SAN FRANCISCO INTERNATIONAL AIRPORT SECOND SERIES REVENUE BONDS SERIES 2014A/B

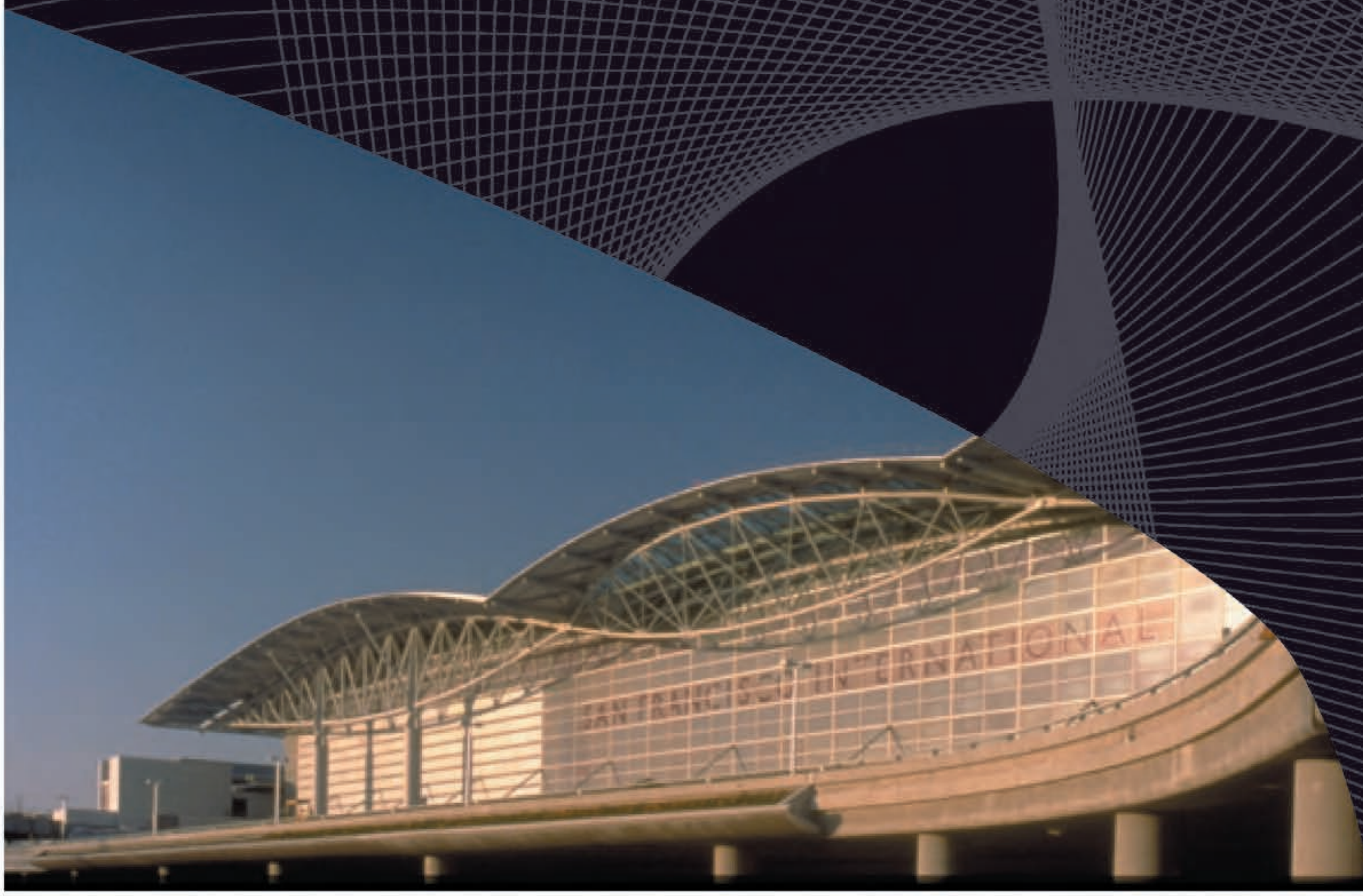
SFO

San Francisco International Airport

Official Statement

Airport Commission of the City and County of San Francisco San Francisco International Airport Second Series Revenue Bonds

Series 2014A/B




Terminal 2
Terminal 1
International Terminal
Terminal 3
AirTrain System
BART Station
N
Rental Car Facility
Highway 101
Long-Term Parking
© Google Earth

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS:
Moody's: A1
S&P: A+
Fitch: A+
(See "Ratings")

In the opinion of Kutak Rock LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel to the Commission, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2014A/B Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2014A Bond for any period during which such Series 2014A Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2014A Bonds, or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Co-Bond Counsel are further of the opinion that (a) interest on the Series 2014A Bonds is a specific item of tax preference for purposes of the federal alternative minimum tax and (b) interest on the Series 2014B Bonds is not a specific item of tax preference for purposes of the federal alternative minimum tax, except that interest on the Series 2014B Bonds will be included in a corporate taxpayer's adjusted current earnings for purposes of computing its federal alternative minimum tax. Co-Bond Counsel are further of the opinion that interest on the Series 2014A/B Bonds is exempt from State of California personal income taxes. See "TAX MATTERS" herein.

$473,610,000
AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO SAN FRANCISCO INTERNATIONAL AIRPORT SECOND SERIES REVENUE BONDS SERIES 2014A/B

$376,320,000 Series 2014A (AMT)	$97,290,000 Series 2014B (Non-AMT/Governmental Purpose)

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

The Airport Commission (the "Commission") of the City and County of San Francisco (the "City") will issue $473,610,000 principal amount of its San Francisco International Airport Second Series Revenue Bonds, Series 2014A/B (the "Series 2014A/B Bonds") comprised of: $376,320,000 principal amount of Series 2014A Bonds (the "Series 2014A Bonds") and $97,290,000 principal amount of Series 2014B Bonds (the "Series 2014B Bonds") pursuant to the terms of the 1991 Master Resolution. The San Francisco International Airport (the "Airport") is a department of the City. The Bank of New York Mellon Trust Company, N.A. has been appointed by the Commission to act as Trustee for its Bonds, including the Series 2014A/B Bonds.

Proceeds of the Series 2014A/B Bonds will be used to finance and refinance (through the repayment of Commercial Paper Notes) a portion of the costs of the Capital Plan (described herein); to fund a deposit to the Original Reserve Account (described herein); to pay capitalized interest on the Series 2014A/B Bonds; and to pay costs of issuance of the Series 2014A/B Bonds.

The Series 2014A/B Bonds will mature on the dates and bear interest at the rates shown on the inside cover of this Official Statement. Interest on the Series 2014A/B Bonds will be payable each May 1 and November 1, commencing November 1, 2014.

The Series 2014A/B Bonds are subject to optional and mandatory redemption prior to their stated maturity dates as described herein.

The Series 2014A/B Bonds will be issued only as fully registered bonds, registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). So long as Cede & Co. is the registered owner of any Series 2014A/B Bonds, payment of the principal of and interest on the Series 2014A/B Bonds will be made to Cede & Co. as nominee of DTC, which is required in turn to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners.

The Series 2014A/B Bonds are special, limited obligations of the Commission, payable as to principal and interest solely out of, and secured by a pledge of and lien on, the Net Revenues of the Airport and the funds and accounts provided for in the 1991 Master Resolution. Neither the credit nor taxing power of the City and County of San Francisco is pledged to the payment of the principal of or interest on the Series 2014A/B Bonds. No holder of a Series 2014A/B Bond shall have the right to compel the exercise of the taxing power of the City and County of San Francisco to pay the principal of or the interest on the Series 2014A/B Bonds. The Commission has no taxing power whatsoever.

The Series 2014A/B Bonds are offered when, as and if issued by the Commission and received by the Underwriters, subject to approval of legality by Kutak Rock LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel to the Commission, and certain other conditions. Certain legal matters will be passed upon for the Commission by Nixon Peabody LLP, Disclosure Counsel, and by the City Attorney, and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. The Commission expects to deliver the Series 2014A/B Bonds through the facilities of DTC on or about September 24, 2014, against payment therefor.

J.P. Morgan **RBC Capital Markets**

BofA Merrill Lynch **Barclays** **Goldman, Sachs & Co.**

Dated: September 16, 2014

$473,610,000
AIRPORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT
SECOND SERIES REVENUE BONDS
SERIES 2014A/B

$376,320,000 Series 2014A (AMT)	$97,290,000 Series 2014B (Non-AMT/Governmental Purpose)

MATURITY SCHEDULE

$376,320,000 2014A Bonds

Maturity Date (May 1)	Principal	Interest Rate	Yield[1]	CUSIP[†] No.
2039	$41,895,000	5.000%	3.820%	79766DFD6
2040	63,620,000	5.000	3.850	79766DFE4

$270,805,000 5.000% Series 2014A Term Bonds maturing May 1, 2044
Priced to Yield 3.910%[1] (CUSIP No. 79766DFC8)

$97,290,000 2014B Bonds

$97,290,000 5.000% Series 2014B Term Bonds maturing May 1, 2044
Priced to Yield 3.580%[1] (CUSIP No. 79766DFF1)

(1) The Underwriters provided the initial reoffering yields and prices. Priced to par call on May 1, 2024.

 CUSIP numbers have been assigned by an independent company not affiliated with the Commission or the Underwriters and are included solely for the convenience of the registered owners of the applicable Series 2014A/B Bonds. Neither the Commission nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Series 2014A/B Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Series 2014A/B Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2014A/B Bonds.

CITY AND COUNTY OF SAN FRANCISCO

Edwin M. Lee, *Mayor*
Dennis J. Herrera, *City Attorney*
Benjamin Rosenfield, *Controller*
José Cisneros, *Treasurer*

AIRPORT COMMISSION

Larry Mazzola, *President*
Linda S. Crayton, *Vice President*

Richard J. Guggenhime — Eleanor Johns — Peter A. Stern

John L. Martin, *Airport Director*

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Norman Yee, *District 7*
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David Campos, *District 9*
Malia Cohen, *District 10*
John Avalos, *District 11*

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DISCLOSURE COUNSEL
Nixon Peabody LLP
San Francisco, California

AUDITOR
KPMG LLP
San Francisco, California

Information Provided by the Commission and by Third Parties. This Official Statement presents information with respect to the Commission and the Airport. The information contained herein has been obtained from officers, employees and records of the Commission and from other sources believed to be reliable. The Commission and the City each maintain a website. Unless specifically indicated otherwise, the information presented on those websites is ***not*** incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Series 2014A/B Bonds.

Limitation Regarding Offering. No broker, dealer, salesperson or any other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2014A/B Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by the City or the Commission. This Official Statement does not constitute an offer to sell, or the solicitation from any person of an offer to buy, nor shall there be any sale of the Series 2014A/B Bonds by any person in any jurisdiction where such offer, solicitation or sale would be unlawful. The information set forth herein is subject to change without notice. The delivery of this Official Statement at any time does not imply that information herein is correct or complete as of any time subsequent to its date.

Forward-Looking Statements. This Official Statement contains forecasts, projections, estimates and other forward-looking statements that are based on current expectations. The words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results. Any such forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected. Such risks and uncertainties include, among others, changes in regional, domestic and international political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, population changes, financial conditions of individual air carriers and the airline industry, technological change, changes in the tourism industry, changes at other San Francisco Bay Area airports, seismic events, international agreements or regulations governing air travel, and various other events, conditions and circumstances, many of which are beyond the control of the Commission. These forward-looking statements speak only as of the date of this Official Statement. The Commission disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Commission's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Underwriters' Disclaimer. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their 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.

No Securities Registration. The Series 2014A/B Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such Act. The Series 2014A/B Bonds have not been registered or qualified under the securities laws of any state.

