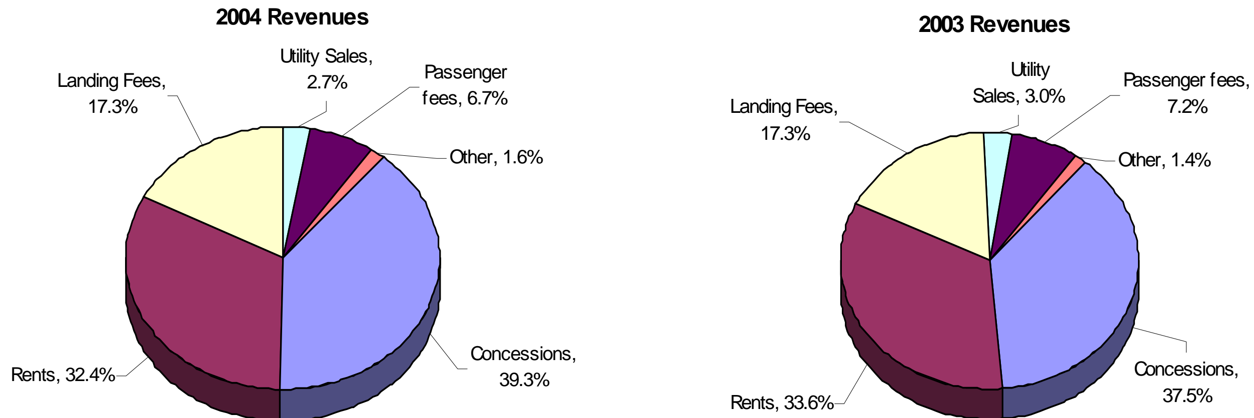
Financial Highlights

The financial results in 2004 reflect the recovery from the events of September 11, 2001, and the resulting passenger and airline activity changes. The majority of the operating revenues at the Airports are directly related to the number of passengers and aircraft operations. Operating revenues in 2004 of $442.3 million were $52.6 million greater than operating revenues in 2003, and reflect a turnaround in airline activity at the Airports. The Authority's revenues are derived primarily from rents and charges for the use of the Airport's facilities, including landing fees received from both signatory and non-signatory airlines using the Airports, and concession contracts at the Airports including off-airport rental car operations. Revenues from concessions historically have accounted for a substantial portion of the Authority's revenues. The Airport Use Agreement and Premises Lease (the Agreement) requires the Signatory Airlines to pay actual costs while the majority of concessionaires pay a percentage of revenue or a minimum annual guarantee payment.

In 2004, landing fees of $76.3 million increased $8.6 million, a 12.8% increase over 2003. This increase is related to the cost of managing increased aircraft parking positions at Washington Dulles and the cost of airfield perimeter fencing at Reagan National. Rents revenue increased $12.6 million, a 9.6 % increase over 2003, reflecting the recovery of the cost of the new ticket counter and baggage areas at Washington Dulles and additional rental areas at Reagan National. Utility sales revenue increased as a result of higher gas and electric fees. Passenger fees now include fees paid by the Transportation Security Administration (TSA). In 2002 and 2003, the Authority increased the airline share of Net Remaining Revenue (NRR) in the terminal cost centers at Reagan National to maintain airline rental rates near prior year rates until the recovery of airline activity at Reagan National. In 2004, NRR was shared according to the Agreement. Passenger fees at Washington Dulles increased $1.6 million, a 5.7% increase over 2003, reflecting the increased cost of operations of the mobile lounges and the cost of busing to the temporary Concourse G.

Classifications	2004 Revenue Amount	2003 Revenue Amount	Increase from 2003	Percent of Increase from 2003
Concessions	$ 173,962,671	$ 146,095,903	$ 27,866,768	19.1%
Rents	143,389,783	130,802,693	12,587,090	9.6%
Landing fees	76,274,293	67,637,206	8,637,087	12.8%
Utility sales	12,035,206	11,867,943	167,263	1.4%
Passenger fees	29,474,743	27,878,919	1,595,824	5.7%
Other	7,149,375	5,355,589	1,793,786	33.5%
Total	$ 442,286,071	$ 389,638,253	$ 52,647,818	13.5%

The following is a graphic illustration of operating revenues by source for the years ended December 31, 2004 and 2003:



Concession Revenue

In 2004, concession revenue increased $27.9 million or 19.1% from 2003, and as a percent of total revenues, increased to 39.3% from 37.5% in 2003. Automobile parking revenue and rental car revenue represented 73.4% of concession revenue and 28.9% of total revenue. The average daily occupancy of the new structured parking garages at Washington Dulles increased from 31.5% in December of 2003 to 54.5 % in December of 2004. There are 25,223 parking spaces at Washington Dulles with 2,516 hourly, 8,325 daily, 1,427 valet and 12,955 economy spaces. The parking garages at Reagan National had average occupancy of 75.9%. There are 7,776 parking spaces at Reagan National with 455 hourly, 4,878 daily and 2,443 economy spaces. Average occupancy for all public parking at Reagan National was 81.9%. The following table details concession revenues by major category for the past two years.

Concession Revenues
(in thousands)

	2004	2003	Increase (Decrease) from 2003	Percent of Increase (Decrease) from 2003
Parking	$ 99,681.8	$ 79,789.8	$ 19,892.0	24.9%
Rental cars	28,024.5	26,502.8	1,521.7	5.7%
Food and beverage	7,862.8	6,937.9	924.9	13.3%
Newsstand and retail	9,197.5	6,637.3	2,560.2	38.6%
Duty free	2,719.7	2,016.9	702.8	34.8%
Display advertising	6,300.0	6,342.4	(42.4)	(0.7%)
Inflight caterers	5,548.9	5,205.7	343.2	6.6%
Fixed base operator	4,802.7	4,381.6	421.1	9.6%
All other	9,824.8	8,281.5	1,543.3	18.6%
Total	$ 173,962.7	$ 146,095.9	$ 27,866.8	19.1%

Operating Expense

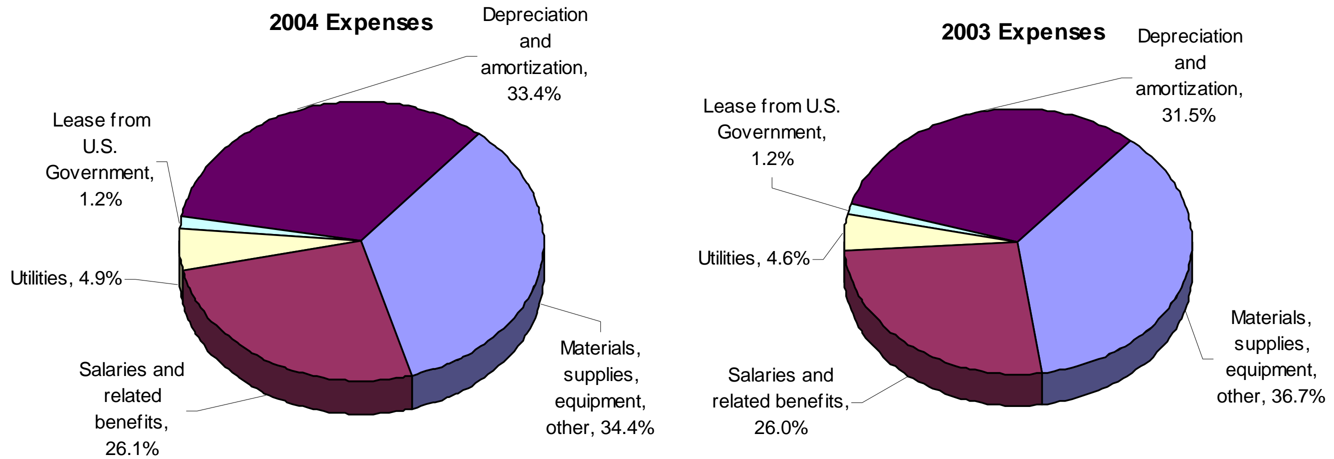
Operating expenses for fiscal year ended December 31, 2004, increased $13.0 million or 3.6% over 2003. Depreciation and amortization expense of $126.2 million increased $11.2 million over 2003, and accounted for 86.5% of the increase in operating expenses. Depreciation and amortization expense increased 9.8% primarily from the capitalization of projects completed in 2004. Operating expenses, other than security related expenditures, at both Airports were considerably reduced immediately following September 11, 2001. A hiring freeze implemented in September of 2001 continued through 2004. All operational expenses are carefully reviewed during the budget development and procurement processes.

After September 11, 2001, the Airports were required by the federal government to provide increased police presence. The Authority contracted in 2002 and 2003 with the Virginia State Police, Arlington County Police and Loudoun County Police to provide supplemental police services. The third party security service engagement ended in September of 2003. The Authority's public safety personnel have been providing the required additional security since that time. The costs of the contracted police service in 2003 and 2002 were $4.1 million and $6.0 million, respectively. The increases in salaries and related benefits for 2004 and 2003 were principally related to the increased security needs for additional public safety personnel and related overtime. Utility costs increased because of higher utility rates.

Increased claims in the insurance market since September 11, 2001, resulted in quotes for insurance that were significantly higher than in prior years. The Authority responded to the increase in insurance cost by negotiating higher retention levels, while increasing related insurance reserves. General liability, property insurance and workers compensation insurance costs in 2004, 2003 and 2002 were $5.6 million, $5.3 million and $3.3 million, respectively. The claims paid directly by the Authority also increased over the three-year period. Claims paid in 2004, 2003, and 2002 were $2.0 million, $2.6 million, and $2.2 million, respectively.

Expense Classification	2004	2003	Increase (Decrease) from 2003	Percent of Increase (Decrease) from 2003
Materials, supplies, equipment, contract services and other	$ 130,127,540	$ 134,105,363	$ (3,977,823)	(3.0%)
Salaries and related benefits	98,858,597	95,192,233	3,666,364	3.9%
Utilities	18,754,511	16,754,386	2,000,125	11.9%
Lease from United States Government	4,375,347	4,303,764	71,583	1.7%
Depreciation and amortization	126,177,767	114,950,487	11,227,280	9.8%
Total	$ 378,293,762	$ 365,306,233	$ 12,987,529	3.6%

The following is a graphic illustration of the total operating expenses by source for the years ended December 31, 2004 and 2003:



Changes in Net Assets

Fiscal year 2004 operating income was $64.0 million, an increase of $39.7 million compared to 2003. The operating results of 2004 reflect both the increased activity at the Airports and the Authority's efforts to maintain conservative airline rates and charges and increase concession revenues. The Authority's decision to waive certain concession rents and landing fees and offset expenses with the Authority's share of NRR resulted in reduced operating income in 2003 and 2002. In 2004, NRR was shared in accordance with the Agreement.

In 2004, non-operating revenues of $12.0 million were $0.5 million higher than in 2003, principally because of higher interest rates earned on the Authority's investment portfolio offset by a smaller gain on an interest rate swap transaction. The swap transaction represents risk management activity taken in August of 2001 to assure that the interest on bonds issued to refund the Series 1992A Bonds would not exceed interest rate of 5.0%. The change in the market value of the swap in 2004 was a gain of $1.6 million compared to a gain of $5.6 million in 2003. In January 2004, the Authority entered into a swap transaction to hedge against rising interest rates. In August 2004, the Authority was able to achieve its interest rates savings goal with the related Series 2004D Bonds, and therefore, terminated this swap realizing a loss of $3.7 million. In 2002, the Authority received a federal payment of $3.1 million as reimbursement for certain security related expenses incurred from September 11, 2001, through May 2002.

In 2004, non-operating expenses of $94.6 million decreased by $2.2 million from 2003, as a result of lower interest rates achieved through the refunding of certain outstanding debt in the Authority's debt portfolio. (See Note J).

Capital contributions include PFCs, federal and state grants and other capital property acquired. PFCs revenue in 2004 of $76.1 million was $17.6 million higher than in 2003 reflecting the increased passenger activity

at the Airports. PFCs are imposed when an airline ticket is purchased and do not mirror the enplanement activity of an airport. Federal and state grants of $28.7 million were $14.3 million more than 2003 grant revenues reflecting the increased grant eligible airfield activity at Washington Dulles. PFCs and federal and state grants provide partial funding for certain capital construction projects.

In 2003, the Authority recorded $6.0 million in capital contributions in recognition of a portion of the Aircraft Haul Road and a portion of the Museum Access Road built by the Smithsonian and the Virginia Department of Transportation during the construction of the Steven F. Udva-Hazy Center (the Center) which is located on 176.5 acres of Washington Dulles. The title to these access ways vested with the Authority upon completion of the Center and acceptance by the Authority. The Authority is required to maintain these roadways and allow the Center patrons and invitees ingress to and egress from the Center.

The change in net assets is an indicator of whether the overall fiscal condition of the Authority has improved or declined during the year. The change in net assets for the years ended December 31, 2004 and 2003 was an increase of $86.2 million and an increase of $17.9 million, respectively. In 2002 the change in net assets was a decrease of $8.4 million. Without the loss on the market value of the swap in 2002, net assets would have increased $17.7 million.

The following represents a summary of the Statements of Revenues, Expenses and Changes in Net Assets:

	2004	2003	2002
Operating revenues			
Concessions	$ 173,962,671	$ 146,095,903	$ 132,817,916
Rents	143,389,783	130,802,693	127,554,998
Landing fees	76,274,293	67,637,206	63,967,382
Utility sales	12,035,206	11,867,943	10,589,091
Passenger fees	29,474,743	27,878,919	27,521,305
Other	7,149,375	5,355,589	6,387,300
	442,286,071	389,638,253	368,837,992
Operating expenses			
Material, equipment, supplies contract services and others	130,127,540	134,105,363	123,970,251
Salaries and related benefits	98,858,597	95,192,233	91,748,027
Utilities	18,754,511	16,754,386	15,657,374
Lease from U.S. Government	4,375,347	4,303,764	4,238,185
Depreciation and amortization	126,177,767	114,950,487	105,035,788
	378,293,762	365,306,233	340,649,625
Operating income	63,992,309	24,332,020	28,188,367
Non-operating revenues			
Investment income	10,385,775	5,896,185	13,277,813
Federal compensation	-	-	3,064,970
Unrealized swap income	1,601,347	5,572,334	-
Total non-operating revenues	11,987,122	11,468,519	16,342,783
Non-operating expense			
Interest expense	(90,893,805)	(96,747,842)	(100,285,317)
Federal compensation transfers	-	-	(279,370)
Realized swap income (loss)	(3,662,018)	-	-
Unrealized swap income (loss)	-	-	(26,024,249)
Total non-operating expenses	(94,555,823)	(96,747,842)	(126,588,936)
Capital contributions	104,787,341	78,861,263	73,684,812
(Decrease) increase in net assets	$ 86,210,949	$ 17,913,960	$ (8,372,974)

Statements of Net Assets

The Statements of Net Assets present the financial position of the Authority at the end of the fiscal year. The Statements include all assets and liabilities of the Authority. Net assets are the difference between total assets and total liabilities and are an indicator of the current fiscal health of the Authority. A summarized comparison of the Authority's assets, liabilities and net assets on December 31, 2004, 2003 and 2002 is as follows:

Assets	2004	2003	2002
Current assets	$ 510,421,819	$ 449,659,857	$ 449,320,863
Non-current assets			
Capital assets, net	2,997,283,774	2,744,063,040	2,553,672,786
Other non-current assets	224,960,011	234,145,211	191,793,059
Total Assets	3,732,665,604	3,427,868,108	3,194,786,708
Liabilities			
Current liabilities	183,448,198	162,645,717	160,109,417
Non-current liabilities			
Long-term debt outstanding and Other restricted	2,807,403,687	2,608,973,128	2,391,468,324
Other non-current liabilities, unrestricted	654,446	1,300,939	6,174,603
Total Liabilities	2,991,506,331	2,772,919,784	2,557,752,344
Net Assets			
Invested in capital assets, net of debt	344,583,615	428,497,669	418,037,820
Restricted	170,526,342	36,158,318	34,646,503
Unrestricted	226,049,316	190,292,337	184,350,041
Total Net Assets	$ 741,159,273	$ 654,948,324	$ 637,034,364

For the year ended December 31, 2004 and in its seventeenth full year of operations, the Authority's financial position remained strong with total assets of $3.7 billion and liabilities of $3.0 billion. Current assets increased by $60.8 million from 2003. Since September 11, 2001, the Authority has maintained five months of its operating cash portfolio in securities that mature within six months to provide extra liquidity. At December 31, 2004, the Authority had $3.0 billion in capital assets (net of depreciation), an increase of $253.2 million from December 31, 2003.

For the year ended December 31, 2004, the Authority's accounts receivable included $4.0 million in pre-petition debt and certain post-petition administrative claims against United Airlines (United). On March 19, 2004, the bankruptcy court approved United's assumption of leases and its plan to cure all defaults at the Airports. In September 2004, US Airways filed for bankruptcy protection for the second time. The Authority's accounts receivable for the year ended December 31, 2004, included $1.1 million in pre-petition debt owed to the Authority by US Airways. The Authority has not established a reserve for United's or US Airways' pre-petition debt. United and US Airways are current on their post-bankruptcy obligations. The Authority's expectation regarding United and US Airways is influenced by the Authority's experience with other large airline bankruptcies. In the cases of Eastern Airlines, Pan American and most recently TWA, the airlines cured their defaults in order to assume and then transfer their leasehold assets to other carriers as part of their liquidation. Based upon its experience and its

judgment of the posture of United and US Airways, the Authority has concluded that reserves need not be established.

Current liabilities increased by $20.8 million, principally from a $16.1 million increase in unrestricted and restricted accounts payable related to increased construction activity and an increase of $2.9 million in the current portion of bonds payable.

During 2004, the Authority issued five series of bonds: April 2004, $250 million Series 2004B Revenue Bonds and $97.73 million Series 2004C-1 Revenue Refunding Bonds; in July 2004, $111.545 million Series 2004C-2 Revenue Refunding Bonds; in August 2004, $13.6 million Series 2004A Revenue Refunding Bonds and $218.855 Series 2004D Revenue Refunding Bonds. The Authority estimates that the net present value savings of the Series 2004 Revenue and Refunding Bonds is $28.2 million. In addition to refunding certain outstanding debt, the Series 2004 Revenue Bonds collectively provide additional funding for capital improvements at Washington Dulles and Reagan National. In January 2004, the Authority issued an interest rate swap in the notional amount of $227.9 million to hedge potential interest rate increases and synthetically refund a portion of the outstanding Series 1994 bonds. In August 2004, the Authority unwound the swap because it was able to achieve interest rate savings greater than the targeted savings. As of the year ended December 31, 2004, the Authority had outstanding $150.0 million Commercial Paper Series One and $187.7 million PFC Notes. Additionally, the Authority had $150.0 million authorized but not issued Commercial Paper Series One available for construction needs. As a result of these transactions, as well as principal payments of $56.1 million, long-term debt outstanding increased by $198.6 million and short-term CP Notes and PFC Notes outstanding of $337.7 remained unchanged.

Net assets, which represent the residual interest in the Authority's assets after liabilities are deducted, were $741.2 million on December 31, 2004, an increase of $86.2 million from 2003 and a $104.1 million increase from 2002. The account "Invested in Capital Assets, Net of Debt" decreased by $83.9 million to $344.6 million because the increase in total liabilities related to the Capital Construction Program (CCP) exceeded the increase in the assets in the CCP. This was caused by the decrease in unspent construction proceeds at December 31, 2004, as compared to December 31, 2003. As of December 31, 2003, $170.0 million in unspent proceeds were reclassified to "Restricted Assets" to offset the assets still available from the bond proceeds. The restricted and unrestricted remaining net assets are derived from the Authority operations since the Authority's inception in 1987, as well as grant and PFC collections. The 2004 restricted net assets of $170.5 million are subject to external restrictions on how they may be used under the Master Indenture of Trust (Master Indenture) and federal regulations. A debt service reserve of $172.3 million, maintained in accounts held by the Authority's Trustee, offset by the corresponding debt, is included in Restricted Net Assets. The remaining 2004 unrestricted assets of $226.0 million, an increase of $35.8 million from 2003, may be used to meet any of the Authority's ongoing operations subject to approval by the Board.

Cash and Investment Management

The Authority's cash and cash equivalents decreased $104.4 million to $184.7 million for the year ended December 31, 2004, from $289.1 million for the year ended December 31, 2003, as a result of increased investment activity during the year. Cash and cash equivalents with an original maturity of three months or less are considered highly liquid investments. Unrestricted investments increased by $90.9 million from 2003 and restricted investments increased by $64.8 million.

The following summary shows the major sources and use of cash:

	2004	2003
Cash received from operations	$ 442,774,218	$ 354,418,565
Cash expended from operations	(234,503,850)	(226,763,638)
Net cash provided by operations	208,270,368	127,654,927
Net cash provided (used) in capital and related financing activities	(184,865,715)	(112,479,002)
Net cash provided (used) by investing activities	(127,821,507)	81,053,185
Net cash used by capital financing and investing activities	312,687,222	(31,425,817)
Net increase (decrease) in cash and cash equivalents	(104,416,854)	96,229,110
Cash and cash equivalents, beginning of year	289,086,884	192,857,774
Cash and cash equivalents, end of year	$ 184,670,030	$ 289,086,884

Cash temporarily idle during 2004 was invested in demand deposits, certificates of deposit, commercial paper, United States Government and agency obligations, mutual funds, repurchase agreements collateralized by the United States Government or agency obligations, and other permitted investments as listed in the Master Indenture for the Authority's outstanding bonds. During 2004, the Authority's operating account average portfolio balance was $197.6 million and the average yield on investments was 1.41%. The capital funds are held by an agent for the Trustee but managed by the Authority. For 2004, the capital funds had an average portfolio balance of $335.0 million and an average yield of 2.19%.

Certain Authority funds that will be used for bond requirements (See Note E) and capital projects are invested in long-term instruments. An annual cash flow projection for capital projects is developed for all bond proceeds and investments are matched to maximize investment income while ensuring cash is available for capital project expenses. All investments must be made following the investment policy that was adopted by the Authority's Board. An investment committee meets quarterly to review the portfolios for compliance with the investment policy (See Note B).

Capital Construction

During 2004, the Authority expended $349.3 million in its ongoing CCP compared to an original budget of $349.9 million. The Authority capitalized $242.5 million in projects in 2004, including the Airside Walkback Tunnel at Washington Dulles. Projects at Washington Dulles, which began or continued in 2004, and were scheduled for completion in 2005, or beyond, include the security mezzanine, the automated people mover (APM) and related stations, and renovation of the final section of the original Main Terminal. Average monthly capital construction spending in 2004 was approximately $29.1 million (See Note F).

Capital Financing and Debt Management

The Authority's long-term uninsured bonds are rated "AA-" by Fitch, "Aa3 " by Moody's, and "A+" by Standard & Poor's Rating Services (S&P). Following the events of September 11, 2001, Moody's placed the Authority's rating on "Watch List" effective September 18, 2001 and on February 15, 2002, removed the Authority from the "Watch List" and affirmed the Authority's "Aa3" rating with negative outlook. In April 2004, Moody's confirmed the Authority rating and changed its outlook to stable. S&P placed the Authority's debt on "Credit Watch

Negative" effective September 20, 2001 and downgraded the Authority to "A+" with "Stable Outlook," effective February 28, 2002. Fitch placed the Authority's debt on "Rating Watch Negative" effective October 5, 2001, and on May 15, 2002, confirmed the Authority's "AA-" rating with outlook "Stable." As of December 31, 2004, the Authority has $2.567 billion outstanding Airport System Revenue Bonds, $150.0 million in outstanding Commercial Paper Series One and $187.7 million in PFC notes (See Note J). Of the $2.567 billion in outstanding Senior Bonds, $2.315 billion is insured and $252.4 million is uninsured. The insured debt is rated "AAA" by S&P and Fitch, and "Aaa" by Moody's.

The Authority is financing its construction program through a combination of revenues, entitlement, and discretionary grants received from the FAA, state grants, PFCs, and revenue bonds. Long-term debt is the principal source of funding for the CCP. The Authority, through its Master Indenture, has agreed to maintain a debt service coverage of not less than 125%. Debt service coverage is calculated based on a formula included in the Master Indenture and the Agreement with the Airlines. Historically, the Authority has maintained a coverage ratio significantly higher than its requirement. During 2004 and 2003, respectively, the Authority's debt service coverage was 1.68 and 1.41. The increase in coverage in 2004 is related to the increased concession revenue at Washington Dulles.

Contacting the Authority's Financial Management

The financial report is designed to provide the Authority's Board, management, investors, creditors and customers with a general view of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends. For additional information about this report, or for additional financial information, please contact Lynn Hampton, Vice President and Chief Financial Officer, 1 Aviation Circle, Washington, DC, 20001-6000, or email BondholdersInformation@mwaa.com.

STATEMENTS OF NET ASSETS

As of December 31

	2004	2003
ASSETS		
Current assets		
Unrestricted assets:		
Cash and cash equivalents	$ 33,832,942	$ 35,682,214
Investments	197,182,141	106,325,974
Accounts receivables, net	20,033,378	19,294,775
Inventory	3,633,515	1,890,063
Prepaid expenses and other current assets	3,855,483	3,641,957
Total unrestricted assets	258,537,459	166,834,983
Restricted assets:		
Cash and cash equivalents, restricted	97,351,250	238,607,369
Passenger facility charges, restricted	53,485,838	14,797,301
Accounts receivables, passenger facility charges and other, restricted	15,386,313	8,588,515
Investments, restricted	85,660,959	20,831,689
Total restricted assets	251,884,360	282,824,874
Total current assets	510,421,819	449,659,857
Non-current assets		
Capital assets:		
Land	49,069,234	49,066,610
Construction in progress	746,007,372	619,050,895
Buildings, systems and equipment	3,141,673,453	2,894,632,093
Less: accumulated depreciation	(939,466,285)	(818,686,558)
Capital assets, net	2,997,283,774	2,744,063,040
Long-term investments	9,470,986	50,511,329
Long-term investments, restricted	172,324,761	144,682,412
Other long-term assets	-	2,045,311
Net pension asset	1,750,497	2,115,285
Bond issuance costs, net	41,413,767	34,790,874
Total non-current assets	3,222,243,785	2,978,208,251
Total assets	$3,732,665,604	$ 3,427,868,108

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF NET ASSETS

	2004	2003
LIABILITIES AND NET ASSETS		
Current liabilities		
Payable from unrestricted:		
Accounts payable and accrued expenses	$ 42,714,040	$ 29,572,492
Operating lease obligations	341,140	341,140
Total unrestricted	43,055,180	29,913,632
Current liabilities payable from restricted assets:		
Accounts payable and accrued expenses	51,765,780	48,829,027
Accrued interest payable	29,592,238	27,798,058
Bonds payable	59,035,000	56,105,000
Total restricted	140,393,018	132,732,085
Total current liabilities	183,448,198	162,645,717
Non-current liabilities		
Payable from unrestricted:		
Other liabilities	654,446	1,300,939
Payable from restricted:		
Other liabilities	-	209,550
PFC bank participation notes	187,700,000	187,700,000
Commercial paper notes	150,000,000	150,000,000
Bonds payable, net	2,469,703,687	2,271,063,578
Total restricted	2,807,403,687	2,608,973,128
Total non-current liabilities	2,808,058,133	2,610,274,067
Total liabilities	2,991,506,331	2,772,919,784
NET ASSETS		
Invested in capital assets, net of related debt	344,583,615	428,497,669
Restricted	170,526,342	36,158,318
Unrestricted	226,049,316	190,292,337
Total net assets	$ 741,159,273	$ 654,948,324

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years Ended	
	December 31, 2004	December 31, 2003
OPERATING REVENUES		
Concessions	$ 173,962,671	$ 146,095,903
Rents	143,389,783	130,802,693
Landing fees	76,274,293	67,637,206
Utility sales	12,035,206	11,867,943
Passenger fees	29,474,743	27,878,919
Other	7,149,375	5,355,589
	442,286,071	389,638,253
OPERATING EXPENSES		
Materials, equipment, supplies, contract services, and other	130,127,540	134,105,363
Salaries and related benefits	98,858,597	95,192,233
Utilities	18,754,511	16,754,386
Lease from U. S. Government	4,375,347	4,303,764
Depreciation and amortization	126,177,767	114,950,487
	378,293,762	365,306,233
OPERATING INCOME	63,992,309	24,332,020
NON-OPERATING REVENUES (EXPENSES)		
Passenger facility charges, financing costs	(1,525,026)	(1,137,715)
Investment income	10,385,775	5,896,185
Interest expense	(89,368,779)	(95,610,127)
Realized swap income (loss)	(3,662,018)	-
Unrealized swap income (loss)	1,601,347	5,572,334
	(82,568,701)	(85,279,323)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(18,576,392)	(60,947,303)
CAPITAL CONTRIBUTIONS		
Passenger facility charges	76,060,174	58,438,038
Federal and state grants	28,727,167	14,378,325
Other capital property contributed	-	6,044,900
	104,787,341	78,861,263
NET ASSETS		
Increase in net assets	86,210,949	17,913,960
Total net assets, beginning of year	654,948,324	637,034,364
Total net assets, end of year	$ 741,159,273	$ 654,948,324

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

	Years Ended	
	December 31, 2004	December 31, 2003
NET CASH FROM OPERATING ACTIVITIES:		
Operating cash receipts from customers	$ 442,774,218	$ 354,418,565
Cash payments to suppliers for goods and services	(136,926,922)	(131,384,806)
Cash payments to employees for services	(97,576,928)	(95,378,832)
NET CASH PROVIDED BY OPERATING ACTIVITIES	208,270,368	127,654,927
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	693,419,749	430,857,024
Proceeds net from the issuance of commercial paper	-	(100,000,000)
Principal payments on bonds	(494,830,000)	(122,945,000)
Payments for capital expenditures and construction In progress	(337,279,253)	(280,713,825)
Proceeds from sale of fixed assets	80,881	110,119
Payments of bond issuance costs	(10,367,120)	(13,229,911)
Interest paid on bonds	(130,407,797)	(113,504,071)
Rebate to Treasury	-	(1,112,613)
Government grants in aid of construction	26,220,996	14,223,836
Passenger facility charge receipts	71,768,588	58,481,505
Passenger facility charge borrowing from line of credit	-	17,500,000
Passenger facility charge expenses and other	(3,471,759)	(2,146,066)
NET CASH PROVIDED OR (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(184,865,715)	(112,479,002)
NET CASH FROM INVESTING ACTIVITIES:		
Interest received on investments	15,932,840	7,450,115
(Increase) decrease in short term investments, net	(160,583,704)	103,571,093
Proceeds from long-term investment maturities	211,789,746	116,609,214
Purchase of long-term investments	(194,960,389)	(146,577,237)
NET CASH PROVIDED OR (USED) BY INVESTING ACTIVITIES	(127,821,507)	81,053,185
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(104,416,854)	96,229,110
CASH AND CASH EQUIVALENTS, Beginning of Period	289,086,884	192,857,774
CASH AND CASH EQUIVALENTS, End of Period	$ 184,670,030	$ 289,086,884

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

	Years Ended	
	December 31, 2004	**December 31, 2003**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 63,992,309	$ 24,332,020
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	126,177,767	114,950,487
(Decrease) increase in allowance for doubtful accounts	(289,170)	(336,330)
(Gain) loss on sale of assets	(70,222)	(78,388)
Decrease (increase) in accounts receivable	1,053,313	(1,921,742)
Decrease (increase) in inventory	(1,743,452)	71,681
Decrease (increase) in prepaid expenses and other current assets	(213,526)	(1,104,137)
Decrease (increase) in other long-term assets	2,410,099	(265,252)
Increase (decrease) in long-term liabilities	(646,493)	(4,873,664)
(Decrease) increase in accounts payable and accrued expenses	17,599,743	(3,119,748)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 208,270,368	$ 127,654,927
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Unrealized gain (loss)	$ 3,471,364	$ 2,691,787
Other capital property acquired		
Aircraft Haul Road & Museum Access Road built by Smithsonian and VA Department of Transportation	$ -	$ 6,044,900
Capital construction costs payable	$ 50,024,028	$ 48,837,145

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Metropolitan Washington Airports Authority (the Authority) is an independent interstate agency created by the Commonwealth of Virginia and the District of Columbia with the consent of the United States Congress. The Commonwealth of Virginia and the District of Columbia enacted essentially identical legislation creating the Authority for the purpose of operating Ronald Reagan Washington National (Reagan National) and Washington Dulles International Airport (Washington Dulles)— collectively the Airports. The Authority is governed by a Board of Directors (Board) with members from the Commonwealth of Virginia, the District of Columbia, the State of Maryland, and three members appointed by the President of the United States.

