Metropolitan Airports Commission

Minneapolis-St. Paul, Minnesota
Comprehensive Annual Financial Report
Year Ended December 31, 1988

Minneapolis-St. Paul, Minnesota
Metropolitan Airports Commission 1988

Chairman: Harold W. Greenwood, Jr.*

Commissioners:

Precinct 1	Sam Grais
Precinct 2	Virginia Johnson
Precinct 3	Ronald Jerich
Precinct 4	Howard Mueller
Precinct 5	Tim Lovaasen
Precinct 6	Wilfred Viitala
Precinct 7	Robert McNulty
Precinct 8	Burton M. Joseph
City of Minneapolis	Jan DelCalzo
City of St. Paul	Thomas Kayser

Executive Director: Jeffrey W. Hamiel

*On February 15, 1989, Thomas Holloran was appointed Chairman.

Metropolitan Airports Commission

Minneapolis-St. Paul, Minnesota
Comprehensive Annual Financial Report
Year Ended December 31, 1988

Prepared by:

The Finance Department

Lynn D. Richardson, Jr.
Director of Finance

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

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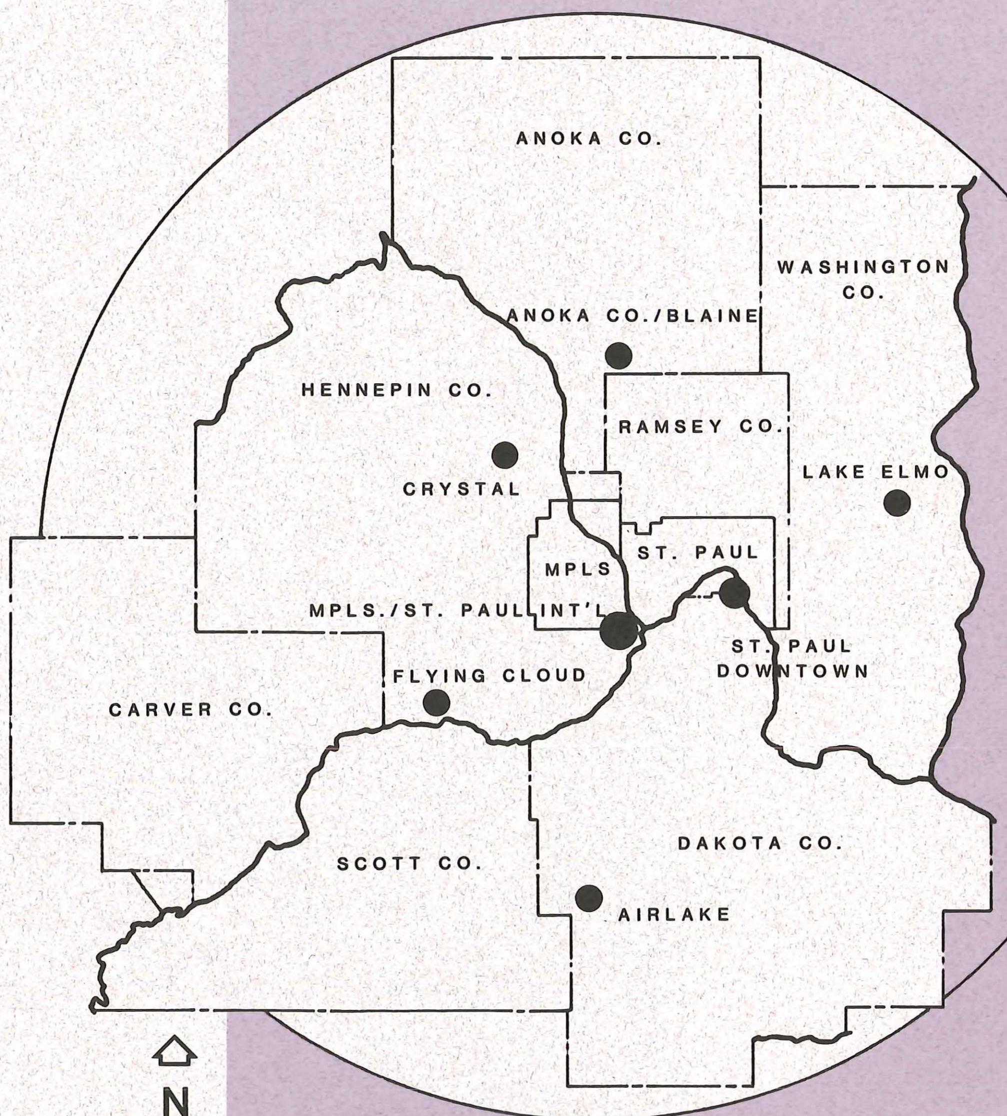

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Presented to

Minneapolis-St. Paul Metropolitan Airports Commission, Minnesota

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

December 31, 1987

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Minneapolis • Saint Paul
METROPOLITAN AIRPORTS COMMISSION
P. O. BOX 11700 • TWIN CITY AIRPORT • MINNESOTA 55111
OFFICE OF EXECUTIVE DIRECTOR • PHONE (612) 726-1892

March 3, 1989

To The Public:

The Comprehensive Annual Financial Report of the Metropolitan Airports Commission, Minneapolis/St. Paul, Minnesota, for the fiscal year ended December 31, 1988, 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 be best of our knowledge and belief, the enclosed data are 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 three sections—Introductory, Financial, 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 and schedules. 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 1984 and the U.S. Office of Management and Budget, Circular A-128, 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 Metropolitan Airports Commission (MAC) was created in 1943 by the Minnesota Legislature to provide for efficient development of air transportation facilities in the Metropolitan Area. The purpose of MAC is to promote air navigation and transportation, international, national and local, in and through the State of Minnesota. In addition to promoting the efficient, safe and economical handling of air commerce, MAC has the responsibility of assuring residents of the Metropolitan Area of the minimim environmental impact from air navigation and transportation.

OFFICE LOCATION—6040 28th AVE. SO.—WEST TERMINAL AREA—MINNEAPOLIS-SAINT PAUL INTERNATIONAL AIRPORT

MAC jurisdiction is throughout the Minneapolis-St. Paul Metropolitan Area extending 35 miles out all directions 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
Flying Cloud Airport
Crystal Airport
Anoka County/Blaine Airport
Lake Elmo Airport
Airlake Airport

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. 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 one-third mill 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 eleven 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 Chairperson of the Commission is appointed by the Governor and may be from anywhere in the state. These appointing authorities, however, do not exercise direct financial oversight; and thus, the Commission is independent for financial reporting purposes.

MAC provides a variety of services at each of its airports. At Minneapolis/St. Paul International (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

Changes in the operation and technical requirements of the nation's system of airports and airways continue to occur at a faster pace than that of other types of public works and facilities. Aviation's long-term growth rates have exceeded that of most other industries. Trends in traffic for commercial aviation at Mpls./St. Paul International Airport have reflected the increased volitility of the market in which it operates. Primarily, as a result of the immergence of MSP as a hub, growth of air traffic at MSP has out-paced national trends. Nationally, enplanements rose by 28 percent over the period 1980 through 1985. Over that same period, MSP enplanements grew by 66 percent—more than twice the national average.

At the reliever airports, the picture is considerably different, between 1977 and 1982 operations at reliever airports actually declined by an average of 6 percent annually; however, since that time, operations have rebounded increasing at an average annual rate of 6 percent. Even with these fluctuations, no single reliever has come to dominate the market with the distribution of operations remaining relatively stable over the past 10 years.

