

In the opinion of Mayer Brown LLP, Chicago, Illinois, and Sanchez Daniels & Hoffman LLP, Chicago, Illinois, Co-Bond Counsel, under existing law, and assuming compliance by the City with certain covenants, (i) interest on the 2016A Bonds (A) is excluded from the gross income of the owners thereof for federal income tax purposes and (B) is an item of tax preference for purposes of individual and corporate minimum taxable income for purposes of individual and corporate alternative minimum tax, and (ii) interest on the 2016B Bonds (A) is excluded from the gross income of the owners thereof for federal income tax purposes and (B) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is not exempt from present State of Illinois income taxes. See “TAX MATTERS” herein for a more complete discussion and APPENDIX E for the form of opinions to be delivered by Co-Bond Counsel.

**\$342,395,000****CITY OF CHICAGO****Chicago Midway Airport****Second Lien Revenue and Revenue Refunding Bonds****\$121,265,000****Series 2016A (AMT)****\$221,130,000****Series 2016B (Non-AMT)****Dated:** Date of Delivery**Due:** January 1, as shown on inside cover pages

The City of Chicago, Chicago Midway Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2016A (AMT) (the “2016A Bonds”) and the City of Chicago, Chicago Midway Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2016B (Non-AMT) (the “2016B Bonds”) and together with the 2016A Bonds, the “Bonds”), are fully registered bonds issued in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”). DTC is securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form and purchasers will not receive certificates representing their interests in the Bonds purchased. Principal of, and interest on, the Bonds are payable by The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois, as trustee (the “Second Lien Trustee”), to DTC, which in turn will remit such principal and interest payments to its participants for subsequent disbursement to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursal of such payments to beneficial owners will be the responsibility of DTC and its participants. See “THE BONDS–Book-Entry Only System.”

The proceeds of the Bonds are being used to (i) pay the costs of certain Airport Projects (see “APPLICATION OF BOND PROCEEDS–Airport Projects”); (ii) refund prior to maturity the Refunded Bonds (see “APPLICATION OF BOND PROCEEDS–Refunding Plan”); (iii) capitalize a portion of the interest on the Bonds; (iv) fund a deposit to the Common Debt Service Reserve Sub-Fund; and (v) pay costs and expenses incidental thereto and to the issuance of the Bonds.

The Bonds are limited obligations of the City of Chicago (the “City”) payable solely from, and secured by, a pledge of Second Lien Revenues (as defined herein) derived from the operation of the Chicago Midway International Airport (“Midway”) and certain other moneys. The Bonds are payable from the Second Lien Revenues on a parity basis with City of Chicago, Chicago Midway Airport Outstanding Second Lien Bonds described herein and any other Second Lien Obligations (as herein defined) that may be outstanding from time to time under the Second Lien Indenture, all as more fully described herein. The Bonds and the obligations to pay principal of, and interest thereon, are not general obligations of the City and do not constitute an indebtedness or loan of credit of the City, the State of Illinois (the “State”) or any political subdivision thereof within the meaning of any constitutional or statutory limitation of the State. Neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof is pledged to the payment of the principal of, or interest on, the Bonds. No property of the City, including property at Midway, is pledged as security for the Bonds.

Interest on the Bonds is payable on January 1 and July 1 of each year, commencing July 1, 2016. The Bonds are subject to optional and mandatory redemption prior to maturity as set forth herein. See “THE BONDS–Redemption Provisions.”

For maturities, principal amounts, interest rates, prices, yields and CUSIP numbers, see the inside cover pages.

The Bonds are offered when, as and if issued, and subject to the delivery of approving legal opinions by Mayer Brown LLP and Sanchez Daniels & Hoffman LLP, Co-Bond Counsel, and to certain other conditions. Certain legal matters will be passed on for the City by (i) its Corporation Counsel, (ii) in connection with the preparation of this Official Statement by Burke, Warren, MacKay & Serritella, P.C., Chicago, Illinois, and Hardwick Law Firm, LLC, Chicago, Illinois, Co-Disclosure Counsel to the City, and (iii) in connection with certain pension matters described in this Official Statement by Chapman & Cutler LLP, Chicago, Illinois, Special Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Katten Muchin Rosenman LLP, Chicago, Illinois. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about June 1, 2016.

Barclays**BofA Merrill Lynch**

Cabrera Capital Markets, LLC
J.P. Morgan

Estrada Hinojosa & Company, Inc.
Loop Capital Markets

Blaylock Beal Van, LLC

Hutchinson, Shockey, Erley & Co.
Stern Brothers & Co.

MATURITIES, AMOUNTS, INTEREST RATES, PRICES, YIELDS AND CUSIP NUMBERS

\$342,395,000
CITY OF CHICAGO
CHICAGO MIDWAY AIRPORT
SECOND LIEN REVENUE AND REVENUE REFUNDING BONDS

\$121,265,000
CHICAGO MIDWAY AIRPORT
SECOND LIEN REVENUE AND REVENUE REFUNDING BONDS, SERIES 2016A (AMT)

MATURITY (JANUARY 1)	PRINCIPAL AMOUNT	INTEREST RATE	PRICE	YIELD	CUSIP ¹
2017	\$ 1,195,000	2.00%	100.725	0.75%	167562PU5
2018	925,000	4.00	104.684	1.01	167562PV3
2019	960,000	4.00	107.047	1.22	167562PW1
2020	6,760,000	5.00	112.388	1.44	167562PX9
2021	7,095,000	5.00	114.680	1.66	167562PY7
2022	7,460,000	5.00	116.866	1.81	167562PZ4
2023	7,820,000	5.00	118.552	1.98	167562QA8
2024	8,215,000	5.00	119.920	2.14	167562QB6
2025	7,355,000	5.00	121.006	2.29	167562QC4
2026	7,725,000	5.00	121.947	2.42	167562QD2
2027	8,110,000	5.00	120.428 ^c	2.58	167562QE0
2028	8,515,000	5.00	119.584 ^c	2.67	167562QF7
2029	8,940,000	5.00	118.932 ^c	2.74	167562QG5
2030	9,390,000	5.00	118.284 ^c	2.81	167562QH3
2031	9,860,000	5.00	117.824 ^c	2.86	167562QJ9
2032	10,350,000	4.00	106.896 ^c	3.16	167562QK6
2033	10,590,000	4.00	106.470 ^c	3.21	167562QL4

^c Priced to the January 1, 2026 optional redemption date.

¹ Copyright 2016, American Bankers Association. CUSIP data herein are provided by S&P Global Ratings, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the Bonds and neither the City nor the underwriters makes any representation with respect to such numbers or undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar credit enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

\$221,130,000
CHICAGO MIDWAY AIRPORT
SECOND LIEN REVENUE AND REVENUE REFUNDING BONDS, SERIES 2016B (NON-AMT)

MATURITY (JANUARY 1)	PRINCIPAL AMOUNT	INTEREST RATE	PRICE	YIELD	CUSIP ¹
2017	\$ 4,930,000	2.00%	100.761	0.69%	167562QM2
2018	3,890,000	4.00	105.024	0.80	167562QN0
2019	4,040,000	4.00	107.711	0.97	167562QP5
2020	4,200,000	5.00	113.514	1.14	167562QQ3
2021	4,415,000	5.00	116.361	1.31	167562QR1
2022	4,635,000	5.00	118.913	1.46	167562QS9
2033	180,000	3.00	98.199	3.14	167562QY6
2034	11,195,000	4.00	108.100 ^c	3.02	167562QT7
2035	11,640,000	4.00	107.668 ^c	3.07	167562QU4
2036	12,105,000	5.00	117.916 ^c	2.85	167562QV2
2037	12,715,000	5.00	117.458 ^c	2.90	167562QZ3
\$57,530,000	5.00%	Term Bonds due January 1, 2041	Price: 116.638 ^c	Yield: 2.99%	CUSIP: 167562QW0
\$89,655,000	5.00%	Term Bonds due January 1, 2046	Price: 116.186 ^c	Yield: 3.04%	CUSIP: 167562QX8

^c Priced to the January 1, 2026 optional redemption date.

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OFFICIAL STATEMENT SUMMARY

The following summary is subject in all respects to more complete information contained in the Official Statement.

The Issuer City of Chicago, Illinois.

Issue and Date The Bonds will be limited obligations of the City payable from Second Lien Revenues (as defined in APPENDIX A) derived from the operation of Chicago Midway International Airport. The Bonds will be issued in two series: Series 2016A (AMT) and Series 2016B (Non-AMT). The Bonds will be dated as of the date of delivery.

Midway Midway is owned and operated by the City. For the 12-month period ended December 31, 2014, Midway ranked 31st in the United States in terms of aircraft operations and 25th in terms of total passengers, with approximately 10,497,727* enplaned passengers in 2014. In 2015, 11,003,697* passengers were enplaned at Midway. In 2015, Southwest Airlines accounted for approximately 93.4% of total enplaned passengers† at Midway and 57% of total Midway operating revenues.

Purpose of the Bonds The proceeds of the Bonds are being used to (i) pay the costs of certain Airport Projects at Midway (see “APPLICATION OF BOND PROCEEDS–Airport Projects”); (ii) refund prior to maturity the Refunded Bonds (see “APPLICATION OF BOND PROCEEDS–Refunding Plan”); (iii) capitalize a portion of the interest on the Bonds; (iv) fund a deposit to the Common Debt Service Reserve Sub-Fund; and (v) pay costs and expenses incidental thereto and to the issuance of the Bonds.

Amounts and Maturities See tables on inside cover page of this Official Statement.

Interest Payment Dates January 1 and July 1 of each year commencing July 1, 2016.

Security for Payment The Bonds are Second Lien Obligations entitled to the benefits and security of the Second Lien Indenture. All Second Lien Obligations are equally and ratably secured under the Second Lien Indenture by a pledge of Second Lien Revenues. This pledge is junior and subordinate to the pledge of Revenues for the payment of First Lien Bonds. Each Series of the Bonds is also secured by a security interest in a separate and segregated Dedicated Sub-Fund for that Series established within the Second Lien Revenue Fund. The moneys and securities held in each Dedicated Sub-Fund are pledged to the payment of the Bonds of that Series subject only to the use and application thereof in accordance with the terms of the Supplemental Indenture authorizing such Series.

Common Debt Service Reserve The Bonds are Common Reserve Bonds secured by the Common Debt Service Reserve Sub-Fund. The City will maintain the Common Debt Service Reserve Sub-Fund in amounts equal to the Reserve Requirement. See “SECURITY FOR THE BONDS–Debt Service Reserve.”

Rate Covenant The City covenants in the Second Lien Indenture to fix and establish, and to revise from time to time whenever necessary, the rentals, rates and other charges for the use and operation of Midway in order that Revenues in each Fiscal Year, together with Other Available Moneys deposited with the First Lien Trustee or Second Lien Trustee, and any available cash balance held in the First Lien Revenue Fund or Second Lien Revenue Fund, will be at least sufficient to provide for the payment of all Operation and Maintenance Expenses for the

* Excludes general aviation, military, helicopter and miscellaneous passengers included in the City of Chicago’s Chicago Department of Aviation management records.

† Includes general aviation, military, helicopter and miscellaneous passengers included in the Chicago Department of Aviation management records.

Fiscal Year and to provide for the greater of either (i) the amounts needed to make the deposits to Funds and Accounts required under the First Lien Indenture or an amount not less than 125% of the Aggregate First Lien Debt Service for the Bond Year, reduced by any amount held in any Capitalized Interest Account to pay interest on First Lien Bonds, or (ii) the amounts needed to make the deposits to Funds and Accounts required under the First Lien Indenture or an amount not less than 110% of the Aggregate First Lien Debt Service and Aggregate Second Lien Debt Service for the Bond Year, reduced by (A) any amount held in any Capitalized Interest Account to pay interest on First Lien Bonds and (B) any amount held in any Capitalized Interest Account to pay interest on Second Lien Obligations. See “SECURITY FOR THE BONDS–RATE COVENANT.”

Additional Second Lien Bonds Additional Second Lien Bonds may be issued only upon satisfaction of the conditions set forth in the Second Lien Indenture. See “SECURITY FOR THE BONDS–ADDITIONAL OBLIGATIONS.”

Redemption The Bonds are subject to optional redemption and mandatory redemption as described under “THE BONDS–Redemption Provisions.”

Paying Agent Principal of, and interest on, the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois.

Tax Status of Interest In the opinion of Mayer Brown LLP, Chicago, Illinois, and Sanchez Daniels & Hoffman LLP, Chicago, Illinois, Co-Bond Counsel, under existing law, and assuming compliance by the City with certain covenants, (i) interest on the 2016A Bonds (A) is excluded from the gross income of the owners thereof for federal income tax purposes and (B) is an item of tax preference for purposes of individual and corporate minimum taxable income for purposes of individual and corporate alternative minimum tax, and (ii) interest on the 2016B Bonds (A) is excluded from the gross income of the owners thereof for federal income tax purposes and (B) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is not exempt from present State of Illinois income taxes. See “TAX MATTERS” herein for a more complete discussion and APPENDIX E for the form of opinions to be delivered by Co-Bond Counsel.

Legal Opinion Mayer Brown LLP, Chicago, Illinois, and Sanchez Daniels & Hoffman LLP, Chicago, Illinois, will act as Co-Bond Counsel.

Ratings S&P, Fitch, and Kroll have assigned their ratings and rating outlooks of “A” (stable outlook), “A” (stable outlook), and “A” (stable outlook), respectively, to the Bonds. For a discussion of such ratings, see the section herein captioned “RATINGS.”

Capital Improvement Program Major projects have been completed under the Midway Airport Improvement Program including the Terminal Development Program, an economy parking garage, and the Consolidated Car Rental Facility. With relatively new infrastructure and no significant modifications planned, the Airport focuses its 2016-2022 Capital Improvement Program on on-going repairs, maintenance, and revenue generating capital projects.

Pension and Other

Post-Employment Benefit Costs ... The City participates in four defined-benefit retirement funds (collectively, the “*Retirement Funds*”). City employees who work for Midway each participate in one of these Retirement Funds. The City’s contributions to the Retirement Funds are determined pursuant to the formulas set forth in the Illinois Pension Code (the “*Pension Code*”). Based on the actuarial valuations of the Retirement Funds as of December 31, 2014, the Retirement Funds had, on a market value basis, a combined funded ratio of 35.5% and an unfunded actuarial accrued

liability of \$19.4 billion. The City's contributions to its police and fire Retirement Funds will increase substantially with the contribution to be made during 2016 as a result of the implementation of Public Act 96-1495. The City's contributions to the Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF") and the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago ("LABF") were scheduled to increase pursuant to Public Act 098-641 ("P.A. 98-641"), but P.A. 98-641 was determined to be unconstitutional by the Illinois Supreme Court. As a result of such determination, the City will continue to contribute to MEABF and LABF pursuant to the provisions of the Pension Code in effect prior to the adoption of P.A. 98-641. The respective actuaries for MEABF and LABF project that, based on the current provisions of the Pension Code, MEABF and LABF will not have sufficient assets on hand to make payments to beneficiaries in 2025 and 2027, respectively. On May 23, 2016, the City announced that it had reached an agreement regarding LABF with both unions representing City employees who are members of LABF. If enacted into law, this agreement would increase employee contributions and modify pension benefits for employees hired on or after January 1, 2017, and provide employees hired between January 1, 2011, and December 31, 2016, with the option to become eligible for the payment of benefits at age 65 (as opposed to age 67 under current law) in exchange for an increase in employee contributions from 8.5 percent to 11.5 percent of their salary. In addition, the agreement would modify the manner in which the City contributes to LABF by increasing the City's contributions over a five-year period (the "*Ramp Period*") to certain agreed-upon percentages of the actuarially required contribution beginning with the contribution to be made in fiscal year 2018. After the Ramp Period, the City would contribute the actuarially determined amount necessary to achieve a Funded Ratio of 90 percent in LABF by 2057. The City expects that legislation encompassing this agreement will be introduced into the Illinois General Assembly in the fall of 2016, and the City intends to support the adoption of such legislation. The City can give no assurance as to whether such legislation will ultimately become law. For additional information, see "MIDWAY FINANCIAL OPERATIONS—Pension and Other Post-Employment Benefit Costs" and APPENDIX G—"RETIREMENT FUNDS—Payment for Pension Benefits" in the Official Statement.

The City and the Retirement Funds share the cost of post-employment healthcare benefits available for certain retired City employees ("*Health Plan*"). The City has announced plans to phase-out such benefits by 2017 for certain retirees. Prior to June 30, 2013, the City contributed to the Health Plan pursuant to a settlement agreement between the City and the Retirement Funds. After expiration of the settlement, certain of the affected participants filed a lawsuit to reactivate the litigation covered by the settlement, which lawsuit remains pending. For further information on the status of the Health Plan after June 30, 2013, including certain State and federal litigation relating to the Health Plan and the settlement agreement, see APPENDIX G—"RETIREMENT FUNDS—Payment for Other Post-Employment Benefits" in the Official Statement.

REGARDING THE USE OF THIS OFFICIAL STATEMENT

The Underwriters have provided the following sentence for inclusion in the Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement is being used in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose. Certain information contained in this Official Statement has been obtained by the City from DTC and other sources that are deemed to be reliable; however, no representation or warranty is made as to the accuracy or completeness of such information by the City. The delivery of this Official Statement does not imply that information herein is correct as of any time subsequent to its date.

This Official Statement should be considered in its entirety and no one factor should be considered more or less important than any other by reason of its position in this Official Statement. Where statutes, reports or other documents are referred to herein, reference should be made to such statutes, reports or other documents in their entirety for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained therein and the subject matter thereof. Any statements made in this Official Statement, including the Appendices, involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such estimates will be realized. This Official Statement contains certain forward-looking statements and information that are based on the beliefs of the City as well as assumptions made by and currently available to the City. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or expected.

Neither the City, the City's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to, or been consulted in connection with, the preparation of the prospective financial information contained herein. The City's independent auditors assume no responsibility for the content of the prospective financial information set forth in this Official Statement, disclaim any association with such prospective financial information, and have not, nor have any other independent auditors, expressed any opinion or any other form of assurance on such information or its achievability.

No dealer, broker, sales representative or any other person has been authorized by the City to give any information or to make any representation other than those contained in this Official Statement in connection with the offering it describes and, if given or made, such other information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than those described on the cover page and inside cover pages hereof, nor shall there be any offer to sell, solicitation of an offer to buy or sale of, the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information and opinions expressed herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of Midway since the date of this Official Statement. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the registered or beneficial owners of the Bonds.

In making an investment decision, investors must rely on their own examination of the terms of this offering, including the merits and the risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, no federal or state securities commission or regulatory authority has confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS. SPECIFICALLY, THE UNDERWRITERS MAY OVERALLOT IN CONNECTION WITH THE OFFERING, AND MAY BID FOR, AND PURCHASE, THE BONDS IN THE OPEN MARKET. THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS.

CITY OF CHICAGO
CHICAGO MIDWAY INTERNATIONAL AIRPORT
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OFFICIAL STATEMENT

\$342,395,000
CITY OF CHICAGO
Chicago Midway Airport
Second Lien Revenue and Revenue Refunding Bonds

\$121,265,000
Series 2016A (AMT)

\$221,130,000
Series 2016B (Non-AMT)

INTRODUCTION

This Official Statement is furnished by the City of Chicago (the “City”) to provide information regarding Chicago Midway International Airport (“Midway” or the “Airport”) and the City of Chicago, Chicago Midway Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2016A (AMT) to be issued in the aggregate principal amount of \$121,265,000 (the “2016A Bonds”) and the City of Chicago, Chicago Midway Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2016B (Non-AMT) to be issued in the aggregate principal amount of \$221,130,000 (the “2016B Bonds”, together with the 2016A Bonds, the “Bonds”). Certain capitalized terms used in this Official Statement, unless otherwise defined, are defined in APPENDIX A—“GLOSSARY OF TERMS.”

Authorization

The Bonds are issued under the authority granted to the City as a home rule unit of local government under the Illinois Constitution of 1970. The Bonds are issued pursuant to an ordinance adopted by the City Council on January 13, 2016 (the “Ordinance”) and pursuant to a Master Indenture of Trust Securing Chicago Midway Airport Second Lien Obligations, dated as of September 1, 1998, as supplemented and amended (the “Master Indenture” or the “Second Lien Indenture”), from the City to The Bank of New York Mellon Trust Company, N.A. (as successor to American National Bank and Trust Company of Chicago), Chicago, Illinois, as trustee (the “Second Lien Trustee” or the “Trustee”), including as supplemented by the Twenty-Third Supplemental Indenture, dated as of May 1, 2016 (the “Twenty-Third Supplemental Indenture”), providing for the issuance of the 2016A Bonds and the Twenty-Fourth Supplemental Indenture, dated as of May 1, 2016 (the “Twenty-Fourth Supplemental Indenture”), providing for the issuance of the 2016B Bonds.

Purpose

The proceeds of the Bonds are being used to: (i) pay the costs of certain Airport Projects (see “APPLICATION OF BONDS PROCEEDS—Airport Projects”) as described herein; (ii) refund prior to maturity the Refunded Bonds (see “APPLICATION OF BOND PROCEEDS—Refunding Plan”); (iii) capitalize a portion of the interest on the Bonds; (iv) fund a deposit to the Common Debt Service Reserve Sub-Fund; and (v) pay costs and expenses incidental thereto and to the issuance of the Bonds.

First Lien Bonds

The \$28,730,000 aggregate outstanding principal amount of Chicago Midway Airport Revenue Bonds, Refunding Series 1998C is the only remaining series of outstanding First Lien Bonds (the “*Outstanding First Lien Bonds*”) and has a final maturity date of January 1, 2024. The Outstanding First Lien Bonds are payable from Net Revenues of Midway on a parity with each other and any additional First Lien Bonds that may be issued hereafter under the Master Indenture of Trust Securing Chicago Midway Airport Revenue Bonds dated as of April 1, 1994, as amended and supplemented (the “*First Lien Indenture*”) from the City to The Bank of New York Mellon Trust Company, N.A. (as successor to American National Bank and Trust Company of Chicago), Chicago, Illinois, as trustee (the “*First Lien Trustee*”). Any additional First Lien Bonds that may be issued by the City, whether before or after the final maturity of the Outstanding First Lien Bonds, would have a priority over the Bonds. The Outstanding First Lien Bonds and any additional First Lien Bonds that may be issued hereafter under the First Lien Indenture are collectively referred to herein as the “*First Lien Bonds*.”

Second Lien Bonds; Security for the Bonds

After the issuance of the Bonds, and including the Bonds, the City will have \$1,752,875,000 aggregate principal amount of Second Lien Bonds (as defined below) outstanding, including the Chicago Midway Airport Second Lien Revenue Bonds, Series 2004C (AMT), and Series 2004D (Non-AMT), in the aggregate principal amount of \$132,200,000 (collectively, the “*Series 2004 Second Lien Bonds*”), as well as the Chicago Midway Airport Second Lien Revenue Bonds, Series 2010C, in the principal amount of \$62,385,000 (the “*Series 2010C Second Lien Bonds*”), the Chicago Midway Airport Second Lien Revenue Refunding Bonds, Series 2013A (AMT), the Series 2013B (Non-AMT) and the Series 2013C (Taxable) in the aggregate principal amount of \$319,375,000 (collectively the “*Series 2013 Second Lien Bonds*”), the Chicago Midway Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2014A (AMT), the Series 2014B (Non-AMT), and the Series 2014C (AMT) in the aggregate principal amount of \$896,520,000 (collectively the “*Series 2014 Second Lien Bonds*”). The Series 2004 Second Lien Bonds, Series 2010C Second Lien Bonds, the Series 2013 Second Lien Bonds, and the Series 2014 Second Lien Bonds are referred to collectively herein as the “*Outstanding Second Lien Bonds*.” The City expects to apply a portion of the net proceeds of the Bonds and other available funds to currently refund \$43,645,000 principal amount of Chicago Midway Airport Second Lien Revenue Bonds, Series 2004A (AMT) and Series 2004B (Non-AMT).

The Bonds are payable on a parity basis with the Outstanding Second Lien Bonds and any other Second Lien Obligations that may be issued hereafter under the Second Lien Indenture. The Bonds, the Outstanding Second Lien Bonds and any additional Second Lien Obligations that may be issued hereafter under the Second Lien Indenture are collectively referred to herein as the “*Second Lien Bonds*.”

The Second Lien Bonds are Junior Lien Obligations under the First Lien Indenture and are payable from amounts that may be withdrawn by the First Lien Trustee from the Junior Lien Obligation Debt Service Fund established under the First Lien Indenture (the “*Junior Lien Revenues*”) and transferred to the Second Lien Trustee for deposit in the Second Lien Revenue

Fund under the Second Lien Indenture (the “*Second Lien Revenues*”). The pledge of Junior Lien Revenues under the First Lien Indenture for the payment of Junior Lien Obligations is expressly junior and subordinate to the pledge of Net Revenues for the payment of First Lien Bonds. See “SECURITY FOR THE BONDS—Description of Revenues” and “—Flow of Funds from Revenues.”

The Bonds are limited obligations of the City payable solely from Second Lien Revenues and certain other moneys held by the Second Lien Trustee under the Second Lien Indenture. In order to secure the payment of the principal, premium, if any, and interest on Second Lien Obligations, including the Bonds, outstanding from time to time under the Second Lien Indenture, a pledge is made in the Second Lien Indenture of the Second Lien Revenues. See “SECURITY FOR THE BONDS” and APPENDIX B—“SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE.”

The City has entered into Amended and Restated Airport Use Agreements and Facilities Leases, dated as of January 1, 2013 (the “*Airport Use Agreements*”), with the following five airlines (each airline that has executed an Airport Use Agreement is referred to herein as a “*Signatory Airline*,” collectively the “*Signatory Airlines*”): Southwest Airlines Co. (“*Southwest*”), Delta Air Lines (and its other regional airline partners) (“*Delta*”), Frontier Airlines (“*Frontier*”), Porter Airlines (“*Porter*”) and Volaris Airlines (“*Volaris*”). Southwest, Delta, Porter, and Volaris constitute all the airlines currently operating scheduled service at Midway. The stated termination date of the Airport Use Agreements is December 31, 2027, subject to the right of the City or a Signatory Airline under certain circumstances to terminate its Airport Use Agreement prior to that date. See “CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY.”

The nature of the obligation of the Signatory Airlines to make payments to the City under the Airport Use Agreements is described in APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE AIRPORT USE AGREEMENTS—Airline Fees and Charges.” Certain Outstanding Second Lien Bonds mature after the stated termination date of the Airport Use Agreements. Following the termination of the Airport Use Agreements, there is no assurance that any airline using Midway will be contractually obligated to make payments including, among other things, debt service on the Outstanding Second Lien Bonds. See “SECURITY FOR THE BONDS,” APPENDIX B—“SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE” and APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE AIRPORT USE AGREEMENTS.”

Also, in accordance with the Airport Use Agreements, the Signatory Airlines are required to approve the issuance of the Bonds by a Majority-In-Interest (as defined in APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE AIRPORT USE AGREEMENTS”). On May 3, 2016, the Signatory Airlines approved the issuance of the Bonds by a Majority-In-Interest.

The Bonds are not general obligations of the City and do not constitute an indebtedness or a loan of credit of the City within the meaning of any constitutional or statutory limitation, and neither the faith and credit nor the taxing power of the State of Illinois (the “*State*”), the City or

any other political subdivision of the State is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not payable in any manner from revenues raised by taxation. No property of the City (including property located at Midway) is pledged as security for the Bonds.

Obligations Subordinate to the Bonds

In October 2003, the City established a Commercial Paper Program (the “*CP Program*”) providing for the issuance, from time to time, of Commercial Paper Notes (the “*CP Notes*”) in an aggregate principal amount outstanding at any one time of not to exceed \$150,000,000. By adoption of an ordinance on March 13, 2013, the City increased the aggregate principal amount authorized to be issued and outstanding at one time under the CP Program from \$150,000,000 to \$250,000,000. The City has obtained credit support for the CP Notes in an amount not to exceed \$85,000,000. The CP Notes are authorized to be issued for payment, or the reimbursement of the City for the payment, of the cost of all or any portion of capital projects at or related to Midway, cash flow needs at Midway, the refunding of general airport revenue bonds and special facility revenue bonds and the payment of the costs of issuance of CP Notes. The CP Notes are subordinate to all other Airport Obligations, including the Second Lien Bonds, with respect to their claim on Revenues. As of the date of this Official Statement, there are no outstanding CP Notes. See “MIDWAY FINANCIAL INFORMATION—Midway Indebtedness—*Commercial Paper*.”

Chicago Midway International Airport

Midway, which is located ten miles southwest of the City’s central business district, began operations in 1927 and is an integral component of Chicago’s transportation infrastructure. According to statistics compiled by Airports Council International (“*ACI*”) in 2014, the latest full calendar year for which national (U.S. Department of Transportation) data is available, Midway was the 25th most active airport in the United States, measured in terms of total passengers. Total commercial enplanements at Midway grew at an average compound growth rate of 4.2% from 2008 to 2015 and totaled 11,003,697¹ in 2015. In 2015, enplaned passengers at Midway were 4.8% higher than 2014.

Midway is served primarily by airlines that generally provide low-fare, point-to-point origination and destination (“*O&D*”) passenger service, with Southwest² accounting for approximately 93.4% of commercial enplaned passengers³ at Midway in 2015. In 2015, Southwest enplaned 20.8% of airline passengers in the Chicago metropolitan market (Southwest’s share of total U.S. enplanements through July 2015 was 18.4%⁴) and represented 57.0% of Midway operating revenues. Its passengers accounted for approximately 92.4% of Passenger Facility Charges (“*PFC*”) collected at Midway in 2015. See “SECURITY FOR THE

¹ Excludes general aviation, military, helicopter and miscellaneous passengers included in the Chicago Department of Aviation management records.

² The FAA issued Southwest and AirTran Holdings, Inc., the former parent company of AirTran Airways, Inc. (“*AirTran*”), a single operating certificate in March 2012. Southwest and AirTran completed the integration of their operations on December 28, 2014.

³ Excludes general aviation, military, helicopter and miscellaneous passengers included in the Chicago Department of Aviation management records.

⁴ U.S. Department of Transportation T100 Data (accessed January 2016).

BONDS–Airport Use Agreements,” “CHICAGO MIDWAY INTERNATIONAL AIRPORT–Activity at Midway,” “CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY–Effect of Airline Bankruptcy,” and APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT.”

Events and Factors Affecting the Airline Industry

The financial performance of the airline industry generally has correlated with the strength of the national economy. In addition, other events and factors, such as fluctuating fuel costs, impact the airline industry in general. For a more complete discussion of events and factors impacting Midway and the airlines that use Midway, see “CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY.”

Other Chicago Region Airports

The City also operates, through its Chicago Department of Aviation (“CDA”), Chicago O’Hare International Airport (“O’Hare”). Based upon data from ACI for 2014, O’Hare ranked first in the United States for total aircraft operations, and third in the United States in terms of total passengers. On April 15, 1995, the City and the City of Gary, Indiana entered into an interstate compact (the “Compact”), which established the Chicago/Gary Regional Airport Authority (the “Chicago-Gary Authority”) to oversee and support Midway, O’Hare, Merrill C. Meigs Field¹ (“Meigs Field”) and the Gary/Chicago International Airport, to evaluate jointly the bi-state region’s need for additional airport capacity and to coordinate and plan for the continued development, enhancement and operation of such airports and the development of any new airport serving the bi-state region. Gary/Chicago International Airport is owned by the City of Gary, Indiana and operated by the Gary/Chicago International Airport Authority (the “Gary/Chicago Authority”).

Report of the Airport Consultant

The Report of the Airport Consultant (the “*Report of the Airport Consultant*”), prepared by Ricondo & Associates, Inc., the City’s airport consultant (the “*Airport Consultant*”), included as APPENDIX F, evaluates aviation activity at Midway and presents a financial feasibility analysis for Midway. The Report of the Airport Consultant is described more fully under the caption “AIRPORT CONSULTANT” herein.

The Report of the Airport Consultant should be read in its entirety for a complete understanding of the projections and underlying assumptions. As noted below under “INTRODUCTION–Forward-Looking Statements,” any projection is subject to uncertainties, including the possibility that some of the assumptions used to develop the projections will not be realized and that unanticipated events and circumstances will occur. Accordingly, there are likely to be differences between projections and actual results, which differences could be material. See APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT.”

¹ As of March 2003, Meigs Field is no longer operational.

Forward-Looking Statements

All statements other than statements of historical facts included in this Official Statement are forward-looking statements, including, without limitation: (a) statements concerning projections of future passenger activity at Midway and of future financial performance at Midway; (b) statements of the plans and objectives of the City in relation to the Airport's CIP (as defined herein) (See "CHICAGO MIDWAY INTERNATIONAL AIRPORT" and "2016-2022 CAPITAL IMPROVEMENT PROGRAM"); and (c) assumptions relating to the statements described in clauses (a) and (b) above (collectively, the "*Forward-Looking Statements*").

Projections. The projections set forth in this Official Statement were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the City's management, were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of Midway. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information. Neither the City's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability. Such parties assume no responsibility for, and disclaim any association with, the prospective financial information.

The City has included the Report of the Airport Consultant, based upon the Airport Consultant's expertise in the aviation industry. The Airport Consultant believes that the expectations reflected in the Forward-Looking Statements are reasonable. However, there can be no assurance that the expectations contained in the Forward-Looking Statements, including those set forth in the Report of the Airport Consultant, will be achieved. Important factors that could cause actual results to differ materially from the current expectations of the Airport Consultant are discussed in this Official Statement.

Glossary of Terms; Document Summaries

This Official Statement contains summaries of the terms of and security for the Bonds, together with descriptions of Midway and its operations. A Glossary of Terms is included as APPENDIX A, a summary of certain provisions of the Second Lien Indenture is included as APPENDIX B and a summary of certain provisions of the Airport Use Agreements is included as APPENDIX C. APPENDIX A—"GLOSSARY OF TERMS" contains terms of general applicability, which are used herein, and terms related to the Second Lien Indenture and the Airport Use Agreements as set forth therein. All references herein to agreements and documents are qualified in their entirety by references to the definitive forms of the agreement or document. All references to the Bonds are further qualified by references to the information with respect to them contained in the Second Lien Indenture.

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Second Lien Indenture for all of the provisions relating to the Bonds. The discussion herein is qualified by such reference.

General

The Bonds will be dated the date of delivery and mature on January 1 of the years and in the principal amounts shown on the inside front cover pages hereof. The Bonds will bear a fixed rate of interest until their final maturity or earlier redemption payable on January 1 and July 1 in each year, commencing July 1, 2016, at the rates *per annum* set forth on the front inside cover pages hereof.

Certain of the Bonds will be subject to redemption as described below under the subcaption “–Redemption Provisions.”

The Bonds will be offered only as fully registered bonds without coupons in denominations of \$5,000 and any integral multiple thereof (each, an “*Authorized Denomination*”). The principal of and premium, if any, on all Bonds shall be payable at the designated corporate trust office of the Second Lien Trustee in Chicago, Illinois upon the presentation and surrender of the Bonds as the same become due and payable. The interest on the Bonds shall be paid by check drawn upon the Second Lien Trustee and mailed to the persons in whose names the Bonds are registered at their addresses as they appear on the registration books maintained by the Bond Registrar at the close of business on the Record Date next preceding each Interest Payment Date or at such other address as is furnished in writing by such owner to the Bond Registrar. Interest on the Bonds shall be paid by wire transfer to any registered owner who at the close of business on such Record Date has given written notice of his or her wire transfer address in the continental United States to the Bond Registrar prior to such Record Date (which notice may provide that it will remain in effect until revoked), provided that each such wire transfer shall only be made with respect to an owner of \$1,000,000 or more in aggregate principal amount of the Bonds as of the close of business on such Record Date.

The Bonds will be initially registered through a book-entry only system operated by The Depository Trust Company, New York, New York (“*DTC*”). Details of payments of the Bonds when in the book-entry form and the book-entry only system are described below under the subcaption “–Book-Entry Only System.” Except as described under the subcaption “–Book-Entry Only System” below, beneficial owners of the Bonds will not receive or have the right to receive physical delivery of Bonds, and will not be or be considered under the Second Lien Indenture to be the Registered Owners thereof. Accordingly, beneficial owners must rely upon (i) the procedures of DTC and, if such beneficial owner is not a DTC Participant, the DTC Participant who will act on behalf of such beneficial owner to receive notices and payments of principal and interest on the Bonds and to exercise voting rights, and (ii) the records of DTC and, if such beneficial owner is not a DTC Participant, such beneficial owner’s DTC Participant, to evidence its beneficial ownership of Bonds. As long as DTC or its nominee is the Registered Owner of Bonds, references herein to Bondholders or Registered Owners of such Bonds shall mean DTC or its nominee and shall not mean the beneficial owners of such Bonds.

Redemption Provisions

The Bonds shall be subject to redemption prior to their Maturity Dates in the amounts, at the times and in the following manner:

Optional Redemption

The Series 2016A Bonds maturing on or after January 1, 2027 are subject to redemption, at the option of the City, on or after January 1, 2026, as a whole or in part at any time, and if in part, in such order of maturity as the City shall determine and by lot with respect to Series 2016A Bonds of the same maturity and interest rate, at the Redemption Price of 100% of the principal amount of such Series 2016A Bonds or portions thereof to be redeemed, together with accrued interest to the redemption date.

The Series 2016B Bonds maturing on or after January 1, 2033 are subject to redemption, otherwise than from mandatory Sinking Fund Payments, at the option of the City, on or after January 1, 2026, as a whole or in part at any time, and if in part, in such order of maturity as the City shall determine and by lot with respect to Series 2016B Bonds of the same maturity and interest rate, at the Redemption Price of 100% of the principal amount of such Series 2016B Bonds or portions thereof to be redeemed, together with accrued interest to the redemption date.

Notice of any such optional redemption shall be given by the Trustee by first class mail not fewer than 30 nor more than 60 days prior thereto to the registered owners of the Bonds. Failure to mail any such notice to the registered owner of any Bond or any defect therein shall not affect the validity of the proceedings for such redemption of Bonds.

Mandatory Redemption

The 2016B Bonds maturing on January 1, 2041 (the “2041 Term Bonds”) are subject to mandatory redemption, in part by lot as provided in the Second Lien Indenture from mandatory Sinking Fund Payments, on January 1 in each of the years and in the respective principal amounts set forth below, at a redemption price equal to the principal amount thereof to be redeemed:

<u>YEAR</u>	<u>PRINCIPAL AMOUNT</u>
2038	\$13,350,000
2039	14,015,000
2040	14,715,000
2041*	15,450,000

*Final maturity

The 2016B Bonds maturing on January 1, 2046 (the “2046 Term Bonds” and, together with the 2041 Term Bonds, the “2016B Term Bonds”) are subject to mandatory redemption, in part by lot as provided in the Second Lien Indenture from mandatory Sinking Fund Payments, on

January 1 in each of the years and in the respective principal amounts set forth below, at a redemption price equal to the principal amount thereof to be redeemed:

<u>YEAR</u>	<u>PRINCIPAL AMOUNT</u>
2042	\$16,225,000
2043	17,035,000
2044	17,890,000
2045	18,785,000
2046*	19,720,000

*Final maturity

If the City redeems 2016B Term Bonds pursuant to optional redemption or purchases 2016B Term Bonds subject to mandatory redemption and cancels the same, then an amount equal to the principal amount of 2016B Term Bonds so redeemed or purchased shall be deducted from the mandatory redemption requirements as provided for the 2016B Term Bonds in such order as an Authorized Officer of the City shall determine or, in the absence of such determination in inverse order of such mandatory redemption requirements.

Amounts accumulated in the Series 2016B Dedicated Sub-Fund or other amounts delivered to the Trustee for such purpose may, and if so directed by the City shall, be applied by the Trustee, on or prior to the 45th day before the payment date of a Sinking Fund Payment, to the purchase of the 2016B Term Bonds for which such Sinking Fund Payment is to be made in an amount not exceeding that amount necessary to complete the retirement of the unsatisfied balance of the 2016B Term Bonds payable from such Sinking Fund Payment on such payment date. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any 2016B Term Bonds so purchased shall not exceed the Sinking Fund redemption price of such 2016B Term Bonds applicable upon its redemption on such payment date. Any 2016B Term Bonds so purchased shall be canceled and the applicable Sinking Fund redemption price thereof shall be credited against the applicable Sinking Fund Payment due on the next payment date.

General Provisions Regarding Redemptions

In case a Bond is of a denomination larger than the minimum Authorized Denomination, all or a portion of such Bond (equal to the minimum Authorized Denomination or any integral multiple thereof) may be redeemed but such Bond shall be redeemed only in a principal amount equal to the minimum Authorized Denomination or any integral multiple thereof.

Selection of Bonds to Be Redeemed. In the event DTC is the sole registered owner of the Bonds, redemption of the Bonds will be done in accordance with the procedures of DTC.

The particular maturities of Bonds to be redeemed at the option of the City will be determined by the City in its sole discretion.

If less than all the Bonds shall be called for redemption under any provision of the respective Supplemental Indenture permitting such partial redemption, the particular Bonds or portions thereof to be redeemed shall be selected in such order of maturity as the City shall determine and within any maturity by lot. In selecting Bonds for redemption, the Second Lien Trustee shall treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by the minimum Authorized Denomination. If it is determined that one or more, but not all, of the integral multiples of the Authorized Denomination of principal amount represented by any Bond is to be called for redemption, then, upon notice of intention to redeem such integral multiple of an Authorized Denomination, the Registered Owner of such Bond shall forthwith surrender such Bond to the Second Lien Trustee for (a) payment to such Registered Owner of the redemption price of the integral multiple of the Authorized Denomination of principal amount called for redemption, and (b) delivery to such Registered Owner of a new Bond or Bonds in the aggregate principal amount of the unredeemed balance of the principal amount of such Bond. New Bonds representing the unredeemed balance of the principal amount of such Bond shall be issued to the Registered Owner thereof without charge therefor.

Notice of Redemption

Notice of the redemption of Bonds or any portion thereof identifying the Bonds or portions thereof to be redeemed, specifying the redemption date, the Redemption Price, the places and dates of payment and that from the redemption date interest will cease to accrue, shall be given by the Second Lien Trustee by mailing a copy of such redemption notice by first class mail not less than 30 nor more than 60 days prior to the date fixed for redemption, to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the registration books. Such notice shall specify the redemption date, the Redemption Price, the place and manner of payment, and that from the redemption date interest will cease to accrue on the Bonds which are the subject of such notice, and shall include such other information as the Second Lien Trustee shall deem appropriate or necessary at the time such notice is given to comply with any applicable law, regulation or industry standard. Failure to mail any such notice to the Registered Owner of any Bond or any defect therein shall not affect the validity of the proceedings for such redemption of Bonds. A notice of optional redemption may be conditional as to the deposit of funds or other matters on the redemption date and failure to deposit funds or meet such other conditions shall not constitute an event of default.

In addition to the foregoing requirements, each notice of redemption of Bonds shall specify (i) the series name and designation and certificate numbers of the Bonds being redeemed, (ii) the CUSIP numbers of the Bonds being redeemed, (iii) the principal amount of the Bonds being redeemed and the redeemed amount for each certificate (for partial calls), (iv) the redemption date, (v) the Redemption Price, (vi) the Date of Issuance, (vii) the interest rate and Maturity Date of the Bonds being redeemed, (viii) the date of mailing of notices to Registered Owners and information services, and (ix) the name of the employee of the Second Lien Trustee that may be contacted with regard to such notice. A copy of each such notice shall be sent by registered mail, telecopier or overnight delivery service to the Securities Depository with the intention that it be received at least two days prior to the date of mailing of notices to Registered Owners. Failure to give notice in the prescribed manner with respect to any Bond, or any defect in such notice, shall not affect the validity of the proceedings for redemption for any Bond with

respect to which notice was properly given. Upon the happening of the above conditions and if sufficient moneys are on deposit with the Second Lien Trustee on the applicable redemption date to redeem the Bonds to be redeemed and to pay interest due thereon and premium, if any, the Bonds thus called shall not, after the applicable redemption date, bear interest, be protected by the Second Lien Indenture or be deemed to be outstanding under the provisions of the Second Lien Indenture.

Book-Entry Only System

General. The following information has been furnished by DTC for use in this Official Statement and neither the City nor the Underwriters takes any responsibility for its accuracy or completeness. The DTC Omnibus Proxy record date, as such term is used under this subcaption, is not, and has no relation to, the “*Record Date*” as defined in APPENDIX A—“GLOSSARY OF TERMS” and used in this Official Statement.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“*Direct Participants*”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“*DTCC*”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“*Indirect Participants*”). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the offered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each offered Bond (“*Beneficial Owner*”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive

written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Second Lien Trustee and request that copies of the notices be provided directly to them.

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

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

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Second Lien Trustee, on the payment date

in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the City or the Second Lien Trustee, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City and the Second Lien Trustee; disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The City may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, certificates for the Bonds will be printed and delivered.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Second Lien Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates for the Bonds are required to be printed and delivered.

For every transfer and exchange of the Bonds, the Second Lien Trustee and DTC and the Participants may charge the Beneficial Owner a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

The City and the Second Lien Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than an owner, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any Participant or any other person, other than an owner, of any amount with respect to principal of or interest on the Bonds.

Effect on Bonds of Discontinuance of Book-Entry System. The following two paragraphs apply to the Bonds only when they are not in the book-entry system:

The Bonds will be issuable as fully registered bonds in denominations that are integral multiples of \$5,000. Exchanges and transfers will be made without charge to the Registered Owners, except that the Second Lien Trustee may require the payment by the Registered Owner requesting exchange or transfer of any tax or governmental charge required to be paid with respect thereto.

Principal of and interest on the Bonds will be payable upon presentation and surrender when due at the principal corporate trust office of the Second Lien Trustee. Interest on the Bonds will be payable by check mailed to persons in whose names they are registered at the close of business on the Record Date next preceding each Interest Payment Date. The Record Date for the Bonds will be June 15 and December 15 prior to each July 1 and January 1,

respectively. At the request of any Registered Owner of not less than \$1,000,000 principal amount of the Bonds of a Series, all payments to such Registered Owner with respect to such Bonds shall be made by wire transfer to any address in the continental United States on the applicable Payment Date, if such Registered Owner provides the Second Lien Trustee with written notice of such wire transfer address prior to the applicable Record Date (which notice may provide that it will remain in effect with respect to subsequent Interest Payment dates unless and until changed or revoked by subsequent notice).

Notwithstanding the foregoing, so long as records of ownership of the Bonds are maintained through the book-entry only system described below, all payments to the Beneficial Owners of the Bonds will be made in accordance with the procedures described above under “–Book-Entry Only System.”

SECURITY FOR THE BONDS

General

The Bonds and the obligation to pay interest thereon are not general obligations of the City and do not constitute an indebtedness or a loan of credit of the City, the State or any political subdivision thereof within the meaning of any constitutional or statutory limitation of the State. Neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof is pledged for the payment of the principal of or interest on the Bonds. No property of Midway is pledged as security for the Bonds, except for the Second Lien Revenues and certain other moneys pledged under the Second Lien Indenture.

The Second Lien Bonds, including the Bonds, and any future Second Lien Obligations issued pursuant to the Second Lien Indenture, are secured by, and payable from, Second Lien Revenues pledged and assigned to the payment thereof. See “–Description of Revenues” below.

The Second Lien Indenture authorizes the issuance of Second Lien Obligations without limitation as to amount (except as may be limited by law) for the purpose of financing or refinancing Airport Projects. Under the Second Lien Indenture such Second Lien Obligations are secured by, and payable solely from, Junior Lien Revenues authorized to be withdrawn by the First Lien Trustee from the Junior Lien Obligation Debt Service Fund established by the First Lien Indenture and transferred to the Second Lien Trustee for deposit in the Second Lien Revenue Fund under the Second Lien Indenture. See “–Flow of Funds from Revenues” below. Second Lien Obligations include (i) bonds, notes or evidences of indebtedness issued by the City under the Second Lien Indenture, (ii) obligations incurred by the City to reimburse any issuer of a letter of credit or surety bond securing Second Lien Obligations, as more fully described in the definition of “*Section 208 Obligations*” in APPENDIX A–“GLOSSARY OF TERMS” and in APPENDIX B–“SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE–Authorization of the Second Lien Bonds and Other Second Lien Obligations,” and (iii) any obligations incurred by the City to any Swap Provider, as more fully described in the definition of “*Section 209 Obligations*” in APPENDIX A–“GLOSSARY OF TERMS” and in APPENDIX B–“SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE–Authorization of the Second Lien Bonds and Other Second Lien Obligations.”

Such Junior Lien Revenues when paid by the First Lien Trustee to the Second Lien Trustee for deposit into the Second Lien Revenue Fund created under the Second Lien Indenture constitute Second Lien Revenues. Pursuant to the Second Lien Indenture, such Second Lien Revenues are pledged to the payment of the principal of, premium, if any, and interest on all Second Lien Obligations (including the Bonds) without priority of distinction of one series of Second Lien Obligations over any other series of Second Lien Obligations.

In order to provide for the deposit into the Junior Lien Obligation Debt Service Fund of sufficient funds to satisfy the deposit requirements set forth in any resolution, ordinance or indenture securing Second Lien Obligations, the City is required, upon the issuance of each series of Second Lien Obligations and thereafter as may be necessary to reflect changes in such deposit requirements, to file with the First Lien Trustee a certificate setting forth the dates on which Second Lien Revenues are required to be withdrawn from the Junior Lien Obligation Debt Service Fund and deposited with the Second Lien Trustee and the amounts of such withdrawals to the extent determinable. Upon receipt by the Second Lien Trustee, Second Lien Revenues are required to be deposited into the Second Lien Revenue Fund and segregated within the Second Lien Revenue Fund into such sub-funds, accounts and sub-accounts as may have been established for the benefit of outstanding series of Second Lien Obligations. For a general description of the application of Revenues, see “–Flow of Funds from Revenues–Payment of Debt Service on the Bonds and Swap Payments,” below, and APPENDIX B–“SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE–Source of Payment; Pledge of Second Lien Revenues.”

The Second Lien Indenture permits the City, at its option, to transfer to the Second Lien Trustee Other Available Moneys, as described below, to pay the principal of and interest on the Bonds. See “–Other Available Moneys” below.

Proposed Amendment to the Second Lien Indenture

In 2010, the City proposed an amendment (the “*2010 Amendment*”) to the Second Lien Indenture that, upon a determination by the City to present such amendment to the Second Lien Trustee and compliance with the requirements for amending the Second Lien Indenture, would remove from the Second Lien Indenture the series of conditions that would have to be satisfied before any sale, conveyance, mortgage, encumbrance or other disposition, directly or indirectly, of all or substantially all of the Airport or the transfer, directly or indirectly, of control, management or any material aspect of control, management or oversight of the Airport (collectively, a “*Sale or Transfer*”) could occur. These restrictions are described in APPENDIX B–“SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE–Sale or Transfer of Airport” (the “*Sale or Transfer Restrictions*”).

The 2010 Amendment will not take effect unless and until (among other things) the City satisfies each of the conditions required by the Second Lien Indenture as described in APPENDIX B–“SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE–Supplemental Indentures”, including obtaining approval from the Owners of a majority in principal amount of the Outstanding Second Lien Bonds, approval from the providers of credit support for certain of the Outstanding Second Lien Bonds and filing a certificate of effectiveness with the Second Lien Trustee. Pursuant to the Supplemental Indentures

authorizing each series of the Bonds, the Owners of the Bonds upon issuance of the Bonds shall be deemed to have consented to the 2010 Amendment.

After the issuance of the Bonds, 100% of all Owners of the Outstanding Second Lien Bonds will have consented to the 2010 Amendment. However, the City has not to date elected to implement the 2010 Amendment, requested consent from the providers of credit support for certain of the Outstanding Second Lien Bonds (e.g., bond insurers or letter of credit banks) to the 2010 Amendment, or certified its effectiveness to the Second Lien Trustee.

Description of Revenues

Under the Second Lien Indenture “*Revenues*” consist of all amounts received or receivable, directly or indirectly, by the City for the use and operation of, or with respect to Midway, excluding, however: (a) PFC revenue, or any similar charges levied by or on behalf of the City (including CFC revenues), and investment income thereon; (b) any grants, gifts, bequests, contributions or donations; (c) the proceeds from the sale, transfer or other disposition by the City of title to all or any part of Midway; (d) the proceeds of any taxes collected at Midway; (e) the proceeds of any condemnation awards or insurance proceeds, except to the extent such moneys are deemed to be revenues in accordance with generally accepted accounting principles (“*GAAP*”); (f) the proceeds of any court or arbitration award or settlement in lieu thereof, except to the extent such moneys are deemed to be revenues in accordance with generally accepted accounting principles or constitute reimbursements for previously incurred O&M Expenses; (g) any amounts derived by the City with respect to debt service on Special Facility Revenue Bonds; (h) the proceeds of any bonds or other indebtedness of the City; (i) payments of principal and interest on any loans made by the City for Airport purposes; (j) investment income on moneys held in the Construction Fund, the Special Project Fund, the Emergency Reserve Fund and the Airport Development Fund; and (k) any other amounts that are not deemed to be revenues in accordance with GAAP or that are restricted as to their use. For a complete definition of “*Revenues*,” see APPENDIX A–“GLOSSARY OF TERMS.”

For a general description of the application of Revenues, and the application of Second Lien Revenues under the Second Lien Indenture, see “–Flow of Funds from Revenues, and “–Payment of Debt Service on the Bonds and Swap Payments,” below, and APPENDIX B–“SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE–Source of Payment; Pledge of Second Lien Revenues.”

Other Available Moneys

“*Other Available Moneys*” includes, for any Fiscal Year, the amount of money determined by the Chief Financial Officer to be transferred by the City for such Fiscal Year from sources other than Revenues to the First Lien Revenue Fund, the First Lien Debt Service Fund or any debt service fund for Second Lien Obligations. As noted above, PFC revenues do not constitute Revenues as defined in the Second Lien Indenture and are not pledged to, or held by, the Second Lien Trustee for the benefit of the owners of the Bonds. However, the City expects that to the extent that PFC revenues are available to the City in each Fiscal Year, the City will transfer to the Second Lien Trustee for deposit into the respective Dedicated Sub-Funds as Other

Available Moneys PFC revenues to pay PFC-eligible debt service on the Bonds and on Outstanding Airport Obligations, although the City is under no obligation to do so.

The Series 2010C Second Lien Bonds are additionally secured by a pledge of CFC revenues relating to the Midway consolidated rental car facility that opened in April 2013. The CFC revenues constitute Other Available Moneys under the Indenture and have been pledged only to the payment of debt service on the Series 2010C Second Lien Bonds.

Flow of Funds from Revenues

Revenues and expenses of Midway are accounted for as a separate enterprise fund of the City subject to the provisions of the First Lien Indenture and the Airport Use Agreements. Under the First Lien Indenture, all Revenues are collected by the City and, after monthly deposits by the City into the O&M Fund of an amount equal to one-twelfth of the O&M Expense Projection for the current Fiscal Year, promptly deposited to the credit of the First Lien Revenue Fund in the name of the First Lien Trustee. The First Lien Trustee is accountable only for moneys so deposited.

The First Lien Indenture creates the First Lien Revenue Fund, the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund and the Junior Lien Obligation Debt Service Fund to be held and administered by the First Lien Trustee. The City further agrees under the First Lien Indenture to establish and maintain as required by the Airport Use Agreements, an O&M Fund, a Special Project Fund, an O&M Reserve Account, a Working Capital Account, a Repair and Replacement Fund, an Emergency Reserve Fund and an Airport Development Fund.

Monthly Deposits. On the tenth day of each month the First Lien Trustee shall make the following deposits and transfers from amounts on deposit in the First Lien Revenue Fund in the manner and order of priority set forth below:

First: into the First Lien Debt Service Fund the amount, if any, needed to increase the amount in the First Lien Debt Service Fund so that it equals the amount of money obtained by aggregating the several sums, computed with respect to the Outstanding First Lien Bonds of each Series, of (i) certain accrued and unpaid principal and interest due on First Lien Bonds, and (ii) the amount, if any, specified in a certificate filed with the First Lien Trustee in order to provide funds to pay amounts due and owing to the issuer of any Reserve Fund Asset.

Second: to the City for deposit into the O&M Reserve Account an amount equal to one-twelfth of the O&M Reserve Account Deposit Requirement, which is the amount required in each Fiscal Year to increase the amount on deposit in the O&M Reserve Account to an amount equal to one-sixth of the O&M Expense Projection for such Fiscal Year.

Third: to the City for deposit into the Working Capital Account. As there is no current deposit requirement for the Working Capital Account under the Airline Use Agreements, the City has directed the First Lien Trustee to suspend deposits to the Working Capital Account, which direction may be revoked at any time.

Semi-Annual Deposits. On the Business Day immediately preceding the first and the 182nd day of a Fiscal Year, the First Lien Trustee shall make the following deposits and transfers from amounts on deposit in the First Lien Revenue Fund in the manner and order of priority set forth below:

First: into the First Lien Debt Service Reserve Fund the amount, if any, necessary to increase the amount on deposit therein to an amount equal to the First Lien Debt Service Reserve Fund Requirement for First Lien Bonds under the First Lien Indenture.

Second: into the Junior Lien Obligation Debt Service Fund an amount, if any, equal to the amount required by any resolution or ordinance authorizing the issuance of Junior Lien Obligations to be deposited therein on such date and without priority, one over the other, to any Accounts within the Junior Lien Obligation Debt Service Fund, as specified by a Certificate filed with the First Lien Trustee. Deposits will be made to this Fund for transfer to the Second Lien Trustee to pay debt service on the Bonds, to pay Section 208 Obligations or Section 209 Obligations and to restore the amount held in the Common Debt Service Reserve Sub-Fund to the Reserve Requirement. See “–Payment of Debt Service on the Bonds and Swap Payments,” below.

Third: to the City for deposit into the Repair and Replacement Fund an amount equal to one-half of the Repair and Replacement Fund Deposit Requirement, which requirement for each Fiscal Year shall be \$1.0 million adjusted for each Fiscal Year by multiplying the amount of the Repair and Replacement Fund Deposit Requirement for the prior Fiscal Year by a factor of one plus the percentage increase, if any, in the Producer Price Index during the most recently ended 12-month period for which the Producer Price Index is available. As permitted under the First Lien Indenture, the City has directed the First Lien Trustee to suspend deposits to the Repair and Replacement Fund, which direction may be revoked at any time.

Fourth: to the City for deposit into the Emergency Reserve Fund an amount equal to one-half of the Emergency Reserve Fund Deposit Requirement, which requirement shall be the amount required to be deposited in the Emergency Reserve Fund so that the amount held therein will equal for each Fiscal Year, the required balance for the prior Fiscal Year (which was established at \$250,000 for the Fiscal Year ended December 31, 1994) plus the percentage increase, if any, in the Producer Price Index during the most recently ended 12-month period for which the Producer Price Index is available.

Fifth: to the City for deposit into the Special Project Fund the amount specified by the City in a certificate filed with the First Lien Trustee as the amount to be deposited at such time in such Fund.

Sixth: to the City for deposit into the Airport Development Fund the amount specified by the City in a certificate filed with the First Lien Trustee as the amount to be deposited at such time in such Fund.

If at the time deposits are required to be made as described above, the moneys held in the First Lien Revenue Fund are insufficient to make any required deposit, then the deposit shall be made up on the next applicable deposit date from amounts in the First Lien Revenue Fund after required deposits into all other Funds and Accounts having a higher priority shall have been made in full.

At the end of each Fiscal Year amounts on deposit in the O&M Fund, the First Lien Debt Service Fund, the First Lien Debt Service Reserve Fund and the Junior Lien Obligation Debt Service Fund in excess of the amount required under the First Lien Indenture or under any ordinance or resolution authorizing the issuance of Junior Lien Obligations to be on deposit in such Fund at the end of such Fiscal Year shall be transferred to the First Lien Revenue Fund.

Payment of Debt Service on the Bonds and Swap Payments. The Second Lien Indenture creates the Second Lien Revenue Fund to be held and administered by the Second Lien Trustee. The City is required to file with the First Lien Trustee, upon the issuance of each series of Second Lien Obligations (including the Bonds), an executed counterpart of the Supplemental Indenture creating such series and a certificate stating the dates on which amounts on deposit in the Junior Lien Obligation Debt Service Fund are to be withdrawn therefrom by the First Lien Trustee and paid to the Second Lien Trustee, and the amounts of such withdrawals to the extent determinable, and containing a direction of the City to the First Lien Trustee to withdraw from the Junior Lien Obligation Debt Service Fund and pay to the Second Lien Trustee the amounts, and on the dates, specified in such certificate. The Second Lien Trustee shall deposit such payments in the Second Lien Revenue Fund. The moneys in the Second Lien Revenue Fund shall be disbursed and applied by the Second Lien Trustee as required by the provisions of any Supplemental Indenture creating a series of Second Lien Obligations (including the Twenty-Third Supplemental Indenture and Twenty-Fourth Supplemental Indenture), by the Nineteenth Supplemental Indenture with respect to the Common Debt Service Reserve Sub-Fund or by any instrument creating Section 208 or Section 209 Obligations. The Second Lien Trustee shall segregate within the Second Lien Revenue Fund and credit to such sub-funds, accounts and sub-accounts therein as may have been created for the benefit of such series of Second Lien Obligations and such Section 208 and Section 209 Obligations in such Supplemental Indenture such amounts as may be required to be so credited under the provisions of such Supplemental Indenture or instrument creating Section 208 or Section 209 Obligations to pay the principal of and interest on such Second Lien Obligations and satisfy such Section 208 Obligations and Section 209 Obligations.

Moneys on deposit in the respective Dedicated Sub-Funds, and in each account established therein, are to be held in trust by the Second Lien Trustee solely for the benefit of the Registered Owners of the respective series of Bonds. The specific accounts established in the Dedicated Sub-Funds, and the deposit requirements for each such account, are more fully described in APPENDIX B–“SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE–Payment of Debt Service on the Bonds and Related Section 208 and Section 209 Obligations.”

FLOW OF FUNDS DIAGRAM



⁺ Amount on deposit at year-end in excess of amount required to be on deposit for such Fiscal Year under the First Lien Indenture or any ordinance or resolution authorizing the issuance of Junior Lien Obligations at year-end shall be transferred to the First Lien Revenue Fund.

⁺⁺ As there is no current deposit requirement for the Working Capital Account under the Airline Use Agreements, the City has directed the First Lien Trustee to suspend deposits to the Working Capital Account, which direction may be revoked at any time.

Source: City of Chicago, Department of Aviation.

This chart represents a simplified description of disbursements from the Revenue Fund. For a detailed description of the disbursements from the First Lien Revenue Fund, see “SECURITY FOR THE BONDS—Flow of Funds,” above.

Rate Covenant

The City covenants in the Second Lien Indenture that it will fix and establish, and revise from time to time whenever necessary, such rentals, rates and other charges for the use and operation of Midway and for certain services rendered by the City in the operation thereof in order that in each Fiscal Year, Revenues, together with Other Available Moneys deposited with the First Lien Trustee or the Second Lien Trustee with respect to such Fiscal Year and any cash balance held in the First Lien Revenue Fund or the Second Lien Revenue Fund on the first day of such Fiscal Year not then required to be deposited in any Fund or Account under the First Lien Indenture or the Second Lien Indenture, will be at least sufficient:

- (a) to provide for the payment of O&M Expenses for the Fiscal Year, and
- (b) to provide for the *greater* of paragraph (i) or (ii) as follows:
 - (i) the greater of the amounts needed to make the deposits required under the First Lien Indenture during such Fiscal Year into the First Lien Debt Service Fund, the O&M Reserve Account, the Working Capital Account, the First Lien Debt Service Reserve Fund, the Junior Lien Obligation Debt Service Fund, the Repair and Replacement Fund and the Special Project Fund, or an amount not less than 125% of the Aggregate First Lien Debt Service for the Bond Year commencing during such Fiscal Year, reduced by any amount held in any Capitalized Interest Account for disbursement during such Bond Year to pay interest on First Lien Bonds; or
 - (ii) the greater of the amounts needed to make the deposits required under the First Lien Indenture during such Fiscal Year into the First Lien Debt Service Fund, the O&M Reserve Account, the Working Capital Account, the First Lien Debt Service Reserve Fund, the Junior Lien Obligation Debt Service Fund, the Repair and Replacement Fund and the Special Project Fund, or an amount not less than 110% of the sum of the Aggregate First Lien Debt Service and Aggregate Second Lien Debt Service for the Bond Year commencing during such Fiscal Year, reduced by (A) any amount held in any Capitalized Interest Account for disbursement during such Bond Year to pay interest on any First Lien Bonds, and (B) any amount held in any Capitalized Interest Account established pursuant to a Supplemental Indenture for disbursement during such Bond Year to pay interest on Second Lien Obligations (collectively, the “*Rate Covenant*”).

Under the Second Lien Indenture, if during any Fiscal Year, Revenues, Other Available Moneys and such cash balance in the First Lien Revenue Fund will not be sufficient to produce an amount calculated to meet the Rate Covenant, the City is obligated to revise its Midway rentals, fees and charges or alter its methods of operation or take other such action in such manner as is necessary to satisfy the Rate Covenant. Within 60 days after the end of each Fiscal Year, the City shall furnish to the Second Lien Trustee a calculation of the coverage required, certified by the Chief Financial Officer. If the City determines that the Rate Covenant was not satisfied for the prior Fiscal Year, then within 60 days after the receipt by the Second Lien Trustee of such certificate, the City shall employ an Independent Airport Consultant to review and analyze the financial status and the administration and operation of the Airport and to submit

to the City, within 60 days after employment of the Independent Airport Consultant, a written report on the same, including the action which the Independent Airport Consultant recommends should be taken by the City with respect to the revision of its Midway rentals, fees and charges, alteration of its methods of operation or the taking of other action that is projected to result in producing the amount so required in the then-current Fiscal Year or, if less, the maximum amount deemed feasible by the Independent Airport Consultant. Promptly upon its receipt of the recommendations the City shall, after giving due consideration to the recommendations, revise the Midway rentals, fees and charges or alter its methods of operations or take other action which is projected to result in satisfying the Rate Covenant during the then-current Fiscal Year or, if less, the maximum deemed feasible by the Independent Airport Consultant. So long as the City is acting in accordance with the provisions of the Second Lien Indenture relating to the recalculation of rentals, fees and charges, the City's failure to satisfy the Rate Covenant will not constitute an Event of Default under the Second Lien Indenture. See "–Flow of Funds from Revenues" above.

Debt Service Reserve

The Bonds are Common Reserve Bonds (as defined below) secured by the Common Debt Service Reserve Sub-Fund.

Common Debt Service Reserve Sub-Fund. The Common Debt Service Reserve Sub-Fund was established and is held and administered by the Trustee in accordance with the terms of the Nineteenth Supplemental Indenture. The Bonds are entitled to the benefit of the Common Debt Service Reserve Sub-Fund (also referred to as the "*Common Reserve Bonds*"). Following the issuance of the Bonds and the refunding of the Refunded Bonds, the only outstanding Second Lien Obligations which will not be Common Reserve Bonds, will be the Series 2004 Second Lien Bonds, the Series 2010C Second Lien Bonds, and the Chicago Midway Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2014C (AMT), which bonds will continue to be secured by separate debt service reserve accounts established under the respective supplemental indentures authorizing their issuance (the "*Non-Common Reserve Bonds*"). The individual debt service reserve accounts for the Non-Common Reserve Bonds do not secure, and are not available for payment of debt service on, the Common Reserve Bonds, and the Common Debt Service Reserve Sub-Fund does not secure and is not available for payment of the Non-Common Reserve Bonds.

The "Reserve Requirement" for the Common Debt Service Reserve Sub-Fund is the least of (i) the maximum amount of Annual Second Lien Debt Service payable on the Common Reserve Bonds in the current or any succeeding Bond Year, (ii) 125% of the average Annual Second Lien Debt Service on the Common Reserve Bonds or (iii) 10% of the original principal amount of the Common Reserve Bonds, *provided however*, that if upon the issuance of a series of Common Reserve Bonds such amount would require that moneys be paid into the Common Debt Service Reserve Sub-Fund from the proceeds of such Common Reserve Bonds in an amount in excess of the maximum amount permitted under the Code, the Reserve Requirement shall be the sum of (a) the Reserve Requirement immediately preceding the issuance of such Common Reserve Bonds and (b) the maximum amount permitted under the Code to be deposited from the proceeds of such bonds, as certified by the Chief Financial Officer.

Additional Bonds issued by the City in the future pursuant to the Second Lien Indenture may, but need not, be designated as the Common Reserve Bonds and entitled to the benefit of the Common Debt Service Reserve Sub-Fund. The moneys in the Common Debt Service Reserve Sub-Fund are held for the benefit of all Common Reserve Bonds issued or to be issued under the Second Lien Indenture.

The City has covenanted that it will maintain the Common Debt Service Reserve Sub-Fund in an amount equal to the Reserve Requirement, which Reserve Requirement may be satisfied with (i) one or more Qualified Reserve Account Credit Instruments, (ii) Qualified Investments, or (iii) a combination thereof. Any Qualified Investments held to the credit of the Common Debt Service Reserve Sub-Fund shall be valued in accordance with the provisions of the Second Lien Indenture. If on any valuation date under the Second Lien Indenture the amount on deposit in the Common Debt Service Reserve Sub-Fund is more than the Reserve Requirement, unless otherwise directed by a Certificate of the City to be withdrawn and deposited in trust to pay or provide for the payment of Second Lien Obligations, the amount of such excess shall be transferred to the Second Lien Trustee for deposit into the Second Lien Revenue Fund.

If at any time the Common Debt Service Reserve Sub-Fund holds both Qualified Reserve Account Credit Instruments and Qualified Investments, the Qualified Investments shall be liquidated and the proceeds applied for the purposes for which Common Debt Service Reserve Sub-Fund moneys may be applied under the Second Lien Indenture prior to any draw being made on the Qualified Reserve Account Credit Instrument. If the Common Debt Service Reserve Sub-Fund holds Qualified Reserve Account Credit Instruments issued by more than one issuer, draws shall be made under such credit instruments on a *pro rata* basis to the extent of available funds.

On the business day of the Second Lien Trustee immediately preceding each January 1 and July 1, there shall be withdrawn from the Second Lien Revenue Fund for deposit into the Common Debt Service Reserve Sub-Fund, the amount, if any, required as of the close of business on such date to restore the amount held in the Common Debt Service Reserve Sub-Fund to the Reserve Requirement. Pursuant to the Second Lien Indenture, any amount so required shall constitute a Deposit Requirement to be funded from the Second Lien Revenue Fund. The City covenants to file with the First Lien Trustee a Certificate as required by the First Lien Indenture and the Second Lien Indenture with respect to such Deposit Requirement.

If on any Payment Date for the payment of the Principal Installment of and interest on any Series of Common Reserve Bonds the amount held in the Dedicated Sub-Fund for that Series for the payment of such Principal Installment or interest due and payable on such Payment Date shall be less than the Principal Installment and interest then due and payable, then the Second Lien Trustee shall withdraw from the Common Debt Service Reserve Sub-Fund and deposit into the Dedicated Sub-Fund for that Series of Common Reserve Bonds the amount necessary to cure such deficiency. In the case of multiple deficiencies among Series of Common Reserve Bonds, such withdrawal shall be made ratably among the various such Series having a deficiency, without preference or priority of any kind.

Prior to issuance of the Bonds, the Reserve Requirement for the Common Reserve Bonds was \$91,578,171. Upon the issuance of the Bonds, the City intends to deposit \$12,829,084 of proceeds from the sale of the Bonds and additional amounts currently held under the Second Lien Indenture into the Common Debt Service Reserve Sub-Fund, increasing the amount on deposit to \$104,407,255, all of which is funded with cash. Prior to, and after giving effect to the issuance of the Bonds, the City is, and will remain, in compliance with all requirements for the maintenance of the Common Debt Service Reserve Sub-Fund.

Covenant Against Other Pledges of Revenues

The City covenants in the Second Lien Indenture that it will not issue any bonds, notes or other evidence of indebtedness, secured by a pledge of Second Lien Revenues, other than Second Lien Obligations, and shall not create or cause to be created any lien or charge on Revenues, or on any amounts pledged for the benefit of owners of Second Lien Obligations under the Second Lien Indenture (other than the pledge contained in the First Lien Indenture); except that the City has the right to issue (a) First Lien Bonds, (b) bonds, notes and other evidence of indebtedness payable out of, or secured by a pledge of, Revenues to be derived on and after the discharge and satisfaction of all Second Lien Obligations or (c) to issue bonds, notes and other evidence of indebtedness that are payable from or secured by a pledge of amounts which may be withdrawn from the Junior Lien Obligation Debt Service Fund so long as such pledge is expressly junior and subordinate to the pledge of Second Lien Revenues to the payment of Second Lien Obligations.

Midway Revenues Must Be Used For Airport Purposes

As a recipient of federal grants for Midway, the City is required by federal law, and by its grant assurances to the Federal Aviation Administration (the “*FAA*”) under its grant agreements with the FAA, to use all revenues generated at Midway, including all Revenues, for the capital or operating costs of Midway, the local airport system, or other local facilities which are owned or operated by the City and directly and substantially related to the air transportation of passengers or property.

Any diversion by the City of revenues generated at Midway, including the Revenues, in violation of federal law or the City’s grant assurances, would subject the City to potential enforcement actions by the FAA, including: (i) withholding Airport Improvement Program (“*AIP*”) grant funds, approval of AIP grant applications, modifications of existing AIP grants and approval of applications to impose and use passenger facility charges (“*PFCs*”); and/or (ii) assessment of a civil penalty for unlawful revenue diversion of up to \$50,000; and/or (iii) seeking judicial enforcement for violation of any grant assurance; and/or (iv) assessment of a civil penalty up to three times the amount of the diverted revenue; and/or (v) assessment of interest on the amount of diverted revenue; and/or (vi) withholding any amount from funds otherwise available to the City from the United States Department of Transportation, including funds for other transportation projects, such as transit or multimodal projects; and/or (vii) exercise by the FAA of its right of reverter and, on behalf of the United States, taking title to all or any part of federal property interests previously conveyed by the federal government to the City.

In addition, any diversion by the City of revenues generated at Midway, including the Revenues, in violation of the City's grant assurances or federal law might result in a default under the First Lien Indenture, which, upon becoming an Event of Default under the First Lien Indenture, could result in the exercise by the Trustee of the remedies under the First Lien Indenture. See "APPENDIX B—SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE—Remedies."

Airport Use Agreements

A substantial portion of the Revenues to be deposited in accordance with the First Lien Indenture is derived from rentals, fees and charges imposed upon the Signatory Airlines pursuant to the Airport Use Agreements. The Airport Use Agreements provide that the aggregate of all rentals, fees and charges to be paid by the Signatory Airlines, together with Non-Airline Revenues and as required by the Airport Use Agreements, shall be sufficient to pay for the cost of operating, maintaining and improving Midway, including the satisfaction of all of the City's obligations to make deposits and payments under the Airport Use Agreements and the First Lien Indenture or any other ordinance or indenture authorizing the issuance of notes, bonds or other obligations of Midway. In addition, the Airport Use Agreements specifically provide the City with the right to approve or disapprove any transfer, including, but not limited to, any sublease or assignment, by any Signatory Airline of any of its leasehold rights to Leased Premises at Midway, which include, but are not limited to, gates at Midway. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE AIRPORT USE AGREEMENTS—Assignment, Sublease and Other Transfers." The termination date of the Airport Use Agreements is December 31, 2027. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE AIRPORT USE AGREEMENTS—Term," "—Default and Termination," and "—Change of Lease Term."

Based upon CDA management records for 2015, the Signatory Airlines represented, in the aggregate, 99.8% of the total enplanements at Midway. Southwest represented 93.4% of the total enplaned passengers¹ at Midway in 2015. See "CHICAGO MIDWAY INTERNATIONAL AIRPORT—Airlines Providing Service at Midway," "CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY—Effect of Airline Bankruptcy," APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE AIRPORT USE AGREEMENTS," and APPENDIX F—"REPORT OF THE AIRPORT CONSULTANT."

Certain Outstanding Second Lien Bonds mature after the stated termination date of the Airport Use Agreements. It is not possible to predict the terms of any airport use agreement that might replace the Airport Use Agreements or whether any airlines will be contractually obligated to make payments in amounts reflecting, among other things, debt service on the Bonds or any other Second Lien Bonds after the stated termination of the Airport Use Agreements on December 31, 2027. The City has no obligation under the Second Lien Indenture to maintain, extend or renew any Airport Use Agreements. See "CERTAIN INVESTMENT

¹ Includes general aviation, military, helicopter and miscellaneous passengers included in the CDA management records.

CONSIDERATIONS RELATING TO THE AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY–Airport Use Agreements.”

Additional Obligations

General. The Second Lien Indenture provides that, in order to provide sufficient funds for the financing or refinancing of Airport Projects, the City may issue one or more additional series of Second Lien Obligations (“*Additional Second Lien Obligations*”) on a parity basis with outstanding Second Lien Obligations from time to time without limitation as to amount (except as may be limited by law), for the purpose of (i) the payment, or the reimbursement for the payment, of the costs of one or more Airport Projects, (ii) the refunding of any First Lien Bonds, Second Lien Obligations or other obligations issued to finance or refinance one or more Airport Projects, including, but not limited to, any Special Facility Revenue Bonds or any Junior Lien Obligations, or (iii) the funding of any Fund or Account (as defined in the First Lien Indenture) or any Fund or Account as specified in the Second Lien Indenture or the Supplemental Indenture under which any Second Lien Obligations are issued, including in each case payment of the Costs of Issuance of such Second Lien Obligations.

Additional Second Lien Obligations, other than Completion Obligations (defined as any Second Lien Obligation issued for the purpose of defraying additional costs of an Airport Project or Projects financed by the First Lien Bonds or Second Lien Obligations) or Refunding Obligations, may be issued only upon satisfaction of various requirements, including either:

(i) an Independent Airport Consultant’s certificate stating that, based upon reasonable assumptions set forth therein, Revenues and Other Available Moneys are projected to be not less than that required to satisfy the Rate Covenant (disregarding any First Lien Bonds or Second Lien Obligations that have been paid or discharged or will be paid or discharged immediately after the issuance of the series of Second Lien Obligations proposed to be issued) for each of the next three Fiscal Years following issuance of such Additional Second Lien Obligations or, if later, for each Fiscal Year from the issuance of such Additional Second Lien Obligations through the two Fiscal Years immediately following completion of the Airport Projects financed by such Additional Second Lien Obligations; provided that for purposes of issuing its certificate, the projections of the Independent Airport Consultant shall include as Other Available Moneys, only moneys that have either been (A) paid over to the First Lien Trustee and deposited into the First Lien Revenue Fund or the First Lien Debt Service Fund or paid over to the Second Lien Trustee and deposited into a debt service fund for Second Lien Obligations or (B) irrevocably pledged to the payment of debt service on First Lien Bonds or Second Lien Obligations; *or*

(ii) a Certificate stating that Revenues and Other Available Moneys in the most recent completed Fiscal Year for which audited financial statements have been prepared satisfied the Rate Covenant, assuming for such purpose that Aggregate Second Lien Debt Service for the Bond Year commencing during such Fiscal Year includes the maximum Annual Second Lien Debt Service on the Additional Second Lien Obligations proposed to be issued.

See APPENDIX B–“SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE–Authorization of the Second Lien Bonds and Other Second Lien Obligations.”

Completion Obligations. With respect to any Additional Second Lien Obligations proposed to be issued as Completion Obligations, the City is required to deliver a Certificate to the Second Lien Trustee stating: (i) that the Completion Obligations proposed to be issued are being issued to finance the costs of one or more Airport Projects initially financed in whole or in part by First Lien Bonds or Second Lien Obligations; and (ii) that the additional cost of the Airport Projects being financed by such Completion Obligations does not exceed 15% of the aggregate cost thereof previously financed. Prior to the delivery of any Completion Obligations, the City is required to file with the Second Lien Trustee a certificate of a Consulting Engineer: (a) stating that the Airport Projects have not materially changed from their description in the First Lien Supplemental Indenture or the Supplemental Indenture creating the series of First Lien Bonds or Second Lien Obligations initially issued to finance the cost of such Airport Projects; (b) estimating the revised aggregate cost of the Airport Projects; (c) stating that the revised aggregate cost of such Airport Projects cannot be paid with available moneys; and (d) stating that, in the opinion of the Consulting Engineer, the issuance of Completion Obligations is necessary to provide funds to complete the Airport Projects.

Refunding Bonds. The City may also issue Additional Second Lien Obligations constituting Refunding Obligations without satisfying the requirement for a certificate of an Independent Airport Consultant summarized above under the subcaption “–General.” See APPENDIX B–“SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE–Authorization of the Second Lien Bonds and Other Second Lien Obligations.”

Other Provisions. For a more complete description of additional provisions concerning the security and sources of payment for the Bonds, see APPENDIX B–“SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE.”

No Acceleration Rights

There is no provision for the acceleration of the maturity of Second Lien Bonds, including the Bonds, if any default occurs in the payment of the principal of or interest on Second Lien Bonds, including the Bonds, or in the performance of any other obligation of the City under the Second Lien Indenture.

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SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the Bonds.

SOURCES OF FUNDS	<u>2016A Bonds</u>	<u>2016B Bonds</u>	<u>Total</u>
Par Amount of Bonds	\$121,265,000	\$221,130,000	\$342,395,000
Net Original Issue Premium	19,474,444	32,979,044	52,453,488
Other Available Funds	<u>1,490,176</u>	<u>6,264,847</u>	<u>7,755,022</u>
Total	<u>\$142,229,620</u>	<u>\$260,373,890</u>	<u>\$402,603,510</u>
USES OF FUNDS			
Deposit to Escrow Account	\$ 10,739,681	\$ 33,983,875	\$ 44,723,556
Deposit to Project Accounts	113,354,123	192,312,766	305,666,889
Deposit to Common Debt Service Reserve Sub-Fund ⁽¹⁾	4,572,787	8,256,297	12,829,084
Deposit to Capitalized Interest Accounts	12,509,401	23,807,038	36,316,438
Costs of Issuance (including Underwriters' Discount)	<u>1,053,628</u>	<u>2,013,915</u>	<u>3,067,543</u>
Total	<u>\$142,229,620</u>	<u>\$260,373,890</u>	<u>\$402,603,510</u>

⁽¹⁾ See "SECURITY FOR THE BONDS—Debt Service Reserve."

Totals may not add due to rounding.

APPLICATION OF BOND PROCEEDS

General

The proceeds of the Bonds are being used to: (i) pay the costs of certain Airport Projects; (ii) refund prior to maturity the Refunded Bonds; (iii) capitalize a portion of the interest on the Bonds; (iv) fund a deposit to the Common Debt Service Reserve Sub-Fund; and (v) pay costs and expenses incidental thereto and to the issuance of the Bonds.

Airport Projects

The 2016-2022 CIP is the Airport's current capital improvement program. The CIP consists of projects to rehabilitate the airfield, address the Airport's noise impact and maintain current structure and parking and roadway pavements.

The following Airport Projects (as defined in APPENDIX A—"GLOSSARY OF TERMS") are expected to be financed with proceeds of the Bonds:

- Terminal. Terminal projects include Passenger Security Checkpoint expansion, creating an incremental increase of approximately 80,000 square feet, a Federal Inspection Services ("FIS") Facility second bag claim area, modifications and redevelopment of the existing FIS bag claim area, and optimization and recapitalization of the baggage system.

- Airfield. Projects included in the airfield category that will improve the efficiency, safety and security of the airfield include the rehabilitation of Runway 4R/22L, rehabilitation of apron pavement, improvements to the Airport Maintenance Complex, and other related projects.
- Parking and Roadways. The parking and roadways projects include expansion of the terminal parking structure and upgrades to the lighting of the Economy Parking Structure.

For a more detailed description of these Airport Projects, see APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT–Section 3.1–The 2016 Airport Projects.”

Refunding Plan

The City expects to apply a portion of the net proceeds of the Bonds, and other available funds, to currently refund \$43,645,000 principal amount of Chicago Midway Airport Second Lien Revenue Bonds, Series 2004A (AMT) and Series 2004B (Non-AMT) (the “*Refunded Bonds*”). The following table entitled “CITY OF CHICAGO, CHICAGO MIDWAY AIRPORT SECOND LIEN BONDS TO BE REDEEMED” sets forth the maturity, principal amount and redemption date for each maturity of the Refunded Bonds.

The City expects to issue and deliver the Bonds on June 1, 2016. A portion of the proceeds of the Bonds is expected to be applied to redeem the Refunded Bonds on the July 1, 2016 redemption date at the redemption price of par plus accrued interest.

On the date of issuance and delivery of the Bonds, the City will give the Trustee irrevocable instructions to call the Refunded Bonds on their applicable redemption dates. Notices of the call for redemption of the Refunded Bonds will be given by the Trustee in the manner required by the Second Lien Indenture.

CITY OF CHICAGO, CHICAGO MIDWAY AIRPORT SECOND LIEN BONDS TO BE REDEEMED

BONDS TO BE REDEEMED	MATURITIES (JANUARY 1)	PRINCIPAL AMOUNT OF REFUNDED BONDS	REDEMPTION DATE
Series 2004A (AMT)	2017	\$1,110,000	July 1, 2016
	2018	1,160,000	July 1, 2016
	2019	1,210,000	July 1, 2016
	2020	1,270,000	July 1, 2016
	2021	1,335,000	July 1, 2016
	2024 ^t	4,405,000	July 1, 2016
Series 2004B (Non-AMT)	2017	4,875,000	July 1, 2016
	2018	5,120,000	July 1, 2016
	2019	5,375,000	July 1, 2016
	2020	5,640,000	July 1, 2016
	2021	5,925,000	July 1, 2016
	2022	6,220,000	July 1, 2016

^t Denotes term bond.

To provide for the redemption and defeasance of the Refunded Bonds, a portion of the proceeds of the Bonds and certain funds held under the Second Lien Indenture will be applied to the redemption of the Refunded Bonds and be deposited into an escrow account to be held by The Bank of New York Mellon Trust Company, N.A., as the escrow agent and the Second Lien Trustee (“*Escrow Agent*”). The principal of, and interest on, the Refunded Bonds will be payable from the escrow account administered for the benefit of the City and the holders of the outstanding Refunded Bonds.

Verification Report

The sufficiency of the funds to be on deposit in the Escrow Account to pay the remaining debt service payments on the Refunded Bonds, assuming the Refunded Bonds will be redeemed on July 1, 2016, will be verified by Robert Thomas, CPA LLC, independent certified public accountants, based upon information supplied by the City in connection with such matters.

CHICAGO MIDWAY INTERNATIONAL AIRPORT

General

Midway was opened in 1927 and is located approximately ten miles southwest of the City’s central business district. Midway occupies approximately 840 acres of land, can be accessed by the Stevenson Expressway (Interstate Route 55) and is directly linked to the City’s central business district by a rapid transit rail system.

Midway was the principal airport serving the Chicago Region (defined below) prior to the completion of O’Hare in 1962. The airlines currently using Midway generally provide low fare, point-to-point, O&D passenger service. According to statistics compiled by ACI, in 2014, Midway was the 25th most active airport in the United States, measured in terms of total passengers. Total enplanements have grown at Midway from 9,087,611 in 2006 to 11,003,697¹ in 2015. Between 2014 and 2015, enplanements grew by approximately 4.8%. Scheduled seat capacity at Midway is expected to decrease by 0.6% during the first three quarters of 2016 compared to 2015. See APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT.” In April 2016, Midway had approximately 272 daily nonstop flights to 78 markets, including nine international destinations.

Midway has already completed essential capital improvement projects. In 2004, the City completed its Terminal Development Program (“*TDP*”) which included the construction of a new passenger terminal with three concourses and 43 passenger gates that replaced the previous 29-gate facility. See “–Existing Facilities at Midway” below. Midway has made large and significant capital investments with the development of a new one million square foot terminal and concourses, new apron pavement, construction of a new parking garage adjacent to the terminal, construction of a 6,300 space Economy Elevated Parking Structure (“*EPS*”) and the construction of a Consolidated Rental Car Facility (“*CRCF*”), completed in the second quarter

¹ Excludes general aviation, military, helicopter and miscellaneous passengers included in the City of Chicago’s Chicago Department of Aviation management records.

of 2013. The City has developed its 2016-2022 CIP (as hereinafter defined), the most recently published to address capital project requirements for Midway for the period 2016 through 2022. In general, the primary focus of the 2016-2022 CIP is for residential sound insulation, rehabilitation of airfield pavement, including the rehabilitation of Runway 4R-22L (one of two primary runways), an expansion of the security checkpoint, lighting and mechanical upgrades for the terminal, the heating and refrigeration plant, expansion of the terminal parking structure, and additional projects associated with the airfield and support facilities, parking and roadway projects, terminal area projects and safety and security projects. The 2016-2022 CIP does not include plans for enhancing airfield capacity. It is projected that, after 2040, significant future growth at Midway ultimately will be constrained by the capacity of its available airfield facilities unless new navigational or aircraft technology is introduced into the market. For additional information regarding the 2016-2022 CIP and the funding thereof, see APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT” herein.

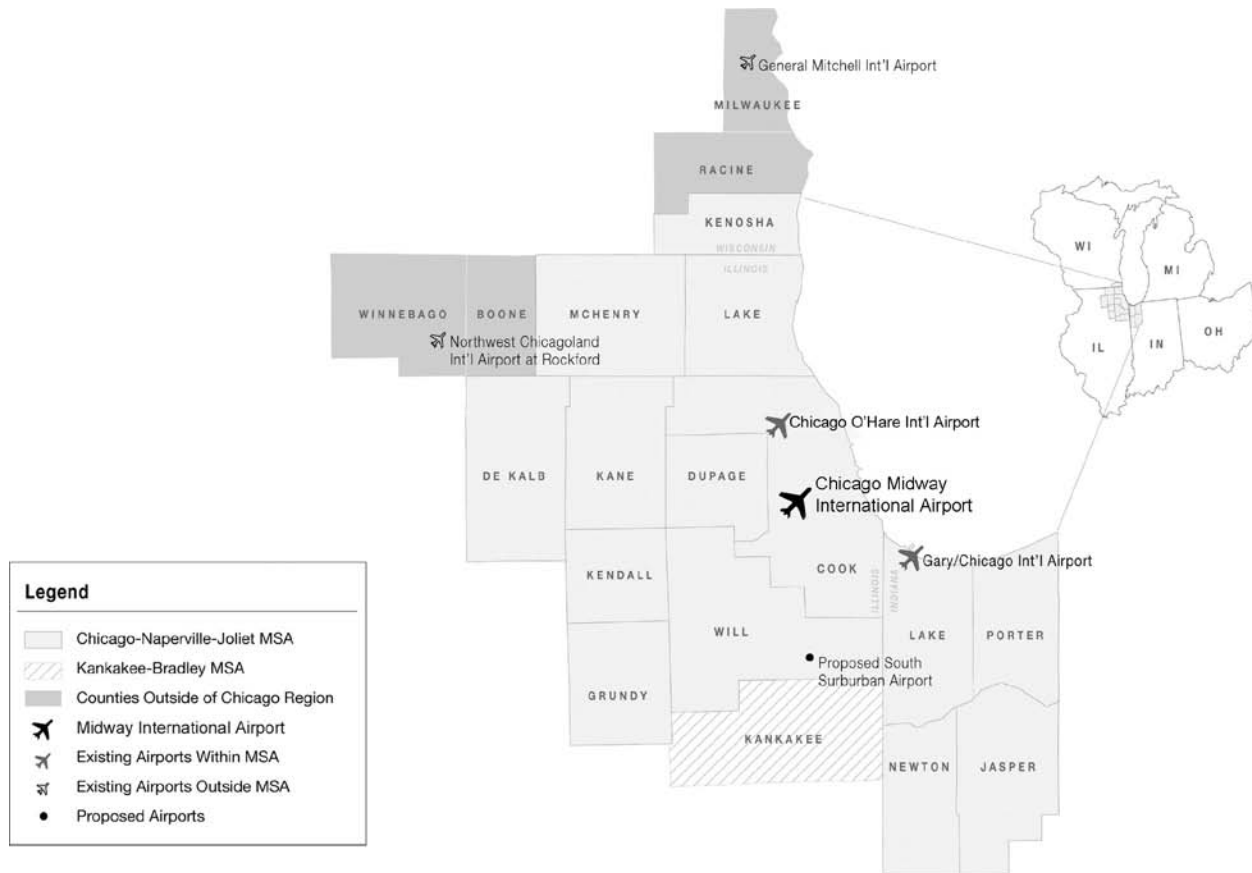
Southwest is the largest single airline at Midway, accounting for 93.4% of commercial enplanements in 2015. See the table entitled “CHICAGO MIDWAY INTERNATIONAL AIRPORT–Enplaned Commercial Passengers by Airline: 2011 to 2015” and “CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY.” Additional information concerning enplanement growth and airline activity levels at Midway is contained under the caption “CHICAGO MIDWAY INTERNATIONAL AIRPORT” and in the Report of the Airport Consultant, included as APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT” hereto.

The Air Trade Area

The primary air trade area that Midway serves consists of 10 counties in Illinois (Cook, DeKalb, DuPage, Grundy, Kane, Kankakee, Kendall, Lake, McHenry and Will), four counties in Indiana (Jasper, Lake, Newton and Porter) and one county in Wisconsin (Kenosha). These 15 counties comprise the “*Chicago Region*” and include two Metropolitan Statistical Areas that contain four adjoining major metropolitan areas. This area is depicted by the following map. Additional demographic and economic information concerning the Chicago Region is contained in the Report of the Airport Consultant, included as APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT” hereto.

Currently there are 32 Fortune 500 companies located in the air trade area. According to World Business Chicago, more than 650 companies expanded to the air trade area in 2015, which is a 4.6 percent increase from 624 in 2014. Choose Chicago reports that in 2015, over 52 million people visited Chicago, an increase of 3.6% from the year prior.

MAP OF CHICAGO AIR TRADE AREA



Regional Authority

In April 1995, the City and the City of Gary, Indiana, entered into a compact which established the Chicago-Gary Authority to oversee and support Midway, O'Hare, Meigs Field and the Gary/Chicago International Airport, to jointly evaluate the bi-state region's need for additional airport capacity and to coordinate and plan for the continued development, enhancement and operation of such airports and the development of any new airport serving the bi-state region. Subject to the power of the Chicago-Gary Authority to approve certain capital expenditures and other actions, the City continues to manage, own and operate Midway and O'Hare. Meigs Field was closed by the City in March 2003. The City has all necessary approvals from the Chicago-Gary Authority to proceed with the 2016-2022 CIP.

Other Commercial Service Airports Serving the Chicago Region

In addition to Midway, the City operates O'Hare through its CDA. The operations of these two airports are separate and distinct and the Bonds are not secured by any revenues generated at O'Hare. O'Hare, located approximately 18 miles northwest of the City's central business district, is the primary commercial airport within the Chicago Region, with total enplanements of 38,381,489 in 2015, based on CDA management records. Based on data from ACI, for the 12-month period ended December 2014, O'Hare was the most active airport both in the world and in the United States, measured in terms of total aircraft operations, and the third most active in the United States, measured in terms of total passengers. O'Hare's two largest

airlines, American Airlines and United Airlines, have significant hubbing operations and have a high level of connecting activity at O'Hare, serving destinations throughout the world.

The City is in the process of analyzing the terminal platform capacity and passenger gate requirements to accommodate the anticipated short term and long term needs of the domestic and international airlines currently serving O'Hare as well as the needs to accommodate future demand. The City has entered into a ground lease with American Airlines for American to build a concourse extension with five additional passenger gates for American Airlines. The City is engaged in discussions with the airlines operating at O'Hare regarding their forecasted facility requirements at O'Hare and is working with those airlines to develop a Terminal Area Plan ("O'Hare TAP") evaluating potential alternate terminal and concourse layouts for O'Hare's intermediate and long term infrastructure plans including staging plans and selecting a preferred alternative. The O'Hare TAP could result in a significant increase in capacity at O'Hare and would require a large multi-year capital program. The level of capacity added by the O'Hare TAP is expected to be consistent with, and no greater than, the level of capacity described in the O'Hare Master Plan and assessed previously under the associated FAA Environmental Impact Statement and Airport Layout Plan. Given the carrier and passenger base and demand levels at the respective airports and until capital plans are finalized at O'Hare the City is unable to predict the impact of the proposed O'Hare TAP on Midway operations.

Gary/Chicago International Airport, which is owned by the City of Gary, Indiana and operated by the Gary/Chicago Authority, is also located in the Chicago Region. Currently, no commercial passenger service is provided at Gary/Chicago International Airport.

The nearest commercial service airport outside the Chicago Region is General Mitchell International Airport ("*Mitchell*"), located approximately 85 miles north of Midway. Mitchell serves the commercial air service needs of Milwaukee, southeast Wisconsin, and portions of northern Illinois. As reported by Mitchell, total enplaned passengers at Mitchell for 2015 were approximately 3,277,356. On average in 2015, Mitchell had approximately 101 daily nonstop flights to 32 markets.

Existing Facilities at Midway

Midway's airfield includes five runways with a complementary system of taxiways. Three of the four commercial aircraft runway ends have instrument landing systems that permit aircraft operations in a variety of weather conditions.

In response to increasing passenger demand and a need for new terminal facilities, the City completed the TDP in 2004, an eight-year capital program that included construction of a new one million square foot terminal and concourse building. The TDP increased the number of airline gates from 29 to 43, increased the terminal concession space from 18,200 square feet to 50,000 square feet, provided additional ticket counter space and baggage claim areas, and included the addition of a Federal Inspection Services ("*FIS*") facility for the processing of international passengers. Of the 43 airline gates, 31 are currently used pursuant to preferential lease agreements and 12 are currently used as Midway-controlled common use gates. Of the 31 airline gates used pursuant to preferential lease agreements, 29 are currently used by Southwest and two are currently used by Delta. Ten common use gates are currently used for

domestic service by Delta, Southwest, Public Charters, and Sun Country. Three common use gates also have FIS capacity and are currently used for international service by Southwest, Porter, and Volaris.

Vehicular access to and from Midway was improved by the construction of an elevated roadway entrance off of Cicero Avenue – a component of the TDP. Also included in the TDP were other roadway improvements, such as the relocation of Cicero Avenue and the construction of a two-level roadway in front of the new terminal building. Re-circulation roadways allow vehicles to move between the two levels and also serve the parking garage. Access to Midway by car is provided by the Stevenson Expressway (Interstate 55), local streets and Midway’s new access roadway. In addition to this roadway system, the Chicago Transit Authority (“CTA”) operates a rapid transit rail line and surface transit providing a direct connection between Midway and the City’s central business district. The transit station is connected directly with the Midway terminal complex and is conveniently located east of the terminal. Passengers access the transit station via an elevated pedestrian walkway.

Public automobile parking at Midway is provided in a terminal parking garage and on-airport economy parking garage and surface parking lots. The terminal parking garage, located adjacent to the terminal building, provides one level of hourly parking, with approximately 360 spaces and five levels of daily parking, with approximately 2,110 spaces. With the opening of the Economy Parking Garage in December 2005, the economy parking lots provide approximately 8,842 public parking stalls with free shuttle bus service to transfer passengers to and from the terminal. In June 2006, Midway opened a “cell phone” lot, which enables drivers to park in a nearby lot and wait until the passenger they are picking up has arrived. In addition, Midway maintains two employee parking lots with a combined total of 1,069 parking spaces. In April 2013, Midway opened its new Consolidated Rental Car Facility. This new 1,900 space garage is located within the Economy Parking Garage complex at 55th and Laramie. All rental car operations are operated from this new facility which is connected to the terminal complex via a dedicated roadway and shuttle bus operation.

General aviation facilities, including hangars, ramps and an aircraft tie down apron, occupy approximately 47 acres primarily in the west and south sides of the airfield. Principal general aviation tenants include two fixed-base operators, several corporate flight departments, flight schools and avionics repair shops. Military presence at Midway consists of the Illinois Air National Guard facility located off airport property in the southwest corner of the airfield. An Airport Maintenance Complex and FAA Air Traffic Control Tower opened in 1997 on the south side of the airfield. Support facilities at Midway include fuel farms, Airport and airline maintenance facilities and an Aircraft Rescue and Fire Fighting station.

Midway Noise Compatibility Program

In 1996, the Midway Noise Compatibility Commission (the “*Midway Noise Commission*”) was formed through the execution of an intergovernmental agreement by the City, Cook County and certain municipalities that are located in the area surrounding Midway. The purpose of the Midway Noise Commission is to (i) determine certain noise compatibility projects to be implemented in a defined area surrounding Midway, and (ii) advise the City concerning other Midway noise-related issues. As of April 29, 2016, the City has spent approximately

\$238.5 million on residential and school noise compatibility projects implemented in cooperation with the airlines and the Midway Noise Commission.

Activity at Midway

The FAA classifies Midway as a “large hub” airport. The following table shows enplaned passenger activity levels at Midway during the period from 2006 through 2014.

CHICAGO MIDWAY INTERNATIONAL AIRPORT O&D AND CONNECTION ENPLANEMENTS 2006-2014¹

Calendar		<u>O&D</u>		<u>Connecting</u>		<u>Total</u>	
Year	O&D	<u>Passenger</u>	<u>Connecting</u>	<u>Passenger</u>	<u>Total</u> ²	<u>Passenger</u>	<u>O&D</u>
		<u>Growth</u>		<u>Growth</u>		<u>Growth</u>	<u>Percentage</u>
2006	6,627,599	3.0%	2,460,012	13.7%	9,087,611	5.7%	72.9%
2007	6,445,048	(2.8%)	2,843,300	15.6%	9,288,348	2.2%	69.4%
2008	5,818,843	(9.7%)	2,410,461	(15.2)%	8,229,304	(11.4%)	70.7%
2009	5,579,481	(4.1%)	2,888,989	19.9%	8,468,470	2.9%	65.9%
2010	5,409,744	(3.0%)	3,324,470	15.1%	8,734,214	3.1%	61.9%
2011	5,630,102	4.1%	3,722,664	12.0%	9,352,766	7.1%	60.2%
2012	6,239,055	10.8%	3,432,564	(7.8%)	9,671,619	3.4%	64.5%
2013	6,434,187	3.1%	3,721,202	8.4%	10,155,389	5.0%	63.4%
2014	6,379,486	(0.9%)	4,118,241	10.7%	10,497,727	3.4%	60.8%
<u>Compound Annual Growth Rate</u>							
2006 – 2014		(0.5%)		6.7%		1.8%	

¹ 2014 is the latest full calendar year for which O&D data is available.

² Excludes general aviation, military, helicopter and miscellaneous passengers included in the Chicago Department of Aviation Management Records.

Sources: City of Chicago Department of Aviation Management Records (Total Enplanements) and 2014 Department of Aviation Consolidated Annual Financial Statement (O&D Enplanements), January 2016.

The large O&D passenger market which exists in the Chicago Region (O&D passengers consist of those travelers whose residence and/or place of employment is in the Chicago Region and whose air trips originate at Midway and those travelers who visit the Chicago Region for business or personal reasons) has proven to be attractive to airlines. In 2014, total passenger activity at Midway was composed of approximately 60.8% enplaned O&D passengers and approximately 39.2% connecting enplaned passengers.

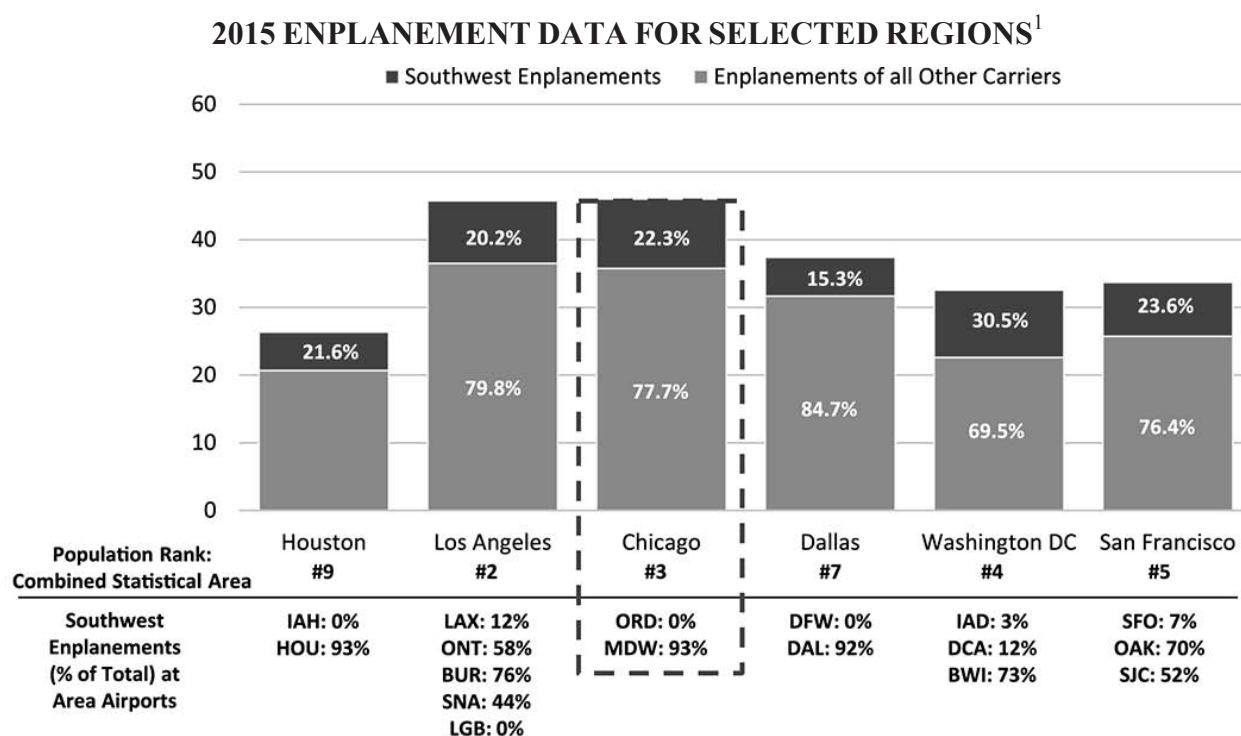
Airlines Providing Service at Midway

Currently, three U.S. airlines – Southwest, Delta, and PublicCharters (which offers scheduled charter service) – and two foreign flag carriers – Porter and Volaris – provide scheduled service at Midway. Other than PublicCharters, which offers scheduled charter service, the other two U.S. flag carriers are classified by the U.S. Department of Transportation as a Group III airline, which are U.S. airlines with the largest total annual revenues having operating revenues of more than \$1 billion per year. International service commenced at Midway in the first quarter of 2002, upon the completion of the FIS Facility. See “CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY.”

Midway Role in Southwest Airlines Network

Midway is the most active airport in Southwest's network measured by enplaned passengers and the number of flight departures. The growth in Southwest passengers and departures at Midway has exceeded that of its overall network. Since 2005, Southwest's departures and seat capacity at Midway have grown by annual averages of 2.4% and 5.5%, respectively, compared to 0.3% and 2.7% for the overall Southwest network. In addition, Southwest serves more cities from Midway than from any other airport. This is attributable in part to Chicago's large O&D base and geographic location, producing efficient transfer operations at Midway. From 2004 through 2014, Southwest O&D and connecting traffic at Midway have increased at an average annual growth rate of 5.6% and 14.3% respectively. Southwest has over 5,000 Chicago-based employees, with an estimated annual expenditure of \$457 million in annual salaries and benefits.

In 2015, Southwest enplaned 20.8% of airline passengers at Chicago airports (Southwest's share of total U.S. enplanements through July 2015 was 18.4%) and represented approximately 57% of Midway operating revenues. This distribution is similar to other large population centers with more than one commercial airport, most of these regions also having one airport that is largely served by Southwest.



¹ Data include both Southwest and AirTran enplanements.

Source: U.S. DOT T100 January 2016; Chicago Department of Aviation, Airport Activity Statistics, December 2015; CSA population rank: Woods & Poole Economics, 2015.

Note: Enplanement data are for the twelve months ending January 2016. Excludes general aviation, military, helicopter and miscellaneous passengers included in the Chicago Department of Aviation management records.

Southwest passengers accounted for approximately 92.4% of PFCs collected at Midway in 2015. See “CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY–Southwest Airlines.”

**TOP 10 AIRPORTS IN SOUTHWEST’S NETWORK
BY SHARE OF TOTAL SOUTHWEST PASSENGERS
2015¹**

Airport Code	Airport Name	Share of Total Southwest Passengers
MDW	Midway Airport	7.1%
LAS	McCarran International Airport	6.1%
BWI	Baltimore–Washington International Airport	5.7%
DEN	Denver International Airport	5.3%
PHX	Phoenix Sky Harbor International Airport	4.8%
DAL	Dallas Love Field	4.2%
HOU	William P. Hobby Airport	3.9%
ATL	Hartsfield–Jackson Atlanta International Airport	3.4%
MCO	Orlando International Airport	3.4%
LAX	Los Angeles International Airport	3.0%

¹ For the 12 months ending September 2015.

Source: Chicago Department of Aviation.

In 2015, Midway accounted for 7.1% of all passengers within Southwest’s network. Since 2012, Southwest has increased seating capacity by reconfiguring its existing 737 fleet and deploying the 737-800 aircraft, which has 28% more seating than the standard 737 configuration. As of January 2016, Midway had the highest average daily seat capacity (34,840) as well as the most daily flights onboard 737-800 aircraft (58) within the Southwest network. Since March 2010, Southwest has also added service to 17 destinations from Midway, as well as redeployed AirTran service to connect new cities with flights to and from Midway.

The following table identifies the historical market shares of the airlines listed based on enplaned passengers by airline at Midway.