Ratings of Other Parties. This Official Statement contains information concerning the ratings assigned by Moody's Investors Service, Inc., Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, and Fitch Ratings, Inc. for the Credit Providers, the Liquidity Providers, the Swap Counterparties and the Guarantors of the Swap Counterparties, if any (each as defined herein). Such ratings reflect only the view of the agency giving such rating and are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or re-verified by such rating agencies. None of the Commission, the City or any of the Underwriters takes any responsibility for the accuracy of such ratings, gives any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant.

Web Sites Not Incorporated. References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

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OFFICIAL STATEMENT

$473,610,000
AIRPORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT
SECOND SERIES REVENUE BONDS
SERIES 2014A/B

$376,320,000	**$97,290,000**
Series 2014A	**Series 2014B**
(AMT)	**(Non-AMT/Governmental Purpose)**

INTRODUCTION

The Airport Commission of the City and County of San Francisco (the "Commission") will issue $473,610,000 aggregate principal amount of its San Francisco International Airport Second Series Revenue Bonds, Series 2014A/B (the "Series 2014A/B Bonds") comprised of: $376,320,000 principal amount of Series 2014A Bonds (the "Series 2014A Bonds") and $97,290,000 principal amount of Series 2014B Bonds (the "Series 2014B Bonds").

The Commission authorized the Series 2014A/B Bonds under Resolution No. 91-0210, which the Commission adopted on December 3, 1991 (the "1991 Resolution"), as supplemented and amended pursuant to, among other resolutions, Resolution No. 14-0024, which the Commission adopted on February 18, 2014 (collectively the "1991 Master Resolution"). The Series 2014A/B Bonds, together with all bonds that the Commission has issued and will issue pursuant to the 1991 Master Resolution, are referred to as the "Bonds." For a summary of the Commission's Outstanding Bonds, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Currently Outstanding Bonds." Capitalized terms used and not defined in this Official Statement have the meanings given those terms in the 1991 Master Resolution. The Commission has appointed The Bank of New York Mellon Trust Company, N.A. to act as trustee (the "Trustee") for the Bonds, including the Series 2014A/B Bonds. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Certain Definitions."

Proceeds of the Series 2014A/B Bonds will be used to finance and refinance (through the repayment of Commercial Paper Notes) a portion of the costs of the Capital Plan (described herein); to fund a deposit to the Original Reserve Account (described herein); to pay capitalized interest on the Series 2014A/B Bonds; and to pay costs of issuance of the Series 2014A/B Bonds. See "PLAN OF FINANCE."

The Series 2014A/B Bonds will mature on the dates, in the amounts and bear interest at the rates shown on the inside cover of this Official Statement.

The Commission will secure the Series 2014A/B Bonds by a pledge of, lien on and security interest in Net Revenues of the San Francisco International Airport (the "Airport") which are equal to and on a parity with those securing the Commission's other Outstanding Bonds and any additional Bonds issued under the 1991 Master Resolution, which, as of August 1, 2014, were outstanding in the amount of approximately $4.2 billion. See "SECURITY FOR THE SERIES 2014A/B BONDS" and "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Currently Outstanding Bonds." The proceeds of additional Bonds are expected to be a significant source of funding for the Commission's Capital Plan. See "SECURITY FOR THE SERIES 2014A/B BONDS–Additional Bonds" and "CAPITAL PROJECTS AND PLANNING–The Capital Plan." The Series 2014A/B Bonds will also be secured by the Original Reserve Account. See "SECURITY FOR THE SERIES 2014A/B BONDS–Reserve Fund; Reserve Accounts; Credit Facilities–*Original Reserve Account.*"

This Official Statement contains brief descriptions or summaries of, among other things, the Series 2014A/B Bonds, the 1991 Master Resolution, the Lease and Use Agreements, the Reserve Account Credit Facilities, the Swap Agreements and the Continuing Disclosure Certificate of the Commission. Any description or summary in this Official Statement of any such document is qualified in its entirety by reference to each such document.

PLAN OF FINANCE

Proceeds of the Series 2014A/B Bonds will be used to finance and refinance (through the repayment of Commercial Paper Notes) a portion of the costs of the Capital Plan; to fund a deposit to the Original Reserve Account; to pay capitalized interest on the Series 2014A/B Bonds; and to pay costs of issuance of the Series 2014A/B Bonds.

A portion of the proceeds of the Series 2014A/B Bonds will be used to finance and refinance the following projects, among others: (a) completion of ongoing projects such as the Air Traffic Control Tower, baggage handling system modernization, runway safety area improvement and Terminal 3 East checkpoint reconfiguration, (b) Terminal 1 redevelopment, (c) Terminal 3 redevelopment, (d) construction of an extension of the AirTrain, and (e) development of a new long-term parking garage. All of these projects have been approved by the Commission, the Board of Supervisors of the City and County of San Francisco (the "Board of Supervisors") and the Mayor of the City and County of San Francisco (the "Mayor") and have completed the Airport's airline review process. See "CAPITAL PROJECTS AND PLANNING–The Capital Plan."

A portion of the proceeds of the Series 2014A/B Bonds will be used to repay the Commission's Commercial Paper Notes in the aggregate principal amount of $248,000,000 within 90 days of the date of delivery of the Series 2014A/B Bonds.

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ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds the Series 2014A/B Bonds.

	Series 2014A	Series 2014B	Total
SOURCES OF FUNDS:			
Principal Amount	$376,320,000.00	$97,290,000.00	$473,610,000.00
Plus: Original Issue Premium	33,198,230.30	11,138,732.10	44,336,962.40
TOTAL	$409,518,230.30	$108,428,732.10	$517,946,962.40
USES OF FUNDS:			
Deposit to Construction Fund	$197,309,873.00	$14,800,000.00	$212,109,873.00
Deposit to Original Reserve Account	25,870,091.35	6,849,661.37	32,719,752.72
Commercial Paper Repayment	164,254,818.00	83,745,182.00	248,000,000.00
Capitalized Interest	20,079,118.08	2,507,460.17	22,586,578.25
Underwriters' Discount	1,213,099.33	314,147.68	1,527,247.01
Costs of Issuance[(1)]	791,230.54	212,280.88	1,003,511.42
TOTAL	$409,518,230.30	$108,428,732.10	$517,946,962.40

(1) Includes fees and expenses of Co-Bond Counsel, Disclosure Counsel, the Co-Financial Advisors and the Trustee, printing costs, rating agency fees, Airport Consultant fees and other miscellaneous costs associated with the issuance of the Series 2014A/B Bonds.

DESCRIPTION OF THE SERIES 2014A/B BONDS

General

The Series 2014A/B Bonds will be dated their date of issuance. The Series 2014A/B Bonds will bear interest at the rates and mature in the amounts and on the dates shown on the inside cover of this Official Statement. Interest on the Series 2014A/B Bonds will be payable on May 1 and November 1 of each year, commencing November 1, 2014 (each an "Interest Payment Date"). Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Series 2014A/B Bonds will be issued as fully registered securities without coupons, and will be registered in the name of Cede & Co. as registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. Beneficial ownership interests in the Series 2014A/B Bonds will be available in book-entry form only, in Authorized Denominations of $5,000 and any integral multiple thereof. Purchasers of beneficial ownership interests in the Series 2014A/B Bonds ("Beneficial Owners") will not receive certificates representing their interests in the Series 2014A/B Bonds purchased. While held in book-entry only form, all payments of principal of and interest on the Series 2014A/B Bonds will be made by wire transfer to DTC or its nominee as the sole registered owner of the Series 2014A/B Bonds. Payments to Beneficial Owners are the sole responsibility of DTC and its Participants. See APPENDIX C–"INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption.

The Series 2014A/B Bonds are subject to redemption prior to their stated maturity dates, at the option of the Commission, from any source of available funds (other than mandatory sinking fund payments), as a whole or in part, in Authorized Denominations, on any Business Day on or after May 1, 2024, at a redemption price equal to 100% of the principal amount of the applicable Series 2014A/B Bonds called for redemption, together with accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Series 2014A Bonds maturing on May 1, 2044 are subject to redemption prior to their stated maturity date, in part, by lot, from mandatory sinking fund payments, at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the date of redemption, without premium, on the dates and in the amounts, as set forth below:

Mandatory Sinking Fund Redemption Date (May 1)	Mandatory Sinking Fund Payment
2041	$78,610,000
2042	82,545,000
2043	18,645,000
2044†	91,005,000

† Maturity.

The Series 2014B Bonds are subject to redemption prior to their stated maturity date, in part, by lot, from mandatory sinking fund payments, at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the date of redemption, without premium, on the dates and in the amounts, as set forth below:

Mandatory Sinking Fund Redemption Date (May 1)	Mandatory Sinking Fund Payment
2040	$18,340,000
2041	22,920,000
2042	24,065,000
2043	5,435,000
2044†	26,530,000

† Maturity.

Selection of Series 2014A/B Bonds for Redemption

The Commission shall select the maturities within the Series of the Series 2014A/B Bonds to be redeemed in the case of an optional redemption. Except as otherwise described in APPENDIX C–"INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM," if less than all of a maturity of the Series 2014A Bonds or the Series 2014B Bonds, as applicable, is to be redeemed, the Series 2014A Bonds or the Series 2014B Bonds to be redeemed shall be selected by lot in such manner as the Trustee shall determine. If the Series 2014A Bonds or the Series 2014B Bonds to be redeemed are Term Bonds, the Commission shall designate to the Trustee the mandatory sinking fund payment or payments against which the principal amount of the Series 2014A Bonds or the Series 2014B Bonds redeemed shall be credited.

Notice of Redemption

The Trustee is required to give notice of redemption by first-class mail or electronic means, at least 30 days but not more than 60 days prior to the redemption date, to the registered owners of the affected Series 2014A/B Bonds to be redeemed, all organizations registered with the Securities and Exchange Commission (the "SEC") as securities depositories and at least two information services of national recognition which disseminate redemption information with respect to municipal securities.

So long as the Series 2014A/B Bonds are in book-entry only form through the facilities of DTC, notice of redemption will be provided to Cede & Co., as the registered owner of the Series 2014A/B Bonds, and not directly to the Beneficial Owners.

Any notice of optional redemption may be cancelled and annulled by the Commission for any reason on or prior to the date fixed for redemption. Such cancellation would not constitute an event of default under the 1991 Master Resolution.

Transfer and Exchange

The Series 2014A/B Bonds will be issued only as fully registered securities, with the privilege of transfer or exchange in Authorized Denominations for Series 2014A/B Bonds of an equal aggregate principal amount bearing the same interest rate and having the same maturity date, as set forth in the 1991 Master Resolution. All such transfers and exchanges shall be without charge to the owner, with the exception of any taxes, fees or other governmental charges that are required to be paid to the Trustee as a condition to transfer or exchange. While the Series 2014A/B Bonds are in book-entry only form, beneficial ownership interests in the Series 2014A/B Bonds may only be transferred through Direct Participants and Indirect Participants as described in APPENDIX C–"INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Defeasance

Upon deposit by the Commission with the Trustee, at or before maturity, of money or noncallable Government Securities which, together with the earnings thereon, are sufficient to pay the principal amount or redemption price of any particular Series 2014A/B Bonds, or portions thereof, becoming due, together with all interest accruing thereon to the due date or redemption date, and if the Commission provides for any required notice of redemption prior to maturity and pays or makes provision for payment of all fees, costs, and expenses of the Trustee due or to become due with respect to such Series 2014A/B Bonds (or portions thereof), all liability of the Commission with respect to such Series 2014A/B Bonds (or portions thereof) will cease and such Series 2014A/B Bonds (or portions thereof) will be deemed not to be Outstanding under the 1991 Master Resolution. This is referred to in this Official Statement as a "Defeasance." Upon a Defeasance of Series 2014A/B Bonds, the Owner or Owners of such Series 2014A/B Bonds (or portions thereof) will be restricted exclusively to the money or Government Securities so deposited, together with any earnings thereon, for payment of such Series 2014A/B Bonds. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Defeasance."