The most recent FAA forecast of passenger traffic calls for an average annual growth rate of 5.8 percent for the next two years and 4.5 percent through the end of the century. These trends are somewhat lower than recent years when passenger traffic increased 9.9 percent in 1986 and 5.6 percent average from 1980 through 1986. Recent projections forecast growth at Mpls./St. Paul Int'l Airport of just over 5 percent per year. Regional airline activity and enplanements are a primary contributor to this projected growth rate.

The financial trends for the Metropolitan Airports Commission suggest a strong and stable financial presence. Even while coping with strong growth at MSP the finances at MAC have remained strong and shown improvement.

MAJOR INITIATIVES

During 1988, Commission activities focused in two major areas. The first area involved long-range airport planning. As a result of legislation passed by the Minnesota State Legislature, the Metropolitan Airports Commission completed a ten-year review of airport facilities and capacity requirements. The review and report focused on changes in facilities that may be required as a result of increased activity at MSP during the next 10 years to maintain or increase our capacity to handle the needs of air transportation for the community. This effort went on concurrently with an effort by the Metropolitan Council (the regional planning agency) directed at assessing the adequacy of Minneapolis/St. Paul Int'l Airport to handle the air transportation needs of the community and region for the next 30 years. These two efforts were completed in December, 1988, and have resulted in the Metropolitan Council and the Metropolitan Airports Commission implementing a "dual track" planning and development process to allow for capacity enhancement at Minneapolis/St. Paul Airport, while keeping the option open for the development of a new major airport as a balanced response to projected aviation growth. This planning process will continue for several years requiring a significant effort and substantial resources on the part of the Airports Commission and the community.

The second focus for 1988 involved major changes to facilities at Mpls./St. Paul International Airport. A major facility was designed and constructed for use by the companies providing auto rental services at the airport in order to enhance the capacity for this activity and to improve substantially the existing congestion and flow of traffic in front of the terminal building. The Commission and several tenants completed a multi-million dollar renovation program for many of the concessions in the terminal building, including the food and beverage facilities, merchandise facilities, and specialty shops. These projects increase the number of facilities available to the public, the efficiency of handling the demand for services, and provide a more pleasant experience.

The Commission also began two multi-year construction projects; one for the construction of a seven-level auto parking structure, and the other for an aircraft maintenance hangar for Northwest Airlines, which will house two 747-400 aircraft. These facilities will improve the level of service available to the traveling public and further enhance the economic contribution of air transportation in the community.

During the last half of 1988, the Commission began regular negotiations with the airlines serving MSP designed to replace the existing lease agreement which expires in January, 1989. These negotiations are continuing with expectations that a lease amendment will be completed in the spring of 1989. Both parties have agreed the existing lease agreement has served all parties well during its existence, and while all major issues are being discussed in depth, no major departures are anticipated in the fundamental relationships and financial philosophies.

For the future, a number of major efforts have been planned for 1989. The Metropolitan Airports Commission's role in the dual-track planning and development process will take the form of an extension of the 10-year study of existing facilities and capacity by an additional 10 years, bringing the total planning horizon for the existing Minneapolis/St. Paul Int'l Airport to 20 years. In addition, the Commission will be actively preparing a conceptual design and analysis of the facilities and estimated cost and potential revenue sources for a new major metropolitan airport. The Commission will also be actively involved in the efforts by the Metropolitan Council to designate an area within the Metropolitan Area as a search location for a new major airport. The conceptual design will serve as a major input to this search area project as it continues until completion in approximately 1992.

The Commission is engaged in a comprehensive review of its reliever airports rates and charges. This study will review our current system for fairness, effectiveness, and for the level of charges generated as it relates to the services provided in our system of airports.

Work will continue in 1989 to improve the roadway system at Minneapolis/St. Paul Int'l Airport, and a major repair effort will be undertaken to re-surface crosswind runway 4/22.

FINANCIAL INFORMATION

Management of the Airports Commission 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 Metropolitan Airports Commission. Accounting records are maintained on an accrual basis in accordance with generally accepted accounting principles.

BUDGETING CONTROLS

The MAC annually adopts an Operating Budget which is organized by functional responsibility according to cost centers assigned to each airport. 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 the MAC and the air carriers serving MSP, that was signed in 1962 and amended in 1968. 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

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 the late 1960's without general tax support. Revenue sources have been grouped into the following categories in the Statement of Revenues and Expenses:

Traffic—Aircraft landing and parking fees
Commercial:
Concessions—Revenue from food & beverage sales, merchandise sales, auto parking, etc.
Rentals—Fees for ground and building rentals
Utilities—Charges for tenants use of water and sewer
Miscellaneous—Charges for other services provided by MAC

During 1988 MAC operating revenues increased by .6% to $59,909,000 from $59,556,000 in 1987. Changes in major categories are summarized below: (Dollars in Thousands)

	1988		1987		DOLLAR	PERCENTAGE
	$	%	$	%	CHANGE	CHANGE
TRAFFIC	$12,872	21.5%	$13,258	22.3%	$ (386)	(2.9%)
COMMERCIAL:						
CONCESSIONS	23,554	39.3	24,433	41.0	(879)	(3.6)
RENTALS	21,600	36.0	20,247	34.0	1,353	6.7
UTILITIES	1,172	2.0	1,191	2.0	(19)	(1.6)
MISCELLANEOUS	711	1.2	427	.7	284	66.5
OPERATING REVENUES	**$59,909**	**100%**	**$59,556**	**100%**	**$353**	**0.6%**

Increases in operating revenue occurred in the rental and miscellaneous categories. Rentals increased $1,353,000 or 6.7% because of new tenants in the cargo area and a full year's rental for the Lindbergh Terminal south expansion. The miscellaneous category increased by $284,000 or 66.5%. This change is due to a full year of shuttle bus revenue. In 1987, MAC was responsible for shuttle bus revenue for only a portion of the year.

Two of the remaining three categories, traffic and concessions, showed slight decreases from the previous year. The traffic category decreased 2.9% between the two years. Landing fees are calculated on a breakeven basis, with revenue and expense being equal, a decline in revenue, therefore, is the result of a reduction in expense in the field and runway area. Concessions revenue decreased 3.6% between the two years. During 1988, a new parking ramp was under construction, and a greater number of parking spaces were lost through the various construction phases than was originally anticipated.

Major investments in facilities for MSP are secured by lease agreements with the airlines using the facilities. Major sections of the agreements include definitions of eligible costs to be included in the formula for determining rates to be charged and procedures for the adjustment or collection of fees due to the Commission. Certain of these agreements which began in the 1960's and 1970's will expire in 1989 requiring new agreements to be negotiated.

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.

