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Metropolitan Airports Commission • Comprehensive Annual Financial Report • Year Ended December 31, 1998 • Minneapolis/St. Paul, Minnesota

Prepared by The Finance Department

Stephen L. Busch, Director of Finance

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***Commissioners*:**	
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District B	Daniel Johnson
District C	John Himle
District D	Alton Gasper
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City of Saint Paul	Dick Long
Representing Greater Minnesota Area:	Carl D'Aquila
	John Kahler
	Paul Rehkamp
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Executive Director:	Jeffrey Hamiel

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Introductory Section

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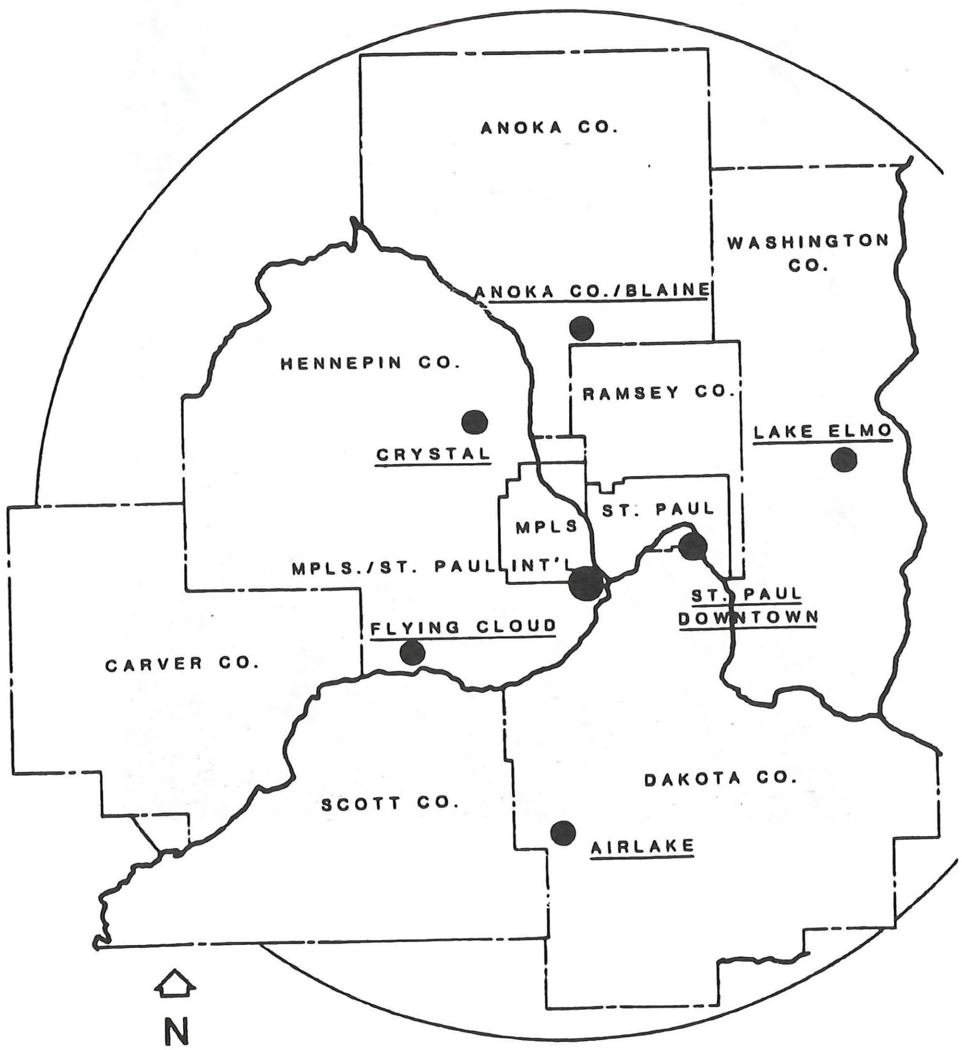

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For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 1997

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METROPOLITAN AIRPORTS COMMISSION

Minneapolis–Saint Paul International Airport
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OFFICE OF EXECUTIVE DIRECTOR

March 5, 1999

To The Public:

The Comprehensive Annual Financial Report of the Metropolitan Airports Commission, Minneapolis-St. Paul, Minnesota, for the fiscal year ended December 31, 1998, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures rests with the Commission. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of various funds and account groups of the Commission. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included.

The Comprehensive Annual Financial Report is presented in four sections - Introductory, Financial, Supplemental and Statistical. The Introductory Section includes this Transmittal Letter, the Commission's organization chart, and a list of principal officials. The Financial Section includes the general purpose financial statements and schedules, as well as the Report of Independent Auditors on financial statements. The Statistical Section includes selected financial and activity information generally presented on a multi-year basis.

The Commission is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget, Circular A-133, Audits of States and Local Governments. Information related to this single audit including the Schedule of Federal Financial Assistance, findings and recommendation, and auditors report on the internal control structure and compliance with applicable laws and regulations are issued as a separate report. The Commission is also required to undergo an audit on the Commission's compliance with the regulations issued by the Federal Aviation Administration of the U.S. Department of Transportation to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990 in relation to Passenger Facility Charge revenues and expenses. These reports are issued separately.

The Minneapolis-Saint Paul Metropolitan Airports Commission (MAC) was created by an act of the Minnesota State Legislature in 1943 as a public corporation. Its purpose is to promote air navigation and transportation (international, national, and local) in and through the State of Minnesota, promote the efficient, safe, and economical handling of air commerce, assure the inclusion of the state in national and international programs of air transportation, and to those ends develop the full potentialities of the metropolitan area as an aviation center. It has the responsibility to assure residents of the metropolitan area the minimum environmental impact from air navigation and transportation, promote the overall goals of the state's environmental policies and minimize the public's exposure to noise and safety hazards around airports.

MAC jurisdiction is throughout the Minneapolis-St. Paul Metropolitan Area radiating 35 miles from the Minneapolis and St. Paul City Halls, and including Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and

Washington counties. The Commission owns and operates seven airports in the Metropolitan Area including Minneapolis-St. Paul International Airport (MSP) serving as the primary air carrier facility and the following Reliever Airports serving general aviation:

St. Paul Downtown Airport	Anoka County/Blaine Airport
Flying Cloud Airport	Lake Elmo Airport
Crystal Airport	Airlake Airport

The facilities at Airlake, Anoka County/Blaine, Crystal, Flying Cloud, and Lake Elmo are classified as minor use airports. Control towers are operational at Crystal, Anoka County/Blaine and Flying Cloud airports. The St. Paul Downtown airport serves as the primary corporate reliever and is classified as an intermediate airport.

MSP maintains three air-transport-type runways of concrete and bituminous concrete construction, including two northwest-southeast runways and a northeast-southwest runway. The runways provide operational facilities to cover varying wind conditions and are connected by a system of taxiways and aprons. In addition, the runways are equipped with high intensity runway lighting and instrument landing systems which permit continuous operation under almost all weather conditions. The northerly northwest-southeast runway is 8,200 feet long and 150 feet wide. The parallel northwest-southeast runway is 10,000 feet long and 200 feet wide. The northeast-southwest runway, which is provided to cover other wind conditions, is 11,000 feet long and 150 feet wide. The runways, in the opinion of the Commission engineers, have sufficient capacity and are of sufficient strength to permit the operation of the largest existing commercial aircraft. The boundaries of the airport provide sufficient clear area for runway approaches to meet the requirements of the FAA.

The airport complex at MSP consists of the Lindbergh Terminal building, the Hubert H. Humphrey International Charter Terminal, an underground parking garage, a seven-level parking structure which opened in mid 1980 and access roads. The Lindbergh Terminal building was opened for operation in 1962. Major renovations have occurred since then. An additional parking structure adjacent to the Lindbergh Terminal building was completed in 1989 and added 3,000 daily parking spaces.

The Lindbergh Terminal building at MSP is a three-story structure consisting of approximately 2.0 million square feet of space, of which approximately 1.1 million are considered rentable. The Lindbergh Terminal was designed to permit enplaning passengers to enter the main building from the second level and deplaning passengers to leave through the ground or first level. The second level contains ticket counters and concession areas, and the ground level contains baggage handling facilities as well as other office areas. The ground level also has access to ground transportation and valet parking. The concourse layouts have been designed to connect by enclosed bridges on the second floor, to four separate aircraft loading piers.

The MAC may, under the Airport Law, (Minn. Stat. §473.667) borrow money and issue General Obligation Bonds for the purpose of acquiring property, constructing and equipping new airports, acquiring and equipping existing airports and making capital improvements to any airport constructed or acquired by the Commission. The MAC may also issue under the Airport Law (Minn. Stat. §473.608) Airport Revenue Bonds. The Airport Revenue Bonds are not general obligations, but are limited obligations of the MAC payable solely from and secured by a pledge of net revenues on a parity with the General Obligation Revenue Bonds. Other powers delegated to the Commission include power to levy taxes against property of the Metropolitan Area in order to pay debt service on bonds issued by the Commission. In addition, the Commission can levy taxes, not in excess of .00806 percent in each year, upon the valuation of all taxable property in the Metropolitan Area to meet operation and maintenance costs of airport facilities. The

Commission is governed by fifteen Commissioners. Eight Commissioners are appointed by the Governor of the State of Minnesota from designated districts within the Metropolitan Area. The mayors of St. Paul and Minneapolis also have seats on the Commission with the option to appoint a surrogate to serve in their place. The Governor also appoints four Commissioners representing the Greater Minnesota Area (i.e. outside the Metropolitan Area). The Chairperson of the Commission is appointed by the Governor and may be from anywhere in the state. Only the Chairperson can be removed before their term expires. In applying Government Accounting Standards Board (GASB) 14, the MAC and the State of Minnesota have agreed that the MAC is not financially accountable to any other organization and is considered a stand-alone government unit.

MAC provides a variety of services at each of its airports. At MSP, MAC is responsible for providing buildings and facilities for air carrier activity as well as police, fire protection, maintenance, administrative and planning services, as well as other related services and facilities that are deemed to be necessary.

ECONOMIC CONDITION AND OUTLOOK

MSP is classified by the FAA to be one of the large hub airports in the United States. According to Airports Council International statistics, in calendar year 1997, MSP was the 13th busiest airport in the United States in terms of passenger volume, 22nd in terms of total cargo and 10th in terms of operations.

Passengers

Total passengers at MSP increased .75% from 1997 levels. Total MSP passengers for 1998 were 29.0 million. The increase in passengers was a result of additional passengers carried by the charter and regional airlines. The top five air carriers in 1998, by enplaned passengers, serving MSP are shown below. The total enplaned passengers for 1998, including connecting, was 14,620,642. The figures may differ from the passengers statistics reported by the Air Carriers to the Department of Transportati

Carrier	Enplaned Passengers	% of Total
Northwest	10,326,153	70.6%
Mesaba	982,995	6.7
United	569,637	3.9
American	424,273	2.9
Delta	375,612	2.6
	12,678,670	86.7%

Operations

Aircraft operations decreased in 1998 to 483,013 from 491,273 the previous year, down 1.7%. A strike by the Northwest Airlines pilots contributed to the decrease in operations.

At the Reliever airports, operations increased 6.0% from 1997 levels. Flooding at St. Paul Downtown Airport closed the airport for a number of days in 1997, as well as a harsh winter in the early months of 1997 caused lower than normal operations during 1997.

MAJOR INITIATIVES FOR THE YEAR

The Metropolitan Airports Commission completed its first strategic plan in 1997 and, beginning in 1998, utilized its strategic goals to drive department and individual planning throughout the organization. Mid-year and year-end reports were given to the Commissioners and employees to provide updates on the progress made throughout 1998. Over 100 accomplishments towards the achievement of our strategic plan were completed last year. As part of the planning cycle, developed to carry the plan forward, our first annual review of the strategic plan has been completed and the plan was revised to address future conditions. This annual planning cycle will continue as we begin to lay out plans for the year 2000 and beyond. The year-end report for 1998 is included here.

Goal 1: To operate a safe and secure airport system.

Objective	*Results Achieved*
A. Develop and implement a comprehensive airport safety program on each of MAC's airports for employees, passengers and airfield users. *Status:* ***Year End Actual Completion 70%*** ***Year End Estimated Completion 60%***	✓ Increased awareness of accident and incident trends by issuing a monthly Safety Report including the number of First Reports of Injury, OSHA-Recordable accidents, Lost Workdays and Restricted Workdays. ✓ Reviewed and modified the Equipment Isolation (Lockout/Tagout) Program. ✓ Implemented a Forklift Safety Training Program. ✓ Conducted hearing tests for affected employees under the Hearing Conservation Program. ✓ Conducted a Workplace Safety Management Evaluation. ✓ Developed an accident/incident review process.
B. Maintain and upgrade the security of the airports. *Status:* ***Year End Actual Completion 95%*** ***Year End Estimated Completion 95%***	✓ Assisted auto rental agencies with implementation of loss prevention program to reduce theft of vehicles. ✓ Developed program with county attorney for uniform prosecution of car thieves. ✓ Placed 2,500 new security signs on perimeter fences, gates and card readers in MAC and tenant locations. ✓ Implemented "Sawbucks" reward system for employees who report security violations leading to enforcement action. ✓ Added Closed Circuit TV to screening checkpoints, ticketing level and Lindbergh Terminal roadways. ✓ Reviewed Public Safety record keeping systems to determine recommendation for Y2K compliant replacement system. ✓ Analyzed Card Access system to determine Y2K compliance resulting in software replacement recommendation.

Objective	Results Achieved
C. Develop strategies to minimize property and equipment damage. *Status:* ***Year End Actual Completion 100%*** ***Year End Estimated Completion 100%***	✓ Updated the AOA's Driver's Guide. ✓ Adopted a Movement Area Drivers Authorization Process that includes training, a violation review board and an investigation team. ✓ Obtained FAA approval of the MSP surface movement Guidance Control System Plan. ✓ Established an airport-wide SMGCS training program.

Goal 2 To provide world class, customer-oriented transportation facilities at MSP.

Objective	Results Achieved
A. Continuously improve the customer experience. *Status:* ***Year End Actual Completion 100%*** ***Year End Estimated Completion 100%***	✓ Tracked customer comments and their resolution by initiating a Customer Comment Card and complaint tracking system. ✓ Improved the processing of international passengers by procuring additional FIS staff and installing an automated Immigration Entry/Pass System. ✓ Implemented the Concessions Plan. • Phase 1 – Daily News, Johnston & Murphy, Red Food Court (Burger King, Cinnabon and California Pizza Kitchen) • Phase 2 – Erwin Pearl, Liz Claiborne, Bath & Body, Split Rock Bar and Grille, Main Food Court (TCBY, Juice Works, Burger King, Cinnabon) • Phase 3 – News & Gifts, Discovery Channel, Simply Books, Starbucks ✓ Conducted a customer satisfaction and public opinion survey.
B. Maintain and upgrade existing airside and Landside facilities. *Status:* ***Year End Actual Completion 100%*** ***Year End Estimated Completion 100%***	✓ Implemented the 1998 Capital Improvement Program by awarding 87 bids with a total value of $223 million. ✓ Began construction on major projects still underway at year end including: • Parking-Auto Rental Expansion • Automated people Mover • Lindbergh Terminal Alternative Cooling System ✓ Completed construction of major projects including: • Runway 12R-30L Reconstruction/Twy, W – Seg 1 and 2 • Runway 30L Deicing Pad and Operations Bldg. • Part 150 Residence Sound Insulation ✓ Initiated a Team CIP process for 1999 and beyond ✓ Completed commissioning of the Satellite Landing System.

Objective	*Results Achieved*
C. Provide additional facilities through the implementation of the 2010 Plan to support growth and economic vitality. *Status:* ***Year End Actual Completion 100%*** ***Year End Estimated Completion 100%***	✓ Completed the following 1998 activities related to the 2010 Plan implementation: • Acquired the Met Center and 80 Prop Inc. properties. • Completed the Dual Track Environmental Impact Statement. • Completed the environmental process for the 4-22 Runway Extension.

Goal 3: To build and strengthen a productive and rewarding work environment that demonstrates trust and respect.