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CHICAGO MIDWAY INTERNATIONAL AIRPORT
HISTORICAL ENPLANEMENT BY AIRLINE
2011-2015

	2011		2012		2013		2014		2015	
Airline	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share
Southwest	8,610,119	92.1%	8,902,641	92.0%	9,347,798	92.0%	9,646,176	91.9%	10,281,189	93.4%
Delta ¹	461,287	4.9%	450,157	4.7%	435,989	4.3%	486,182	4.6%	490,974	4.5%
Frontier	158,405	1.7%	144,496	1.5%	161,456	1.6%	157,835	1.5%	8,658	0.1%
Volaris	50,390	0.5%	96,385	1.0%	108,896	1.1%	95,082	0.9%	110,969	1.0%
Porter	65,946	0.7%	72,075	0.7%	72,423	0.7%	78,556	0.7%	81,980	0.7%
Sun Country	–	N/A	–	N/A	24,889	0.2%	28,046	0.3%	25,065	0.2%
Others ²	6,619	0.1%	5,865	0.1%	3,938	0.0%	5,850	0.1%	4,862	0.0%
Airport Total	9,352,766	100.0%	9,671,619	100.0%	10,155,389	100.0%	10,497,727	100.0%	11,003,697	100.0%

¹ Includes regional affiliates.

² Includes activity for charters and airlines no longer serving the Airport.

Source: City of Chicago, Chicago Department of Aviation Management Records, January 2016.

Prepared by: Ricondo & Associates, Inc., January 2016.

Midway Management

Midway is operated by the City through the CDA, which oversees planning, operations, safety and security, and finance and administration at Midway and O'Hare. CDA is headed by Ginger S. Evans, Commissioner of Aviation, who has overall responsibility for the management, planning and operation of the City's airports. The City's Appropriation Ordinance for 2016 provides for a CDA staff of 150 budgeted employees for Midway. Midway's staff is complemented by 50 seasonal employees for the winter season.

Budget Procedures

Midway is governed in its financial transactions by the City's annual appropriation ordinance and applicable bond ordinances and follows the City's budget process. The City is required to pass an annual appropriation ordinance prior to the beginning of each fiscal year. CDA submits its proposed budget for the following fiscal year, including the proposed budget for Midway, to the City's Budget Director for inclusion in the proposed City budget. The Budget Director includes a proposed budget for CDA in the City's budget proposal for approval by the Mayor who submits the City budget to the City Council for approval. The City Council adopted the budget for the City's 2016 fiscal year on October 28, 2015.

Customer Facility Charges and Rental Car Concession License Agreements

Customer Facility Charges. In April 2013, the City opened a new consolidated rental car facility (the "*Consolidated Rental Car Facility*") to serve Midway. On September 1, 2005, the rental car companies operating at Midway began collecting a Customer Facility Charge ("*CFC*") of \$3.75 per contract day from customers who rented cars at Midway, which CFC was increased to \$4.75 per contract day as of July 1, 2015. Construction was financed through a combination of CFC revenues collected from rental car customers at Midway and the proceeds of the Series 2010C Second Lien Bonds. While CFC revenues are pledged to secure the Series 2010C Second Lien Bonds, CFC revenues are not included in Revenues pledged to secure the Bonds or any Second Lien Bonds other than the Series 2010C Second Lien Bonds.

Rental Car Concession License Agreements. Each of the on-airport rental car companies operating at the Consolidated Rental Car Facility has entered into a Rental Car Concession License Agreement (a "*Concession Agreement*"), with a term of 30 years. The Concession Agreements establish a concession fee ("*Rental Car Concession Fee*") for each rental car company operating at the Consolidated Rental Car Facility, consisting of a minimum annual guarantee and a percentage of gross revenues above such minimum annual guarantee, payable to the City and included in Revenues pledged to secure the Bonds. In addition, rental car companies which do not operate at the Consolidated Rental Car Facility ("*Off-Airport Rental Car Companies*") but which desire to pick up rental car customers at Midway must enter into an Off-Airport Rental Car Concession License Agreement pursuant to which such Off-Airport Rental Car Companies agree to pay a Rental Car Concession Fee to the City and to collect and deliver CFCs to the City. Such Rental Car Concession Fees, but not the CFCs, are included in Revenues pledged to secure the Bonds. Off-Airport Rental Car Companies must only pick up customers at the Consolidated Rental Car Facility and not at the terminal.

2016-2022 CAPITAL IMPROVEMENT PROGRAM

The City is undertaking the 2016-2022 Capital Improvement Program (“2016-2022 CIP”) for Midway. The 2016-2022 CIP is estimated to cost approximately \$458.3 million, and is anticipated to be funded from the following sources: proceeds of Airport Obligations, including the Bonds, federal funds and other Midway funds. The 2016-2022 CIP does not include airfield capacity enhancement plans. A portion of the proceeds of the Bonds is to be used to fund the Airport Projects which consist of certain projects contained in the 2016-2022 CIP. See “APPLICATION OF BOND PROCEEDS—Airport Projects.”

Significant future growth at Midway will ultimately be constrained by the capacity of its available airfield facilities. In addition to those projects included in the 2016-2022 CIP, the City is in the process of reviewing other projects that were evaluated during its procurement of a potential lease of the Airport. These projects include additional parking facilities and the possible expansion of the concession area which would be accomplished in conjunction with the widening of the security checkpoint already included in the 2016-2022 CIP as described below. These projects are in the preliminary planning stages and their estimated cost and non-airline revenue impacts have not been included in the 2016-2022 CIP or Midway revenue projections. For a more complete discussion of the 2016-2022 CIP and the projects included therein, see APPENDIX F—“REPORT OF THE AIRPORT CONSULTANT.”

2016-2022 CIP Projects

Airfield and Support Facilities. Approximately \$99.3 million for airfield and airfield support facilities improvements and upgrades are included in the CIP. Airfield improvements include rehabilitations of the airfield’s major runways and taxiways, airfield maintenance complex improvements, service roads, lighting and cabling and electrical systems.

Terminal Area Project and Safety and Security Improvements. Approximately \$126.9 million for terminal enhancements and safety and security improvements. These include construction of a Passenger Security Checkpoint Expansion Project which will add approximately 80,000 square feet to the existing passenger screening area for passenger queuing. The project will also provide for the modification and redevelopment of the Federal Inspection Services Bag Claim Area and expansion of the baggage handling system. The remainder will be used for infrastructure improvements and upgrades to the mechanical, electrical, fire protection, lighting, building control and heating and refrigeration systems.

Parking and Roadway Projects. Approximately \$137.5 million in planned parking and roadway improvements, which include the expansion of the terminal parking garage to add approximately 1,350 parking spaces. The remainder will be used for terminal parking structure improvements to include automated revenue control equipment and lighting system upgrades.

Noise Mitigation Projects. Approximately \$54.7 million to sound-insulate 2,188 homes located within the 65 Day-Night Average Sound Level (DNL) or greater contour level in the FAA-approved future noise contour.

Land Acquisition. Approximately \$9.7 million for the acquisition of parcels within the Runway Protection Zones, and for remediation, demolition, and airport compatible development.

Implementation. Approximately \$30.2 million is included in the 2016-2022 CIP for implementation costs.

The City has received all regulatory approvals to proceed with the 2016-2022 CIP.

The estimated sources and uses of funds for all of the anticipated costs of the 2016-2022 CIP are set forth in the following table.

**CHICAGO MIDWAY INTERNATIONAL AIRPORT
CAPITAL IMPROVEMENT PROGRAM 2016-2022
SOURCES AND USES (in thousands)**

ESTIMATED SOURCES:

Airport Improvement (AIP) Grants	\$ 20,425
Other Federal Funds (TSA) Grants	3,719
Series 2010 Bonds	26,205
Series 2014 Bonds	76,308
The Bonds	308,002
Future Airport Obligations	<u>23,634</u>
 TOTAL ESTIMATED SOURCES	 <u><u>\$458,293</u></u>

ESTIMATED USES:

Terminal Projects ¹	\$118,330
Land Acquisition	9,739
Airfield/Terminal Ramp/Support Facilities	99,323
Parking and Roadway Projects	137,459
Noise Mitigation	54,696
Safety and Security	8,584
Implementation	<u>30,162</u>
 TOTAL ESTIMATED USES	 <u><u>\$458,293</u></u>

¹ Terminal area projects are a reclassification of projects which were previously included in airfield and terminal projects.
Source: City of Chicago Department of Aviation.

2016-2022 CIP Funding Sources

The City anticipates that the 2016-2022 CIP will be funded from the federal Airport Improvement Program (“AIP”), proceeds of Second Lien Bonds (including the Bonds), PFC revenues, CFC Revenues, Midway funds and certain investment earnings. The estimated sources and uses of funds for the 2016-2022 CIP are set forth in the preceding table.

Midway Airport Revenue Bonds. The Bonds will be issued to fund approximately \$308 million of project costs necessary to complete the 2016-2022 CIP. The amount of indebtedness required for the 2016-2022 CIP could increase for a variety of reasons, including costs of additional security improvements and reductions in PFC revenues and AIP Grant Reimbursements, as discussed below under the caption “–Uncertainties in Funding the 2016-2022 CIP.”

Passenger Facility Charge Revenues. In 1990, the United States Congress enacted legislation (the “PFC Act”) authorizing a public agency, such as the City, which controls a commercial service airport to charge each paying passenger enplaning at the airport (subject to limited exceptions) a PFC of \$1.00, \$2.00 or \$3.00. The purpose of the PFC is to provide additional capital funding for the expansion of the national airport system. The proceeds from PFCs are to be used to finance eligible airport-related projects that preserve or enhance safety, capacity or security of the national air transportation system; reduce noise from an airport that is part of such system; or furnish opportunities for enhanced competition between or among air carriers. Before imposing and using PFCs, a public agency must apply to the FAA for approval. PFCs are collected on behalf of airports by air carriers and their agents (the “Collecting Carriers”) and remitted to the City on a monthly basis. The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (“AIR 21”), among other things, amended the PFC Act to authorize eligible public agencies such as the City to impose PFCs of \$4.00 or \$4.50 to finance PFC eligible projects, including the payment of debt service on indebtedness incurred to finance such projects, that cannot be paid for from funds reasonably expected to be available through the AIP, subject to certain other conditions. On January 1, 2007, pursuant to authorization contained in AIR 21 and amended PFC Approvals received from the FAA, the City began imposing PFCs at Midway at the rate of \$4.50 per eligible enplaned passenger. Regardless of the number of PFC applications which have been approved by the FAA, eligible public agencies, such as the City, can only collect a maximum of \$4.50 from each eligible enplaning passenger.

Funds apportioned under the AIP to large and medium hub airports imposing a PFC are reduced for each fiscal year in which a PFC is imposed (i) for airports imposing a PFC of \$3.00 or less, by 50% of the projected revenues from the PFC in such fiscal year and (ii) for airports (such as Midway) imposing a PFC of more than \$3.00, by 75% of the projected revenues from the PFC in such fiscal year. Such reduction will not exceed more than 50% or 75%, respectively, of the AIP apportionment to which such airport would otherwise be entitled.

AIR 21 provides that in the case of large or medium hub airports at which one or two air carriers control more than 50% of passenger boardings (such as Midway), no public agency may

impose a PFC with respect to such airport unless the public agency has submitted a written competition plan to the FAA. The City is in compliance with this requirement of AIR 21.

The City currently has authority to impose and use approximately \$2.21 billion of PFCs at Midway, of which the City had expended approximately \$606.2 million through the end of 2015. The City expects from time to time to file additional applications and/or amend existing applications to increase its authority to impose and use PFCs at Midway.

The FAA may terminate the City's authority to impose PFCs, subject to informal and formal procedural safeguards, if the FAA determines that (i) the City is in violation of certain provisions of the federal Airport Noise and Capacity Act of 1990 relating to airport noise and access restrictions, (ii) PFC collections and investment income thereon are not being used for PFC-approved projects in accordance with the PFC approvals applicable to the City's PFC program (the "*PFC Approvals*"), or with the PFC Act and the PFC regulations adopted by the FAA (the "*PFC Regulations*"), (iii) implementation of a PFC-approved project does not commence within the time period specified in the PFC Act and PFC Regulations, or (iv) the City is otherwise in violation of the PFC Act, the PFC Regulations or the PFC Approvals. The City has not received notice of any such determination by the FAA. The informal resolution and formal termination processes of the FAA lasting at least 180 days will be required before the FAA can terminate the City's authority to impose PFCs.

The City expects that certain projects will be funded from proceeds of First Lien Bonds and Second Lien Bonds, the debt service on which will be paid with PFC revenues ("*PFC-eligible debt service*"). In addition, under the PFC Regulations, a portion of the debt service on the Bonds may also qualify as PFC-eligible debt service to the extent proceeds of the Bonds are used to refund outstanding Airport Obligations the proceeds of which were used to fund eligible airport-related projects. The City has agreed in the Airport Use Agreements to use PFC revenues to pay PFC-eligible debt service on First Lien Bonds and Second Lien Bonds the proceeds of which are used by the City to pay for capital projects approved by the FAA for the collection and use of a PFC at Midway. The airline rates and charges calculations contained in the Report of the Airport Consultant reflect the assumed use of PFC revenues to pay a certain portion of PFC-eligible debt service on the First Lien Bonds, Outstanding Second Lien Bonds and the Bonds.

Uncertainties Related to PFC Revenues. A number of factors may affect the amount of PFC revenues available to the City. The amount of PFC revenues collected by the City in future years will vary based upon the actual number of passenger enplanements at Midway and no assurance can be given that the levels of enplanements set forth in the Supplemented Report of the Airport Consultant will be realized, particularly in light of the current uncertainties in the airline industry. In addition, additional FAA approvals will be required to permit the City to achieve the levels of projected PFC revenues currently assumed in the Supplemental Report of the Airport Consultant to be used to pay PFC-eligible debt service on First Lien Bonds and Outstanding Second Lien Bonds. Furthermore, under the PFC Act, the FAA may terminate the City's authority to impose a PFC under the circumstances described above under "*PFC Program at Midway*." See "CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY—Effect of Airline Bankruptcy."

PFC revenues do not constitute Revenues as defined in the Second Lien Indenture and are not pledged to or held by the Second Lien Trustee for the benefit of the owners of the Bonds unless and until they are specifically transferred to the Second Lien Trustee for deposit into the respective Dedicated Sub-Funds as Other Available Moneys. The City expects, however, that to the extent that PFC revenues are available to the City, the City will use PFC revenues to pay PFC-eligible debt service on various series of First Lien Bonds and Second Lien Bonds, including the Bonds. See “SECURITY FOR THE BONDS—Other Available Moneys.”

Federal AIP Grants. The Airport and Airway Improvement Act of 1982 created the AIP grant program, which is administered by the FAA. The AIP grants include entitlement grants, which are allocated among airports by the FAA in accordance with a formula based on enplanements, and discretionary grants, which are allocated by the FAA in accordance with its guidelines. The City’s commitment to allocate grant funds to debt service ended in 2009. The City expects to continue to apply PFCs for PFC-eligible debt service. Based on the Airport Consultant’s enplanement forecasts, Midway is estimated to receive an average of approximately \$3.0 million per year of entitlement funding (net of the reduction of certain entitlement funds required as a result of imposing a \$4.50 PFC). Midway has PFC collection authority through 2054. However, such forecast and estimate with respect to entitlement funding are based upon a number of assumptions which, although considered reasonable by the City, are inherently subject to certain uncertainties and contingencies. As entitlement grant amounts will vary based upon enplanements at Midway, no assurance can be given that the levels of enplanements set forth in the Report of the Airport Consultant will be realized, particularly in light of the current uncertainties in the airline industry. Actual entitlement funding levels may vary significantly and such differences may be material.

Uncertainties in Funding the 2016-2022 CIP

All of the amounts presented above are preliminary and based on numerous assumptions which are subject to change. Changes in various assumptions could cause an increase in the amount of the proceeds of additional Airport Obligations which are projected to be required to complete the funding of any of the elements of the 2016-2022 CIP described above, including the Airport Projects. The estimated costs of, and the projected schedule for, the projects included in the 2016-2022 CIP depend on various sources of funding, and are subject to a number of uncertainties including: estimating errors, design and engineering errors, changes to the scope of these projects, delays in contract awards, material and/or labor shortages, litigation, unforeseen site conditions, adverse weather conditions, contractor defaults, labor disputes, unanticipated levels of inflation, and environmental issues, including environmental approvals that the City has not obtained at this time. There can be no assurance that the cost of construction of the projects included in the 2016-2022 CIP will not exceed the currently projected amounts or that the completion will not be delayed beyond the currently projected completion dates. Any schedule delays or cost increases could result in the need to issue additional Airport Obligations and may result in increased costs per enplaned passenger to the airlines serving Midway.

MIDWAY FINANCIAL INFORMATION

Historical Operating Results

The following is a summary of Midway's operating revenues and O&M expenses for the five-year period ended December 31, 2010 through 2014. See APPENDIX D—"AUDITED FINANCIAL STATEMENTS."

CHICAGO MIDWAY INTERNATIONAL AIRPORT HISTORICAL OPERATING RESULTS

2010 – 2014

(in thousands)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Operating Revenues:					
Landing Fees	\$35,299	\$38,583	\$32,143	\$42,516	\$42,539
Rental Revenues					
Terminal Area Use Charges	42,895	40,862	38,769	47,486	40,916
Other Rentals and					
Fueling System Fees	<u>21,488</u>	<u>24,978</u>	<u>32,202</u>	<u>26,004</u>	<u>24,197</u>
Subtotal Rental Revenues	\$64,383	\$65,840	\$70,971	\$73,490	\$65,113
Concessions					
Auto Parking	\$27,849	\$29,112	30,830	32,721	34,226
Auto Rentals	8,182	8,776	9,021	10,255	10,743
Restaurant	8,151	8,875	9,686	10,179	11,090
News and Gifts	3,488	3,551	3,486	3,619	3,761
Other	<u>1,704</u>	<u>2,634</u>	<u>1,696</u>	<u>2,409</u>	<u>2,787</u>
Subtotal Concessions	<u>\$49,374</u>	<u>\$52,948</u>	<u>\$54,719</u>	<u>\$59,183</u>	<u>\$62,607</u>
Total Operating Revenues	<u>\$149,056</u>	<u>\$157,371</u>	<u>\$157,833</u>	<u>\$175,189</u>	<u>\$170,259</u>
Operation & Maintenance Expenses:					
Salaries and Wages ⁽¹⁾	\$42,105	\$43,554	\$44,463	\$43,998	\$47,836
Repair and Maintenance	31,942	40,732	37,990	39,606	44,160
Professional and Engineering					
Services	15,832	15,650	15,011	19,144	23,255
Energy	6,724	6,415	7,258	7,205	7,060
Materials and Supplies	1,522	1,418	1,318	1,927	1,971
Other Operating Expenses	<u>10,211</u>	<u>2,320</u>	<u>8,257</u>	<u>9,236</u>	<u>5,314</u>
Total O&M Expenses Before					
Depreciation and Amortization	<u>\$108,336</u>	<u>\$110,089</u>	<u>\$114,297</u>	<u>\$121,116</u>	<u>\$129,596</u>
Net Operating Income Before					
Depreciation and Amortization ⁽²⁾	<u>\$40,720</u>	<u>\$47,282</u>	<u>\$43,536</u>	<u>\$54,073</u>	<u>\$40,663</u>

⁽¹⁾ Salaries and Wages figures include charges for pension, health care and other employee benefits.

⁽²⁾ Amount for 2014 may be reconciled to operating loss of \$5,500 reported in the 2014 Statement of Revenue, Expenses and Changes in Net Position of the Audited Financial Statements by deducting Depreciation and Amortization of \$46,163. Amount for prior years may be reconciled through similar calculations.

Sources: Chicago Midway Airport Audited Financial Statements and City Comptroller's Office.

Discussion of Financial Operations

The “Historical Operating Results” table on the prior page summarizes Midway’s audited financial results for the years 2010 through 2014. Operating revenues are comprised of landing fees, terminal area use charges, other rentals and concessions. O&M expenses are comprised of salaries and wages, repairs and maintenance, professional and engineering services, energy, materials and supplies, and other operating expenses which include insurance premiums, equipment rentals, vehicles and various miscellaneous costs.

The City charges the Signatory Airlines based on a projection of, and recognizes revenues from, the Signatory Airlines only to the extent required to fund the net airline requirement (equal to O&M expenses, net debt service requirements and fund deposit requirements less non-airline revenues and airport development fund (“*ADF*”) transfer). Terminal area use charges/rental and other rentals and fueling fees decreased by approximately \$6.6 million and \$1.8 million, respectively, in 2014 compared to 2013, as a result of an increase in non-airline revenues of approximately \$3.4 million, offsetting an increase in O&M expenses of \$8.5 million.

The increase in non-airline revenues of \$3.4 million from 2013 to 2014 was primarily due to increases in parking revenue of \$1.5 million due to increased utilization of parking facilities, restaurant revenue of \$.9 million, rent received from rental car companies of \$.5 million and other concessions of \$.4 million.

The increase in total O&M expenses before depreciation and amortization of approximately \$8.5 million from 2013 to 2014 was primarily due to an increase in salaries and wages of approximately \$3.8 million for police and fire protection and due to increases in the repairs and maintenance of approximately \$4.6 million for snow removal costs and terminal facilities costs. Other operating expenses decreased by approximately \$3.9 million primarily due to a reduction in litigation claim payments.

The 2015 Financial Statements will be completed by June 30, 2016. The below 2015 information is based upon unaudited 2015 financial information and is subject to change.

The Airport contractually operates under a residual agreement, whereby fees are established for airline parties based on budgeted O&M Expenses, certain debt service, and to a much lesser extent, fund deposits less concession revenue. A settlement is completed after the year end to adjust budget amounts to actual. The entry reflecting this settlement has not yet been completed.

Landing fees increased in 2015 over 2014, however, the increase does not yet reflect the end of year adjustment discussed above. Concession revenue increased in 2015 over 2014 by approximately \$3.0 million. This increase is attributed, in part, to increases in both parking and rental car fees. Operating expenses are expected to increase in 2015 over 2014, but remain within the Rates & Charges budget of \$138.0 million.

Cash Balances

As of December 31, 2014, Midway's unrestricted cash and investments balance was \$40.4 million and its restricted cash and investments balance was \$439.2 million, compared to December 31, 2013 balances of \$69.5 million and \$333.6 million, respectively. The \$29.1 million decrease in unrestricted cash and investments was due primarily to payments of balances owed to the Signatory Airlines in the amount of \$25.4 million from prior years' billings over amounts earned (deferred revenues). The \$105.6 million increase in restricted cash and investments was mainly due to an increase of \$120.0 million in construction funds, an increase in the capitalized interest accounts of \$4.5 million, offset by a decrease in the debt service fund of \$16.6 million.

Insurance

The City's property and liability insurance premiums are approximately \$8.8 million per year. The City maintains property and liability insurance coverage for both O'Hare and Midway and allocates the cost of the premiums between the two airports. The property coverage was renewed on December 31, 2015 with a limit of \$3.5 billion and includes \$3.5 billion in terrorism coverage, and the liability coverage was renewed May 15, 2016 with a limit of \$1 billion and includes \$1 billion in war and terrorism liability coverage.

Pension and Other Post-Employment Benefit Costs

Midway employees, and City police and fire employees that work at Midway, participate in one of four single-employer defined-benefit pension plans for City employees: the Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF"), the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago ("LABF"), the Policemen's Annuity and Benefit Fund of Chicago ("PABF") and the Firemen's Annuity and Benefit Fund of Chicago ("FABF" and, together with MEABF, LABF, and PABF, the "*Retirement Funds*"). Under the Fiscal Year 2016 budget adopted by the City Council on October 28, 2015, there were 219 full time equivalent ("*FTE*") budgeted positions for Midway in the MEABF, 40 FTE budgeted positions for Midway in the LABF, 56 budgeted FTE positions for Midway in the PABF and 68 FTE budgeted positions for Midway in the FABF. Midway pays for the estimated pension cost applicable to the covered payroll of employees, including City police and fire employees who work at Midway, and those expenditures are recorded as operating expenses.

The City's contributions to the Retirement Funds, of which Midway contributes a portion, are determined pursuant to the formulas set forth in the Illinois Pension Code (the "*Pension Code*"). The City's contributions to PABF and FABF will increase substantially with the contribution to be made during 2016 as a result of the implementation of Public Act 96-1495. Pursuant to Public Act 098-641 ("*P.A. 98-641*"), the City's contributions to MEABF and LABF were scheduled to increase beginning in 2016; however, the Illinois Supreme Court determined P.A. 98-641 to be unconstitutional. As a result of such determination by the Illinois Supreme Court, the provisions of the Pension Code governing the City's contributions to MEABF and LABF have reverted to the provisions in effect prior to the enactment of P.A. 98-641. The respective actuaries for MEABF and LABF project that such Retirement Funds will not have

sufficient assets on hand to make payments to beneficiaries in 2025 and 2027, respectively. The City makes no prediction as to the impact of the insolvency of MEABF or LABF on the amount of the City's contributions to these Retirement Funds. However, should the City be required to contribute the amounts necessary to fund directly such payments to beneficiaries on a pay-as-you-go basis upon the insolvency of such Retirement Funds, the amount of the City's contributions to MEABF and LABF would substantially increase. For additional information, see APPENDIX G—"RETIREMENT FUNDS—Payment for Pension Benefits".

On May 23, 2016, the City announced that it had reached an agreement regarding LABF with both unions representing City employees who are members of LABF. If enacted into law, this agreement would increase employee contributions and modify pension benefits for employees hired on or after January 1, 2017, and provide employees hired between January 1, 2011, and December 31, 2016, with the option to become eligible for the payment of benefits at age 65 (as opposed to age 67 under current law) in exchange for an increase in employee contributions from 8.5 percent to 11.5 percent of their salary. In addition, the agreement would modify the manner in which the City contributes to LABF by increasing the City's contributions over a five-year period (the "*Ramp Period*") to certain agreed-upon percentages of the actuarially required contribution beginning with the contribution to be made in fiscal year 2018. After the Ramp Period, the City would contribute the actuarially determined amount necessary to achieve a Funded Ratio of 90 percent in LABF by 2057. The City expects that legislation encompassing this agreement will be introduced into the Illinois General Assembly in the fall of 2016, and the City intends to support the adoption of such legislation. The City can give no assurance as to whether such legislation will ultimately become law.

Midway treats the pension costs paid by Midway as O&M Expenses for purposes of determining Net Revenues available for payments due on bonds.

As described in APPENDIX G—"RETIREMENT FUNDS—Other Post-Employment Benefits," the City and the Retirement Funds currently share the cost of post-employment healthcare benefits available for certain retired City employees (the "Health Plan"). The City has announced plans to phase-out such benefits by 2017 for certain retirees. Prior to June 30, 2013, the City contributed to the Health Plan pursuant to a settlement agreement between the City and the Retirement Funds. After expiration of the settlement, certain of the affected participants filed a lawsuit to reactivate the litigation covered by the settlement, which lawsuit remains pending. For further information on the status of the Health Plan after June 30, 2013, including certain State and federal litigation relating to the Health Plan and the settlement agreement, see APPENDIX G—"RETIREMENT FUNDS—Other Post-Employment Benefits."

The Projections contained in the Report of the Airport Consultant do not take into consideration any changes to O&M Expenses that are expected to result from increases in the City's pension costs as a result of the obligations described in APPENDIX G—"RETIREMENT FUNDS." For additional information on the City's retirement funds and the Health Plan, see APPENDIX G—"RETIREMENT FUNDS."

Midway Indebtedness

General. The City has financed capital improvements at Midway through the issuance of the First Lien Bonds, Second Lien Bonds and CP Notes and from AIP and Transportation Security Administration (“TSA”) Federal Grants, PFC revenues, CFC revenues, airline contributions and other Midway funds. After issuance of the Bonds, the City’s indebtedness at Midway consists of \$28,730,000 aggregate principal amount of First Lien Bonds and \$1,752,875,000 aggregate principal amount of Second Lien Bonds. The claim of the First Lien Bonds to Net Revenues of Midway is senior to the Second Lien Bonds.

Variable Rate Debt. The City’s outstanding indebtedness at Midway includes certain series of variable rate debt obligations. These obligations are supported by letters of credit provided by banks for the payment of debt service or tender prices for the bonds. The following table sets forth information on the bond letter of credit facilities for the City’s outstanding variable rate debt obligations for Midway.

LETTER OF CREDIT FACILITIES

SECOND LIEN BOND SERIES	PRINCIPAL AMOUNT OUTSTANDING	LOC EXPIRATION DATE	BOND MATURITY DATE	BANK	RATINGS THRESHOLDS*		
					FITCH	MOODY’S	S&P
2004C-1	\$54,725,000	11/25/2016	1/1/2035	Bank of Montreal	BBB-	Baa3	BBB-
2004C-2	\$64,425,000	11/25/2016	1/1/2035	Wells Fargo	BBB-	Baa3	BBB-
2004D	\$13,050,000	11/25/2016	1/1/2035	Bank of Montreal	BBB-	Baa3	BBB-
2014C	\$124,710,000	11/25/2017	1/1/2044	JPMorgan Chase Bank, N.A.	BBB-	Baa3	BBB-

*A Midway Second Lien Bond rating below the level set forth in the “Ratings Thresholds” column would constitute an event of default under the agreements with the related banks.

Swap Agreements. The City entered into the interest rate swaps set forth below as a means of limiting, reducing or managing the City’s interest cost with respect to certain bonds issued for Midway, limiting the interest rate risk inherent in variable rate debt. However, the interest rate swaps may expose the City to certain market and credit risks. The City may terminate the interest rate swaps at any time at market value, or upon the occurrence of certain events.

In 2004, the City entered into separate Qualified Swap Agreements related to the Series 2004C and Series 2004D variable rate bonds with two Swap Providers, JPMorgan Chase Bank National Association and Goldman Sachs. In April 2011, the JPMorgan Chase Bank National Association swap agreement was novated to Wells Fargo and the City now pays 4.247% on a notional amount of \$52,280,000 of the outstanding Series 2004C and Series 2004D Bonds. The Goldman Sachs swap agreement requires the City to pay 4.174% on a notional amount of \$79,320,000 of the outstanding Series 2004C and Series 2004D Bonds. The following chart provides information on these swap agreements as of March 31, 2016.

SWAP AGREEMENTS

SECOND LIEN BOND SERIES	CURRENT NOTIONAL AMOUNT	COUNTERPARTY	TYPE	CITY RECEIVES	CITY PAYS	EFFECTIVE DATE	TERMINATION DATE	TOTAL MARK-TO-MARKET
2004C&D	\$79,320,000	Goldman Sachs	Floating-to-Fixed	SIFMA + .05%	4.174%	12/9/2004	1/1/2035	(\$21,153,896)
2004C&D	\$52,280,000	Wells Fargo	Floating-to-Fixed	SIFMA + .05%	4.247%	4/21/2011	1/1/2035	(\$14,845,937)

The Qualified Swap Agreements entered into in 2004 were amended in connection with the conversion and reoffering of the Series 2004C and Series 2004D Bonds to remove and cancel bond insurance policies on the City's payment obligations thereunder. The terms of these are more fully described in Note 4 to the Audited Financial Statements of Midway included as APPENDIX D—"AUDITED FINANCIAL STATEMENTS" under the subheading "LONG-TERM DEBT—*Hedging Derivatives*."

In connection with Qualified Swap Agreements entered into in 2004 and 2011 described above, the City has entered into a credit support annex to secure potential termination payments on such Qualified Swap Agreements. In certain circumstances relating to market conditions and the financial creditworthiness of the Swap Provider, the credit support annex requires the Swap Provider to post collateral. Presently, only the Swap Providers are required to post collateral under the respective credit support annexes. The Airport and counterparties do have additional termination events ("ATE"). Each party is required to maintain a credit rating at or above Baa1/BBB+. In the event a party's credit rating falls below this level, the other party is authorized to terminate the credit support annex. For this and other reasons, the City regularly monitors Swap Provider creditworthiness. If the interest rate swaps are terminated, the related bonds would continue to bear interest at a variable rate (unless converted by the City to a fixed rate), and the City could be liable for a termination payment if the swaps have a negative market value. As of March 31, 2016, the estimated aggregate mark-to-market valuation for the two interest rate swaps listed above is negative \$35,999,833. This estimate is based on the information provided by each counterparty and has not been independently verified by the City.

Commercial Paper. In October 2003, the City established the CP Program providing for the issuance, from time to time, of CP Notes in an initial aggregate principal amount outstanding at any one time of not to exceed \$150 million. The CP Notes are authorized to be issued for payment, or the reimbursement of the City for the payment, of the cost of all or any portion of capital projects at or related to Midway, cash flow needs at Midway, the refunding of general airport revenue bonds and special facility revenue bonds and the payment of the costs of issuance of CP Notes. By ordinance adopted on March 13, 2013, the City increased the aggregate principal amount of CP Notes which may be outstanding at any one time under the CP Program to \$250 million. However, the City has only obtained credit support for CP Notes under the CP Program in an amount not to exceed \$85 million as set forth in the following chart.

COMMERCIAL PAPER LETTER OF CREDIT FACILITIES

CP NOTE SERIES	LOC EXPIRATION DATE	BORROWING AUTHORITY	BANK	RATINGS THRESHOLDS*		
				FITCH	MOODY'S	S&P
2003A-D	7/12/2017	\$85,000,000	JPMorgan Chase Bank, N.A.	BBB-	Baa3	BBB-

* A Midway second lien debt rating below the level set forth in the "Ratings Thresholds" column would constitute an event of default under the agreements with the related banks.

CP Notes are subordinate to all other Airport Obligations, including the Second Lien Bonds, with respect to their claim on Revenues. At the present time, there are no CP Notes outstanding. Later in 2016, the City intends to replace the CP program with a new line of credit with one or more banks in a principal amount up to \$100 million. The new line of credit will be subordinate to all other Airport Obligations, including the Second Lien Bonds, with respect to its claim on Revenues.

Debt Service Schedule. The table below sets forth aggregate annual debt service for the Outstanding First Lien Bonds and the Outstanding Second Lien Bonds, based on the stated maturity of the Outstanding First Lien Bonds and the Outstanding Second Lien Bonds, as well as the Bonds.

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**DEBT SERVICE SCHEDULE
OF OUTSTANDING FIRST LIEN BONDS AND SECOND LIEN BONDS⁽¹⁾**

YEAR ENDING JAN. 1	TOTAL DEBT SERVICE ON OUTSTANDING FIRST LIEN BONDS	TOTAL DEBT SERVICE ON OUTSTANDING SECOND LIEN BONDS⁽²⁾	TOTAL DEBT SERVICE ON SERIES 2016A BONDS	TOTAL DEBT SERVICE ON SERIES 2016B BONDS	TOTAL DEBT SERVICE ON SECOND LIEN BONDS ⁽²⁾	TOTAL AGGREGATE DEBT SERVICE ⁽²⁾
2017	\$4,535,150	\$ 83,236,533	\$ 4,577,838	\$ 11,111,788	\$ 98,926,162	\$ 103,461,312
2018	4,532,625	86,110,937	6,700,250	14,388,750	107,199,937	111,732,562
2019	4,536,300	92,288,022	6,698,250	14,383,150	113,369,422	117,905,722
2020	4,535,350	95,725,612	12,459,850	14,381,550	122,567,012	127,102,362
2021	4,534,500	99,256,614	12,456,850	14,386,550	126,100,014	130,634,514
2022	4,533,200	102,893,496	12,467,100	14,385,800	129,746,396	134,279,596
2023	4,540,900	113,173,986	12,454,100	9,519,050	135,147,136	139,688,036
2024	4,536,500	112,642,062	12,458,100	9,519,050	134,619,212	139,155,712
2025	—	118,263,098	11,187,350	9,519,050	138,969,498	138,969,498
2026	—	117,120,946	11,189,600	9,519,050	137,829,596	137,829,596
2027	—	115,997,619	11,188,350	9,519,050	136,705,019	136,705,019
2028	—	114,890,074	11,187,850	9,519,050	135,596,974	135,596,974
2029	—	113,800,851	11,187,100	9,519,050	134,507,001	134,507,001
2030	—	112,730,943	11,190,100	9,519,050	133,440,093	133,440,093
2031	—	111,679,269	11,190,600	9,519,050	132,388,919	132,388,919
2032	—	110,642,443	11,187,600	9,519,050	131,349,093	131,349,093
2033	—	109,620,824	11,013,600	9,699,050	130,333,474	130,333,474
2034	—	108,621,951	—	20,708,650	129,330,601	129,330,601
2035	—	107,639,471	—	20,705,850	128,345,321	128,345,321
2036	—	32,871,012	—	20,705,250	53,576,262	53,576,262
2037	—	36,976,981	—	20,710,000	57,686,981	57,686,981
2038	—	36,978,923	—	20,709,250	57,688,173	57,688,173
2039	—	36,978,260	—	20,706,750	57,685,010	57,685,010
2040	—	36,980,811	—	20,706,000	57,686,811	57,686,811
2041	—	37,046,890	—	20,705,250	57,752,140	57,752,140
2042	—	37,401,024	—	20,707,750	58,108,774	58,108,774
2043	—	38,256,198	—	20,706,500	58,962,698	58,962,698
2044	—	39,141,327	—	20,709,750	59,851,077	59,851,077
2045	—	—	—	20,710,250	20,710,250	20,710,250
2046	—	—	—	20,706,000	20,706,000	20,706,000
TOTALS:	<u>\$36,284,525</u>	<u>\$2,358,966,180</u>	<u>\$180,794,488</u>	<u>\$457,124,388</u>	<u>\$2,996,885,055</u>	<u>\$3,033,169,580</u>

⁽¹⁾ Totals may not add due to rounding.

⁽²⁾ Represents net Second Lien Debt Service excluding refunded bonds debt service. For the Series 2004C&D Bonds, the Goldman Sachs swap assumes a 4.174% interest rate and the Wells Fargo swap assumes a 4.247% interest rate. The Series 2014C Bonds assume a 2.17% interest rate.

LEGISLATION, STATE ACTIONS, AND PROPOSED SOUTH SUBURBAN AIRPORT

Federal Legislation

On March 30, 2016, President Obama signed the “Airport and Airway Extension Act of 2016” into law. The law reauthorized FAA operations and programs through July 15, 2016. On December 18, 2015, Public Law 114-113, a Continuing Resolution extending funding for federal programs, was signed into law. The Continuing Resolution extended federal funding, including general funding for the FAA, including airport development grants and other non-trust funds, through September 30, 2016. As of the date of this Official Statement, the City has no assurance that the current FAA authorization and programs will be extended or that a new authorization or programs will be approved beyond July 15, 2016, or that no interruption of general federal funding, including FAA funding, will occur in connection with the current September 30, 2016 funding expiration date.

Future Legislation. Midway is subject to various laws, rules and regulations adopted by local, State, and federal governments and their agencies. The City is unable to predict the adoption or amendment of any such laws, rules or regulations, or their effect on the operations or financial condition of Midway.

State Actions

The State, certain State agencies and certain State legislators have taken certain actions that may affect Midway and the City’s ability to collect Revenues.

Noise Legislation. Legislation with respect to reducing aircraft noise has been proposed from time to time in the Illinois General Assembly. There is no assurance that legislation with respect to aircraft noise will not be proposed or enacted in the future, or that if enacted it would not have a material adverse effect on operations, enplanements and Revenues at Midway.

State Approval of Federal Grants. Under the Illinois Aeronautics Act, the City is generally required to obtain the approval of the Illinois Department of Transportation (“IDOT”) for all AIP grant applications that the City submits to the FAA.

Proposed Amendment to the Illinois Constitution. On May 5, 2016, the Illinois General Assembly adopted a joint resolution directing that a proposed amendment to the Illinois Constitution be submitted to the voters of the State at the general election to be held on November 8, 2016. The proposed amendment would add a section to the Illinois Constitution prohibiting the expenditure of monies (including bond proceeds) raised through motor fuel taxes, motor vehicle registration fees, and other taxes and user fees dedicated to public highways, roads, streets, bridges, mass transit, intercity passenger rail, ports or airports on non-transportation purposes, as more fully described in the proposed amendment. The full text of the proposed amendment can be found at <http://www.ilga.gov/legislation/99/HJRCA/PDF/09900HC0036lv.pdf>. The proposed amendment shall become effective if approved at the November general election by either three-fifths of those voting on the amendment or a majority of those voting. The City cannot provide any assurances regarding whether the proposed amendment will be approved and become effective. In the event that the proposed amendment is approved and becomes effective, the City does not believe that the amendment would have any

material effect on the operations of the Airport or the ability of the City to pay debt service on the First Lien Bonds or the Second Lien Bonds.

Proposed South Suburban Airport

Plans to build a third airport in the Chicago Region have been under discussion for many years. The most likely site for such an airport is the proposed South Suburban Airport site located near Peotone, Illinois, in Will County, approximately 35 miles south of the City's central business district.

It is not possible at this time to determine the viability of a new major commercial airport at the Peotone site or to predict whether or when any new regional airport would be constructed; nor is it currently possible to predict what effect, if any, such an airport would have on operations or enplanements at Midway. The Peotone site is closer to Midway than to O'Hare; by expressway it is approximately 60 miles south of O'Hare, and approximately 45 miles south of Midway.

Advisory Resolution

On May 18, 2016 the City Council referred a resolution to the Committee on Aviation to consider the inclusion of an advisory referendum on the November 8, 2016 ballot to evaluate voter interest in the establishment of a new airport authority to be elected by the voters to provide independent oversight and management of Midway and O'Hare. At this time it is not possible to predict whether such advisory referendum will be included on the ballot, how the non-binding advisory referendum would be received by voters if it were to be included, or what impact the referendum may ultimately have on Midway if the creation of such an authority were to be favorably received.

CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY

The purchase of the Bonds involves certain investment risks and considerations. Prospective purchasers should read this Official Statement in its entirety. The factors set forth below, among others, may affect the security for the Bonds.

General Factors Affecting the Level of Airline Traffic

The City's ability to collect Revenues and PFC revenues is dependent primarily on the level of aviation activity and enplaned passenger traffic at Midway. Key factors affecting airline traffic at Midway include, among others, economic and political conditions, aviation security concerns, the financial health of the airline industry and of individual airlines, airline service and routes, airline competition and airfares, airline consolidation and alliances, availability and price of aviation and other fuel, capacity of the national air traffic control system and various other local, regional, national and international factors. Many of these factors, most of which are outside of the City's control, are discussed in detail in APPENDIX F—"REPORT OF THE AIRPORT CONSULTANT." If aviation activity at Midway does not meet forecast levels, a corresponding reduction is likely to occur both in forecast Revenues (absent an increase in Midway rentals, rates, fees and charges) and in forecast PFC revenues.

Southwest Airlines Concentration at Midway

Southwest is the largest single airline at Midway with 93.4% of passenger enplanements in 2015. Southwest accounted for approximately 57% of total Midway operating revenues in 2015. See APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT.” More information on Southwest, including annual and quarterly financial statements, can be found at the following website: <http://southwest.investorroom.com>.

Availability of Various Sources of Funding

The plan of financing for the 2016-2022 CIP assumes that Revenues will be available in certain amounts and at certain times for the payment of certain capital project costs on a “pay as you go” basis and the payment of debt service of Airport Obligations. See APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT.” No assurance can be given that these sources of funding will actually be available in the amounts or on the schedule assumed.

The City’s ability to prescribe, fix, maintain and collect certain rates, fees and other charges may be limited by various contractual obligations to third parties. See “SECURITY FOR THE BONDS–Airport Use Agreements” and APPENDIX C–“SUMMARY OF CERTAIN PROVISIONS OF THE AIRPORT USE AGREEMENTS.”

The assumptions with respect to entitlement and discretionary federal funding are based on a number of estimates and assumptions which, although considered reasonable by the City, are inherently subject to various uncertainties and contingencies. Actual entitlement and/or discretionary federal funding levels and timing will vary, and such differences may be material.

The plan of financing for the 2016-2022 CIP assumes that PFC revenues will be available for the payment of First Lien Bonds, Second Lien Obligations and any CP Notes issued. See APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT.” No assurance can be given that these sources of funding will actually be available in the amounts or on the schedule assumed. The amount of PFC revenues collected by the City in future years will vary. No assurance can be given that the authority to impose PFCs will continue or that levels of the enplanements set forth in the Report of the Airport Consultant will be realized. The amount of CFC revenues collected by the City in future years will vary from the projections provided in the Report of the Airport Consultant.

To the extent that any portion of the funding assumed in the plan of financing for the 2016-2022 CIP is not available as anticipated, the City may be required to issue additional Airport Obligations to pay the costs of the 2016-2022 CIP and increase airline rates and charges to pay debt service on the Bonds and any additional Airport Obligations, to fund the required coverage thereon. As noted above, the City’s ability to raise such rates and charges may be limited by various contractual obligations.

Aviation Industry

General. The City’s ability to collect Revenues and PFC revenue is affected by the dynamics of the airline industry, which also impact the ability of the Signatory Airlines,

individually and collectively, to meet their respective obligations under the Airport Use Agreements and other arrangements.

Historically, the financial performance of the airline industry generally has correlated with the strength of the national and global economy. Certain factors that may materially affect Midway and the airlines include, but are not limited to, (i) growth of population and the economic health of the region and the nation, (ii) airline service and route networks, (iii) national and international economic and political conditions, (iv) changes in demand for air travel, (v) service and cost competition, (vi) mergers and bankruptcy, (vii) the availability and cost of aviation fuel and other necessary supplies, (viii) levels of air fares, fixed costs and capital requirements, (ix) the cost and availability of financing, (x) the capacity of the national air traffic control system, (xi) national and international disasters and hostilities, (xii) public health concerns, such as the spread of influenza and severe acute respiratory syndrome, (xiii) the cost and availability of employees and labor relations within the airline industry, (xiv) regulation by the federal government, (xv) environmental risks, noise abatement concerns and regulation, (xvi) acts of war or terrorism, (xvii) aviation accidents, and (xviii) other risks. As a result of these and other factors, many airlines have operated at a loss in the past and many (including some that served Midway) have filed for bankruptcy, ceased operations and/or merged with other airlines. In addition, the so-called legacy carriers have taken many actions to restructure and reduce costs including reducing their workforce, renegotiating their labor agreements, reducing routes served, consolidating connecting activity and replacing mainline jets with regional jets.

Financial Condition of Airlines Serving Midway. Many of the airlines serving Midway were impacted by the global economic downturn and recession that occurred between 2008 and 2009, and most major domestic airlines suffered significant financial losses. While the U.S. and global economies generally have rebounded, there can be no assurances that any such rebound will continue, or that other national or international fiscal concerns will not have an adverse effect on the airline industry. Current and future financial and operational difficulties encountered by the airlines serving Midway (most notably Southwest Airlines), could have a material adverse effect on operations at, and the financial condition of, Midway. If Southwest Airlines were to cease operations at Midway for any reason or eliminate or reduce Midway's status as a connecting hub, the current level of activity of such airline may not be replaced by other airlines.

Cost of Aviation Fuel. Airline earnings are significantly affected by the price of aviation fuel. Any increase in fuel prices results in an increase of airline operating costs. Fuel prices continue to be impacted by, among other things, political unrest in oil-producing parts of the world, increased demand for fuel caused by rapid growth in certain global economies, such as China and India, currency fluctuations and changes in demand for and supply of oil worldwide. Significant fluctuations and prolonged periods of increases in the cost of aviation fuel have had material adverse effects on airline profitability, causing airlines to reduce capacity, fleet and personnel, as well as increase fares and institute additional fees, such as checked baggage fees, all of which may decrease demand for air travel.

Although, at present, aviation fuel prices have declined significantly and airline capacity is slightly increasing, no assurance can be given that such fuel prices will not increase in the future, thereby negatively impacting airline earnings and operations.

Capacity of National Air Traffic Control and Airport System. Capacity limitations of the national air traffic control systems continue to cause aircraft delays and restrictions, both on the number of aircraft movements in certain air traffic routes and on the number of landings and takeoffs at certain airports. These restrictions affect airline schedules and passenger traffic nationwide. The FAA has made certain improvements to the computer, radar and communications equipment of the air traffic control system in recent years, but no assurances can be given that future increases in airline and passenger traffic will not again adversely affect airline operations.

Airline Scheduled Seat Capacity. The airlines continue to restrain growth in seat capacity, while improving profitability, by keeping in place reductions they implemented beginning in 2008 in response to record fuel prices. The largest recent quarterly decline occurred in the first quarter of 2009, as U.S. domestic seat capacity fell by 10.3% versus the first quarter of 2008. U.S. domestic capacity reached a post-recessionary low in the first quarter of 2013. However, for the four quarters ending March 31, 2016, U.S. domestic capacity increased by 4% compared to the previous four quarters.

Airline Mergers and Acquisitions. In recent years, airlines have experienced increased costs and industry competition, both domestically and internationally. As a result, airlines have merged and acquired competitors in an attempt to combine operations in order to increase cost synergies and become more competitive. In 2009, Delta fully completed its merger with Northwest Airlines. That same year, Republic Airways Holdings, a regional airline, bought Frontier Airlines and Midwest Airlines, but in 2014 sold Frontier Airlines to Indigo Partners LLC, a private equity firm. In 2010, United Airlines and Continental Airlines merged, creating, at that time, the world's largest airline in terms of operating revenue and revenue passenger miles. This combination was surpassed (in terms of generating revenue and revenue passenger miles) by the December 2013 merger of American Airlines and US Airways Group, Inc. Neither United nor American operates at Midway.

On May 2, 2011, Southwest announced the closing of its acquisition of AirTran Holdings, Inc., the former parent company of AirTran Airways, Inc. ("*AirTran*"). The acquisition extended Southwest's route network and added new markets, such as Atlanta (the largest domestic market Southwest did not previously serve) and Reagan National Airport (Washington, D.C.). It also provided Southwest with access to international leisure markets in the Caribbean and Mexico. The FAA granted the airline a single operating certificate on March 1, 2012, allowing Southwest to complete full integration of AirTran in 2014.

Airport Security. With enactment of the Aviation and Transportation Security Act ("*ATSA*") in November 2001, the TSA was created and established different and improved security processes and procedures. ATSA mandates certain individual, cargo and baggage screening requirements, security awareness programs for airport personnel and deployment of explosive detection devices. ATSA also permits the deployment of air marshals on all flights and requires air marshals on all "high-risk" flights. The federal government controls aviation industry security requirements, which can significantly impact the economics of the industry. Security requirements due to unexpected events could increase costs directly and indirectly to the industry and could have an adverse effect on passenger demand.

Sequestration. Federal funding received by Midway, and aviation operations in general, could be adversely affected by implementation of the sequestration provisions of the Budget Control Act, which was signed into law by President Obama on August 2, 2011. As a result of the failure of the Joint Select Committee on Deficit Reduction to reach an agreement on the deficit reduction actions as required by the Budget Control Act, sequestration – a unique budgetary feature of the Budget Control Act – has been triggered. Unless changed or delayed by the United States Congress from time to time, sequestration is a multi-year process and could continue to affect FAA, TSA, and Customs and Border Control (“CBP”) budgets and staffing, resulting in staffing shortages, staff furloughs, and traffic delays and/or cancellations at airports across the United States. The full impact of sequestration on the aviation industry and Midway, generally, resulting from potential layoffs or further furloughs of federal employees responsible for federal airport security screening, air traffic control and CBP, is unknown at this time.

Threat of Terrorism. As has been the case since the events of September 11, 2001, the recurrence of terrorism incidents against either domestic or world aviation remains a risk to achieving forecast aviation activity at Midway. Any terrorist incident aimed at aviation would have an immediate and significant adverse impact on the demand for aviation services.

Effect of Airline Bankruptcy

Treatment of PFCs in Airline Bankruptcies. The PFC Act provides that PFCs collected by the Collecting Carriers constitute a trust fund held for the beneficial interest of the eligible public agency (*i.e.*, the City) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. However, the Collecting Carriers are permitted to commingle PFC collections with other revenues and are also entitled to retain interest earned on PFC collections until such PFC collections are remitted.

In the event of a bankruptcy, the PFC Act, as amended in December 2003 by the Vision 100-Century of Aviation Reauthorization Act (“*Vision 100*”), provides certain statutory protections to eligible public agencies imposing PFCs, including the City, with respect to PFC collections. It is unclear, however, whether the City would be able to recover the full amount of PFC trust funds collected or accrued with respect to a Collecting Carrier in the event of a liquidation or cessation of business. Vision 100 requires an airline that files for bankruptcy protection, or that has an involuntary bankruptcy proceeding commenced against it, to segregate passenger facility revenue in a separate account for the benefit of the eligible public agencies entitled to such revenue. Prior to the amendments made by Vision 100 allowing PFCs collected by airlines to constitute a trust fund, at least one bankruptcy court indicated that PFC revenues held by an airline in bankruptcy would not be treated as a trust fund and would instead be subject to the general claims of the unsecured creditors of such airline. In connection with another bankruptcy proceeding prior to Vision 100, a different bankruptcy court entered a stipulated order establishing a PFC trust fund for the benefit of various airports to which the bankrupt airline was not current on PFC payments. Although Vision 100 should provide some protection for eligible public agencies in connection with PFC revenues collected by an airline in bankruptcy, no assurances can be given as to the approach bankruptcy courts will follow in the future.

The City also cannot predict whether a Collecting Carrier operating at Midway that files for bankruptcy would have properly accounted for PFCs owed to the City or whether the bankruptcy estate would have sufficient moneys to pay the City in full for PFCs owed by such Collecting Carrier. Based on Vision 100, it is expected, although no assurance is given, that the City would be treated as a secured creditor with respect to PFCs held by a Collecting Carrier which becomes involved in a bankruptcy proceeding.

The cessation of operations by a Signatory Airline with significant operations at Midway, such as Southwest, would have a material adverse effect on operations, Revenues (with the resultant effect on repayment of the Bonds), PFC revenues and the cost to the other airlines of operating at Midway. Currently, 31 domestic gates and related facilities at Midway are preferentially leased by the City to the Signatory Airlines pursuant to the Airport Use Agreements, and 12 gates are controlled by the City. Southwest leases 29 gates and operates from four of the City-controlled gates. In the event of bankruptcy proceedings involving a Signatory Airline, the debtor or its bankruptcy trustee must determine within a time period determined by the court whether to assume or reject the applicable Airport Use Agreement. In the event of assumption, the debtor would be required to cure any prior defaults and to provide adequate assurance of future performance. Each Signatory Airline paid a security deposit to the City upon entering into the Airport Use Agreement to apply to a Signatory Airline's past due rentals, charges and fees due to the City. In the event of a Signatory Airline default, the City has the power to terminate the Airport Use Agreement and exclude such Signatory Airline from its leased premises and assigned aircraft parking positions. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF AIRPORT USE AGREEMENTS—Security Deposits" and "—Default and Termination."

Rejection of an Airport Use Agreement by any Signatory Airline that is a debtor in a bankruptcy proceeding would result in the termination of that Airport Use Agreement. Such rejection of an Airport Use Agreement would give rise to an unsecured claim of the City against the debtor's estate for damages, the amount of which is limited by the Bankruptcy Code. However, after application of certain reserve funds, the amounts unpaid by the Signatory Airline as a result of its rejection of its Airport Use Agreement in bankruptcy would be included in the calculation of the fees and charges of the remaining Signatory Airlines under their Airport Use Agreements. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF AIRPORT USE AGREEMENTS—General Commitment to Pay Airline Fees and Charges."

It is not possible to predict the level of utilization of the gates leased under a debtor-in-possession's Airport Use Agreement following a bankruptcy filing. Decreased utilization of such gates could have a material adverse effect on operations at Midway, Revenues, PFC revenues and on the cost to the airlines operating at Midway.

Economic Conditions in the Air Trade Area

For a detailed discussion of the current and projected economic conditions in Midway's air trade area, see APPENDIX F—"REPORT OF THE AIRPORT CONSULTANT—Chapter 4."

Financial Condition of Airlines Serving Midway

Certain of the Signatory Airlines file reports and other information (collectively, the “*SEC Reports*”) with the U.S. Securities and Exchange Commission (“*SEC*”). Certain information, including financial information, as of particular dates concerning each of the Signatory Airlines (or their respective parent corporations) is included in the SEC Reports. The SEC Reports can be read and copied at the SEC’s Public Reference Rooms, which can be located by calling the SEC at 1-800-SEC-0330. In addition, electronically filed SEC Reports can be obtained from the SEC’s website at <http://www.sec.gov>. Each Signatory Airline and certain other airlines are required to file periodic reports of financial and operating statistics with the United States Department of Transportation. Such reports can be inspected at the Office of Airline Information, Bureau of Transportation Statistics, Department of Transportation, Room 4201, 400 Seventh Street S.W., Washington, DC 20590, and copies of such reports can be obtained from the Department of Transportation at prescribed rates. Non-U.S. airlines also provide certain information concerning their operations and financial affairs, which may be obtained from the respective airlines.

Effect of Airline Industry Consolidation

The airline industry has consolidated and it is possible that one or more of the Airline Parties could further consolidate. Depending on which Airline Parties, if any, merge, the result may be a decrease in gate utilization by an Airline Party, which decrease could be significant. It is not possible to predict the effect on gate usage as a result of potential airline consolidation at this time.

Termination of Airport Use Agreements

Pursuant to the Airport Use Agreements, the Signatory Airlines agree to pay rentals, fees and charges for Midway in an amount that, in the aggregate, are sufficient to allow the City to satisfy its covenants to Bondholders. The Airport Use Agreements are scheduled to terminate on December 31, 2027 but are subject to early termination by a Signatory Airline under certain limited circumstances. The Airport Use Agreement termination events are set forth in APPENDIX C–“SUMMARY OF CERTAIN PROVISIONS OF THE AIRPORT USE AGREEMENTS–Term” and “–Default and Termination.”

Credit Risk of Financial Institutions Providing Credit Enhancement, Liquidity Support and Other Financial Products Relating to Airport Obligations

The City entered into a number of liquidity, credit enhancement and other transactions involving a variety of financial institutions relating to its Airport Obligations, including bond insurance policies and debt service reserve fund surety bonds issued by monoline bond insurance companies. Additionally, in connection with various variable rate bond issues for Midway, the City entered into credit and liquidity agreements and interest rate swap agreements with and/or guaranteed by various financial institutions, including commercial and investment banks.

Each of Moody’s, S&P Global Ratings, and Fitch (collectively, the “*Rating Agencies*”) has downgraded the claims-paying ability and financial strength ratings of most of the nation’s

monoline bond insurance companies and many other financial institutions. The Rating Agencies could announce changes in rating outlook, or a review for downgrade or further downgrades of bond insurers, credit or liquidity providers or interest rate swap counterparties. Such adverse ratings developments with respect to bond insurers, credit or liquidity providers or interest rate counterparties on bond issues for Midway could have a material adverse effect on the Airport Obligations, including, without limitation, resulting in substantial increases in the debt service-related costs for the Airport Obligations and have negative effects on the City's debt portfolio with respect to Midway. In addition to an increase in the interest rates on variable rate bonds secured by the subject credit enhancers, such downgrades, especially downgrades to below investment grade, could lead to termination events or other negative effects under related agreements including, but not limited to, swap agreements, letters of credit and/or reserve fund surety policies. Payments required under these agreements in the event of any termination could be substantial and could have a negative impact on Revenues and/or the liquidity position of the Airport. A default by any of the financial institutions under its bond insurance, debt service reserve fund, liquidity or interest rate swap obligations could have a material adverse impact on Midway finances.

Financial Condition of the City and Other Overlapping Governmental Bodies

The Bonds are limited obligations of the City payable solely from the Revenues, and do not constitute an indebtedness or a loan of credit of the City and neither the faith and credit nor the taxing power of the City nor any property of the City is pledged as security for the Bonds. The City's financial condition and the financial condition of other governmental bodies sharing a common tax base could impact the level of enplaned passenger traffic and aviation activity at Midway, and therefore, repayment of the Bonds.

Unfunded Pensions. The Retirement Funds have significant unfunded liabilities and low funding ratios. Under current law, the City's required contributions to PABF and FABF will significantly increase beginning in 2016. Such increases will be funded primarily through increases in the City's property tax levy. However, the property taxes levied for such increased contributions assume the enactment of Senate Bill 777 ("SB 777"), which would reduce the contribution currently required by the Pension Code. If SB 777 or similar legislation is not enacted and the City must contribute to PABF and FABF in the higher amounts required by the current provisions of the Pension Code, the City expects that it would fund such additional contributions through an increase in revenues, a reduction in expenditures or some combination thereof.

In addition, the actuaries for MEABF and LABF project that such Retirement Funds will not have sufficient assets on hand to make payments to beneficiaries beginning in 2025 and 2027, respectively, based on the provisions of the Pension Code currently in effect. The City makes no prediction as to the impact of the insolvency of MEABF or LABF on the amount of the City's contributions to these Retirement Funds. However, should the City be required to contribute the amounts necessary to fund directly such payments to beneficiaries on a pay-as-you-go basis upon the insolvency of such Retirement Funds, the amount of the City's contributions to MEABF and LABF would substantially increase.

On May 23, 2016, the City announced that it had reached an agreement regarding LABF with both unions representing City employees who are members of LABF. If enacted into law, this agreement would increase employee contributions and modify pension benefits for employees hired on or after January 1, 2017, and provide employees hired between January 1, 2011, and December 31, 2016, with the option to become eligible for the payment of benefits at age 65 (as opposed to age 67 under current law) in exchange for an increase in employee contributions from 8.5 percent to 11.5 percent of their salary. In addition, the agreement would modify the manner in which the City contributes to LABF by increasing the City's contributions over a five-year period (the "*Ramp Period*") to certain agreed-upon percentages of the actuarially required contribution beginning with the contribution to be made in fiscal year 2018. After the Ramp Period, the City would contribute the actuarially determined amount necessary to achieve a Funded Ratio of 90 percent in LABF by 2057. The City expects that legislation encompassing this agreement will be introduced into the Illinois General Assembly in the fall of 2016, and the City intends to support the adoption of such legislation. The City can give no assurance as to whether such legislation will ultimately become law.

See APPENDIX G—"RETIREMENT FUNDS" for additional information.

Overlapping Taxing Districts. A number of governmental units and other public bodies share in varying degrees a common tax base, including property taxes, with the City. The City does not control the amount or timing of the taxes levied by these overlapping taxing districts. Depending on the amount of such increase(s), an increase in the amount of taxes by these overlapping taxing districts could potentially be harmful to the City's economy and/or may make it more difficult for the City to increase taxes and maintain essential or necessary City services.

See APPENDIX F—"REPORT OF THE AIRPORT CONSULTANT—Chapter 4—Demographic and Economic Analysis."

Municipal Bankruptcy

Municipalities, such as the City, cannot file for protection under the U.S. Bankruptcy Code unless specifically authorized to be a debtor by state law or by a governmental officer or organization empowered by state law to authorize such entity to be a debtor in a bankruptcy proceeding. State law does not currently permit municipalities to be a debtor in a bankruptcy proceeding. However, from time to time, legislation has been introduced in the Illinois General Assembly which, if enacted, would permit Illinois municipalities to be a debtor in bankruptcy under the U.S. Bankruptcy Code. The Governor of the State recently proposed legislation to allow for municipal bankruptcy, and legislation has been introduced in the General Assembly to that effect. Further, on January 22, 2016, legislation was introduced in the Illinois General Assembly (House Bill 4499), specifically addressing the City, that would authorize the City to become a debtor in bankruptcy under either of two circumstances: (i) after the completion of a neutral evaluation process by the City as described in the legislation, or (ii) declaration by the City of a fiscal emergency and adoption of a resolution by the City Council that includes findings that the financial state of the City jeopardizes the health, safety, or well-being of the residents of the City absent the protections of Chapter 9 of the U.S. Bankruptcy Code. The City is unable to predict whether the Illinois General Assembly may adopt any such legislation or the form of such legislation if enacted.

Notwithstanding the foregoing, if the City were authorized by State law to become a debtor in bankruptcy and were to become a debtor in a proceeding under Chapter 9 of the U.S. Bankruptcy Code, it is possible that the application of the Revenues and Other Available Moneys pledged by the City under the Second Lien Indenture to pay the Bonds could be stayed during the proceeding, and that the terms of the Bonds, the Ordinance, the Twenty-Third Supplemental Indenture or the Twenty-Fourth Supplemental Indenture could be altered by a plan of adjustment, if the bankruptcy court determines that the alterations are fair and equitable and otherwise comply with requirements of the U.S. Bankruptcy Code.

Although the City can provide no assurances, and there is no binding judicial precedent dealing with facts similar to those supporting the City's position, the City believes that the Revenues and Other Available Moneys pledged by the City under the Second Lien Indenture constitute "*special revenues*," as defined in Section 902(2) of the U.S. Bankruptcy Code and, as a consequence, (i) pursuant to Section 928(a) of the U.S. Bankruptcy Code, any and all of such pledged Revenues and Other Available Moneys currently pledged by the City under the First Lien Indenture acquired by the City after the commencement of a case by the City under Chapter 9 of the U.S. Bankruptcy Code would remain subject to the lien of the First Lien Indenture and could not lawfully be used by the City other than in compliance with the First Lien Indenture and (ii) under Section 922(d) of the U.S. Bankruptcy Code, the application by the City of the Revenues and Other Available Moneys under the terms of the First Lien Indenture would not be subject to stay after the commencement by the City of a case under Chapter 9 of the U.S. Bankruptcy Code. The City intends that the Revenues and Other Available Moneys be treated as "*special revenues*."

As discussed below under the subheading "—Enforceability of Remedies," various of the legal opinions to be delivered in connection with the issuance of the Bonds will be qualified as to bankruptcy and similar events and as to the application of equitable principles.

Force Majeure Events Affecting the City and Midway

There are certain unanticipated events beyond the City's control that could have a material adverse effect on the City's operations and financial condition, or on Midway's operations and financial condition, if they were to occur. These events include, but are not limited to, fire, flood, earthquake, epidemic, adverse health conditions or other unavoidable casualties or acts of God, freight embargo, labor strikes or work stoppages, civil commotion, new acts of war or escalation of existing war conditions, sabotage, enemy action, pollution, unknown subsurface or concealed conditions affecting the environment, and any similar causes. No assurance can be provided that such events will not occur, and, if any such events were to occur, no prediction can be provided as to the actual impact or severity of the impact on the City's operations and financial condition or on Midway's operations and financial condition, as applicable.

Limited Liability; Subordination

THE BONDS ARE LIMITED OBLIGATIONS OF THE CITY AND DO NOT CONSTITUTE AN INDEBTEDNESS OR A LOAN OF CREDIT OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE

STATE, THE CITY OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF ILLINOIS IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS ARE NOT PAYABLE IN ANY MANNER FROM REVENUES RAISED BY TAXATION. NO PROPERTY OF THE CITY, INCLUDING PROPERTY LOCATED AT MIDWAY, IS PLEDGED AS SECURITY FOR THE BONDS.

The pledge of Second Lien Revenues for the Bonds is junior and subordinate to the pledge of Revenues for the payment of First Lien Bonds. The Bonds are secured on a parity basis with the Outstanding Second Lien Bonds and all other Second Lien Obligations. Subject to certain conditions set forth in the Second Lien Indenture, the City may in the future issue or incur Additional Second Lien Obligations that will be secured on a parity basis with the Bonds and the Outstanding Second Lien Bonds and all other Second Lien Obligations. See “SECURITY FOR THE BONDS–Additional Obligations.”

Assumptions in the Report of the Airport Consultant

The Report of the Airport Consultant included as APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT” to this Official Statement contains numerous assumptions as to the utilization of Midway and other matters and reviews certain projections. Projections and assumptions are inherently subject to significant uncertainties. Inevitably, many assumptions will not be realized and unanticipated events and circumstances will occur. Actual results are likely to differ, perhaps materially, from those projected. Accordingly, the projections contained in APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT” (collectively, the “*Projections*”) are not necessarily indicative of future performance, and neither the Airport Consultant nor the City assumes any responsibility for the accuracy of such Projections. See “AIRPORT CONSULTANT” and APPENDIX F–“REPORT OF THE AIRPORT CONSULTANT.”

The Projections are based, in part, on historic data from sources considered by the Airport Consultant to be reliable, but the accuracy of this data has not been independently verified. The Projections are based on assumptions made by the Airport Consultant concerning future events and circumstances which the Airport Consultant believes are significant to the Projections but which cannot be assured. Therefore, the actual results achieved may vary from the Projections, and such variations could be material.

Enforceability of Remedies

The rights of the owners of the Bonds and the enforceability of the City’s obligation to make payments on the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors’ rights under existing law or under laws enacted in the future and may also be subject to the exercise of judicial discretion under certain circumstances. The opinions of Co-Bond Counsel and the City’s Corporation Counsel delivered at the time of the initial issuance of the Bonds as to the enforceability of the City’s obligations were qualified as to bankruptcy and similar events and as to the application of equitable principles and the exercise of judicial discretion in appropriate cases and to common law and statutes affecting the enforceability of contractual obligations generally, and to principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City.

Forward-Looking Statements

This Official Statement contains certain statements relating to future results that are Forward-Looking Statements. When used in this Official Statement, the words “estimate,” “intend,” “expect” and similar expressions identify Forward-Looking Statements. Any Forward-Looking Statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such Forward-Looking Statements. Inevitably, some assumptions used to develop Forward-Looking Statements will not be realized or unanticipated events and circumstances may occur. Therefore, bondholders and potential investors should be aware that there are likely to be differences between Forward-Looking Statements and actual results; those differences could be material. The City does not undertake any obligation to update or revise publicly any Forward-Looking Statements, whether as a result of new information, future event or otherwise. See “INTRODUCTION—Forward-Looking Statements.”

LITIGATION

There is no litigation pending or threatened against the City relating to the City’s operation of Midway, the issuance, sale, or delivery of the Bonds or the validity or enforceability thereof other than various legal proceedings (pending or threatened) which may have arisen or may arise out of the ordinary course of business of Midway. The City expects that the final resolution of such legal proceedings arising in the ordinary course of business will not have a material adverse effect on the financial position or the results of operation of Midway.

There are, from time to time, lawsuits that arise out of the various construction contracts entered into in connection with construction projects at Midway. The City, however, does not believe that any sums that may be recovered would have a material adverse impact on the financial condition of Midway or the collection of Revenues by the City.

TAX MATTERS

Interest Not Exempt From State of Illinois Income Taxes

Interest on the Bonds is not exempt from present State of Illinois income taxes. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Co-Bond Counsel express no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the application of any such state and local taxes.

Certain United States Federal Income Tax Consequences

The following is a summary of the principal United States federal income tax consequences of ownership of the Bonds. It deals only with the Bonds held as capital assets by initial purchasers, and not with special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold the Bonds that are a hedge or that are hedged against currency risks or that are part of a straddle or conversion transaction, persons that are not citizens or residents of the United States or persons whose functional currency is not the U.S. dollar. The summary is based on the Internal Revenue

Code of 1986, as amended (the “*Code*”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect.

The Code contains a number of provisions relating to the taxation of securities such as the Bonds (including but not limited to the tax treatment of and accounting for interest, premium, original issue discount and market discount thereon, gain from the sale, exchange or other disposition thereof and withholding and backup withholding tax on income therefrom) that may affect the taxation of certain owners, depending on their particular tax situations. Prospective purchasers of the Bonds should consult their own tax advisors concerning the consequences, in their particular circumstances, under the Code and the laws of any other taxing jurisdiction, of ownership of the Bonds.

Tax-Exempt Bonds

In the opinion of Mayer Brown LLP and Sanchez Daniels & Hoffman LLP, Co-Bond Counsel, under existing law and assuming compliance with certain covenants made by the City to satisfy pertinent requirements of the Code, (i) interest on the 2016A Bonds (A) is excluded from the gross income of the owners thereof for federal income tax purposes and (B) is an item of tax preference for purposes of individual and corporate minimum taxable income for purposes of individual and corporate alternative minimum tax and (ii) interest on the 2016B Bonds (A) is excluded from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Code and (B) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Failure to comply with certain of such City covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

In rendering the foregoing opinions, Co-Bond Counsel will rely on, and will assume the accuracy of, certain representations and certifications and compliance with certain covenants of the City and the Trustee contained in various documents included in the transcript of proceedings, which are intended to evidence and assure that the Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Co-Bond Counsel will not independently verify the accuracy of such certifications and representations and will not monitor compliance with such covenants.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and remain excluded from gross income for federal income tax purposes. Some of these require continued compliance after the issuance of the Bonds in order for the interest to be and continue to be so excluded from the date of issuance. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes, in some cases, effective from the date such Bonds are initially issued. The City has covenanted in the Twenty-Third Supplemental Indenture and the Twenty-Fourth Supplemental Indenture, respectively, to not take any action or knowingly permit any action on its part to be taken which would cause the interest on the Bonds to be included in the gross income of the owners of the Bonds for federal income tax purposes.

Under the Code, interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to the branch profits tax imposed by Section 884 of the Code, and interest on the Bonds could be subject to the tax imposed by Section 1375 of the Code on excess net passive income of certain S corporations. Under the Code, the receipt of interest excluded from gross income for federal income tax purposes can have certain collateral federal income tax consequences, adversely affecting items of income, deductions or credits for certain taxpayers, including financial institutions, property and casualty insurance companies, recipients of Social Security and Railroad Retirement benefits, individuals otherwise eligible for the earned income credit and taxpayers who are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations. Co-Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors on the application of such collateral consequences.

Further, from time to time, legislative proposals are pending in Congress which, if enacted, would alter or amend one or more of the federal tax consequences referred to above in certain respects or would adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that such proposal would not apply to obligations (such as the Bonds) issued prior to enactment of such proposal. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation.

Co-Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in law that may thereafter occur or become effective. The opinions of Bond Counsel express the professional judgment of Bond Counsel regarding the legal issues expressly addressed therein. By rendering its legal opinion, Bond Counsel does not become an insurer or guarantor of the result indicated by that expression of professional judgment, of the transaction on which the opinion is rendered or of the future performance of the parties to the transaction nor does the rendering of the opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Original Issue Discount

An amount equal to the excess of the stated redemption price at maturity of any Bonds (the "*Discount Bonds*") over the issue price (the "*Offering Price*") of such Discount Bonds, will be treated as "original issue discount." A bond's stated redemption price at maturity is the aggregate of all payments required to be made on the bond except "qualified stated interest." Qualified stated interest is generally interest that is unconditionally payable in cash or property, other than debt instruments of the issuing entity, at fixed intervals of one year or less during the entire term of the instrument at an interest rate or rates that satisfy requirements under the Treasury Regulations. The issue price will be the first price at which a substantial amount of the bonds are sold, excluding sales to bond houses, brokers or similar persons acting as underwriters, placement agents or wholesalers. With respect to a taxpayer who purchases a Discount Bond in the initial public offering at the Offering Price and who holds such Discount Bond to maturity, the full amount of original issue discount will constitute interest which is not includible in the

gross income of the owner of such Discount Bond for Federal income tax purposes to the same extent as current interest and will not be treated as taxable capital gain upon payment of such Discount Bond upon maturity.

The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of a constant yield computed at the end of each six month period (or shorter period from the date of original issue). The amount of original issue discount accruing during such period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). An owner of a Discount Bond who disposes of it prior to maturity should consult such owner's tax advisor as to the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bond prior to maturity.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Offering Price or who do not purchase Discount Bonds in the initial public offering should consult their tax advisors with respect to the tax consequences of the ownership of such Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible that under the applicable provisions governing the determination of state or local income taxes, accrued original issue discount on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

Market Discount

If a Bond is purchased at any time for a price that is less than the Bond's Offering Price plus accrued original issue discount, if any, the purchaser may be treated as having purchased the Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of the market discount rules with respect to the Bonds.

Bond Premium

An amount equal to the excess of the purchase price of a Bond over the stated redemption price payable at maturity of such Bond constitutes amortizable bond premium that may not be deducted for Federal income tax purposes. For purposes of determining gain or loss on the sale or other disposition of such Bond, the tax basis of each Bond is decreased by the amount of the bond premium that has been amortized. Bond premium is amortized by offsetting the interest on the Bond allocable to an accrual period with the bond premium allocable to the accrual period. The bond premium allocable to an accrual period is the excess of the interest on the Bond allocable to the accrual period over the product of the owner's adjusted acquisition price at the

beginning of the accrual period and the owner's yield (determined on the basis of a constant yield over the term of the Bond). If the bond premium allocable to an accrual period exceeds the interest on the Bond allocable to the accrual period, the excess is a nondeductible loss for Federal income tax purposes that reduces the owner's basis in such Bond.

Sale and Retirement of the Bonds

Holders of the Bonds will recognize gain or loss on the sale, redemption, retirement or other disposition of such Bonds. The gain or loss is measured by the difference between the amount realized on the disposition of the Bond and the holder's adjusted tax basis in the Bond. Such gain or loss will be capital gain or loss, except to the extent of accrued market discount not previously included in income, and will be long term capital gain or loss if at the time of disposition such Bond has been held for more than one year.

Backup Withholding and Information Reporting

Information reporting will apply to payments of the proceeds of the sale or other disposition of the Bond with respect to certain non-corporate holders, and backup withholding may apply unless the recipient of such payment supplies a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale by the City of the Bonds are subject to the approving legal opinions of Mayer Brown LLP, Chicago, Illinois, and Sanchez Daniels & Hoffman LLP, Chicago, Illinois, Co-Bond Counsel. The proposed form of opinions of Co-Bond Counsel is included as APPENDIX E. Co-Bond Counsel have not been retained or consulted on disclosure matters and have not undertaken to review or verify the accuracy, completeness or sufficiency of this Official Statement or other offering material relating to the Bonds and assume no responsibility for the statements or information contained in or incorporated by reference in this Official Statement, except that in their capacity as Co-Bond Counsel, at the request of the City, they have reviewed the information in this Official Statement involving the description of the Bonds and the Second Lien Indenture, the security for the Bonds and the description of the federal tax exemption of interest on the Bonds. This review did not include any obligation to establish or confirm factual matters set forth herein. The proposed form of the opinions of Co-Bond Counsel is included as APPENDIX E.

Certain legal matters will be passed on for the City by its Corporation Counsel, by Burke, Warren, MacKay & Serritella, P.C., Chicago, Illinois, and by Hardwick Law Firm, LLC, Chicago, Illinois, co-disclosure counsel to the City, by Chapman & Cutler LLP, Chicago, Illinois, special disclosure counsel to the City for pension matters, and for the Underwriters by their counsel, Katten Muchin Rosenman LLP, Chicago, Illinois.

UNDERWRITING

The Bonds are being purchased by the group of underwriters identified on the cover page of this Official Statement (the “*Underwriters*”), on behalf of which Barclays Capital Inc. is acting as representative, subject to certain conditions set forth in a Bond Purchase Agreement with the City (the “*Bond Purchase Agreement*”). The Bond Purchase Agreement provides that the obligation of the Underwriters to accept delivery of the Bonds is subject to various conditions set forth therein, but the Underwriters will be obligated to purchase all of the Bonds if any of such Bonds are purchased. Pursuant to the Bond Purchase Agreement, the Underwriters expect to purchase the Bonds at a price of \$393,010,198.57 (which reflects the par amount of the Bonds, plus an original issue premium of \$52,453,487.60, less an underwriters’ discount of \$1,838,289.03). The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public.

The Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell such Bonds into investment accounts.

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

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

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

J.P. Morgan Securities LLC (“*JPMS*”), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a “*Dealer Agreement*”) with each of Charles Schwab & Co., Inc. (“*CS&Co.*”) and LPL Financial LLC (“*LPL*”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Loop Capital Markets LLC (“*LCM*”), one of the Underwriters of the Bonds, has entered into distribution agreements (each a “*Distribution Agreement*”) with each of UBS Financial

Services Inc. (“*UBSFS*”) and Deutsche Bank Securities Inc. (“*DBS*”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Distribution Agreement, each of UBSFS and DBS will purchase the Bonds from LCM at the original issue prices less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

CO-FINANCIAL ADVISORS AND INDEPENDENT REGISTERED MUNICIPAL ADVISOR

The City has engaged Acacia Financial Group, Inc., Chicago, Illinois and Frasca & Associates, LLC, New York, as its Co-Financial Advisors (the “*Financial Advisors*”) in connection with the authorization, issuance and sale of the Bonds. Under the terms of their engagement, the Financial Advisors will each deliver a letter to the City regarding the fairness of the purchase price paid by the Underwriters to the City for the Bonds. Under the terms of their respective engagements, the Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification of or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

The City has retained Martin J. Luby LLC as its independent registered municipal advisor (the “*IRMA*”) as defined in SEC Rule 15Ba1-1(d)(1) to evaluate financing proposals and recommendations in connection with the City’s various bond issuance programs and other financing ideas being considered by the City; however, the IRMA will not advise on the investment of City funds held by the Office of the City Treasurer. The IRMA’s compensation is not dependent on the issuance of the Bonds.

INDEPENDENT AUDITORS

The financial statements of the City of Chicago, Illinois – Chicago Midway International Airport as of and for the years ended December 31, 2013 and 2014, included as APPENDIX D to this Official Statement, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

Deloitte & Touche LLP has not compiled, examined, or performed any procedures with respect to the prospective financial information contained in this Official Statement, nor has Deloitte & Touche LLP expressed any opinion or any other form of assurance on such information or its achievability, and Deloitte & Touche LLP assumes no responsibility for, and disclaims association with, the prospective financial information included in this Official Statement.

SECONDARY MARKET DISCLOSURE

The City will enter into a Continuing Disclosure Undertaking (the “*Undertaking*”) for the benefit of the beneficial owners of the Bonds to send certain information annually and to provide notice of certain events to the Municipal Securities Rulemaking Board (the “*MSRB*”) to enable the underwriters to meet to the requirements of Section (b)(5) of Rule 15c2-12 (the “*Rule*”) adopted by the SEC under the Securities Exchange Act, as amended (the “*Exchange Act*”). The MSRB has designated its Electronic Municipal Market Access system, known as EMMA, as the system to be used for continuing disclosures to investors. The information to be provided on an

annual basis, the events which will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies, are set forth below.

A failure by the City to comply with the Undertaking will not constitute a default under the Second Lien Indenture and beneficial owners of the Bonds are limited to the remedies described in the Undertaking. See “–Consequences of Failure of the City to Provide Information” below. A failure by the City to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The following is a brief summary of certain provisions of the Undertaking of the City and does not purport to be complete. The statements made under this caption are subject to the detailed provisions of the Undertaking, copies of which are available upon request from the City.

Annual Financial Information Disclosure

The City covenants that it will disseminate to EMMA its Annual Financial Information and its Audited Financial Statements (as described below) to the MSRB prepared in accordance with generally accepted accounting principles applicable to government units (as described below).

“*Annual Financial Information*” means (a) with respect to the City, financial and statistical data generally consistent with that contained in this Official Statement under the captions “CHICAGO MIDWAY INTERNATIONAL AIRPORT–Activity at Midway,” “MIDWAY FINANCIAL INFORMATION–Historical Operating Results,” “–Midway Indebtedness” and “–Debt Service Schedule” and (b) with respect to each Obligated Person other than the City, if such Obligated Person does not file SEC Reports, information substantially equivalent to that contained in the SEC Reports. If any of the City’s Annual Financial Information that is published by a third party is no longer publicly available, the City shall include a statement to that effect as part of its Annual Financial Information for the year in which such lack of availability arises.

“*Audited Financial Statements*” means the audited financial statements of Midway prepared in accordance with generally accepted accounting principles applicable to governmental units as in effect from time to time.

“*Obligated Person*” means the City and each airline or other entity at any time using Midway (i) that is obligated under an Airport Use Agreement, lease or other agreement having a term of more than one year to pay a portion of the debt service on the Airport Obligations and (ii) has paid amounts equal to at least 20% of the Revenues of Midway for each of the prior two fiscal years of Midway.

Southwest is at present the only Obligated Person other than the City. Southwest is required to file SEC Reports with the SEC under the Exchange Act as more fully described under the caption “CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE

AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY—Financial Condition of Airlines Serving Midway.” The City has no responsibility for the accuracy or completeness of any SEC Report filed by Southwest or by any future Obligated Person. Unless no longer required by the Rule, the City agrees to use its reasonable efforts to cause each Obligated Person other than the City (to the extent that such Obligated Person is not otherwise required to file SEC Reports under the Exchange Act), to file annual information substantially equivalent to that contained in the SEC Reports with the MSRB.

Annual Financial Information exclusive of Audited Financial Statements (commencing with the Audited Financial Statements for the fiscal year ended December 31, 2015) will be provided to the MSRB not more than 210 days after the last day of the City’s fiscal year, which currently is December 31. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included and Audited Financial Statements will be filed when available.

Reportable Events Disclosure

The City covenants that it will disseminate in a timely manner, not in excess of ten business days after occurrence, to the MSRB the disclosure of the occurrence of a Reportable Event (defined below). Certain Reportable Events are required to be disclosed only to the extent that such Reportable Event is material, as materiality is interpreted under the Exchange Act. The “*Reportable Events*,” certain of which may not be applicable to the Bonds, are:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the securities, or other material events affecting the tax status of the securities;
7. modifications to rights of security holders, if material;
8. bond calls, if material, and tender offers;
9. defeasances;
10. release, substitution or sale of property securing repayment of the securities, if material;
11. rating changes;

12. bankruptcy, insolvency, receivership, or similar event of an Obligated Person (considering to have occurred in the following instances: the appointment of a receiver, fiscal agent, or similar officer for the Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if the jurisdiction of the City has been assumed by leaving the City Council and the City's officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City;
13. the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of an Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. appointment of a successor or additional trustee, or the change of the name of a trustee, if material.

Consequences of Failure of the City to Provide Information

The City shall give notice in a timely manner not in excess of ten business days to the MSRB of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due under the Undertaking.

In the event of a failure of the City to comply with any provision of the Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order to cause the City to comply with its obligations under the Undertaking. The Undertaking provides that any court action must be initiated in the Circuit Court of Cook County, Illinois. A default under the Undertaking shall not be deemed a default under the Second Lien Indenture, and the sole remedy under the Undertaking in the event of any failure of the City to comply with the Undertaking shall be an action to compel performance.

Amendment; Waiver

Notwithstanding any other provision of the Undertaking, the City may amend the Undertaking, and any provision of the Undertaking may be waived, if:

- (a) (i) the amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City or type of business conducted;
- (ii) the Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after

taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined by parties unaffiliated with the City (such as the Trustee or co-bond counsel), or by approving vote of the beneficial owners of the Bonds pursuant to the terms of the Indenture at the time of the amendment; or

(b) the amendment or waiver is otherwise permitted by the Rule.

EMMA

All documents submitted to the MSRB through EMMA pursuant to the Undertaking shall be in electronic format and accompanied by identifying information as prescribed by the MSRB, in accordance with the Rule. All documents submitted to the MSRB through EMMA will be word-searchable PDFs, configured to permit documents to be saved, viewed, printed and electronically retransmitted.

Termination of Undertaking

The Undertaking shall be terminated if the City shall no longer have any legal liability for any obligation on or relating to repayment of the Bonds under the Indenture.

Additional Information

Nothing in the Undertaking shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of an Event, in addition to that which is required by the Undertaking. If the City chooses to include any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of an Event in addition to that which is specifically required by the Undertaking, the City shall have no obligation under the Undertaking to update such other information or include it in any future Annual Financial Information or Audited Financial Statements or notice of occurrence of an Event.

Corrective Action Related to Certain Bond Disclosure Requirements

The City is in compliance in all material respects with continuing disclosure undertakings previously entered into by it pursuant to the Rule, except insofar as any of the following paragraphs describe material non-compliance.

Annual reports were not filed by the City in 2011 and 2012 with respect to its Chicago-O'Hare International Airport General Airport Revenue Bonds, Series 2010 and Series 2011, and its Chicago-O'Hare International Airport Passenger Facility Charge Revenue Bonds, Series 2010 and Series 2011.

With respect to the City's Collateralized Single Family Mortgage Revenue Bonds, Series 2006A (the "*Series 2006A Bonds*"), S&P lowered its rating on the Series 2006A Bonds from "AA+" to "AA" and placed the Series 2006A Bonds on "Credit Watch with negative implications" effective December 16, 2011. The City did not cause the trustee as dissemination agent to file a notice of a reportable event with EMMA at that time. Subsequently, S&P upgraded the rating on the Series 2006A Bonds from "AA" to "AA+" effective March 12, 2012. On March 18, 2012, S&P removed the "Credit Watch with negative implications" characterization from the Series 2006A Bonds. The City caused the trustee, as dissemination agent for the Series 2006A Bonds to file a notice of a reportable event with EMMA on March 26, 2012 disclosing the downgrade and subsequent upgrade of the Series 2006A Bonds by S&P.

With respect to the City's Chicago O'Hare International Airport General Airport Third Lien Revenue Bonds, Series 2011, American Airlines is an "obligated person" with respect to such bonds. On November 29, 2011, AMR Corporation (the parent company of American Airlines and American Eagle) and certain of its United States-based subsidiaries (including American Airlines and American Eagle) filed voluntary petitions for Chapter 11 reorganization in the United States Bankruptcy Court for the Southern District of New York. The City filed a notice with EMMA with respect to this event on March 30, 2012 (not within the ten business-day deadline imposed by the Rule). On December 9, 2013, American Airlines merged with US Airways. The City filed a notice with EMMA with respect to this event on August 25, 2014.

With respect to the City's Outstanding Motor Fuel Tax Revenue Bonds, the City's pledge of Additional City Revenues to the payment of such bonds (in addition to the pledge of Motor Fuel Tax Revenues) became effective as of March 19, 2013. The City filed a notice with EMMA describing the pledge of this additional source of revenue on May 16, 2013.

With respect to the City's outstanding O'Hare International Airport Customer Facility Charge Senior Lien Revenue Bonds, Series 2013, Simply Wheelz, LLC d/b/a Advantage Rent A Car ("*Advantage*") is an "obligated person" with respect to such bonds. Advantage filed a voluntary bankruptcy petition in the Southern District of Mississippi on November 5, 2013. The City filed a notice with EMMA with respect to this event on December 5, 2013.

The Rating Agencies took certain rating actions with respect to the ratings of Ambac Assurance Corporation and Financial Security Assurance Inc. (collectively, the "*Bond Insurers*"). The Bond Insurers provided municipal bond insurance policies relating to certain series of the City's Chicago Midway Airport revenue bonds. Event notices with respect to such rating changes were not filed with EMMA. The City made such filings on May 22, 2014.

Ambac provided a municipal bond insurance policy relating to the City's Motor Fuel Tax Revenue Bonds, Series 2003A and Assured Guaranty Corp. provided municipal bond insurance policies relating to the City's Motor Fuel Tax Revenue Bonds, Series 2008. Event notices with respect to the rating changes taken by the Rating Agencies with respect to these insurers were not filed. The City made filings with EMMA on June 3, 2014 and August 22, 2014 with respect to these rating changes.

The City failed to file material event notices with respect to certain rating changes affecting the City's bonds subject to the Rule and for which the City is an "obligated person" under the Rule (collectively, the "*Prior Bonds*") or affecting bond insurance companies which insured any Prior Bonds (collectively the "*Prior Bond Insurers*"). The City filed with EMMA on August 29, 2014 a notice with respect to all rating changes known to the City affecting the Prior Bonds occurring over the last ten years. The City filed with EMMA on August 27, 2014 a notice with respect to all rating changes, known to the City and affecting the Prior Bond Insurers, occurring during the last seven years.

On January 15, 2016, S&P upgraded the rating of the Midway Second Lien Bonds from A- to A. On May 17, 2016, the City filed with EMMA an event notice relating to this upgrade.

RATINGS

The Bonds are rated "A" (stable outlook) by S&P, "A" (stable outlook) by Fitch, and "A" (stable outlook) by Kroll. Certain information was supplied by the City to each of the foregoing rating agencies to be considered in evaluating the Bonds. The City has not sought a rating of the Bonds from any other rating agency.

Such ratings reflect views of such organizations and are not a recommendation to buy, sell or hold the Bonds. Any desired explanation of the significance of such ratings should be obtained from the ratings agency furnishing the same, at the following addresses: S&P Global Ratings, 55 Water Street, New York, New York 10041; Fitch, One State Street Plaza, New York, New York 10004, or Kroll Bond Rating Agency, 845 Third Avenue, Fourth Floor, New York, New York 10022.

A rating reflects only the views of the rating agency assigning such rating and an explanation of the significance of such rating may be obtained from such rating agency. The City has furnished to the rating agencies certain information and materials relating to the Bonds and Midway, including certain information and materials that have not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and investigations, studies and assumptions by the respective rating agency. There is no assurance that any rating of Bonds will continue for any given period of time, or that any rating of Bonds will not be revised downward or withdrawn entirely by either such rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Bonds.

AIRPORT CONSULTANT

The Report of the Airport Consultant prepared by the Airport Consultant, included as APPENDIX F, evaluates aviation activity at Midway and presents a financial feasibility analysis for Midway. The Projections are based, in part, on historic data from sources considered by the Airport Consultant to be reliable, but the accuracy of these data has not been independently verified. The Projections (as defined under "CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY—Assumptions in the Report of the Airport Consultant") are based on assumptions made by the Airport Consultant concerning future events and circumstances which the Airport Consultant believes are significant to the Projections. The achievement of the results described in the Projections may be affected by fluctuating economic conditions and depends upon the

occurrence of other future events which cannot be assured. Therefore, the actual results achieved may vary from the forecasts, and such variations could be material.

MISCELLANEOUS

The summaries or descriptions in this Official Statement of provisions in the Second Lien Indenture and the Airport Use Agreements and all references to other materials not purporting to be quoted in full are only brief outlines of certain provisions and do not constitute complete statements of such documents or provisions. Reference is made to the complete documents relating to such matter for further information, copies of which will be furnished by the City upon written request delivered to the office of the City's Chief Financial Officer, 121 N. LaSalle Street, 7th Floor, Chicago, Illinois 60602.

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AUTHORIZATION

The City has authorized the distribution of this Official Statement.

This Official Statement has been duly executed and delivered by the Chief Financial Officer on behalf of the City.

CITY OF CHICAGO

By: /s/ Carole L. Brown
Chief Financial Officer

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APPENDIX A GLOSSARY OF TERMS

The following are definitions of certain terms used in the Second Lien Indenture and this Official Statement. This glossary is provided for the convenience of the reader and does not purport to be comprehensive or definitive. All references herein to terms defined in the Second Lien Indenture are qualified in their entirety by the definitions set forth in the Second Lien Indenture. Copies of the Second Lien Indenture are available for review prior to the delivery of the Bonds at the office of the City's Chief Financial Officer and thereafter at the office of the Second Lien Trustee.

“Aggregate First Lien Debt Service” means, as of any particular date of computation and with respect to a particular Bond Year or other specified 12-month period, an amount of money equal to the aggregate of the amounts of Annual First Lien Debt Service with respect to such Bond Year or other specified 12-month period and to the First Lien Bonds of all series.

“Aggregate Second Lien Debt Service” means, as of any particular date of computation and with respect to a particular Bond Year or other specified 12-month period, an amount of money equal to the aggregate amounts required by the provisions of all Supplemental Indentures creating series of Second Lien Obligations and all instruments creating Section 208 Obligations and Section 209 Obligations to be deposited from Second Lien Revenues in all sub-funds, accounts and sub-accounts created under such Supplemental Indentures in such Bond Year or other specified 12-month period.

“Airport” or *“Midway”* means Chicago Midway International Airport.

“Airport Obligations” means any bonds, notes, or other evidences of indebtedness of the City, which bonds, notes, or other evidences of indebtedness are payable from Revenues.

“Airport Project” means any capital improvement at or related to the Airport, or the acquisition of land beyond the then-current boundaries of the Airport for use as part of the Airport, or any cost or expense paid or incurred in connection with or related to the Airport whether or not of a capital nature and whether or not related to facilities at the Airport, including, but not limited to, amounts needed to satisfy any judgment and the cost of any noise mitigation programs.

“Annual First Lien Debt Service” means, as of any particular date of computation and with respect to a particular Bond Year or other specified 12-month period and to First Lien Bonds of a particular series, an amount of money equal to the sum of (a) all interest payable during such Bond Year or other specified 12-month period on all First Lien Bonds of said series Outstanding (as defined in the First Lien Indenture) on said date of computation and (b) all Principal Installments payable during such Bond Year or other specified 12-month period with respect to all First Lien Bonds of said series Outstanding (as defined in the First Lien Indenture) on said date of computation, all calculated on the assumption that First Lien Bonds will after said date of computation cease to be Outstanding (as defined in the First Lien Indenture) by reason, but only by reason, of the payment when due and application in accordance with the First Lien

Indenture and the Supplemental Indenture creating such series of First Lien Bonds of Principal Installments payable at or after said date of computation.

“Annual Second Lien Debt Service” means, as of any particular date of computation and with respect to a particular Bond Year or other specified 12-month period and to Second Lien Obligations of a particular series or consisting of a particular Section 208 Obligation or Section 209 Obligation, an amount of money equal to the sum of (a) all interest payable during such Bond Year or other specified 12-month period on all Second Lien Obligations of said series, Section 208 Obligation or Section 209 Obligation Outstanding on said date of computation, and (b) all Principal Installments payable during such Bond Year or other specified 12-month period with respect to all Second Lien Obligations of said series, Section 208 Obligation or Section 209 Obligation Outstanding on said date of computation, all calculated on the assumption that Second Lien Obligations, Section 208 Obligations and Section 209 Obligations will, after said date of computation, cease to be outstanding by reason, but only by reason, of the payment when due and application in accordance with the Master Indenture and the Supplemental Indenture creating such series or the instrument creating such Section 208 Obligation or Section 209 Obligation of Principal Installments payable at or after said date of computation.

“Authorized Denomination” means \$5,000 or any integral multiple thereof.

“Authorized Officer” means (a) the Mayor, the Chief Financial Officer, the Commissioner, the City Comptroller or any other official of the City so designated by a Certificate signed by the Mayor and filed with the Trustee for so long as such designation shall be in effect and (b) the City Clerk with respect to the certification of any ordinance or resolution of the City Council or any other document filed in his or her office.

“Bond Counsel” means a firm of attorneys having experience in the field of law relating to municipal, state and public agency financing, selected by the City and satisfactory to the Second Lien Trustee.

“Bond Register” means the registration books of the City kept by the Second Lien Trustee (in its capacity as Bond Registrar) to evidence the registration and transfer of Second Lien Bonds.

“Bond Registrar” means the Second Lien Trustee.

“Bond Year” means a 12-month period commencing on January 2 of each calendar year and ending on January 1 of the next succeeding calendar year.

“Bondholder,” “holder,” “owner,” “owner of the Bonds,” or *“registered owner”* means the Registered Owner of any Bond.

“Bonds” means the Series 2016A Bonds and the Series 2016B Bonds.

“Business Day” shall mean a day except Saturday, Sunday or any day on which banks located in the States of New York or Illinois are required or authorized to close or on which the New York Stock Exchange is closed.

“*CFC Statute*” means Section 6-305 of the Illinois Vehicle Code, 625 ILCS 5/6-305(j).

“*City*” means the City of Chicago, a municipal corporation and home rule unit of local government, organized and existing under the Constitution and laws of the State.

“*Code*” means the Internal Revenue Code of 1986, as from time to time supplemented and amended. References to the Code and to sections of the Code shall include relevant final, temporary or proposed Regulations as in effect from time to time and, with reference to any series of Second Lien Obligations, as applicable to obligations issued on the date of issuance of such series.

“*Common Debt Service Reserve Sub-Fund*” means the Common Debt Service Reserve Sub-Fund created by the Nineteenth Supplemental Indenture for the benefit of the Common Reserve Bonds.

“*Common Reserve Bonds*” means the Bonds, the Series 2014 Second Lien Bonds (other than the Series 2014C Second Lien Bonds), the Series 2013 Second Lien Bonds and any other bonds issued under the Indenture designated by the City to be entitled to the benefit of the Common Debt Service Reserve Sub-Fund.

“*Completion Obligation*” means any Second Lien Obligation issued for the purpose of defraying additional costs of an Airport Project or Projects financed by the First Lien Bonds or Second Lien Obligations.

“*Consulting Engineer*” means a registered or licensed engineer or engineers, or firm or firms of engineers, with expertise in the field of designing, preparing plans and specifications for, supervising the construction, improvement and expansion of, and supervising the maintenance of, airports and aviation facilities, entitled to practice and practicing as such under the laws of the State, who, in the case of any individual, shall not be an officer or employee of the City.

“*Costs of Issuance*” means any item of expense payable or reimbursable, directly or indirectly, by the City and related to the authorization, offering, sale, issuance and delivery of Second Lien Obligations, including but not limited to travel and other expenses of any officer or employee of the City in connection with the authorization, offering, sale, issuance and delivery of such Second Lien Obligations, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, legal fees and disbursements, fees and disbursements of the Independent Airport Consultant, Independent Accountant and the Consulting Engineer, fees and disbursements of other consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Second Lien Obligations, application fees and premiums on municipal bond insurance and credit facility charges and costs.

“*Costs of Issuance Account*” means the account of that name established in the Series 2016A Dedicated Sub-Fund and the account of that name established in the Series 2016B Dedicated Sub-Fund, as described under “APPENDIX B–SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE–Payment of Debt Service on the Bonds and Related Section 208 and Section 209 Obligations.”

“*Customer Facility Charges*” or “*CFC*” means the customer facility charges authorized by an ordinance adopted by the City Council of the City on July 27, 2005, and any and all amendments or supplements thereto and the CFC Statute to be charged with respect to the Airport. Customer Facility Charges are not Revenues within the meaning of the Indenture or the First Lien Indenture.

“*Date of Issuance*” means the date of original issuance and delivery of the Bonds.

“*Defaulted Interest*” means interest on any Bond which is payable but not duly paid on the date due.

“*Defeasance Obligation*” means direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS or non-callable defeased municipal bonds rated AAA by any Rating Agency.

“*DTC*” means The Depository Trust Company.

“*Federal Obligation*” means any direct obligation of, or any obligation the full and timely payment of principal of and interest on which is guaranteed by, the United States of America.

“*First Lien Bonds*” means (a) any of the bonds of the City authenticated and delivered under and pursuant to Article II of the First Lien Indenture and (b) any Airport Obligations described in the second paragraph of Section 204 of the Master Indenture.

“*First Lien Debt Service Fund*” means the Debt Service Fund created by the First Lien Indenture.

“*First Lien Debt Service Reserve Fund*” means the Debt Service Reserve Fund created by the First Lien Indenture.

“*First Lien Indenture*” means the Master Indenture of Trust Securing Chicago Midway Airport Revenue Bonds dated as of April 1, 1994, from the City to the First Lien Trustee, as heretofore amended or supplemented and as further amended or supplemented by one or more Supplemental First Lien Indentures.

“*First Lien Revenue Fund*” means the Revenue Fund created by the First Lien Indenture.

“*Fiscal Year*” means January 1 through December 31 of any year, or such other fiscal year as the City may adopt for the Airport.

“*Fitch*” means Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “*Fitch*” shall be deemed to refer to any other nationally recognized securities agency designated by the City by notice to the Trustee.

“*Funds*” means the special funds created and established pursuant to the Second Lien Indenture.

“*Indenture*,” “*Master Indenture*,” or “*Second Lien Indenture*” means the Master Indenture of Trust Securing Chicago Midway Airport Second Lien Obligations, dated as of September 1, 1998, from the City to the Trustee, as amended, pursuant to which Chicago Midway Airport Second Lien Bonds are authorized to be issued, and any amendments and supplements thereto. References to Articles and Sections of the Indenture shall be deemed to refer to Articles and Sections of the Indenture as amended.

“*Independent Accountant*” means a certified public accountant selected by the City and licensed to practice in the State, and who (a) in the case of an individual, shall not be an officer or employee of the City, (b) shall be satisfactory to the Trustee, and (c) may be the accountant that regularly audits the books of the City or the Airport.

“*Independent Airport Consultant*” means a consultant, other than a Consulting Engineer, selected by the City, with expertise in the administration, financing, planning, maintenance and operations of airports and facilities thereof, and who, in the case of an individual, shall not be an officer or employee of the City.

“*Interest Payment Date*” means, with respect to the Series 2016A Bonds and the Series 2016B Bonds, January 1 and July 1 of each year, commencing July 1, 2016.

“*Junior Lien Obligation Debt Service Fund*” means the Junior Lien Obligation Debt Service Fund created by the First Lien Indenture.

“*Junior Lien Obligations*” means any bonds, notes or evidences of indebtedness, including the Second Lien Obligations, other than First Lien Bonds and Special Facility Revenue Bonds, issued by the City as permitted by the First Lien Indenture.

“*Junior Lien Revenues*” means all sums, amounts, funds or moneys which may be withdrawn for the Junior Lien Obligation Debt Service Fund for the payment of Junior Lien Obligations pursuant to provisions of the First Lien Indenture.

“*Kroll*” means Kroll Bond Rating Agency, its successors and assigns, and, if Kroll shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Kroll” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City by notice to the Trustee.

“*MATCO*” means the Midway Airlines’ Terminal Consortium, formed to construct the Fuel System at the Airport and to operate and maintain certain airline equipment and the Fuel System at the Airport, pursuant to the MATCO Agreement.

“*MATCO Agreement*” means the agreement between the City and MATCO effective as of January 1, 2013, as amended and as such agreement may be hereinafter amended in accordance with its term.

“*Maturity Date*” mean with respect to the Series 2016A Bonds and the Series 2016B Bonds, each as of the dates as shown on the inside cover pages of this Official Statement.

“*Moody’s*” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “*Moody’s*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City by notice to the Trustee.

“*Nineteenth Supplemental Indenture*” means the Nineteenth Supplemental Indenture, dated as of June 1, 2014 from the City to the Trustee supplementing the Second Lien Indenture and pursuant to which the Common Debt Service Reserve Sub-Fund is created and held.

“*Ordinance*” means the ordinance duly adopted by the City Council of the City on January 13, 2016, which authorizes the issuance and sale of the Bonds and the execution and delivery of the Nineteenth Supplemental Indenture, the Twenty-Third Supplemental Indenture, and the Twenty-Fourth Supplemental Indenture.

“*Other Available Moneys*” means, for any Fiscal Year, the amount of money determined by the Chief Financial Officer to be transferred by the City for such Fiscal Year from sources other than Revenues to the First Lien Revenue Fund, the First Lien Debt Service Fund or any debt service fund for Second Lien Obligations.

“*Outstanding*” when used with reference to Second Lien Obligations means, as of any date, all Second Lien Obligations theretofore or thereupon being issued under the Second Lien Indenture or Section 208 Obligations except: (a) Second Lien Obligations cancelled by the Second Lien Trustee or the owner of a Section 208 Obligation or Section 209 Obligation, as the case may be, at or prior to such date or theretofore delivered to the Second Lien Trustee or the City, as the case may be, for cancellation; (b) Second Lien Obligations (or portions of Second Lien Obligations) for the payment or redemption of which there shall be held in trust and set aside for such payment or redemption (whether at, prior to or after the maturity or redemption date) moneys or Defeasance Obligations, the principal of an interest on which when due or payable will provide moneys, together with the moneys, if any, deposited with the Second Lien Trustee at the same time, in an amount sufficient to pay the principal or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, and, if such Second Lien Obligations are to be redeemed, for which notice of such redemption shall have been given as provided in the related Supplemental Indenture or provisions satisfactory to the Second Lien Trustee shall have been made for the giving of such notice; (c) Second Lien Obligations for the transfer or exchange or, in lieu of or in substitution for which other Second Lien Obligations shall have been authenticated and delivered pursuant to the Second Lien Indenture; and (d) Second Lien Obligations deemed to have been paid as described under “APPENDIX B—SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE—Defeasance.”

“*Participant*” when used with respect to any Securities Depository, means any participant of such Securities Depository.

“*Passenger Facility Charge*” or “*PFC*” means the passenger facility charge as authorized under Section 1113(e) of the Federal Aviation Act of 1958, as amended by Section 9110 of the Omnibus Budget Reconciliation Act of 1990, and as approved by the FAA from time to time with respect to the Airport.

“*Paying Agent*” means The Bank of New York Mellon Trust Company, N.A., or its successor.

“*Principal and Interest Account*” means the account of that name established in the Series 2016A Dedicated Sub-Fund, or the account of that name established in the Series 2016B Dedicated Sub-Fund, each as described in “APPENDIX B–SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE–Payment of Debt Service on the Bonds and Related Section 208 and Section 209 Obligations.”

“*Principal and Interest Account Requirement*” means for each series of Bonds an amount equal to (i) the interest due on such series of Bonds on the next succeeding Interest Payment Date plus (ii) one-half of the total Principal Installments due on such series of Bonds on the next succeeding January 1.

“*Principal Installments*” means as of any particular date and with respect to Second Lien Bonds of a particular series or consisting of a particular Section 208 Obligation, an amount of money equal to the aggregate of (a) the principal amount of Outstanding Second Lien Obligations of said series or Section 208 Obligation which matures on a single future date, reduced by the aggregate principal amount of such Outstanding Second Lien Obligations which would at or before said future date be retired by reason of the payment when due and the application in accordance with the Second Lien Indenture and the Supplemental Indenture creating such series or the instrument creating such Section 208 Obligation of Sinking Fund Payments payable at or before said future date for the retirement of such Outstanding Second Lien Obligations, plus (b) the amount of any Sinking Fund Payments payable on said future date for the retirement of such Outstanding Second Lien Obligations, and said future date shall, for all purposes of the Second Lien Indenture, be deemed to be the date when such Principal Installment is payable and the date of such Principal Installment.

“*Program Fee Account*” means the accounts of that name established in the Series 2016A Dedicated Sub-Fund or the account of that name established in the Series 2016B Dedicated Sub-Fund as described in “APPENDIX B–SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE–Payment of Debt Service on the Bonds and Related Section 208 and Section 209 Obligations.”

“*Program Fees*” means:

(a) the fees, expenses and other charges payable to each fiduciary, including the Trustee, the Trustee’s Agent and any Paying Agent, pursuant to the provisions of the Indenture; provided that if at any time there shall be any series of Second Lien Obligations Outstanding under the Indenture other than the Bonds, then “*Program Fees*,” for purposes of the Twenty-Third Supplemental Indenture and the Twenty-Fourth Supplemental Indenture, shall mean only such portion of such fees, expenses and other charges as shall be payable with respect to, or

properly allocable to, the duties performed by each such fiduciary with respect to such Bonds; and

(b) any other fees, expenses and other charges of a similar nature payable by the City to any person under the applicable Supplemental Indenture or otherwise with respect to the Bonds.