In 1988 and 1987, net revenues for each airport were as follows: (In Thousands)

	Operating Revenue	Operating Expense	1988 Net Revenue	1987 Net Revenue
MSP	$59,218	$44,370	$14,848	$16,748
St. Paul Downtown	305	1,721	(1,416)	(1,201)
Flying Cloud	163	438	(275)	(268)
Crystal	70	443	(373)	(250)
Anoka	84	517	(433)	(352)
Lake Elmo	34	400	(366)	(165)
Airlake	35	191	(156)	(157)
TOTAL	**$59,909**	**$48,080**	**$11,829**	**$14,355**

In 1988 MAC operating expenses increased by 6.4% to $48,080,000 from $45,201,000 in 1987. Changes in major categories are summarized below: (Dollars in Thousands)

	1988 $	1988 %	1987 $	1987 %	DOLLAR CHANGE	PERCENTAGE CHANGE
SALARIES, WAGES AND EMPLOYEE BENEFITS	$15,082	31.4%	$14,765	32.7%	$ 317	2.1%
OPERATING SUPPLIES	600	1.2	686	1.5	(86)	(12.5)
UTILITIES	3,809	7.9	3,072	6.8	737	24.0
MAINTENANCE AND REPAIRS	5,142	10.7	4,471	9.9	671	15.0
PARKING MANAGEMENT	2,410	5.0	2,417	5.3	(7)	(.3)
DEPRECIATION	16,485	34.3	15,912	35.2	573	3.6
OTHER	4,552	9.5	3,878	8.6	674	17.4
OPERATING EXPENSES	**$48,080**	**100%**	**$45,201**	**100%**	**$2,879**	**6.4%**

Major changes occurred in the expense categories of utilities, maintenance and repairs, and others.

Utilities increased 24% or $737,000 between the two years because of an extensive project undertaken by MAC and the City of Minneapolis to ensure all areas on the airport have water and sewer meters. Some of these costs are recovered through charges to tenants. A portion, however, are absorbed by the MAC.

Maintanance and repairs increased 15% or $671,000. The majority of the increase occurred in contract cleaning and repairs. Contract cleaning is up due to expansion of facilities at the Lindbergh and Humphrey Terminals and the addition of other areas previously not under contract. Repairs have increased because of aging facilities. In addition, plumbing costs are up substantially because of the water and sewer meter project previously mentioned.

The Other category is up 17.4% or $674,000 because of professional services and shuttle bus services. Professional services have increased because of additional charges for services provided by the Met Council and, legal fees incurred defending a noise case that went to trial in 1988. Shuttle bus expenses are up because a transportation system was added during 1988 for the auto rental companies. This new shuttle bus will carry over one million passengers each year between the auto rental facility and the Lindbergh Terminal.

In carrying out its responsibilities MAC has maintained a philosophy of using specialists and consultants to provide some of the wide variety of services that are needed rather than hire additional employees. Most of the concessions facilities at MSP are leased to professional operators who manage the daily activities. MAC has entered into a management agreement to operate its parking facilities in order to maintain control over the service, rates and expenses. Costs of all parking facilities and the management fee paid are shown under the Parking Management category of expense.

DEBT ADMINISTRATION

The Metropolitan Airports Commission has issued two forms of indebtedness: Airport Revenue Bonds and General Obligation Revenue Bonds. From 1943 to 1975 MAC issued Airport Revenue 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. 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 therefrom to the end of the second following year. The required balance as of October 10 in the Debt Service Account for the next five years is as follows:

1989	$37,243,413
1990	$44,076,715
1991	$49,163,983
1992	$51,995,810
1993	$52,041,503

MAC last sold bonds ($51,150,000) in August, 1988, at which time it received AAA rating from both Moody's and Standard & Poor's rating services. Authority for issuing bonds is obtained from the Minnesota State Legislature. Currently the authorization permits the issuance of an additional $99 million of bonds.

CAPITAL PROJECTS

Each year the MAC 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 5 years is adopted. These serve as a basis for determining funding requirements, and other operational planning decisions. Certain projects which have a metropolitan significance are also submitted to the Metropolitan Council for review and approval. The Metropolitan Council is a regional planning agency responsible for coordination and planning of certain governmental services for the metropolitan area.

Funds required for completion of all capital projects come from three sources: a) General Obligation Revenue Bonds, b) state or federal grants and c) internally generated funds from operations. In order to limit the cost of facilities at the reliever airports, MAC uses only grant funds or retained earnings to finance all construction projects at these airports. Capital improvements at MSP are financed from all three sources as appropriate.

Anticipated projects planned for 1989 and 1990 as well as the extended period 1991–1995 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.)

	1989	1990	1991–95
MINNEAPOLIS/ST. PAUL INTERNATIONAL:			
FIELD AND RUNWAYS	$19,675,000	$20,000,000	$ 48,750,000
ENVIRONMENTAL	10,800,000	0	19,000,000
SELF-LIQUIDATING	12,000,000	12,000,000	154,000,000
TERMINAL BUILDING AND OTHERS	32,530,000	21,380,000	10,450,000
ST. PAUL DOWNTOWN AIRPORT	1,850,000	4,200,000	950,000
FLYING CLOUD AIRPORT	360,000	0	750,000
CRYSTAL AIRPORT	375,000	400,000	600,000
ANOKA COUNTY AIRPORT	2,050,000	350,000	1,700,000
LAKE ELMO AIRPORT	200,000	350,000	600,000
AIRLAKE AIRPORT	1,825,000	0	1,150,000
	$81,665,000	$58,680,000	$237,950,000

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 with a maturity of over 7 days 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.

The Government Accounting Standards Board requires disclosure of types of investments and the safekeeping arrangement in the notes to the financial statements. Custodial agreements are disclosed as three levels of risk. At year end 1988, the majority of the MAC's investment portfolio was being held by a third party agent of the Commission. There were, however, a few securities held by brokers that were not in the Commission's name. In accordance with Commission policy, these were investments that matured within seven days from the date of purchase. Because of their short maturity, this arrangement does not expose our investment portfolio to unnecessary risk. Total investment earnings for 1988 were $6,972,000, net of $2,615,000 of interest earned on the undisbursed invested funds of General Obligation Revenue Bond Series 6 and 7. The average yield on investments during the year was 7.65%.

INDEPENDENT AUDIT

The financial records of the Metropolitan Airports Commission are audited annually by a firm of independent certified public accountants. The audits for the year ended December 31, 1988, and 1987 were performed by Ernst & Whinney. Their opinion on the Financial Statement is presented in this report.

In conjunction with the annual audit, Ernst & Whinney performs procedures consistent with the Single Audit Act of 1984 (The Act), CMB Circular A-128 and guidelines in relation to grant award agreement between the MAC and Federal Aviation Administration in progress during the year. The reports issued as required by the act, 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 1988, the financial audit has been performed by the firm Ernst & Whinney. In addition, the Legislative Auditor periodically conducts a separate audit to examine the Commission's compliance with applicable laws, policies, and procedures as he determines it is necessary.

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, 1987. For the third 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 reports 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.

In addition, the Commission also received for the third consecutive year the GFOA Award For Distinguished Budget Presentation for its Annual Operating Budget for 1988. 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.

ACKNOWLEDGEMENTS

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.