Objective	*Results Achieved*
A. Attract and retain a qualified, diverse work force. *Status:* ***Year End Actual Completion 100%*** ***Year End Estimated Completion 100%***	✓ Provided "Sexual Orientation in the Workplace" training for 200 MAC employees. ✓ Sponsored 100 employees to cultural events. ✓ Presented Anti-Harassment policy to employee group. ✓ Recommended 1998 - 99 Affirmative Action plan for approval and submitted to Commission and State of Minnesota for approval. ✓ Expanded Recruitment efforts by: • Developing an Employee Referral Program • Advertising with Image Ad in Black Pages to target African American community. • Establishing contacts with education community.
B. Provide resources necessary for employees to do their jobs. *Status:* ***Year End Actual Completion 75%*** ***Year End Estimated Completion 90%***	✓ Hired a Training and Development Specialist to identify needs and to develop core curriculum for executive leadership, management and supervisory training programs. ✓ Developed a multi-media resource training library for MAC wide use. ✓ Met with state contract vendors to upgrade existing pager system. ✓ Created Y2K team, inventoried systems and products for potential Y2K impacts, prepared Y2K letters to manufacturers or vendors, created status matrix for Y2K compliance, coordinated with airport partners and developed "work arounds" contingency plans for all key systems. ✓ Enhanced supervisor's ability to manage the unionized workforce by conducting training sessions

Objective	Results Achieved
	✓ Enhanced the support for MACNET customers. ✓ Conducted on-going classes on Microsoft products. ✓ Provided conversion support for databases, WordPerfect and Lotus files. ✓ Installed new phone systems for: Airside Ops, Trades, Review ADO and St. Paul Downtown Airport. ✓ Revised and expanded orientation program for new employees.
C. Continuously improve internal customer service. ***Status:*** ***Year End Actual Completion 100%*** ***Year End Estimated Completion 100%***	✓ Streamlined open enrollment for Employee health Insurance by: • Reviewing existing process. • Making process improvements.
D. Improve employee job satisfaction and recognition. ***Status:*** ***Year End Actual Completion 75%*** ***Year End Estimated Completion 75%***	✓ Implemented the 1998 Wellness Program, which included: • Providing statistics on existing programs • Completing a benchmark study to determine overall effectiveness. • Conducting Wellness/Exhibit Health Food Fair. • Implementing Smoking Cessation program. • Conducting Flu Shot program. ✓ Provided statistics on existing Wellness programs. ✓ Completed a benchmark study to determine overall effectiveness of Wellness programs. ✓ Developed a career development program. ✓ Established labor / management committees in all union contracts. ✓ Established tracking system for recognition, streamlined procedures, and trained supervisors and managers on revised recognition procedures.
E. Review existing policies and procedures. ***Status:*** ***Year End Actual Completion 95%*** ***Year End Estimated Completion 95%***	✓ Developed a Human Resources Policies and Procedures Manual. ✓ Developed an Administrative Policies and Procedure Manual.
F. Establish sound employee relations practices. ***Status:*** ***Year End Actual Completion 100%*** ***Year End Estimated Completion 100%***	✓ Developed a benefits manual. ✓ Examined promotion guidelines and revised as necessary. ✓ Reviewed salary structure for effectiveness relative to external market. ✓ Developed and tested proto-type format to improve feedback between supervisors and employees.

Goal 4: To communicate proactively and effectively.

Objective	*Results Achieved*
A. Strengthen internal communications. ***Status:*** ***Year End Actual Completion 80%*** ***Year End Estimated Completion 100%***	✓ Determined effectiveness of internal communication programs.
B. Enhance our public image. ***Status:*** ***Year End Actual Completion 100%*** ***Year End Estimated Completion 100%***	✓ Conducted a public opinion survey. ✓ Prepared MSP 2010 brochure. ✓ Updated MAC's Website. ✓ Developed and Coordinated speakers program for community. ✓ Developed media guide. ✓ Issued NorthStar Chronicle. ✓ Used signage to direct the public, announce projects and keep people informed about MSP 2010 project completion dates. ✓ Conducted a community education campaign to focus on Eden Prairie and Anoka.
C. Provide necessary technology for improved communications. ***Status:*** ***Year End Actual Completion 100%*** ***Year End Estimated Completion 100%***	✓ Enabled outbound and inbound communications on MACNET. ✓ Implemented Microsoft SMS Services. ✓ Installed frame relay connections. ✓ Connected Landside Operations. ✓ Upgraded Operating Systems. ✓ Implemented new e-mail system and conducted training sessions ✓ Enabled use of group ware tools. ✓ Expanded MACNET connections to the Maintenance, Fire and Police departments. ✓ Created a training center at the Field Maintenance. ✓ Installed new MACNET connections at Flying Cloud, Airlake, Lake Elmo, and Anoka airports.

Goal 5: To contribute to the economic vitality of the region by expanding and improving air service.

Objective	Results Achieved
A. Develop a strategic marketing plan for MAC's airport system. *Status:* ***Year End Actual Completion 100%*** ***Year End Estimated Completion 100%***	✓ Met with the following airlines to discuss new passenger and air cargo service for MSP: • Southwest • Midway • Midwest Express • American Trans Air • Virgin Atlantic • Aeroflot • All Nippon • British Airways • Cathay Pacific • China Airlines • Korean Air • Lufthansa • SAS • Swissair ✓ Developed marketing promotional strategies for the following events: • Transportation Club Expo • International Air Cargo Conference and Exhibit • Oshkosh Air Show ✓ Worked with business and government agencies to identify air service needs and opportunities. ✓ Fostered the development of the Airport Task Force. ✓ Customized tours of the terminal and airport property • Potential airlines seeking service • Government agencies • Chambers of Commerce

Goal 6: To meet the capital development, operating and debt service requirements of the airport system while preserving our financial strength.

Objective	*Result Achieved*
A. Provide creative, responsible funding for completion of the 2010 plan. *Status: Year End Actual Completion 95%* *Year End Estimated Completion 95%*	✓ Issued the first series of General Airport Revenue bonds to finance Capital Improvement projects ✓ Secured a letter of Intent (LOI) from the FAA for funding a portion of the North-South Runway
B. Maximize all sources of revenue and maintain competitive rates and charges. *Status: Year End Actual Completion 70%* *Year End Estimated Completion 80%*	✓ Completed scheduled internal audits of airport tenants. • Dollar Car Rental • Metro Office Park ✓ Issued RFP's and awarded contracts. • Ground Handling Agent at the HHH Terminal • Local and Long Distance Phone Services • Hair Salon • Shoe Shine
C. **Provide cost effective services.** *Status: Year End Actual Completion 85%* *Year End Estimated Completion 90%*	✓ Completed scheduled consultant and vendor internal audits. • W.D. Schock Company, Inc. • MTCO Airport Shuttle • Forfeiture Fund • Air Tech ✓ Submitted expiring service contracts for bidding or RFP. • Parking Management Contract • Glass Cleaning Contract • Elevator/escalator/carousel consultant • Waste hauling/recycling ✓ Issued an RFP for Natural Gas. ✓ Awarded an agreement for computer consulting for software development needs for Landside Operations.

Goal 7: To maximize the utilization of the Reliever Airport System.

Objective	*Results Achieved*
A. Improve financial viability of the airports. ***Status:*** *Year End Actual Completion 60%* *Year End Estimated Completion 80%*	✓ Recommended a new rate structure to help decrease the Reliever Airport deficit. ✓ Reached a conceptual design agreement on the golf course, park and ride facilities, and industrial areas of the Anoka County/ Blaine Airport – all revenue enhancement opportunities for the Reliever Airports.
B. Ensure compatible and orderly development of Airport land and establish guidelines for the use of airport facilities. ***Status:*** *Year End Actual Completion 65%* *Year End Estimated Completion 65%*	✓ Began "zoning" newly developed areas. ✓ Re-developed an area of the Airlake Airport. ✓ Considered the redevelopment of an area of the St. Paul Downtown Airport.
C. Improving customer service. ***Status:*** *Year End Actual Completion 100%* *Year End Estimated Completion 100%*	✓ Met with tenants to discuss capital improvement projects and to identify tenant needs and expectations with regard to airport facilities.
D. Strengthen community relations. ***Status:*** *Year End Actual Completion 100%* *Year End Estimated Completion 100%*	✓ Participated in community and airport events at each airport. ✓ Continued dialog with community leaders surrounding the Reliever Airports. ✓ Formalized dialog with appointed Commissions and Airport Committees.
E. Develop marketing plan(s). ***Status:*** *Year End Actual Completion 20%* *Year End Estimated Completion 50%*	✓ Currently updating the St. Paul Downtown Airport marketing plan.

Goal 8: To strengthen partner and stakeholder relationships.

Objective	*Results Achieved*
A.* Develop specific strategies to strengthen relationships.** *Status:* ***Year End Actual Completion 100% ***Year End Estimated Completion 100%***	✓ Presented MAC positions during 1998 Legislative Session. Successfully passed the MNDOT housekeeping bill with maintenance facility language and LRT study/funding legislation. Defeated the following bills – • Omnibus Bonding bill provision that would have required MAC to pay Richfield for land leased to the city over the years. • An Amendment limiting the use of revenue by MAC. • Evans bill that would have granted municipalities the authority to review capital projects and forced affected cities and MAC into binding arbitration on unresolved issues. • Garcia bill creating a TIF district in the City of Richfield and airport impact zone. ✓ Established contacts and held meetings with all Minnesota congressional members. ✓ Conducted airport tours and Legislative briefings on the 2010 plan. ✓ Participated in formulating national positions on airport/airline issues by: • Attending ACI-NA conference and meetings and representing MAC on ACI Governmental Affairs Committee

Goal 9: To continue our leadership in environmental mitigation.

Objective	*Results Achieved*
A.* Develop and maintain good working relationships with the public, affected communities and regulatory agencies.** *Status:* ***Year End Actual Completion 100% ***Year End Estimated Completion 100%***	✓ Coordinated with multiple community groups at Flying Cloud Airport and Anoka County-Blaine Airport

Objective	Results Achieved
B. Develop and implement a noise mitigation program to reach MAC airport *Status:* *Year End Actual Completion 80%* *Year End Estimated Completion 80%*	✓ Tracked performance of the Stage II Nighttime Voluntary Agreements on a quarterly basis. ✓ Expanded reporting requirements, Nighttime Voluntary Agreements and Stage 3 usage to other carriers through Noise Management Methodology. ✓ Continued the Flying Cloud summer monitoring program. ✓ Reorganized MASAC. ✓ Completed acquisition element in New Ford Town/Rich Acres. ✓ Insulated 912 homes under Part 150 Program.
C. Implement a Water Quality management program at each MAC airport in coordination with affected tenants. *Status:* *Year End Actual Completion 75%* *Year End Estimated Completion 75%*	✓ Monitored Water Quality Compliance ✓ Met conditions of interim NPDES (National Pollution Discharge Elimination System) ✓ Prepared background information for 1999 NPDES permit negotiations.
D. Integrate mitigation programs/procedures with each development project. *Status:* *Year End Actual Completion 100%* *Year End Estimated Completion 100%*	✓ Development projects included appropriate Wetland/other mitigation.

Goal 10: A commitment to excellence through strategic planning.

Objective	Results Achieved
A. Develop an integrated process that ensures the implementation of strategic planning. *Status:* *Year End Actual Completion 100%* *Year End Estimated Completion 100%*	✓ Trained employees on the annual planning process. ✓ Conducted the organizational planning process.

Objective	***Results Achieved***
B. Develop appropriate evaluation measures to track progress, review and update. ***Status:*** ***Year End Actual Completion 100%*** ***Year End Estimated Completion 100%***	✓ Developed organizational measures.
C. Develop and implement an internal and external process for communicating the strategic plan. ***Status:*** ***Year End Actual Completion 100%*** ***Year End Estimated Completion 100%***	✓ Prepared and issued a mid-year progress report to Commissioners and employees ✓ Prepared and issued a year end report to commissioners and employees

The updated strategic plan is provided here, as it will be presented to the Commission in February, 1999. This update was prepared by obtaining input from Commissioners, senior staff, managers, supervisors and employee groups. Several changes were made to each of MAC's goals as contained in our original plan; major changes to the plan are as follows:

- Goal 8 " To strengthen partner and stakeholder relationships" was eliminated and the activities were incorporated into other goals.
- Goal 10 " A commitment to excellence through strategic planning" was eliminated because all of the objectives were achieved.
- A new Goal 8 "To implement the 2010 plan" was added to incorporate the financing and construction activities related to the 2010 plan.

This document continues to be used to help establish organizational priorities and accomplishing important tasks. Although our organization is busier than ever and our issues are more complex, we are more strategically focused as a result of our strategic planning efforts. Each year, this plan will be revisited to ensure that it addresses future conditions and issues that face the MAC.

GOAL 1. **To operate a safe and secure airport.**
Leader: Tim Anderson, Deputy Executive Director – Operations

Objective A. ***Enhance and ensure safety throughout the MAC system of airports.***

1. MAC Employee Safety

a. *Critique MAC Safety Management Program*
b. Update the program.
c. Measure the effectiveness of the program.

  d. Modify the program, as needed.

2. Airport System Users

  a. *Evaluate potential injury producing environments.*

  b. *Develop and implement countermeasures to minimize injury and/or property loss.*

  c. *Determine program effectiveness and modify, as needed.*

3. Contractor Safety

  a. *Develop and distribute a Contractor Safety Manual.*

  b. *Audit the implementation of the Contractor Safety Program.*

Objective B. Maintain and upgrade the security of the airports.

1. Monitor and influence security initiatives at the Federal level.
2. Expand airport security training.
3. Enhance access control measures.

Objective C. Prevent and control property and equipment damage.

1. Create a reporting and measurement system.
2. Ensure that safety standards and Code requirements are incorporated into facility design.

Objective D. Enhance emergency response capabilities.

1. Expand use of Incident Command System.
2. Develop Emergency Operations Center function.
3. Update Airport Emergency Plan.
4. Design and implement Emergency Operations Plan for MSP.

GOAL 2. To provide world class, customer-oriented transportation facilities at MSP.

Objective A. Continuously improve the customer experience.

1. Develop a formal partnering plan with tenants.
2. Revive "Through the Customer's Eyes" program.

Objective B. Maintain and upgrade existing airside and landside facilities.

1. Improve the aesthetic appeal of terminals.
2. Improve cleanliness of terminals and terminal complex areas.
3. Provide timely maintenance and restoration of airport facilities.

GOAL 3. To build and strengthen a productive and rewarding work environment that demonstrates trust and respect.
Leader: Dave Bergsven, Deputy Executive Director of Human Resources

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Objective A. Recruit, develop, and retain a qualified, diverse work force.

1. Expand recruitment and development efforts.
   a. Develop and conduct training in leadership, management and supervision.
2. Improve flexibility to employees on issues of compensation, benefits and working conditions that attract and retain qualified employees.
   a. Conduct a telecommuting feasibility study.
   b. Implement a Compensation Plan that includes equity adjustments necessary to recruit and retain employees in key positions.
3. Develop and adopt a MAC diversity policy statement.
4. Implement Wellness strategic plan.
5. Reengineer the employee suggestion system.

Objective B. Develop business continuation capability.

1. Apply Y2K contingency planning to business continuity.
2. Automate record retention.
3. Develop a business continuation plan, including disaster related elements.
4. Research and develop a succession planning strategy.

Objective C. Implement a performance management system.
1. Implement the two-way feedback program.

Objective D. Enhance internal communications.

1. Improve communication between MAC departments, management and employees and staff and commissioners.
2. Facilitate communication between MAC departments where there are plans that will have a wider impact than a single department.

Objective E. Implement technology improvements.

1. Complete implementation of MACNET 2000 Plan.
2. Update IS strategic plan.

GOAL 4. To generate understanding, acceptance and support for MAC's mission.
Leader: Wendy Burt, Public Information Officer

Objective A. Educate and inform the public of MAC's mission and the role of the airport system.

1. Inform the public about the economic impact of the MAC's airports.
2. Report to the community about noise mitigation efforts.
3. Provide timely, accurate and focused messages to the media and public.

4. Facilitate communication among MAC departments where there are potential impacts to other departments and the public.

Objective B. Expand public affairs activities to communicate the MSP 2010 Plan.

1. Develop a print and broadcast advertising campaign to educate and generate support for the MSP 2010 development plan.
2. Create media events, signage, and updates to the website, brochures and other materials for the public explaining the terminal, airfield and landside development projects.

GOAL 5. To expand and improve air service alternatives.
Leader: Jeff Hamiel, Executive Director

Objective A. Increase domestic and international airline competition at MSP.

1. Identify and recruit new entrants.
2. Evaluate all service incentive programs.
3. Monitor service levels
4. Evaluate the regional air transportation market.
5. Determine where there is a potential for new service.

Objective B. Increase public awareness of air service options throughout the Midwest region.

1. Generate public awareness about the number and variety of airlines serving MSP.
2. Create public understanding that consumers have a role in fostering competition.
3. Communicate with the public, business leaders, elected officials and the travel industry the benefits of being a hub.

GOAL 6. Effectively manage revenues and expenses to minimize the issuance of debt and maximize the use of operating funds to offset construction costs.
Leader: Denise Kautzer, Deputy Executive Director –Administrative Services

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Objective A. Maximize all sources of revenue and maintain competitive rates and charges.

1. Review and analyze existing and potential sources of non-aeronautical revenue.
2. Renegotiate the Airline Lease.

✓
✓ ***Objective B. Limit growth in controllable expenses.***
✓

1. Review expense categories and identify potential savings.
2. Perform cost/benefit analysis on budget additions.

GOAL 7. To improve the utilization and reputation of the Reliever Airports.
Leader: Tim Anderson, Deputy Executive Director Operations

✓ ***Objective A. Improve the financial viability of the airports.***

1. Implement the new rate structure.
2. Revise and update cost minimization plan.
3. Develop and maximize alternative revenue sources.

✓ ***Objective B. Establish guidelines and policies for the use of airport facilities.***

1. Create and implement a "zoning" policy.
2. Review current use of land at St. Paul Downtown Airport for potential redevelopment.
3. Update lease policies and forms.
4. Update Commission policy on flying clubs.

✓ ***Objective C. Develop marketing plans.***

1. Update existing marketing plan for St. Paul Downtown Airport.
2. Develop marketing plan for the other five Reliever Airports.