“Qualified Reserve Account Instrument” means a letter of credit, surety bond or non-cancelable insurance policy issued by a domestic or foreign bank, insurance company or other financial institution whose debt obligations are rated “Aa” or better by Moody’s or “AA” or better by S&P as of the date of issuance thereof.

“Qualified Swap Agreement” means an agreement between the City and a Swap Provider under which the City agrees to pay the Swap Provider an amount calculated at an agreed-upon rate or index based upon a notional amount and the Swap Provider agrees to pay the City for a specified period of time, an amount calculated at an agreed-upon rate or index based upon such notional amount, where (a) each Rating Agency (if such Rating Agency also rates the unsecured obligations of the Swap Provider or its guarantor) has assigned to the unsecured obligations of the Swap Provider or of the Person who guarantees the obligation of the Swap Provider to make its payments to the City, as of the date the swap agreement is entered into, a rating that is equal to or higher than the rating then assigned to the Second Lien Obligations by such Rating Agency (without regard to municipal bond insurance or any other credit facility), and (b) the City has notified each Rating Agency (whether or not such Rating Agency also rates the unsecured obligations of the Swap Provider or its guarantor) in writing, at least 15 days prior to executing and delivering the swap agreement, of its intention to enter into the swap agreement and has received from such Rating Agency a written indication that the entering into of the swap agreement by the City will not in and of itself cause a reduction or withdrawal by such Rating Agency of its unenhanced rating on the Second Lien Obligations.

“Rating Agency” means any rating agency that has an outstanding credit rating assigned to any Second Lien Obligations at the request of the City.

“Record Date” means June 15 and December 15 of each year.

“Redemption Price” means with respect to any series of Second Lien Obligations, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Second Lien Obligations or the Supplemental Indenture creating such series of Second Lien Obligations, or such other redemption price as may be specified in such Second Lien Obligations or Supplemental Indenture.

“Refunding Obligations” means all Second Lien Obligations, whether issued in one or more series, authenticated and delivered on original issuance for the purpose of the refunding of First Lien Bonds or Second Lien Obligations of any series.

“Registered Owner” or *“Owner”* means the person or persons in whose name or names a Bond shall be registered in the Bond Register.

“*Reserve Requirement*” for the Common Debt Service Reserve Sub-Fund means the lesser of (i) the maximum amount of Annual Second Lien Debt Service payable on the Common Reserve Bonds in the current or any succeeding Bond Year, (ii) 125% of the average Annual Second Lien Debt Service on the Common Reserve Bonds or (iii) 10% of the original principal amount of the Common Reserve Bonds, *provided however*, that if upon the issuance of a series of Common Reserve Bonds such amount would require that moneys be paid into the Common Debt Service Reserve Sub-Fund from the proceeds of such Common Reserve Bonds in an amount in excess of the maximum amount permitted under the Code, the Reserve Requirement shall be the sum of (a) the Reserve Requirement immediately preceding the issuance of such Common Reserve Bonds and (b) the maximum amount permitted under the Code to be deposited from the proceeds of such bonds, as certified by the Chief Financial Officer.

“*Revenues*” means, for any Fiscal Year, except to the extent hereinafter excluded, all revenues, payments, proceeds, fees, charges, rent and all other income of any nature, including investment income on moneys held under the First Lien Indenture or on other funds of the Airport, derived directly or indirectly by or for the City for such Fiscal Year for the use of, and for the services and facilities furnished by, or from the operation or ownership of, or with respect to the Airport, and any proceeds of business interruption insurance and any other insurance proceeds which are deemed to be revenues in accordance with generally accepted accounting principles; provided, however, the following shall not be included in Revenues: (a) the proceeds of any Passenger Facility Charge or similar charge levied by or on behalf of the City (and investment income thereon); (b) any grants, gifts, bequests, contributions or donations, including any such funds provided by any person or entity, including an airline, doing business at the Airport; (c) the proceeds from the sale, transfer or other disposition of title by the City to all or any part of the Airport; (d) the proceeds of any taxes collected at the Airport; (e) the proceeds of any condemnation award or insurance received by the City except condemnation awards and insurance proceeds which are deemed to be revenues in accordance with generally accepted accounting principles; (f) the proceeds of any court or arbitration award or settlement in lieu thereof received by the City except (i) awards or settlements which are deemed to be revenues in accordance with generally accepted accounting principles, or (ii) awards or settlements which constitute reimbursements for costs previously incurred as Operation and Maintenance Expenses (as defined in the Second Lien Indenture); (g) amounts derived by the City with respect to debt service on Special Facility Revenue Bonds; (h) the proceeds of any bonds or other indebtedness of the City; (i) payments to the City of the principal of and interest, if any, on any loan made by the City for Airport purposes; (j) investment income on moneys held in the Construction Fund, the Special Project Fund, the Emergency Reserve Fund and the Airport Development Fund (each as defined in the Indenture); and (k) any other amounts which are not deemed to be revenues in accordance with generally accepted accounting principles or which are restricted as to their use.

“*S&P*” or “*S&P Global Ratings*” means S&P Global Ratings, a division of The McGraw-Hill Companies, Inc., its successors and assigns, and, if S&P shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City by notice to the Trustee.

“Second Lien Obligations” means (a) any of the bonds, notes or evidences of indebtedness issued by the City under and pursuant to the Master Indenture, (b) any Section 208 Obligations, and (c) any Section 209 Obligations.

“Second Lien Revenues” means all Junior Lien Revenues paid to the Second Lien Trustee pursuant to the First Lien Indenture.

“Second Lien Revenue Fund” means the Revenue Fund created by the Second Lien Indenture.

“Second Lien Trustee” or *“Trustee”* means The Bank of New York Mellon Trust Company, N.A. (as successor to American National Bank and Trust Company of Chicago), as trustee under the Second Lien Indenture, or its successor as such trustee hereafter appointed in the manner provided in the Second Lien Indenture.

“Section 208 Obligations” means any obligations incurred by the City to reimburse the issuer or issuers of one or more letters of credit, lines of credit, standby bond purchase agreements, financial guaranty insurance policies or surety bonds (including Qualified Reserve Account Instruments) securing one or more series of Second Lien Obligations, including any fees or other amounts payable to the issuer of any such letter of credit, line of credit, standby purchase agreement, financial guaranty insurance policy or surety bond, whether such obligations are set forth in one or more reimbursement agreements entered into between the City and the issuer of any such letter of credit, line of credit, standby purchase agreement, financial guaranty insurance policy or surety bond, or in one or more notes or other evidences of indebtedness executed and delivered by the City pursuant thereto, or any combination thereof.

“Section 209 Obligations” means any obligations incurred by the City to any one or more swap providers, including any fees or amounts payable by the City under each related Qualified Swap Agreement.

“Securities Depository” means DTC and its successors and assigns or any other securities depository registered as a clearing agency with the Securities and Exchange Commission pursuant to Section 17A of the Securities Exchange Act of 1934, as amended, and appointed as the securities depository for the Bonds.

“Series 2016A Bonds” means the Chicago Midway Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2016A (AMT) authorized to be issued pursuant to the Twenty-Third Supplemental Indenture.

“Series 2016A Dedicated Sub-Fund” means the Chicago Midway Airport Series 2016A Second Lien Bonds Dedicated Sub-Fund established in the Second Lien Revenue Fund as described in the Twenty-Third Supplemental Indenture.

“Series 2016B Bonds” means the Chicago Midway Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2016B (Non-AMT) authorized to be issued pursuant to the Twenty-Fourth Supplemental Indenture.

“*Series 2016B Dedicated Sub-Fund*” means the Chicago Midway Airport Series 2016B Second Lien Bonds Dedicated Sub-Fund established in the Second Lien Revenue Fund as described in the Twenty-Fourth Supplemental Indenture.

“*Sinking Fund Payment*” means (a) as of any particular date of determination and with respect to the outstanding First Lien Bonds of any series, the amount required by a Supplemental First Lien Indenture to be paid in any event by the City on a single future date for the retirement of First Lien Bonds of such series which mature after said future date, but does not include any amount payable by the City by reason only of the maturity of a First Lien Bond, and (b) as of any particular date of determination and with respect to the Outstanding Second Lien Obligations of any Series or consisting of any Section 208 Obligation, the amount required by the Supplemental Indenture creating such Series or the instrument creating such Section 208 Obligation to be paid in any event by the City on a single future date for the retirement of such Second Lien Obligations which mature after said future date, but does not include any amount payable by the City by reason only of the maturity of a Second Lien Obligation.

“*Special Facility Revenue Bonds*” means bonds, notes or other evidences of indebtedness of the City, which bonds, notes or other evidences of indebtedness are not payable from Revenues or any other moneys or securities held under the First Lien Indenture or the Master Indenture, and for which the City has no taxing obligation.

“*State*” means the State of Illinois.

“*Supplemental Indenture*” means an indenture supplemental to or amendatory of the Indenture, executed and delivered by the City and the Second Lien Trustee in accordance with the provisions of the Master Indenture.

“*Swap Provider*” means any person with which the City enters into a Qualified Swap Agreement.

“*Tax Agreement*” means the Tax Compliance Exemption Certificate and Agreement of the City, dated the date of issuance of the Bonds.

“*Trust Estate*” means the property conveyed to the Trustee pursuant to the Granting Clauses of the Twenty-Third Supplemental Indenture and the Twenty-Fourth Supplemental Indenture.

“*Trustee’s Agent*” means any agent designated as Trustee’s Agent by the Trustee and at the time serving in that capacity; *provided* that, in the event that a Trustee’s Agent has not been designated or is no longer serving in such capacity, all references to the “Trustee’s Agent” shall refer to the Trustee. Any agent so designated by the Trustee shall execute a written agreement with the Trustee assuming all obligations of the Trustee under the applicable Supplemental Indenture with respect to those duties of the Trustee such agent agrees to perform on behalf of the Trustee.

“*Twenty-Third Supplemental Indenture*” means the Twenty-Third Supplemental Indenture Securing Chicago Midway Airport Second Lien Revenue Bonds, Series 2016A, dated

as of May 1, 2016, from the City to the Trustee, pursuant to which the Series 2016A Bonds are to be issued.

“Twenty-Fourth Supplemental Indenture” means the Twenty-Fourth Supplemental Indenture Securing Chicago Midway Airport Second Lien Revenue Bonds, Series 2016B, dated as of May 1, 2016, from the City to the Trustee, pursuant to which the Series 2016B Bonds are to be issued.

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE

The following is a composite summary of certain provisions of the Master Indenture, the Nineteenth Supplemental Indenture, the Twenty-Third Supplemental Indenture and the Twenty-Fourth Supplemental Indenture (collectively, the “Second Lien Indenture”), to which reference is made for a complete statement of the provisions and contents of each of such documents. Unless specifically otherwise noted, the following summary applies equally, but separately, to the Series 2016A Bonds and the Series 2016B Bonds, which are collectively referred to as the “Bonds.” Certain words and terms used in this Official Statement and in the Second Lien Indenture are defined in APPENDIX A–“GLOSSARY OF TERMS.”

Authorization of the Second Lien Bonds and Other Second Lien Obligations

The Master Indenture authorizes the issuance, from time to time, of Second Lien Obligations payable from Second Lien Revenues for the purpose of (a) the payment, or the reimbursement for the payment of, the costs of one or more Airport Projects, (b) the refunding of any First Lien Bonds, Second Lien Obligations or other obligations issued to finance or refinance one or more Airport Projects, including, but not limited to, the refunding of any Special Facility Revenue Bonds and any Junior Lien Obligations, or (c) the funding of any Fund or Account under the First Lien Indenture, or any Fund or Account under the Master Indenture or the Supplemental Indenture under which any Second Lien Obligations are issued; including, in each case, payment of Costs of Issuance. Second Lien Obligations may be issued under a Supplemental Indenture entered into in accordance with the terms of the Master Indenture, provided that, at the time of issuance of such Second Lien Obligations, certain conditions precedent are satisfied, including the receipt by the Second Lien Trustee of certain certificates and opinions of counsel relating to the validity of such Second Lien Obligations and the Supplemental Indenture under which they are issued, including:

(a) a copy of an ordinance adopted by the City Council, certified by the City Clerk, authorizing the execution and delivery of the Supplemental Indenture under which the Second Lien Obligations are issued;

(b) except in the case of Completion Obligations and Refunding Obligations, either (i) a certificate of an Independent Airport Consultant stating that, based upon reasonable assumptions set forth therein, Revenues and Other Available Moneys are projected to be not less than that required to satisfy the rate covenant set forth in the Master Indenture (disregarding any First Lien Bonds or Second Lien Obligations that have been paid or discharged or will be paid or discharged immediately after the issuance of the series proposed to be issued) for each of the next three Fiscal Years following the issuance of such Second Lien Obligations or, if later, for each Fiscal Year from the issuance of such series through the two Fiscal Years immediately following completion of the Airport Projects financed by such Second Lien Obligations; or (ii) a certificate of an authorized officer of the City stating that Revenues and Other Available Moneys in the most recent completed Fiscal Year for which audited financial statements have been prepared satisfied the rate covenant set forth in the Master Indenture assuming for such purpose that Aggregate Second Lien Debt Service for the Bond Year commencing during such Fiscal

Year includes the maximum Annual Second Lien Debt Service on the Second Lien Obligations proposed to be issued; provided, however, that for purposes of the certificate described in clause (i) above, Other Available Moneys shall be projected only to the extent such Other Available Moneys have been (x) paid over to the First Lien Trustee and deposited into the First Lien Revenue Fund or the First Lien Debt Service Fund or paid over to the Second Lien Trustee and deposited into a debt service fund for Second Lien Obligations, or (y) irrevocably pledged to the payment of debt service on First Lien Bonds or Second Lien Obligations;

(c) in the case of Completion Obligations, a certificate stating (i) that the series of Second Lien Obligations proposed to be issued are being issued to finance the costs of one or more Airport Projects initially financed, in whole or in part, by First Lien Bonds or Second Lien Obligations, and (ii) that the additional cost of the Airport Projects being financed by such series does not exceed 15% of the aggregate cost thereof previously financed. Prior to the delivery of any Completion Obligations, the City shall file with the Second Lien Trustee a certificate of a Consulting Engineer (i) stating that the Airport Projects have not materially changed from their description in the Supplemental Indenture creating the series of First Lien Bonds or series of Second Lien Obligations initially issued to finance the cost of such Airport Projects, (ii) estimating the revised aggregate cost of the Airport Projects, (iii) stating that the revised aggregate cost of such Airport Projects cannot be paid with available moneys, and (iv) stating that, in the opinion of the Consulting Engineer, the issuance of Completion Obligations is necessary to provide funds to complete the Airport Projects;

(d) in the case of Refunding Obligations, (i) irrevocable instructions to the Trustee to give due notice of redemption of all the Second Lien Obligations to be refunded and the redemption date or dates, if any, upon which such Second Lien Obligations are to be redeemed; (ii) if a redemption is scheduled to occur subsequent to the next succeeding 45 days, irrevocable instructions to the Trustee to publish as provided in the applicable Supplemental Indenture notice of redemption of such Second Lien Obligations on a specified date prior to their redemption date; and (iii) a certificate of an Independent Accountant stating the amount of either (x) moneys (which may include all or a portion of such series) in an amount sufficient to pay the Second Lien Obligations to be refunded at the applicable Redemption Price of the Second Lien Obligations to be refunded, together with accrued interest on such Second Lien Obligations to the redemption date or dates, or (y) Defeasance Obligations the principal of, and interest on, which when due (without reinvestment thereof), together with moneys (which may include all or a portion of the proceeds of the Second Lien Obligations to be issued), if any, which must be contemporaneously deposited with the Trustee, to be sufficient to pay when due the applicable Redemption Price of the Second Lien Obligations to be refunded, together with accrued interest on such Second Lien Obligations to the redemption date or dates or the date or dates of maturity thereof; and

(e) any further documents and moneys as are required by the provisions of the Master Indenture or any Supplemental Indenture.

The Bonds are Second Lien Obligations authorized and issued pursuant to the Master Indenture.

The City reserves the right under the Second Lien Indenture to provide one or more irrevocable letters of credit, lines of credit, standby purchase agreements, financial guaranty insurance policies, or surety bonds (including Qualified Reserve Account Instruments), or a combination thereof, to secure the payment of the principal of, premium, if any, and interest on one or more series of Second Lien Obligations, or in the event owners of such Second Lien Obligations have the right to require purchase thereof, to secure the payment of the purchase price of such Second Lien Obligations upon the demand of the owners thereof. Any obligation of the City to reimburse or otherwise make payments to the issuer of such letter of credit, line of credit, standby purchase agreement, financial guaranty insurance policy, or surety bond constitutes a Second Lien Obligation under the Second Lien Indenture to the same extent as the series of Second Lien Obligations secured by such letter of credit, line of credit, standby purchase agreement, financial guaranty insurance policy, or surety bond and any and all amounts payable by the City to reimburse the issuer of any such letter of credit, line of credit, standby purchase agreement, financial guaranty, insurance policy or surety bond, together with the interest thereon, shall for purposes of the Second Lien Indenture constitute the payment of principal of, premium, if any, and interest on Second Lien Obligations.

(a) If the City shall enter into a Qualified Swap Agreement with a Swap Provider requiring the City to pay a fixed interest rate on a notional amount, or requiring the City to pay a variable interest rate on a notional amount, and if the City has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for Second Lien Obligations of a particular maturity or maturities in a principal amount equal to the notional amount of the Qualified Swap Agreement and so long as the swap provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement:

(i) for purposes of any calculation of Annual Second Lien Debt Service, the interest rate on the Second Lien Obligations of such maturity or maturities shall be determined as if such Second Lien Obligations bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by the City under such Qualified Swap Agreement;

(ii) any net payments required to be made by the City to the Swap Provider pursuant to such Qualified Swap Agreement from Second Lien Revenues shall be made on a parity with payments due on other Second Lien Obligations solely from amounts on deposit to the credit of the Second Lien Revenue Fund; and

(iii) any net payments received by the City from the Swap Provider pursuant to such Qualified Swap Agreement shall be applied as directed by the City.

(b) If the City shall enter into a swap agreement that does not satisfy the requirements for qualification as a Qualified Swap Agreement, then:

(i) the interest rate adjustment or assumptions referred to above shall not be made;

(ii) any net payments required to be made by the City to the Swap Provider pursuant to such swap agreement from Second Lien Revenues shall be made only from amounts available after the payment of all other Second Lien Obligations; and

(iii) any net payments received by the City from the Swap Provider pursuant to such swap agreement may be treated as Second Lien Revenues at the option of the City and applied as directed by the City.

Source of Payment; Pledge of Second Lien Revenues

The provisions of the Master Indenture and any Supplemental Indenture (including, but not limited to, the Nineteenth Supplemental Indenture, the Twenty-Third Supplemental Indenture and the Twenty-Fourth Supplemental Indenture) constitute a contract among the City, the Second Lien Trustee and the owners of the Second Lien Obligations. The Second Lien Obligations are limited obligations of the City payable solely from Second Lien Revenues and certain other moneys and securities held by the Second Lien Trustee under the Master Indenture, including, in the case of the Series 2016A Bonds, moneys deposited into the Series 2016A Dedicated Sub-Fund created pursuant to the Twenty-Third Supplemental Indenture and in the case of the Series 2016B Bonds, moneys deposited in the Series 2016B Dedicated Sub-Fund created pursuant to the Twenty-Fourth Supplemental Indenture. The Second Lien Obligations and the interest thereon do not constitute an indebtedness or a loan of credit of the City within the meaning of any constitutional or statutory limitation, and neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof is pledged to the payment of the principal of or interest on the Second Lien Obligations. The Second Lien Obligations are secured by a pledge of the Second Lien Revenues and moneys and securities held by the Second Lien Trustee under the Second Lien Indenture.

The Common Debt Service Reserve Sub-Fund was established and is held and administered by the Trustee in accordance with the terms of the Nineteenth Supplemental Indenture. The Bonds are entitled to the benefit of the Common Debt Service Reserve Sub-Fund (also referred to as the “Common Reserve Bonds”). For more information on the Common Debt Service Reserve Sub-Fund, see “–Payment of Debt Service on the Bonds and Related Section 208 and Section 209 Obligations” below.

The Second Lien Indenture permits the City to issue additional First Lien Bonds in unlimited amounts (except as may be limited by law) pursuant to the First Lien Indenture, Airport Obligations consisting of reimbursement obligations to issuers of bond insurance, letters of credit, lines of credit, standby purchase agreements, financial guaranty insurance policies and surety bonds (including Qualified Reserve Account Instruments) relating to such First Lien Bonds and Airport Obligations having substantially the same first priority of lien on Revenues as is granted by the First Lien Indenture in favor of the First Lien Bonds, whether or not any First Lien Bonds are then outstanding under the First Lien Indenture. Any application of Revenues to such additional First Lien Obligations may not impair the lien on Revenues granted by the Second Lien Indenture in favor of Second Lien Obligations.

Covenant Against Pledge of Revenues

The City has covenanted in the Second Lien Indenture that it will not, other than in connection with the issuance of First Lien Bonds and Second Lien Obligations, issue any debt secured by a pledge of Second Lien Revenues or create or cause to be created any lien or charge on Revenues, or on any other amounts pledged for the benefit of owners of the Second Lien Obligations under the Second Lien Indenture; except that the City has the right to issue debt payable or secured from Revenues to be derived after the discharge and satisfaction of all Second Lien Obligations and to issue debt payable from or secured by a pledge of amounts to be withdrawn from the Junior Lien Obligation Debt Service Fund held under the First Lien Indenture as long as such pledge is expressly junior and subordinate to the pledge described above.

Payment of Debt Service on the Bonds and Related Section 208 and Section 209 Obligations

The Master Indenture creates the Second Lien Revenue Fund to be held and administered by the Second Lien Trustee. The City is required to file with the First Lien Trustee, contemporaneously with the issuance of each series of Second Lien Obligations (including each series of the Bonds), an executed counterpart of the Supplemental Indenture creating such Series, duly certified by the Trustee and an Authorized Officer, an executed counterpart of any Qualified Swap Agreement or any instrument creating Section 208 or Section 209 Obligations with respect to such Series, duly certified by an Authorized Officer, and a certificate stating the dates on which amounts on deposit in the Junior Lien Obligation Debt Service Fund are to be withdrawn therefrom by the First Lien Trustee and paid to the Second Lien Trustee for deposit in the Second Lien Revenue Fund, and the amounts of such withdrawals, and containing a direction of the City to the First Lien Trustee to withdraw from the Junior Lien Obligation Debt Service Fund and pay to the Second Lien Trustee the amounts, and on the dates, specified in such certificate. Upon receipt of such payments, the Second Lien Trustee shall deposit the same in the Second Lien Revenue Fund. The moneys in the Second Lien Revenue Fund shall be disbursed and credited by the Second Lien Trustee in the amounts as required under the provisions of each Supplemental Indenture to pay the principal of and interest on the related series of Second Lien Obligations.

Series 2016A Bonds

The Twenty-Third Supplemental Indenture creates and establishes the Series 2016A Dedicated Sub-Fund with the Second Lien Trustee as a separate and segregated sub-fund within the Second Lien Revenue Fund. Moneys on deposit in the Series 2016A Dedicated Sub-Fund, and in each account established therein, shall be held in trust by the Second Lien Trustee for the sole and exclusive benefit of the Registered Owners of the Series 2016A Bonds.

The Twenty-Third Supplemental Indenture creates within the Series 2016A Dedicated Sub-Fund the following separate accounts: (a) the Project Account designated the “Chicago Midway Airport Series 2016A Project Account” (the “*Series 2016A Project Account*”); (b) the Capitalized Interest Account designated the “Chicago Midway Airport Series 2016A Capitalized Interest Account” (the “*Series 2016A Capitalized Interest Account*”); (c) the Series 2016A Costs

of Issuance Account designated the “Chicago Midway Airport Series 2016A Cost of Issuance Account” (the “*Series 2016A Cost of Issuance Account*”); (d) the Series 2016A Program Fee Account designated the “Chicago Midway Airport Series 2016A Program Fee Account” (the “*Series 2016A Program Fee Account*”); and (e) the Principal and Interest Account designated the “Chicago Midway Airport Series 2016A Principal and Interest Account” (the “*Series 2016A Principal and Interest Account*”).

On January 1 and July 1 of each year, commencing July 1, 2016 (each such date referred to herein as the “*Deposit Date*”), there shall be deposited into the Series 2016A Dedicated Sub-Fund from amounts on deposit in the Second Lien Revenue Fund an amount equal to the aggregate of the following amounts, which amounts shall have been calculated by the Trustee on the next preceding December 5 or June 5, in the case of each January 1 or July 1, respectively (such aggregate amount with respect to any Deposit Date being referred to herein as the “*Series 2016A Deposit Requirement*”):

(a) for deposit into the Series 2016A Principal and Interest Account, the amount to be required as of the close of business on the applicable January 1 or July 1 next succeeding such date of calculation to restore the Series 2016A Principal and Interest Account to an amount equal to the Principal and Interest Account Requirement for the Series 2016A Bonds, treating for purpose of such calculation any amount scheduled to be transferred from the Series 2016A Capitalized Interest Account on the applicable Deposit Date pursuant to Section 5.05(b) of the Twenty-Third Supplemental Indenture as an amount credited to the Series 2016A Principal and Interest Account; and

(b) for deposit into the Series 2016A Program Fee Account, the amount estimated by the City to be required as of the close of business on the related Deposit Date to pay all Program Fees payable from amounts in the Series 2016A Program Fee Account during the semi-annual period commencing on such related Deposit Date.

Upon calculation by the Trustee of each Series 2016A Deposit Requirement, the Trustee shall notify the City of the Series 2016A Deposit Requirement and the Deposit Date to which it relates, and shall provide the City with such supporting documentation and calculations as the City may reasonably request.

In addition to the Series 2016A Deposit Requirement, there shall be deposited into the Series 2016A Dedicated Sub-Fund any other moneys received by the Trustee under and pursuant to the Indenture or the Twenty-Third Supplemental Indenture, when accompanied by directions from the person depositing such moneys that such moneys are to be paid into the Series 2016A Dedicated Sub-Fund and to one or more accounts therein.

Moneys in the Series 2016A Principal and Interest Account shall be used solely for the payment of the principal of, premium (if any) and interest on the Series 2016A Bonds, for the redemption of the Series 2016A Bonds prior to maturity and for the payment of Section 208 Obligations and Section 209 Obligations, but only to the extent that the Section 208 Obligations and 209 Obligations relate to the 2016A Bonds.

Funds for such payment shall be derived from the following source or sources, but only in the following order of priority:

(i) for payment of interest on the Series 2016A Bonds on each Interest Payment Date with respect to the Series 2016A Bonds, from moneys transferred from the Series 2016A Capitalized Interest Account in the particular amount for each Interest Payment Date set forth in the Twenty-Third Supplemental Indenture and held in the Series 2016A Principal and Interest Account;

(ii) for payment of interest on or principal of the Series 2016A Bonds on each Interest Payment Date, from moneys transferred from the Series 2016A Project Account and held in the Series 2016A Principal and Interest Account; and

(iii) for payment of principal of, premium, if any, and interest due on each Interest Payment Date with respect to the Series 2016A Bonds and not otherwise provided for, and with respect to Section 208 Obligations and Section 209 Obligations, but only to the extent that the Section 208 Obligations and the Section 209 Obligations relate to the Series 2016A Bonds, from moneys held in the Series 2016A Principal and Interest Account, ratably, without preference or priority of any kind.

Moneys in the Series 2016A Capitalized Interest Account shall be transferred to the Series 2016A Principal and Interest Account to pay interest on the Series 2016A Bonds in accordance with the following schedule and amounts:

Interest Payment Date	Amount to Transfer
July 1, 2016	\$452,050.00
January 1, 2017	\$2,711,149.98
July 1, 2017	\$2,534,126.30
January 1, 2018	\$2,462,605.66
July 1, 2018	\$2,186,618.29
January 1, 2019	\$2,162,850.40

Upon making the transfer in respect of the January 1, 2019 Interest Payment Date, any amounts remaining on deposit in the 2016A Capitalized Interest Account shall be transferred by the Trustee to the 2016A Principal and Interest Account.

The Nineteenth Supplemental Indenture provides, and the City covenants in the Twenty-Third Supplemental Indenture with the holders of the Series 2016A Bonds, that the Common Debt Service Reserve Sub-Fund will be created and maintained in the Nineteenth Supplemental Indenture and that the amounts held in the Common Debt Service Reserve Sub-Fund (except for any amount therein representing investment income required to be paid into the Common Debt

Reserve Sub-Fund pursuant to the Nineteenth Supplemental Indenture) will be used solely for the payment of, premium (if any) and interest due on each Payment Date with respect to the Series 2016A Bonds and all other Common Reserve Bonds and not otherwise provided for, ratably, without preference or priority of any kind. See “Common Debt Service Reserve Fund” below.

Series 2016B Bonds

The Twenty-Fourth Supplemental Indenture creates and establishes the Series 2016B Dedicated Sub-Fund with the Second Lien Trustee as a separate and segregated sub-fund within the Second Lien Revenue Fund. Moneys on deposit in the Series 2016B Dedicated Sub-Fund, and in each Account established therein shall be held in trust by the Second Lien Trustee for the sole and exclusive benefit of the Registered Owners of the Series 2016B Bonds.

The Twenty-Fourth Supplemental Indenture creates within the Series 2016B Dedicated Sub-Fund the following separate accounts: (a) the Project Account designated the “Chicago Midway Airport Series 2016B Project Account” (the “*Series 2016B Project Account*”); (b) the Capitalized Interest Account designated the “Chicago Midway Airport Series 2016B Capitalized Interest Account” (the “*Series 2016B Capitalized Interest Account*”); (c) the Series 2016B Costs of Issuance Account designated the “Chicago Midway Airport Series 2016B Cost of Issuance Account” (the “*Series 2016B Cost of Issuance Account*”); (d) the Series 2016B Program Fee Account designated the “Chicago Midway Airport Series 2016B Program Fee Account” (the “*Series 2016B Program Fee Account*”); and (e) the Principal and Interest Account designated the “Chicago Midway Airport Series 2016B Principal and Interest Account” (the “*Series 2016B Principal and Interest Account*”).

On January 1 and July 1 of each year, commencing July 1, 2016 (each such date referred to herein as the “*Deposit Date*”), there shall be deposited into the Series 2016B Dedicated Sub-Fund from amounts on deposit in the Second Lien Revenue Fund an amount equal to the aggregate of the following amounts, which amounts shall have been calculated by the Trustee on the next preceding December 5 or June 5, in the case of each January 1 or July 1, respectively (such aggregate amount with respect to any Deposit Date being referred to herein as the “*Series 2016B Deposit Requirement*”):

(a) for deposit into the Series 2016B Principal and Interest Account, the amount to be required as of the close of business on the applicable January 1 or July 1 next succeeding such date of calculation to restore the Series 2016B Principal and Interest Account to an amount equal to the Principal and Interest Account Requirement for the Series 2016B Bonds, treating for purpose of such calculation any amount scheduled to be transferred from the Series 2016B Capitalized Interest Account on the applicable Deposit Date pursuant to section 5.05(b) of the Twenty-Fourth Supplemental Indenture as an amount credited to the Series 2016B Principal and Interest Account; and

(b) for deposit into the Series 2016B Program Fee Account, the amount estimated by the City to be required as of the close of business on the related Deposit Date to pay all Program Fees payable from amounts in the Series 2016B Program Fee Account during the semi-annual period commencing on such related Deposit Date.

Upon calculation by the Trustee of each Series 2016B Deposit Requirement under this section, the Trustee shall notify the City of the Series 2016B Deposit Requirement and the Deposit Date to which it relates, and shall provide the City with such supporting documentation and calculations as the City may reasonably request.

In addition to the Series 2016B Deposit Requirement, there shall be deposited into the Series 2016B Dedicated Sub-Fund any other moneys received by the Trustee under and pursuant to the Indenture or the Twenty-Fourth Supplemental Indenture, when accompanied by directions from the person depositing such moneys that such moneys are to be paid into the Series 2016B Dedicated Sub-Fund and to one or more accounts therein.

Moneys in the Series 2016B Principal and Interest Account shall be used solely for the payment of the principal of, premium (if any) and interest on the Series 2016B Bonds, for the redemption of the Series 2016B Bonds prior to maturity and for the payment of Section 208 Obligations and Section 209 Obligations, but only to the extent that the Section 208 Obligations and Section 209 Obligations relate to the 2016B Bonds.

Funds for such payment shall be derived from the following source or sources, but only in the following order of priority:

- (i) for payment of interest on the Series 2016B Bonds on each Interest Payment Date with respect to the Series 2016B Bonds, from moneys transferred from the Series 2016B Capitalized Interest Account in the particular amount for each Interest Payment Date set forth in the Twenty-Fourth Supplemental Indenture and held in the Principal and Interest Account;
- (ii) for payment of interest on or principal of the Series 2016B Bonds on each Interest Payment Date, from moneys transferred from the Series 2016B Project Account and held in the Series 2016B Principal and Interest Account; and
- (iii) for payment of principal of, premium, if any, and interest due on each Interest Payment Date with respect to the Series 2016B Bonds and not otherwise provided for, and with respect to Section 208 Obligations and Section 209 Obligations, but only to the extent that the Section 208 Obligations and the Section 209 Obligations relate to the Series 2016B Bonds, from moneys held in the Series 2016B Principal and Interest Account, ratably, without preference or priority of any kind.

Moneys in the 2016B Capitalized Interest Account shall be transferred to the 2016B Principal and Interest Account to pay interest on the Series 2016B Bonds in accordance with the following schedule and amounts:

Interest Payment Date	Amount to Transfer
July 1, 2016	\$793,254.17
January 1, 2017	\$4,574,979.18
July 1, 2017	\$4,220,537.35
January 1, 2018	\$4,142,976.13
July 1, 2018	\$3,477,585.02
January 1, 2019	\$3,473,924.94
July 1, 2019	\$3,123,780.97

Upon making the transfer in respect of the July 1, 2019 Interest Payment Date, any amounts remaining on deposit in the 2016B Capitalized Interest Account shall be transferred by the Trustee to the 2016B Principal and Interest Account.

The Nineteenth Supplemental Indenture provides, and the City covenants in the Twenty-Fourth Supplemental Indenture with the holders of the Series 2016B Bonds, that the Common Debt Service Reserve Sub-Fund will be created and maintained in the Nineteenth Supplemental Indenture and that the amounts held in the Common Debt Service Reserve Sub-Fund (except for any amount therein representing investment income required to be paid into the Common Debt Reserve Sub-Fund pursuant to the Nineteenth Supplemental Indenture) will be used solely for the payment of, premium (if any) and interest due on each Payment Date with respect to the Series 2016B Bonds and all other Common Reserve Bonds and not otherwise provided for, ratably, without preference or priority of any kind. See “Common Debt Service Reserve Fund” below.

Common Debt Service Reserve Sub-Fund.

(a) In accordance with the Nineteenth Supplemental Indenture, the City shall maintain the Common Debt Service Reserve Sub-Fund in an amount equal to the Reserve Requirement, which requirement may be satisfied with (i) one or more Qualified Reserve Account Credit Instruments, (ii) Qualified Investments, or (iii) a combination thereof. Any Qualified Investments held to the credit of the Common Debt Service Reserve Sub-Fund shall be valued in accordance with the provisions of the Second Lien Indenture. If on any valuation date, the amount on deposit in the Common Debt Service Reserve Sub-Fund is more than the Reserve Requirement, unless otherwise directed by the City as described in paragraph (f) below, the amount of such excess shall be transferred by the Trustee to the Second Lien Revenue Fund.

(b) If at any time the Common Debt Service Reserve Sub-Fund holds both a Qualified Reserve Account Credit Instrument and Qualified Investments, the Qualified Investments shall be liquidated and the proceeds applied for the purposes for which Common Debt Service Reserve Sub-Fund moneys may be applied prior to any draw being made on the

Qualified Reserve Account Credit Instrument. If the Common Debt Service Reserve Sub-Fund holds Qualified Reserve Account Credit Instruments issued by more than one issuer, draws shall be made under such Qualified Reserve Account Credit Instruments on a *pro rata* basis to the extent of available funds. Amounts deposited in the Common Debt Service Reserve Sub-Fund for the purpose of restoring amounts withdrawn therefrom shall be applied first to reimburse the Qualified Reserve Account Credit Provider and thereby reinstate the Qualified Reserve Account Credit Instrument.

(c) The moneys in the Common Debt Service Reserve Sub-Fund are held for the benefit of all Common Reserve Bonds and are pledged and assigned for that purpose. On the date of initial issuance of any Second Lien Obligations intended to be Common Reserve Bonds, the City shall provide the Trustee a Certificate to that effect and setting forth the amount of the deposit to be made from bond proceeds to fund the Reserve Requirement.

(d) On the business day of the Trustee immediately preceding each January 1 and July 1, there shall be withdrawn from the Second Lien Revenue Fund for deposit into the Common Debt Service Reserve Sub-Fund, the amount, if any, required as of the close of business on such date to restore the amount held in the Common Debt Service Reserve Sub-Fund to the Reserve Requirement. Any amount so required shall constitute a Deposit Requirement to be funded from the Second Lien Revenue Fund. The City covenants in the Nineteenth Supplemental Indenture to file with the First Lien Trustee the certificate required by the First Lien Indenture and the Second Lien Indenture with respect to such Deposit Requirement.

(e) If on any Payment Date for the payment of the Principal Installment of and interest on any Series of Common Reserve Bonds the amount held in the Dedicated Sub-Fund for that Series for the payment of such Principal Installment or interest due and payable on such Payment Date shall be less than the Principal Installment and interest then due and payable, then the Trustee shall withdraw from the Common Debt Service Reserve Sub-Fund and deposit into the Dedicated Sub-Fund for that Series the amount necessary to cure such deficiency. In the case of multiple deficiencies among Series, such withdrawal shall be made ratably among the various Series having a deficiency, without preference or priority of any kind.

(f) At the direction of the City expressed in a Certificate filed with the Trustee, moneys in the Common Debt Service Reserve Sub-Fund may be withdrawn and deposited in trust to pay or provide for the payment of Second Lien Obligations pursuant to the defeasance provisions of the Second Lien Indenture; provided, however, that immediately after such withdrawal the amount of deposit in the Common Debt Service Reserve Sub-Fund equals or exceeds the Reserve Requirement.

Investment of Moneys

Moneys held in the funds, accounts and sub-accounts established hereunder of each Supplemental Indenture shall be invested and reinvested in accordance with the provisions governing investments contained in the Indenture. All such investments shall be held by or under the control of the Trustee and shall be deemed at all times a part of the fund, account or sub-account for which they were made.

The interest earned on any investment of moneys held hereunder of each Supplemental Indenture, any profit realized from such investment and any loss resulting from such investment shall be credited or charged to the fund, account or sub-account for which such investment was made, subject to the following with respect to the Common Debt Service Reserve Sub-Fund. If on any valuation date as provided under the Indenture, the amount on deposit in the Common Debt Service Reserve Sub-Fund is more than the Reserve Requirement, unless otherwise directed by the City pursuant to the Indenture, the amount of such excess shall be transferred by the Trustee to the Second Lien Revenue Fund in accordance with the procedure set forth in the Indenture, provided, however, that immediately after such withdrawal, the amount on deposit in the Common Debt Service Reserve Sub-Fund equals or exceeds the Reserve Requirement.

Other Covenants Relating to the Airport

The City has covenanted under the Second Lien Indenture to, among other things, maintain insurance, to furnish (within 210 days after the close of each Fiscal Year) the Second Lien Trustee a copy of the annual audit report for the Airport, and to not take, or allow any other person to take, any action which would cause suspension or revocation of the Airport's Federal Aviation Administration operating certificate.

Supplemental Indentures

A Supplemental Indenture may be authorized at any time by ordinance of the City Council of the City, which, upon the filing with the Trustee of a copy of such ordinance certified by the City Clerk and the execution and delivery of such Supplemental Indenture, shall be fully effective in accordance with its terms for the following purposes: to prevent or limit the issuance of Second Lien Obligations or other evidences of indebtedness; to add covenants and agreements to be observed by the City which are not contrary to, or inconsistent with, the Second Lien Indenture as theretofore in effect; to add to the limitations and restrictions in the Indenture other limitations and restrictions to be observed by the City which are not contrary or inconsistent with the Indenture as theretofore in effect; to surrender any right, power or privilege conferred upon the City if not contrary to, or inconsistent with, the Second Lien Indenture; to authorize a series of Second Lien Obligations if not contrary to, or inconsistent with, the Second Lien Indenture as theretofore in effect or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first issuance of such Second Lien Obligations; to confirm, as further assurance, the pledge of properties, Revenues or other collateral made under the Second Lien Indenture; and to otherwise modify any of the provisions of the Second Lien Indenture but only if such modification shall be effective only after all Second Lien Obligations outstanding at the date of the execution and delivery of such Supplemental Indenture shall cease to be Outstanding.

A Supplemental Indenture may be authorized at any time by ordinance of the City Council and shall be fully effective upon the consent of the Second Lien Trustee for the following purposes: to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Second Lien Indenture; to clarify matters or questions if not contrary to or inconsistent with the Second Lien Indenture as theretofore in effect; or to provide additional duties of the Second Lien Trustee under the Second Lien Indenture.

Any other modification or amendment of the Second Lien Indenture may be made by a Supplemental Indenture authorized at any time by ordinance of the City Council, with the written consent given as provided in the Second Lien Indenture:

(a) of the owners of a majority in principal amount of the Second Lien Obligations Outstanding at the time such consent is given;

(b) in case less than all of the several series of then Outstanding Second Lien Obligations are affected by the modification or amendment, of the owners of a majority in principal amount of the then Outstanding Second Lien Obligations of each series so affected;

(c) in case any Section 208 Obligations or Section 209 Obligations are affected by the modification or amendment, of the owners of the Section 208 Obligations or Section 209 Obligations so affected; and

(d) in case any Swap Provider is affected by the modification or amendment, of the Swap Provider so affected.

If a modification or amendment will, by its terms, not take effect so long as any Second Lien Obligations of any specified like series and maturity or any specified like series or any specified Section 208 Obligations or Section 209 Obligations remain Outstanding, the consent of the owners of such Second Lien Obligations shall not be required and such Second Lien Obligations shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Second Lien Obligations for purposes of approving such modification or amendment.

No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Second Lien Obligation or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon, or in the terms of purchase or the purchase price thereof, without the consent of the owner of such Second Lien Obligation, or shall reduce the percentages or otherwise affect the classes of Second Lien Obligations, the consent of the owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of the Second Lien Trustee without its written assent thereto.

The City may at any time authorize a Supplemental Indenture making a modification or amendment permitted by the provisions of the Indenture described above, to take effect when and as provided in this paragraph. A copy of such Supplemental Indenture (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to the owners of the Second Lien Obligations for their consent thereto in form satisfactory to the Trustee, shall be mailed by the City to the owners of the Second Lien Obligations (but failure to mail such copy and request shall not affect the validity of the Supplemental Indenture when consented to as in this paragraph provided). Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (1) the written consents of owners of the percentages of Outstanding Second Lien Obligations described above and (2) a Counsel's Opinion stating that such Supplemental Indenture has been duly and lawfully executed and delivered by the City and the

Trustee in accordance with the provisions of the Indenture, is authorized or permitted thereby and is valid and binding upon the City and enforceable in accordance with its terms upon its becoming effective, and (b) a notice shall have been mailed as provided in the Indenture. Consents of owners of Second Lien Obligations are binding upon subsequent owners unless such consent is revoked in writing as provided in the Indenture prior to the effectiveness of the applicable Supplemental Indenture.

Amendment of a Supplemental Indenture

The Nineteenth Supplemental Indenture, the Twenty-Third Supplemental Indenture or the Twenty-Fourth Supplemental Indenture may be supplemented and amended in the manner described above under “–Supplemental Indentures.”

Default and Remedies

Each of the following events constitutes an Event of Default under the Second Lien Indenture:

(a) payment of the principal or Redemption Price, if any, of any Second Lien Obligation shall not be made when and as the same shall become due, whether at maturity or upon call for redemption or otherwise;

(b) payment of any installment of interest on any Second Lien Obligation shall not be made when the same shall become due;

(c) the City shall fail or refuse to comply with the provisions of the Second Lien Indenture, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained therein or in the Second Lien Obligations, which materially affects the rights of the owners of the Second Lien Obligations, and such failure, refusal or default shall continue for a period of 45 days after written notice thereof by the Second Lien Trustee or the owners of not less than 25% in principal amount of the Outstanding Second Lien Obligations; provided, however, that in the case of any such default which can be cured by due diligence but which cannot be cured within the 45-day period, the time to cure shall be extended for such period as may be necessary to remedy the default with all due diligence; or

(d) an event of default shall occur and be continuing under the provisions of any Supplemental Indenture to the Master Indenture.

Upon the happening and continuance of any Event of Default specified in paragraph (a) or (b) above, the Second Lien Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (c) or (d) above, the Second Lien Trustee may proceed, and upon the written request of the owners of not less than 25 percent in principal amount of the Outstanding Second Lien Obligations, shall proceed, in its own name to protect and enforce its rights and the rights of the owners of the Second Lien Obligations by such of the following remedies or any additional remedies specified in one or more Supplemental Indentures with respect to a particular series as the Second Lien Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(a) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the owners of the Second Lien Obligations, including the right to require the City to receive and collect the Revenues adequate to carry out the covenants and agreements as to such Revenues and their pledge under the Second Lien Indenture and to require the City to carry out any other covenant or agreement with the owners of the Second Lien Obligations and to perform its duties under the Second Lien Indenture;

(b) by bringing suit upon the Second Lien Obligations;

(c) by action or suit in equity, require the City to account as if it were the trustee of an express trust for the owners of the Second Lien Obligations; or

(d) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the owners of the Second Lien Obligations.

Except as otherwise described herein, the owners of the majority in principal amount of the Second Lien Obligations then outstanding shall have the right to direct the method of conducting all remedial proceedings to be taken by the Second Lien Trustee, except that such direction shall not be otherwise than in accordance with law or the provisions of the Second Lien Indenture, and the Second Lien Trustee shall have the right to decline to follow any such direction which in the opinion of the Second Lien Trustee would be unjustly prejudicial to owners of the Second Lien Obligations not parties to such direction.

No owner of any Second Lien Obligation shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law under the Second Lien Indenture, or for the protection or enforcement of any right of remedy under the Second Lien Indenture or any right under law unless such owner shall have given to the Second Lien Trustee, written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the owners of not less than 25% in principal amount of the Second Lien Obligations then Outstanding shall have made written request of the Second Lien Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Second Lien Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Second Lien Indenture or granted under law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Second Lien Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Second Lien Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are in the Second Lien Indenture declared in every such case (except with respect to the enforcement of credit enhancement devices securing the Second Lien Obligations at the option of the Second Lien Trustee) to be conditions precedent to the execution of the powers under the Second Lien Indenture or for any other remedy under the Second Lien Indenture or under law.

Defeasance

(a) If the City shall pay or cause to be paid to the owners of all Second Lien Obligations, the principal and interest and Redemption Price, if any, to become due thereon, at

the times and in the manner stipulated therein, in the Indenture, the Twenty-Third Supplemental Indenture and the Twenty-Fourth Supplemental Indenture creating the Bonds, then the pledge for the Bonds and all other rights granted thereby shall be discharged and satisfied, in such event the Trustee shall, upon the request of the City expressed in a Certificate, execute and deliver to the City all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the City all Accounts, Funds and other moneys or securities held by them pursuant to the Indenture, the Twenty-Third Supplemental Indenture and the Twenty-Fourth Supplemental Indenture which are not required for the payment or redemption of the Second Lien Obligations not theretofore surrendered for such payment or redemption.

(b) Any Second Lien Obligations or principal installments appertaining thereto, whether at or prior to maturity or the redemption date of such Second Lien Obligations, shall be deemed to have been paid within the meaning and with the effect expressed in (a) above if:

(i) in case any of such Second Lien Obligations are to be redeemed prior to their maturity, there shall have been taken all action necessary to call such Second Lien Obligations for redemption and notice of such redemption shall have been duly given or provision satisfactory to the Second Lien Trustee shall have been made for the giving of such notice;

(ii) there shall have been deposited with the Second Lien Trustee either moneys in an amount which shall be sufficient for Defeasance Obligations, the principal of and the interest on which when due (without reinvestment thereof) will provide moneys which, together with the moneys, if any, on deposit with the Second Lien Trustee at the same time, shall be sufficient, to pay when due the principal and interest or Redemption Price, if any, to become due on said Second Lien Obligations on and prior to the redemption date or maturity date thereof, as the case may be; and

(iii) in the event said Second Lien Obligations are not by their terms subject to redemption within the next succeeding 45 days, the City shall have given the Second Lien Trustee, in form satisfactory to it, irrevocable instructions to mail, as soon as practicable, a notice to the owners of such Second Lien Obligations that the deposit required by clause (b) above has been made with the Second Lien Trustee and that said Second Lien Obligations are deemed to have been paid as described in this paragraph and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, of, and accrued interest on, said Second Lien Obligations.

(c) No defeasance of a Second Lien Obligation that is to be paid more than 90 days after the date of the deposit referred to in clause (ii) of paragraph (b) above shall be effective until the Trustee shall have received a verification report signed by an Independent Accountant that the Defeasance Obligations and moneys to be deposited for such purpose are sufficient to pay the principal and Redemption Price of, and interest on, all Second Lien Obligations with respect to which provision for payment is to be made as described above by virtue of the deposit of such Defeasance Obligations and moneys.

(d) In the event that the principal of and interest on all Insured Obligations shall be paid by Bond Insurers pursuant to the terms of the Bond Insurance Policies, the pledge of revenues, securities and funds and all other covenants, agreements and other obligations of the

City to the owners of the Insured Obligations shall continue to exist and each Bond Insurer shall be fully subrogated to the rights of such owners.

(e) Defeasance Obligations and moneys held as described above may be withdrawn by the City provided that there is substituted in place of such Defeasance Obligations and moneys other Defeasance Obligations and moneys sufficient for the purposes described above and, provided further that, prior to such substitution there is filed with the Trustee (i) a verification report signed by an Independent Accountant that the Defeasance Obligations and moneys, as substituted, are sufficient to pay the principal and Redemption Price of, and interest on, all Second Lien Obligations with respect to which provision for payment was made by deposit of such substituted Defeasance Obligations as described in this paragraph, and (ii) an opinion of Bond Counsel to the effect that such substitution has been duly authorized in accordance with the Indenture and will not affect adversely the tax-exempt status of any Second Lien Obligations previously authenticated and delivered under the Indenture.

Sale or Transfer of Airport

The City has proposed an amendment to the Second Lien Indenture to remove the provisions summarized below. The amendment will not take effect unless and until (among other things) the City satisfies each of the conditions required by the Second Lien Indenture as described below, including obtaining approval from the Owners of a majority in principal amount of the Outstanding Second Lien Bonds, approval from the providers of credit support for certain of the Outstanding Second Lien Bonds and filing a certificate of effectiveness with the Second Lien Trustee. After the issuance of the Bonds, 100% of all Owners of the Outstanding Second Lien Bonds will have consented to the amendment. However, the City has not to date elected to implement the amendment, requested consent from the providers of credit support for certain of the Outstanding Second Lien Bonds (e.g., bond insurers or letter of credit banks) to the amendment, or certified its effectiveness to the Second Lien Trustee. See “SECURITY FOR THE BONDS—Proposed Amendment to Second Lien Indenture” and “CERTAIN INVESTMENT CONSIDERATIONS RELATING TO THE AIRLINES, THE AIRLINE INDUSTRY, AND MIDWAY—Potential Privatization of Midway.”

The Master Indenture provides that the sale, conveyance, mortgage, encumbrance or other disposition, directly or indirectly, of all or substantially all of the Airport or the transfer, directly or indirectly, of control, management or oversight, or any material aspect of control, management or oversight, of the Airport, whether of its properties, interests, operations, expenditures, revenues (including, without limit, Revenues, Junior Lien Revenues or the proceeds of any Passenger Facility Charge or similar charge) or otherwise (any of the foregoing being referred to as a “*transfer*”) shall not occur unless and until all of the following conditions shall have been met:

(a) such transfer shall have been approved in writing by the Mayor of the City and by the City Council at a meeting duly called for such purpose;

(b) evidence shall have been obtained in writing confirming that such transfer shall not adversely affect any rating on the Bonds issued by any Rating Agency;

(c) a certificate shall have been received from an Independent Airport Consultant, certifying that, in each calendar year during the five-year period commencing after the calendar year in which such transfer occurs, Revenues together with any cash balance held in the First Lien Revenue Fund on the first day of such calendar year not then required to be deposited in any Fund or Account (or sub-account thereof) other than the First Lien Revenue Fund, and investment earnings for each such calendar year on moneys held in the funds and accounts held pursuant to the Second Lien Indenture to the extent that such earnings are not required hereby to be transferred to any Construction Fund, shall equal an amount not less than the amount required to satisfy the rate covenant set forth in the Master Indenture; provided that for purposes of the certificate “150%” shall be substituted for “125%” and “110%” in such rate covenant (See “SECURITY FOR THE BONDS—Rate Covenant”);

(d) written consent to such transfer shall have been received from the Owners of all First Lien Bonds and Second Lien Obligations then outstanding;

(e) written consent to such transfer shall have been received from the Second Lien Trustee;

(f) written consent to such transfer shall have been received from each Bond Insurer and each provider of any letter of credit or surety bond supporting Second Lien Obligations;

(g) written consent to such transfer shall have been received from the Chicago/Gary Regional Airport Authority pursuant to Section 10-20 of the Compact between the City and the City of Gary dated April 15, 1995 Relating to the Establishment of the Chicago/Gary Regional Airport Authority; and

(h) there shall be deposited with the Second Lien Trustee for the benefit of the Owners of all then outstanding First Lien Bonds and Second Lien Obligations a letter of credit, surety bond or Investment Securities (as defined in the Master Indenture) in the full amount of the then Outstanding First Lien Bonds and Second Lien Obligations, such letter of credit or surety bond to have a credit rating of not less than “Aa” or “AA” or their equivalents by Moody’s and S&P, or their successors; provided that no revenues (including, without limit, Revenues, Junior Lien Revenues or the proceeds of any Passenger Facility Charge or similar charge) shall be pledged, or in any way used, to secure any such letter of credit or surety bond.

For purposes of the default provisions of the Master Indenture, the performance of the foregoing covenant is expressly deemed to be material to the registered owners of the Bonds.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE AIRPORT USE AGREEMENTS

The following is a summary of certain provisions of the Amended and Restated Airport Use Agreements and Facilities Leases dated as of January 1, 2013 (collectively, the “*Airport Use Agreements*”), between the City and each of the Signatory Airlines, to which reference is made for a complete statement of their provisions and contents. Certain words and terms used in this summary are defined in the Airport Use Agreements and have the same meanings in this summary, except as defined otherwise in this Official Statement. The Airport Use Agreements signed by the Signatory Airlines are substantially identical to each other except for provisions relating to the Leased Premises and assigned aircraft parking positions for each Signatory Airline. The Airport Use Agreements amend, supersede and terminate the Airport Use Agreements and Facilities Leases previously in effect between the City and such airlines (the “*1998 Use Agreements*”). The stated termination date of the Airport Use Agreements is December 31, 2027, subject to the right of the City or a Signatory Airline under certain circumstances to terminate its Airport Use Agreement prior to that date.

Term

Subject to certain earlier termination provisions, the Airport Use Agreements will terminate on December 31, 2027. Included in the earlier termination provisions is the right of a Signatory Airline to terminate its Airport Use Agreement on December 31, 2022, if a new commercial passenger service airport is operating in the Chicago Region which has a direct impact on the operations at the Airport. A “direct impact on the operations of the Airport” is defined to mean either the closure of the Airport or material limitations on operations at the Airport. In addition, if a new commercial passenger service airport which the City owns or controls, in whole or in substantial part, and having a level of annual operations at least equal to the Airport, is opened and operating within 50 miles of the Airport, a Signatory Airline has the right to terminate its Airport Use Agreement prior to the scheduled expiration date. See also “—Default and Termination,” “—Assignment, Sublease and Other Transfers,” and “—Change of Lease Term,” below.

Cost Centers

The Airport Use Agreements group the Airport into functional areas (the “*Cost Centers*”). These are the Airfield Area, the Terminal Area, the Terminal Ramp Area, the Parking and Roadway Area, the Support Facilities Area, the Equipment Cost Center, the Fueling Cost Center, the FIS Cost Center and the Indirect Cost Center. The purpose of the Cost Centers is to allow for the calculation of Airline Fees and Charges in a manner that allocates such fees and charges among the Signatory Airlines based on their usage of the Airport.

Accordingly, each of the Cost Centers has allocated to it Non-Airline Revenues, Operation and Maintenance Expenses, Debt Service and Fund Deposit Requirements. Indirect (overhead) expenses are costs not directly attributable to specific Cost Centers and will be initially accumulated in the Indirect Cost Center. The costs of the Indirect Cost Center and the net revenues or net deficit of each of the Parking and Roadway Area and the Support Facilities Area will be allocated to other Cost Centers.

Leased Premises; Gate Management Provisions

Premises within the Terminal Area are either leased to the Signatory Airlines or retained by the City as City-Controlled Facilities. The City has the right, under certain circumstances, to impose shared use or temporary use arrangements on all or any designated portion of a Signatory Airline's Leased Premises to accommodate new or expanding carriers. The City, at its discretion, may also use any City-Controlled Facilities to accommodate the space requirements of Signatory Airlines or Non-Signatory Airlines. The Airport Use Agreements refer to whichever of the premises a Signatory Airline is leasing at any given time as the Signatory Airline's "*Leased Premises*."

Certain daily average utilization standards apply to the Signatory Airlines' Gates during the term of the Airport Use Agreement which, if not met by a Signatory Airline, give the City the right to terminate the Airport Use Agreement with respect to, and delete from, the Signatory Airline's Leased Premises the number of Gates as may be necessary to cause the Signatory Airline to meet the daily average utilization standard for its Gates.

Airline Fees and Charges

Terminal Rentals for Leased Premises (other than Joint Use Premises) are charged to each of the Signatory Airlines on a square footage basis. A Signatory Airline's Terminal Rentals for each Fiscal Year equal the product of the square footage of such Signatory Airline's Leased Premises and the Terminal Rental Rate for such Fiscal Year. The Terminal Rental Rate for each Fiscal Year is determined by dividing the Terminal Area requirement for such Fiscal Year by the total number of square feet of Leased Premises of all Signatory Airlines. The Terminal Area requirement for a Fiscal Year will equal the sum of O&M Expenses, Debt Service, Fund Deposit Requirements, Terminal Rentals unpaid when due by any Signatory Airline, the Equipment Cost Center requirement and net deficits of the Indirect Cost Center and the Parking and Roadway Area, in each case allocated to the Terminal Area for such Fiscal Year, minus the sum of Non-Airline Revenues and net surpluses of the Parking and Roadway Area, in each case allocated to the Terminal Area for such Fiscal Year. Terminal Rentals for Joint Use Premises are charged on a formulaic basis, where 10% of the Joint Use Premises requirement (determined by multiplying the number of square feet of Joint Use Premises by the Terminal Rental Rate) is divided equally between the Signatory Airlines and 90% of the Joint Use Premises requirement is divided between the Signatory Airlines on the basis of landed weight.

Terminal Ramp Fees are charged to each of the Signatory Airlines on the basis of square footage of Aircraft Parking Area assigned to a Signatory Airline. A Signatory Airline's Terminal Ramp Fee for each Fiscal Year is equal to the product of such Signatory Airline's square footage of Aircraft Parking Area and the Terminal Ramp Rate for such Fiscal Year. The Terminal Ramp Rate for each Fiscal Year is calculated by dividing the Terminal Ramp Area requirement for such Fiscal Year by the total square footage of Aircraft Parking Area assigned to all Signatory Airlines. The Terminal Ramp Area requirement for a Fiscal Year will equal the sum of O&M Expenses, Debt Service, Fund Deposit Requirements, Terminal Ramp Fees unpaid when due by a Signatory Airline and net deficits of the Indirect Cost Center and the Parking and Roadway Area, in each case allocated to the Terminal Ramp Area for such Fiscal Year, minus

the sum of Non-Airline Revenues and net surpluses of the Parking and Roadway Area, in each case allocated to the Terminal Ramp Area for such Fiscal Year.

Landing Fees are charged to the Signatory Airlines on the basis of landed weight of aircraft. The Landing Fee for each Fiscal Year for each Revenue Landing is equal to the product of the number of thousands of pounds of the Maximum Approved Gross Landing Weight of the Signatory Airline's aircraft involved in the Revenue Landing and the Landing Fee Rate for such Fiscal Year. The Landing Fee Rate for each Fiscal Year is determined by dividing the Airfield Area Requirement by the total Maximum Approved Gross Landing Weight in thousand-pound units of all aircraft of all Signatory Airlines landed in Revenue Landings during such Fiscal Year. The Airfield Area requirement for a Fiscal Year will equal the sum of O&M Expenses, Debt Service, Fund Deposit Requirements, Landing Fees unpaid when due by any Signatory Airline, the Fueling Cost Center requirement and net deficits of the Indirect Cost Center, the Parking and Roadway Area and the Support Facilities Area, in each case allocated to the Airfield Area for such Fiscal Year, minus the sum of Non-Airline Revenues and net surpluses of the Parking and Roadway Area and the Support Facilities Area, in each case allocated to the Airfield Area for such Fiscal Year.

Equipment Fees are charged to the Signatory Airlines on the basis of landed weight of aircraft. A Signatory Airline's Equipment Fee for each Fiscal Year is equal to the product of the number of thousands of pounds of the Maximum Approved Gross Landing Weight of each aircraft of the Airline involved in Revenue Landings during such Fiscal Year and the Equipment Fee Rate for such Fiscal Year. The Equipment Fee Rate for each Fiscal Year is determined by dividing the Equipment Cost Center requirement by the total Maximum Approved Gross Landing Weight in thousand-pound units of all aircraft of all Signatory Airlines landed in Revenue Landings during such Fiscal Year. The Equipment Cost Center requirement for a Fiscal Year will equal the sum of O&M Expenses, Debt Service and Fund Deposit Requirements, in each case allocated to the Equipment Cost Center, minus Non-Airline Revenues of the Equipment Cost Center.

Fueling Fees are charged to the Signatory Airlines on the basis of total gallon usage of fuel. A Signatory Airline's Fueling Fees for each Fiscal Year equal the product of the number of gallons of fuel distributed from the Fuel System to such Signatory Airline during such Fiscal Year and the Fueling Fee Rate for such Fiscal Year. The Fueling Fee Rate for each Fiscal Year is determined by dividing the Fueling Cost Center requirement by the total number of gallons of fuel distributed to all Signatory Airlines from the Fuel System. The Fueling Cost Center requirement for a Fiscal Year will equal the sum of O&M Expenses, Debt Service and Fund Deposit Requirements, in each case allocated to the Fueling Cost Center, minus Non-Airline Revenues of the Fueling Cost Center.

Federal Inspection Service ("FIS") Fees are charged to each of the Signatory Airlines based on the number of deplaned passengers processed through the FIS Facility. The FIS Fees for each Fiscal Year are an aggregate amount equal to the number of the Signatory Airline's deplaned passengers processed through the FIS Facility during such Fiscal Year multiplied by the FIS Fee Rate for such Fiscal Year. The FIS Fee Rate for each Fiscal Year is determined by dividing the FIS Cost Center requirement for such Fiscal Year by the total number of deplaned passengers of all Signatory Airlines processed through the FIS Facility during such Fiscal Year.

The FIS Cost Center requirement for each Fiscal Year will equal the sum of O&M Expenses, Debt Service, FIS Facility Debt Service, Fund Deposit Requirements, FIS Fees unpaid when due by any Signatory Airline and the net deficit of the Indirect Cost Center, in each case allocated to the FIS Cost Center for such Fiscal Year minus the sum of Non-Airline Revenues allocated to the FIS Cost Center.

The foregoing notwithstanding, the Airport Use Agreements require the City, during the term of the MATCO Agreement, to charge the Signatory Airlines and Non-Signatory Airlines equipment fees and fueling fees calculated as set forth in the MATCO Agreement, which fees shall in any case be calculated in a manner sufficient to pay the Equipment Cost Center requirement and the Fueling Cost Center requirement for each Fiscal Year.

Deposits to the Airport Development Fund

If Non-Airline Revenues for any Fiscal Year exceed 105% of the average of Non-Airline Revenues for the three Fiscal Years immediately preceding such Fiscal Year, then an amount equal to such excess (being equal to (i) Non-Airline Revenues for such Fiscal Year minus (ii) the product of (A) 1.05 multiplied by (B) the average of Non-Airline Revenues for the three Fiscal Years immediately preceding such Fiscal Year), if any, but not to exceed \$1,000,000 Adjusted for Inflation, shall be deposited in the Airport Development Fund; *provided* that such deposit may not be made until the City has provided to each Signatory Airline the Statement of Airline's Actual Annual Airline Fees and Charges for such Fiscal Year.

If actual O&M Expenses for any Fiscal Year are less than 95% of the amount of Budgeted O&M Expenses for such Fiscal Year, then an amount equal to such difference (being equal to (i) the product of (A) 0.95 multiplied by (B) the amount of Budgeted O&M Expenses for such Fiscal Year, minus (ii) actual O&M Expenses for such Fiscal Year), if any, but not to exceed \$1,000,000 Adjusted for Inflation, shall be deposited in the Airport Development Fund; *provided* that such deposit may not be made until the City has provided to each Signatory Airline the Statement of Airline's Actual Annual Airline Fees and Charges for such Fiscal Year. "Budgeted O&M Expenses" for a Fiscal Year means the amount of O&M Expenses for the Airport for that Fiscal Year estimated by the City's Department of Aviation and used to prepare each Airline's Statement of Airline's Estimated Annual Airline Fees and Charges.

Notwithstanding the foregoing, the amounts to be deposited in the Airport Development Fund in accordance with the Airport Use Agreement and all other Airport Use Agreements shall not exceed \$1,500,000 Adjusted for Inflation in aggregate for any Fiscal Year.

During the fifth and tenth years of this Agreement, the City, in consultation with the Signatory Airlines, shall determine whether additional increases to each of the foregoing dollar limits would be in the interests of the Airport. If so, the City may increase the dollar limits as of January 1, 2018 and January 1, 2023, respectively, to amounts reasonably determined by the City to be in the interests of the Airport (which amounts will be Adjusted for Inflation) so long as a Majority-in-Interest does not disapprove of such increase within thirty (30) days after the City has provided notice thereof.

Non-Signatory Fees and Charges

The City has agreed in the Airport Use Agreements to charge Non-Signatory Airlines Landing Fees, Terminal Rentals and Terminal Ramp Fees calculated to include at least a 25% surcharge above Signatory Airline rates. For purposes of establishing landing fees for Non-Signatory Airlines, the City has agreed to allocate a portion of the Airfield Area requirement to the Non-Signatory Airlines on the basis of the relative use of the Airfield Area by the Signatory Airlines and Non-Signatory Airlines, based on the respective landed weight of the Signatory Airlines and the Non-Signatory Airlines. If landing fees actually received from Non-Signatory Airlines in any Fiscal Year are more or less than the Airfield Area requirement allocated to the Non-Signatory Airlines, the respective excess or deficit will not be included in the determination of the amount of Revenues for that Fiscal Year, and instead will be taken into account in setting landing fees for Non-Signatory Airlines for the following Fiscal Year.

Security Deposits

The Airport Use Agreements require each of the Signatory Airlines to remit to the City a security deposit equal to the sum of such airline's (i) estimated Landing Fees for three months (as determined on the basis of the Signatory Airline's published schedule), (ii) estimated Terminal Rentals for three months, (iii) estimated Terminal Ramp Fee for three months, (iv) estimated Passenger Facility Charges for three months, (v) estimated Fueling Fees for three months, and (vi) estimated Equipment Fees for three months. Such deposit may be in the form of an irrevocable letter of credit, cash or other form of security acceptable to the City. At any time that a Signatory Airline's Airline Fees and Charges are more than 30 days past due or a Signatory Airline has failed to transmit to the City its Passenger Facility Charges or has failed to keep its Leased Premises free and clear of liens, the City, upon notice to such airline, is entitled to apply the security deposit to the payment of such unpaid amounts or to the costs of removal of such liens. In any such event, the Signatory Airline whose security deposit was so applied will be required to remit a replacement security deposit to the City.

The three-month security deposit for Landing Fees, Terminal Rentals, Terminal Ramp Fee and Fueling Fees will be reduced to two months for any Signatory Airline that has been operating at the Airport for at least one year and has been timely in all payments for the previous 12 months. The three-month security deposit for Landing Fees, Terminal Rentals, Terminal Ramp Fees and Fueling Fees will be reinstated for each such Signatory Airline that is thereafter delinquent in any payment to the City under its Airport Use Agreement or any payment to the City of Passenger Facility Charges. The security deposit related to a Signatory Airline's Passenger Facility Charges will be eliminated for any Signatory Airline that has been operating at the Airport for at least two years, that has been timely in all payments for the previous 24 months and that provides evidence to the City that the Passenger Facility Charges collected by the Signatory Airline at the Airport have been placed in a trust account for the benefit of the City. The three-month Passenger Facility Charge security deposit will be reinstated for each such Signatory Airline that is thereafter delinquent in any payment to the City under its Airport Use Agreement or any payment to the City of Passenger Facility Charges.

General Commitment to Pay Airline Fees and Charges

The Airport Use Agreements provide that the aggregate of Airline Fees and Charges payable by all Signatory Airlines, together with Non-Airline Revenues and amounts paid from the Airport Development Fund as described above under the caption “*Airport Development Fund*” for each Fiscal Year shall be sufficient to pay for the cost of operating, maintaining and improving the Airport, and to satisfy all of the City’s obligations to make all deposits and payments under the Airport Use Agreements and any Bond Ordinance (including the First Lien Indenture and the Second Lien Indenture).

Billing of Airline Fees and Charges

Not later than 60 days prior to the beginning of each Fiscal Year, the City shall furnish each of the Signatory Airlines with a preliminary calculation of the Terminal Rental Rate, the Terminal Ramp Rate, the Landing Fee Rate, the Equipment Fee Rate, the FIS Fee Rate and the Fueling Rate and such Signatory Airline’s Terminal Rentals and Terminal Ramp Fee for such Fiscal Year, and not later than the last day of the prior Fiscal Year, the City shall furnish the Signatory Airlines with a revised estimated calculation of such amounts for such Fiscal Year. Such preliminary calculations will be based on the City’s estimates for such Fiscal Year of O&M Expenses, Non-Airline Revenues and estimates of Landing Weight, the number of passengers at the Airport, the number of deplaned passengers processed through the FIS Facility, and the number of gallons of fuel to be distributed from the Fuel System for such Fiscal Year provided by the Signatory Airlines. By the 15th day of each month the Signatory Airlines must file with the City a statement setting forth, among other things, their aircraft landed weight, number of Revenue Landings and number of passengers at the Airport. Not later than the 1st day of each month, each Signatory Airline is obligated to pay, without invoice, all of its estimated Terminal Rentals and Terminal Ramp Fees for such month. Not later than the 15th day of each month, each Signatory Airline is obligated to pay its Landing Fees, Equipment Fees and Fueling Fees due for the preceding month, based on its actual number of aircraft arrivals and gallons of fuel distributed from the Fuel System during such month.

During any Fiscal Year, Airline Fees and Charges may be adjusted by the City for the remaining months of such Fiscal Year if there is a 5% or more discrepancy between actual revenues and expenses and projected revenues and expenses; provided, however, that such adjustments of Airline Fees and Charges may not occur more frequently than two times per year. Within 270 days after the close of each Fiscal Year, a final calculation of Airline Fees and Charges is prepared for such Fiscal Year based upon actual revenues and expenses. Each Signatory Airline is entitled to a credit for amounts paid in excess of those established in such final calculation, and is obligated to pay any deficiency.

No Abatement or Suspension of Payment

The Airport Use Agreements provide that the Signatory Airlines shall not abate, suspend, postpone, set-off or discontinue any payments of Airline Fees and Charges which they are obligated to pay thereunder. The payment by the Signatory Airlines to the City and the City’s acceptance of any such amount shall not preclude either the Signatory Airlines or the City from making any claim against the other party in connection therewith.

Grant of Rights; Obligations of City and Signatory Airlines

Each Signatory Airline is granted the right to conduct an Air Transportation Business at the Airport, and to perform those operations and functions as are incidental or reasonably necessary thereto. The City has agreed not to enter into any lease, contract or other agreement with any other airline providing service at the Airport which contains any rates or charges more favorable to such airline than the rates and charges payable by the Signatory Airlines unless the City also makes those more favorable terms available to the Signatory Airlines.

Each of the Signatory Airlines and the City has certain specified obligations with respect to the maintenance and operation of the Airport. The Signatory Airlines and the City also have certain specified insurance obligations with respect to the Airport.

Approval of Capital Projects; Issuance of Bonds; Use of Passenger Facility Charges

The Airport Use Agreements contain as exhibits thereto lists of those capital projects approved by the Signatory Airlines. Such exhibits also indicate the budget for such capital projects. The Airport Use Agreements also contain as exhibits procedures for designing and constructing such capital projects.

These procedures outline the involvement of the Signatory Airlines and their representatives in the development of contract documents, the contract bid and award process, the construction process and project completion. Among other things, the Signatory Airlines have the right to approve the awarding of any contract if the award amount is greater than 5% over the budget for the project.

The City also agreed in the Airport Use Agreements, commencing on January 1, 1997, to use all Passenger Facility Charge revenue collected at the Airport to pay Debt Service on Bonds, the proceeds of which are used by the City to pay for capital projects approved by the FAA for the collection and use of a Passenger Facility Charge at the Airport, provided that the City may use Passenger Facility Charge revenue on a pay-as-you-go basis subject to a Majority-in-Interest approval by the Signatory Airlines.

After giving notice to the Signatory Airlines in accordance with the Airport Use Agreements, the City may issue Bonds and include the Debt Service thereon in the calculation of Airline Fees and Charges without further consent or approval of the Signatory Airlines if such Bonds are issued for one or more of the following purposes: (1) to fund all costs related to the projects described in the Airport Use Agreements; (2) to fund capital projects at the Airport (A) necessary to comply with any federal, state or local agency or any federal or state grant agreement or airport certification requirement, (B) for emergency or Airfield safety purposes, (C) which an Independent Airport Consultant has projected will not result in a net increase in Airline Fees and Charges on an average basis over a five-year period, (D) necessary to remedy any environmental concern or comply with Environmental Laws, or (E) having a cumulative net cost to the City in any five-Fiscal Year period of less than \$2,500,000; (3) to fund any capital project approved by a Majority-in-Interest; (4) to fund insurance or condemnation award deficiencies; (5) to fund the costs of judgments or settlements, or compliance with judicial orders, against the City by reason of its ownership, operation, maintenance, development,

improvement or use of the Airport; (6) to fund the cost of tenant improvements in accordance with the Airport Use Agreements; (7) to fund capitalized interest on, and Fund Deposit Requirements with respect to, Bonds issued for any of the foregoing purposes; and (8) to fund costs of issuance of Bonds issued for any of the foregoing purposes.

An ordinance was introduced at a City Council meeting on November 13, 2013 that would authorize an amendment to the Airport Use Agreements to clarify and confirm that the provisions of the Airport Use Agreements with respect to the imposition or use of Passenger Facility Charges to fund Capital Projects is consistent with applicable FAA laws and regulations. The ordinance was considered by the Committee on Aviation at a meeting on November 22, 2013 and recommended for passage by the City Council. The ordinance was passed on November 26, 2013.

Additional Capital Projects

The City may issue Bonds to fund the cost of capital projects approved by a Majority-in-Interest. A capital project is deemed approved if a Majority-in-Interest does not disapprove the capital project in writing to the City within 30 days of submission of a proposal with respect to such project to the Signatory Airlines.

The City may issue obligations (other than “Bonds” (as defined in the Airport Use Agreements)) and use the proceeds thereof to fund the cost of additional capital projects at the Airport or any other airports operated by the City without the consent of the Signatory Airlines or a Majority-in-Interest so long as the debt service thereon is not included in the calculation of Airline Fees and Charges. In addition, the City may fund the costs of additional capital projects at the Airport or any other airports owned, operated or controlled by the City from other sources available for such purpose, including: (1) amounts in the Repair and Replacement Fund and Emergency Reserve Fund (subject to limitations contained in the Airport Use Agreements); (2) amounts in the Airport Development Fund, or any other fund created pursuant to a Bond Ordinance; (3) government grants-in-aid; (4) proceeds of any gift, bequest, contribution or donation to the Airport, including any funds provided by an airline doing business at the Airport; (5) proceeds of any insurance or condemnation award subject to any restrictions on the use of such proceeds set forth in the Airport Use Agreements; and (6) proceeds of any Passenger Facility Charge, subject to the restrictions on the use of Passenger Facility Charge revenue noted above.

“*Majority-in-Interest*” means, during any Fiscal Year, any one or more Signatory Airlines which, in the aggregate (i) paid fifty-one percent (51%) or more of the Airline Fees and Charges charged to all Signatory Airlines for the prior Fiscal Year; and (ii) represent at least fifty-one percent (51%) in number of the Signatory Airlines. Solely for the purpose of determining a Majority-in-Interest, (A) no airline shall be deemed to be a Signatory Airline so long as an Event of Default with respect to such airline has occurred and is continuing or if such airline is no longer operating at the Airport (except if such airline’s cessation of operations results from a temporary suspension by the FAA), and (B) only Signatory Airlines having Airport Use Agreements with terms expiring on December 31, 2027, shall be deemed to be Signatory Airlines.

Default and Termination

The following occurrences, among others, are defined as Events of Default under the Airport Use Agreements: (1) the insolvency, bankruptcy, receivership or dissolution of a Signatory Airline; (2) the failure of a Signatory Airline to punctually pay any Airline Fees and Charges; (3) the failure by a Signatory Airline to cure its default in the performance of any promise, covenant or other provision of the Airport Use Agreements upon 30 days' notice of such default or if impossible to cure within such time, the failure to institute corrective action within such time and diligently pursue such action until the default is remedied; or (4) the discontinuation by a Signatory Airline of its Air Transportation Business at the Airport. Whenever an Event of Default has occurred and is continuing, the City may terminate such Signatory Airline's Airport Use Agreement or may exclude such Signatory Airline from possession of its Leased Premises without termination and use its best efforts to lease such Leased Premises to another airline, and, in either case, may take such other action at law or in equity as appears necessary or desirable.

A Signatory Airline may terminate its Airport Use Agreement at any time upon the expiration of 60 days' advance written notice to the City and the occurrence of any one of the following events: (1) any action of the FAA or other agency refusing to permit such Signatory Airline to operate into, from or through the Airport for a period of at least 60 days; (2) such Signatory Airline is prevented from conducting its Air Transportation Business at the Airport for a period of 180 consecutive days for any reason other than its own fault; or (3) in the event (i) "slot controls," "noise mitigation" restrictions, FAA regulations or other similar governmental regulations are imposed upon such Signatory Airline or the Airport, substantially impairing such Signatory Airline's ability to operate at the Airport or (ii) a new commercial passenger service airport (not including the Gary/Chicago International Airport) which the City owns or controls, in whole or in substantial part, and having a level of operations at least equal to the Airport, is opened and operating within 50 miles of the Airport. A Signatory Airline may terminate its Airport Use Agreement and its obligations thereunder as to all or any portion of Leased Premises upon the occurrence of an event described in subparagraphs (1), (2) or (3)(ii) above, but, upon the occurrence of an event pursuant to subparagraph (3)(i) above, may terminate only such portion of its obligations under its Airport Use Agreement as are directly and substantially affected by such Signatory Airline's impaired ability to operate at the Airport. At any time that Bonds are not outstanding, a Signatory Airline may also terminate its Airport Use Agreement and its obligations thereunder as to all or any portion of Leased Premises upon the failure of the City to cure its default in the performance of any material promise, covenant or other provision in the Airport Use Agreement upon 30 days' notice of such default or if impossible to cure within such time, the failure to institute corrective action within such time and diligently pursue such action until the default is remedied.

A Signatory Airline may terminate its Airport Use Agreement effective December 31, 2022 in the event that a new commercial passenger service airport is opened and operating and such airport has a direct impact on the operations of the Airport. A direct impact on the operations of the Airport means either (i) the closure of the Airport; or (ii) material limitations on operations at the Airport. The Airline may exercise this termination right by giving the City 60 days' advance written notice by registered or certified mail.

A Signatory Airline may also terminate its Airport Use Agreement if the City violates the following City covenants included in the Airport Use Agreements. The City has covenanted to (i) make all reasonable efforts to ensure that the Airport's flight operations, passenger handling, cargo handling and other capacities germane to the operation of commercial air service at the Airport are not constrained, restricted, limited or reduced by action by the City and remain available to meet the demand for transportation to the region, (ii) not advocate or support any such constraints, restrictions, limitations or reductions on the Airport's flight operations, passenger handling, cargo handling or other capacities germane to the operation of the Airport by any other federal, state or local governments (other than by the Midway Noise Commission), (iii) not participate as an advocate in the planning or development, or participate in the funding, financing or operations of any commercial service passenger airport not either currently owned or operated by the City or under the authority and jurisdiction of the Chicago-Gary Compact, within a 50-mile radius of the Airport, and (iv) not voluntarily transfer its ownership, oversight or control of the Airport to any governmental entity other than to an entity controlled solely by the City. See also "–Term," above.

If an involuntary transfer of ownership, oversight or control of the Airport other than to an entity controlled solely by the City occurs, the Airport Use Agreements require such successor-in-interest to the City to purchase, upon petition by a Signatory Airline, such Signatory Airline's ownership or leasehold interest in all permanent improvements then located at the Airport, at a cost equal to the then-present replacement value. The Airport Use Agreements provide an appraisal process if the successor-in-interest and the Signatory Airline cannot agree as to the replacement value of the interest. If the Signatory Airline petitions for such purchase, it shall have the right to terminate any or all of its lease agreements for space or facilities at the Airport, and the right of specific performance to compel the successor-in-interest to comply with the purchase provision.

Assignment, Sublease and Other Transfers

Each Signatory Airline covenants in its Airport Use Agreement that it will not assign, sublet, transfer, convey, sell, mortgage, pledge or encumber (any of the foregoing events being referred to as a "*Transfer*") its Leased Premises or assigned aircraft parking positions or any part thereof, or any rights of the Signatory Airline under its Airport Use Agreement or any interest of the Signatory Airline in its Airport Use Agreement and that it will not allow the use of its Leased Premises or assigned aircraft parking positions under its Airport Use Agreement by any other person, except as otherwise provided in its Airport Use Agreement, without in each instance having first obtained the prior written consent of the City as described below. In determining whether or not to consent to a Transfer, the City will take into account, among other factors, the balanced utilization of the Airport facilities and operational considerations relating to the proposed transferee. The consent of the City Council of the City on behalf of the City shall be required for any Transfer of (i) all of a Signatory Airline's Leased Premises, (ii) all rights of a Signatory Airline under its Airport Use Agreement, or (iii) all of a Signatory Airline's interest in its Airport Use Agreement. The consent of the Commissioner of Aviation on behalf of the City shall be required for any other Transfer. As a condition to the City's consent to a proposed sublease of Leased Premises, the proposed sublessee shall be required to execute a license agreement between the sublessee and the City in a form acceptable to the City.

Notwithstanding any Transfer with or without City consent, the Signatory Airline shall remain fully liable for the payment of all of its Airline Fees and Charges and fully responsible for the performance of all of its other obligations under its Airport Use Agreement.

If any Transfer shall occur, whether or not prohibited by any provision of the Airport Use Agreement, the City may collect Airline Fees and Charges from any assignee, sublessee or other transferee of a Signatory Airline and in such event shall apply the net amount collected to the Airline Fees and Charges payable by the Signatory Airline under its Airport Use Agreement without such action by the City releasing the Signatory Airline from its Airport Use Agreement or any of its obligations under its Airport Use Agreement.

Any sublease or assignment shall require the sublessee or the assignee to be bound by all of the terms and provisions of the Airport Use Agreement and other applicable requirements external to the Airport Use Agreement imposed by the City on Signatory Airlines.

Change of Lease Term

Notwithstanding the provision of the Airport Use Agreement described above under the caption "*Term*," each Airport Use Agreement provides that automatically and immediately upon the occurrence of an Event of Default described below, the term of the Airport Use Agreement of the defaulting Signatory Airline shall convert to month-to-month, commencing on the date of the automatic conversion and shall terminate upon 30 days' written notice from the City to the Signatory Airline, or from the Signatory Airline to the City. The following are such Events of Default:

(i) The Signatory Airline shall become insolvent (as such term is defined under Section 101 of the Bankruptcy Code); or shall fail to pay its debts generally as they mature; or shall take the benefit of any present or future federal or state insolvency statute; or shall make a general assignment for the benefit of its creditors;

(ii) Any lien shall be filed against the Signatory Airline's Leased Premises or any portion thereof resulting from any act or omission of the Signatory Airline, and shall not be discharged within 30 days, unless the Signatory Airline shall within such 30 days furnish the City such security as the Commissioner of Aviation in his or her discretion determines to be adequate to protect the interests of the City;

(iii) The Signatory Airline shall discontinue its Air Transportation Business (as defined in the Airport Use Agreement) at the Airport for a period of 30 consecutive days or for a period of 60 nonconsecutive days whenever occurring in the aggregate in any Fiscal Year or, after exhausting or abandoning any further appeals, the Signatory Airline shall be prevented for a period of 30 consecutive days by action of any governmental agency other than the City from conducting its Air Transportation Business at the Airport;

(iv) The Signatory Airline shall cease using or abandon substantially all of its Leased Premises for a period of 30 days;

(v) The Signatory Airline shall make any purported Transfer without the consent of the City, as described above under the caption “*Assignment, Sublease and Other Transfer*”;

(vi) The Signatory Airline shall fail to maintain its corporate existence or to remain duly qualified to do business in the State or the Signatory Airline shall dissolve or otherwise dispose of all or substantially all of its assets or shall consolidate with or merge into another corporation; provided, however, that it shall not be an Event of Default if the Signatory Airline consolidates with or merges into a wholly-owned subsidiary of the Signatory Airline;

(vii) The Signatory Airline shall default in the payment, when due, of any amounts now or hereafter owing by the Signatory Airline under any special facility agreement executed in accordance with the provisions of the Airport Use Agreement relating to special facility financings;

(viii) The Signatory Airline shall fail to meet any of the security deposit requirements set forth in the Airport Use Agreement; or

(ix) The Signatory Airline shall fail to transmit to the City PFCs on a timely basis in accordance with the PFC Regulations or shall fail to comply with the provisions of the Airport Use Agreement relating to PFCs.

The Airport Use Agreement provides that any conversion of the term of an Airport Use Agreement as described above shall not discharge any of the Signatory Airline’s obligations under its Airport Use Agreement nor affect any of the City’s other remedies set forth in such Airport Use Agreement.

APPENDIX D

AUDITED FINANCIAL STATEMENTS

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City of Chicago, Illinois Chicago Midway International Airport

Basic Financial Statements as of and for the
Years Ended December 31, 2014 and 2013
Required Supplementary Information,
Additional Information, Statistical Information,
and Independent Auditors' Report

CITY OF CHICAGO, ILLINOIS

CHICAGO MIDWAY INTERNATIONAL AIRPORT

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CHICAGO MIDWAY INTERNATIONAL AIRPORT**

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INDEPENDENT AUDITORS' REPORT

The Honorable Rahm Emanuel, Mayor,
and Members of the City Council
City of Chicago, Illinois

We have audited the accompanying basic financial statements of Chicago Midway International Airport ("Midway"), an enterprise fund of the City of Chicago, Illinois (the "City"), as of and for the years ended December 31, 2014 and 2013, and the related notes to the basic financial statements, which collectively comprise Midway's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Chicago Midway International Airport as of December 31, 2014 and 2013, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the basic financial statements referred to above present only Chicago Midway International Airport, an enterprise fund of the City, and do not purport to, and do not, present the financial position of the City as of December 31, 2014 and 2013, changes in its financial position, or where applicable, its cash flows, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Midway's basic financial statements. The additional supplementary information and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The image shows a handwritten signature in dark ink. The signature is written in a cursive, flowing style. It begins with a large, stylized 'D' for 'Deloitte', followed by a small ampersand '&', and then 'Touche' in a similar cursive script. The signature concludes with 'LLP' in a more upright, blocky cursive. The overall appearance is that of a professional signature.

June 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

(\$ IN THOUSANDS)

This following discussion and analysis of the Chicago Midway International Airport's (the "Airport") performance provides an introduction and overview of the Airport's financial activities for the years ended December 31, 2014 and 2013. Please read this discussion in conjunction with the Airport's basic financial statements and the notes to basic financial statements following this section.

FINANCIAL HIGHLIGHTS

2014

- Operating revenues for 2014 decreased by \$4,930 compared to 2013 operating revenue.
- Operating expenses before depreciation and amortization increased by \$8,480 compared to 2013, primarily due to an increase in repairs and maintenance and professional and engineering services.
- The Airport's total net position at December 31, 2014, was \$(6,698). This is a decrease of \$21,681 compared to total net position at December 31, 2013.
- Capital asset additions for 2014 were \$48,408, principally due to land acquisition, terminal improvements, parking and roadway enhancements, and runway improvements.

2013

- Operating revenues for 2013 increased by \$17,356 compared to 2012 operating revenues.
- Operating expenses before depreciation and amortization increased by \$6,819 compared to 2012, primarily due to an increase in other operating expenses and professional and engineering services.
- The Airport's total net position at December 31, 2013 was \$14,983. This is a decrease of \$14,817 compared to total net position at December 31, 2012. Due to the residual Airport Use Agreement, this decrease is mainly due to timing differences between depreciation on property and facilities and cash requirements required for debt service.
- Capital asset additions for 2013 were \$45,573, principally due to land acquisition, terminal improvements, parking and roadway enhancements, and runway improvements.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Airport's basic financial statements. The Airport is included in the City of Chicago, Illinois's (the "City") reporting entity as an enterprise fund. The Airport's basic financial statements are composed of the basic financial statements and the notes to basic financial statements. In addition to the basic financial statements, this report also presents additional and statistical information after the notes to basic financial statements.

The Statements of Net Position present all of the Airport's assets and liabilities using the accrual basis of accounting. The difference between assets, deferred outflows and liabilities is reported as net position. The increase or decrease in net position may serve as an indicator, over time, whether the Airport's financial position is improving or deteriorating. However, the consideration of other non-financial factors, such as changes within the airline industry, may be necessary in the assessment of the overall financial position and health of the Airport.

The Statements of Revenues, Expenses and Changes in Net Position present all current fiscal year revenues and expenses, regardless of when cash is received or paid, and the ensuing change in net position.

The Statements of Cash Flows report how cash and cash equivalents are provided and used by the Airport's operating, capital financing, noncapital financing and investing activities. These statements present the cash received and disbursed, the net increase or decrease in cash and cash equivalents for the year and the cash and cash equivalents balance at year-end.

The Notes to Basic Financial Statements are an integral part of the basic financial statements; accordingly, such disclosures are essential to a full understanding of the information provided in the basic financial statements.

In addition to the basic financial statements, this report includes Additional Supplementary and Statistical Information. The Additional Supplementary Information section presents debt service coverage calculations and the Statistical Information section includes certain unaudited information related to the Airport's historical financial and non-financial operating results and capital activities.

FINANCIAL ANALYSIS

Landing fees and terminal area use charges and fueling system charges are assessed to the various airlines throughout each year based on estimated rates. Such rates are designed to yield collections from airlines adequate to cover certain operating expenses and required debt service and fund deposits as determined under provisions of the Airport Use Agreement and Facilities Lease (Use Agreement). Incremental amounts due from the airlines arise when amounts assessed, based on the estimated rates used during the year, are less than actual expenses and required deposits for the year. Such incremental amounts due from airlines are included in amounts to be billed. Incremental amounts due to the airlines arise when amounts assessed, based on the estimated rates used during the year, exceed actual expenses and required deposits for the year. Such incremental amounts due to airlines are included in billings over amounts earned. The termination date of the Use Agreement is December 31, 2027.

At December 31, 2014, the Airport's financial position included total assets and deferred outflows of \$1,719,777, total liabilities of \$1,726,475, and net position of \$(6,698). A comparative condensed summary of the Airport's net position at December 31, 2014, 2013, and 2012, is as follows:

	Net Position		
	2014	2013	2012
Current unrestricted assets	\$ 52,445	\$ 81,742	\$ 75,964
Restricted and other assets	443,366	340,583	325,781
Capital assets — net	1,172,333	1,169,969	1,167,354
Deferred outflows	<u>51,633</u>	<u>24,270</u>	<u>42,792</u>
Total assets and deferred outflows	<u>\$ 1,719,777</u>	<u>\$ 1,616,564</u>	<u>\$ 1,611,891</u>
Current liabilities	\$ 30,589	\$ 35,128	\$ 39,392
Liabilities payable from restricted assets and noncurrent liabilities	<u>1,695,886</u>	<u>1,566,453</u>	<u>1,542,699</u>
Total liabilities	<u>\$ 1,726,475</u>	<u>\$ 1,601,581</u>	<u>\$ 1,582,091</u>
Net position:			
Net investment in capital assets	\$ (115,080)	\$ (131,057)	\$ (87,279)
Restricted	86,526	99,427	80,507
Unrestricted	<u>21,856</u>	<u>46,613</u>	<u>36,572</u>
Total net position	<u>\$ (6,698)</u>	<u>\$ 14,983</u>	<u>\$ 29,800</u>

2014

Current unrestricted assets decreased by \$29,297 (36%) primarily due to a decrease in cash and investments. The Airport's current ratio (current unrestricted assets/current unrestricted liabilities) at December 31, 2014 and 2013, was 1.71:1 and 2.33:1, respectively. Restricted and other assets increased by \$102,783 (30.2%) mainly due to an increase in construction funds of \$120,027 and an increase in capitalized interest of \$11,623 from bond proceeds and a decrease in debt service amounts of \$16,578. Net capital assets increased by \$2,364 (0.2%) due principally to increased completed construction. Deferred outflows increased by \$27,363 (112.7%) primarily due to the refunding of bonds and changes in the fair market value of derivative instruments.

The decrease in current liabilities of \$4,539 (12.9%) is mainly related to the decrease in billings over amounts earned of \$5,679. The decrease in billings over amounts earned represents primarily the current-year distributions of billings over amounts earned related to prior years to the airlines. Liabilities payable from restricted assets and noncurrent liabilities increased by \$129,433 (8.3%) in 2014 mainly due to an increase in revenue bonds payable of \$173,979 and a decrease in notes payable of \$57,713 and an increase of \$11,982 in the liability associated with a derivative instrument.

Net position may serve, over a period of time, as a useful indicator of the Airport's financial position. At December 31, 2014, total net position was \$(6,698), a decrease of \$21,681 (144.7%). This decrease is mainly due to depreciation on property and facilities.

2013

Current unrestricted assets increased by \$5,778 (7.6%) primarily due to an increase in investments offset by a decrease in due from other City funds. The Airport's current ratio (current unrestricted assets/current unrestricted liabilities) at December 31, 2013 and 2012, was 2.33:1 and 1.93:1, respectively. Restricted and other assets increased by \$14,802 (4.5%) mainly due to an increase in debt reserve of \$26,350, an increase in debt services accounts of \$17,450, and a decrease in construction funds of \$28,694 due to construction expenditures. Net capital assets increased by \$2,615 (0.2%) due principally to increased construction in progress.

The decrease in current liabilities of \$4,264 (10.8%) is mainly related to the decrease in billings over amounts earned of \$3,599. The decrease in billings over amounts earned represents primarily the current year distributions of billings over amounts earned related to prior years to the airlines. Liabilities payable from restricted assets and noncurrent liabilities increased by \$23,574 (1.5%) in 2013 mainly due to an increase in revenue bonds payable and notes payable of \$33,580, and \$23,074, respectively, offset by a decrease in due to other City funds, and liability associated with a derivative instrument.

Net position may serve, over a period of time, as a useful indicator of the Airport's financial position. At December 31, 2013, total net position was \$14,983, a decrease of \$14,817 (49.7%). Due to the residual Airport Use Agreement, this decrease is mainly due to timing differences between depreciation on property and facilities and cash requirements required for debt service.

	Changes in Net Position		
	2014	2013	2012
Operating revenues:			
Landing fees and terminal area use charges	\$ 83,455	\$ 90,002	\$ 70,912
Rents, concessions and other	86,804	85,187	86,921
Total operating revenues	<u>170,259</u>	<u>175,189</u>	<u>157,833</u>
Operating expenses:			
Salaries and wages	47,836	43,998	44,463
Repairs and maintenance	44,160	39,606	37,990
Professional and engineering	23,255	19,144	15,011
Other operating expenses	14,345	18,368	16,833
Depreciation and amortization	<u>46,163</u>	<u>41,538</u>	<u>45,233</u>
Total operating expenses	<u>175,759</u>	<u>162,654</u>	<u>159,530</u>
Operating (loss) income	(5,500)	12,535	(1,697)
Nonoperating revenue (expenses):			
Nonoperating revenues	51,465	47,099	48,334
Nonoperating expenses	<u>(72,472)</u>	<u>(79,426)</u>	<u>(80,042)</u>
Total nonoperating revenues/expenses	<u>(21,007)</u>	<u>(32,327)</u>	<u>(31,708)</u>
(Loss) Before Capital Grants	(26,507)	(19,792)	(33,405)
Capital grants	4,826	4,975	4,681
Change in net position	<u>\$ (21,681)</u>	<u>\$ (14,817)</u>	<u>\$ (28,724)</u>

2014

Landing fees and terminal area use charges for the years 2014 and 2013 were \$83,455 and \$90,002, respectively. Rents, concessions, and other revenues were \$86,804 and \$85,187 for 2014 and 2013, respectively. The decrease in 2014 operating revenues of \$4,930 (2.8%) from 2013 was mainly due to decreased landing fees, and terminal area use charges of \$6,547. The decrease was due to the residual Use Agreement that requires airline revenue to be recognized to the extent necessary to pay the Airport's operating and maintenance expenses and net debt service and fund deposit requirements, reduced by nonairline revenues. Rents and other concession revenue increased \$1,617 with an increase in auto parking of \$1,506.

Salaries and wages increased by \$3,838 (9%) in 2014 compared to 2013 with the increase primarily for police and fire protection. Repairs and maintenance expenses increased by \$4,554 (11.5%) in 2014 compared to 2013 due to increases in snow removal costs and terminal facilities costs. Professional and engineering expenses increased \$4,111 (21.5%) compared to 2013 primarily due to increases in contractor costs associated with public parking facilities. Other operating expenses decreased \$4,023 (21.9%) in 2014 compared to 2013 due to a reduction in litigation claim payments.

The 2014 nonoperating revenues of \$51,465 are comprised of Passenger Facility Charges (PFC) revenue of \$39,889, customer facility charges (CFC) revenue of \$6,514, investment income of \$3,540, and other nonoperating revenues of \$1,522. During 2014, nonoperating revenues increased by \$4,366 due primarily to investment income of \$3,540.

Nonoperating expenses of \$72,472 and \$79,426 for the years 2014 and 2013, respectively, were primarily comprised of bond interest expense, bond issuance costs and noise mitigation costs.

Capital grants decreased \$149 in 2014, mainly as a result of when associated capital expenditures became eligible for grant reimbursement from the federal government.

2013

Landing fees and terminal area use charges for the years 2013 and 2012 were \$90,002 and \$70,912, respectively. Rents, concessions, and other revenues were \$85,187 and \$86,921 for 2013 and 2012, respectively. The increase in 2013 operating revenues of \$17,356 (11%) from 2012 was mainly due to increased landing fees, and terminal area use charges of \$19,090. The increase was due to the residual Use Agreement that requires airline revenue to be recognized to the extent necessary to pay the Airport's operating and maintenance expenses and net debt service and fund deposit requirements, reduced by nonairline revenues. Rent, concession, and other revenues increased primarily due increases of 5.8% in parking revenues and a 13.7% in auto rental revenues. Concession revenue increased \$4,464 due primarily to an increase in auto parking of \$1,891, auto rental of \$1,234 restaurants of \$493, and other concessions of \$713.

Salaries and wages decreased by \$465 (1.1%) in 2013 compared to 2012. Repairs and maintenance expenses increased by \$1,616 (4.3%) in 2013 compared to 2012. Professional and engineering expenses increased \$4,133 (27.5%) compared to 2012 primarily due to professional services related to the airport privatization pilot program evaluation. Other operating expenses increased \$1,535 (9.1%) in 2013 compared to 2012 primarily due to an increase in provision for a claim settlement.

The 2013 nonoperating revenues of \$47,099 are comprised of Passenger Facility Charges (PFC) revenue of \$39,470, customer facility charges (CFC) revenue of \$6,546 and other nonoperating revenues of \$1,083.

Nonoperating expenses of \$79,426 and \$80,012 for the years 2013 and 2012, respectively, were primarily comprised of bond interest expense, bond issuance costs, and noise mitigation costs.

Capital grants increased \$294 in 2013, mainly as a result of when associated capital expenditures became eligible for grant reimbursement from the federal government.

A comparative summary of the Airport's cash flows for the years ended December 31, 2014, 2013, and 2012, is as follows:

	Cash Flows		
	2014	2013	2012
Cash provided by (used in) activities:			
Operating	\$ 35,737	\$ 53,057	\$ 37,315
Capital and related financing	38,147	(5,718)	(103,683)
Noncapital financing	(1,580)	(11,859)	(23,591)
Investing	<u>(108,624)</u>	<u>1,146</u>	<u>82,621</u>
Net change in cash and cash equivalents	(36,320)	36,626	(7,338)
Cash and cash equivalents:			
Beginning of year	<u>170,934</u>	<u>134,308</u>	<u>141,646</u>
End of year	<u>\$ 134,614</u>	<u>\$ 170,934</u>	<u>\$ 134,308</u>

2014

As of December 31, 2014, the Airport's available cash and cash equivalents of \$134,614 decreased by \$36,320 compared to \$170,934 at December 31, 2013, due to operating activities of \$38,147 and capital and related financing activities of \$38,147 offset by noncapital financing activities of \$1,580 and investing activities of \$108,624. Total cash and cash equivalents at December 31, 2014, were comprised of unrestricted and restricted cash and cash equivalents of \$6,358 and \$128,256, respectively.

2013

As of December 31, 2013, the Airport's available cash and cash equivalents of \$170,934 increased by \$36,626 compared to \$134,308 at December 31, 2012, due to operating activities of \$53,057 and investing activities of \$1,146 offset by capital and related financing activities of \$5,718 and noncapital financing activities of \$11,859. Total cash and cash equivalents at December 31, 2013, were comprised of unrestricted and restricted cash and cash equivalents of \$13,879 and \$157,055, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2014 and 2013, the Airport had \$1,172,333 and \$1,169,969 respectively, invested in net capital assets. During 2014, the Airport had additions of \$48,408 related to capital activities. This included \$1,033 for land acquisition and the balance of \$47,375 for construction projects relating to terminal improvements, runway rehabilitation, and parking improvements.

During 2014, completed projects totaling \$55,743 were transferred from construction in progress to applicable buildings and other facilities capital account. These major completed projects were related to runway and taxi improvements, rental car parking garage, and terminal security.

The Airport's capital assets at December 31, 2014, 2013, and 2012, are summarized as follows:

	Capital Assets at Year-end		
	2014	2013	2012
Capital assets not depreciated:			
Land	\$ 114,780	\$ 113,747	\$ 112,840
Construction in progress	<u>20,585</u>	<u>28,953</u>	<u>69,847</u>
Total capital assets not depreciated	<u>135,365</u>	<u>142,700</u>	<u>182,687</u>
Capital assets depreciated:			
Buildings and other facilities	1,556,519	1,500,776	1,415,216
Less accumulated depreciation for:			
Buildings and other facilities	<u>(519,551)</u>	<u>(473,507)</u>	<u>(430,549)</u>
Total capital assets depreciated — net	<u>1,036,968</u>	<u>1,027,269</u>	<u>984,667</u>
Total property and facilities — net	<u>\$ 1,172,333</u>	<u>\$ 1,169,969</u>	<u>\$ 1,167,354</u>

The Airport's capital activities are funded through Airport revenue bonds, federal and state grants, PFC and CFC revenue. Additional information on the Airport's capital assets is presented in Note 5 of the notes to the basic financial statements.

The Airport issued \$30,090 of Commercial Paper Notes during 2014 having an interest rate of 0.12% and 0.14%. The Commercial Paper Notes were redeemed by the issuance of the Midway 2014 Second Lien Bonds. Note proceeds may be used to finance portions of the costs of the authorized airports projects and to repay the expenses of issuing of the notes.

The Airport's outstanding debt at December 31, 2014, 2013, and 2012, is summarized as follows (\$ in thousands):

	Outstanding Debt at Year-end		
	2014	2013	2012
Revenue bonds and notes payable	\$ 1,523,590	\$ 1,495,008	\$ 1,441,329
Unamortized:			
Bond (discount) premium	<u>84,609</u>	<u>4,325</u>	<u>160</u>
	1,608,199	1,499,333	1,441,489
Current bonds payable	<u>(17,265)</u>	<u>(24,665)</u>	<u>(23,475)</u>
Total long-term revenue bonds and notes payable – net	<u>\$ 1,590,934</u>	<u>\$ 1,474,668</u>	<u>\$ 1,418,014</u>

Additional information on the Airport's long-term debt is presented in Note 4 of the notes to basic financial statements and in the Statistical Information section of this report.

The Airport's revenue bonds at December 31, 2014, had credit ratings with each of the three major rating agencies as follows:

	Moody's Investor Services	Standard & Poor's	Fitch Ratings
First Lien Chicago Midway Revenue Bonds	A2	A	A
Second Lien Chicago Midway Revenue Bonds	A3	A-	A-

At December 31, 2014 and 2013, the Airport believes it was in compliance with the debt covenants as stated within the Master Trust Indentures.

ECONOMIC FACTORS AND NEXT YEAR RATES AND CHARGES

The airlines using the Airport generally provide low fare, point-to-point origination and destination passenger service. During 2014 and 2013, Southwest Airlines accounted for 88.8% and 86.5%, respectively, of total enplanements at the Airport.

Based on the Airport's rates and charges for 2015, total budgeted operating and maintenance expenses are projected at \$137,835 and total net debt service and fund deposit requirements are projected at \$40,379. Additionally, 2015 nonairline and nonsignatory revenues are budgeted for \$76,391, resulting in a net airline requirement of \$101,822 that will be funded through landing fees, terminal area use charges, and fueling system charges.

REQUESTS FOR INFORMATION

This financial report is designed to provide the reader with a general overview of the Airport's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Chicago Department of Finance.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2014 AND 2013

(\$ in thousands)

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 6,358	\$ 13,879
Cash and cash equivalents—restricted (Note 2)	72,514	71,329
Investments (Note 2)	34,042	55,621
Accounts receivable—net of allowance for doubtful accounts of approximately \$507 in 2014 and \$825 in 2013	7,006	10,416
Amounts to be billed	4,286	
Due from other City funds	527	1,517
Prepaid expenses	226	263
Interest receivable		46
Total current assets	<u>124,959</u>	<u>153,071</u>
NONCURRENT ASSETS:		
Cash and cash equivalents (Note 2)—restricted	55,742	85,726
Investments (Note 2)—restricted	310,902	176,564
Due from other governments—restricted		68
Accounts receivable (Note 1)—restricted	3,045	3,180
Interest receivable—restricted	262	252
Other assets	<u>901</u>	<u>3,464</u>
Property and facilities (Note 5):		
Land	114,780	113,747
Buildings and other facilities	1,556,519	1,500,776
Construction in progress	<u>20,585</u>	<u>28,953</u>
Total property and facilities	1,691,884	1,643,476
Less accumulated depreciation	<u>(519,551)</u>	<u>(473,507)</u>
Property and facilities—net	<u>1,172,333</u>	<u>1,169,969</u>
Total noncurrent assets	<u>1,543,185</u>	<u>1,439,223</u>
DEFERRED OUTFLOWS (Note 1)	51,633	24,270
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$1,719,777</u>	<u>\$1,616,564</u>

See notes to basic financial statements.