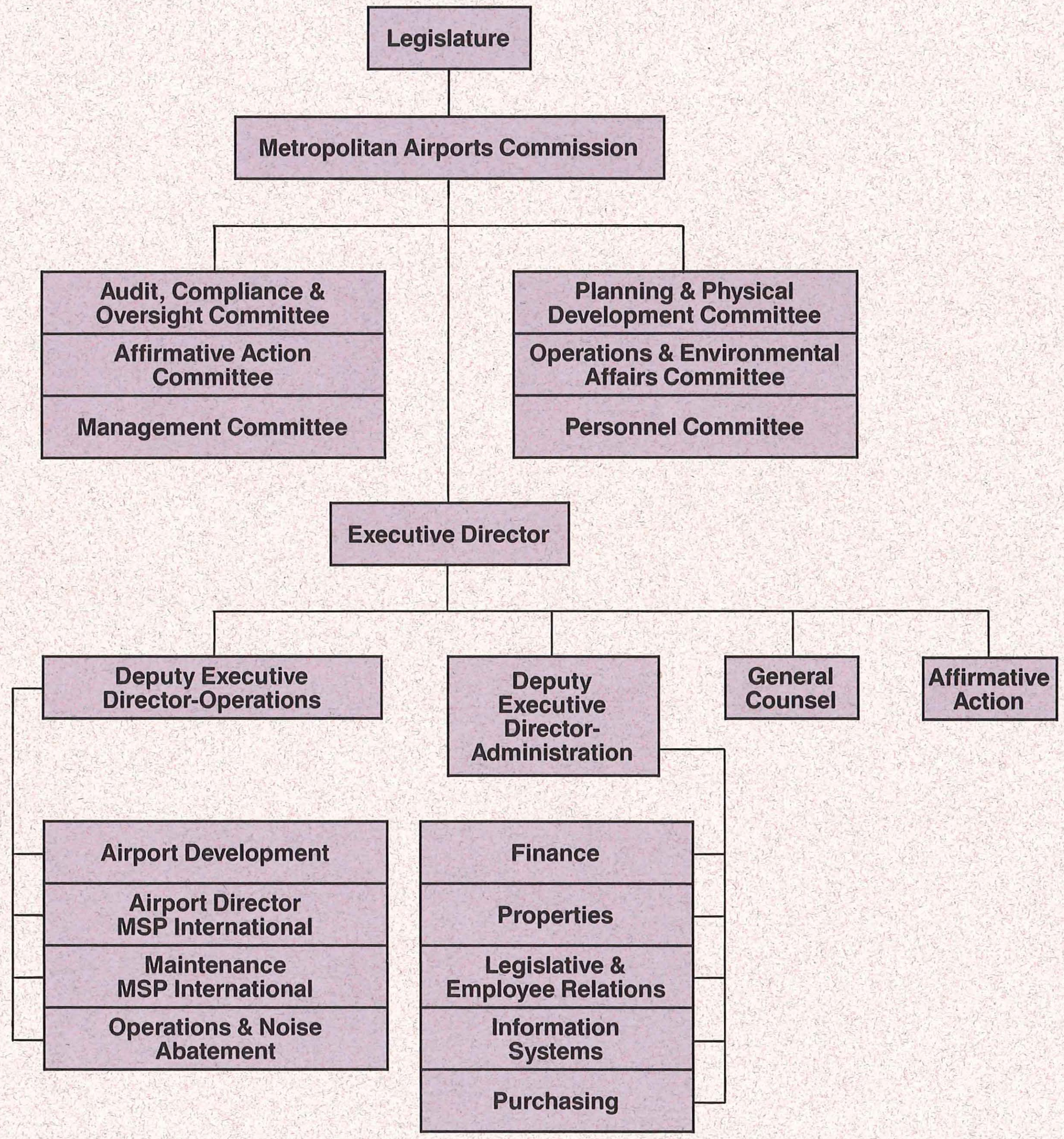
In closing, without the leadership and support of the governing body of the Metropolitan Airports Commission, preparation of this report would not have been possible.

Respectfully submitted,

Jeffrey W. Hamiel
Executive Director

Lynn D. Richardson, Jr.
Director of Finance

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION



Financial Section

Report of Independent Auditors

1700 Minnesota World Trade Center
30 East 7th Street
St. Paul, Minnesota 55101
612/291-1822

Members of the Commission
Minneapolis-Saint Paul Metropolitan
Airports Commission
Saint Paul, Minnesota

We have audited the accompanying balance sheets of Minneapolis-Saint Paul Metropolitan Airports Commission as of December 31, 1988 and 1987, and the related statements of revenues and expenses and changes in retained earnings, and changes in cash and investments for the years then ended. These financial statements are the responsibility of the Commission's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minneapolis-Saint Paul Metropolitan Airports Commission at December 31, 1988 and 1987, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles.

Ernst & Whinney

Saint Paul, Minnesota
March 3, 1989

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	December 31 1988	December 31 1987
ASSETS		
Cash and investments—Note B:		
Unrestricted	$ 7,570	$ 8,017
Restricted—Notes C and F:		
Debt Service	27,307	23,274
Construction:		
Regular	62,448	31,170
Special	58,308	60,717
Other	295	20
	148,358	115,181
	155,928	123,198
Accounts receivable	3,153	4,001
Government grants in aid of construction receivable	980	1,505
Airports and facilities—Notes E and F	266,674	230,512
Designated for deferred compensation plans—Note I	3,027	2,530
Other	428	512
TOTAL ASSETS	**$430,190**	**$362,258**
LIABILITIES AND FUND EQUITY		
Accounts payable and accrued expenses	$ 2,973	$ 2,376
Payables from restricted assets:		
Debt service—Note F	27,307	23,274
Construction	7,621	2,671
Other	265	
Employee compensation and payroll taxes	1,465	1,901
Deferred revenue	6,194	6,478
Deferred compensation benefits—Note I	3,027	2,530
Bonds payable—Note F	136,262	97,992
TOTAL LIABILITIES	**185,114**	**137,222**
FUND EQUITY		
Contributed capital	66,192	64,544
Retained earnings:		
Reserved—Note C	113,165	89,236
Unreserved	65,719	71,256
	178,884	160,492
TOTAL FUND EQUITY	**245,076**	**225,036**
CONTINGENT LIABILITY—Note J		
TOTAL LIABILITIES AND FUND EQUITY	**$430,190**	**$362,258**

See notes to financial statements.

Statements of Revenues and Expenses and Changes in Retained Earnings

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	Year Ended December 31 1988	1987
OPERATING REVENUES		
Traffic	$ 12,872	$ 13,258
Commercial:		
Concession	23,554	24,433
Rentals	21,600	20,247
Utilities	1,172	1,191
Miscellaneous	711	427
TOTAL OPERATING REVENUES	**59,909**	**59,556**
OPERATING EXPENSES		
Salaries, wages and employee benefits	15,082	14,765
Operating supplies	600	686
Utilities	3,809	3,072
Maintenance and repairs	5,142	4,471
Parking management	2,410	2,417
Depreciation	16,485	15,912
Other	4,552	3,878
TOTAL OPERATING EXPENSES	**48,080**	**45,201**
OPERATING INCOME	**11,829**	**14,355**
OTHER REVENUES (EXPENSES)		
Interest income	6,972	6,653
Gain on sale of airports and facilities	1,081	
Bond interest expense	(5,025)	(5,420)
NET INCOME	**14,857**	**15,588**
Add depreciation of facilities provided by government grants—Note A	3,535	3,367
INCREASE IN RETAINED EARNINGS	**18,392**	**18,955**
Retained earnings—beginning of year	160,492	141,537
RETAINED EARNINGS—END OF YEAR	**$178,884**	**$160,492**

See notes to financial statements.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	Year Ended December 31 1988	1987
CASH AND INVESTMENTS FROM OPERATIONS		
Net income	$ 14,857	$ 15,588
Add items not requiring cash:		
Depreciation	16,485	15,912
Amortization of bond premium and discount	57	55
Gain on sale of airports and facilities	(1,081)	
	30,318	31,555
Other operating accounts:		
Accounts receivable	848	1,266
Other assets	84	(36)
Accounts payable and accrued expenses	597	782
Employee compensation and payroll taxes	(436)	534
Deferred revenue	(284)	(121)
	809	2,425
TOTAL CASH AND INVESTMENTS FROM OPERATIONS	**31,127**	**33,980**
FACILITIES		
Payments for airports and facilities	(48,009)	(29,210)
Proceeds from disposal of airports and facilities	1,393	717
	(46,616)	(28,493)
FINANCING ACTIVITIES		
Payments on bonds payable	(7,545)	(7,530)
Issuance of bonds	50,958	
Receipts of government grants in aid of construction	5,708	14,657
Other	(902)	(25)
	48,219	7,102
INCREASE IN CASH AND INVESTMENTS	**32,730**	**12,589**
Cash and investments—beginning of year	123,198	110,609
CASH AND INVESTMENTS—END OF YEAR	**$155,928**	**$123,198**

( ) Indicates use of cash and investments.