On June 7, 1987, Reagan National's and Washington Dulles' properties were transferred to the Authority under a long-term lease authorized by the Metropolitan Washington Airports Act of 1986, Title VI of Public Law 99-500 (See Note M). All personal property was transferred to the Authority without condition. Prior to the transfer, the Airports were operated by the Federal Aviation Administration (FAA) of the United States Department of Transportation.

Only the accounts of the Authority are included in the reporting entity. There are no U.S. government agency finances that should be considered for inclusion in the Authority's financial reporting entity.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis. The Authority reports as a Business Type Activity, as defined by the Governmental Accounting Standards Board (GASB). Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The Authority's activities are accounted for similar to those often found in the private sector using the flow of an economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred. Current assets include cash and amounts convertible to cash during the next normal operating cycle, or one year. Current liabilities include those obligations to be liquidated with current assets.

Revenues from airlines, concessions, rental cars and parking are reported as operating revenues. Capital, grants, financing or investing related transactions are reported as non-operating revenues. All expenses related to operating the Authority are reported as operating expenses. Interest expense and financing costs are reported as non-operating.

Net Assets

Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consists of three sections: Invested in capital assets, net of related debt; Restricted; and Unrestricted. Net assets invested in capital assets, net of related debt includes capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt attributable to acquisition. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable. All other net assets are unrestricted.

Proprietary Accounting and Financial Reporting

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority follows all GASB pronouncements issued on, before, or after November 30, 1989, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principal Board Opinions and Accounting Research Bulletins issued on, before, or after November 30, 1989, unless they contradict GASB guidance.

Budgeting Requirements

The Authority's annual budgeting process is a financial planning tool used to establish the estimated revenues and expenditures for both Airports. The Authority's annual budget is not prepared in accordance with generally accepted accounting principles (GAAP). In keeping with the requirements of a proprietary fund, budget comparisons have not been included in the financial section of this report.

Revenue Recognition

Rentals and concession fees are generated from airlines, parking structures and lots, food, rental cars, fixed base operators, and other commercial tenants. Leases with the airlines are based on full cost recovery, through rates and charges as described below. Other leases are for terms from one to 15 years and generally require rentals based on the volume of business, with specified minimum rentals. Rental revenue is recognized over the life of the respective leases, and concession revenue is recognized partially based on reported concession revenue and partially based on minimum rental guarantee. Rental revenue and concession revenue are recognized as operating revenues on the Statements of Revenues, Expenses and Changes in Net Assets.

Landing fees are principally generated from scheduled airlines and non-scheduled commercial aviation and are based on the landed weight of aircraft. The scheduled airline fee structure is determined annually based on full cost recovery pursuant to an agreement between the Authority and the Signatory Airlines. Landing fees are recognized as part of operating revenues when airline related facilities are utilized.

Several airlines represent concentrations of revenues for the Authority. At Reagan National, US Airways, Delta Air Lines, and American Airlines comprise approximately 72.3% of annual airline revenues. At Washington Dulles, United, Delta Air Lines and Independence Air comprise approximately 70.2% of annual

airline revenues. These airlines combined represent approximately 71.1% of the total annual airline revenues for the Authority. Actual airline revenues for 2004 represent approximately 51.8% of the Authority's total revenues.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand deposits, certificates of deposit, commercial paper, United States Government and agency obligations, mutual funds, and repurchase agreements collateralized by United States Government or agency obligations with an original maturity of three months or less, including restricted assets.

Investments

Investments with an original maturity greater than one year are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as investment income in the financial statements. Investments with an original maturity of less than one year are carried at amortized cost which approximates fair value.

Investments consist of certificates of deposit, commercial paper, United States Government and agency obligations, interest rate swaps, and repurchase agreements collateralized by United States Government or agency obligations, with an original maturity greater than three months.

Swaps

The Authority enters into interest rate swap agreements to modify interest rates on outstanding debt. The Swaps are recognized at fair value on the Statements of Net Assets in investments. Changes in the fair value of the Swaps are recorded as unrealized gains or losses on the Statements of Revenues, Expenses and Changes in Net Assets. In addition, net interest expenditures are also recorded in the Statements of Revenues, Expenses and Changes in Net Assets.

Inventory and Prepaid Items

Inventory consists of spare parts and is stated at the lower of cost or market value, using the first-in, first-out method. Inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Capital Assets

Personal property, the ownership of which was transferred from the United States Government to the Authority on June 7, 1987, is recorded at fair value at the date of transfer. Assets acquired subsequent to the transfer are stated at historical cost and include the expense of federal grants to construct and improve the facilities of the Authority. The costs for property and facilities include net interest expense incurred from

the date of issuance of the debt to finance construction until the completion of the capital project (See Notes F and J). Tenants have funded construction and improvements of airport facilities from their own working capital. Under agreements with the Authority, the property reverts to the Authority upon termination or expiration of the Airport Use Agreement and Premises Lease (the Agreement). Terms range from 15 to 40 years. These assets obtained by the Authority are recorded at fair market value as of date of transfer. Major improvements and replacements of property are capitalized. Maintenance, repairs, and minor improvements and replacements are expensed as incurred.

Provision for depreciation has been calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives and corresponding capitalization thresholds are as follows:

		Threshold
Equipment	5-7 years	$10,000
Motor Vehicles	3-5 years	10,000
Buildings	20-40 years	25,000
Systems and Structures	10-40 years	25,000

Impaired Capital Assets

For the year ended December 31, 2004, the Authority early implemented GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. Capital assets that have potential for meeting the definition of impairment are identified and tested for impairment. Permanently impaired capital assets that will continue to be used by the Authority are written down to the measured impaired value. The carrying amount of impaired capital assets that are idle are disclosed in the notes to the financial statements and impaired capital assets that are no longer used by the Authority are reported at the lower of carrying value or fair value.

Bond Issuance Costs

Bond issuance costs represent expenses incurred in the process of issuing bonds and are amortized over the life of the related bond issue, using the interest method.

Long-Term Debt Refundings

The Authority periodically refunds its debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the life of the old or new debt, whichever is shorter. The amount deferred is reported as a deduction from or an addition to the new debt liability.

Compensated Absences

The Authority employees are granted vacation at rates of 13 to 30 days per year, depending on their length of employment, and may accumulate up to a maximum of 30 days. Upon termination, employees are paid for any unused accumulated vacation. Sick leave accumulates at the rate of 13 days per year. Unused sick

leave for employees who transferred from the Federal Government is counted at retirement as additional time worked for calculation of pension benefit. Unused sick leave for all other employees is forfeited at time of termination of employment regardless of the reason. Compensated absences are accrued when earned and reflected in accrued expenses. The calculation of the liability accrued for compensated absences is based on the pay or salary rates in effect as of the end of the fiscal period normally the year ended December 31. An additional amount has been accrued for the liability of salary related payments. Such salary related payments include the employer's share of social security, medicare and unemployment taxes and the employer's contributions to the Authority retirement and pension plans. The liability for compensated absences as of December 31, 2004 was $5,599,399 and as of December 31, 2003 was $4,401,583.

Arbitrage - Rebate Liability

The United States Treasury has issued regulations on calculating the rebate due to the United States Government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage profits arise when the Authority temporarily invests the proceeds of tax exempt debt in securities with higher yields. The Authority had no estimated liability on December 31, 2004 and an estimated liability of $209,550 on December 31, 2003.

Capital Contributions - Passenger Facility Charges (PFCs)

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act which authorized domestic airports to impose a PFC on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects that meet at least one of the following criteria: preserve or enhance safety, security, or capacity of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers.

The Authority was granted permission to begin collecting a $3.00 PFC effective November 1, 1993, at Reagan National and January 1, 1994, at Washington Dulles. The charges, less an administrative fee charged by the airlines for processing, are collected by the airlines and remitted on a monthly basis to the Authority. Due to their restricted use, PFCs are categorized as non-operating revenues and are accounted for on the accrual basis. The Authority applied for and received approval in February 2001, to increase the PFC collection from $3.00 to $4.50, effective May 2001.

Capital Contributions - Federal and State Grants

The Authority receives federal and state grants in support of its Capital Construction Program (CCP). The federal program provides funding for airport development, airport planning and noise compatibility programs from the Airport and Airways Trust Fund in the form of both entitlement and discretionary grants for eligible projects. The Commonwealth of Virginia also provides discretionary funds for capital programs.

Grants for capital asset acquisition, facility development, rehabilitation of facilities and long-term planning are reported in the Statements of Revenues, Expenses and Changes in Net Assets, after non-operating revenues and expenses as capital contributions.

Management Estimates

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

B. DEPOSITS AND INVESTMENTS

Cash

In accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the Authority classifies its deposits as to the credit risk by the following three categories: Category 1 includes insured or collateralized cash with securities held by the Authority or its agent in the Authority's name; Category 2 includes collateralized cash with securities held by the pledging financial institutions' trust department or agent in the Authority's name; and Category 3 includes uncollateralized cash, including any bank balance that is collaterized with securities held by the pledging institution, or by its trust department or agent, but not in the Authority's name. The table below presents the Authority's deposit risk classifications in accordance with GASB Statement No. 3:

	December 31,	
	2004	2003
Deposits		
Carrying amount	$ 5,752,661	$ 22,959,678
Bank balance	3,008,721	929,045
FDIC insured or collateralized (Category 1)	2,881,821	910,045
Uncollateralized or uninsured (Category 3)	126,900	19,000
Certificates of deposit/investments		
Carrying amount	$ 6,000,000	$ 5,100,000
FDIC insured or collateralized (Category 1)	600,000	400,000
Uncollateralized or uninsured (Category 3)	5,400,000	4,700,000

To assure the safety of demand deposits not covered by FDIC insurance, the Authority utilizes the LACE (Liquidity, Asset Quality, Capital and Earnings) Financial Institutions Rating Service to determine the stability of the financial institutions.

Investments

The primary objectives of the Authority's investment policy are the safety of capital, the liquidity of the portfolio and the yield of investments. Bond proceeds (See Note E) may be invested in securities as permitted in the bond indentures, otherwise, assets of the Authority may be invested in United States Treasury securities; short-term obligations of the United States Government agencies; short term obligations of the Commonwealth of Virginia, the State of Maryland, and the District of Columbia; certificates of deposit with banks that have a LACE rating of "B" or better, or that are fully insured or collateralized; prime commercial paper rated A1 and P1 by Standard & Poor's Rating Services (S&P) and Moody's, respectively;

prime bankers' acceptance notes; repurchase agreements whose underlying collateral consists of the foregoing; money market or mutual funds whose underlying collateral consists of the foregoing; or other such securities or obligations that may be approved by the Finance Committee by modification of the Authority's policy.

In accordance with GASB Statement No. 3, the Authority classifies its investments as to the credit risk by the following three categories: Category 1 includes insured or registered investments, or securities held by the Authority or its agent in the Authority's name; Category 2 includes uninsured and unregistered investments, with securities held by the counter party's trust department or agent in the Authority's name; and Category 3 includes uninsured and unregistered investments, with securities held by the counterpart, or by its trust department or agent, but not in the Authority's name.

The tables below present the Authority's investment risk classifications in accordance with GASB Statement No. 3:

	December 31, 2004				
	Category				Carrying
	1	2	3	Cost	Value
Repurchase Agreements	$ 57,605,236	$ -	$ -	$ 57,605,236	$ 57,605,236
United States Government and agency obligations	393,296,340	-	-	393,296,340	391,860,995
Guaranteed Investment Contracts	70,990,390	-	-	70,990,390	70,990,390
Commercial Paper	4,973,083	-	-	4,973,083	4,995,162
	$ 526,865,049	$ -	$ -	526,865,049	525,451,783
Money market funds (invested in United States Government and agency obligations)				112,104,433	112,104,433
Certificate of Deposit				6,000.000	6,000,000
				$ 644,969,482	$ 643,556,216

	December 31, 2003				
	Category				Carrying
	1	2	3	Cost	Value
Repurchase Agreements	$ 19,383,786	$ -	$ -	$ 19,383,786	$ 19,383,786
United States Government and agency obligations	291,015,232	-	-	291,015,232	288,929,750
Guaranteed Investment Contracts	12,014,825	-	-	12,014,825	12,014,825
Commercial Paper	9,970,007	-	-	9,970,007	9,989,725
	$ 332,383,850	$ -	$ -	332,383,850	330,318,086
Money market funds (invested in United States Government and agency obligations)				253,060,524	253,060,524
Certificate of Deposit				5,100,000	5,100,000
				$ 590,544,374	$ 588,478,610

The fair value of the collateral for these Repurchase Agreements was $58,724,891 and $20,165,935 on December 31, 2004 and 2003, respectively. The collateral for the Repurchase Agreements was held by the Authority's agent in the Authority's name.

During 1998, the Authority implemented GASB Statement No. 31, *Accounting and Reporting For Certain Investments and For External Investments Pools.* In accordance with the provisions of this pronouncement, investments with an original maturity greater than one year are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as investment income in the financial statements. As permitted by GASB Statement No. 31, investments with an original maturity of less than one year are carried at amortized cost. Fair values are determined through quoted market prices.

The tables below present the Authority's investments in accordance with GASB Statement No. 31:

	December 31, 2004	
	Cost	Carrying Value
Securities with original maturity 1 year and over	$ 169,240,390	$ 170,949,593
Securities with original maturity less than 1 year	356,075,236	354,502,190
	$ 525,315,626	$ 525,451,783

	December 31, 2003	
	Cost	Carrying Value
Securities with original maturity 1 year and over	$ 185,414,825	$ 187,553,835
Securities with original maturity less than 1 year	143,383,786	142,764,251
	$ 328,798,611	$ 330,318,086

Change in carrying value from December 2003 to December 2004

Carrying value at December 31, 2004	$ 525,451,783
Add: Proceeds from investments sold in 2004	1,503,410,946
Less: Cost of investments purchased in 2004	(1,696,704,627)
Less: Carrying value at December 31, 2003	(330,318,086)
Change in carrying value of investments	$ 1,840,016

Change in carrying value from December 2002 to December 2003

Carrying value at December 31, 2003	$ 330,318,086
Add: Proceeds from investments sold in 2003	1,181,826,350
Less: Cost of investments purchased in 2003	(1,102,254,693)
Less: Carrying value at December 31, 2002	(412,722,390)
Change in carrying value of investments	$ (2,832,647)

Reconciliation to Comparative Statements of Net Assets

A reconciliation of the amounts reported above to the comparative statements of net assets is as follows:

	December 31, 2004	December 31, 2003
Deposits	$ 5,752,661	$ 22,959,678
Investments	643,556,216	588,478,610
	$ 649,308,877	$ 611,438,288
Cash and cash equivalents	$ 33,832,942	$ 35,682,214
Cash and cash equivalents, restricted	97,351,250	238,607,369
Passenger facility charges, cash, restricted	53,485,838	14,797,301
Investments	197,182,141	106,325,974
Investments, restricted	85,660,959	20,831,689
Long-term investments	9,470,986	50,511,329
Long-term investments, restricted	172,324,761	144,682,412
	$ 649,308,877	$ 611,438,288

The Authority received and holds 658 shares of Ace Aviation Holding, LLC stock as a result of the Air Canada bankruptcy proceedings. The stock was valued at $35.55 (Canadian) per share on December 31, 2004. The value of the stock is de minimis and has not been recorded in the Authority's financial records.

C. INTEREST RATE SWAP

During the year ended December 31, 2001, the Authority entered into two forward starting interest rate swap agreements (the Swaps) to modify interest rates on future outstanding debt. In 2002, the Swaps were used to hedge $241.8 million of the Series 2002C Bonds. Based on the swap agreement, the Authority owes interest calculated at a fixed rate of 4.45% and 4.46% to the counter parties to the Swap, Lehman Brothers and Merrill Lynch. In return, the counter parties owe the Authority interest based on a variable rate equal to 72% of LIBOR (London International Bank Offered Rate). Only the net difference in interest payments is actually exchanged with the counter parties. The Authority continues to pay interest to the bondholders at the variable rate provided by the Bonds, and during the term of the swap agreement, the Authority pays the difference between the fixed rate on the Swaps and 72% of LIBOR.

On January 6, 2004, the Authority completed a synthetic advance refunding of a portion of the Series 1994A Bonds through a forward starting fixed interest rate Swap agreement. The notional amount of the Swap is $227.9 million and was issued to assure lower interest rates on $219.5 million of Series 1994A Bonds. Based on the Swap agreement, the Authority owed interest calculated at a fixed rate of 3.65%, 3.64% and 3.64% to the counter parties to the Swap, Bear Stearns, Lehman Brothers, and Merrill Lynch. In return, the counter parties owed the Authority interest based on a variable rate equal to 72% of LIBOR. Only the net difference in interest payments actually exchange with the counter parties. In connection with the Series 2004D Bonds, on August 26, 2004, this 2004 Swap was terminated with a payment of $3,662,018.

In connection with the Swaps, the Authority implemented Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133), on January 1, 2001.

The Swaps are recognized on the Statements of Net Assets in investments at fair value. Changes in the fair value of the Swaps are recorded as unrealized gains or losses on the Statements of Revenues, Expenses and Changes in Net Assets. As of December 31, 2004, the fair value of the Swaps was an unrealized loss of

$20,417,526. An unrealized gain of $1,601,347 was recognized for the year ended December 31, 2004. An unrealized gain of $5,572,334 was recognized for the year ended December 31, 2003, an unrealized loss of $26,024,249 was recognized for the year ended December 31, 2002, and an unrealized loss of $1,566,958 was recognized for the year ended December 31, 2001. In addition, net interest expenditures, which began in October 2002, are recorded in the financial statements.

D. ACCOUNTS RECEIVABLE

Trade accounts receivable consists of the following:

	December 31,	
	2004	2003
Trade accounts receivable	$ 21,114,781	$ 20,665,348
Less: allowance for doubtful accounts	(1,081,403)	(1,370,573)
	$ 20,033,378	$ 19,294,775

For the years ended December 31, 2004 and December 31, 2003, the Authority's accounts receivable included $4.0 million and $4.5 million in post-petition debt from United. On March 19, 2004, the U.S. Bankruptcy Court for the Northern District of Illinois, Eastern Division, approved UAL Corporation's assumption of leases and cure of all defaults at Reagan National and Washington Dulles. The court's order among other things approved payment of $4,476,143 by United to the Authority to cure all defaults under these leases; $500,000 of this payment was paid within 60 days of this court order, with the remainder due within 30 days of United's final court approved plan of reorganization. The Authority has not established a reserve for the United Pre-petition debt. United is current on its post bankruptcy obligations.

The Authority's accounts receivables are 87% trade receivables due from concessionaires and airlines. The remaining 13% are notes and other receivables such as interest receivable and an amount due from an airline for payment for some studies done for a new commuter concourse.

E. RESTRICTED ASSETS

The Master Indenture securing the Revenue Bonds of the Authority, requires segregation of certain assets into restricted accounts. The Authority has also included PFC assets in restricted assets. Restricted assets consist of the following:

	December 31,	
	2004	2003
Construction	$ 128,736,558	$ 210,736,302
Debt service reserve accounts	172,324,761	144,682,412
Interest accounts	28,522,863	26,802,915
Sinking fund accounts	25,752,788	21,899,841
Passenger facility charge accounts	53,485,838	14,797,301
Passenger facility charges and grant receivables	15,386,313	8,588,515
	$ 424,209,121	$ 427,507,286

The construction accounts include the funds available for the design and construction of capital improvements for the Airports. The debt service reserve accounts contain the maximum amount of required principal payments for the bonds scheduled to come due in one year. The debt service reserve accounts are revalued each year on September 30. Any amounts in excess of the debt service requirements are transferred to the applicable construction fund or taken into the revenue funds of the Authority if the construction funds have been expended. If the debt service reserve is undervalued, the Authority transfers funds into the accounts. The debt service reserve accounts were over funded by approximately $1,802,223 and $755,000, as of December 31, 2004 and December 31, 2003, respectively. The interest account contains the interest amounts required for the semi-annual interest payments. The sinking fund accounts represent the principal for the annual October bond payments. The PFC and grant receivables represent amounts collectable at the years ended December 31, 2004 and 2003.

F. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the years ending December 31, 2004 and 2003 are as follows:

	Beginning Balance January 1, 2004	Transfers and Additions	Transfers and Deletions	Ending Balance December 31, 2004
Capital assets not being depreciated				
Construction in progress	$ 619,050,895	$ 370,117,910	$ (243,161,433)	$ 746,007,372
Land	49,066,610	37,718	(35,094)	49,069,234
Total capital asset not Being depreciated	668,117,505	370,155,628	(243,196,527)	795,076,606
Other capital assets				
Equipment	43,228,998	3,940,932	(653,025)	46,516,905
Motor vehicles	76,732,693	4,160,481	(742,516)	80,150,658
Buildings	1,837,274,423	115,397,821	-	1,950,902,381
Systems and structures	937,395,979	126,707,530	(1,769,863)	1,064,103,509
Total other capital assets	2,894,632,093	250,206,764	(3,165,404)	3,141,673,453
Less accumulated depreciation:				
A/D equipment	33,647,086	4,206,361	(580,154)	37,273,293
A/D motor vehicles	62,279,397	5,590,800	(609,682)	67,260,515
A/D buildings	341,209,896	59,002,850	(463,978)	399,748,768
A/D systems & structures	381,550,179	53,633,530	-	435,183,709
Total accumulated depreciation	818,686,558	122,433,541	(1,653,814)	939,466,285
Other capital assets, net	2,075,945,535	127,773,223	(1,511,590)	2,202,207,168
Totals	$ 2,744,063,040	$ 497,928,851	$ (244,708,117)	$ 2,997,283,774

	Beginning Balance January 1, 2003	Transfers and Additions	Transfers and Deletions	Ending Balance December 31, 2003
Capital assets not being depreciated				
Construction in progress	$ 538,890,637	$ 303,484,023	$ (223,323,765)	$ 619,050,895
Land	49,679,736	-	(613,126)	49,066,610
Total capital asset not Being depreciated	588,570,373	303,484,023	(223,936,891)	668,117,505
Other capital assets				
Equipment	42,017,646	1,607,862	(396,510)	43,228,998
Motor vehicles	73,930,199	2,955,771	(153,277)	76,732,693
Buildings	1,677,275,466	159,998,957	-	1,837,274,423
Systems and structures	878,678,341	60,078,558	(1,360,920)	937,395,979
Total other capital assets	2,671,901,652	224,641,148	(1,910,707)	2,894,632,093
Less accumulated depreciation:				
A/D equipment	29,748,443	4,291,911	(393,268)	33,647,086
A/D motor vehicles	56,288,840	6,115,344	(124,787)	62,279,397
A/D buildings	287,420,528	53,789,368	-	341,209,896
A/D systems & structures	333,341,428	48,832,368	(623,617)	381,550,179
Total accumulated depreciation	706,799,239	113,028,991	(1,141,672)	818,686,558
Other capital assets, net	1,965,102,413	111,612,157	(769,035)	2,075,945,535
Totals	$ 2,553,672,786	$ 415,096,180	$ (224,705,926)	$ 2,744,063,040

For the year ended December 31, 2004, interest costs of $10,037,007 less interest earned of $3,081,027 were capitalized as part of the cost of construction in progress. For the year ended December 31, 2003 interest costs of $11,544,327 less interest earned of $5,888,938 were capitalized as part of the cost of construction in progress. Depreciation and amortization expense for the years ended December 31, 2004 and 2003 was $126,177,767 and $114,950,487, respectively, which includes amortization associated with bond issuance costs of $3,744,226 and $2,545,112, respectively.

The Authority's construction in progress account as of December 31, 2003, included approximately $63.1 million in costs expended on design work for projects that were in a deferred status. As of December 31, 2004, the Authority's construction in progress account includes only $4.5 million in costs expended on work for projects that are in a deferred status. In 2000, as part of its CCP, the Authority approved an expansion of the CCP for Washington Dulles, referred to as the d^2 Program.

In the aftermath of September 11, 2001, and in the face of the deteriorating financial condition of many airlines, the Authority reexamined plans for the CCP in the spring of 2002. As a result, the Authority delayed the start dates of several projects, deferred some projects until it determined that demand and circumstances warranted reactivation of each project and added three new projects to the CCP. This active portion of the CCP is referred to as the 2001-2011 CCP.

In connection with the Authority's routine reviews of the CCP, the Authority has made certain adjustments to the 2001-2011 CCP since the spring of 2002, including adding new projects, deferring some active projects, reactivating some projects that were deferred and deleting certain projects from the CCP entirely.

Based on expenditures to date and projected expenditures through 2011, Authority management currently estimates the cost of the 2001-2011 CCP at approximately $3.9 billion.

The major projects deferred as a result of the events of September 11, 2001, relate primarily to the planned Tier 2 Concourse and associated facilities and the 12-gate addition to Concourse B. A significant majority of these design plans and costs were reevaluated in 2004 and it was determined that the projects should go forward with an estimated completion date of 2011.

Of the remaining projects currently deferred, the designs for the deferred projects have been reviewed by the Authority's management and are of such nature that they are still currently applicable and will be of use for the deferred projects when they commence. These design plans and costs will be evaluated on a periodic basis and should it be determined that the projects will not go forward or the designs are no longer usable, the associated costs will be written off.

For the year ended December 31, 2004, the Authority early implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

G. ACCOUNTS PAYABLE

The accounts payable and accrued expenses balance is 55% payable from restricted funds and 45% payable from the general operating fund. The restricted fund payables are primarily trade accounts payable related to the Authority's ongoing construction program. Building construction costs payable are $49.5 million as of December 31, 2004 and $48.8 million as of December 31, 2003. The unrestricted accounts payables and accrued expenses are 26% accrued salaries and benefits, 33% payables to vendors, 32% deferred revenue, with the remaining 9% reserves for insurance claims.

H. PENSION PLANS

The Authority participates in two United States Government pension plans: the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). Each is considered a cost-sharing multiple employer public employee retirement system. Employees hired before December 31, 1983 are members of the CSRS unless they elected to transfer to FERS either before December 31, 1987 or during the special enrollment period from July 1, 1998, through December 31, 1998. In addition, the Authority maintains single employer-defined benefit pension plans that cover all of its police and fire employees and its regular employees hired on or after June 7, 1987, excluding employees working less than 20 hours a week and other temporary employees.

Government Pension Plans

Under the CSRS, employees contribute 7.0% of their base pay (7.5% for firefighters) and the Authority matches the employees' contributions. Retirement benefits are based on length of service and the average of the employee's three highest years of base pay. Employees can retire at age 55 with 30 years of service; age 60 with 20 years of service; or age 62 with five years of service. Firefighters can retire at age 50 with 20 years of firefighting service. Retirement annuities range from 7.5% of the average high three-year base pay to a maximum of 80% depending on years of service. Effective April 1, 1987, the CSRS added a Thrift Savings Plan where CSRS participants can now contribute up to 9.0% of their salary on a tax-deferred basis up to the statutory limit of $14,000 in 2005. There are 75 regular employees and 17 police and firefighter employees currently enrolled in CSRS, as of December 31, 2004.

The FERS provides benefits from three different sources: a Basic Benefit Plan, Social Security, and the Thrift Savings Plan. The Basic Benefit Plan employees' deduction ranges from 0.8% of base pay for regular employees to 1.3% for firefighters. The Authority contributes from 10.7% for regular employees to 23.3% for firefighters. There are 51 regular employees and 39 police and firefighter employees currently enrolled in the FERS, as of December 31, 2004.

Employees retiring under the FERS are entitled to annual maximum retirement benefits equal to 1.1% of the employee's highest three-year average salary for every year of service. Regular employees are eligible for retirement when they have 10 years of service and have reached the minimum retirement age (ranging from 55 to 57 years old), based on a birth date. Firefighters can retire at age 50 with 20 years of firefighting service or at any age with 25 years of service. These employees are entitled to an annual retirement benefit of 1.7% of the employee's highest three-year average salary for every year of service up to 20 years and 1.0% for years of service over 20. FERS participants enrolled in the Thrift Savings Plan can now contribute up to 14% of their salary on a tax-deferred basis.

The Authority's base payroll for employees covered by the CSRS and the FERS for the year ended December 31, 2004 was approximately $11,847,604. The Authority's total base payroll for all employees was approximately $67,796,190. Employee contributions for these federal pension plans were $503,334 (5.0% of covered payroll for 2004) and $638,933 (5.0% of covered payroll for 2003).

The employer contributions for these plans were $1,349,444 for 2004, $1,425,519 for 2003, and $1,527,365 for 2002. These contributions represent 100% of required contributions for each of the respective years.

In March 2003, the United States Office of Personnel Management (OPM) notified the Authority that they had completed the calculation of the cost of providing enhanced retirement benefits to the Authority's police officers under Public Law 106-554. Provisions of this law allowed the Authority's police officers that were employed while the Authority was part of the United States Department of Transportation, to elect to be treated as "law enforcement officers" for purposes of retirement. OPM calculated that the past service cost with interest is $2.8 million and according to the law, is payable in five annual installments with the first payment of $646,493, which was made on May 31, 2003, and the second payment of $646,493, which was made on February 11, 2004. The third annual installment of $646,493 will be made on or before May 31, 2005.

The U.S. Office of Personnel Management administers both the CSRS and the FERS. Copies of the financial statements of these pension plans may be obtained from the United States OPM. Actuarial information for these federal pension plans is not available.

The Authority Pension Plans

Effective January 1, 1989, the Authority established a retirement benefits program for employees hired on or after June 7, 1987, which provides income in the event of retirement or death where a surviving spouse remains. Employee coverage and service credit was retroactive to June 7, 1987. The program includes the Authority Retirement Plan (covering regular employees) and the Authority Retirement Plan for Police Officers and Firefighters (the Plans), both single employer defined benefit plans. Any amendment to these plans must be approved by the Authority's Board. As of December 31, 2004, the number of employees participating in the Plans was:

Current participants	Regular	Police/Fire	Total
Vested	553	161	714
Non-vested	186	89	275
Retirees/Disabled employees currently receiving benefits	84	5	89
Terminated vested participant	146	41	187
Total	969	296	1265

The Authority contributed 7.0% to the Regular Plan and 12.9% to the Police and Fire Plan in 2004. The Authority's base payroll in 2004 for the Regular Plan was approximately $39,812,800 and $12,162,155 for the Police and Fire Plan. The Authority's base payroll in 2003 for the Regular Plan was approximately $38,397,296 and $11,030,058 for the Police and Fire Plan. In 2004, the Authority contributed $2,786,896 to the Regular Plan and $1,568,918 to the Police and Fire Plan. In 2003, the Authority contributed $2,370,976 to the Regular Plan and $1,443,352 to the Police and Fire Plan. Employees do not contribute to the Regular Plan.