GOAL 8. To implement the 2010 Plan.
Leader: Nigel Finney, Deputy Executive Director-Planning/Environment

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Objective A. Provide additional facilities through the implementation of the 2010 Plan to support growth.

1. Review and refine development projects necessary to implement 2010 plan.
2. Involve partners and users in identifying and prioritizing of development projects.
3. Include support facilities, utilities and staffing needed to support new construction.
4. Maximize use of existing facilities.
5. Refine and expand public information/media program.

Objective B. Provide creative, responsible funding for completion of the 2010 Plan.

1. Refine the Capital Improvement Funding Plan.
2. Maximize the use of federal and state funding.
3. Determine the need and, if necessary, issue General Airport Revenue Bonds

Goal 9. To continue our leadership in environmental mitigation
Leader: Nigel Finney, Deputy Executive Director – Planning/Environment

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Objective A. Complete negotiations for a renewed NPDES Permit with the MPCA.

1. Review History, compliance and accomplishments under the current permit.
2. Survey aviation industry and regulatory agency storm water management practices and requirements nationwide.
3. Involve tenant carriers as co-permitees.

4. Develop a permit proposal to begin negotiations with MPCA.
5. Complete negotiations with MPCA resulting in a draft NPDES permit for public review.

Objective B. Conduct Part 150 Study Update

1. Develop the Purpose, Goals and Organization of the Update Process.
2. Establish the existing conditions.
3. Define future MSP conditions.
4. Recommend Noise Compatibility Program.
5. Implementation of Program.
6. Community Coordination.

Objective C. Complete Low Frequency Noise Policy Committee Analysis

1. Review existing low frequency noise information for SFO, BOS, BWI, LAX and other published studies.
2. Conduct necessary studies.
3. Convene an Expert Technical Panel.
4. Present recommendations regarding appropriate noise metric, compatibility standards, and recommended programs, measures or techniques.
5. Prepare report.

POST-RETIREMENT MEDICAL BENEFITS

In August 1996, the Commission approved the recording and funding of the post-retirement medical benefits. The cost of this 20 year program is estimated at $2,794,000 per year, beginning January 1997. Slightly over 50% of these costs will be reimbursed through airline rates and charges.

FINANCIAL INFORMATION

Management of the MAC is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Commission are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) The cost of a control should not exceed the benefits likely to be derived and 2) The evaluation of costs and benefits requires estimates by management.

For financial reporting purposes and in conformance with the Government Accounting Standards Board Pronouncements, MAC is defined as an enterprise fund. This report includes all funds and account groups of the MAC. Accounting records are maintained on an accrual basis in accordance with generally accepted accounting principles.

BUDGETING CONTROLS

The budget for the Commission is prepared on an accrual basis. Budget packages containing personnel information, equipment requests and other operational expenses are distributed to department supervisors in May. Information returned to the Finance Department by the department supervisors is reviewed in June. During July, budgeted expense is completed and the revenue portion of the budget is started. The revenue portion of the budget is based upon the lease agreement with the airlines and various other lease agreements with concessionaires. Because much of what is needed for revenue is determined by expense projections, revenue is calculated after expense.

During September presentations are prepared for the Finance Committee and senior staff. Also, supporting schedules are completed. By mid to late September budget packages are distributed to the airlines and the Finance Committee. The month of October is reserved for staff, commissioners and the airlines.

A commissioner seminar on the Operating Budget is held in early November. With the recommendation from the Finance Committee and the informational meetings held, approval is requested at the November full Commission meeting.

A monthly budget variance analysis, as required by Commission by-laws, reports significant variations from the adopted plan and directs management action for correction as required. A system of purchase requisitions, purchase orders and authorized signature approvals provide the basis for positive management responsibility and control for each of the budget line items.

Significant elements of the Commission's accounting, budgeting and reporting system are established and described in the lease/use agreement between MAC and the air carriers serving MSP, which was signed in 1989. The agreement provides for the definition of eligible costs and methodology for determining rates and charges to be paid by the airlines that are parties to the agreement.

REVENUES AND EXPENDITURES

General
The Commission has entered into, and receives payment under, different agreements with various air carriers and other parties, including the airline lease agreement relating to landing fees and the leasing of space in terminal buildings, other building leases regarding the leasing of cargo and miscellaneous hangar facilities, concession agreements relating to sale of goods and services at the airport and specific project leases relating to the construction of buildings and facilities for specific tenants.

Airline Lease Agreement
The airline lease agreement relates to the use of the airport for air carrier operations, the leasing of space within the terminal buildings of the airport and the establishment of landing fees. Except for rental amounts based primarily upon the square feet rented, the terms, conditions and provisions of each airline lease agreement are substantially the same.

In the airline lease agreement, the Commission has leased to each particular air carrier a certain specified square footage portion of the terminal area in the airport. Annual rents are computed on the basis of various charges per square foot for various types of space within the existing terminal area and, in certain cases, the costs of certain improvements of the existing terminal area. The airline lease agreement also provides that each air carrier is required to pay a basic landing fee. The landing fee is calculated by dividing the cost of operations, maintenance and improvements at the air field by total landed weight of aircraft utilizing the airport. The airline lease agreement also requires each air carrier leasing gate space at Lindbergh Terminal to pay an aircraft parking ramp fee that is computed on a lineal foot basis. The ramp fee includes the cost of operations, maintenance and improvements to the ramp area surrounding the terminal building gates. The current agreement with the airlines calls for a noise surcharge for off-airport noise projects.

For the year ended December 31, 1998, the aggregate rentals received by the Commission pursuant to the airline lease agreement were approximately $42,813,000. The annual rentals due under each lease may be adjusted each year to reflect actual costs of the airport.

Other Building and Miscellaneous Leases
The other building and miscellaneous leases relate to rentals and other fees associated with the Hubert H. Humphrey International Charter Terminal, miscellaneous hangar facilities, office rentals for tenants located in the West Terminal area, and non-airline tenants in the Lindbergh Terminal. For the year ended December 31, 1998, the aggregate annual rentals under these leases were approximately $8,888,000.

Specific Project Leases
The Commission has constructed various buildings and facilities for specific tenants including a fueling facility for Signature Flight Services, and hangars and office buildings for Northwest Airlines, Mesaba and Sun Country Airlines. The specific project leases relate to the use of these buildings and facilities by Signature Flight Services, Northwest, Mesaba and Sun Country Airlines.

If the construction of a facility is financed by bonds issued by the Commission, the lessee is required to pay annual lease payments equal to the debt service requirements on the bonds issued to construct the facility, due in the following year. The lease remains in effect until the total debt service on the bonds has been paid. Bond funds were used to finance the United States Post Office, certain facilities for Northwest Airlines and the extension of the Green Concourse for the former Republic Airlines.

If the construction of a facility is financed from funds the Commission has on hand, the lessee is required to make lease payments equal to the debt service requirements which would have been required if bond funds were used. Commission funds were used to finance facilities for Signature Flight Services, Sun Country, Mesaba Airlines and certain facilities for Northwest Airlines including the extension of the Gold Concourse .

For the year ended December 31, 1998, the aggregate lease payments paid to the Commission under specific project leases were approximately $38,595,000.

Concession Agreements

The Commission has entered into separate concession agreements with various firms to operate concessions inside the terminal building at the airport including, among others, food and beverage services, newsstands, advertising, amusements/games, insurance, personal service shops, and telephones. For the year ended December 31, 1998, the aggregate fees paid to the Commission under the existing inside concession agreements were approximately $9,081,000. Such fees are computed on the basis of different percentages of gross sales for the various types of concessions, with the larger concessions guaranteeing a minimum payment each year.

Concession agreements for rental car agencies require such concessionaires to pay fees based on a percentage of their gross revenues and special charges such as parking fees and a per-square-foot land rental. The Commission also has a management contract with a firm for the operation of the airport parking lot and garage facilities. For the year ended December 31, 1998, the aggregate fees paid to the Commission under the existing rental car agreements and parking lot management contract were approximately $45,620,000. Of this amount, parking revenue was approximately $35,052,000 and auto rental revenue for both on and off Airport Auto Rentals was approximately $10,568,000.

Reliever Airport

The Commission has entered into various other leases and agreements with tenants at its reliever airport system. These reliever airport tenant leases include fuel flowage fees, hangar rentals, storage lots, commercial fees and other miscellaneous amounts. For the year ended December 31, 1998, revenues from these agreements were approximately $1,169,000.

Miscellaneous-Off Airport Concession Leases and Ground Transportation Fees

The Commission has entered into certain leases with off-airport concessionaires which provide off-airport advertising and auto services. Additionally, the Commission charges fees for permits and licenses to operate shuttles, vans, buses and taxis at the airport. Such fees are set by Commission ordinances. For the year ended December 31, 1998, the Commission received $2,129,000.

Miscellaneous Revenues
In addition to the above agreements, the Commission enters into various other leases and agreements. These include utility charges, ground space rentals, office rentals for commuter airlines and concessionaires, commuter and general aviation fees, employee shuttle bus fees, and other miscellaneous amounts. For the year ended December 31, 1998, the revenues from these agreements were approximately $7,247,000.

Operating Revenue
Operating revenues for the MAC come entirely from user fees that are established for various services and facilities that are provided at Commission airports. While the Commission has the power to levy taxes to support its operations, it has adopted policies to provide adequate revenues for the system to operate since 1969 without general tax support. Revenue sources have been grouped into the following categories in the Statement of Revenues and Expenses:

Airline Rates & Charges	- Revenue from landing & ramp fees, noise surcharge and terminal building rates
Concessions	- Revenue from food & beverage sales, merchandise sales, auto parking, etc.
Other Revenues:	
Rental	- Fees for ground and building rentals
Utilities	- Charges for tenants use of water and sewer
Miscellaneous	- Charges for other services provided by MAC

For the fiscal year ended December 31, 1998, the top ten operating revenue sources and providers for the MAC are as follows:

Top Ten Operating Revenue Sources:

Source	Revenue
1. Parking	$35,052,000
2. Landing Fees	27,358,000
3. Terminal Rent-Airlines	11,604,000
4. Auto Rental (Off-and on-Airport)	10,568,000
5. Other Building Rent	6,938,000
6. Ramp Fees	4,753,000
7. Merchandise	3,451,000
8. Food and Beverage	2,719,000
9. Ground Rent	2,112,000
10. Ground Transportation Fee	1,794,000

Top Ten Operating Revenue Providers:
1. Northwest Airlines
2. Host International
3. Hertz
4. National Car Rental
5. Signature Flight Support
6. Avis Rent A Car
7. United Airlines
8. Sun Country Airlines
9. Mesaba Aviation
10. Delta Airlines

During 1998 MAC operating revenues increased by 10.26% to $116,948,000 from $106,061,000 in 1997. Changes in major categories are summarized below (dollars in thousands):

	1998		1997		Dollar	Percent
	$	%	$	%	Change	Change
Airline Rates & Charges	$ 46,832	40.05%	$ 41,838	39.45%	$4,994	11.93%
Concessions	56,832	48.60	52,279	49.29	4,553	8.71
Other Revenue:						
Utilities	2,077	1.78	1,516	1.43	561	37.0
Miscellaneous	11,207	9.57	10,428	9.83	779	7.47
Operating Revenues	**$116,948**	**100.00%**	**$106,061**	**100.00%**	**$10,887**	**10.26%**

Airline rates and charges increased $4,994,000 or 11.93% primarily because of landing fees. Landing fees are calculated on a breakeven basis with revenue and expense being equal, an increase in revenue, therefore, is a result of increased costs in the Field and Runway area. The increase in the Field and Runway cost center can be attributed to increased expenses, specifically in the areas of personnel (overtime and additional personnel) and depreciation costs related to capital improvement projects.

Concessions increased $4,553,000 or 8.71%. The majority of the increase from 1997 levels is in the auto parking concession. This is a result of an increase in the utilization of the MAC's parking facilities coupled with an increase in average length of stay and a full years' recognition of an October 1997 rate increase.

Operating Expense

In 1998, MAC operating expenses increased by 7.10% to $100,609,000 from $93,937,000 in 1997. Changes in major categories are summarized below (dollars in thousands):

	1998		1997		Dollar	Percent
	$	%	$	%	Change	Change
Personnel	$32,433	32.24%	$30,653	32.63%	$ 1,780	5.81%
Administrative & Expenses	1,113	1.11	1,108	1.18	5	.45
Professional Services	4,006	3.98	4,069	4.33	(63)	(1.55)
Utilities	6,466	6.43	5,889	6.27	577	9.80
Operating Services	10,414	10.35	9,935	10.58	479	4.82
Maintenance	9,302	9.25	8,809	9.38	493	5.60
Depreciation	36,756	36.53	33,304	35.45	3,452	10.37
Other	119	0.11	170	0.18	(51)	(.30)
Operating Expenses	$100,609	100.00%	$93,937	100.00%	$6,672	7.10%

Utilities increased $577,000 or 9.80% as a result of an increase in rates for electricity, natural gas and water and sewer rates. In addition, major construction activity within the terminal building causing an increase in usage also contributed to the increase.

Depreciation increased by 10.37% as a result of approximately $150 million of airports and facilities were completed in 1997–98.

In order to promote and encourage the efficient use of facilities at all MAC airports as well as attempting to minimize the environmental impact of MSP on the surrounding community, MAC has implemented a policy of subsidizing its reliever airports by establishing relatively low user charges as an incentive for pilots to use these facilities rather than MSP. In order to maintain this subsidy, MAC sets its rates and charges to assure that total system revenues will be sufficient to pay total system expenses.

Net revenues generated by the Commission are designated for construction and debt service payments. These net revenues provide the Commission with a portion of the money to meet the funding requirements of its capital improvement program. This reduces the need to issue bonds and, therefore, allows the Commission to avoid the interest expense of additional debt. Net revenues are also required to fund the Commission's October 10 debt service requirement. (See Debt Administration.)

DEBT ADMINISTRATION

The MAC has issued three forms of indebtedness: Airport improvement Bonds, General Airport Revenue Bonds and General Obligation Revenue Bonds. From 1943 to 1975 MAC issued Airport improvement Bonds to provide funds for its capital improvement program. Since 1976 General Obligation Revenue Bonds which are backed by Commission revenues and the authority to levy any required taxes on the assessed valuation of the seven county Metropolitan Area have been used. In 1998, the MAC issued General Airport Revenue Bonds which are not backed by the MAC's taxing authority.

The MAC is required by law to maintain Debt Service funds sufficient to bring the balance on hand in the Debt Service Account on October 10 of each year to an amount equal to all principal and interest to become due on all Airport Improvement Bonds and General Obligation Revenue Bonds payable from October 10 to the end of the second following year. The required balance as of October 10 in the Debt Service Account for the Airport Improvement Bonds and the General Obligation Revenue Bonds for the next five years is as follows (in thousands):

October 10, 1999	$77,073
October 10, 2000	$77,225
October 10, 2001	$78,489
October 10, 2002	$79,958
October 10, 2003	$78,185

Statutory authority for issuing bonds is obtained from the Minnesota State Legislature. Authorization as of December 31, 1998, permits the issuance of an additional $55 million of General Obligation Revenue Bonds. In 1998, the Commission issued $38.75 million in tax-exempt General Obligation Revenue Bonds to advance refund General Obligation Revenue Bond Series 7. As a result of the refunding, the Commission reduced its total debt service requirements by $13,972,188 which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $9,715,360. These Bonds received AAA/Aaa ratings from Standard & Poor's, Moody's and Fitch's rating services.

In June 1998, the MAC issued $346,925,000 Series 1998 A-C General Airport Revenue Bonds. The net proceeds to be used for construction financing total $306 million with the balance to be used to pay for cost of issuance, capitalized interest and the reserve fund. The reserve requirement is the maximum annual aggregate debt service of the Series 1998 A-C bonds. These bonds were rated AAA/AAA by Standard & Poor's and Fitch respectively based on the Municipal Bond Insurance Policy. Without taking into account the

Municipal Bond Insurance Policy the bonds were rated AA by Standard & Poors and A+ by Fitch.

The reserve requirement for the 1998 Series A-C for the next five years are as follows (in thousands):

October 10, 1999	$19,568
October 10, 2000	$18,063
October 10, 2001	$22,705
October 10, 2002	$22,697
October 10, 2003	$22,687

CAPITAL PROJECTS

Each year the Commission approves capital projects that are planned to start within the next 12 months, and a Capital Improvement Program which covers all projects which are to be started during the second calendar year. In addition, a Capital Improvement Plan which covers an additional five years is adopted. These serve as a basis for determining funding requirements and other operational planning decisions. Certain projects which have metropolitan significance are also submitted to the Metropolitan Council for review and approval.

Funds required for the completion of all capital projects come from five sources: a) General Obligation Revenue Bonds, b) Airport Revenue Bonds, c) state or federal grants, d) internally generated funds from operations, and e) Passenger Facility Charges (PFCs).