	2014	2013
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 18,732	\$ 21,689
Due to other City funds	9,134	6,511
Advances for terminal and hangar rent	2,165	691
Billings over amounts earned	558	6,237
Liabilities payable from restricted assets:		
Accounts payable	21,471	20,494
Due to other City funds		506
Interest payable	33,778	25,664
Current portion of revenue bond payable (Note 4)	<u>17,265</u>	<u>24,665</u>
Total current liabilities	<u>103,103</u>	<u>106,457</u>
NONCURRENT LIABILITIES:		
Revenue bonds payable—net of current maturities (Note 4)	1,590,934	1,416,955
Notes payable—commercial paper (Note 4)		57,713
Derivative instrument (Note 4)	30,128	18,146
Performance deposits	<u>2,310</u>	<u>2,310</u>
Total noncurrent liabilities	<u>1,623,372</u>	<u>1,495,124</u>
Total liabilities	<u>1,726,475</u>	<u>1,601,581</u>
NET POSITION (Note 1):		
Net investment in capital assets (deficit)	<u>(115,080)</u>	<u>(131,057)</u>
Restricted net position:		
Debt service	12,109	29,349
Capital projects	10,160	7,148
Passenger facility charges	4,658	6,901
Airport use agreement	28,282	25,944
Customer facility charges	23,651	21,403
Other assets	<u>7,666</u>	<u>8,682</u>
Total restricted net position	86,526	99,427
Unrestricted net position	<u>21,856</u>	<u>46,613</u>
Total net position	<u>(6,698)</u>	<u>14,983</u>
TOTAL	<u>\$1,719,777</u>	<u>\$1,616,564</u>

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(\$ in thousands)

	2014	2013
OPERATING REVENUES:		
Landing fees and terminal area use charges (Note 1)	\$ 83,455	\$ 90,002
Rents, concessions and other (Note 6)	<u>86,804</u>	<u>85,187</u>
Total operating revenues	<u>170,259</u>	<u>175,189</u>
OPERATING EXPENSES (Notes 7 and 8):		
Salaries and wages	47,836	43,998
Repairs and maintenance	44,160	39,606
Professional and engineering services	23,255	19,144
Other operating expenses	<u>14,345</u>	<u>18,368</u>
Total operating expenses before depreciation and amortization	129,596	121,116
Depreciation and amortization	<u>46,163</u>	<u>41,538</u>
Total operating expenses	<u>175,759</u>	<u>162,654</u>
OPERATING (LOSS) INCOME	<u>(5,500)</u>	<u>12,535</u>
NONOPERATING REVENUES (EXPENSES):		
Passenger facility charges revenues	39,889	39,470
Customer facility charges revenues	6,514	6,546
Investment income (loss)	3,540	(1,000)
Interest expense (Note 4)	(64,111)	(64,142)
Noise mitigation costs (Note 1)	(3,103)	(11,859)
Costs of issuance (Note 1)	(5,258)	(2,425)
Other nonoperating revenues	<u>1,522</u>	<u>1,083</u>
Total nonoperating (expenses) revenues	<u>(21,007)</u>	<u>(32,327)</u>
LOSS BEFORE CAPITAL GRANTS	(26,507)	(19,792)
CAPITAL GRANTS (Note 1)	<u>4,826</u>	<u>4,975</u>
CHANGE IN NET POSITION	(21,681)	(14,817)
TOTAL NET POSITION—Beginning of year as restated in 2013	<u>14,983</u>	<u>29,800</u>
TOTAL NET POSITION—End of year	<u><u>\$ (6,698)</u></u>	<u><u>\$ 14,983</u></u>

See notes to basic financial statements.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(\$ in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Landing fees and terminal area use charges	\$ 80,081	\$ 88,954
Rents, concessions and other	84,768	84,112
Payments to vendors	(83,377)	(75,701)
Payments to employees	(39,295)	(35,563)
Transactions with other City funds (used in)	(10,052)	(21,665)
Transactions with other City funds provided by	3,612	12,920
	<u>35,737</u>	<u>53,057</u>
Cash flows provided by operating activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	972,038	344,759
Proceeds from commercial paper notes		23,074
Payments of commercial paper notes	(57,713)	
Principal paid on bonds	(24,665)	(23,475)
Cash paid to refund bonds	(797,008)	(279,880)
Bond issuance costs	(5,258)	(2,425)
Interest paid	(59,237)	(74,698)
Acquisition and construction of capital assets	(41,443)	(44,443)
Grant receipts	4,894	4,907
Passenger facility charges revenues	40,024	38,834
Customer facility charges revenues	6,515	6,546
Other		1,083
	<u>38,147</u>	<u>(5,718)</u>
Cash flows provided by (used in) capital and related financing activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from settlement agreement	1,029	
Cash paid for noise mitigation program	(2,609)	(11,859)
	<u>(1,580)</u>	<u>(11,859)</u>
Cash flows (used in) noncapital financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale (purchases) of investments—net	(111,577)	(1,458)
Investment interest	2,953	2,604
	<u>(108,624)</u>	<u>1,146</u>
Cash flows (provided by) used in investing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	(36,320)	36,626
CASH AND CASH EQUIVALENTS—Beginning of year	170,934	134,308
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 134,614</u>	<u>\$ 170,934</u>

(Continued)

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(\$ in thousands)

	2014	2013
RECONCILIATION OF CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENTS OF NET POSITION:		
Unrestricted	\$ 6,358	\$ 13,879
Restricted:		
Current	72,514	71,329
Noncurrent	<u>55,742</u>	<u>85,726</u>
TOTAL	<u>\$ 134,614</u>	<u>\$ 170,934</u>
RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating (loss) income	\$ (5,500)	\$ 12,535
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation and amortization	46,164	41,539
Provision for uncollectible accounts	(329)	109
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	3,739	(1,974)
Decrease in due from other City funds	3,612	12,387
Decrease in prepaid expenses	6	1,469
(Decrease) in due to other City funds	(505)	(12,592)
Increase in amounts to be billed		3,315
(Decrease) in billings over amounts earned	(9,965)	(3,599)
Increase (decrease) in advances for terminal and hangar rent	1,473	(83)
(Decrease) in accounts payable and accrued liabilities	<u>(2,958)</u>	<u>(49)</u>
CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 35,737</u>	<u>\$ 53,057</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS:		
Property additions in 2014 and 2013 of \$18,615 and \$13,852, respectively, are included in accounts payable.		
The fair market value adjustments (loss) to investments for 2014 and 2013 were \$(988) and \$(2,170), respectively.		

See notes to basic financial statements.

(Concluded)

CITY OF CHICAGO, ILLINOIS

CHICAGO MIDWAY INTERNATIONAL AIRPORT

NOTES TO BASIC FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Chicago Midway International Airport (the “Airport”) is operated by the City of Chicago, Illinois (the “City”) Department of Aviation. The Airport is included in the City’s reporting entity as an enterprise fund. The City is a member of the Chicago-Gary Regional Airport Authority, which was created in 1995 to address the air transportation needs of the Chicago-Northwest Indiana Region. The Airport operated subject to the provisions of the Airport Use Agreement and Facilities Lease (“Use Agreement”), which is a residual Use Agreement that is scheduled to terminate on December 31, 2027.

Basis of Accounting and Measurement Focus—The accounting policies of the Airport are based upon accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounts of the Airport are reported using the flow of economic resources measurement focus.

The Airport uses the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when incurred.

Annual Appropriated Budget—The Airport has a legally adopted annual budget, which is not required to be reported.

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

Cash, Cash Equivalents and Investments—Cash, cash equivalents, and investments generally are held with the City treasurer as required by the Municipal Code of Chicago (the “Code”). Interest earned on pooled investments is allocated to participating funds based upon their average combined cash and investment balances. Due to contractual agreements or legal restrictions, the cash and investments of certain funds are segregated and earn and receive interest directly.

The Code permits deposits only to City Council-approved depositories, which must be regularly organized state or national banks and federal and state savings and loan associations, located within the City, whose deposits are federally insured.

Investments authorized by the Code include interest-bearing general obligations of the City, the State of Illinois (the “State”), and the U.S. government; U.S. Treasury bills and other non-interest-bearing general obligations of the U.S. government purchased in the open market below face value; domestic money market mutual funds regulated by, and in good standing with, the Securities and Exchange Commission; and tax anticipation warrants issued by the City. The City is prohibited by ordinance from investing in derivatives, as defined, without City Council approval.

The Airport values its investments at fair value or amortized cost as applicable. U.S. government securities purchased at a price other than par with a maturity of less than one year are reported at amortized cost. The fair value of U.S. agency securities, corporate bonds and municipal bonds are estimated using recently executed transactions, market price quotations (where observable), or bond spreads.

Repurchase agreements can be purchased only from banks and certain other institutions authorized to do business in the State. The City treasurer requires that securities pledged to secure these agreements have a market value equal to the cost of the repurchase agreements plus accrued interest.

Investments generally may not have a maturity in excess of 10 years from the date of purchase. Certain other investment balances are held in accordance with the specific provisions of applicable bond ordinances.

Cash equivalents include certificates of deposit and other investments with maturities of three months or less when purchased.

Accounts Receivable Allowance—Management has provided an allowance based on amounts recorded at year-end, which may be uncollectible.

Revenues and Expenses—Revenues from landing fees, terminal area use charges, fueling system charges, parking revenue, and concessions are reported as operating revenues. Revenues that are related to financing, investing, PFCs, and CFCs are reported as nonoperating revenues. Salaries and wages, repair and maintenance, professional and engineering services, and other expenses that relate to Airport operations are reported as operating expenses. Interest expense, financing costs, and noise mitigation costs are reported as nonoperating expenses.

Transactions with the City—The City’s general fund provides services to the Airport. The amounts allocated to the Airport for these services are treated as operating expenses and consist mainly of employee benefits, self-insured risks, and administrative expenses.

Property and Facilities—Property and facilities are recorded at cost or, for donated assets, at market value at the date of acquisition. Expenditures greater than \$5,000 for the acquisition, construction, or equipping of capital projects, together with related design, architectural, and engineering fees, are capitalized. Expenditures for vehicles and other movable equipment are expensed as incurred.

Depreciation and amortization are provided using the straight-line method and begin in the year following the year of acquisition or completion. Estimated useful lives are as follows:

Facilities and structures	40 years
Runways, aprons, tunnels, taxiways, and paved roads	30 years
Other	10–30 years

Deferred Outflows—Deferred outflows represent the fair value of derivative instruments that are deemed to be effective hedges and unamortized loss on bond refundings.

Net Position—Net position comprises the net earnings from operating and nonoperating revenues, expenses, and capital grants. Net position is displayed in three components—net investment in capital assets; restricted for debt service, capital projects, PFC, Airport Use Agreement requirements, CFC, and other assets; and unrestricted. Net investment in capital assets consists of all capital assets, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve, and unspent

construction funds. Restricted net position consists of net position for which constraints are placed thereon by external parties (such as lenders and grantors) and laws, regulations, and enabling legislation. Unrestricted net position consists of all other net position not categorized as either of the above.

Employee Benefits—Employee benefits are granted for vacation and sick leave, workers' compensation, and health care. Unused vacation leave is accrued and may be carried over for up to one year. Sick leave is accumulated at the rate of one day for each month worked, up to a maximum of 200 days. Severance of employment terminates all rights to receive compensation for any unused sick leave. Sick leave pay is not accrued. Employee benefit claims outstanding, including claims incurred but not reported, are estimated and recorded as liabilities. The Airport maintains insurance from a commercial carrier for workers' compensation claims. Settlements in each of the past three years have been less than insurance coverage maintained.

Employees are eligible to defer a portion of their salaries until future years under the City's deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is administered by third-party administrators who maintain the investment portfolio. The plan's assets have been placed in trust accounts with the plan administrators for the exclusive benefit of participants and their beneficiaries and are not considered assets of the City.

The City is subject to the State of Illinois Unemployment Compensation Act and has elected the reimbursing employer option for providing unemployment insurance benefits for eligible former employees. Under this option, the City reimburses the State for claims paid by the State.

Bond Issuance Costs, and Bond Premiums, and Discounts—Bond issuance costs related to bond insurance and bond premiums and discounts are deferred and amortized over the term of the related debt. Other debt issuance costs are expensed in the period incurred.

Capitalized Interest—Interest expense on construction bond proceeds are capitalized during construction on those capital projects paid from the bond proceeds and are being amortized over the depreciable lives of the related assets on a straight-line basis.

Capital Grants—The Airport reports capital grants as capital contribution on the statements of revenues, expenses, and changes in net position. Capital grants are on a reimbursement basis and revenues are recognized when associated capital expenditures become eligible for grant reimbursement.

Noise Mitigation Costs—Funds expended for the Noise Mitigation Program are recorded as nonoperating expenses in the period they are incurred.

Revenue Recognition—Landing fees and terminal area use charges and fueling system charges are assessed to the various airlines throughout each year based on estimated rates. Such rates are designed to yield collections from airlines adequate to cover certain expenses and required debt service and fund deposits as determined under provisions of the previously defined Use Agreement. Incremental amounts due from the airlines arise when amounts assessed, based on the estimated rates used during the year, are less than actual expenses and required deposits for the year. Such incremental amounts due from airlines are included in amounts to be billed. Incremental amounts due to the airlines arise when amounts assessed, based on the estimated rates used during the year, exceed actual expenses and required deposits for the year. Such incremental amounts due to airlines are included in billings over amounts earned.

Passenger Facility Charge (PFC) Revenue—Effective January 1, 2007, the Federal Aviation Administration (FAA) approved PFCs of \$4.50 per eligible enplaned passenger, less allowable airline administrative costs of \$.11 per eligible enplaned passenger. PFCs are available, subject to FAA regulation and approval, to finance specific eligible capital projects. The City reports PFC revenue as nonoperating.

Customer Facility Charge (CFC) Revenue—Airport imposed a CFC of \$3.75 per contract day on each customer for motor vehicle rentals at the Airport for the years ended December 31, 2014 and 2013. CFCs are available to finance specific eligible capital projects. The City reports CFC revenue as nonoperating revenue and related noncapital expenses as nonoperating expenses in conformity with industry practice.

Adopted Accounting Standards—GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB 69”), establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB 69 will be effective for the Airport beginning with its year ending December 31, 2014. GASB 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. There was no impact on the Airport’s financial statements as a result of the implementation of GASB 69.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (“GASB 70”), establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. GASB 70 will be effective for the Airport beginning with its year ending December 31, 2014. GASB 70 requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This statement also provides additional guidance for intraentity nonexchange financial guarantees involving blended component units, requiring disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. There was no impact on the Airport’s financial statements as a result of the implementation of GASB 70.

Upcoming Accounting Standards—Other accounting standards that the Airport is currently reviewing for applicability and potential impact on the basic financial statements include:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”), establishes new financial reporting requirements for most governments that provide their employees with pension benefits through these types of plans. GASB 68 will be effective for the City beginning with its year ending December 31, 2015. GASB 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their net liability for pension benefits, measured as the difference between total pension assets and total pension liability, as a liability in the financial statements that follow accrual basis of accounting for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). As of December 31, 2014, the City

reported a net pension obligation of \$8.6 billion on the statement of net position and disclosed a combined unfunded actuarial accrued liability for all of the pension plans of \$19.7 billion in accordance with GASB Statement No. 27. During 2014, the pension plans implemented GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, and disclosed a combined net pension liability of \$20.1 billion as of December 31, 2014. The City has not yet determined the impact, if any, GASB 68 will have on the standalone Midway financial statements.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (“GASB 71”), relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. GASB 71 will be effective for the City beginning with its year ending December 31, 2015. This statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability and requires that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

GASB Statement No. 72, *Fair Value Measurement and Application* (“GASB 72”), requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). GASB 72 will be effective for the City beginning with its year ending December 31, 2015.

Presentation Changes—The December 31, 2013, statement of net position has been changed to present the restricted assets and liabilities within their respective current and noncurrent classification categories. The restricted assets and liabilities were presented in a separate section in the prior year’s basic financial statements. The December 31, 2013, statement of cash flows has been changed to present the transactions with other City funds on a gross basis. The transactions with other City funds were presented on a net basis in the prior year’s basic financial statements.

2. RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Equivalents and Investments—U.S. agencies include investments in government-sponsored enterprises such as Federal National Mortgage Association, Federal Home Loan Banks, and Federal Home Loan Mortgage Corp. As of December 31, 2014, the Airport had the following investments (\$ in thousands):

Investment Type	Investment Maturities (in Years)			Fair Value
	Less than 1	1–5	6–10	
U.S. agencies	\$ 59,946	\$ 269,225	\$ 5,566	\$ 334,737
Municipal bonds	7,540	29,227		36,767
Certificates of deposits and other short-term	<u>138,651</u>	<u> </u>	<u> </u>	<u>138,651</u>
Subtotal	<u>\$ 206,137</u>	<u>\$ 298,452</u>	<u>\$ 5,566</u>	510,155
Share of City's pooled funds				<u>14</u>
Total				<u>\$ 510,169</u>

As of December 31, 2013, the Airport had the following investments (\$ in thousands):

Investment Type	Investment Maturities (in Years)			Fair Value
	Less than 1	1–5	6–10	
U.S. agencies	\$ 5,503	\$ 170,999	\$ 21,745	\$ 198,247
Municipal bonds		25,790	8,138	33,928
Certificates of deposits and other short-term	<u>186,980</u>	<u> </u>	<u> </u>	<u>186,980</u>
Subtotal	<u>\$ 192,483</u>	<u>\$ 196,789</u>	<u>\$ 29,883</u>	419,155
Share of City's pooled funds				<u>12</u>
Total				<u>\$ 419,167</u>

Interest Rate Risk—As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy requires that investments generally may not have a maturity date in excess of 10 years from the date of purchase. Certain other investments are held in accordance with the specific provisions of applicable ordinances.

Credit Risk—The Code limits investments in commercial paper to banks whose senior obligations are rated in the top two rating categories by at least two national rating agencies and who are required to maintain such rating during the term of such investment. The Code also limits investments to domestic money market mutual funds regulated by, and in good standing with, the Securities and Exchange Commission. Certificates of deposit are also limited by the Code to national banks, which provide collateral of at least 105% by marketable U.S. government securities marked to market at least monthly; or secured by a corporate surety bond issued by an insurance company licensed to do business in Illinois and having a claims-paying rating in the top rating category, as rated by a nationally recognized

statistical rating organization maintaining such rating during the term of such investment. The Airport's exposure to credit risk at December 31, 2014 and 2013, was as follows (\$ in thousands):

Quality Rating	2014	2013
Moody's/S&P		
Aaa/AAA	\$ 1,282	\$ 1,268
Aa/A	337,677	230,908
A/A		
P1/A1	28,071	
Not rated	<u>143,125</u>	<u>186,979</u>
Total funds	<u>\$ 510,155</u>	<u>\$ 419,155</u>

The Airport participates in the City's pooled cash and investments account, which includes amounts from other City funds and is maintained by the City Treasurer. Individual cash or investments are not specifically identifiable to any participant in the pool. The City Treasurer's pooled fund is included in the City's Comprehensive Annual Financial Statements.

Custodial Credit Risk—Cash and Certificates of Deposit—This is the risk that in the event of a bank failure, the City's deposits may not be returned. The City's investment policy states that in order to protect the City deposits, depository institutions are to maintain collateral pledges on City deposits during the term of the deposit of at least 102% of marketable U.S. government, or approved securities or surety bonds, issued by top-rated insurers. Collateral is required as security whenever deposits exceed the insured limits of the Federal Deposit Insurance Corporation. The bank balance of cash and certificates of deposit with the City's various municipal depositories was \$490.6 million. 99.2% of the bank balance was either insured or collateralized with securities held by City agents in the City's name. \$4 million was uncollateralized at December 31, 2013, and thus was subject to custodial credit risk.

The investments reported in the basic financial statements at December 31, 2014 and 2013, are summarized as follows (\$ in thousands):

	2014	2013
Per Note 2:		
Investments—airport	\$ 510,155	\$ 419,155
Investments—City Treasurer Pooled Fund	<u>14</u>	<u>12</u>
	<u>\$ 510,169</u>	<u>\$ 419,167</u>
Per basic financial statements:		
Restricted investments	\$ 310,902	\$ 176,564
Unrestricted investments	34,042	55,621
Investments classified as cash and cash equivalents on the statements of net position	<u>165,225</u>	<u>186,982</u>
	<u>\$ 510,169</u>	<u>\$ 419,167</u>

3. RESTRICTED ASSETS

There are various limitations and restrictions contained in the Master Indenture of Trust securing the Chicago Midway Airport Revenue Bonds (“First Lien Master Indenture”) and the Master Indenture of Trust securing the Chicago Midway Airport Second Lien Obligation (“Second Lien Master Indenture”) and together with the First Lien Master Indenture (“Master Indentures”), the Use Agreement and federal regulations contain various limitations and restrictions, which, among other things, require the creation and maintenance of separate accounts, certain of which must be held by a trustee and into which required deposits are made by the Airport on a periodic basis to fund construction, debt retirement, operation and maintenance, and contingencies.

Restricted cash, cash equivalents, and investment balances in accordance with the Master Indenture requirements at December 31, 2014 and 2013, were as follows (\$ in thousands):

Account	2014	2013
Construction	\$ 177,656	\$ 57,629
Capitalized interest	11,776	153
Debt service	63,038	79,616
Debt service reserve	122,762	129,148
Operation and maintenance reserve	21,513	20,001
Repair and replacement	6,305	5,903
Emergency reserve	398	394
Customer facility charge (CFC)	24,104	26,081
Other	<u>9,978</u>	<u>10,983</u>
Subtotal—master indentures and use agreement accounts	437,530	329,908
Passenger facility charges (PFC)	<u>1,628</u>	<u>3,711</u>
Total	<u>\$ 439,158</u>	<u>\$ 333,619</u>

Construction and capitalized interest accounts, which are funded with bond proceeds, are restricted to pay authorized capital improvements and related interest costs during construction.

Required deposits are made by the Airport from revenues collected after funding deposits to an operation and maintenance account in the following priority on a monthly basis:

- The debt service account, which is restricted for the payment of debt service.
- The operation and maintenance reserve account, which is restricted to make loans to the operation and maintenance account, as needed, and are to be repaid as the funds become available.

The debt service reserve account requirement was funded upon issuance of the Series 1996 first lien bonds, the Series 1998 first lien bonds, the Series 1998 second lien bonds, the Series 2004 second lien bonds, the Series 2010 second lien bonds, and the Series 2013 second lien bonds with a cash deposit. The debt service reserve account is restricted to the payment of debt service in the event that the balance in the debt service account is insufficient.

The repair and replacement account must be used for paying the cost of maintenance expenditures, such as costs incurred for major repairs, renewals, and replacements at the Airport whether caused by normal wear and tear or by unusual and extraordinary occurrences.

The emergency reserve account is restricted to make payments for certain purposes, including terminal area use charges, landing fees, and certain other charges that are deemed uncollectible and also for any judgments or settlements against the Airport.

The CFC funds are restricted for permitted costs and purposes related to the consolidated rental car facility. The PFC account is restricted to fund eligible and approved PFC projects.

Other funds include the federal and state grant funds, the security for payment fund, and the Airport development fund.

At December 31, 2014 and 2013, the Airport believes it was in compliance with the funding requirements and restrictions as stated in the Master Indentures.

4. LONG-TERM DEBT

Long-term debt at December 31, 2014 and 2013, consisted of the following (\$ in thousands):

	2014	2013
First lien bonds:		
\$148,820 Series 1996 A Chicago Midway Airport Revenue Bonds, issued November 7, 1996, due through 2029, interest at 4.8%–6.0%	\$ -	\$ 58,420
\$105,220 Series 1996 B Chicago Midway Airport Revenue Bonds, issued November 7, 1996, due through 2029, interest at 4.9%–6.5%		57,355
\$397,715 Series 1998 A, B, and C Chicago Midway Airport Revenue Bonds, issued September 10, 1998, due through 2035, interest at 4.3%–5.5%	34,180	337,555
\$295,855 Series 2001 A and B Chicago Midway Airport Revenue Bonds, issued September 13, 2001, due through 2031, interest at 5.0%–5.5%		171,215
	<u>34,180</u>	<u>624,545</u>
Subtotal—first lien bonds	<u>34,180</u>	<u>624,545</u>
Second lien bonds:		
\$171,000 Series 1998 A and B Chicago Midway Airport Second Lien Revenue Bonds, issued September 16, 1998, due through 2029, variable floating interest rate		132,525
\$54,785 Series 2004 A and B Chicago Midway Airport Second Lien Revenue Bonds, issued December 14, 2004, due through 2024, interest rate at 3.20%–5.00%	54,785	59,945
\$140,675 Series 2004 C and D Chicago Midway Airport Second Lien Revenue Bonds, issued December 14, 2004, due through 2035, variable floating interest rates at 4.174% and 4.247%	140,675	144,675
\$63,470 Series 2010 C Chicago Midway Airport Second Lien Revenue Bonds, issued October 26, 2010, due through 2041, interest rate at 3.782%–7.168%	63,470	63,470
\$82,610 Series 20010 D-1 Chicago Midway Airport Second Lien Revenue Bonds, issued October 26, 2010, due through 2041, interest rate at 3.532%–5.340%		78,175
\$118,600 Series 2013 A Chicago Midway Airport Second Lien Revenue Bonds, issued December 5, 2013, due through 2033, interest rate at 5.375%–5.500%	118,600	118,600
\$150,365 Series 2013 B Chicago Midway Airport Second Lien Revenue Bonds, issued December 5, 2013, due through 2035, interest rate at 4.125%–5.250%	150,365	150,365
\$64,995 Series 2013 C Chicago Midway Airport Second Lien Revenue Bonds, issued December 5, 2013, due through 2020, interest rate at 0.740%–3.655%	64,995	64,995
\$484,200 Series 2014 A Chicago Midway Airport Second Lien Revenue Bonds, issued June 11, 2014, due through 2041, interest rate at 5.000%	484,200	
\$287,610 Series 2014 B Chicago Midway Airport Second Lien Revenue Bonds, issued June 11, 2014, due through 2036, interest rate at 4.000-5.000%	287,610	
\$124,710 Series 2014 C Chicago Midway Airport Second Lien Revenue Bonds, issued June 11, 2014, due through 2044 variable floating interest rate (0.07% at December 31, 2014)	124,710	
	<u>1,489,410</u>	<u>812,750</u>
Subtotal—second lien bonds	<u>1,489,410</u>	<u>812,750</u>
Commercial paper notes—Series A, B, C, and D		57,713
Total revenue bonds and notes	1,523,590	1,495,008
Unamortized premium (discount)	84,609	4,325
Total revenue bonds payable, net of unamortized premium (discount)	1,608,199	1,499,333
Current portion	<u>(17,265)</u>	<u>(24,665)</u>
Total long-term revenue bonds payable	<u>\$ 1,590,934</u>	<u>\$ 1,474,668</u>

Long-term debt during the years ended December 31, 2014 and 2013, changed as follows (\$ in thousands):

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Due within One Year
Revenue bonds and notes	\$ 1,495,008	\$ 896,520	\$ (867,938)	\$ 1,523,590	\$ 17,265
Unamortized premium (discount)	<u>4,325</u>	<u>84,196</u>	<u>(3,912)</u>	<u>84,609</u>	
Total long-term debt	<u>\$ 1,499,333</u>	<u>\$ 980,716</u>	<u>\$ (871,850)</u>	<u>\$ 1,608,199</u>	<u>\$ 17,265</u>
	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013	Due within One Year
Revenue bonds	\$ 1,441,329	\$ 357,034	\$ (303,355)	\$ 1,495,008	\$ 24,665
Unamortized premium (discount)	<u>160</u>	<u>10,799</u>	<u>(6,634)</u>	<u>4,325</u>	
Total long-term debt	<u>\$ 1,441,489</u>	<u>\$ 367,833</u>	<u>\$ (309,989)</u>	<u>\$ 1,499,333</u>	<u>\$ 24,665</u>

Interest expense capitalized for 2014 and 2013 totaled \$6.52 million and \$2.67 million, respectively. Interest income capitalized for 2014 and 2013 totaled \$0.53 million and \$0.18 million, respectively. Interest expense includes amortization of the deferred loss on bond refunding for 2014 and 2013 of \$1.1 million and \$0.80 million, and amortization of \$3.44 million of premium, net and \$0.002 million of discount, net, respectively.

Issuance of Debt—The Airport Commercial Paper Notes, Series A, B, C, and D (\$150 million maximum aggregated authorized) outstanding at December 31, 2014 and 2013, were \$0 and \$57.7 million, respectively. The commercial paper program was expanded in 2013 to \$150 million. The Airport has excluded commercial paper from current liabilities as it intends and has the ability to refinance the obligation on a long-term basis. Note proceeds may be used to finance portions of the costs of authorized airport projects and to repay the expenses of issuing the notes. An irrevocable letter of credit (LOC) (\$94.6 million) provided for the timely payment of principal and interest on the notes until July 12, 2017. Amounts paid by drawing on the LOC shall be reimbursed by the Airport on said day; any amounts not reimbursed shall constitute an advance and will bear interest at the greater of the most recent prime rate, plus 1.50% or the federal funds rate, plus 2% and 7.5% (Base Rate). Advances outstanding greater than 90 days will bear interest at the Base Rate, plus 1% beginning on the 90-first day after such advance is made. At December 31, 2014, there were no outstanding LOC advances.

In June 2014, the Airport sold \$484.2 million of Chicago Midway Airport Second Lien Revenue Bonds, Series 2014A (AMT) at a premium of \$41.7 million and \$287.6 million of Chicago Midway Second Lien Revenue Bonds, Series 2014B (non-AMT) at a premium of \$33.9 premium. The Bonds have interest rates of 4% and 5%. The Bonds are subject to mandatory and optional redemption and have maturity dates from January 1, 2019, to January 1, 2041. Certain proceeds of \$653.1 million together with \$20.6 million transferred from the debt service account were deposited into an escrow account to fully defease the Series 1996A First Lien Bonds (\$58.4 million of principal and \$1.7 million of interest), 1996B First Lien Bonds (\$54.3 million of principal and \$1.5 million of interest), 1998A First Lien Bonds (\$217 million of principal and \$5.8 million of interest), 1998B First Lien Bonds (\$82.5 million of principal and \$2.2 million of interest), 2001A First Lien Bonds (\$131.9 million of principal and \$3.6 million of interest), 2001B First Lien Bonds (\$30.8 million of principal and 0.8 million of interest), and 2010D-1 Second Lien Bonds (\$78.2 million of principal, \$1.5 million of interest, and \$3.5 million of premium). Certain proceeds of \$114.9 million will be used to finance the costs of the various airport

projects; certain proceeds of \$57.7 million were used to repay the outstanding Commercial Paper Notes; certain proceeds of \$15.1 million were used to fund the capitalized interest deposit requirement; certain proceeds of \$1.5 million were used to fund the debt service reserve requirement and certain proceeds of \$5.1 million were used to pay the cost of issuance of the bonds. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debts of \$15.9 million that will be charged to operation over 16 to 28 years using the straight-line method. The current refunding decreased the Airport's total debt service by \$135.7 million and resulted in an economic gain (difference between the present value of the old debt and the new debt service payments) of \$69.2 million.

In June 2014, the Airport sold \$124.7 million of Chicago Midway Second Lien Revenue Refunding Bonds, Series 2014C (AMT). The bonds have an initial variable interest rate of 0.08%. The Bonds are subject to mandatory and optional redemption and have maturity dates from January 1, 2041, to January 1, 2044. Certain proceeds of \$124.4 million were used to fully defease of the Series 1998A Second Lien Bonds (\$64.1 million of principal) and the Series 1998B Second Lien Bonds (\$59.8 million of principal and \$0.5 million of debt service account deposit requirement) and certain proceeds of \$0.3 million were used to pay the cost of issuing of the bonds. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debts of \$0.5 million that will be charged to operation over 16 years using the straight-line method.

In December 2013, the Airport sold \$118.6 million of Chicago Midway Airport Second Lien Revenue Refunding Bonds, Series 2013A (AMT) at a premium of \$1.4 million. The Bonds have interest rates ranging from 5.375% to 5.5% and maturity and optional redemption maturity dates from January 1, 2027, to January 1, 2033. Certain proceeds of \$112.9 million together with \$2.3 million transferred from the debt service account were deposited in an escrow account to defease a portion of the Series 1996 B First Lien Bonds (\$19.1 million of principal and \$0.6 million of interest), a portion of the Series 1998 A First Lien Bonds (\$5.5 million of principal and \$0.1 million of interest), a portion of the Series 2001A First Lien Bonds (\$39.8 million of principal and \$1.1 million of interest) and a portion of the Series 2010A-2 Second Lien Bonds (\$48.5 million of principal) and \$0.5 million for other escrow requirement; certain proceeds of \$6.1 million were used to fund debt service reserve requirement and certain proceeds of \$1 million were used to pay the cost of issuance of the bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$0.4 million that will be charged to operation over 13 to 21 years using the straight-line method.

In December 2013, the Airport sold \$150.4 million of Chicago Midway Airport Second Lien Revenue Refunding Bonds, Series 2013B (non-AMT) at a premium of \$9.4 million. The Bonds have interest rates ranging from 4.125% to 5.250% and maturity and optional redemption maturity dates from January 1, 2020, to January 1, 2035. Certain proceeds of \$161.2 million together with \$1.4 million transferred from the debt service account were deposited in an escrow account to defease a portion of the Series 1998 B First Lien Bonds (\$26.6 million of principal and \$0.7 million of interest), a portion of the Series 2001 B First Lien Bonds (\$28.2 million of principal, \$0.8 million of interest), a portion of the Series 2010 A-2 Second Lien Bonds (\$1 million of principal) and full portion of the Series 2010B Second Lien Bonds (\$84 million of principal and \$6.3 million of interest) and \$4.3 million to pay a portion of the outstanding Commercial Paper Notes. Certain proceeds of \$8.1 million were used to fund debt service reserve requirement and certain proceeds of \$1.2 million were used to pay the cost of issuance of the bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$0.5 million that will be charged to operation over 17 to 23 years using the straight-line method.

In December 2013, the Airport sold \$65 million of Chicago Midway Airport Second Lien Revenue Refunding Bonds, Series 2013C (Taxable) at par. The Bonds have interest rates ranging from 0.74% to 3.655% and maturity and optional redemption maturity dates from January 1, 2015, to January 1, 2020. Certain proceeds of \$65 million together with \$0.3 million transferred from the debt service account were deposited in an escrow account to fully defease the Series 2010 A-1 Second Lien Bonds (\$22 million of principal), a portion of the Series 2010 A-2 Second Lien Bonds (\$5 million of principal), 0.4 million for other escrow requirement and \$25.8 million to pay a portion of the outstanding Commercial Paper Notes. Certain proceeds of \$11.7 million were used to fund debt service reserve requirement and certain proceeds of \$0.4 million were used to pay the cost of issuance of the bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$0.1 million that will be charged to operation over eight years using the straight-line method.

The advance refunding resulted in an economic gain relating to the Series 2013 bonds (difference between the present value of the old debt and the new debt service payments) of \$10.4 million.

Defeased Bonds—Defeased bonds have been removed from the balance sheet because the related assets have been placed in irrevocable trusts, together with interest earned thereon, will provide amount sufficient for payment of all principal and interest. The amount of defeased bonds outstanding at December 31, 2014, is \$84 million.

Debt Redemption—Following is a schedule of debt service requirements to maturity of the first lien bonds (\$ in thousands):

Years Ending December 31	Principal	Interest	Total
2015	\$ 2,650	\$ 1,800	\$ 4,450
2016	2,800	1,650	4,450
2017	2,955	1,499	4,454
2018	3,115	1,332	4,447
2019	3,290	1,156	4,446
2020–2024	<u>19,370</u>	<u>2,778</u>	<u>22,148</u>
Total	<u>\$ 34,180</u>	<u>\$ 10,215</u>	<u>\$ 44,395</u>

Following is a schedule of debt service requirements to maturity of the second lien bonds. For issues with variable rates, interest is imputed at the percent rate effective at December 31, 2014 (\$ in thousands):

Years Ending December 31	Principal	Interest	Total
2015	\$ 14,615	\$ 67,542	\$ 82,157
2016	22,125	64,980	87,105
2017	24,205	64,403	88,608
2018	27,900	63,684	91,584
2019	35,090	62,673	97,763
2020–2024	253,550	285,099	538,649
2025–2029	356,695	214,482	571,177
2030–2034	427,310	123,339	550,649
2035–2039	220,865	39,690	260,555
2040–2044	<u>185,230</u>	<u>3,207</u>	<u>188,437</u>
Total	<u>\$ 1,567,585</u>	<u>\$ 989,099</u>	<u>\$ 2,556,684</u>

The Airport's second lien variable rate bonds may bear interest from time to time at a flexible rate, a daily rate, a weekly rate, an adjustable long rate or the fixed rate as determined from time to time by the remarketing agent, in consultation with the City. At December 31, 2014, the Series 2004 C&D bonds and the Series 2014C bonds were in a weekly rate interest mode. Irrevocable LOC (\$142.3 million) provides for the timely payment of principal and interest on the Series 2004 C&D bonds until November 25, 2016.

Irrevocable LOC (\$126.1 million) provides for the timely payment of principal and interest on the Series 2014C bonds until November 25, 2017.

In the event the bonds are put back to the bank and not successfully remarketed, or if the LOC expires without an extension or substitution, the bank bonds will convert to a term loan. There is no principal due on potential term loans within the next fiscal year.

Hedging Derivatives—In April 2011, the Airport novated its \$60.9 million notional amount swap associated with the Midway Airport Series 2004 C&D variable rate bonds with J.P. Morgan to Wells Fargo Bank, N.A. The fixed rate the Airport pays increased from 4.174% to 4.247%, and the Airport signed a one-way credit support agreement (CSA) that no longer requires the Airport to post collateral if the mark-to-market exceeds the threshold, previously defined in the J.P. Morgan agreement. A Goldman Sachs swap covers the 60% balance of the bonds, with a current notional amount of \$84.4 million, which does not have a two-way CSA and remains unchanged.

Objective of the Swaps—In order to protect against the potential of rising interest rates, the Airport has entered into a separate pay-fixed, receive-variable interest rate swap at a cost less than what the Airport would have paid to issue fixed-rate debt (\$ in thousands).

	Changes in Fair Value		Fair Value at December 31, 2014		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges—pay-fixed interest rate swaps	Deferred outflow of resources	<u>\$ (11,982)</u>	Deferred outflow of resources	<u>\$ (30,128)</u>	<u>\$ 140,675</u>

Pay-Fixed, Receive-Variable Interest Rate Swaps—The swap counterparties are Goldman Sachs and Wells Fargo, with notional amounts as of December 31, 2014, of \$84.4 million and \$56.3 million, respectively.

Terms, Fair Values, and Credit Risk—The terms, including the fair value and credit ratings of the outstanding swaps as of December 31, 2014, are as follows. The notional amounts of the swaps match the principal amounts of the associated debt. The Airport's swap agreements contained scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category (\$ in thousands).

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value 2014	Swap Termination Date	Counterparty Credit Rating
Series 2004 C&D Bonds	\$ 84,405	December 14, 2004	4.174 %	SIFMA +.05%	\$(17,678)	January 1, 2035	Baa1/A
Series 2004 C&D Bonds	<u>56,270</u>	April 21, 2011	4.247	SIFMA +.05%	<u>(12,450)</u>	January 1, 2035	Aa3/AA-
Total	<u>\$140,675</u>				<u>\$(30,128)</u>		

Fair Value—As per industry convention, the fair value of the Airport's outstanding swaps was estimated using the zero-coupon method. This method calculates the future net settlement payment required by the swap, assuming that the forward rates implied the yield curve correctly anticipates future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap. Because interest rates declined subsequent to the date of execution, the Airport's swaps had negative values.

Credit Risk—The Airport is exposed to credit risk (counterparty risk) through the counterparties with which it enters into agreements. If minimum credit rating requirements are not maintained, the counterparty is required to post collateral to a third party. This protects the Airport by mitigating the credit risk, and therefore the ability to pay a termination payment, inherent in a swap. Collateral on all swaps is to be in the form of cash or eligible collateral held by a third-party custodian. Upon credit events, the swaps also allow transfers, credit support, and termination, if the counterparty is unable to meet the said credit requirements.

Basis Risk—Basis risk refers to the mismatch between the variable rate payments received on a swap contract and the interest payment actually owed on the bonds. The two significant components driving this risk are credit and Securities Industry and Financial Markets Associations (SIFMA) ratios. Credit may create basis risk because the Airport's bonds may trade differently than the swap index as a result of a credit change in the Airport. SIFMA ratios (or spreads) may create basis risk if SIFMA swaps of the Airport's bonds trade higher than the SIFMA received on the swap. This can occur due to many factors including, without limitations, changes in marginal tax rates, tax-exempt status of bonds, and supply and demand for variable rate bonds. The Airport is exposed to basis risk on the swaps if the rate paid on the bonds is higher than the rate received. The Airport is liable for the difference. The difference would need to be available on the debt service payment date and would add additional underlying cost to the transaction.

Tax Risk—The swap exposes the Airport to tax risk or a permanent mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds due to tax law changes such that the Federal or State tax exception of municipal debt is eliminated or its value reduced. There have been no tax law changes since the execution of this swap agreement.

Termination Risk—The risk that the swap could be terminated as a result of certain events, including a ratings downgrade for the issuer or swap counterparty, covenant violation, bankruptcy, payment default, or other defined events of default. Termination of a swap may result in a payment made by the issuer or to the issuer depending upon the market at the time of termination.

Swap Payments and Associated Debt—As of December 31, 2014, debt service requirements for the Airport's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows (\$ in thousands):

Years Ending December 31	Variable-Rate Bonds with Swaps		Interest Rate	Total
	Principal	Interest	Swaps—Net	
2015	\$ 4,200	\$ 92	\$ 5,659	\$ 9,951
2016	4,275	89	5,482	9,846
2017	4,575	86	5,294	9,955
2018	4,775	82	5,098	9,955
2019	5,000	80	4,891	9,971
2020–2024	28,375	343	21,052	49,770
2025–2029	35,350	234	14,365	49,949
2030–2035	54,125	99	6,068	60,292
Total	<u>\$ 140,675</u>	<u>\$ 1,105</u>	<u>\$ 67,909</u>	<u>\$ 209,689</u>

5. CHANGES IN CAPITAL ASSETS

During the years ended December 31, 2014 and 2013, capital assets changed as follows (\$ in thousands):

	Balance January 1, 2014	Additions	Disposals and Transfers	Balance December 31, 2014
Capital assets not depreciated:				
Land	\$ 113,747	\$ 1,033	\$ -	\$ 114,780
Construction in progress ⁽¹⁾	<u>28,953</u>	<u>47,375</u>	<u>(55,743)</u>	<u>20,585</u>
Total capital assets not depreciated	<u>142,700</u>	<u>48,408</u>	<u>(55,743)</u>	<u>135,365</u>
Capital assets depreciated—buildings and other facilities	1,500,776	55,743		1,556,519
Less accumulated depreciation for—buildings and other facilities	<u>(473,507)</u>	<u>(46,044)</u>		<u>(519,551)</u>
Total capital assets depreciated—net	<u>1,027,269</u>	<u>9,699</u>	<u>-</u>	<u>1,036,968</u>
Total property and facilities—net	<u>\$ 1,169,969</u>	<u>\$ 58,107</u>	<u>\$ (55,743)</u>	<u>\$ 1,172,333</u>

⁽¹⁾ Includes net capitalized interest of \$2,693

	Balance January 1, 2013	Additions	Disposals and Transfers	Balance December 31, 2013
Capital assets not depreciated:				
Land	\$ 112,840	\$ 907	\$ -	\$ 113,747
Construction in progress ⁽¹⁾	<u>69,847</u>	<u>44,666</u>	<u>(85,560)</u>	<u>28,953</u>
Total capital assets not depreciated	<u>182,687</u>	<u>45,573</u>	<u>(85,560)</u>	<u>142,700</u>
Capital assets depreciated—buildings and other facilities	1,415,216	85,560		1,500,776
Less accumulated depreciation for—buildings and other facilities	<u>(430,549)</u>	<u>(42,958)</u>		<u>(473,507)</u>
Total capital assets depreciated—net	<u>984,667</u>	<u>42,602</u>	<u>-</u>	<u>1,027,269</u>
Total property and facilities—net	<u>\$ 1,167,354</u>	<u>\$ 88,175</u>	<u>\$ (85,560)</u>	<u>\$ 1,169,969</u>

⁽¹⁾ Includes net capitalized interest of \$531

6. LEASING ARRANGEMENTS

With Tenants—Most of the Airport's land, buildings, and terminal space are leased under operating lease agreements to airlines and other tenants. The following is a schedule of the minimum future rental income on noncancelable operating leases as of December 31, 2014 (\$ in thousands):

Years Ending December 31	Amount
2015	\$ 48,634
2016	48,171
2017	26,763
2018	26,609
2019	26,609
2020–2024	133,045
2025–2029	<u>133,045</u>
Total	<u>\$ 442,876</u>

Contingent rentals that may be received under certain leases, based on the tenants' revenues, are not included in minimum future rental income.

Rental income, consisting of all rental and concession revenues except aircraft parking fees and certain departure fees (turns) and automobile parking, amounted to \$92.9 million and \$99 million in 2014 and 2013, respectively. Contingent rentals included in the totals were approximately \$39.6 million and \$46 million for 2014 and 2013, respectively.

7. PENSION PLANS

Eligible Airport employees participate in one of four single-employer defined benefit pension plans (the "Plans"). These Plans are: the Municipal Employees'; the Laborers' and Retirement Board Employees'; the Policemen's; and the Firemen's Annuity and Benefit Funds of Chicago. The Plans are administered by individual retirement boards represented by elected and appointed officials. Certain employees of the

Chicago Board of Education participate in the Municipal Employees' or the Laborers' and Retirement Board Employees' Annuity and Benefit Funds for which the City levies taxes to make the required employer contributions. Each Plan issues a publicly available financial report that includes basic financial statements and RSI.

The Plans provide retirement, disability, and death benefits as established by State law. Benefits generally vest after 20 years of credited service. Employees who retire at or after age 55 (50 for policemen and firemen) with 20 years of credited service qualify to receive a money purchase annuity and those with more than 20 years of credited service qualify to receive a minimum formula annuity. The annuity is computed by multiplying the final average salary by a percentage ranging from 2.0% to 2.5% per year of credited service. The final average salary is the employee's highest average annual salary for any four consecutive years within the last 10 years of credited service.

Participating employees contribute 8.5%–9.125% of their salary to the Plans as required by State law. By law, the City's contributions are based on the amounts contributed by the employees. Financing of the City's contribution is through a separate property tax levy and the personal property replacement tax. The Airport reimburses the City's general fund for the estimated pension cost applicable to the covered payroll of Airport employees. These reimbursements, recorded as expenses of the Airport, were \$4.1 million in 2014 and \$3.5 million in 2013. The annual pension costs are determined using the entry age normal actuarial cost method and the level dollar amortization method.

Historically, State law required City contributions at statutorily, not actuarially, determined rates. The rates are expressed as multiples of employee contributions. These contributions equal employee contributions made in the calendar year two years prior to the year for which the applicable tax is levied, multiplied by the statutory rates. The statutory rates in effect for the City's contributions made during the years ended December 31, 2014 and 2013, were 1.25 for the Municipal Employees' Annuity and Benefit Fund, 1.00 for the Laborers' and Retirement Board Employees' Annuity and Benefit Fund, 2.00 for the Policemens', and 2.26 for the Firemen's Annuity and Retirement Fund of Chicago. The City has made the required contributions under State law.

The City's contributions to the four Pension Plans primarily serving City employees are set by State law. In recent years, those contributions have been lower than the actuarially required amounts for the Plans, which has served to increase the Plans' unfunded actuarial liabilities. Recurring cash inflows from all sources to the Plans (including City contributions, employee contributions, and investment earnings) have been lower than the cash outlays of the Plans in some recent years. As a result, the Plans have liquidated investments and used assets of the Plans to satisfy their respective current payment obligations in those years. The use of assets by the Plans for these purposes reduces the amount of assets on hand to pay benefits or earn investment returns in the future.

Current State law for the Policemen's and Firemen's Plans, known as Public Act 96-1495 (P.A. 96-1495), requires the City to significantly increase contributions to those Plans beginning in 2016. In each year, the City must contribute the amount needed for each Plan to achieve a 90% Funded Ratio by the end of 2040. Under the enacted State legislation for the Municipal Employees' and Laborers' Plans, known as Public Act 98-641 (P.A. 98-641), the City is required to significantly increase contributions to those two Plans beginning in 2016. During the period 2016 through 2020, the City's contributions to the Municipal Employees' and Laborers' Plans increase by statutorily determined amounts which are not based on actuarial calculations. Beginning in 2021, P.A. 98-641 requires the City to contribute in each year to the Municipal Employees' and Laborers' Plans the amount needed for each Plan to achieve a 90% Funded Ratio by the end of 2055. P.A. 98-641 also makes certain modifications to the automatic annual increases paid to retirees and requires increases in employee contributions toward the cost of their retirement benefits.

Under the enacted State legislation for the Municipal Employees' and Laborers' Plans known as Public Act 98-641 (P.A. 98-641), the City is required to significantly increase contributions to those two Plans beginning in 2016. During the period 2016 through 2020, the City's contributions to the Municipal Employees' and Laborers' Plans increase by statutorily determined amounts which are not based on actuarial calculations. Beginning in 2021, P.A. 98-641 requires the City to contribute in each year to the Municipal Employees' and Laborers' Plans the amount needed for each Plan to achieve a 90% Funded Ratio by the end of 2055. P.A. 98-641 also makes certain modifications to the automatic annual adjustment of benefits for approximately 78,000 members of those Plans (including current retirees and all employees) and requires substantial increases in employee contributions toward the cost of their retirement benefits. This is projected to require an increase in the City's contributions to the Municipal Employees' and Laborers' Plans of more than \$89.1 million starting in 2016 and increasing by approximately three percent each year, thereafter.

Senate Bill 777 ("SB 777"), an amendment to P.A. 96-1495, passed both houses of the Illinois General Assembly as of May 31, 2015. SB 777 institutes a Phase-in Period until 2020 and a Revised Amortization Period to 2055. A Revised Amortization Period would reduce the annual funding obligation required to reach a 90% Funded Ratio, but extend the number of years over which such payments would need to be made. Enactment of a Phase-in Period would reduce the City's required payment in the initial years to allow for a more gradual phase-in of the requirements of P.A. 96-1495. The General Assembly may also consider other proposed legislation that could affect the City's contributions for the Policemen's and Firemen's Plans and/or funding sources for those contributions. Although SB 777 has passed both chambers of the Illinois General Assembly, a motion to reconsider the vote on SB 777 has been filed in the Illinois Senate, and accordingly, SB 777 has not been sent to the Governor for consideration. The City makes no representation as to whether or when any such legislation, including SB 777, would be enacted.

The following table as of December 31, 2014, assists users in assessing each pension fund's progress in accumulating sufficient assets to pay benefits when due. The three-year historical information for each annuity and benefit fund, which includes all City employees within each respective annuity and benefit fund, is as follows (dollars in thousands):

	Annual Pension Cost	Percent of Annual Pension Cost Contributed	Annual Required Contribution	Percent of Required Contributions Contributed	Net Pension Obligation (Asset)
Municipal employees:					
2012	\$ 687,519	21.65 %	\$ 690,823	24.00 %	\$ 2,008,546
2013	812,463	18.24	820,023	18.10	2,672,812
2014	828,978	18.10	839,038	17.80	
Laborers:					
2012	77,858	15.22	77,566	15.30	(63,707)
2013	106,439	10.88	106,199	10.90	31,148
2014	105,901	11.50	106,018	11.50	124,889
Policemen:					
2012	483,359	40.94	431,010	45.90	2,350,739
2013	531,355	33.79	474,178	37.90	2,702,573
2014	553,243	32.20	491,651	36.20	3,077,658
Firemen:					
2012	268,112	30.41	271,506	30.00	1,696,679
2013	291,064	35.62	294,878	35.20	1,884,074
2014	300,030	35.77	304,265	35.30	2,076,770

The pension benefits information pertaining expressly to Airport employees is not available as the obligation is the responsibility of the general government. Accordingly, no amounts have been recorded in the accompanying basic financial statements for the net pension asset or obligation of these plans. The net pension liability for the City is recorded within the City's government-wide basic financial statements.

8. OTHER POSTEMPLOYMENT BENEFITS—CITY OBLIGATION

The Pension Funds also contribute a portion of the City's contribution as subsidy towards the cost for each of their annuitants to participate in the City's health benefits plans, which include basic benefits for eligible annuitants and their dependents and supplemental benefits for Medicare eligible annuitants and their dependents. The amounts below represent the accrued liability of the City's pension plans related to their own annuitants and the subsidy paid to the City (see Note 12). The plan is financed on a pay-as-you-go basis (dollars in thousands).

	Annual OPEB Cost and Contributions Made For Fiscal Year Ended December 31, 2014				
	Municipal Employees'	Laborers'	Policemen's	Firemen's	Total
Contribution Rates of the City:	A portion of the City's contribution from the tax levy is used to finance the health insurance supplement benefit payments.				
Annual required contribution	\$ 9,826	\$ 2,520	\$ 9,723	\$ 2,739	\$ 24,808
Interest on net OPEB obligation	3,404	290	547	536	4,777
Adjustment to annual—required contribution	<u>(26,330)</u>	<u>(2,243)</u>	<u>(4,079)</u>	<u>(4,143)</u>	<u>(36,795)</u>
Annual OPEB cost	(13,100)	567	6,191	(868)	(7,210)
Contributions made	<u>9,051</u>	<u>2,360</u>	<u>9,657</u>	<u>2,471</u>	<u>23,539</u>
Increase in net OPEB obligation	(22,151)	(1,793)	(3,466)	(3,339)	(30,749)
Net OPEB obligation, beginning of year	<u>75,637</u>	<u>6,442</u>	<u>12,150</u>	<u>11,902</u>	<u>106,131</u>
Net OPEB obligation, end of year	<u>\$ 53,486</u>	<u>\$ 4,649</u>	<u>\$ 8,684</u>	<u>\$ 8,563</u>	<u>\$ 75,382</u>

Actuarial Method and Assumptions—For the Pension Funds’ subsidies, the actuarial valuation for the fiscal year ended December 31, 2014 was determined using the Entry Age Normal actuarial cost method. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

	Municipal Employees’	Laborers’	Policemen’s	Firemen’s
Actuarial valuation date	12/31/2014	12/31/2014	12/31/2014	12/31/2014
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar, open	Level dollar, open	Level percent, open	Level dollar, open
Remaining Amortization method	2 years closed	2 years closed	2 years closed	2 years closed
Actuarial valuation date	No assets (Pay-as-you-go)	No assets (Pay-as-you-go)	No assets (Pay-as-you-go)	No assets (Pay-as-you-go)
Actuarial assumptions:				
OPEB investment rate of return (a)	4.5 %	4.5 %	4.5 %	4.5 %
Projected salary increases (a) inflation	3.0 %	3.0 %	3.0 %	3.0 %
Seniority/merit	(b)	(c)	(d)	(e)
Healthcare Cost Trend Rate ^(f)	%	%	%	%

(a) Compounded annually.

(b) Service-based increases equivalent to a level annual rate of increase of 1.4% over a full career.

(c) Service-based increases equivalent to a level annual rate of increase of 1.9% over a full career.

(d) Service-based increases equivalent to a level annual rate of increase of 1.8% over a full career.

(e) Service-based increases equivalent to a level annual rate of increase of 1.8% over a full career.

(f) Trend not applicable—fixed dollar subsidy.

OPEB Cost Summary (Dollars in thousands)				
	Year	Annual OPEB Cost	% of Annual OPEB Obligation	Net OPEB Obligation
Municipal Employees'	2012	\$ 13,703	69.49 %	\$ 71,756
	2013	13,389	71.01	75,637
	2014	(13,100)	*	53,486
Laborers'	2012	2,994	85.56	5,951
	2013	3,009	83.67	6,442
	2014	567	416.04	4,649
Policemen's	2012	10,573	92.37	11,461
	2013	10,536	93.46	12,150
	2014	6,191	155.99	8,684
Firemen's	2012	4,154	63.13	10,382
	2013	4,071	62.66	11,902
	2014	(868)		8,563

*The negative cost is primarily due to the insurance subsidy ending in 2016.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) of the employer are subject to continual revisions, as the results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents, as required, and supplementary information following the notes to basic financial statements (dollars in thousands, unaudited) are as follows:

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Surplus) UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Surplus) AAL as a Percentage of Covered Payroll ((b-a)/c)
Municipal Employees'	12/31/2014	\$ -	\$ 17,495	\$ 17,495	-	\$ 1,602,978	1.09
Laborers'	12/31/2014		4,593	4,593		202,673	2.27
Policemen's	12/31/2014		18,762	18,762		1,074,333	1.75
Firemen's	12/31/2014		4,995	4,995		460,190	1.09

Up to June 30, 2013, the annuitants who retired prior to July 1, 2005, received a 55% subsidy from the City and the annuitants who retired on or after July 1, 2005, received a 50%, 45%, 40%, and 0% subsidy from the City based on the annuitant's length of actual employment with the City for the gross cost of retiree health care under a court-approved settlement agreement, known as the "Settlement Plan". The

pension funds contributed their subsidies of \$65 per month for each Medicare eligible annuitant and \$95 per month for each non-Medicare eligible annuitant to their gross cost. The annuitants contributed a total of \$84.8 million in 2014 to the gross cost of their retiree health care pursuant to premium amounts set forth in the below-referenced settlement agreement.

The City subsidized a portion of the cost (based upon service) for hospital and medical coverage for eligible retired employees and their dependents based upon a settlement agreement entered in 2003 and which expired on June 30, 2013.

On May 15, 2013, the City announced plans to, among other things: (i) provide a lifetime health care plan to former employees who retired before August 23, 1989, with a contribution from the City of up to 55% of the cost of that plan; and (ii) beginning July 1, 2013, provide employees who retired on or after August 23, 1989, with health care benefits in a new retiree health plan (the “Health Plan”), but with significant changes to the terms, including increases in premiums and deductibles, reduced benefits, and the phase-out of the Health Plan for such employees by December 31, 2016.

The cost of health benefits is recognized as an expenditure in the accompanying basic financial statements as claims are reported and are funded on a pay-as-you-go basis. In 2014, the net expense to the City for providing these benefits to approximately 24,381 annuitants, plus their dependents, was approximately \$79.3 million.

Plan Description Summary—The City was party to a written legal settlement agreement outlining the provisions of the settlement plans, which ended June 30, 2013. The Health Plan provides for annual modifications to the City’s level of subsidy. It is set to phase out over three years, at which the Health Plan, along with any further City subsidy, will expire by December 31, 2016, for all, but the group of former employees (the Korshak class of members) who retired before August 23, 1989, who shall have lifetime benefits. Duty disabled retirees who have statutory pre-63/65 coverage will continue to have fully subsidized coverage under the active health plan until age 65.

The provisions of the Health Plan provides, in general, that the City pay a percentage of the cost (based upon an employee’s service) for hospital and medical coverage to eligible retired employees and their dependents for the specified period ending December 31, 2016. The percentage subsidies were revised to reduce by approximately 25% of 2013 subsidy levels in 2014 and 50% of 2013 subsidy levels in 2015. Additional step-downs in subsidy levels for 2016 have not yet been finalized.

In addition, the State law authorizes the four respective pension funds (Policemen’s, Firemen’s, Municipal Employees’, and Laborers’) to provide a fixed monthly dollar subsidy to each annuitant who has elected coverage under any City health plan through December 31, 2016. After that date, no Pension Fund subsidies are authorized. The liabilities for the monthly dollar Pension Fund subsidies contributed on behalf of annuitants enrolled in the medical plan by their respective Pension Funds are included in the NPO actuarial valuation reports of the respective four pension funds under GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (see Note 11).

Special Benefits under the Collective Bargaining Agreements (CBA)—Under the terms of the CBA for the fraternal order of police, and the International Association of Fire Fighters, certain employees who retire after attaining age 55 with the required years of service are permitted to enroll themselves and their dependents in the health care benefit program offered to actively employed members. They may keep this coverage until they reach the age of Medicare eligibility. These retirees do not contribute towards the cost of coverage, but the Policemen’s Fund contributes \$95 per month towards coverage for police officers; the Firemen’s Fund does not contribute.

Both of these agreements which provide pre-65 coverage originally expired at June 30, 2012. These benefits have been renegotiated to continue through 2016 or June 30, 2017, depending on bargaining unit agreements. This valuation assumes that the CBA special benefits, except for those who will have already retired as of December 31, 2016, will cease on December 31, 2016, or June 30, 2017, depending on bargaining unit agreements. The renegotiated agreements also provided that retirees will contribute 2% of their pension toward the cost of their health care coverage.

Funding Policy—No assets are accumulated or dedicated to funding the retiree health plan benefits.

Annual OPEB Cost and Net OPEB Obligation—The City’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC (Annual Required Contribution) represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period of ten years.

The following table shows the components of the City’s annual OPEB costs for the year for the Health Plan and CBA Special Benefits, the amount actually contributed to the plan and changes in the City’s net OPEB obligation. The Net OPEB Obligation is the amount entered upon the City’s Statement of Net Position as of year end as the net liability for the other post-employment benefits – the Health Plan. The amount of the annual cost that is recorded in the Statement of Changes in Net Position for 2014 is the Annual OPEB Cost (expense).

	(Dollars in thousands)		
	Retiree Settlement Health Plan	CBA Special Benefits	Total
Contribution rates:			
City	Pay As You Go	Pay As You Go	Pay As You Go
Plan members	N/A	N/A	N/A
Annual Required Contribution	\$ 67,713	60,912	\$ 128,625
Interest on net OPEB obligation	1,806	3,989	5,795
Adjustment to Annual Required Contribution	<u>(6,853)</u>	<u>(15,135)</u>	<u>(21,988)</u>
Annual OPEB cost	62,666	49,766	112,432
Contributions made	<u>93,962</u>	<u>34,099</u>	<u>128,061</u>
Decrease in net OPEB obligation	(31,296)	15,667	(15,629)
Net OPEB obligation, beginning of year	<u>60,210</u>	<u>132,981</u>	<u>193,191</u>
Net OPEB obligation, end of year	<u>\$ 28,914</u>	<u>148,648</u>	<u>\$ 177,562</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 is as follows (dollars in thousands):

Fiscal Year Ended	Schedule of Contributions, OPEB Costs and Net Obligations		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Settlement plan			
12/31/2014	\$ 62,666	149.9 %	\$ 28,914
12/31/2013	75,444	148.4	60,210
12/31/2012	37,444	260.5	96,760
CBA special benefits			
12/31/2014	\$ 49,766	68.5 %	\$ 148,648
12/31/2013	41,722	65.5	132,981
12/31/2012	39,533	46.6	118,601
Total			
12/31/2014	\$ 112,432	113.9 %	\$ 177,562
12/31/2013	117,166	118.9	193,191
12/31/2012	76,977	150.6	215,361

Funded Status and Funding Progress—As of January 1, 2014, the most recent actuarial valuation date, the AAL for benefits was \$964.6 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,425.0 million and the ratio of the UAAL to the covered payroll was 39.8%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions, as the results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents, as required, and supplementary information following the notes to basic financial statements (dollars in thousands, unaudited) is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Settlement plan 12/31/2013	\$ -	\$498,205	\$498,205	- %	\$2,425,000	20.5 %
CBA special benefits 12/31/2013	_____	466,421	466,421	_____	1,400,269	33.3
Total 12/31/2013	<u>\$ -</u>	<u>\$964,626</u>	<u>\$964,626</u>	<u>- %</u>	<u>\$2,425,000</u>	<u>39.8 %</u>

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

For the Health Plan benefits (not provided by the Pension Funds), the entry age normal actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 8.0% initially, reduced by decrements to an ultimate rate of 5.0% in 2026. The range of rates included a 3.0% inflation assumption. Rates included a 2.5% inflation assumption. The plan has not accumulated assets and does not hold assets in a segregated trust. However, the funds expected to be used to pay benefits are assumed to be invested for durations which will yield an annual return rate of 3.0%. The remaining Unfunded Accrued Actuarial Liability is being amortized as a level dollar amount over ten years. The benefits include the provisions under the new Health Plan, which will be completely phased-out by December 31, 2016, except for the Korshak category, which is entitled to lifetime benefits. Also included in the Non-CBA benefits are the duty disability benefits under the active health plan payable to age 63/65.

For the Special Benefits under the CBA for Police and Fire, the renewed contracts' expiration dates of June 30, 2016 (for Police Captains, Sergeants and Lieutenants) and June 30, 2017 for all other Police and Fire are reflected, such that liabilities are included only for payments beyond the end of the calendar year of contract expiration on behalf of early retirees already retired and in pay status as of December 31 of the expiration year of the contract. The entry age normal method was selected. The actuarial assumptions included an annual healthcare cost trend rate of 8.0% in 2014, reduced by decrements to an ultimate rate of 5.0% in 2026. Rates included a 2.5% inflation assumption. The plan has not accumulated assets and does not hold assets in a segregated trust. The funds expected to be used to pay benefits are assumed to be invested for durations which will yield an annual return rate of 3.0%. The remaining Unfunded Accrued Actuarial Liability is being amortized as a level dollar amount over ten years.

	Summary of Assumptions and Methods	
	Settlement Health Plan	CBA Special Benefits
Actuarial valuation date	December 31, 2013	December 31, 2013
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period	10 years	10 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	3.0 %	3.0 %
Projected salary increases	2.5 %	2.5 %
Healthcare inflation rate	8.0% initial to 5.0% in 2026	8.0% initial to 5.0% in 2026

9. RELATED-PARTY TRANSACTIONS

Included in operating expenses are reimbursements to the general fund of the City for services provided by other City departments, employee fringe benefits, and self-insured risks. Such reimbursements were \$17.4 million in 2014 and \$16.7 million in 2013.

10. COMMITMENTS AND CONTINGENCIES

The Airport has certain contingent liabilities resulting from litigation, claims, and commitments incident to the ordinary course of business. Management expects that the final resolution of these contingencies will not have a material adverse effect on the financial position or results of operations of the Airport.

The Airport provides employee health benefits under a self-insurance program, administered by the City. Such claims outstanding, including claims incurred but not reported, are estimated and recorded as liabilities in the financial statements.

Uninsured claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Changes in the claims liability amount for the years ended December 31, 2014 and 2013, are as follows (\$ in thousands):

	2014	2013
Beginning balance—January 1	\$ 434	\$ 458
Total claims incurred	4,636	4,255
Claims paid	<u>(4,566)</u>	<u>(4,279)</u>
Claims liability—December 31	<u>\$ 504</u>	<u>\$ 434</u>

The City purchases annuity contracts from commercial insurers to satisfy certain liabilities. The City renewed its property insurance for the City's Airports, effective December 31, 2013, at a limit of \$3.5 billion, which the City's insurance broker advised was the highest amount commercially available at the time. Claims have not exceeded the purchased insurance coverage in the past 10 years. Property and casualty risks for the Airport are transferred to commercial insurers.

At December 31, 2014 and 2013, the Airport had commitments in the amount of approximately \$29.8 million and \$27.6 million, respectively, in connection with contracts entered into for construction projects.

11. SUBSEQUENT EVENTS

In February 2015, the City's Midway Commercial Paper program was reduced from \$150 million to \$85 million. As such, the letter of credit with PNC Financial Corporation was not extended.

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CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

ADDITIONAL SUPPLEMENTARY INFORMATION
CHICAGO MIDWAY AIRPORT REVENUE BONDS
DEBT SERVICE COVERAGE CALCULATIONS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(\$ in thousands)

	2014	2013
REVENUES:		
Total revenues—as defined	\$ 171,849	\$ 176,597
Other available moneys (passenger facility charges and letter of intent)	39,889	39,470
Revenue Fund balance on first day of fiscal year (Note 2)	<u>26,885</u>	<u>14,571</u>
TOTAL REVENUES	<u>\$ 238,623</u>	<u>\$ 230,638</u>
COVERAGE REQUIREMENT—Required deposits from revenues:		
Debt Service Fund	\$ 25,146	\$ 54,349
Operation and maintenance reserve account	1,429	
Second/Junior Lien Obligation Debt Service Fund	56,838	31,960
Second Lien Obligation Program Fee Fund	3,574	4,961
Repair and Maintenance Fund	<u>1,025</u>	<u>1,025</u>
TOTAL FUND DEPOSIT REQUIREMENTS	<u>\$ 88,012</u>	<u>\$ 92,295</u>
AGGREGATE FIRST LIEN DEBT SERVICE FOR THE BOND YEAR	\$ 25,155	\$ 54,349
LESS AMOUNTS TRANSFERRED FROM CAPITALIZED INTEREST ACCOUNTS	<u> </u>	<u> </u>
NET AGGREGATE DEBT SERVICE	25,155	54,349
	<u>1.25</u>	<u>1.25</u>
NET DEBT SERVICE REQUIRED COVERAGE	<u>\$ 31,444</u>	<u>\$ 67,936</u>
OPERATION AND MAINTENANCE EXPENSES	\$ 129,596	\$ 121,116
COVERAGE REQUIRED (Greater of total fund deposit requirements or 125% of aggregate debt service)	<u>88,012</u>	<u>92,378</u>
TOTAL COVERAGE REQUIRED	<u>\$ 217,608</u>	<u>\$ 213,494</u>
TOTAL REVENUES	<u>\$ 238,623</u>	<u>\$ 230,638</u>
COVERAGE RATIO	<u>1.10</u>	<u>1.08</u>

See notes to debt service coverage calculations.

CITY OF CHICAGO, ILLINOIS CHICAGO MIDWAY INTERNATIONAL AIRPORT

ADDITIONAL SUPPLEMENTARY INFORMATION CHICAGO MIDWAY AIRPORT REVENUE BONDS NOTES TO DEBT SERVICE COVERAGE CALCULATIONS YEARS ENDED DECEMBER 31, 2014 AND 2013

1. RATE COVENANT

The Master Indenture of Trust (“Master Indenture”) securing the Chicago Midway Airport Revenue Bonds (“Bonds”) requires that revenues, together with other available moneys deposited with the trustee and any balance held in the revenue fund on the first day of the calendar year not then required to be deposited in any fund or account, will be at least sufficient (i) to provide for the payment of operation and maintenance expenses for the year and (ii) to provide for the greater of (a) the amounts, if any, needed to make required deposits into the Debt Service Fund, the Operating and Maintenance Reserve Account, the Working Capital Account, the Debt Service Reserve Fund, the Junior Lien Obligation Debt Service Fund, the Repair and Replacement Fund, and the Special Project Fund; and (b) an amount not less than 125% of the aggregate debt service for the Bond year commencing during such fiscal year.

2. REVENUE FUND BALANCE

The revenue fund balance includes all cash, cash equivalents, and investments, which were available to the revenue fund to satisfy the coverage requirement under the terms of the Master Indenture.

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CITY OF CHICAGO, ILLINOIS

CHICAGO MIDWAY INTERNATIONAL AIRPORT

ADDITIONAL SUPPLEMENTARY INFORMATION

CHICAGO MIDWAY AIRPORT SECOND LIEN REVENUE BONDS

DEBT SERVICE COVERAGE CALCULATIONS

YEARS ENDED DECEMBER 31, 2014 AND 2013

(\$ in thousands)

	2014	2013
REVENUES:		
Total revenues—as defined	\$171,849	\$176,597
Other available moneys (passenger facility charges and letter of intent)	39,889	39,470
Revenue fund balance on first day of fiscal year (Note 2)	26,885	14,571
TOTAL REVENUES FOR CALCULATION OF COVERAGE	<u>\$238,623</u>	<u>\$230,638</u>
COVERAGE REQUIREMENT—Required deposits from revenues:		
First Lien Debt Service Fund	\$ 25,146	\$ 54,349
Operation and maintenance reserve account	1,429	
Second Lien Obligation Debt Service Fund	56,838	31,960
Second Lien Obligation Program Fee Fund	3,574	4,961
Repair and Replacement Fund	1,025	1,025
TOTAL FUND DEPOSIT REQUIREMENTS	<u>\$ 88,012</u>	<u>\$ 92,295</u>
125% OF AGGREGATE FIRST LIEN DEBT SERVICE FOR THE BOND YEAR:		
Aggregate First Lien Debt Service	\$ 25,155	\$ 54,349
Less amounts transferred from First Lien Capitalized Interest Accounts		
Net aggregate First Lien Debt Service	25,155	54,349
	<u>1.25</u>	<u>1.25</u>
125% OF AGGREGATE FIRST LIEN DEBT SERVICE	<u>\$ 31,444</u>	<u>\$ 67,936</u>
GREATER OF FUND DEPOSIT REQUIREMENTS OR 125% OF AGGREGATE FIRST LIEN DEBT SERVICE	<u>\$ 88,012</u>	<u>\$ 92,295</u>
110% OF AGGREGATE FIRST AND SECOND LIEN DEBT SERVICE FOR THE BOND YEAR:		
Aggregate First Lien Debt Service	\$ 25,155	\$ 54,349
Aggregate Second Lien Debt Service	60,169	33,283
Less amounts transferred from First Lien Capitalized Interest Accounts		
Less amounts transferred from Junior Lien Capitalized Interest Accounts	(4,461)	(190)
Net aggregate First and Second Lien Debt Service	80,863	87,442
	<u>1.10</u>	<u>1.10</u>
110% OF AGGREGATE FIRST AND SECOND LIEN DEBT SERVICE	<u>\$ 88,949</u>	<u>\$ 96,186</u>
GREATER OF FUND DEPOSIT REQUIREMENTS OR 110% OF AGGREGATE FIRST AND SECOND LIEN DEBT SERVICE	<u>\$ 88,949</u>	<u>\$ 96,186</u>
GREATER OF FUND DEPOSIT REQUIREMENTS OR 125% OF FIRST LIEN DEBT OR 110% OF AGGREGATE DEBT SERVICE	<u>\$ 88,949</u>	<u>\$ 96,186</u>
COVERAGE CALCULATION:		
Operation and maintenance expenses	\$129,596	\$121,116
110% of aggregate First and Second Lien Debt Service	88,949	96,187
Fund Deposit Requirements		
TOTAL COVERAGE REQUIRED	<u>\$218,545</u>	<u>\$217,303</u>
TOTAL REVENUES	<u>\$238,623</u>	<u>\$230,638</u>
REVENUES IN EXCESS OF COVERAGE REQUIREMENT	<u>\$ 20,078</u>	<u>\$ 13,335</u>
COVERAGE RATIO	<u>1.09</u>	<u>1.06</u>

See notes to debt service coverage calculations.

CITY OF CHICAGO, ILLINOIS CHICAGO MIDWAY INTERNATIONAL AIRPORT

ADDITIONAL SUPPLEMENTARY INFORMATION CHICAGO MIDWAY AIRPORT SECOND LIEN REVENUE BONDS NOTES TO DEBT SERVICE COVERAGE CALCULATIONS YEARS ENDED DECEMBER 31, 2014 AND 2013

1. RATE COVENANT

The Master Indenture of Trust (“Master Indenture”) securing the Chicago Midway Airport Second Lien Revenue Bonds (“Bonds”) requires that revenues, together with other available moneys deposited with the first lien trustee or the second lien trustee and any balance held in the first lien revenue fund or the second lien revenue fund on the first day of the year not then required to be deposited in any fund or account under the first lien indenture or the second lien indenture, will be at least sufficient (a) to provide for the payment of operation and maintenance expenses for the year and (b) to provide for: (i) the greater of the amounts needed to make the deposits required under the first lien indenture during such calendar year into the first lien debt service fund, the Operating and Maintenance (O&M) Reserve Account, the Working Capital Account, the First Lien Debt Service Reserve Fund, the Junior Lien Obligation Debt Service Fund, the Repair and Replacement Fund and the Special Project Fund, or an amount not less than 125% of the Aggregate First Lien Debt Service for the Bond year commencing during such year, reduced by any amount held in any capitalized interest account for disbursement during such Bond year to pay interest on first lien bonds; or (ii) the greater of the amounts needed to make the deposits required under the first lien indenture during such year into the First Lien Debt Service Fund, the O&M Reserve Account, the Working Capital Account, the First Lien Debt Service Reserve Fund, the Junior Lien Obligation Debt Service Fund, the Repair and Replacement Fund and the Special Project Fund, or an amount not less than 110% of the sum of Aggregate First Lien Debt Service and Aggregate Second Lien Debt Service for the Bond year commencing during such year, reduced by (a) any amount held in any capitalized interest account for disbursement during such Bond year to pay interest on any first lien bonds, and (b) any amount held in any capitalized interest account established pursuant to a supplemental indenture for disbursement during such Bond year to pay interest on second lien obligations.

2. REVENUE FUND BALANCE

The revenue fund balance includes all cash, cash equivalents, and investments, which were available to the revenue fund to satisfy the coverage requirement under the terms of the Master Indenture.

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CITY OF CHICAGO, ILLINOIS

CHICAGO MIDWAY INTERNATIONAL AIRPORT

HISTORICAL OPERATING RESULTS

EACH OF THE TEN YEARS ENDED DECEMBER 31, 2005–2014 (UNAUDITED)

(\$ in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
OPERATING REVENUES:										
Landing fees	\$ 15,668	\$ 20,834	\$ 19,606	\$ 28,901	\$ 21,939	\$ 35,299	\$ 38,583	\$ 32,143	\$ 42,516	\$ 42,539
Rental revenues:										
Terminal area use charges	17,179	21,804	17,308	26,084	30,701	42,895	40,862	38,769	47,486	40,916
Other rentals and fueling system fees	12,942	14,520	17,784	15,683	20,367	21,488	24,978	32,202	26,004	24,197
Subtotal rental revenues	30,121	36,324	35,092	41,767	51,068	64,383	65,840	70,971	73,490	65,113
Concessions:										
Auto parking	25,675	27,433	29,740	31,561	27,902	27,849	29,112	30,830	32,721	34,226
Auto rentals	8,417	7,698	8,440	8,355	8,505	8,182	8,776	9,021	10,255	10,743
Restaurant	6,879	7,391	8,136	8,099	7,396	8,151	8,875	9,686	10,179	11,090
News and gifts	3,852	3,905	3,876	3,816	3,437	3,488	3,551	3,486	3,619	3,761
Other	1,616	1,985	2,363	2,486	2,054	1,704	2,634	1,696	2,409	2,787
Subtotal concessions	46,439	48,412	52,555	54,317	49,294	49,374	52,948	54,719	59,183	62,607
Reimbursements										
Total operating revenues ⁽¹⁾	92,228	105,570	107,253	124,985	122,301	149,056	157,371	157,833	175,189	170,259
OPERATING AND MAINTENANCE EXPENSES:										
Salaries and wages ⁽²⁾	32,259	35,316	39,998	36,931	39,521	42,105	43,554	44,463	43,998	47,836
Repairs and maintenance	31,690	32,762	36,863	37,399	37,967	31,942	40,732	37,990	39,606	44,160
Energy	6,040	5,076	7,495	7,228	8,245	6,724	6,415	7,258	7,205	7,060
Materials and supplies	1,170	437	1,751	2,377	1,252	1,522	1,418	1,318	1,927	1,971
Professional and engineering services	11,274	13,326	14,780	19,775	6,727	15,832	15,650	15,011	19,144	23,255
Other operating expenses	5,794	10,466	10,395	5,942	5,929	10,211	2,320	8,257	9,236	5,314
Total operating and maintenance expenses before depreciation and amortization ⁽³⁾	88,227	97,383	111,282	109,652	99,641	108,336	110,089	114,297	121,116	129,596
NET OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION ⁽⁴⁾	\$ 4,001	\$ 8,187	\$ (4,029)	\$ 15,333	\$ 22,660	\$ 40,720	\$ 47,282	\$ 43,536	\$ 54,073	\$ 40,663
DEBT SERVICE COVERAGE RATIO ⁽⁵⁾	1.23	1.23	1.08	1.08	1.08	1.10	1.07	1.07	1.06	1.09

⁽¹⁾ Average annual compound growth rate for 2005–2014 for Total operating revenues is 7.0%.

⁽²⁾ Salaries and wages includes charges for pension, health care and other employee benefits.

⁽³⁾ Average annual compound growth rate for 2005–2014 for Total operating and maintenance expenses before depreciation and amortization is 4.4%.

⁽⁴⁾ Amount for 2014 may be reconciled to operating loss of \$5,500 reported in the 2014 Statement of Revenues, Expenses and Changes in Net Position by deducting depreciation and amortization of \$129,596. Amount for prior years may be reconciled through similar calculations.

⁽⁵⁾ Represents debt service coverage ratio on first and second lien bonds.

Source: Chicago Midway Airport Audited Financial Statements and City of Chicago Comptroller's Office.

CITY OF CHICAGO, ILLINOIS

CHICAGO MIDWAY INTERNATIONAL AIRPORT

DEBT SERVICE SCHEDULE (UNAUDITED)

(\$ in thousands)

The following table sets forth aggregate annual debt service of principal and interest for outstanding Midway Airport Revenue Bonds:

Year Ending	Debt Service Series 1998	(First Lien) Total	Debt Service Series 2004	Debt Service 2010	Debt Service Series 2013	Debt Service Series 2014	(Second Lien) Total	Total
December 31	First Lien Bonds	Debt Service	Second Lien Bonds	Second Lien Bonds	Second Lien Bonds	Second Lien Bonds	Debt Service ⁽¹⁾	Debt Service
2015	\$ 4,450	\$ 4,450	\$ 12,302	\$ 8,439	\$ 20,601	\$ 40,815	\$ 82,157	\$ 86,607
2016	4,450	4,450	12,369	10,920	25,145	38,671	87,105	91,555
2017	4,454	4,454	12,658	10,911	26,367	38,671	88,607	93,061
2018	4,447	4,447	12,850	10,912	29,150	38,671	91,583	96,030
2019	4,446	4,446	13,058	10,906	30,321	43,478	97,763	102,209
2020	4,440	4,440	13,267	10,900	33,611	43,417	101,195	105,635
2021	4,434	4,434	13,384	10,894	24,463	56,007	104,748	109,182
2022	4,427	4,427	13,700	10,881	24,812	59,070	108,463	112,890
2023	4,429	4,429	7,562	10,880	28,030	65,819	112,291	116,720
2024	4,418	4,418	7,832	10,871	27,561	65,687	111,951	116,369
2025	-	-	6,531	10,873	27,218	71,440	116,062	116,062
2026	-	-	6,826	10,852	26,111	71,332	115,121	115,121
2027	-	-	7,071	10,843	25,230	71,065	114,209	114,209
2028	-	-	7,417	10,837	23,775	71,286	113,315	113,315
2029	-	-	7,737	10,828	22,759	71,146	112,470	112,470
2030	-	-	8,106	10,816	24,479	68,244	111,645	111,645
2031	-	-	8,451	10,804	27,944	63,651	110,850	110,850
2032	-	-	8,820	10,791	24,260	66,222	110,093	110,093
2033	-	-	9,189	10,785	23,329	66,071	109,374	109,374
2034	-	-	9,608	10,774	22,384	65,921	108,687	108,687
2035	-	-	10,051	10,759	18,825	68,400	108,035	108,035
2036	-	-	-	10,740	-	24,449	35,189	35,189
2037	-	-	-	10,732	-	28,427	39,159	39,159
2038	-	-	-	10,708	-	28,402	39,110	39,110
2039	-	-	-	10,692	-	28,371	39,063	39,063
2040	-	-	-	10,670	-	28,343	39,013	39,013
2041	-	-	-	10,652	-	28,732	39,384	39,384
2042	-	-	-	-	-	35,070	35,070	35,070
2043	-	-	-	-	-	36,659	36,659	36,659
2044	-	-	-	-	-	38,312	38,312	38,312
2045	-	-	-	-	-	-	-	-
	<u>\$44,395</u>	<u>\$44,395</u>	<u>\$208,789</u>	<u>\$289,670</u>	<u>\$536,375</u>	<u>\$1,521,849</u>	<u>\$2,556,683</u>	<u>\$2,601,078</u>

⁽¹⁾ Assumes an interest rate effective at December 31, 2014, on \$265,385,000 of Second Lien Bonds that are variable-rate demand obligations.

Note: The annual debt service tables in the Official Statements for the above debt were presented with a year ended January 1. The information above is presented with a year ended December 31. The change has been made to facilitate reconciliation to revenue bonds payable at December 31, 2014.

Source: City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT**

**MIDWAY AIRPORT REVENUE BONDS
SERIES 1996 ESTIMATED BOND-FUNDED COSTS
AS OF DECEMBER 31, 2014 (UNAUDITED)
(\$ in thousands)**

	Estimated Bond-Funded Costs ⁽¹⁾
Airfield	\$ 20,808
Terminal	36,173
Terminal ramp	2,374
Parking and roadways	90,551
Noise	28,984
Land acquisition	23,563
Fuel storage facilities	<u>17,392</u>
Total	<u><u>\$ 219,845</u></u>

⁽¹⁾ Includes estimated costs to be funded from investment earnings.

Source: City of Chicago Department of Aviation.

**CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT**

**CAPITAL IMPROVEMENT PROGRAM 2015–2021
ESTIMATED SOURCES AND USES OF FUNDS
AS OF DECEMBER 31, 2014 (UNAUDITED)
(\$ in thousands)**

ESTIMATED SOURCES:

AIP—entitlements	\$ 18,753
Other Airport Funds	8,167
Series 2010 Bonds	26,269
Series 2014 Bonds	119,377
Future Bonds	<u>225,182</u>

TOTAL ESTIMATED SOURCES	<u>\$ 397,748</u>

ESTIMATED USES:

Terminal area projects	\$ 118,210
Land acquisition	6,500
Airfield projects	122,845
Parking/roadway projects	38,075
Noise projects	76,431
Safety and security	8,584
Implementation	<u>27,103</u>

TOTAL ESTIMATED USES	<u>\$ 397,748</u>

Source: City of Chicago Department of Aviation.

**CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT**

**TERMINAL DEVELOPMENT PROGRAM
ESTIMATED SOURCES AND USES OF FUNDS
AS OF DECEMBER 31, 2014 (UNAUDITED)
(\$ in thousands)**

ESTIMATED SOURCES:

AIP—entitlements	\$ 19,600
AIP—discretionary	2,700
Airport development fund	6,200
Federal Highway Grant	6,500
Series 1996 Bonds	156,000
Series 1998 Bonds	359,000
Series 2001 Bonds	68,500
Series 2004 Bonds	<u>40,800</u>

TOTAL ESTIMATED SOURCES ⁽¹⁾ \$ 659,300

ESTIMATED USES:

Terminal projects	\$ 340,100
Terminal ramp projects ⁽²⁾	24,900
Airfield projects	28,600
Parking/roadway projects	149,600
Development of FIS	22,500
Implementation costs	<u>93,600</u>

TOTAL ESTIMATED USES \$ 659,300

⁽¹⁾ The estimated sources and uses of the Terminal Development Program include approximately \$631 million of funds expended through December 31, 2014.

⁽²⁾ Terminal ramp of a reclassification of projects, which were previously included in Airfield and airfield and Terminal projects.

Source: City of Chicago Department of Aviation.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

HISTORICAL ENPLANED PASSENGERS
EACH OF THE TEN YEARS ENDED DECEMBER 31, 2005–2014 (UNAUDITED)

Years	Domestic Air Carrier	Domestic Commuter ⁽¹⁾	Total Domestic	International Enplanements	Total Enplanements	Percent Change
2005	8,501,430	99,991	8,601,421	104,382	8,705,803	(9.6)%
2006	9,049,740	57,734	9,107,474	91,058	9,198,532	5.7
2007	9,296,778	56,764	9,353,542	60,639	9,414,181	2.3
2008	8,310,041	31,771	8,341,812	16,475	8,358,287	(11.2)
2009	8,541,786	158	8,541,944	29,903	8,571,847	2.6
2010	8,792,557	14,156	8,806,713	49,312	8,856,025	3.3
2011	9,288,332	50,489	9,338,821	119,989	9,458,810	6.8
2012	9,573,226	36,968	9,610,194	169,415	9,779,609	3.4
2013	10,003,167		10,003,167	264,314	10,267,481	5.0
2014	10,315,089		10,315,089	292,907	10,607,996	3.3

Average Annual Compound Growth Rates

2005–2014	2.2 %	(100.0)%	2.0 %	12.1 %	2.2 %

Source: City of Chicago Department of Aviation.

⁽¹⁾ “Domestic Air Carrier” includes General Aviation.

**CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT**

**ENPLANED COMMERCIAL PASSENGERS BY AIRLINE
EACH OF THE TEN YEARS ENDED DECEMBER 31, 2005–2014 (UNAUDITED)**

	2005		2006		2007		2008		2009		2010		2011		2012		2013		2014	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	5,542,890	63.6 %	6,666,986	72.5 %	7,147,154	75.9 %	6,941,870	83.1 %	7,188,750	83.9 %	7,561,053	85.4 %	8,196,402	86.7 %	8,515,527	87.1 %	8,885,118	86.5 %	9,262,733	87.3 %
American Trans Air ⁽¹⁾	1,714,873	19.6	783,224	8.5	686,065	7.3	54,650	0.7												
AirTran	338,057	3.9	681,936	7.4	645,363	7.0	512,429	6.1	487,087	5.7	465,237	5.3	413,717	4.4	387,114	4.0	462,680	4.5	383,443	3.6
Northwest Airlines	290,080	3.3	285,310	3.1	280,911	3.0	237,969	2.8	267,433	3.1	14,726	0.2								
Frontier	154,120	1.8	189,216	2.1	206,675	2.2	207,674	2.5	164,749	1.9	151,440	1.7	158,405	1.7	144,496	1.5	161,456	1.6	157,835	1.5
Shuttle America (Delta Express)					144,539	1.5	223,153	2.7	181,356	2.0	90,544	1.0	8,874	0.1	6,085		4,281	0.1	7,830	0.1
Atlantic Southeast			99,373	1.1	61,460	0.6	882		3,715	0.1	29,314	0.3			0.1					
Continental Airlines	63,433	0.7	84,153	0.9	48,478	0.5	6,601	0.1												
Continental Express	53,458	0.6	53,363	0.6	37,500	0.4	4,372	0.1												
Comair	5,123	0.1	4,371	0.1	19,264	0.1	21,135	0.1			14,156	0.2			36,968					
American	113,818	1.3	60,793	0.7	164															
Delta	86,621	1.0							144,037	1.7	176,231	2.0	239,357	2.5	231,644	2.5	239,361	2.3	265,134	2.5
United	106,951	1.3	74,520	0.8																
American Eagle/Simmons	7,599	0.1	27,863	0.3																
Chicago Express	41,410	0.5																		
All other airlines	<u>187,370</u>	<u>2.2</u>	<u>187,424</u>	<u>2.0</u>	<u>136,608</u>	<u>1.5</u>	<u>147,552</u>	<u>1.8</u>	<u>134,720</u>	<u>1.6</u>	<u>353,324</u>	<u>3.9</u>	<u>442,055</u>	<u>4.6</u>	<u>457,775</u>	<u>4.8</u>	<u>514,585</u>	<u>5.0</u>	<u>531,021</u>	<u>5.0</u>
Total	<u>8,705,803</u>	<u>100.0 %</u>	<u>9,198,532</u>	<u>100.0 %</u>	<u>9,414,181</u>	<u>100.0 %</u>	<u>8,358,287</u>	<u>100.0 %</u>	<u>8,571,847</u>	<u>100.0 %</u>	<u>8,856,025</u>	<u>100.0 %</u>	<u>9,458,810</u>	<u>100.0 %</u>	<u>9,779,609</u>	<u>100.0 %</u>	<u>10,267,481</u>	<u>100.0 %</u>	<u>10,607,996</u>	<u>100.0 %</u>

⁽¹⁾ American Trans Air ceased operations at Midway on April 3, 2008.

**CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT**

HISTORICAL ENPLANED PASSENGERS

CHICAGO REGION AIRPORTS

EACH OF THE TEN YEARS ENDED DECEMBER 31, 2005–2014 (UNAUDITED)

Years	Chicago Midway International Airport		Chicago O'Hare International Airport		Total Enplanements
	Total Enplanements	Percent of Total Chicago	Total Enplanements	Percent of Total Chicago	
2005	8,705,803	18.7 %	37,970,886	81.3 %	46,676,689
2006	9,198,532	19.6	37,784,336	80.4	46,982,868
2007	9,414,181	19.9	37,779,576	80.1	47,193,757
2008	8,358,287	19.4	34,744,030	80.6	43,102,317
2009	8,571,847	21.1	32,047,097	78.9	40,618,944
2010	8,856,025	21.0	33,232,412	79.0	42,088,437
2011	9,458,810	22.2	33,207,302	77.8	42,666,112
2012	9,779,609	22.7	33,244,515	77.3	43,024,124
2013	10,267,481	23.6	33,297,578	76.4	43,565,059
2014	10,607,996	23.4	34,646,832	76.6	45,254,828
Average Annual Compound Growth Rates					
2005–2014	2.2 %		(1.0)%		(0.3)%

Source: City of Chicago Department of Aviation.

**CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT**

**HISTORICAL TOTAL ORIGIN AND DESTINATION (O&D) ENPLANEMENTS
CHICAGO REGION AIRPORTS
EACH OF THE TEN YEARS ENDED DECEMBER 31, 2005–2014 (UNAUDITED)**

Years	Chicago Midway International Airport		Chicago O'Hare International Airport		Total O&D Enplanements
	Total O&D Enplanements ⁽¹⁾	Percent of Total Chicago	Total O&D Enplanements	Percent of Total Chicago	
2005	6,431,517	26.8 %	17,548,038	73.2 %	23,979,555
2006	6,708,494	27.1	18,058,904	72.9	24,767,398
2007	6,532,362	26.4	18,223,460	73.6	24,755,822
2008	5,910,045	25.0	17,685,020	75.0	23,595,065
2009	5,647,591	26.4	15,708,291	73.6	21,355,882
2010	5,485,191	23.9	17,419,794	76.1	22,904,985
2011	5,693,938	26.3	15,972,745	73.7	21,666,683
2012	6,308,718	27.2	16,867,283	72.8	23,176,001
2013	6,505,206	27.6	17,044,643	72.4	23,549,849
2014	6,446,497	27.4	17,115,535	72.6	23,562,032
Average Annual Compound Growth Rates					
2005–2014	- %		(0.3)%		(0.2)%

⁽¹⁾ Originating enplanements, resulting connecting enplanements and percentages have been recalculated based on updated information.

Source: City of Chicago Department of Aviation.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

AIRCRAFT OPERATIONS

EACH OF THE TEN YEARS ENDED DECEMBER 31, 2005–2014 (UNAUDITED)

Years	Aircraft Operations						Total
	Domestic Air Carrier	International Air Carrier	Total Air Carrier	Domestic Commuter	General Aviation	Military	
2005	184,863	1,669	186,532	7,444	95,603	-	289,579
2006	199,229	1,433	200,662	3,066	94,820		298,548
2007	206,865	1,060	207,925	3,085	93,647		304,657
2008	186,840	557	187,397	1,351	77,593		266,341
2009	180,391	3,354	183,745	7	61,057		244,809
2010	175,812	3,403	179,215	572	65,746		245,533
2011	178,640	4,332	182,972	2,622	69,633		255,227
2012	188,628	5,250	193,878	1,890	54,145		249,913
2013	182,643	7,046	189,689	8,401	54,036		252,126
2014	178,518	7,299	185,817	10,013	53,422		249,252
Average Annual Compound Growth Rates							
2005–2014	(0.4)%	17.8 %	- %	3.3 %	(6.3)%		

Source: City of Chicago Department of Aviation.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

NET POSITION BY COMPONENT
EACH OF THE NINE YEARS ENDED DECEMBER 31, 2006–2014 (UNAUDITED)
(\$ in thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
NET POSITION:									
Investment in capital assets	\$ 45,388	\$ 31,251	\$ 40,352	\$ (1,936)	\$ (39,755)	\$ (70,876)	\$ (87,279)	\$ (131,057)	\$ (115,080)
Restricted	215,589	232,344	184,019	201,158	190,641	208,100	80,507	99,427	86,526
Unrestricted	<u>31,561</u>	<u>18,795</u>	<u>19,614</u>	<u>5,792</u>	<u>20,040</u>	<u>37,224</u>	<u>36,572</u>	<u>46,613</u>	<u>21,856</u>
TOTAL NET POSITION	<u>\$292,538</u>	<u>\$282,390</u>	<u>\$243,985</u>	<u>\$205,014</u>	<u>\$170,926</u>	<u>\$174,448</u>	<u>\$ 29,800</u>	<u>\$ 14,983</u>	<u>\$ (6,698)</u>

Ten year information will be provided prospectively starting with year 2006.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

CHANGE IN NET POSITION
EACH OF THE NINE YEARS ENDED DECEMBER 31, 2006–2014 (UNAUDITED)
(\$ in thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
OPERATING REVENUES	\$ 105,570	\$ 652,763	\$ 124,985	\$ 122,301	\$ 149,056	\$ 157,371	\$ 157,833	\$ 175,189	\$ 170,259
OPERATING EXPENSES	<u>135,276</u>	<u>544,890</u>	<u>155,596</u>	<u>147,308</u>	<u>161,103</u>	<u>161,156</u>	<u>159,530</u>	<u>162,654</u>	<u>175,759</u>
OPERATING (LOSS) GAIN	(29,706)	107,873	(30,611)	(25,007)	(12,047)	(3,785)	(1,697)	12,535	(5,500)
NONOPERATING (EXPENSES) REVENUES	<u>(5,325)</u>	<u>18,363</u>	<u>(14,571)</u>	<u>(13,964)</u>	<u>(24,502)</u>	<u>4,246</u>	<u>(31,708)</u>	<u>(32,327)</u>	<u>(21,007)</u>
(LOSS) GAIN BEFORE CAPITAL GRANTS	(35,031)	126,236	(45,182)	(38,971)	(36,549)	461	(33,405)	(19,792)	(26,507)
CAPITAL GRANTS	<u>22,217</u>	<u>48,253</u>	<u>6,777</u>		<u>2,461</u>	<u>3,061</u>	<u>4,681</u>	<u>4,975</u>	<u>4,826</u>
CHANGE IN NET POSITION	<u>\$ (12,814)</u>	<u>\$ 174,489</u>	<u>\$ (38,405)</u>	<u>\$ (38,971)</u>	<u>\$ (34,088)</u>	<u>\$ 3,522</u>	<u>\$ (28,724)</u>	<u>\$ (14,817)</u>	<u>\$ (21,681)</u>

Ten year information will be provided prospectively starting with year 2006.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

LONG TERM DEBT
EACH OF THE NINE YEARS ENDED DECEMBER 31, 2006–2014 (UNAUDITED)
(\$ in thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
First lien bonds	\$ 849,400	\$ 835,780	\$ 821,275	\$ 806,015	\$ 783,595	\$ 780,205	\$ 758,560	\$ 624,545	\$ 34,180
Second lien bonds	422,715	422,715	422,715	399,140	685,780	681,285	648,130	812,750	1,489,410
Commercial paper notes	<u>10,269</u>	<u>10,674</u>	<u>10,674</u>	<u>61,360</u>	<u>4,005</u>		<u>34,639</u>	<u>57,713</u>	
Total revenue bonds and notes	<u>\$ 1,282,384</u>	<u>\$ 1,269,169</u>	<u>\$ 1,254,664</u>	<u>\$ 1,266,515</u>	<u>\$ 1,473,380</u>	<u>\$ 1,461,490</u>	<u>\$ 1,441,329</u>	<u>\$ 1,495,008</u>	<u>\$ 1,523,590</u>
Enplanements ⁽¹⁾	9,198,532	9,414,181	8,358,287	8,571,847	8,856,025	9,458,810	9,779,609	10,267,481	10,607,996
Total debt per enplanements	139.41	134.81	150.11	147.75	166.37	154.51	147.38	145.61	143.63

Ten year information will be provided prospectively starting with year 2006.

⁽¹⁾ Enplaned Commercial Passengers by Airline Schedule as shown on page 52.

CITY OF CHICAGO, ILLINOIS
CHICAGO MIDWAY INTERNATIONAL AIRPORT

FULL TIME EQUIVALENT CHICAGO MIDWAY AIRPORT EMPLOYEES BY FUNCTION
EACH OF THE NINE YEARS ENDED DECEMBER 31, 2006–2014 (UNAUDITED)

Function	2006	2007	2008	2009	2010	2011	2012	2013	2014
Business communication	-	7	6	-	-	-	-	-	-
Capital development	4								
Airfield operations	59	60	59	75	75	75	70	70	85
Landside operations	6								21
Security management	64	60	61	60	60	60	60	60	69
Facility management	37	37	32	28	32	35	33	35	14
Midway administration	13	12	12	11	10	10	10	10	10
Safety management	<u> </u>	<u>3</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u> </u>
Total	<u>183</u>	<u>179</u>	<u>172</u>	<u>176</u>	<u>179</u>	<u>182</u>	<u>175</u>	<u>177</u>	<u>199</u>

Ten year information will be provided prospectively starting with year 2006.

Source: City of Chicago's Program and Budget Summary.

CITY OF CHICAGO, ILLINOIS

CHICAGO MIDWAY INTERNATIONAL AIRPORT

STATISTICAL DATA

PRINCIPAL EMPLOYERS (NONGOVERNMENT)

CURRENT YEAR AND NINE YEARS AGO (SEE NOTE AT THE END OF THIS PAGE)

(Unaudited)

Employer	2014 ⁽¹⁾			2005 ⁽⁴⁾		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Advocate Health Care	18,556	1	1.47 %			
University of Chicago	16,025	2	1.27			
JP Morgan Chase & Co. (2)	15,015	3	1.19	9,200	1	0.87 %
Northwestern Memorial Healthcare	14,550	4	1.15			
United Continental Holdings Inc.	14,000	5	1.11	5,995	2	0.56
Walgreen Co	13,797	6	1.09			
AT&T (3)	13,000	7	1.03	4,311	5	0.41
Presence Health	11,279	8	0.89			
University of Illinois at Chicago	10,100	9	0.80			
Abbott Laboratories	10,000	10	0.79			
Accenture LLP				4,341	4	0.41
Northern Trust Corporation				4,574	3	0.43
Ford Motor Company				2,992	7	0.28
Bank of America NT & SA				2,811	9	0.26
American Airlines				4,054	6	0.38
UPS				2,464	10	0.23
ABN Amro				2,876	8	0.27

NOTES:

(1) Source: Reprinted with permission, Crain's Chicago Business (January 19, 2015), Crain Communications, Inc.

(2) J.P. Morgan Chase formerly known as Banc One.

(3) AT&T Inc. formerly known as SBC Ameritech. 2014 number of employees is a state wide number.

(4) Source: City of Chicago, Department of Revenue, Employer's Expense Tax Returns.

CITY OF CHICAGO, ILLINOIS

CHICAGO MIDWAY INTERNATIONAL AIRPORT

STATISTICAL DATA

POPULATION AND INCOME STATISTICS

EACH OF THE TEN YEARS ENDED DECEMBER 31, 2005–2014

(Unaudited)

Year	Population ⁽¹⁾	Median Age ⁽²⁾	Number of Households ⁽²⁾	Unemployment Rate ⁽³⁾	Per Capita Income ⁽⁴⁾	Total Income
2005	2,896,016	33.0	1,045,282	7.0 %	38,439	\$ 111,319,959,024
2006	2,896,016	33.5	1,040,000	5.2	41,887	121,305,422,192
2007	2,896,016	33.7	1,033,328	5.7	43,714	126,596,443,424
2008	2,896,016	34.1	1,032,746	6.4	45,329	131,270,613,248
2009	2,896,016	34.5	1,037,069	10.0	43,727	126,634,091,632
2010	2,695,598	34.8	1,045,666	10.1	45,957	123,881,597,286
2011	2,695,598	33.2	1,048,222	9.3	45,977	123,935,509,246
2012	2,695,598	33.0	1,054,488	8.9	48,305	130,210,861,390
2013	2,695,598	33.5	1,062,029	8.3	49,071	132,275,689,458
2014	2,695,598	N/A	N/A	5.7	N/A ⁽⁵⁾	N/A ⁽⁵⁾

Notes:

⁽¹⁾ Source: U.S. Census Bureau.

⁽²⁾ Source: World Business Chicago Website and Environmental System Research Institute data estimates.

⁽³⁾ Source: Bureau of Labor Statistics 2013, Unemployment rate for Chicago-Naperville-Illinois Metropolitan Area.

⁽⁴⁾ Source: U.S. Department of Commerce, Bureau of Economic Analysis, Per Capita Personal Income for Chicago-Naperville-Illinois Metropolitan Area (in 2014 dollars).

⁽⁵⁾ N/A means not available at time of publication.

CITY OF CHICAGO, ILLINOIS

CHICAGO MIDWAY INTERNATIONAL AIRPORT

STATISTICAL DATA

LANDING FEES AND TERMINAL AREA USE CHARGES

(Unaudited)

Landing Fees and Terminal Area Use Charges	2014
Signatory Landing Fee (Rate/1000 lbs)	\$ 3.38
Non-Signatory Landing Fee (Rate/1000 lbs)	4.23
Signatory Joint Use Fee (Base Usage/1000 lbs)	1.10
Non-Signatory Joint Use Fee (Base Usage/1000 lbs)	1.38
Signatory Joint Use Fee (Per Capita/Annual)	\$ 191,329
Non-Signatory Joint Use Fee (Per Capita/Annual)	239,161
Signatory Terminal Rental Rate	\$ 97.85
Non-Signatory Terminal Rental Rate	122.32
Terminal Ramp Rate	3.57
Signatory FIS Fee per Deplaned Passenger	4.78
Non-Signatory F/S Fee per Deplaned Passenger	5.97
Cost per Departure Rate ⁽¹⁾	103.83

⁽¹⁾ The cost per departure is for Gates A1, A2, A3, A4A, A4B, A10, A12 and B25

Under the residual Use Agreement, these rates are the estimated rates assessed to airlines as of 12/31/14.

APPENDIX E

FORM OF OPINIONS OF CO-BOND COUNSEL

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June 1, 2016

City of Chicago
Chicago, Illinois

The Bank of New York Mellon Trust Company, N.A.
Chicago, Illinois

Re: City of Chicago, Chicago Midway Airport
Second Lien Revenue and Revenue Refunding Bonds,
Series 2016A (AMT)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Chicago, Illinois (the “City”), in connection with the issuance of \$121,265,000 aggregate principal amount Chicago Midway Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2016A (AMT) (the “Bonds”), of the City. We have examined a record of proceedings relating to the issuance of the Bonds. The Bonds are limited obligations of the City issued pursuant to the authority of Article VII, Section 6(a) of the Illinois Constitution of 1970 and by virtue of ordinances adopted by the City Council of the City on January 13, 2016, authorizing the Bonds (the “Bond Ordinance”). Terms used herein that are defined in the Indenture and the Twenty-Third Supplemental Indenture (each as hereinafter defined) shall have the meanings set forth therein unless otherwise defined herein.

The Bonds are authorized by the City for the purpose of providing funds to (i) finance a portion of the costs of the 2016 Airport Projects, (ii) refund prior to maturity the Prior Airport Obligations, (iii) capitalize a portion of the interest on the Bonds, (iv) fund a portion of the Reserve Requirement, and (v) pay Costs of Issuance of the Bonds.

The Bonds are being issued pursuant to a Master Indenture of Trust Securing Chicago Midway Airport Second Lien Obligations dated as of September 1, 1998, as amended (the “Indenture”), from the City to The Bank of New York Mellon Trust Company, N.A. (as successor trustee to American National Bank and Trust Company of Chicago), as trustee (the “Trustee”), and a Twenty-Third Supplemental Indenture dated as of May 1, 2016 (the “Twenty-Third Supplemental Indenture”) relating to the Bonds. The Bonds are Second Lien Obligations of the City permitted to be issued under the Master Indenture of Trust Securing Chicago Midway Airport Revenue Bonds dated as of April 1, 1994, as amended and supplemented (the “First Lien

Indenture”), from the City to the Trustee and Second Lien Obligations authorized under the Indenture are payable solely from and secured by pledges of Second Lien Revenues as, and to the extent, provided in the Indenture and the Twenty-Third Supplemental Indenture.

Under the terms of the First Lien Indenture, the City has previously issued First Lien Bonds that are presently outstanding and the City may hereafter authorize and issue additional First Lien Bonds. First Lien Bonds are entitled to the benefit and security of the First Lien Indenture, including the pledge of Revenues and other funds maintained for the benefit of the First Lien Bonds by the Trustee. The Bonds and all other Second Lien Obligations are junior in right of payment and security to the First Lien Bonds, as and to the extent provided in the First Lien Indenture and the Indenture.

The Bonds are issuable only as fully registered bonds without coupons in Authorized Denominations. The Bonds are dated the date hereof, mature, bear interest from their date as set forth in the Twenty-Third Supplemental Indenture. The Bonds are subject to optional and mandatory redemption at the times, in the manner and upon the terms specified in the Twenty-Third Supplemental Indenture

In connection with the issuance of the Bonds we have examined the following:

- (a) a certified copy of the Bond Ordinance;
- (b) executed or certified counterparts of the Indenture and the Twenty-Third Supplemental Indenture; and
- (c) such other documents and related matters of law as we have deemed necessary in order to render this opinion.

Based upon our examination of the foregoing, we are of the opinion that:

1. The City is a municipal corporation duly existing under the laws of the State of Illinois and is a home rule unit of local government within the meaning of Section 6(a) of Article VII of the 1970 Illinois Constitution. The City has all requisite power and authority under the Constitution and the laws of the State of Illinois, the First Lien Indenture and the Bond Ordinance (i) to enter into the Indenture and the Twenty-Third Supplemental Indenture with the Trustee and to issue the Bonds thereunder and (ii) to improve, maintain and operate the Airport and to charge and collect rents, fees and other charges for the use and services of the Airport and to perform all of its obligations under the First Lien Indenture, the Indenture and the Twenty-Third Supplemental Indenture in those respects.
2. The Bond Ordinance is in full force and effect and is valid and binding upon the City in accordance with its terms. The Indenture and the Twenty-Third Supplemental Indenture have been duly authorized, executed and delivered by the City, constitute valid and binding obligations of the City and are legally enforceable in accordance with their respective terms.
3. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the City, are entitled to the benefits and security of the Indenture and the Twenty-Third Supplemental Indenture and are enforceable in accordance with their terms.

4. The Bonds are payable solely from the Second Lien Revenues deposited in the dedicated sub-fund maintained by the Trustee under the Twenty-Third Supplemental Indenture, and certain other amounts, including amounts on deposit in the Common Debt Service Reserve Sub-Fund, as provided in the Indenture and the Twenty-Third Supplemental Indenture. The Bonds and the interest thereon are limited obligations of the City and do not constitute an indebtedness of the City within the meaning of any state constitutional or statutory limitation or give rise to a charge against its general credit or taxing powers. Neither the faith and credit nor the taxing power of the State of Illinois, the City or any political subdivision of the State of Illinois is pledged to the payment of the principal of, premium, if any, or interest on the Bonds.

5. The Indenture and the Twenty-Third Supplemental Indenture create the valid and binding pledge of Second Lien Revenues, moneys and securities which they purport to create.

6. Under existing law and assuming continuing compliance with certain covenants made by the City to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds (i) is excluded from the gross income of the owners thereof for federal income tax purposes and (ii) is an item of tax preference for purposes of individual and corporate minimum taxable income for purposes of individual and corporate alternative minimum tax. Failure by the City to comply with such covenants could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may also result in collateral federal income tax consequences to certain taxpayers, and we express no opinion regarding any such collateral tax consequences arising with respect to the Bonds. In rendering this opinion, we have relied upon and assume the correctness of certain representations and certifications of the City with respect to certain material facts solely within the City's knowledge relating to the property financed or refinanced with the proceeds of the Bonds and the application of the proceeds of the Bonds.

7. Interest on the Bonds is not exempt from present Illinois income taxes.

In rendering the foregoing opinion, we advise you that the enforceability (but not the validity or binding effect) of the Bonds, the Indenture and the Twenty-Third Supplemental Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought, either in an action at law or in equity.