The Plans provide retirement benefits as well as death benefits. Regular employees who retire at or after age 60 with 5 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1.2% of final-average salary up to covered compensation and 1.6% of final-average salary which is above covered compensation for each year of credited service (maximum 30 years).

Final-average salary is the average of the employee's highest consecutive 78 pay periods in the most recent 260 pay periods, while covered compensation is the 35-year average of the Social Security Wage Bases ending with the year in which the participant attains Social Security normal retirement age. A pre-retirement surviving spouse benefit is payable in the event of death, equal to 50% of the benefit which would have been payable had the participant retired, provided the participant had at least five years of service. Benefits can be received as early as age 55 with five years of service with a 5% reduction for each year the participant is younger than age 60. Benefits are also adjusted to the lesser of one-half of the CPI or 4.0%.

The benefits to police officers and firefighters become payable at age 55 with five years of service or at any age with 25 years of service. Benefits are not reduced if retirement is at or after age 50. The benefit is 2.0% of the final average earnings for service up to 25 years, and 1.0% of the final average earnings for service between 25 and 30 years. Withdrawal, death, and cost of living benefits are similar to those available to regular employees. Police officers and firefighters are required to contribute 1.5% of base pay per year of participation, which is accumulated with a 5.0% interest rate and returned when a benefit is forfeited.

The Authority contributes the remaining amounts necessary to fund the Plans using the entry age normal actuarial method in addition to an amount to amortize any unfunded liability.

Contributions Required and Made

The Authority's funding policy is to provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. Employer contributions are determined in accordance with the plan provisions and approved by the Authority's Board. Level percentages of payroll employer contribution rates are determined using the entry age actuarial funding method shown in dollars in the following table. Unfunded actuarial accrued liabilities are being amortized over a period of 30 years on an open basis.

Annual Pension Cost and Net Pension Obligation

The Authority's annual pension obligations (asset) for its General Employees and Police and Firefighters pension plans for fiscal 2003, 2002 and 2001, the latest years for which data is available, were as follows:

	2003	
	General Employees	Police and Firefighters
Annual required contribution	$ 2,593,255	$ 1,577,901
Interest on net pension obligation (asset)	(124,254)	(34,394)
Adjustment to annual required contribution	130,488	36,120
Annual pension cost	2,599,489	1,579,627
Contributions made	2,370,976	1,443,352
Increase in net pension obligation (asset)	228,513	136,275
Net pension obligation (asset) beginning of year	(1,656,698)	(458,587)
Net pension obligation (asset) end of year	$(1,428,185)	$ (322,312)

	2002 General Employees	2002 Police and Firefighters
Annual required contribution	$ 2,084,956	$ 1,280,205
Interest on net pension obligation (asset)	(106,714)	(30,680)
Adjustment to annual required contribution	109,712	31,542
Annual pension cost	2,087,954	1,281,067
Contributions made	2,410,730	1,356,150
Increase in net pension obligation (asset)	(322,776)	(75,083)
Net pension obligation (asset) beginning of year	(1,333,922)	(383,504)
Net pension obligation (asset) end of year	$(1,656,698)	$ (458,587)

	2001 General Employees	2001 Police and Firefighters
Annual required contribution	$ 2,321,148	$ 1,232,277
Interest on net pension obligation (asset)	(84,395)	(25,768)
Adjustment to annual required contribution	86,766	26,492
Annual pension cost	2,323,519	1,233,001
Contributions made	2,602,499	1,294,409
Increase in net pension obligation (asset)	(278,980)	(61,408)
Net pension obligation (asset) beginning of year	(1,054,942)	(322,096)
Net pension obligation (asset) end of year	$ (1,333,922)	$ (383,504)

Three year trend information is as follows:

	General Employees Retirement Plan			Police Officers and Firefighters Plan		
Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligations (Assets)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligations (Assets)
2001	$2,323,519	112.1%	($1,333,922)	$1,233,001	105.0%	($383,504)
2002	$2,087,954	115.6%	($1,656,698)	$1,281,067	105.9%	($458,587)
2003	$2,599,491	91.2%	($1,428,183)	$1,579,627	91.4%	($322,312)

Funding Status

The actuarial accrued liability was determined as part of an actuarial valuation of the Plans at December 31, 2003. Significant actuarial assumptions used in determining the actuarial accrued liability include: (a) a rate of return on the investment of the present and future assets of 7.5% per year compounded annually, (b) projected salary increases ranging from 5.5% to 9.5% based on years of service and anticipated inflation,(c) post-retirement benefit increases of 1.75% per year, (d) for inflation rate, CPI increases of 3.5% per year (e) amortization method of percentage of projected payroll, and (f) amortization period of 30 years, closed. The actuarial value of assets is determined using fair market values with changes smoothed over a five-year period. A copy of the actuarial valuation and plan document may be obtained by written request to: MWAA, Benefits Department, 1 Aviation Circle, Washington, DC 20001-6000. There are no separate stand alone financial reports issued.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
General Employees Retirement Plan						
12/31/99	33,600,084	24,021,525	(9,578,559)	139.9%	31,323,944	(30.6)%
12/31/00	39,569,099	29,069,920	(10,499,179)	136.1%	34,926,769	(30.1)%
12/31/01	44,776,250	33,126,203	(11,650,047)	135.2%	37,458,710	(31.1)%
12/31/02	48,332,275	37,975,594	(10,356,681)	127.3%	39,377,221	(26.3)%
12/31/03	53,164,834	43,202,420	(9,962,414)	123.1%	41,524,933	(24.0)%
Police Officers and Firefighters Retirement Plan						
12/31/99	14,570,878	11,597,769	(2,973,109)	125.6%	7,908,710	(37.6)%
12/31/00	17,262,191	14,026,353	(3,235,838)	123.1%	8,882,707	(36.4)%
12/31/01	19,772,489	16,145,289	(3,627,200)	122.5%	9,705,378	(37.4)%
12/31/02	21,744,019	19,020,653	(2,723,366)	114.3%	11,487,047	(23.7)%
12/31/03	24,294,170	21,873,198	(2,420,972)	111.1%	12,679,387	(19.1)%

Net Pension Obligation

	General Employees Retirement Plan			Police Officers and Firefighters Retirement Plan		
Calendar Year	Annual Required Contribution	Actual Contribution	Percentage Contribution	Annual Required Contribution	Actual Contribution	Percentage Contribution
1999	2,139,142	2,312,586	108.1%	1,059,660	1,169,865	110.4%
2000	2,093,484	2,505,837	119.7%	1,055,348	1,214,980	115.1%
2001	2,321,148	2,602,499	112.1%	1,232,277	1,294,409	105.0%
2002	2,084,956	2,410,730	115.6%	1,280,205	1,356,150	105.9%
2003	2,593,255	2,370,976	91.4%	1,577,901	1,443,352	91.5%

Schedules of Funding Progress

Analysis of the dollar amounts of net assets available for benefits, actuarial accrued liability and assets in excess of actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the retirement plan. Trends in assets in excess of actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the actuarial accrued liability in excess of assets as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the lower this percentage, the stronger the retirement plan.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, the size or composition of the population covered by the Plan, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the AAL as a factor.

I. POSTEMPLOYMENT BENEFITS AND DEFERRED COMPENSATION PLAN

In addition to pension benefits, the Authority provides postemployment benefits of health and life insurance. The Authority's Board initially provided the benefits package to meet requirements of the federal enabling legislation. Through the budget approval process, the Authority has continued to provide these benefits of insurance to retired employees under the Authority's group plans for health insurance and life insurance. As of December 31, 2004, 247 retired employees were receiving life insurance benefits and 226 retired employees were receiving health insurance benefits under these Authority programs. Both programs are funded on a "pay-as-you-go" basis through payment of monthly premiums to the insurance carriers.

The Authority pays 80% of the total health insurance premium costs with the remainder paid by the retired employee. For the years ended December 31, 2004 and 2003, the Authority health insurance costs for retired employees totaled $1,952,465 and $1,333,087, respectively.

The Authority pays the full cost of the retired employee's reduced basic and supplemental life insurance. Basic life insurance coverage is reduced to 25% of the employee's life insurance in force at the time of retirement. Supplemental life insurance is a multiple of the basic life insurance (1 to 5 times) that the employee had selected prior to retirement. The supplemental life insurance is reduced at a rate of 2.0% each month so that at the end of 50 months, no supplemental life insurance coverage is in force. Of the 247 retired employees, 40 had supplemental insurance coverage as of December 31, 2004. For the year ended December 31, 2004, the life insurance costs for retired employees totaled $265,248. Of the 223 retired employees, 27 had supplemental insurance coverage as of December 31, 2003. For the year ended December 31, 2003, the life insurance costs for retired employees totaled $202,721.

In accordance with GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the Authority created in February 2005 an Employee Welfare Benefits Trust. This trust will provide a funding mechanism for retiree health coverage and other post-employment benefits other than pensions. The Authority will begin funding the trust and will fully implement GASB Statement No. 43 and GASB Statement No. 45 in 2005.

Deferred Compensation Plan

Effective July 2, 1989, the Authority offered its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits employees to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is available to employees at termination, retirement, death, or an unforeseeable emergency.

Effective January 1, 1997, the Board voted to enter into a trust agreement with Allfirst Trust (now Manufacturers and Traders Trust Company) (M&T) for the assets of the Deferred Compensation Plan. All assets were transferred to Allfirst Trust during 1997 and accordingly, are not included in the Authority's assets and liabilities.

Investments are managed for participants by ICMARC under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participant. The investments are held in trust by M&T.

J. CAPITAL DEBT

Bond Anticipation Commercial Paper Notes

The Authority issued Bond Anticipation Commercial Paper Notes pursuant to Resolution No. 00-1 adopted by the Board of the Authority on April 5, 2000, with a principal amount not to exceed $250,000,000 outstanding at any time. On April 26, 2000 the Authority sold the first tranche of Series A commercial paper for $20,000,000. The Notes are issued to provide interim financing for authorized projects at Reagan National and Washington Dulles. On August 29, 2000 a second tranche of the Series A commercial paper for $130,000,000 was sold. The Notes were issued to refund a portion of the Series 1990A senior bonds. The Notes were supported by a Liquidity Agreement between the Authority and Westdeutsche Landesbank Girozentrale, New York Branch (WestLB), in the amount of $150,000,000 dated April 1, 2000 that would have expired on April 18, 2005. The source of payment are proceeds of Notes sold, Take-Out Bonds, Construction Account funds, Liquidity Facility and other funds determined by the Authority to be legally available.

Pursuant to Resolution No. 00-20 adopted by the Board on October 18, 2000, the remaining $100,000,000 of Bond Anticipation Commercial Paper Notes were approved for issuance. On October 25, 2000 the Authority sold the first tranche of Series B commercial paper for $40,000,000. The Notes were issued to refund a portion of the Series 1990A senior bonds. On February 27, 2001 a second tranche of the Series B commercial paper for $16,000,000 was sold. The Notes were issued to refund the final portion of the Series 1990A senior bonds. On February 8, 2002 the third and final tranche of Series B commercial paper for $44,000,000 was sold. The Notes were issued to provide interim financing for authorized projects at Reagan National and Washington Dulles. The Notes were supported by a Liquidity Agreement between the Authority and Landesbank Baden Wurttemberg, New York Branch (LBBW), in the amount of $100,000,000 dated October 25, 2000 that expired on October 18, 2003. The source of payment are proceeds of Notes sold, Take-Out Bonds, Construction Account funds, Liquidity Facility and other funds determined by the Authority to be legally available. On October 1, 2003, a portion of the Series 2003A Bonds were used to repay the outstanding balance of these Notes.

The Notes were issued and remarketed under Commercial Paper Dealer Agreements between the Authority, Merrill Lynch and M.R. Beal & Company. Series A and B Commercial Paper were originally issued and remarketed through Merrill Lynch and M.R. Beal & Company on a 80/20 split; Series A Merrill Lynch $120,000,000, M.R. Beal & Company $30,000,000; and Series B Merrill Lynch $44,800,000, M.R. Beal & Company $11,200,000. From February 7, 2002 to March 7, 2002 using the remarketing process the amounts

were changed to Series A Merrill Lynch $100,000,000, M.R. Beal & Company $50,000,000, Series B Merrill Lynch $100,000,000. This redistribution maintains the original 80/20 split among the brokers.

The Notes were variable rate based on the current market rate. On October 1, 2003 the Authority issued Airport System Revenue and Refunding Bonds Series 2003A and a portion of this issue was used to refund all $100,000,000 of the Series B Bond Anticipation Notes.

Commercial Paper Notes

Resolution No. 01-6 was adopted by the Board on May 2, 2001, authorizing an additional $250,000,000 of Commercial Paper Notes. With this resolution the Commercial Paper Notes were authorized to an amount not to exceed $500,000,000.

On March 11, 2002, the Authority issued Airport System Revenue Commercial Paper Notes, Series One, in the amount of $100,000,000. All $100,000,000 of the Notes were sold through Bear, Stearns & Co. Inc., on April 14, 2002. The Notes are issued to provide financing for authorized projects at Reagan National and Washington Dulles. The Notes were backed by a direct pay Letter of Credit between the Authority and JP Morgan Chase Bank that would have expired on March 13, 2005, with provisions for extensions. In August 2002, the Authority issued Series 2002D Refunding Bonds which were used to refund the Series One Notes. All $100,000,000 of the Series One Notes were repaid as of November 11, 2002. The weighted average interest rate on the Notes at the time of repayment was 1.43%. In November 2004 the Authority extended the Letter of Credit on the Commercial Paper Notes, Series One with JP Morgan Chase Bank to March 13, 2008 and increased the amount to $150,000,000.

All of the Authority's Commercial Paper Notes are rated "P-1" short-term by Moody's, "A-1+" short-term by S&P, and "F1+" short-term by Fitch. The Authority redeemed the Series A Notes in January 2005.

Bonds Payable (continued)

The Authority's long-term bonds issued and outstanding as of December 31, 2004 and 2003 were as follows:

Airport System Senior Debt	Issue Date	Interest Rates	Maturing On October 1	Amount	Outstanding at December 31, 2004	2003
Series 1993A *						
Revenue & Refunding Bonds	03/01/93					
					$ -	$ 15,335,000
Series 1994A Revenue Bonds	06/15/94					
					$ -	$ 436,540,000
Series 1997A Revenue Bonds	05/15/97					
Serial		4.800%-5.300%	2005-2012	$ 10,710,000		
Term		5.375%	2017	9,275,000		
Term		5.375%	2023	14,865,000		
					$ 34,850,000	$ 35,925,000
Series 1997B Revenue Bonds	05/15/97					
Serial		5.000%-6.000%	2005-2014	$ 72,130,000		
Term		5.500%	2016	19,735,000		
Term		5.750%	2020	46,590,000		
Term		5.500%	2023	42,350,000		
					$ 180,805,000	$ 186,085,000
Series 1998A Revenue Bonds	06/15/98					
Serial		4.100%-4.700%	2005-2013	$ 4,685,,000		
Term		5.000%	2018	3,560,000		
Term		5.000%	2023	4,540,000		
Term		5.000%	2028	5,795,000		
					$ 18,580,000	$ 19,000,000
Series 1998B						
Revenue & Refunding Bonds	06/15/98					
Serial		4.300%-5.500%	2005-2014	$ 100,015,000		
Term		5.000%	2018	56,040,000		
Term		5.000%	2028	85,660,000		
					$ 241,715,000	$ 249,215,000
Series 1999A						
Revenue Refunding Bonds	04/15/99					
Serial		4.000%-4.500%	2005-2010	$ 8,855,000		
Term		5.250%	2012	3,510,000		
Term		5.250%	2014	3,885,000		
Term		5.250%	2016	4,300,000		
Serial		5.000%	2017-2019	7,320,000		
Term		5.000%	2027	66,180,000		
					$ 94,050,000	$ 95,330,000
Series 2001A Revenue Bonds	04/01/01					
Serial		3.700%-5.200%	2005-2022	$137,940,000		
Term		5.500%	2027	67,190,000		
Term		5.000%	2031	67,820,000		
					$ 272,950,000	$ 277,560,000

Airport System Senior Debt	Issue Date	Interest Rates	Maturing On October 1	Amount	Outstanding at December 31, 2004	2003
Series 2001B Revenue Bonds	04/01/01					
Serial		3.500%-4.750%	2005-2017	$ 4,340,000		
Term		5.000%	2021	1,920,000		
Term		5.000%	2026	3,005,000		
Term		5.000%	2031	3,830,000		
					$ 13,095,000	$ 13,350,000
Series 2002A Revenue Bonds	06/04/02					
Serial		3.250%-5.750%	2005-2022	$ 101,580,000		
Term		5.125%	2026	38,780,000		
Term		5.250%	2032	75,075,000		
					$ 215,435,000	$ 218,820,000
Series 2002B Revenue Bonds	06/04/02					
Serial		3.000%-5.200%	2005-2024	$ 15,295,000		
Term		5.250%	2032	11,650,000		
					$ 26,945,000	$ 27,435,000
Series 2002C Refunding Bonds	08/28/02					
Term		Variable	2005-2021	$ 248,545,000		
					$ 248,545,000	$ 257,895,000
Series 2002D Refunding Bonds	08/28/02					
Serial		3.250%-5.375%	2005-2020	$ 42,160,000		
Term		5.000%	2023	12,270,000		
Term		5.000%	2032	49,685,000		
					$ 104,115,000	$ 105,940,000
Series 2003A Revenue & Refunding Bonds	10/01/03					
Serial		2.000%-5.125%	2005-2025	$ 104,390,000		
Term		5.125%	2029	34,935,000		
Term		5.000%	2033	42,590,000		
					$ 181,915,000	$ 185,000,000
Series 2003B Refunding Bonds	10/01/03					
Serial		2.000%-5.250%	2005-2019	$ 43,800,000		
					$ 43,800,000	$ 44,135,000
Series 2003C Revenue & Refunding Bonds	10/01/03					
Serial		2.280%-5.390%	2005-2015	$ 24,910,000		
Term		5.740%	2019	12,935,000		
Term		6.000%	2023	12,880,000		
					$ 50,725,000	$ 52,565,000
Series 2003D Revenue Bonds	10/01/03					
Term		Variable	2005-2033	$ 147,775,000		
					$ 147,775,000	$ 150,000,000
Series 2004A Refunding Bonds	08/26/04					
Term		3.750%	2014	$ 90,000		
Serial		4.50%-5.000%	2015-2022	13,510,000		
					$ 13,600,000	$ -

Airport System Senior Debt	Issue Date	Interest Rates	Maturing On October 1	Amount	Outstanding at December 31, 2004	2003
Series 2004B Revenue Bonds	05/18/04					
Serial		5.000%	2027	$ 25,000,000		
Serial		5.050%	2028	7,330,000		
Term		5.000%	2034	217,670,000		
					$ 250,000,000	$ -
Series 2004C-1 Refunding Bonds	07/07/04					
Serial		5.000%	2006-2008	$ 40,830,000		
Serial		5.000%	2020-2021	56,900,000		
					$ 97,730,000	$ -
Series 2004C-2 Revenue Bonds	08/12/04					
Serial		6.000%	2005	$ 11,885,000		
Term		5.000%	2022	32,970,000		
Serial		5.000%	2023-2024	66,690,000		
					$ 111,545,000	$ -
Series 2004D Refunding Bonds	08/26/04					
Serial		2.000%-5.250%	2005-2019	$ 218,855,000		
					$ 218,855,000	$ -
					2,567,030,000	2,370,130,000
Less unamortized discount/premium					38,291,313	42,961,422
					$ 2,528,738,687	$ 2,327,168,578

* The final portion of Series 1993A Revenue & Refunding Bonds were refunded on October 1, 2004 with fixed rate debt. Series 1994A Revenue Bonds were refunded on October 1, 2004 with fixed rate debt.

Changes in Long Term Liability Balances

Balance as of December 31, 2003			$ 2,327,168,578
Bonds Issued			
Series 2004A	Revenue Refunding Bonds	$ 13,600,000	
Series 2004B	Revenue Bonds	250,000,000	
Series 2004C-1	Revenue Refunding Bonds	97,730,000	
Series 2004C-2	Revenue Refunding Bonds	111,545,000	
Series 2004D	Revenue Refunding Bonds	218,855,000	
			$ 691,730,000
Bonds Refunded			
Series 1993A	Revenue & Refunding Bonds	(13,440,000)	
Series 1994A	Revenue Bonds	(425,285,000)	
			(438,725,000)
Principal Payments			(56,105,000)
Change in Unamortized Discount/Premium net			4,670,109
Balance as of December 31, 2004			$ 2,528,738,687

Senior Debt

A new Master Indenture was created in 1990 for the Authority. The Master Indenture was amended effective September 1, 2001, to in part, change the definition of Annual Debt Service to accommodate the issuance of secured commercial paper, to permit the Authority to release certain revenues from the definition of revenues, and to expand the list of permitted investments to include new, safe investment vehicles designed to increase the return on the Authority investments. Under this amended Master Indenture, all bonds are collateralized by a pledge of Net Revenues of the Authority which is "senior" to the "subordinated" pledge given by the Authority in connection with the issuance of its bonds prior to 1990. A total of $3,956,090,000 of senior bonds excluding the commercial paper, has been issued by the Authority on 15 separate occasions including senior debt of: $246,000,000 in February 1990; $300,000,000 in March 1992; $113,690,000 in March 1993; $500,000,000 in June 1994; $250,000,000 in May 1997; $100,000,000 in October 1997; $300,000,000 in July 1998; $100,000,000 in April 1999; $300,000,000 in April 2001; $250,000,000 in June 2002; $372,970,000 in August 2002; $431,000,000 in October 2003; $250,000,000 in May 2004; $97,730,000 in July 2004: and $344,000,000 in August 2004.

Portions of the Series 1997C Bonds were used to retire the Authority's Series 1989A Subordinated Bonds. Portions of the Series 1998B Bonds were used to retire the Authority's Series 1988A Subordinated Bonds. The proceeds of the Series 1999A Bonds were used to refund the Authority's Series 1997C Senior Bonds. The proceeds of the Series 2002C Bonds were used to refund the outstanding Series 1992A Senior Bonds. Proceeds of the Series 2002D Bonds were used to repay the outstanding Series One Commercial Paper Notes. A portion of the Series 2003A Bonds were used to repay all of the Authority's Series B Bond Anticipation Commercial Paper Notes. Proceeds of the Series 2003B Bonds were used to refund a portion of the Authority's Series 1993A Bonds. Proceeds of the Series 2003C Bonds were used to refund all of the Authority's outstanding Series 1993B Bonds and provide reimbursement for the Vastera Office Building at Washington Dulles.

On October 1, 2003, the Authority issued $281,700,000 of Airport System Revenue Bonds Series 2003A-B-C and $150,000,000 Airport System Revenue Variable Rate Bonds Series 2003D. The proceeds of $185,000,000 of the Series 2003A Bonds together with other available funds (the Sinking Fund Account of the refunded commercial paper notes) were used to finance capital improvements at Reagan National and Washington Dulles and to repay the Authority's outstanding Series B Bond Anticipation Commercial Paper Notes. The outstanding balance of Series B Notes, $100,000,000 was repaid on October 1, 2003. The commercial paper was repaid at par plus accrued interest. The proceeds of $44,135,000 of the Series 2003B Bonds were used to refund a portion of the Authority's outstanding Airport System Revenue and Refunding Bonds, Series 1993A. The outstanding bonds maturing 2005 through 2019 of Series 1992A, $43,360,000, were refunded on October 31, 2003. The Authority estimates the present value savings of this refunding to be $1.9 million. The refunded Series 1992A Bonds were scheduled to mature on October 1, 2005 through 2019 and were subject to optional redemption on October 1, 2003. The bonds were redeemed at a price of 102% plus accrued interest. The proceeds of $52,565,000 of the Taxable Series 2003C Bonds were used to reimburse the Authority the costs of certain capital projects at Washington Dulles and for the refunding of the Authority's outstanding Airport System Taxable Revenue and Refunding Bonds, Series 1993B. The outstanding balance of Series 1993B, $33,930,000 was refunded on October 31, 2003. The Authority estimates the present value savings of this refunding was $4.2 million. The refunded Series 1993B Bonds were scheduled to mature on October 1, 2022 and were subject to optional redemption on October 1, 2003.

The bonds were redeemed at a price of 102% plus accrued interest. The proceeds of $150,000,000 of the Variable Rate Series 2003D Bonds were used to finance capital improvements at Reagan National and Washington Dulles. The Series 2003D Bonds are issued as auction rate securities in two subseries. Series 2003D-1, $75,000,000, with Goldman, Sachs & Co. as underwriter and broker-dealer and Series 2003D-2, $75,000,000, with Morgan Stanley as underwriter and broker-dealer.

During 2004 the Authority issued $250,000,000 of Airport System Revenue Bonds Series 2004B and $441,730,000 of Airport System Revenue Refunding Bonds, Series 2004A, C-1, C-2 and D. The proceeds of Series 2004B Bonds, issued on May18, 2004, will be used to finance capital improvements at Reagan National and Washington Dulles. The proceeds of $13,600,000 of the Series 2004A Bonds, issued August 26, 2004, together with other available funds (the Debt Service Interest Account of the refunded Bonds) were used to refund the Authority's outstanding Airport System Revenue and Refunding Bonds, Series 1993A. The outstanding bonds maturing 2020 through 2022 of Series 1993A, $13,440,000, were refunded on October 31, 2004. The Authority's present value savings of this refunding was $.8 million. The Authority will realize cash flow savings of $745,484 with this transaction. The refunded Series 1993A Bonds were scheduled to mature on October 1,2020 through 2022 and were subject to optional redemption on October 1, 2003. The bonds were redeemed at a price of 101% plus accrued interest. The proceeds of $97,730,000 of the Series 2004C-1 Bonds, issued July 7, 2004, together with other available funds (the Debt Service Interest Account of the refunded Bonds) were used to refund a portion the Authority's outstanding Airport System Revenue Bonds, Series 1994A. The outstanding bonds maturing 2006 through 2008 and 2020 through 2021 of Series 1994A Bonds, $96,360,000, were refunded on October 31, 2004. The Authority's present value savings of this refunding was $3.9 million. The Authority will realize cash flow savings of $5,950,254 with this transaction. The refunded Series 1994A Bonds were scheduled to mature on October 1,2006 through 2008 and 2020 through 2021 were subject to optional redemption on October 1, 2004. The bonds were redeemed at a price of 102% plus accrued interest. The proceeds of $111,545,000 of the Series 2004C-2 Bonds, issued August 12, 2004, together with other available funds (the Debt Service Interest Account of the refunded Bonds) were used to refund a portion the Authority's outstanding Airport System Revenue Bonds, Series 1994A. The outstanding bonds maturing 2005 and 2022 through 2024 of Series 1994A Bonds, $109,430,000, were refunded on October 31, 2004. The Authority's present value savings of this refunding was $3.5 million. The Authority will realize cash flow savings of $5,708,002 with this transaction. The refunded Series 1994A Bonds were scheduled to mature on October 1,2005 and 2022 through 2024 were subject to optional redemption on October 1, 2004. The bonds were redeemed at a price of 102% plus accrued interest. The proceeds of $218,855,000 of the Series 2004D Bonds, issued August 26, 2004, together with other available funds (the Debt Service Interest Account and the Debt Service Reserve Account of the refunded Bonds) were used to refund a portion the Authority's outstanding Airport System Revenue Bonds, Series 1994A. The outstanding bonds maturing 2009 through 2019 of Series 1994A Bonds, $219,495,000, were refunded on October 31, 2004. The Authority's present value savings of this refunding was $14.6 million. The Authority will realize cash flow savings of $20,743,430 with this transaction. The refunded Series 1994A Bonds were scheduled to mature on October 1,2009 through 2019 were subject to optional redemption on October 1, 2004. The bonds were redeemed at a price of 102% plus accrued interest.

The Authority reviews each bond sale to determine if there is value in providing investors municipal bond insurance. Insurance is provided in part by Financial Guaranty Insurance Company (FGIC), Municipal Bond Investors Assurance Corporation (MBIA), Financial Security Assurance (FSA), and XLCapital Assurance (XL). The following table details the Authority's outstanding debt noting insured and uninsured bonds.

Bond Series	Principal Outstanding	Uninsured Bonds	Insured Bonds	Insurance Provider
1997A	$ 34,850,000	$ 24,140,000	$ 10,710,000	FGIC
1997B	180,805,000	134,505,000	46,300,000	FGIC
1998A	18,580,000	18,580,000	-	n/a
1998B	241,715,000	24,850,000	216,865,000	MBIA
1999A	94,050,000	-	94,050,000	FGIC
2001A	272,950,000	-	272,950,000	MBIA
2001B	13,095,000	-	13,095,000	MBIA
2002A	215,435,000	-	215,435,000	FGIC
2002B	26,945,000	-	26,945,000	FGIC
2002C	248,545,000	-	248,545,000	FSA
2002D	104,115,000	-	104,115,000	FSA
2003A	181,915,000	-	181,915,000	FGIC
2003B	43,800,000	12,105,000	31,695,000	FGIC
2003C	50,725,000	5,760,000	44,965,000	FGIC
2003D	147,775,000	-	147,775,000	XL
2004A	13,600,000	-	13,600,000	MBIA
2004B	250,000,000	-	250,000,000	FSA
2004C-1	97,730,000	-	97,730,000	FSA
2004C-2	111,545,000	11,885,000	99,660,000	FSA
2004D	218,855,000	20,570,000	198,285,000	MBIA
	$ 2,567,030,000	$ 252,395,000	$ 2,314,635,000	

The following is a summary of the maturities and sinking fund requirements not including any unamortized discount or premium:

Year ending December 31	Principal	Interest	Total Debt Service
2005	$ 59,035,000	$ 127,359,001	$ 186,394,001
2006	62,360,000	124,517,223	186,877,223
2007	65,255,000	121,677,608	186,932,608
2008	68,405,000	118,616,585	187,021,585
2009	71,475,000	115,393,616	186,868,616
2010 - 2014	413,695,000	522,050,403	935,745,403
2015 - 2019	521,460,000	407,806,170	929,266,170
2020 - 2024	557,105,000	268,814,490	825,919,490
2025 - 2029	399,705,000	149,197,226	548,902,226
Thereafter	348,535,000	44,910,485	393,445,485
	$ 2,567,030,000	$ 2,000,342,807	$ 4,567,372,807

Total interest cost for the years ended December 31, 2004 and 2003 were $122,852,625 and $110,289,313, respectively. The current portion of the Authority's bonds payable, in the amount of $59,035,000, is due on October 1, 2005.

Special Facility Revenue Bonds

In March 1991, the Authority issued $14,200,000 of Special Facility Revenue Bonds on behalf of Caterair International Corporation (Caterair). The bonds were issued to finance the construction of an Inflight Kitchen Facility at Reagan National.

The Special Facility Revenue Bonds and related costs are payable only with funds from Caterair. Since these bonds do not represent a claim on the Authority's assets, nor do they require the Authority to incur future obligations, they have not been recorded in the Authority's financial statements.