SECURITY FOR THE SERIES 2014A/B BONDS

Authority for Issuance

The Series 2014A/B Bonds will be issued under the authority of, and in compliance with, the Charter of the City and County of San Francisco (the "Charter"), the 1991 Master Resolution, and the statutes of the State of California (the "State") as made applicable to the City pursuant to the Charter.

Pledge of Net Revenues; Source of Payment

Pledge of Net Revenues

The Series 2014A/B Bonds, together with all Bonds issued and to be issued pursuant to the 1991 Master Resolution, are referred to herein as the "Bonds." The 1991 Master Resolution constitutes a contract between the Commission and the registered owners of the Bonds under which the Commission has irrevocably pledged Net Revenues of the Airport to the payment of the principal of and interest on the Bonds. The payment of the principal of and interest on the Series 2014A/B Bonds will be secured by a pledge of, lien on and security interest in Net Revenues on a parity with the pledge, lien and security interest securing all previously issued Bonds and any additional Bonds issued under the 1991 Master Resolution. For a description of the Airport's revenues, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION."

Net Revenues are defined in the 1991 Master Resolution as "Revenues" less "Operation and Maintenance Expenses." "Revenues," in turn, are defined in the 1991 Master Resolution to include all revenues earned by the Commission with respect to the Airport, as determined in accordance with generally accepted accounting principles ("GAAP"). Revenues do not include: (a) investment income from moneys in (i) the Construction Fund, (ii) the

Debt Service Fund which constitute capitalized interest, or (iii) the Reserve Fund if and to the extent there is any deficiency therein; (b) interest income on, and any profit realized from, the investment of the proceeds of any Special Facility Bonds; (c) Special Facility Revenues and any income realized from the investment thereof unless designated as Revenues by the Commission; (d) any passenger facility or similar charge levied by or on behalf of the Commission unless designated as Revenues by the Commission; (e) grants-in-aid, donations and bequests; (f) insurance proceeds not deemed to be Revenues in accordance with GAAP; (g) the proceeds of any condemnation award; (h) the proceeds of any sale of land, buildings or equipment; and (i) any money received by or for the account of the Commission from the levy or collection of taxes upon any property of the City.

"Operation and Maintenance Expenses" are defined in the 1991 Master Resolution to include all expenses of the Commission incurred for the operation and maintenance of the Airport, as determined in accordance with GAAP. Operation and Maintenance Expenses do not include: (a) the principal of, premium, if any, or interest on the Bonds or Subordinate Bonds (including Commercial Paper Notes); (b) any allowance for amortization, depreciation or obsolescence of the Airport; (c) any expense for which, or to the extent to which, the Commission will be paid or reimbursed from or through any source that is not included or includable as Revenues; (d) any extraordinary items arising from the early extinguishment of debt; (e) Annual Service Payments; (f) any costs, or charges made therefor, for capital additions, replacements or improvements to the Airport which, under GAAP, are properly chargeable to a capital account or reserve for depreciation; and (g) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any Airport properties. Operating and Maintenance Expenses include the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Commission may establish or the Board of Supervisors may require with respect to Commission employees.

Pursuant to Section 5450 *et seq.* of the California Government Code, the pledge of, lien on and security interest in Net Revenues and certain other funds granted by the 1991 Master Resolution is valid and binding in accordance with the terms thereof from the time of issuance of the Series 2014A/B Bonds; the Net Revenues and such other funds were immediately subject to such pledge; and such pledge constitutes a lien and security interest which immediately attaches to such Net Revenues and other funds and is effective, binding and enforceable against the Commission, its successors, creditors, and all others asserting rights therein to the extent set forth and in accordance with the terms of the 1991 Master Resolution irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or other further act. Such pledge, lien and security interest are not subject to the provisions of Article 9 of the California Uniform Commercial Code.

Certain Adjustments to "Revenues" and "Operation and Maintenance Expenses"

PFCs as Revenues. The term "Revenues" as defined in the 1991 Master Resolution does not include any passenger facility charge ("PFC") or similar charge levied by or on behalf of the Commission against passengers, unless all or a portion thereof are designated as such by the Commission by resolution. The Commission first received approval from the Federal Aviation Administration ("FAA") and began collecting PFCs in 2001 in an amount of $4.50 per enplaning passenger. The Commission's most recent PFC application was approved by the FAA in October 2013 and extended the authorized PFC collection period through June 1, 2023. The Commission is currently working to further extend the collection period and increase the total amount it is authorized to collect. For additional information regarding the PFC, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge."

The amounts of PFC collections designated as "Revenues" under the 1991 Master Resolution and applied to pay debt service on the Bonds since Fiscal Year 2003-04 are described under "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge." The Commission expects to continue to designate a substantial portion of PFCs as Revenues in each Fiscal Year during which such PFCs are authorized to be applied to pay debt service on the Bonds. In the absence of such PFC collections, the Airport would have to increase its rates and fees, including landing fees and terminal rental rates, and/or reduce operating expenses in the aggregate by a corresponding amount. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge" and "CERTAIN RISK FACTORS–Availability of PFCs."

Offsets Against Operating Expenses. The term "Operation and Maintenance Expenses" is defined in the 1991 Master Resolution to exclude, among other things, "any expense for which, or to the extent to which, the Commission is or will be paid or reimbursed from or through any source that is not included or includable as Revenues." For example, if the Commission pays operating expenses from proceeds of borrowed money or from grant moneys rather than from current revenues, it can reduce "Operation and Maintenance Expenses" and thereby artificially increase "Net Revenues" for purposes of satisfaction of the rate covenant and additional bonds tests under the 1991 Master Resolution. The Commission has done so in the past, but only in extraordinary circumstances.

Deferred Aviation Revenues. As Revenues are determined on a modified accrual basis in accordance with GAAP, actual year-to-year receipts from terminal rentals and landing fees may differ materially from the amounts reported as "Revenues." Terminal rental rates and landing fees must be established in advance for the upcoming Fiscal Year based on estimated revenues and expenses. Actual receipts in any given Fiscal Year are either more or less than estimated revenues, as are actual costs relative to estimated costs. Due to the residual nature of the Lease and Use Agreements, to the extent there is an over-collection in any year (that is, receipts from the airlines exceed net costs), that excess is not included in "Revenues." This is due to the fact that those revenues have not yet been earned. The Airport's cumulative deferred aviation revenues have increased from $51.1 million in Fiscal Year 2008-09 to $51.9 million in Fiscal Year 2012-13. The Commission is obligated to reduce future rates and charges by a corresponding amount. However, the cash-on-hand resulting from any such over-collection is available in the interim to pay operating expenses, debt service on Bonds or other amounts in the event that Revenues are unexpectedly low or expenses are unexpectedly high in the course of a given Fiscal Year.

Conversely, if there is an under-collection in any year, that shortfall will nonetheless be recognized as "Revenues," as the Airport's right to receive them has been earned (or "accrued"). The airlines are obligated under the Lease and Use Agreements to pay such deficiency from future rates and charges. Any under-collection would result in a corresponding reduction in liquidity available to the Airport for operating and other expenses. The Commission may also increase terminal rental rates and/or landing fees at any time during a Fiscal Year if the actual expenses (including debt service) in one or more applicable cost centers are projected to exceed by 10% or more the actual revenues from such cost center. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements."

Special Limited Obligations

The Series 2014A/B Bonds are special, limited obligations of the Commission, payable as to principal and interest solely out of, and secured by a pledge of and lien on, the Net Revenues of the Airport and the funds and accounts provided for in the 1991 Master Resolution. Neither the credit nor taxing power of the City and County of San Francisco is pledged to the payment of the principal of or interest on the Series 2014A/B Bonds. No owner of a Series 2014A/B Bond shall have the right to compel the exercise of the taxing power of the City and County of San Francisco to pay the principal of the Series 2014A/B Bonds or the interest thereon. The Commission has no taxing power whatsoever.

Rate Covenant

The Commission has covenanted that it shall establish and at all times maintain rates, rentals, charges and fees for the use of the Airport and for services rendered by the Commission so that:

(a) Net Revenues in each Fiscal Year will be at least sufficient (i) to make all required debt service payments and deposits in such Fiscal Year with respect to the Bonds, any Subordinate Bonds and any general obligation bonds issued by the City for the benefit of the Airport (there have been no such general obligation bonds outstanding for more than 30 years), and (ii) to make the Annual Service Payment to the City as described under "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Payments to the City–*Annual Service Payment*"; and

(b) Net Revenues, together with any Transfer from the Contingency Account to the Revenues Account, in each Fiscal Year will be at least equal to 125% of aggregate Annual Debt Service with respect to the Bonds for such Fiscal Year. See "–Contingency Account."

In the event that Net Revenues for any Fiscal Year are less than the amount specified in clause (b) above, but the Commission has promptly taken all lawful measures to revise its schedule of rentals, rates, fees and charges as necessary to increase Net Revenues, together with any Transfer, to the amount specified, such deficiency will not constitute an Event of Default under the 1991 Master Resolution. Nevertheless, if, after taking such measures, Net Revenues in the next succeeding Fiscal Year are less than the amount specified in clause (b) above, such deficiency in Net Revenues will constitute an Event of Default under the 1991 Master Resolution. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Certain Covenants–*Rate Covenant*."

Contingency Account

The 1991 Master Resolution creates a Contingency Account within the Airport Revenue Fund held by the Treasurer of the City. Moneys in the Contingency Account may be applied upon the direction of the Commission to the payment of principal, interest, purchase price or premium payments on the Bonds, payment of Operation and Maintenance Expenses, and payment of costs related to any additions, improvements, repairs, renewals or replacements to the Airport, in each case only if and to the extent that moneys otherwise available to make such payments are insufficient therefor. The Commission is not obligated to replenish the Contingency Account in the event any amounts are withdrawn.

As of June 30, 2014, the balance in the Contingency Account available for transfer, as described below, was approximately $93.2 million, which was equal to approximately 23.8% of Maximum Annual Debt Service on the Bonds as of that date. If the Commission maintains the Contingency Account at approximately $93.2 million, such balance is expected to be a lower percentage of Maximum Annual Debt Service in the future due to the issuance of the Series 2014A/B Bonds and additional Bonds in the future. The Commission may consider increasing the balance in the Contingency Account in the future but it is not obligated to do so. The Report of the Airport Consultant attached as APPENDIX A assumes that the Commission increases such amounts as is described in such report. Except for transfers to the Revenues Account described in the following paragraph, the Commission has maintained approximately $92 million in the Contingency Account for more than ten years, prior to which time the balance was more than $55 million. The Commission has never drawn on the Contingency Account.

Moneys in the Contingency Account are required to be deposited in the Revenues Account as of the last Business Day of each Fiscal Year, and thereby applied to satisfy the coverage requirement under the rate covenant contained in the 1991 Master Resolution, unless and to the extent the Commission shall otherwise direct. See "–Rate Covenant." On the first Business Day of the following Fiscal Year, the deposited amount (or such lesser amount if the Commission so determines) is required to be deposited back into the Contingency Account from the Revenues Account.

If the Commission withdraws funds from the Contingency Account for any purpose during any Fiscal Year and does not replenish the amounts withdrawn, this reduction in the amount on deposit in the Contingency Account may have an adverse effect on debt service coverage for such Fiscal Year and subsequent Fiscal Years. The Commission is not obligated to replenish the Contingency Account in the event amounts are withdrawn therefrom. See "–Rate Covenant."