See notes to financial statements.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

December 31, 1988

NOTE A SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Minneapolis-Saint Paul Metropolitan Airports Commission (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. In addition to promoting the efficient, safe and economical handling of air commerce, it has the responsibility of assuring residents of the Metropolitan Area of minimal environmental impact from air navigation and transportation.

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 an eleven member Board of Commissioners that is directly responsible to the Minnesota State Legislature. 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.

The Commission's financial statements include only funds and departments over which the Commission officials exercise oversight responsibility. No other agencies, boards, commissions, or other organizations have been included in the Commission's financial statements.

Oversight responsibility includes such aspects as budget review, approval of property tax levies, outstanding debt secured by the Commission's full faith and credit or revenues, responsibility for funding deficits, and others.

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.

Budgeting Process

As required by Minnesota State Statute, the Commission adopts an annual operating and capital expenditures budget for purposes of determination of 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.

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.

Minnesota Statutes require that all Commission deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% for mortgage notes pledged). Authorized collateral includes allowable investments as discussed below, certain first mortgage notes, and certain other state or local

NOTE A SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

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.

Investments

Investments are recorded at cost plus accrued interest and unamortized purchase discounts or premiums.

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 of its municipalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's, certificates of deposit issued by official depositories of the Commission, and repurchase agreements with financial institutions.

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. Airport improvements and buildings acquired from the cities at the time of the takeover, and similar facilities acquired since that time from United States government agencies, have been recorded principally on the basis of replacement cost, less allowance for depreciation, to reflect sound value as of the date of acquisition. Subsequent additions to the property accounts have been recorded at cost.

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	20–40 years
Moveable equipment	3–10 years

For facilities constructed and leased under self-liquidating arrangements, depreciation is recorded equal to the bond principal payments.

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.

Leases

Substantially all airport improvements and buildings are leased or charged to

NOTE A SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

users under various agreements. Certain facilities are leased under self-liquidating lease agreements which 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. 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 as allocated to and used by the airlines. 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. Revenues from one major airline account for approximately 38% of operating revenues and 77% of revenues from major airlines.

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.

NOTE B
CASH AND INVESTMENTS

Cash

Cash balances are as follows:

	December 31 1988	December 31 1987
	(In Thousands)	
Financial statement balances	$ (329)	$ 578
Bank balances:		
Insured or collateralized by securities held in the Commission's name by a financial institution other than that furnishing the collateral	$ 858	$ 719

At December 31, 1988, the cash balances at all depositories were adequately collateralized.

Investments

The Commission's investments at December 31, 1988 and 1987 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 broker's or dealer'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 broker or dealer, or by its trust department or agent but not in the Commission's name. In accordance with Commission policy, Category 3 amounts are securities with a maturity less than seven days from the purchase date.

NOTE B
CASH AND INVESTMENTS—
CONTINUED

Type of Security	Carrying Amount: Credit Risk Category 1	2	3	Total	Market Value
	(In Thousands)				
December 31, 1988					
U.S. Government and agencies	$ 123,139			$ 123,139	$ 119,716
Commercial paper	25,646		$4,576	30,222	29,740
Repurchase agreements			2,896	2,896	2,896
	$148,785	**$ —**	**$7,472**	**$156,257**	**$152,352**
December 31, 1987					
U.S. Government and agencies	$ 115,420			$ 115,420	$ 115,210
Commercial paper	5,526		$1,174	6,700	6,746
Repurchase agreements			500	500	500
	$120,946	**$ —**	**$1,674**	**$122,620**	**$122,456**

NOTE C
RESTRICTED CASH AND INVESTMENTS 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 for the next 27 months. 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, rental receipts on

NOTE C
RESTRICTED CASH AND INVESTMENTS AND RESERVED RETAINED EARNINGS FOR FUTURE DEBT SERVICE AND CONSTRUCTION—CONTINUED

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.

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

	December 31	
	1988	1987
Debt service	$ 27,307	$ 23,274
Construction:		
Regular	62,448	31,170
Special	58,308	60,717
Other	295	20
TOTAL RESTRICTED CASH AND INVESTMENTS	**148,358**	**115,181**
Less payables to be paid from restricted cash and investments:		
Debt service	27,307	23,274
Construction	7,621	2,671
Other	265	
RESERVED RETAINED EARNINGS	**$113,165**	**$ 89,236**

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, 1987	**$57,916**	**$ 73,690**	**$67,847**	**$199,453**
Government grants in aid of construction	9,975			9,975
Net income for the year			15,588	15,588
Depreciation of facilities provided by government grants	(3,367)		3,367	
Net change in restricted assets and liabilities		15,546	(15,546)	
Other	20			20
Balance December 31, 1987	**64,544**	**89,236**	**71,256**	**225,036**
Government grants in aid of construction	5,183			5,183
Net income for the year			14,857	14,857
Depreciation of facilities provided by government grants	(3,535)		3,535	
Net change in restricted assets and liabilities		23,929	(23,929)	
Balance December 31, 1988	**$66,192**	**$113,165**	**$65,719**	**$245,076**

NOTE E
AIRPORTS AND FACILITIES

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

Airports and Facilities	Balance January 1, 1988	Additions	Transfers In (Out)	Deductions	Balance December 31, 1988
Land	$ 12,651			$ (50)	$ 12,601
Airport improvements and buildings	366,954	$ 699	$24,219	(144)	391,728
Movable equipment	15,646	822	(100)	(259)	16,109
Projects-in-progress	8,256	51,438	(24,119)	(105)	35,470
TOTAL AIRPORTS AND FACILITIES	**403,507**	**52,959**	**—**	**(558)**	**455,908**
Accumulated depreciation	(172,995)	(16,485)		246	(189,234)
NET AIRPORTS AND FACILITIES	**$230,512**	**$36,474**	**$ —**	**$(312)**	**$266,674**

Airports and Facilities	Balance January 1, 1987	Additions	Transfers In (Out)	Deductions	Balance December 31, 1987
Land	$ 13,348			$(697)	$ 12,651
Airport improvements and buildings	331,247	$ 228	$35,479		366,954
Movable equipment	13,627	1,353	834	(168)	15,646
Projects-in-progress	17,875	26,694	(36,313)		8,256
TOTAL AIRPORTS AND FACILITIES	**376,097**	**28,275**	**—**	**(865)**	**403,507**
Accumulated depreciation	(157,231)	(15,912)		148	(172,995)
NET AIRPORTS AND FACILITIES	**$218,866**	**$12,363**	**$ —**	**$(717)**	**$230,512**

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.