K. AIRPORT USE AGREEMENT AND PREMISES LEASE

In February 1990, the Authority entered into a long-term agreement with the major airlines serving the Airports. The Agreement is for a term of 25 years, subject to cancellation rights by the Authority after 15 years, and annually thereafter, at the option of the Authority. The Agreement provides for the calculation of annual rates and charges, with rate adjustments at midyear, or any time revenues fall 5% or more below projections. The Agreement also provides for an annual "settlement" whereby the rates and charges are recalculated using audited financial data to determine any airline over/underpayment. For the year ended December 31, 2004, the settlement resulted in a credit to the airlines of $856,126 which was reflected in accounts payable and accrued expenses. For the year ended December 31, 2003, the settlement resulted in a charge to the airlines of $6,024,150 which is reflected as a reduction in accounts payable and accrued expenses.

Rates and charges are established to provide net revenues of at least 125% of debt service. Net remaining revenues (NRR) are defined as revenues less all operating and maintenance expenses, debt service, specified reserves, and other requirements. Subsequent to the final determination, NRR is allocated between the Authority and the Airlines in accordance with the Agreement which shares NRR approximately 50/50 between the Authority and the Airlines. The Authority's share of NRR is reflected in the Authority's Capital Fund as a reservation of retained earnings in the subsequent year, and is available for repair and rehabilitation projects or any other lawful purpose. The Airlines' share of NRR is recorded prospectively and reduces the subsequent year's rates and charges. All calculations are done in accordance with the Agreement.

In addition, the Agreement establishes an index amount at each Airport. When the transfer amount to the airlines reaches this level, the amount over the plateau is allocated 75% to the Airlines and 25% to the Authority. For the years ended December 31, 2004 and 2003, at Washington Dulles, the transfer amount exceeded the plateau amount by $30,739,487 and $3,861,556, respectively. This amount was allocated accordingly and is included in the Airlines' and the Authority's share. For the years ended December 31, 2004 and 2003, at Reagan National, the transfer amount exceeded the plateau amount by $2,826,273 and $1,615,506, respectively. For the years ended December 31, 2004 and 2003, the Airlines' share of NRR was

$53,981,019 and $27,681,635, respectively, and the Authority's share was $35,285,468 and $25,591,988, respectively.

L. NET ASSETS

Net assets consists of the following:

Invested in capital assets net of debt consists of the following:

	2004	2003
Long-term assets		
Capital assets		
Land	$ 49,069,234	$ 49,066,610
Construction in progress	746,007,372	619,050,895
Buildings and equipment	3,141,673,453	2,894,632,093
Less: accumulated depreciation	(939,466,285)	(818,686,558)
Capital assets, net	2,997,283,774	2,744,063,040
Bond issuance costs, net	41,413,767	34,790,874
Total capital assets	3,038,697,541	2,778,853,914
Less: related liabilities		
Other liabilities, current	-	209,550
Current portion bonds payable	59,035,000	56,105,000
Bank participation notes	187,700,000	187,700,000
Commercial paper notes	150,000,000	150,000,000
Bonds payable, net	2,297,378,926	1,956,341,695
Total liabilities	2,694,113,926	2,350,356,245
Invested in capital assets, net of debt	$ 344,583,615	$ 428,497,669

Restricted assets consists of the following:

	2004	2003
Restricted assets		
Cash and cash equivalents, restricted	$ 97,351,250	$ 238,607,369
Passenger facility charges, cash, restricted	53,485,838	14,797,301
Passenger facility charges and grants, receivables, restricted	15,386,313	8,588,515
Long-term investments, restricted	172,324,761	144,682,412
Investments, restricted	85,660,959	20,831,689
Total assets	424,209,121	427,507,286
Less: liabilities from restricted assets		
Accounts payable and accrued expenses	51,765,780	48,829,027
Debt related to unspent bond proceeds	172,324,761	314,721,883
Accrued interest payable	29,592,238	27,798,058
Total liabilities	253,682,779	391,348,968
Restricted net assets	$ 170,526,342	$ 36,158,318

Unrestricted assets consists of the following:

	2004	2003
Current assets		
Cash and cash equivalents	$ 33,832,942	$ 35,682,214
Investments	197,182,141	106,325,974
Accounts receivables, net	20,033,378	19,294,775
Inventory	3,633,515	1,890,063
Prepaid expenses and other current assets	3,855,483	3,641,957
Total current assets	258,537,459	166,834,983
Long-term assets		
Long-term investments	9,470,986	50,511,329
Net pension asset	1,750,497	2,115,285
Other long-term assets	-	2,045,311
Total unrestricted assets	269,758,942	221,506,908
Less: current liabilities		
Accounts payable and accrued expenses	42,714,040	29,572,492
Operating lease obligations	341,140	341,140
Total current liabilities	43,055,180	29,913,632
Less: other liabilities	654,446	1,300,939
Total liabilities payable from unrestricted assets	43,709,626	31,214,571
Unrestricted assets	$ 226,049,316	$ 190,292,337

M. LEASE COMMITMENTS

Property Held for Lease

The Authority has entered into various operating leases with tenants for the use of space at the Authority's facilities including buildings, terminals, and customer service areas. The lease terms include a minimum fixed fee as well as contingent fees based on the tenants' volume of business. All the leases provide for a periodic review and redetermination of the rental amounts. Minimum future rentals scheduled to be received on operating leases that have initial or remaining noncancelable terms in excess of one year are:

Year ending December 31,	
2005	$ 236,970,025
2006	237,645,431
2007	249,532,899
2008	253,502,466
2009	318,237,719
2010 and thereafter	2,018,075,025
Total minimum future rentals	$ 3,313,963,565

The above amounts do not include contingent rentals and fees in excess of minimums, which amounted to $12,928,335 for the year ended December 31, 2004. The portion of property associated with minimum rentals derived from operating leases was capitalized prior to June 7, 1987, and ownership was retained by the United States Government. Use of this property is provided to the Authority under its operating lease with the United States Government. Accordingly, the cost of this property is not reflected in the financial statements of the Authority.

On December 15, 2003, the operating period of the lease of land and provision for services to the Stephen F. Udvar-Hazy Center (Center) began. The lease agreement grants the Smithsonian the right to occupy, develop, operate, control and use the Center premises located on land at Washington Dulles and obtain services from the Authority for police, fire, emergency, and ambulance needs. This lease expires in 2054. The operating period was preceded by a construction period. Commencing with the operating period the Smithsonian will pay the Authority for the services provided. The lease provides for periodic reconciliation payments and updated payments for services provided.

Property Leased from Others

On June 7, 1987, the United States Government transferred Reagan National's and Washington Dulles' real properties to the Authority under a 50-year lease, with extensions negotiable. The lease was amended effective June 17, 2003, to extend the term from 50 to 80 years, with an expiration date of June 6, 2067. Upon expiration of the lease, the Airports and facilities, including improvements, will be returned to the United States Government. The lease requires annual rental payments of $3,000,000, with subsequent annual rental payments adjusted for inflation. The 2004 federal lease expense was $4,386,037. The Authority invests monthly lease payments in Repurchase Agreements or Certificates of Deposit and makes semi-annual payments, including interest, to the United States Government.

Minimum future rentals scheduled to be paid on operating leases in effect on December 31, 2004, as calculated in 2004 dollars are:

Year ending December 31,	
2005	$ 4,375,347
2006	4,375,347
2007	4,375,347
2008	4,375,347
2009	4,375,347
2010 and thereafter	253,770,145
Total minimum future rentals	$275,646,880

Total rental expense for the years ended December 31, 2004 and 2003 were $4,375,347 and $4,312,430 respectively.

N. OTHER COMMITMENTS AND CONTINGENCIES

Line of Credit

The Authority issued Flexible Term PFC Revenue Notes (bank participation notes) of $255,000,000 to finance PFC approved projects. The bank participation notes have various maturity dates and interest rates that vary from 1.39% to 2.10%. The bank participation notes require the Authority to maintain a reserve account. The reserve account at December 31, 2004 and 2003 was $1,529,885 and $1,529,885, respectively, and is included in PFCs, cash, restricted on the Statements of Net Assets. The bank participation notes are backed by a Bank of America, N.A. Letter of Credit. Bank participation notes outstanding at December 31, 2004 and 2003 were $187,700,000 and $187,700,000, respectively. Total interest cost for the years ended December 31, 2004 and 2003 were $3,571,826 and $2,316,822, respectively.

Construction Commitments

At December 31, 2004, the Authority had outstanding commitments for capital expenditures in connection with its CCP in the amount of $925.5 million. However, services have not been provided as of December 31, 2004, and accordingly no liability has been recorded in the financial statements. In connection with the CCP and Capital, Operating and Maintenance Investment Programs (COMIP), and normal operations of Reagan National and Washington Dulles, the Authority recognizes the need to address environmental concerns and currently oversees a number of ongoing environmental projects. Management has estimated that the cost to continuously monitor and inspect these environmental concerns ranges between $20 million and $25 million, of which a portion is expected to be funded by the FAA. The Authority has budgeted and expects to fund any remaining costs principally through the CCP.

O. GOVERNMENT GRANTS

In Aid of Construction

The Authority receives, on a reimbursement basis, grants from the Commonwealth of Virginia and the United States Government for certain capital construction projects through the Airport Improvement Program (AIP). As a recipient of state and federal financial assistance, the Authority is responsible for maintaining an internal control structure that ensures compliance with all laws and regulations related to this program. Total federal and state grant work performed for years ended December 31, 2004 and 2003 was $28,194,097 and $12,308,939, respectively. All grants are subject to financial and compliance audits by the grantors. However, the Authority estimates that no material disallowances will result from such audits.

Federal and State Grants

The Authority received federal and state grants for operating and capital programs as summarized in the tables below:

Operating Programs

	2004	2003
FAA K-9 Program	$ 400,500	$ 400,500
Drug Enforcement Agency (DEA) Drug Seizures Program	9,521	4,748
Federal Emergency Management Agency (FEMA)	102,396	1,659,541
Prince William County Anti-Terrorism Grant	-	9,345
U.S. Customs Drug Seizures Program	50,238	-

The FAA K-9 program funds are used to offset expenses of training and caring for the explosive detection dogs. The Drug Enforcement Agency Drug Seizures Program, and the U.S. Customs Drug Seizures Program are collaborative efforts between the agencies and the Authority's police department wherein both entities share in the proceeds from the sale of confiscated items. The Authority's proceeds may only be used for certain types of expenses defined by the DEA and Customs. In February 2003, the Authority was impacted by the largest snowstorm to hit the greater Metropolitan Washington area in decades. The Airports were blanketed by 16.6 inches of snow at Reagan National and 24.6 inches of snowfall at Washington Dulles. As a result FEMA reimbursed the Authority in 2003 for certain expenses, including overtime, supplies and equipment. Also, in 2003, the Greater Washington area was struck by Hurricane Isabel on September 18. The Authority was reimbursed by FEMA, $102,396, for expenses such as overtime, supplies and equipment related to this weather event. The Authority received this reimbursement in 2004. All of the amounts above were reported as grant revenue in the Statements of Revenues, Expenses and Changes in Net Assets for year ended December 31, 2004 and 2003.

Capital Program

	2004	2003
Federal Grants for Construction	$26,199,254	$11,067,245
State Grants for Construction	1,701,500	1,241,694
Dept. Homeland Security-Critical Infrastructure Protection Grant	293,343	-

The Authority receives federal and state grants in support of its CCP. The federal programs provide funding for airport development, airport planning and noise compatibility programs from the Airports and Airways Trust Funds in the form of entitlement and discretionary grants for eligible projects. The Commonwealth of Virginia also provides discretionary funds for capital programs.

Grants for capital asset acquisition, facility development, rehabilitation of facilities and long-term planning are reported in the Statements of Revenues, Expenses and Changes in Net Assets as Capital Contributions.

Other Capital Property Acquired

The Authority recorded $6.0 million in capital contributions in 2003, in recognition of a portion of the Aircraft Haul Road and a portion of the Museum Access Road built by the Smithsonian and the Virginia Department of Transportation during the construction of the Center. The title to these access ways vests with the Authority upon completion of the Center and acceptance by the Authority. The Authority is required to maintain these roadways and allow Smithsonian patrons and invitees ingress to and egress from the Center premises for the movement of aircraft and vehicles.

P. LITIGATION

Legal counsel has advised that, while a number of claims in the normal course of business are outstanding, there were no matters outstanding which could have a material adverse effect on the financial statements of the Authority.

Q. PASSENGER FACILITY CHARGES

As described in Note A, PFCs are collected in accordance with the FAA regulations allowing airports to impose a $4.50 PFC. For the years ended December 31, 2004 and 2003, the Authority earned PFCs of $30,881,848 and $27,901,618 for Reagan National, respectively, and $45,178,326 and $30,536,420 for Washington Dulles, respectively. In accordance with the regulations, based on the approval date from the FAA and continuing through the PFC collection period, the Authority's share of entitlement grants will be reduced 75%.

R. RISK MANAGEMENT

The Authority is exposed to a variety of risks or losses related to operations (i.e., injuries to employees, injuries to members of the public or damage to their property, and damage to the Authority's property). Since 2002, the Authority has maintained accruals to finance its self-insured risk of loss. The Authority purchases commercial insurance for claims in excess of amounts provided by these accounts.

All offices within the Authority are covered under these accounts. The accruals are determined by the Risk Management Department based on insurance claim practices and actuarial estimates for prior and current-year claims. The overall accrual for losses was $3,814,673 as of December 31, 2004, and is included in the accounts payable and accrued expenses line item. This is based on the requirements of GASB Statement No. 30, *Risk Financing Omnibus*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claim liability accounts amount in fiscal year 2004 and 2003 were:

Fiscal Year	Beginning Liability	Claims and Changes in Estimates	Claim Payments	Ending Liability
2004	$ 3,206,795	$2,032,614	$ 1,424,736	$ 3,814,673
2003	$ 1,845,162	$3,485,871	$ 2,124,238	$ 3,206,795

Settlements did not exceed insurance coverages for the past three years.

S. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Short Term Investments

The carrying amount approximates the fair value because of the short maturity of those instruments (See Note B).

Long-Term Investments

For securities held as long-term investments, fair value equals quoted market prices, if available. If a quoted market price is not available, fair value is estimated based upon quoted market prices for securities with similar characteristics (See Note B).

Long-Term Debt

The fair value of the Authority's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Authority for debt of the same remaining maturities.

The carrying value of the Authority's Bonds Payable and CP Notes Payable as of December 31, 2004, is $2,717,030,000 with an estimated market value of $2,773,068,449.

Interest Rate SWAP

The fair value of the interest rate swap (used for hedging purposes) is the estimated amount that the Authority would pay (or receive) to terminate the swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counter parties (See Note C).

T. RECLASSIFICATION

The Authority changed the presentation of the compensated absences in the 2004 financial statements. Analysis indicated that the full amount of the liability at year ended December 31, 2003 was consumed completely in 2004. Therefore, the Authority classified the full amount of the liability as of December 31, 2004, as current. For comparative purposes, the full amount of the long-term liability of $4,240,900 as of December 31, 2003, has been reclassified from a long-term liability to a current liability.

The Authority presented in the 2003 Comprehensive Annual Financial Report $10,248,971 in capital assets and the related depreciation of $85,408 in Systems and Structures. These should have been presented in Buildings. The presentation in the 2004 Comprehensive Annual Financial Report has been reclassified to reflect these changes.

U. SUBSEQUENT EVENTS

On January 12, 2005, the Authority closed on its $200 million CP Series Two Program. The Authority's initial draw on the CP Series Two was $141 million and was used with other available funds to refund the $150 million CP BANs Series A. The CP Series Two is secured by an irrevocable direct pay letter of credit issued by WestLB AG and Landesbank Baden-Wurttemberg, which expires in December 2015.

On March 2, 2005, the Board of Directors of the Authority issued Resolution No. 05-7 authorizing the issuance of one or more Series of Airport System Revenue Bonds in an amount not to exceed $350,000,000 to finance or refinance certain capital improvements and acquisitions at Reagan National and Washington Dulles airports with proceeds of tax-exempt and taxable bonds. The resolution also authorized the issuance of $75,000,000 Airport System Revenue Bonds to refund up to $31,310,000 principal amount of outstanding Airport System Revenue Bonds, Series 1997A, $16,720,000 principal amount of Airport System Revenue Bonds, Series 1998A, and $11,040,000 principal amount of outstanding Airport System Revenue Bonds, Series 2001B of the Authority's outstanding bonds.

The Authority purchased 830 acres of land adjacent to Washington Dulles on March 15, 2005. The purchase price was $56,000,000.

DEFINITIONS, SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND PROPOSED AMENDMENTS TO THE MASTER INDENTURE

APPENDIX C

DEFINITIONS AND
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

Page

DEFINITIONS C-1

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE... C-21

DEFINITIONS

The following are definitions of certain terms used in this Official Statement (except as otherwise set forth therein) and a summary of certain provisions of the Indenture.

"Account" shall mean any account or subaccount created in any Fund created under the Master Indenture or under a Supplemental Indenture.

"Accreted Value" shall mean (a) with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in a Supplemental Indenture as the amount representing the initial principal amount of such Capital Appreciation Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (b) with respect to Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Bonds plus the amount of the 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 Supplemental Indenture authorizing the issuance of such Capital Appreciation Bonds or Original Issue Discount Bonds.

"Acts" shall mean, collectively, Va. Code Ann. § 5.1-152-178(2001) (codifying Chapter 598 of the Acts of Virginia General Assembly of 1985, as amended), and the District of Columbia Regional Airports Authority Act of 1985 (D.C. Law 6-67), as amended, codified at D.C. Code Ann. §§ 9-901 et seq. (2001).

"Airport Consultant" shall mean a firm or firms of national recognition experienced in the field of planning the development, operation and management of airports and aviation facilities, selected and employed by the Authority from time to time.

"Airports" shall mean Ronald Reagan Washington National Airport, located in Arlington County, Virginia, Washington Dulles International Airport, located in Fairfax County and Loudoun County, Virginia, and any other airport over which the Authority assumes ownership or operating responsibility and that the Authority designates as a part of the Airports under the Master Indenture; provided, however, that the requirements set forth in the Master Indenture for the issuance of additional Bonds shall be satisfied on the date designated by the Authority for inclusion of such designated airport, assuming the issuance of additional Bonds in an amount equal to the aggregate principal of any indebtedness then outstanding, issued or incurred or otherwise payable from the revenues of such airport if such indebtedness is intended to be secured on a parity basis with the Bonds by the pledge of Net Revenues under the Master Indenture (including revenues of such designated airport).

"Annual Debt Service" shall mean the amount of payments required to be made for principal of and interest on all Bonds, including mandatory sinking fund redemptions and Regularly Scheduled Hedge Payments to be made by the Authority, and Authority payments pursuant to Reimbursement Agreements with Credit Providers to reimburse such Credit

Providers for debt service payments made, and to pay credit enhancement or liquidity support fees, in each case to the extent secured by the Indenture, scheduled to come due within a specified Fiscal Year, computed as follows:

(a) In determining the amount of principal to be funded in each year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Outstanding Bonds (other than Short-Term/Demand Obligations) in accordance with any amortization schedule established by the governing documents setting forth the terms of such Bonds, including, as a principal payment, the Accreted Value of any Capital Appreciation Bonds or Original Issue Discount Bonds maturing or scheduled for redemption in such year; and in determining the amount of interest to be funded in each year, interest payable at a fixed rate shall (except to the extent any other subsection of this definition applies) be assumed to be made at such fixed rate and on the required funding dates.

(b) Except for any historical period for which the actual rate or rates are determinable and except as otherwise provided in the Master Indenture, Bonds that bear interest at a variable rate shall be deemed to bear interest at a fixed annual rate equal to (i) the average of the daily rates of such indebtedness during the 365 consecutive days (or any lesser period such indebtedness has been Outstanding) next preceding the date of computation; or (ii) with respect to any Bonds bearing interest at a variable rate which are being issued on the date of computation, the initial rate of such indebtedness upon such issuance.

(c) Any Bonds that bear interest at a variable rate and with respect to which there exists a Hedge Facility that obligates the Authority to pay a fixed interest rate or a different variable interest rate shall (for the period during which such Hedge Facility is reasonably expected to remain in effect) be deemed to bear interest at the effective fixed annual rate or different variable rate thereon as a result of such Hedge Facility. In the case of any Bonds that bear interest at a fixed rate and with respect to which there exists a Hedge Facility that obligates the Authority to pay a floating rate, Annual Debt Service shall (for the period during which such Hedge Facility is reasonably expected to remain in effect) be deemed to include the interest payable on such Bonds, less the fixed amounts received by the Authority under the Hedge Facility, plus the amount of the floating payments (using the convention described in (b) above) to be made by the Authority under the Hedge Facility.

(d) If all or any portion of an Outstanding Series of Bonds constitute Balloon Maturities, unissued Program Bonds or Short-Term/Demand Obligations, then, for purposes of determining Annual Debt Service, each maturity that constitutes a Balloon Maturity, unissued Program Bonds or Short-Term/Demand Obligations shall, unless otherwise provided in the Supplemental Indenture pursuant to which such Bonds are authorized or unless provision (e) of this definition then applies to such maturity, be treated as if it were to be amortized over a term of not more than 30 years and with substantially level annual debt service funding payments commencing not later than the year following the year in which such Balloon Maturity, unissued Program Bonds or Short-Term/Demand

Obligations were issued, and extending not later than 30 years from the date such Balloon Maturity, unissued Program Bonds or Short-Term/Demand Obligations were originally issued; the interest rate used for such computation shall be that rate quoted in The Bond Buyer 25 Revenue Bond Index for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index designated by an Authority Representative, taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Bonds only a portion of which constitutes Balloon Maturities, unissued Program Bonds or Short-Term/Demand Obligations, the remaining portion shall be treated as described in (a) above or such other provision of this definition as shall be applicable, and with respect to that portion of a Series that constitutes Balloon Maturities, all funding requirements of principal and interest becoming due in any year other than the stated maturity of the balloon indebtedness shall be treated as described in (a) above or such other provision of this definition as shall be applicable.

(e) Any maturity of Bonds that constitutes a Balloon Maturity as described in provision (d) of this definition and for which the stated maturity date occurs within 12 months from the date such calculation of Annual Debt Service is made, shall be assumed to become due and payable on the stated maturity date, and provision (d) above shall not apply thereto, unless there is delivered to the entity making the calculation of Annual Debt Service a certificate of an Authority Representative stating (i) that the Authority intends to refinance such maturity, (ii) the probable terms of such refinancing and (iii) that the debt capacity of the Authority is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Maturity shall be assumed to be refinanced in accordance with the probable terms set out in such certificate and such terms shall be used for purposes of calculating Annual Debt Service; provided that such assumption shall not result in an interest rate lower than that which would be assumed under provision (d) above and shall be amortized over a term of not more than 30 years from the expected date of refinancing.

(f) In any computation relating to the issuance of additional Bonds or the rate covenant required by the Master Indenture, there shall be excluded from the computation of Annual Debt Service principal of and interest on indebtedness for which funds are, or are reasonably expected to be, available for and which are irrevocably committed to make such payments, including without limitation any such funds in an escrow account or any such funds constituting capitalized interest held in any fund or account created by the Indenture.

"Authenticating Agent" shall mean the Trustee.

"Authority" shall mean the Metropolitan Washington Airports Authority, a public body politic and corporate created by the Commonwealth of Virginia and the District of Columbia with the consent of the Congress of the United States of America.

"Authority Facilities" shall have the same definition as such term has from time to time in the Acts.

"Authority Representative" shall mean the Chairman, Vice Chairman, President and Chief Executive Officer or Secretary of the Authority or such other person as may be designated to act on behalf of the Authority by written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the Authority by the Chairman or Vice Chairman.

"Balloon Maturities" shall mean, with respect to any Series of Bonds 50% or more of the principal of which matures on the same date or within a Fiscal Year, that portion of such Series which matures on such date or within such Fiscal Year. For purposes of this definition, the principal amount maturing on any date shall be reduced by the amount of such Bonds scheduled to be amortized by prepayment or redemption prior to their stated maturity date. Commercial paper, bond anticipation notes or other Short-Term/Demand Obligations shall not be Balloon Maturities.

"Bond" or **"Bonds"** shall mean, for purposes of this summary, any bonds or any other evidences of indebtedness for borrowed money issued from time to time pursuant to the Master Indenture and the Supplemental Indentures. The term "Bond" or "Bonds" shall include notes, bond anticipation notes, commercial paper and other Short-Term/Demand Obligations, Regularly Scheduled Hedge Payments, and other securities, contracts or obligations incurred through lease, installment purchase or other agreements or certificates of participation therein, in each case to the extent secured by the Indenture; provided that Hedge Termination Payments to be made by the Authority shall not be secured by the Indenture on a parity with the Bonds. The terms "Bond" and "Bonds" shall not include Subordinated Bonds or Junior Lien Obligations.

"Bond Authorizing Resolution" shall mean the resolution adopted by the Authority on August 3, 2005, authorizing the issuance of the Series 2005D Bonds and Series 2007A Bonds under the Indenture, authorizing the execution and delivery on behalf of the Authority of the related Twenty-fourth Supplemental Indenture and the Twenty-fifth Supplemental Indenture and other related agreements and approving, or duly delegating the authority to approve on behalf of the Authority, the terms and details of the Series 2005D Bonds and Series 2007A Bonds.

"Bond Counsel" shall mean an attorney or firm or firms of attorneys of national recognition, selected or employed by the Authority and acceptable to the Trustee, experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

"Bond Fund" shall mean the Metropolitan Washington Airports Authority Bond Fund created pursuant to the Master Indenture.

"Bond Insurance Policies" shall mean the municipal bond insurance policies issued by the Bond Insurer that guarantee scheduled payment of principal of and interest on the Series

2005D Bonds and Series 2007A Bonds when due. The Bond Insurance Policies shall be deemed to be Credit Facilities within the meaning of the Master Indenture.

"Bond Insurer" shall mean Ambac Assurance Corporation or any successor thereto. The Bond Insurer shall be deemed to be a Credit Provider within the meaning of the Master Indenture.

"Bond Payment Date" shall mean, with respect to the Series 2005D Bonds, each April 1 and October 1, commencing April 1, 2006, and each redemption date with respect for such Series and with respect to the Series 2007A Bonds, each October 1 and April 1, commencing October 1, 2007, and each redemption date with respect to such Series.

"Business Day" shall mean a day of the week other than Saturday, Sunday or a day which shall be, in the Commonwealth of Virginia, the State of New York or in the jurisdiction in which the Corporate Trust Office of the Trustee or the principal office of the Registrar is located, a legal holiday or a day on which banking corporations are authorized or obligated by law or executive order to close.

"Capital Appreciation Bonds" shall mean Bonds all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Indenture and is payable only upon redemption or on the maturity date of such Bonds. Bonds which are issued as Capital Appreciation Bonds, but later convert to Bonds on which interest is paid periodically shall be Capital Appreciation Bonds until the conversion date and from and after such conversion date shall no longer be Capital Appreciation Bonds, but shall be treated as having a principal amount equal to their Accreted Value on the conversion date.

"Code" shall mean the Internal Revenue Code of 1986, as amended, including applicable Treasury Regulations, rulings and procedures promulgated thereunder or under the Internal Revenue Code of 1954, as amended.

"Construction Fund" shall mean the Metropolitan Washington Airports Authority Construction Fund created pursuant to the Master Indenture.

"Corporate Trust Office" shall mean the office of the Trustee at which its principal corporate trust business is conducted, which at the date hereof is located in Baltimore, Maryland.

"Cost" when used with respect to Authority Facilities, shall have the same definition as such term has in the Acts.

"Cost of Issuance Subaccount" shall mean, with respect to a Series of Bonds, the subaccount of that name in the Construction Fund created for such Series of Bonds pursuant to the Master Indenture.

"Credit Facility" or **"Credit Facilities"** shall mean, with respect to a Series of Bonds, the letter of credit, line of credit, municipal bond insurance, surety policy, or other form of credit enhancement and/or liquidity support, if any, for such Series of Bonds, provided for in the applicable Supplemental Indenture, including any alternate Credit Facility with respect to such Series of Bonds delivered in accordance with provisions of the Supplemental Indenture providing for the issuance of such Series of Bonds. Any reference in a Supplemental Indenture to a "Letter of Credit" shall be deemed to mean "Credit Facility."

"Credit Provider" shall mean, with respect to a Series of Bonds, the provider of a Credit Facility, including municipal bond insurance, letter of credit, or liquidity support, if any, for such Series of Bonds specified in the applicable Supplemental Indenture.

"Custodian" shall mean Manufacturers and Traders Trust Company or its successor as custodian and bailee for the Trustee holding the Series 2005D Cost of Issuance Subaccount and the Series 2007A Cost of Issuance Subaccount in the Construction Fund pursuant to provisions of Section 401 of the Master Indenture.

"Debt Service Reserve Fund" shall mean the Metropolitan Washington Airports Authority Debt Service Reserve Fund created pursuant to the Master Indenture.

"DTC" shall mean The Depository Trust Company, New York, New York.

"Emergency Repair and Rehabilitation Fund" shall mean the Metropolitan Washington Airports Authority Emergency Repair and Rehabilitation Fund created pursuant to the Master Indenture.

"Event of Default" shall mean any one or more of the events set forth in the Master Indenture.

"Exempt Facilities" shall mean airports and functionally related and subordinate facilities within the meaning of and qualifying under Section 142 of the Code.

"Federal Lease" shall mean the Agreement and Deed of Lease, dated March 2, 1987, between the United States of America, acting through the Secretary of Transportation, and the Authority, as the same may be amended or supplemented.

"Federal Lease Fund" shall mean the Metropolitan Washington Airports Authority Federal Lease Fund created pursuant to the Master Indenture.

"Fiscal Year" shall mean the fiscal year of the Authority ending as of December 31 of each year or such other date as may be designated from time to time in writing by the Authority to the Trustee.

"Fitch" shall mean Fitch, Inc. and its successors, if any, and if such corporation shall no longer perform the functions of a securities rating agency, "Fitch" shall mean any other nationally recognized Rating Agency designated by an Authority Representative.

"Fund" shall mean any fund created under the Master Indenture or under a Supplemental Indenture.

"General Purpose Fund" shall mean the Metropolitan Washington Airports Authority General Purpose Fund created pursuant to the Master Indenture.

"Government Certificates" shall mean (in the case of governmental obligations) evidences of ownership of proportionate interest in future interest or principal payments of Government Obligations, including depository receipts thereof. Investments in such proportionate interest must be limited to circumstances wherein (i) a bank or trust company acts as custodian and holds the underlying Government Obligations; (ii) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Government Obligations; and (iii) the underlying Government Obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated. "Government Certificates" shall also mean any other type of security or obligation that the Rating Agencies then maintaining ratings on any Bonds to be defeased have determined are permitted defeasance securities and qualify the Bonds to be defeased thereby for a rating in the highest category, or are otherwise acceptable to, each of the Rating Agencies.

"Government Obligations" shall mean direct and general obligations of, or obligations the timely payment of principal and interest on which are unconditionally guaranteed by, the United States of America.

"Hedge Facility" shall mean any rate swap transaction, basis swap transaction, cap transaction, floor transaction, collar transaction, or similar transaction, which is intended to convert or limit the interest rate payable with respect to any Bonds, and which (a) is designated in writing to the Trustee by an Authority Representative as a Hedge Facility to relate to all or part of one or more Series of Bonds; (b) is with a Qualified Hedge Provider or an entity that has been a Qualified Hedge Provider within the 60 day period preceding the date on which the calculation of Annual Debt Service or Maximum Annual Debt Service is being made; and (c) has a term not greater than the term of the designated Bonds or a specified date for mandatory tender or redemption of such designated Bonds.

"Hedge Termination Payment" shall mean an amount payable by the Authority or a Qualified Hedge Provider, in accordance with a Hedge Facility, to compensate the other party to the Hedge Facility for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Hedge Facility.