Respectfully submitted,

June 1, 2016

City of Chicago
Chicago, Illinois

The Bank of New York Mellon Trust Company, N.A.
Chicago, Illinois

Re: City of Chicago, Chicago Midway Airport
Second Lien Revenue and Revenue Refunding Bonds,
Series 2016B (Non-AMT)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Chicago, Illinois (the “City”), in connection with the issuance of \$221,130,000 aggregate principal amount Chicago Midway Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2016B (Non-AMT) (the “Bonds”), of the City. We have examined a record of proceedings relating to the issuance of the Bonds. The Bonds are limited obligations of the City issued pursuant to the authority of Article VII, Section 6(a) of the Illinois Constitution of 1970 and by virtue of ordinances adopted by the City Council of the City on January 13, 2016, authorizing the Bonds (the “Bond Ordinance”). Terms used herein that are defined in the Indenture and the Twenty-Fourth Supplemental Indenture (each as hereinafter defined) shall have the meanings set forth therein unless otherwise defined herein.

The Bonds are authorized by the City for the purpose of providing funds to (i) finance a portion of the costs of the 2016 Airport Projects, (ii) refund prior to maturity the Prior Airport Obligations, (iii) capitalize a portion of the interest on the Bonds, (iv) fund a portion of the Reserve Requirement, and (v) pay Costs of Issuance of the Bonds.

The Bonds are being issued pursuant to a Master Indenture of Trust Securing Chicago Midway Airport Second Lien Obligations dated as of September 1, 1998, as amended (the “Indenture”), from the City to The Bank of New York Mellon Trust Company, N.A. (as successor trustee to American National Bank and Trust Company of Chicago), as trustee (the “Trustee”), and a Twenty-Fourth Supplemental Indenture dated as of May 1, 2016 (the “Twenty-Fourth Supplemental Indenture”) relating to the Bonds. The Bonds are Second Lien Obligations of the City permitted to be issued under the Master Indenture of Trust Securing Chicago Midway Airport Revenue Bonds dated as of April 1, 1994, as amended and supplemented (the “First Lien

Indenture”), from the City to the Trustee and Second Lien Obligations authorized under the Indenture are payable solely from and secured by pledges of Second Lien Revenues as, and to the extent, provided in the Indenture and the Twenty-Fourth Supplemental Indenture.

Under the terms of the First Lien Indenture, the City has previously issued First Lien Bonds that are presently outstanding and the City may hereafter authorize and issue additional First Lien Bonds. First Lien Bonds are entitled to the benefit and security of the First Lien Indenture, including the pledge of Revenues and other funds maintained for the benefit of the First Lien Bonds by the Trustee. The Bonds and all other Second Lien Obligations are junior in right of payment and security to the First Lien Bonds, as and to the extent provided in the First Lien Indenture and the Indenture.

The Bonds are issuable only as fully registered bonds without coupons in Authorized Denominations. The Bonds are dated the date hereof, mature, bear interest from their date as set forth in the Twenty-Fourth Supplemental Indenture. The Bonds are subject to optional and mandatory redemption at the times, in the manner and upon the terms specified in the Twenty-Fourth Supplemental Indenture.

In connection with the issuance of the Bonds we have examined the following:

- (a) a certified copy of the Bond Ordinance;
- (b) executed or certified counterparts of the Indenture and the Twenty-Fourth Supplemental Indenture; and
- (c) such other documents and related matters of law as we have deemed necessary in order to render this opinion.

Based upon our examination of the foregoing, we are of the opinion that:

1. The City is a municipal corporation duly existing under the laws of the State of Illinois and is a home rule unit of local government within the meaning of Section 6(a) of Article VII of the 1970 Illinois Constitution. The City has all requisite power and authority under the Constitution and the laws of the State of Illinois, the First Lien Indenture and the Bond Ordinance (i) to enter into the Indenture and the Twenty-Fourth Supplemental Indenture with the Trustee and to issue the Bonds thereunder and (ii) to improve, maintain and operate the Airport and to charge and collect rents, fees and other charges for the use and services of the Airport and to perform all of its obligations under the First Lien Indenture, the Indenture and the Twenty-Fourth Supplemental Indenture in those respects.
2. The Bond Ordinance is in full force and effect and is valid and binding upon the City in accordance with its terms. The Indenture and the Twenty-Fourth Supplemental Indenture have been duly authorized, executed and delivered by the City, constitute valid and binding obligations of the City and are legally enforceable in accordance with their respective terms.
3. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the City, are entitled to the benefits and security of the Indenture and the Twenty-Fourth Supplemental Indenture and are enforceable in accordance with their terms.

4. The Bonds are payable solely from the Second Lien Revenues deposited in the dedicated sub-fund maintained by the Trustee under the Twenty-Fourth Supplemental Indenture, and certain other amounts, including amounts on deposit in the Common Debt Service Reserve Sub-Fund, as provided in the Indenture and the Twenty-Fourth Supplemental Indenture. The Bonds and the interest thereon are limited obligations of the City and do not constitute an indebtedness of the City within the meaning of any state constitutional or statutory limitation or give rise to a charge against its general credit or taxing powers. Neither the faith and credit nor the taxing power of the State of Illinois, the City or any political subdivision of the State of Illinois is pledged to the payment of the principal of, premium, if any, or interest on the Bonds.

5. The Indenture and the Twenty-Fourth Supplemental Indenture create the valid and binding pledge of Second Lien Revenues, moneys and securities which they purport to create.

6. Under existing law and assuming continuing compliance with certain covenants made by the City to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds (i) is excluded from the gross income of the owners thereof for federal income tax purposes and (ii) will not be treated as a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Failure by the City to comply with such covenants could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may also result in collateral federal income tax consequences to certain taxpayers, and we express no opinion regarding any such collateral tax consequences arising with respect to the Bonds. In rendering this opinion, we have relied upon and assume the correctness of certain representations and certifications of the City with respect to certain material facts solely within the City's knowledge relating to the property financed or refinanced with the proceeds of the Bonds and the application of the proceeds of the Bonds.

7. Interest on the Bonds is not exempt from present Illinois income taxes.

In rendering the foregoing opinion, we advise you that the enforceability (but not the validity or binding effect) of the Bonds, the Indenture and the Twenty-Fourth Supplemental Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought, either in an action at law or in equity.

Respectfully submitted,

APPENDIX F

REPORT OF THE AIRPORT CONSULTANT

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Report of the Airport Consultant

City of Chicago
Chicago Midway International Airport
Second Lien Revenue and Revenue Refunding Bonds, Series 2016A (AMT)
Second Lien Revenue and Revenue Refunding Bonds, Series 2016B (Non-AMT)

PREPARED BY:

RICONDO & ASSOCIATES, INC.

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Chicago, Illinois 60602

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(312) 606-0706 (facsimile)



IN ASSOCIATION WITH:
Partners for Economic Solutions

May 13, 2016

Ricondo & Associates, Inc. (R&A) prepared this document for the stated purposes as expressly set forth herein and for the sole use of The City of Chicago and its intended recipients. The techniques and methodologies used in preparing this document are consistent with industry practices at the time of preparation and this Report should be read in its entirety for an understanding of the analysis, assumptions, and opinions presented. Ricondo & Associates, Inc. is not registered as a municipal advisor under Section 15B of the Securities Exchange Act of 1934 and does not provide financial advisory services within the meaning of such Act.



May 13, 2016

Ms. Ginger S. Evans
Commissioner
Chicago Department of Aviation
10501 West Zemke Road
Chicago, Illinois 60666

RE: Report of the Airport Consultant for the City of Chicago, Midway International Airport
Second Lien Revenue and Revenue Refunding Bonds, Series 2016A
Second Lien Revenue and Revenue Refunding Bonds, Series 2016B

Dear Ms. Evans:

Ricondo & Associates, Inc. (R&A) is pleased to present this Report of the Airport Consultant (the Report) for inclusion as Appendix F in the Official Statement for the City of Chicago, Chicago Midway International Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2016A (AMT) (Series 2016A Bonds) and Chicago Midway International Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2016B (Non-AMT) (Series 2016B Bonds). The Series 2016A Bonds and the Series 2016B Bonds are referred to collectively as the "Series 2016 Bonds." The Series 2016 Bonds will be issued pursuant to the Master Indenture of Trust Securing Chicago Midway Airport Second Lien Obligations, dated as of September 1, 1998, as supplemented and amended (the Second Lien Indenture). The Series 2016 Bonds are payable from the Second Lien Revenues generated from the operation of Chicago Midway International Airport (the Airport) to the pledge of Revenues securing the First Lien Midway Airport Revenue Bonds.

Proceeds of the Series 2016 Bonds, at the time of the Report, are anticipated to:

- (i) pay the costs of the 2016 Airport Projects, as herein defined, at the Airport,
- (ii) refund prior to maturity the Refunded Bonds (as defined in the Official Statement),
- (iii) capitalize a portion of the interest on the Series 2016 Bonds,
- (iv) fund a deposit to the Common Debt Service Reserve Sub-Fund within the Debt Service Fund, and
- (v) pay costs and expenses incidental thereto and to the issuance of the Series 2016 Bonds.

Unless otherwise defined herein, all capitalized terms in this Report are used as defined in the Official Statement or the Second Lien Indenture.

This Report presents the analysis undertaken by R&A to demonstrate the ability of the City of Chicago (the City) to comply with the requirements of the Second Lien Indenture, on a *pro forma* basis for Fiscal Years (FY) 2016 through 2025 (the Projection Period), based on the assumptions regarding the planned



Ms. Ginger S. Evans
Chicago Department of Aviation
May 13, 2016
Page 2

issuance of the Series 2016 Bonds, which are established by the City through consultation with its financial advisor and underwriters. In developing its analysis, R&A has reviewed historical trends and formulated projections based on the assumptions put forth in this Report, which have been reviewed and agreed to by the City and its professionals, regarding the ability of the Air Trade Area (defined herein) to generate demand for air service at the Airport, trends in air service and passenger activity at the Airport, and the financial performance of the Airport. The Report is organized as follows:

- Summary of Findings
- Chapter 1: The Series 2016 Bonds
- Chapter 2: Midway International Airport
- Chapter 3: The 2016 Airport Projects, Capital Improvement Program, and Funding Sources
- Chapter 4: Demographic and Economic Analysis
- Chapter 5: Passenger Demand and Air Traffic
- Chapter 6: Financial Analysis

On the basis of the analysis put forth in this Report, R&A is of the opinion that the Second Lien Revenues generated by the Airport in each year of the Projection Period should be sufficient to comply with the Rate Covenant established in the Second Lien Indenture. R&A is also of the opinion that the projected airline costs should remain reasonable through the Projection Period. Although summary information is provided, a complete understanding of the justification for our conclusion cannot be attained without reading the Report in its entirety.

Founded in 1989, R&A is a full-service aviation consulting firm providing airport physical and financial planning services to airport owners and operators, airlines, and federal and state agencies. R&A has prepared Reports of the Airport Consultant in support of over \$26 billion of airport-related revenue bonds since 1996. R&A is not registered as a municipal advisor under Section 15B of the Securities Exchange Act of 1934. R&A is not acting as a municipal advisor and has not been engaged by the City to provide advice with respect to the structure, timing, terms, or other similar matters concerning the issuance of municipal securities. The assumptions regarding such matters included in this Report were provided by the City or the City's financial advisor or underwriter, or, with the City's approval, were derived from general, publically available data approved by the City. R&A owes no fiduciary duty to the City. The City should discuss the information and analysis contained in this Report with internal and external advisors and experts whom the City deems appropriate before taking any action. Any opinions, assumptions, views, or information contained herein are not intended to be, and do not constitute, "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934.



Ms. Ginger S. Evans
Chicago Department of Aviation
May 13, 2016
Page 3

The techniques and methodologies used by R&A in preparing this Report are consistent with industry practices for similar studies in connection with airport revenue bond sales. While R&A believes that the approach and assumptions used in this Report are reasonable, some assumptions regarding future trends and events detailed in this Report, including, but not limited to, the implementation schedule, the forecast of passenger activity, and the projection of financial performance, may not materialize. Therefore, actual performance will likely differ from the projections and forecasts set forth in this Report, and the variations may be material. In developing its analysis, R&A used information from various sources, including the City, the underwriter, the financial advisor, federal and local governmental agencies, and independent private providers of economic and aviation industry data, as identified in the notes accompanying the related tables and exhibits in this Report. R&A believes these sources to be reliable but has not audited the data and does not warrant their accuracy. The analysis presented is based on conditions known as of the date of this letter. R&A has no obligation to update this Report on an ongoing basis.

Sincerely,

A handwritten signature in black ink that reads "Ricondo & Associates, Inc." in a cursive, stylized script.

RICONDO & ASSOCIATES, INC.

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Summary of Findings

The City of Chicago (the City) commissioned Ricondo & Associates, Inc., (R&A) to prepare the Report of the Airport Consultant (the Report) to provide an independent analysis of the City's compliance with the provisions of the Master Indenture of Trust Securing Chicago Midway Airport Second Lien Obligations, dated as of September 1, 1998, as supplemented and amended (the Second Lien Indenture) regarding the conditions precedent (the Additional Bonds Test) for the issuance of the City of Chicago, Chicago Midway International Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2016A (Series 2016A Bonds) and Chicago Midway International Airport Second Lien Revenue and Revenue Refunding Bonds, Series 2016B (Series 2016B Bonds) (collectively, the Series 2016 Bonds), as well as to provide an independent analysis of the Airport's ability to generate Net Revenues sufficient to meet its obligations under the Second Lien Indenture, including but not limited to the Rate Covenant, on a *pro forma* basis for the period from Fiscal Year (FY) 2016 (FY ends December 31) through FY 2025 (the Projection Period). In developing our analysis, R&A reviewed the terms of the Second Lien Indenture and related documents that govern the City's Midway Airport Revenue Bonds (MARBs) for Chicago Midway International Airport (Midway, or the Airport); the terms of the Series 2016 Bonds as provided by the City's financing team; the City's outstanding MARBs; the capacity of Midway's existing and planned facilities to accommodate current and anticipated activity; the Airport's Capital Improvement Program (CIP) and proposed funding sources, including the potential for additional borrowing beyond the Series 2016 Bonds; and the purpose, cost, schedule, and expected benefits of the 2016 Plan of Finance.

To develop the *pro forma* projections of the Airport's financial performance, R&A reviewed the agreements that establish the business arrangements between the Airport and its various tenants, including the commercial airlines serving the Airport. The Airport generates the majority of its operating revenues from: commercial airlines and private aircraft operators through airfield usage fees and various rentals for the terminal and other spaces; fees and rents assessed to concessionaires providing various goods and services to passengers and other users of airport facilities; fees and rents assessed to rental car operators serving the airport; and fees for public parking and commercial vehicle access to airport facilities. These revenues are in large measure driven by passenger demand for air service from the Airport, which is a function of national and local economic conditions, as well as the ability and willingness of the commercial airlines to supply service at a level commensurate with this demand. Thus, R&A reviewed the historical relationships between economic activity and demand for air service, the airlines' provision of air service, and the financial performance of the Airport. Based on this historical review, R&A developed assumptions regarding these factors and relationships through the Projection Period, which provide the basis for the projections of passenger activity and financial performance presented in this Report. The following sections present a summary of R&A's assumptions, forecasts, projections, and findings that are detailed in the body of the Report, which should be read in its

entirety. Unless otherwise defined herein, all capitalized terms in the Report are used as defined in the Official Statement or the Second Lien Indenture.

The Series 2016 Bonds

The Series 2016 Bonds will be issued pursuant to the Bond Ordinance, adopted by the Chicago City Council on January 13, 2016, and the Second Lien Indenture.

Proceeds of the Series 2016 Bonds, at the time of the Report, are anticipated to:

- (i) pay the costs of the 2016 Airport Projects, as herein defined, at the Airport,
- (ii) refund prior to maturity the Refunded Bonds (as defined in the Official Statement),
- (iii) capitalize a portion of the interest on the Series 2016 Bonds,
- (iv) fund a deposit to the Common Debt Service Reserve Sub-Fund within the Debt Service Fund, and
- (v) pay costs and expenses incidental thereto and to the issuance of the Series 2016 Bonds.

Table S-1 presents the anticipated sources and uses of proceeds from the Series 2016 Bonds and other funds.

The Series 2016 Bonds will be secured under the Second Lien Indenture by a lien on, and a pledge of, all Revenues, and they will be payable from amounts that may be withdrawn from the Debt Service Fund created under the Second Lien Indenture. The transaction also includes releases from the Series 2004 Debt Service Reserve Fund (DSRF) into the Escrow Account.

Table S-1: Anticipated Sources and Uses of Series 2016 Bond Proceeds and Other Funds

	SERIES 2016A (AMT)	SERIES 2016B (NON-AMT)	TOTAL
Sources			
Par Amount of Series 2016 Bonds	\$137,915,000	\$242,910,000	\$380,825,000
Net Original Issue Premium	7,263,593	18,843,991	26,107,585
Series 2004 Standalone DSRF	1,489,585	6,234,625	7,724,210
Total	\$146,668,178	\$267,988,616	\$414,656,795
Uses			
Deposit to Escrow Account	\$10,741,068	\$33,988,480	\$44,729,548
Deposit to 2016 Airport Project Accounts	113,752,695	194,249,645	308,002,340
Deposit to Common Debt Service Reserve Sub-Fund	5,939,610	10,708,993	16,648,603
Deposit to Capitalized Interest Accounts	14,855,252	26,608,993	41,464,246
Cost of Issuance ^{1/}	1,379,553	2,432,505	3,812,058
Total	\$146,668,178	\$267,988,616	\$414,656,795

NOTE:

1/ Includes underwriters' discount and other costs of issuance.

SOURCE: Barclays, April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

Midway International Airport

Midway, which opened in 1927, is one of two primary commercial airports serving an Air Trade Area comprising the Chicago-Naperville-Joliet Metropolitan Statistical Area (MSA) and the Kankakee-Bradley MSA, a 15-county region spanning northeastern Illinois, northwestern Indiana, and southeastern Wisconsin. Midway is owned and operated by the City through the Chicago Department of Aviation (CDA), which also manages the other primary commercial airport in the Air Trade Area, Chicago O'Hare International Airport (O'Hare), as a separate financial enterprise.

Midway is located on the City's southwest side, approximately 10 miles from Chicago's central business district. The Airport terminal is accessible from Interstate 55 (the Stevenson Expressway), as well as local arterial routes, via Cicero Avenue. In addition, passengers and airport employees may utilize the Chicago Transit Authority's (CTA) rapid transit system Orange Line, as well as utilize bus service provided by both the CTA and the Pace Suburban Bus Service.

The Airport encompasses an area of approximately 840 acres, with the airfield comprising five runways, two of which serve airline operations, while the remaining runways serve general aviation. Both airline runways are equipped with instrument landing systems to enable operations in most weather conditions. The 1-million-square-foot terminal and connected concourses provide access to a total of 43 aircraft gates, three of which are capable of serving inbound international passengers. Public parking facilities at the Airport include a Terminal Parking Garage adjacent to the terminal, with approximately 2,470 spaces, and a surface lot and seven-level structure located on the north side of the Airport, with 8,842 long-term economy spaces.

The 2016 Airport Projects, Capital Program, and Funding Sources

For purposes of this Report, it was assumed that the total amount of the 2016 Airport Projects, which is estimated to be approximately \$308.0 million, will be funded in whole with proceeds from the Series 2016 Bonds.

Signatory Airline (Airline Party) approval has been received for all of the 2016 Airport Projects. The City has also obtained all required approvals from the Chicago/Gary Regional Airport Authority for the 2016 Airport Projects.

The Airport maintains a multiyear CIP. The Airport has a relatively new terminal and no significant airfield modifications planned. As a result, the Airport's CIP is focused on ongoing repair, maintenance, and demand driven expansion and upgrades. The current CIP includes a project cost estimate of approximately \$458.3 million for calendar years 2016–2022, which includes the 2016 Airport Projects. Notable projects include: the Passenger Security Checkpoint Expansion, Terminal Parking Garage Expansion, and the other 2016 Airport Projects, each described in additional detail in Chapter 3 of this Report, as well as other airfield rehabilitation, residential sound insulation, land acquisition of parcels in the Runway Protection Zones (RPZs), and other terminal building upgrades.

Table S-2 presents the 2016 Airport Projects and their estimated costs.

Table S-2: The 2016 Airport Projects

PROJECT DESCRIPTION	TOTAL PROJECT COST
Airfield Projects	
Runway 4R-22L Rehabilitation	\$21,854,912
Airport Maintenance Complex Improvements	12,460,909
Airfield Lighting Infrastructure Improvements	10,245,513
Cyclical Vehicle Replacement 2015–2017	5,291,178
AOA Perimeter Sound Wall Improvements	6,132,854
Taxiway A Extension	3,388,280
Secondary AMC Hangar Improvements	2,988,275
Subtotal	\$62,361,921
Parking and Roadway Projects	
Terminal Parking Garage Expansion	\$125,635,032
Economy Garage Lighting	4,521,068
Terminal Parking Garage Expansion (Conceptual Design)	1,731,624
Subtotal	\$131,887,724
Ramp Project	
Terminal Ramp Improvements	\$12,289,237
Terminal Projects	
Passenger Security Checkpoint Expansion	\$79,416,569
FIS 2nd Bag Claim and Space Reconfiguration	11,701,961
Bag System Crossover, Recapitalization, and Optimization	5,907,895
Access Control System Replacement	4,437,033
Subtotal	\$101,463,458
Total Cost for 2016 Airport Projects	\$308,002,340

NOTES: Includes allocated implementation costs.

FIS = Federal Inspection Services

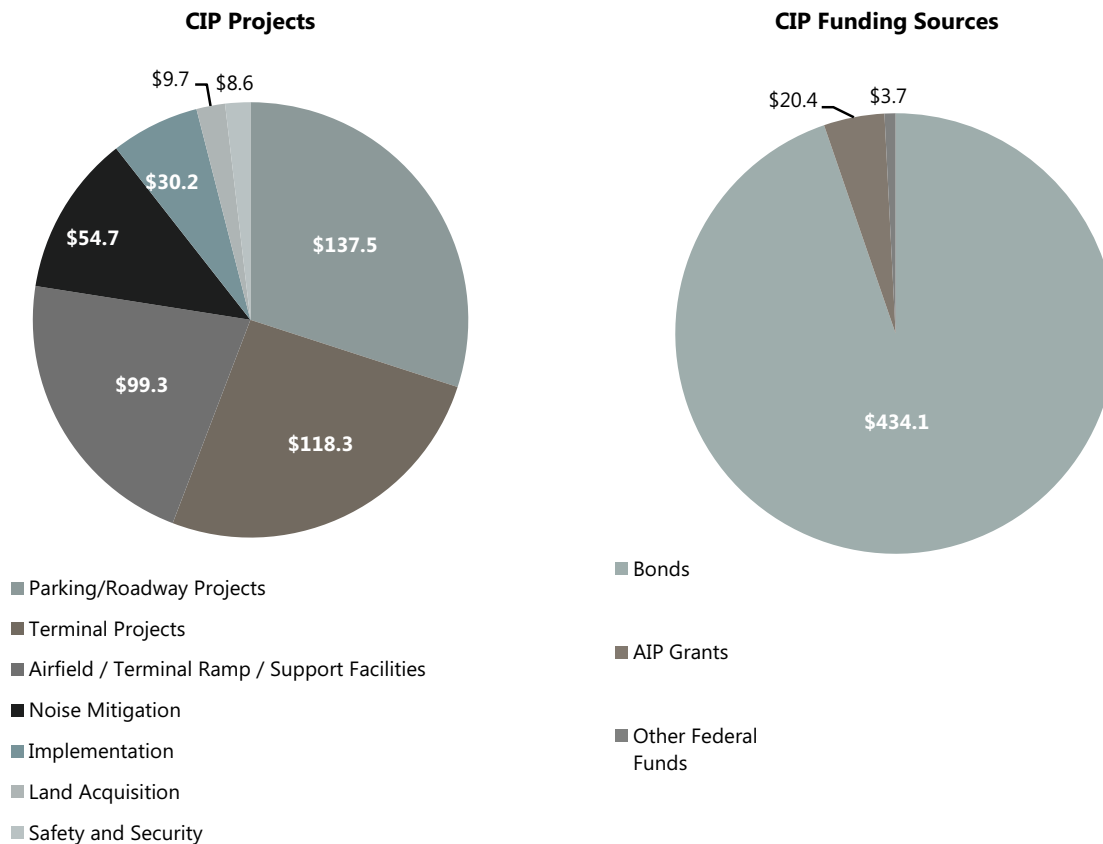
SOURCE: City of Chicago, Department of Aviation, April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

Funding sources for the 2016–2022 CIP include MARBs, Federal Aviation Administration (FAA) Airport Improvement Program (AIP) grants, and Transportation Security Administration grants. MARBs are the largest funding source, totaling approximately \$434.1 million. Passenger Facility Charge (PFC) and Customer Facility Charge (CFC) revenues indirectly fund projects in 2016–2022 as they are applied to MARB debt service. Chapter 6 of this Report includes a projection of PFC revenues applied to MARB debt service.

Exhibit S-1 shows the 2016–2022 CIP broken out by Cost Revenue Center (CRC) and funding source.

Exhibit S-1: 2016–2022 Capital Improvement Program Costs and Funding Sources (in millions)



SOURCE: CDA, April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

Demographic and Economic Analysis

The demand for air transportation is, to a large degree, dependent upon the demographic and economic characteristics of the geographical area served by an airport, commonly referred to as an airport's air trade area. This relationship is particularly true for origin and destination (O&D) passenger traffic, which accounted for approximately 61 percent of passenger activity at the Airport (with connecting passengers accounting for the remaining 39 percent) in 2014. Demand for airline travel at the Airport, therefore, is influenced by the local characteristics of the area served, along with individual airline decisions regarding service in support of connecting activity.

The Airport's Air Trade Area¹ has a large, diverse economic base that supports business and leisure travel. Projected economic variables indicate that the Air Trade Area will remain a destination that attracts both business and tourist visitors, positively affecting the demand for future inbound airline travel. Projected Air Trade Area economic variables further support the continued growth of local outbound passengers. **Table S-3** presents selected 2015 and 2025 economic figures for the Air Trade Area and for the United States, as projected by Woods & Poole Economics, Inc. Additional information on the demographic and economic characteristics of the Air Trade Area is provided in Chapter 4.

Table S-3: Summary of Demographic and Economic Characteristics

VARIABLE ^{1/}	2015	2025	CAGR 2015–2025
Air Trade Area Population	9,753,872	10,365,706	0.6%
United States Population	321,449,214	352,280,991	0.9%
Air Trade Area Total Employment	5,888,589	6,607,222	1.2%
United States Total Employment	183,345,172	210,967,567	1.4%
Air Trade Area Total Personal Income (\$ billion)	\$507	\$622	2.1%
United States Total Personal Income (\$ billion)	\$15,260	\$19,337	2.4%
Air Trade Area Per Capita Personal Income	\$51,942	\$60,010	1.5%
United States Per Capita Personal Income	\$47,473	\$54,892	1.5%
Air Trade Area Gross Regional Product (\$ billion)	\$627	\$761	1.9%
United States Gross Domestic Product (\$ billion)	\$17,945	\$22,259	2.2%
Air Trade Area Per Capita Gross Regional Product	\$64,299	\$73,388	1.3%
United States Per Capita Gross Domestic Product	\$55,825	\$63,186	1.2%

NOTES:

CAGR = Compound Annual Growth Rate

1/ Dollar amounts are in 2015 dollars.

SOURCE: Woods & Poole Economics, Inc., *Complete Economic and Demographic Data Source* (CEDDS), June 2015.

PREPARED BY: Partners for Economic Solutions, March 2016.

¹ For a definition of the Airport's Air Trade Area, see Chapter 2.

Passenger Demand and Air Traffic

As presented in Chapter 5 of the Report, the Airport has had the benefit of a large and resilient passenger base, served by a core of airlines generally offering low-cost service to a growing number of destinations, both domestic and international. As of May 2016, the Airport had scheduled service provided by three U.S. flag airlines and two foreign flag airlines. The Airport, classified by the FAA as a large-hub facility based on its percentage of nationwide enplaned passengers, ranked 25th nationwide in 2014, with approximately 21.0 million enplaned and deplaned passengers. Other key points regarding historical and forecast aviation activities at the Airport are discussed below:

- Despite the loss of significant service by large airlines (Midway Airlines and American Trans Air) since 1992, the Airport has experienced growth over the duration of that period, marked by fast recovery of enplanements after those service eliminations.
- Since 1992, the Airport has experienced a 7.7 percent CAGR, compared to 1.9 percent for the United States. Since 2006, the Airport has experienced a 2.1 percent CAGR, compared to 0.4 percent nationwide.
- Southwest Airlines has emerged as the largest airline at the Airport, accounting for 93.4 percent of passenger enplanements at the Airport in 2015. Southwest Airlines has grown its presence at the Airport over time, in terms of both total daily flights and number of markets served, with the Airport now the largest station in the Southwest network.
- In May 2011, Southwest Airlines acquired low-cost rival AirTran Airways. The FAA issued a single-operating certificate to the combined airline on March 1, 2012. The two airlines have been operating at the Airport as a single airline since December 28, 2014.
- Largely because of Southwest Airline's greater presence and growth at the Airport, connecting enplanements have grown as Southwest Airlines has derived greater utility of previously empty seats. This has resulted in a higher average load factor at the Airport.
- Southwest Airlines has undertaken several fleet initiatives that will ultimately increase the airline's average number of seats per departure, including the addition of six seats to the Boeing 737-700 fleet, the growth of the 737-700 fleet, an introduction of the 737-800 with 175 seats, orders for Boeing 737 MAX 8 aircraft, and the retirement of older and smaller 737-500 and 737-300 aircraft by 2018.

Based on local and national socioeconomic and demographic factors, the Airport's historical share of U.S. domestic enplanements, the impacts of the factors described in Chapter 5 of this Report, and the anticipated usage of the Airport by Southwest Airlines and other airlines, total enplaned passengers at the Airport are forecast to increase from 11.0 million in 2015 to 13.2 million in 2025. The increase between 2015 and 2025 represents a CAGR of 1.8 percent, compared to 2.2 percent forecast nationwide by the FAA.

Table S-4 presents a summary of forecast enplanements at the Airport through the Forecast Period.

Table S-4: Enplaned Passenger Forecast at the Airport (in millions)

	ENPLANEMENT FORECAST	GROWTH
Historical		
2006	9,087,611	
2007	9,288,348	2.2%
2008	8,229,304	(11.4%)
2009	8,468,470	2.9%
2010	8,734,214	3.1%
2011	9,352,766	7.1%
2012	9,671,619	3.4%
2013	10,155,389	5.0%
2014	10,497,727	3.4%
2015	11,003,697	4.8%
Forecast		
2016	11,069,544	0.6%
2017	11,299,078	2.1%
2018	11,530,047	2.0%
2019	11,763,898	2.0%
2020	12,001,026	2.0%
2021	12,239,179	2.0%
2022	12,478,517	2.0%
2023	12,717,212	1.9%
2024	12,955,136	1.9%
2025	13,193,415	1.8%
CAGR		
2006–2015	2.1%	
2015–2025	1.8%	

SOURCES: City of Chicago, Department of Aviation (Historical), January 2016; FAA, *Terminal Area Forecast*, January 2015; Ricondo & Associates, Inc. (Forecast), April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

Financial Analysis

Chapter 6 of the Report presents the analysis undertaken by R&A to demonstrate the ability of the City to comply with the requirements of the Bond Ordinances, including those pertaining to the issuance of the Series 2016 Bonds, on a *pro forma* basis in each year of the Projection Period based on assumptions regarding the planned issuance of the Series 2016 Bonds.

Projections of airline rates and charges, and resultant airline cost per enplanement (CPE), were developed based on the terms of the Airport Use Agreement. The Signatory Airlines entered into new 15-year Airport Use Agreements, effective January 1, 2013. Pursuant to the terms of the Airport Use Agreement, terminal

rental rates, equipment, fueling, and airline landing fees are established using a residual airport methodology. As such, the Signatory Airlines guarantee the net cost of operating the entire Airport, including operating expenses and all debt service and coverage requirements.

Based on the analysis in this Report, and the financial projections presented in Chapter 6, R&A is of the opinion that Second Lien Revenues generated in each year of the Projection Period will be sufficient to comply with the Rate Covenant established in the Bond Ordinances.

R&A finds that the projected Airport user fees are reasonable. R&A finds the projected airline CPE to be reasonable throughout the Projection Period based on where the Airport is currently positioned in its capital program with current capital projects being revenue and demand driven, the current 15-year Airport Use Agreement and the resulting financial stability at the Airport, the importance of the Airport to Southwest's network, and the positioning of the projected CPE in relation to other Southwest focus airports.

Results of the financial analysis can be summarized as follows:

- Total Operating and Maintenance (O&M) Expenses are projected to increase from \$142.8 million in 2016 to \$205.7 million in 2025, representing a CAGR of 4.1 percent. The projected O&M Expense growth rate is determined by the calculated CAGR from 2011 through the budget 2016, in conjunction with historical growth, after accounting for the impact of a reimbursement of professional fee O&M Expenses related to the study of the privatization of the Airport.
- Non-signatory airline revenues and nonairline revenues are projected to increase from \$78.4 million in 2016 to \$104.1 million in 2025, at a CAGR of 3.2 percent. Nonairline revenues were projected on the basis of a review of historical trends, forecast activity levels, and inflation.
- After the issuance of the Series 2016 Bonds, and after the application of PFCs and CFCs, Net Debt Service is estimated to be approximately \$42.3 million in 2016 and then increase through 2022 to \$88.0 million, followed by a decrease to \$85.8 million in 2025.
- The Net Signatory Airline Requirement constitutes the total amount that must be paid by the Signatory Airlines under the Airport Use Agreement through Landing Fees, Terminal Area Rentals, Terminal Ramp Use Charges, Equipment Fees, and Fueling System Fees during the year. The Net Signatory Airline Requirement is projected to increase from \$108.6 million in 2016 to \$189.8 million in 2025.
- The airline CPE at the Airport, based on the Airport's budgeted rates and charges plus additional impacts of the Airport's portion of projected City pension contributions and debt service on the Series 2016 Bonds, is estimated to be \$10.45 in 2016 and projected to be \$15.04 by the end of the Projection Period in 2025, which equates to approximately \$11.53 in 2016 dollars.
- Pursuant to the Indenture, the City covenants that it will set rates and charges sufficient to generate Revenue that, along with Other Available Moneys, will provide for the payment of O&M Expenses and provide for the greater of (a) 125 percent of Aggregate First Lien Debt Service or (b) 110 percent of Aggregate First Lien Debt Service and Second Lien Debt Service. The Debt Service coverage ratio is projected to exceed the 1.10x minimum requirement for the applicable test in each year of the Projection Period.

A summary of the financial analysis is presented in **Table S-5**.

Table S-5: Financial Summary

(dollars in thousands for FY ending December 31.)

		PROJECTED									
	BUDGET ^{1/} 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	CAGR
Operating Revenues and O&M Expenses											
Signatory Airline Revenues	\$108,590	\$123,783	\$133,796	\$149,726	\$157,362	\$164,385	\$172,717	\$176,303	\$187,563	\$189,820	6.4%
Total Nonairline and Non-Signatory Revenue	\$78,358	\$78,249	\$80,298	\$87,822	\$92,080	\$94,419	\$96,796	\$99,205	\$101,641	\$104,110	3.2%
O & M Expenses	\$142,763	\$149,536	\$154,512	\$159,347	\$165,693	\$172,287	\$179,159	\$186,295	\$198,260	\$205,664	4.1%
Airline Rates and Charges											
Signatory Landing Fee ^{2/}	\$4.102	\$4.759	\$5.057	\$5.391	\$5.379	\$5.608	\$5.969	\$6.040	\$6.266	\$6.234	4.8%
Signatory Terminal Joint Use Fee ^{2/}	\$1.28	\$1.46	\$1.53	\$1.74	\$1.82	\$1.86	\$1.88	\$1.89	\$2.02	\$2.01	5.1%
Signatory Per Capita Fee	\$350,631	\$400,053	\$431,302	\$503,573	\$536,829	\$556,139	\$571,702	\$583,862	\$632,695	\$639,095	6.9%
Signatory Terminal Rental Rate ^{3/}	\$118.35	\$135.03	\$145.58	\$169.97	\$181.19	\$187.71	\$192.96	\$197.07	\$213.55	\$215.71	6.9%
Terminal Ramp Fee ^{3/}	\$3.12	\$3.75	\$4.02	\$4.73	\$4.81	\$4.97	\$4.93	\$5.07	\$5.35	\$5.45	6.4%
Airline Cost Per Enplaned Passenger											
Total Airline Revenues	\$115,632	\$130,991	\$141,174	\$157,277	\$165,089	\$172,292	\$180,808	\$184,580	\$196,030	\$198,480	6.2%
Forecast Total Enplaned Passengers	11,070	11,299	11,530	11,764	12,001	12,239	12,479	12,717	12,955	13,193	2.0%
Total Airline Cost per Enplaned Passenger	\$10.45	\$11.59	\$12.24	\$13.37	\$13.76	\$14.08	\$14.49	\$14.51	\$15.13	\$15.04	4.1%
Total Airline Cost per Enplaned Passenger (2016 Dollars) ^{4/}	\$10.45	\$11.26	\$11.54	\$12.23	\$12.22	\$12.14	\$12.13	\$11.80	\$11.94	\$11.53	1.1%
First Lien Debt Service Coverage (1.25x requirement)	21.67	23.31	25.33	29.93	31.62	32.49	33.60	33.50	N/A	N/A	
Aggregate Debt Service Coverage (1.10x requirement)	1.13	1.13	1.13	1.12	1.12	1.12	1.11	1.11	1.11	1.11	

NOTES:

1/ Based on 2016 first half City-approved budget, and includes impacts of the Series 2016 Bonds.

2/ Per thousand pounds landed weight.

3/ Per square foot.

4/ Inflation rate assumed at 3 percent.

SOURCES: City of Chicago, Department of Aviation, January 2016 Barclays, January 2016; Ricondo & Associates, Inc., April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

1. The Series 2016 Bonds

1.1 The Series 2016 Bonds

The Series 2016 Bonds will be issued pursuant to the Bond Ordinance adopted by the Chicago City Council on January 13, 2016 and the Master Indenture of Trust Securing Chicago Midway Airport Second Lien Obligations, dated as of September 1, 1998, as supplemented and amended (the Second Lien Indenture).

The City expects to use the proceeds from the sale of the Series 2016 Bonds, together with other available funds, to:

- (i) pay the costs of the 2016 Airport Projects, as herein defined, at the Airport,
- (ii) refund prior to maturity the Refunded Bonds (as defined in the Official Statement,
- (iii) capitalize a portion of the interest on the Series 2016 Bonds,
- (iv) fund a deposit to the Common Debt Service Reserve Sub-Fund within the Debt Service Fund, and
- (v) pay costs and expenses incidental thereto and to the issuance of the Series 2016 Bonds.

Table 1-1 presents the anticipated sources and uses of the proceeds of the Series 2016 Bonds and other funds. The Series 2016 Bonds will be secured under the Second Lien Indenture by a lien on, and pledge of, all Revenues, and will be payable from amounts that may be withdrawn from the Debt Service Fund created under the Second Lien Indenture. The transaction also includes releases from the Series 2004 DSRF into the Escrow Account.

Table 1-1: Anticipated Sources and Uses of Series 2016 Bond Proceeds and Other Funds

	SERIES 2016A (AMT)	SERIES 2016B (NON-AMT)	TOTAL
Sources			
Par Amount of Series 2016 Bonds	\$137,915,000	\$242,910,000	\$380,825,000
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Total	\$146,668,178	\$267,988,616	\$414,656,795

NOTE:

1/ Includes Underwriters' Discount and other costs of issuance.

SOURCE: Barclays, April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

1.2 Indenture of Trust

Security for the Series 2016 Bonds

The Series 2016 Bonds are Junior Lien Obligations under the First Lien Indenture and are payable solely from amounts authorized to be withdrawn by the First Lien Trustee from the Junior Lien Obligation Debt Service Fund established under the First Lien Indenture (the Junior Lien Revenues) and transferred to the Second Lien Trustee for deposit in the Second Lien Revenue Fund under the Second Lien Indenture (the Second Lien Revenues). The pledge of Junior Lien Revenues under the First Lien Indenture for the payment of Junior Lien Obligations is expressly junior and subordinate to the pledge of Net Revenues for the payment of First Lien Bonds.

Under the Second Lien Indenture, Revenues are defined as all amounts received by the City for the use and operation of the Airport, with the exception of the following: passenger facility charge (PFC) revenues; grants or similar contributions; transfer or disposition of title to all or any part of the Airport; the proceeds of any taxes collected at the Airport; the proceeds of any condemnation or insurance proceeds, except to the extent such monies are deemed to be revenues in accordance with generally accepted accounting principles (GAAP); the proceeds of any court or arbitration award or settlement in lieu thereof unless they are deemed revenues under GAAP or are reimbursements for previously incurred Operations and Maintenance (O&M) Expenses; amounts generated by the City for the payment of Special Facility Revenue Bonds; the proceeds of any bonds or other indebtedness of the City; payment of principal and interest on any loans made by the City for Airport purposes; investment income on moneys held in the Construction Fund, the Special Project Fund, the Emergency Reserve Fund, and the Airport Development Fund; and any other amounts that are not deemed to be revenues in accordance to GAAP or that are restricted in their use.

Debt Service Coverage Covenants

The City covenants that it will set rates and charges at the Airport for each Fiscal Year sufficient to generate Revenue that, along with Other Available Moneys, will provide for the payment of O&M Expenses for such Fiscal Year and provide for the greater of either:

- A) the amounts needed to make all required deposits under the First Lien Indenture, including the Junior Lien Obligation Debt Service Fund, the Repair and Replacement Fund, and the Special Project Fund, or an amount not less than 125 percent of the Aggregate First Lien Debt Service, less any capitalized interest held to pay interest on First Lien Bonds, for each Fiscal Year, or
- B) the amounts needed to make all required deposits under the First Lien Indenture, or an amount not less than 110 percent of the Aggregate First Lien Debt Service and Second Lien Debt Service, less any capitalized interest held to make interest payments on First Lien Bonds or Second Lien Bonds, for each Fiscal Year.

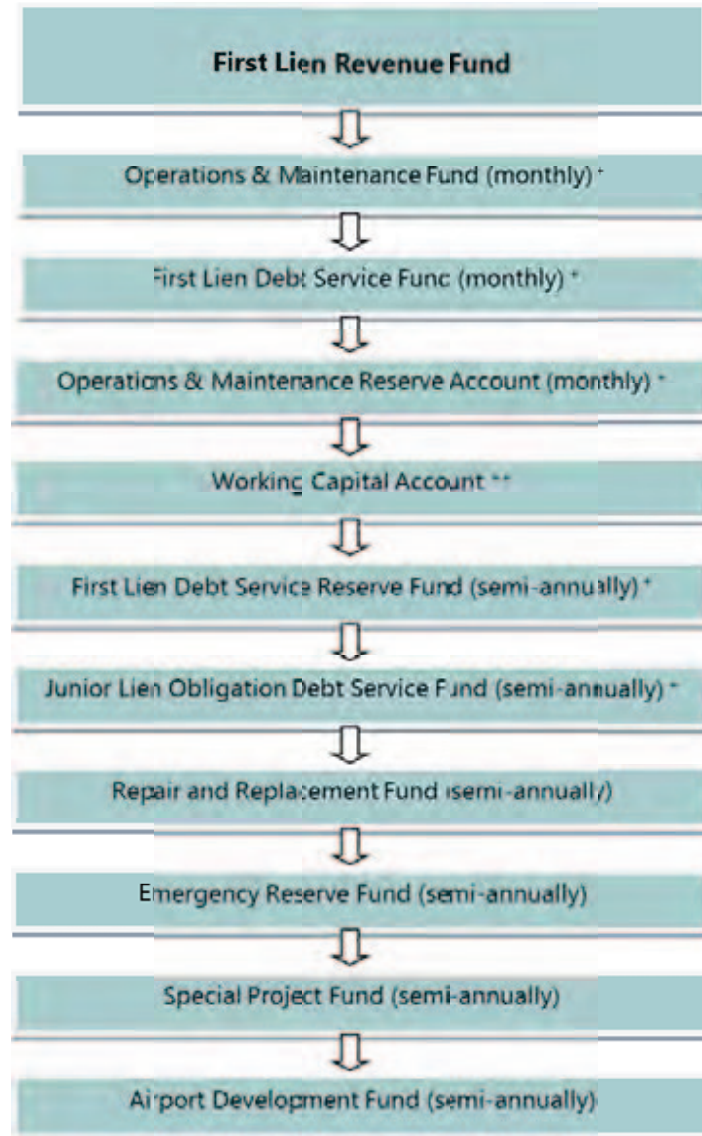
Flow of Funds

Revenues of the Airport are subject to the provisions of the First Lien Indenture and the Airport's Use and Lease Agreement. Under the First Lien Indenture all Revenues are collected by the City. On a monthly basis, the City first deposits an amount equal to one-twelfth of the O&M Projection for the current Fiscal Year in the O&M Fund and deposits the remainder with the First Lien Trustee to be credited to the First Lien Revenue Fund. The First Lien Trustee then makes the following transfers from the First Lien Revenue Fund in order of priority identified in the Second Lien Indenture. The Flow of Funds identified in the Second Lien Indenture is illustrated on **Exhibit 1-1**.

Additional Bonds

The City may issue additional Second Lien Obligations provided that it either:

- A) Provides a certificate from an Independent Airport Consultant stating that, based on reasonable assumptions, projected Revenues and Other Available Moneys are sufficient to meet the Rate Covenant for the Aggregate Annual Debt Service for all outstanding Second Lien Obligations, including the proposed Bonds but excluding any refunded or defeased Second Lien Obligations, for the longer of either i) the next three Fiscal Years following the issuance of the proposed Bonds, or ii) the two Fiscal Years following completion of projects financed by the proposed Bonds. For the purpose of this test, Other Available Moneys only includes i) moneys that have been paid over to either the First Lien Trustee or the Second Lien Trustee and deposited in the respective Revenue or Debt Service Fund, or ii) moneys that have been irrevocably pledged to the payment of debt service on First Lien Bonds or Second Lien Obligations; or,
- B) A Certificate stating that Revenues and Other Available Moneys in the most recently completed Fiscal Year for which an audit has been prepared were sufficient to meet the Rate Covenant in the year of maximum Aggregate Second Lien Debt Service, including the debt service for the proposed Bonds.
- C) The City may issue additional Second Lien Obligations without meeting the conditions of either A) or B) above for the purposes of i) refunding either First Lien Bonds or Second Lien Obligations (Refunding Obligations); or ii) to complete a project originally financed by either First Lien Bonds or Second Lien Obligations, provided the additional cost does not exceed 15 percent of the aggregate cost originally financed and the City provides a certificate from a Consulting Engineer, stating that the projects have not materially changed from their description in the original indenture for the financing of the project, estimates the revised aggregate cost of the project, that such costs cannot be paid with available moneys, and, in the opinion of the Consulting Engineer, the additional Bonds are necessary to complete the project.

Exhibit 1-1: Flow of Funds

⁺ Amount on deposit at year-end in excess of amount required to be on deposit for such Fiscal Year under the First Lien Indenture or any ordinance or resolution authorizing the issuance of Junior Lien Obligations at year-end shall be transferred to the First Lien Revenue Fund.

^{**} As there is no current deposit requirement for the Working Capital Account under the Airline Use Agreements, the City has directed the First Lien Trustee to suspend deposits to the Working Capital Account, which direction may be revoked at any time.

SOURCE: Chicago Department of Aviation, January 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

2. Midway International Airport

The City owns and operates Midway, which is managed by the Chicago Department of Aviation (CDA). In addition to Midway, the City owns and operates O'Hare International Airport (O'Hare), which is managed by CDA as a separate Enterprise Fund of the City. CDA employs approximately 1,400 people, of which approximately 160 positions are budgeted for Midway, with an additional 50 employees for the winter season. There are approximately 7,435 badged employees at Midway, which include airline, concession, tenant, custodial, and contracted personnel.

Midway opened in 1927 as Chicago Municipal Airport and was renamed in 1949 in honor of those who fought in the Battle of Midway during World War II. In 1952, the Airport was home to 15 airlines that served 5 million passengers, making it the world's busiest airport at the time. Midway hosted the first trans-Atlantic service in the Midwest when Air France came to the Airport in 1953, followed by British Overseas Airways Corporation (now British Airways) in 1954. The opening of O'Hare in 1962 led to a gradual diminution of activity at Midway as the airlines moved their operations to O'Hare's larger facility, with all major airlines ceasing operations at Midway in 1973. The deregulation of the domestic airline industry in 1978 spurred the revitalization of the Airport, which was led by the start of Midway Airlines in 1979, the return of Northwest Airlines (now Delta Air Lines) in 1980, and the initiation of service by Southwest Airlines (Southwest) in 1985. In 2014, the Airport served 21.1 million passengers, making it the nation's 25th busiest airport.¹

The Airport encompasses an area of approximately 840 acres, bordered by 55th Street on the north, 63rd Street on the south, Central Avenue on the west, and Cicero Avenue on the east. It is approximately 10 miles southwest of downtown Chicago. The Airport's terminal is accessed from Cicero Avenue, which connects to Interstate 55 (the Stevenson Expressway) approximately two miles north of the Airport. The Airport is also connected to the downtown business district by the Chicago Transit Authority (CTA) rapid transit system Orange Line, which opened in 1993, as well as by surrounding city and suburban areas via bus service provided by both the CTA and Pace Suburban Bus Service.

¹ Airports Council International – North America, *2014 North American Traffic Summary* (latest data available).

2.1 The Role of the Airport

Midway is a major commercial airport serving the Chicago region. It is served by Delta Air Lines, Public Charters, Southwest Airlines and two foreign flag carriers, Volaris and Porter. In 2015, the Airport served 11.0 million enplaned passengers, approximately 39.0 percent² of which were connecting passengers. In April 2016, the airlines serving the Airport provide 272 daily non-stop flights to 78 markets.

The Airport's favorable geographical location, in relation to the national air service network, large population base, and proximity to Chicago's central business district, fostered the Airport becoming one of the largest stations in Southwest's network. While Southwest emphasizes local passengers in its operations, the volume of Southwest flights offered from Midway to meet local demand makes the Airport a key station in the airline's network due to the connecting opportunities afforded by the high amount of service. In 2015, Southwest provided an average of 239 flights per day from the Airport to 70 markets and accounted for 93.4 percent of the Airport's passenger enplanements.

2.2 Air Trade Area

For purposes of this Feasibility Study (the Report), the Air Trade Area for the Airport consists of the Chicago-Naperville-Elgin Metropolitan Statistical Area (MSA)³ and the Kankakee MSA. As presented on **Exhibit 2-1**, the Air Trade Area encompasses 15 counties in three states: Cook County, DeKalb County, DuPage County, Grundy County, Kane County, Kankakee County, Kendall County, Lake County, McHenry County, and Will County in Illinois; Jasper County, Lake County, Newton County, and Porter County in Indiana; and Kenosha County in Wisconsin.

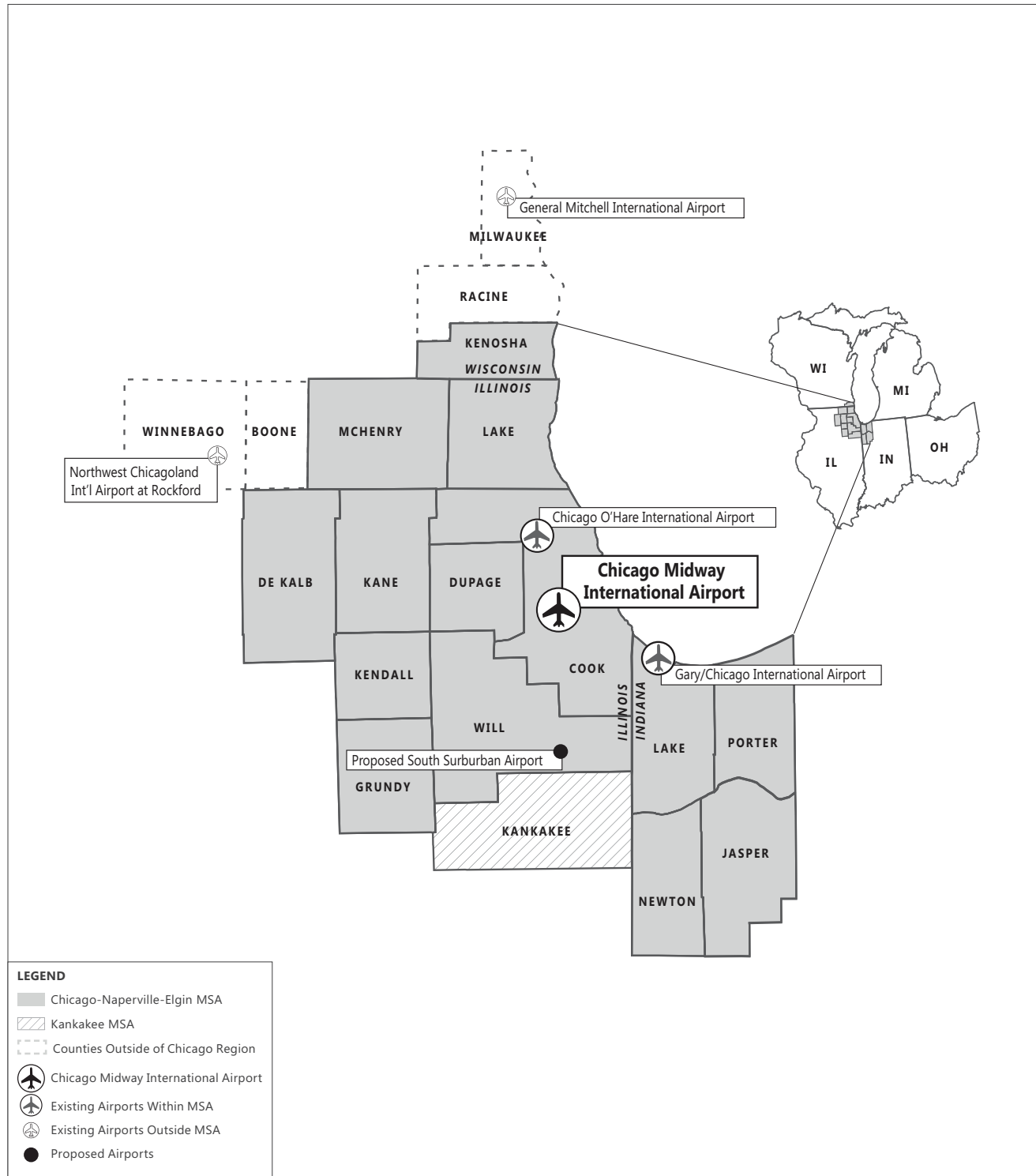
2.2.1 COMPETING AIRPORTS WITHIN OR NEAR THE AIR TRADE AREA

In addition to Midway, residents and visitors of the Chicago metropolitan area have access to the following airports that provide significant levels of commercial air service:

- Chicago O'Hare International Airport—located on the northwest side of the City, O'Hare is approximately 18 miles from the central business district and approximately 15 miles from Midway.
- General Mitchell International Airport (Milwaukee, Wisconsin)—located approximately 80 miles north of Chicago's central business district and 85 miles north of Midway.

² Full-year 2015 connecting passenger percentage was not available at the time of this Report and has been estimated.

³ A metropolitan statistical area (MSA) is a geographic entity delineated by the Office of Management and Budget (OMB) for use by Federal statistical agencies in collecting, tabulating, and publishing Federal statistics. MSAs have at least one urbanized area with a population of 50,000 or more, plus adjacent territory that has a high degree of social and economic integration with the urbanized area, as measured by commuting ties.



SOURCE: MapResources 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

EXHIBIT 2-1

Not to scale.

Air Trade Area

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These airports, and their competitive influence on Midway, are discussed further in Chapter 5 of this Report.

2.3 Airport Facilities

The Airport consists of the airfield, terminal area, general aviation facilities, maintenance and airport support areas, surface access and parking, and air cargo facilities. **Exhibit 2-2** provides an aerial view of the existing airfield and terminal facilities at the Airport.

2.3.1 AIRFIELD

Midway's airfield includes five runways with a complementary system of taxiways connecting the runways to the Airport's terminal, general aviation facilities, hangars, and maintenance buildings. The Airport's two main runways, 13C-31C, at 6,522 feet long, and 4R-22L, at 6,446 feet long, are capable of serving aircraft up to the equivalent in size of a Boeing 757. Runway 13C-31C and Runway 4R are equipped with instrument landing systems to allow enable operations in a variety of weather conditions. The Airport's remaining runways range in length from 3,859 feet to 5,507 feet and typically serve general aviation aircraft.

2.3.2 TERMINAL AREA

Midway's terminal facilities were redeveloped through a 7-year capital program, referred to as the Terminal Development Program, which was completed in 2004. The program included the construction of a new 1-million-square-foot passenger terminal with three concourses. The terminal is located immediately east of Cicero Avenue, adjacent to a six-story parking structure, while the three concourses lie to the west of Cicero Avenue and are connected to the terminal by a pedestrian bridge over the roadway. The three concourses provide access to 43 aircraft gates, of which, 31 are preferential use gates and 12 are common use gates. Three of the common use gates are capable of, and are currently used to, serve inbound international passengers through a direct, secure corridor to a Federal Inspection Service (FIS) facility. Concession facilities include 28 food and beverage locations, including a central Chicago-themed food court, and 22 retail locations. The 2016 Airport Projects include the construction of an 80,000 square foot pavilion to expand the existing passenger security checkpoint and concession areas, and widen the existing passenger bridge to the north and south as a means of accommodating current and future passenger traffic. The project is described in additional detail in Section 3.1.5 of this Report.

2.3.3 GENERAL AVIATION FACILITIES

General aviation facilities are located on the west and south sides of the airfield. The general aviation facilities include corporate flight facilities, avionics repair shops, and two fixed-based operators (FBOs): Atlantic Aviation and Signature Flight Support.



SOURCE: ESRI Database (Aerial Imagery), ESRI, DigitalGlobe, GeoEye, i-cubed, USDA, USGS, AEX, Getmapping, Aerogrid, IGN, IGP, swisstopo, and the GIS User Community, obtained: January 28, 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

EXHIBIT 2-2



NORTH

Not to scale.

Chicago Midway International Airport

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2.3.4 MAINTENANCE/AIRPORT SUPPORT AREAS

The City owns various equipment and maintenance facilities predominantly located along the border of the Airport. These support facilities include fuel farms, airport and airline maintenance facilities, including the Airport Maintenance Complex, the Aircraft Rescue and Fire Fighting (ARFF) station, and the FAA Airport Traffic Control Tower.

2.3.5 SURFACE ACCESS

Vehicular access to the passenger terminal complex is provided by Interstate 55 (the Stevenson Expressway), local streets and, ultimately, an elevated roadway entrance off Cicero Avenue between 55th Street and 63rd Street. Recirculation roadways enable drivers to transition between the two levels of terminal access and the parking garage.

2.3.6 PARKING

A six-level Terminal Parking Garage is located adjacent to the passenger terminal. The structure opened in 1999 and currently includes one level of hourly parking with approximately 360 parking spaces, and five levels of daily parking with approximately 2,110 parking spaces. In 2013, the Terminal Parking Garage transferred 375 rental car ready/return spaces to a new Consolidated Rental Car Facility (CRCF); therefore, the entire Terminal Parking Garage is now for public parking. The 2016 Airport Projects include the expansion of the Terminal Parking Garage. Additional detail on this project is in Section 3.1.3 of this Report. Economy parking facilities include a surface lot and a seven-level economy parking structure located on 55th Street that collectively provide 8,842 public parking spaces. A cell phone lot opened in 2006 that enables people to wait for arriving passengers outside the terminal roadway system. In addition, the Airport maintains two employee parking lots, totaling 1,069 spaces.

2.3.7 RENTAL CAR FACILITIES

In April 2013, a CRCF was opened that includes an elevated parking structure and a Quick-Turn-Around (QTA) facility. The parking structure includes four covered levels and one uncovered rooftop level. The first level includes a customer service center that has replaced the service counters in the passenger terminal, and it includes a public lobby, rental car company counters, public restrooms, rental car offices, employee restrooms, and elevators to the car storage levels. Approximately 1,300 ready/return spaces are provided on the four covered levels, in addition to approximately 548 vehicle storage spaces on the uncovered roof, for a total of approximately 1,870 spaces. The single level QTA is located immediately east of the elevated parking structure. Vehicle preparation facilities at the QTA include 10 at-grade wash bays, office and ancillary facilities for each company, employee restrooms, and bicycle parking. All rental car operations are operated from this facility, which is connected to the terminal complex via a dedicated roadway and shuttle bus operations.

2.3.8 AIR CARGO FACILITIES

Certain hangars located on the north and south sides of the Airport's airfield are leased by Southwest to process cargo. The cargo activity at the Airport consists of belly cargo carried by the passenger airlines.

3. The 2016 Airport Projects, Capital Improvement Program, and Funding Sources

3.1 The 2016 Airport Projects

A portion of the proceeds of the Series 2016 Bonds is anticipated to be used to fund the 2016 Airport Projects, which consist of certain projects contained in the Airport's 2016–2022 Capital Improvement Program (CIP).

3.1.1 2016 AIRPORT PROJECTS PLAN OF FINANCE

For purposes of this Report, it was assumed that the total cost of the 2016 Airport Projects will be funded in whole with proceeds from the Series 2016 Bonds, which is estimated to be \$308.0 million.

Airline Party approval has been received for all of the 2016 Airport Projects. The City has also obtained the required approval from the Chicago/Gary Regional Airport Authority for the 2016 Airport Projects. **Table 3-1** presents the 2016 Airport Projects and their estimated costs.

Additional information on the 2016 Airport Projects is provided in the following sections.

3.1.2 AIRFIELD PROJECTS

Runway 4R-22L Rehabilitation

This project includes the rehabilitation of Runway 4R-22L. It will include a variable-depth asphalt mill and overlay of the runway, shoulders, and adjacent connector/crossing taxiways and their shoulders, as well as a runway centerline light adjustment. This project will also include the construction and installation of new shoulder and edge lights, conduit, cable, and underdrains. This project will complete the upgrade of Taxiway P north of 4R-22L to meet FAA criteria for 737 aircraft.

Table 3-1: The 2016 Airport Projects

PROJECT DESCRIPTION	ESTIMATED PROJECT COST
Airfield Projects	
Runway 4R-22L Rehabilitation	\$21,854,912
Airport Maintenance Complex Improvements	12,460,909
Airfield Lighting Infrastructure Improvements	10,245,513
Cyclical Vehicle Replacement 2015–2017	5,291,178
AOA Perimeter Sound Wall Improvements	6,132,854
Taxiway A Extension	3,388,280
Secondary AMC Hangar Improvements	2,988,275
Subtotal	\$62,361,921
Parking and Roadway Projects	
Terminal Parking Garage Expansion	\$125,635,032
Economy Garage Lighting	4,521,068
Terminal Parking Garage Expansion (Conceptual Design)	1,731,624
Subtotal	\$131,887,724
Ramp Project	
Terminal Ramp Improvements	\$12,289,237
Terminal Projects	
Passenger Security Checkpoint Expansion	\$79,416,569
FIS 2nd Baggage Claim and Space Reconfiguration	11,701,961
Baggage System Crossover, Recapitalization and Optimization	5,907,895
Access Control System Replacement	4,437,033
Subtotal	\$101,463,458
Total 2016 Airport Projects	\$308,002,340

NOTE: Includes allocated implementation costs.

SOURCE: City of Chicago, Department of Aviation, April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

Airport Maintenance Complex Improvements

This project consists of renovations to the Airport Maintenance Complex. It includes the following: the replacement of the heating, ventilation, and air conditioning (HVAC) system for the garage with a more energy-efficient system, the replacement of the overhead doors and associated hardware, an upgrade to the emergency generator and switchgear, and the replacement of the boilers with more energy-efficient boilers. Also included in this project are the expansion and replacement of the potassium acetate pumps and tanks to allow for a total of 90,000 gallons of on-site storage. Additionally, the roofing membrane will be replaced; the windows will be upgraded; the HVAC system in the office area will be replaced; the emergency egress doors

and hardware will be replaced; and there will be improvements made for Americans with Disabilities Act (ADA)-compliant accessibility.

Airfield Lighting Infrastructure Improvements

The scope of this project includes the design and installation of a new duct bank/manhole system that will provide a more efficient and easier-to-maintain airfield electrical system. This will include a new duct bank to provide more direct routing of circuits, as well as include the installation of new manholes and handholes that minimize the need to access Runway and Taxiway Safety Areas during maintenance. Also included in this project will be the replacement of aging cabling and the inclusion of additional capacity to handle future improvements and demand.

Cyclical Vehicle Replacement

This project is intended for the acquisition of the following pieces of equipment: Chicago Fire Department (CFD) staircase (1), jet air (1), dual sweeper (1); Chicago Police Department (CPD) tow truck (2), high lift (2), CFD crash truck (1), runway blower (2), sander with plow (4), runway blower (2), and a mower tractor (1). Cyclical replacements are necessary to maintain the effectiveness of Midway security, snow removal operations, and airfield maintenance.

AOA Perimeter Sound Wall Improvements

This Airport Operations Area (AOA) project will provide the design and construction for the selective rehabilitation of the existing sections of the acoustical metal sound wall systems. This will include selective replacement of damaged panels, columns, and structural wall components, painting of the entire system, and grading work at the base.

Taxiway A Extension

This project includes the construction of a new Taxiway A extension to the West Ramp, including concrete pavement, bituminous shoulders, and associated drainage and lighting installation. Also included in this project will be the widening of the remaining existing portion of Taxiway A to the required dimensions per current FAA design criteria in order to further improve the efficiency of Runway 13C-31C.

Secondary Airport Maintenance Complex Hangar Improvements

Improvements to the Airport hangars will be made, which includes cleaning and painting the exterior of the building, removing and replacing the existing roof, replacing the track for the hangar doors, reconstructing the apron pavement, installing hangar floor drains and drain pipe, upgrading the HVAC and lighting systems, and making the necessary changes to bring the building in compliance with current building codes and ADA regulations.

3.1.3 PARKING AND ROADWAY PROJECTS

Terminal Parking Garage Expansion (Conceptual Design and Construction)

The CDA has determined that an opportunity to increase parking revenue exists in the expansion of the Terminal Parking Garage. The existing six-level Terminal Parking Garage currently includes 360 hourly parking

spaces and 2,110 daily parking spaces. The Terminal Parking Garage offers parking immediately adjacent to the terminal, and it consistently operates at a high level of occupancy and closes due to meeting capacity limitations.

In June 2013, as a result of the relocation of the rental car agencies to the CRCF, 375 spaces were added to daily parking on the 2nd level; however, this did not eliminate garage closures. In order to accommodate the increasing number of passengers with convenient parking and increase parking revenues at the airport, additional premium parking will be made available as part of the expansion project.

At the current level of enplanements, at peak times the demand for spaces in the Terminal Parking Garage exceeds capacity, resulting in closures of the garage. In February 2016, the Terminal Parking Garage reached capacity nine days during the month resulting in closure of the garage for a total of approximately 57 hours.¹ The demand for these parking spaces, which are located near the terminal ticket counters and baggage claim area, provides the potential for the Airport to increase non-airline revenues. Potential incremental parking revenues resulting from this project are described in Chapter 6 of this Report.

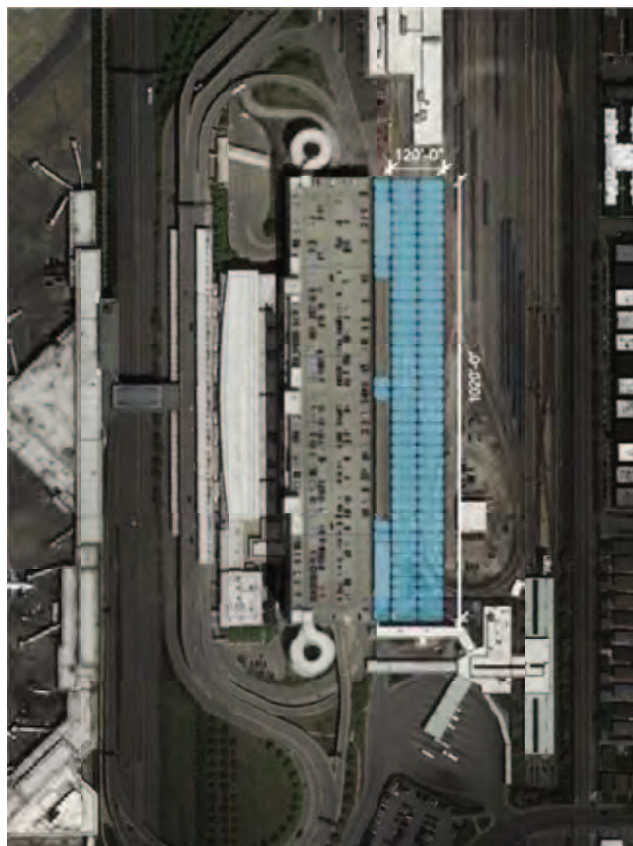
The scope of the conceptual design component of the project is to prepare 60 percent of the conceptual design documents associated with expanding the existing terminal parking structure over the adjacent active CTA rail-yard property. A conceptual design is necessary to thoroughly assess all constructability issues associated with the project. The preliminary engineering will include design parameters for the proposed structure, identifying constructability constraints and existing infrastructure impacts, and establishing upgrade requirements for the existing parking structure. The scope of the design will include phasing logistics, and it will also address operational impacts associated with the proposed extension of the Terminal Parking Garage.

The construction project will expand the space capacity in the Terminal Parking Garage by extending the existing garage through construction above the western half of the CTA rail lines that are located next to the garage. Assuming a five-level extension of the current facility, the extension would provide a total of 1,562 parking spaces, including vertical circulation.

Exhibit 3-1 presents a rendering of the Terminal Garage Parking Expansion project.

¹ Standard Parking, Monthly Lot Closure Summary, February, 2016:

Exhibit 3-1: Terminal Garage Parking Expansion



SOURCE: Chicago Department of Aviation, April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

Economy Garage Lighting

Midway's Economy Garage Parking Structure will be upgraded with LED light fixtures in order to provide the same lighting level that currently exists in the parking structure at a reduced wattage. The anticipated savings on utilities expenses resulting from this project are described in Chapter 6 of this Report.

3.1.4 RAMP PROJECT

Terminal Ramp Improvements

The existing concrete apron around the terminal gates reflects the first ramp pavement installed as part of the terminal program in 2000. The 2016 project will include the removal and replacement of the existing Concourse C apron to address significant cracking. The project includes the removal and replacement of the 6-inch Concrete-Treated Permeable Base Course as well as adjustments and repairs to existing drainage structures, grounding tie-downs, and new pavement markings.

3.1.5 TERMINAL PROJECTS

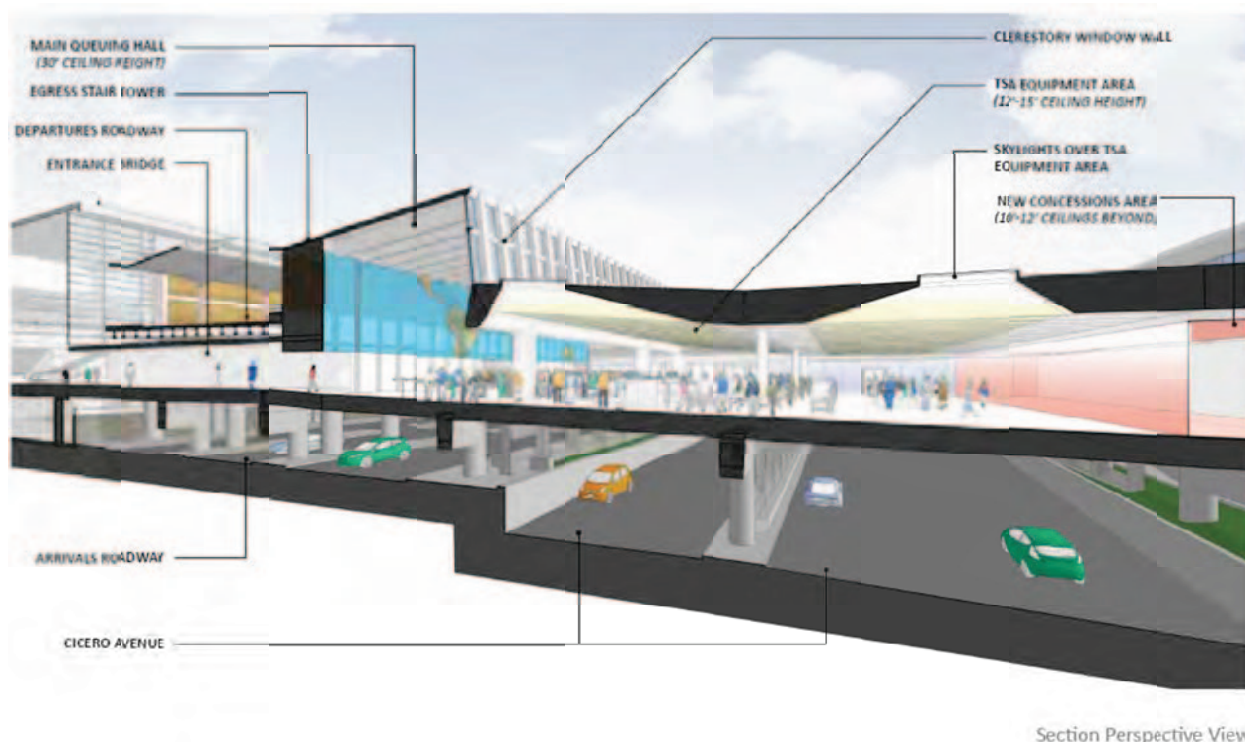
Passenger Security Checkpoint Expansion

During peak hours, passenger security screen lines extend beyond the existing bridge and into the terminal parking garage. Existing passenger demand and forecast activity increase both support the expansion of the security checkpoint area.

The project will construct an 80,000 square foot pavilion to accommodate current and future passenger traffic flow. This project will increase the area available for queuing by approximately 80,000 square feet. The existing security checkpoint would be relocated into the pavilion, creating an additional 18,000 square feet of potential revenue-generating areas adjacent to the existing food court. Potential incremental non-airline revenues resulting from this project are described in Chapter 6 of this Report.

The project includes the installation of building foundations, the erection of structural concrete and steel, the installation of a building roof, and the installation of HVAC, communications, and security systems, along with a facade to complement the existing building finishes both north and south of the bridge. The building shell and core elements (i.e., mechanical, electrical, plumbing, and fire protection) will be extended to service the building expansion, and the new space will receive tenant interior finishes. The tie-in to the existing bridge will include the demolition of the existing facade and miscellaneous items to facilitate tie-ins to the pedestrian bridge. In addition to the widening of the pedestrian bridge, there will be a 10,000-square-foot build out to the south of the bridge that ties in to the terminal.

Exhibit 3-2 presents a rendering of the Passenger Security Checkpoint Expansion project.

Exhibit 3-2: Passenger Security Checkpoint Expansion

SOURCE: Chicago Department of Aviation, April 2016.
 PREPARED BY: Ricondo & Associates, Inc., April 2016.

FIS 2nd Baggage Claim and Space Reconfiguration

The FIS Baggage Claim area and the U.S. Customs and Border Protection (CBP) Office will be modified and redevelopment to provide additional baggage claim capacity.

This project will add one additional slope-plate baggage claim device in areas currently occupied by CBP offices, and it will replace the existing flat-plate baggage claim device in the FIS International Baggage Claim Hall with a new slope-plate claim device. The project will also reconfigure existing CBP offices, and create additional public finished space to enable the installation of the additional slope-plate baggage claim device with associated conveyors.

The baggage claim configuration will provide the ability to store approximately 200 bags on two rotating sloped-plate baggage claim units, increasing capacity by approximately 75%. In addition, improvements will be made to the bag recheck area for connecting passengers. The reconfigured CBP spaces will consolidate certain functions and improve passenger interview and screening spaces. In order to fully accommodate the CBP requirements, changes to the existing baggage recheck lobby and existing Transportation Security Administration (TSA) office space will be required. The preliminary floor plan for the reconfigured CBP layout is anticipated to encompass 12,860 square feet.

Baggage System Crossover and Recapitalization and Optimization Program

This project will enable the airlines to separate bags from multiple flights with similar departure times by directing bags to a fourth makeup. The current operational restriction only allows bags to be sent to three makeups. This project will increase operational flexibility by allowing bags inducted at the north or south ticket counters to be sent to any of the four makeups. In addition, the project includes the replacement of the Explosives Detection System (EDS) equipment on the north portion of the system as part of the TSA Recapitalization and Optimization program. The replacement of the EDS equipment on the south portion may occur as part of a future project.

Access Control System Replacement

Access to secured areas of the Airport is controlled by federally mandated gates and doors. Each of these functions uses a reader connected to the Airport's access control system. The existing access control system equipment is nearing the end of its useful life. This project replaces the antiquated equipment with a new biometric access control system, along with the associated ID badging system. The new biometric access control system is intended to enhance security and increase efficiencies by establishing an alternate recognition pathway with a decrease in failed legitimate access attempts.

3.2 The 2016–2022 Capital Improvement Program

The Airport maintains a multi-year CIP. As a result of having relatively new infrastructure and no significant airfield modifications planned, the Airport CIP focuses on ongoing repair, maintenance, and minor capital projects, in lieu of major capital undertakings. The current CIP includes a project cost estimate of approximately \$458.3 million for calendar years 2016–2022. **Table 3-2** shows the annual 2016–2022 CIP costs by category. The 2016 Airport Projects are included in the 2016–2022 CIP.

- **Airfield and Support Facilities**—Approximately \$99.3 million of airfield improvements are included in the CIP. Additional airfield improvements, beyond what is included in the 2016 Airport Projects, will include the rehabilitation of taxiways, service roads, lighting and cabling, and electrical systems.
- **Terminal Improvements**—Approximately \$118.3 million of terminal improvements, which consist primarily of the Terminal Passenger Security Checkpoint Expansion and other 2016 Airport Projects, and also include infrastructure improvements and upgrades to mechanical, electrical, fire protection, lighting, heating and refrigeration, and build control systems.

Table 3-2: 2016–2022 Capital Improvement Program Costs by Category (in thousands)

CATEGORY	2016	2017	2018	2019	2020	2021	2022	TOTAL
Terminal Area Projects	\$8,355	\$47,871	\$50,661	\$11,444				\$118,330
Land Acquisition	3,000	2,000	1,000	1,000	\$2,739			9,739
Airfield Projects	32,938	11,825	34,300	19,960	50	200	50	99,323
Parking/Roadway Projects	9,440	11,890	57,174	58,955				137,459
Noise Projects	22,893	15,289	16,514					54,696
Safety and Security	916	6,548	1,120					8,584
Implementation	5,625	6,587	10,973	6,365	386	135	90	30,161
Total Estimated Costs	\$83,168	\$102,010	\$171,741	\$97,724	\$3,175	\$335	\$140	\$458,293

SOURCE: Chicago Department of Aviation, April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

- **Parking and Roadway**—Approximately \$137.5 million of planned parking and roadway improvements are included in the CIP, which, in addition to the Terminal Parking Garage Expansion and other 2016 Airport Projects, include, landside parking lot improvements, revenue control equipment for the terminal garage, landside parking lot improvements for public and employee parking, and lighting system upgrades.
- **Noise Mitigation**—Approximately \$54.7 million of residential noise mitigation projects are included in the CIP. The current phase of the residential noise mitigation will complete all eligible residences in the 65 day-night level noise contour, approximately 2,700 homes.
- **Safety and Security**—Approximately \$8.6 million for safety and security in the CIP is for a major project to upgrade the security camera system at the Airport.
- **Implementation**—Approximately \$30.2 million of implementation costs are included in the CIP. These costs include 7 years of implementation costs. Implementation costs allocated to the 2016 Airport Projects are included in the project-category costs shown in Table 3-1.

3.3 Funding Sources

The funding sources for the CIP include a combination of Airport Improvement Program (AIP) entitlement funds, other Airport funds, Series 2010 MARBs, Series 2014 MARBs, a portion of the Series 2016 Bonds, and future MARBs. PFC revenue is used to pay MARB debt service for PFC-eligible debt. **Table 3-3** shows the funding sources for the 2016–2022 CIP costs by category.

Table 3-3: 2016–2022 Capital Improvement Program Funding Sources (in thousands)

CATEGORY	2016	2017	2018	2019	2020	2021	2022	TOTAL
AIP Entitlement Funds	\$16,425	\$2,000	\$2,000					\$20,425
Other Federal Funds		3,719						3,719
Previously Issued MARBs	66,744	35,769						102,513
Series 2016 Bonds		60,522	169,741	\$77,739				308,002
Future Bonds/Commercial Paper				19,985	\$3,175	\$335	\$140	23,633
Total	\$83,168	\$102,010	\$171,741	\$97,724	\$3,175	\$335	\$140	\$458,293

SOURCE: Chicago Department of Aviation, April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

3.3.1 MIDWAY AIRPORT REVENUE BONDS

Funding for the 2016–2022 CIP includes previously issued MARBs, the Series 2016 Bonds, and future MARBs. Approximately \$102.5 million of previously issued MARBs will be used for the CIP projects. The Series 2016 Bonds will fund approximately \$308.0 million of the CIP projects. The City anticipates using approximately \$23.6 million of future bonds and/or commercial paper for the remaining costs of the 2016–2022 CIP. Due to the uncertainty of the timing for this funding, and the potential for additional capital projects to be added, future debt is not reflected in the debt service projections in the financial analysis in Chapter 6.

3.3.2 AIRPORT IMPROVEMENT PROGRAM AND OTHER FEDERAL FUNDS

The Airport has applied for FAA AIP grant funds for certain eligible projects at the Airport. Approximately \$20.4 million of AIP entitlement funds are anticipated to be used for 2016–2022 CIP projects. The AIP entitlement funds are associated with taxiway rehabilitation work and noise projects. The Airport will apply for AIP discretionary funds for the noise mitigation projects upon the completion of a noise compatibility plan. If additional AIP funding is received, then the amount of future bonds will be reduced.

3.3.3 PASSENGER FACILITY CHARGE REVENUE

A PFC of \$4.50 is collected for each eligible enplaned passenger at the Airport. PFC revenue is pledged to PFC-eligible debt service and does not fund projects directly. The Airport currently has authority to collect up to approximately \$2.21 billion of PFC revenue, with a collection expiration date of September 1, 2054. A projection of PFC revenues applied to MARB debt service is presented in Chapter 6 of this Report.

3.3.4 CUSTOMER FACILITY CHARGE REVENUE

Customer Facility Charge (CFC) Revenue is not anticipated to be used to fund any of the 2016–2022 CIP Projects at the Airport. CFC Revenue is used to pay debt service on the Series 2010C Bonds issued to fund the CRCF and may be used to pay certain CFC-eligible O&M Expenses associated with the CRCF and rental car busing operations.

4. Demographic and Economic Analysis

To a large degree, the demand for air transportation is dependent upon the demographic and economic characteristics of the geographical area served by an airport, which is commonly referred to as an airport's air trade area. This dependence is particularly significant for origin and destination (O&D) passenger traffic, which accounted for approximately 61 percent of passenger traffic at the Airport in 2014. Therefore, a major portion of demand for air transportation at the Airport is influenced by the local characteristics of the Air Trade Area served by the Airport, rather than by individual airline decisions regarding service patterns in support of connecting activity. This chapter¹ presents data indicating that the Airport's 15-county Air Trade Area, described in Chapter 2 of this Report, has an economic base capable of supporting increased airline traffic demand through the Projection Period (ending Fiscal Year 2025).

4.1 Demographic Analysis

4.1.1 POPULATION

With a population of more than 9.7 million recorded for 2015, the Air Trade Area is the third most populous metropolitan region in the United States (see **Exhibit 4-1**), and it is a major air transportation market. Approximately 2.7 million of the Air Trade Area's total population resides in the City of Chicago.²

Population growth is a key factor creating demand for airline travel. Data in **Table 4-1** show that the Air Trade Area added approximately 369,700 to its population between 2005 and 2015, or approximately 36,900 per year. The Air Trade Area's historical rate of population growth was higher than that of the Midwest, but it was lower than that of the United States—a relationship that is expected to continue through 2025. The Air Trade Area population projection for the period 2015 through 2025 reflects a compound annual growth rate (CAGR) of 0.6 percent, a rate that is higher than what is projected for the Midwest (0.5 percent) but lower than what is projected for the United States (0.9 percent).³ The projected increase of approximately 612,000 new residents in the Air Trade Area during this period is expected to generate additional demand for airline service at the Airport.

¹ This chapter was prepared by Partners for Economic Solutions, a consulting firm based in Washington, D.C., that specializes in regional economic analysis.

² United States Census Bureau, *July 1, 2014 City of Chicago population estimate* www.census.gov/quickfacts/table/PST045215/00,1714000 (accessed January 2016).

³ Woods & Poole Economics, Inc., *2015 Complete Economic and Demographic Data Source (CEDDS)*, June 2015.

Exhibit 4-1: Ten Largest Metropolitan Regions in the United States (2015)



NOTE:

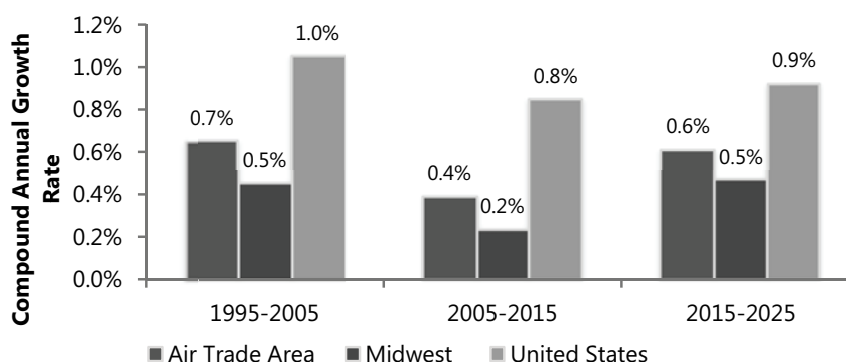
CSA = Combined Statistical Area

SOURCE: Woods & Poole Economics, Inc., *2015 Complete Economic and Demographic Data Source* (CEDDS), June 2015.

PREPARED BY: Ricondo & Associates, Inc., February 2016.

Table 4-1: Historical and Projected Population (1995–2025)

AREA	HISTORICAL			PROJECTED
	1995	2005	2015	2025
Air Trade Area	8,795,306	9,384,219	9,753,872	10,365,706
Chicago-Naperville-Elgin MSA ^{1/}	8,693,383	9,276,302	9,640,821	10,247,374
Kankakee MSA ^{2/}	101,923	107,917	113,051	118,332
Midwest ^{3/}	43,923,694	45,949,142	47,028,573	49,264,740
United States	266,278,393	295,516,599	321,449,214	352,280,991



NOTES:

1/ Chicago-Naperville-Elgin MSA is defined as Cook County (IL), DeKalb County (IL), DuPage County (IL), Grundy County (IL), Kane County (IL), Kendall County (IL), Lake County (IL), McHenry County (IL), Will County (IL), Jasper County (IN), Lake County (IN), Newton County (IN), Porter County (IN), and Kenosha County (WI).

2/ Kankakee MSA is defined as Kankakee County (IL).

3/ The Midwest comprises the states of Illinois, Indiana, Michigan, Ohio, and Wisconsin.

SOURCE: Woods & Poole Economics, Inc., *Complete Economic and Demographic Data Source* (CEDDS), June 2015.

PREPARED BY: Partners for Economic Solutions, February 2016.

4.1.2 AGE DISTRIBUTION AND EDUCATION

Demand for airline travel varies by age group, and this is a factor influencing O&D passenger activity at the Airport. According to Consumer Expenditure Survey data from the U.S. Department of Labor, Bureau of Labor Statistics, in the United States, persons between the ages of 25 and 34 account for 14 percent of airfare expenditures, while persons between the ages of 45 and 54 account for 24.3 percent, and persons between the ages of 55 and 64 account for 24.1 percent.⁴

Table 4-2 shows that, in 2015, residents in the Air Trade Area aged 45 to 54 accounted for 13.7 percent of the population. Thus, the age group that generates the most expenditures on airfares is slightly higher in the Air Trade Area compared with the same age group for both the Midwest and United States populations.

⁴ New Strategist Publications, *Who's Buying for Travel* (10th ed.), 2014. Data in *Who's Buying for Travel* are based on the U.S. Department of Labor, Bureau of Labor Statistics' Consumer Expenditure Survey, a nationwide survey of household spending.

Table 4-2: Age Distribution and Educational Attainment (2015)

	AIR TRADE AREA	MIDWEST	UNITED STATES
AGE DISTRIBUTION			
Total Population	9,753,872	47,028,573	321,449,214
By Age Group			
19 and Under	26.3%	25.6%	25.6%
20 to 24 Years	6.8%	7.0%	7.1%
25 to 34 Years	14.3%	13.0%	13.7%
35 to 44 Years	13.4%	12.3%	12.6%
45 to 54 Years	13.7%	13.6%	13.4%
55 to 64 Years	12.4%	13.4%	12.7%
65 and Above	13.1%	15.2%	14.9%
Total	100.0%	100.0%	100.0%
Median Age	36.8 years	38.6 years	37.8 years
EDUCATIONAL ATTAINMENT			
Population 25 years and Over	6,525,3340	31,715,806	216,349,438
By Highest Level Achieved			
Less than 9th Grade	6.1%	3.9%	5.7%
9th–12th Grade, No Diploma	6.3%	7.0%	7.5%
High School Graduate	21.8%	26.7%	23.5%
GED/Alternative Credential	3.0%	4.0%	4.1%
Some College, No Degree	20.2%	21.5%	21.0%
Post-Secondary Degree	42.6%	36.9%	38.2%
<i>Associate's Degree</i>	7.0%	8.5%	8.2%
<i>Bachelor's Degree</i>	21.6%	17.7%	18.6%
<i>Master's Degree or Doctorate</i>	14.0%	10.7%	11.4%
Total	100.0%	100.0%	100.0%

SOURCES: Woods & Poole Economics, Inc., *Complete Economic and Demographic Data Source* (CEDDS), June 2015; ESRI, *Market Profiles for MSAs, States, and U.S.*, January 2016.

PREPARED BY: Partners for Economic Solutions, February 2016.

According to Consumer Expenditure Survey data, persons with a college degree generate a high percentage of expenditures on airline travel. Data indicate that 72.4 percent of airfares are purchased by college graduates, while 14.0 percent are purchased by consumers who have had some college, and 13.6 percent are purchased by consumers who never attended college.⁵ As shown in Table 4-2, more than 42 percent of the Air Trade Area's population over the age of 25 have a post-secondary degree (associate's, bachelor's, master's, or doctorate)—a higher percentage than the populations of both the Midwest (36.9 percent) and the United States (38.2 percent).

In addition to having a highly educated population, the Air Trade Area is also home to more than 40 colleges and universities, with total enrollment of approximately 292,000 students.⁶ These institutions generate a demand for airline service through academic meetings and conferences, visiting professorships, study abroad programs, and individual student and faculty travel.

4.1.3 PER CAPITA PERSONAL INCOME

Another key indicator of a region's demand for airline travel is per capita personal income.⁷ Per capita personal income indicates the relative affluence of a region's residents, as well as their ability to afford airline travel. It can also be an indicator of an area's attractiveness to both business and leisure travelers. Regions with higher per capita personal income often have stronger business connections to the rest of the nation as well as a more developed market for tourism.

Exhibit 4-2 presents historical per capita personal income for 2005 through 2015 for the Air Trade Area, the Midwest, and the United States. As shown, between 2005 and 2015, per capita personal income in the Air Trade Area was higher than that of the Midwest and the United States. Per capita personal income for the Air Trade Area increased at a CAGR of 0.7 percent between 2005 and 2015, which is lower than the rate for both the Midwest (0.9 percent) and the United States (1.0 percent) during the same period.

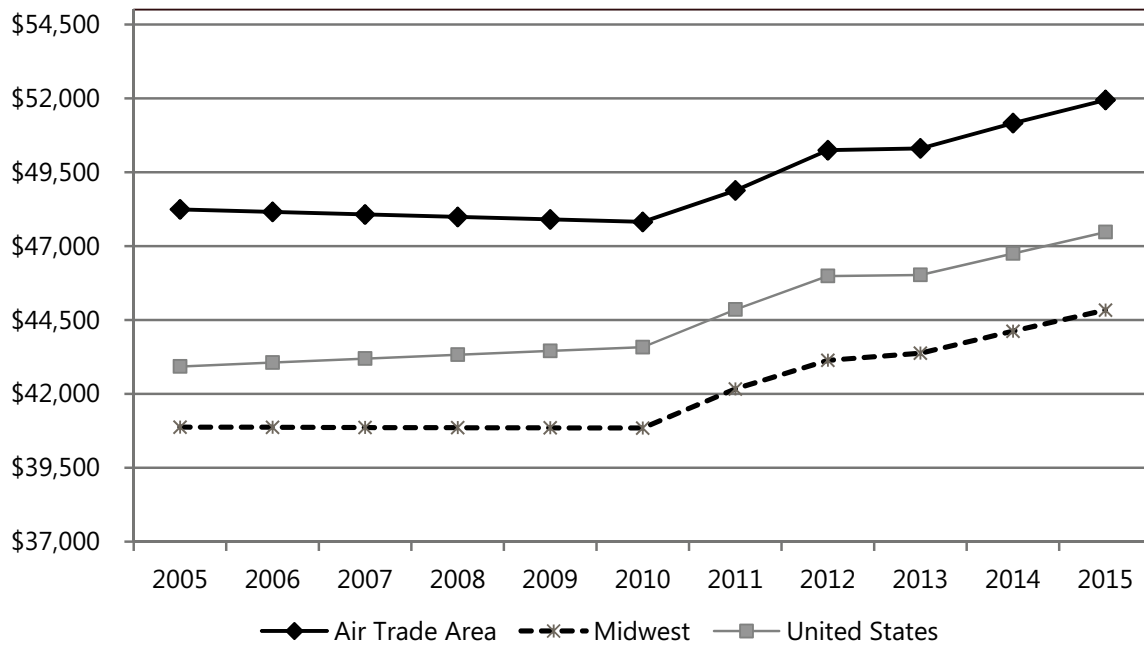
Exhibit 4-2 also shows that projected per capita personal income in the Air Trade Area is expected to increase at a CAGR of 1.5 percent, from \$51,942 in 2015 to \$60,010 in 2025.⁸ The projected growth rate for per capita personal income in the Air Trade Area is equal to that of the Midwest and the United States between 2015 and 2025.

⁵ New Strategist Publications, *Who's Buying for Travel* (10th ed.), 2014.

⁶ Enrollment data from institution web sites of 42 colleges and universities in the Air Trade Area, January 2016.

⁷ Per capita personal income is the sum of wages and salaries, other labor income, proprietors' income, rental income, dividend income, personal interest income, and transfer payments, less personal contributions for government social insurance, divided by the region's population.

⁸ Amounts are in 2015 dollars.

Exhibit 4-2: Per Capita Personal Income 2005–2015 (in 2015 dollars)

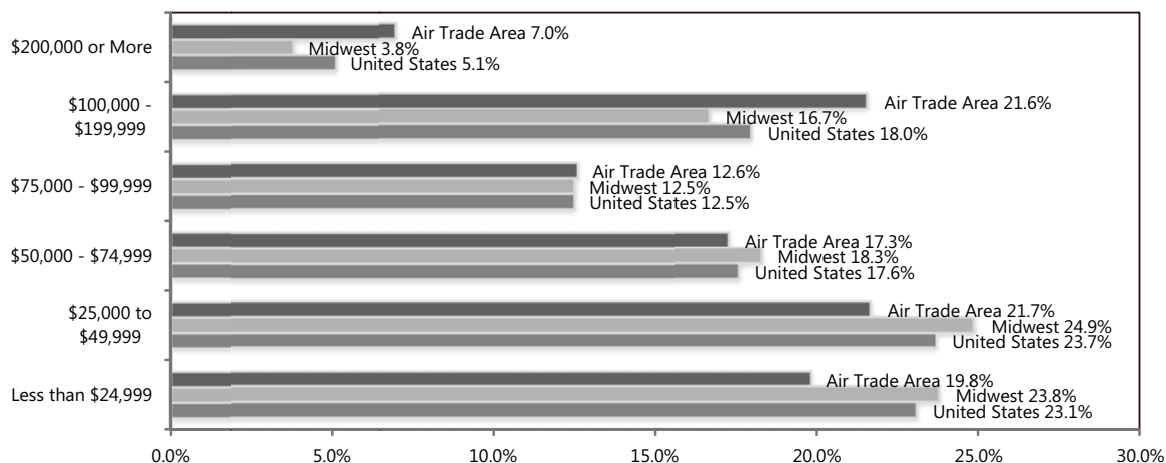
ANNUAL PER CAPITA PERSONAL INCOME GROWTH	AIR TRADE AREA	MIDWEST	UNITED STATES
2005–2015	0.7%	0.9%	1.0%
2015–2025 (Projected)	1.5%	1.5%	1.5%

SOURCE: Woods & Poole Economics, Inc., *Complete Economic and Demographic Data Source (CEDDS)*, June 2015.
 PREPARED BY: Partners for Economic Solutions, February 2016.

4.1.4 HOUSEHOLD INCOME DISTRIBUTION AND MEDIAN HOUSEHOLD INCOME

Exhibit 4-3 shows the 2015 household income distributions among the Air Trade Area, Midwest, and United States populations. The Air Trade Area's estimated 2015 median household income is significantly higher than that of both the Midwest and the United States. The Air Trade Area's median household income of \$59,940 in 2015 was 17.0 percent higher than that of the Midwest (\$51,230) and 12.6 percent higher than that of the United States (\$53,217).⁹

⁹ ESRI, *Market Profiles for MSAs, States, and U.S.*, January 2016.

Exhibit 4-3: 2015 Household Income Distribution (in 2015 dollars)

SOURCE: ESRI, *Market Profiles for MSAs, States, and U.S.*, January 2016.

PREPARED BY: Partners for Economic Solutions, February 2016.

4.1.4.1 Households with Income of \$100,000 and Above

The percentage of higher-income households (defined as those earning \$100,000 or more annually) within the Air Trade Area is another key indicator of potential demand for airline travel. According to Consumer Expenditure Survey data from the U.S. Department of Labor, Bureau of Labor Statistics, 51 percent of airfare expenditures are made by households with annual incomes of \$100,000 or more.¹⁰ With approximately 1,020,000 households earning \$100,000 or more in 2015, the Air Trade Area is among the wealthiest markets in the United States.¹¹

4.2 Economic Analysis

4.2.1 PER CAPITA GROSS DOMESTIC/REGIONAL PRODUCT

Per capita gross domestic product (GDP; U.S.-level data) and per capita gross regional product (GRP; state- and county-level data) are measures of the market value of all final goods and services produced within a defined geographic area, divided by the total population of the area. These indicators are broad measures of the economic health of a particular area and, consequently, of the area's potential demand for airline travel.

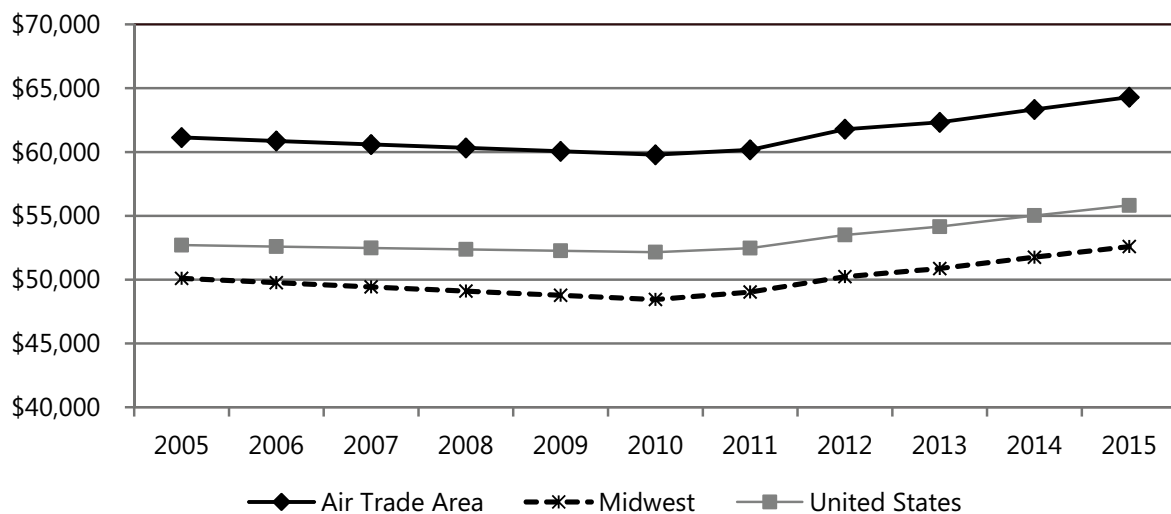
¹⁰ New Strategist Publications, *Who's Buying for Travel* (10th ed.), 2014.

¹¹ ESRI, *Market Profiles for MSAs, States, and U.S.*, January 2016.

Exhibit 4-4 presents historical per capita GRP data for the Air Trade Area and the Midwest, as well as per capita GDP data for the United States for 2005 through 2015.¹² The Air Trade Area's per capita GRP increased from \$61,135 in 2005 to \$64,299 in 2015.¹³ Exhibit 4-4 also indicates that per capita GRP for the Air Trade Area increased at a CAGR of 0.5 percent between 2005 and 2015, which is equal to the CAGR for the Midwest and slightly below the CAGR for the United States (0.6 percent) during the same period.

Per capita GRP for the Air Trade Area is projected to increase from \$64,299 in 2015 to \$73,388 in 2025.¹⁴ This increase represents a CAGR of 1.3 percent for the Air Trade Area, which is lower than the Midwest (1.4 percent) but higher than the United States (1.2 percent) during the same period.

Exhibit 4-4: Per Capita Gross Domestic/Regional Product (2005–2015) (in 2015 dollars)



ANNUAL PER CAPITA GDP/GRP GROWTH	AIR TRADE AREA	MIDWEST	UNITED STATES
2005–2015	0.5%	0.5%	0.6%
2015–2025 (Projected)	1.3%	1.4%	1.2%

SOURCE: Woods & Poole Economics, Inc., *Complete Economic and Demographic Data Source (CEDDS)*, June 2015.

PREPARED BY: Partners for Economic Solutions, February 2016.

¹² Amounts are in 2015 dollars.

¹³ Woods & Poole Economics, Inc., *2015 Complete Economic and Demographic Data Source (CEDDS)*, June 2015.

¹⁴ Woods & Poole Economics, Inc., *2015 Complete Economic and Demographic Data Source (CEDDS)*, June 2015.

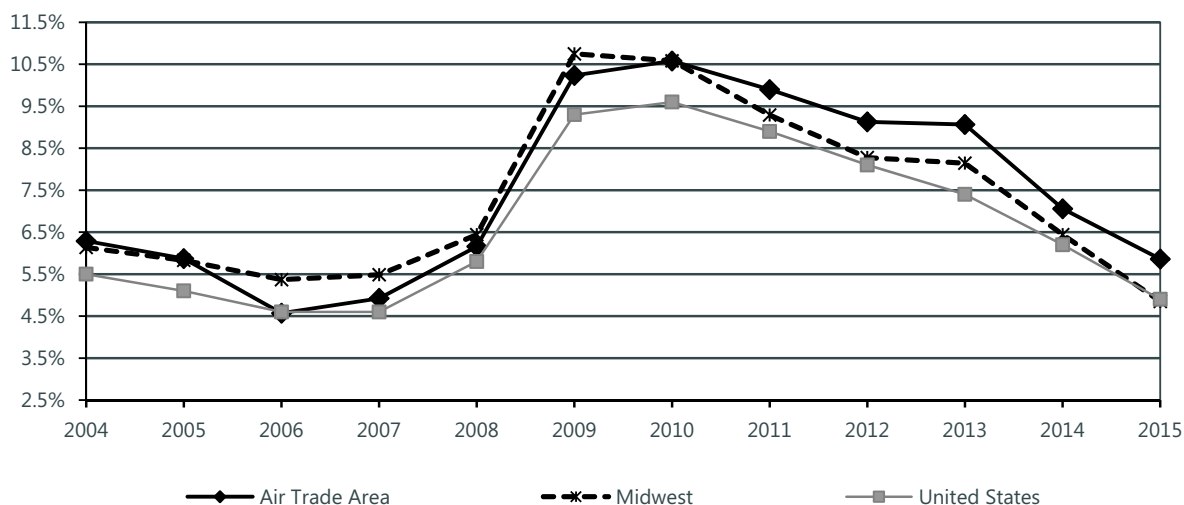
4.2.2 EMPLOYMENT TRENDS

Between 2004 and 2014, the Air Trade Area labor force grew at a CAGR of approximately 0.5 percent, which is higher than the rate of the Midwest (-0.1 percent) but lower than that of the United States (0.6 percent).

Exhibit 4-5 shows that the annual unemployment rate in the Air Trade Area was higher than that of the United States from 2004 through 2015, with the exception of 2006 when the two rates were equal. The Air Trade Area's unemployment rate was higher than that of the Midwest in 2004 and 2005, as well as from 2011 through 2015. The Air Trade Area's unemployment rate was lower than or equal to that of the Midwest from 2006 through 2010.

In 2015, the unemployment rate in the Air Trade Area was 5.8 percent; this was higher than the non-seasonally adjusted unemployment rate in both the Midwest (4.9 percent) and the United States (4.9 percent).¹⁵

Exhibit 4-5: Unemployment Rate (2004–2015)



SOURCES: State of Illinois Department of Employment Security, *Labor Market Information*; U.S. Department of Labor, Bureau of Labor Statistics, January 2016.

PREPARED BY: Partners for Economic Solutions, April 2016.

¹⁵ State of Illinois Department of Employment Security, *Labor Market Information*; U.S. Department of Labor, Bureau of Labor Statistics, March 2016.

4.2.3 BUSINESS CLIMATE

The Air Trade Area is the largest inland region in the United States with a global footprint; if it were measured as a country, it would be ranked as the 20th largest economy in the world.¹⁶ In an effort to assure long-term economic prosperity, Chicago Mayor Rahm Emanuel has adopted a regional economic development plan with 10 strategies for growth: expand advanced manufacturing; attract national and international headquarters; improve transportation and logistics; promote Chicago as a premier tourism destination; expand regional exports; improve workforce training; foster innovation and entrepreneurship; invest in next-generation infrastructure; leverage neighborhood assets to support regional growth; reduce bureaucracy and streamline government services.¹⁷

Governments, non-profits, and private-sector partners in the region have taken action to implement these strategies, including: a proposed manufacturing innovation park to combine research and development and technical training; site selection outreach by economic development staff; plans for expanded rail facilities in existing industrial corridors; an extensive tourism advertising campaign; development of innovation parks and incubators for life science start-ups; and collaboration and information sharing among local governments.¹⁸ These efforts reflect the Air Trade Area's commitment to enhancing its role on a global scale and to improving its competitive position for the future.

Employers are attracted to the Air Trade Area and its educated labor force. Data from World Business Chicago¹⁹ indicate that in 2015, there were 653 business expansions in the region, which is a 4.6 percent increase from 624 in 2014.²⁰ As a result of its attractive business climate, Chicago was chosen as the "Top Metro for Corporate Expansions and Relocations" by *Site Selection* in both 2013 and 2014.²¹ In addition, the Chicago metropolitan area was the leading North American region from 2013 through 2015, according to the IBM Global Location trends report.²² Business expansions in the Air Trade Area in 2015 included SC Johnson, Oscar Mayer Company, ConAgra Foods, Inc., Prescient Edge Inc., Glassdoor, Inc., Americaneagle.com, Mead Johnson Nutrition, Livingston International, and Textura Corporation.

4.2.4 MAJOR EMPLOYERS AND FORTUNE 500 HEADQUARTERS

A list of the 25 largest employers²³ in the Air Trade Area is presented in **Table 4-3**. In addition to providing an important source of local employment, the private sector employers, which make up approximately half of

¹⁶ World Business Chicago, *Plan for Economic Growth and Jobs*, <http://www.worldbusinesschicago.com/plan/> (accessed January 2016).

¹⁷ World Business Chicago, *10 Transformative Strategies*, <http://www.worldbusinesschicago.com/plan/> (accessed January 2016).

¹⁸ World Business Chicago, *Plan for Economic Growth and Jobs*, <http://www.worldbusinesschicago.com/plan/> (accessed January 2016).

¹⁹ Founded in 1999, World Business Chicago promotes regional economic growth through its business attraction, retention, and expansion initiatives (<http://www.worldbusinesschicago.com/about>).

²⁰ World Business Chicago, *Chicago by the Numbers*, <http://www.worldbusinesschicago.com/chicago-by-the-numbers-january-2016> (accessed January 2016).

²¹ World Business Chicago, *Chicago Named 2014 Top Metro for New and Expanding Companies*, March 2, 2015, <http://www.worldbusinesschicago.com/chicago-named-2014-top-metro-for-new-and-expanding-companies> (accessed January 2016).

²² IBM Institute for Business Value, *Global Location Trends Report 2015 Annual Report*, www.ibm.com/gbs/pli (accessed January 2016).

²³ The list in Table 4-3 includes employers in Cook (IL), DuPage (IL), Kane (IL), Lake (IN), Lake (IL), McHenry (IL), and Will (IL) counties. These seven counties made up 94.7 percent of total employment in the Air Trade Area in 2015.

the list in Table 4-3, depend on airline passenger and freight services for the continued health and expansion of their enterprises.