PFCs are fees imposed on enplaned passengers by airport authorities for the purpose of generating revenue for airport projects that increase capacity, increase safety, or mitigate noise impacts. On June 1, 1992, the Commission began collecting a $3.00 PFC to finance projects totaling approximately $66,356,000. Collection for the first application expired on August 1, 1994. The Commission received authority to collect a $3.00 PFC under a second application beginning that same day. The total amount of the second application is $126,222,000. The second application will expire April 1, 1999. During 1995, the Commission received authority to collect a $3.00 PFC under a third application beginning July 1, 1996 to finance projects totaling $36.4 million. The third application was fully funded in 1997 and collections have ended. During 1998, the Commission received authority to collect a $3.00 PFC under a fourth application beginning April 1, 1999 to finance projects totaling $55,057,000. In order to limit the cost of facilities at the reliever airports, the Commission uses only grant funds or retained earnings to finance all construction projects at these airports. Capital improvements at the airport have been financed from all sources as appropriate with the exception of Revenue Bonds, which are new 1996 legislation.

The Commission may issue revenue bonds to fund airports and airport navigation facilities, other capital improvements at airports managed by the Commission, noise abatement and natural resource protection measures, transportation and parking improvements related to airports and to refund any outstanding obligations of the Commission. These bonds will be secured with available revenue in accordance with generally accepted public financial practices under a resolution of the Commission or trust indenture for the bonds. They will not be secured by the full faith and credit of the Commission or a pledge of the taxing authority of the Commission.

Anticipated projects planned for 1999, 2000 and 2001, as well as the extended period 2002-2005, are summarized as follows. (The amounts shown represent the estimated total cost for projects planned to be initiated, but not necessarily completed during that period [in thousands]):

CAPITAL IMPROVEMENT PLAN SUMMARY (CIP)
($ = 000)

	1999	2000	2001	2002-2005	Total 1999-2005
Minneapolis/St. Paul Int'l					
Field & Runway	$ 85,900	$166,050	$ 121,700	$160,300	$ 533,950
Environmental	42,470	31,070	29,570	101,996	205,106
Self-Liquidating	18,300	800	1,400	1,100	21,600
Landside	270,305	115,950	51,950	35,300	473,505
Total Minneapolis/St. Paul Int'l	$416,975	$313,870	$204,620	$298,696	$1,234,161
Reliever Airports					
St. Paul	$ 11,850	$ 100	$ 500	$ 900	$ 13,350
Flying Cloud	41,350	8,700	5,700	5,250	61,000
Crystal	1,200	700	450	550	2,900
Anoka	2,900	900	14,100	5,250	23,150
Lake Elmo	405	2,400	200	4,600	7,605
Airlake	2,160	1,100	0	8,200	11,460
Total Reliever Airports	$ 59,865	$ 13,900	$ 20,950	$ 24,750	$ 119,465
Total All Facilities	$476,840	$327,770	$225,570	$323,446	$1,353,626

CASH MANAGEMENT

Cash temporarily idle during the year is invested according to legal requirements established by the legislature of the State of Minnesota. In accordance with state law, investments are restricted to various United States government securities, certificates of deposits, commercial paper and repurchase agreements. All securities must mature within three years from the date of purchase.

In addition to the legal requirements, the MAC has an investment policy to further enhance the safety of its investments. In accordance with this policy, securities are safekept at one institution and purchases can be made only from dealers located in the State of Minnesota. To ensure competitive prices on all purchases, the policy requires bids to be taken from several different dealers.

State statutes and Commission policies permit the Commission to use its investments to enter into securities lending transactions–loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Commission's securities custodian are agents in lending the Commission's securities for cash collateral of 100 percent plus accrued interest. Contracts with the lending agents require them to indemnify the Commission if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Commission for income distributions by the securities' issuers while the securities are on loan. (Also see Note B.)

The Government Accounting Standards Board requires disclosure of types of investments and safekeeping arrangement in the notes to the financial statements. Custodial agreements are disclosed as three levels of risk. At year-end 1998, all of the MAC's investments were being held by a third party agent of the Commission. Total investment earnings for 1998 were $16,003,000. The average yield on investments during the year was 5.33%.

RISK MANAGEMENT

The MAC Risk Department is responsible for administrating the purchase and maintenance of all insurance coverages and related programs. Coverages included are: Airport Liability, including automobile and equipment; Property; Health and Dental; Workers' Compensation; and other miscellaneous coverages.

The Risk Department coordinates claims payment, major claims management, and early intervention where needed in order to promote cost containment and overall claims handling efficiency. The MAC or its tenants, within limits and with deductibles approved by the MAC, maintain fire insurance coverage on all buildings at the airport. Contractors and lessees are required to carry certain amounts of insurance. A schedule of insurance in force at December 31, 1998, can be found in the Statistical section of this report. Loss Prevention and Wellness Committees, composed of MAC staff and airport community representatives with the Risk Department advisor, endeavor to identify exposures, make recommendations to MAC management and promote wellness and awareness among employees and all MAC facilities. Also, the Risk Department maintains open communication and positive relationships with other departments, brokers, and insurance companies to ensure good working relationships and access to competent professional advice. The Risk Department serves as an advisor to public needs, airport tenants, other MAC departments and special action committees.

INDEPENDENT AUDIT

The financial records of the MAC are audited annually by a firm of independent certified public accountants. The audits for the years ended December 31, 1998 and 1997, were performed by Deloitte & Touche LLP. Their opinion on the financial statements is presented in this report.

In conjunction with the annual audit, Deloitte & Touche LLP perform procedures consistent with the Single Audit Act of 1996 (The Act), OMB Circular A-133 and guidelines in relation to grant award agreement between the MAC and FAA in progress during the year. Deloitte & Touche LLP also performs procedures for the purposes of the MAC's compliance with the regulations issued by the FAA to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990 in relation to Passenger Facility charge revenues and expenses. The reports issued are intended for the use of MAC and the FAA, do not change in any way the financial statements and have not been included in this report.

In accordance with Minnesota State Law, the Legislative Auditor may conduct a financial audit of the MAC or allow this service to be contracted. In 1998, the financial audit has been performed by the firm Deloitte & Touche LLP. In addition, the Legislative Auditor periodically conducts a separate audit to examine the Commission's compliance with applicable laws, policies, and procedures.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the MAC for its Comprehensive Annual Financial Report for the year ended December 31, 1997. For the thirteenth consecutive year, the Commission has received the prestigious award.

In order to be awarded a Certificate, which is valid for one year, a governmental unit must publish an easily readable and efficiently organized report, the contents of which conform to the program's standards. Such report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Commission also received for the eleventh consecutive year the GFOA Award For Distinguished Budget Presentation for its Annual Operating Budget for 1998. In order to qualify for the Distinguished Budget Presentation, the Commission's budget document was judged to be proficient in several categories, including policy documentation, financial planning and organization.

In 1996, the MAC was awarded the Certification of Excellence Award by the Municipal Treasurers' Association of the United States and Canada (MTA US&C) for the MAC's investment policy. The MAC met MTA US&C criteria deemed as necessary components of an investment policy.

ACKNOWLEDGMENTS

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contribution made in preparation of this report.

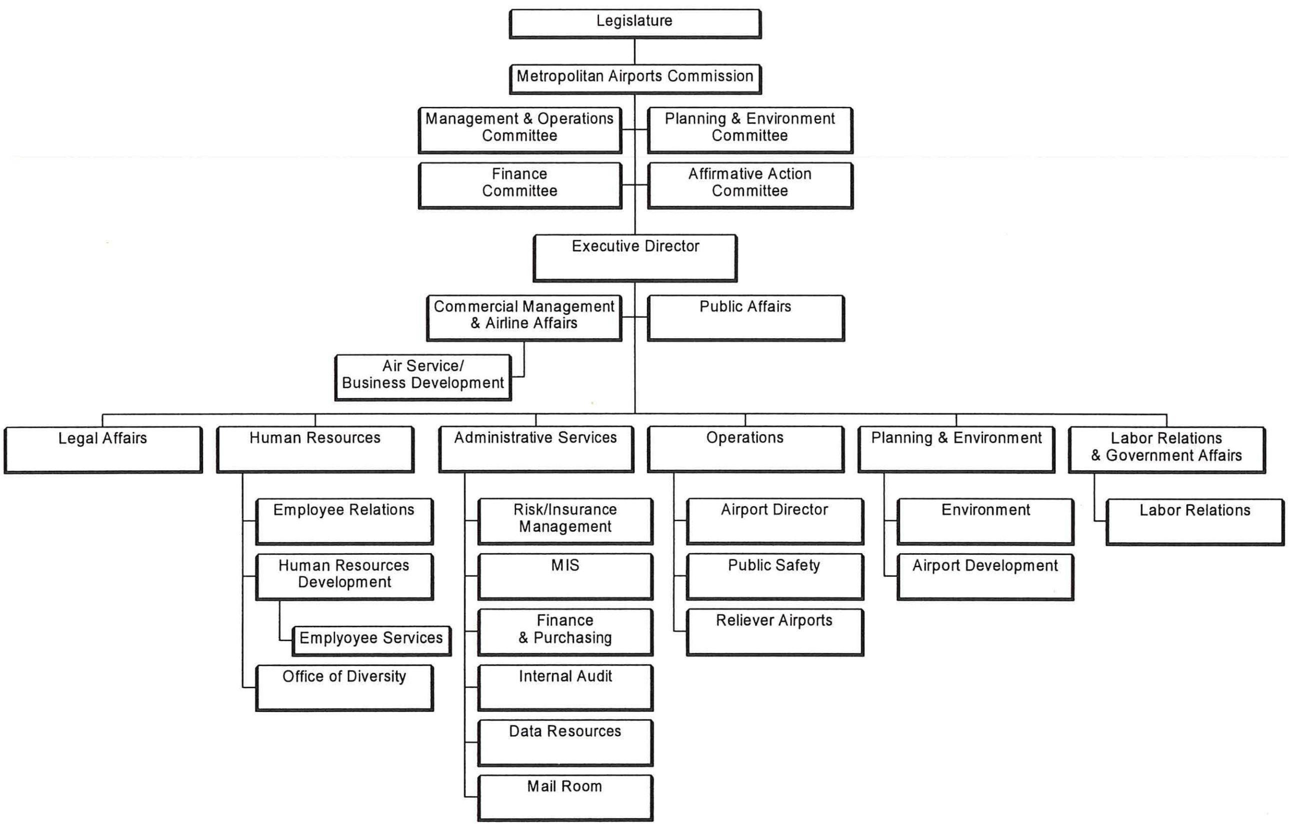
In closing, without the leadership and support of the governing body of the Metropolitan Airports Commission, preparation of this report would not have been possible.

Respectfully submitted,

Jeffrey W. Hamiel
Executive Director

Stephen L. Busch
Director of Finance

ORGANIZATION CHART



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Metropolitan Airports Commission • Comprehensive Annual Financial Report • Year Ended December 31, 1998 • Minneapolis/St. Paul, Minnesota

Financial Section

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INDEPENDENT AUDITORS' REPORT

Members of the Commission
Minneapolis-Saint Paul Metropolitan
Airports Commission

We have audited the accompanying balance sheets of Minneapolis-Saint Paul Metropolitan Airports Commission (the Commission) as of December 31, 1998 and 1997 and the related statements of revenues and expenses and changes in retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the management the Commission. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commission at December 31, 1998 and 1997 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 1999, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The year-2000 supplementary information on page 64 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year-2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the Commission is or will become year-2000 compliant, that the Commission's year-2000 remediation efforts will be successful in whole or in part, or that parties with which the Commission does business are or will become year-2000 compliant.

As discussed in Notes B and M to the general purpose financial statements, during the year ended December 31, 1998, the Commission changed its method of accounting for investments to conform with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External*

Investment Pools, and its method of accounting for Internal Revenue Code Section 457, deferred compensation assets and related liabilities, to conform with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, and, retroactively, restated prior general purpose financial statements for the changes.

Deloitte & Touche LLP

March 5, 1999

BALANCE SHEETS

(Dollars in Thousands)

	December 31, 1998	December 31, 1997
ASSETS		
Cash and Investments – Note B:		
Unrestricted:		
Cash and Cash Equivalents	$ 11,091	$ 2,135
Investments	22,877	17,357
	33,968	19,492
Restricted – Notes B and C:		
Cash and Cash Equivalents	9	8
Investments	615,699	264,497
	615,708	264,505
	649,676	283,997
Accounts receivable	7,620	6,941
Government grants in aid of construction receivable – Note A	3,079	1,359
Restricted Asset:		
Passenger facility charge receivable – Note A	2,922	2,677
Airports and Facilities – Notes A, E, F, and J	769,369	567,905
Leases receivable – Notes A and I	370,019	369,094
Other	70	93
TOTAL ASSETS	**$1,802,755**	**$1,232,066**
LIABILITIES AND FUND EQUITY		
Accounts payable and accrued expenses	$ 7,359	$ 7,071
Security lending agreement	10,271	1,965
Payables from restricted assets:		
Debt Service – Note F	129,177	88,162
Construction	47,288	16,152
Post Retirement Medical and Other – Note L	6,018	3,021
Other	1,695	1,870
Security lending agreement	172,405	47,887
Employee compensation and payroll taxes	4,123	3,886
Deferred revenue – Note A	45,111	46,897
Bonds payable – Note F	617,204	319,469
TOTAL LIABILITIES	**1,040,651**	**536,380**
Commitments and Contingencies – Notes P and Q		
FUND EQUITY – Note D		
Contributed capital – Notes A and D	153,318	143,446
Retained Earnings:		
Reserved	262,047	110,090
Unreserved	346,739	442,150
TOTAL FUND EQUITY	**762,104**	**695,686**
TOTAL LIABILITIES AND FUND EQUITY	**$1,802,755**	**$1,232,066**

See notes to financial statements.

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN RETAINED EARNINGS

(Dollars in Thousands)	For The Fiscal Years Ended December 31, 1998	1997
OPERATING REVENUES		
Airline Rates and Charges	$ 46,832	$ 41,838
Concessions	56,832	52,279
Other Revenues:		
Utilities	2,077	1,516
Miscellaneous	11,207	10,428
TOTAL OPERATING REVENUES	**116,948**	**106,061**
OPERATING EXPENSES		
Personnel	32,433	30,653
Administrative Expenses	1,113	1,108
Professional Services	4,006	4,069
Utilities	6,466	5,889
Operating Services	10,414	9,935
Maintenance	9,302	8,809
Depreciation	36,756	33,304
Other	119	170
TOTAL OPERATING EXPENSES	**100,609**	**93,937**
OPERATING INCOME	**16,339**	**12,124**
OTHER REVENUES (EXPENSES)		
Interest Income	47,444	43,952
Passenger Facility Charges	37,389	37,162
Gain on Sale of Assets	0	6
Bond Interest Expense	(37,549)	(30,957)
Part 150 Home Insulation Expenses	(14,976)	(8,482)
Concession Development Expenses	(1,792)	(1,358)
NET INCOME	**46,855**	**52,447**
ADD: Depreciation of facilities provided by government grants	9,691	8,941
INCREASE IN RETAINED EARNINGS	**56,546**	**61,388**
Retained Earnings–Beginning of Year – Note B	552,240	490,852
RETAINED EARNINGS–END OF YEAR	**$608,786**	**$552,240**

See notes to financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

Increase (Decrease) in Cash and Cash Equivalents	For The Fiscal Years Ended December 31, 1998	1997
Cash flows from operating activities:		
Operating income	$ 16,339	$ 12,124
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	36,756	33,304
Change in assets and liabilities:		
Accounts receivable	(679)	(3,235)
Other assets	23	38
Accounts payable and accrued expenses	288	654
Post retirement medical and other	2,997	3,021
Other restricted liabilities	(175)	5
Employee compensation and payroll taxes	237	369
Deferred revenue	(1,786)	(1,831)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**54,000**	**44,449**
Cash flows from capital and related financing activities:		
Payments for airports and facilities	(212,954)	(108,046)
Proceeds from disposal of airports and facilities	47	49
Payments for Part 150 Program	(14,976)	(8,482)
Payments for Concession Development Program	(1,792)	(1,358)
Proceeds from bond issuance	383,875	0
Receipt of lease payments	8,853	47,219
Receipt of passenger facility charges	37,144	37,135
Payments on bonds	(54,336)	(11,065)
Interest paid on bonds	(32,293)	(32,076)
Receipts of government grants in aid of construction	17,843	4,777
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	**131,411**	**(71,847)**
Cash flows from investing activities:		
Purchase of investment securities	(794,548)	(881,960)
Proceeds from maturities of investment securities	571,285	864,283
Interest income	46,809	43,545
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	**(176,454)**	**25,868**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**8,957**	**(1,530)**
Cash and cash equivalents–Beginning of year	2,143	3,673
CASH AND CASH EQUIVALENTS–END OF YEAR	**$ 11,100**	**$ 2,143**

See notes to financial statements.

For the years ended December 31, 1998 and 1997

NOTE A
SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Minneapolis-Saint Paul Metropolitan Airports Commission (the Commission) was created by an act of the Minnesota State Legislature in 1943 as a public corporation. Its purpose is to promote air navigation and transportation (international, national, and local) in and through the State of Minnesota, promote the efficient, safe, and economical handling of air commerce, assure the inclusion of the state in national and international programs of air transportation, and to those ends develop the full potentialities of the metropolitan area as an aviation center. It has the responsibility to assure residents of the metropolitan area the minimum environmental impact from air navigation and transportation, promote the overall goals of the state's environmental policies, and minimize the public's exposure to noise and safety hazards around airports.