"Holder" or "Bondholder" shall mean the registered owner of any Bond; provided that with respect to any Series of Bonds which is insured by a bond insurance policy, the term "Holder" or "Bondholder" for purposes of all consents, directions, and notices provided for in the Indenture and any applicable Supplemental Indenture, shall mean the issuer of such bond insurance policy as long as such policy issuer has not defaulted under its policy; provided further that unless it is actually the beneficial owner of the Bonds in respect of which consent is requested, the policy issuer shall not have the power to act on behalf of the registered owners of any Bonds to consent to changes that (a) extend the stated maturity of or time for paying the interest on such Bonds, (b) reduce the principal amount of, purchase price for, or redemption premium or rate of interest payable on such Bonds, or (c) result in a privilege or priority of any Bond over any other Bond. A Qualified Hedge Provider shall only be considered a Bondholder to the extent specified in a Supplemental Indenture.

"Indenture" shall mean the Master Indenture as supplemented and amended from time to time in accordance with its terms.

"Interest Account" shall mean the Account of that name in the Bond Fund created pursuant to the Master Indenture.

"Junior Lien Indenture" shall mean the indenture or other documents of the Authority providing for the issuance of and securing Junior Lien Obligations.

"Junior Lien Obligations" shall mean the Authority's bonds, or other indebtedness or obligations subordinate to the Bonds and the Subordinated Bonds, but such term shall not include the Federal Lease or Special Facility Bonds. The term "Junior Lien Obligations" shall include notes, bond anticipation notes, commercial paper and other Short-Term/Demand Obligations, Regularly Scheduled Hedge Payments, Hedge Termination Payments, and other securities, contracts or obligations incurred through lease, installment purchase or other agreements or certificates of participation therein, in each case to the extent secured by a Junior Lien Indenture.

"Junior Lien Obligations Fund" shall mean the Metropolitan Washington Airports Authority Junior Lien Obligations Fund created pursuant to the Master Indenture for the purpose of providing all deposits and payments required by any Junior Lien Indenture, including reserves for debt service on Junior Lien Obligations.

"Master Indenture" shall mean the Amended and Restated Master Indenture of Trust dated as of September 1, 2001, as amended, between the Authority and the Trustee.

"Maximum Annual Debt Service" shall mean the maximum Annual Debt Service with respect to any specified indebtedness for any Fiscal Year during the term of such indebtedness.

"Moody's" shall mean Moody's Investors Service, Inc., a corporation existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall no longer

perform the functions of a securities rating agency, "Moody's" shall mean any other nationally recognized rating agency designated by an Authority Representative.

"Net Revenues" shall mean Revenues, plus transfers, if any, from the General Purpose Fund to the Revenue Fund, after provision is made for the payment of Operation and Maintenance Expenses.

"Original Issue Discount Bonds" shall mean Bonds which are sold at an initial public offering price of less than face value and which are specifically designated as Original Issue Discount Bonds by the Supplemental Indenture under which such Bonds are issued.

"Operation and Maintenance Expenses" shall mean for any period, all expenses of the Authority paid or accrued for the operation, maintenance, administration, and ordinary current repairs of the Airports. Operation and Maintenance Expenses shall not include: (a) the principal of, premium, if any, or interest payable on any Bonds, Subordinated Bonds and Junior Lien Obligations; (b) any allowance for amortization or depreciation of the Airports; (c) any other expense for which (or to the extent to which) the Authority is or will be paid or reimbursed from or through any source that is not included or includable as Revenues; (d) any extraordinary items arising from the early extinguishment of debt; (e) rentals payable under the Federal Lease; and (f) any expense paid with amounts from the Emergency Repair and Rehabilitation Fund.

"Operation and Maintenance Fund" shall mean the Metropolitan Washington Airports Authority Operation and Maintenance Fund created pursuant to the Master Indenture.

"Opinion of Bond Counsel" shall mean a written opinion of Bond Counsel.

"Outstanding" when used with reference to a Series of Bonds, shall mean, as of any date of determination, all Bonds of such Series theretofore authenticated and delivered except: (a) Bonds of such Series theretofore cancelled by the Trustee or delivered to the Trustee for cancellation; (b) Bonds of such Series which are deemed paid and no longer Outstanding as provided in the Master Indenture; (c) Bonds of such Series in lieu of which other Bonds of such Series have been issued pursuant to the provisions of the Master Indenture relating to Bonds destroyed, stolen or lost, unless evidence satisfactory to the Trustee has been received that any such Bond is held by a bona fide purchaser; (d) after any tender date as may be provided for in the applicable Supplemental Indenture, any Bond of such Series held by a Bondholder who has given a tender notice or was required to tender such Bond in accordance with the provisions of the applicable Supplemental Indenture and which was not so tendered and for which sufficient funds for the payment of the purchase price of which have been deposited with the Trustee or the Paying Agent, if any, or any tender agent appointed under such Supplemental Indenture; and (e) for purposes of any consent or other action to be taken under the Indenture by the Holders of a specified percentage of principal amount of Bonds of a Series or all Series, Bonds held by or for the account of the Authority.

"Paying Agent" shall mean, for all purposes of the Indenture with respect to the Series 2005D Bonds and Series 2007A Bonds, the Trustee or such other paying agent appointed by the Trustee.

"Payment of a Series of Bonds" shall mean payment in full of all principal of, premium, if any, and interest on a Series of Bonds.

"Permitted Investments" shall mean and include any of the following, if and to the extent the same are at the time legal for the investment of the Authority's money:

(a) Government Obligations and Government Certificates.

(b) Obligations issued or guaranteed by any of the following:

(i) Federal Home Loan Bank System;
(ii) Export-Import Bank of the United States;
(iii) Federal Financing Bank;
(iv) Government National Mortgage Association;
(v) Farmers Home Administration;
(vi) Federal Home Loan Mortgage Corporation;
(vii) Federal Housing Administration;
(viii) Private Export Funding Corp;
(ix) Federal National Mortgage Association; and
(x) Federal Farm Credit Bank;

or any indebtedness issued or guaranteed by any instrumentality or agency of the United States of America.

(c) Pre-refunded municipal obligations rated at the time of purchase in the highest rating category by, or otherwise acceptable to, the Rating Agencies and meeting the following conditions:

(i) such obligations are (A) not to be redeemed prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and redemption and (B) the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;

(ii) such obligations are secured by Government Obligations or Government Certificates that may be applied only to interest, principal, and premium payments of such obligations;

(iii) the principal of and interest on such Government Obligations or Government Certificates (plus any cash in the escrow fund with respect to such pre-refunded obligations) are sufficient to meet the liabilities of the obligations;

(iv) the Government Obligations or Government Certificates serving as security for the obligations are held by an escrow agent or trustee; and

(v) such Government Obligations or Government Certificates are not available to satisfy any other claims, including those against the trustee or escrow agent.

(d) Direct and general long-term obligations of any state of the United States of America or the District of Columbia (a "State"), to the payment of which the full faith and credit of such State is pledged and that at the time of purchase are rated in either of the two highest rating categories by, or are otherwise acceptable to, the Rating Agencies.

(e) Direct and general short-term obligations of any State, to the payment of which the full faith and credit of such State is pledged and that at the time of purchase are rated in the highest rating category by, or are otherwise acceptable to, the Rating Agencies.

(f) Interest-bearing demand or time deposits with, or interests in money market portfolios rated AAA-m by Standard & Poor's issued by, state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation ("FDIC"). Such deposits or interests must be (i) continuously and fully insured by FDIC, (ii) if they have a maturity of one year or less, with or issued by banks that at the time of purchase are rated in one of the two highest short term rating categories by, or are otherwise acceptable to, the Rating Agencies, (iii) if they have a maturity longer than one year, with or issued by banks that at the time of purchase are rated in one of the two highest rating categories by, or are otherwise acceptable to, the Rating Agencies, or (iv) fully secured by Government Obligations and Government Certificates. Such Government Obligations and Government Certificates must have a market value at all times at least equal to the principal amount of the deposits or interests. The Government Obligations and Government Certificates must be held by a third party (who shall not be the provider of the collateral), or by any Federal Reserve Bank or depositary, as custodian for the institution issuing the deposits or interests. Such third party should have a perfected first lien in the Government Obligations and Government Certificates serving as collateral, and such collateral is to be free from all other third party liens.

(g) Eurodollar time deposits issued by a bank with a deposit rating at the time of purchase in one of the top two short-term deposit rating categories by, or otherwise acceptable to, the Rating Agencies.

(h) Long-term or medium-term corporate debt guaranteed by any corporation that is rated in one of the two highest rating categories by, or is otherwise acceptable to, the Rating Agencies.

(i) Repurchase agreements, (i) the maturities of which are 30 days or less or (ii) the maturities of which are longer than 30 days and not longer than one year provided the collateral subject to such agreements are marked to market daily, entered into with financial institutions such as banks or trust companies organized under State law or national banking associations, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, or with a dealer or parent holding company that is rated at the time of purchase investment grade by, or otherwise acceptable to, the Rating Agencies. The repurchase agreement should be in respect of Government Obligations and Government Certificates or obligations described in paragraph (b) of this definition. The repurchase agreement securities and, to the extent necessary, Government Obligations and Government Certificates or obligations described in paragraph (b), exclusive of accrued interest, shall be maintained in an amount at least equal to the amount invested in the repurchase agreements. In addition, the provisions of the repurchase agreement shall meet the following additional criteria:

(A) the third party (who shall not be the provider of the collateral) has possession of the repurchase agreement securities and the Government Obligations and Government Certificates;

(B) failure to maintain the requisite collateral levels will require the third party having possession of the securities to liquidate the securities immediately; and

(C) the third party having possession of the securities has a perfected, first priority security interest in the securities.

(j) Prime commercial paper of a corporation, finance company or banking institution at the time of purchase rated in the highest short-term rating category by, or otherwise acceptable to, the Rating Agencies.

(k) Public housing bonds issued by public agencies. Such bonds must be: fully secured by a pledge of annual contributions under a contract with the United States of America; temporary notes, preliminary loan notes or project notes secured by a requisition or payment agreement with the United States of America; or state or public agency or municipality obligations at the time of purchase rated in the highest credit rating category by, or otherwise acceptable to, the Rating Agencies.

(l) Shares of a diversified open-end management investment company, as defined in the Investment Company Act of 1940, or shares in a regulated investment company, as defined in Section 851(a) of the Code, that is a money market fund that at the time of purchase has been rated in the highest rating category by, or is otherwise acceptable to, the Rating Agencies.

(m) Money market accounts of any state or federal bank, or bank whose holding parent company is rated at the time of purchase in one of the top two short-term or long-term rating categories by, or is otherwise acceptable to, the Rating Agencies.

(n) Investment agreements, the issuer of which is at the time of purchase rated in one of the two highest rating categories by, or is otherwise acceptable to, the Rating Agencies.

(o) Any debt or fixed income security, the issuer of which is rated at the time of purchase in the highest rating category by, or is otherwise acceptable to, the Rating Agencies.

(p) Investment agreements or guaranteed investment contracts that are fully secured by obligations described in items (a) or (b) of the definition of Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 103% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.

(q) Any other type of investment consistent with Authority policy in which an Authority Representative directs the Trustee to invest and there is delivered to the Trustee a certificate of an Authority Representative stating that each of the Rating Agencies has been informed of the proposal to invest in such investment and each Rating Agency has confirmed that such investment will not adversely affect the rating then assigned by such Rating Agency to any of the Bonds.

"Principal Account" shall mean the Account of that name in the Bond Fund created pursuant to the Master Indenture.

"Program" shall mean a financing program identified in a Supplemental Indenture, including but not limited to a bond anticipation note or commercial paper program, (a) which is authorized and the terms thereof approved by a resolution adopted by the Authority and the items required under the Master Indenture have been filed with the Trustee, (b) wherein the Authority has authorized the issuance, from time to time, of notes, commercial paper or other indebtedness in an authorized amount, and (c) the authorized amount of which has met the additional bonds test set forth in the Master Indenture and the Outstanding amount of which may vary from time to time, but not exceed the authorized amount.

"Qualified Hedge Provider" shall mean a financial institution whose senior long-term debt obligations, or whose obligations under any Hedge Facility are (a) guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt

obligations, are rated at least "A1," in the case of Moody's and "A+," in the case of S&P, or the equivalent thereto in the case of any successor thereto, or (b) fully secured by obligations described in items (a) or (b) of the definition of Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% (or such lower percentage as shall be acceptable to the Rating Agencies) of the "notional amount" as defined in the Hedge Facility, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.

"Rating Agency" or **"Rating Agencies"** shall mean Moody's or Standard & Poor's or Fitch or all of them and, if any such credit rating agency is no longer issuing applicable credit ratings, any other nationally recognized successor rating agency designated by the Authority with the approval of the Trustee; provided that any such rating agency shall, at the time in question, be maintaining a rating on such Series of Bonds at the request of the Authority.

"Rebate Amount" shall mean the amount, if any, determined pursuant to Section 148(f) of the Code to be paid to the United States of America with respect to the Series 2005D Bonds and Series 2007A Bonds, as described in Section 602 of the Twenty-fourth Supplemental Indenture and the Twenty-fifth Supplemental Indenture, respectively.

"Record Date" shall mean the fifteenth day (regardless of whether a Business Day) of the calendar month immediately preceding a Bond Payment Date.

"Redemption Account" shall mean the Account of that name in the Bond Fund created pursuant to the Master Indenture.

"Register" shall mean, with respect to the Series 2005D Bonds and Series 2007A Bonds, the registration books of the Authority kept to evidence the registration and registration of transfer of the Series 2005D Bonds and Series 2007A Bonds.

"Registrar" shall mean, for all purposes of the Indenture with respect to the Series 2005D Bonds and Series 2007A Bonds, respectively, the keeper of the Register, which shall be the Trustee.

"Regularly Scheduled Hedge Payments" shall mean the regularly scheduled payments under the terms of a Hedge Facility which are due absent any termination, default or dispute in connection with such Hedge Facility.

"Reimbursement Agreement" shall mean, with respect to a Series of Bonds, any agreement or agreements in each case between a Credit Provider or Credit Providers and the Authority under or pursuant to which a Credit Facility for such Series of Bonds is issued, and any agreement that replaces such original agreement that sets forth the obligations of the Authority to

such Credit Provider or Credit Providers and the obligations of such Credit Provider or Credit Providers to the Authority.

"Released Revenues" shall mean Revenues of the Authority in respect of which the Trustee has received the following:

(a) a request of an Authority Representative describing such Revenues and requesting that such Revenues be excluded from the pledge and lien of the Master Indenture on Net Revenues;

(b) either (i) an Airport Consultant's certificate to the effect that, based upon reasonable assumptions, projected Net Revenues after the Revenues covered by the Authority Representative's request are excluded, calculated in accordance with the additional Bonds test set forth in the Master Indenture for each of the three full Fiscal Years following the Fiscal Year in which such certificate is delivered, will not be less than the larger of (A) the amounts needed for making the required deposits to the Principal Accounts, the Interest Accounts, and the Redemption Accounts, the Debt Service Reserve Fund, the Subordinated Bond Funds, the Subordinated Reserve Funds, the Junior Lien Obligations Fund, the Federal Lease Fund, and the Emergency Repair and Rehabilitation Fund or (B) an amount not less than 150% of the average Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such Revenues (disregarding any Bonds that have been or will be paid or discharged); or

(ii) an Authority Representative’s certificate to the effect that Net Revenues in the two most recently completed Fiscal Years, after the Revenues covered by the Authority Representative's request are excluded, were not less than the larger of (A) the amounts needed for making the required deposits to the Principal Accounts, the Interest Accounts, and the Redemption Accounts, the Debt Service Reserve Fund, the Subordinated Bond Funds, the Subordinated Reserve Funds, the Junior Lien Obligations Fund, the Federal Lease Fund, and the Emergency Repair and Rehabilitation Fund or (B) 135% of (1) average Annual Debt Service on all Bonds Outstanding in each such Fiscal Year (disregarding any Bonds that have been paid or discharged), plus (2) average Annual Debt Service with respect to any additional Bonds issued since the completion of such Fiscal Year or proposed to be issued at the time such certificate is delivered;

(c) an Opinion of Bond Counsel to the effect that (i) the conditions set forth in the Master Indenture to the release of such Revenues have been met and (ii) the exclusion of such Revenues from the pledge and lien of the Master Indenture will not, in and of itself, cause the interest on any Outstanding Bonds to be included in gross income for purposes of federal income tax;

(d) written confirmation from each of the Rating Agencies to the effect that the exclusion of such Revenues from the pledge and lien of the Master Indenture will not cause a withdrawal of or reduction in any unenhanced rating then assigned to the Bonds; and

(e) evidence that notice of the proposed Released Revenues was given to all current Credit Providers in respect of any Bonds at least 15 days prior to the proposed effective date of the release of such Revenues.

Upon the Trustee's receipt of such documents, the Revenues described in the Authority Representative's request shall be excluded from the pledge and lien of the Indenture, and the Trustee shall take all reasonable steps requested by the Authority Representative to evidence or confirm the release of such pledge and lien on the Released Revenues.

"Revenue Fund" shall mean the Metropolitan Washington Airports Authority Revenue Fund created pursuant to the Master Indenture.

"Revenues" shall mean all revenues of the Authority received or accrued except: (a) interest income on, and any profit realized from, the investment of moneys in any fund or account to the extent that such income or profit is not transferred to, or retained in, the Revenue Fund or the Bond Fund; (b) interest income on, and any profit realized from the investment of moneys in any fund or account funded from the proceeds of Special Facility Bonds; (c) amounts received by the Authority from, or in connection with, Special Facilities, unless such funds are treated as Revenues by the Authority; (d) the proceeds of any passenger facility charge or similar charge levied by, or on behalf of, the Authority, unless such funds are treated as Revenues by the Authority; (e) grants-in-aid, donations and/or bequests; (f) insurance proceeds which are not deemed to be revenues in accordance with generally accepted accounting principles; (g) the proceeds of any condemnation awards; (h) the proceeds of any sale of land, buildings or equipment; and (i) any other amounts not deemed to be revenues in accordance with generally accepted accounting principles or which are restricted as to their use. Unless otherwise provided in a Supplemental Indenture, there shall also be excluded from the term "Revenues" (a) any Hedge Termination Payments received by the Authority and (b) any Released Revenues in respect of which the Authority has filed with the Trustee the request of Authority Representative, Airport Consultant's or Airport Representative's certificate, Opinion of Bond Counsel and the other documents contemplated in the definition of the term "Released Revenues."

"Securities Depository" shall mean DTC, or its nominees and the successors and assigns of such nominee, or any successor appointed under the Twenty-fourth Supplemental Indenture and the Twenty-fifth Supplemental Indenture, respectively.

"Series 1997A Bonds" shall mean $12,100,000 of the Authority's Outstanding Airport System Revenue Bonds, Series 1997A.

"Series 1997A Refunding Agreement" shall mean the refunding agreement dated as of October 1, 2005, between the Authority and the Trustee relating to the redemption of a portion the Series 1997A Bonds.

"Series 1997B Bonds" shall mean $169,355,000 of the Authority's Outstanding Airport System Revenue Bonds, Series 1997B.

"Series 1997B Refunding Agreement" shall mean the refunding agreement to be dated as of July 1, 2007, between the Authority and the Trustee relating to the redemption or payment of a portion the Series 1997B Bonds.

"Series 2005D Bonds" shall mean the Authority's $11,450,000 principal amount of Airport System Revenue Refunding Bonds, Series 2005D, dated the date of delivery thereof, issued pursuant.

"Series 2005D Cost of Issuance Subaccount" shall mean the subaccount established for the Series 2005D Bonds in the Construction Fund, as set forth in the Twenty-fourth Supplemental Indenture.

"Series 2005D Debt Service Reserve Requirement" shall mean, with respect to the Series 2005D Bonds, an amount equal to the least of (i) one hundred twenty-five percent (125%) of the average Annual Debt Service on the Series 2005D Bonds as of the issuance date of the Series 2005D Bonds, (ii) ten percent (10%) of the original par amount of the Series 2005D Bonds, or (iii) the Maximum Annual Debt Service on the Series 2005D Bonds.

"Series 2005D Interest Account" shall mean the account established for the Series 2005D Bonds in the Bond Fund, as set forth in the Twenty-fourth Supplemental Indenture.

"Series 2005D Principal Account" shall mean the account established for the Series 2005D Bonds in the Bond Fund, as set forth in the Twenty-fourth Supplemental Indenture.

"Series 2005D Redemption Account" shall mean the account established for the Series 2005A Bonds in the Bond Fund, as set forth in the Twenty-fourth Supplemental Indenture.

"Series 2005D Reserve Account" shall mean the account established for the Series 2005D Bonds in the Debt Service Reserve Fund, as set forth in the Twenty-fourth Supplemental Indenture.

"Series 2007A Bonds" shall mean the Authority's $164,460,000 principal amount of Airport System Revenue Refunding Bonds, Series 2007A, dated the date of delivery thereof, and expected to be issued on July 3, 2007 pursuant to the Master Indenture and the Twenty-fifth Supplemental Indenture.

"Series 2007A Cost of Issuance Subaccount" shall mean the subaccount established for the Series 2007A Bonds in the Construction Fund, as set forth in the Twenty-fifth Supplemental Indenture.

"Series 2007A Debt Service Reserve Requirement" shall mean, with respect to the Series 2007A Bonds, an amount equal to the least of (i) one hundred twenty-five percent (125%)

of the average Annual Debt Service on the Series 2007A Bonds as of the issuance date of the Series 2007A Bonds, (ii) ten percent (10%) of the original par amount of the Series 2007A Bonds, or (iii) the Maximum Annual Debt Service on the Series 2007A Bonds.

"Series 2007A Interest Account" shall mean the account established for the Series 2007A Bonds in the Bond Fund, as set forth in the Twenty-fifth Supplemental Indenture.

"Series 2007A Principal Account" shall mean the account established for the Series 2007A Bonds in the Bond Fund, as set forth in the Twenty-fifth Supplemental Indenture.

"Series 2007A Redemption Account" shall mean the account established for the Series 2007A Bonds in the Bond Fund, as set forth in the Twenty-fifth Supplemental Indenture.

"Series 2007A Reserve Account" shall mean the account established for the Series 2007A Bonds in the Debt Service Reserve Fund, as set forth in the Twenty-fifth Supplemental Indenture.

"Series of Bonds" or **" Bonds of a Series"** or **"Series"** shall mean a series of Bonds issued pursuant to the Master Indenture and a Supplemental Indenture.

"Short-Term/Demand Obligations" shall mean each Series of Bonds issued pursuant to the Master Indenture, the payment of principal of which is either (a) payable on demand by or at the option of the Holder at a time sooner than a date on which such principal is deemed to be payable for purposes of computing Annual Debt Service, or (b) scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced for a specified period or term either (i) through the issuance of additional Short-Term/Demand Obligations pursuant to a commercial paper, auction Bond or other similar Program, or (ii) through the issuance of long-term Bonds pursuant to a bond anticipation note or similar Program.

"Special Facility" shall mean any facility, improvement, structure, equipment or assets acquired or constructed on any land or in or on any structure or building at the Airports, the cost of construction and acquisition of which are paid for (a) by the obligor under a Special Facility Agreement, or (b) from the proceeds of Special Facility Bonds, or (c) both.

"Special Facility Agreement" shall mean an agreement entered into by the Authority and one or more other parties, relating to the design, construction, and/or financing of any facility, improvement, structure, equipment, or assets acquired or constructed on any land or in or on any structure or building at the Airports, all or a portion of the payments under which (a) are intended to be excluded from Revenues and (b) may be pledged to the payment of revenue bonds, notes, or other obligations of the Authority other than Bonds, Subordinated Bonds, or Junior Lien Obligations.

"Special Facility Bonds" shall mean any revenue bonds, notes, or other obligations of the Authority other than Bonds, Subordinated Bonds or Junior Lien Obligations, issued to finance any

facility, improvement, structure, equipment or assets acquired or constructed on any land or in or on any structure or building at the Airports, the payment of principal of, premium, if any, and interest on which are payable from and secured by the proceeds thereof and rentals, payments, and other charges payable by the obligor under a Special Facility Agreement.

"Standard & Poor's" shall mean Standard & Poor's Ratings Group, a corporation organized and existing under the laws of the State of New York, and its successors and assigns and, if such corporation shall no longer perform the functions of a securities rating agency, Standard & Poor's shall mean any other nationally recognized securities rating agency designated by an Authority Representative.

"Subordinated Bond Funds" shall mean the bond funds created pursuant to the Subordinated Indenture with respect to each series of Subordinated Bonds, held by the Subordinated Indenture Trustee, in which amounts are held to pay debt service on such series of Subordinated Bonds.

"Subordinated Bond" or **"Subordinated Bonds"** shall mean the Authority's general airport subordinated revenue bonds or other obligations secured by the Subordinated Indenture. The term "Subordinated Bond" or "Subordinated Bonds" shall include notes, bond anticipation notes, commercial paper and other Short-Term/Demand Obligations, Regularly Scheduled Hedge Payments, Hedge Termination Payments, and other securities, contracts or obligations incurred through lease, installment purchase or other agreements or certificates of participation therein, in each case to the extent secured by the Subordinated Indenture.

"Subordinated Indenture" shall mean the Master Indenture of Trust relating to the Subordinated Bonds, dated as of March 1, 1988, between the Authority and the Subordinated Indenture Trustee, as supplemented and amended.

"Subordinated Indenture Trustee" shall mean The National Bank of Washington, or its successor as trustee, under the Subordinated Indenture.

"Subordinated Reserve Funds" shall mean the debt service reserve funds created pursuant to the Subordinated Indenture with respect to certain series of Subordinated Bonds, held by the trustee under the Subordinated Indenture.

"Supplemental Indenture" shall mean an indenture supplementing or modifying the provisions of the Master Indenture entered into by the Authority and the Trustee in accordance with the Master Indenture.

"Trustee" shall mean Manufacturers and Traders Trust Company (successor to Allfirst Bank), and any successor to its duties under the Master Indenture.

"Twenty-fourth Supplemental Indenture" shall mean the Twenty-fourth Supplemental Indenture of Trust dated as of October 1, 2005, between the Authority and the Trustee which supplements and amends the Master Indenture.

"Twenty-fifth Supplemental Indenture" shall mean the Twenty-fifth Supplemental Indenture of Trust dated as of July 1, 2007, between the Authority and the Trustee which supplements and amends the Master Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following, in addition to certain information provided under the heading "INTRODUCTION", "THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS" in Part I of this Official Statement is a summary of certain provisions of the Master Indenture, the Twenty-fourth Supplemental Indenture and the Twenty-fifth Supplemental Indenture. This summary does not purport to be complete or definitive and reference is made to the Master Indenture, the Twenty-fourth Supplemental Indenture and the Twenty-fifth Supplemental Indenture for a complete recital of the terms of such documents. During the offering period for the Series 2005D Bonds and Series 2007A Bonds, copies of the Master Indenture, the Twenty-fourth Supplemental Indenture, and the Twenty-fifth Supplemental Indenture may be obtained from the Authority.

General

The Master Indenture, the Twenty-fourth Supplemental Indenture and the Twenty-fifth Supplemental Indenture constitute an assignment by the Authority to the Trustee, in trust, to secure payment of the Bonds, of the Authority's interest in Net Revenues and sets forth the conditions of such assignments. The Master Indenture, the Twenty-fourth Supplemental Indenture with respect to the Series 2005D Bonds and the Twenty-fifth Supplemental Indenture with respect to the Series 2007A Bonds also provide for the issuance of the Series 2005D Bonds and the Series 2007A Bonds, respectively, define the terms thereof and determine the duties of the Trustee and the rights of the Bondholders.

Security for Bonds, Including Series 2005D Bonds and Series 2007A Bonds

The Series 2005D are issued pursuant to and secured by the Master Indenture and the Twenty-fourth Supplemental Indenture. The Series 2007A Bonds are to be issued pursuant to and secured by the Master Indenture and the Twenty-fifth Supplemental Indenture. All Bonds, including the Series 2005D Bonds and Series 2007A Bonds, issued under the Master Indenture and at any time Outstanding shall be equally and ratably secured with all other Outstanding Bonds and obligations, with the same right, lien and preference with respect to Net Revenues, without preference, priority or distinction on account of the date or dates or the actual time or times of the issuance or maturity of the Bonds. All Bonds of a particular Series shall in all respects be equally and ratably secured and shall have the same right, lien and preference established for the benefit of such Series of Bonds under the Master Indenture, including, without limitation, rights in any related Series Account in the Construction Fund, the Bond Fund or the Debt Service Reserve Fund. No mortgage, lien or security interest in the Airports or operating property of the Authority has been pledged to secure the Bonds. Payment of principal of and interest on the Series 2005D Bonds and Series 2007A Bonds when due (other than by virtue of optional redemption) will be guaranteed by the Bond Insurer under the Bond Insurance Policies.

Revenues and Funds

Creation of Funds and Accounts. Pursuant to the Master Indenture, the Twenty-fourth Supplemental Indenture and the Twenty-fifth Supplemental Indenture, the following Funds, Accounts, and Subaccounts are established:

(a) Construction Fund, to be held by a custodian and bailee for the Trustee, which shall contain with respect to the Series 2005D Bonds, a Series 2005D Cost of Issuance Subaccount and with respect to the Series 2007A Bonds, a Series 2007A Cost of Issuance Subaccount.

(b) Revenue Fund, to be held by the Authority.

(c) Operation and Maintenance Fund, to be held by the Authority.

(d) Bond Fund, to be held by the Trustee, which shall contain the following Accounts with respect to the Series 2005D Bonds and Series 2007A Bonds:

(i) Series 2005D Interest Account;

(ii) Series 2007A Interest Account;

(iii) Series 2005D Principal Account;

(iv) Series 2007A Principal Account;

(v) Series 2005D Redemption Account; and

(vi) Series 2007A Redemption Account.

(e) Debt Service Reserve Fund, to be held by the Trustee, which shall contain a Series 2005D Reserve Account with respect to the Series 2005D Bonds and a Series 2007A Reserve Account with respect to the Series 2007A Bonds.

(f) Junior Lien Obligation Fund, to be held by the Authority.

(g) Emergency Repair and Rehabilitation Fund, to be held by the Authority.

(h) Federal Lease Fund, to be held by the Authority.

(i) General Purpose Fund, to be held by the Authority.

Amounts in the Revenue Fund are not pledged to secure Holders of the Bonds. Amounts in the Operation and Maintenance Fund are required to be used by the Authority to pay Operation and Maintenance Expenses and are not pledged to secure Holders of the Bonds. Amounts in the Emergency Repair and Rehabilitation Fund may be used by the Authority to pay the costs of emergency repairs and replacements to the Airports and are not pledged to secure Holders of the Bonds. Amounts in the General Purpose Fund will be available for use by the Authority for any lawful purpose and are not pledged to secure Holders of the Bonds.

Application of Series 2005D Bonds and Series 2007A Bond Proceeds. Proceeds of the Series 2005D Bonds will be delivered to the Trustee on or about October 12, 2005. Proceeds of the Series 2007A Bonds are expected to be delivered to the Trustee on or about July 3, 2007. Upon delivery of the proceeds of each applicable Series of the Bonds, there will be: (a) deposited to the Series 2005D Reserve Account in the Debt Service Reserve Fund an amount equal to the Series 2005D Debt Service Reserve Requirement, (b) transferred from the debt service reserve account established with respect to the Series 1997B Bonds and deposited to the Series 2007A Reserve Account in the Debt Service Reserve Fund an amount equal to the Series 2007A Debt Service Reserve Requirement, (c) transferred to the Trustee amounts, as set forth in the Series 1997A Refunding Agreement, for redemption of a portion of the Series 1997A Bonds, and (e) transferred to the Trustee amounts, as set forth in the Series 1997B Refunding Agreement, for redemption of a portion of the Series 1997B Bonds; however, costs associated with the issuance of the Series 2005D Bonds and Series 2007A Bonds, respectively, will be paid with proceeds of Series 2005D Bonds and Series 2007A Bonds only from the amounts deposited in the applicable Cost of Issuance Subaccount.