Table 4-3: Largest Employers in the Air Trade Area (2015) ^{1/}

COMPANY	NUMBER OF FULL-TIME LOCAL EMPLOYEES	INDUSTRY
U.S. Government	42,883	Government
Chicago Public Schools	37,406	Government
City of Chicago	30,276	Government
Cook County	21,795	Government
Advocate Health Care	18,308	Health Care
University of Chicago	16,197	Higher Education
Northwestern Memorial HealthCare	15,317	Health Care
State of Illinois	15,136	Government
JPMorgan Chase & Co.	14,138	Financial Services
United Continental Holdings (#79) ^{2/}	14,000	Airline
Walgreen Company (#35)	13,006	Retail
Health Care Service Corporation	13,006	Health Care
Presence Health	10,500	Health Care
Abbott Laboratories (#134)	10,000	Pharmaceuticals
Northwestern University	9,708	Higher Education
Jewel-Osco	9,660	Retail
Chicago Transit Authority	9,510	Government
University of Illinois at Chicago	9,212	Higher Education
American Airlines Group, Inc.	8,700	Airline
Rush University Medical Center	8,273	Health Care
AT&T Inc.	8,000	Telecommunications
Allstate Corporation (#89)	7,800	Insurance
Wal-Mart Stores, Inc.	7,700	Retail
Employco USA, Inc.	7,409	Payroll Services
Aon plc	7,335	Insurance

NOTES:

1/ Employers with the most full-time employees in Cook (IL), DuPage (IL), Kane (IL), Lake (IN), Lake (IL), , McHenry (IL), and Will (IL) counties.

2/ (#) indicates 2015 Fortune 500 ranking.

SOURCES: *Crain's Chicago Business*, "Chicago's Largest Employers," December 31, 2015; *Fortune*, "2015 Fortune 500," June 17, 2015.

PREPARED BY: Partners for Economic Solutions, February 2016.

Major employers in the Air Trade Area represent a wide range of industries: health care (Advocate Health Care, Health Care Service Corporation, Presence Health); airline companies (United Continental Holdings, American Airlines Group, Inc.); higher education (University of Chicago, Northwestern University, University of Illinois at Chicago); financial services (JPMorgan Chase & Co.), pharmaceuticals (Abbott Laboratories); insurance (Allstate Corporation, Aon plc); telecommunications (AT&T Inc.); and retail (Walgreen Company, Wal-Mart Stores, Inc.).

Each year *Fortune* magazine ranks the top 500 U.S. public companies in terms of annual revenue; in 2015, the Air Trade Area had the second highest number of Fortune 500 company headquarters in the nation, after the New York City metropolitan area. Corporations headquartered in the Air Trade Area include The Boeing Company (ranked 27th among the Fortune 500), Archer Daniels Midland Company (ranked 34th), Walgreen Company (ranked 35th), United Continental Holdings (ranked 79th), Allstate Corporation (ranked 89th), and Mondelēz International (ranked 91st). A full listing of the other Fortune 500 companies headquartered in the Air Trade Area is provided in **Table 4-4**.²⁴ In 2015, the Air Trade Area's 32 Fortune 500 headquarters represented 94 percent of the 34 Fortune 500 headquarters located in Illinois and 35 percent of the 91 Fortune 500 headquarters located in the Midwest.²⁵

4.2.5 MAJOR INDUSTRY SECTORS

Data for nonagricultural employment by major industry sector is presented on **Exhibit 4-6** and indicates the sources of jobs in the Air Trade Area's economy. This exhibit compares 2015 data for employment by industry in the Air Trade Area with data for the Midwest and the United States.

The Air Trade Area had greater percentages of employment in professional, technical, management, and administrative services compared with the Midwest and the United States in 2015. Exhibit 4-6 also shows that finance/insurance/real estate, transportation and utilities, and other services made up a higher percentage of Air Trade Area jobs compared with the Midwest and the United States. Leisure and hospitality, wholesale and retail trade, government, and construction jobs in the Air Trade Area accounted for lower percentages of employment in 2015 compared with the Midwest and the United States. The Air Trade Area's health and education employment was equal to the percentage for the Midwest and higher than the percentage for the United States in 2015. The percentage of manufacturing jobs in the Air Trade Area was lower compared to the Midwest but higher compared to the United States in 2015.

Data on Exhibit 4-6 indicate the Air Trade Area has a diversified employment base that is expected to provide the region with a stable foundation to withstand periodic downturns in the business cycle.

²⁴ Table 4-5 includes only those counties within the Air Trade Area in which Fortune 500 companies are located. See Exhibit 2-1 for a map of the entire (15-county) Air Trade Area.

²⁵ The Midwest comprises the states of Illinois, Indiana, Michigan, Ohio, and Wisconsin.

Table 4-4: Fortune 500 Companies Headquartered in the Air Trade Area (2015)

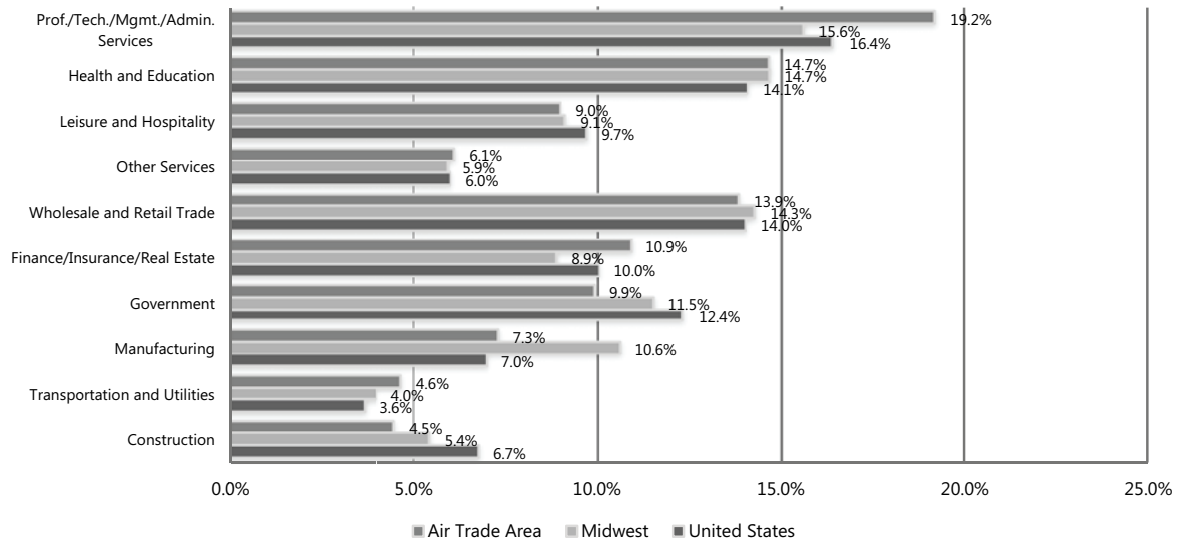
	COMPANY	FORTUNE 500 RANK	REVENUE (\$ MILLIONS)	LOCATION	INDUSTRY
1	The Boeing Company	27	\$90,762	Chicago	Aerospace
2	Archer Daniels Midland Company	34	\$81,201	Chicago	Agricultural Products
3	Walgreen Company	35	\$76,392	Deerfield	Retail
4	United Continental Holdings	79	\$38,901	Chicago	Airline
5	Allstate Corporation	89	\$35,239	Northbrook	Insurance
6	Mondelēz International	91	\$34,244	Deerfield	Food Products
7	Sears Holdings Corporation	99	\$31,198	Hoffman Estates	Retail
8	McDonald's	110	\$27,441	Oak Brook	Restaurant
9	Exelon Corporation	111	\$27,249	Chicago	Utility
10	US Foods, Inc.	128	\$23,020	Rosemont	Food Products
11	Abbott Laboratories	134	\$22,323	Abbott Park	Pharmaceuticals
12	AbbVie	146	\$19,960	North Chicago	Pharmaceuticals
13	Kraft Foods Group, Inc.	165	\$18,205	Chicago	Food Products
14	Baxter International Inc.	185	\$16,972	Deerfield	Pharmaceuticals
15	Illinois Tool Works Inc.	201	\$15,282	Glenview	Industrial Machinery
16	CDW LLC	253	\$12,075	Vernon Hills	Computer Equipment and Software
17	R.R. Donnelley & Sons Company	258	\$11,603	Chicago	Printing Services
18	Navistar International Corporation	276	\$10,806	Lisle	Automotive Equipment
19	W.W. Grainger, Inc.	290	\$9,965	Lake Forest	Industrial Machinery
20	Discover Financial Services	303	\$9,611	Riverwoods	Financial Services
21	Tenneco Inc.	341	\$8,420	Lake Forest	Automotive Equipment
22	Dover Corporation	346	\$8,322	Downers Grove	Industrial Machinery
23	Motorola Solutions	363	\$7,785	Schaumburg	Telecommunications
24	LKQ Corporation	403	\$6,740	Chicago	Automotive Equipment
25	Integrus Energy Group	404	\$6,731	Chicago	Utility
26	NiSource, Inc.	418	\$6,471	Merrillville, IN	Utility
27	Anixter Inc.	420	\$6,446	Glenview	Electrical Equipment
28	Packaging Corporation of America	451	\$5,853	Lake Forest	Packaging, Containers
29	Ingredion Incorporated	462	\$5,668	Westchester	Food Products
30	Old Republic International Corporation	472	\$5,531	Chicago	Financial Services
31	Jones Lang LaSalle Incorporated	478	\$5,430	Chicago	Real Estate
32	Essendant, Inc.	489	\$5,327	Deerfield	Office Equipment and Supplies

NOTE:

1/ Based on 2014 revenue.

SOURCE: *Fortune*, "2015 Fortune 500," June 17, 2015.

PREPARED BY: Partners for Economic Solutions, February 2016.

Exhibit 4-6: Jobs by Major Industry Sectors (2015)^{1/}

	AIR TRADE AREA	MIDWEST	UNITED STATES
2015 Jobs	5,888,589	26,846,914	183,345,172
2025 Jobs	6,607,222	29,898,299	210,967,567
CAGR 2015–2025 ^{2/}	1.2%	1.1%	1.4%

NOTES:

1/ Nonagricultural employment only. Construction employment includes mining and forestry industries.

2/ CAGR = Compound Annual Growth Rate

SOURCE: Woods & Poole Economics, Inc., *Complete Economic and Demographic Data Source* (CEDDS), June 2015.

PREPARED BY: Partners for Economic Solutions, February 2016.

4.2.6 AIR TRADE AREA TOURISM INDUSTRY

Approximately 50.2 million people traveled to the Air Trade Area in 2014,²⁶ which represents a 3.5 percent increase over the visitor level in 2013. Between 2010 and 2014, the number of domestic and international visitors to the Air Trade Area grew at a rate of 6.3 percent annually. The Air Trade Area's visitors generated approximately \$13.7 billion in direct spending and \$871 million in state and local tax revenue in 2014.²⁷

The City of Chicago and its surrounding region host a rich variety of cultural institutions, including art museums, science museums, performing arts facilities (symphony, opera, theater), and comedy venues. Other

²⁶ Choose Chicago, *2014 Chicago Visitation*, <http://www.choosechicago.com/includes/content/docs/media/Chicago-Visitation-Annual-2014-6.20.15-.pdf> (accessed January 2016).

²⁷ Choose Chicago, *Chicago Sees Sixth Consecutive Month of Tourism Records*, October 28, 2014, <http://www.choosechicago.com/articles/view/Chicago-sees-sixth-consecutive-month-of-tourism-records/1408/> (accessed January 2016).
Choose Chicago, *Stats & Facts*, <http://www.choosechicago.com/articles/view/Stats-Facts/1091/> (accessed January 2016).

visitor attractions include two zoos (Lincoln Park Zoo and Brookfield Zoo), an aquarium, Skydeck Chicago, and Millennium Park. Major league sports based in the Air Trade Area include football, basketball, hockey, and two baseball teams. The region's wide array of cultural choices and entertainment options is an important factor supporting repeat visitation. The ability to see attractions or undertake activities that were missed on a previous visit has been cited as a significant element in a visitor's intent to return to a travel destination.²⁸

Numerous travel magazines and guides, such as *Travel + Leisure*, *Conde Nast Traveler*, *Lonely Planet*, and other publications regularly name Chicago a top travel destination. Chicago has also been cited as a top location for commerce, sporting events, and cultural attractions by various publications and Web sites, such as *Business Traveler*, *Site Selection*, and *AmericanStyle Magazine*. Chicago's attractions, restaurants, and hotels have also received numerous accolades from online sites, including The Food Network, TripAdvisor.com, and Hotels.com. In addition, the Chicago Convention & Tourism Bureau (now Choose Chicago) has been a frequent winner of the Pinnacle Award from *Successful Meetings* in recognition of its meeting planning services.

4.2.6.1 Promoting Convention Business and Leisure Travel

As the Air Trade Area's primary tourism organization, Choose Chicago²⁹ is responsible for bringing business travelers, conventions, meetings, and trade shows to the region. Chicago ranks third in the United States in terms of the number of conventions hosted. Containing 2.6 million square feet of exhibit space, McCormick Place is the Air Trade Area's primary meeting and exhibition venue. With four separate buildings connected by concourses and sky bridges, McCormick Place is designed to be flexible in accommodating a range of events, and it is able to host two conventions simultaneously.

Choose Chicago also sponsors and supports numerous programs to maintain the Air Trade Area's competitive position as a travel destination for leisure. Annual events with sponsorship and promotion by Choose Chicago (in partnership with national, regional, and local organizations) include: the Chicago Auto Show (the largest auto show in North America); the St. Patrick's Day Parade; the Chicago Marathon (41,000 runners from 100 countries and 50 states); the Chicago Flower & Garden Show; Chicago Restaurant Week; Chicago Theatre Week; Chicago Dancing Festival (the nation's largest dance festival); and the annual World Music Festival Chicago.³⁰

In addition, the Air Trade Area has attracted new travel demand generators, as Chicago has recently hosted the James Beard Awards for culinary excellence and the National Football League (NFL) Draft. After 50 years in New York City, the NFL brought the NFL Draft to Chicago in 2015 and 2016. The 2015 Draft drew 200,000 attendees and a survey of the 2015 NFL Draft attendees found that 49 percent were from outside Chicago, 65 percent planned to return to Chicago for vacation within the next 12 months, and 83 percent would recommend Chicago as a travel destination.

²⁸ Caneen, Jeffrey M., "Cultural Determinants of Tourist Intention to Return," *Consumer Psychology of Tourism, Hospitality and Leisure*, 2004.

²⁹ Choose Chicago was created in 2012 by combining the Chicago Convention & Tourism Bureau and the Chicago Office of Tourism and Culture.

³⁰ Choose Chicago, *News Releases*, www.choosechicago.com/articles/views/NEWS-RELEASES/29 (accessed January 2016).

The national exposure from these events helps Choose Chicago to attract and schedule new events every year and bring a growth in visitors and tourism to the Air Trade Area.

4.3 Economic Outlook

4.3.1 SHORT-TERM ECONOMIC OUTLOOK

The U.S. economy expanded at a modest and steady level in 2015, with employment growing by an average of 221,000 jobs per month.³¹ The improving U.S. labor market supports projections for wage gains and further declines in unemployment. In addition, the outlook is positive for consumer spending; price inflation continues to be subdued; and low oil and gasoline prices are having a positive effect on consumer sentiment.³²

The most recently published forecast by business economists from the National Association for Business Economics (NABE) indicates consensus for real GDP growth of 2.6 percent in 2016. NABE economists are forecasting an average annual U.S. unemployment rate of 4.8 percent in 2016.³³

4.3.2 LONG-TERM ECONOMIC OUTLOOK

Table 4-5 presents selected 2015 and 2025 economic figures for the Air Trade Area and the United States, including population, employment, personal income, and GDP and GRP. Growth expectations for these variables in the Air Trade Area are all positive and are all generally equivalent to those of the United States. Notably, per capita GRP in the Air Trade Area is projected to grow at a higher rate than per capita GDP in the United States, thus indicating the ongoing capacity of the Air Trade Area to continue to generate demand for air travel services during the Projection Period.

4.3.3 CONCLUSIONS

The Air Trade Area has a population of more than 9.7 million that is projected to increase to more than 10.3 million by 2025.

Median household income and per capita personal income in the Air Trade Area are both higher than United States levels. Median household income in the Air Trade Area is \$59,940, which is 12.6 percent higher than in the United States (\$53,217). The Air Trade Area's per capita personal income (\$51,942) is 9.4 percent higher than the United States (\$47,743).³⁴

³¹ Bureau of Labor Statistics, U.S. Department of Commerce, *2015 Employment Situation*, www.bls.gov/schedule/archives/empisit_nr.htm#2015 (accessed January 2016).

³² National Association for Business Economics, *NABE Outlook*, December 2016; *January 2016 Summary of Commentary on Current Economic Conditions by Federal Reserve Districts*, www.federalreserve.gov/monetarypolicy/beigebook/files/Beigebook_20160113.pdf (accessed January 2016).

³³ National Association for Business Economics, *NABE Outlook*, December 2016.

³⁴ ESRI, *Market Profiles for MSAs, States, and U.S.*, January 2016.

In terms of percentages, the major industry sectors in the Air Trade Area with employment that exceeds levels in the United States are professional/technical/management/administrative services, transportation and utilities, finance/insurance/real estate, health and education, and manufacturing.

Table 4-5: Projected Select Economic Variables (2015–2025) (in 2015 dollars)

VARIABLE ^{1/}	2015	2025	CAGR ^{1/} 2015–2025
Air Trade Area Population	9,753,872	10,365,706	0.6%
United States Population	321,449,214	352,280,991	0.9%
Air Trade Area Total Employment	5,888,589	6,607,222	1.2%
United States Total Employment	183,345,172	210,967,567	1.4%
Air Trade Area Total Personal Income (\$ billion)	\$507	\$622	2.1%
United States Total Personal Income (\$ billion)	\$15,260	\$19,337	2.4%
Air Trade Area Per Capita Personal Income	\$51,942	\$60,010	1.5%
United States Per Capita Personal Income	\$47,473	\$54,892	1.5%
Air Trade Area Gross Regional Product (\$ billion)	\$627	\$761	1.9%
United States Gross Domestic Product (\$ billion)	\$17,945	\$22,259	2.2%
Air Trade Area Per Capita Gross Regional Product	\$64,299	\$73,388	1.3%
United States Per Capita Gross Domestic Product	\$55,825	\$63,186	1.2%

NOTE:

1/ CAGR = Compound Annual Growth Rate

SOURCE: Woods & Poole Economics, Inc., *Complete Economic and Demographic Data Source* (CEDDS), June 2015.

PREPARED BY: Partners for Economic Solutions, February 2016.

The Air Trade Area's 5.8 million jobs contribute to a GRP of more than \$627 billion. Jobs in the Air Trade Area are projected to increase by more than 718,000, to approximately 6.6 million, by 2025. The Air Trade Area's GRP is projected to increase by 21.3 percent, in real terms, to \$760.7 billion by 2025.

The data cited above support the conclusion that the Air Trade Area has a large and diverse economy that is capable of supporting increased airline traffic demand through the Projection Period (ending Fiscal Year 2025).

5. Passenger Demand and Air Traffic

This section describes the airlines serving the Airport, historical airport activity, factors affecting aviation demand, and forecast airport activity.

5.1 Airlines Serving the Airport

As of March 2016, three U.S. airlines, Delta Air Lines (and its affiliates), Public Charters,¹ and Southwest Airlines, and two foreign flag carriers, Porter Airlines and Volaris, provided scheduled service at Midway.

Table 5-1 presents the scheduled airlines that have operated at the Airport since 2006. Specific points regarding the current and historical scheduled airline base at the Airport are described in this section.

Southwest Airlines initiated service at the Airport in 1985, and it is now Midway's largest airline, with 93.4 percent of its total enplaned passengers in 2015. On May 2, 2011, Southwest Airlines acquired AirTran Airways, and on March 1, 2012, the FAA issued the combined airlines a single operating certificate. Due to integration complexities, particularly relating to Southwest Airlines' ticketing system, the two airlines continued to operate separately until December 28, 2014.^{2,3} In this Report, references to Southwest Airlines refer to combined Southwest Airlines and AirTran Airways activity, unless otherwise noted.

Delta Air Lines has provided service from the Airport to its Atlanta hub since 1998 and after merging with Northwest Airlines in 2008, the airline assumed Northwest Airlines' existing service from the Airport to Detroit Metropolitan Wayne County Airport (DTW) and Minneapolis-St. Paul International Airport (MSP). It is currently the second largest operator at the Airport, with 4.5 percent of its total enplaned passengers in 2015.

¹ Public Charters operates scheduled charter service from the Airport.

² Southwest Airlines, "Southwest Airlines and AirTran Airways Begin Connecting Networks," news release, February 14, 2013, <http://www.swamedia.com/releases/southwest-airlines-and-airtran-airways-begin-connecting-networks> (accessed February 16, 2016).

³ Southwest Airlines, "Southwest Airlines Celebrates Final Scheduled AirTran Airways Flight," news release, December 29, 2014, <http://www.swamedia.com/releases/southwest-airlines-celebrates-final-scheduled-airtran-airways-flight?l=en-US> (accessed February 16, 2016).

Table 5-1: Scheduled Airline Base at Midway (as of March 2016)

AIRLINES ^{1/}	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Delta Air Lines ^{2/}	•	•	•	•	•	•	•	•	•	•	•
Southwest Airlines ^{3/}	•	•	•	•	•	•	•	•	•	•	•
Porter Airlines			•	•	•	•	•	•	•	•	•
Public Charters					•	•	•	•	•	•	•
Volaris					•	•	•	•	•	•	•
AIRLINES NO LONGER SERVING THE AIRPORT ^{1/, 4/}											
Frontier Airlines	•	•	•	•	•	•	•	•	•	•	
Sun Country Airlines								•	•	•	
Branson AirExpress					•				•	•	
VivaAerobús						•	•				
ATA Airlines	•	•	•								
United Airlines	•	•	•								
Big Sky Airlines	•	•									
Air Midwest		•									
American Airlines	•										

NOTE:

1/ Includes regional affiliates.

2/ Includes pre-merger activity of Northwest Airlines.

3/ Includes pre-merger activity of AirTran Airways.

4/ Airlines whose service at the Airport was discontinued prior to 2006 are not listed.

SOURCE: Innovata, March 2016.

PREPARED BY: Ricondo & Associates, Inc., March 2016.

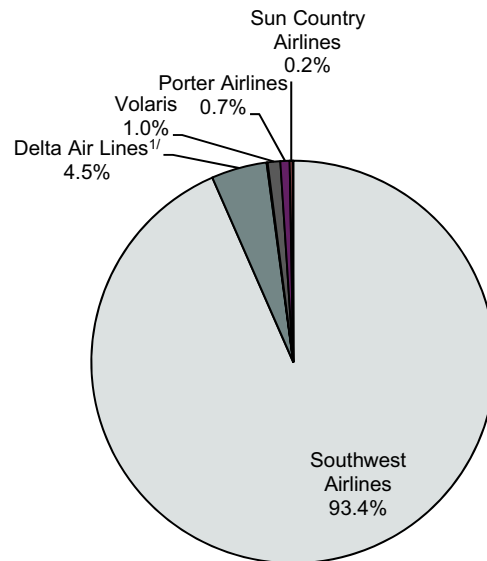
There are two foreign-flag airlines currently serving the Airport: Porter Airlines and Volaris. Porter Airlines initiated service at the Airport in November 2008, with daily nonstop service to Billy Bishop Toronto City Airport (YTZ). Volaris initiated service at the Airport in December 2010, with daily service to Guadalajara International Airport (GDL). Volaris has since added other Mexican destinations, with less-than-daily service to Del Bajío International Airport (BJX), Morelia International Airport (MLM), and Zacatecas International Airport (ZCL). Less-than-daily service to Mexico City International Airport (MEX) was initiated in November 2011, but it discontinued in December 2013. Twice-weekly service to Durango International Airport (DGO) was added in December 2015.

Passenger airlines that have recently operated at the Airport but no longer do include Frontier Airlines⁴, Sun Country Airlines, Branson AirExpress, and VivaAerobús. Frontier Airlines began service to Denver International Airport (DEN) (the airline's base of operations) from the Airport in the late 1990s. Service to Denver International Airport was discontinued in January 2015, and in April 2015 Frontier Airlines ended its only remaining service to Trenton Mercer Airport (TTN) from the Airport. The airline has relocated all of its Chicago operations to Chicago-O'Hare International Airport. Sun Country Airlines began service from the Airport to Minneapolis-St. Paul International Airport (MSP; the airline's base of operations) in July 2013, with two daily round-trip flights. This service was discontinued in September 2015.

While there have been changes in the airlines serving the Airport since 2006, none had noteworthy, lasting adverse impacts on overall Airport activity. Since 2006, growth in enplaned passengers occurred in every year, except 2008. This 2008 exception to enplanement growth was due in part to the economic recession that began in 2007, and the discontinuation of operations by ATA Airlines (previously known as American Trans Air), which had at one time been a dominant carrier at the Airport. ATA Airlines began low-fare service in 1992, after Midway Airlines ceased operations at the Airport (in 1991). The Airport was once ATA Airlines' largest hub and the airline was the largest carrier at the Airport until 2004, when it began cutting service at the Airport after its first bankruptcy filing. ATA Airlines' service at the Airport continued to be reduced until its second bankruptcy filing in 2008, after which the airline ceased all operations. Southwest was able to take advantage of the loss of ATA Airlines service and quickly expanded its Midway hub, thus preventing a lasting adverse impact on overall activity at the Airport as total enplaned passengers in 2011 exceeded 2007 levels.

Exhibit 5-1 presents the market shares, as measured by 2015 total enplaned passengers at Midway. As previously mentioned, Southwest Airlines represented 93.4 percent of the enplaned passengers at the Airport in 2015, based on CDA data.

⁴ In 2009, Frontier Airlines was acquired by Republic Airways Holdings, a regional airline holding corporation.

Exhibit 5-1: 2015 Airline Market Share at Midway (measured by enplaned passengers)

NOTE: Airlines with less than 0.1 percent market share are not shown.

1/ Includes regional affiliates.

SOURCE: City of Chicago, Chicago Department of Aviation Management Records, January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

5.2 Historical Airport Activity

The following sections present a review of the Airport's historical passenger activity, air service, passenger airline operations, and aircraft landed weight.

5.2.1 PASSENGER ACTIVITY

The Airport is classified by the FAA as a large-hub facility based on its percentage of the nation's enplaned passengers,⁵ and it was ranked 25th nationwide in 2014⁶ with 21,069,564 million enplaned and deplaned passengers.⁷ **Table 5-2** presents historical enplaned passengers for the Airport and the U.S. As shown, the Airport's share of total U.S. enplaned passengers increased between 2006 and 2015, which reflects the Airport's higher growth rates compared to the U.S. during this period. Between 2008 and the four quarters ending Q3 2015, MDW was the second fastest growing large hub airport in the United States⁸. Through the

⁵ As defined by the FAA, a large-hub airport enplanes 1 percent or more of enplaned passengers nationwide during a calendar year. In 2014 that equaled approximately 7.7 million passengers.

⁶ 2014 is the latest full-calendar year for which national (U.S. DOT T-100) data is available.

⁷ Airports Council International, *2014 North American Traffic Summary*, July 2015.

⁸ Source: U.S. DOT T-100

first quarter of 2016, enplaned passengers at MDW grew 4.0 percent from 2,268,465 in 2015 to 2,359,031 in 2016.

Table 5-2: Historical Enplanements at Midway and in the U.S.

YEAR	MIDWAY ENPLANEMENTS ^{1/}	MIDWAY GROWTH	U.S. TOTAL ENPLANEMENTS ^{2/}	U.S. GROWTH	MARKET SHARE
2006	9,087,611	5.7%	754,030,629	2.8%	1.21%
2007	9,288,348	2.2%	778,494,331	3.2%	1.19%
2008	8,229,304	(11.4%)	750,087,712	(3.6%)	1.10%
2009	8,468,470	2.9%	710,489,513	(5.3%)	1.19%
2010	8,734,214	3.1%	726,144,813	2.2%	1.20%
2011	9,352,766	7.1%	739,171,434	1.8%	1.27%
2012	9,671,619	3.4%	743,929,347	0.6%	1.30%
2013	10,155,389	5.0%	750,533,395	0.9%	1.35%
2014	10,497,727	3.4%	771,444,889	2.8%	1.36%
2015	11,003,697	4.8%	780,643,084	1.2%	1.41%
Compounded Annual Growth Rate		U.S.			
	Midway				
2006–2008	(4.8%)		(0.3%)		
2008–2015	4.2%		0.5%		
2006–2015	2.1%		0.4%		

NOTES:

1/ Excludes general aviation, military, helicopter, and miscellaneous passengers included in the City of Chicago's Chicago Department of Aviation Management Records.

2/ 2015 U.S. total enplanement data consists of the twelve months ended September 2015.

SOURCES: City of Chicago, Chicago Department of Aviation Management Records (Airport Activity), January 2016; FAA, *2015 Terminal Area Forecast* (U.S. Total Enplanements), January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

Table 5-3 presents Southwest Airlines' average daily nonstop service by market from 2011 to 2015. The increase in average daily flights during this period was due to the introduction of service to new markets as well as the increase of service to existing markets, as the increase in the number of markets served exceeded the increase in the number of daily flights at the Airport. In 2014 and 2015, Southwest Airlines initiated seasonal service to Boise Airport (BOI), Portland International Jetport (PWM), and Pensacola Gulf Coast Regional International Airport (PNS). With the October 2014 repeal of the Wright Amendment, flights to and from Dallas Love Field (DAL) were no longer restricted to neighboring states and daily service to Dallas Love Field by Southwest Airlines was immediately initiated. Service to Reagan National Airport (DCA) was also added, with service to the Washington, D.C. market being transitioned from Dulles International Airport (IAD) to Reagan National Airport (service to Washington Dulles International Airport ended in March 2016). Southwest Airlines' service to John Wayne Airport (SNA), which discontinued in 2013, was restored in 2015.

Table 5-3 (1 of 2): Daily Nonstop Service by Southwest Airlines at Midway

MARKET	2011	2012	2013	2014	2015
Albany	2	2	2	2	2
Albuquerque	2	2	2	2	2
Atlanta	7	9	9	7	7
Austin	2	2	3	3	3
Baltimore	6	6	6	6	6
Birmingham	2	2	2	2	2
Boise	-	-	-	1	1
Boston	5	5	4	4	4
Buffalo	4	3	3	3	3
Cancun	-	1	1	1	2
Charleston, SC	2	2	2	2	2
Charlotte	-	-	1	2	2
Cleveland	6	6	6	6	5
Columbus	6	6	6	6	6
Dallas	-	-	-	1	6
Denver	8	8	8	8	8
Des Moines	-	1	2	2	2
Detroit	6	5	5	5	5
Fort Lauderdale	4	4	4	3	3
Fort Myers	4	4	4	3	3
Greenville/Spartanburg	2	2	2	2	2
Hartford	3	3	3	3	3
Houston	6	6	6	6	6
Jacksonville	-	-	1	1	1
Kansas City	9	9	9	9	7
Las Vegas	9	9	8	8	8
Little Rock	1	1	1	1	1
Los Angeles	6	6	6	6	6
Louisville	4	4	4	4	3
Manchester	3	3	3	3	3
Memphis	-	-	1	2	2
Minneapolis/St. Paul	7	7	7	7	6
Montego Bay	-	-	-	1	1
Nashville	7	7	7	7	6
New Orleans	2	2	2	3	3
New York	5	5	6	7	7
Newark	4	6	6	5	5
Norfolk	2	2	2	2	2
Oakland	3	3	3	3	3
Oklahoma City	-	1	2	2	1
Omaha	5	5	5	5	5
Ontario	1	1	1	1	1
Orlando	9	8	8	8	8
Palm Beach	-	-	1	1	1
Pensacola	-	-	-	-	1
Philadelphia	6	6	6	6	6

Table 5-3 (2 of 2): Daily Nonstop Service by Southwest Airlines at Midway

MARKET	2011	2012	2013	2014	2015
Phoenix	7	6	7	7	7
Pittsburgh	5	5	5	5	5
Portland, ME	-	-	-	1	1
Portland, OR	2	2	2	2	2
Providence	3	3	3	3	3
Punta Cana	-	-	-	1	1
Raleigh/Durham	3	3	3	3	3
Reno	1	1	1	1	1
Rochester	-	-	1	2	2
Sacramento	1	1	1	1	1
Salt Lake City	2	2	2	2	2
San Antonio	2	2	2	2	2
San Diego	4	4	4	4	4
San Francisco	3	3	2	2	2
San Jose	1	1	1	1	1
Santa Ana	1	1	1	-	1
Seattle	3	3	3	3	3
Spokane	-	-	1	1	1
St. Louis	9	9	9	8	6
Tampa	5	5	4	4	4
Tucson	2	2	2	1	1
Tulsa	-	-	1	1	1
Washington, D.C. ^{1/}	6	5	5	7	11
Wichita	-	-	1	2	2
Akron/Canton	-	1	2	-	-
Branson	-	1	1	-	-
Jackson	2	1	1	-	-
Indianapolis	3	3	-	-	-
Islip	3	1	-	-	-
Sarasota	2	1	-	-	-
Total	230	230	235	236	239
Number of Markets	57	62	67	68	70

NOTES:

Daily nonstop service as measured by average daily operations in each year shown.

1/ Includes Washington Dulles International Airport and Reagan National Airport.

SOURCE: Innovata, January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

Southwest Airlines continues to add service from the Airport. In 2016, the airline is scheduled to initiate 3-times daily service to Gerald R. Ford International Airport (GRR), Bishop International Airport (FNT), and Dayton International Airport (DAY), and to reinstate service to Indianapolis International Airport (IND), which had been discontinued in 2012.

The following is a summary of annual changes in passenger activity at the Airport between 2006 and 2015:

- **2006–2007:** The number of enplaned passengers at the Airport increased by 5.7 percent in 2006 and by 2.2 percent in 2007—or from 8.6 million in 2005 to 9.3 million in 2007—a CAGR of 3.9 percent during this period (compared to a 1.5 percent increase for the U.S.). The growth during this period occurred while ATA Airlines continued to significantly reduce its operations at the Airport; the airlines filed for bankruptcy in October 2004 and discontinued the ATA Connection service by Chicago Express in March 2005. Although ATA Airlines' enplaned passengers decreased by more than 50 percent in 2006 alone, Southwest Airlines and other airlines serving the Airport significantly increased seat capacity at the Airport. As a result, Southwest Airlines (excluding AirTran Airways) increased enplanements by 1.1 million in 2006 and by 0.5 million in 2007.
- **2008:** Record-high fuel prices and poor economic conditions in 2008 led airlines to dramatically reduce capacity system wide to better match supply (seats) to demand (passengers). These factors, along with the second bankruptcy of ATA Airlines in April 2008, in which it immediately discontinued operations, resulted in an 11.4 percent decrease in enplaned passengers at the Airport between 2007 and 2008. Some of this decrease was offset by Porter Airlines, which began service to Midway in November 2008.
- **2009:** In 2009, Midway was one of only three⁹ of the 29 large-hub airports to experience growth in domestic passenger activity in spite of the continuing poor economic conditions. Enplaned passengers at the Airport increased 2.9 percent from 2008 to 2009, as Southwest continued to expand service at the Airport due to the opportunity provided by the ATA Airlines bankruptcy. Despite this growth, enplaned passengers in 2009 were still approximately 1.0 million enplaned passengers below the Airport's record-high levels reached in 2004.
- **2010:** From 2009 to 2010 at the Airport, enplaned passengers increased 3.1 percent. Volaris began service from Midway in December 2010. Southwest Airlines' enplaned passengers increased by 4.6 percent at the Airport, despite seat capacity growth of 0.4 percent as the airline increased load factors on service from the Airport. The full-year effect of new market additions where service was added in late 2009, LaGuardia Airport and Boston-Logan International Airport also contributed to 2010 growth. In 2010, Delta Air Lines reduced its seat capacity at the Airport by approximately 30 percent and the airline's enplanements decreased by 15.4 percent.
- **2011:** From 2010 to 2011, enplaned passengers at the Airport grew 7.1 percent, which exceeded 2007 levels for the first time. Southwest Airlines increased capacity at the Airport by 5.6 percent, and its

⁹ The two other airports to record increases in this period were San Francisco International Airport and Baltimore-Washington International Thurgood Marshall Airport, which recorded increases of 3.9 percent and 1.5 percent, respectively.

enplaned-passenger growth at the Airport increased by 7.3 percent as the airline continued to increase its load factor on flights at the Airport. Southwest Airlines acquired AirTran Airways in 2011. Contributing to the Airport's growth were new market additions by Southwest Airlines: Newark Liberty International Airport (EWR); Charleston International Airport (CHS); and Greenville–Spartanburg International Airport (GSP). In 2011, Delta Air Lines' enplaned passenger volumes at the Airport decreased by another 8.6 percent, due largely to the capacity reductions it initiated in 2010.

- **2012:** Similar to 2011, Southwest Airlines' continued growth into new markets such as Atlanta was a key driver of growth at the Airport¹⁰. In 2012, Southwest Airlines and AirTran Airways received a single-operating certificate from the FAA. Southwest Airlines' overall capacity at the Airport increased by 2.5 percent, and enplaned passengers increased by 3.4 percent at the Airport.
- **2013:** Enplaned passengers at the Airport increased 5.0 percent in 2013. Southwest Airlines' enplaned passengers also increased 5.0 percent. In addition, Frontier Airlines, Porter Airlines, and Volaris increased enplaned passenger volumes in 2013. Delta Air Lines' enplaned passengers decreased 3.1 percent due to capacity reductions to Detroit Metropolitan Wayne County Airport and Minneapolis–Saint Paul International Airport. Sun Country Airlines began operating at the Airport in 2013, introducing service from the Airport to Minneapolis–Saint Paul International Airport.
- **2014:** Enplaned passengers at the Airport increased 3.4 percent from 2013 to 2014 despite a number of industry-wide disruptions. Regularly occurring snow events, extremely low temperatures, and severe weather nationwide led to significant cancellations at the Airport during the first quarter of 2014. Despite an increase in scheduled seat capacity in the first quarter of 2014 (driven by higher average-per-aircraft seat capacity and a 0.4 percent increase in scheduled departures), actual departures in the first quarter of 2014 fell 5.4 percent relative to the same period in 2013. A fire at an FAA air route traffic control center near Chicago further impacted operations in late 2014. In 2014, Southwest Airlines' enplaned passengers increased 3.2 percent, and Delta Air Lines' enplaned passengers increased 11.5 percent, marking Delta Air Lines' first annual increase in enplanements at the Airport since 2009. Delta Air Lines increased frequencies to Hartsfield-Jackson Atlanta International Airport and increased seat capacity to Detroit Metropolitan Wayne County Airport.
- **2015:** Airport enplanements increased 4.8 percent in 2015, with Southwest Airlines' enplanements increasing at a higher rate of 6.6 percent. Other airlines with increasing enplanements at the Airport were Delta Air Lines, Volaris, and Porter Airlines. Operations increased 0.2 percent due in part to recovery from the disruptions of 2014. Average seat capacity increased from 141.8 in 2014 to 143.2 in 2015, as airlines increased average aircraft size at the Airport. In 2015 at the Airport, enplanements and operations by Frontier Airlines and Sun Country Airlines decreased significantly over 2014 levels, as Frontier Airlines discontinued service in April 2015, followed by Sun Country Airlines in September 2015.

¹⁰ Although AirTran Airways was currently providing service, the addition of Southwest Airlines' service to Atlanta in 2012 was a key factor in 2012 growth at the Airport.

Table 5-4 presents origin and destination (O&D), connecting, and total enplaned passengers at the Airport from 2006 through 2015.¹¹ In 2014, 60.7 percent of the enplaned passenger activity at the Airport was O&D traffic. From 2013 to 2014, O&D passengers decreased from 6.43 million to 6.38 million. Contributing to this decline was Southwest Airlines' integration of AirTran Airways' network. Prior to the merger, AirTran Airways' traffic at the Airport was almost entirely O&D, and, once integrated into Southwest Airlines' network, that capacity accommodated more connecting passengers. The ability of Dallas Love Field and other airports to accommodate connections in the Southwest Airlines network may further impact the proportion of O&D and connecting passengers at the Airport. During the four quarters ending Q3 2015, 61.3 percent of enplaned passengers at the Airport were O&D¹².

Table 5-5 presents enplaned passengers by airline at the Airport from 2011 through 2015. Southwest Airlines' share of enplaned passengers increased from 92.1 percent in 2011 to 93.4 percent in 2015. Delta Air Lines' market share has remained stable since 2011. Volaris introduced service at the Airport in December 2010, and its market share nearly doubled between 2011 and 2012 as service was expanded at the Airport. Other notable changes in market share year-over-year include Frontier Airlines' market share decreasing significantly in 2015, as the airline ceased operations at the Airport.

5.2.2 AIR SERVICE

An important characteristic of airport activity is the distribution of the airport's O&D markets, which is a function of air travel demands and available services and facilities. **Table 5-6** presents data on the Airport's top 20 domestic O&D markets, as measured by the number of passengers, for the 12 months ended September 2015, the latest 12-month period for which data is available. Given the Airport's central location in the U.S., the O&D markets are all short- to medium-haul markets (600 miles or less and between 601 and 1,800 miles, respectively). Each of the Airport's top 20 domestic O&D markets was served nonstop in 2015.

Exhibit 5-2 illustrates the destinations served nonstop from the Airport in April 2016. On an average weekday, 272 departures per day were scheduled to 78 nonstop destinations in April 2016, which reflects an increase of 16 destinations since March 2011.¹³

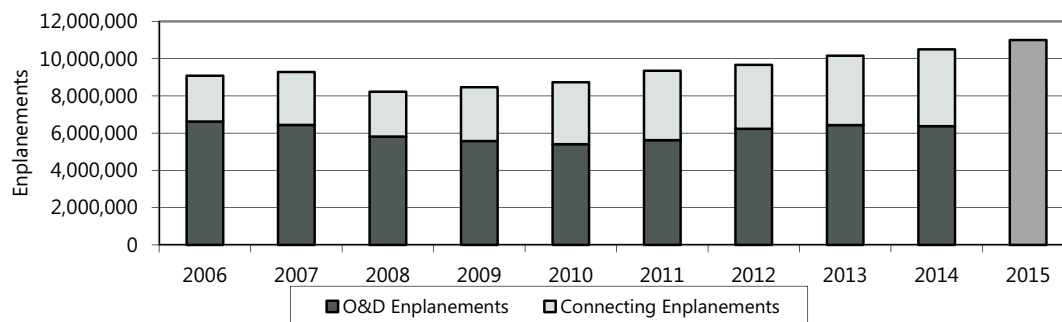
¹¹ 2014 is the latest full-calendar year for which O&D data is available, 2015 data is for total enplanements.

¹² Source: U.S. DOT DB1B Survey

¹³ Innovata, April 2016.

Table 5-4: Historical O&D and Connecting Enplanements at Midway

YEAR	O&D ENPLANEMENTS	O&D PASSENGER GROWTH	CONNECTING ENPLANEMENTS	CONNECTING PASSENGER GROWTH	TOTAL ENPLANED PASSENGERS ^{1/}	TOTAL PASSENGER GROWTH	O&D ENPLANEMENT PERCENTAGE
2006	6,627,599	3.0%	2,460,012	13.7%	9,087,611	5.7%	72.9%
2007	6,445,048	(2.8%)	2,843,300	15.6%	9,288,348	2.2%	69.4%
2008	5,818,843	(9.7%)	2,410,461	(15.2%)	8,229,304	(11.4%)	70.7%
2009	5,579,481	(4.1%)	2,888,989	19.9%	8,468,470	2.9%	65.9%
2010	5,409,744	(3.0%)	3,324,470	15.1%	8,734,214	3.1%	61.9%
2011	5,630,102	4.1%	3,722,664	12.0%	9,352,766	7.1%	60.2%
2012	6,239,055	10.8%	3,432,564	(7.8%)	9,671,619	3.4%	64.5%
2013	6,434,187	3.1%	3,721,202	8.4%	10,155,389	5.0%	63.4%
2014	6,379,486	(0.9%)	4,118,241	10.7%	10,497,727	3.4%	60.8%
2015 ^{2/}	N/A	N/A	N/A	N/A	11,003,697	4.8%	N/A
Compound Annual Growth Rate							
2006–2014	(0.5%)		6.7%		1.8%		

Historical Enplanements at Midway (2006-2015)

NOTE:

1/ Excludes general aviation, military, helicopter, and miscellaneous passengers included in the City of Chicago's Chicago Department of Aviation Management Records.

2/ O&D data for 2015 were unavailable at the time of this report. Only total enplanements are shown.

SOURCES: City of Chicago, Department of Aviation Management Records (Total Enplanements), January 2016; City of Chicago, Department of Aviation 2014 Consolidated Annual Financial Statement (O&D Enplanements), June 2015.

PREPARED BY: Ricondo & Associates, Inc., March 2016.

Table 5-5: Historical Enplanements by Airline at Midway

	2011		2012		2013		2014		2015	
AIRLINE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE
Southwest Airlines	8,610,119	92.1%	8,902,641	92.0%	9,347,798	92.0%	9,646,176	91.9%	10,281,189	93.4%
Delta Air Lines ^{1/}	461,287	4.9%	450,157	4.7%	435,989	4.3%	486,182	4.6%	490,974	4.5%
Frontier Airlines	158,405	1.7%	144,496	1.5%	161,456	1.6%	157,835	1.5%	8,658	0.1%
Volaris	50,390	0.5%	96,385	1.0%	108,896	1.1%	95,082	0.9%	110,969	1.0%
Porter Airlines	65,946	0.7%	72,075	0.7%	72,423	0.7%	78,556	0.7%	81,980	0.7%
Sun Country Airlines	-	N/A	-	N/A	24,889	0.2%	28,046	0.3%	25,065	0.2%
Others ^{2/}	6,619	0.1%	5,865	0.1%	3,938	0.0%	5,850	0.1%	4,862	0.0%
Airport Total^{3/}	9,352,766	100.0%	9,671,619	100.0%	10,155,389	100.0%	10,497,727	100.0%	11,003,697	100.0%

NOTES:N/A = not available

1/ Includes regional affiliates.

2/ Includes activity for charters and airlines that discontinued service prior to 2015.

3/ Totals may not add due to individual rounding.

SOURCE: City of Chicago, Chicago Department of Aviation Management Records, January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

Table 5-6: Top 20 Domestic O&D Passenger Markets for the Four Quarters Ending Q3 2015

RANK	MARKET	DISTANCE ^{1/}	TOTAL O&D PASSENGERS ^{2/}
1	New York/Newark ^{3/}	MH	623,638
2	Orlando	MH	603,713
3	Las Vegas	MH	560,818
4	Denver	MH	529,109
5	Atlanta	SH	520,485
6	Dallas ^{4/}	MH	490,764
7	Phoenix	MH	486,532
8	Minneapolis	SH	450,589
9	Tampa	MH	416,012
10	Los Angeles	MH	403,223
11	Houston ^{5/}	MH	392,470
12	Washington, D.C. ^{6/}	SH	378,324
13	Kansas City	SH	349,781
14	Fort Lauderdale	MH	336,234
15	Baltimore	MH	306,303
16	Fort Myers	MH	273,033
17	Nashville	SH	261,623
18	Boston	MH	244,539
19	Philadelphia	MH	242,209
20	San Diego	MH	234,002

NOTES:

1/ (SH) Short Haul = 0 to 600 miles

(MH) Medium Haul = 601 to 1,800 miles

2/ Data for the four quarters ending Q3 2015, October 1, 2014 through September 30, 2015. Total passengers, both ways.

3/ Includes Newark Liberty International Airport, John F. Kennedy International Airport, and LaGuardia Airport.

4/ Includes Dallas Love Field and Dallas/Fort Worth International Airport.

5/ Includes William P. Hobby Airport and George Bush Intercontinental Airport.

6/ Includes Reagan National Airport and Dulles International Airport.

SOURCE: U.S. DOT, *O&D Survey of Airline Passenger Traffic*, March 2016.

PREPARED BY: Ricondo & Associates, Inc., March 2016.

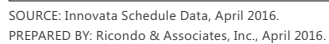


EXHIBIT 5-2

5.2.3 PASSENGER AIRLINE OPERATIONS

While total aircraft operations for passenger airlines at the Airport decreased between 2006 and 2015, passenger airline operations have grown annually since 2010 (with the exception of 2014), increasing at a compound annual growth rate of 0.8 percent between 2010 and 2015 (see **Table 5-7**). Passenger airlines operations growth between 2010 and 2015 has been driven primarily by Southwest Airlines, which increased operations at a higher compound annual growth rate (1.3 percent, from 155,774 operations in 2010 to 166,366 operations in 2015) than total Airport passenger airlines operations (0.8 percent) during this period. The bankruptcy of ATA Airlines in 2008 opened an opportunity for Southwest Airlines to build a more robust hub at the Airport.

Table 5-7: Historical Aircraft Operations

YEAR	PASSENGER AIRLINES	ANNUAL GROWTH
2006	203,728	5.0%
2007	211,010	3.6%
2008	188,748	(10.6%)
2009	183,752	(2.6%)
2010	178,877	(2.7%)
2011	185,594	3.8%
2012	187,217	0.9%
2013	189,689	1.3%
2014	185,817	(2.0%)
2015	186,132	0.2%
CAGR		
2006-2010		(3.2%)
2010-2015		0.8%
2006-2015		(1.0%)

SOURCE: City of Chicago, Chicago Department of Aviation Management Records, January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

5.2.4 LANDED WEIGHT

Table 5-8 presents the shares of landed weight for the passenger airlines serving the Airport from 2011 through 2015. Similar to enplaned passengers, the largest share of total Airport landed weight belongs to Southwest Airlines. Southwest Airlines' share of landed weight was 88.1 percent in 2011, and it increased to 88.9 percent in 2012, where it remained through 2014. In 2015, Southwest Airlines' share of landed weight increased to 90.4 percent. Trends in landed weight shares for the other airlines serving the Airport generally followed trends for airlines' enplaned passenger market shares.

Table 5-8: Historical Landed Weight by Airline (Weight in 1,000-Pound Units)

	2011		2012		2013		2014		2015	
AIRLINE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE
Southwest Airlines	10,157,996	88.1%	10,335,902	88.9%	10,707,570	88.9%	10,575,698	88.9%	10,919,198	90.4%
Delta Air Lines ^{1/}	703,457	6.1%	611,556	5.3%	596,130	5.0%	594,655	5.0%	589,516	4.9%
Frontier Airlines	181,101	1.6%	160,849	1.4%	173,277	1.4%	173,434	1.5%	10,355	0.1%
Volaris	65,071	0.6%	123,598	1.1%	136,367	1.1%	114,793	1.0%	127,883	1.1%
Porter Airlines	104,975	0.9%	104,605	0.9%	107,507	0.9%	111,397	0.9%	108,124	0.9%
Sun Country Airlines	-	N/A	-	N/A	44,812	0.4%	47,866	0.4%	35,483	0.3%
Others ^{2/}	319,289	2.8%	284,070	2.4%	276,155	2.3%	275,674	2.3%	284,914	2.4%
Airport Total ^{3/}	11,531,890	100.0%	11,620,580	100.0%	12,041,817	100.0%	11,893,517	100.0%	12,075,473	100.0%

NOTES:

1/ Includes regional affiliates.

2/ Includes activity for charters and airlines that discontinued service prior to 2015.

3/ Totals may not add due to individual rounding.

SOURCE: City of Chicago, Chicago Department of Aviation Management Records, January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

5.3 Factors Affecting Aviation Demand

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

5.3.1 NATIONAL ECONOMY

Historically, trends in demand have been closely correlated with national economic trends, most notably changes in GDP. Section 4 presents an analysis of general economic trends, both national and local, that may influence demand for air service over time. Actual economic activity is likely to differ from this projection, especially on a year-to-year basis, with demand for air service reacting to the actual activity.

5.3.2 STATE OF THE AIRLINE INDUSTRY

In the aftermath of the terrorist attacks on September 11, 2001, the U.S. airline industry experienced a reduction in the demand for airline travel, which exacerbated problems for a U.S. airline industry already weakened by the slowing economy and rising labor and fuel costs. This resulted in operating losses between 2001 through 2004 that totaled more than \$22 billion (excluding extraordinary charges and gains). From 2005 through 2007, the airline industry gained ground, posting combined operating profits.¹⁴ However, in 2008 and through the first half of 2009, the combination of record-high fuel prices, weakening economic conditions, and a weak dollar resulted in the worst financial environment for the U.S. network and low-cost airlines since the September 11, 2001. Since 2009, the industry has improved; industry consolidation, capacity realignment, and a recovering economy resulting in record industry profits in 2013 and 2014. North American airlines members of the International Air Transport Association are projected to generate profits of \$19.4 billion in 2015, and \$19.2 billion in 2016, after producing \$11.2 billion in profits in 2014.¹⁵

5.3.2.1 Airline Mergers and Acquisitions

Since 2009, airlines have merged or acquired competitors in an attempt to increase operations and become more competitive and cost efficient. In 2009, Delta Air Lines completed its merger with Northwest Airlines, initiating a wave of U.S. airline mergers and acquisitions. That same year, Republic Airways Holdings, a regional airline holding corporation, acquired Frontier Airlines of Denver and Midwest Airlines of Milwaukee. In 2010, United Airlines and Continental Airlines merged. In 2011, Southwest Airlines acquired AirTran Holdings, Inc., the former parent company of low-cost competitor AirTran Airways. In 2013, American Airlines and US Airways merged, creating the largest airline in terms of operating revenue and revenue passenger miles. These mergers have enabled airlines to reduce capacity and gain higher profitability. Additional consolidation in the U.S. industry could affect the amount of capacity offered to passengers and thus alter the competitive landscape.

¹⁴ Airlines for America, *2009 Economic Report*, July 2009.

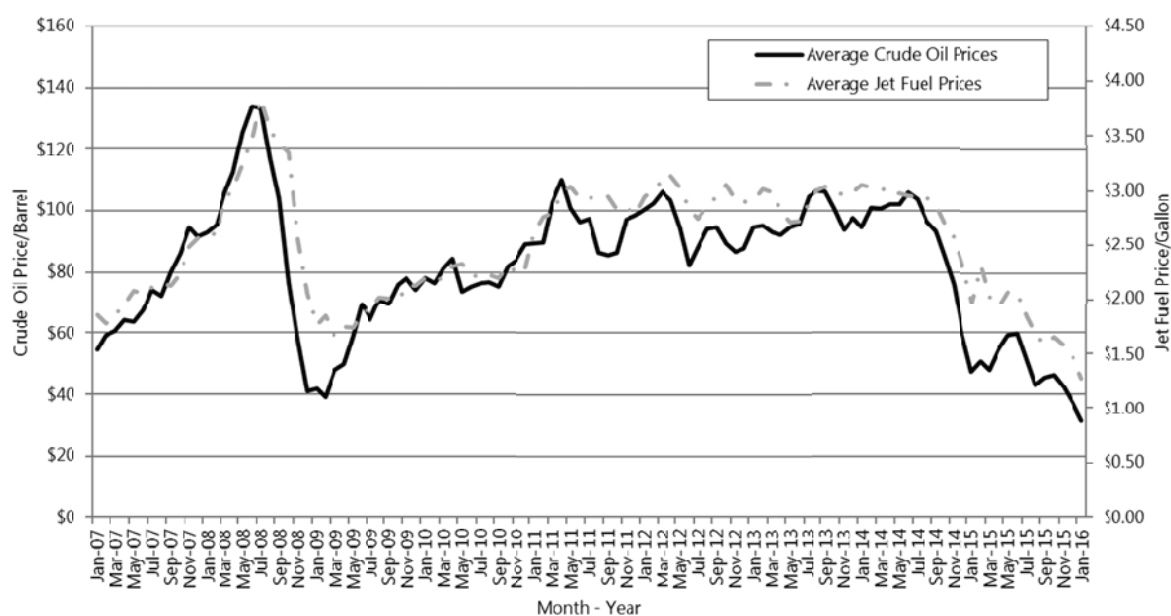
¹⁵ International Air Transport Association, *Economic Performance of the Industry*, December 2015.

5.3.2.2 Cost of Aviation Fuel

The price of fuel is one of the most significant and volatile expenses for airlines. Historically, fuel has been the first or second largest operating expense for the airline industry, shifting with labor cost. As of the third quarter of 2015, fuel was the largest operating expense for the airline industry, representing 28.0 percent of operating expenses. **Exhibit 5-3** shows the quarterly average prices of jet fuel and crude oil from January 2007 through January 2016. Since 2007, the average quarterly price of jet fuel fluctuated between a high of \$3.84 per gallon in July 2008 to a low of \$1.27 in January 2016.

Fluctuating fuel costs will continue to impact airline profitability, and this could lead to changes in air service as airlines restructure air service to address increases or decreases in the cost of fuel.

Exhibit 5-3: Historical Quarterly Average Prices of Jet Fuel and Crude Oil



SOURCES: U.S. Bureau of Transportation Statistics (Average Jet Fuel Prices) March 2016; U.S. Energy Information Administration (Average Crude Oil Prices), March 2016.

PREPARED BY: Ricondo & Associates, Inc., March 2016.

5.3.2.3 Threat of Terrorism and Geopolitical Issues

Since September 11, 2001, the recurrence of terrorism incidents against either domestic or world aviation remains a risk to achieving the activity forecasts contained in this report. Tighter security measures have restored the public's confidence in the safety of U.S. and world air travel. However, any terrorist incident aimed at aviation could have an impact on the demand for aviation services.

Additionally, geopolitical issues may affect aviation demand during the Forecast Period. Potential governmental or regional instability in certain countries or locations may affect access to, or demand for, aviation service in these places. Future governmental or regional instability may have an impact on demand for international aviation service at the Airport.

5.3.3 OTHER REGIONAL AIRPORTS

There are currently two other airports in the region that offer scheduled commercial air service, O'Hare International Airport and General Mitchell International Airport (MKE). These regional airports and their relationship to Midway are described in this section.

O'Hare International Airport, which is a large-hub airport, is located 15 miles north of Midway. The City owns both Midway and O'Hare International Airport, and CDA operates the airports. Three of the four largest carriers in the United States operate hubs at O'Hare International Airport or Midway. The majority of demand for air service in the Air Trade Area is predominantly served through O'Hare International Airport, particularly for international air traffic. O'Hare International Airport is a hub for both United Airlines and American Airlines. Midway has historically served a distinct market segment in the Air Trade Area, serving as a lower-fare alternative to O'Hare International Airport and providing service to a smaller number of mostly domestic destinations. As discussed in Section 5.2.2, Midway had an average of 272 daily nonstop flights to 78 destinations (9 of which are international destinations) in April 2016, whereas O'Hare International Airport had an average of 1,131 daily nonstop flights to 217 destinations (60 of which are international destinations) over the same period.

The City has identified a need for additional gates at O'Hare to accommodate the airlines currently serving the airport and is undertaking efforts to expand gate capacity in the near term (approximately five gates for American Airlines) and long-term expansion of the terminal platform to serve future demand.¹⁶ This is occurring simultaneously with anticipated growth of air traffic at Midway. R&A projects Southwest will continue to utilize Midway as a connecting hub in its route network throughout the Projection Period.

The current use agreement at O'Hare International Airport expires in May 2018. R&A projects growth in air service at O'Hare and Midway to continue before and after the expiration of the O'Hare use agreement.

General Mitchell International Airport is the nearest medium- or large-hub commercial-service airport outside of the Air Trade Area. This medium-hub airport¹⁷ is located approximately 85 miles north of Midway near Milwaukee, Wisconsin. General Mitchell International Airport serves the commercial air service needs of Milwaukee, southeast Wisconsin, and portions of northern Illinois. Due to its close proximity to Chicago, General Mitchell International Airport's catchment area overlaps with Midway's Air Trade Area, with both areas including three counties in the northern Chicago Region, which represent approximately 12.3 percent of the

¹⁶ Ginger Evans, CDA Commissioner, "Chicago Aviation: Significant Progress in 2015/2016 and the Path Ahead" (presentation, City Club of Chicago, Chicago, IL, March 14, 2016).

¹⁷ Medium-hub airports account for at least 0.25 percent, but less than 1.00 percent, of total nationwide enplanements.

population in the Air Trade Area. General Mitchell International Airport had an average of 116 daily nonstop flights to 34 destinations (4 of which are international destinations) in March 2016.

Table 5-9 presents enplaned passengers for Midway, O'Hare International Airport, and General Mitchell International Airport between 2006 and 2015. From 2007 to 2008, enplaned passengers at Midway and O'Hare International Airport decreased 11.4 percent and 9.9 percent, respectively, due to the impacts of the weakening economy and the airlines' capacity cutbacks during this period, including ATA Airlines, which ended service at Midway in 2008. General Mitchell International Airport's enplaned passengers grew 3.4 percent during the same period, as AirTran Airways and Frontier Airlines increased service, and scheduled seat capacity at General Mitchell International Airport grew 3.8 percent during this period. O'Hare International Airport's enplaned passengers continued to decrease from 2008 to 2009, at 5.8 percent; growth at General Mitchell International Airport also ended temporarily, with enplanements decreasing 0.5 percent over the same period. Midway's enplaned passenger activity increased 2.9 percent during the same period. Between 2009 and 2015, Midway experienced six more years of strong growth in enplaned passengers, which is highlighted by a 7.1 percent increase in 2011. In 2010, enplanements at General Mitchell International Airport peaked, reaching its highest share (10.5 percent) of the Chicago Region market. The 23.7 percent enplanement growth in 2010 over 2009 was driven by a competition for market share between Frontier Airlines and Southwest Airlines, which expanded service at General Mitchell International Airport, as well as the lower fares that resulted from the competition, which attracted passengers in the Air Trade Area who had historically chosen Midway or O'Hare International Airport. General Mitchell International Airport's enplanements began to decline in 2011, with significant decreases of 20.6 percent in 2012 and 13.6 percent in 2013, as Frontier Airlines reduced capacity. As a result, Midway's share of Chicago Region enplaned passengers grew during this period.

O'Hare International Airport outpaced Midway in enplanement growth in both 2014 and 2015, resulting in a decline in Midway's share of Chicago Region enplaned passengers. General Mitchell International Airport did not experience the significant enplanement growth of Midway and O'Hare International Airport in 2014 and 2015, therefore its market share declined. Overall, with relatively larger enplanement growth at Midway than at O'Hare International Airport and General Mitchell International Airport between 2006 and 2015, Midway's market share in the Chicago Region has increased.

Table 5-9: Historical Enplaned Passengers at Midway, O'Hare, and General Mitchell International Airports

YEAR	MIDWAY INTERNATIONAL AIRPORT			O'HARE INTERNATIONAL AIRPORT			GENERAL MITCHELL INTERNATIONAL AIRPORT			TOTAL FOR CHICAGO REGION	
	ENPLANED PASSENGERS ^{1/}	ANNUAL GROWTH	SHARE	ENPLANED PASSENGERS ^{1/}	ANNUAL GROWTH	SHARE	ENPLANED PASSENGERS	ANNUAL GROWTH	SHARE	ENPLANED PASSENGERS	ANNUAL GROWTH
2006	9,087,611	5.7%	18.0%	37,764,444	(0.5%)	74.8%	3,641,503	0.3%	7.2%	50,493,558	8.5%
2007	9,288,348	2.2%	18.2%	37,763,062	(0.0%)	74.2%	3,868,098	6.2%	7.6%	50,919,508	0.8%
2008	8,229,304	(11.4%)	17.8%	34,011,186	(9.9%)	73.6%	4,000,765	3.4%	8.7%	46,241,255	(9.2%)
2009	8,468,470	2.9%	19.0%	32,035,155	(5.8%)	72.0%	3,981,871	(0.5%)	9.0%	44,485,496	(3.8%)
2010	8,734,214	3.1%	18.6%	33,219,302	3.7%	70.9%	4,927,558	23.7%	10.5%	46,881,074	5.4%
2011	9,352,766	7.1%	19.8%	33,194,708	(0.1%)	70.2%	4,760,952	(3.4%)	10.1%	47,308,426	0.9%
2012	9,671,619	3.4%	20.7%	33,231,201	0.1%	71.2%	3,780,315	(20.6%)	8.1%	46,683,135	(1.3%)
2013	10,155,389	5.0%	21.7%	33,284,788	0.2%	71.3%	3,266,309	(13.6%)	7.0%	46,706,486	0.1%
2014	10,497,727	3.4%	21.5%	34,939,694	5.0%	71.7%	3,278,820	0.4%	6.7%	48,716,241	4.3%
2015	11,003,697	4.8%	20.9%	38,381,489	9.9%	72.9%	3,277,356	(0.0%)	6.2%	52,662,542	8.1%
Weighted Average											
2006–2015			19.6%			72.3%			8.1%		
CAGR	Midway			O'Hare			General Mitchell			Total	
2006–2008	(4.8)%			(5.1)%			4.8%			(4.3)%	
2009–2011	5.1%			1.8%			9.3%			3.1%	
2012–2015	4.4%			4.9%			(4.6%)			4.1%	
2006–2015	2.1%			0.2%			(1.2%)			0.5%	

NOTE:

1/ Excludes general aviation, military, helicopter, and miscellaneous passengers included in the City of Chicago's statistics.

SOURCE: City of Chicago, Chicago Department of Aviation Management Records (Midway and O'Hare International Airport Enplanements), January 2016; General Mitchell International Airport, *Historical Passenger Traffic Report* (General Mitchell Enplanements), January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

Table 5-10 provides a comparison of average fares and yields for Midway, O'Hare International Airport, and General Mitchell International Airport. Average fares and yields for O'Hare International Airport and General Mitchell International Airport were similar prior to 2008, with those for Midway being lower. In 2008, fares and yields grew at Midway due to capacity reductions after the bankruptcy of ATA Airlines. The average fare for General Mitchell International Airport dropped with the initiation of service by Southwest Airlines in November 2009 (nonstop service to 6 markets with a total of 12 daily flights and 9.7 percent of total capacity). After decreasing in 2009, fares and yields began to recover at Midway and O'Hare International Airport in 2010. Fares and yields grew at Midway in 2011 and 2012, as Southwest Airlines added additional service on longer range routes. Fares and yields grew significantly at General Mitchell International Airport in 2012 when capacity was removed from the market, as both Frontier and Southwest began to reduce operations at General Mitchell International Airport. Fares and yields have grown by a modest rate at O'Hare International Airport after a slight drop in average fares in 2012. Midway's fares remained lower than O'Hare International Airport and General Mitchell International Airport's fares in 2014, as they had been throughout the previous decade (with the exception of 2010 and 2011, when Midway's fares were slightly higher than General Mitchell International Airport fares); however, Midway's fares have grown at a faster rate between 2005 and 2014 than fares at the two neighboring airports. While increases in average yield at Midway benefits the airlines serving the airport, air fares and yields have recovered at General Mitchell International Airport relative to Midway thereby providing less incentive for passengers to use General Mitchell International Airport in place of Midway. Southwest, the largest carrier at General Mitchell International Airport, does not operate service to any destination from General Mitchell International Airport that is not served from Midway.

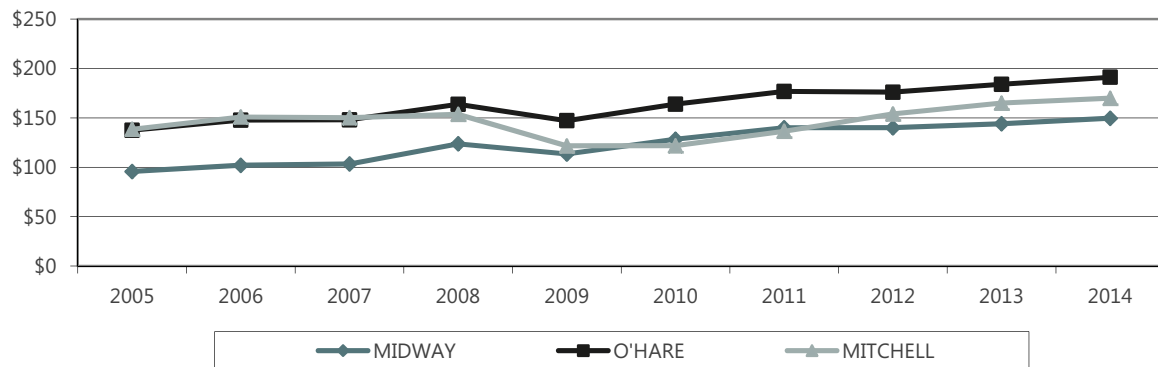
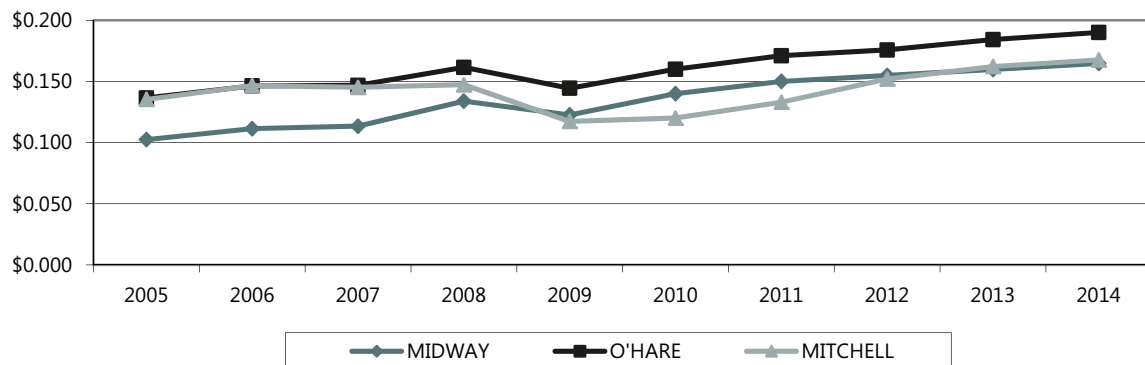
5.3.4 SOUTHWEST AIRLINES

Southwest Airlines has been the largest airline at the Airport since 2005. In 2015, Southwest Airlines enplaned approximately 10.3 million passengers, or 93.4 percent of the Airport's total. Since 2011, Midway has served as Southwest Airlines' (including AirTran Airways) largest airport as measured by scheduled seat capacity. According to published schedule data¹⁸, in July 2016 the airline is scheduled to operate an average of 256 daily flights and 38,529 daily seats to 64 domestic destinations and 3 international destinations. Throughout its network, the airline serves a total of 86 domestic destinations and 11 international destinations. The Southwest Airlines domestic route network is shown in **Exhibit 5-4**. Currently, Southwest serves approximately 85 percent of its domestic destinations from Midway. **Exhibit 5-5** shows the top ten Southwest Airlines airports measured by daily scheduled seat capacity.

¹⁸ Innovata, accessed March 2016.

Table 5-10: Comparison of Chicago Area Airports' Domestic Fares and Yields

CALENDAR YEAR	AVERAGE O&D FARE ^{1/}			AVERAGE DOMESTIC ONE-WAY YIELD PER PASSENGER MILE ^{2/}		
	CHICAGO MIDWAY	CHICAGO O'HARE	GENERAL MITCHELL	CHICAGO MIDWAY	CHICAGO O'HARE	GENERAL MITCHELL
2005	\$96	\$137	\$139	\$0.102	\$0.137	\$0.135
2006	\$102	\$148	\$151	\$0.111	\$0.146	\$0.147
2007	\$103	\$148	\$150	\$0.113	\$0.147	\$0.145
2008	\$124	\$164	\$154	\$0.134	\$0.162	\$0.147
2009	\$113	\$147	\$122	\$0.123	\$0.144	\$0.117
2010	\$128	\$164	\$122	\$0.140	\$0.160	\$0.120
2011	\$140	\$177	\$136	\$0.150	\$0.171	\$0.133
2012	\$140	\$176	\$154	\$0.155	\$0.176	\$0.152
2013	\$144	\$184	\$165	\$0.160	\$0.184	\$0.162
2014	\$150	\$191	\$170	\$0.165	\$0.190	\$0.168

Average Fares**Average Yields**

NOTES: 2015 data were unavailable at the time of this report.

1/ Calculations include frequent flyer passengers.

2/ Calculations include frequent flyer passengers. Yield is calculated by dividing passenger revenue by revenue passenger miles (flight length multiplied by passengers on board).

SOURCES: U.S. DOT DB1B Survey, December 2015.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

CITY OF CHICAGO

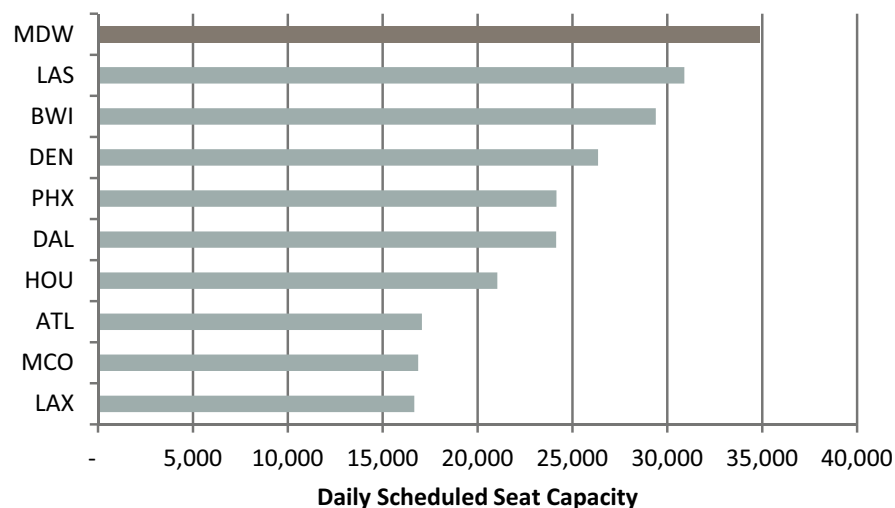
CHICAGO MIDWAY INTERNATIONAL AIRPORT



SOURCE: Innovata Schedule Data, March 2016.
 PREPARED BY: Ricondo & Associates, Inc., March 2016.

EXHIBIT 5-4

2016 Southwest Airlines Domestic Destinations

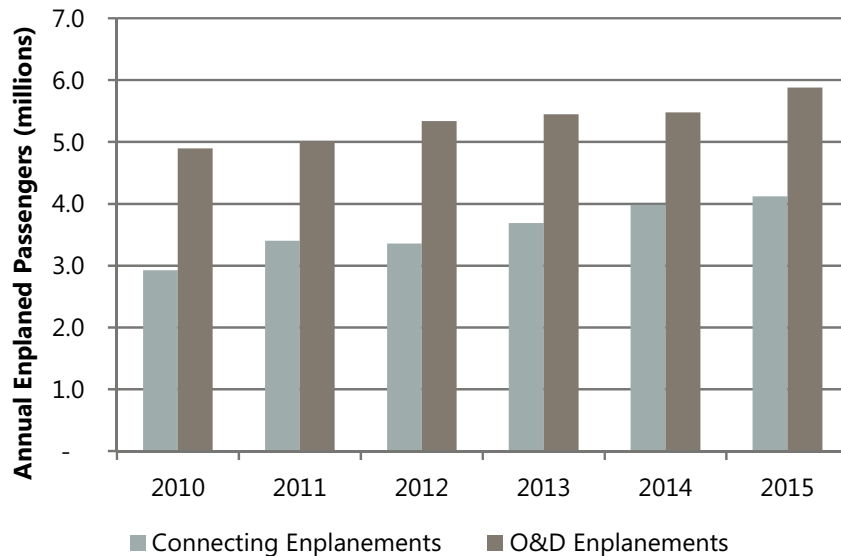
Exhibit 5-5: Daily Scheduled Seat Capacity at Southwest Airlines' 10 Busiest Airports

SOURCE: Innovata, January 2016.

PREPARED BY: Ricondo & Associates, Inc., February 2016.

Exhibit 5-6 shows the distribution of Southwest Airlines' O&D and connecting passengers at the Airport between 2010 and 2015¹⁹, representing the Southwest Airlines and AirTran Airways route networks before and after merger integration. During the period shown, Southwest Airlines O&D passengers at the Airport grew 20 percent. Network-wide, Midway accounts for 5 percent of total Southwest Airlines O&D passengers which is tied with McCarran International Airport (LAS), a traditionally high volume O&D airport. In addition to serving the Air Trade Area's O&D passenger demand, the Airport's central geographic location in the U.S. facilitates connecting passenger traffic. Connecting passengers have increased 40.1 percent at Midway during the period shown due, in part, to changes within the Southwest Airlines route network during the integration of AirTran Airways. Combined, Southwest Airlines enplaned passengers at Midway grew 27.8 percent between 2010 and 2015 while total Southwest Airlines network-wide enplaned passengers grew at 7.6 percent. **Exhibit 5-7** presents Southwest Airlines' eight largest airports, measured by 2015 connecting passenger volume. Only three airports have grown at a faster rate than Midway; Dallas Love Field, William P. Hobby Airport (HOU) and Denver International Airport. Southwest Airlines' connecting passenger traffic at Atlanta Hartsfield Jackson International Airport decreased more than 53 percent between 2010 and 2015 which included the integration of AirTran Airway into Southwest Airlines' network. Atlanta Hartsfield Jackson International Airport was a central component of Air Tran Airway's route network.

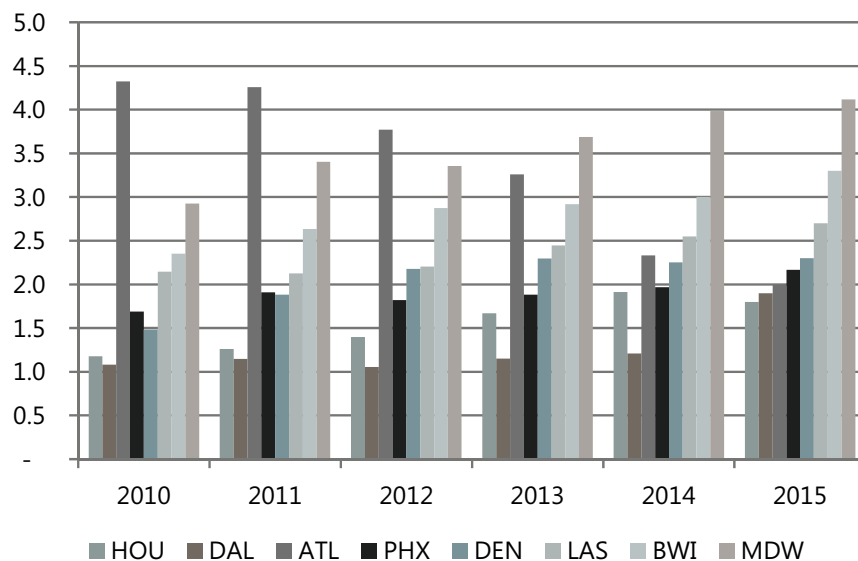
¹⁹ References to volumes for 2015 in this section are the four quarters ending Q3 2015. Full year 2015 O&D data was not available at the time of this Report.

Exhibit 5-6: Composition of Southwest Airlines Passengers at Midway

NOTE: Excludes nonrevenue enplaned passengers. The data for 2015 reflects four quarters ending Q3 2015.

SOURCE: U.S. Department of Transportation DB1B Survey, February, 2016.

PREPARED BY: Ricondo & Associates, Inc., February 2016.

Exhibit 5-7: Southwest Airlines Connecting Passenger Volumes at Select Airports

NOTES: Excludes nonrevenue enplaned passengers. The data for 2015 reflects four quarters ending Q3 2015.

SOURCE: U.S. Department of Transportation DB1B Survey, February, 2016.

PREPARED BY: Ricondo & Associates, Inc., February 2016.

Southwest Airlines operates a fleet consisting entirely of Boeing 737 aircraft, and the airline operates a total of 704 aircraft in four variants, shown in **Table 5-11**. As a result, Southwest Airlines operates with a higher average seat capacity per departure than its competitors. In addition, Southwest Airlines currently has orders for 30 Boeing 737 MAX-7 aircraft and 170 Boeing 737 MAX-8 aircraft that are scheduled for delivery between 2017 and 2024, with options for 191 Boeing 737 MAX-8 aircraft beginning in 2021. These new aircraft will be used to increase average seat capacity, as well as replace older aircraft, in particular the Boeing 737-300 and 737-500 variants, which are scheduled to retire by 2018.²⁰ As new aircraft are delivered, it is expected that the average seats per departure will increase both at the Airport and network-wide. **Table 5-12** shows the current distribution of Southwest Airlines' largest aircraft, the 175-seat Boeing 737-800, throughout the airline's ten busiest airports. Midway has more daily Boeing 737-800 operations than any other airport and ranks third in terms of percentage for total daily operations. According to published schedules through July 2016, Boeing 737-800 operations at Midway, as a percentage of total operations, have grown faster than at other airports within the Southwest Airlines network.

Table 5-11: Southwest Airlines' Fleet Mix^{1/}

AIRCRAFT TYPE	SEAT CAPACITY	AVERAGE AGE	NUMBER OF AIRCRAFT
Boeing 737-300	137 or 143	22	118
Boeing 737-500	122	24	11
Boeing 737-700	143	11	471
Boeing 737-800	175	2	104

NOTE:

1/ As of December 31, 2015.

SOURCE: Southwest Airlines, *Form 10-K*, February 3, 2016.

PREPARED BY: Ricondo & Associates, March 2016.

²⁰ Southwest Airlines 4th Quarter 2015 Earnings Call, January 21, 2016.

Table 5-12: Daily Operations of Boeing 737-800 Aircraft in the Southwest Airlines Network

AIRPORT	DAILY OPERATIONS	PERCENT OF TOTAL OPERATIONS
Chicago-Midway	58	23.8%
Las Vegas	52	24.3%
Denver	40	22.0%
Baltimore	37	17.8%
Phoenix	34	19.9%
Orlando	31	25.1%
Dallas-Love Field	24	14.1%
Houston-Hobby	13	8.8%
Los Angeles	11	8.9%
Atlanta	5	4%

SOURCE: Innovata, January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

Through its acquisition of AirTran Airways, Southwest Airlines began international service in 2014.²¹ From Midway, Southwest Airlines currently operates service to Cancún International Airport (CUN), Sangster International Airport (MBJ), and Punta Cana International Airport (PUJ). Throughout its route network, Southwest Airlines serves 11 international destinations, entirely in the Mexico, Caribbean, and Latin America regions. The primary international gateways used by the airline are Baltimore/Washington International Thurgood Marshall Airport, Denver International Airport, Midway, and John Wayne Airport. An additional international gateway is William P. Hobby Airport, where the airline opened a new five-gate international terminal in December 2015. In 2017, Southwest Airlines also expects to open a new terminal at Fort Lauderdale-Hollywood International Airport (FLL), equipped with a dedicated FIS facility to serve as an international gateway.

In October 2014, the last restrictions of the Wright Amendment, which limited service to and from Dallas Love Field, were repealed. Southwest Airlines has historically maintained a significant presence at Dallas Love Field and in the 12 months following the repeal of the Wright Amendment, introduced new nonstop service to 35 destinations and increased scheduled seat capacity nearly 42 percent at Dallas Love Field. From 2014 to 2015, Southwest Airlines' enplaned O&D passengers at Dallas Love Field grew from approximately 3.0 million to approximately 4.0 million, while connecting enplaned passengers grew from approximately 1.2 million to 1.9 million. Based upon the data shown in Exhibit 5-6, connecting enplaned passengers continued to grow at Midway and other Southwest Airlines hubs (with the exception of Hartsfield Jackson International Airport), despite increased connecting passengers at Dallas Love Field.

²¹ AirTran Airways operated international service for the combined airline prior to 2014.

5.4 Forecasts of Aviation Activity

Forecasts of aviation activity (i.e., enplaned passengers, aircraft operations, and landed weight) were developed with a consideration of historical activity, including passenger volume trends at the Airport and across the industry, historical trends and projections of local and national socioeconomic factors, and anticipated trends in the use of the Airport by Southwest Airlines and other airlines. The following section provides an overview of the methodologies used in forecasting aviation activity at the Airport, and it presents the results of those forecasts.

5.4.1 ASSUMPTIONS UNDERLYING THE FORECASTS

The forecasts of enplaned passengers, aircraft operations, and landed weight were based on a number of underlying assumptions:

- Network realignment between Southwest Airlines and AirTran Airways has been completed, and the air service profile presented in current airline schedules is representative of its future network, excluding forecast growth as described herein. The Airport will remain an important part of Southwest Airlines' route network, and it will accommodate connecting passengers in addition to O&D passengers.
- Chicago O'Hare International Airport will remain the primary international gateway for long-haul O&D traffic in the region, and international activity at Midway will be focused on Canada, the Caribbean, and Mexico.
- For these analyses, and similar to the FAA's nationwide forecast, it was assumed that during the Forecast Period there will be no terrorist incidents that would have significant, negative, and prolonged effects on aviation activity at the Airport or nationwide.
- Economic disturbances will occur during the Forecast Period, causing year-to-year variations in airline traffic; however, long-term economic growth is assumed.
- No major "acts of God" will occur during the Forecast Period that may disrupt the national or global airspace system and negatively affect aviation demand.

Many of the factors influencing aviation activity cannot be quantified, and any forecast is subject to uncertainties. As a result, the forecast process should not be viewed as precise. Actual airline traffic at the Airport may differ from the forecasts presented herein, because events and circumstances do not occur as expected, and these differences may be material.

5.4.2 NEAR-TERM (2016) ENPLANED PASSENGERS AND OPERATIONS FORECAST METHODOLOGY AND RESULTS

Published airline schedules for 2016 were analyzed, and flight segment-level estimates of performance were developed based on trends of load factors and completion rates, which were identified through an analysis of actual performance data furnished by the Airport through 2015, as well as through an analysis of U.S. DOT enplanement and O&D data available through June 2015. Estimates of load factors and completion rates were

applied to scheduled capacity to derive enplanement and operations forecasts for 2016. Published schedules for Southwest Airlines were available through July 2016 at the time of this report. Air service profiles were estimated using the partial year of published airline schedules for the Airport (number of operations, fleet, and seat capacity) and applying these trends to the remainder of the year. Historical load factor trends and completion rates were used as a reference for the development of 2016 passenger activity.

The total number of enplaned passengers is forecast to increase 0.6 percent between 2015 and 2016, from approximately 11.0 million to approximately 11.1 million. Southwest Airlines, which has increased capacity at the Airport, has published schedules through October 2016 that reflect a 0.4 percent decrease in scheduled seat capacity at the Airport, compared to the same period in 2015. Increased capacity in February, 2016, due to the leap year, is offset by capacity reductions in March and April. Based on this schedule information and the analysis of monthly capacity trends in previous years, seat capacity between August and December was assumed to not exceed the seat capacity operated during the same period in 2015. Load factors were assumed to increase slightly as recently added routes and capacity mature and forecast passenger growth is accommodated on existing capacity.

5.4.3 LONG-TERM (2017 THROUGH 2025) ENPLANED PASSENGERS FORECAST METHODOLOGY

To understand the long-term growth potential of enplaned passengers at the Airport, projections of nationwide and local economic activity were examined. It was concluded that the economic bases of the Air Trade Area and the nation are diversified, stable, and capable of generating longer-term increases in demand for air transportation at the Airport during the Forecast Period.

Longer-term passenger activity growth rates at the Airport were modeled using socioeconomic regression analysis. Socioeconomic regression analysis is used to identify causal relationships between a dependent variable (e.g., O&D passenger volume) and one or more independent variables (e.g., socioeconomic factors, such as population, employment, per capita personal income, etc.). These relationships, or regression models, can be employed to forecast future growth in aviation activity using forecasts of independent variables. A standard measure of how well each socioeconomic variable explains passenger demand is the regression model's coefficient of determination, or R-squared. A result of 100 percent is the maximum value possible for a coefficient of determination, and it represents a perfect fit among the variables analyzed. For the purposes of this analysis, an R-squared value of 80 percent or better was considered adequate.

Socioeconomic regression analysis was conducted to identify causal relationships among Midway O&D passengers and socioeconomic variables at the national level as well as for the Air Trade Area. Since the Airport's O&D activity is affected by surrounding airports, historical relationships for O&D activity were analyzed further to consider historical activity at O'Hare International and General Mitchell International Airports.²²

²² When incorporating General Mitchell International Airport O&D passenger volumes in regression models, the Milwaukee-Racine-Waukesha MSA was included in the Air Trade Area socioeconomic projections.

The Airport serves originating passengers who reside in the Air Trade Area as well as those who visit the Air Trade Area or connect through the Airport for business or leisure. With the Airport's diverse customer base, demand for air service is driven by factors directly related to demographic and economic characteristics of both the Air Trade Area and the nation. As such, the following six socioeconomic variables were analyzed separately as independent variables in the regression analyses, both for the nation and for the Air Trade Area: population, total earnings, total income, per capita personal income, employment, and GRP/GDP. Historical and projected data for these independent variables were obtained from Woods & Poole Economics, Inc.

5.4.3.1 Regression Analysis Specifics

Single-variable regression analysis was conducted to forecast future O&D passenger demand. Forecasting models were explored utilizing regression analysis between/among the following:

- Midway domestic O&D passenger volumes and socioeconomic variables
- Midway and O'Hare International Airport domestic O&D passenger volumes and socioeconomic variables
- Midway, O'Hare International Airport, and General Mitchell International Airport domestic O&D passenger volumes and socioeconomic variables

The regression analysis was conducted using O&D data through 2014, the latest period available. The relationship among socioeconomic variables and Midway domestic O&D passenger volumes, as well as Midway and O'Hare International Airport combined domestic O&D passenger volumes, yielded either insufficient coefficients of determination or resulted in more aggressive growth results. The relationship between socioeconomics and Midway, O'Hare, and General Mitchell International Airports' domestic O&D passengers, however, yielded a range of growth rates with an acceptable coefficient of determination. Certain relationships between Midway domestic O&D passengers and socioeconomic variables exhibited sufficient coefficients of determination; however, the growth ranges were more aggressive than those identified for the three airports combined. As a result, the Midway, O'Hare, and General Mitchell International Airports combined volumes were used.

The resulting growth rates were used to forecast passenger volumes for the three airports. In order to apportion these passengers to each airport, an analysis of historical domestic O&D passenger shares between 2005 and 2014 was undertaken. As shown in **Table 5-13**, Midway's share remained relatively stable through 2014, with few exceptions; however, recent growth at O'Hare International Airport, specifically by ultra-low cost carriers (ULCCs), was acknowledged and has been factored into the future apportioning of passenger shares.

The domestic O&D passenger share at O'Hare International Airport reached a low of 57 percent in 2010, coinciding with General Mitchell International Airport's greatest share. O'Hare International Airport's share increased to 61 percent in 2014. Midway's share of regional O&D passengers is projected to remain stable throughout the Projection Period. For the purposes of this forecast, it is assumed that Midway's share will comprise 26.7 percent of future regional domestic O&D passenger volumes, which reflects 2014 and partial year 2015 data accounting for recent growth of activity at O'Hare International Airport.

Table 5-13: Regional O&D Passenger Shares

	MIDWAY	O'HARE	MILWAUKEE
2005	26.5%	61.8%	11.8%
2006	27.1%	61.2%	11.7%
2007	26.9%	61.5%	11.6%
2008	25.5%	61.7%	12.9%
2009	27.3%	58.8%	13.9%
2010	25.8%	57.4%	16.8%
2011	25.5%	58.1%	16.5%
2012	26.5%	59.3%	14.2%
2013	26.8%	60.3%	12.9%
2014	26.7%	60.5%	12.7%

SOURCE: U.S. DOT, *DB1B Survey*, January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

5.4.3.2 Enplaned Passenger Forecast Results

Total enplaned passengers (**Table 5-14**) are forecast to grow from 11.0 million in 2015 to 13.2 million in 2025, a CAGR of 1.8 percent. Throughout the Forecast Period, it is assumed that Southwest Airlines will increase capacity to capture O&D activity. Southwest Airlines is expected to accommodate connecting passengers to supplement O&D passenger activity; additional connecting passengers will be carried in a similar proportion.

The O&D percentage of passengers (**Table 5-15**) is forecast to grow from approximately 61.0 percent in 2015 to 62.4 percent in 2016, and it is forecast to stay at that proportion through the remainder of the Forecast Period. Southwest Airlines experienced some decline in its ratio of O&D passengers since 2013 as the airline worked to integrate AirTran capacity, which served almost entirely O&D passengers, into its network. As this capacity has been fully integrated, passenger shares will more closely resemble those experienced historically. It is also expected that the recent growth of connecting opportunities at other Southwest Airlines airports, such as at Dallas Love Field, Denver International Airport, William P. Hobby Airport, and others, will provide additional competition for connections, which would enable Midway to increase O&D share.

Other airlines operating at the Airport are expected to continue to serve primarily O&D passengers. The total number of O&D enplaned passengers at the Airport is forecast to grow from 6.9 million in 2015 to 8.2 million in 2025. During the same period, connecting enplaned passengers are forecast to grow from 4.2 million to 5.0 million.

Table 5-14: Enplaned Passenger Forecast at the Airport

	ENPLANED PASSENGERS	CHANGE
Historical		
2006	9,087,611	
2007	9,288,348	2.2%
2008	8,229,304	(11.4)%
2009	8,468,470	2.9%
2010	8,734,214	3.1%
2011	9,352,766	7.1%
2012	9,671,619	3.4%
2013	10,155,389	5.0%
2014	10,497,727	3.4%
2015	11,003,697	4.8%
Forecast		
2016	11,069,544	0.6%
2017	11,299,078	2.1%
2018	11,530,047	2.0%
2019	11,763,898	2.0%
2020	12,001,026	2.0%
2021	12,239,179	2.0%
2022	12,478,517	2.0%
2023	12,717,212	1.9%
2024	12,955,136	1.9%
2025	13,193,415	1.8%
CAGR		
2006–2015	2.1%	
2015–2025	1.8%	

SOURCES: City of Chicago, Department of Aviation (Historical), January 2016; Ricondo & Associates, Inc. (Forecast), January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

Table 5-15: O&D and Connecting Enplanement Forecast

	O&D ENPLANEMENTS	CONNECTING ENPLANEMENTS	O&D PERCENT OF TOTAL	TOTAL ENPLANEMENTS
Historical				
2006	6,627,599	2,460,012	72.9%	9,087,611
2007	6,445,048	2,843,300	69.4%	9,288,348
2008	5,818,843	2,410,461	70.7%	8,229,304
2009	5,579,481	2,888,989	65.9%	8,468,470
2010	5,409,744	3,324,470	61.9%	8,734,214
2011	5,630,102	3,722,664	60.2%	9,352,766
2012	6,239,055	3,432,564	64.5%	9,671,619
2013	6,434,187	3,721,202	63.4%	10,155,389
2014	6,379,486	4,118,241	60.8%	10,497,727
2015 ^{1/}	6,712,255	4,291,442	61.0%	11,003,697
Forecast				
2016	6,903,190	4,166,354	62.4%	11,069,544
2017	7,046,332	4,252,746	62.4%	11,299,078
2018	7,190,369	4,339,678	62.4%	11,530,047
2019	7,336,204	4,427,694	62.4%	11,763,898
2020	7,484,081	4,516,945	62.4%	12,001,026
2021	7,632,598	4,606,581	62.4%	12,239,179
2022	7,781,854	4,696,663	62.4%	12,478,517
2023	7,930,709	4,786,503	62.4%	12,717,212
2024	8,079,083	4,876,053	62.4%	12,955,136
2025	8,227,679	4,965,736	62.4%	13,193,415
Compound Annual Growth Rate				
2006–2015	0.1%	6.4%		2.1%
2015–2025	2.1%	1.5%		1.8%

NOTE:

1/ Full-year 2015 O&D values were not available at the time of this Report and have been estimated.

SOURCES: City of Chicago, Department of Aviation (Historical), January 2016; Ricondo & Associates, Inc. (Forecast), January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

International O&D passengers, which in 2014 made up less than 7.0 percent of the Airport's total passenger base, were modeled to grow proportionately to domestic O&D passengers. This was undertaken as a conservative measure of growth. It is expected that international O&D passenger volumes will grow as Southwest Airlines expands its international network and additional limited international service, primarily to Latin America and Central America, is introduced by other airlines from Midway. As Southwest Airlines expands its international network from both the Airport and its other international gateways, O&D passengers will have new opportunities to use the Airport, providing incremental growth. It is expected that most of this growth will depart the Airport as domestic enplanements on an international journey (e.g., travelling from Midway to Queen Beatrix International Airport (AUA) through a connection at William P. Hobby Airport).

Existing Airport facilities, with the planned capital projects, should generally accommodate the forecast passenger activity included in this Report. A facility-specific analysis was not conducted as part of this Report; however, the capacity of the existing gates, terminal facilities, and airfield was previously assessed by Ricondo & Associates, Inc. when acting as a technical advisory to the City as part of the 2013 privatization effort.²³ During that analysis, existing facilities were forecast to accommodate approximately 13.2 million annual enplaned passengers before additional gate capacity was needed, which is the approximate activity level forecast for 2025 in this Report. Terminal facilities at the Airport generally constrain long-term passenger growth prior to airfield facilities. Additional gates could be constructed at the airport, but the annual activity forecast in this Report is not estimated to require additional gates. A design-day schedule that could identify peak periods that exceed existing capacity was not performed for this Report, and terminal capacity is sensitive to underlying assumptions.

5.4.4 PASSENGER AIRLINES OPERATIONS FORECAST

Historical and forecast passenger aircraft operations, load factor, and average seats per departure at Midway are presented in **Table 5-16**. Passenger airline operations are forecast to increase from 186,132 in 2015 to 210,302 in 2025, a CAGR of 1.2 percent. The forecast of passenger aircraft operations was derived from an analysis of load factors and average aircraft seating capacities currently operating at the Airport, as well as an analysis of aircraft expected to operate at the Airport. Future fleet mix at the Airport was derived from published fleet plans. Southwest Airlines accounted for 89.4 percent of passenger airline operations in 2015. As the airline continues to implement its fleet expansion and modernization plan, described in Section 5.3.4, it is forecast that the average number of seats per departure will increase from 143.7 in 2015 to 152.0 in 2025. The average load factor²⁴ at the Airport is forecast to grow from 85.0 percent in 2015 to 85.5 percent in 2016, and it is forecast to decline slightly to 83.5 percent in 2019 as Southwest Airlines adds capacity in the form of larger Boeing 737-800 and 737 MAX-8 aircraft. As the growth in average number of seats per departure slows after 2020, load factor is forecast to increase steadily to 85.3 percent.

5.4.5 LANDED WEIGHT FORECAST

Table 5-17 presents historical and forecast landed weight at the Airport. As shown, passenger airline landed weight is forecast to increase from 12,075,473 thousand-pound units in 2015 to 14,335,920 thousand-pound units in 2025, a CAGR of 1.7 percent. This reflects the combined impact of increased number of passenger airline operations and Southwest Airlines introducing higher-gauge Boeing 737 aircraft.

²³ Ricondo & Associates, Inc., *Vendor Due Diligence Report, Chicago Midway International Airport*, June 2013.

²⁴ Load factor has been adjusted to account for through passengers, who transit through the Airport on the same aircraft and do not deplane. These passengers are not recognized as an enplanement by the Airport.

Table 5-16: Passenger Airline Operations Forecast

	PASSENGER AIRLINE OPERATIONS	AVERAGE LOAD FACTOR ^{1/}	SEATS PER DEPARTURE
Historical			
2006	203,728	73.8%	129.9
2007	211,010	72.9%	128.8
2008	188,748	72.3%	129.9
2009	183,752	78.7%	129.2
2010	178,877	82.0%	128.7
2011	185,594	83.2%	130.3
2012	187,217	83.3%	132.7
2013	189,689	82.3%	139.7
2014	185,817	84.6%	141.8
2015 ^{2/}	186,132	85.0%	143.2
Forecast			
2016	187,270	85.5%	144.0
2017	190,056	85.0%	145.0
2018	192,297	84.0%	146.9
2019	196,604	83.5%	148.1
2020	198,658	83.8%	149.0
2021	201,064	84.1%	149.6
2022	203,448	84.4%	150.2
2023	205,779	84.7%	150.8
2024	208,057	85.0%	151.4
2025	210,302	85.3%	152.0
CAGR			
2006–2015	(1.0%)	1.6%	1.1%
2015–2025	1.2%	0.0%	0.6%

NOTES: Completion factors have been applied to the passenger airline operations forecast.

1/ Load factors have been adjusted to account for through passengers, which are not recorded as enplaned passengers by the Airport.

2/ Full-year 2015 load factors were not available at the time of this Report and have been estimated.

SOURCES: Burbank-Glendale-Pasadena Airport Authority (Historical); Innovata; Ricondo & Associates, Inc. January 2016 (Forecast).

PREPARED BY: Ricondo & Associates, Inc., January 2016.

Table 5-17: Landed Weight Forecast

	LANDED WEIGHT	GROWTH
Historical		
2006	12,228,311	
2007	12,545,451	2.6%
2008	11,264,427	(10.2)%
2009	10,915,468	(3.1)%
2010	10,918,696	0.0%
2011	11,531,890	5.6%
2012	11,620,580	0.8%
2013	12,041,817	3.6%
2014	11,893,517	(1.2)%
2015	12,075,473	1.5%
Forecast		
2016	12,093,055	0.1%
2017	12,320,873	1.9%
2018	12,722,404	3.3%
2019	13,058,165	2.6%
2020	13,273,692	1.7%
2021	13,488,811	1.6%
2022	13,703,702	1.6%
2023	13,916,367	1.6%
2024	14,126,690	1.5%
2025	14,335,920	1.5%
CAGR		
2006–2015	(0.1%)	
2015–2025	1.7%	

SOURCES: City of Chicago, Department of Aviation (Historical), January 2016; Ricondo & Associates, Inc. (Forecast), January 2016.
 PREPARED BY: Ricondo & Associates, Inc., January 2016.

5.4.6 COMPARISON OF FORECASTS

Table 5-18 presents a comparison of the enplaned passenger forecast in this Report, the Ricondo & Associates, Inc. *2013 Bond Feasibility Report* (2013 Report) forecast, and the 2015 FAA *Terminal Area Forecast* (TAF). In the 2013 Report, enplaned passengers were forecast to grow from 10.6 million in 2015 to 12.3 million in 2022, a CAGR of 2.1 percent. The 2013 Report forecast enplaned passengers to reach 10.6 million in 2015 compared to the actual volume of 11.0 million. From 2015 through 2025, both the FAA TAF and this Report forecast enplaned passengers to grow at a CAGR of 1.8 percent. In addition to the comparison of forecasts,

the FAA's forecast of Midway's enplaned passenger share as a percent of total national enplaned passengers is included. From 2015 through 2025, the FAA forecasts Midway's share of national enplaned passengers will decrease from 1.36 percent to 1.31 percent, indicating that national enplaned passengers will increase at a faster rate than those at the Airport.

Table 5-18: Enplaned Passenger Forecast Comparison

	2016 R&A FORECAST	2013 R&A FORECAST ^{1/}	2015 FAA TAF	2015 FAA TAF: MIDWAY'S SHARE, NATIONAL ENPLANEMENTS
Historical				
2006	9,087,611	9,087,611	8,864,793	1.21%
2007	9,288,348	9,288,348	9,099,416	1.20%
2008	8,229,304	8,229,304	8,392,830	1.12%
2009	8,468,470	8,468,470	7,993,576	1.15%
2010	8,734,214	8,734,214	8,465,845	1.20%
2011	9,352,766	9,352,766	8,948,150	1.24%
2012	9,671,619	9,671,619	9,390,958	1.28%
2013	10,155,389	10,092,877	9,764,101	1.33%
2014	10,497,727	10,351,033	10,202,117	1.35%
2015	11,003,697	10,604,855	10,618,298	1.36%
Forecast				
2016	11,069,544	10,854,342	10,616,906	1.32%
2017	11,299,078	11,099,494	10,861,264	1.32%
2018	11,530,047	11,340,311	11,085,592	1.32%
2019	11,763,898	11,576,794	11,316,552	1.32%
2020	12,001,026	11,808,942	11,579,035	1.32%
2021	12,239,179	12,036,755	11,832,551	1.32%
2022	12,478,517	12,260,234	12,063,286	1.31%
2023	12,717,212		12,278,198	1.31%
2024	12,955,136		12,491,152	1.31%
2025	13,193,415		12,708,150	1.31%
CAGR				
2006–2015	2.1%	1.7%	2.0%	
2015–2022	1.8%	2.1%	1.8%	
2015–2025	1.8%	NA	1.8%	

NOTES: The FAA TAF excludes nonrevenue passengers and is presented on a Federal Fiscal Year basis (October through September).

1/ Years 2013 through 2022 are forecast.

SOURCES: City of Chicago, Department of Aviation (Historical), January 2016; FAA, *Terminal Area Forecast* (2015), January 2015; Ricondo & Associates, Inc. (Forecast), January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

Table 5-19 presents a comparison of the passenger airline operations forecast in this Report, the 2013 Report forecast, and the 2015 FAA TAF. In the 2013 Report, passenger airline operations were forecast to grow from 194,822 in 2015 to 221,666 in 2022, a CAGR of 1.9 percent. The primary difference in passenger airline operations growth between the 2016 forecast and the 2013 forecast is the updated assumption of seats-per-departure growth based on new aircraft orders by Southwest Airlines. With orders for 175-seat aircraft and the accelerated retirement of Boeing 737 Classics, the average number of seats per departure in the 2016 forecast is 150.2 for 2022, compared to 143.9 in the 2013 forecast.

Table 5-19: Passenger Airline Operations Forecast Comparison

	2016 R&A FORECAST	2013 R&A FORECAST ^{1/}	2015 FAA TAF
Historical			
2006	203,728	203,728	190,436
2007	211,010	211,010	199,052
2008	188,748	188,748	193,384
2009	183,752	183,752	182,972
2010	178,877	178,877	179,682
2011	185,594	185,594	180,445
2012	187,217	187,217	185,283
2013	189,689	189,421	185,486
2014	185,817	190,627	184,955
2015	186,132	194,822	188,104
Forecast			
2016	187,270	198,847	188,662
2017	190,056	202,693	192,995
2018	192,297	206,834	196,982
2019	196,604	210,445	201,113
2020	198,658	214,102	205,798
2021	201,064	217,929	210,345
2022	203,448	221,666	214,510
2023	205,779		218,371
2024	208,057		222,134
2025	210,302		225,966
Compound Annual Growth Rate			
2015–2022	1.3%	1.9%	1.9%
2015–2025	1.2%	NA	1.9%

NOTES: The FAA TAF excludes nonrevenue passengers and is presented on a Federal Fiscal Year basis (October through September).

^{1/} Years 2013 through 2022 are forecast.

SOURCES: City of Chicago, Department of Aviation (Historical), January 2016; FAA, *Terminal Area Forecast* (2015), January 2015; Ricondo & Associates, Inc. (Forecast), January 2016.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

6. Financial Analysis

The financial framework of the Airport, the cost and other financial implications of the issuance of the Series 2016 Bonds, and the issuance of future bonds necessary to fund certain projects part of the ongoing CIP are discussed in this Chapter. Projections of O&M Expenses, non-signatory (non-commercial) airline and nonairline revenues, PFC Revenue, debt service, debt service coverage, net signatory airline requirements, Airport Fees and Charges, airline revenues, and airline cost per enplaned passenger (CPE) are also discussed in this Chapter.

6.1 Financial Framework

The Airport is owned by the City, operated by the CDA, and accounted for as a self-supporting Enterprise Fund of the City, which is separate from O'Hare International Airport. The City maintains the books, records, and accounts of the Airport in accordance with GAAP and, as required by the provisions of the Airport Use Agreement, in accordance with the Bond Ordinance and Bond Indentures, as supplemented and amended. The City's Fiscal Year ends December 31. Neither City nor State of Illinois tax revenues are pledged to the payment of Net Debt Service or to fund the cost of operations at the Airport.

Airport accounting practices, including the Airport Use Agreement, the cost-center structure used for airline rate-setting, and the requirements governing the issuance of airport revenue bonds by the City are discussed in this section.

6.1.1 AIRPORT USE AGREEMENT

The Airport Use Agreement sets forth the City's main financial and operational arrangement with the airline tenants of the Airport. The City has entered into the Airport Use Agreement with the five airlines currently operating at the Airport, which are collectively referred to herein as the Signatory Airlines: Delta Air Lines, Frontier Airlines¹, Porter Airlines, Southwest Airlines, and Volaris. The Signatory Airlines entered into a new 15-year Airport Use Agreement, effective January 1, 2013. The Airport Use Agreement continues the residual rate-setting methodology and daily average gate-utilization requirements.

¹ Not currently serving the Airport.

The Airport Use Agreement provides, among other things, contractual support of the Signatory Airlines for bonds and other obligations issued to fund Airport capital improvements. The Airport Use Agreement is in place to formalize the rights and responsibilities of the Signatory Airlines and the CDA. Under the Airport Use Agreement, the City can finance Airport Capital Projects with Airport Obligations through the receipt of majority-in-interest (MII) approval of the Signatory Airlines. MII approval is reached through an affirmative vote from the Signatory Airlines that hold a majority of the aggregate Airline Fees and Charges assessed to all Signatory Airlines and hold a majority in the number of Signatory Airlines with Airport Use Agreement.

Airlines or other users of the Airport that are not signatories to an Airport Use Agreement are assessed Airport fees and charges enacted by City ordinances. In the aggregate, the Signatory Airlines (Airline Parties), including their subsidiaries, accounted for 97.3 percent of the total landed weight at the Airport in 2015; Southwest Airlines represented 90.4 percent. Airlines that are not signatory to the Airport Use Agreement (Non-Signatory Airlines and Charters) accounted for the remaining 2.7 percent of landed weight. Beginning in 2016, all airline service from the Airport is anticipated to be from the Airline Parties.

6.1.2 AIRPORT FEES AND CHARGES

Under the Airport Use Agreement, terminal rental rates, equipment, fueling, and airline landing fees are established using a residual airport methodology. In order to equitably allocate the net cost of operating, maintaining, improving, and expanding the Airport among the Signatory Airlines, various physical and functional areas of the Airport are separated to account for the O&M Expenses, revenues, required fund deposits, and Net Debt Service on Airport Obligations. As a result, there are five Cost Centers in the Airport's financial structure that affect the residual calculation and adjustment of Airport Fees and Charges:

- **Airfield Area.** The Airfield Area includes the aircraft parking areas, runways, taxiways, approach and runway protection zones, infield areas, and other facilities related to aircraft taxiing, landing, and takeoff.
- **Terminal Area.** The Terminal Area includes the passenger terminal buildings, connecting structures, passenger walkways and tunnels, concourses, holdroom areas, passenger loading bridges, and control towers maintained by the City.
- **Terminal Ramp Area.** The Terminal Ramp Area includes the aircraft parking apron and all facilities, equipment, and improvements, including aircraft parking areas and aircraft circulation and taxiing areas for access to the aircraft parking areas.
- **Equipment.** The Equipment Cost Center includes the terminal and airline equipment required for the handling and servicing of passengers, baggage, aircraft, and flight operations at the Airport.
- **Fueling System.** The Fueling System includes the tank farm and all facilities that are part of the Airport's hydrant fueling system.