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Flow of Funds

The application of Revenues is governed by relevant provisions of the Charter and of the 1991 Master Resolution. Under the Charter, the gross revenue of the Commission is to be deposited in a special fund in the City Treasury designated as the "Airport Revenue Fund." These moneys are required to be held separate and apart from all other funds of the City and are required to be applied as follows:

First, to pay Airport Operation and Maintenance Expenses;

Second, to make required payments to pension and compensation funds and reserves therefor;

Third, to pay the principal of, interest on, and other required payments to secure revenue bonds;

Fourth, to pay principal of and interest on general obligation bonds of the City issued for Airport purposes (there are no general obligation bonds outstanding for Airport purposes, nor have there been for more than 30 years);

Fifth, to pay for necessary reconstruction and replacement of Airport facilities;

Sixth, to acquire real property for the construction or improvement of Airport facilities;

Seventh, to repay to the City's General Fund any sums paid from tax moneys for principal of and interest on any general obligation bonds previously issued by the City for Airport purposes; and

Eighth, for any other lawful purpose of the Commission, including without limitation transfer to the City's General Fund on an annual basis of up to 25% of the non-airline revenues as a return upon the City's investment in the Airport. However, the Lease and Use Agreements further limit payments from the Airport Revenue Fund into the General Fund of the City to the greater of (i) 15% of "Concessions Revenues" (as defined in the Lease and Use Agreements) and (ii) $5 million per year. The Annual Service Payment to the City includes the total transfer to the City's General Fund contemplated by this Charter provision. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Payments to the City."

The 1991 Master Resolution establishes the following accounts within the Airport Revenue Fund: the Revenues Account, the Operation and Maintenance Account, the Revenue Bond Account, the General Obligation Bond Account, the General Purpose Account, and the Contingency Account. Under the 1991 Master Resolution, all Revenues are required to be set aside and deposited by the Treasurer in the Revenues Account as received. Each month, moneys in the Revenues Account are set aside and applied as follows:

First: to the Operation and Maintenance Account, the amount required to pay Airport Operation and Maintenance Expenses;

Second: to the Revenue Bond Account, the amount required to make all payments and deposits required in that month for the Bonds and any Subordinate Bonds, including amounts necessary to make any parity Swap Payments to a Swap Counterparty (see "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Interest Rate Swaps");

Third: to the General Obligation Bond Account, the amount required to pay the principal of and interest on general obligation bonds of the City issued for Airport purposes (there are no general obligation bonds outstanding for Airport purposes, nor have there been for more than 30 years);

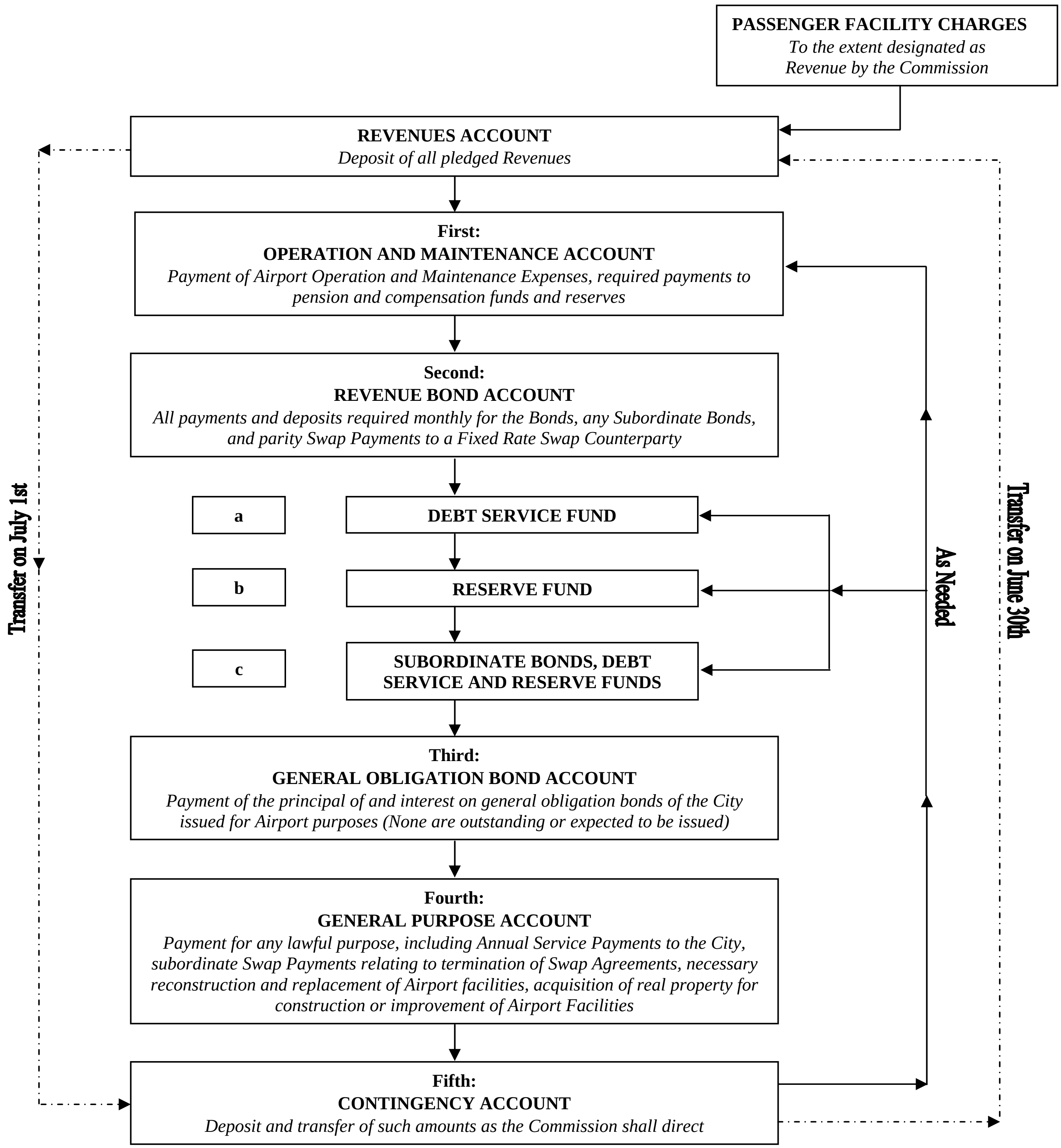
Fourth: to the General Purpose Account, the amount estimated to be needed to pay for any lawful purpose, including any subordinate Swap Payments payable in connection with the termination of the Swap Agreements (see "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Interest Rate Swaps"); and

Fifth: to the Contingency Account, such amount as the Commission shall direct.

Flow of Funds Chart

The Flow of Funds Chart below sets forth a simplified graphic presentation of the allocation of amounts on deposit in the Airport Revenue Fund each month. The Commission is providing it solely for the convenience of the reader and the Commission qualifies it in its entirety by reference to the statements under the caption "–Flow of Funds."

FLOW OF FUNDS CHART



For a detailed description of the transfers and deposits of Revenues, see APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Revenue Fund; Allocation of Net Revenues."

Additional Bonds

General Requirements

Additional Bonds which have a parity lien on Net Revenues with the Series 2014A/B Bonds and all previously issued Bonds may be issued by the Commission pursuant to the 1991 Master Resolution. The Commission has retained substantial flexibility as to the terms of any such additional Bonds. Such additional Bonds (which may include, without limitation, bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein and Repayment Obligations to Credit Providers or Liquidity Providers) may mature on any date or dates over any period of time; bear interest at a fixed or variable rate; be payable in any currency or currencies; be in any denominations; be subject to additional events of default; have any interest and principal payment dates; be in any form (including registered, book-entry or coupon); include or exclude redemption provisions; be sold at a certain price or prices; be further secured by any separate and additional security; be subject to optional tender for purchase; and otherwise include such additional terms and provisions as the Commission may determine, subject to the then-applicable requirements and limitations imposed by the Charter.

Under the Charter, the issuance of Bonds authorized by the Commission must be approved by the Board of Supervisors.

The Commission may not issue any additional Bonds (other than refunding Bonds) under the 1991 Master Resolution unless the Trustee has been provided with either:

(a) a certificate of an Airport Consultant stating that:

(i) for the period, if any, from and including the first full Fiscal Year following the issuance of such additional Bonds through and including the last Fiscal Year during any part of which interest on such Bonds is expected to be paid from the proceeds thereof, projected Net Revenues, together with any Transfer, in each such Fiscal Year will be at least equal to 1.25 times Annual Debt Service; and

(ii) for the period from and including the first full Fiscal Year following the issuance of such Bonds during which no interest on such Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Bonds, or (B) the third full Fiscal Year during which no interest on such Bonds is expected to be paid from the proceeds thereof, projected Net Revenues together with any Transfer from the Contingency Account, if applicable, in each such Fiscal Year will be at least sufficient to satisfy the rate covenants in the 1991 Master Resolution (see "–Rate Covenant"); or

(b) a certificate of an Independent Auditor stating that Net Revenues, together with any Transfer, in the most recently completed Fiscal Year were at least equal to 125% of the sum of (i) Annual Debt Service on the Bonds in such Fiscal Year, plus (ii) Maximum Annual Debt Service on the Bonds proposed to be issued.

Any Transfer from the Contingency Account taken into account for purposes of (a) or (b) above shall not exceed 25% of Maximum Annual Debt Service in such Fiscal Year. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Issuance of Additional Series of Bonds." The Commission anticipates that the certificate described in (a) above will be delivered by the Airport Consultant in connection with the issuance of the Series 2014A/B Bonds.

Proceeds of additional Bonds are expected to be a significant source of funding for the Commission's Capital Plan. See "CAPITAL PROJECTS AND PLANNING–The Capital Plan." The Report of the Airport Consultant attached as APPENDIX A hereto reflects the projected issuance of approximately $2.7 billion of additional Bonds (in addition to the Series 2014A/B Bonds) between Fiscal Year 2015-16 and Fiscal Year 2019-20.

The Commission may issue Bonds for the purpose of refunding any Bonds or Subordinate Bonds upon compliance with the requirements summarized above or upon provision to the Trustee of evidence that aggregate Annual Debt Service in each Fiscal Year with respect to all Bonds to be outstanding subsequent to the issuance of the refunding Bonds will be less than aggregate Annual Debt Service in each such Fiscal Year in which Bonds are outstanding prior to the issuance of such refunding Bonds, and that Maximum Annual Debt Service with respect to all Bonds to be outstanding subsequent to the issuance of the refunding Bonds will not exceed Maximum Annual Debt Service with respect to all Bonds outstanding immediately prior to such issuance. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Refunding Bonds."

Repayment Obligations

Under certain circumstances, Repayment Obligations may be accorded the status of Bonds. Repayment Obligations are defined under the 1991 Master Resolution to mean an obligation under a written agreement between the Commission and a Credit Provider or Liquidity Provider to reimburse the Credit Provider or Liquidity Provider for amounts paid under or pursuant to a Credit Facility (which is defined in the 1991 Master Resolution to include letters of credit, lines of credit, standby bond purchase agreements, municipal bond insurance policies, surety bonds or other financial instruments) or a Liquidity Facility (which is defined in the 1991 Master Resolution to include lines of credit, standby bond purchase agreements or other financial instruments that obligate a third party to pay or provide funds for the payment of the purchase price of any variable rate Bonds) for the payment of the principal or purchase price of and/or interest on any Bonds. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Credit Facilities Relating to Bonds." See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Repayment Obligations."