Flow of Funds

The Indenture provides that on the first Business Day of each month (a) amounts in the Revenue Fund, excluding any transfers from the General Purpose Fund during the current Fiscal Year, and (b) 1/12 of the amount of any transfers from the General Purpose Fund for the current Fiscal Year, shall be withdrawn from the Revenue Fund and deposited or transferred as set forth under the headings, "THE SERIES 2005D BONDS AND SERIES 2007A BONDS--Security and Source of Payment " in Part I of this Official Statement.

Required Deposits

Moneys are required to be deposited with respect to the Series 2005D Bonds and Series 2007A Bonds as described below. The Supplemental Indenture setting forth the terms of any additional Series of Bonds may require deposits to the applicable debt service and debt service reserve accounts and subaccounts with respect to such Series of Bonds, and, if such Series of Bonds is subject to mandatory purchase at the option of the Bondholder, will require deposits to a purchase fund for such Series of Bonds.

Debt Service Deposits. So long as any Series 2005D Bonds and Series 2007A Bonds are Outstanding, the Twenty-fourth Supplemental Indenture and the Twenty-fifth Supplemental

Indenture, respectively, require that payments be made to the Trustee for the purposes of debt service payments on Series 2005D Bonds and Series 2007A Bonds in the following manner:

(a) Interest Account relating to the Series 2005D Bonds. Beginning on November 1, 2005, and on the first Business Day of each month thereafter, an amount equal to one-fifth (1/5) of the interest payment due on April 1, 2006, and thereafter beginning on the first Business Day of October, 2006, and on the first Business Day of each month thereafter, an amount equal to one-sixth (1/6) of the next interest payment due after such date with respect to the Series of the Series 2005D Bonds shall be deposited to the Interest Account for the Series 2005D Bonds, provided the Authority shall be credited immediately before each Bond Payment Date for interest earned on the monthly deposits made by the Authority.

(b) Interest Account relating to the Series 2007A Bonds. Beginning on August 1, 2007, and on the first Business Day of each month thereafter, an amount equal to one-half (1/2) of the interest payment due on October 1, 2007, and thereafter beginning on the first Business Day of October, 2007, and on the first Business Day of each month thereafter, an amount equal to one-sixth (1/6) of the next interest payment due after such date with respect to the Series of the Series 2007A Bonds shall be deposited to the Interest Account for the Series 2007A Bonds, provided the Authority shall be credited immediately before each Bond Payment Date for interest earned on the monthly deposits made by the Authority.

(c) Principal Account relating to the Series 2005D Bonds. Beginning on October 1, 2007, and on the first Business Day of each month thereafter, an amount equal to one-twelfth (1/12) of the next principal payment due after such date with respect to the Series 2005D Bonds shall be deposited to the Principal Account created with respect to the Series 2005D Bonds.

(d) Principal Account relating to the Series 2007A Bonds. Beginning on October 1, 2007, and on the first Business Day of each month thereafter, an amount equal to one-twelfth (1/12) of the next principal payment due after such date with respect to the Series 2007A Bonds shall be deposited to the Principal Account created with respect to the Series 2007A Bonds.

Debt Service Reserve Fund Deposits. The Debt Service Reserve Fund contains separate Accounts for each individual Series of Bonds and moneys deposited in each such Account secure only the related Series of Bonds.

Beginning on the first Business Day of each month after a withdrawal from the Series 2005D Reserve or the Series 2007A Reserve Account in the Debt Service Reserve Fund to pay interest on the immediately preceding Bond Payment Date, and on the first Business Day of each month thereafter except April and October, an amount equal to one-fifth (1/5) of any deficiency resulting from such payment shall be deposited to the applicable Series 2005D Reserve or Series

2007A Reserve Accounts in the Debt Service Reserve Fund; (b) beginning on the first Business Day of each month after a withdrawal from the Series 2005D Reserve or the Series 2007A Reserve Accounts in the Debt Service Reserve Fund to pay principal on the immediately preceding Bond Payment Date, and on the first Business Day of each month thereafter except each October, an amount equal to one-eleventh (1/11) of any deficiency resulting from a payment on the immediately preceding Bond Payment Date shall be deposited in the applicable Series 2005D Reserve or Series 2007A Reserve Accounts in the Debt Service Reserve Fund; and (c) beginning on the first Business Day of each month except January, an amount equal to one-eleventh (1/11) of the amount necessary to cure any deficiency from the applicable Series Debt Service Reserve Requirement determined by the valuation pursuant to Section 514(b) of the Master Indenture as of the beginning of the current Fiscal Year resulting from a change in market valuation of assets shall be deposited to the applicable Series 2007A Reserve or Series 2007A Reserve Accounts in the Debt Service Reserve Fund. See "THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS--Security and Source of Payment --Debt Service Reserve Fund" in Part I of this Official Statement.

To the extent not needed to maintain the balance therein equal to the applicable Series 2005D Debt Service Reserve Requirement or the Series 2007A Debt Service Reserve Requirement earnings on investments in the applicable Series 2005D Reserve Account or Series 2007A Reserve Account in the Debt Service Reserve Fund shall be transferred after each Bond Payment Date to the Revenue Fund.

Subject to the requirements of Section 506 of the Master Indenture and upon instructions from the Authority, the Trustee may substitute a Credit Facility in lieu of cash or investments, or cash and investments in lieu of a Credit Facility in order to satisfy the Series 2005D Debt Service Reserve Requirement or the Series 2007A Debt Service Reserve Requirement.

Computation and Payment of Rebate Amount

Except with respect to earnings on Funds and Accounts that qualify for an exemption provided by the Code, the Authority will compute and pay any Rebate Amount required by the Code with respect to the Series 2005D Bonds and Series 2007A Bonds.

No payment shall be made if the Authority delivers to the Trustee an Opinion of Bond Counsel to the effect that such payment is not required under the Code to prevent the applicable Series of Bonds from being "arbitrage bonds" within the meaning of Section 148 of the Code.

Investment of Moneys

Moneys in all funds and accounts shall be invested as soon as practicable upon receipt in Permitted Investments, as directed by the Authority or as selected by the Trustee in the absence of direction by the Authority; provided that the maturity date on which such Permitted Investments may be redeemed at the option of the holder thereof shall coincide as nearly as practicable with (but in no event later than) dates on which moneys in the Funds and Accounts for which the

investments were made will be required for the purposes thereof and provided further that in the absence of direction from the Authority the Trustee shall select Permitted Investments in accordance with prudent investment standards.

Additional Bonds

The Authority has issued, and expects to issue in the future, additional Bonds. Under the Indenture, the Authority is permitted to issue one or more Series of additional Bonds on a parity with the outstanding Bonds, if:

The Authority has provided to the Trustee the following evidence indicating that, as of the date of issuance of such additional Bonds, the Authority is in compliance with the rate covenant established by the Indenture (the "Rate Covenant") (discussed under "Rate Covenant" below): (a) the Authority's most recent audited financial statements, and the Authority's unaudited statements for the period, if any, from the date of such audited statements through the most recently completed Fiscal Year quarter, and (b) if applicable, evidence of compliance with the Indenture's requirement of remedial action (discussed under "Rate Covenant" below); and either

(i) an Airport Consultant has provided to the Trustee a certificate stating that, based upon reasonable assumptions, projected Net Revenues will be sufficient to satisfy the Rate Covenant (disregarding any Bonds that have been or will be paid or discharged immediately after the issuance of the additional Bonds proposed to be issued) for each of the next three full Fiscal Years following issuance of the additional Bonds, or each full Fiscal Year from issuance of the additional Bonds through two full Fiscal Years following completion of the Projects financed by the additional Bonds proposed to be issued, whichever is later; provided that, if Maximum Annual Debt Service with respect to all Bonds to be Outstanding following the issuance of the proposed additional Bonds in any Fiscal Year is greater than 110% of Annual Debt Service for such Bonds in any of the test years, then the last Fiscal Year of the test must use such Maximum Annual Debt Service; provided further, that if capitalized interest on any Bonds and proposed additional Bonds is to be applied in the last Fiscal Year of the period described in this sentence, the Airport Consultant shall extend the test through the first full Fiscal Year for which there is no longer capitalized interest, or

(ii) an Authority Representative has provided to the Trustee a certificate stating that Net Revenues in the most recently completed Fiscal Year were not less than the larger of (1) the amounts needed for making the required deposits to the Principal Accounts, the Interest Accounts, and the Redemption Accounts in the Bond Fund, the Debt Service Reserve Fund, the Subordinated Bond Fund, the Subordinated Reserve Fund, the Junior Lien Obligations Fund, the Federal Lease Fund, and the Emergency Repair and Rehabilitation Fund or (2) 125% of (a) Annual Debt Service on Bonds Outstanding in such Fiscal Year (disregarding any Bonds that have been

paid or discharged or will be paid or discharged immediately after the issuance of such additional Bonds proposed to be issued), plus (b) Maximum Annual Debt Service with respect to such additional Bonds proposed to be issued.

With respect to additional Bonds proposed to be issued to refund Outstanding Bonds, the Authority may issue such refunding Bonds if the test described above is met, or if the Authority has provided to the Trustee evidence that (a) the aggregate Annual Debt Service in each Fiscal Year with respect to all Bonds to be Outstanding after issuance of such refunding Bonds will be less than the aggregate Annual Debt Service in each such Fiscal Year through the last Fiscal Year in which Bonds are Outstanding prior to the issuance of such refunding Bonds, and (b) the Maximum Annual Debt Service with respect to all Bonds to be Outstanding after issuance of such refunding Bonds will not exceed the Maximum Annual Debt Service with respect to all Bonds outstanding immediately prior to such issuance.

The issuance of the Series 2005D Bonds and the Series 2007A Bonds will be in compliance with the provisions of the immediately preceding paragraph.

General Covenants of the Authority

The covenants set forth below apply to the Series 2005D Bonds and the Series 2007A Bonds and to any other Series of Bonds issued under the Master Indenture.

Payment of Principal and Interest. The Authority covenants to promptly pay or cause to be paid from Net Revenues (except to the extent payable from bond proceeds or other limited sources of payment specified in the Master Indenture) the principal of, premium, if any, and interest on each Bond, as and when due.

Pledge of Net Revenues. As security for the payment of the principal of, and interest and any premium on, the Bonds, the Authority has granted to the Trustee a pledge of and lien on Net Revenues, as and when received by the Authority, from and after the date of the Master Indenture without any physical delivery thereof or further act.

The Authority has covenanted and agreed that it will not create any pledge, lien or encumbrance upon, or permit any pledge, lien or encumbrance to be created on, Revenues or Net Revenues except for a pledge, lien or encumbrance subordinate to the pledge and lien granted by the Master Indenture for the benefit of the Bonds and the pledge and lien granted by the Subordinated Indenture for the benefit of the Subordinated Bonds. The Authority has previously issued Subordinated Bonds secured by a pledge of Net Revenues that is subordinated to the pledge of Net Revenues securing the Bonds as to moneys that have not been transferred by the Trustee to the Subordinated Indenture Trustee. See "AUTHORITY INDEBTEDNESS--Subordinated Bonds" in Part I of this Official Statement.

In addition to Bonds issued under the Master Indenture, the Authority may issue, at any time and from time to time, in one or more series (a) Special Facility Bonds, (b) other bonds, notes

or other obligations payable solely from and secured solely by revenues other than Revenues and Net Revenues, and (c) bonds, notes or other obligations payable from Net Revenues on a basis subordinate to the Bonds (including the Series 2005D Bonds and the Series 2007A Bonds) and the Subordinated Bonds.

Management of Airports. The Authority has covenanted not to take, or allow any person to take, any action which would cause the Federal Aviation Administration (the "FAA"), or any successor to the powers and authority of the FAA to suspend or revoke the Airports' operating certificates. The Authority will comply with all valid acts, including the Acts, rules, regulations, orders and directives of any governmental, legislative, executive, administrative or judicial body applicable to the Airports and with the Federal Lease, unless the same shall be contested in good faith, all to the end that the Airports will remain in operation at all times.

Operation and Maintenance of Airports. The Authority has covenanted that it will operate and maintain the Airports as a revenue producing enterprise in accordance with the Federal Lease and the Acts. The Authority will make such repairs to the Airports as shall be necessary or appropriate in the prudent management thereof. The Authority has covenanted that it will operate and maintain the Airports in a manner which will entitle it at all times to charge and collect fees, charges and rentals in accordance with airport use agreements, if any, or as otherwise permitted by law, and shall take all reasonable measures permitted by law to enforce prompt payment to it of such fees, charges and rentals when and as due.

Insurance. The Authority has covenanted that it will at all times (a) carry insurance, or cause insurance to be carried, with a responsible insurance company or companies authorized and qualified under the laws of any state of the United States of America to assume the risk thereof, covering such properties of the Airports as are customarily insured, and against loss or damage from such causes as are customarily insured against, by enterprises engaged in a similar type of business, or (b) have adopted and maintain a risk financing plan for property and casualty losses in accordance with the Federal Lease.

Financial Records and Statements. The Authority has covenanted to have an annual audit made by independent certified public accountants of recognized standing and shall within 120 days after the end of each of its Fiscal Years furnish to the Trustee copies of the balance sheet of the Authority as of the end of such Fiscal Year and complete audited financial statements of the Authority for such Fiscal Year, all in reasonable detail.

Rate Covenant

Pursuant to the Indenture, the Authority has covenanted that it will take all lawful measures to fix and adjust from time to time the fees and other charges for the use of the Airports, including services rendered by the Authority, pursuant to airport use agreements or otherwise, calculated to be at least sufficient to produce Net Revenues to provide for the larger of either:

(a) The amounts needed for making the required deposits in each Fiscal Year to the Principal Accounts, the Interest Accounts, and the Redemption Accounts, the Debt Service Reserve Fund, the Subordinated Bond Funds, the Subordinated Reserve Funds, the Junior Lien Obligations Fund, the Federal Lease Fund and the Emergency Repair and Rehabilitation Fund; or

(b) An amount not less than 125% of the Annual Debt Service with respect to Bonds for such Fiscal Year.

Provided that any computation required above shall exclude from Net Revenues any capital gain resulting from any sales or revaluation of Permitted Investments.

The Authority has covenanted that if, upon the receipt of the audit report for a Fiscal Year, the Net Revenues in such Fiscal Year are less than the amount specified above, the Authority will require the Airport Consultant to make recommendations as to the revision of the Authority's schedule of rentals, rates, fees and charges, and upon receiving such recommendations or giving reasonable opportunity for such recommendations to be made, the Authority, on the basis of such recommendations and other available information, will take all lawful measures to revise the schedule of rentals, rates, fees and charges for the use of the Airports as may be necessary to produce the specified amount of Net Revenues in the Fiscal Year following the Fiscal Year covered by such audit report.

In the event that Net Revenues for any Fiscal Year are less than the amount specified above, but the Authority has promptly taken in the next Fiscal Year all available lawful measures to review the schedule of rentals, rates, fees and charges for the use of the Airports to comply with these remedial requirements, there will be no Event of Default under the Indenture; provided, however, that if, after the Authority has complied with these remedial requirements, Net Revenues are not sufficient to provide for the specified amount in the Fiscal Year in which such adjustments are required to be made (as evidenced by the audit report for such Fiscal Year), such failure will be an Event of Default under the Indenture.

Tax Covenants

The Authority has covenanted to comply with certain tax covenants with respect to the tax exemption of the Series 2005D Bonds and Series 2007A Bonds, including, among other matters, the use, expenditure and investment of proceeds and the rebate of certain "arbitrage profit" to the United States Treasury. See "TAX MATTERS" in Part I of this Official Statement.

Default and Remedies

Events of Default. The Master Indenture provides that an Event of Default with respect to one Series of Bonds shall not cause an Event of Default with respect to any other Series of Bonds unless such event or condition on its own constitutes an Event of Default with respect to such other

Series of Bonds. Each of the following is defined as an "Event of Default" with respect to each Series of Bonds under the Master Indenture:

(a) If payment by the Authority in respect of any installment of interest on any Bond of such Series shall not be made in full when the same becomes due and payable;

(b) If payment by the Authority in respect of the principal of any Bond of such Series shall not be made in full when the same becomes due and payable, whether at maturity or by proceedings for redemption or otherwise;

(c) If payment of the purchase price of any Bond of such Series tendered for optional or mandatory tender for purchase, if provided for in the Supplemental Indenture providing for the issuance of such Series, shall not be paid in full as and when due in accordance therewith;

(d) If the Authority shall fail to observe or perform any covenant or agreement on its part under the Master Indenture (other than the rate covenant) for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Authority by the Trustee, or to the Authority and the Trustee by the Holders of at least 25% in aggregate principal amount of Bonds of a Series then Outstanding. If the breach of covenant or agreement is one which cannot be completely remedied within 60 days after written notice has been given, it shall not be an Event of Default with respect to such Series as long as the Authority has taken active steps within the 60 days after written notice has been given to remedy the failure and is diligently pursuing such remedy;

(e) If the Authority is required under the rate covenant to take measures to revise the schedule of rentals, rates, fees and charges for the use of the Airports and Net Revenues in the Fiscal Year in which such adjustments are made are less than the amount specified in the rate covenant contained in the Master Indenture (See "THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS--Security and Source of Payment --Rate Covenant" in Part I of this Official Statement); and

(f) If the Authority shall institute proceedings to be adjudicated a bankrupt or insolvent, or shall consent to the institution of bankruptcy or insolvency proceedings against it, or shall file a petition, answer or consent seeking reorganization or relief under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Authority or of any substantial part of its property, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due.

No Acceleration or Cross Default. There shall be no rights of acceleration with respect to any Bonds, including the Series 2005D Bonds and the Series 2007A Bonds. An Event of Default

with respect to one Series of Bonds shall not cause an Event of Default with respect to any other Series of Bonds unless such event or condition on its own constitutes an Event of Default with respect to such other Series of Bonds.

Remedies and Enforcement of Remedies. The Master Indenture provides that upon the occurrence and continuance of any Event of Default with respect to a Series of Bonds, the Trustee may, or, upon the written request of the Holders of not less than 25% in an aggregate principal amount of such Series of Bonds, together with indemnification of the Trustee to its satisfaction therefor shall, proceed forthwith to protect and enforce its rights and the rights of the Bondholders under the Master Indenture and under such Series of Bonds and the Acts by such suits, actions, injunction, mandamus or other proceedings to enforce all rights under such Series of Bonds, the Master Indenture and the Acts as the Trustee, being advised by counsel, shall deem expedient.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of a Series of Bonds, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (a) to prevent any impairment of the security under the Master Indenture by any acts or omissions to act which may be unlawful or in violation thereof, or (b) to preserve or protect the interests of the Holders of such Series of Bonds, provided that such request is in accordance with law and the provisions of the Master Indenture, and, in the sole judgment of the Trustee, is not unduly prejudicial to the interest of the Holders of Bonds of each Series not making such request.

The remedies provided for in the Master Indenture with respect to reaching Funds or Accounts thereunder shall be limited to the Funds or Accounts thereunder pledged to the applicable Series of Bonds with respect to which an Event of Default exists.

Application of Revenues and Other Moneys After Default. The Master Indenture provides that during the continuance of an Event of Default with respect to any Series of Bonds, all moneys received by the Trustee with respect to such Series of Bonds pursuant to any right given or action taken under the provisions of the Master Indenture shall, after payment of the costs and expenses of the proceedings which resulted in the collection of such moneys and of the fees, expenses and advances incurred or made by the Trustee with respect thereto, be applied according to the accrued debt service deposits or payments with respect to each such Series as follows:

(a) Unless the principal amounts of all such Outstanding Bonds shall have become due and payable:

First: To the payment to the persons entitled thereto of all installments of interest then due on such Bonds in the order of 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 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 amounts of any Bonds of such Series which shall have become due (other than Bonds of such Series previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Master Indenture), whether at maturity or by proceedings for redemption or otherwise or upon the tender of any Bond of such Series pursuant to the terms of the Supplemental Indenture providing for the issuance of such Series, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Bonds of such Series due on any date, then to the payment thereof ratably, according to the principal amounts due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal amounts of all Outstanding Bonds of such Series shall have become due and payable, to the payment of the principal amounts and interest then due and unpaid upon such Bonds 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 Bond of such Series over any other Bond of such Series, ratably, according to the amounts due respectively for principal amounts and interest, to the persons entitled thereto without any discrimination or preference.

Whenever moneys are to be applied by the Trustee as described in (a) and (b) above, such moneys shall be applied on the date fixed by the Trustee and, upon such date, interest on the principal amounts to be paid on such dates shall cease to accrue if so paid.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or the Bondholders or any Credit Provider under the Master Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Indenture or existing at law or in equity or by statute (including the Acts) on or after the date of the Master Indenture.

Remedies Vested in the Trustee. All rights of action (including the right to file proof of claims) under the Master Indenture or under any of the Bonds of any Series may be enforced by the Trustee without the possession of any of the Bonds of such Series or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Trustee may be brought in its name as the Trustee without the necessity of joining as plaintiffs or defendants any Holders of the applicable Series of Bonds. Subject to the provisions of the Master Indenture, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Bonds of such Series.

Control of Proceedings. If an Event of Default with respect to a Series of Bonds shall have occurred and be continuing, the Master Indenture provides that the Holders of a majority in aggregate principal amount of Bonds of such Series then Outstanding shall have the right, at any time, by any instrument in writing executed and delivered to the Trustee, to direct the method and

place of conducting any proceeding to be taken with respect to funds or assets solely securing such Series of Bonds in connection with the enforcement of the terms and conditions thereof, provided that such direction is in accordance with law and the provisions of the Master Indenture (including indemnity to the Trustee as provided in the Master Indenture) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interest of the Bondholders of each Series of Bonds not joining in such direction, and provided further, that nothing in this section shall impair the right of the Trustee in its discretion to take any other action under the Master Indenture which it may deem proper and which is not inconsistent with such direction by Bondholders.

If an Event of Default with respect to all Series of Bonds shall have occurred and be continuing, the Holders of a majority in aggregate principal amount of all Bonds then Outstanding shall have the right, at any time, by any instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken with respect to Net Revenues or other assets securing all Bonds in connection with the enforcement of the terms and conditions of the Master Indenture, provided that such direction is in accordance with law and the provisions of the Master Indenture (including indemnity to the Trustee as provided in the Master Indenture) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interest of Bondholders not joining in such direction and provided further that nothing shall impair the right of the Trustee in its discretion to take any other action under the Master Indenture which it may deem proper and which is not inconsistent with such direction by Bondholders.

Individual Bondholder Action Restricted. No Holder of any bond of any Series shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Master Indenture or for the execution of any trust thereunder or for any remedy thereunder unless:

(i) an Event of Default has occurred (A) under paragraph (a), (b) or (c) of "Events of Default" of which the Trustee is deemed to have notice, or (B) under paragraph (d), (e) or (f) of "Events of Default" of which the Trustee has actual knowledge or as to which the Trustee has been notified in writing;

(ii) the Holders of at least 25% in aggregate principal amount of the applicable Series of Bonds then Outstanding shall have made written request to the Trustee to proceed to exercise the powers granted in the Master Indenture or to institute such action, suit or proceeding in its own name;

(iii) such Bondholders shall have offered the Trustee indemnity as provided in the Master Indenture;

(iv) the Trustee shall have failed or refused to exercise the powers granted or to institute such action, suit or proceeding in its own name for a period of 60 days after receipt by it of such request and offer of indemnity; and

(v) during such 60-day period, no direction inconsistent with such written request has been delivered to the Trustee by the Holders of a majority in aggregate principal

amount of the applicable Series of Bonds then Outstanding as provided in the Master Indenture.

No one or more Holders of Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Master Indenture or to enforce any right thereunder except in the manner provided therein and for the equal benefit of the Holders of all Bonds Outstanding of all affected Series.

Nothing contained in the Master Indenture shall affect or impair, or be construed to affect or impair, the right of the Holder of any Bond (i) to receive payment of the principal of or interest on such Bond on or after the due date thereof, or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Holder of any Bond may institute or prosecute any such suit or enter judgment therein if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien of the Master Indenture on the moneys, funds and properties pledged under the Master Indenture for the equal and ratable benefit of all Holders of Bonds of such Series.

Waiver of Event of Default. No delay or omission of the Trustee, of any Holder of Bonds or, if provided by Supplemental Indenture, any Credit Provider to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by the Master Indenture to the Trustee, the Holders of Bonds and any Credit Provider may be exercised from time to time and as often as may be deemed expedient by them.

The Trustee (with the consent of the Credit Providers, if any, for any affected Series of Bonds) may waive any Event of Default with respect to the Bonds, which, in the Trustee's opinion, shall have been remedied at any time, regardless of whether any suit, action or proceeding has been instituted before the entry of final judgment or decree in any suit, action or proceeding instituted by the Trustee under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy under the Master Indenture; and provided, however, that only the consent of the Credit Providers, if any, with respect to any Series affected by any Event of Default shall be necessary to waive an Event of Default existing only with respect to such Series.

Notwithstanding anything contained in the Master Indenture to the contrary, the Trustee, upon the written request of the applicable Credit Provider, if any, or Holders of at least a majority of the aggregate principal amount of Bonds of a Series then Outstanding, with respect to an Event of Default affecting only such Series (or a majority of the aggregate principal amount of all Bonds then Outstanding, with respect to an Event of Default affecting all Series of Bonds) shall waive any Event of Default under the Master Indenture and its consequences, provided, however, that, a default in the payment of the principal amount of, premium, if any, or interest on any Bond, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Bonds of such Series at the time Outstanding to which an Event of Default applies and the consent of the Credit Provider, if any.

In case of any waiver by the Trustee of an Event of Default under the Master Indenture, the Authority, the Trustee, the Credit Provider, if any, and the Bondholders shall be restored to their former positions and rights under the Master Indenture, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The Trustee shall not be responsible to any one for waiving or refraining any Event of Default in accordance with the Master Indenture.

Bond Insurer as Holder

So long as the Bond Insurance Policies are in full force and effect, the following provisions shall apply:

(a) for all purposes relating to default, remedies and control thereof with respect to the Series 2005D Bonds and the Series 2007A Bonds, except the giving of notice of an Event of Default to Holders of Series 2005D Bonds and Series 2007A Bonds, the Bond Insurer shall be deemed to be the sole Holder of the applicable Series 2005D Bonds and Series 2007A Bonds, and

(b) for all purposes of giving consent to the execution of Supplemental Indentures, the Bond Insurer shall be deemed to be the sole Holder of the applicable Series 2005D Bonds and Series 2007A Bonds.

The Trustee

<u>Trustee Not Required to Take Action Unless Indemnified</u>. Except as expressly required in the Master Indenture, the Trustee shall not be required to institute any proceeding in which it may be a defendant or to take any action to enforce its rights and expose it to liability, or be deemed liable for failure to take such action, unless and until the Trustee shall have been indemnified against all reasonable costs, liability and damages.

<u>Right to Deal in Bonds and Take Other Actions</u>. The Trustee may in good faith buy, sell or hold and deal in any Bonds of any Series, including the Series 2005D Bonds and the Series 2007A Bonds, as if it were not such Trustee and may commence or join any action which a Holder is entitled to take with like effect as if the Trustee were not the Trustee.

<u>Trustee's Fees and Expenses</u>. If the Authority fails to properly pay any reasonable fees, costs or expenses of the Trustee incurred in the performance of its duties, the Trustee may reimburse itself from any surplus moneys on hand in any Fund or Account held by it except any amounts in the Bond Fund.

<u>Removal and Resignation of Trustee</u>. The Trustee may resign at any time. Written notice of such resignation shall be given to the Authority and such resignation shall take effect upon the appointment and qualification of a successor Trustee. In addition, the Trustee may be removed at

any time by the Authority but only for cause by Supplemental Indenture so long as (a) no Event of Default shall have occurred and be continuing, and (b) the Authority determines, in such Supplemental Indenture, that the removal of the Trustee shall not have an adverse effect upon the rights or interests of the Bondholders. In the event of the resignation or removal of the Trustee or in the event of the Trustee is dissolved or otherwise becomes incapable to act as the Trustee, the Authority shall be entitled to appoint a successor Trustee.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Bondholders. The Authority and the Trustee may, without the consent of or notice to any of the Holders enter into one or more Supplemental Indentures for one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission in the Indenture;

(b) To correct or supplement any provision in the Indenture which may be inconsistent with any other provision therein, or to make any other provision with respect to matters or questions arising thereunder which shall not materially adversely affect the interests of the Holders;

(c) To grant or confer upon the Holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon them;

(d) To secure additional revenues or provide additional security or reserves for payment of the Bonds;

(e) To preserve the excludability of interest on the Bonds from gross income for purposes of federal income taxes or to change the tax covenants set forth in the Master Indenture or any Supplemental Indenture pursuant to an Opinion of Bond Counsel that such action will not adversely affect such excludability;

(f) To provide for the issuance of a Series of Bonds under the Master Indenture;

(g) To remove the Trustee in accordance with the Master Indenture; and

(h) To add requirements the compliance with which is required by a Rating Agency in connection with issuing a rating with respect to a Series of Bonds.

(i) To accommodate the technical, operational and structural features of Bonds which are issued or are proposed to be issued or of a Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate bond anticipation notes, commercial paper, auction Bonds, Hedge Facilities, Short-Term/Demand Obligations and other variable rate or adjustable

rate Bonds, Capital Appreciation Bonds, Original Issue Discount Bonds and other discounted or compound interest Bonds or other forms of indebtedness which the Authority from time to time deems appropriate to incur;

(j) To accommodate the use of a Credit Facility for specific Bonds or a specific Series of Bonds; and

(k) To comply with the requirements of the Code as are necessary, in the Opinion of Bond Counsel, to prevent the federal income taxation of the interest on any of the Bonds, including, without limitation, the segregation of Revenues into different funds.

Supplemental Indentures Requiring Consent of Bondholders. The Holders of not less than a majority in aggregate principal amount of the Bonds Outstanding may consent to or approve, from time to time, which consent to or approval shall be in writing and shall not be withheld unreasonably, the execution by the Authority and the Trustee of such Supplemental Indentures as shall be deemed necessary and desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Indenture; provided, that if any Supplemental Indenture modifying, altering, amending, adding to or rescinding any of the terms and provisions of the Indenture contains provisions which affect the rights and interests of less than all Series of Bonds and the section of the Master Indenture relating to Supplemental Indentures not requiring consent of Holders is inapplicable, then such Supplemental Indenture shall require the consent only of the Holders of a majority in Outstanding principal amount of the Series of Bonds so affected; and provided further, that nothing shall permit or be construed as permitting a Supplemental Indenture that would:

(a) extend the stated maturity of or time for paying interest on any Bond or reduce the principal amount of or the redemption premium or rate of interest payable on any Bond, without the consent of the Holder of such Bond;

(b) prefer or give a priority to any Bond over any other Bond, without the consent of the Holder of each Bond then Outstanding not receiving such preference or priority; or

(c) reduce the aggregate principal amount of Bonds then Outstanding the consent of the Holders of which is required to authorize such Supplemental Indenture, without the consent of the Holders of all Bonds then Outstanding.