The revenues and expenses of the Parking and Roadway Area and Support Facilities Area are allocated within the Airfield Area, Terminal Area, and Terminal Ramp Area Cost Centers:

- **Parking and Roadway Area.** The Parking and Roadway Area includes all public and employee parking areas, and all roads and facilities serving such parking areas; the Terminal Area access road;

the terminal and frontage road; the exit road and all other roadways; rights-of-way; ramps; sidewalks; and other facilities, including the commercial vehicle storage lot, rental car ready-return lot, and other parking areas leased to car rental and ground transportation concessions.

- **Support Facilities Area.** The Support Facilities Area includes aircraft rescue and firefighting facilities; airport maintenance complex/snow removal equipment facilities; fuel storage facilities; airline maintenance and other airline support facilities, such as FBOs, general aviation facilities, and aircraft hangar and cargo facilities; and the airport services road system.

As detailed in Section 6.7, total expenses of each Cost Center are offset by non-signatory and nonairline revenue. An allocable share of the net deficit remaining in the Terminal Area, Terminal Ramp Area, Airfield Area, Equipment, and Fueling System Cost Centers is paid by the Signatory Airlines as part of their Airport Fees and Charges for their use of the Airport. Parking and Roadway Area and Support Facilities Cost Centers are allocated to the requirements for the Terminal, Terminal Ramp, and Airfield Areas. The Airport Use Agreement provides that the aggregate of Airport Fees and Charges paid by the Signatory Airlines must be sufficient to pay for the net cost of operating, maintaining, and developing the Airport, including satisfaction of the debt service, the debt service coverage requirement, the reserve deposits, and the payment requirements of the Bond Ordinance and the Bond Indentures.

6.2 Operating and Maintenance Expenses

O&M Expenses comprise expenses associated with operating and maintaining the Airport, including the airfield, terminal, and landside facilities. Historical O&M Expenses for 2010 through 2014 are presented in **Table 6-1**. O&M Expenses increased at a compound annual growth rate of 4.6 percent, from \$108.3 million in 2010 to \$129.6 million in 2014. This increase can partially be attributed to steadily increasing professional and engineering costs, as well as increases in salaries and wages and increases in repair and maintenance expenses. Between 2010 and 2014, professional and engineering costs increased at a CAGR of 10.1 percent; repairs and maintenance expenses increased by 8.4 percent; and salaries and wages increased by 3.2 percent.

Table 6-1: Historical Operating and Maintenance Expenses, 2010–2014

(For Fiscal Years Ending December 31)

	2010	2011	2012	2013	2014	CAGR
Total O&M Expenses (thousands)	\$108,336	\$110,089	\$114,297	\$121,116	\$129,596	4.6%
O&M Expenses Annual Growth Rate	8.7%	1.6%	3.8%	6.0%	7.0%	
Enplaned Passengers (thousands)	8,856	9,459	9,780	10,267	10,608	4.6%
Enplaned Passengers Growth Rate	3.3%	6.8%	3.4%	5.0%	3.3%	
Total O&M Expenses per Enplaned Passenger	\$12.23	\$11.64	\$11.69	\$11.80	\$12.22	0.0%

SOURCE: City of Chicago, Chicago Midway International Airport Comprehensive Annual Financial Report, June 2015.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

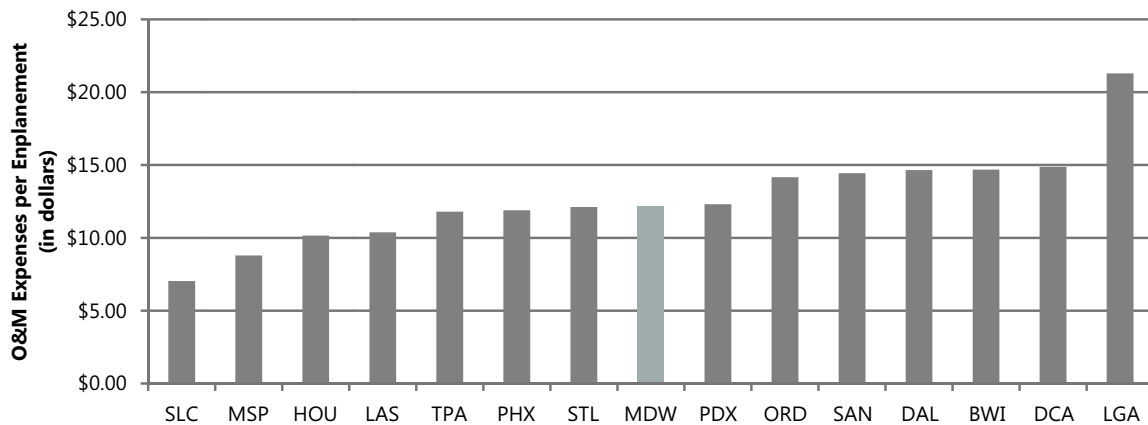
As shown in Table 6.1, the Airport's O&M Expenses per enplaned passenger decreased in 2011, but then increased over the next four years, resulting in no growth between 2010 and 2014.

The Airport's first-half 2016 budget serves as the base year from which O&M Expenses are projected. O&M Expense projections are based on the type of expense and expectations of future inflation rates (assumed to be 3.0 percent annually). CDA does not currently anticipate any incremental O&M Expenses associated with any future capital projects anticipated to be funded with proceeds from future MARBs to be paid by the Airlines. Any incremental O&M Expenses associated with the CRCF are anticipated to be paid by the rental car companies. Projected O&M Expenses are presented in **Table B-1** of **Appendix B**. As shown in Table B-1, total O&M Expenses are projected to increase from \$142.8 million in 2016 to \$205.7 million in 2025, representing a CAGR of 4.1 percent.

6.2.1 COMPARISON OF O&M EXPENSES PER ENPLANEMENT

Exhibit 6-1 presents a comparison of O&M Expenses per enplanement at the Airport, at other Southwest Airlines focus airports, and at O'Hare International Airport, which were calculated using data from the FAA Compliance Activity Tracking System (CATS) database.² O&M Expenses per enplanement range from \$7.03 to \$21.29. Variations in this metric among the airports shown are attributable to factors such as the age and size of the airport, geographical areas served, existing contracts, and the amount of O&M funded directly by airlines and other airport tenants. At \$12.22 in O&M Expenses per enplanement, the Airport is below both the average and the median for O&M Expenses per enplanement (\$12.72 and \$12.22, respectively) compared to the other airports.

² FAA CATS data reported in this chapter are for the Fiscal Year ending June 30, 2015 for Portland International (PDX), Salt Lake City International (SLC), Phoenix Sky Harbor International (PHX), San Diego International (SAN), Baltimore-Washington International (BWI), William P Hobby (HOU), McCarran International (LAS), and Lambert-St. Louis International (STL) Airports; the Fiscal Year ending September 30, 2015 for Tampa International Airport (TPA); the Fiscal Year ending December 31, 2014 for Reagan National (DCA), LaGuardia (LGA), Minneapolis-St Paul International (MSP), Chicago Midway International (MDW), and O'Hare International (ORD) Airports; and the Fiscal Year ending September 30, 2014 for Dallas Love Field Airport (DAL).

Exhibit 6-1: Airport Comparison of O&M Expenses per Enplanement

SOURCE: FAA, CATS Database, January 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

6.2.2 CITY PENSION CONTRIBUTIONS

Pension fund contributions of the Airport are limited to the share of City employee salaries allocated to the Airport; these City employees include both those working directly at the Airport and those from other City departments that support Airport operations, such as Purchasing, Finance, and Corporation Counsel. Federal regulations prevent the use of Airport Revenues for funding pension costs for any employees not working directly at or allocated to the Airport.

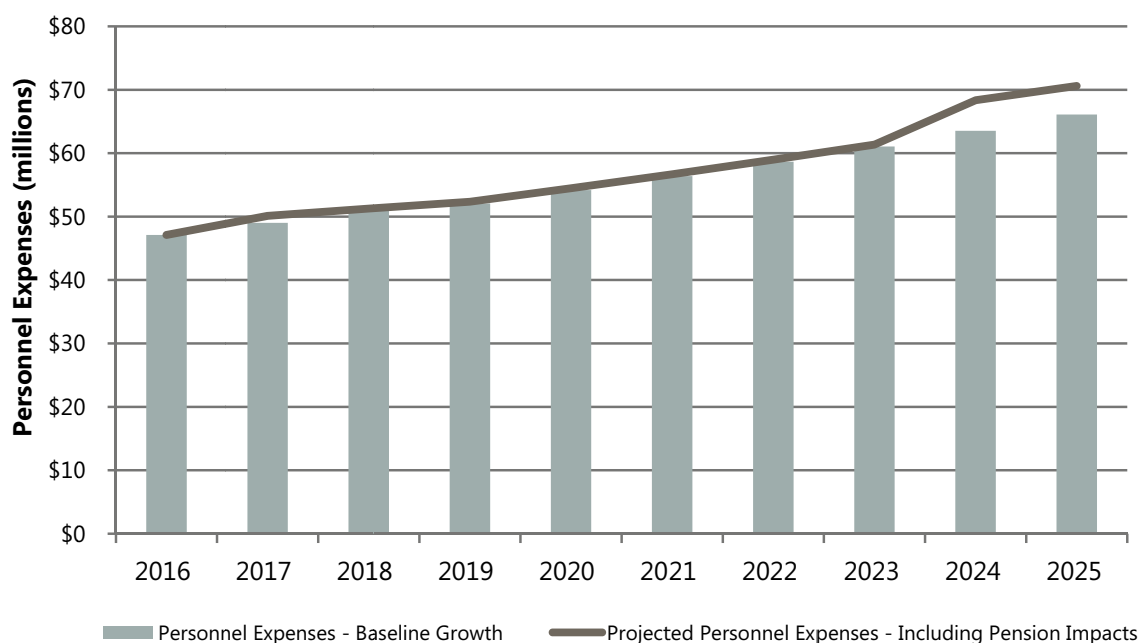
The following four pension funds affect Airport expenses:

- Policemen's Annuity and Benefit Fund of Chicago (PABF)
- Firemen's Annuity and Benefit Fund of Chicago (FABF)
- Municipal Employees' Annuity and Benefit Fund of Chicago (MEABF)
- Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (LABF)

According to the 2016 Airport rates and charges budget, this pension expense is approximately \$8.0 million. The amount budgeted for 2016 reflects certain pension reforms. Pension expense increases, projected in this analysis, are based on certain pending legislation, specifically Senate Bill 777 (SB 777). SB 777 passed both houses of the Illinois General Assembly in May 2015 and was sent to the Governor for consideration on March 31, 2016. The effectiveness of SB 777, which remains pending, is assumed in the financial analysis in this Report. This report excludes the impact of Public Act 98-641, which was declared unconstitutional by the Illinois Supreme Court on March 24, 2016. Under these assumptions, Midway pension costs are estimated by the City to increase to approximately \$10.8 million in 2023, representing a CAGR of approximately 3.0 percent. Under the current provisions of the Pension Code, MEABF and LABF are projected by their respective actuaries to have insufficient funds available to make payments to beneficiaries beginning in Fiscal Year 2025 and 2029, respectively. Although it is uncertain how such payments would be made in this circumstance, one possibility is that the City could be required to make these payments due to beneficiaries on a pay-as-you-go basis,

which would cause a significant increase in the City's contributions and, as a result, to the Airport's allocated portion of such contributions to such funds. Assuming the current allocation percentage of this requirement to the Airport, pension expenses are estimated to increase to approximately \$15.7 million and \$20.2 million in 2024 and 2025, respectively, should the City be required to make such beneficiary payments in addition to its required contributions. **Exhibit 6-2** illustrates the Airport's projected increase in total Personnel Expenses through the Projection Period. The projected Personnel Expenses presented in this Report include the increased pension contributions shown on Exhibit 6-2.

Exhibit 6-2: Midway International Airport's Projected Pension Contribution^{1/}



NOTE:

1/ Assumes that the city would be required to contribute amount necessary to fund beneficiary payments on a pay-as-you-go basis upon insolvency of MEABF and LABF. The actuaries of MEABF and LABF project large increases in contributions in the years of initial insolvency with modest growth in contributions thereafter, if the city is required to contribute on this basis.

SOURCE: Chicago Department of Aviation; Ricondo & Associates, Inc., (based on the analysis and assumptions described in this Report), April 2016.

PREPARED BY: Ricondo & Associates, Inc., May 2016.

6.2.3 IMPACT OF THE 2016 AIRPORT PROJECTS ON O&M EXPENSES

Certain 2016 Airport Projects, which are described in this section, will impact O&M Expenses. These expenses have been included in the financial analysis included in this Report. Incremental nonairline revenue generated by certain capital projects is described in Section 6.3.2. Incremental O&M Expenses for projects that may impact O&M Expenses but impacts of which are not yet known, such as the Terminal Parking Garage Expansion, have not been included in the financial projections in the Report.

Passenger Security Checkpoint Expansion

The Passenger Security Checkpoint Expansion will result in the addition of approximately 80,000 square feet of floor space in the terminal building. Based on the 2013 energy expense per square foot (\$3.08) inflated at 2.0 percent annually, the incremental energy expense beginning in 2019 for the additional 80,000 square feet is estimated to be \$250,000.

Economy Garage Lighting

The Economy Garage Lighting Project aims to replace the 400W and 150W halide lighting fixtures with 110W and 70W LED lighting fixtures. The City estimates this retrofit will result in lower energy cost and lower maintenance cost, resulting in an estimated annual energy savings of approximately \$550,000 beginning in 2019.

Vehicle Replacement

The cyclical vehicle replacement project procures new vehicles for the purpose of replacement, which results in lower preventative maintenance cost and lower non-accident repair costs. The City plans to acquire and replace seven vehicles in 2017, resulting in an estimated annual savings of approximately \$100,000 beginning in that year.

6.2.4 IMPACTS OF OTHER CAPITAL PROJECTS ON O&M EXPENSES

Parking Automated Revenue Control System

The parking automated revenue control system (PARCS) project, funded using previously issued MARBs, is anticipated to result in a reduction in personnel expenses in the Parking and Roadway Cost Center. The City estimates that the automated system will result in savings to personnel expenses of approximately \$1.0 million annually beginning in 2019. These impacts have also been incorporated into the financial projections presented in this Report.

6.2.5 BUDGETED AND PROJECTED OPERATING AND MAINTENANCE EXPENSES

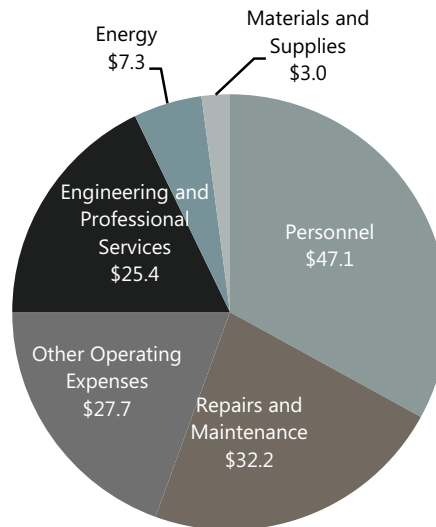
Actual O&M Expenses vs Budget

CDA submits an annual budget for the Airport to the Airline Parties for review. The budget package consists of the Airport rates and charges that are calculated using the rate-setting methodology set forth in the Airport Use Agreement, as described in Section 6.1, based on the budgeted O&M Expenses, revenues, required fund deposits, and debt service on Airport Obligations. As shown in **Table A-1** of **Appendix A**, between 2010 and 2014, actual O&M Expenses for the Airport have been less than the budgeted amount in each of the last 5 years, averaging approximately 5.9 percent below budget. The Airport's 2016 revised budget serves as the base from which O&M Expenses are projected.³

³ The 2016 revised budget reflects the Airport's first-half rates and charges budget, published in December 2015.

Exhibit 6-3 presents the 2016 budgeted O&M Expenses by cost category.

Exhibit 6-3: Budget 2016 Operating and Maintenance Expenses by Cost Category (millions)



SOURCE: CDA, December 2015.
PREPARED BY: Ricondo & Associates, Inc., April 2016.

O&M Expenses are classified into the following categories:

Personnel

Personnel expenses include Airport staff compensation as well as an allocation of personnel costs from other City departments that support Airport operations, such as Purchasing, Finance, and Corporation Counsel. Expenses for salaries, wages, and employee benefits, including reimbursements from City and Federal departments and increases attributable to future projects, are projected to increase at a CAGR of 4.6 percent through 2025. This is attributable primarily to salary increases, escalating insurance premiums, increasing pension obligations, and other benefits increases.

Repairs and Maintenance

Repairs and maintenance expenses at the Airport include the cost of outside contractors that provide ramp repair, taxiway painting, outside janitorial services for terminals, heating and air conditioning, trash removal, escalator/elevator maintenance, and miscellaneous repairs. Repairs and maintenance expenses are projected to increase at a CAGR of 4.0 percent through 2025; this primarily reflects inflation, additional costs associated with maintaining existing facilities, and savings related to the 2016 Airport Projects.

Energy

Energy costs include gas, water, electricity, and fuel oil required to operate the Airport. Energy costs are projected to increase at a CAGR of 5.6 percent through 2025, and they include the impacts related to the 2016 Airport Projects.

Materials and Supplies

Materials and supplies expenses include costs associated with the purchasing of deicing fluid, office supplies, cleaning supplies, keys and locks, and other general maintenance supplies for the Airport. Baseline materials and supplies are projected to increase annually at the rate of inflation—assumed to be 3.0 percent compounded annually through 2025.

Engineering and Professional Services

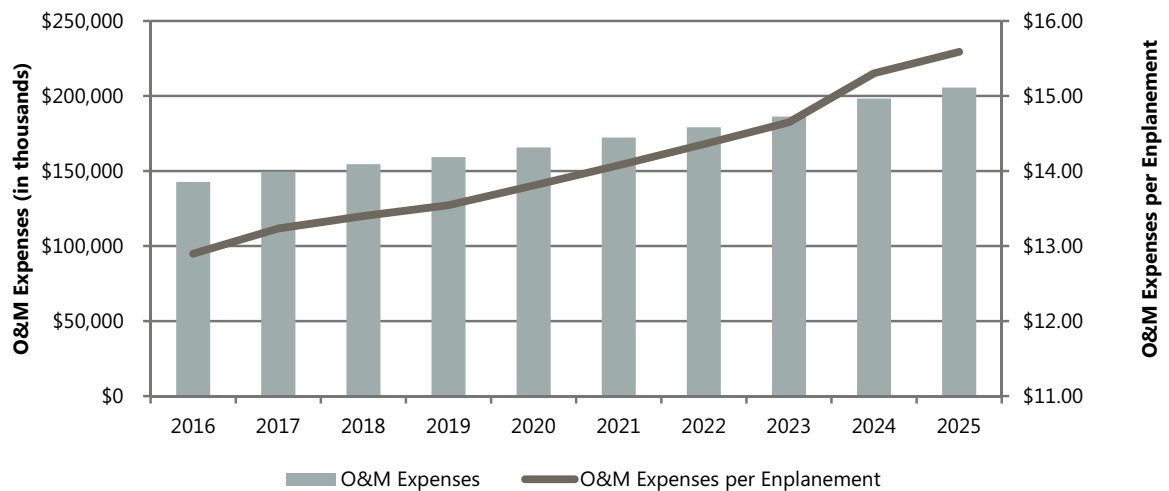
Engineering and professional services expenses include fees for specialized engineering, legal services, and other technical services. These expenses are projected to increase at a CAGR of 4.0 percent through 2025, primarily as a result of increases in billing rates. The use of outside professional services was assumed to remain constant through the Projection Period.

Other Operating Expenses

Other operating expenses include equipment and property rental, insurance, and miscellaneous expenses (administrative, telephone, and bad-debt expenses), as well as machinery, vehicles, and equipment. Equipment and property rental expenses include the rental of heavy equipment and the contracting of equipment operators, the rental of unarmed security systems, shuttle bus services, and the rental of office equipment. Other operating expenses are projected to increase at a CAGR of 3.4 percent through 2025, primarily reflecting inflation and the need to periodically replace various types of equipment.

O&M Expense Projections

O&M Expense projections are based on the type of expense and the expectations of future inflation (assumed to be 3.0 percent annually through the Projection Period). Only the impacts of the 2016 Airport Projects described in Section 6.2.3 have been included in the O&M Expense projections. No other 2016 Airport Projects or future CIP projects are assumed to have any incremental O&M Expense impacts. Projected O&M Expenses, as well as the O&M Expenses per enplanement, are presented on **Exhibit 6-4**. Total O&M Expenses are projected to increase from \$142.8 million in 2016 to \$205.7 million in 2025, reflecting a CAGR of 4.1 percent.

Exhibit 6-4: Projected Operating and Maintenance Expenses at the Airport

SOURCE: CDA, December 2015; Ricondo & Associates, Inc. (based on the analysis and assumptions in this Report), April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

6.3 Non-Signatory Airline and Nonairline Revenues

Non-signatory airline revenues are revenues collected from airlines that are not parties to the Airport Use Agreement. Nonairline revenues consist of those revenues generated at the Airport from sources other than airlines (e.g., automobile parking, rental cars, restaurants, news, and gifts).

A majority of the Airport's nonairline revenues are generated from concessions. **Table 6-2** presents concession revenues at the Airport from 2010 through 2014. As shown, concession revenues increased from \$49.4 million in 2010 to \$62.6 million in 2014, representing a CAGR of 6.1%. Parking revenue, which represents the Airport's largest nonairline revenue source, increased from \$27.8 million in 2010 to \$34.2 million in 2014, representing a CAGR of 5.3%.

Table 6-2: Historical Concession Revenues at the Airport, 2010–2014

(For Fiscal Years ending December 31)

	2010	2011	2012	2013	2014	CAGR
Total Concession Revenues (thousands) ^{1/}	\$49,374	\$52,948	\$54,992	\$59,183	\$62,607	6.1%
Parking Revenues (thousands)	\$27,849	\$29,112	\$30,830	\$32,721	\$34,226	5.3%
Enplaned Passengers (thousands)	8,856	9,459	9,780	10,267	10,608	4.6%
Concession Revenues per Enplaned Passenger	\$5.58	\$5.60	\$5.62	\$5.76	\$5.90	1.4%

NOTE:

1/ Concession revenues include those derived from the concessionaires in the terminal, such as restaurants, news and gift shops, and the Airport's landside activities, such as automobile parking and automobile rentals.

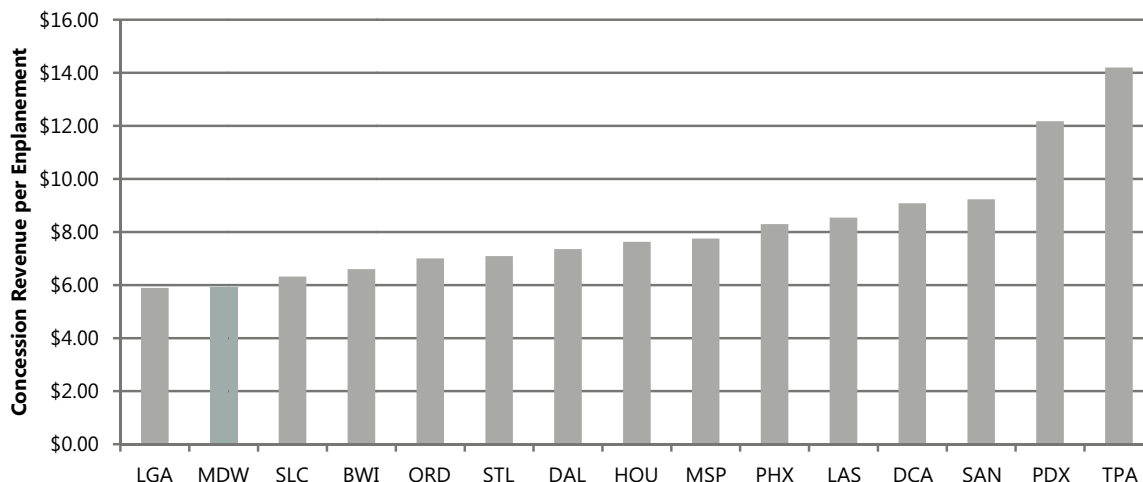
SOURCE: City of Chicago, Chicago Midway International Airport Comprehensive Annual Financial Report, June 2015.

PREPARED BY: Ricondo & Associates, Inc. April 2016.

6.3.1 COMPARISON OF CONCESSION REVENUES PER ENPLANEMENT

Exhibit 6-5 presents a comparison of concession revenues per enplanement at the Airport and at the other comparative airports, as described in section 6.2.1, which was calculated from the FAA CATS database. Concession revenues per enplanement for the airports range from a low of approximately \$5.89 at LaGuardia Airport to a high of \$14.20 at Tampa International Airport. The Airport's total concession revenue per enplanement of \$5.90⁴ is lower than the average (\$8.21) and the median (\$7.63) among the selected airports.

⁴ Because the Airport's total concession revenue in 2014, as reported in the CATS database, varies from the Airport's total concession revenues as reported in its financial statements, the concession revenues per enplanement vary—\$5.92 concession revenue per enplanement in CATS compared with the \$5.90 concession revenue per enplanement in the Airport's 2014 *Comprehensive Annual Financial Report*.

Exhibit 6-5: Concession Revenues per Enplanement Comparison (based on FAA CATS database)

SOURCE: FAA, CATS Database, January 2016.

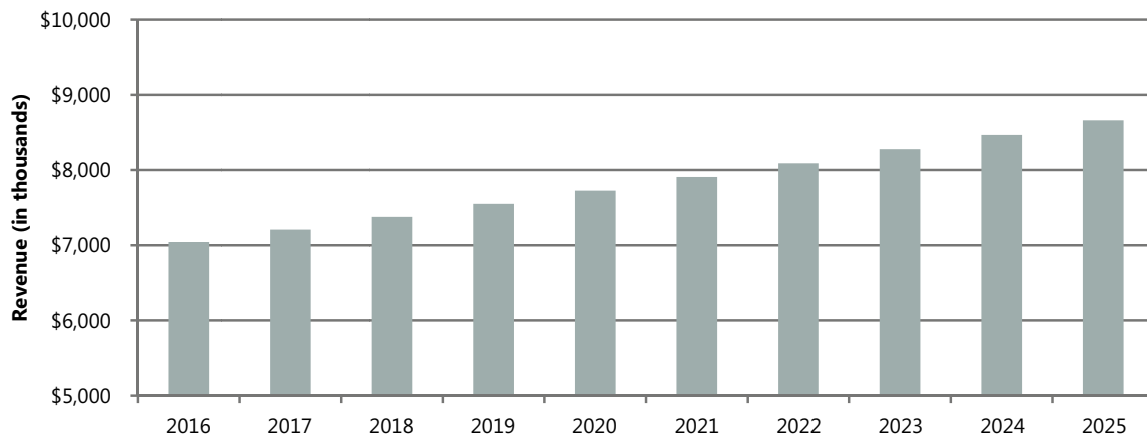
PREPARED BY: Ricondo & Associates, Inc., April 2016.

6.3.2 BUDGETED AND PROJECTED NON-SIGNATORY AIRLINE REVENUES

Non-signatory airline revenues include landing fees and terminal rentals paid by airlines that are not parties to the Airport Use Agreement, including non-commercial charter airlines. Non-signatory remain overnight (RON) fees, non-signatory federal inspection services (FIS) fees, and fixed-base operator (FBO) fees are also included. Non-signatory airlines are assessed a premium of 25 percent above Signatory Airline rates and charges.

Non-Signatory Airline Revenue Projections

Non-signatory airline revenues comprise airline revenues other than the revenues derived as a function of the signatory rentals, fees, and charges, based on O&M Expenses, debt service, and fund deposits. These items include: non-commercial charter airline revenues, FBO services, terminal rents and ramp use fees generated from City-owned gates, remain overnight fees, and non-signatory landing fees and terminal rents. In the financial analysis in this Report, Revenues received from non-signatory affiliates of the Signatory Airlines are considered non-signatory airline revenues. Non-signatory airline revenues are budgeted to be approximately \$7.0 million in 2016, and are projected to increase to \$8.7 million in 2025, a CAGR of 2.3 percent, which can primarily be attributed to expected increases in the rates and charges charged to non-signatory airlines in order to recover increasing O&M Expenses throughout the Projection Period, as well as debt service associated with the 2016 Bonds and future MARB issuances. Projected non-signatory airline revenues are shown on **Exhibit 6-6**.

Exhibit 6-6: Projected Non-Signatory Airline Revenues at the Airport

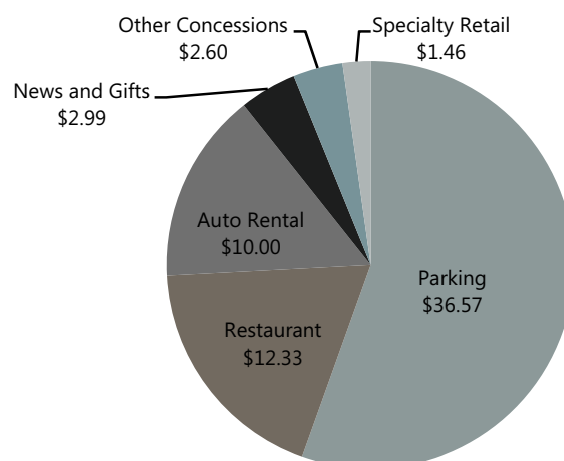
SOURCES: CDA, DATE; Ricondo & Associates, Inc. (based on the analysis and assumptions in this Report), April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

6.3.3 BUDGETED AND PROJECTED NONAIRLINE REVENUES

Nonairline revenues primarily include revenues from concessions, including automobile parking and rentals, restaurants, news and gifts, specialty retail, and other concessions.

Exhibit 6-7 presents the breakdown of the budget for 2016 concession revenues.

Exhibit 6-7: Budget 2016 Concession Revenues by Category (millions)

SOURCE: CDA, December 2015.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

Actual Concession Revenues vs Budget

As shown in **Table A-2** of Appendix A, between 2010 and 2014, actual concession revenues generated at the Airport were higher than the budgeted amount for all five years, averaging 1.9 percent higher than what had been budgeted. The Airport's 2016 rates and charges budget serves as the base from which nonairline revenues are projected.

The following sections describe the nonairline revenue categories.

6.3.3.1 Concession Revenues

Concession revenues are projected to increase at a CAGR of 3.4 percent from 2016 through 2025. The City is continually making efforts to maximize concession revenues through strategic planning. These efforts include both near- and long-term planning at the Airport, as well as space and vendor management. Concession revenues include those derived from the concessionaires in the terminal, such as restaurants and news and gift shops, and the Airport's landside activities, such as automobile parking and automobile rentals. Concession revenues are projected as follows:

- **Automobile Parking.** Projected to increase by a combination of increases in number of O&D passengers and the rate of inflation.
- **Automobile Rentals.** Projected to increase by a combination of increases in number of O&D passengers and half the rate of inflation.
- **Restaurant.** Projected to increase by a combination of increases in number of domestic enplaned passengers and half the rate of inflation.
- **News and Gifts.** Projected to increase by a combination of increases in number of domestic enplaned passengers and half the rate of inflation.
- **Specialty Retail.** Projected to increase by a combination of increases in number of domestic enplaned passengers and half the rate of inflation.
- **Other Concessions**
 - **Display Advertising.** Projected to increase by a combination of increases in number of domestic enplaned passengers and half the rate of inflation.
 - **Miscellaneous.** Projected to increase by a combination of increases in number of domestic enplaned passengers and half the rate of inflation.
 - **Phones/Internet/Wi-Fi.** Projected to increase by a combination of increases in number of domestic enplaned passengers and half the rate of inflation.

Detailed descriptions of revenues generated by automobile parking, automobile rentals, restaurants, news and gifts, and specialty retail outlets, all of which account for approximately 96.0 percent of concession revenues in the Airport's 2016 budget, are described in the following sections.

Automobile Parking

As discussed in Chapter 2 of this Report, a six-level Terminal Parking Garage is located adjacent to the passenger terminal. The Terminal Parking Garage opened in 1999 and comprises one level of hourly parking,

including approximately 360 spaces, and five levels of daily parking, including approximately 2,110 spaces. Economy parking facilities include a surface lot and a seven-level economy parking structure that collectively provides a total of 8,842 public parking spaces. In addition, the Airport maintains three employee parking lots totaling 1,069 spaces. Budgeted parking revenues, net of City tax, for 2016 are \$36.6 million, or 55.5 percent of concession revenues.

For purposes of this Report, it is assumed that the Terminal Parking Garage Expansion project, anticipated to be funded using proceeds of the Series 2016 Bonds and described in Chapter 3 of this Report, will affect automobile parking revenues both during construction and after completion of the project. During construction of the project, it is assumed that 20 percent of the spaces in the Terminal Parking Garage will be unavailable, which may increase the frequency of lot closures due to full capacity and is expected to shift a portion of parking transactions from the Terminal Parking Garage into the daily surface lot and Economy Lots. As a result, the financial analysis in this Report assumes a reduction in parking revenues of approximately \$2 million annually in 2017 and 2018 as the project is constructed.

After completion of the Terminal Parking Garage Expansion project, it is anticipated that the Terminal Parking Garage will provide an additional 1,562 available daily parking spaces, thereby, alleviating current capacity constraints. The automobile parking revenue is projected to increase as a result of the project. For purposes of the financial analysis, automobile parking revenues are assumed to increase approximately \$4.1 million, or approximately 10 percent, over the baseline projection (assuming no project) in 2020. Projected growth thereafter is in-line with baseline growth which reflects a combination of increases in the number of O&D passengers and the rate of inflation.

Restaurant

Concessionaires operate a total of 28 restaurants/food and beverage outlets at the Airport. The term of their agreements generally range from 5 years to 10 years. The City receives a percentage of gross sales from the concessionaires, with minimum annual guarantees that adjust annually based on the previous year's sales. Budgeted restaurant revenues for 2016 are \$12.3 million, or 18.7 percent of concession revenues. The City issued a request for proposals to lease, develop, manage, and operate food and beverage, news and gift, specialty retail, services, and duty free concessions at the Airport in September 2015. Projected concession revenue does not take into account additional revenue that may be generated as a result of new concessionaire agreements or new concession management efforts undertaken at the Airport through this process.

Automobile Rental

Ten rental car brands operate "on Airport." The on-Airport rental car companies operate on concession agreements with the City and pay a fee of 10 percent of gross revenues, subject to a minimum annual guarantee based on the prior year's gross revenues. These rental car companies are the source of all rental car revenues for the Airport; no revenue is derived from "off-Airport" rental car companies. (Section 2.3.5 describes the new CRCF that opened in 2013.) Budgeted automobile rental revenues derived from the concession agreements for 2016 are \$10.0 million, or 15.2 percent of concession revenues.

News and Gifts

Concessionaires operate nine news and gifts outlets at the Airport. The City receives from the concessionaires a percentage of gross sales, with minimum annual guarantees that adjust annually based on the previous year's sales. The budgeted news and gifts revenues for 2016 are \$3.0 million, or 4.5 percent of concession revenues.

Specialty Retail

Concessionaires operate 11 specialty retail outlets at the Airport. The City receives from the concessionaires a percentage of gross sales, with minimum annual guarantees that adjust annually based on the previous year's sales. The budgeted specialty retail revenues for 2016 are \$1.5 million, or 2.2 percent of concession revenues.

6.3.3.2 Impact of the 2016 Airport Projects on Projected Concession Revenues

In addition to the additional automobile parking revenues stated above, it is anticipated that the passenger security checkpoint expansion project will result in additional terminal floor space for concessionaires, thereby creating opportunities for additional terminal concession revenue. The anticipated additional concession revenue, beginning in 2019, is estimated at \$200,000 from food and beverage and \$550,000 from retail, and the revenues will grow with enplanements and half the rate of assumed inflation.

6.3.3.3 Other Revenues

Other Revenues include land, storage, and hangars. Projections of these revenue items are not impacted by increases or decreases in aviation activity; increases are based on inflation.

Projections of non-signatory airline revenues and nonairline revenues are presented in **Table B-2 of Appendix B**. Revenues were projected on the basis of a review of historical trends, projected activity levels, and inflation. As shown, non-signatory airline revenues and nonairline revenues are projected to increase from \$78.4 million in 2016 to \$104.1 million in 2025 at a CAGR of 3.2 percent.

6.4 Other Available Revenue

6.4.1 PASSENGER FACILITY CHARGE REVENUE

The City has FAA approval to impose a PFC at the Airport and to use PFC Revenue for approved Airport projects. The City elects to apply all PFC Revenue to pay debt service on PFC-eligible portions of existing bonds. Approximately 49 percent of all debt service at the Airport is PFC-eligible.

PFC Program Highlights

- The City collects a \$4.50 PFC per eligible enplaned passenger, less a \$0.11 airline processing charge. No increase in the PFC collection level was assumed in the projections. No decrease in the PFC collection level is required based on current PFC approvals.
- As of February 2016, the City has received authority to impose a PFC and use \$2.21 billion of PFC Revenues at the Airport, with an estimated charge expiration date of September 1, 2054.

- Through 2015, PFC Revenues received by the City for use at the Airport, including investment earnings, totaled \$606.2 million.
- Beginning PFC Fund balance of approximately \$24.9 million in January 2015.
- In 2015, PFC Revenues totaled \$44.8 million, reflecting PFCs paid by approximately 91.1 percent of enplanements at the Airport.

6.4.2 CUSTOMER FACILITY CHARGE REVENUE

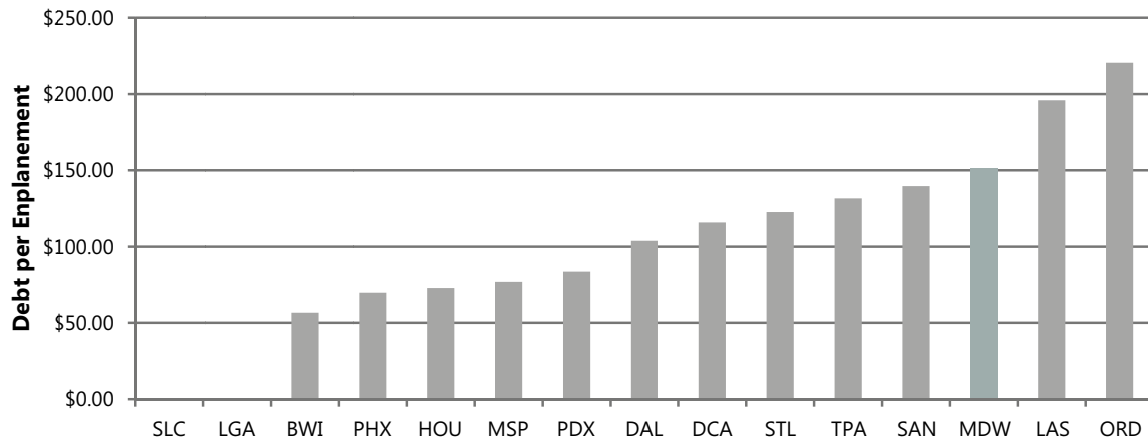
The City passed an ordinance in September 2005 authorizing CDA to impose a Customer Facility Charge (CFC) on customers renting vehicles at the Airport. The City first implemented a CFC to be remitted by the RACs in September 2005 of \$3.75 per contract day to help fund the CRCF. The Series 2010C bonds were issued to fund the CRCF in 2010, and CFCs are pledged to pay debt service on those bonds. The RACs have remitted total CFCs of approximately \$39.2 million between 2010 and 2015. CFC collections increased at a rate of 18.1 percent from 2014 to 2015, from \$6.5 million in 2014 to \$7.7 million in 2015, due to a CFC rate increase in July 2015 from \$3.75 per contract day to \$4.75 per contract day. CFC revenues have been sufficient to pay debt service on the Series 2010C bonds and are assumed to remain sufficient through the Projection Period.

6.5 Debt Service

6.5.1 COMPARISON OF DEBT PER ENPLANEMENT

Exhibit 6-8 presents a comparison of outstanding debt per enplanement at the Airport and at the other comparative airports described in section 6.2.1, which were calculated from the FAA CATS database. The variation in debt per enplanement among airports is due to the varying capital needs and capital financing structures of airports. The Airport has higher debt per enplanement than the average comparative⁵ airport. There is some variation among airports regarding the inclusion of debt service in airport rates and charges versus the airlines funding projects directly through the issuance of special facility debt. Capital development costs directly covered by the airlines would not appear in a traditional airport-wide cost per enplanement metric, and they are not included in the debt per enplanement shown on Exhibit 6-8. As shown on the exhibit, Midway has the third highest debt per enplanement (\$151.6) among the 15 airports. Other airports with debt per enplanement above the average of \$102.76 include Dallas Love Field, Reagan National, Lambert-St. Louis International, Tampa International, San Diego International, McCarran International and O'Hare International Airports.

⁵ LGA-specific debt information is not available.

Exhibit 6-8: Comparison of Debt per Enplanement at Midway and Other Airports

SOURCE: FAA, CATS Database, January 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

6.5.2 EXISTING MARB DEBT SERVICE

Debt service on previously issued First and Second Lien MARBs, net of coverage requirements and investment earnings, is scheduled to be approximately \$100.8 million in 2016. The contribution of PFCs to PFC-Eligible debt service, along with the contribution of CFCs to pay debt service on the Series 2010C Bonds, reduce existing Net Debt Service to \$51.9 million in 2016.

The Series 2016 Bonds are expected to be used to refund prior to maturity the Series 2004A and Series 2004B Bonds. Projected debt service shown in Table B-3 in Appendix B of this Report assumes these series are refunded.

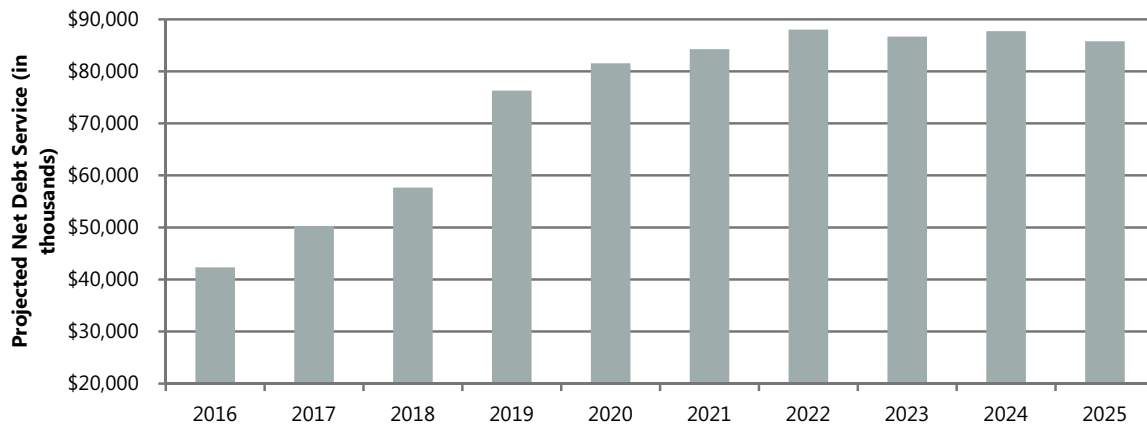
6.5.3 SERIES 2016 BONDS DEBT SERVICE

Debt service on the Series 2016 Bonds, net of capitalized interest, is anticipated to be approximately \$7.4 million in 2016, and is projected to increase to \$8.4 million and \$10.8 million in 2017 and 2018, respectively, as additional 2016 Airport Projects are completed. Debt service on the Series 2016 Bonds is then projected to be approximately \$26.5 million in 2019 and \$30 million from 2020 through 2021, before decreasing to approximately \$24.9 million in 2022 and 2023 and \$23.5 million in 2024 and 2025.

6.5.4 FUTURE MARBS

As presented in Chapter 3 of this Report, the City anticipates using approximately \$23.6 million of future bonds and/or commercial paper for the remaining costs of the 2016–2022 CIP. Due to the uncertainty of the timing for this funding, and the potential for additional capital projects to be added, future debt is not reflected in the debt service projections in the financial analysis in this Report.

Exhibit 6-9 presents projected Net Debt Service on existing MARBs, and the Series 2016 Bonds, net of capitalized interest, after the application of PFC Revenue and CFC contribution during the Projection Period.

Exhibit 6-9: Projected Net Debt Service after Application of PFCs

SOURCES: CDA, December 2015; Frasca & Associates, LLC; Barclays, April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

As shown in **Table B-3** in Appendix B, total Net Debt Service is projected to steadily increase from \$95.4 million in 2016 to \$145.0 million in 2022, and is projected to decrease to \$142.4 million in 2025. Exhibit 6-9 indicates the projected Net Debt Service after the application of PFCs and CFCs to be \$42.3 million in 2016; the Net Debt Service is projected to increase through 2022 to \$88.0 million and decrease to \$85.8 million in 2025.

6.6 Fund Deposit Requirements

Airport Fees and Charges paid by the Signatory Airlines include required annual deposits into the O&M Reserve Fund, the Repair and Replacement Fund, and the Emergency Reserve Fund. **Table B-4** in Appendix B presents the projected required annual deposits to these funds.

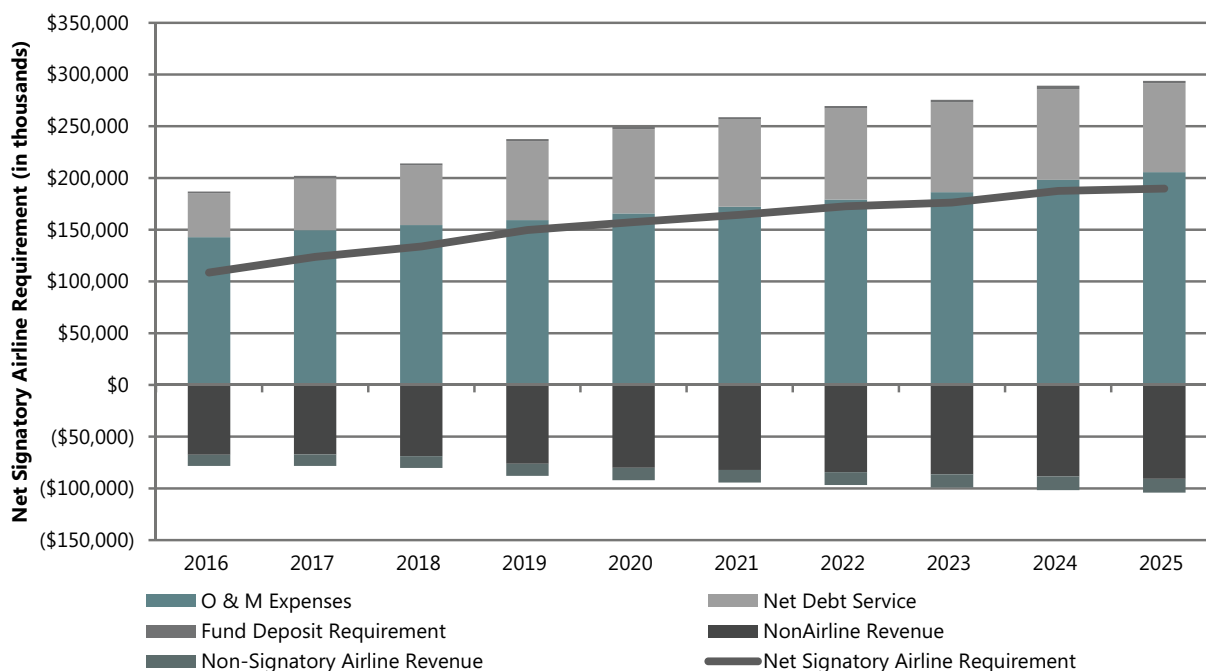
6.7 Net Signatory Airline Requirement

Table B-5 in Appendix B indicates the ability of the Airport enterprise to generate sufficient revenues to pay O&M Expenses and Net Debt Service, as well as to fund deposit requirements.

The projections of O&M Expenses, nonairline revenues, and non-signatory airline revenues, including annual coverage requirements, are included in Table B-5 in Appendix B. The Net Signatory Airline Requirement constitutes the total amount that must be paid by the Signatory Airlines under the Airport Use Agreement through Landing Fees, Terminal Area Rentals, Terminal Ramp Use Charges, Equipment fees, and Fueling System Fees during the year.

As shown on **Exhibit 6-10**, the Net Signatory Airline Requirement is projected to increase from \$108.6 million in 2016 to \$189.8 million in 2025.

Exhibit 6-10: Projected Net Signatory Airline Requirement



SOURCES: CDA, December 2015; Ricondo & Associates, Inc. (based on the analysis and assumptions in this Report), April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

6.8 Calculation of Airline Parties' Airport Fees and Charges

Under the Airport Use Agreement, the Airfield Area, the Terminal Area, the Terminal Ramp Area, Equipment, and the Fueling System each generate fees, rentals, or charges payable by the Signatory Airlines. The Airport Fees and Charges presented in this section for 2016 through 2025 reflect the rate-making methodology in the Airport Use Agreement. The Signatory Airlines entered into a new 15-year Airport Use Agreement with the City, effective January 1, 2013.

Applicable nonairline revenues (i.e., rentals, concession revenues, and investment income) are allocated to each cost center, as well as to the following costs, in order to calculate applicable rates used to generate such fees, rentals, and charges:

- **O&M Expenses.** Includes the O&M Expenses (direct and allocated indirect) attributable to each cost center.

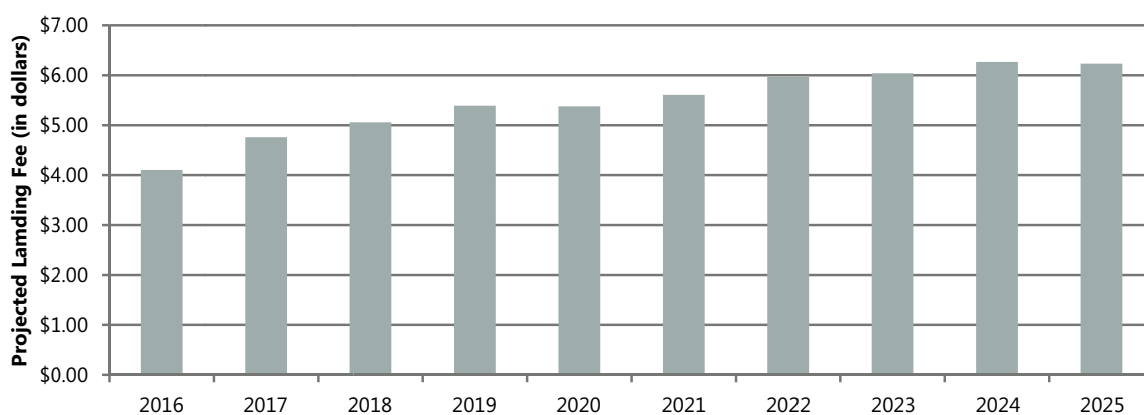
- **Net Debt Service.** Includes the portion of debt service, net of capitalized interest, and debt service coverage attributable to each cost center. The debt service amounts included in the calculation of airline rates and charges also reflect certain adjustments that are required to be made to actual debt service under the Airport Use Agreement for the purpose of calculating the Airport Fees and Charges. Such adjustments include a credit for debt service coverage collected in the prior year, a credit for projected investment income on debt service reserve funds, an allowance for program fees, and a credit for PFCs and CFCs applied to MARB debt service.
- **Fund Deposit Requirements.** Includes the allocated portions of the amounts required to be deposited to the funds described earlier.

6.8.1 AIRFIELD AREA

Generally, landing Fees are calculated by first determining the net requirement of the Airfield Area, which consists of portions of the following: sum of O&M Expenses, Net Debt Service, fund deposit requirements, and allocated portions of Parking and Roadway and Support Facilities requirements less the sum of projected nonairline revenues. The net requirement of the Airfield Area is allocated among Signatory and Non-Signatory Airlines on the basis of the approved maximum landed weight of all aircraft. Each Signatory Airline and Non-Signatory Airline pays Landing Fees on the basis of the ratio of its total approved maximum landed weight to the total approved maximum landed weight of all Signatory Airlines and Non-Signatory Airlines. The landed weight of aircraft landed by certain classes of Non-Signatory Airlines may be increased by Non-Signatory Airline premium factors, as determined by the Commissioner of Aviation from time to time.

As presented on **Exhibit 6-11**, the Landing Fee Rate is projected to increase from a budgeted \$4.102 per 1,000 pounds of landed weight in 2016 to \$6.234 per 1,000 pounds of landed weight in 2025.

Exhibit 6-11: Projected Landing Fees (2016–2025)



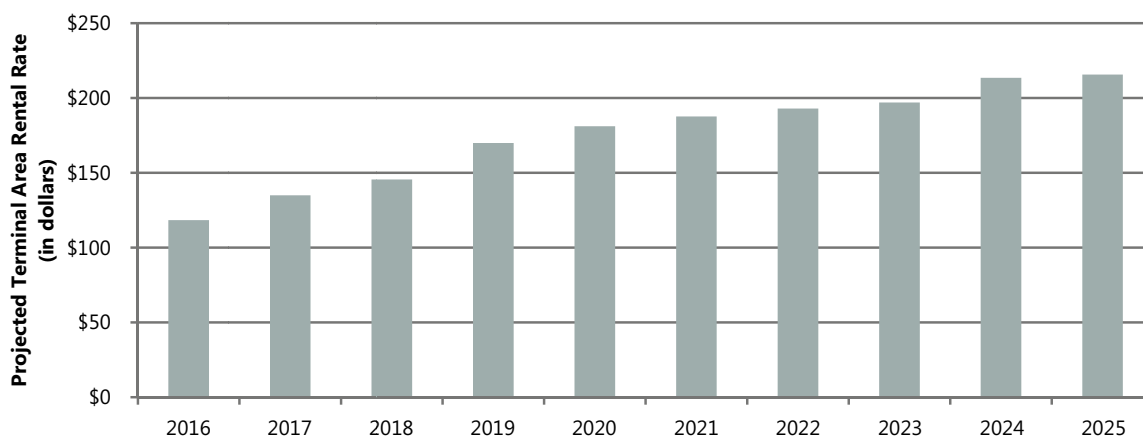
SOURCES: CDA, December 2015; Ricondo & Associates, Inc. (based on the analysis and assumptions in this Report), April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

6.8.2 TERMINAL AREA

O&M Expenses, Net Debt Service, and fund deposit requirements, as well as portions of Parking and Roadway and FIS requirements, allocated to the Terminal Area are added together and offset by nonairline revenues and non-signatory airline revenues attributable to the Terminal Area. The Terminal Area net deficit is paid by the Airline Parties in the form of a Terminal Area Rental Rate, which is calculated on a per-square-foot-of-leased-space basis, as defined in the Airport Use Agreement. The projected Terminal Area Rental Rate is presented in **Exhibit 6-12**. This charge is estimated at \$118.35 per square foot in 2016, and it is projected to increase to \$215.71 per square foot in 2025. Terminal Joint Use Fees are estimated to be \$1.28 per 1,000 pounds of landed weight in 2016, and they are projected to increase to \$2.01 per 1,000 pounds of landed weight in 2025.

Exhibit 6-12: Projected Terminal Area Rental Rate at the Airport



SOURCES: CDA, December 2015; Ricondo & Associates, Inc. (based on the analysis and assumptions in this Report), April 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

6.8.3 TERMINAL RAMP AREA

O&M Expenses, Net Debt Service, and fund deposit requirements, as well as portions of Parking and Roadway requirements allocated to the Terminal Area, are added together and offset by nonairline revenues and non-signatory airline revenues attributable to the Terminal Ramp Area. The Terminal Ramp Area net deficit is paid by the Airline Parties in the form of a Terminal Ramp Area Use Charge, which is calculated on a per-square-foot-of-leased-space basis, as defined in the Airport Use Agreement. This charge is estimated at \$3.40 per square foot in 2016, and it is projected to increase to \$5.36 per square foot in 2025.

6.8.4 FUELING SYSTEM

The net cost of the Equipment and the Fueling System cost centers consists of the portions of O&M Expenses, Net Debt Service, and fund requirements allocated to these cost centers. Of this net cost, a portion is shared equally by all Airline Parties, with the remaining costs distributed among the Midway Airlines' Terminal Consortium (MATCO) member airlines based on each airline's total landed weight and fuel usage.

All projected Airline Fees, Rentals, and MATCO member fees are presented in **Table B-6** in Appendix B.

6.9 Reasonableness of Airport User Fees

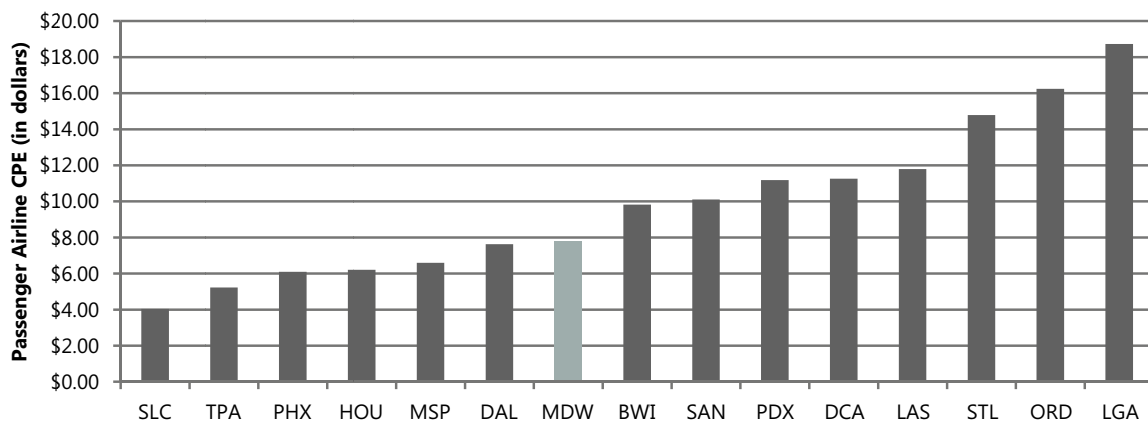
Table B-7 in Appendix B presents the airline revenue resulting from the previously described Signatory Airline fees, rentals, and charges. Consistent with the Airport Use Agreement, the total Signatory Airline revenue presented in Table B-7 equals the net Signatory Airline requirement presented in Table B-5.

6.9.1 AIRLINE COST PER ENPLANED PASSENGER

A general test of reasonableness for Airport user fees is the airline CPE. The airline CPE is calculated by dividing the total airline requirement by the number of enplaned passengers at the Airport.

Exhibit 6-13 shows CPE data at Midway and the other comparable airports described in section 6.2.1 for the most recent full fiscal year available. For purposes of consistency, the CPE amounts shown on Exhibit 6-13 use data provided to the FAA CATS database. The CPE does not provide an “apples-to-apples” comparison amongst airports, since certain costs are paid directly by airlines at some airports. The passenger airline CPE calculation excludes cargo landing fees, general aviation and military landing fees, cargo and hangar rentals, and other non-passenger airline revenues.

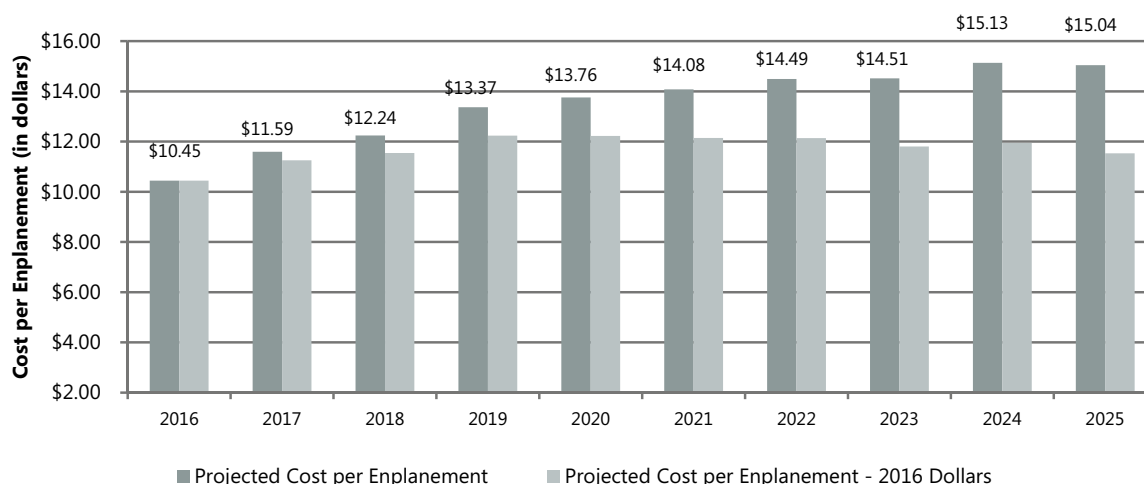
Exhibit 6-13: Passenger Airline Cost per Enplaned Passenger (FAA CATS Data)



SOURCE: FAA CATS Database, January 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

Exhibit 6-14 presents the total airline CPE at the Airport for the Projection Period. The airline CPE at the Airport is projected to be \$10.45 in 2016 and projected to be \$15.04 by the end of the Projection Period in 2025, which equates to approximately \$11.53 in 2016 dollars. **Table B-8** in Appendix B presents the total airline CPE for the Projection Period.

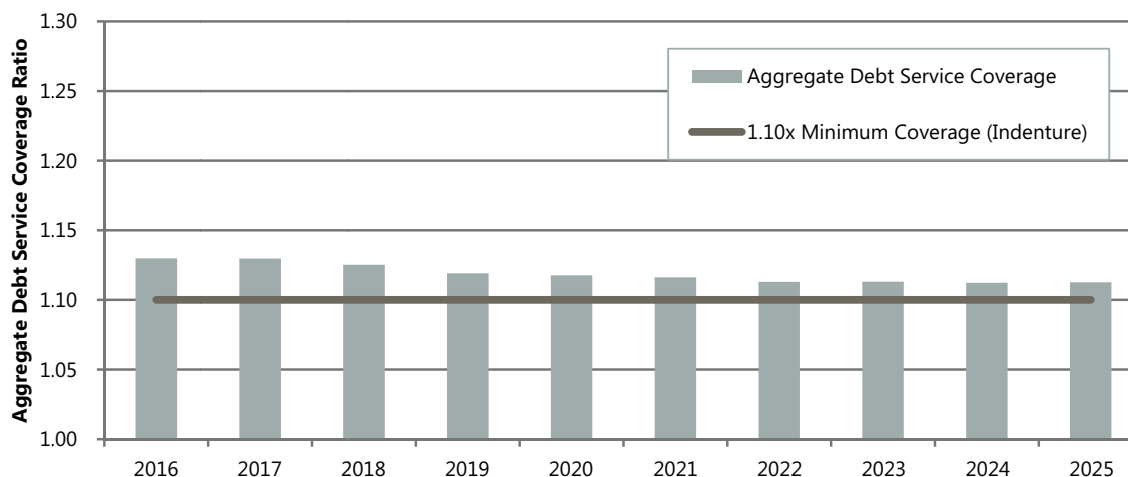
Exhibit 6-14: Projected Airline Cost per Enplanement at the Airport

SOURCES: CDA, December 2015; Ricondo & Associates, Inc. (based on the analysis and assumptions in this Report), April 2016.
 PREPARED BY: Ricondo & Associates, Inc., April 2016.

R&A finds that the projected Airport user fees are reasonable. R&A finds the projected airline CPE to be reasonable throughout the Projection Period based on where the Airport is currently positioned in its capital program with current capital projects being revenue and demand driven, the current 15-year Airport Use Agreement and the resulting financial stability at the Airport, the importance of the Airport to Southwest's network, and the positioning of the projected CPE in relation to other Southwest focus airports.

6.10 MARB Debt Service Coverage

As described in Chapter 1 of this Report, pursuant to the Indenture, the City covenants that it will set rates and charges sufficient to generate Revenue that, along with Other Available Moneys, will provide for the payment of O&M Expenses and provide for the greater of (1) 125 percent of Aggregate First Lien Debt Service or (2) 110 percent of Aggregate First Lien Debt Service and Second Lien Debt Service. **Exhibit 6-15**, as well as **Table B-9** in Appendix B, presents the debt service coverage ratio projected for all MARBs outstanding after the issuance of the Series 2016 Bonds, from 2016 through 2025. As shown, the debt service coverage ratio is projected to exceed the 1.10x minimum requirement for the applicable test in each year of the Projection Period.

Exhibit 6-15: Projected Aggregate Debt Service Coverage

SOURCES: CDA, December 2015; Ricondo & Associates, Inc. (based on the analysis and assumptions in this Report), January 2016.

PREPARED BY: Ricondo & Associates, Inc., April 2016.

6.11 Sensitivity Analysis

The following section describes an analysis that was conducted to test the sensitivity of the financial projections per a hypothetical reduction in enplanement activity at the Airport. The sensitivity analysis should not be considered a projection of future results, and it is presented for illustrative purposes only. As this analysis is only intended for testing the sensitivity of such a hypothetical reduction on financial projections, it is important to note that in the event of dramatic changes to the Airport's passenger activity, it is likely the City would take immediate steps to mitigate financial impacts, such as reducing its O&M Expenses, restructuring debt service, revisiting the Airport's capital program, as well as taking other initiatives. These steps were not included as part of this analysis.

Table B-10 in Appendix B presents the key results of the sensitivity analysis, including the projected airline CPE and Debt Service coverage calculations. The assumptions for each scenario are further described in the following sections.

6.11.1 Sensitivity Scenario: 10 Percent Activity Reduction

As described in Chapter 5, the Airport experienced activity reductions in 2005 and 2008—9.7 percent and 11.4 percent, respectively. Following each of these historical decreases in enplanement activity, the Airport experienced recovery growth in the following years. In both cases, the Airport successfully implemented strategies to reduce O&M Expenses, ensure facilities were available to accommodate airline growth, and minimize the financial impacts of the temporary reduction in activity. These measures resulted in a quick recovery of the passenger activity at Midway. In an effort to demonstrate the impacts of a hypothetical activity reduction at the Airport, the sensitivity analysis was developed to assess the impacts of a 10 percent

reduction in activity from the projections for enplanements, operations, and landed weight, which have been presented in this Report. Additional details on the assumption of the sensitivity analysis are presented in the following sections.

Air Traffic Assumptions

- Beginning in 2017, passenger enplanements, landed weight, and operational activity are assumed to each be reduced by 10 percent from 2016 levels. After 2017, activity is then projected to experience annual growth consistent with those rates included in the activity projections.

Financial Assumptions

- PFC Revenue is assumed to decrease in direct proportion to the decrease in enplaned passengers.
- Certain nonairline revenues that are driven by passenger enplanements are assumed to decrease as a result of the decrease in passenger enplanements. Automobile parking, automobile rental, and terminal concessions revenue are reduced in proportion to the total number of enplaned passengers.
- As a direct response to the loss of 10 percent of its enplaned passengers, it is assumed that the City would take targeted actions to reduce the Airport's O&M Expenses. However, for the purposes of this sensitivity analysis, O&M Expenses are assumed to be consistent with this Report's projection.

Although the Airport could revisit the CIP, it remains as presented in Chapter 3.

6.12 Assumptions Underlying the Financial Projections

The techniques and methodologies used in preparing this Report are consistent with industry practices for similar studies in connection with airport revenue bond sales. While R&A believes the approach and assumptions used are reasonable, some assumptions regarding future trends and events detailed in this Report, including, but not limited to, implementation schedule and enplanement projections, may not materialize. The achievement of the projections presented in this Report, therefore, is dependent upon the occurrence of future events, which cannot be assured, and the variations may be material.

Appendix A

Historical Budgeted versus Actual Operating Results

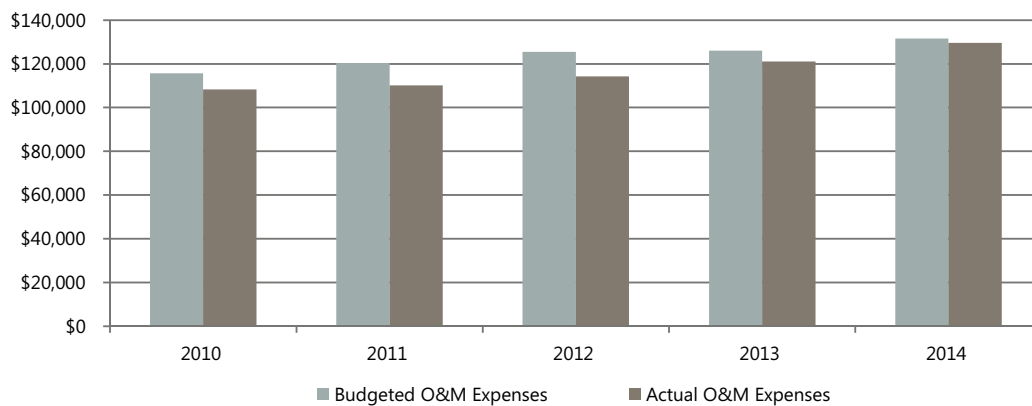


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Table A-1: Operation and Maintenance Expenses—Actual vs. Budget (2010–2014)

(dollars in thousands for Fiscal Years ending December 31)

	2010	2011	2012	2013	2014	
BUDGET:						
Personnel Expenses ^{1/}	\$35,306	\$36,718	\$40,630	\$38,035	\$40,159	
Repairs and Maintenance ^{2/}	26,628	27,693	29,047	30,986	31,207	
Energy ^{3/}	8,598	9,114	7,239	7,273	6,702	
Materials and Supplies ^{4/}	2,773	2,856	3,530	2,822	2,957	
Engineering & Professional Services ^{5/}	17,802	18,514	19,096	21,078	24,040	
Other Operating Expenses ^{6/}	24,592	25,471	25,970	25,814	26,550	
Subtotal O&M Expenses	\$115,699	\$120,366	\$125,512	\$126,008	\$131,615	
ACTUAL:						
Personnel Expenses ^{1/}	\$42,105	\$43,554	\$44,463	\$43,998	\$47,836	CAGR (2010–2014) 3.2%
Repairs & Maintenance ^{2/}	31,942	40,732	37,990	39,606	44,160	8.4%
Energy ^{3/}	6,724	6,415	7,258	7,205	7,060	1.2%
Materials and Supplies ^{4/}	1,522	1,418	1,318	1,927	1,971	6.7%
Engineering & Professional Services ^{5/}	15,832	15,650	15,011	19,144	23,255	10.1%
Other Operating Expenses ^{6/}	10,211	2,320	8,257	9,236	5,314	-15.1%
Subtotal O&M Expenses	\$108,336	\$110,089	\$114,297	\$121,116	\$129,596	4.6%
ACTUAL BELOW BUDGET	-6.4%	-8.5%	-8.9%	-3.9%	-1.5%	



NOTES:

1/ Includes all Airport staff, plus an allocation of personnel costs from other City departments that support Airport operations, such as Purchasing, Finance, and Corporation Counsel.

2/ Includes Equipment maintenance contracts, snow removal equipment rentals, painting, glass replacement, office fixtures, furnishings, and other repair contracts.

3/ Includes gas, water, electricity, and fuel oil required to operate the Airport.

4/ Includes disposal equipment, cleaning supplies, airfield deicing chemicals, and other items used in daily Airport operations and maintenance.

5/ Includes fees for specialized engineering, legal, and other technical services.

6/ Includes equipment and property rental, insurance, miscellaneous, machinery, and vehicles and equipment.

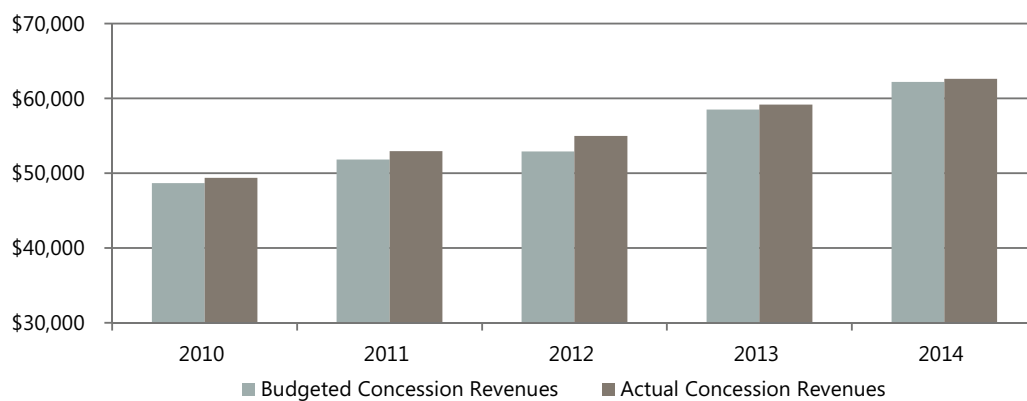
SOURCE: City of Chicago, Department of Aviation, June 2015.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

Table A-2: Concession Revenue—Actual vs. Budget (2010–2014)

(dollars in thousands for Fiscal Years ending December 31)

	2010	2011	2012	2013	2014	
BUDGET:						
Automobile Parking - Net of Tax	\$26,955	\$28,864	\$29,315	\$34,145	\$35,135	
Automobile Rental ^{1/}	7,885	8,542	8,175	9,100	9,700	
Restaurants	7,740	8,080	8,478	9,004	10,249	
News and Gifts	3,612	3,770	1,240	1,147	2,642	
Other ^{2/}	2,483	2,596	5,722	5,095	4,469	
Total Concession Revenue	\$48,675	\$51,852	\$52,930	\$58,491	\$62,195	
ACTUAL:						
						CAGR (2010–2014)
Automobile Parking - Net of Tax	\$27,849	\$29,112	\$30,830	\$32,721	\$34,226	5.3%
Automobile Rental ^{1/}	8,182	8,776	9,021	10,255	10,743	7.0%
Restaurants	8,151	8,875	9,686	10,179	11,090	8.0%
News and Gifts	3,488	3,551	3,486	3,619	3,761	1.9%
Other ^{2/}	1,704	2,634	1,969	2,409	2,787	13.1%
Total Concession Revenue	\$49,374	\$52,948	\$54,992	\$59,183	\$62,607	6.1%
ACTUAL ABOVE BUDGET						
	1.4%	2.1%	3.9%	1.2%	0.7%	



NOTES:

1/ Includes percentage of gross receipts of eight rental car companies operating under agreements at the Airport.

2/ Includes rentals and fees from other concessions, such as other space rentals, bus service, public pay phones, other specialty shops, display advertising, hotel, and duty free.

SOURCE: City of Chicago, Department of Aviation, June 2015.

PREPARED BY: Ricondo & Associates, Inc., January 2016.

Appendix B

Financial Projection Tables



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Table B-1: Operation and Maintenance Expenses

(dollars in thousands for Fiscal Years ending December 31)

	BUDGET ^{1/}	PROJECTED									CAGR (2016–2025)
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Personnel Expenses ^{2/}	\$47,100	\$50,114	\$51,276	\$52,349	\$54,474	\$56,671	\$58,965	\$61,361	\$68,358	\$70,588	4.6%
Repairs and Maintenance ^{3/}	32,218	33,506	34,747	36,137	37,582	39,085	40,649	42,275	43,966	45,724	4.0%
Energy ^{4/}	7,264	7,700	8,162	8,341	8,842	9,372	9,935	10,531	11,163	11,832	5.6%
Materials and Supplies ^{5/}	2,993	3,083	3,175	3,270	3,368	3,469	3,574	3,681	3,791	3,905	3.0%
Engineering and Professional Services ^{6/}	25,438	26,456	27,514	28,614	29,759	30,949	32,187	33,475	34,814	36,206	4.0%
Other Operating Expenses ^{7/}	27,750	28,677	29,639	30,635	31,668	32,740	33,851	34,973	36,168	37,409	3.4%
Total O&M Expenses ^{8/}	\$142,763	\$149,536	\$154,512	\$159,347	\$165,693	\$172,287	\$179,159	\$186,295	\$198,260	\$205,664	4.1%

NOTES:

1/ 2016 First-Half City Approved Budget.

2/ Includes all Airport staff plus Pension Obligations and an allocation of personnel costs from other City departments which support Airport operations such as Purchasing, Finance and Corporation Counsel.

3/ Includes Equipment maintenance contracts, snow removal equipment rentals, painting, glass replacement, office fixtures, furnishings, and other repair contracts.

4/ Includes gas, water, electricity, and fuel oil required to operate the Airport.

5/ Includes disposal equipment, cleaning supplies, airfield deicing chemicals and other items used in daily Airport operations and maintenance.

6/ Includes fees for specialized engineering, legal, and other technical services.

7/ Includes equipment and property rental, insurance, miscellaneous, machinery, and vehicles and equipment.

8/ Totals may not add due to rounding.

SOURCES: City of Chicago, Department of Aviation (2016) , January 2016; Ricondo & Associates, Inc. (2017-2025), April 2016.

PREPARED BY: Ricondo & Associates, Inc., May 2016.

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Table B-2: Non-Signatory Airline Revenue and Nonairline Revenue

(dollars in thousands for Fiscal Years ending December 31)

	BUDGET ^{1/}	PROJECTED									CAGR (2016–2025)
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
NON-SIGNATORY AIRLINE REVENUE ^{2/}	\$7,042	\$7,208	\$7,378	\$7,550	\$7,727	\$7,907	\$8,090	\$8,277	\$8,467	\$8,660	2.3%
NONAIRLINE REVENUE											
Parking	\$36,575	\$34,746	\$35,456	\$40,869	\$43,693	\$44,560	\$45,431	\$46,300	\$47,167	\$48,034	3.1%
Auto Rental ^{3/}	10,000	10,332	10,673	11,023	11,383	11,751	12,127	12,511	12,901	13,300	3.2%
Restaurant	12,331	13,025	13,458	14,112	14,574	15,050	15,537	16,035	16,542	17,058	3.7%
News and Gifts	2,987	3,156	3,260	3,898	4,026	4,157	4,292	4,429	4,569	4,712	5.2%
Specialty Retail	1,459	1,541	1,592	1,645	1,699	1,754	1,811	1,869	1,928	1,988	3.5%
Display Advertising	1,600	1,690	1,746	1,804	1,863	1,924	1,986	2,050	2,114	2,180	3.5%
Wireless Communications	387	408	422	436	450	465	480	495	511	527	3.5%
Miscellaneous ^{4/}	610	641	673	706	741	779	817	858	901	946	5.0%
Concession Revenue	\$65,948	\$65,539	\$67,281	\$74,492	\$78,428	\$80,439	\$82,481	\$84,547	\$86,634	\$88,746	3.4%
Land, Storage, Hangars	\$3,825	\$3,921	\$4,019	\$4,119	\$4,222	\$4,328	\$4,436	\$4,547	\$4,660	\$4,777	2.5%
TOTAL NONAIRLINE REVENUE	\$69,773	\$69,460	\$71,299	\$78,611	\$82,650	\$84,767	\$86,917	\$89,094	\$91,294	\$93,523	3.3%
OTHER NON-SIGNATORY REVENUE ^{5/}	\$1,543	\$1,581	\$1,621	\$1,661	\$1,703	\$1,745	\$1,789	\$1,834	\$1,880	\$1,927	2.5%
TOTAL NON-SIGNATORY AIRLINE and NONAIRLINE REVENUE ^{6/}	\$78,358	\$78,249	\$80,298	\$87,822	\$92,080	\$94,419	\$96,796	\$99,205	\$101,641	\$104,110	3.2%

NOTES:

1/ 2016 First-Half City Approved Budget.

2/ Includes FBO Services, City Gate terminal and ramp charges, and landing fee revenue from the Non-Signatory Airlines.

3/ Includes percentage of gross receipts of eight rental car companies operating under agreements at the Airport.

4/ Includes rentals and fees from other concessions, such as bus service, public pay phones, and other specialty shops.

5/ Includes Interest Earnings.

6/ Totals may not add due to rounding.

SOURCES: City of Chicago, Department of Aviation (2016), January 2016; Ricondo & Associates, Inc. (2016–2025), April 2016.

PREPARED BY: Ricondo & Associates, Inc., May 2016.

Table B-3: Annual Debt Service Requirements

(dollars in thousands for Fiscal Years ending December 31)

	BUDGET		PROJECTED							
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
First Lien Debt Service										
Series 1998C	\$4,535	\$4,533	\$4,536	\$4,535	\$4,535	\$4,533	\$4,541	\$4,537		
Total First Lien Debt Service	\$4,535	\$4,533	\$4,536	\$4,535	\$4,535	\$4,533	\$4,541	\$4,537	\$0	\$0
Second Lien Debt Service										
Series 2004A ^{1/}	\$1,609	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Series 2004B ^{1/}	6,533	0	0	0	0	0	0	0	0	0
Series 2004C	9,134	9,135	9,154	9,165	9,092	9,189	9,199	9,224	9,214	9,244
Series 2010C ^{2/}	5,348	5,347	5,347	5,348	5,348	5,347	5,349	5,349	5,349	5,349
Series 2014D	999	1,005	1,010	1,014	992	994	996	997	1,022	1,020
Series 2013A	6,629	6,499	6,499	6,499	6,499	6,499	6,499	6,499	6,499	6,499
Series 2013B	7,586	7,586	7,586	17,461	18,242	18,615	21,931	21,471	21,134	20,025
Series 2013C	12,381	15,249	16,471	10,075	0	0	0	0	0	0
Series 2014A	23,573	24,210	24,210	24,210	39,740	39,744	39,738	39,737	43,833	43,835
Series 2014B	10,530	14,374	19,304	19,248	16,637	19,799	26,755	26,659	28,504	28,443
Series 2014C	3,030	2,544	2,544	2,544	2,544	2,544	2,544	2,544	2,544	2,544
Series 2016A	1	1,864	2,617	10,151	10,155	10,160	10,152	10,154	8,801	8,801
Series 2016B	254	6,531	8,189	16,374	19,862	19,862	14,725	14,726	14,727	14,725
Total Second Lien Debt Service	\$87,606	\$94,343	\$102,931	\$122,088	\$129,111	\$132,753	\$137,888	\$137,360	\$141,626	\$140,483
Total Debt Service	\$92,141	\$98,876	\$107,467	\$126,623	\$133,645	\$137,286	\$142,429	\$141,896	\$141,626	\$140,483
Total Coverage Requirement	\$455	\$693	\$857	\$1,909	\$717	\$538	\$670	\$139	\$155	\$124
Program Fees	\$3,683	\$3,683	\$3,683	\$3,683	\$3,683	\$3,683	\$3,683	\$3,683	\$3,683	\$3,683
Less: Investment Earnings	(\$883)	(\$905)	(\$1,083)	(\$1,324)	(\$1,369)	(\$1,495)	(\$1,822)	(\$1,818)	(\$1,911)	(\$1,892)
Total Net Debt Service	\$95,396	\$102,347	\$110,925	\$130,892	\$136,677	\$140,012	\$144,960	\$143,901	\$143,554	\$142,398
PFC Contribution	(\$47,727)	(\$46,696)	(\$47,913)	(\$49,257)	(\$49,772)	(\$50,403)	(\$51,587)	(\$51,862)	(\$50,491)	(\$51,277)
CFC Contribution	(\$5,348)	(\$5,347)	(\$5,347)	(\$5,348)	(\$5,348)	(\$5,347)	(\$5,349)	(\$5,349)	(\$5,349)	(\$5,349)
Total Net Debt Service after Application of PFCs and CFCs	\$42,321	\$50,304	\$57,665	\$76,287	\$81,557	\$84,262	\$88,023	\$86,690	\$87,714	\$85,772

NOTE:

1/ The Series 2004A and 2004B Bonds are expected to be refunded with the proceeds of the Series 2016 Bonds, however, for purposes of this Report, savings from the refunding are not shown until 2017.

2/ Debt service on the Series 2010C Bonds is expected to be paid from CFC Revenues through the Projection Period.

SOURCE: City of Chicago Department of Aviation, January 2016; Barclays, April 2016.

PREPARED BY: Ricondo & Associates, Inc., May 2016.

Table B-4: Fund Deposit Requirements

(dollars in thousands for Fiscal Years ending December 31)

	BUDGET		PROJECTED							
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<u>Fund Deposit Requirements:</u>										
O&M Reserve Fund	821	1,128	829	805	1,056	1,099	1,146	1,313	1,995	1,233
Repair and Replacement Fund	1,017	1,038	1,060	1,081	1,106	1,126	1,153	1,177	1,201	1,225
Emergency Reserve Fund	27	27	28	29	30	31	32	33	34	35
Airport Development Fund	0	0	0	0	0	0	0	0	0	0
TOTAL FUND DEPOSIT REQUIREMENTS	1,865	2,193	1,917	1,915	2,192	2,256	2,331	2,523	3,230	2,493
<u>Total Fund Deposits by Cost/Revenue Center:</u>										
Airfield Area	\$545	\$628	\$524	\$632	\$628	\$646	\$666	\$847	\$951	\$714
Terminal Area	772	765	668	834	777	800	826	835	1,167	884
Support Facilities	22	22	20	22	23	24	24	25	35	27
Terminal Ramp	19	48	42	49	49	50	52	52	73	56
Parking and Roadway	274	548	476	183	516	531	548	546	775	582
Equipment	223	147	152	157	162	166	172	176	180	186
Fueling	4	23	24	25	25	26	28	28	29	29
FIS Facility	6	12	11	12	12	12	14	14	19	14
TOTAL FUND DEPOSIT REQUIREMENTS	\$1,865	\$2,193	\$1,917	\$1,915	\$2,192	\$2,256	\$2,331	\$2,523	\$3,230	\$2,493

SOURCES: City of Chicago, Department of Aviation (2016), January 2016; Ricondo & Associates, Inc. (2017–2026), April 2016.

PREPARED BY: Ricondo & Associates, Inc., May 2016.

Table B-5: Net Signatory Airline Requirement

(dollars in thousands for Fiscal Years ending December 31)

	BUDGET	PROJECTED								
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
O & M Expenses	\$142,763	\$149,536	\$154,512	\$159,347	\$165,693	\$172,287	\$179,159	\$186,295	\$198,260	\$205,664
Net Debt Service ^{1/}	42,321	50,304	57,665	76,287	81,557	84,262	88,023	86,690	87,714	85,772
Fund Deposit Requirement	1,865	2,193	1,917	1,915	2,192	2,256	2,331	2,523	3,230	2,493
Total Expenses, Net Debt Service, and Fund Deposits	\$186,948	\$202,033	\$214,094	\$237,549	\$249,442	\$258,804	\$269,514	\$275,508	\$289,204	\$293,929
Less:										
Nonairline Revenue	\$65,948	\$65,539	\$67,281	\$74,492	\$78,428	\$80,439	\$82,481	\$84,547	\$86,634	\$88,746
Non-Signatory Airline Revenue	10,867	11,129	11,396	11,669	11,949	12,235	12,526	12,824	13,127	13,437
Other Nonairline Revenues	1,543	1,581	1,621	1,661	1,703	1,745	1,789	1,834	1,880	1,927
Total Nonairline and Non-Signatory Revenue	\$78,358	\$78,249	\$80,298	\$87,822	\$92,080	\$94,419	\$96,796	\$99,205	\$101,641	\$104,110
Net Signatory Airline Requirement	\$108,590	\$123,783	\$133,796	\$149,726	\$157,362	\$164,385	\$172,717	\$176,303	\$187,563	\$189,820
Adjustment:										
Less:										
Equipment	(\$13,645)	(\$13,954)	(\$14,463)	(\$15,186)	(\$17,368)	(\$17,888)	(\$18,548)	(\$19,039)	(\$20,071)	(\$20,588)
Fueling	(3,289)	(3,354)	(3,425)	(3,499)	(4,208)	(4,229)	(4,312)	(4,396)	(4,652)	(4,728)
Net Signatory Airline Requirement after Adjustment	\$91,656	\$106,476	\$115,908	\$131,042	\$135,785	\$142,268	\$149,857	\$152,868	\$162,840	\$164,504

NOTE:

1/ Net of capitalized interest; adjusted for debt service coverage, investment income, program fees, and PFC credits; includes Series 2016 Bonds.

SOURCES: City of Chicago, Department of Aviation (2016), January 2016; Ricondo & Associates, Inc. (2017–2025), April 2016.

PREPARED BY: Ricondo & Associates, Inc., May 2016.

Table B-6: Airline Fees, Rates, and Charges

(dollars in thousands for Fiscal Years ending December 31)

	BUDGET		PROJECTED							
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<u>Landing Fee Rate (per thousand pounds):</u>										
Signatory Airline	\$4.102	\$4.759	\$5.057	\$5.391	\$5.379	\$5.608	\$5.969	\$6.040	\$6.266	\$6.234
Non-Signatory Airline	5.128	5.949	6.322	6.739	6.724	7.010	7.461	7.550	7.833	7.792
<u>Terminal Joint Use Fee Rate:</u>										
<u>Base Usage (per thousand pounds):</u>										
Signatory Airline	\$1.28	\$1.46	\$1.53	\$1.74	\$1.82	\$1.86	\$1.88	\$1.89	\$2.02	\$2.01
Non-Signatory Airline	\$1.60	\$1.83	\$1.91	\$2.17	\$2.27	\$2.32	\$2.35	\$2.36	\$2.52	\$2.51
<u>Per Capita (Annual):</u>										
Signatory Airline	\$350,631	\$400,053	\$431,302	\$503,573	\$536,829	\$556,139	\$571,702	\$583,862	\$632,695	\$639,095
Non-Signatory Airline	\$438,289	\$500,066	\$539,128	\$629,466	\$671,036	\$695,174	\$714,627	\$729,828	\$790,869	\$798,869
<u>Terminal Area Rental Rate (per square foot):</u>										
Signatory	\$118.35	\$135.03	\$145.58	\$169.97	\$181.19	\$187.71	\$192.96	\$197.07	\$213.55	\$215.71
Non-Signatory	\$147.93	\$168.79	\$181.97	\$212.46	\$226.49	\$234.64	\$241.20	\$246.34	\$266.94	\$269.64
Terminal Ramp Rental Rate (per square foot)	\$3.12	\$3.75	\$4.02	\$4.73	\$4.81	\$4.97	\$4.93	\$5.07	\$5.35	\$5.45
<u>MATCO Fees:</u>										
Member Equipment Fee (per Capita)	\$1,231,721	\$1,395,350	\$1,446,283	\$1,518,571	\$1,736,807	\$1,788,771	\$1,854,794	\$1,903,881	\$2,007,061	\$2,058,770
Member Equipment Fee (per 1000 lbs)	\$0.91	\$0.91	\$0.91	\$0.93	\$1.05	\$1.06	\$1.08	\$1.09	\$1.14	\$1.15
Member Fuel Fee (per Capita)	\$117,516	\$119,833	\$122,387	\$125,017	\$150,362	\$151,120	\$154,084	\$157,084	\$166,226	\$168,929
Member Fuel Usage Fee (per Gallon)	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02
Non-Member Fuel Usage Fee (per Gallon)	\$0.07	\$0.07	\$0.06	\$0.06	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07

SOURCES: City of Chicago, Department of Aviation (20016), January 2016; Ricondo & Associates, Inc. (2017–2025), April 2016.

PREPARED BY: Ricondo & Associates, Inc., May 2016.

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Table B-7: Signatory Airline Revenue

(dollars in thousands for Fiscal Years ending December 31)

	BUDGET	PROJECTED								
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<u>Signatory Airline^{1/} Revenue:</u>										
Total Landing Fee Revenue	\$50,450	\$58,641	\$64,342	\$70,402	\$71,401	\$75,643	\$81,792	\$84,057	\$88,522	\$89,366
Total Joint Use Revenue	17,532	20,003	21,565	25,179	26,841	27,807	28,585	29,193	31,635	31,955
Terminal Terminal Rental and Use Charge Revenue	19,398	22,189	23,935	27,856	29,624	30,697	31,543	31,476	34,180	33,538
Total Terminal Ramp Revenue	3,601	4,330	4,644	5,457	5,552	5,731	5,692	5,847	6,173	7,285
Total FIS Revenue	676	1,313	1,422	2,149	2,367	2,391	2,245	2,295	2,331	2,360
Total Equipment Use Revenue	13,645	13,954	14,463	15,186	17,368	17,888	18,548	19,039	20,071	20,588
Total Fueling System Revenue	3,289	3,354	3,425	3,499	4,208	4,229	4,312	4,396	4,652	4,728
TOTAL SIGNATORY AIRLINE REVENUE	\$108,590	\$123,783	\$133,796	\$149,726	\$157,362	\$164,385	\$172,717	\$176,303	\$187,563	\$189,820
<u>Adjustment:</u>										
Less:										
Equipment Revenue	(\$13,645)	(\$13,954)	(\$14,463)	(\$15,186)	(\$17,368)	(\$17,888)	(\$18,548)	(\$19,039)	(\$20,071)	(\$20,588)
Fueling Revenue	(3,289)	(3,354)	(3,425)	(3,499)	(4,208)	(4,229)	(4,312)	(4,396)	(4,652)	(4,728)
TOTAL SIGNATORY AIRLINE REVENUE AFTER ADJUSTMENT	\$91,656	\$106,476	\$115,908	\$131,042	\$135,785	\$142,268	\$149,857	\$152,868	\$162,840	\$164,504

NOTE:

1/ Includes airlines that are signatory to the Airport Use Agreement.

SOURCES: City of Chicago, Department of Aviation (2016), January 2016; Ricondo & Associates, Inc. (2017–2025), April 2016.

PREPARED BY: Ricondo & Associates, Inc., May 2016.

Table B-8: Airline Cost Per Enplanement

(dollars in thousands for Fiscal Years ending December 31)

	BUDGET	PROJECTED								
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Signatory Airline Requirement	\$108,590	\$123,783	\$133,796	\$149,726	\$157,362	\$164,385	\$172,717	\$176,303	\$187,563	\$189,820
Non-Signatory Airline Revenues	7,042	7,208	7,378	7,550	7,727	7,907	8,090	8,277	8,467	8,660
Total Airline Revenues	\$115,632	\$130,991	\$141,174	\$157,277	\$165,089	\$172,292	\$180,808	\$184,580	\$196,030	\$198,480
Forecast Total Enplaned Passengers	11,070	11,299	11,530	11,764	12,001	12,239	12,479	12,717	12,955	13,193
Total Airline Cost per Enplaned Passenger										
Current Dollars	\$10.45	\$11.59	\$12.24	\$13.37	\$13.76	\$14.08	\$14.49	\$14.51	\$15.13	\$15.04
2016 Dollars ^{1/}	\$10.45	\$11.26	\$11.54	\$12.23	\$12.22	\$12.14	\$12.13	\$11.80	\$11.94	\$11.53

NOTES:

1/ Inflation rate assumed at 3 percent.

SOURCES: City of Chicago, Department of Aviation (2016), January 2016; Ricondo & Associates, Inc. (2017–2025), April 2016.

PREPARED BY: Ricondo & Associates, Inc., May 2016.

Table B-9: Debt Service Coverage

(dollars in thousands for Fiscal Years ending December 31)

	BUDGET	PROJECTED								
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Signatory Airline Revenue	\$108,590	\$123,783	\$133,796	\$149,726	\$157,362	\$164,385	\$172,717	\$176,303	\$187,563	\$189,820
Nonairline and Non-Signatory Airline Revenue	76,816	76,668	78,677	86,161	90,377	92,674	95,008	97,371	99,761	102,183
Interest Income	1,543	1,581	1,621	1,661	1,703	1,745	1,789	1,834	1,880	1,927
Total Revenues	\$186,948	\$202,033	\$214,094	\$237,549	\$249,442	\$258,804	\$269,514	\$275,508	\$289,204	\$293,929
Less:										
O&M Expenses	\$142,763	\$149,536	\$154,512	\$159,347	\$165,693	\$172,287	\$179,159	\$186,295	\$198,260	\$205,664
O&M Reserve Fund	821	1,128	829	805	1,056	1,099	1,146	1,313	1,995	1,233
Repair and Replacement Fund	1,017	1,038	1,060	1,081	1,106	1,126	1,153	1,177	1,201	1,225
Emergency Reserve Fund	27	27	28	29	30	31	32	33	34	35
Net Revenue Available for Debt Service	\$42,321	\$50,304	\$57,665	\$76,287	\$81,557	\$84,262	\$88,023	\$86,690	\$87,714	\$85,772
Prior Year Debt Service Coverage	\$8,225	\$8,658	\$9,336	\$10,177	\$12,068	\$12,599	\$12,949	\$13,429	\$13,377	\$13,297
PFCs Applied to Debt Service	\$47,727	\$46,696	\$47,913	\$49,257	\$49,772	\$50,403	\$51,587	\$51,862	\$50,491	\$51,277
Total Available for Debt Service	\$98,272	\$105,658	\$114,914	\$135,722	\$143,398	\$147,267	\$152,564	\$151,985	\$151,587	\$150,352
First Lien Debt Service ^{1/}	\$4,535	\$4,533	\$4,536	\$4,535	\$4,535	\$4,533	\$4,541	\$4,537	\$0	\$0
Second Lien Debt Service ^{1/}	87,606	94,343	102,931	122,088	129,111	132,753	137,888	137,360	141,626	140,483
Aggregate Debt Service	\$92,141	\$98,876	\$107,467	\$126,623	\$133,645	\$137,286	\$142,429	\$141,896	\$141,626	\$140,483
CFCs Applied to Debt Service	(\$5,348)	(\$5,347)	(\$5,347)	(\$5,348)	(\$5,348)	(\$5,347)	(\$5,349)	(\$5,349)	(\$5,349)	(\$5,349)
Net Debt Service ^{1/}	\$86,793	\$93,528	\$102,120	\$121,276	\$128,297	\$131,939	\$137,080	\$136,548	\$136,278	\$135,134
First Lien Debt Service Coverage (1.25x requirement)	21.67	23.31	25.33	29.93	31.62	32.49	33.60	33.50		
Aggregate Debt Service Coverage (1.10x requirement)	1.13	1.13	1.13	1.12	1.12	1.12	1.11	1.11	1.11	1.11

NOTE:

1/ Net of capitalized interest; actual and projected debt service.

SOURCES: City of Chicago, Department of Aviation, January 2016; Barclays (Debt Service) January 2016; Ricondo & Associates, Inc. (Remaining Projections), April 2016.

PREPARED BY: Ricondo & Associates, Inc., May 2016.

Table B-10: Sensitivity Summary

(dollars in thousands for Fiscal Years ending December 31)

	BUDGET	PROJECTED								
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Enplanements										
Baseline Activity Forecast	11,070	11,299	11,530	11,764	12,001	12,239	12,479	12,717	12,955	13,193
Sensitivity - 10% Activity Reduction	11,070	10,169	10,377	10,588	10,801	11,015	11,231	11,445	11,660	11,874
IMPACT	0	(1,130)	(1,153)	(1,176)	(1,200)	(1,224)	(1,248)	(1,272)	(1,296)	(1,319)
Cost per Enplanement										
Baseline CPE	\$10.45	\$11.59	\$12.24	\$13.37	\$13.76	\$14.08	\$14.49	\$14.51	\$15.13	\$15.04
Sensitivity - 10% Activity Reduction	\$10.45	\$13.42	\$14.34	\$15.59	\$16.02	\$16.38	\$16.84	\$16.88	\$17.56	\$17.47
IMPACT	\$0.00	\$1.83	\$2.09	\$2.22	\$2.27	\$2.31	\$2.35	\$2.36	\$2.43	\$2.43
GARB Debt Service Coverage										
Baseline GARB Debt Service Coverage	1.13	1.13	1.13	1.12	1.12	1.12	1.11	1.11	1.11	1.11
Sensitivity - 10% Activity Reduction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

SOURCES: City of Chicago Department of Aviation; Barclays; Ricondo & Associates, Inc., April 2016.

PREPARED BY: Ricondo & Associates, Inc., May 2016

APPENDIX G

RETIREMENT FUNDS

RETIREMENT FUNDS

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PAYMENT FOR PENSION BENEFITS

General

Pursuant to the Illinois Pension Code, as revised from time to time (the “Pension Code”), the City contributes to four retirement funds (collectively, the “Retirement Funds”), which provide benefits upon retirement, death or disability to members of the Retirement Funds and their beneficiaries. The Retirement Funds are, in order from largest to smallest membership: (i) the Municipal Employees’ Annuity and Benefit Fund of Chicago (“MEABF”); (ii) the Policemen’s Annuity and Benefit Fund of Chicago (“PABF”); (iii) the Firemen’s Annuity and Benefit Fund of Chicago (“FABF”); and (iv) the Laborers’ and Retirement Board Employees’ Annuity and Benefit Fund of Chicago (“LABF”). The Retirement Funds’ membership consists primarily of current and former employees of the City and their beneficiaries.

The Retirement Funds are established, administered and financed under the Pension Code, as separate bodies politic and corporate and for the benefit of the members of the Retirement Funds and their beneficiaries. The City’s contributions to the Retirement Funds, and benefits for members of the Retirement Funds and their beneficiaries, are governed by the provisions of the Pension Code. See “—Determination of City’s Contributions” below. This Appendix describes, among other things, the current provisions of the Pension Code applicable to the City’s funding of the Retirement Funds. No assurance can be made that the Pension Code will not be amended in the future.

The Retirement Funds’ funding sources are the City’s contributions, the employees’ contributions and investment income on the Retirement Funds’ assets. The City’s and employees’ contribution levels are determined pursuant to the Pension Code.

The Retirement Funds have been actuarially determined to be significantly underfunded. See “—Funded Status of the Retirement Funds” and “—Projection of Funded Status” below. The funded status of the Retirement Funds has adversely impacted, and may further adversely impact, the City and its taxpayers in several ways, certain of which are described in this paragraph and throughout this Appendix. First, the City’s bond ratings have declined based, according to the reports of the rating agencies issued with respect to such downgrades, in part on the size of the Retirement Funds’ unfunded liabilities and the projected impact of future City contributions to the Retirement Funds on the City. See “Impact of Retirement Funds’ Unfunded Liabilities on the City’s Bond Ratings” below. In addition, as described in the following paragraphs, the magnitude of the Retirement Funds’ underfunding has prompted the Illinois General Assembly to pass legislation which increases the City’s contributions to the Retirement Funds. As a result, the City increased its property tax levy in October 2015 to generate the revenues necessary to make certain additional contributions to the Retirement Funds under such legislation, and the City may be required to further increase its revenues, to reduce its expenditures, or both, to provide the funds necessary to pay increased contributions in the future. Further, the governmental units with which the tax base of the City overlaps, which include, but are not limited to, the Board of Education of the City of Chicago (the “Board of Education”), the Chicago Park District (“CPD”), the County of Cook (the “County”) and the State of Illinois (the “State”) (collectively, all such other units being referred to herein as the “Governmental Units”), also have significantly underfunded pension liabilities which, in combination with the current financial position of the Retirement Funds, may substantially burden the City’s taxpayers if such Governmental Units are required to make increased contributions to their respective retirement funds (referred to collectively herein as the “Other Retirement Funds”) in the future as a result of such underfunding. See “—Background Information Regarding the Retirement Funds—Overlapping Tax Bodies” below.

As noted above, in an effort to improve the funded status of the Retirement Funds, the Illinois General Assembly passed two statutes designed to improve the funding levels of the Retirement Funds: Public Act, 096-1495 (“P.A. 96-1495”), which modified provisions of the Pension Code with respect to PABF and FABF, and Public Act 098-641 (“P.A. 98-641”) which, modified provisions of the Pension Code related to MEABF and LABF. P.A. 98-641 was recently ruled to be unconstitutional by the Illinois Supreme Court.

P.A. 96-1495 is expected to reduce the unfunded liabilities of PABF and FABF through increases in future City contributions to PABF and FABF. See “—Determination of City’s Contributions—*City’s Contributions to PABF and FABF Beginning in 2016*” below. Unless modified by SB 777 (as defined and described herein) or similar legislation, P.A. 96-1495 increases City’s contributions to PABF and FABF from approximately \$290 million in 2015 to approximately \$839 million in 2016, with an increase of approximately three percent each year thereafter. In addition, as a result of certain changes to PABF’s actuarial assumptions beginning with the 2014 Actuarial Valuation (as defined and described herein), the City’s contributions to PABF are expected to increase by approximately \$62 million for the 2017 Contribution (as defined below). See TABLE 15—“PROJECTION OF FUTURE FUNDING STATUS—FABF” and TABLE 16—“PROJECTION OF FUTURE FUNDING STATUS—PABF” below. Increases in the City’s contributions to PABF and FABF mandated by P.A. 96-1495 caused the City to significantly increase its property tax levy beginning in levy year 2015 (to be collected in 2016) and to draw approximately \$220 million under the City’s general obligation line of credit. See “—Determination of City’s Contributions—*City’s Contributions to the Retirement Funds for Fiscal Years 2016 and 2017*” below. Should the City’s required contributions increase in the future, through the implementation of P.A. 96-1495 without modification by SB 777 or similar legislation, or otherwise, the City may be required to further raise its revenues, reduce its expenditures, or some combination thereof, to provide for such contributions.

P.A. 98-641 would have required, among other things, the City to contribute annually to MEABF and LABF an actuarially determined amount necessary to achieve a 90% Funded Ratio (as defined and described herein) in both such Retirement Funds by 2055; however, P.A. 98-641 was determined to be unconstitutional by the Illinois Supreme Court on March 24, 2016. As a result of the Illinois Supreme Court’s decision, the provisions of the Pension Code governing the City’s contributions to MEABF and LABF reverted to the provisions in effect prior to the enactment of P.A. 98-641. These Pension Code provisions require the City to contribute to such Retirement Funds an amount determined by multiplying the amount of the contributions of the employees who are members of such Retirement Funds made two years prior to the year for which such calculation is made by a multiplier (each, a “Multiplier”) established pursuant to the Pension Code (such method of funding being referred to herein as “Multiplier Funding”). The respective actuaries for MEABF and LABF project that the contributions determined pursuant to the Multiplier Funding system will not provide sufficient funding for such Retirement Funds such that MEABF and LABF will not have assets on hand to make payments to beneficiaries beginning in 2025 and 2027, respectively. The City cannot predict the impact of the insolvency of MEABF or LABF on the amount of the City’s contributions to these Retirement Funds. However, should the City be required to contribute the amounts necessary to fund directly such payments to beneficiaries on a pay-as-you-go basis upon the insolvency of such Retirement Funds, the amount of the City’s contributions to MEABF and LABF would substantially increase. See “—Projection of Funded Status” herein.

Certain statements made in this Appendix are based on projections, are forward-looking in nature and are developed using assumptions and information currently available. Such statements are subject to certain risks and uncertainties. The projections set forth in this Appendix rely on information produced by the Retirement Funds’ independent actuaries (except where specifically noted otherwise) and were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information. This information is not

fact and should not be relied upon as being necessarily indicative of future results. Readers of this Appendix are cautioned not to place undue reliance on the prospective financial information. Neither the City, the City's independent auditors, nor any other independent accountants have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

Source Information

The information contained in this Appendix relies in part on information produced by the Retirement Funds, their independent accountants and their independent actuaries (the "Source Information"). Neither the City nor the City's independent auditors have independently verified the Source Information and make no representations nor express any opinion as to the accuracy of the Source Information.

Furthermore, where the tables in this Appendix present aggregate information regarding the Retirement Funds, such combined information results solely from the application of arithmetic to the data presented in the Source Information and may not conform to the requirements for the presentation of such information by the Governmental Accounting Standards Board ("GASB") or the Pension Code.

Certain of the comprehensive annual financial reports of the Retirement Funds (each a "CAFR" and together the "CAFRs"), and certain of the actuarial valuations of the Retirement Funds (each, an "Actuarial Valuation" and together, the "Actuarial Valuations"), may be obtained by contacting the Retirement Funds. Certain of these reports may also be available on the Retirement Funds' websites (www.meabf.org; www.chipabf.org; www.labfchicago.org; and www.fabf.org); provided, however, that the contents of these reports and of the Retirement Funds' websites are not incorporated herein by such reference.

The Retirement Funds typically release their Actuarial Valuations in the April or May following the close of their respective fiscal years on December 31. MEABF and LABF have released their Actuarial Valuations for the fiscal year ended December 31, 2015. PABF and FABF have not released their Actuarial Valuations for the fiscal year ended December 31, 2015.

Background Information Regarding the Retirement Funds

General

Each of the Retirement Funds is a single-employer, defined-benefit public employee retirement system. "Single-employer" refers to the fact that there is a single plan sponsor, in this case, the City. "Defined-benefit" refers to the fact that the Retirement Funds pay a periodic benefit to employees upon retirement and survivors in a fixed amount determined at the time of retirement. The amount of the periodic benefit is generally determined on the basis of service credits and salary. Eligible employees receive the defined benefit on a periodic basis for life, along with certain benefits to spouses and children that survive the death of the employee.

To fund the benefits to be paid by a defined-benefit pension plan, both employees and employers make contributions to the plan. Generally in a defined-benefit pension plan, employees contribute a fixed percentage of their annual salary and employers contribute the additional amounts required (which amounts may be determined pursuant to statute, as in the case of the City), when combined with the investment earnings on plan assets, to pay the benefits under the pension plan. See "TABLE 1–

MEMBERSHIP,” “—Determination of Employee Contributions” and “—Determination of City’s Contributions” below.

The benefits available under the Retirement Funds accrue throughout the time an employee is employed by the City. Although the benefits accrue during employment, certain age and service requirements must be achieved by an employee to generate a retirement or survivor’s periodic defined benefit payment upon retirement or termination from the City. The Retirement Funds also provide certain disability benefits and, until the later of the date on which the City no longer provides a health care plan for the annuitants or December 31, 2016, retiree healthcare benefits to eligible members. See “PAYMENT FOR OTHER POST-EMPLOYMENT BENEFITS” below.

Section 5 of Article XIII of the Illinois Constitution (the “Pension Clause”) provides as follows:

“Membership in any pension retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.”