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.

Authority for issuing bonds is obtained from the Minnesota State Legislature. Current authorization permits the issuance of an additional $99 million of bonds.

General Obligation Revenue Bond Series 7 was issued August 17, 1988 in the face amount of $51,150,000. The proceeds are to be used for the construction of a maintenance hangar for Northwest Airlines at the Minneapolis-Saint Paul International Airport. The hanger will house maintenance bays for B-747 aircraft, stores, shops, a mezzanine and offices.

Bonds payable, due serially:

	Final Payment In	Outstanding— December 31 1988	1987
		(In Thousands)	
Airport Improvement Bonds:			
Series 5			$ 470
Series 6			470
Series 7—3.7%	1989	$ 220	440
Series 13—3.9%	1989	350	685
Series 14—3.5 to 4.0%	1997	7,470	8,150
Series 15—3.5 to 4.0%	1997	440	480
Series 16—4.25 to 4.5%	1998	7,955	8,585
Series 17—5.5 to 6.375%	1999	2,940	3,125
Series 18			770
Series 19—5.5 to 6.3%	1999	7,340	7,790
Series 20—4.5 to 5.0%	2002	3,350	3,510
Series 21—4.8%	1989	410	795
		30,475	35,270
General Obligation Revenue Bonds:			
Series 1—6.0 to 7.0%	2005	7,980	8,230
Series 2—4.9 to 5.2%	2002	7,325	7,675
Series 3—5.25 to 5.75%	2000	11,100	11,700
Series 4—6.2 to 6.5%	2002	12,200	12,750
Series 5—8.9 to 9.1%	2002	19,500	20,500
Series 6—5.7 to 6.25%	2006	30,000	30,000
Series 7—7.8%	2015	51,150	
		139,255	90,855
TOTAL BONDS OUTSTANDING		**169,730**	**126,125**
Net unamortized discount		(999)	(865)
Accrued interest		5,053	3,569
		173,784	128,829
Less:			
Prepayments		(10,215)	(7,563)
Payable from restricted cash and investments—debt service		(27,307)	(23,274)
TOTAL BONDS PAYABLE		**$136,262**	**$ 97,992**

NOTE F
LONG-TERM DEBT—CONTINUED

Future debt service requirements after December 31, 1988 are as follows:

Year(s)	Principal	Interest	Total
		(In Thousands)	
1989	$ 8,035	$ 8,797	$ 16,832
1990	7,295	10,679	17,974
1991	8,500	10,240	18,740
1992	8,705	9,720	18,425
1993	9,235	9,173	18,408
1994–1998	49,770	36,845	86,615
1999–2003	36,395	21,837	58,232
2004–2015	41,795	21,017	62,812
	$169,730	$128,308	$298,038

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. The compensatory lease agreement with the major airlines expires effective January 20, 1989. Negotiations are currently in process to arrive at a new agreement. Other Commission revenue to be received under minimum rental revenue provisions are not significant in the aggregate.

NOTE G
CAPITALIZATION OF INTEREST

Total interest costs incurred were $8,616,000 and $7,862,000 for 1988 and 1987, respectively. Interest costs excluded from interest expense and capitalized as part of the costs of constructed assets were $3,591,000 and $2,442,000 in 1988 and 1987, respectively. During 1988 and 1987, the amount capitalized was offset by $2,615,000 and $1,630,000, respectively, of interest earned on the undisbursed invested funds of General Obligation Revenue Bond Series 6 and 7.

NOTE H
PENSION AND RETIREMENT PLANS

All the employees of the Commission participate in either the Minneapolis Municipal Employees Retirement Fund (MERF) (participation restricted to employees hired prior to July 1, 1978) or Public Employees Retirement Association (PERA). Both are cost-sharing multiple employer Public Employee Retirement Systems.

Plan Description

MERF is a defined benefit retirement plan, which provides retirement benefits based on the highest five years member salary in the last ten years of employment and credited years of service at retirement. All benefits vest after ten years of service. Employees are eligible for retirement at various dates depending on years of service.

PERA administers the Public Employees Retirement Fund (Consolidated Fund) and the Public Employees Police and Fire Fund, which are both defined benefit pension plans. Benefits are established by State statutes and vest after ten years of service. Commission employees participate in the respective plan, within PERA, as determined by their job functions. Employees may retire with full benefits when their age and years of service total 90 years. Reduced retirement benefits are available at various retirement dates with varying years of credited service.

Members of either plan, who leave public service with at least five years of service, may leave their contributions with the plan until retirement or withdraw them at an earlier date with interest. Both plans provide member disability and survivor death benefits.

Contributions

Covered employees are required by State statute to contribute a fixed percentage of their gross earnings to the pension plans. For MERF participants, the Commission is required by State statute to contribute the annual actuarially determined normal cost plus administrative costs, an additional 2.5% of covered payroll, and amounts sufficient to amortize the unfunded liability by the year 2017. For PERA participants, the Commission makes contributions in amounts required by State statutes which will fully fund the plan by the year 2009.

Funding Status and Progress

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the Plan's funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparison among Public Employee Retirement Systems and employers. MERF and PERA do not make separate measurements of assets and pension benefit obligations for individual employers.

NOTE H
PENSION AND RETIREMENT PLANS—CONTINUED

The pension benefit obligations of the plans based on recent valuations are as follows (in millions):

		PERA	
	MERF	Coordinated Fund	Police & Fire Fund
June 30, 1988:			
Total pension benefit obligation	$944	$3,334	$513
Net assets available for benefits, at market	717	2,749	585
Unfunded (excess) pension benefit obligation	$227	$ 585	$ (72)
June 30, 1987:			
Total pension benefit obligation	$877	$2,839	$ 437
Net assets available for benefits, at market	657	2,609	549
Unfunded (excess) pension benefit obligation	$220	$ 230	$(112)

The Commission's required contribution for the year ended June 30, 1988 as a percent of the total actuarially determined contribution requirement for all employees covered by the plans was 11.5% and .3% for MERF and PERA, respectively.

NOTE H
PENSION AND RETIREMENT PLANS—CONTINUED

Information with respect to required contributions is as follows:

	MERF	PERA Coordinated Fund	PERA Police & Fire Fund
Required payroll contribution rates:			
Employee–retirement	9.25%	4.00%	8.00%
–survivor benefit	.50%		
Employer–retirement	10.45%	4.00%	12.00%
–additional retirement	2.50%	.25%	

Information with respect to covered payrolls and contributions made for years ended December 31, 1988 and 1987 is as follows:

	1988	1987
	(In Thousands)	
Covered payrolls:		
MERF participants	$ 5,928	$ 5,852
PERA participants	5,802	4,670
Total covered payrolls	**$11,730**	**$10,522**
Contributions made:		
MERF—employee contributions	$ 578	$ 573
MERF—employer contributions	768	1,182
Total contributions to MERF	**$ 1,346**	**$ 1,755**
PERA—employee contributions	$ 263	$ 214
PERA—employer contributions	302	252
Total contributions to PERA	**$ 565**	**$ 466**
Contribution as a percentage of covered payrolls:		
MERF—employee	9.8%	9.8%
MERF—employer	13.0%	20.2%
PERA—employee	4.5%	4.6%
PERA—employer	5.2%	5.4%

NOTE H PENSION AND RETIREMENT PLANS—CONTINUED

Ten year historical trend information is presented in the respective June 30, 1988 MERF Comprehensive Annual Financial Report and PERA's State PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plans' accumulations of sufficient assets to pay pension benefits as they become due.