If the Holders of the required principal amount or number of the Bonds Outstanding shall have consented to and approved the execution of a Supplemental Indenture as provided in the Master Indenture, no Holder of any Bond shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or to the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

Satisfaction and Discharge

If payment of all principal of, premium, if any, and interest on a Series of Bonds in accordance with the terms of such Bonds is made, or is provided for as described below, and if all other sums payable by the Authority under the Master Indenture with respect to such Series of Bonds shall be paid or provided for then the liens, estates and security interests granted thereby shall cease with respect to such Series of Bonds, provided that the rebate provisions, if any, of the related Supplemental Indenture shall survive so long as there is any amount due to the federal government pursuant to such Supplemental Indenture.

Payment of a Series of Bonds, including the Series 2005D Bonds and the Series 2007A Bonds, may be provided for by the deposit with the Trustee of moneys, noncallable Government Obligations, noncallable Government Certificates or pre-refunded municipal obligations (as described in paragraph (c) of the definition of Permitted Investments in the Master Indenture) or any combination thereof. The moneys and the maturing principal and interest income on such Government Obligations, noncallable Government Certificates, or pre-refunded municipal obligations, if any, shall be sufficient and available to pay, when due, the principal of, whether at maturity or upon fixed redemption dates, premium, if any, and interest on such Bonds. The moneys, Government Obligations, noncallable Government Certificates and pre-refunded municipal obligations shall be held by the Trustee irrevocably in trust for the Holders of such Bonds solely for the purpose of paying the principal or redemption price of, including premium, if any, and interest on such Bonds as the same shall mature or become payable upon prior redemption, and, if applicable, upon simultaneous direction, expressed to be irrevocable, to the Trustee as to the dates upon which any such bonds are to be redeemed prior to their respective maturities.

If payment of any of the Series 2005D Bonds or the Series 2007A Bonds is so provided for, the Trustee shall mail a notice so stating to each Holder of such Series 2005D Bonds and Series 2007A Bonds.

Bonds, the payment of which has been provided for, shall no longer be deemed Outstanding under the Master Indenture. The obligation of the Authority in respect of such Bonds shall nevertheless continue but the Holders thereof shall thereafter be entitled to payment only from the moneys, Government Obligations, Government Certificates, and pre-refunded municipal obligations deposited with the Trustee to provide for the payment of such a series of Bonds.

No Bond may be so provided for if, as a result thereof or of any other action in connection with which the provision for payment of such Bond is made, the interest payable on any Bond with respect to which an Opinion of Bond Counsel has been rendered that such interest is excluded from gross income for federal income tax purpose is made subject to federal income taxes. The Trustee shall receive and may rely upon an opinion of Bond Counsel (which may be based upon a ruling or rulings of the Internal Revenue Service) to the effect that the provisions of this paragraph will not be breached by so providing for the payment of any Bonds.

Non-Presentment of Series 2005D Bonds and Series 2007A Bonds

If any Series 2005D Bonds and Series 2007A Bond is not presented for payment of principal of, and premium, if any, and interest on such Series 2005D Bonds and Series 2007A Bond within two (2) years after delivery of such funds to the Trustee, and absent knowledge by the Trustee of any continuing Event of Default, the moneys shall, upon request in writing by the Authority, be paid to the Authority free of any trust or lien and thereafter the Holder of such Series 2005D Bonds and Series 2007A Bond shall look only to the General Purpose Fund of the Authority and then only to the extent of the amounts so received by the Authority without interest thereon. Prior to the transfer of any moneys, the Trustee shall give notice of such transfer to each affected Holder and publish such notice in a newspaper of general circulation in the Washington, D.C. metropolitan area. The Trustee shall have no further responsibility with respect to such moneys or payment of principal of, and premium, if any, and interest on the Series 2005D Bonds and Series 2007A Bonds.

Governing Law

The Master Indenture, the Twenty-fourth Supplemental Indenture, the Twenty-fifth Supplemental Indenture, and the Series 2005D Bonds and Series 2007A Bonds shall be governed and construed in accordance with the laws of the Commonwealth of Virginia.

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SUMMARY OF CERTAIN PROVISIONS OF THE AIRPORT USE AGREEMENT AND PREMISES LEASE

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The following is a summary of certain provisions of the Airport Use Agreement and Premises Lease (the "Airline Agreement"), to which reference is made for a complete statement of its provisions and contents. The Airline Agreement signed by each of the Signatory Airlines is substantially identical except for provisions relating to the Premises and assigned Aircraft Parking Positions for each Signatory Airline. The Airline Agreement governs both Airports. An airline may become a Signatory Airline at one or both of the Airports.

DEFINITIONS

Certain words and terms used in this summary are defined in the Airline Agreement and have the same meanings in this summary, except as defined otherwise in this Official Statement. Some, but not all, of the definitions in the Airline Agreement are set forth below. Certain of these definitions have been abbreviated or modified for purposes of this summary.

"**Additional Projects**" shall mean capital expenditures for construction, acquisitions, and improvements related to the Airports, other than small capital items includable as O&M Expenses in accordance with Authority policy and other than those Projects included in the Capital Development Program.

"Airfield Net Requirement" shall mean at each Airport the Total Requirement attributable to the Airfield Cost Center, less (i) Aircraft Parking Position Charges and Dulles Jet Apron Fees, if any; (ii) direct utility or other reimbursements attributable or allocable to the Airfield Cost Center; and (iii) Transfers, if any, allocable to the Airfield Cost Center.

"**Airline Supported Area**" shall mean for each Airport the Airfield, Terminal and Equipment Cost Centers at that Airport and at Dulles shall also include the International Arrivals Building ("IAB"), the Airside Operations Building ("AOB"), and the Passenger Conveyance System Cost Centers.

"**Bonds**" shall mean Senior Bonds, Subordinated Bonds, and other Indebtedness.

"**Capital Development Program**" shall mean the construction, acquisition and improvements to the Airports, as more particularly described in Exhibits N-1 and D-1 attached to the Airline Agreements, including the Dulles Stage II Development Plan.

"**Capital Charges**" shall mean (i) Debt Service, (ii) Depreciation Requirements, and (iii) Amortization Requirements.

"**Common Use Premises**" shall mean those areas at the Airport which two or more Scheduled Air Carriers are authorized to use, as shown on Exhibits N-B and D-B attached to the Airline Agreement. For purposes of calculating rentals, fees, and charges under the Airline Agreement, such common Use Premises shall be deemed Rentable Space; provided, however, no leasehold interests shall accrue to or be acquired by any authorized user thereof.

"**Cost Centers**" shall mean those areas of functional activities established by the Authority at each Airport, as set forth in Exhibits N-E and D-E attached to the Airline Agreement, and as may be amended by the Authority.

"**Debt Service**" shall mean, as of any date of calculation for any Rate Period, the amounts required pursuant to the terms of any Indenture to be collected during said period for the payment of Bonds, plus fees and amounts payable to providers of any form of credit enhancement used in connection with Bonds.

"**Debt Service Coverage**" shall mean, as of any date of calculation for any period, an amount equal to twenty-five percent (25%) of the portion of Debt Service attributable to Senior Bonds or Subordinated Bonds, plus such other amounts as may be established by any financing agreement or arrangements with respect to Other Indebtedness.

"**Dulles Stage II Development** (or "**Dulles Stage II**")" shall mean specific Projects identified as such in Exhibit D-1 to the Airline Agreement, which Projects shall generally include the initial New Midfield Concourse(s), Passenger Conveyances, and other related improvements at Dulles.

"**Equipment**" shall mean that equipment and devices owned by the Authority and leased to the Airline, which may include but shall not be limited to, baggage make-up and baggage claim conveyors and devices, loading bridges, 400 Hz, and preconditioned air units.

"Extraordinary Coverage Protection Payments" shall mean those payments, if any, required by the Signatory Airlines if Revenues plus Transfers less Operating and Maintenance Expenses at each Airport are projected to be less than one hundred twenty-five percent (125%) of the sum of Debt Service on Senior Bonds and Debt Service on Subordinated Bonds at each Airport.

"**Federal Lease**" shall mean the Agreement and Deed of Lease, dated March 2, 1987, between the United States of America, acting through the Secretary of Transportation, and the Authority, as the same may be amended or supplemented.

"**Fiscal Year**" shall mean the annual accounting period for the Authority for its general accounting purposes which, at the time of entering into the Airline Agreement, is the period of twelve consecutive months beginning with the first day of October of any year.

"**Indenture**" shall mean the Senior Indenture, Subordinated Indenture, or Other Indenture, including amendments, supplements, and successors thereto.

"**Majority-in-Interest**" shall mean, at each Airport, for the Airfield Cost Center, fifty percent (50%) in number of all Signatory Airlines and Signatory Cargo Carriers at such Airport which together landed more than sixty percent (60%) of Signatory Airlines' and Signatory Cargo Carriers" landed weight at that Airport during the most recent six (6) full month period for which the statistics are available, and for the Airline Supported Areas (excluding the Airfield Cost Center), fifty percent (50%) in number of Signatory Airlines at such Airport which together were obligated to pay more than sixty percent (60%) of the sum of Terminal Rentals, Common Use Charges, IAB Charges, AOB Rentals, Passenger Conveyance Charges, and Equipment Charges at such Airport during the most recent six (6) full month period for which statistics are available.

"**Operation and Maintenance Expenses ("O&M Expenses")**" shall mean for any period all expenses of the Authority paid or accrued for the operation, maintenance, administration, and ordinary

current repairs of the Airports. Operations and Maintenance Expenses shall not include (i) the principal of, premium, if any, or interest payable on any Bonds; (ii) any allowance for amortization or depreciation of the Airports; (iii) any other expense for which (or to the extent to which) the Authority is or will be paid or reimbursed from or through any source that is not included or includable as Revenues; (iv) any extraordinary items arising from the early extinguishment of debt; (v) rentals payable under the Federal Lease; and (vi) any expense paid with amounts from the Emergency R&R Fund.

"**Original Cost Estimate**" shall mean for one or more or all of the Projects in the Capital Development Program (as the context shall determine) the amount specified for such Project in Exhibits N-1 and D-1 to the Airline Agreement.

"**Passenger Conveyances**" shall mean the Dulles mobile lounges, buses, or other ground transportation devices, including any underground people mover systems provided by the Authority at Dulles for the movement of passengers and other persons (i) between aircraft, on the one hand, and the Dulles Main Terminal or the IAB, on the other, (ii) between and among the Existing or New Midfield Concourse and the Dulles Main Terminal, and (iii) between and among the Dulles Main Terminal and IAB at Dulles.

"**Permanent Premises**" shall mean those Premises designated as such in Exhibits N-B and D-B to the Airline Agreement.

"**Plateau Amount**" shall mean, at National, the amount of eight million dollars ($8,000,000) in Fiscal Year 1990, and at Dulles the amount of twelve million dollars ($12,000,000) in Fiscal Year 1990. Both amounts shall be subject to annual escalation in accordance with changes in the U.S. Implicit Price Deflator Index. The base date for such adjustment shall be the index for October 1, 1989.

"**Premises**" shall mean areas at the Airports, whether Permanent Premises or Temporary Airline Premises, leased by the Airline pursuant to Article 6 of the Airline Agreement. Premises shall include Exclusive, Preferential, and Joint Use Premises.

"**Revenues**" shall mean all revenues of the Authority received or accrued except (i) interest income on, and any profit realized from, the investment of moneys in any fund or account to the extent that such income or profit is not transferred to, or retained in, the Revenue Fund or the Bond Fund created by the Senior Indenture or the Bond Funds created by the Subordinated Indenture; (ii) interest income on, and any profit realized from, the investment of moneys in any fund or account funded from the proceeds of Special Facility Bonds; (iii) amounts received by the Authority from, or in connection with, Special Facilities, unless such funds are treated as Revenues by the Authority; (iv) the proceeds of any passenger facility charge or similar charge levied by, or on behalf of, the Authority, unless such funds are treated as Revenues by the Authority; (v) grants-in-aid, donations, and/or bequests; (vi) insurance proceeds which are not deemed to be revenues in accordance with generally accepted accounting principles; (vii) the proceeds of any condemnation awards; (viii) the proceeds of any sale of land, buildings or equipment; and (ix) any other amounts which are not deemed to be revenues in accordance with generally accepted accounting principles or which are restricted as to their use.

"**Senior Bonds**" shall mean any bonds or other financing instrument or obligation issued pursuant to the Senior Indenture.

"**Senior Indenture**" shall mean the Master Indenture of Trust dated as of February 1, 1990, securing the Authority's Airport System Revenue Bonds, as such may be amended or supplemented.

"**Special Facility**" shall mean any facility, improvement, structure, equipment, or assets acquired or constructed on any land or in or on any structure or building at the Airports, the cost of construction and acquisition of which are paid for (i) by the obligor under the Special Facility Agreement, or (ii) from the proceeds of Special Facility Bonds, or (iii) both.

"**Sub-Center(s)**" shall mean either a Terminal or Equipment Sub-Center.

"**Subordinated Bonds**" shall mean any bonds or other financing instrument or obligation issued pursuant to the Subordinated Indenture.

"**Subordinated Indenture**" shall mean the Master Indenture of Trust dated March 1, 1988, securing the Authority's General Airport Subordinated Revenue Bonds, as such may be supplemented or amended.

"**Temporary Airline Premises ("TAP)**" shall mean areas of the Airports that are temporarily occupied by the Airline pursuant to Article 5 of the Airline Agreement during the course of the Capital Development Program.

"**Terminal Sub-Centers**" shall mean those individual facilities at each Airport that are included in the Terminal Cost Center at that Airport, and described in Exhibits N-E and D-E of the Airline Agreement. At National, Terminal Sub-Centers shall mean the Main Terminal (which shall also include the Existing North Terminal), the Interim Hangar 11 Terminal, and the New North Terminal. At Dulles, Terminal Sub-Centers shall mean the Dulles Main Terminal, the existing Midfield Concourses, and the New Midfield Concourses.

"**Terminal Sub-Center Net Requirement**" shall mean, for each Terminal Sub-Center at each Airport, the Total Requirement attributable or allocable to each such Terminal Sub-Center, less direct utility or other reimbursements attributable or allocable to said Terminal Sub-Center.

"**Total Requirement**" shall mean, with respect to any Direct Cost Center or Terminal or Equipment Sub-Center, that portion of the sum of (i) O&M Expenses; (ii) required deposits under the Senior Indenture to maintain the O&M Reserve; (iii) Capital Charges; (iv) Debt Service Coverage; (v) required deposits to any Debt Service Reserve Fund; (vi) Federal Lease payment; (vii) Dulles Rate Credit Amortization Requirements (at Dulles only); (viii) required deposits to the Emergency R&R Fund; and (ix) Extraordinary Coverage Protection Payments, if any, properly attributable or allocable to each said Direct Cost Center or Sub-Center.

"**Transfers**" shall mean the amounts to be transferred by the Authority to reduce Signatory Airline rentals, fees, and charges as set forth in Section 9.05 of the Airline Agreement.

TERM

With the exception of certain surviving agreements, all prior agreements between the Authority and the Airlines expired on December 31, 1989. The Airline Agreement for each Signatory Airline becomes effective as of January 1, 1990, provided that the Airline had executed the Airline Agreement by February 28, 1990. If executed after February 28, 1990, the Airline Agreement is effective for that Signatory Airline upon execution by such Signatory Airline and the Authority. The Airline Agreement expires on September 30, 2014 unless the Authority exercises its unilateral right, exercisable on December 31, 2004, or on September 30 of any year thereafter on 180 days notice to the Signatory Airlines. In addition, each Signatory Airline may terminate its Airline Agreement commencing in Fiscal Year 2005, in the event that the Authority proceeds to issue Bonds for a project after an MII disapproval of the project the estimated cost of which exceeds $25,000,000. After such MII disapproval the Authority must defer the Bond issue for such project for one year. Thereafter, the Authority may proceed with the project, but if the MII approval has still not been obtained each Signatory Airline has the right for 60 days from notification by the Authority of its intent to proceed with the project to terminate the Agreement upon 180 days notice to the Authority. (See "Additional Projects.")

COST CENTERS

The Airline Agreement divides each of the Airports into areas (the "Cost Centers") which are described both in terms of geographic location and function. The Airline Agreement establishes separate Cost Centers for National and Dulles Airports. The Cost Centers at each Airport are divided into two groups: the Direct Cost Centers (Airfield, Terminal, Equipment, Ground Transportation, Aviation and Non-Aviation, and, at Dulles only, International Arrivals Building ("IAB"), Airside Operations Buildings ("AOB"), Cargo and Passenger Conveyance System) and the Indirect Cost Centers (Maintenance, Public Safety, Systems and Services, and Administrative). In addition, there are Sub-Centers created with the Terminal and Equipment Cost Centers. The Direct Cost Centers and Sub-Centers are used to account for both costs and revenues. The Indirect Cost Centers primarily serve to accumulate certain costs which are in turn allocated to the Direct Cost Centers and Sub-Centers.

The Signatory Airlines pay rentals, fees and charges based on their lease of Premises in, and usage of, those Direct Centers and Sub-Centers which are within the Airline Supported Areas. The Airline Supported Areas at National are the Airfield, Terminal and Equipment Cost Centers. At Dulles they are the Airfield, Terminal, Equipment, AOB, IAB and Passenger Conveyance System Cost Centers. The Total Requirement for each of the Direct Cost Centers and Sub-Centers in the Airline Supported Areas is determined by allocating to it Operation and Maintenance Expenses, deposits into certain funds and reserves required under any Indenture, allocation of the Total Requirements of the Indirect Cost Centers, Capital Charges (including Debt Service), Debt Service Coverage, Federal Lease payments, and Extraordinary Coverage Protection Payments, if any. The Cost Centers at Dulles also have certain additional amortization requirements allocated to them.

REVENUE-SHARING; CALCULATION OF TRANSFERS

The Authority and the Signatory Airlines have agreed to share in the Net Remaining Revenue of the Airports each Fiscal Year. The Authority's share of Net Remaining Revenue is deposited into the Authority Capital Fund. The Signatory Airlines' share of Net Remaining Revenue ("Transfers") is

deposited into an Airline Transfer Account in the Revenue Fund and used to reduce rentals, fees and charges in the following Fiscal Year. This reduction is accomplished by allocating Transfers to the various Cost Centers and Sub-Centers in the Airlines Supported Areas.

At the end of each Fiscal Year, the amount of Net Remaining Revenue for each Airport is determined by taking total Revenues (plus Transfers, if any, from the previous Fiscal Year) and subtracting from that amount various costs and expenses, including O&M Expenses, Debt Service, Federal Lease payments, various reserve and fund deposit requirements, but excluding Debt Service Coverage. The amount of Net Remaining Revenue so determined for each Airport is allocated between the Authority and Signatory Airlines as follows:

(1) an amount equal to 100% of the depreciation on certain assets and equipment is allocated to the Authority;

(2) an amount equal to 100% of the Debt Service Coverage on Subordinated Bonds included in the calculation of rentals, fees, and charges and collected from the Signatory Airlines, and 100% of the Debt Service Coverage on Bonds issued to fund Equipment, is allocated to the Signatory Airlines;

(3) the remainder is allocated 50% to the Authority, 50% to the Signatory Airlines until the Authority's share reaches the Plateau Amount ($8,000,000 at National, and $12,000,000 at Dulles, in each case stated in 1990 dollars and escalated for inflation thereafter)

(4) the remainder in any Fiscal Year in which the Plateau Amount is reached, is allocated 75% to the Signatory Airlines, 25% to the Authority at the Airport at which the Plateau Amount has been reached.

AIRLINE RENTALS, FEES AND CHARGES

Terminal Rentals for Premises are charged to each of the Signatory Airlines on a square footage basis. The Terminal Sub-Center Net Requirement for the Signatory Airlines' share of each Terminal Sub-Center is determined. This amount is reduced by Transfers allocable to such Sub- Center to determine the adjusted requirement. An average Signatory Airline rental rate per square foot is determined for each Terminal Sub-Center by dividing the adjusted requirement so determined by total square footage of Signatory Airlines' Premises in that Sub-Center. This average rental rate is then weighted for the various types of Signatory Airline rentable space within each Terminal Sub- Center.

Landing Fees are charged to the Signatory Airlines on the basis of landed weight of aircraft. The Airfield Net Requirement for each Airport is determined by subtracting Transfers and certain other Revenues allocable to the Airfield from the Total Requirement of the Airfield. The Landing Fee rate is calculated by dividing each Airport's Airfield Net Requirement by the total landed weight of aircraft of all air transportation companies and general aviation operating at that Airport. Each Signatory Airline pays Landing Fees which are determined as the product of the appropriate Airport's Landing Fee rate and such Signatory Airline's total landed weight. Each Signatory Airline also pays Common Use Charges (or, if the Signatory Airline is a commuter airline and its number of Enplaning Passengers is below a certain threshold, Low Volume Common Use Fees), Equipment Charges, Passenger Security

Reimbursements, and, at Dulles, International Arrivals Building Charges, Airside Operations Buildings Rentals, Passenger Conveyance Charges and, commencing January 1, 1992, Ramp Area Charges.

COMMITMENT TO PAY AIRPORT FEES AND CHARGES

The Authority shall include in the calculation of rentals, fees and charges Extraordinary Coverage Protection Payments if and to the extent necessary to ensure that total Revenues of each Airport, plus Transfers from the previous year, less Operation and Maintenance Expenses at that Airport, are at least equal to 125% of the Debt Service on Senior Bonds and Subordinated Bonds at that Airport.

MAJORITY-IN-INTEREST APPROVAL PROCEDURES

The Authority shall initiate the Majority-in-Interest approval process by delivering the request for approval to the Signatory Airlines at the appropriate Airport for the appropriate cost center. The request will be deemed to have been approved unless the Authority receives, within thirty (30) days, written notice of disapproval from the Signatory Airlines representing a Majority-in-Interest at such Airport for such cost center.

BILLING OF AIRPORT FEES AND CHARGES

Approximately sixty days prior to the end of each Fiscal Year, the Authority is required to notify the Signatory Airlines of the estimated rates for rentals, fees and charges for the next ensuing Fiscal Year. Such rates are based on estimates of the activity at each Airport and on the estimated costs of operating each Airport. Terminal Rentals, Common Use Charges, Equipment Charges, Passenger Conveyance Charges, Aircraft Parking Position Charges, Passenger Security Reimbursement and Air side Operations Building Rentals are due and payable in advance, without demand or invoice, on the first calendar day of each month. Payment for Landing Fees, Low Volume Common Use Fees, Dulles Jet Apron Fees, and International Arrivals Building Charges for each month are due and payable on the tenth calendar day of the next month without demand or invoice.

Payment for all other fees and charges under the Airline Agreement are due within twenty days of the date of the Authority's invoice for such fees and charges. The Authority is required to make an annual adjustment to Signatory Airlines' rentals, fees and charges, effective on the first day of each Fiscal Year. The Authority is authorized, but not required, to make a mid-year adjustment to the Signatory Airlines' rentals, fees and charges if warranted by revised estimates of activity and costs, and the impact of the prior Fiscal Year audits, at the Airports. The Authority may also adjust Signatory Airlines' rentals, fees, and charges at any time under certain circumstances, including when it is projected that total rentals, fees and charges at their current rates would vary by more than five percent from the total rentals, fees and charges that would be payable if rates were based on more current financial and activity data then available. The rental, fees and charges payable by the Signatory Airlines may also be recalculated and increased as appropriate as Projects in the Capital Development Program are completed and as their costs become allocable to the Airline Supported Areas.

GRANT OF RIGHTS;
OBLIGATIONS OF AUTHORITY AND SIGNATORY AIRLINES

Each Signatory Airline is granted the right to operate its air transportation business at each Airport at which it is Signatory Airline and to perform all operations and functions incidental, necessary or proper thereto. The Authority has agreed not to grant to any airline any rates or terms and conditions at the Airports more favorable to such airline than those granted or available to a Signatory Airline, unless the more favorable rates and conditions are offered to the Signatory Airlines. This grant includes the right to use, subject to certain restrictions, the Signatory Airline's leased Premises and Equipment, the Common Use Premises and certain other support facilities at the Airports. Each of the Signatory Airlines and the Authority have certain specified obligations with respect to the maintenance and operation of the Airports. The Authority has certain specified insurance obligations with respect to the Airports, and each Signatory Airline has certain public liability and property insurance obligations.

LEASE OF PREMISES;
ACCOMMODATION PROVISIONS

Premises at each Airport are leased to the Signatory Airlines on an exclusive, joint or preferential use basis. Initially, the Authority will lease Temporary Airline Premises to the Signatory Airlines. As the Capital Development Program is completed, the Authority will begin to lease Permanent Premises to the Signatory Airlines. The Authority will have the right to periodically reallocate space in the Terminal area in accordance with a utilization study conducted by the Authority. In addition, the Authority has the right to require accommodation by a Signatory Airline of another airline on the Signatory Airline's Premises in order to meet the needs of expanding airlines and new entrants.

SUBLEASE AND ASSIGNMENT

All subleases and assignments of leased Premises, and handling agreements, must be approved by the Authority. No sublease, voluntary assignment or handling agreement relieves a Signatory Airline from primary liability for the payment of rentals, fees and charges.

NO ABATEMENT OR SUSPENSION OF PAYMENTS

The Airline Agreement provides that the Signatory Airlines shall not abate, suspend, postpone, set-off or discontinue any payments of Airport rentals, fees and charges which they are obligated to pay thereunder if such abatement would interfere with the Authority's ability to meet the rate covenant or any additional bonds test under the Indenture.

CAPITAL DEVELOPMENT PROGRAM

The Airline Agreement contains as exhibits thereto a list of those Projects which are a part of the Capital Development Program approved by the Signatory Airlines. Subject to the provisions with respect to the Dulles Stage II Development Plan, the Authority must issue Bonds to fund the Capital Development Program and, to the extent Bond proceeds are available, has covenanted to build the Projects of the Capital Development Program. So long as the cost of the Capital Development Program does not exceed the Original Cost Estimate, adjusted for inflation and airline approved scope changes,

plus an agreed upon contingency (25% at National; 20% at Dulles), no further Signatory Airline approvals are required. If the cost exceeds that amount, certain cost control measures apply, and, under certain circumstances, Signatory Airline approvals may be required.

DULLES STAGE II DEVELOPMENT PLAN

The Authority may undertake the construction of the Dulles Stage II Development Plan if (1) the cost of the New Midfield Concourse(s) is to be financed as a Special Facility, (2) if Signatory Airlines at Dulles accounting for at least 50% of Dulles Enplaning Passengers during the most recent 12-month period have agreed to lease at least 66.67% of the airline leasable premises in the New Midfield Concourse(s) or (3) if approved by a Majority-in-Interest of Signatory Airlines at Dulles. If none of these conditions applies, design of Dulles Stage II may nevertheless commence once there are at least 8,000,000 Enplaning Passengers at Dulles in the most recent 12-month period; construction may commence once there are at least 9,500,000 Enplaning Passengers at Dulles in such period. In any event, design and construction may commence on January 1, 2000. Under certain circumstances, certain cost control measures also apply to the Dulles Stage II Development Plan.

ADDITIONAL PROJECTS

The Authority may build projects at the Airports in addition to the Capital Development Program ("Additional Projects") from funds in the Authority Capital Fund or from the proceeds of Bonds. Except as described in the following sentence, Additional Projects are not subject to Signatory Airline approval. Additional Projects which are in Airline Supported Areas and which are to be funded from the proceeds of Bonds may be undertaken by the Authority only if: (1) such projects fall within certain specified types of projects (e.g., safety projects, replacement of airport capacity projects, government required projects, fully Federal funded Airfield projects); or (2) such projects have been approved by a Majority-in-Interest of the Signatory Airlines; or (3) during Fiscal Years 1995 through 1999, Bonds issued for such projects, together with Bonds previously issued for Additional Projects in Airline Supported Areas, do not exceed $100,000,000 (unescalated) at each Airport; (4) during Fiscal Years 2000 through 2004, any such project in excess of $25,000,000 (unescalated) which has been disapproved by a Majority-in-Interest has been deferred for one year; (5) during Fiscal Years 2005 through 2014, any such project in excess of $25,000,000 (escalated from 2001) which has been disapproved by a Majority-in-Interest has been deferred for one year; if Bonds are thereafter to be issued for any such project each Signatory Airline will have a 60 day option to terminate its Airline Agreement upon 180 days written notice to the Authority.

DEFAULT BY SIGNATORY AIRLINES

The following, among others, are defined as Events of Default: (1) the failure of a Signatory Airline to pay any rentals, fees or charges when due or after the expiration of any applicable grace period; (2) the dissolution, receivership, insolvency or bankruptcy of a Signatory Airline; (3) the discontinuance by a Signatory Airline of its air transportation business at the Airports; (4) the failure by a Signatory Airline to cure its default in the performance of any material covenant or provision in the Airline Agreement upon thirty days of receipt of notice of such failure or, if impossible to cure within such time, the failure to diligently pursue steps to cure within a reasonable period of time; (5) the failure of a Signatory Airline to cease any unauthorized business, practice, or act within thirty days of receipt of notice from the Authority to do so; or (6) the taking of any appropriate judicial or governmental action

which substantially limits or prohibits a Signatory Airline's operations at the Airports for a period of thirty days.

SUBORDINATION TO INDENTURE

The Airline Agreement and all rights granted to the Signatory Airlines under it are expressly subordinated and subject to the lien and provisions of the pledges made by the Authority in any prior Indenture, or any Indenture executed by the Authority after the Airline Agreement, to issue Bonds.

TERMINATION

The Authority may terminate a Signatory Airline's Agreement upon the happening of certain Events of Default, and the expiration of any cure period as described in the Airline Agreement. So long as Bonds are outstanding, a Signatory Airline has no right to terminate its Airline Agreement other than as described under "Term" and "Additional Projects" above.

BOOK-ENTRY ONLY SYSTEM

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BOOK-ENTRY ONLY SYSTEM

The description that follows of the procedures and record keeping with respect to beneficial ownership interests in the Series 2005D Bonds and the Series 2007A Bonds, payments of principal, premium, if any, and interest on the Series 2005D Bonds and the Series 2007A Bonds to DTC, its nominee, Participants, or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Series 2005D Bonds and the Series 2007A Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners is based solely on information furnished by DTC.

General. The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Series 2005D Bonds and the Series 2007A Bonds. The Series 2005D Bonds and the Series 2007A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2005D Bond and Series 2007A Bond will be issued for the Series 2005D Bonds and the Series 2007A Bonds in the aggregate principal amount of each maturity, and will be deposited with DTC.