References in this Appendix to “member” are references to the active, inactive and retired employees of the City and their beneficiaries, the active, inactive and retired employees of the Retirement Funds participating in the Retirement Funds and their beneficiaries, and with regard to MEABF, certain employees of the Board of Education who are members of MEABF as described below, and their beneficiaries.

The Retirement Funds

Municipal Employees’ Annuity and Benefit Fund of Chicago. MEABF is established by and administered under Article 8 of the Pension Code. MEABF provides age and service retirement benefits, survivor benefits and disability benefits to all eligible members. MEABF is administered under the direction of a five-member board of trustees (the “MEABF Board”), whose members are responsible for managing and administering MEABF for the benefit of its members. In addition to City and Retirement Fund employees, former employees and survivors, MEABF’s membership includes non-instructional employees of the Board of Education (“CBOE Employees”). With respect to MEABF, the terms “employee” and “member” include the CBOE Employees. The CBOE Employees account for almost half of MEABF’s membership. The Mayor of the City, the City Clerk, the City Treasurer, and members of the City Council may participate in MEABF if such persons file, while in office, written application to the MEABF Board.

Policemen’s Annuity and Benefit Fund of Chicago. PABF is established by and administered under Article 5 of the Pension Code. PABF provides retirement and disability benefits to the police officers of the City, their surviving spouses and their children. PABF is administered by an eight-member board of trustees (the “PABF Board”). Members of the PABF Board are charged with administering the PABF under the Pension Code for the benefit of its members.

Firemen’s Annuity and Benefit Fund of Chicago. FABF is established by and administered under Article 6 of the Pension Code. FABF provides retirement and disability benefits to fire service employees and their survivors. FABF is governed by an eight-member board of trustees (the “FABF Board”). Members of the FABF Board are statutorily mandated to discharge their duties solely in the interest of FABF’s members.

Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago. LABF is established by and administered under Article 11 of the Pension Code. LABF provides retirement and disability benefits for employees of the City and the Board of Education who are employed in a title recognized by the City as labor service and for the survivors of such employees. LABF is governed by an eight-member board of trustees (the "LABF Board" and, together with the MEABF Board, the PABF Board and the FABF Board, the "Retirement Fund Boards"). Members of the LABF Board are statutorily mandated to discharge their duties solely in the interest of LABF's members.

The membership of PABF and FABF as of December 31, 2014, and of MEABF and LABF as of December 31, 2015, was as follows:

TABLE 1 – MEMBERSHIP

Retirement Fund	Active Members	Inactive/ Entitled to Benefits	Retirees and Beneficiaries	Totals
MEABF	30,683	16,268	24,964	71,915
PABF	12,020	630	13,230	25,880
FABF	4,809	65	4,703	9,577
LABF	<u>2,816</u>	<u>1,455</u>	<u>3,846</u>	<u>8,117</u>
Total	50,328	18,418	46,743	115,489

Source: Actuarial Valuations of PABF and FABF as of December 31, 2014, and the Actuarial Valuations of MEABF and LABF as of December 31, 2015.

Overlapping Taxing Bodies

The City's tax base overlaps with the Governmental Units, which includes, but is not limited to, the Board of Education, the CPD, the County and the State. Certain of the Governmental Units maintain the Other Retirement Funds, many of which are also significantly underfunded. The unfunded liabilities of the Other Retirement Funds may impose an additional burden on the City's taxpayers if the Governmental Units need additional revenue to fund contributions to the Other Retirement Funds.

State Pension Reform Act and Litigation. On May 8, 2015, the Illinois Supreme Court affirmed the decision of the Sangamon County Circuit Court that Public Act 098-0599 (the "State Pension Reform Act") is unconstitutional. The State Pension Reform Act would have provided for certain cost-saving and other reforms to the State's four largest pension plans, including, but not limited to, changes to the employee and employer contribution formula, cost of living adjustments, retirement ages and employee contributions. The State Pension Reform Act was challenged on behalf of various classes of annuitants, current and former workers, and labor organizations, alleging, among other things, that the legislation violates the Pension Clause.

Chicago Park District Pension Reform. On January 7, 2014, then Governor Pat Quinn signed Public Act 098-0622 into law (the "CPD Pension Reform Act"). The CPD Pension Reform Act provides for certain cost-saving and other reforms to CPD's pension plan, including, but not limited to, changes to the employee and employer contribution formula, cost of living adjustments, retirement ages and employee contributions. Such changes became effective on June 1, 2014. On October 8, 2015, participants in CPD's pension plan filed a lawsuit challenging the legality of the CPD Pension Reform Act by alleging, among other things, that the legislation violates the Pension Clause.

For more information on these Other Retirement Funds, please refer to the State's Commission on Government Forecasting and Accountability ("COGFA") website at <http://cgfa.ilga.gov/home.aspx>; provided, however, that the contents of the COGFA website are not incorporated herein by such reference.

Certain Duties

Each Retirement Fund Board is a fiduciary of its respective Retirement Fund and is authorized to perform all functions necessary for operation of such Retirement Fund. The Pension Code authorizes each Retirement Fund Board to make certain decisions, including decisions regarding the investment of funds, the management of assets, the disbursement of benefits, and the hiring of staff, financial advisors and asset managers.

Each Retirement Fund Board is authorized to promulgate rules and procedures regarding the administration of benefits and other matters in accordance with the Illinois Administrative Procedure Act, and decisions awarding, limiting, or denying benefits are subject to the Illinois Administrative Procedure Act. Certain aspects of the Retirement Funds, however, including the defined benefits and the employer and employee contribution levels, are established in the Pension Code and may be amended only by an amendment to the Pension Code.

The Pension Code provides that the expenses incurred in connection with the administration of the Retirement Funds are not construed to be debt imposed upon the City. Such expenses are the obligation of the Retirement Funds exclusively, as separate bodies politic and corporate.

The Illinois Attorney General and annuitants may bring a civil action to obtain relief for violations of a fiduciary duty to the Retirement Funds or any act or practice which violates any provision of the Pension Code.

Investments

Each Retirement Fund Board manages the investments of its respective Retirement Fund. State law regulates the types of investments in which the Retirement Funds' assets may be invested. Furthermore, the Retirement Fund Boards invest the Retirement Funds' assets in accordance with the prudent person rule, which requires members of the Retirement Fund Boards, who are fiduciaries of the Retirement Funds, to discharge their duties with the care, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in a similar situation.

In carrying out their investment duty, the Retirement Fund Boards may appoint and review investment managers as fiduciaries to manage the investment assets of the Retirement Funds. Such investment managers are granted discretionary authority to manage the Retirement Funds' assets. Additional information regarding the Retirement Funds' investments and investment management may be found on the Retirement Funds' websites; provided, however, that the contents of such websites are not incorporated into this Appendix by such reference.

Table 2 provides information on the investment returns experienced by each of the Retirement Funds.

TABLE 2 – INVESTMENT RATES OF RETURN, 2005-2014

Fiscal Year	MEABF	FABF	LABF	PABF
2005	6.6%	9.5%	7.8%	7.3%
2006	12.7	14.0	11.2	12.1
2007	7.3	11.0	8.0	8.8
2008	(28.7)	(33.8)	(29.2)	(27.8)
2009	19.6	23.7	21.5	21.5
2010	14.2	17.7	15.5	12.7
2011	0.1	(2.0)	(0.3)	0.8
2012	12.8	16.2	14.6	12.4
2013	16.1	19.5	15.8	13.7
2014	4.7	2.9	3.8	5.9
2015	1.8	Not Available	(1.7)	Not Available
Assumed Rate ⁽¹⁾	7.5	8.0	7.5	7.5

Source: For FABF, the audited financial statements of FABF for fiscal years 2005-2012 and the Actuarial Valuations of FABF for fiscal years 2013 and 2014. For MEABF, the Actuarial Valuation of MEABF as of December 31, 2014. For LABF and PABF, the respective CAFRs of such Retirement Funds for the fiscal years 2005-2012 and the respective Actuarial Valuations of such Retirement Funds for fiscal years 2013 and 2014. Fiscal Year 2015 information with respect to LABF and MEABF is from the Actuarial Valuations of such Retirement Funds as of December 31, 2015.

(1) Reflects the assumed rate of return in the respective Actuarial Valuations of PABF and FABF measured as of December 31, 2014, and the Actuarial Valuations of MEABF and LABF as of December 31, 2015, as discussed in further detail under “Actuarial Assumptions—Assumed Investment Rate of Return” below.

Determination of Employee Contributions

Employees are required to contribute to their respective Retirement Fund as set forth in the Pension Code.

MEABF employees contribute 8.5 percent of their salary to MEABF (consisting of a 6.5 percent contribution for employee benefits, a 1.5 percent contribution for spouse benefits, and a 0.5 percent contribution for an annuity increase benefit).

PABF employees contribute 9.0 percent of their salary to PABF (consisting of a 7.0 percent contribution for employee benefits, a 1.5 percent contribution for spouse benefits and a 0.5 percent contribution for an annuity increase benefit).

FABF employees contribute 9.125 percent of their salary to FABF (consisting of a 7.125 percent contribution for employee benefits, a 1.5 percent contribution for spouse benefits, a 0.375 percent contribution for an annuity increase benefit and a 0.125% contribution for disability benefits).

LABF employees contribute 8.5 percent of their salary to LABF (consisting of a 6.5 percent contribution for employee benefits, a 1.5 percent contribution for spouse benefits, and a 0.5 percent contribution for an annuity increase benefit).

For each Retirement Fund, if an employee leaves without qualifying for an annuity, accumulated employee contributions are refunded.

Determination of City's Contributions

The City contributes to the Retirement Funds pursuant to the provisions of the Pension Code. Prior to the contribution for 2016, the City contributed to all four Retirement Funds an amount determined by the Multiplier Funding formula, which required the City to contribute a statutory multiple of the amount contributed to a Retirement Fund by the employees who are members in that Retirement Fund two years prior to the year in which the property tax used to generate the contribution was levied. With respect to the City's 2015 contribution, the Multiplier for each Retirement Fund was as follows: 1.25 for MEABF; 2.00 for PABF; 2.26 for FABF; and 1.00 for LABF. The contribution amounts derived from this formula do not relate to, and in recent years have been substantially less than, the contribution amounts that would typically result from an actuarial determination of the contribution. As a result of the Illinois Supreme Court's determination that P.A. 98-641 is unconstitutional, the City will continue to contribute to MEABF and LABF pursuant to this statutory Multiplier Funding formula pursuant to the Pension Code. Beginning in 2016, the City's contributions to PABF and FABF are determined pursuant to the P.A. 96-1495 Funding Plan (as hereinafter defined) rather than the Multiplier Funding system. See "*City's Contributions to PABF and FABF Beginning in 2016*" below.

The Pension Code provides that each Retirement Fund Board must annually certify to the City Council a determination of the required City contribution to such Retirement Fund. In making its request for the City's annual contribution, each Retirement Fund, acting through its Retirement Fund Board, annually approves and then submits a resolution to the City Council requesting that the City Council levy for a particular contribution amount. The City has generally paid the amounts so requested.*

The City's contributions to the Retirement Funds have historically been made primarily from the proceeds of an annual levy of property taxes for each of the Retirement Funds (collectively, the "Pension Levy") by the City solely for such purpose, as provided by the Pension Code. However, the Pension Code allows the City to use any other legally available funds (collectively, the "Other Available Funds," as described below) in lieu of the Pension Levy to make its contributions to the Retirement Funds. The amount of the Pension Levy, like any City property tax levy, must be approved by the City Council. The Pension Levy is exclusive of and in addition to the amount of property taxes which the City levies for other purposes.

If Other Available Funds are being utilized to pay a portion of the City's contributions, such funds are to be deposited with the City Treasurer to be used for the same purpose as the Pension Levy. The City's practice historically has been to use a portion of the City's Personal Property Replacement Tax revenue ("PPRT") to pay a portion of the City's contributions. PPRT revenue is paid by the State to the City from the Personal Property Replacement Tax Fund of the State pursuant to Section 12 of the Revenue Sharing Act of the State. Since 2003, the amount of PPRT contributed by the City to the Retirement Funds in the aggregate has averaged approximately \$78,387,000 annually. In 2013, 2014, and 2015, the amounts of PPRT contributed to the Retirement Funds in the aggregate were approximately \$126,639,000, \$127,239,000 and \$126,053,000 respectively. For those same years, the City's total distributive shares of PPRT were \$159,559,000, \$154,991,000 and \$167,741,000, respectively.

The City's contributions to the Retirement Funds in accordance with the Pension Code have not been sufficient, when combined with employee contributions and investment returns, to offset increases in the Retirement Funds' liabilities, which has contributed to the significant underfunding of the Retirement Funds. Moreover, the contributions to the Retirement Funds in accordance with the Pension

* In past years, FABF has requested a contribution from the City which the City determined exceeded the amount required by the Pension Code. The City has indicated that it will not contribute amounts in excess of the amount the City has determined to be the statutory contribution requirement for the City to FABF in such prior years or in future years.

Code have had the effect of deferring the funding of the Retirement Funds' liabilities, which increases the costs of such liabilities and the associated financial risks, including the risk that each Retirement Fund will not be able to pay its obligations as they become due. Furthermore, increases in the City's contributions to the Retirement Funds (such as those scheduled to occur under P.A. 96-1495) may require the City to increase its revenues, reduce its expenditures, or some combination thereof, which may impact the services provided by the City or limit the City's ability to generate additional revenues in the future. The City's contributions to FABF and PABF will increase in fiscal year 2016, when compared to fiscal year 2015, by approximately \$134 million and \$404 million, respectively, pursuant to the provisions of P.A. 96-1495, though such contributions would be reduced if SB 777 is enacted into law as described in the next section.

City's Contributions to PABF and FABF Beginning in 2016

P.A. 96-1495 was signed into law on December 30, 2010. Among other things, P.A. 96-1495 created a new method of determining the contributions to be made by the City to PABF and FABF. P.A. 96-1495 requires that, beginning in 2016, the City's contributions each year for PABF and FABF (the "P.A. 96-1495 Contribution") will be equal to the amount necessary to achieve a Funded Ratio of 90 percent in PABF and FABF by the end of fiscal year 2040 (the "P.A. 96-1495 Funding Plan").

Pursuant to the P.A. 96-1495 Funding Plan, the P.A. 96-1495 Contribution for PABF and FABF will be calculated as the level percentage of payroll necessary to reach the 90 percent Funded Ratio target by 2040. In Cook and DuPage Counties (in which the City is located), property taxes levied in one year become payable during the following year in two installments. As described in further detail under "*City's Contributions to the Retirement Funds for 2016 and 2017*" herein, the City increased its property tax levy for the purpose of making increased pension payments during calendar years 2016 and 2017.

Unless amended by the Illinois General Assembly, the P.A. 96-1495 Funding Plan will significantly increase the City's required contributions to PABF and FABF beginning in 2016. See "*City's Contributions to the Retirement Funds for 2016 and 2017*" herein. Senate Bill 777 ("SB 777") passed both houses of the Illinois General Assembly as of May 31, 2015 and was sent to the Governor on March 31, 2016. SB 777 would extend the period by which the unfunded liabilities of PABF and FABF are amortized to a 90 percent Funded Ratio from 2040 to 2055 (the "Revised Amortization Period") and institute a phase-in period during 2016-2020 to reduce the City's required payment in the initial years to allow for a more gradual phase-in of the requirements of P.A. 96-1495 (the "Phase-in Period"). The Revised Amortization Period would reduce the annual funding obligation required to reach a 90 percent Funded Ratio, but extend the number of years over which such payments would need to be made. In addition to, or in lieu of, a Revised Amortization Period or a Phase-in Period, the Illinois General Assembly may consider other legislation that could affect the City payment obligations for PABF and FABF and/or funding sources for those obligations. The City makes no representation as to whether or when SB 777 or any such other legislation would be enacted into law.

Any change to the P.A. 96-1495 Funding Plan which would reduce the contributions required of the City, such as a Revised Amortization Period or a Phase-in Period, would have the effect of increasing the unfunded liabilities and decreasing the Funded Ratios of PABF and FABF when compared to the projected unfunded liabilities and Funded Ratios of such Retirement Funds set forth in Tables 15 and 16 below.

City's Contributions to the Retirement Funds for 2016 and 2017

On October 28, 2015, the City Council approved its supplemental fiscal year 2015 budget (the "Supplemental Budget") and its fiscal year 2016 budget (the "FY 2016 Budget"). The Supplemental

Budget increased the budgeted contribution, payable to the Retirement Funds in 2016, to PABF and FABF by \$328 million which increased the total contribution to the Retirement Funds to \$886 million for 2016 (the “2016 Contribution”). The FY 2016 Budget includes an additional increase in the contribution to PABF and FABF which results in a total contribution, payable to the Retirement Funds in 2017, of \$978 million (the “2017 Contribution”). The 2016 Contribution and the 2017 Contribution each assume the effectiveness of P.A. 98-641 and the enactment of SB 777.

The City’s budget for fiscal year 2015, as amended by the Supplemental Budget (together the “Amended FY 2015 Budget”), provides that the increase in contributions to PABF and FABF for 2016 be primarily generated through an increase in the City’s property tax levy. Such property tax increase has been adopted by the City Council. However, the 2016 Contribution and the 2017 Contribution assume the enactment of SB 777, which would reduce the contribution currently required by the Pension Code under P.A. 96-1495. Specifically, with respect to 2016, SB 777 would reduce the City’s contribution to PABF and FABF from \$839 million to \$619 million. Because the Amended FY 2015 Budget assumes the enactment of SB 777, the 2016 Contribution included in the Amended FY 2015 Budget would be insufficient to fund in full the contribution required by the Pension Code in 2016 should SB 777 not be enacted. Pursuant to the Pension Code, the City has deposited Other Available Funds (derived from a draw on the City’s general obligation line of credit) as of March 1, 2016, with the City Treasurer in the approximate amount of \$220 million (the “Deposit”) which would be available to pay such excess contributions to PABF and FABF in 2016 should SB 777 or similar legislation not be enacted. If SB 777 or similar legislation is enacted during 2016, the City expects that the Deposit would not be used to pay such excess contributions.

The City can give no assurance as to whether SB 777 or similar legislation will be adopted by the Illinois General Assembly. If SB 777 or similar legislation is not enacted and the City must contribute to PABF and FABF pursuant to the current provisions of the Pension Code, the City expects that it would fund such additional contributions for years following 2016 through an increase in revenues, a decrease in expenditures or a combination thereof.

P.A. 98-641, which would have modified the formula for calculating the City’s required contributions to MEABF and LABF, was determined to be unconstitutional by the Illinois Supreme Court. With respect to the 2016 Contribution and the 2017 Contribution specifically, P.A. 98-641 would have increased the Multiplier to be used to determine the amount of such contributions. As a result of P.A. 98-641 being invalidated, however, the Multiplier with respect to the 2016 Contribution and the 2017 Contribution will revert to the Multiplier under the Pension Code provisions in effect prior to the enactment of P.A. 98-641 (the “*Prior Law Multiplier*”). Therefore, because the Amended FY 2015 Budget and the FY 2016 Budget assume the effectiveness of P.A. 98-641, the 2016 Contribution and the 2017 Contribution include contributions to LABF and MEABF in excess of the contributions currently required by the Pension Code calculated pursuant to the Prior Law Multiplier.

The Actuarial Valuation

General

The Pension Code requires that the Retirement Funds annually submit to the City Council a report containing a detailed statement of the affairs of such Retirement Fund, its income and expenditures, and assets and liabilities, which consists of the Actuarial Valuation. With respect to the Retirement Funds, the Actuarial Valuation measures the financial position of a Retirement Fund, determines the amount to be contributed by the City to such Retirement Fund pursuant to the statutory requirements described above, and produces certain information mandated by the financial reporting standards issued by the GASB, as described below.

In producing the Actuarial Valuations, the Retirement Funds' actuaries use demographic data (including employee age, salary and service credits), economic assumptions (including estimated future salary and interest rates), and decrement assumptions (including employee turnover, mortality and retirement rates) to produce the information required by the Prior GASB Standards or the New GASB Standards, each as hereinafter defined. The Retirement Funds' Actuarial Valuations are publicly available and may be obtained from the Retirement Funds. See "—Source Information" above. A description of the statistics generated by the Retirement Funds' actuaries in the Actuarial Valuations follows in the next few paragraphs. This information was derived from the Source Information.

GASB, which is part of a private non-profit corporation known as the Financial Accounting Foundation, promulgates standards regarding accounting and financial reporting for governmental entities. These principles have no legal effect and do not impose any legal liability on the City. The references to GASB principles in this Appendix do not suggest and should not be construed to suggest otherwise.

Prior GASB Standards

For the fiscal years discussed in this Appendix prior to and including December 31, 2013, the applicable GASB financial reporting standards were GASB Statement No. 25 ("*GASB 25*") and GASB Statement No. 27 ("*GASB 27*") and, together with GASB 25, the "*Prior GASB Standards*"). The Prior GASB Standards required the determination of the Actuarially Required Contribution (as described herein) and the calculation of pension funding statistics such as the UAAL (as defined and described herein) and the Funded Ratio in the Actuarial Valuation. In addition, the Prior GASB Standards allowed pension plans to prepare financial reports pursuant to a variety of approved actuarial methods, certain of which are described in "—Actuarial Methods" below.

GASB 25 required disclosure of an "Actuarially Required Contribution," which was such pronouncement's method for calculating the annual amounts needed to fully fund the Retirement Funds, though the Actuarially Required Contribution was a financial reporting requirement and not a funding requirement. The Prior GASB Standards referred to the Actuarially Required Contribution as the "Annual Required Contribution;" however, this Appendix refers to the concept as the "Actuarially Required Contribution" to denote the fact that the Actuarially Required Contribution is the amount an actuary would calculate pursuant to the Prior GASB Standards to be contributed in a given year, to differentiate it from the amount the City will be required to contribute under the Pension Code.

As defined in GASB 25, the Actuarially Required Contribution consisted of two components: (1) that portion of the present value of pension plan benefits which is allocated to the valuation year by the actuarial cost method (as described in "—Actuarial Methods—*Actuarial Accrued Liability*" below), termed the "Normal Cost"; and (2) an amortized portion of any UAAL.

The "Actuarial Accrued Liability" was an estimate of the present value of the benefits each Retirement Fund must pay to members as a result of past employment and participation in such Retirement Fund. The Actuarial Accrued Liability was calculated by use of a variety of demographic and other data (such as employee age, salary and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, retirement date and age and mortality and disability rates). The "Actuarial Value of Assets" reflected the value of the investments and other assets held by each Retirement Fund. Various methods existed under the Prior GASB Standards for calculating the Actuarial Value of Assets and the Actuarial Accrued Liability. For a discussion of the methods and assumptions used to calculate the Retirement Funds' Actuarial Accrued Liability and Actuarial Value of Assets under GASB 25, see "—Actuarial Methods" and "—Actuarial Assumptions" below.

Any shortfall between the Actuarial Value of Assets and the Actuarial Accrued Liability was referred to as the “*Unfunded Actuarial Accrued Liability*” or “*UAAL*.” The UAAL represented the present value of benefits attributed to past service that are in excess of plan assets. In addition, the actuary computed the “Funded Ratio,” which was the Actuarial Value of Assets divided by the Actuarial Accrued Liability, expressed as a percentage. The Funded Ratio and the UAAL provide one way of measuring the financial health of a pension plan.

New GASB Standards

Beginning with the fiscal year ended December 31, 2014, GASB 25 was replaced with GASB Statement No. 67 (“GASB 67”), and GASB 27 will be replaced with GASB Statement No. 68 beginning with the fiscal year ending December 31, 2015 (“GASB 68” and, together with GASB 67, the “*New GASB Standards*”). Unlike the Prior GASB Standards, the New GASB Standards do not establish approaches to funding pension plans. Instead, the New GASB Standards provide standards solely for financial reporting and accounting related to pension plans. The New GASB Standards require calculation and disclosure of a “Net Pension Liability,” which is the difference between the actuarial present value of projected benefit payments that are attributed to past periods of employee service calculated pursuant to the methods and assumptions set forth in the New GASB Standards (referred to in such statements as the “*Total Pension Liability*”) and the fair market value of the pension plan’s assets (referred to as the “*Fiduciary Net Position*”). This concept is similar to the UAAL, which was calculated under the Prior GASB Standards, but most likely will differ from the UAAL on any calculation date because the Fiduciary Net Position is calculated at fair market value and because of the differences in the manner of calculating the Total Pension Liability as compared to the Actuarial Accrued Liability under the Prior GASB Standards.

Furthermore, the New GASB Standards employ a rate, referred to in such statements as the “Discount Rate,” which is used to discount projected benefit payments to their actuarial present values. The Discount Rate may be a blended rate comprised of (1) a long-term expected rate of return on a Retirement Fund’s investments (to the extent that such assets are projected to be sufficient to pay benefits), and (2) a tax-exempt municipal bond rate meeting certain specifications set forth in the New GASB Standards. Therefore, in certain cases in which the assets of a Retirement Fund are not expected to be sufficient to pay the projected benefits of such Retirement Fund, the Discount Rate calculated pursuant to the New GASB Standards may differ from the assumed investment rate of return used in reporting pursuant to the Prior GASB Standards.

Finally, the New GASB Standards require that the Net Pension Liability be disclosed in the notes to the financial statements of the pension system and that a proportionate share of the Net Pension Liability be recognized on the balance sheets of the obligor. In addition, the New GASB Standards require an expense (the “*Pension Expense*”) to be recognized on the income statement of the City. The recognition of the Net Pension Liability and the Pension Expense do not measure the manner in which a Retirement Fund is funded and therefore do not conflict with the various manners of funding the Retirement Funds described in this Appendix.

As stated above, GASB 67 was first applied with respect to the Actuarial Valuation for the fiscal year ended December 31, 2014. The City expects that the New GASB Standards may significantly alter the financial statements produced by the City. For example, the Retirement Funds disclosed a combined Net Pension Liability of \$20.1 billion as of December 31, 2014, which will impact the City’s balance sheet in future years. However, because the City contributes to the Retirement Funds pursuant to the methods established in the Pension Code, the New GASB Statements will not materially impact the contributions made by the City without legislative action.

City's Contributions Not Related to GASB Standards

The City's contributions to the Retirement Funds are not based on the contribution calculations promulgated by GASB for reporting purposes. Instead, the City's contributions are calculated pursuant to the formulas established in the Pension Code. See "—Determination of City's Contributions" above.

The methods for contributing to the Retirement Funds set forth in the Pension Code do not conform to the manner of funding established by the Prior GASB Standards, which was based on the Actuarially Required Contribution. The difference between the City's actual contributions and the Actuarially Required Contribution (as calculated by the Retirement Funds' actuaries) for fiscal years 2005-2014 is shown in TABLE 4—"INFORMATION REGARDING CITY'S CONTRIBUTIONS—AGGREGATED" below. Each Retirement Fund's Actuarially Required Contribution is equal to its Normal Cost plus an amortization of the Retirement Funds' UAAL over a 30-year period. MEABF, LABF and FABF amortize the UAAL on a level dollar basis, whereas PABF amortizes the UAAL on a level percent of payroll basis. Both methods of calculating the Actuarially Required Contribution were acceptable under the Prior GASB Standards.

Furthermore, beginning in 2016 with respect to PABF and FABF under the P.A. 96-1495 Funding Plan, the City will contribute an actuarially determined amount, as opposed to the current, non-actuarial, Multiplier-based approach, as set forth in the Pension Code. The P.A. 96-1495 Funding Plan differs from the manner of calculation required by the Prior GASB Standards for financial reporting purposes, primarily because the goal of such funding plan is to reach a Funded Ratio in the respective Retirement Funds of 90 percent whereas the Prior GASB Standards required the Retirement Funds to amortize the UAAL towards attainment of a 100 percent Funded Ratio.

The New GASB Standards do not require calculation of an Actuarially Required Contribution.

Actuarial Methods

The Retirement Funds' actuaries employ a variety of actuarial methods to arrive at the pension statistics required by the Prior GASB Standards and the New GASB Standards. Certain of these methods are discussed in the following sections.

Actuarial Value of Assets

Under the Prior GASB Standards, the Retirement Funds calculate their respective Actuarial Value of Assets by smoothing investment gains and losses over a period of five years, a method of valuation referred to as the "*Asset Smoothing Method*." Under the Asset Smoothing Method, the Retirement Funds recognize in the current year 20 percent of the investment gain or loss realized in that year and each of the previous four years. The Asset Smoothing Method was an allowable method of calculating the Actuarial Value of Assets under the Prior GASB Standards.

The Asset Smoothing Method lessens the immediate impact of market fluctuations on the Actuarial Value of Assets, which is used to calculate the UAAL and the Funded Ratio, that may otherwise occur as a result of market volatility. However, asset smoothing delays recognition of gains and losses, thereby providing an Actuarial Value of Assets that differs from the market value of pension plan assets at the time of measurement. As a result, presenting the Actuarial Value of Assets as determined under the Asset Smoothing Method might provide a more or less favorable presentation of the current financial position of a pension plan than would a method that recognizes investment gains and losses annually.

As described above, under the New GASB Standards, the Fiduciary Net Position is equal to the fair market value of a pension plan's assets as of the date of determination. As such, the Asset Smoothing Method does not apply to the determination of the Fiduciary Net Position under the New GASB Standards.

Table 3 provides a comparison of the assets of the Retirement Funds (as aggregated) on a fair value basis and after application of the Asset Smoothing Method.

TABLE 3 – ACTUARIAL VALUE OF ASSETS VS. FAIR VALUE OF NET ASSETS – AGGREGATED⁽¹⁾

Fiscal Year	Actuarial Value of Assets⁽²⁾	Fair Value of Net Assets	Actuarial Value as a Percentage of Fair Value
2005	\$13,086,060	\$13,245,445	98.80%
2006	13,435,692	14,164,347	94.86
2007	14,254,816	14,595,514	97.67
2008	13,797,344	9,844,339	140.16
2009	13,051,349	10,876,846	119.99
2010	12,449,863	11,408,555	109.13
2011	11,521,138	10,536,135	109.35
2012	10,531,447	10,799,603	97.52
2013	10,513,564	11,261,254	93.36
2014	10,339,208	10,665,597	96.94

Source: 2005 through 2010 data is from the Actuarial Valuations of the Retirement Funds as of December 31, 2010, and from the Retirement Fund CAFRs for the fiscal year ended December 31, 2010. Data from 2011 through 2014 is from the Actuarial Valuations of the Retirement Funds for the fiscal years 2011 through 2014.

(1) In thousands of dollars. Data is presented in the aggregate for the Retirement Funds. For information regarding the Actuarial Value of Assets and the Fair Value of Assets for MEABF and LABF as of December 31, 2015, see Table 5 and Table 8, respectively.

(2) The Actuarial Value of Assets is calculated through use of the Asset Smoothing Method.

Actuarial Accrued Liability

As the final step in the calculation of actuarial liabilities, the actuary applies a cost method to allocate the total value of benefits to past, present and future periods of employee service. This allocation is accomplished by the development of the Actuarial Accrued Liability and the Normal Cost under the Prior GASB Standards and the Pension Code and the Total Pension Liability under the New GASB Standards. Currently, all of the Retirement Funds use the entry age normal actuarial cost method (the “*EAN Method*”) with costs allocated on the basis of earnings. The EAN Method was an approved actuarial cost method under the Prior GASB Standards and is the only allowable actuarial cost method under the New GASB Standards.

Under the EAN Method, the present value of each employee's projected pension is assumed to be funded by annual installments equal to a level percentage of the employee's earnings for each year between entry age and assumed exit age. Each employee's Normal Cost, as calculated pursuant to the Prior GASB Standards, for the current year is equal to the portion of the value so determined, assigned to the current year. Therefore, the Normal Cost for the plan for the year is the sum of the Normal Costs of all employees.

P.A. 96-1495 requires that, beginning in 2016, PABF and FABF calculate the Actuarial Accrued Liability pursuant to the projected unit credit actuarial cost method (the “*PUC Method*”). Under the PUC Method, Normal Cost represents the actuarial present value of that portion of an employee’s projected benefit that is attributable to service in the current year, based on future compensation projected to retirement. Under this method, the Actuarial Accrued Liability equals the actuarial present value of that portion of a member’s projected benefit that is attributable to service to date, again, on the basis of future compensation projected to retirement.

Under either cost method, the Actuarial Accrued Liability is the portion of the present value of benefits assigned by the cost method to years of service up to the valuation date, i.e., for past service. This value changes as the employee’s salary changes and years of service increase, and as some employees leave and new employees are hired. Future Normal Cost is the portion of the present value of benefits assigned to future years of service and is assumed to be funded annually.

As compared to the EAN Method, the PUC Method will produce a more back-loaded growth in liabilities because the PUC Method allocates a higher portion of retirement costs closer to the time of retirement. Therefore, the PUC Method results in a slower accumulation of assets, which in turn requires smaller initial, and larger future, contributions (assuming funding is actuarially based, as under the P.A. 96-1495 Funding Plan). Deferring contributions in this manner increases the cost of the liabilities and the associated financial risks for PABF and FABF.

Actuarial Assumptions

The Actuarial Valuations of the Retirement Funds use a variety of assumptions in order to calculate the statistics required by the Prior GASB Standards and the New GASB Standards. Although several of the assumptions are the same across all of the Retirement Funds, each Retirement Fund determines, within actuarial standards, the assumptions to be used in its Actuarial Valuation unless a specific assumption is fixed by the Pension Code. No assurance can be given that any of the assumptions underlying the Actuarial Valuations will reflect the actual results experienced by the Retirement Funds. Variances between the assumptions and actual results may cause increases or decreases in the statistics calculated pursuant to the Prior GASB Standards or the New GASB Standards. Additional information on each Retirement Fund’s actuarial assumptions is available in the respective 2014 Actuarial Valuation of PABF and FABF and the respective 2015 Actuarial Valuation of MEABF and LABF. See “—Source Information” above.

The actuarial assumptions used by the Retirement Funds are determined by the individual Retirement Fund Boards upon the advice of the actuary for each Retirement Fund Board. The Retirement Funds periodically perform experience studies to evaluate the actuarial assumptions in use. The purpose of an experience study is to validate that the actuarial assumptions used in the Actuarial Valuation continue to reasonably estimate the actual experience of the pension plan or, if necessary, to develop recommendations for modifications to the actuarial assumptions to ensure their continuing appropriateness.

Assumed Investment Rate of Return

The Actuarial Valuations assume an investment rate of return on the assets in each Retirement Fund. The average long-term investment rates of return currently assumed by the Retirement Funds are described in Table 2 above. Due to the volatility of the marketplace, however, the actual rate of return earned by the Retirement Funds on their assets in any year may be higher or lower than the assumed rate. Changes in the Retirement Funds’ assets as a result of market performance will lead to an increase or decrease in the UAAL and the Funded Ratio. As a result of the Retirement Funds’ use of the Asset

Smoothing Method, however, only a portion of these increases or decreases will be recognized in the current year, with the remaining gain or loss spread over the remaining four years. See “—Actuarial Methods—*Actuarial Value of Assets*” above.

The assumed investment rate of return is used by each Retirement Fund’s actuary as the discount rate to determine the present value of future payments to such Retirement Fund’s members. Such a determination is part of the actuary’s process to develop the Actuarial Accrued Liability under the Prior GASB Standards. Reducing the assumed investment rate of return will, taken independently of other changes, produce a larger Actuarial Accrued Liability for each Retirement Fund. Furthermore, as discussed above, an increase in the Actuarial Accrued Liability will, taken independently, increase the UAAL, decrease the Funded Ratio and increase the Actuarially Required Contribution.

Under the New GASB Standards, each Retirement Fund’s actuary will calculate the Discount Rate, as described under “—Actuarial Valuation” above, a reduction in which will, taken independently of other factors, produce a larger Total Pension Liability for each Retirement Fund. Information regarding the Discount Rate and the sensitivity of the Total Pension Liability to changes in the Discount Rate is provided below in Table 12.

Beginning with calendar year 2012, the Retirement Fund Boards of MEABF, LABF and PABF reduced the assumed investment rate of return to be used by their respective actuaries in preparing future actuarial valuations. For MEABF and LABF, the assumed investment rate of return has been decreased to 7.50 percent beginning with calendar year 2012. For PABF, the assumed investment rate of return was decreased to 7.75 percent for calendar year 2012 and to 7.50 percent for calendar year 2014. FABF continues to assume an investment rate of return of 8.0 percent.

These changes to the assumed investment rate of return will not impact contributions by the City to Retirement Funds when such contributions are determined pursuant to the Multiplier Funding system. However, beginning in 2016, when the City must contribute to PABF and FABF on an actuarial basis, such change in the assumed investment rate of return of PABF will, taken independently of other facts, increase the City’s required contributions to PABF because the UAAL of PABF will increase as described above and the P.A. 96-1495 Funding Plan requires an amortization of the UAAL to reach a 90 percent funding target by 2040 (unless modified by SB 777 or similar legislation).

Funded Status of the Retirement Funds

In recent years, the City has contributed to the Retirement Funds the full amount of Multiplier Funding and certain other amounts determined by the City to be required by the Pension Code through a combination of property tax revenues (through the Pension Levy), PPRT funds and a draw on the City’s general obligation line of credit.* However, these amounts have not been sufficient, when combined with employee contributions and investment returns, to offset increases in the liabilities of the Retirement Funds. Moreover, expenses related to the Health Plan (as defined below) are paid from the City’s contributions, which has the effect of reducing the Actuarial Value of Assets and decreasing the Funded Ratio.

Furthermore, the income from all sources (including employee contributions, City contributions and investment earnings) to the Retirement Funds has been lower than the cash outlays of the Retirement

* As discussed under “—Determination of City’s Contributions” above, the City and FABF have disagreed over whether certain amounts are required under the Pension Code. In addition, pursuant to the Pension Code, the City did not make any contributions to LABF in fiscal years 2001 through 2006 because LABF had funds on hand in excess of its liabilities. The Pension Code provides that the City will cease to make contributions to LABF in such a situation. The City continued to make contributions to the other Retirement Funds during those years.

Funds in some recent years. As a result, the Retirement Funds have liquidated investments and used assets of the Retirement Funds to satisfy these cash outlays. The use of investment earnings or assets of the Retirement Funds for these purposes reduces the amount of assets on hand to pay benefits in the future and prevents the Retirement Funds from recognizing the full benefits of compounding investment returns.

Table 4 provides information on the Actuarially Required Contribution, the City's actual contributions in accordance with the Pension Code and the percentage of the Actuarially Required Contribution made in each year.

TABLE 4 – INFORMATION REGARDING CITY'S CONTRIBUTIONS⁽¹⁾ – AGGREGATED

Fiscal Year	Actuarially Required Contribution	Actual Employer Contribution⁽²⁾	Percentage of Actuarially Required Contribution Contributed⁽³⁾
2005	\$ 698,185	\$ 423,515	60.7%
2006 ⁽⁴⁾	785,111	394,899	50.3
2007 ⁽⁴⁾	865,776	395,483	45.7
2008 ⁽⁴⁾	886,215	416,130	47.0
2009 ⁽⁴⁾	990,381	423,929	42.8
2010 ⁽⁴⁾	1,112,626	425,552	38.2
2011 ⁽⁴⁾	1,321,823	416,693	31.5
2012 ⁽⁴⁾	1,470,905	440,120	29.9
2013 ⁽⁴⁾	1,695,278	442,970	26.1
2014 ⁽⁴⁾	1,740,973	447,400	25.7

Sources: Actuarial Valuations of the Retirement Funds as of December 31, 2010, December 31, 2011, December 31, 2012, December 31, 2013, and December 31, 2014, the Fund CAFRs for the fiscal year ended December 31, 2010, and the City CAFRs for the fiscal years ended December 31, 2011, December 31, 2012 and December 31, 2013.

- (1) In thousands of dollars. Data is presented in the aggregate for the Retirement Funds and uses assumptions and methods employed by each of the Retirement Funds. For the data presented as of December 31, 2005 and December 31, 2006, contribution information includes amounts related to other post-employment benefits. Beginning in 2007, as a result of a change in GASB standards, contribution information is presented exclusive of amounts related to other post-employment benefits.
- (2) Includes the portion of the PPRT contributed to the Retirement Funds in each year.
- (3) The estimated multipliers that would have been necessary for FABF, LABF and PABF to make the full Actuarially Required Contribution in 2014 were as follows: 7.98 for FABF; 4.87 for LABF; and 7.94 for PABF. The estimated multiplier that would have been necessary for MEABF to make the full Actuarially Required Contribution in 2014 has not been publicly disclosed, however the necessary contribution multiplier for 2013 was 4.52. Beginning in 2016, the City's contributions to PABF and FABF will not be calculated in accordance with the Multiplier Funding system. See "—Determination of City's Contributions" above.
- (4) Beginning in 2006, as a result of a change in GASB standards, the information in this Table 4 does not include other post-employment benefits, which the City's Comprehensive Annual Financial Report presents separately.

MEABF and LABF have released their Actuarial Valuations as of December 31, 2015. With respect to MEABF, the Actuarially Required Contribution for fiscal year 2015 was \$686,373,727, the actual employer contribution was \$157,716,475 and the percentage of the Actuarially Required Contribution contributed was 23.0%. With respect to LABF, the Actuarially Required Contribution for fiscal year 2015 was \$79,850,835, the actual employer contribution was \$12,412,471, and the percentage of the Actuarially Required Contribution contributed was 15.54%.

PABF changed certain actuarial assumptions beginning with the fiscal year ended December 31, 2014. Specifically, PABF reduced its assumed investment rate of return from 7.75 percent to 7.50 percent and changed the mortality table used by its actuary to RP-2014, which projects longer lives for PABF members. Considered independently of other factors, these changes increased the Actuarial Accrued Liability, and, as a result, increased the UAAL and Actuarially Required Contribution for such Retirement Fund. With respect to the City's 2017 contribution to PABF, these changes are expected to result in an additional contribution of \$62 million.

The continued decline in the percentage of the Actuarially Required Contribution contributed by the City, as shown in Table 4 above, results, in part, from the fact that the actuarial liability continues to grow due to the delayed recognition of gains and losses resulting from the Retirement Funds' use of the Asset Smoothing Method for financial reporting purposes under the Prior GASB Standards. See “—Actuarial Methods—*Actuarial Value of Assets*” above.

The following tables summarize the financial condition and the funding trends of the Retirement Funds.

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TABLE 5 – FINANCIAL CONDITION OF THE MEABF
FISCAL YEARS 2005-2015
(\$ IN THOUSANDS)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Beginning Net Position (Fair Value)	\$ 6,242,741	\$ 6,356,888	\$ 6,841,127	\$ 7,009,523	\$ 4,739,614	\$ 5,166,225	\$ 5,435,593	\$ 5,053,248	\$ 5,182,669	\$ 5,421,677	\$ 5,179,486
Income											
– Employee Contributions	122,542	129,466	132,442	137,749	130,981	133,300	132,596	130,266	131,532	129,972	131,428
– City Contributions	155,067	148,332	148,137	155,833	157,698	164,302	156,525	158,381	157,705	158,798	157,716
– Investment Income ⁽¹⁾	402,311	778,726	485,926	(1,947,576)	778,562	638,569	31,583	589,198	735,272	283,282	114,025
– Miscellaneous Income	–	–	–	–	–	24	–	–	–	–	–
Total	\$ 679,920	\$ 1,056,524	\$ 766,505	\$ (1,653,994)	\$ 1,067,241	\$ 936,195	\$ 320,705	\$ 877,845	\$ 1,024,509	\$ 572,052	\$ 403,169
Expenditures											
– Benefits and Refunds ⁽²⁾	560,228	565,887	590,577	608,166	632,864	660,081	695,674	741,583	779,003	807,674	834,528
– Administration	5,545	6,398	7,532	7,749	7,766	6,745	7,375	6,841	6,499	6,568	6,701
Total	\$ 565,773	\$ 572,285	\$ 598,109	\$ 615,915	\$ 640,630	\$ 666,826	\$ 703,050	\$ 748,425	\$ 785,502	\$ 814,242	\$ 841,229
Ending Net Position (Fair Value)	\$ 6,356,888	\$ 6,841,127	\$ 7,009,523	\$ 4,739,614	\$ 5,166,225	\$ 5,435,593	\$ 5,053,248	\$ 5,182,669	\$ 5,421,677	\$ 5,179,486	\$ 4,741,428
Actuarial Value of Assets ⁽³⁾	\$ 6,332,379	\$ 6,509,146	\$ 6,890,463	\$ 6,669,502	\$ 6,295,788	\$ 6,003,390	\$ 5,552,291	\$ 5,073,320	\$ 5,114,208	\$ 5,039,297	\$ 4,815,127
Actuarial Accrued Liabilities ⁽⁴⁾	9,250,212	9,476,118	9,968,747	10,383,158	10,830,119	11,828,666	12,292,930	13,475,376	13,828,920	12,307,094	14,647,115
UAAL (Fair Value) ⁽⁵⁾	2,893,324	2,634,991	2,959,224	5,643,544	5,663,894	6,393,073	7,239,681	8,292,706	8,407,244	7,127,608	9,905,687
UAAL (Actuarial Value) ⁽³⁾	2,917,833	2,966,972	3,078,284	3,713,656	4,534,331	5,825,276	6,740,639	8,402,057	8,714,712	7,267,797	9,831,988
Funded Ratio (Fair Value) ⁽⁵⁾	68.7%	72.2%	70.3%	45.6%	47.7%	46.0%	41.1%	38.5%	39.2%	42.1%	32.4%
Funded Ratio (Actuarial Value) ⁽³⁾	68.5%	68.7%	69.1%	64.2%	58.1%	50.8%	45.2%	37.6%	37.0%	40.9%	32.9%

Source: 2005 through 2010 data is from the Actuarial Valuation of MEABF as of December 31, 2010, and the CAFR of MEABF for the fiscal year ended December 31, 2010. 2011 through 2015 data is from the Actuarial Valuations of MEABF for the fiscal years 2011 through 2015. Table may not add due to rounding.

(1) Investment income is shown net of fees and expenses.

(2) Beginning in fiscal year 2007, includes expenses related to other post-employment benefits. See “Payment for Other Post-Employment Benefits” below.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in “—Actuarial Methods—*Actuarial Value of Assets*” above.

(4) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See “—Payment for Other Post-Employment Benefits” below.

(5) Calculated using net assets.

TABLE 6 – FINANCIAL CONDITION OF THE PABF
FISCAL YEARS 2005-2014
(\$ IN THOUSANDS)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Beginning Net Position (Fair Value)	\$ 3,865,809	\$ 3,954,837	\$ 4,192,076	\$ 4,333,234	\$ 3,000,998	\$ 3,326,050	\$ 3,439,669	\$ 3,175,509	\$ 3,213,433	\$3,265,199
Income										
– Employee Contributions	89,110	91,965	93,300	93,207	95,614	108,402	98,222	95,892	93,329	95,676
– City Contributions	177,911	157,689	178,678	181,526	180,511	183,835	183,522	207,228	188,889	187,075
– Investment Income ⁽¹⁾	261,389	447,275	349,914	(1,104,909)	567,315	369,558	33,656	353,176	415,294	181,901
– Miscellaneous Income	368	1,070	28	160	799	20	104	423	479	740
Total	\$ 528,778	\$ 697,999	\$ 621,920	\$ (830,016)	\$ 844,239	\$ 661,815	\$ 315,504	\$ 656,719	\$ 697,991	\$ 465,392
Expenditures										
– Benefits and Refunds ⁽²⁾	437,089	458,060	477,685	497,721	514,883	544,272	575,305	613,907	641,926	664,338
– Administration	2,661	2,700	3,077	4,499	4,304	3,925	4,359	4,888	4,298	4,241
Total	\$ 439,750	\$ 460,760	\$ 480,762	\$ 502,220	\$ 519,187	\$ 548,197	\$ 579,664	\$ 618,795	\$ 646,224	\$ 668,579
Ending Net Position (Fair Value)	\$ 3,954,837	\$ 4,192,076	\$ 4,333,234	\$ 3,000,998	\$ 3,326,050	\$ 3,439,669	\$ 3,175,509	\$ 3,213,433	\$ 3,265,199	\$3,062,013
Actuarial Value of Assets ⁽³⁾	\$ 3,914,432	\$ 3,997,991	\$ 4,231,682	\$ 4,093,720	\$ 3,884,978	\$ 3,718,955	\$ 3,444,690	\$ 3,148,930	\$ 3,053,882	\$ 2,954,319
Actuarial Accrued Liabilities ⁽⁴⁾	7,722,737	7,939,561	8,220,353	8,482,574	8,736,102	9,210,056	9,522,395	10,051,827	10,282,339	11,334,799
UAAL (Fair Value) ⁽⁵⁾	3,767,900	3,747,485	3,887,119	5,481,576	5,410,052	5,770,387	6,346,886	6,839,394	7,017,139	8,272,786
UAAL (Actuarial Value) ⁽³⁾	3,808,305	3,941,570	3,988,671	4,388,854	4,851,124	5,491,101	6,077,705	6,902,898	7,228,457	8,380,480
Funded Ratio (Fair Value) ⁽⁵⁾	51.2%	52.8%	52.7%	35.4%	38.1%	37.3%	33.4%	32.0%	31.8%	27.0%
Funded Ratio (Actuarial Value) ⁽³⁾	50.7%	50.4%	51.5%	48.3%	44.5%	40.4%	36.2%	31.3%	29.7%	26.1%

Source: 2005 through 2010 data is from the Actuarial Valuation of PABF as of December 31, 2010, and the CAFR of PABF for the fiscal year ended December 31, 2010. Data from 2011 through 2014 is from the Actuarial Valuations of PABF for the fiscal years 2011 through 2014. Table may not add due to rounding.

(1) Investment income is shown net of fees and expenses.

(2) Beginning in fiscal year 2008, includes expenses related to other post-employment benefits. See “—Payment for Other Post-Employment Benefits” below.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in “—Actuarial Methods—*Actuarial Value of Assets*” above.

(4) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See “—Payment for Other Post-Employment Benefits” below.

(5) Calculated using net assets.

TABLE 7 – FINANCIAL CONDITION OF THE FABF
FISCAL YEARS 2005-2014
(\$ IN THOUSANDS)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Beginning Net Position (Fair Value)	\$ 1,206,177	\$ 1,274,659	\$ 1,391,484	\$ 1,469,455	\$ 914,193	\$ 1,051,643	\$ 1,106,078	\$ 993,774	\$ 1,032,423	\$1,116,705
Income										
– Employee Contributions	35,697	44,222	41,120	40,480	41,605	41,730	51,918	56,718	42,520	48,056
– City Contributions	90,129	78,971	74,271	83,744	91,857	83,592	85,498	84,144	106,220	109,805
– Investment Income ⁽¹⁾	112,017	174,406	148,806	(484,093)	208,537	150,835	(22,434)	135,203	190,536	30,868
– Miscellaneous Income	456	87	162	107	36	30	17	8	(60)	7
Total	\$ 238,299	\$ 297,686	\$ 264,359	\$ (359,762)	\$ 342,035	\$ 276,187	\$ 114,999	\$ 276,073	\$ 339,216	188,736
Expenditures										
– Benefits and Refunds ⁽²⁾	167,527	178,214	183,304	192,644	201,146	217,565	223,580	233,840	251,819	266,365
– Administration	2,290	2,647	3,084	2,856	3,439	4,187	3,723	3,584	3,115	3,069
Total	\$ 169,817	\$ 180,861	\$ 186,388	\$ 195,500	\$ 204,585	\$ 221,752	\$ 227,303	\$ 237,424	\$ 254,934	269,434
Ending Net Position (Fair Value)	\$ 1,274,659	\$ 1,391,484	\$ 1,469,455	\$ 914,193	\$ 1,051,643	\$ 1,106,079	\$ 993,774	\$ 1,032,423	\$ 1,116,705	\$1,036,006
Actuarial Value of Assets ⁽³⁾	\$ 1,203,654	\$ 1,264,497	\$ 1,374,960	\$ 1,335,695	\$ 1,269,231	\$ 1,198,114	\$ 1,101,742	\$ 993,284	\$ 991,213	\$ 988,141
Actuarial Accrued Liabilities ⁽⁴⁾	2,882,936	3,088,124	3,215,874	3,311,269	3,428,838	3,655,026	3,851,919	4,020,138	4,128,735	4,338,593
UAAL (Fair Value) ⁽⁵⁾	1,608,277	1,696,640	1,746,419	2,397,076	2,377,195	2,548,947	2,858,145	2,987,715	3,012,030	3,302,587
UAAL (Actuarial Value) ⁽³⁾	1,679,282	1,823,627	1,840,914	1,975,574	2,159,607	2,456,912	2,750,177	3,026,854	3,137,522	3,350,452
Funded Ratio (Fair Value) ⁽⁵⁾	44.2%	45.1%	45.7%	27.6%	30.7%	30.3%	25.8%	25.7%	27.0%	23.9%
Funded Ratio (Actuarial Value) ⁽³⁾	41.8%	40.9%	42.8%	40.3%	37.0%	32.8%	28.6%	24.7%	24.0%	22.8%

Source: 2005 through 2010 data is from the Actuarial Valuation of FABF as of December 31, 2010, and the CAFR of FABF for the fiscal year ended December 31, 2010. Data from 2011 through 2014 is from the Actuarial Valuations of FABF for the fiscal years 2011 through 2014. Table may not add due to rounding.

- (1) Investment income is shown net of fees and expenses.
- (2) Beginning in fiscal year 2001, includes expenses related to other post-employment benefits. See “—Payment for Other Post-Employment Benefits” below.
- (3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in “—Actuarial Methods—*Actuarial Value of Assets*” above.
- (4) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See “—Payment for Other Post-Employment Benefits” below.
- (5) Calculated using net assets.

TABLE 8 – FINANCIAL CONDITION OF THE LABF
FISCAL YEARS 2005-2015
(\$ IN THOUSANDS)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Beginning Net Position (Fair Value)	\$ 1,637,369	\$ 1,659,061	\$ 1,739,660	\$ 1,782,818	\$ 1,188,581	\$ 1,332,928	\$ 1,427,214	\$ 1,313,604	\$ 1,371,077	\$1,457,673	\$1,388,092
Income											
– Employee Contributions	16,257	18,791	18,413	19,419	17,538	16,320	16,069	16,559	16,393	16,359	16,844
– City Contributions	40	106	15,459	17,580	17,190	17,939	15,359	14,415	14,101	14,520	14,567
– Investment Income ⁽¹⁾	117,785	174,536	125,205	(510,463)	237,102	193,187	(4,511)	173,460	207,344	53,393	(22,318)
– Miscellaneous Income	–	–	–	–	–	–	–	–	–	–	–
Total	\$ 134,082	\$ 193,433	\$ 159,077	\$ (473,464)	\$ 271,830	\$ 227,446	\$ 26,917	\$ 204,434	\$ 237,838	\$84,272	\$ 9,093
Expenditures											
– Benefits and Refunds ⁽²⁾	109,405	110,003	112,567	117,147	123,817	129,297	136,533	142,215	147,108	150,018	154,684
– Administration	2,985	2,831	3,352	3,626	3,665	3,864	3,994	4,746	4,134	3,835	3,844
Total	\$ 112,390	\$ 112,834	\$ 115,919	\$ 120,773	\$ 127,482	\$ 133,161	\$ 140,527	\$ 146,961	\$ 151,242	\$153,853	\$ 158,528
Ending Net Position (Fair Value)	\$ 1,659,061	\$ 1,739,660	\$ 1,782,818	\$ 1,188,581	\$ 1,332,928	\$ 1,427,214	\$ 1,313,604	\$ 1,371,077	\$ 1,457,673	\$1,388,092	\$1,238,657
Actuarial Value of Assets ⁽³⁾	\$ 1,635,595	\$ 1,664,058	\$ 1,757,711	\$ 1,698,427	\$ 1,601,352	\$ 1,529,404	\$ 1,422,414	\$ 1,315,914	\$ 1,354,261	\$1,357,451	\$1,308,676
Actuarial Accrued Liabilities ⁽⁴⁾	1,742,300	1,767,682	1,808,295	1,915,324	1,975,749	2,030,025	2,152,854	2,336,189	2,383,499	2,107,110	2,469,879
UAAL (Fair Value) ⁽⁵⁾	83,239	28,022	25,477	726,743	642,821	602,811	839,250	965,112	925,826	719,018	1,231,222
UAAL (Actuarial Value) ⁽³⁾	106,705	103,624	50,584	216,897	374,397	500,621	730,440	1,020,276	1,029,238	749,659	1,161,203
Funded Ratio (Fair Value) ⁽⁵⁾	95.2%	98.4%	98.6%	62.1%	67.5%	70.3%	61.0%	58.7%	61.2%	65.9%	50.2%
Funded Ratio (Actuarial Value) ⁽³⁾	93.9%	94.1%	97.2%	88.7%	81.1%	75.3%	66.1%	56.3%	56.8%	64.4%	53.0%

Source: 2005 through 2010 data is from the Actuarial Valuation of LABF as of December 31, 2010, and the CAFR of LABF for the fiscal year ended December 31, 2010. Data from 2011 through 2015 is from the Actuarial Valuations of LABF for the fiscal years 2011 through 2015. Table may not add due to rounding.

- (1) Investment income is shown net of fees and expenses.
- (2) Beginning in fiscal year 2008, includes expenses related to other post-employment benefits. See “—Payment for Other Post-Employment Benefits” below.
- (3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in “—Actuarial Methods—*Actuarial Value of Assets*” above.
- (4) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See “—Payment for Other Post-Employment Benefits” below.
- (5) Calculated using net assets.

TABLE 9 – FINANCIAL CONDITION OF THE RETIREMENT FUNDS COMBINED
FISCAL YEARS 2005-2014
(\$ IN THOUSANDS)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Beginning Net Position (Fair Value)	\$ 12,952,096	\$ 13,245,445	\$ 14,164,347	\$ 14,595,030	\$ 9,843,386	\$ 10,876,846	\$ 11,408,555	\$ 10,536,135	\$ 10,799,603	\$11,261,255
Income										
– Employee Contributions	263,606	284,444	285,275	290,855	285,738	299,752	298,805	299,435	283,774	290,063
– City Contributions	423,147	385,098	416,545	438,683	447,256	449,668	440,904	464,168	466,915	470,198
– Investment Income ⁽¹⁾	893,502	1,574,943	1,109,851	(4,047,041)	1,791,516	1,352,149	38,295	1,251,037	1,548,446	549,444
– Miscellaneous Income	824	1,157	190	267	835	74	121	431	419	747
Total	\$ 1,581,079	\$ 2,245,642	\$ 1,811,861	\$ (3,317,236)	\$ 2,525,345	\$ 2,101,643	\$ 778,125	\$ 2,015,071	\$ 2,299,554	\$ 1,310,452
Expenditures	–	–	–	–	–	–	–	–	–	–
– Benefits and Refunds ⁽²⁾	1,274,249	1,312,164	1,364,133	1,415,678	1,472,710	1,551,215	1,631,093	1,731,545	1,819,856	1,888,395
– Administration	13,481	14,576	17,045	18,730	19,174	18,721	19,452	20,059	18,046	17,713
Total	\$ 1,287,730	\$ 1,326,740	\$ 1,381,178	\$ 1,434,408	\$ 1,491,884	\$ 1,569,936	\$ 1,650,544	\$ 1,751,604	\$ 1,837,902	\$ 1,906,108
Ending Net Position (Fair Value)	\$ 13,245,445	\$ 14,164,347	\$ 14,595,030	\$ 9,843,386	\$ 10,876,846	\$ 11,408,555	\$ 10,536,135	\$ 10,799,603	\$ 11,261,254	\$ 10,665,597
Actuarial Value of Assets ⁽³⁾	\$ 13,086,060	\$ 13,435,692	\$ 14,254,816	\$ 13,797,344	\$ 13,051,349	\$ 12,449,863	\$ 11,521,138	\$ 10,531,448	\$ 10,513,564	\$10,339,208
Actuarial Accrued Liabilities ⁽⁴⁾	21,598,185	22,271,485	23,213,269	24,092,325	24,970,808	26,723,773	27,820,098	29,883,532	30,623,493	30,087,596
UAAL (Fair Value) ⁽⁵⁾	8,352,740	8,107,138	8,618,239	14,248,939	14,093,962	15,315,218	17,283,963	19,083,929	19,362,239	19,421,999
UAAL (Actuarial Value) ⁽³⁾	8,512,125	8,835,793	8,958,453	10,294,981	11,919,459	14,273,910	16,298,960	19,352,084	20,109,929	19,748,388
Funded Ratio (Fair Value) ⁽⁵⁾	61.3%	63.6%	62.9%	40.9%	43.6%	42.7%	37.9%	36.1%	36.8%	35.5%
Funded Ratio (Actuarial Value) ⁽³⁾	60.6%	60.3%	61.4%	57.3%	52.3%	46.6%	41.4%	35.2%	34.3%	34.4%

Source: 2005 through 2010 data is from the Actuarial Valuations of the Retirement Funds as of December 31, 2010, and the CAFRs of the Retirement Funds for the fiscal year ended December 31, 2010. Data from 2011 through 2014 is from the Actuarial Valuations of the Retirement Funds for the fiscal years 2011 through 2014. Table may not add due to rounding.

Note: For fiscal year 2015 asset, liability, UAAL and Funded Ratio information for MEABF and LABF, see Tables 5 and 8, respectively. Fiscal Year 2015 information has yet to be released for PABF and FABF.

(1) Investment income is shown net of fees and expenses.

(2) Includes expenses related to other post-employment benefits beginning in each of the fiscal years as shown in Footnote (2) in Tables 6-9 herein for each respective Retirement Fund. See “—Payment for Other Post-Employment Benefits” below.

(3) The actuarial value is determined by application of the Asset Smoothing Method as discussed in “—Actuarial Methods—Actuarial Value of Assets” above.

(4) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See “—Payment for Other Post-Employment Benefits” below.

(5) Calculated using net assets.

**TABLE 10 – SCHEDULE OF FUNDING PROGRESS – COMBINED FOR THE RETIREMENT FUNDS
FISCAL YEARS 2005-2014
(\$ IN THOUSANDS)**

Fiscal Year	Actuarial Accrued Liability⁽¹⁾	Actuarial Value of Assets⁽²⁾	Fair Value of Net Assets	UAAL (Actuarial)⁽³⁾	UAAL (Fair Value)⁽⁴⁾	Funded Ratio (Actuarial)⁽³⁾	Funded Ratio (Fair Value)⁽⁴⁾	Payroll	UAAL to Payroll (Actuarial)⁽³⁾	UAAL to Payroll (Fair Value)⁽⁴⁾
2005	\$ 21,598,185	\$ 13,086,060	\$ 13,245,445	\$ 8,512,125	\$ 8,352,740	60.6%	61.3%	\$2,880,358	295.5%	290.0%
2006	22,271,485	13,435,692	14,164,347	8,835,793	8,107,138	60.3	63.6	3,069,479	287.9	264.1
2007	23,213,269	14,254,816	14,595,030	8,958,453	8,618,239	61.4	62.9	3,185,388	281.2	270.6
2008	24,092,325	13,797,344	9,843,386	10,294,981	14,248,939	57.3	40.9	3,180,484	323.7	448.0
2009	24,970,808	13,051,349	10,876,846	11,919,459	14,093,962	52.3	43.6	3,172,716	375.7	444.2
2010	26,723,773	12,449,863	11,408,555	14,273,910	15,315,218	46.6	42.7	3,189,739	447.5	480.1
2011	27,820,098	11,521,138	10,536,135	16,298,960	16,696,869	41.4	37.9	3,261,021	499.8	512.0
2012	29,883,532	10,531,448	10,799,603	19,352,084	19,083,929	35.2	36.1	3,223,720	600.3	592.0
2013	30,623,493	10,513,564	11,261,254	20,109,929	19,362,239	34.3	36.8	3,212,558	626.0	602.7
2014	30,087,596	10,339,208	10,665,597	19,748,388	19,421,999	34.4	35.5	3,340,174	591.2	581.5

Source: 2005 through 2010 data is from the Actuarial Valuations of the Retirement Funds as of December 31, 2010, and the CAFRs of the Retirement Funds for the fiscal year ended December 31, 2010. 2011 through 2014 data is from the Actuarial Valuations of the Retirement Funds for the fiscal years 2011 through 2014. Table may not add due to rounding.

Note: For fiscal year 2015 asset, liability, UAAL and Funded Ratio information for MEABF and LABF, see Tables 5 and 8, respectively. Fiscal Year 2015 information has yet to be released for PABF and FABF.

(1) Beginning with fiscal year 2006, does not include liability related to other post-employment benefits. See “—Payment for Other Post-Employment Benefits” below.

(2) The actuarial value is determined by application of the Asset Smoothing Method as discussed in “—Actuarial Methods—*Actuarial Value of Assets*” above.

(3) For purposes of this column, “Actuarial” refers to the fact that the calculation was made using the Actuarial Value of Assets.

(4) For purposes of this column, “Fair Value” refers to the fact that the calculation was made using the fair value of Net Assets.

A variety of factors impact the Retirement Funds' UAAL and Funded Ratio. A lower return on investment than that assumed by the Retirement Funds, and insufficient contributions when compared to the Normal Cost plus interest will all cause an increase in the UAAL and a decrease in the Funded Ratio. Conversely, higher returns on investment than assumed, and contributions in excess of Normal Cost plus interest will decrease the UAAL and increase the Funded Ratio. In addition, legislative amendments, changes in actuarial assumptions and certain other factors (including, but not limited to, higher or lower incidences of retirement, disability, in-service mortality, retiree mortality or terminations than assumed) will have an impact on the UAAL and the Funded Ratio.

Net Pension Liability and Discount Rate

As described in “— The Actuarial Valuation—New GASB Standards” above, the New GASB Standards require the calculation of the Net Pension Liability, which is the difference between the Total Pension Liability and the Fiduciary Net Position. Furthermore, the Discount Rate is the blended rate at which the actuaries of the Retirement Funds discount projected benefit payments to their actuarial present values. The following tables present information on the Net Pension Liability and the components thereof and the Discount Rate and the sensitivity of the Net Pension Liability to changes in the Discount Rate.

**TABLE 11 – NET PENSION LIABILITY
(\$ IN THOUSANDS)**

Fiscal Year 2014				
	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a Percentage of Total Pension Liability
MEABF	\$12,307,094	\$ 5,179,486	\$ 7,127,608	42.09%
LABF	2,162,906	1,388,093	774,813	64.18
PABF	11,773,431	3,062,014	8,711,417	26.01
FABF	<u>4,512,760</u>	<u>1,036,008</u>	<u>3,476,752</u>	22.96
Total	<u>\$30,756,191</u>	<u>\$10,665,601</u>	<u>\$20,090,590</u>	34.68%

Fiscal Year 2015				
	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a Percentage of Total Pension Liability
MEABF	\$23,358,870	\$4,741,428	\$18,617,442	20.30%
LABF	3,712,616	1,238,657	2,473,959	33.36
PABF	Not Available	Not Available	Not Available	Not Available
FABF	Not Available	Not Available	Not Available	Not Available
Total	Not Available	Not Available	Not Available	Not Available

Source: The Actuarial Valuations of the Retirement Funds for the fiscal year ended December 31, 2014, and the Actuarial Valuations of MEABF and LABF for the fiscal year ended December 31, 2015.

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**TABLE 12 – SENSITIVITY OF NET PENSION LIABILITY TO CHANGES
IN THE DISCOUNT RATE⁽¹⁾**

Fiscal Year 2014			
	1% Decrease	Current	1% Increase
MEABF			
Discount Rate	6.50%	7.50%	8.50%
Net Pension Liability	\$8,511,386	\$7,127,608	\$5,955,121
LABF			
Discount Rate	6.24%	7.24%	8.24%
Net Pension Liability	\$1,013,951	\$774,813	\$572,792
PABF			
Discount Rate	6.15%	7.15%	8.15%
Net Pension Liability	\$10,123,094	\$8,711,417	\$7,524,224
FABF			
Discount Rate	6.60%	7.60%	8.60%
Net Pension Liability	\$3,963,803	\$3,476,752	\$3,060,757
Fiscal Year 2015			
	1% Decrease	Current	1% Increase
MEABF			
Discount Rate	2.73%	3.73%	4.73%
Net Pension Liability	\$22,207,242	\$18,617,442	\$15,675,669
LABF			
Discount Rate	3.04%	4.04%	5.04%
Net Pension Liability	\$3,017,416	\$2,473,959	\$2,028,467
PABF			
Discount Rate	Not Available	Not Available	Not Available
Net Pension Liability	Not Available	Not Available	Not Available
FABF			
Discount Rate	Not Available	Not Available	Not Available
Net Pension Liability	Not Available	Not Available	Not Available

Source: The Actuarial Valuations of the Retirement Funds for the fiscal year ended December 31, 2014, and the Actuarial Valuations of MEABF and LABF for the fiscal year ended December 31, 2015.

(1) In thousands.

Projection of Funded Status

The Retirement Funds' funding level has decreased in recent years due to a combination of factors, including: adverse market conditions and investment returns as a result of the financial downturns experienced in 2001 and in 2008 and beyond; and contributions that are lower than the Actuarially Required Contribution. With respect to MEABF and LABF, the funding level increased for fiscal year 2014 as a result of the implementation of P.A. 98-641. The manner of funding MEABF and LABF reverted to the law in effect prior to the implementation of P.A. 98-641 after the Circuit Court of Cook County, Illinois (the "*Circuit Court*") determined P.A. 98-641 to be unconstitutional, which ruling has since been affirmed by the Illinois Supreme Court.

The following projections (collectively, the "*Projections*") are based upon numerous variables that are subject to change. The Projections are forward-looking statements regarding future events based on the Retirement Funds' actuarial assumptions and assumptions made regarding such future events,

including that there are no changes to the current legislative structure and that all projected contributions to the Retirement Funds are made as required. No assurance can be given that these assumptions will be realized or that actual events will not cause material changes to the data presented in this subsection.

The Projections are based on data as of December 31, 2014, with the exception of the projections for LABF and MEABF, which are based on data as of December 31, 2015, and are provided to indicate expected trends in the future funded status of the Retirement Funds under applicable law. The Projections provided in this section with respect to MEABF combine pension and other post-employment benefits (“OPEB”) liabilities together in a single projection, whereas the projections with respect to the other Retirement Funds exclude OPEB liabilities. Therefore, with respect to MEABF, such projections overstate the Actuarial Accrued Liability with respect to pension benefits by the amount of such OPEB liability. In addition, the City believes that the liability related to OPEB may be reduced based upon the outcome of the Lawsuit (as hereinafter defined). See “Payment for Other Post-Employment Benefits-Status of Healthcare Benefits after the Settlement Period” herein. The Projections reflect the implementation of P.A. 96-1495, but do not consider the potential impact of SB 777 or any similar legislation impacting the P.A. 96-1495 Funding Plan.

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TABLE 13 – PROJECTION OF FUTURE FUNDING STATUS – MEABF⁽¹⁾

Fiscal Year	Actuarial Accrued Liability (\$) (a)	Market Assets (\$) (b)	Market Unfunded Accrued Actuarial Liabilities (UAAL) (\$) (a-b)	Market Funded Ratio (%) (b/a)	Employer Contribution⁽²⁾ (\$)
2017	15,601,032	4,192,947	11,408,085	26.9%	161,461
2018	16,094,218	3,853,809	12,240,409	23.9%	163,564
2019	16,589,364	3,459,687	13,129,677	20.9%	172,867
2020	17,083,888	3,003,904	14,079,984	17.6%	178,150
2021	17,574,995	2,479,302	15,095,693	14.1%	183,621
2022	18,059,829	1,878,802	16,181,027	10.4%	189,181
2023	18,537,160	1,196,285	17,340,875	6.5%	194,830
2024	19,004,841	424,225	18,580,616	2.2%	200,554
2025	19,459,300		19,459,300	0.0%	855,906
2026	19,897,277		19,897,277	0.0%	1,120,161
2027	20,316,755		20,316,755	0.0%	1,166,976
2028	20,717,465		20,717,465	0.0%	1,212,373
2029	21,098,000		21,098,000	0.0%	1,257,674
2030	21,455,897		21,455,897	0.0%	1,303,417
2031	21,790,111		21,790,111	0.0%	2,348,024
2032	22,100,805		22,100,805	0.0%	1,390,593
2033	22,388,962		22,388,962	0.0%	1,430,451
2034	22,654,696		22,654,696	0.0%	1,468,539
2035	22,910,295		22,910,295	0.0%	1,492,933
2036	23,147,858		23,147,858	0.0%	1,524,279
2037	23,369,889		23,369,889	0.0%	1,552,169
2038	23,579,532		23,579,532	0.0%	1,576,103
2039	23,777,869		23,777,869	0.0%	1,598,235
2040	23,967,142		23,967,142	0.0%	1,617,356

Source: The Actuarial Valuation of MEABF as of December 31, 2015.

Note: This Table combines pension and OPEB liabilities together in a single projection. Therefore, such projections overstate the Actuarial Accrued Liability with respect to pension benefits by the amount of such OPEB liability. In addition, the City believes that the liability related to OPEB may be reduced based upon the outcome of the Lawsuit. See “Payment for Other Post-Employment Benefits-Status of Healthcare Benefits after the Settlement Period” herein.

(1) In thousands of dollars. Projections calculated on a cash basis.

(2) Represents contributions expected to be made by the City during the fiscal year pursuant to the Pension Code plus, beginning in 2025, additional contributions necessary to make all required benefit payments to beneficiaries.

TABLE 14 – PROJECTION OF FUTURE FUNDING STATUS – LABF⁽¹⁾

Fiscal Year	Actuarial Accrued Liability (\$) (a)	Market Assets (\$) (b)	Market Unfunded Accrued Actuarial Liabilities (UAAL) (\$) (a-b)	Market Funded Ratio (%) (b/a)	Employer Contribution⁽²⁾ (\$)
2017	2,583,237	1,144,166	1,439,071	44.3%	14,418
2018	2,636,779	1,082,595	1,554,184	41.1%	14,647
2019	2,687,606	1,011,037	1,676,569	37.6%	15,726
2020	2,735,179	927,611	1,807,568	33.9%	16,034
2021	2,779,505	831,821	1,947,684	29.9%	16,457
2022	2,820,434	722,840	2,097,594	25.6%	16,917
2023	2,857,647	599,642	2,258,005	21.0%	17,415
2024	2,890,584	460,962	2,429,622	15.9%	17,944
2025	2,918,750	305,506	2,613,244	10.5%	18,525
2026	2,942,978	133,245	2,809,733	4.5%	19,145
2027	2,962,258		2,962,258	0.0%	75,488
2028	2,976,469		2,976,469	0.0%	219,657
2029	2,985,525		2,985,525	0.0%	225,397
2030	2,989,355		2,989,355	0.0%	30,828
2031	2,988,610		2,988,610	0.0%	235,301
2032	2,983,785		2,983,785	0.0%	239,022
2033	2,975,413		2,975,413	0.0%	241,966
2034	2,964,369		2,964,369	0.0%	243,838
2035	2,951,306		2,951,306	0.0%	244,921
2036	2,936,814		2,936,814	0.0%	245,309
2037	2,921,459		2,921,459	0.0%	245,804
2038	2,905,748		2,905,748	0.0%	244,346
2039	2,890,180		2,890,180	0.0%	243,102
2040	2,875,650		2,875,650	0.0%	241,503

Source: The Actuarial Valuation of LABF, as of December 31, 2015.

(1) In thousands of dollars. Projections calculated on a cash basis.

(2) Represents contributions expected to be made by the City during the fiscal year pursuant to the Pension Code plus, beginning in 2027, additional contributions necessary to make all required benefit payments to beneficiaries.

TABLE 15 – PROJECTION OF FUTURE FUNDING STATUS – FABF⁽¹⁾

Fiscal Year	Actuarial Accrued Liability (\$) (a)	Market Assets (\$) (b)	Market Unfunded Accrued Actuarial Liabilities (UAAL) (\$) (a-b)	Market Funded Ratio (%) (b/a)	Employer Contribution⁽²⁾ (\$)
2017	4,722,294	1,331,697	3,390,597	28.2	284,086
2018	4,866,705	1,451,676	3,415,029	29.8	292,439
2019	5,009,665	1,577,203	3,432,462	31.5	301,752
2020	5,150,374	1,708,420	3,441,954	33.2	311,205
2021	5,288,603	1,845,600	3,443,003	34.9	320,955
2022	5,423,461	1,989,064	3,434,397	36.7	330,536
2023	5,555,176	2,141,193	3,413,983	38.5	340,547
2024	5,682,352	2,301,929	3,380,423	40.5	351,861
2025	5,804,282	2,471,585	3,332,697	42.6	363,224
2026	5,920,962	2,650,813	3,270,149	44.8	374,623
2027	6,033,745	2,840,666	3,193,079	47.1	385,647
2028	6,144,159	3,043,394	3,100,765	49.5	395,621
2029	6,253,408	3,259,857	2,993,551	52.1	405,505
2030	6,362,319	3,491,000	2,871,319	54.9	414,140
2031	6,469,132	3,734,518	2,734,614	57.7	421,833
2032	6,573,937	3,990,843	2,583,094	60.7	427,568
2033	6,676,785	4,261,086	2,415,699	63.8	432,905
2034	6,777,422	4,545,008	2,232,414	67.1	438,176
2035	6,877,220	4,844,498	2,032,722	70.4	442,417
2036	6,976,596	5,160,943	1,815,653	74.0	446,354
2037	7,077,715	5,497,989	1,579,726	77.7	450,005
2038	7,181,432	5,858,397	1,323,035	81.6	454,185
2039	7,288,756	6,244,911	1,043,845	85.7	458,737
2040	7,401,532	6,661,361	740,171	90.0	463,527

Source: The Actuarial Valuation of FABF as of December 31, 2014.

- (1) In thousands of dollars. Projections are calculated by GRS on an accrual basis. However, with respect to the Employer Contribution column, the City has presented the data based on the year the employer contribution is actually made, rather than the preceding budget year.
- (2) Represents contributions expected to be made by the City during the fiscal year.

TABLE 16 – PROJECTION OF FUTURE FUNDING STATUS – PABF⁽¹⁾

Fiscal Year	Actuarial Accrued Liability (\$) (a)	Market Assets (\$) (b)	Market Unfunded Accrued Actuarial Liabilities (UAAL) (\$) (a-b)	Market Funded Ratio (%) (b/a)	Employer Contribution⁽²⁾ (\$)
2017	12,163,551	3,889,364	8,274,187	32.0	675,826
2018	12,548,773	4,219,011	8,329,762	33.6	695,124
2019	12,933,725	4,560,317	8,373,408	35.3	713,810
2020	13,316,644	4,914,566	8,402,078	36.9	732,200
2021	13,696,272	5,281,951	8,414,321	38.6	752,090
2022	14,071,381	5,663,586	8,407,795	40.2	772,004
2023	14,439,986	6,059,763	8,380,223	42.0	792,595
2024	14,799,878	6,470,260	8,329,618	43.7	813,531
2025	15,148,088	6,895,984	8,252,104	45.5	834,435
2026	15,481,802	7,337,188	8,144,614	47.4	856,465
2027	15,799,359	7,795,756	8,003,603	49.3	878,925
2028	16,100,434	8,273,986	7,826,448	51.4	902,286
2029	16,385,906	8,777,064	7,608,842	53.6	925,836
2030	16,656,508	9,311,291	7,345,217	55.9	951,072
2031	16,913,448	9,882,460	7,030,988	58.4	978,674
2032	17,157,541	10,492,841	6,664,700	61.2	1,007,732
2033	17,389,628	11,140,748	6,248,880	64.1	1,034,971
2034	17,611,490	11,825,203	5,786,287	67.1	1,056,933
2035	17,826,154	12,551,460	5,274,694	70.4	1,073,628
2036	18,036,195	13,323,888	4,712,307	73.9	1,089,551
2037	18,244,281	14,148,326	4,095,955	77.5	1,104,206
2038	18,452,509	15,030,205	3,422,304	81.5	1,118,732
2039	18,662,552	15,974,830	2,687,722	85.6	1,132,916
2040	18,875,443	16,987,488	1,887,955	90.0	1,146,889

Source: The Actuarial Valuation of PABF as of December 31, 2014.

(1) In thousands of dollars. Projections are calculated by GRS on an accrual basis. However, with respect to the Employer Contribution column, the City has presented the data based on the year the employer contribution is actually made, rather than the preceding budget year.

(2) Represents contributions expected to be made by the City during the fiscal year.

TABLE 17 – PROJECTION OF FUTURE FUNDING STATUS – AGGREGATE⁽¹⁾⁽²⁾

Fiscal Year	Actuarial Accrued Liability	Market Assets	Market Unfunded Accrued Liabilities (UAAL)	Market Funded Ratio	Employer Contribution⁽³⁾
	(\$) (a)	(\$) (b)	(\$) (a-b)	(%) (b/a)	(\$)
2017	35,070,114	10,558,174	24,511,940	30.1%	1,035,791
2018	36,146,475	10,607,091	25,539,384	29.3%	1,165,774
2019	37,220,360	10,608,244	26,612,116	28.5%	1,204,155
2020	38,286,085	10,554,501	27,731,584	27.6%	1,237,589
2021	39,339,375	10,438,674	28,900,701	26.5%	1,273,123
2022	40,375,105	10,254,292	30,120,813	25.4%	1,308,638
2023	41,389,969	9,996,883	31,393,086	24.2%	1,345,387
2024	42,377,655	9,657,376	32,720,279	22.8%	1,383,890
2025	43,330,420	9,673,075	33,657,345	22.3%	2,072,090
2026	44,243,019	10,121,246	34,121,773	22.9%	2,370,394
2027	45,112,117	10,636,422	34,475,695	23.6%	2,507,036
2028	45,938,527	11,317,380	34,621,147	24.6%	2,729,937
2029	46,722,839	12,036,921	34,685,918	25.8%	2,814,412
2030	47,464,079	12,802,291	34,661,788	27.0%	2,699,457
2031	48,161,301	13,616,978	34,544,323	28.3%	3,983,832
2032	48,816,068	14,483,684	34,332,384	29.7%	3,064,915
2033	49,430,788	15,401,834	34,028,954	31.2%	3,140,293
2034	50,007,977	16,370,211	33,637,766	32.7%	3,207,486
2035	50,564,975	17,395,958	33,169,017	34.4%	3,253,899
2036	51,097,463	18,484,831	32,612,632	36.2%	3,305,493
2037	51,613,344	19,646,315	31,967,029	38.1%	3,352,184
2038	52,119,221	20,888,602	31,230,619	40.1%	3,393,366
2039	52,619,357	22,219,741	30,399,616	42.2%	3,432,990
2040	53,119,767	23,648,849	29,470,918	44.5%	3,469,275

Source: The aggregated information presented in this table is derived from the projections presented in Tables 13-16. Please refer to Tables 13-16 for source information.

Note: This Table includes OPEB liabilities with respect to MEABF. Therefore, such projections overstate the Actuarial Accrued Liability with respect to pension benefits by the amount of such MEABF OPEB liability. In addition, the City believes that the liability related to OPEB may be reduced based upon the outcome of the Lawsuit. See “Payment for Other Post-Employment Benefits-Status of Healthcare Benefits after the Settlement Period

- (1) In thousands of dollars. Projections for MEABF and LABF are calculated on a cash basis. Projections for PABF and FABF are calculated on an accrual basis, however, with respect to the Employer Contribution column, the City has presented the data based on the year the employer contribution is actually made, rather than the preceding budget year.
- (2) Aggregate data presented in this table includes data for all four Retirement Funds.
- (3) Represents contributions expected to be made by the City during the fiscal year, pursuant to the Pension Code plus, beginning in 2025 with respect to MEABF and beginning in 2027 with respect to LABF, additional contributions necessary to make all required benefit payments to beneficiaries of MEABF and LABF.

The projections in Tables 15 and 16 related to FABF and PABF do not consider the impact of any bill delaying the impact of P.A. 96-1495, such as SB777. See “—Determination of City’s Contributions—City’s Required Contributions to PABF and FABF Beginning in 2016” herein. The City projects that, should such a delay bill be enacted, the purpose of such bill would be to extend the period over which the City implements such increases in the contributions currently projected to occur pursuant to P.A. 96-1495, which would most likely have the effect of delaying the increases in the Funded Ratio with respect to such Retirement Funds during the period in which the contributions established pursuant

to such delay bill are lower than those under P.A. 96-1495. See “—Determination of City’s Contributions—*City’s Contributions to PABF and FABF Beginning in 2016*” herein.

As described in this Appendix, the Illinois Supreme Court determined that P.A. 98-641 is unconstitutional on March 24, 2016. As a result of this decision, the law in effect at the time of the enactment of P.A. 98-641 is once again effective, as reflected in the projections set forth in Tables 13 and 14 above. Tables 13 and 14 present projections by the actuaries for MEABF and LABF that such Retirement Funds will not have assets on hand to make payments to beneficiaries beginning in 2025 and 2027, respectively, which would not have occurred pursuant to the provisions of P.A. 98-641.

In the event of an insolvency of MEABF or LABF, funds in excess of the contributions currently required by the Pension Code to be made to such Retirement Funds by the City and the employees who are members of such Retirement Funds will be necessary to fund payments to beneficiaries. However, the Pension Code currently provides only that the City must contribute the amount calculated pursuant to the Multiplier Funding formula to such Retirement Funds and does not consider the source of additional contributions in the event of an insolvency. In its opinion finding P.A. 98-641 unconstitutional, the Illinois Supreme Court indicated that the Pension Clause may create an obligation to provide adequate funding to the Retirement Funds upon imminent insolvency. Specifically, the Illinois Supreme Court stated that: “the [Pension Clause] was intended to force the funding of the pensions indirectly, by putting the state and municipal governments on notice that they are responsible for those benefits.” The Illinois Supreme Court further stated that “...the [Pension Clause] created a legal obligation to pay pension benefits to the employees where previously there had been none,” and “... the General Assembly and the City have been on notice since the ratification of the 1970 Constitution that the benefits of membership must be paid in full, and that they must be paid without diminishing or impairing them.” However, though the Illinois Supreme Court may have identified an obligation to fund the benefits owed by the Retirement Funds, the Illinois Supreme Court did not specifically indicate the authority for or source of such payments.

The employer contributions reflected in Tables 13 and 14 provide, in the years following the insolvency of MEABF and LABF, the projected amounts that the City would contribute to such Retirement Funds if it had to pay directly, on a pay-as-you-go basis, the benefits owed to beneficiaries by the Retirement Funds. If the City is required to make such payments, the large increases in the City’s contributions would likely have a material adverse impact on the City’s financial condition; however, the City makes no prediction as to what sources of funds would be available for making such additional contributions in the event of an insolvency of MEABF or LABF.

Additionally, the City cannot predict if or when changes to the Pension Code or judicial decisions relevant to its contributions will be enacted or decided, respectively, and the impact any such legislation or judicial decisions would have on the manner in which it contributes to the Retirement Funds. Contributing pursuant to Multiplier Funding or pay-as-you-go funding, as discussed in this subsection, represent two possible outcomes; however, the City can make no representation that some other method of determining contributions, including payments that are possibly even larger than pay-as-you-go funding, would not be required.

Legislative Changes

Pension Reform Act

On April 14, 2010, then Governor Quinn signed Public Act 096-0889 (the “*Pension Reform Act*”) into law. The Pension Reform Act establishes a “two-tier” benefit system with less generous benefits for employees who become members of MEABF and LABF on or after January 1, 2011 (“*Tier II Members*”)

as compared to those provided to employees prior to such date (“*Tier I Members*”). The Pension Reform Act does not impact persons who first became employees prior to its effective date of January 1, 2011.

Among other changes, the Pension Reform Act: (i) increases the minimum age at which an employee may retire with unreduced benefits to age 67 from age 60 or younger based on a formula combining the age of the employee and the number of years of service; (ii) increases the minimum age at which an active employee may retire with reduced benefits to age 62 from age 50; (iii) provides that final average salary is based on 96 consecutive months within the last 120 months of employment (instead of 48 months of the last 120 months); (iv) reduces the annual cost of living adjustment to the lower of 3 percent or 50 percent of the change in the consumer price index for all urban consumers, whichever is lower, and eliminates compounding for employees hired after January 1, 2011, compared with a cost of living adjustment of 3 percent, compounded, under prior law; and (v) caps the salary on which a pension may be calculated at \$106,800 (subject to certain adjustments for inflation).

The Pension Reform Act as described in this subsection, taken independently of any other legislative or market effects, is expected to reduce benefits afforded new hires and therefore reduce over time the growth in the Total Pension Liability and the Net Pension Liability for MEABF and LABF. In calculating the Total Pension Liability, the actuaries make assumptions about future benefit levels. As the value of future benefits decreases over time, and as a greater percentage of the City’s workforce is covered by the Pension Reform Act, the Total Pension Liability is expected to decrease compared to what it would have been under previous law. Consequently, the Net Pension Liability is expected to grow more slowly. However, no assurance can be given that these expectations will be the actual experience going forward.

P.A. 96-1495

P.A. 96-1495 makes changes to the Pension Code with respect to PABF and FABF. See “—Determination of City’s Contributions—*City’s Contributions to PABF and FABF Beginning in 2016*” for additional information regarding the impact of the changes imposed by P.A. 96-1495. The P.A. 96-1495 Funding Plan will significantly increase the City’s contributions to PABF and FABF because, among other things, such contributions will no longer be determined pursuant to the Multiplier Funding system and because the P.A. 96-1495 Funding Plan is designed to require larger contributions by the City.

In addition, P.A. 96-1495 makes changes to benefits for police officers and firefighters first participating in PABF and FABF on or after January 1, 2011. Among other changes, P.A. 96-1495: (i) increases the minimum eligibility age for unreduced retirement benefits from 50 (with ten years of service) to 55 (with ten years of service); (ii) provides for retirement at age 50 (with ten years of service) with the annuity reduced by 0.5 percent per month; (iii) provides that final average salary is based on 96 consecutive months within the last 120 months of employment (instead of 48 months of the last 120 months); (iv) reduces the cost of living adjustment to the lower of 3 percent or 50 percent of the change in the consumer price index for all urban consumers, whichever is lower, commencing at age 60; (v) provides that widow benefits are 66 2/3 percent of the employee’s annuity at the date of death; and (vi) caps the salary on which a pension may be calculated at \$106,800 (subject to certain adjustments for inflation).

See —“Projection of Funded Status” herein for a projection of future contributions, the UAAL and the Funded Ratio of PABF and FABF following the implementation of P.A. 96-1495.

Diversion of Grant Money to the Retirement Funds Under P.A. 96-1495

P.A. 96-1495 allows the State Comptroller to divert State grant money intended for the City to PABF and FABF to satisfy contribution shortfalls by the City (the “*Recapture Provisions*”). If the City fails to contribute to PABF and FABF as required by the Pension Code, the City will be subject to a reallocation of grants of State funds to the City if: (i) the City fails to make the required payment as set forth in the respective statute, (ii) the subject Retirement Fund gives notice of the failure to the City, and (iii) such Retirement Fund certifies to the State Comptroller that such payment has not been made. Upon the occurrence of these events, the State Comptroller will withhold grants of State funds from the City in an amount not in excess of the delinquent payment amount. Should the Recapture Provisions of P.A. 96-1495 be invoked as a result of the City’s failure to contribute all or a portion of its required contribution, a reduction in State grant money may have a significant adverse impact on the City’s finances.

Future Legislation

The City continues to believe that additional legislative changes may be necessary to properly fund the Retirement Funds. With respect to PABF and FABF, the City believes that legislation, such as SB 777, is necessary to allow the City and its taxpayers to absorb the impact of substantially increased pension payments over a longer period of time. Furthermore, as a result of the determination by the Illinois Supreme Court that P.A. 98-641 is unconstitutional, additional legislation may be necessary to address the funding of MEABF and LABF. Such legislation may include provisions for contributions by the State, increased employee contributions and/or increased contributions by the City in future years, which may require the City to increase revenues, reduce expenditures or some combination thereof.

On May 23, 2016, the City announced that it had reached an agreement regarding LABF with both unions representing City employees who are members of LABF. If enacted into law, this agreement would increase employee contributions and modify pension benefits for employees hired on or after January 1, 2017, and provide employees hired between January 1, 2011, and December 31, 2016, with the option to become eligible for the payment of benefits at age 65 (as opposed to age 67 under current law) in exchange for an increase in employee contributions from 8.5 percent to 11.5 percent of their salary. In addition, the agreement would modify the manner in which the City contributes to LABF by increasing the City’s contributions over a five-year period (the “*Ramp Period*”) to certain agreed-upon percentages of the actuarially required contribution beginning with the contribution to be made in fiscal year 2018. After the Ramp Period, the City would contribute the actuarially determined amount necessary to achieve a Funded Ratio of 90 percent in LABF by 2057. The City expects that legislation encompassing this agreement will be introduced into the Illinois General Assembly in the fall of 2016, and the City intends to support the adoption of such legislation. The City can give no assurance as to whether such legislation will ultimately become law.

The City is currently considering the available options with respect to the unfunded liabilities of MEABF.

The City gives no assurance as to whether any such legislation with respect to any of the Retirement Funds will be enacted, and no assurance can be given that such legislation, if adopted, will be upheld upon a legal challenge.

Special Revenue and Enterprise Fund Allocation of Retirement Fund Costs

The City allocates to its special revenue and enterprise funds their share of the City’s annual contribution to the Retirement Funds based upon the amount of services provided by City employees to

the functions or enterprises related to or paid out of those funds. The special revenue and enterprise funds account for their allocable share of the City's contributions to the Retirement Funds as operating and maintenance expenses. In addition, beginning in 2015, the financial statements of the enterprise funds will include an allocation of the applicable Net Pension Liability to such funds as required by the New GASB Standards. The amounts allocable to the respective enterprise funds, which are not available as of the date hereof, may be significant and may have a material effect on such financial statements. The City has budgeted for the special revenue and enterprise funds to reimburse the City approximately \$74 million during 2016 for their allocable share of the City's pension contribution.

The allocations described in this subsection are not required by statute but represent the City's current method of allocating its pension costs. The City may alter the manner in which it allocates its pension costs to these funds at any time.

Impact of Retirement Funds' Unfunded Liability on the City's Bond Ratings

The financial health of the Retirement Funds and the projected impact of the Retirement Funds' underfunding on future contributions to be made by the City have impacted the rating agencies' determination of the City's creditworthiness.

On May 12, 2015, Moody's Investors Service ("*Moody's*") issued a ratings action report (the "*Rating Report*") downgrading the ratings of the City's general obligation bonds and sales tax revenue bonds from "Baa2" to "Ba1," the City's water senior lien revenue bonds from "A2" to "Baa1," the City's wastewater senior lien revenue bonds from "A3" to "Baa2," the City's water second lien revenue bonds from "A3" to "Baa2," the City's wastewater second lien revenue bonds from "Baa1" to "Baa3," and placed all such ratings on negative outlook. This followed previous downgrades of the City's ratings by Moody's on February 27, 2015, March 4, 2014, and July 17, 2013. Moody's indicated in the Rating Report that the May 12, 2015 downgrades reflected the expected continued growth in the unfunded liabilities of the Retirement Funds and the narrowing of the City's options for curbing such growth as a result of the Illinois Supreme Court's decision finding the State Pension Reform Act unconstitutional. Moody's indicated that further downgrades could follow if, among other things, (i) P.A. 98-641 was found to be unconstitutional, or (ii) the Retirement Funds' UAAL continues to grow. The City makes no prediction as to whether the Moody's rating action described above will result in additional downgrades, or the impact that the financial condition of the Retirement Funds will have on Moody's or any other rating agency's judgment of the City's creditworthiness or on the City's future financing costs. The Rating Report can be obtained from Moody's; provided, however, that the report is not incorporated herein by such reference.

On March 28, 2016, Fitch Ratings, Inc. ("*Fitch*") downgraded the City's general obligation bond and sales tax bond ratings from "BBB+" to "BBB-" and placed each rating on negative outlook. In announcing these ratings downgrades, Fitch cited, among other things, the impact of the decision by the Illinois Supreme Court that P.A. 98-641 is unconstitutional.

On July 8, 2015, Standard & Poor's Ratings Group ("*S&P*") downgraded the City's general obligation bond rating from "A-" to "BBB+" with a negative outlook and removed the rating from negative watch. In downgrading the City's general obligation bond rating, S&P cited, among other things, the City's pension liabilities, the impact on the City's budget of scheduled future increases in pension contributions, and "the City's lack of progress in unveiling a sustainable funding mechanism" for PABF and FABF. S&P reaffirmed this rating and the related outlook on January 11, 2016.

On April 1, 2016, Kroll Bond Rating Agency ("*Kroll*") downgraded its rating on the City's general obligation bonds from "A-" to "BBB+" with a negative outlook. In downgrading the City's bond

rating, Kroll cited the Illinois Supreme Court's decision with respect to P.A. 98-641 which Kroll believes limits the options available to the City to address the unfunded liabilities of MEABF and LABF.

In addition, other rating agencies may have established, or may establish in the future, methods for evaluating the financial health of the Retirement Funds and their impact on the City's creditworthiness that are different from the information provided in this Appendix. Further downgrades of the City's bond ratings may have a material adverse impact on the City's finances. See "INVESTMENT CONSIDERATIONS—Credit Rating Downgrades" for additional information.

PAYMENT FOR OTHER POST-EMPLOYMENT BENEFITS

General

The City and the Retirement Funds share the cost of post-employment healthcare benefits available to City employees participating in the Retirement Funds through a single-employer, defined benefit healthcare plan (the "*Health Plan*"), which is administered by the City. Prior to June 30, 2013, the costs of the Health Plan were shared pursuant to a settlement agreement (as amended, the "*Settlement*") entered into between the City and the Retirement Funds regarding the responsibility for payment of these health benefits as described below under "—The Settlement."

MEABF and LABF participants older than 55 with at least 10 years of service and PABF and FABF participants older than 50 with at least 10 years of service may become eligible for the Health Plan if they eventually become an annuitant.¹¹ The Health Plan provides basic health benefits to non-Medicare eligible annuitants and provides supplemental health benefits to Medicare-eligible annuitants.

The City contributes a percentage toward the cost of the Health Plan for each eligible annuitant. The annuitants are responsible for contributing the difference between the cost of their health benefits and the sum of the subsidies provided by the City and the related Retirement Fund. Until June 30, 2013, annuitants who retired prior to July 1, 2005 received a 55 percent subsidy from the City, whereas annuitants retiring on or after such date received a subsidy equal to 50 percent, 45 percent, 40 percent or zero percent based on the annuitant's length of actual employment with the City pursuant to the Settlement. The Retirement Funds contributed a fixed dollar amount monthly (\$65 for each Medicare-eligible annuitant and \$95 for each non-Medicare eligible annuitant) for each of their annuitants. For a description of benefits after the expiration of the Settlement, see "—Status of Healthcare Benefits After the Settlement Period" herein.

The Retirement Funds' subsidies are paid from the City contribution, as provided in the Pension Code and described in "PAYMENT FOR PENSION BENEFITS—*Determination of City's Contributions*" above. These payments therefore reduce the amounts available in the Retirement Funds to make payments on pension liabilities. See Tables 5-9 in "PAYMENT FOR PENSION BENEFITS—*Funded Status of the Retirement Funds*" above for Retirement Funds' statement of net assets, which incorporates the expense related to the Health Plan as part of the "Administration" line item.

¹¹ Under their respective collective bargaining agreements, which were renegotiated in 2012, certain retired PABF and FABF participants are eligible to enroll themselves and their dependents in the City's healthcare plan for active members until they reach the age of Medicare eligibility ("Special CBA Benefit"). These members do not contribute towards the cost of coverage for this plan. PABF contributes \$95 per month for these members; FABF does not contribute for these members. The Special CBA Benefit expires in 2016, at which time the City expects it will be phased out permanently.

The Settlement

In 1987, the City sued the Retirement Funds asserting, among other things, that the City was not obligated to provide healthcare benefits to certain retired City employees. Certain retired employees intervened as a class in the litigation, and the Retirement Funds countersued the City. To avoid the risk and expense of protracted litigation, the City and the other parties entered into the Settlement, the terms of which have been renegotiated over time. The City contributed to the Health Plan as a result of the obligation established by the Settlement during the term of the Settlement (the “*Settlement Period*”). The Settlement expired on June 30, 2013. For the status of the Health Plan after the Settlement Period, see “—Status of Healthcare Benefits After the Settlement Period” below.

City Financing of the Health Plan

The City funds its share of the Health Plan’s costs on a pay-as-you-go basis. Pay-as-you-go funding refers to the fact that assets are not accumulated or dedicated to funding the Health Plan. Instead, the City contributes the amount necessary to fund its share of the current year costs of the Health Plan. See Table 24 below for a schedule of historical contributions made by the City to the Health Plan.

Actuarial Considerations

City Obligation

The City has an Actuarial Valuation completed for its contributions to the Health Plan annually. The purpose and process behind an Actuarial Valuation is described above in “PAYMENT FOR PENSION BENEFITS—The Actuarial Valuation.” In addition, the Retirement Funds produce an Actuarial Valuation for the liability of such Retirement Fund to its retirees for the benefits provided under the Health Plan.

Although these Actuarial Valuations all refer to the liability owed for the same benefits, the results of the Retirement Funds’ Actuarial Valuations differ significantly from the City’s Actuarial Valuation for two reasons. First, the City’s Actuarial Valuation only reflects the portion of liabilities the City owes under the Settlement. Second, the Actuarial Valuations of the City and the Retirement Funds differ because the actuarial methods and assumptions used for each purpose vary.

This Appendix addresses the funded status of the City’s obligation to make payments for the Health Plan. For additional information on the amounts owed to members of the Retirement Funds for retiree healthcare benefits, see the Actuarial Valuations of the Retirement Funds, which are available as described in “PAYMENT FOR PENSION BENEFITS—Source Information” above, and Note 12 to the City’s Basic Audited Financial Statements, which are available on the City’s website at http://www.cityofchicago.org/city/en/depts/fin/supp_info/comprehensive_annualfinancialstatements.html; provided, however, that the contents of the City’s website are not incorporated herein by such reference.

Actuarial Methods and Assumptions

The Actuarial Valuation for the City’s obligation to the Health Plan utilizes various actuarial methods and assumptions similar to those described in “PAYMENT FOR PENSION BENEFITS” above with respect to the Retirement Funds. The City does not use an Actuarial Method to calculate the Actuarial Value of Assets of the Health Plan because no assets are accumulated therein for payment of future benefits. As such, the Actuarial Value of Assets for the Health Plan is always zero.

The City's 2012 Actuarial Valuation ("2012 Actuarial Valuation") amortizes the City's retiree healthcare UAAL over a closed 1-year period, in order to reflect the remainder of the Settlement Period and the Special CBA Benefit that was set to expire in 2012 under collective bargaining agreements that were in place at that time. The use of a closed, 1-year period has the effect of increasing the Actuarially Required Contribution as compared to the typical 30-year open amortization period because (i) the period of time over which the UAAL will be amortized is shorter, and (ii) the amortization period is one year as opposed to repeating 30-year periods. The 2012 Actuarial Valuation employed the PUC Method to allocate the City's retiree healthcare obligations. For more information on the PUC Method, see "PAYMENT FOR PENSION BENEFITS—Actuarial Methods" above.

The City's 2013 Actuarial Valuation ("2013 Actuarial Valuation") and 2014 Actuarial Valuation (the "2014 Actuarial Valuation") amortize the City's retiree healthcare UAAL over a closed 10-year period, in order to reflect (i) the City's extension of healthcare coverage for members that had participated in the Settlement (with such coverage varying based on retirement date), and (ii) the provision of the Special CBA Benefit. For details on the Health Plan after the Settlement Period, see "—Status of Healthcare Benefits After the Settlement Period" below. The use of a closed, 10-year period rather than a closed, 1-year period has the effect of decreasing the Actuarially Required Contribution because the period of time over which the UAAL will be amortized is longer. In addition, the 2013 Actuarial Valuation and the 2014 Actuarial Valuation employed the EAN Method, rather than the PUC Method, to allocate the City's retiree healthcare obligations. For more information on the EAN Method and the PUC Method, see "PAYMENT FOR PENSION BENEFITS —Actuarial Methods" above.

Funded Status

The following tables provide information on the financial health of the Health Plan. The Health Plan is funded on a pay-as-you-go basis, which means no assets are accumulated to pay for the liabilities of the Health Plan. As such, the Funded Ratio with respect to the Health Plan is perpetually zero.

Table 23 summarizes the current financial condition and the funding progress of the Health Plan.

TABLE 23 – SCHEDULE OF FUNDING PROGRESS⁽¹⁾⁽²⁾

Actuarial Valuation Date (Dec. 31)	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Payroll
2007	\$0	\$1,062,864	\$1,062,864	0%	\$2,562,007	41.5%
2008	0	787,395	787,395	0	2,475,107	31.8
2009	0	533,387	533,387	0	2,546,961	20.9
2010	0	390,611	390,611	0	2,475,000	15.8
2011	0	470,952	470,952	0	2,518,735	18.7
2012	0	997,281	997,281	0	2,385,198	41.8
2013	0	964,626	964,626	0	2,425,000	39.8

Sources: Comprehensive Annual Financial Report of the City for the fiscal years ending December 31, 2010-2014.

⁽¹⁾ In thousands of dollars.

⁽²⁾ The City, as required, adopted GASB Statement No. 45 in fiscal year 2007. The information provided in this table was produced in 2007 or later.

Table 24 shows the net expense to the City for providing benefits under the Health Plan.

TABLE 24 – HISTORY OF CITY’S CONTRIBUTIONS⁽¹⁾

	Actual City Contribution
2008	\$98,065
2009	98,000
2010	107,431
2011	99,091
2012	97,531
2013	97,500
2014	79,300

Sources: Comprehensive Annual Financial Report of the City for the fiscal years ending 2008-2014.

⁽¹⁾ In thousands of dollars. 2013 and 2014 contribution amounts are approximate.

Retiree Health Benefits Commission

The Settlement provided for the creation of the Retiree Health Benefits Commission (the “RHBC”), which was tasked with, among other things, making recommendations concerning retiree health benefits after June 30, 2013. The Settlement required that the RHBC be composed of experts who will be objective and fair-minded as to the interest of both retirees and taxpayers, and include a representative of the City and a representative of the Retirement Funds.

On January 11, 2013, the RHBC released its “Report to the Mayor’s Office on the State of Retiree Healthcare” (the “RHBC Report”). The RHBC Report can be found on the City’s website at http://www.cityofchicago.org/city/en/depts/fin/provdrs/ben/alerts/2013/jan/retiree_healthcarebenefits_commissionreporttothemayor.html; provided, however, that the contents of the RHBC Report and of the City’s website are not incorporated herein by such reference.

The RHBC Report concluded that maintaining the funding arrangement then in place for the Health Plan was untenable, would prevent the City from continuing to provide the current level of benefits to retirees in the future, and could result in other financial consequences, such as changes to the City’s bond rating and its creditworthiness. The RHBC Report presented several options for the Mayor to consider which would reduce the level of spending with respect to the Health Plan from approximately \$108 million annually to between \$90 million and \$12.5 million annually depending on the option.

Status of Healthcare Benefits After the Settlement Period

On May 15, 2013, the City announced plans to, among other things: (i) provide a lifetime healthcare plan to employees who retired before August 23, 1989 with a contribution from the City of up to 55 percent of the cost of that plan; and (ii) beginning January 1, 2014, provide employees who retired on or after August 23, 1989 with healthcare benefits but with significant changes to the terms provided by the Health Plan, including increases in premiums and deductibles, reduced benefits and the phase-out of the entire Health Plan for such employees by the beginning of 2017. If the City prevails in the Lawsuit (defined below), it expects a reduction in expenses of approximately \$90 to \$95 million annually beginning in 2017 as a result of the phase-out of the Health Plan.

On May 30, 2013, the Illinois General Assembly passed Senate Bill 1584, which was signed into law by the Governor on June 28, 2013. Senate Bill 1584 extends the Retirement Funds’ subsidies for

retiree healthcare costs until such time as the City no longer provides a health care plan for annuitants or December 31, 2016, whichever comes first.

After the June 30, 2013 expiration of the Settlement, on July 5, 2013, certain participants in the Health Plan filed a motion to “re-activate” the 1987 litigation covered by the Settlement. On July 17, 2013, the Circuit Court denied that motion. On July 23, 2013, certain of the participants filed a new lawsuit, *Underwood v. Chicago* (the “Lawsuit”), in the Circuit Court against the City and the Trustees of each of the four Retirement Fund Boards, seeking to bring a class action on behalf of former and current City employees who previously contributed or now contribute to one of the four Retirement Funds.

The complaint advanced State law claims, including alleged violation of the Pension Clause, and federal law claims. The City removed the case to federal court based on the federal law claims. The federal district court dismissed the case in its entirety. As to plaintiffs’ claim that the planned changes violate the Pension Clause, the district court predicted that the Illinois Supreme Court would rule in a separate case, *Kanerva v. Weems* (“*Kanerva*”), then pending before the Illinois Supreme Court that healthcare benefits are not protected by the Pension Clause. However, on July 3, 2014, the Illinois Supreme Court issued an opinion in *Kanerva* determining that retiree healthcare benefits provided to State retirees are protected under the Pension Clause. The City argued on appeal to the federal appellate court that it should affirm the district court dismissal, including the State law claims, on an alternative ground. On February 25, 2015, the federal appellate court affirmed the dismissal of the federal law claims and declined to rule on the State law claims on the ground that the State law claims involved a question of State law, which it ordered returned to the State court for decision. On June 22, 2015, the City and certain of the defendants each filed a motion to dismiss the remaining State law claims in the Circuit Court. On December 13, 2015, the Circuit Court issued its ruling dismissing certain of the State law claims but gave the plaintiffs leave to amend the complaint with respect to such claims. With respect to the remaining State law claim, which sought a declaration that a reduction in the benefits provided by the Health Plan would violate the Pension Clause, the Circuit Court determined that such a declaration could be made only with respect to those employees hired prior to August 23, 1989. The Circuit Court subsequently clarified that the Retirement Funds, and not the City, were obligated to subsidize or provide healthcare to eligible annuitants. The City’s obligation, according to the Circuit Court, is to contribute, through the Pension Levy, moneys to be used by the Retirement Funds for this purpose. The City has been defending and will continue to defend this matter vigorously. The City can give no assurance as to the ultimate outcome of the Lawsuit.

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