The area over which the Commission exercises its jurisdiction is the Minneapolis-Saint Paul Metropolitan Area which includes Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties. The Commission controls and operates seven airports within the Metropolitan Area, including the Minneapolis-Saint Paul International Airport, which services scheduled air carriers and six reliever airports, serving general aviation.

The Commission is governed independently by a 15-member Board of Commissioners. The Governor of the State of Minnesota appoints thirteen Commissioners. The Mayors of Minneapolis and St. Paul also have seats on the Commission with the option to appoint a surrogate to serve in their place. Certain large capital improvement projects having metropolitan significance must be reviewed by the Metropolitan Council, which is a public agency established by law with powers of regulation over the development of the Metropolitan Area.

In applying Government Accounting Standards Board (GASB) Statement No. 14, the State of Minnesota and the Commission have agreed that the Commission is not financially accountable to any other organization and is considered a stand-alone governmental unit.

Basis of Accounting

The system of airports operated by the Commission is accounted for as an Enterprise Fund and reported on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. The Commission has applied GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting." Under GASB Statement No. 20, the Commission applies all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Budgeting Process

As required by Minnesota State Statutes, the Commission adopts an annual operating and capital expenditures budget for purposes of determining required taxes, if any, to be levied by counties in its jurisdiction. Budgets are established on a departmental basis using the accrual method of accounting.

The process to amend the budget is set forth in the Commission bylaws, Article III, Section 8(a), and presented below:

"8(a) Establishment of the annual budget setting out anticipated expenditures by type of expenditure and/or upward or downward revision of that budget in the course of the corporation's fiscal year shall constitute prior approval of each type of expenditure. Authorization by vote of the Commission is required for transfer of budgeted amounts between or among line items or to appropriate additional funds for each line item. The Executive Director is directed to provide for the daily operation and management of the Commission within the expenditure guidelines of the annual budget. Commission approval of a contract shall constitute prior approval of disbursements made pursuant to terms of the contract within the constraints of the budget for all contract payments, except final construction contract payments, which shall require commission approval.

The Executive Director shall have the responsibility of securing adequate quantities of office, janitorial, maintenance and repair materials and supplies, and the rent of sufficient equipment necessary for the smooth, continuous operation of the Commission's system of airports and all facilities associated with the system of airports. The Executive Director's authority to secure these items shall be subject to the Commission's purchasing procedures and be subject to the line-item budget constraints of the annual budget.

At any time during the fiscal year, the Executive Director may recommend to the full Commission that all or any unencumbered appropriation balances of individual line-items be transferred to those line-items that require additional budgeted funds. In addition, the Executive Director may recommend to the full Commission the appropriation of additional funds above and beyond those approved at the time of budget adoption."

The Commission is not required to demonstrate statutory compliance with its annual operating budget. Accordingly, budgetary data is not included in the basic financial statements. All budgets are prepared in accordance with airport lease and use agreements. Unexpended appropriations lapse at year-end.

Cash

In accordance with Minnesota Statutes, the Commission maintains deposits at those depository banks which are members of the Federal Reserve System, as authorized by the Commission.

Statement of Cash Flows

The Commission considers cash on hand plus overnight investments to be cash equivalents.

Deferred Revenue

Deferred revenue primarily represents advance interest payments received from the airlines which will be recognized as interest income over the term of the lease agreement.

Government Grants in Aid of Construction

Government grants in aid of construction represent the estimated portion of construction costs incurred for which airport aid grants are expected to be paid to the Commission by the United States Government and the State of Minnesota. These amounts are recorded as a receivable and as contributed capital. As assets acquired with grants in aid are depreciated, the related contributed capital is transferred to retained earnings (Note D).

Airports and Facilities

As required under Chapter 500, Laws of Minnesota 1943—the law under which the Commission was created—certain properties, classified as airports and facilities, were contributed by the cities of Minneapolis and Saint Paul. Fee title to the land and improvements remains with the two cities.

Land contributed to the Commission from the cities has been recorded at the cost reported by the cities. This transaction occurred in 1943, the fair market value on the land can not be determined. However, it is the Commission's belief that the difference between the cost and the fair market value in 1943 is immaterial. Additions to the property accounts have been recorded at cost since 1943.

It is the Commission's policy to amortize the carrying amount of the properties, including those acquired using government grants in aid, over their estimated useful lives on a straight line basis by annual depreciation charges to income. Estimated useful lives on depreciable assets are as follows:

Airport improvements and buildings	10-40 years
Moveable equipment	3-10 years

Costs incurred for major improvements are carried in projects in progress until disposition or completion of the related projects. Costs relating to projects not pursued are expensed, while costs relating to completed projects are capitalized as properties.

Passenger Facility Charges

On June 1, 1992 the Commission began collecting Passenger Facility Charges (PFCs). PFCs are fees imposed on enplaned passengers by airport authorities for the purpose of generating revenue for airport projects that increase capacity, increase safety, or mitigate noise impacts. In the first application, the Commission received approval for a $3.00 PFC to finance projects totaling approximately $66,356,000. Collection for the first application expired on August 1, 1994. The Commission received authority to collect a $3.00 PFC under a second application beginning that same day to finance projects totaling $113,064,000. This application was amended in December 1996 to increase the amount collected to $126,222,000 and with an expiration date of 4/1/99. During 1995, the Commission received authority to collect a $3.00 PFC under a third application beginning June 1, 1996 to finance projects totaling $32.7 million. This application was amended in March 1997 to increase the amount collected to $36.4 million. The third application was fully funded in 1997 and collections have ended. During 1998, the Commission received authority to collect a $3.00 PFC under a Fourth application beginning April 1, 1999 to finance projects totaling $55,057,000. Effective January 1, 1997, the Commission began to expense costs associated with the Part 150 Sound Insulation Program that are funded by PFC's.

PFCs are recorded as non-operating revenue at the time of ticket sale.

Leases

Substantially all airport improvements and buildings are leased or charged to users under various agreements. Certain facilities are leased under self-liquidating lease agreements which require the lessee to pay annual payments equal to the debt service requirements of the bonds issued to construct the facilities, or the debt service requirements which would have been required if bond funds were used. Other facilities at Minneapolis-Saint Paul International Airport are charged to user airlines under lease agreements which provide for compensatory rental rates designed to recover agreed-upon portions of costs incurred, including depreciation and interest, in the terminal building, ramp, and runway areas. Other facilities, to the extent they are leased, are leased under conventional agreements, primarily percentage leases. Revenues above costs recovered are used to defray the costs of maintaining reliever airports and public areas at Minneapolis-Saint Paul International Airport. See Note Q for additional information regarding transactions with Northwest Airlines, Inc.

Capitalized Interest

Interest capitalized on projects funded by internally generated funds is based on the weighted average borrowing rate of the Commission and actual project expenditures during the period of construction. Interest capitalized on projects funded from bond proceeds is the interest cost of the borrowing less interest earned on undisbursed invested funds during the construction period. Interest is not capitalized on project costs that are reimbursed by government grants in aid of construction or Passenger Facility Charges.

Deferred Loss on Refundings

The Commission defers recognition of losses incurred with refundings according to GASB Statement No. 23. The losses incurred in refundings will be amortized on a straight line basis over the lesser of the remaining life of the original bonds or the life of the new bonds.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation. Such reclassifications did not have an effect on net income or fund equity as previously reported.

NOTE B
CASH, INVESTMENTS AND SECURITIES LENDING

Cash

Cash balances which are insured or collateralized by securities held in the Commission's name by a financial institution (Commission's agent) other than that furnishing the collateral are as follows (in thousands):	12/31/98	12/31/97
Financial statement balances	$1,584	$112
Bank balances	$1,308	$473

investments as discussed below, certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the Commission or in a financial institution other than that furnishing the collateral.

Securities Lending Transactions

State statutes and Commission policies permit the Commission to use its investments to enter into securities lending transactions–loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Commission's securities custodian are agents in lending the Commission's securities for cash collateral of 100% plus accrued interest. Securities on loan at year end are classified in the schedule of custodial credit risk found at the end of this footnote. At year end, the Commission has no credit risk exposure to borrowers because the amounts the Commission owes the borrowers exceed the amounts the borrowers owe the Commission. Contracts with the lending agents require them to indemnify the Commission if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Commission for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the Commission or the borrower, although the average term of the loans is one week. In lending securities, cash collateral is invested in securities authorized by Minnesota statutes, generally with maturities between one week and three months.

Investments

In 1998, the Commission implemented GASB No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, which requires that investments be reported at fair value in the balance sheet and changes in the fair value of investments reported in the operating statements.

In accordance with GASB No. 31 the Commission restated the financial statements for all prior periods presented. The effect of the restatement was to increase January 1, 1997 retained earnings by $26,000. Investment income for the year ending December 31, 1998 consists of the following:

	1998	1997
Interest Income from Leases	$31,441,000	$35,167,000
Interest Income from Investments	15,368,000	8,387,000
Net Increase in Fair Value of Investments	635,000	407,000
	$47,444,000	$43,952,000

The Commission invests funds as authorized by Minnesota Statutes in direct obligations or obligations guaranteed by the United States or its agencies, general obligations of the State of Minnesota or any other state, or any of its municipalities, commercial paper rated in the highest category by at least two nationally recognized rating agencies, Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System, certificates of deposit issued by official depositories of the Commission, shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in direct obligations or obligations guaranteed by the United States or its agencies, and repurchase agreements with financial institutions.

The Commission's investments at December 31, 1998, are categorized below to give an indication of the level of credit risk assumed. Category 1 includes investments that are insured or registered or for which the securities are held by the Commission or its agent in the Commission's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Commission's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Commission's name.

(In Thousands)	Fair Value Credit Risk Category			
Type of Security	**1**	**2**	**3**	**Total**
December 31, 1998				
U.S. Government and Agencies	$205,918	$ 0	$ 0	$205,918
Repurchase Agreements	370,722	0	0	370,722
Commercial Paper	36,269	0	0	36,269
	$612,909	$ 0	$ 0	612,909
Investments – Not Categorized				
Mutual Funds				35,183
Cash on Hand				1,584
Total Cash and Investments				$649,676

NOTE C
RESTRICTED ASSETS AND RESERVED RETAINED EARNINGS FOR FUTURE DEBT SERVICE AND CONSTRUCTION

Minnesota Statutes require the Commission to have a balance on hand in a Debt Service Account on October 10 of every year equal to the total amount of principal and interest due on all outstanding bonds to the end of the second following year. Cash and investments to meet this requirement plus interest earned thereon are restricted.

Cash and investments segregated as regular construction funds include amounts received from issuance of commission bonds, government grants in aid of construction, Passenger Facility Charges, rental receipts on assets purchased with grants in aid not utilized for aviation, and cumulative interest earned from the investment of such funds. These amounts are used principally for construction at Minneapolis-Saint Paul International Airport.

The Commission also segregates certain amounts from operating cash flows which it designates as restricted in special construction funds for use at secondary airports or additional Minneapolis-Saint Paul International Airport projects that are not funded by bond issues. All reserved retained earnings are used for construction purposes.

The Commission also restricts the amount received from Passenger Facility Charges for the approved Airport Improvement projects as discussed in Note A.

Cash, securities and receivables are segregated and restricted as follows (in thousands):

	12/31/98	12/31/97
Restricted Assets		
Cash and Investments		
Debt service	$129,177	$ 88,162
Construction:		
Regular	253,366	56,134
Special	53,002	67,414
Post Retirement Medical	6,040	3,026
Other	1,718	1,882
Security lending transactions	172,405	47,887
Passenger Facility Charge Receivable	2,922	2,677
TOTAL RESTRICTED ASSETS	**618,630**	**267,182**
Less payables to be paid from restricted cash and investments:		
Debt service	129,177	88,162
Construction	47,288	16,152
Post retirement medical and other	6,018	3,021
Other	1,695	1,870
Security lending transactions	172,405	47,887
	356,583	157,092
RESERVED RETAINED EARNINGS	**$262,047**	**$110,090**

NOTE D
CHANGES IN FUND EQUITY

Changes in fund equity are as follows (in thousands):

	Contributed Capital	Retained Earnings Reserved	Retained Earnings Unreserved	Total
Balance January 1, 1997	**$146,627**	**$90,758**	**$400,094**	**$637,479**
Government grants in aid of construction	5,760	0	0	5,760
Net income for the year	0	0	52,447	52,447
Depreciation of facilities provided by government grants	(8,941)	0	8,941	0
Net change in restricted assets and liabilities	0	19,332	(19,332)	0
Balance December 31, 1997	**$143,446**	**$110,090**	**$442,150**	**$695,686**
Government grants in aid of construction	19,563	0	0	19,563
Net income for the year		0	46,855	46,855
Depreciation of facilities provided by government grants	(9,691)		9,691	
Net change in restricted assets and liabilities	0	151,957	(151,957)	0
Balance December 31, 1998	**$153,318**	**$262,047**	**$346,739**	**$762,104**

NOTE E
AIRPORTS AND FACILITIES

Changes in airports and facilities by major classification are as follows (in thousands):

Airports and Facilities	Balance January 1, 1998	Additions	Transfers In (Out)	Deductions	Balance December 31, 1998
Land	$ 65,206	$ 0	$ 6,039	$ 0	$ 71,245
Airport improvements and buildings	738,154	0	104,746	(39)	842,861
Moveable equipment	33,051	6,857	708	(1,793)	38,823
Projects-in-progress	71,255	231,410	(111,493)	0	191,172
TOTALAIRPORTS AND FACILITIES	**907,666**	**238,267**	**0**	**(1,832)**	1,144,101
Accumulated depreciation	(339,761)	(36,756)	0	1,785	(374,732)
NET AIRPORTS AND FACILITIES	**$ 567,905**	**$ 201,511**	**$ 0**	**$ (47)**	**$ 769,369**

Airports and Facilities	Balance January 1, 1997	Additions	Transfers In (Out)	Deductions	Balance December 31, 1997
Land	$ 44,794	$ 0	$ 20,412	$ 0	$ 65,206
Airport improvements and buildings	691,609	96	46,487	(38)	738,154
Moveable equipment	30,516	2,359	938	(762)	33,051
Projects-in-progress	34,853	104,239	(67,837)	0	71,255
TOTALAIRPORTS AND FACILITIES	**801,772**	**106,694**	**0**	**(800)**	**907,666)**
Accumulated depreciation	(307,214)	(33,304)	0	757	(339,761)
NET AIRPORTS AND FACILITIES	**$494,558**	**$ 73,390**	**$ 0**	**$ (43)**	**$567,905**

NOTE F
LONG-TERM DEBT

The acquisition and construction of facilities at the airports operated by the Commission have been substantially financed by the issuance of Airport Improvement Bonds and General Obligation Revenue Bonds. Airport Improvement Bonds are repaid from Commission revenue; however, if the principal and interest cannot be paid from revenue, a tax can be levied on property within the cities of Minneapolis and Saint Paul, Minnesota for debt service.

General Obligation Revenue Bonds are general obligations of the Commission, payments of which are secured by the pledge of all operating revenues of the Commission, subject to the prior pledge of such revenues for the payment of outstanding Airport Improvement Bonds. The Commission has the power to levy property taxes upon all taxable property in the seven county Metropolitan Area in order to pay debt service on outstanding General Obligation Revenue Bonds. (Also see Note Q.)

The Commission has not levied taxes for the payment of debt service since 1969. Since then, Commission revenues have been sufficient to pay principal and interest due on Airport Improvement Bonds and General Obligation Revenue Bonds.

The Airport Revenue Bonds are not general obligations, but are limited obligations of the Commission payable solely from and secured by a pledge of net revenues. Neither the full faith and credit nor the taxing power of the Commission, the City of Minneapolis, the City of St. Paul, the State or any political subdivision or public agency of the State, other than the Commission, to the extent of net revenues, is pledged to the payment of the Airport Revenue Bonds.

The Commission has statutory authority for issuing General Obligation Revenue Bonds. The present statutory general obligation bonding limit as of December 31, 1998, would permit the issuance of an additional $55 million of General Obligation Revenue Bonds.