Related Party Investments

MERF and PERA held no securities issued by the Commission or related parties during the two years ended December 31, 1988.

NOTE I 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 salary, limited to $7,500 per year. Amounts deferred are available to employees or beneficiaries only at termination, retirement, death or unforeseeable emergency. Amounts deferred are placed with a trustee for investment purposes. Investments deposited for deferred compensation benefits are valued at fair market value.

All amounts of compensation deferred under the plan, property and rights purchased with those amounts, and income attributable to those amounts, property, or rights are solely the property and rights of the Commission (without being restricted to the provisions of the benefits under the plan), subject only to the claims of the Commission's general creditors (until paid or made available to the employee or other beneficiary). The Commission is responsible only for the prudent administration of the plan and is not responsible for market losses from investments that may result. Participants' rights under the plan are equal to those of general creditors of the Commission in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the Commission's legal counsel that the Commission has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Commission believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE J CONTINGENT LIABILITY

The Commission is a defendant in actions by certain property owners claiming damages arising from taking of plaintiffs' property through intrusion of noise-effective aircraft passing over and near their properties. The State of Minnesota Supreme Court originally upheld a district court's ruling that class action treatment was not to be accorded the suit. At the same time the Court established the authority and the responsibility of the Commission to pay damages to landowners affected as claimed by these plaintiffs.

The claims of three of the multiple plaintiffs proceeded to trial in District Court since December 31, 1988. These cases were tried by a jury and a verdict was rendered in favor of the Commission. Plaintiffs counsel has indicated that the plaintiffs will continue to pursue the matter through motions and appeal.

On April 25, 1988, the Minnesota Pollution Control Agency (MPCA) notified the Commission that contaminants were

NOTE J
CONTINGENT LIABILITY

present in the groundwater underlying the Lake Elmo Airport. While the Commission has confirmed that indeed the groundwater immediately beneath its property is contaminated, they have been unable, at this point, to connect any activity on the property with that contamination. However, the MPCA is unwilling to abandon its presumption that the Commission is responsible until they identify the source. These positions, if maintained, will likely lead to an administrative action by the MPCA attempting to force the Commission to conduct additional tests to determine who else might be the source.

Liability of the Commission, if any, which may result from these actions is not determinable at this time. In the opinion of the Commission, liability, if any, arising from these claims will not have a significant effect on the operations of the Commission.

Statistical Section

Total Annual Revenues 1979-1988

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

	1979	1980	1981	1982
Traffic	$ 6,575,127	$ 6,433,993	$ 6,671,105	$ 6,850,095
Concessions	10,258,154	11,121,850	12,805,922	13,537,913
Rentals	7,746,978	9,107,390	10,400,101	11,419,158
Other	1,043,160	1,214,026	1,328,795	1,310,443
Total Operating Revenues	**$25,623,419**	**$27,877,259**	**$31,205,923**	**$33,117,609**
Add: Interest Income	6,302,980	8,001,770	9,231,999	10,514,138
Add: Gain on sale of airports and facilities				
Total Revenues	**$31,926,399**	**$35,879,029**	**$40,437,922**	**$43,631,747**

Source: Audit reports for the last ten years.

Total Annual Expenses 1979-1988

	1979	1980	1981	1982
Salaries, Wages & Benefits	$ 7,071,158	$ 7,969,138	$ 8,654,114	$ 9,459,467
Operating Supplies	232,764	252,476	284,133	312,039
Utilities	1,701,157	2,147,960	2,438,805	2,923,553
Maintenance & Repairs	1,997,777	2,176,115	2,585,336	3,002,448
Parking Management Fee	1,906,443	2,101,204	2,085,192	2,011,730
Depreciation	7,020,083	7,771,924	9,167,866	9,661,208
Other	1,795,673	1,261,876	1,214,631	1,135,906
Total Operating Expenses	**$21,725,055**	**$23,680,693**	**$26,430,077**	**$28,506,351**
Add: Interest Expense—1	4,447,712	5,345,750	5,588,855	5,538,540
Loss on Building Disposition	0	0	0	0
Total Expenses	**$26,172,767**	**$29,026,443**	**$32,018,932**	**$34,044,891**

Source: Audit reports for the last ten years.

1—Beginning in 1979, Interest Expense is net of capitalized interest. See note G to financial statements.

1983	1984	1985	1986	1987	1988
$ 7,774,814	$ 9,175,762	$11,329,510	$12,213,329	$13,258,423	$12,871,502
15,713,054	18,582,583	21,555,429	23,424,563	24,432,716	23,553,583
14,863,178	14,797,868	15,648,645	18,853,612	20,247,488	21,599,680
1,648,818	1,138,856	1,223,187	1,562,229	1,617,854	1,883,935
$39,999,864	**$43,695,069**	**$49,756,771**	**$56,053,733**	**$59,556,481**	**$59,908,700**
10,699,709	11,222,880	9,827,413	7,589,280	6,652,907	6,972,379
					1,082,347
$50,699,573	**$54,917,949**	**$59,584,184**	**$63,643,013**	**$66,209,388**	**$67,963,426**

1983	1984	1985	1986	1987	1988
$10,156,550	$10,649,333	$12,412,199	$12,186,971	$14,765,309	$15,081,691
399,913	512,954	662,619	603,731	686,221	600,582
2,830,955	3,088,500	3,308,273	3,133,923	3,071,586	3,809,067
3,401,662	3,422,719	4,348,294	4,297,351	4,470,827	5,141,742
2,028,580	2,472,786	2,445,593	2,467,942	2,416,766	2,409,645
11,304,417	12,257,349	13,243,924	14,516,539	15,911,671	16,484,828
1,583,307	2,050,379	3,758,872	4,067,257	3,878,329	4,552,902
$31,705,384	**$34,454,020**	**$40,179,774**	**$41,273,714**	**$45,200,709**	**$48,080,457**
7,443,385	6,931,911	5,889,079	6,013,628	5,419,971	5,025,252
0	0	451,723	0	0	0
$39,148,769	**$41,385,931**	**$46,520,576**	**$47,287,342**	**$50,620,680**	**$53,105,709**

Ratio of Annual Debt Service to Total Expenses 1979-1988

	1979	1980	1981	1982
Principal	$ 4,680,000	$ 5,155,000	$ 5,190,000	$ 5,190,000
Interest—1	5,264,312	6,018,745	8,011,577	7,821,673
Total Debt Service	$ 9,944,312	$11,173,745	$13,201,577	$13,011,673
Total Expenses	$26,172,767	$29,026,443	$32,018,932	$34,044,891
Ratio of Debt Service to Total Expenses	**38%**	**38%**	**41%**	**38%**

1—Does include capitalized interest.

Revenue Available for Debt Service 1979-1988

	1979	1980	1981	1982
Operating Revenue	$25,623,419	$27,877,259	$31,205,923	$33,117,609
Interest Income	6,302,980	8,001,770	9,231,999	10,514,138
Operating Expense—1	(14,704,972)	(15,908,769)	(17,262,211)	(18,845,143)
Revenue available for debt service	$17,221,427	$19,970,260	$23,175,711	$24,786,604
Debt service	$ 9,944,312	$11,173,745	$13,201,577	$13,011,673
Coverage of debt service	**1.73**	**1.79**	**1.76**	**1.90**

1—Operating expense excludes depreciation.