DTC is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was organized to hold securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system also is available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2005D Bonds and the Series 2007A Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for such Series 2005D Bonds and Series 2007A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2005D Bond and each Series 2007A Bond (the "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, but Beneficial Owners are 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 2005D Bonds and the Series 2007A

Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2005D Bonds and the Series 2007A Bonds, except in the event that use of the book-entry system for the Series 2005D Bonds and or the Series 2007A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2005D Bonds and Series 2007A Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede& Co. The deposit of the Series 2005D Bonds and the Series 2007A Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2005D Bonds and the Series 2007A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2005D Bonds and the Series 2007A Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

So long as a book-entry system is used for determining beneficial ownership of the Series 2005D Bonds and the Series 2007A Bonds, the Trustee is to send redemption notice to DTC or to Cede & Co., as partnership nominee for DTC. Any failure of DTC to advise any Participant, or of any Direct Participant or Indirect Participant to notify the actual purchaser of each Series 2005D Bond and each Series 2007A Bond, or any such notice of its content or effect does not affect the validity of the redemption of the Series 2005D Bonds or the Series 2007A Bonds called for redemption or any other action premised on that notice. In the event of a call for optional redemption, the Authority's notification to DTC initiates DTC's standard call; and if a partial call, DTC's practice is to determine by lot the amount of the interest of each Participant in the Series 2005D Bonds or the Series 2007A Bonds to be redeemed, and each such Participant then selects by lot the ownership interest in such Series 2005D Bonds and Series 2007A Bonds to be redeemed. When DTC and its Participants allocate the call, the Beneficial Owners of the book-entry interests called are to be notified by the broker or other organization responsible for maintaining the records of those interests and subsequently credited by that organization with the process once the Series 2005D Bonds or the Series 2007A Bonds are redeemed.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES 2005D BONDS AND THE SERIES 2007A BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND OF ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2005D BONDS OR THE SERIES 2007A BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

Neither DTC or Cede & Co. will consent or vote with respect to the Series 2005D Bonds and the Series 2007A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2005D Bonds and the Series 2007A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2005D Bonds and the Series 2007A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. 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 Trustee, or the Authority, subject to any statutory requirement as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2005D Bonds and the Series 2007A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2005D Bond and Series 2007A Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2005D Bond and Series 2007A Bond certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the Series 2005D Bonds or the Series 2007A Bonds, as partnership nominee for DTC, references herein to Bondholders or registered owners of the Series 2005D Bonds or the Series 2007A Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not man the Beneficial Owners of the Series 2005D Bonds or the Series 2007A Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO., ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (ii) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2005D BONDS OR THE SERIES 2007A BONDS; (iii) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR

INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2005D BONDS OR THE SERIES 2007A BONDS; (iv) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2005D BONDS OR THE SERIES 2007A BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2005D BONDS OR THE SERIES 2007A BONDS; OR (vi) ANY OTHER MATTER.

PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL

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Proposed Form of Opinion of Co-Bond Counsel

Hogan & Hartson L.L.P.
Washington, DC
and
Lewis, Munday, Harrell & Chambliss
Washington, DC

Metropolitan Washington Airports Authority
Airport System Revenue Refunding Bonds
Series 2005D - $11,450,000

We have acted as Bond Counsel to the Metropolitan Washington Airports Authority (the "Authority") in connection with the issuance of its Airport System Revenue Refunding Bonds, Series 2005D, in the aggregate principal amount of $11,450,000 (the "Series 2005D Bonds"). The Series 2005D Bonds are authorized and issued pursuant to Resolution No. 05-16 (the "Resolution"), adopted by the Board of Directors of the Authority (the "Board of Directors") on August 3, 2005, as supplemented by a Pricing Certificate dated September 15, 2005 (the "Pricing Certificate"), executed by the Chairman of the Board of Directors and the Chairman of the Finance Committee of the Board of Directors (the Resolution and the Pricing Certificate together, the "Authorizing Resolution"), and are issued under and secured by the Amended and Restated Master Indenture of Trust dated as of September 1, 2001, as amended (the "Master Indenture"), between the Authority and Manufacturers and Traders Trust Company (successor by merger to Allfirst Bank), as trustee (the "Trustee"), as supplemented by the Twenty-fourth Supplemental Indenture of Trust dated as of October 1, 2005 (the "Twenty-fourth Supplemental Indenture"), between the Authority and the Trustee (the Master Indenture and the Twenty-fourth Supplemental Indenture, together, the "Indenture"). All capitalized terms used and not defined herein shall have the same meanings set forth in the Indenture.

The Series 2005D Bonds are being issued as fully registered bonds, dated the date of delivery, and are being issued in denominations of $5,000 each or any integral multiple thereof. The Series 2005D Bonds mature, bear interest, are payable and are subject to purchase and redemption prior to maturity in the manner and upon the terms and conditions set forth therein and in the Indenture. The Series 2005D Bonds do not constitute a debt or financial obligation, nor a pledge of the faith and credit or taxing power, of the District of Columbia or the Commonwealth of Virginia or any political subdivision thereof. The Authority has no taxing power.

In our capacity as Bond Counsel, we have examined Va. Code Ann. § 5.1-152-178 (2001) (codifying Chapter 598 of the Acts of Virginia General Assembly of 1985, as amended) and the District of Columbia Regional Airports Authority Act of 1985 (D.C. Law 6-67), as amended, codified at D.C. Code. Ann. §§9-901 et seq. (2001) (together the "Acts"), the

Metropolitan Washington Airports Act of 1986, Title VI of Public Law 99-591, as amended by Public Law 102-240 and Public Law 104-264 (the "Federal Act"), a form of the Series 2005D Bonds, and such other documents, records of the Authority and other instruments as we deem necessary to form an appropriate basis for us to render this opinion, including original counterparts or certified copies of the Authorizing Resolution, the Indenture, a certified transcript of the record of proceedings of the Board of Directors preliminary to and in the authorization of the Series 2005D Bonds, and certificates of the Authority (including specifically a tax certificate) and others delivered in connection with the issuance of the Series 2005D Bonds. As to questions of fact material to our opinion, we have relied upon representations of the Authority and other parties contained in the Indenture, such certified proceedings, reports, certificates and other instruments, without undertaking to verify the same by independent investigation. We have assumed the genuineness of all signatures, the legal capacity of all natural persons, the accuracy, completeness and authenticity of original documents, and the conformity with original documents of copies submitted to us.

We have not been engaged and have not undertaken to consider the adequacy of the Net Revenues or other financial resources of the Authority, its ability to provide for payment of the Series 2005D Bonds, or the accuracy, completeness, or sufficiency of the Official Statement dated September 15, 2005, or other offering material relating to the Series 2005D Bonds, and we express no opinion herein relating to such matters.

Based upon, subject to and limited by the foregoing, it is our opinion that, as of the date hereof and under existing law:

1. The Authority validly exists as a public body politic and corporate under the Acts, with the power under the Acts to execute and deliver the Indenture and to issue the Series 2005D Bonds.

2. The Series 2005D Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding limited obligations of the Authority, payable solely from the Net Revenues and other sources provided therefore in the Indenture.

3. The Indenture has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee of the Twenty-fourth Supplemental Indenture, constitutes a valid and binding obligation of the Authority, enforceable against the Authority.

4. Pursuant to the Acts, the Indenture creates a lien on the Net Revenues of the Authority for the benefit of the Series 2005D Bonds, on a parity with the lien thereon of Bonds heretofore or hereafter issued by the Authority under the Indenture.

5. The interest on the Series 2005D Bonds is excluded from gross income for federal income tax purposes and is not included in the computation of the federal alternative minimum tax imposed on individuals, trusts, estates and, except as provided in the following sentence, corporations. For corporations only, interest on the Series 2005D Bonds is taken into account in determining adjusted current earnings for purposes of the adjustment to alternative

minimum taxable income used in computing the alternative minimum tax on corporations (as defined for alternative minimum tax purposes). The opinion set forth in the first sentence of this paragraph assumes compliance by the Authority with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be met subsequent to the issuance of the Series 2005D Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted to comply with such requirements. Failure to comply with such requirements could cause the interest on the Series 2005D Bonds to be includable in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2005D Bonds. We express no opinion herein regarding other federal tax consequences arising with respect to the Series 2005D Bonds.

6. The interest on the Series 2005D Bonds is exempt from all income taxation by the Commonwealth of Virginia and from all taxation by the District of Columbia, except estate, inheritance and gift taxes. We express no opinion herein regarding other Commonwealth of Virginia, District of Columbia, or other state or local tax consequences arising with respect to the Series 2005D Bonds.

It is to be understood that the rights of the owners of the Series 2005D Bonds and the enforceability of the Series 2005D Bonds and the Indenture may be subject to and limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted; and may also be subject to and limited by the exercise of judicial discretion, procedural and other defenses based on particular factual circumstances and equitable principles in appropriate cases, to the reasonable exercise by the Commonwealth of Virginia and its governmental bodies of the police power inherent in the sovereignty of the Commonwealth of Virginia, and to the exercise by the United States of powers delegated to it by the United States Constitution; and while certain remedies and other provisions of the Indenture are subject to the aforesaid exceptions and limitations and, therefore, may not be enforceable in accordance with their respective terms, such unenforceability would not preclude the enforcement of the obligations of the Authority to pay the principal of, premium, if any, and interest on, the Series 2005D Bonds from the Net Revenues of the Authority.

We are advised that Ambac Assurance Corporation has issued a financial guaranty insurance policy with respect to the Series 2005D Bonds. We express no opinion as to the validity or enforceability of such municipal bond insurance policy, the protections afforded thereby, or any other matters pertaining thereto.

This opinion is issued as of the date hereof, and we assume no obligation to (i) monitor or advise you or any other person of any changes in the foregoing subsequent to the delivery hereof; (ii) update, revise, supplement or withdraw this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, regulation, or governmental agency guidance, or the interpretation of any of the foregoing, that may hereafter occur, or for any other reason whatsoever; or (iii) review any legal matters incident to the authorization, issuance, and validity of the Series 2005D Bonds, the exemption from federal or state income tax of the Series 2005D Bonds, or the purposes to which the Series 2005D Bonds proceeds thereof are to be applied, after the date hereof.

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Proposed Form of Opinion of Co-Bond Counsel*

Hogan & Hartson L.L.P.
Washington, DC
and
Lewis, Munday, Harrell & Chambliss
Washington, DC

Metropolitan Washington Airports Authority
Airport System Revenue Refunding Bonds
Series 2007A - $164,460,000

We have acted as Bond Counsel to the Metropolitan Washington Airports Authority (the "Authority") in connection with the issuance of its Airport System Revenue Refunding Bonds, Series 2007A, in the aggregate principal amount of $164,460,000 (the "Series 2007A Bonds"). The Series 2007A Bonds are authorized and issued pursuant to Resolution No. 05-16 (the "Resolution"), adopted by the Board of Directors of the Authority (the "Board of Directors") on August 3, 2005, as supplemented by a Pricing Certificate dated September 15, 2005 (the "Pricing Certificate"), executed by the Chairman of the Board of Directors and the Chairman of the Finance Committee of the Board of Directors (the Resolution and the Pricing Certificate together, the "Authorizing Resolution"), and are issued under and secured by the Amended and Restated Master Indenture of Trust dated as of September 1, 2001, as amended (the "Master Indenture"), between the Authority and Manufacturers and Traders Trust Company (successor by merger to Allfirst Bank), as trustee (the "Trustee"), as supplemented by the Twenty-fifth Supplemental Indenture of Trust dated as of July 1, 2007 (the "Twenty-fifth Supplemental Indenture"), between the Authority and the Trustee (the Master Indenture and the Twenty-fifth Supplemental Indenture, together, the "Indenture"). All capitalized terms used and not defined herein shall have the same meanings set forth in the Indenture.

The Series 2007A Bonds are being issued as fully registered bonds, dated the date of delivery, and are being issued in denominations of $5,000 each or any integral multiple thereof. The Series 2007A Bonds mature, bear interest, are payable and are subject to purchase and redemption prior to maturity in the manner and upon the terms and conditions set forth therein and in the Indenture. The Series 2007A Bonds do not constitute a debt or financial obligation, nor a pledge of the faith and credit or taxing power, of the District of Columbia or the Commonwealth of Virginia or any political subdivision thereof. The Authority has no taxing power.

In our capacity as Bond Counsel, we have examined Va. Code Ann. § 5.1-152-178 (2001) (codifying Chapter 598 of the Acts of Virginia General Assembly of 1985, as amended) and the District of Columbia Regional Airports Authority Act of 1985 (D.C. Law 6-

* Circluar 230 changes, expected to be in effect before the Series 2007A Bonds are issued in July 2007, may require modifications to the form of Co-Bond Counsel opinion. See "BONDHOLDER DELAYED DELIVERY RISKS."

67), as amended, codified at D.C. Code. Ann. §§9-901 et seq. (2001) (together the "Acts"), the Metropolitan Washington Airports Act of 1986, Title VI of Public Law 99-591, as amended by Public Law 102-240 and Public Law 104-264 (the "Federal Act"), a form of the Series 2007A Bonds, and such other documents, records of the Authority and other instruments as we deem necessary to form an appropriate basis for us to render this opinion, including original counterparts or certified copies of the Authorizing Resolution, the Indenture, a certified transcript of the record of proceedings of the Board of Directors preliminary to and in the authorization of the Series 2007A Bonds, and certificates of the Authority (including specifically a tax certificate) and others delivered in connection with the issuance of the Series 2007A Bonds. As to questions of fact material to our opinion, we have relied upon representations of the Authority and other parties contained in the Indenture, such certified proceedings, reports, certificates and other instruments, without undertaking to verify the same by independent investigation. We have assumed the genuineness of all signatures, the legal capacity of all natural persons, the accuracy, completeness and authenticity of original documents, and the conformity with original documents of copies submitted to us.

We have not been engaged and have not undertaken to consider the adequacy of the Net Revenues or other financial resources of the Authority, its ability to provide for payment of the Series 2007A Bonds, or the accuracy, completeness, or sufficiency of the Official Statement dated September 15, 2005, or other offering material relating to the Series 2007A Bonds, and we express no opinion herein relating to such matters.

Based upon, subject to and limited by the foregoing, it is our opinion that, as of the date hereof and under existing law:

1. The Authority validly exists as a public body politic and corporate under the Acts, with the power under the Acts to execute and deliver the Indenture and to issue the Series 2007A Bonds.

2. The Series 2007A Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding limited obligations of the Authority, payable solely from the Net Revenues and other sources provided therefore in the Indenture.

3. The Indenture has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee of the Twenty-fifth Supplemental Indenture, constitutes a valid and binding obligation of the Authority, enforceable against the Authority.

4. Pursuant to the Acts, the Indenture creates a lien on the Net Revenues of the Authority for the benefit of the Series 2007A Bonds, on a parity with the lien thereon of Bonds heretofore or hereafter issued by the Authority under the Indenture.

5. The interest on the Series 2007A Bonds is excluded from gross income for federal income tax purposes, except for any period during which such Series 2007A Bonds are held by a person who is a "substantial user" of the facilities financed or a "related person," as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the

"Code"). It should be noted, however, that interest on the Series 2007A Bonds will be treated as an item of tax preference in calculating the federal alternative minimum tax liability imposed on individuals, trusts, estates, and corporations. The opinion set forth in the first sentence of this paragraph assumes compliance by the Authority with certain requirements of the Code that must be met subsequent to the issuance of the Series 2007A Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted to comply with such requirements. Failure to comply with such requirements could cause the interest on the Series 2007A Bonds to be includable in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2007A Bonds. We express no opinion herein regarding other federal tax consequences arising with respect to the Series 2007A Bonds.

6. The interest on the Series 2007A Bonds is exempt from all income taxation by the Commonwealth of Virginia and from all taxation by the District of Columbia, except estate, inheritance and gift taxes. We express no opinion herein regarding other Commonwealth of Virginia, District of Columbia, or other state or local tax consequences arising with respect to the Series 2007A Bonds.

It is to be understood that the rights of the owners of the Series 2007A Bonds and the enforceability of the Series 2007A Bonds and the Indenture may be subject to and limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted; and may also be subject to and limited by the exercise of judicial discretion, procedural and other defenses based on particular factual circumstances and equitable principles in appropriate cases, to the reasonable exercise by the Commonwealth of Virginia and its governmental bodies of the police power inherent in the sovereignty of the Commonwealth of Virginia, and to the exercise by the United States of powers delegated to it by the United States Constitution; and while certain remedies and other provisions of the Indenture are subject to the aforesaid exceptions and limitations and, therefore, may not be enforceable in accordance with their respective terms, such unenforceability would not preclude the enforcement of the obligations of the Authority to pay the principal of, premium, if any, and interest on, the Series 2007A Bonds from the Net Revenues of the Authority.

We are advised that Ambac Assurance Corporation has issued a financial guaranty insurance policy with respect to the Series 2007A Bonds. We express no opinion as to the validity or enforceability of such municipal bond insurance policy, the protections afforded thereby, or any other matters pertaining thereto.

This opinion is issued as of the date hereof, and we assume no obligation to (i) monitor or advise you or any other person of any changes in the foregoing subsequent to the delivery hereof; (ii) update, revise, supplement or withdraw this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, regulation, or governmental agency guidance, or the interpretation of any of the foregoing, that may hereafter occur, or for any other reason whatsoever; or (iii) review any legal matters incident to the authorization, issuance, and validity of the Series 2007A Bonds, the exemption from federal or state income tax of the Series 2007A Bonds, or the purposes to which the Series 2007A Bonds proceeds thereof are to be applied, after the date hereof.

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FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "**Disclosure Agreement**"), dated as of June 1, 2002, is executed and delivered by Metropolitan Washington Airports Authority (the "**Issuer**"), and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the "**Disclosure Dissemination Agent**" or "**DAC**") for the benefit of the Holders and Underwriters (hereinafter defined) of the Bonds (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "**Rule**").

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

"**Annual Report**" means an Annual Report of the Issuer, as described in and consistent with Section 3 of this Disclosure Agreement.

"**Annual Filing Date**" means the date, set in Sections 2(a) and 2(f), by which the Annual Report is to be filed with the Repositories.

"**Annual Financial Information**" means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

"**Audited Financial Statements**" means the financial statements (if any) of the Issuer, for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

"**Bonds**" means the bonds as listed on the attached **Exhibit A**, as supplemented from time to time by the Issuer.

"**Certification**" means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice required to be submitted to the Repositories under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

"**Disclosure Representative**" means the Chief Financial Officer of the Issuer or his or her designee, or such other person as the Issuer shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

"**Disclosure Dissemination Agent**" or "**DAC**" means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

"**Holder**" means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

"**Information**" means the Annual Financial Information, the Audited Financial Statements (if any), the Notice Event notices, and the Voluntary Reports.

"**Issue**" means the Bonds offered in the corresponding Official Statement listed in **Exhibit A**.

"**Notice Event**" means an event listed in Sections 4(a) of this Disclosure Agreement.

"**MSRB**" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

"**National Repository**" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The list of National Repositories maintained by the United States Securities and Exchange Commission shall be conclusive for purposes of determining National Repositories. Currently, the following are National Repositories:

1. DPC Data Inc.
   One Executive Drive
   Fort Lee, New Jersey 07024
   (201) 346-0701 (phone)
   (201) 947-0107 (fax)
   Email: nrmsir@dpcdata.com

2. Interactive Data
   Attn: Repository
   100 Williams Street
   New York, New York 10038
   (212) 771-6999 (phone)
   (212) 771-7390 (fax for secondary market information)
   (212) 771-7391 (fax for primary market information)
   Email: NRMSIR@FTID.com

3. Bloomberg Municipal Repositories
P.O. Box 840
Princeton, New Jersey 08542-0840
(609) 279-3225 (phone)
(609) 279-5962 (fax)
Email: Munis@Bloomberg.com

4. Standard & Poor's J.J. Kenny Repository
55 Water Street
45th Floor
New York, New York 10041
(212) 438-4595 (phone)
(212) 438-3975 (fax)
Email: nrmsir_repository@sandp.com

"**Obligated Person**" has the meaning provided in the Rule, including the Issuer and each person identified as such for an Issue in **Exhibit A** or in any Annual Report. The term shall include, unless otherwise provided by the Rule, each airline or other entity using the airport facilities of the Issuer under a lease or use agreement extending for more than one year from the date in question and including bond debt service as part of the calculation of rates and charges, under which lease or use agreement such airline or other entity has paid amounts equal to at least 20% of the Revenues (as defined in the Master Trust Indenture pursuant to which the Bonds are issued) of the Issuer for each of the two prior fiscal years of the Issuer.

"**Official Statement**" means that Official Statement prepared by the Issuer in connection with each respective issue of Bonds, as listed on **Exhibit A**.

"**Repository**" means the MSRB, each National Repository and the State Depository (if any).

"**State Depository**" means any public or private depository or entity designated by the Commonwealth of Virginia, as a state information depository (if any) for the purpose of the Rule. The list of state information depositories maintained by the United States Securities and Exchange Commission shall be conclusive as to the existence of a State Depository.

"**Underwriters**" means the underwriters of any Issue , as listed in **Exhibit A**.

"**Voluntary Report**" means the information provided to the Disclosure Dissemination Agent by the Issuer pursuant to Section 7.

SECTION 2. Provision of Annual Reports.

(a) The 150th day after the end of each fiscal year of the Issuer, commencing with the fiscal year ending December 31, 2002 and each anniversary thereof is the Annual Filing Date. The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent not later than one (1) business day prior to the Annual Filing

Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to each National Repository and the State Depository (if any). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of an Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which shall be by facsimile and e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than one (1) business day prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Notice Event as described in Section 4(a)(12) has occurred and to immediately send a notice to the MSRB and the State Depository (if any) in substantially the form attached as **Exhibit B**.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 12:00 noon on the first business day following the Annual Filing Date for the Annual Report, a Notice Event described in Section 4(a)(12) shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB and the State Depository (if any) in substantially the form attached as **Exhibit B**.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certificate for filing with each National Repository and the State Depository (if any).

(e) The Disclosure Dissemination Agent shall:

(i) determine the name and address of each Repository each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Section 2(a) with each National Repository, and the State Depository, (if any);

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with each National Repository, and the State Depository (if any);

(iv) upon receipt, promptly file the text of each disclosure to be made with the MSRB and the State Depository (if any) together with a completed copy of the MSRB Material Event Notice Cover Sheet in the form attached as Exhibit C, describing the event by checking the box indicated below when

filing pursuant to the Section of this Disclosure Agreement indicated below:

1. “Principal and interest payment delinquencies,” pursuant to Sections 4(c) and 4(a)(1);

2. “Non-Payment related defaults,” pursuant to Sections 4(c) and 4(a)(2);

3. “Unscheduled draws on debt service reserves reflecting financial difficulties,” pursuant to Sections 4(c) and 4(a)(3);

4. “Unscheduled draws on credit enhancements reflecting financial difficulties,” pursuant to Sections 4(c) and 4(a)(4);

5. “Substitution of credit or liquidity providers, or their failure to perform,” pursuant to Sections 4(c) and 4(a)(5);

6. “Adverse tax opinions or events affecting the tax-exempt status of the security,” pursuant to Sections 4(c) and 4(a)(6);

7. “Modifications to rights of securities holders,” pursuant to Sections 4(c) and 4(a)(7);

8. “Bond calls,” pursuant to Sections 4(c) and 4(a)(8);

9. “Defeasances,” pursuant to Sections 4(c) and 4(a)(9);

10. “Release, substitution, or sale of property securing repayment of the securities,” pursuant to Sections 4(c) and 4(a)(10);

11. “Ratings changes,” pursuant to Sections 4(c) and 4(a)(11);

12. “Failure to provide annual financial information as required,” pursuant to Section 2(b)(ii) or Section 2(c), together with a completed copy of **Exhibit B** to this Disclosure Agreement; and

13. “Other material event notice (specify),” pursuant to Section 7 of this Disclosure Agreement, together with the summary description provided by the Disclosure Representative.

(v) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure

Dissemination Agent, and the Repositories, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Issuer, including information of the types provided in the Official Statement under the headings for each Issue described in **Exhibit A**.

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles will be included in each Annual Report or otherwise provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an Obligated Person, which have been previously filed with each of the National Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events, if material, with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements relating to the Bonds reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of Bondholders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds; and
11. Rating changes on the Bonds.

The Issuer shall promptly notify the Disclosure Dissemination Agent in writing upon the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c). Such notice shall be accompanied with the text of the disclosure that the Issuer desires to make, the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. No such notice shall be deemed an official notice unless given or authorized by the Disclosure Representative; and no such notice of Notice Events described in (a)(8) above need be given any earlier than notice, if any, of the underlying event is given to the Holders of Bonds under the Master Indenture.

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within five business days of receipt of such notice, instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c), together with the text of the disclosure that the Issuer desires to make, the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information.

(c) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the State Depository (if any) and the MSRB.

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, notices of Notice Events, and Voluntary Reports filed pursuant to Section 7(a), the Issuer shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations. The failure by the Disclosure Dissemination Agent to advise the Issuer that state and federal laws, including securities laws and disclosure obligations thereunder, may apply to the Issuer shall not constitute a breach by the Disclosure Agent of any of its duties and responsibilities under this Disclosure Agreement. The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Reports.

(a) The Issuer may instruct the Disclosure Dissemination Agent to file information with the Repositories, from time to time pursuant to a Certification of the Disclosure Representative accompanying such information (a "**Voluntary Report**").

(b) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to an issue of Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds of such issue, when the Issuer is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities for compliance with disclosure requirements pursuant to the Rule performed by the Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders and Underwriters of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. If the Issuer fails to comply with any provision of this Disclosure Agreement, any Holder or Underwriter may take action in the Circuit Court of Arlington, Virginia to seek specific performance by court order to compel the Issuer to comply with its obligations under this Disclosure Agreement; provided that any Holder or Underwriter seeking to require compliance with this Disclosure Agreement shall first provide to the Disclosure Representative at least 30 days' prior written notice of the Issuer's failure, giving reasonable details of such failure, following which notice the Issuer shall have 30 days to comply. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default with respect to any Bonds or under any other document relating to any Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Issuer at all times.

THE ISSUER AGREES TO INDEMNIFY AND SAVE THE DISCLOSURE DISSEMINATION AGENT AND ITS RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, HARMLESS AGAINST ANY LOSS, EXPENSE AND LIABILITIES WHICH THEY MAY INCUR ARISING OUT OF OR IN THE EXERCISE OR PERFORMANCE OF THEIR POWERS AND DUTIES HEREUNDER, INCLUDING (IF THE ISSUER IS FIRST GIVEN THE REASONABLE OPPORTUNITY TO DEFEND THE DISCLOSURE DISSEMINATION AGENT AGAINST THE SAME USING COUNSEL REASONABLY ACCEPTABLE TO DAC,) THE COSTS AND EXPENSES (INCLUDING ATTORNEYS FEES) OF DEFENDING AGAINST ANY CLAIM OF LIABILITY, BUT EXCLUDING LIABILITIES DUE TO THE DISCLOSURE DISSEMINATION AGENT'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OR ITS FAILURE TO COMPLY WITH THE TERMS OF THIS DISCLOSURE AGREEMENT OR THE TERMS OF ITS ENGAGEMENT LETTER WITH THE ISSUER, DATED AS OF JUNE 1, 2002, AS THE SAME MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and neither of them shall incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws

acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 20 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Disclosure Dissemination Agent, the Underwriters, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the Commonwealth of Virginia (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent and the Issuer have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,
as Disclosure Dissemination Agent

By:____
Name:______________________________________
Title:______________________________________

METROPOLITAN WASHINGTON AIRPORTS
AUTHORITY, as Issuer

By:____
Mame Reiley
Chairman

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer:	Metropolitan Washington Airports Authority
Obligated Person(s):	None
Name of Bond Issue:	Airport System Revenue Refunding Bonds, Series 2005D
Date of Issuance:	October 12, 2005
Date of Official Statement:	September 15, 2005
Underwriter:	Bear, Stearns & Co. Inc.

CUSIP Number:	592646RE5	CUSIP Number:	592646RH8
CUSIP Number:	592646RF2	CUSIP Number:	592646RJ4
CUSIP Number:	592646RG0	CUSIP Number:	592646RK1

Content of Annual Reports: Each Annual Report shall contain financial information or operating date with respect to the Issuer and the Airports ("**Annual Financial Information**"), including information substantially similar to the types set forth in the Official Statement under the following captions or in the following appendices: "THE AIR TRADE AREA AND AIRPORTS ACTIVITY — Airports Activity," "Historical Activity," and "Recent Enplanement Activity" in Part II of the Official Statement and "AUTHORITY FINANCIAL INFORMATION" in Part II of the Official Statement and in Appendices A and B to the Official Statement. Annual Financial Information may but is not required to, include Audited Financial Statements and may be provided by delivery of the Issuer's Comprehensive Annual Financial Report or in any other format deemed convenient by the Issuer.

Name of Issuer:	Metropolitan Washington Airports Authority
Obligated Person(s):	None
Name of Bond Issue:	Airport System Revenue Refunding Bonds, Series 2007A
Expected Date of Issuance:	July 3, 2007
Date of Official Statement:	September 15, 2005
Underwriter:	Lehman Brothers et al.

CUSIP Number:	592646QN6	CUSIP Number:	592646QW6
CUSIP Number:	592646QP1	CUSIP Number:	592646QX4
CUSIP Number:	592646QQ9	CUSIP Number:	592646QY2
CUSIP Number:	592646QR7	CUSIP Number:	592646QZ9
CUSIP Number:	592646QS5	CUSIP Number:	592646RA3
CUSIP Number:	592646QT3	CUSIP Number:	592646RB1
CUSIP Number:	592646QU0	CUSIP Number:	592646RC9
CUSIP Number:	592646QV8	CUSIP Number:	592646RD7

Content of Annual Reports: Each Annual Report shall contain financial information or operating date with respect to the Issuer and the Airports ("**Annual Financial Information**"), including information substantially similar to the types set forth in the Official Statement under the following captions or in the following appendices: "THE AIR TRADE AREA AND AIRPORTS ACTIVITY — Airports Activity," "Historical Activity," and "Recent Enplanement Activity" in Part II of the Official Statement and "AUTHORITY FINANCIAL INFORMATION" in Part II of the Official Statement and in Appendices A and B to the Official Statement. Annual Financial Information may but is not required to, include Audited Financial Statements and may be provided by delivery of the Issuer's Comprehensive Annual Financial Report or in any other format deemed convenient by the Issuer.

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Issuer ________________________

Name of Bond Issue: ________________________

Date of Issuance: ________________________

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement, dated as of ________________________, between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by ______________.

Dated: ______________________________

Digital Assurance Certification, L.L.C., as
Disclosure Dissemination Agent, on behalf of the
Issuer

____

cc: Issuer

EXHIBIT C
MATERIAL EVENT NOTICE COVER SHEET

This cover sheet and material event notice should be sent to the Municipal Securities Rulemaking Board and the State Information Depository, if applicable, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

[____

Issuer's Six-Digit CUSIP Number:

[____

____

or Nine-Digit CUSIP Number(s) of the bonds to which this material event notice relates:

[____

Number of pages of attached material event notice: _____

Description of Material Events Notice (Check One):

1. ___Principal and interest payment delinquencies
2. ___Non-Payment related defaults
3. ___Unscheduled draws on debt service reserves reflecting financial difficulties
4. ___Unscheduled draws on credit enhancements reflecting financial difficulties
5. ___Substitution of credit or liquidity providers, or their failure to perform
6. ___Adverse tax opinions or events affecting the tax-exempt status of the security
7. ___Modifications to rights of securities holders
8. ___Bond calls
9. ___Defeasances
10. ___Release, substitution, or sale of property securing repayment of the securities
11. ___Rating changes
12. ___Failure to provide annual financial information as required
13. ___Other material event notice (specify) ____________________________________

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

____

____

Name: ______________________ Title: ______________________

Employer: ____

Address: ____

City, State, Zip Code: ____

Voice Telephone Number: ____

Please print the material event notice attached to this cover sheet in 10-point type or larger, The cover sheet and notice may be faxed to the MSRB at (703) 683-1930 or sent to CDINet, Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, VA 22314. Contact the MSRB at (703) 797-6600 with questions regarding this form or the dissemination of this notice.

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

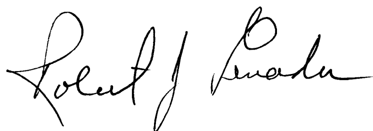
In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

SPECIMEN



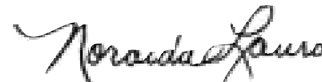
President

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

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