Bonds payable, due serially (in thousands):

	Issue Date	Original Amount	Final Payment In	Outstanding as of December 31 1998	1997
Airport Improvement Bonds:					
Series 16 – 4.5%	1-1-68	16,000	1998	-	$970
Series 20 – 4.5 to 5.0%	10-1-72	5,000	2002	$1,225	1,490
Series 22 – 3.3 to 3.85%	2-1-94	5,625	1999	1,225	2,390
				2,450	4,850
Airport Revenue Bonds:					
1998 Series A – 5.0%	6/1/98	225,885	2030	225,885	-
1998 Series B – 5.0 to 5.5%	6/1/98	84,000	2016	84,000	-
1998 Series C – 5.94 to 6.27%	6/1/98	37,040	2007	37,040	-
				346,925	-
General Obligation Revenue Bonds:					
Series 2 – 5.00 to 5.2%	12-1-77	10,000	2002	2,625	3,200
Series 3 – 5.6 to 5.75%	1-1-79	15,000	2000	2,400	3,525
Series 7 – 7.80%	8-1-88	51,150	2015	-	44,400
Series 8 – 5.00 to 6.60%	2-1-92	45,000	2011	36,550	38,400
Series 10 – 3.60 to 5.00%	5-1-93	29,025	2006	17,555	19,845
Series 11 – 4.60 to 5.30%	10-1-94	5,615	2002	3,880	4,740
Series 12 – 4.20 to 4.55%	11-1-96	5,525	2002	5,525	5,525
Series 13 – 4.0 to 5.25%	11-1-98	38,750	2015	38,750	-
Special NWA Financing Secured by Facilities, Parts, Routes, Simulators:					
Series 9 – 8.60 to 8.95% – Note Q	4-1-92	270,000	2022	270,000	270,000
				377,285	389,635
TOTAL BONDS OUTSTANDING				**726,660**	**394,485**
Net unamortized discount				(3,315)	(643)
Deferred loss on refunding				(1,646)	(820)
Accrued interest due				24,682	15,835
				746,381	408,857
Less:					
Prepayments					(1,226)
Payable from restricted assets—debt service				(129,177)	(88,162)
TOTAL BONDS PAYABLE				**$617,204**	**$319,469**

Future debt service requirements after December 31, 1998 are as follows (in thousands):

Year/s	Airport Improvement Bond	Airport Revenue Bonds	General Obligation Revenue Bonds	Total Bonds Outstanding	Interest	Total Principal & Interest
1999	$ 1,505	-	$ 8,535	$ 10,040	$ 48,549	$ 58,589
2000	300	-	8,575	8,875	47,175	56,050
2001	315	$ 4,785	9,455	14,555	46,569	61,124
2002	330	5,070	9,610	15,010	45,791	60,801
2003	-	5,375	12,175	17,550	44,810	62,360
Thereafter	0	331,695	328,935	660,630	577,409	1,238,039
	$ 2,450	$ 346,925	$ 377,285	$ 726,660	$ 810,303	$ 1,536,963

Of the future debt service requirements listed above, $316,784,000 of principal and $421,614,000 of interest are leased under agreements with Northwest Airlines, Inc. The General Obligation Revenue Bond Series 9 represents $270,000,000 of principal and $402,238,000 of interest of the Northwest Airlines debt service requirements. These lease agreements require the lessee to make annual payments equal to the debt service requirements of the bonds.

As mentioned in Note Q, in respect to the General Obligation Revenue Bond Series 9, Northwest Airlines is required to maintain collateral. The value of the collateral is determined by periodic independent appraisals. The value (based upon use of the assets by an airline) of the collateral must be at least 145% (reducible to 135% under certain circumstances) of the principal amount of the General Obligation Revenue Bond Series 9.

Rental agreements between the Commission and its tenants, including the compensatory rental agreement, the self-liquidating agreements, and other arrangements, are intended to provide for revenues which allow for the above required principal and interest payments. Other Commission revenue to be received under minimum rental revenue provisions is not significant in the aggregate.

NOTE G
BOND REFUNDINGS

On November 1, 1996, the Commission issued $5,525,000 General Obligation Revenue Bond Series 12 to refund General Obligation Revenue Bond Series 5. General Obligation Revenue Bond Series 5 matures on January 1, 2002, and was called on January 1, 1997. As a result of the refunding, the Commission reduced its total debt service requirements by $1,150,586 which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $891,902. The Commission also deferred recognition of a $57,702 loss incurred in connection with this refunding according to GASB Statement No. 23. As a result, the loss has been deferred and will be amortized to interest expense on a straight line basis through January 1, 2002. At December 31, 1998, the unamortized deferred loss netted against bonds payable is $33,504.

On November 17, 1998, the Commission issued $38,750,000 General Obligation Revenue Bond Series 13 to advance refund General Obligation Revenue Bond Series 7. General Obligation Revenue Bond Series 7 mature on January 1, 2015, and are callable on January 1, 1999. The net proceeds from the issuance of General Obligation Revenue Bond Series 13 were used to purchase U.S. Government securities and these securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until all the General Obligation Revenue Bonds are called on January 1, 1999. The advance refunding met the requirements of an in-substance debt defeasance and the General Obligation Revenue Bonds were removed from the Commission's books. At December 31, 1998, $45,668,850 is being held in escrow in order to pay the remaining maturity of $43,150,000 on General Obligation Revenue Bond Series 7. As a result of the advance refunding, the Commission reduced its total debt service requirements by $13,972,188 which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $9,715,360. The Commission also deferred recognition of a $952,781 loss in connection with this refunding according to GASB Statement No. 23. As a result the loss has been deferred and will be amortized to interest expense on a straight line basis through January 1, 2015. At December 31, 1998, the unamortized deferred loss netted against bonds payable is $947,844.

NOTE H
CAPITALIZATION OF INTEREST

Total net interest costs incurred were $37,549,000 and $30,957,000 in 1998 and 1997, respectively. Interest costs excluded from interest expense and capitalized as part of the costs of constructed assets were $3,944,000 and $1,160,000 in 1998 and 1997, respectively. Total interest paid was $32,293,000 and $32,076,000 in 1998 and 1997 respectively.

NOTE I
LEASES

The Commission leases certain facilities to tenants under self-liquidating lease agreements. Self-liquidating lease agreements require the lessee to pay annual rentals equal to the debt service requirements of the bonds issued to construct the facilities, or the debt service requirements which would have been required if bond funds were used. These leases are classified as direct financing leases and expire at various intervals until the year 2022. The following lists the components of the Commission's leases as of December 31 (in thousands):

	1998	1997
Total minimum lease payments to be received	$823,865	$860,668
Less: Allowance for uncollectibles	0	0
Net minimum lease payments receivable	823,865	860,668
Less: Unearned Income	451,107	487,443
Net investment in leases	372,758	373,225
Less: Prepaid Principal	2,739	4,131
LEASES RECEIVABLE PER BALANCE SHEET	**$370,019**	**$369,094**

As of December 31, 1998, future minimum lease payments are as follows (in thousands):

Year	Amount
1999	$37,320
2000	$37,519
2001	$37,413
2002	$41,994
2003	$38,807
2004–2022	$630,812

NOTE J
CAPITAL LEASE

The Commission is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled $1,017,000 at December 31, 1998, and accumulated amortization on those assets totaled $496,000. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of December 31, 1998 (in thousands):

(In Thousands)

Year Ending December 31	Minimum Lease Payments
1999	$125
2000	125
2001	125
2002	121
2003	121
2004	121
Minimum lease payments for all capital leases	738
Less: Amount representing interest at the Commission's incremental borrowing rate of interest	117
Present value of minimum lease payments	$621

NOTE K
PENSION AND RETIREMENT PLANS

All full-time and certain part-time employees of the Commission participate in the Minneapolis Employees Retirement Fund (MERF) (participation restricted to employees hired prior to July 1, 1978) or the Public Employees Retirement Association (PERA). Both are cost-sharing, multiple-employer retirement plans.

1. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

A. Plan Description

All full-time and certain part-time employees of the Commission (hired after June 30, 1978) are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERF members belong to the Coordinated Plan. Coordinated members are covered by Social Security. All police officers, fire fighters, and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for coordinated members.

The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a coordinated member who retires before July 1, 1997, is 1% of average salary for each of the first ten years and 1.5% for each remaining year. For Coordinated members who retire on or after July 1, 1997, the annuity accrual rates increase by 0.2% to 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Using Method 2, the annuity accrual rate is 1.5% of average salary for coordinated members who retire before July 1, 1997. Annuity accrual rates increase 0.2% for members who retire on or after July 1, 1997. (Effective July 1, 1997 the annuity accrual rate is increased to 3%). There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contribution in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service but before retirement benefits begin. For PEPFF members, the annuity accrual rate is 2.65% for each year of service for members retiring before July 1, 1997. For PERF members whose annuity is calculated using Method 1, and for all PEPFF members, a full annuity is available when age plus years of service equals 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained in writing to PERA, 514 St. Peter Street #200, St. Paul, Minnesota, 55102 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The Commission makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Coordinated Plan members are required to contributed 4.75%, of their annual covered salary. The Commission is required to contribute the following percentages of annual covered payroll: 5.18% for Coordinated Plan PERF members, and 11.40% for PEPFF members. The Commission's contributions to the Public Employees Retirement Fund for the years ending December 31, 1998 and 1997, were $749,000 and $593,000, respectively. The Commission's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 1998 and 1997, were $364,000 and $315,000, respectively. The Commission's contributions were equal to the contractually required contributions for each year as set by state statute.

2. MINNEAPOLIS EMPLOYEES RETIREMENT FUND

A. Plan Description

All full-time and certain part-time employees of the Commission (hired before July 1, 1978) are covered by a defined benefit pension plan administered by the Minneapolis Employees Retirement Fund (MERF). MERF is a cost-sharing, multiple-employer retirement plan.

MERF provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after ten years of credited service. Members are eligible for service retirement either:

A) With 30 or more years of service at any age; or
B) At age 60 with ten or more years of service; or
C) At age 65 with less than ten years of service; or
D) With 20 or more years of service at age 55, if a MERF member prior to June 28, 1973.

The defined retirement benefits are based on the average of the highest five years salary within the last ten years of employment. The member will receive a benefit amount of 2% of that average salary for each of the first ten years of service and 2.5% of that salary for each year over ten years of service. The formulas used in calculating pension benefit increases are contained in Minnesota State Law. Increases may only be paid from investment earnings which exceed the actuarial assumption of a 5% return set for Minnesota public employment retirement funds. The annual increase for MERF is calculated from information supplied by the consulting actuary who determines the reserves required to maintain MERF as an actuarially and financially sound pension fund. Increases in pension benefits are permanent and guaranteed because they are fully funded, that is, the amount necessary to sustain the increase has been set aside.

There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members leaving public service any time before retirement and before age 60 may receive a refund of all personal contributions, with interest, except for the survivor benefit contribution which is the equivalent of a nonrefundable term insurance premium. Employees who leave public service after age 60 may not withdraw personal contributions with interest unless they have worked under ten years and do not qualify for monthly retirement benefits. The survivor benefits contribution is nonrefundable.

MERF issues a publicly available financial report that includes Financial statements and required supplementary information. The report may be obtained in writing to MERF, 300 Baker Building, 706 2nd Avenue South, Minneapolis, MN 55402 or by calling (612) 335-5950.

B. Contributions Required and Contributions Made

Employee Contributions: Minnesota Statute Sections 422A.010 and 422A.25 require members to contribute 9.75% of their earnings to MERF which includes .5% for survivor benefits.

Employer Contributions: Required employer contributions are established by Minnesota Statute Section 422A.101 and include the normal cost, as reported in the annual actuarial valuation, plus an amount to cover administrative costs. Employers also contribute an additional 2.5% of covered employees payroll and an annual total of $3.9 million which is required by Minnesota statutes to be applied against the unfunded liability. Commencing in 1986, the Commission is required to make additional contributions towards the unfunded liability. This contribution was previously made by the State of Minnesota.

State of Minnesota Contributions: Minnesota Laws of 1991 provide for a maximum $10,455,000 annual contribution to MERF for the purpose of eliminating the unfunded liability by June 30, 2020. The consulting actuary for the fund determines the unfunded liability at the end of the fiscal year. By using a 6% interest assumption rate, an annual contribution to provide full funding by June 30, 2020 is determined. That amount is reduced by the employers 2.5% of payroll and further reduced by the $3.9 million and the additional contributions made by the Commission and others. If the balance exceeds the amount of the State maximum contribution, the excess is contributed by the employers.

Current required contribution rates are as follows:

	Employee	Employer	Additional Employer
Retirement Contribution	9.25%	9.00%	2.50%
Survivor Benefits	.50%		

Total contributions made by the Commission for the fiscal year ended December 31, 1998 are as follows (in thousands):

1998	Contributions
Employer	$712
Employee	434

NOTE L
POST-RETIREMENT BENEFITS

The Commission provides health insurance benefits for retired employees. Active employees who retire from the Commission and who have become vested in either the Minneapolis Employees Retirement Fund (MERF) or the Public Employees Retirement Association (PERA), and who do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the Commission's health benefits program. The Commission will make contributions (as specified in union agreements or the

Commission's personnel policy) toward required premiums at the same percentages applicable to active employees and their eligible dependent(s) until becoming eligible for Medicare, Part A or B, or both. The Commission will then pay 100% of the premium for the retired employee, spouse over age 65, and legal dependents, provided that the retired employee is receiving benefits from either MERF or PERA, and is enrolled in Medicare Part A and B as their primary health insurance. As of January 1, 1991, all employees hired by the Commission will only be able to participate in the Commission medical plan up to age 65.

Effective January 1, 1997, the Commission changed its method of accounting for post retirement health benefits to accrue the estimated cost of retiree benefit payments during the years in which the employee earns the benefit. The Commission previously expensed the costs of these benefits as claims were incurred. The Commission has elected to recognize the transition obligation of approximately $21,341,000 over a period of twenty years. The change in the method of accounting increased 1997 post retirement health care costs by $2,794,000. The net post retirement benefit cost for 1998 and 1997 includes the following components:

	1998	1997
Service costs – benefits earned during the period	$ 741,000	$ 819,000
Interest cost on accumulated post retirement benefit obligation	1,345,000	1,345,000
Return on assets	0	0
Amortization of Unrecognized Transition Obligation	976,000	976,000
	$3,062,000	$3,140,000

The funded status of the plan and amounts recognized on the balance sheet at December 31, 1998, are as follows:

	1998	1997
Accumulated post retirement benefit obligation	($23,427,000)	($21,341,000)
Plan assets at fair value	0	0
Funded status	(23,427,000)	(21,341,000)
Unrecognized transition obligation	17,571,000	18,547,000
Unrecognized prior service cost	0	0
Accrued/prepaid pension cost	$5,856,000	$2,794,000

The Commission has restricted $6,040,000 for payments of post retirement benefits.

The assumed health care cost trend rate used in measuring the accumulated post retirement benefit obligation as of December 31, 1998, was 8.94% for pre 65 participants and 8.29% for 65+ participants. The assumed discount rate used in determining the accumulated post retirement benefit obligation as of December 31, 1998, was 7.0%. A one percentage point increase in the assumed health care cost trend rate for each year would increase the accumulated post retirement obligation as of December 31, 1998, by approximately 18.4% and the service and interest cost components of the net post retirement health care cost in 1998 by approximately 21.8%.

NOTE M
DEFERRED COMPENSATION PLAN

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Commission employees, permits employees to defer up to 25% of their salary, limited to $8,000 per year. Amounts deferred are available to employees or beneficiaries only at termination, retirement, death, or unforeseeable emergency. GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred

Compensation Plans, establishes reporting requirements for IRC Section 457 plans. IRC Section 457 was revised in 1996 to require that qualifying plans hold the assets and income "... in trust for the exclusive benefit of participants and their beneficiaries..." by January 1, 1999. All assets were placed in trust prior to December 31, 1998. Consequently, the Commission has no legal access to these assets. Therefore, in accordance with the requirements of GASB No. 32, the Commission has restated total assets and liabilities to remove $8,655,000 of IRC Section 457 deferred compensation assets and liabilities originally reported at December 31, 1997.

NOTE N
ARBITRAGE

Every five years, the Commission is required to rebate arbitrage profits earned in relation to certain General Obligation Revenue and Airport Improvement Bond issues. Arbitrage profits are earned when investment income relating to these issues exceeds the yield on the bonds. The Commission has recorded a liability in accrued expenses at December 31, 1998 and 1997, of $450,456 and $126,716, respectively.

NOTE O
RISK MANAGEMENT

It is the policy of the Commission to act as a self-insurer for workers' compensation and health/dental claims. The Commission had no significant reduction in its insurance coverage for 1997 or 1998. In addition, no settlements exceeded insurance coverage for the last three fiscal years. The liability recorded under Employee Compensation and Payroll Taxes by the Commission includes estimated settlements for claims reported but not settled as of December 31, 1998 and 1997, as well as an estimate of claims incurred. Changes in the balances of claim liabilities during the past two years are as follows:

	1998	1997
Unpaid Claims - Beginning of Year	$ 474,231	$ 439,366
Incurred Claims and Changes in Estimates	3,273,305	3,261,186
Claims Paid	(3,332,776)	(3,226,321)
Unpaid Claims - End of Year	$ 414,760	$ 474,231

NOTE P
CONTINGENT LIABILITIES AND COMMITMENTS

There are several lawsuits pending in which the Commission is involved. The Commission believes that existing and pending lawsuits and claims are either billable to airport users or would not materially affect the financial statements of the Commission.

Contractual obligations for construction were approximately $113,941,000 at December 31, 1998.

NOTE Q
MAJOR CUSTOMER

Northwest Airlines, Inc. ("NAI") is a Minnesota corporation in the business of transporting by air passengers, mail and property. Northwest Aerospace Training Corporation ("NATCO") is a Minnesota corporation in the business of pilot training. Both NAI and NATCO are wholly owned by NWA Inc., a Delaware corporation ("NWA"). In July 1989, NWA was acquired by Wings Holdings Inc., a Delaware corporation ("Wings"). In December 1993, Wings changed its corporate name to Northwest Airlines Corporation ("NWA Corp."). NAI is the fourth largest airline in the United States and one of the largest employers in the State of Minnesota. NAI operates both domestic and international air route systems. Minneapolis-St. Paul International Airport is one of NAI's three major hubs. Revenues from NAI account for approximately 28% of operating revenues and 83% of total revenues from major airlines.