Schedule of Airline Rates and Charges 1979-1988

	1979	1980	1981	1982
Landing Fee/1000 lbs.	$ 0.44	$ 0.44	$ 0.46	$ 0.47
Ramp Fees/Lineal Foot	$124.40	$122.92	$135.13	$152.26
Terminal Building Rentals:				
Common Use/Square Foot	$ 8.96	$ 10.09	$ 11.08	$ 13.16
Finished/Square Foot	8.12	8.67	9.47	11.36
Finished Janitored/Square Foot	10.64	12.11	13.44	15.78
Unfinished/Square Foot	7.67	8.22	8.98	10.83

Source: Compensatory Rental Report

1983	1984	1985	1986	1987	1988
$ 6,415,000	$ 6,830,000	$ 7,080,000	$ 7,460,000	$ 7,530,000	$ 7,545,000
7,510,573	7,166,764	6,812,091	6,469,781	7,862,027	8,616,252
$13,925,573	$13,996,764	$13,892,091	$13,929,781	$15,392,027	$16,161,252
$39,148,769	$41,385,931	$46,520,576	$47,287,342	$50,620,680	$53,105,709
36%	**34%**	**30%**	**29%**	**30%**	**30%**

1983	1984	1985	1986	1987	1988
$39,999,864	$43,695,069	$49,756,771	$56,053,733	$59,556,481	$59,908,700
10,699,709	11,222,880	9,827,413	7,589,280	6,652,907	6,972,379
(20,400,967)	(22,196,671)	(26,935,850)	(26,757,175)	(29,289,038)	(31,595,629)
$30,298,606	$32,721,278	$32,648,334	$36,885,838	$36,920,350	$35,285,450
$13,925,573	$13,996,764	$13,892,091	$13,929,781	$15,392,027	$16,161,252
2.18	**2.34**	**2.35**	**2.65**	**2.40**	**2.18**

1983	1984	1985	1986	1987	1988
$ 0.47	$ 0.47	$ 0.57	$ 0.55	$ 0.65	$ 0.62
$169.15	$185.07	$185.64	$178.83	$177.01	$186.48
$ 13.35	$ 13.10	$ 14.13	$ 13.79	$ 15.15	$ 16.06
11.61	11.39	12.30	11.84	12.68	14.06
15.92	15.57	16.89	16.68	18.32	18.76
11.08	10.90	11.82	11.38	12.24	13.56

Activity Statistics for Minneapolis St. Paul International Airport 1979-1988

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

	1979	1980	1981	1982
Total Passengers—1	9,982,510	8,938,487	7,732,828	9,727,913
Aircraft Operations—2	284,764	282,027	264,914	252,151
Mail and Cargo Volumes (Metric Tons)	129,777	107,762	109,467	106,752

Source: Metropolitan Airports Commission Activity Report

1—Statistical reporting requirements were revised as follows:
- —In 1981, non-revenue passengers were no longer included in the totals. (Non-revenue passengers are airline employees and their relatives who fly for a minimal charge.)
- —In 1986, on-line connecting passengers were included in the totals. 1982-1985 were restated to reflect this change. (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.

Aircraft Operations at the Reliever Airports 1979-1988

	1979	1980	1981[1]	1982
St. Paul Downtown Airport	154,871	134,286	107,305	77,509
Flying Cloud Airport	244,243	218,975	194,229	145,718
Crystal Airport	192,717	183,840	154,436	123,577
Anoka County/Blaine Airport	190,000	190,000	150,000	150,000
Lake Elmo Airport	95,000	100,000	90,000	90,000
Airlake Airport				
Total Aircraft Operations at the Reliever Airports	**876,831**	**827,101**	**695,970**	**586,804**

Source: Metropolitan Airports Commission Activity Report

1—Due to the FAA/PATCO labor dispute, FAA control tower hours varied greatly. The reduction in hours has had a significant effect on the recording of operations data.

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

Population of Seven County Metropolitan Area 1979-1988

1979	1980	1981	1982
1,991,140	1,973,862	1,993,400	2,002,000

Source: Metropolitan Council

1983	1984	1985	1986	1987	1988
11,134,919	12,039,411	14,803,833	17,073,605	17,858,984	17,733,837
307,801	337,838	372,911	389,012	373,660	373,851
117,316	139,859	144,925	199,319	206,799	246,734

1983	1984	1985	1986	1987	1988
97,118	103,118	112,019	124,786	135,397	151,869
166,266	165,542	176,246	191,350	209,423	186,699
136,314	140,704	143,665	152,773	165,367	172,074
140,000	145,000	160,000	165,000	180,000	200,000
90,000	92,000	82,000	70,000	63,000	65,000
20,000	23,000	35,000	40,000	52,000	64,000
649,698	**669,364**	**708,930**	**743,909**	**805,187**	**839,642**

1983	1984	1985	1986	1987	1988
2,033,080	2,057,157	2,086,356	2,118,445	2,153,533	2,200,321

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Policy Number	Insurer	Inception	Expiration	Coverage	Policy Limits (Thousands of Dollars)
240392	Arkwright Insurance	01/01/89	01/01/90	Blanket Fire & extended coverage on building & contents 90% co-insurance. Heavy equipment, boiler and machinery, and builder's risk. (subject to 1988 appraisal)	$219,000
Self-Insured	Fred S. James—Third Party Admin.	03/01/89	03/01/90	Statutory Workers' Compensation	100/500/100
60195113	Fidelity & Deposit Company of Maryland	03/01/89	03/01/90	Comprehensive crime employee bond	$1,000
1APL-21441	Associated Aviation Underwriters	12/23/88	12/23/90	General Aviation Liability including personal injury	$300,000
AD8701194C	Lloyds of London	12/23/88	12/23/89	Excess Liability	$100,000
7748-31-87	Chubb	01/01/89	01/01/90	Auto Liability and physical coverage and hired automobiles	$1,000 per Occurrence
7748-31-87	Chubb	01/01/89	01/01/90	Garage keepers liability	$120
7748-31-87	Chubb	01/01/89	01/01/90	Fleet physical damage	Values Over $50,000

At the end of 1988, major scheduled airlines serving the Twin Cities were:

America West
American Airlines
Braniff Airlines
Continental Airlines
Delta Airlines
Midway Airlines
Northwest Airlines
PanAm Airlines
Piedmont Airlines
TWA
United Airlines
USAir

Commuter service offers an extensive feeder route system to MSP International for connecting flights. Regional/Commuter airlines serving Minneapolis/Saint Paul at the end of 1988 were:

Bemidji Airlines
Great Lakes Aviation
Mesaba Airlines
Midwest Aviation
Time Air (formerly Norcanair)
Express I (formerly Republic Express)

Three branches of United States Armed Forces are represented at Minneapolis/Saint Paul International Airport; the Air Force Reserve 934th Tactical Airlift Group, the Marine Air Reserve Training Detachment, and the Naval Air Reserve—Twin Cities Center. Also at MSP is the Minnesota Air National Guard 133rd Tactical Airlift Group. At Saint Paul Downtown the Army maintains a dozen support helicopters and the National Guard bases its Fixed Wing Squadron. Training flights, servicing, and simulated emergencies are conducted on a regular basis.

Metropolitan Airports Commission
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