Reserve Fund; Reserve Accounts; Credit Facilities

The 1991 Master Resolution established the pooled "Issue 1 Reserve Account" (the "Original Reserve Account") in the Reserve Fund as security for each series of Bonds (each, an "Original Reserve Series") that is designated as being secured by the Original Reserve Account. Most of the Bonds currently Outstanding under the 1991 Master Resolution have been designated as Original Reserve Series except for the Issues 36A, 36B and 36C Bonds and the Series 2009C, 2010A and 2010D Bonds.

The Series 2014A/B Bonds will be designated as an Original Reserve Series and will be secured by the Original Reserve Account.

The 1991 Master Resolution also established the pooled "2009 Reserve Account" (the "2009 Reserve Account") in the Reserve Fund as security for each series of Bonds (each, a "2009 Reserve Series") that is designated as being secured by the 2009 Reserve Account. The Series 2009C and 2010D Bonds are secured by the 2009 Reserve Account.

As permitted under the 1991 Master Resolution, the Commission does not maintain a reserve account for the Issue 36A, 36B or 36C Bonds or the Series 2010A Bonds, all of which are secured by letters of credit.

Future Series of Bonds may be secured by the Original Reserve Account, the 2009 Reserve Account or a separate reserve account, or may not be secured by any debt service reserve account, as the Commission shall determine. A deficiency in any of the reserve accounts may require the Commission to apply Net Revenues to cure such deficiency and thereby reduce Net Revenues available to pay the Series 2014A/B Bonds.

Original Reserve Account

The Series 2014A/B Bonds will be an Original Reserve Series and will be secured by the Original Reserve Account.

Amounts on deposit in the Original Reserve Account may be used solely for the purposes of (i) paying interest, principal or mandatory sinking fund payments on the Original Reserve Series of Bonds whenever any moneys then credited to the debt service funds with respect to such Original Reserve Series of Bonds are insufficient for such purposes, and (ii) reimbursing the providers of any reserve policies or other credit facilities credited to the Original Reserve Account for any payments thereunder.

The reserve requirement for the Original Reserve Account (the "Original Reserve Requirement") is an amount equal to Aggregate Maximum Annual Debt Service. Aggregate Maximum Annual Debt Service means the maximum amount of Annual Debt Service on all Outstanding Original Reserve Series of Bonds in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of such Bonds. The Original Reserve Requirement can be funded with cash, Permitted Investments and/or Credit Facilities.

The 1991 Master Resolution authorizes the Commission to obtain Credit Facilities, including surety bonds and insurance policies ("reserve policies"), in place of funding the Original Reserve Account with cash and Permitted Investments. The 1991 Master Resolution requires that the substitution of a Credit Facility for amounts on deposit in the Original Reserve Account not cause the then-current ratings on the Bonds to which such accounts are pledged to be downgraded or withdrawn.

The Commission has previously deposited in the Original Reserve Account reserve policies in an aggregate amount of $56.9 million issued by (i) MBIA Insurance Corporation ("MBIA") and (ii) Financial Guaranty Insurance Company ("FGIC"). The reserve policies from MBIA and FGIC were subsequently reinsured by National Public Finance Guarantee Corporation ("National"). The 1991 Master Resolution requires that a reserve policy deposited in the Original Reserve Account must be from a credit provider rated in the highest rating category by at least two rating agencies. However, the 1991 Master Resolution does not require that those ratings be maintained after the date of deposit of such reserve policy to the Original Reserve Account. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Debt Service and Reserve Funds–*Application and Valuation of the Reserve Accounts.*" Moody's and Standard & Poor's currently rate the claims-paying ability and financial strength of National "A3" (negative outlook) and "AA-" (stable), respectively. Information concerning National is available in reports and statements filed by National with the SEC. This information is available on the SEC's website at http://www.sec.gov. The Commission does not have any current plans to obtain additional Credit Facilities for the Original Reserve Account.

As of August 1, 2014, the Original Reserve Requirement was $335.4 million and the balance in the Original Reserve Account was $383.2 million, including $326.4 million of cash and Permitted Investments (approximately 97.3% of the Original Reserve Requirement).

Original Reserve Account Balance
As of August 1, 2014

Cash and Permitted Investments	$326.4 million
Reserve Policies	
National (FGIC) Reserve Policies	15.1 million
National (MBIA) Reserve Policies	41.8 million
SUBTOTAL RESERVE POLICIES	$ 56.9 million
TOTAL	$383.2 million

Following the issuance of the Series 2014A/B Bonds, the Original Reserve Requirement will be $359.07 million. The Commission expects to deposit approximately $32.72 million of proceeds of the Series 2014A/B Bonds into the Original Reserve Account at the time of issuance of the Series 2014A/B Bonds. Subsequent to the issuance of the Series 2014A/B Bonds, total cash and Permitted Investments in the Original Reserve Account are expected to equal $359.07 million, or 100% of the Original Reserve Requirement.

In the event that the balance in the Original Reserve Account is diminished below the Original Reserve Requirement, the Trustee is required to immediately notify the Commission of such deficiency and the Commission is required under the 1991 Master Resolution to replenish the Original Reserve Account by transfers of available Net Revenues over a period not to exceed 12 months from the date on which the Commission is notified of such deficiency. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Debt Service

and Reserve Funds–*Application and Valuation of the Reserve Accounts*." Any amounts on deposit in the Original Reserve Account in excess of the Original Reserve Requirement may be withdrawn by the Commission.

2009 Reserve Account

The Series 2014A/B Bonds are NOT secured by the 2009 Reserve Account.

Amounts on deposit in the 2009 Reserve Account may be used solely for the purposes of (i) paying interest, principal or mandatory sinking fund payments on any 2009 Reserve Series of Bonds whenever any moneys then credited to the debt service funds with respect to such 2009 Reserve Series of Bonds are insufficient for such purposes, and (ii) reimbursing the providers of any reserve policies or other credit facilities credited to the 2009 Reserve Account for any payments thereunder.

The reserve requirement for each 2009 Reserve Series is equal to the lesser of: (i) Maximum Annual Debt Service for such Series of 2009 Reserve Series Bonds, (ii) 125% of average Annual Debt Service for such Series of 2009 Reserve Series Bonds, and (iii) 10% of the outstanding principal amount of such Series of 2009 Reserve Series Bonds (or allocable issue price of such Series if such Series is sold with more than a de minimis (2%) amount of original issue discount), in each case as determined from time to time, and with respect to all 2009 Reserve Series of Bonds is the aggregate of such amounts for each individual Series (the "2009 Reserve Requirement"). The 2009 Reserve Requirement can be funded with cash, Permitted Investments and/or reserve policies.

The 1991 Master Resolution authorizes the Commission to obtain credit facilities, including reserve policies, in place of funding the 2009 Reserve Account with cash and permitted investments. The 1991 Master Resolution requires that a reserve policy deposited in the 2009 Reserve Account must be from a credit provider rated in the highest rating category by at least two rating agencies. The 1991 Master Resolution, however, does not require that those ratings be maintained after the date of deposit. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Debt Service and Reserve Funds–*Application and Valuation of the Reserve Accounts*."

The Commission previously deposited in the 2009 Reserve Account a reserve policy issued by Financial Security Assurance Inc. ("FSA"), which was later acquired by an affiliate of Assured Guaranty Corporation ("Assured") and renamed Assured Guaranty Municipal Corp. ("AGM"). AGM is currently rated "A2" (stable) by Moody's and "AA" (stable) by S&P.

As of August 1, 2014, the 2009 Reserve Requirement was $18.9 million and the balance in the 2009 Reserve Account was $22.3 million. The full amount of the 2009 Reserve Requirement is satisfied by the $18.9 million of cash and Permitted Investments held in the account.

2009 Reserve Account Balance
As of August 1, 2014

Cash and Permitted Investments	$18.9 million
AGM Reserve Policy	3.4 million†
	$22.3 million

† Under the terms of this AGM reserve policy, the value may be adjusted downward under certain circumstances and may have experienced a reduction in value.

In the event that the balance in the 2009 Reserve Account is diminished below the 2009 Reserve Requirement, the Trustee is required to immediately notify the Commission of such deficiency and the Commission is required under the 1991 Master Resolution to replenish the 2009 Reserve Account by transfers of available Net Revenues over a period not to exceed 12 months from the date on which the Commission is notified of such deficiency. Any amounts on deposit in the 2009 Reserve Account in excess of the 2009 Reserve Requirement may be withdrawn by the Commission.

Forward Purchase and Sale Agreements

The Commission has invested a portion of the cash balance in the Original Reserve Account pursuant to a long-term forward purchase and sale agreement which provides a fixed rate of return on specified permitted investments. This agreement was entered into in order to increase the investment return of the Original Reserve Account and terminates on November 1, 2014. The Commission may invest additional amounts in the Original Reserve Account or debt service funds pursuant to similar types of agreements. The permitted investments delivered from time to time by the providers of such agreements are the property of the Commission and the Commission has received bankruptcy opinions of counsel to the respective providers to such effect, which opinions are subject to customary qualifications. Thus, the Commission believes that the principal amounts invested pursuant to such agreements are not at risk in the event of the bankruptcy or insolvency of the respective providers. It is possible, however, that there could be delays in liquidating such investments in the event of a bankruptcy of the provider.

Contingent Payment Obligations

The Commission has entered into, and may in the future enter into, contracts and agreements in the course of its business that include an obligation on the part of the Commission to make payments contingent upon the occurrence or non-occurrence of certain future events, including events that are beyond the direct control of the Commission. These agreements include interest rate swap and other similar agreements, investment agreements, including for the future delivery of specified securities, letter of credit and line of credit agreements for advances of funds to the Commission in connection with its Bonds and other obligations, and other agreements. See "–Reserve Fund; Reserve Accounts; Credit Facilities–*Forward Purchase and Sale Agreements*" and "–Other Indebtedness–*Subordinate Bonds*." For summaries of the Interest Rate Swap Policy and certain swap agreements entered into by the Commission, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Interest Rate Swaps."

Such contracts and agreements may provide for contingent payments that may be conditioned upon the credit ratings of the Airport and/or of the other parties to the contract or agreement, maintenance by the Commission of specified financial ratios, the inability of the Commission to obtain long-term refinancing for short-term obligations or liquidity arrangements, and other factors. Such payments may be payable on a parity with debt service on the Bonds, including any "Swap Payments" to a Swap Counterparty as such term is defined in the 1991 Master Resolution.

The amount of any such contingent payments may be substantial. To the extent that the Commission did not have sufficient funds on hand to make any such payment, it is likely that the Commission would seek to borrow such amounts through the issuance of additional Bonds or Subordinate Bonds (including Commercial Paper Notes).

No Acceleration

The Bonds are not subject to acceleration under any circumstances or for any reason, including without limitation upon the occurrence and continuance of an Event of Default under the 1991 Master Resolution. Moreover, the Bonds will not be subject to mandatory redemption or mandatory purchase or tender for purchase upon the occurrence and continuance of an Event of Default under the 1991 Master Resolution to the extent the redemption or purchase price is payable from Net Revenues. Bonds, however, may be subject to mandatory redemption or mandatory purchase or tender for purchase if the redemption or purchase price is payable from a source other than Net Revenues such as payments under a credit facility or liquidity facility. Amounts payable to reimburse a credit provider or liquidity provider pursuant to a credit facility or liquidity facility for amounts drawn thereunder to pay principal, interest or purchase price of Bonds, which reimbursement obligations are accorded the status of Repayment Obligations, can be subject to acceleration, but any such accelerated payments (other than certain amounts assumed to be amortized in that year under the 1991 Master Resolution) would be made from Net Revenues on a basis subordinate to the Bonds. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Repayment Obligations."