On April 23, 1992, the Commission issued $270,000,000 of taxable General Obligation Revenue Bonds, Series 9, ("Bonds"). The Bonds were used to acquire and lease back (a) a flight training center in Eagan, Minnesota, owned by NATCO, NAI and NWA (collectively "the Northwest entities"), consisting of land, a building, flight simulators, and related equipment and (b) certain leasehold interests of the Northwest entities and certain additional properties located at Minneapolis-Saint Paul International Airport (collectively "the Leased Facilities"). The lease obligations are secured by the Leased Facilities, by guaranties of the Northwest entities and NWA Corp. and by a pledge of certain additional collateral consisting of aircraft engine parts and international route authorities. During the term of the Bonds, the Northwest entities are required to maintain collateral, as determined by periodic independent appraisals, which has a value (based upon use of the assets by an airline) of at least 145% (reducible to 135% under certain circumstances) of the sum of the principal amount of Bonds outstanding. These transactions were accounted for as a capital lease.

The financial condition of NWA Corp. and the Northwest entities on a consolidated basis is material to the ability to perform their rental and other payment obligations to the Commission under various agreements. Leases and accounts receivable from the Northwest entities represent 19% of the Commission's total assets at December 31, 1998.

For the years ended December 31, 1998, and 1997, the Northwest entities and NWA Corp. had audited consolidated net (loss) income respectively of approximately ($286) million and $597 million. On December 31, 1998, the Northwest entities' and NWA Corp.'s audited total consolidated assets were $10.281 billion and their total audited consolidated liabilities were $10.758 billion, resulting in the Northwest entities' and NWA Corp.'s audited consolidated net deficit of $477 million. In the event that the Northwest entities or NWA Corp. are unable to meet their lease commitments, the Commission has the authority to levy property taxes to support the debt obligations on the Bonds.

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Supplemental Schedule

YEAR 2000 ISSUE

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Commission's computer programs and equipment that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities.

During 1998, the Commission formed a "Y2K Team" (the Team) to coordinate Y2K testing and compliance efforts. This Team, made up of various management personnel and major customer representatives, monitors the progress of compliance efforts and maintains contact with prominent vendors for assistance in addressing the Y2K issues. Although the Commission does not have a formal, written Y2K plan, informal direction is maintained through timelines and regular meetings of the Team. Additionally, the Commission has developed a four-phase plan consisting of:

A. Awareness Stage
The Awareness Stage involves establishing a budget and project plan for dealing with the Y2K issues.

B. Comprehensive Systems Inventory and Assessment Stage
The Assessment Stage includes identifying the systems and components for which the Y2K work is needed, as well as identifying those systems classified as critical.

C. Implementation Stage
The Implementation Stage will list the required changes to the systems and equipment for the Y2K compliance.

D. Validation and Testing Stage
The Validation and Testing Stage will consist of validating and testing any changes that were made during the Implementation Stage to make the hardware and software Y2K compliant.

As a part of this plan, the Commission has also contracted the services of various consulting firms and required department directors to ensure that they have resources scheduled and available for their respective areas. Together with these consultants, Commission personnel are in the process of planning and implementing compliance upgrades to all critical systems, with the majority of corrections taking place in the form of patches and version upgrades. The Commission expects all critical systems to be compliant and tested by the end of the third quarter of 1999. Contingency plans are in the development process in the event that compliance efforts are not effective.

The Commission has not expended significant dollars (excluding internal staff time) associated with fixing Y2K issues to date, and the Commission cannot estimate the cost of such future modifications due to the unprecedented nature of the Y2K event.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter.

Management cannot assure that the Commission is or will be Year 2000 ready, that the Commission's remediation efforts will be successful in whole or in part, or that parties with whom the Commission does business will be Year 2000 ready.

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Statistical Section

MINNEAPOLIS/ST. PAUL METROPOLITAN AIRPORTS COMMISSION

HISTORICAL OPERATING STATEMENTS 1989-1998
(Dollars in Thousands)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Operating Revenues										
Airline Rates and Charges	$20,230	$21,812	$25,385	$27,223	$29,115	$31,960	$35,193	$35,647	$41,838	$46,832
Concessions	25,062	26,206	26,405	28,882	32,626	35,579	41,838	47,872	52,279	56,832
Other Revenues										
Rentals	3,025	3,087	4,582	4,926	6,882	5,601	6,962	8,884	8,135	8,653
Operating Lease Settlement			0	0	0	0	0	9,326	0	0
Utilities	607	1,137	1,224	1,129	1,116	1,342	1,271	1,584	1,516	2,077
Misecellaneous	3,543	4,703	2,843	3,187	1,390	1,911	1,992	1,919	2,293	2,554
Total Operating Revenues	52,467	56,945	60,439	65,347	71,129	76,393	87,256	105,232	106,061	116,948
Operating Expenses										
Salaries, Wages & Employee Benefits	17,551	19,153	21,168	22,308	22,739	23,293	24,360	26,341	30,653	32,433
Administrative Expenses	512	715	668	923	966	839	1,003	1,028	1,108	1,113
Professional Services	3,229	3,043	3,731	4,813	4,984	4,681	5,705	4,040	4,069	4,006
Utilities	3,704	4,070	3,665	4,412	4,974	5,287	5,354	6,106	5,889	6,466
Operating Services	4,272	5,074	5,581	5,907	5,809	7,995	8,276	8,705	9,935	10,414
Maintenance	6,144	6,763	7,003	7,088	7,406	6,743	7,236	8,007	8,809	9,302
Depreciation	11,807	14,662	16,214	17,976	19,258	21,048	22,656	26,528	33,304	36,756
Other	283	566	276	0	352	289	327	477	170	119
Total Operating Expenses	47,502	54,046	58,306	63,427	66,488	70,175	74,917	81,232	93,937	100,609
Operating Income	4,965	2,899	2,133	1,920	4,641	6,218	12,339	24,000	12,124	16,339
Other Revenues (Expenses)										
Interest Income	16,243	15,744	15,838	34,238	40,572	41,776	44,946	45,308	43,952	47,444
Passenger Facility Charges		0	0	14,607	28,596	28,472	32,286	35,892	37,162	37,389
Gain on Sale of Assets		0	0	0	0	448	0	418	6	0
Interest Expense	(7,058)	(7,943)	(9,430)	(27,544)	(34,812)	(34,018)	(32,945)	(31,788)	(30,957)	(37,549)
Part 150 Home Insulation Expenses	-	-	-	-	-	-	-	-	(8,482)	(14,976)
Concession Development Expenses	-	-	-	-	-	-	-	-	(1,358)	(1,792)
Total Other Revenues (Expenses)	9,185	7,801	6,408	21,301	34,356	36,678	44,287	49,830	40,323	30,516
Net Income	14,150	10,700	8,541	23,221	38,997	42,896	56,626	73,830	52,447	46,855
Add: Depreciation of Facilities Provided by Government Grants	3,506	4,125	4,690	4,984	5,328	5,933	6,559	7,882	8,941	9,691
Increase in Retained Earnings	17,656	14,825	13,231	28,205	44,325	48,829	63,185	81,712	61,388	56,546
Retained Earnings Beginning of Year	178,884	196,540	211,365	224,596	252,801	297,126	345,955	409,140	490,852	552,240
Retained Earnings End of Year	$196,540	$211,365	$224,596	$252,801	$297,126	$345,955	$409,140	$490,852	$552,240	$608,786

Source: Audit Reports for the last ten years.

1. For the years ended December 31, 1996-1998, the amounts shown takes into account the effect of GASB No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

HISTORICAL REVENUES 1991-1998 - 3

Pursuant to MAC's Master Trust Indenture

(Dollars in Thousands)

	1991	1992	1993	1994	1995	1996	1997	1998
Airline Rates & Charges								
Landing Fees	$13,951	$15,332	$16,267	$19,077	$21,414	$21,918	$24,372	$27,358
Ramp Fees	2,701	2,549	2,835	3,242	3,542	3,724	4,203	4,754
Lindbergh Terminal Building Rents	7,881	8,798	8,937	8,480	9,050	8,760	10,491	11,604
Other Lindbergh Terminal Charges	448	231	566	568	559	790	2,116	2,431
Noise Surcharge	404	313	510	593	628	455	656	685
Total Airline Rates & Charges	**25,385**	**27,223**	**29,115**	**31,960**	**35,193**	**35,647**	**41,838**	**46,832**
Concessions								
Auto Parking	15,407	17,109	20,425	22,070	26,158	30,292	31,675	35,052
Rental Car	5,601	5,974	6,307	6,787	7,919	8,465	9,469	10,335
Food & Beverage	1,458	1,495	1,530	1,644	1,909	2,348	2,541	2,719
Merchandise	1,828	1,989	1,953	1,866	2,024	2,500	3,180	3,451
Miscellaneous	2,099	2,304	2,411	3,200	3,816	4,255	5,405	5,273
Total Concession Revenue	**26,393**	**28,871**	**32,626**	**35,567**	**41,826**	**47,860**	**52,270**	**56,830**
Other Revenue								
Humphrey Building Rentals	1,065	1,165	1,209	1,312	1,477	1,492	862	1,207
Utilities	1,224	1,129	1,116	1,342	1,271	1,584	1,516	2,077
Other Building and Land Rent	1,910	1,888	1,913	2,965	4,171	15,052	5,717	5,859
Miscellaneous	3,639	4,277	4,417	2,341	2,412	2,662	2,916	2,973
Total Other Revenue	**7,838**	**8,459**	**8,655**	**7,960**	**9,331**	**20,790**	**11,011**	**12,116**
Total MSP Revenue	**59,616**	**64,553**	**70,396**	**75,487**	**86,350**	**104,297**	**105,119**	**115,778**
Total Reliever Airports	**823**	**794**	**733**	**906**	**906**	**935**	**942**	**1,170**
Total Operating Revenue	**60,439**	**65,347**	**71,129**	**76,393**	**87,256**	**105,232**	**106,061**	**116,948**
Interest Income								
Capital Lease Interest	10,510	30,590	37,412	36,811	36,310	35,924	35,183	31,441
Other-2	5,775	3,235	2,710	3,784	6,415	6,222	5,542	6,579
Total Interest Income	**16,285**	**33,825**	**40,122**	**40,595**	**42,725**	**42,146**	**40,725**	**38,020**
Capital Lease Principal Payments	4,239	4,763	6,389	5,798	7,115	7,465	6,582	7,196
Total Revenues-1	**$ 80,963**	**$ 103,935**	**$ 117,640**	**$ 122,786**	**$ 137,096**	**$ 154,843**	**$ 153,368**	**$ 162,164**

1-Total Revenues do not include any PFC's.

2. Interest income on PFC's and Bond Series 1998 Construction Funds are not included.

3. 1989-1990 Information is unavailable.

Source: Metropolitan Airports Commission

PERCENTAGE DISTRIBUTION OF OPERATING REVENUES 1991-1998

(Dollars in Thousands)

	1991	1992	1993	1994	1995	1996	1997	1998
Airline Rates & Charges								
Landing Fees	23.1%	23.5%	22.9%	25.0%	24.5%	20.8%	23.0%	23.4%
Ramp Fees	4.5%	3.9%	4.0%	4.2%	4.1%	3.5%	4.0%	4.1%
Lindbergh Terminal Building Rents	13.0%	13.5%	12.6%	11.1%	10.4%	8.3%	9.9%	9.9%
Other Lindbergh Terminal Charges	0.7%	0.4%	0.8%	0.7%	0.6%	0.8%	2.0%	2.1%
Noise Surcharge	0.7%	0.5%	0.7%	0.8%	0.7%	0.4%	0.6%	0.6%
Total Airline Rates & Charges	**42.0%**	**41.7%**	**40.9%**	**41.8%**	**40.3%**	**33.9%**	**39.4%**	**40.0%**
Concessions								
Auto Parking	25.5%	26.2%	28.7%	28.9%	30.0%	28.8%	29.9%	30.0%
Rental Car	9.3%	9.1%	8.9%	8.9%	9.1%	8.0%	8.9%	8.8%
Food & Beverage	2.4%	2.3%	2.2%	2.2%	2.2%	2.2%	2.4%	2.3%
Merchandise	3.0%	3.0%	2.7%	2.4%	2.3%	2.4%	3.0%	3.0%
Miscellaneous	3.5%	3.5%	3.4%	4.2%	4.4%	4.0%	5.1%	4.5%
Total Concession Revenue	**43.7%**	**44.2%**	**45.9%**	**46.6%**	**47.9%**	**45.5%**	**49.3%**	**48.6%**
Other Revenue								
Humphrey Building Rentals	1.8%	1.8%	1.7%	1.7%	1.7%	1.4%	0.8%	1.0%
Utilities	2.0%	1.7%	1.6%	1.8%	1.5%	1.5%	1.4%	1.8%
Other Building and Land Rent	3.2%	2.9%	2.7%	3.9%	4.8%	14.3%	5.4%	5.0%
Miscellaneous	6.0%	6.5%	6.2%	3.1%	2.8%	2.5%	2.7%	2.5%
Total Other Revenue	**13.0%**	**12.9%**	**12.2%**	**10.4%**	**10.7%**	**19.8%**	**10.4%**	**10.4%**
Total MSP Revenue	**98.6%**	**98.8%**	**99.0%**	**98.8%**	**99.0%**	**99.1%**	**99.1%**	**99.0%**
Total Reliever Airports	**1.4%**	**1.2%**	**1.0%**	**1.2%**	**1.0%**	**0.9%**	**0.9%**	**1.0%**
Total Operating Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Metropolitan Airports Commission
Note: Totals may not add due to rounding.
Note: 1989-90 information is not available.

NWA REVENUE AS A PERCENTAGE OF TOTAL MAC OPERATING REVENUES - 1
METROPOLITAN AREA 1993-1998
(Dollars in Thousands)

YEAR	TOTAL MAC OPERATING REVENUE	LEASE PRINCIPAL & INTEREST PAYMENTS	INTEREST INCOME-MAC FUNDS-3	TOTAL REVENUE	NORTHWEST PORTION OF OPERATING REVENUE	NORTHWEST PORTION OF LEASE PRINCIPAL & INTEREST	TOTAL NORTHWEST PORTION OF REVENUE	NORTHWEST PERCENTAGE OF TOTAL REVENUE
1993	$71,129	$43,803	$3,158	$118,090	$22,355	$42,629	$64,984	55.03%
1994	76,393	42,612	3,709	122,714	23,614	41,438	65,052	53.01%
1995	87,256	43,426	6,308	136,990	25,907	42,240	68,147	49.75%
1996-2	105,232	43,389	6,148	154,769	26,477	42,163	68,640	44.35%
1997	106,061	41,650	5,542	153,253	30,477	39,708	70,185	45.80%
1998	116,948	37,368	12,569	166,885	32,504	35,856	68,360	40.96%

Source: Metropolitan Airports Commission

NWA REVENUE AS A PERCENTAGE OF TOTAL AIRLINE REVENUES - 1
1993-1998
(Dollars in Thousands)

YEAR	TOTAL AIR CARRIER OPERATING REVENUE	TOTAL AIR CARRIER LEASE PRINCIPAL & INTEREST PAYMENTS	TOTAL AIR CARRIER REVENUE	NORTHWEST REVENUE	NORTHWEST PERCENTAGE OF TOTAL AIR CARRIER REVENUE
1993	$31,764	$43,084	$74,848	$64,984	86.82%
1994	33,624	41,893	75,517	65,052	86.14%
1995	36,989	42,707	79,696	68,147	85.51%
1996-2	37,788	42,621	80,409	68,640	85.36%
1997	43,628	40,166	83,794	70,185	83.76%
1998	46,060	36,356	82,416	68,360	82.95%

1. Information is not available for 1989-1992.
2. In 1996 Operating lease Settlement is included.
3. Does not include interest income earned on PFC's.

Source: Metropolitan Airports Commission

OPERATING RATIO (IN THOUSANDS OF DOLLARS)-1
1989-1998

YEAR	OPERATING EXPENSE-2	OPERATING REVENUES-3	OPERATING RATIO
1989	$35,695	$52,467	68%
1990	39,384	56,945	69%
1991	42,092	60,439	70%
1992	45,451	65,347	70%
1993	47,230	71,129	66%
1994	49,127	76,393	64%
1995	52,261	87,256	60%
1996	54,704	95,906	57%
1997	60,633	106,061	57%
1998	63,853	116,948	55%

1-Operating ratio is operating expense net of depreciation divided by total operating revenue.
2-Operating expense excludes depreciation.
3-In 1996 Operating Lease Settlement is not included.
Source: Metropolitan Airports Commission

REVENUE AVAILABLE FOR DEBT SERVICE (IN THOUSANDS OF DOLLARS)
1989-1998

YEAR	OPERATING REVENUE-2	INTEREST INCOME	LEASE PRINCIPAL PAYMENTS	OPERATING EXPENSE-1	REVENUE AVAILABLE FOR DEBT SERVICE	DEBT SERVICE	COVERAGE OF DEBT SERVICE	COVERAGE OF DEB SERVICE EXCLUDIN THE $270 MILLIO ISSUE FOR NW
1989	$52,467	$16,243	$2,821	$(35,695)	$35,836	$15,422	2.32	2.32
1990	56,945	15,744	4,016	(39,384)	37,321	15,238	2.45	2.45
1991	60,439	15,838	4,686	(42,092)	38,871	17,930	2.17	2.17
1992	65,347	34,238	5,784	(45,451)	59,918	36,249	1.65	2.29
1993	71,129	40,572	6,611	(47,230)	71,082	43,702	1.63	2.39
1994	76,393	41,776	6,907	(49,127)	75,949	44,413	1.71	2.54
1995	87,256	44,946	7,261	(52,261)	87,202	44,670	1.95	3.05
1996	95,906	45,282	7,718	(54,704)	94,202	43,063	2.19	3.68
1997	106,061	43,545	8,195	(60,633)	97,168	42,022	2.31	4.05
1998	116,948	47,444	8,853	(63,853)	109,392	47,899	2.28	3.57

1-Operating expense excludes depreciation.
2-In 1996 Operating Lease Settlement is not included.
Source: Metropolitan Airports Commission

Air Carrier Market Share
Total Enplaned Passengers(1)
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)
(Ranked on 1998 results)

Air Carrier	1993	1994	1995	1996	1997	1998 2	% of Total 3
Northwest	8,361,508	8,634,138	9,513,218	10,132,733	10,667,527	9,813,515	69.3%
Mesaba Aviation 4	270,447	257,754	264,420	359,897	720,975	1,010,129	7.1%
United	417,494	470,194	474,695	477,159	496,159	571,032	4.0%
American	309,258	314,080	338,156	344,591	363,254	425,073	3.0%
Sun Country	215,201	304,558	347,340	365,321	331,346	402,768	2.8%
Delta	284,174	272,527	270,519	272,505	322,649	376,461	2.7%
Trans World	136,357	168,237	206,095	217,874	208,873	226,825	1.6%
US Airways	177,043	189,477	174,684	171,137	185,156	204,754	1.4%
Vanguard	-	-	46,193	99,976	173,324	181,546	1.3%
Continental	212,451	162,728	127,860	138,488	138,954	158,507	1.1%
KLM Royal Dutch 4	5,697	-	49,220	87,424	138,248	137,040	1.0%
America West	96,239	120,238	121,754	126,889	137,246	135,066	1.0%
Ryan Int'l	-	-	-	9,820	32,736	93,044	0.7%
Other	529,851	634,702	557,573	642,911	539,085	434,240 E	3.1%
	11,015,720	11,528,633	12,491,727	13,446,725	14,455,532	14,170,000 E	100.0%

1 The figures may differ from the passenger statistics reported by the Air Carriers to the Airport.
2 Estimated
3 Percentage may not sum to totals due to rounding.
4 Codeshare with Northwest.
5 1989-1992 In Form Not Available
Sources: DOT, Schedules T-3, T-100 and 298C T-1; and John F. Brown Company, Inc.
E=Estimated

Enplaned Passenger Trends
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)

	Originating		Connecting			
Year	Enplaned Passengers (1)	% of Total	Enplaned Passengers (2)	% of Total	Total	% Change from Previous Year
1992	5,431,705	51.1%	5,197,830	48.9%	10,629,535	9.6%
1993	5,533,755	50.2	5,481,965	49.8	11,015,720	3.6
1994	5,778,553	50.1	5,750,080	49.9	11,528,633	4.7
1995	6,182,572	49.5	6,309,155	50.5	12,491,727	8.4
1996	6,727,655	50.0	6,719,070	50.0	13,446,725	7.6
1997	7,107,727	49.2	7,347,805	50.8	14,455,532	7.5
1998E	7,050,000	49.8	7,120,000	50.2	14,170,000	-2.0

Average Annual Compound Growth

	Originating	Connecting	Total
1992-98	4.44%	5.38%	4.91%

Sources: DOT, Schedules T-100 and T-3, DOT, Air Passenger Origin - Destination Survey, reconciled to Schedules T-100 and 298C T-1; John F. Brown Company, Inc.

Notes: (1) Includes passengers who connected to domestic flights at MSP but who were bound for international destinations via other U.S. gateway airports. We estimate that these passengers numbered about 180,000 in 1998.
(2) Includes domestic-to domestic, domestic-to-international, and international-to domestic connections.
The above figures may differ from the passenger statistics reported by the airlines to the Airport.
(3) 1989-1991 Information not available
E=Estimated.

Air Carrier Market Share
Total Enplaned Cargo (in tons)
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)
(Ranked on 1998 results)

Air Carrier	1993	1994	1995	1996	1997	1998	1998 % of Total 1
Northwest	88,136.4	96,936.6	90,211.7	82,843.1	89,255.9	65,323.0	31.9%
Federal Express	34,337.7	40,315.0	46,252.1	44,769.6	45,127.8	50,408.9	24.6%
UPS	20,272.1	21,309.8	22,089.7	24,615.8	27,141.5	25,572.4	12.5%
Emery Worldwide	6,517.8	8,084.5	7,995.6	13,024.1	14,244.8	26,701.2	13.1%
Airborne	6,098.5	6,900.4	6,864.5	6,615.3	7,069.6	7,026.0	3.4%
United	2,634.7	2,883.1	5,847.1	7,126.3	5,208.7	5,803.1	2.8%
American Int'l	56.4	63.4	2,307.9	2,977.5	3,338.9	3,782.8	1.8%
KLM Royal Dutch	660.1	-	1,471.5	2,839.9	3,267.4	2,582.5	1.3%
American	2,724.2	4,284.0	3,917.0	2,394.4	3,178.0	2,906.9	1.4%
Delta	4,457.0	4,276.4	3,548.9	2,887.5	2,808.2	2,261.6	1.1%
DHL	2,817.7	3,105.9	3,406.7	2,463.7	2,544.1	2,649.1	1.3%
US Airways	1,682.3	2,077.2	2,029.5	2,139.1	2,076.3	1,432.0	0.7%
Continental	2,375.6	2,018.5	1,628.9	1,859.4	1,812.9	1,824.3	0.9%
Trans World	1,101.2	1,566.1	1,884.4	1,718.7	1,416.7	1,430.3	0.7%
Other	10,831.0	10,721.0	9,421.3	5,279.4	3,883.0	4,812.9	2.4%
	184,702.7	204,541.9	208,876.8	203,553.8	212,373.8	204,517.1	100.0%

1 Percentages may not sum to totals due to rounding.
2 1989-1992 Information not available
Source: Metropolitan Airports Commission.

Enplaned Cargo Trends
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)

(Freight and mail in thousands of tons)

Type of Carrier	1992	1993	1994	1995	1996	1997	1998	AAG 1992-98
Passenger	103.9	105.1	115.8	112.1	105.8	111.1	85.7	-3.2%
All Cargo	71.3	79.6	88.7	96.8	97.7	101.3	118.9	8.9%
Total	175.23	184.70	204.54	208.88	203.55	212.37	204.52	2.6%

Source: Metropolitan Airports Commission.
Note: AAG=Average annual compound growth.

Trends in Enplaned Cargo by Type of Carrier
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)

(Freight and mail in tons)

	Passenger Carriers		All Cargo Carriers		
Year	Tons	% of Total	Tons	% of Total	Total Cargo
1992	103,886	59.3%	71,344	40.7%	175,230
1993	105,087	56.9	79,616	43.1	184,703
1994	115,833	56.6	88,709	43.4	204,542
1995	112,096	53.7	96,781	46.3	208,877
1996	105,805	52.0	97,749	48.0	203,554
1997	111,068	52.3	101,305	47.7	212,373
1998	85,666	41.9	118,851	58.1	204,517
Average Annual Compound Growth					
1992-1998	-3.2%		8.9%		2.6%

Source: Metropolitan Airports Commission.

Trends in Enplaned Cargo by Freight & Mail
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)

(Freight and mail in tons)

	Freight/Express		Mail		
Year	Tons	% of Total	Tons	% of Total	Total Cargo
1992	119,252	68.1%	55,978	31.9%	175,230
1993	124,333	67.3	60,370	32.7	184,703
1994	133,641	65.3	70,901	34.7	204,542
1995	137,339	65.8	71,538	34.2	208,877
1996	133,463	65.6	70,091	34.4	203,554
1997	138,276	65.1	74,097	34.9	212,373
1998	130,110	63.6	74,407	36.4	204,517

Average Annual Compound Growth

1992-1998	1.5%	4.9%	2.6%

Source: Metropolitan Airports Commission.

Historical Aircraft Operations - (2)
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)

Year	Air Carrier Operations	Commuter Operations	Cargo Operations	Total Commercial Operations (1)	Percent Commercial Operations (1)	General Aviation Operations	Military Operations	Total Operations
1988	216,791	58,896	17,957	293,644	78.54%	75,125	5,092	373,861
1989	222,390	59,338	16,974	298,702	82.05%	61,037	4,291	364,030
1990	229,465	74,447	18,291	322,203	84.84%	54,780	2,802	379,785
1991	231,743	75,856	20,049	327,648	85.77%	51,889	2,480	382,017
1992	249,925	85,930	18,691	354,546	85.74%	55,963	2,993	413,502
1993	264,514	108,237	15,198	387,949	88.17%	49,216	2,825	439,990
1994	272,100	115,164	14,110	401,374	88.27%	50,898	2,451	454,723
1995	286,727	106,694	15,933	409,354	88.60%	49,769	2,915	462,038
1996	306,782	105,926	20,362	433,070	89.20%	49,786	2,624	485,480
1997	306,391	102,038	15,011	423,440	86.19%	64,209	3,624	491,273
1998	295,468	90,421	15,323	401,212	83.06%	79,757	2,044	483,013

(1) Commercial Operations equal Air Carrier, Commuter, and Cargo Operations.
(2) Aircraft operations represents the total number of takeoffs and landings at the airport.

Source: Metropolitan Airports Commission.

Trends in Aircraft Landed Weight of Signatory Airlines
Minneapolis - St. Paul International Airport
(For the 12 months ended December 31)

Type of Air Carrier

(In thousands of pounds)

Year	Passengers	All Cargo	Total Landed Weight
1992	19,294,221	530,816	19,825,037
1993	19,994,040	567,824	20,561,864
1994	20,208,799	665,257	20,874,056
1995	21,086,854	712,105	21,798,959
1996	21,778,018	706,571	22,484,589
1997	22,311,214	740,397	23,051,611
1998	21,360,904	703,245	22,064,150

Source: Metropolitan Airports Commission.

AIRLINE COST PER ENPLANED PASSENGER METROPOLITAN AREA 1989-1998

YEAR	TOTAL COST---1	ENPLANED PASSENGERS ---2	AIRLINE COST PER ENPLANED PASSENGER
1989	$26,603	9,173	$2.90
1990	28,692	9,577	3.00
1991	31,920	9,660	3.30
1992	33,928	10,702	3.17
1993	35,971	11,037	3.26
1994	37,948	11,498	3.30
1995	41,349	12,666	3.26
1996	42,082	13,622	3.09
1997	47,864	14,336	3.34
1998	53,001	14,620	3.63

1-Cost is defined as airline payments made to the Commission for expenses incurred in the airfield, terminal building and charter terminal

2-The figures may differ from the passenger statistics reported by the air carriers to the DOT.

Source: Metropolitan Airports Commission

ACTIVITY STATISTICS FOR MINNEAPOLIS/ST. PAUL INTERNATIONAL AIRPORT 1989-1998

YEAR	TOTAL PASSENGERS---1	AIRCRAFT OPERATIONS --- 2	MAIL AND CARGO VOLUMES (METRIC TONS)
1989	18,346,095	364,030	241,725
1990	19,167,427	379,785	266,824
1991	19,336,533	382,017	272,328
1992	21,407,415	413,502	302,201
1993	22,070,715	439,990	320,893
1994	23,095,510	454,723	378,241
1995	25,332,631	465,354	365,203
1996	27,268,562	485,480	361,662
1997	28,766,355	491,273	379,117
1998	28,982,638	483,013	366,347

1- Passengers include on-line connecting. (On-line connecting passengers are passengers that change to another flight on the same carrier.)

2- Aircraft operations represents the total number of takeoffs and landings at the airport.

Source: Metropolitan Airports Commission

AIRCRAFT OPERATIONS[1] AT THE RELIEVER AIRPORTS METROPOLITAN AREA 1989-1998

YEAR	ST. PAUL DOWNTOWN AIRPORT	FLYING CLOUD AIRPORT	CRYSTAL AIRPORT	ANOKA COUNTY/ BLAINE AIRPORT	LAKE ELMO AIRPORT	AIRLAKE AIRPORT
1989	166,436	207,661	177,679	212,000	65,000	66,000
1990	190,333	227,408	189,910	215,000	66,950	67,980
1991	168,450	186,496	173,150	195,650	69,950	74,745
1992	152,378	198,306	179,546	195,650	69,950	81,087
1993	132,531	218,745	183,554	195,650	69,950	81,087
1994	145,834	238,838	185,991	199,000	71,000	82,500
1995	133,686	216,313	171,478	181,866	64,887	75,397
1996	139,055	217,703	187,957	192,600	68,400	75,397
1997	136,968	198,199	175,728	143,083	65,664	72,382
1998	158,785	210,907	179,186	143,950	69,604	76,725

1. Aircraft operations represents the total number of takeoffs and landings at the airport.

Source: Metropolitan Airports Commission

POPULATON OF SEVEN COUNTY METROPOLITAN AREA 1989-1998

YEAR	TOTAL POPULATION
1989	2,240,850
1990	2,288,721
1991	2,318,532
1992	2,352,121
1993	2,383,725
1994	2,415,207
1995	2,448,967
1996	2,482,858
1997	2,515,119
1998	N/A

Source: Metropolitan Council

SCHEDULE OF AIRLINE RATES AND CHARGES 1989-1998

Year	Landing Fee/ 1000 lbs.	Ramp Fees/ Lineal Foot	Common Use/ Square Foot	Finished/ Square Foot	Finished Janitored/ Square Foot	Unfinished/ Square Foot
1989	$0.58	$310.20	$17.39	$17.39	$22.22	$17.39
1990	$0.65	$306.76	$17.60	$17.60	$22.24	$17.60
1991	$0.77	$317.97	$19.49	$19.49	$24.89	$19.49
1992	$0.77	$300.06	$20.46	$20.46	$27.51	$20.46
1993	$0.79	$333.73	$21.78	$21.78	$27.78	$21.78
1994	$0.87	$344.96	$20.39	$20.39	$25.78	$20.39
1995	$0.95	$366.41	$21.61	$21.61	$26.48	$21.61
1996	$0.94	$399.73	$22.51	$22.51	$26.15	$22.51
1997	$1.02	$462.64	$26.64	$26.64	$30.82	$26.64
1998	$1.18	$517.88	$26.34	$26.34	$31.33	$26.34

Source: Compensatory Rental Report

AIR CARRIERS SERVING THE AIRPORT (1)
MINNEAPOLIS-ST. PAUL INTERNATIONAL AIRPORT
(As of December 31, 1998)

U.S. – FLAG CARRIERS

SCHEDULED SERVICES

America West*
American*
Comair*$_2$
Continental*
Northwest*
Delta*
Frontier*
Great Lakes*$_3$
Mesaba*$_4$
TWA*
US Airways*
United*
Vanguard*

NON-SCHEDULED (CHARTER) SERVICES

American Trans Air*
Express One International
Champion Air
Ryan International
Sun Country*

ALL-CARGO SERVICES

Airborne
American International
CSA Air
Superior Aviation
Emery Worldwide
FedEx*
DHL
UPS*
Zantop
Sioux Falls Aviation

FOREIGN-FLAG CARRIERS

Air Canada*
Icelandair*
KLM*$_4$

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*Denotes those Air Carriers that are expected to be Signatory Airlines to the Proposed Airline Lease Agreements.
$_1$Excludes carriers reporting fewer than 1,000 enplaned passengers per annum.
$_2$Codeshare with Delta.
$_3$Codeshare with United.
$_4$Codeshare with Northwest.

Sources: Metropolitan Airports Commission; DOT, Schedule T-3.

INSURANCE COVERAGE (Unaudited)

MINNEAPOLIS/ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Year ended December 31, 1998

Insurer	Expiration	Coverage	Policy Limits (Thousands of Dollars)
Arkwright Insurance	1-1-00	Blanket Fire and Extended coverage on building and contents. Heavy equipment, boiler, machinery and Builder's Risk.	$566,795
Self-Insured O.H.M.S. Third Party Admin.	9-1-99	Statutory Workers' Compensation	$100/500/100
Fidelity & Deposit Company of Maryland	3-1-99	Comprehensive Crime Employee Bond	$1,000
Associated Aviation Underwriters	12-23-99	General Aviation Liability including personal injury	$300,000
Chubb	1-1-00	Auto Liability and physical coverage and hired automobiles.	$1,000 Per Occurrence
Chubb	1-1-00	Garage keepers liability	$5,000
Chubb	1-1-00	Valet parking	$5,000
Chubb	1-1-00	Fleet physical damage	Values over $50

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