Upon the occurrence and continuance of an Event of Default under the 1991 Master Resolution, the Commission would be liable only for principal and interest payments on the Bonds as they became due. *The inability to accelerate the Bonds limits the remedies available to the Trustee and the Owners upon an Event of*

Default, and could give rise to conflicting interests among Owners of earlier-maturing and later-maturing Bonds. In the event of successive defaults in payment of the principal of or interest on the Bonds, the Trustee likely would be required to seek a separate judgment for each such payment not made. Also see "CERTAIN RISK FACTORS–Limitation of Remedies" and "–Potential Impact of a City Bankruptcy."

Other Indebtedness

General

In addition to the Series 2014A/B Bonds and other Bonds that it may have Outstanding from time to time, the Commission has reserved the right under the 1991 Master Resolution to issue indebtedness (i) secured in whole or in part by a pledge of and lien on Net Revenues subordinate to the pledge and lien securing the Bonds ("Subordinate Bonds"), or (ii) secured by revenues from a Special Facility (defined herein) ("Special Facility Bonds"). Provisions of the 1991 Master Resolution governing the issuance of and security for Subordinate Bonds and Special Facility Bonds are described in APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Subordinate Bonds" and "–Special Facility Bonds."

Subordinate Bonds

The Commission has authorized, and the Board of Supervisors has approved, the issuance of up to $400,000,000 principal amount outstanding at any one time of commercial paper notes (the "Commercial Paper Notes"), which constitute Subordinate Bonds. The Commercial Paper Notes are authorized pursuant to Resolution No. 97-0146 adopted by the Commission on May 20, 1997, as supplemented by Resolution No. 09-0088 adopted by the Commission on May 5, 2009, which amended and restated Resolution No. 97-0147 adopted by the Commission on May 20, 1997 and Resolution No. 99-0299 adopted by the Commission on September 21, 1999, and as supplemented by Resolution No. 10-0307 adopted by the Commission on October 5, 2010 (collectively, the "Subordinate Resolution"). The terms and provisions of the Subordinate Resolution are substantially similar to those of the 1991 Master Resolution, with the exception that the Subordinate Resolution provides that payment of the Commercial Paper Notes, and repayment of amounts drawn on the letters of credit with respect thereto, is secured by a lien on Net Revenues subordinate to the lien of the 1991 Master Resolution securing the Bonds. See "–Contingent Payment Obligations."

The Commission has obtained three irrevocable direct-pay letters of credit totaling $400 million in available principal component to support the Commercial Paper Notes. These letters of credit are described in the following table.

LETTERS OF CREDIT FOR COMMERCIAL PAPER NOTES

	Series A-1 Notes, Series B-1 Notes, Series C-1 Notes	**Series A-3 Notes, Series B-3 Notes, Series C-3 Notes**	**Series A-4 Notes, Series B-4 Notes, Series C-4 Notes**
Principal Amount	$100,000,000	$200,000,000	$100,000,000
Expiration Date	May 2, 2019	May 19, 2017	June 17, 2016
Credit Provider	State Street(1)	Royal Bank of Canada	Wells Fargo(2)
Credit Provider Ratings(3)			
Short-Term	P-1/A-1+/F1+	P-1/A-1+/F1+	P-1/A-1+/F1+
Long-Term	Aa3/AA-/A+	Aa3/AA-/AA	Aa3/AA-/AA-

(1) State Street Bank and Trust Company.

(2) Wells Fargo Bank, National Association.

(3) As of August 1, 2014. Ratings are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or re-verified by the rating agencies. The Commission does not take any responsibility for the accuracy of such ratings, or give any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant. Reflects the ratings of the credit provider, not the rating on the related Commercial Paper Notes. Ratings on related Commercial Paper Notes may be different. Ratings for the Credit Providers are displayed as Moody's/S&P/Fitch.

Source: Commission.

As of August 1, 2014, there was approximately $248 million of Commercial Paper Notes outstanding, which is expected to be repaid with a portion of the proceeds of the Series 2014A/B Bonds.

Special Facility Bonds

The Commission may (a) designate an existing or planned facility, structure, equipment or other property, real or personal, which is at the Airport or part of any facility or structure at the Airport as a Special Facility, (b) provide that revenues earned by the Commission from or with respect to such Special Facility shall constitute "Special Facility Revenues" and shall not be included as Revenues, and (c) issue Special Facility Bonds for the purpose of acquiring, constructing, renovating, or improving such Special Facility. The designation of an existing facility as a Special Facility therefore could result in a reduction in Revenues. Principal, purchase price, if any, redemption premium, if any, and interest with respect to Special Facility Bonds shall be payable from and secured by the Special Facility Revenues, and not from or by Net Revenues.

No Special Facility Bonds may be issued by the Commission unless an Airport Consultant has certified: (i) that the estimated Special Facility Revenues with respect to the proposed Special Facility will be at least sufficient to pay the principal, purchase price, interest, and all sinking fund, reserve fund and other payments required with respect to such Special Facility Bonds when due, and to pay all costs of operating and maintaining the Special Facility not paid by a party other than the Commission; (ii) that estimated Net Revenues calculated without including the Special Facility Revenues and without including any operation and maintenance expenses of the Special Facility as Operation and Maintenance Expenses will be sufficient so that the Commission will be in compliance with its rate covenant during each of the five Fiscal Years immediately following the issuance of the Special Facility Bonds; and (iii) no Event of Default under the 1991 Master Resolution exists.

SFO FUEL Bonds

The Commission has two outstanding issues of Special Facility Bonds which were issued to finance the construction of jet fuel distribution and related facilities at the Airport for the benefit of the airlines: its Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997A (AMT), of which $69,645,000 was outstanding as of August 1, 2014; and its Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2000A, of which $12,985,000 was outstanding as of August 1, 2014 (collectively, the "SFO FUEL Bonds"). The SFO FUEL Bonds are payable from and secured by payments made by a special purpose limited liability company ("SFO Fuel") pursuant to a lease agreement between the Commission and SFO Fuel with respect to the jet fuel distribution facilities. SFO Fuel was formed by certain airlines operating at the Airport. The lease payments, and therefore the SFO FUEL Bonds, are payable from charges imposed by SFO Fuel on air carriers for into-plane fueling at the Airport, and are not payable from or secured by Net Revenues.

Rights of Bond Insurers

The Commission purchased municipal bond insurance policies with respect to approximately 19% of its outstanding Series of Bonds. They include policies issued by AGM, Assured and National (each, a "Bond Insurer"). The 1991 Resolution provides Bond Insurers with various affirmative rights in connection with the Bonds which they insure. These rights include, among others: (a) the right to consent to any amendment to the 1991 Resolution requiring the consent of Owners of the Bonds secured by the Bond Insurer's bond insurance policy ("Insured Bonds"); (b) the right to consent to the deposit of a Credit Facility in lieu of cash in the reserve account which secures the Insured Bonds; (c) the right to be deemed to be the Owner of the Insured Bonds upon the occurrence of an Event of Default with respect to such Bonds for purposes of any consent or direction, appointment, request or waiver to be provided; and (d) the right to institute any suit, action or proceeding under the same terms under the 1991 Resolution as an Owner of such Insured Bonds.

Under the terms of the 1991 Resolution, however, the foregoing rights remain in effect only for so long as, among other things: (i) the Bond Insurer's bond insurance policy is in effect, (ii) the Bond Insurer is not in default under its policy, and (iii) the Bond Insurer is not Insolvent. For a definition of "Insolvent," see APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Certain Definitions." Some of the Bond Insurers may be Insolvent, and thus may not have the rights otherwise provided by the 1991 Resolution. The

Commission makes no representation as to the respective rights of the Owners and the Bond Insurer for a Series of Insured Bonds in the event the Bond Insurer is now, or were later determined to be, Insolvent.

CERTAIN RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Series 2014A/B Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Series 2014A/B Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Series 2014A/B Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Series 2014A/B Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Uncertainties of the Aviation Industry

The principal determinants of passenger demand at the Airport include the population and economy of the Airport service region; national economic conditions; political conditions, including wars, other hostilities and acts of terrorism; airfares and competition from surrounding airports; airline service and route networks; the capacity of the national air transportation system and the Airport; accidents involving commercial passenger aircraft; visa requirements and other limitations on the ability of foreign citizens to enter the United States; and the occurrence of pandemics and other natural and man-made disasters. Airfares and airline service are, in turn, affected by the financial condition of the airlines, among other factors. See "–Bankruptcy of Airlines Operating at the Airport" and "–Competition" and "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements–*Potential Effects of an Airline Bankruptcy*."

The airline industry is cyclical and subject to intense competition and variable demand. Traffic volumes are responsive to economic circumstances and seasonal patterns. Other factors, such as fuel and regulatory costs, can also have a significant impact on the industry. As a result, airline financial performance can fluctuate dramatically from one reporting period to the next.

Fuel is a significant cost component of airline operations and continues to be an important and uncertain determinant of an air carrier's operating economics. Historically, aviation fuel prices have been particularly sensitive to worldwide political instability. Continued or new hostilities in the Middle East or other petroleum producing regions could dramatically impact the price and availability of aviation fuel. Economic expansion in emerging markets also contributes to higher aviation fuel prices. Significant and prolonged increases in the cost of aviation fuel have had and are likely to continue to have an adverse impact on the air transportation industry by increasing airline operating costs, hampering airline recovery plans and reducing airline profitability.

In addition to revenues received from the airlines, the Commission derives a substantial portion of its revenues from concessionaires including parking operators, merchandisers, car rental companies, restaurants and others. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Concessions." Past declines in Airport passenger traffic have adversely affected, and future declines may adversely affect, the commercial operations of many of such concessionaires. Severe financial difficulties affecting a concessionaire could lead to a failure to pay rent due under its lease agreement with the Airport or could lead to the cessation of operations of such concessionaire.

The ability of the Commission to derive revenues from its operations depends largely upon the financial health of the airlines serving the Airport and the airline industry as a whole. The financial results of the airline industry are subject to substantial volatility and many carriers have had extended periods of unprofitability. Additional bankruptcy filings, mergers, consolidations and other major restructuring by airlines are possible. See "–Bankruptcy of Airlines Operating at the Airport" and "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements–*Potential Effects of an Airline Bankruptcy*."

Bankruptcy of Airlines Operating at the Airport

Airlines operating at the Airport have filed for bankruptcy in the past and may do so in the future. If a bankruptcy case is filed with respect to an airline operating at the Airport, the Lease and Use Agreement to which the debtor airline is a party will be treated as an executory contract or unexpired lease pursuant to Section 365 of the United States Bankruptcy Code (the "Bankruptcy Code"). Under Section 365, a trustee in bankruptcy or the airline as debtor-in-possession might reject the Lease and Use Agreement to which such airline is a party, in which case, among other things, the rights of that airline to continued possession of the facilities subject to the lease (including gates and boarding areas) would terminate. Such facilities could ultimately be leased by the Commission to other airlines. The Commission's ability to lease such facilities to other airlines may depend on the state of the airline industry in general, on the nature and extent of the increased capacity at the Airport, if any, resulting from the airline's bankruptcy, and on the need for such facilities by other airlines. The rejection of a Lease and Use Agreement in connection with the bankruptcy of an airline operating at the Airport may result in the loss of Revenues to the Commission and a resulting increase in the costs per enplaned passenger for the other airlines at the Airport. In addition, in any airline bankruptcy the Commission may be required to repay landing fees, terminal rentals and other amounts paid by the airline to the Airport during the 90-day period prior to the date of the bankruptcy filing. Such payments are considered "preferential" and are avoidable and recoverable in a bankruptcy case pursuant to Section 547 of the Bankruptcy Code. The Commission would, however, likely have defenses to any claims brought under Section 547 of the Bankruptcy Code, including that the subject payments were made in the ordinary course of business or that the Airport provided subsequent new value to the airline.

Also, under the Bankruptcy Code, any rejection of a Lease and Use Agreement could result in a claim for damages for lease rejection by the Commission which claim would rank as that of a general unsecured creditor of the airline, in addition to pre-bankruptcy amounts owed. For further discussion of the impact of an airline bankruptcy, see "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements–*Potential Effects of an Airline Bankruptcy*."

For a discussion of the effects of an airline bankruptcy on the collection of the passenger facility charge, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge–*Collection of PFCs in the Event of Airline Bankruptcy*."

Airline Concentration; Effect of Airline Industry Consolidation

United Airlines and Continental Airlines (which merged in October 2010, received FAA approval to operate under a single operating certificate in November 2011 and currently operate as United Airlines), together with Skywest and United Express, were responsible for 46.3% of the Airport's total enplanements and 43.0% of the Airport's total revenue landed weight in Fiscal Year 2013-14. The Airport serves as a hub airport for United Airlines. If United Airlines were to reduce or cease connecting service at the Airport, such flights would not necessarily be replaced by other airlines. While historically when airlines have reduced or ceased operations at the Airport other airlines have absorbed the traffic with no significant adverse impact on Airport revenues, it is possible that were United Airlines or another airline to cease or significantly cut back operations at the Airport, Revenues, PFC collections and costs for other airlines serving the Airport could be adversely affected.

In addition to the United/Continental merger described in the preceding paragraph, on December 9, 2013, American Airlines and US Airways merged, although they continue to operate under separate FAA operating certificates. Also, in May 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways. These airlines received FAA approval to operate under a single operating certificate in March 2012, although the airlines' operations are likely to remain separate through 2014. Further airline consolidation remains possible. While prior mergers have had and the Commission expects that recent mergers will have little impact on the respective combined airlines' market shares at the Airport, future mergers or alliances among airlines operating at the Airport may result in fewer flights or decreases in gate utilization by one or more airlines. Such decreases could result in reduced Revenues, reduced PFC collections, and/or increased costs for the other airlines serving the Airport.

Availability of PFCs

The Commission has designated $62.6 million of PFC collections to be included in "Revenues" and used to pay debt service as needed in Fiscal Year 2014-15. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge." PFCs that are designated as Revenues are taken into account in determining whether the rate covenant and additional bonds test described under "SECURITY FOR THE SERIES 2014A/B BONDS –Additional Bonds" are satisfied.

The Commission's receipt of PFC revenues is subject to several risks. First, the Commission's current PFC authorization expires June 1, 2023. For a discussion of the PFC applications, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Passenger Facility Charge." Second, the amount of PFCs received by the Commission in future years depends on the actual number of PFC-eligible passenger enplanements at the Airport. If enplanements decline so will the Commission's PFC revenues. Third, the Commission's authority to impose PFCs may be terminated (subject to procedural safeguards) for various reasons, including for a failure by the Commission to observe requirements regarding use of these revenues. A shortfall in PFC revenues, as a result of the FAA or Congress reducing or terminating the Commission's ability to impose and collect PFCs or as a result of any other actions, would likely require the Commission to increase rates and fees, including landing fees and terminal rentals, and/or reduce operating expenses to pay debt service costs.

Reduction in FAA Grants

The Commission uses discretionary grants from the FAA to offset a portion of the costs of various capital projects at the Airport. In making decisions concerning the distribution of discretionary grants to an airport, federal law requires the Secretary of Transportation to consider, as a negative mitigating factor, the fact that the airport in question is using its revenues above specified historical levels for purposes other than its capital or operating costs. The Commission pays a portion of the Airport's revenues to the City's General Fund as an Annual Service Payment, in part as compensation for all indirect services, management and facilities provided by the City to the Airport. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Certain Federal and State Laws and Regulations–*Federal Law Prohibiting Revenue Diversion*" and "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Payments to the City."

In federal fiscal year ending September 30, 2012, the FAA provided discretionary grants of $42.0 million, $6.4 million less than the Airport had requested, as a result of the amount of the Annual Service Payments. In the following federal fiscal year ending September 30, 2013, the FAA did not award discretionary grants to the Airport. In federal fiscal year ending September 30, 2014, the FAA provided discretionary grants of $45.6 million, $11.8 million less than the Airport had requested, as a result of the amount of the Annual Service Payments. The FAA may continue to reduce discretionary grants in the future. The reduction in discretionary grants awarded to the Airport increases by a corresponding amount the capital expenditures that the Commission needs to fund from other sources, including operating revenues, PFCs and Bond proceeds.

The FAA currently disburses grant funds to the Airport through its Airport Improvement Program (the "AIP"), however there are several proposals that would reduce or eliminate funding for the AIP. The President's budget proposal for federal fiscal year 2015 includes a request for a $2.9 billion obligation limitation for the AIP, a decrease of $450 million from the fiscal year 2014 enacted level. This proposal would focus Federal grants on supporting smaller commercial and general aviation airports that do not have access to additional revenue or other outside sources of capital. It would also give larger airports more flexibility to raise capital, and increase the cap on the passenger facility charge that could be collected per passenger. Additional proposals to reduce or eliminate AIP funding may be made in the future. The Commission is unable to predict whether or in what form any such proposals will be adopted.

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Capital Plan

Revisions to the Commission's five-year Capital Plan that correspond to the period between Fiscal Year 2014-15 and Fiscal Year 2018-19 and ten-year Capital Plan that correspond to the period between Fiscal Year 2014-15 and Fiscal Year 2023-24 were approved by the Commission on February 18, 2014. The five-year Capital Plan includes an aggregate of $2.5 billion in projects, of which $108.1 million are expected to be funded with AIP funds and other grants, $23.8 million with Airport operating funds, and $2.4 billion with Bond proceeds. The forecast of capital needs from Fiscal Year 2019-20 to Fiscal Year 2023-24 adds an additional $1.9 billion in projects for a 10-year total of $4.4 billion. The Commission bases its Bond issuance needs on capital project cash flows, which includes projects budgeted in prior capital plans and does not include project costs if the cash flows extend beyond the planning period. The Commission expects that it will experience an aggregate increase in debt service costs when it issues these additional Bonds which will likely increase landing fees and terminal rentals at the Airport, which may increase the costs of the airlines serving at the Airport and may make the costs of the Airport to airlines less competitive than competing airports. On the other hand, if the Commission does not make improvements, its facilities may be less attractive to passengers and airlines. The Commission continues to evaluate capital projects based on the risk, passenger demand, asset condition, and Commission's financial position. For further discussion of planned capital projects, see "CAPITAL PROJECTS AND PLANNING–The Capital Plan." The Report of the Airport Consultant attached hereto as APPENDIX A reflects the issuance of $2.7 billion of additional Bonds between Fiscal Years 2015-16 and 2019-20 (in addition to the Series 2014A/B Bonds). The Commission also may decide to undertake other capital projects in the future that are not in the Capital Plan.

Competition

Metropolitan Oakland International Airport (the "Oakland Airport") and Norman Y. Mineta San Jose International Airport (the "San Jose Airport") are the other airports in the Bay Area that compete with the Airport for passengers and cargo traffic. In addition, the Airport competes with other West Coast airports, primarily Los Angeles International Airport, for international passengers. Competition from these airports, along with potential competition from Seattle-Tacoma International Airport, may affect passenger and cargo demand at the Airport. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Competition."

On November 4, 2008, the voters of the State approved Proposition 1A, the "Safe, Reliable High-Speed Passenger Train Bond Act" authorizing the issuance of $9.95 billion in bonds to finance construction of high-speed train service linking Southern California, the Sacramento San Joaquin Valley and the San Francisco Bay Area. The regional Metropolitan Transportation Commission retained an aviation consulting firm to study the impact of high-speed rail on the airports in the San Francisco Bay Area. The consulting firm released a report forecasting that by 2035, the San Jose Airport could lose 12% of its projected passengers, Oakland Airport could lose 9% and the Airport could lose 4% to a high-speed rail system. The Commission is unable to predict whether a high-speed rail system will be constructed, if it is constructed what areas of the State it would serve, or the effect that any such high-speed rail system, if completed, would have on passenger traffic at and revenues of the Airport.

Uncertainties of Projections, Forecasts and Assumptions

In its Report, the Airport Consultant, based on the assumptions contained in the Report, forecasts that the Commission will comply with the rate covenant in the 1991 Master Resolution through June 30, 2021. See APPENDIX A–"REPORT OF THE AIRPORT CONSULTANT." One of the principal assumptions on which the Airport Consultant relies in making its forecast is that passenger traffic will remain generally stable during the forecast period with modest expected increases. Other assumptions, such as forecasted revenues and expenses, generally follow from assumed passenger traffic. Whether the forecasted passenger traffic materializes depends on a number of factors outside of the Commission's control, such as economic growth of the United States and the Bay Area, airline financial condition, general costs of air travel and other similar assumptions. In addition, the Airport Consultant makes assumptions about contract terms, passenger spending habits, growth of expenses including labor costs, interest rates and other matters as described in their Report. The Report of the Airport Consultant should be read in its entirety for an understanding of the forecasts and the underlying assumptions. As noted in the Report of the Airport Consultant, any financial forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. The actual financial results achieved will vary from those forecasts, and the variations may be material Also see "REPORT OF THE AIRPORT CONSULTANT" and APPENDIX A.

Airport Security

The September 11, 2001 terrorist attacks resulted in increased safety and security measures at the Airport mandated by the Aviation and Transportation Security Act passed by the U.S. Congress in November 2001 and by directives of the FAA. In addition, certain safety and security operations at the Airport have been assumed by the Transportation Security Administration. In spite of the increased security measures, additional acts of terrorism resulting in disruption to the North American air traffic system, increased passenger and flight delays, and reductions in Airport passenger traffic and/or Airport Revenues, remain possible. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Airport Security." The Airport does not maintain any liability insurance coverage for terrorism or hijacking. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Risk Management and Insurance."

Worldwide Health Concerns

In fall 2009, the World Health Organization and the U.S. Department of Health and Human Services (through the Secretary of the Department of Homeland Security), declared public health emergencies as the result of outbreaks of a serious strain of H1N1 influenza or "flu." Travel restrictions, as well as other public health measures, may be imposed to limit the spread of communicable diseases which may arise. In spring 2003, there was an outbreak of a serious strain of bird flu in Asia and Canada called "Severe Acute Respiratory Syndrome" or SARS. That, together with the outbreak of the war in Iraq and other factors at about the same time, resulted in a temporary but significant decline in passenger activity at the Airport of approximately 14% in the second quarter of Fiscal Year 2002-03, and approximately 7% for the year as a whole.

Future pandemics may lead to a decrease in air traffic, at least for a temporary period, which in turn could cause a decrease in passenger activity at the Airport and a corresponding decline in Revenues. The Commission is unable to predict how serious such a situation may become, what effect it may have on air travel to and from the Airport, and whether any such effects will be material. The Commission has plans and procedures in place which are intended to deal with any such future pandemic.

Seismic Risks

The Airport is located in a seismically active region. The San Francisco Bay Area has experienced several major and numerous minor earthquakes. The largest was the 1906 San Francisco earthquake along the San Andreas fault with an estimated magnitude of 8.3 on the Richter scale. The most recent significant seismic event on the San Andreas fault was an earthquake measuring 7.1 on the Richter scale that occurred in October 1989. On August 24, 2014, the San Francisco Bay Area experienced a 6.0 earthquake centered near Napa along the West Napa Fault. The Airport did not suffer any damage as a result of this earthquake.

The Airport could sustain extensive damage to its facilities, including to the existing control tower, in a major earthquake from ground motion and possible liquefaction of underlying soils and resulting tidal surges. Damage could include pavement displacement (which could, in the worst case, necessitate the closing of one or more runways for extended periods of time), distortions of pavement grades, breaks in utilities, loss of water supply from the City's Hetch Hetchy water system, damage to drainage and sewage lines, displacement or collapse of buildings, rupture of gas and fuel lines (including the common carrier pipelines under the San Francisco Bay that supply jet fuel to the Airport), and collapse of dikes at the Airport with consequential flooding. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Current Airport Facilities–*Seismic Design of Airport Facilities*." In addition, a major earthquake could adversely affect the economy of the Bay Area, which could have a negative impact on passengers using the Airport and on Revenues.

The Commission does not maintain insurance or self-insure against any risks due to land movement or seismic activity. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Risk Management and Insurance."

Climate Change Issues and Possible New and Increased Regulation

Climate change concerns are leading to new laws and regulations at the federal and State levels that could have a material adverse effect on airlines operating at the Airport and could also affect ground operations at airports.

The U.S. Environmental Protection Agency (the "EPA") has taken steps towards the regulation of greenhouse gas ("GHG") emissions under existing federal law. Those steps may in turn lead to further regulation of aircraft GHG emissions. On December 14, 2009, the EPA made an "endangerment and cause or contribute finding" under the Clean Air Act, codified at 40 C.F.R. 1. In the finding, the EPA determined that the body of scientific evidence supported a finding that six identified GHGs – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming endangers public health and welfare. The EPA also found that GHGs are a pollutant and that GHG emissions from motor vehicles cause or contribute to air pollution. This finding resulted in the EPA's promulgation of several regulations limiting the GHG emissions from motor vehicles.

The Clean Air Act regulates aircraft emissions under provisions that are parallel to the requirements for motor vehicle emissions. Accordingly, the EPA may elect or be forced by the courts to regulate aircraft GHG emissions due to pressures related to the motor vehicle endangerment finding. The EPA must consult with the Administrator of the Federal Aviation Administration ("FAA") and the Secretary of Transportation in developing emission standards, and is prevented from imposing new standards if doing so would significantly increase noise and adversely affect safety. The President may also disapprove if the Secretary of Transportation advises that the regulations create a hazard to aircraft safety. In the past, the EPA has not regulated aircraft emissions more stringently than the standards set forth by the International Civil Aviation Organization ("ICAO").

Regulation can also be initiated by the legislature, private parties or by governmental entities other than the EPA. In 2007, several states, including California, petitioned the EPA to regulate GHGs from aircraft, based on a proposed finding that aircraft GHG emissions endanger public health or welfare. Suggested compliance approaches included emission limits, operational practices, a cap-and-trade system, minimum engine idling, employing single engine taxiing, and use of ground-side electricity for gate re-powering. On July 11, 2008, the EPA issued an Advanced Notice of Proposed Rulemaking (the "ANPR") relating to GHG emissions and climate change. Part of the ANPR requested comments on whether and how to regulate GHG emissions from aircraft. The final rule, the Mandatory Reporting of Greenhouse Gases Rule (74 FR 56260), requires reporting of GHG data and other relevant information from about 10,000 large stationary sources and electricity and fuel suppliers, but not mobile aircraft. While the EPA does not currently regulate GHG emissions from aircraft, regulation may still be forthcoming as described below.

Environmental groups brought action against the EPA to compel agency action with regards to GHG emissions from nonroad vehicles and engines, including marine vessels and aircraft. On July 5, 2011, the U.S. District Court for the District of Columbia issued an order concluding that the EPA has a mandatory obligation under the Clean Air Act to consider whether the GHG and black carbon emissions of aircraft engines endanger public health and welfare, but in March 2012, the court ruled that the plaintiffs had failed to show that the EPA unreasonably delayed in making an endangerment decision. The EPA stated it would take 22 months to make a determination. On August 5, 2014, two environmental groups sent notice of intent to sue the EPA for failure to comply with this deadline. In response, on September 3, 2014, the EPA announced it was initiating a U.S. Aircraft Greenhouse Gas Rulemaking Process with the FAA, utilizing the ICAO Committee on Aviation Environmental Protection ("CAEP") standard setting process. As stated in the announcement, the EPA estimates that the international GHG standards for aircraft will be adopted by the ICAO CAEP in February 2016. Concurrently the EPA expects to propose endangerment and cause or contribute findings in late April 2015, for finalization in 2016. During the previous litigation, the EPA admitted that once such an endangerment finding and a related cause/contribute finding has been made, the mandatory language of Section 231 requires EPA to regulate. Therefore, if a positive endangerment finding and a related cause/contribute finding related to aviation GHG emissions are made, the EPA regulation will be forthcoming. On the other hand, the EPA may also make a negative endangerment finding or a negative cause/contribute finding, either of which would preclude regulation.

In addition to these regulatory actions, other laws and regulations limiting GHG emissions have been adopted by a number of states, including California, and have been proposed on the federal level. California passed

Assembly Bill 32, the "California Global Warming Solutions Act of 2006," which requires the Statewide level of GHGs to be reduced to 1990 levels by 2020. On October 20, 2011, the California Air Resources Board ("CARB") made the final adjustments to its implementation of Assembly Bill 32: the "California Cap-and-Trade Program" (the "Program") which was implemented in January 2012. The Program covers regulated entities emitting 25,000 million metric tons of carbon dioxide equivalent per year or more and entities in certain listed industries, including major industrial sources, electricity generating facilities, and fuel suppliers. Non-covered entities are encouraged to opt-in and voluntarily participate in the Program. The Program may result in rising electricity and fuel costs, which may adversely affect the airlines serving the Airport and Airport operations.

In 2008, the Board of Supervisors adopted and the Mayor signed into law Ordinance No. 81-08 entitled "Climate Change Goals and Action Plan" that mandates the achievement of the following GHG emission targets by each City department, as codified in Chapter 9 of the Environment Code Section 902(a):

25% below the 1990 emission level by 2017

40% below the 1990 emission level by 2025

80% below the 1990 emission level by 2050

The Commission has established various initiatives at the Airport in response to this goal. Airport management has developed a Departmental Climate Action Plan. In Fiscal Year 2011-12, the Airport reduced its gross baseline carbon footprint to 27.8% below the 1990 emission level for Airport controlled operations and achieved a GHG emission offset equivalent to 5.9% for a total reduction of 33.7% below the 1990 emission level, already exceeding the Ordinance's goal of 25% emission reduction by 2017. This was achieved through installation of energy and fuel efficiency measures, use of alternate fuels for fleet vehicles, reductions in landfilled solid waste, reductions in the emission of fugitive refrigerant gases and using alternative refrigerant gases, the planting of trees around the Airport, installation of preconditioned air units at jet bridges, initiation of a Green Car Rental Incentive Program, and partial funding for the BART extension. Additional planned GHG emission reduction/offset/mitigation measures by 2017 include natural gas use reduction, more energy efficiency measures, additional reductions in fuel consumption, Enhanced Solid Waste Recycling, and installation of additional preconditioned air units and a 400 Hz power supply system.

The Commission is unable to predict what additional federal, State and local laws and regulations with respect to GHG emissions or other environmental issues (including but not limited to air, water, hazardous substances and waste regulations) will be adopted, or what effects such laws and regulations will have on airlines serving the Airport or on Airport operations. The effects, however, could be material.

Risk of Sea-Level Changes and Flooding

Several reports have suggested that the Airport may be vulnerable to flooding in the event of sea level rise. For example, the National Climate Assessment released in 2014 by the National Science and Technology Council and the U.S. Global Change Research Program at the request of the U.S. government suggested that the Airport's runways are vulnerable to sea level rise. A 2009 report of the California Climate Change Center indicated that the Airport may be vulnerable to flooding with a 1.4-meter sea level rise. A report released by the San Francisco Bay Conservation Development Commission in 2011 suggested that 72% of the Airport would be at risk from a 16 inch sea level rise. In addition, some experts have warned that a major storm could result in flooding at the Airport. The Airport is adjacent to the San Francisco Bay, which in turn opens onto the Pacific Ocean. At high tide, most of the Airport is less than six feet above sea-level. The Commission is presently evaluating potential mitigation measures, including raising the floor level of facilities, additional diking and other structural protection, including fortifying a sea wall perimeter. In June 2014, the head of Engineering at the Airport presented a report to the Commission that indicated that the design and construction of a sea wall to meet the Federal Emergency Management Agency's ("FEMA's") National Flood Insurance certification standards will take six to eight years and is estimated to cost $30-$50 million. Considering sea level rise and the 100 year flood risk, the report estimated that to remain compliant with FEMA requirements in the longer term would take 10 to 15 years with a cost of about $200-$300 million. With that investment, the report predicts protection for the Airport until approximately 2060. The Airport Commission is evaluating whether the Army Corps of Engineers will share some of this cost. Only approximately

$10 million has been included for the shoreline protection project in the five-year Capital Plan. The Commission is unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur, and if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the Airport.

Credit Risk of Financial Institutions Providing Credit Enhancement and Other Financial Products Relating to Airport Bonds

The Commission has obtained a number of credit enhancement agreements from a variety of financial institutions relating to its Outstanding variable rate Bonds and Commercial Paper Notes, including letters of credit from commercial banks and municipal bond insurance policies issued by bond insurance companies. Additionally, in connection with various variable rate Bonds, the Commission has entered into interest rate swap agreements with and/or guaranteed by various financial institutions. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Interest Rate Swaps" and "–Credit Facilities Relating to Bonds." Also see "SECURITY FOR THE SERIES 2014A/B–Reserve Fund; Reserve Accounts; Credit Facilities" for discussion of the sureties in the reserve accounts.

Each of 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 commercial banks and other financial institutions. The Rating Agencies could announce further downgrades. Such adverse ratings developments with respect to credit providers or municipal bond insurers could have a material adverse effect on the Commission, including significant increases in its debt service costs.

In addition, rating downgrades of swap counterparties could result in termination events or events of default under swap agreements. Payments required under these agreements in the event of any termination could be substantial and could have a material adverse impact on the liquidity position of the Commission. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Interest Rate Swaps."

Limitation of Remedies

Any remedies available to the Owners of the Bonds upon the occurrence of an event of default under the 1991 Master Resolution are in many respects dependent upon judicial actions which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the Commission fails to comply with its covenants under the 1991 Master Resolution or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the Owners of the Bonds. The ability of the Commission to comply with its covenants under the 1991 Master Resolution and to generate Net Revenues sufficient to pay principal and interest evidenced by the Bonds may be adversely affected by actions and events outside of the control of the Commission, or may be adversely affected by actions taken (or not taken) by voters or payers of fees and charges, among others. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Certain Federal and State Laws and Regulations–*State Proposition 218*" and "–*State Proposition 26.*"

The Bonds are not subject to acceleration under any circumstances or for any reason, including without limitation upon the occurrence and continuance of an Event of Default under the 1991 Master Resolution. Moreover, the Bonds will not be subject to mandatory redemption or mandatory purchase or tender for purchase upon the occurrence and continuance of an Event of Default under the 1991 Master Resolution to the extent the redemption or purchase price is payable from Net Revenues, but may be subject to mandatory redemption or mandatory purchase or tender for purchase if the redemption or purchase price is payable from a source other than Net Revenues such as a Credit Facility or Liquidity Facility.

In addition to the limitations on remedies contained in the 1991 Master Resolution, the rights and obligations under the 1991 Master Resolution may be subject to the limitations on legal remedies against charter cities and counties in the State, including applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally, now or hereafter in effect, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and to the application of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or in law. Bankruptcy proceedings, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy proceedings or otherwise, and consequently may entail risks of delay, limitation or modification of their rights. The various legal opinions to be delivered with respect to the Series 2014A/B Bonds are expected to be qualified by reference to bankruptcy and insolvency laws. In the event the Commission fails to comply with its covenants under the 1991 Master Resolution or to pay principal or interest, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Series 2014A/B Bonds.

Potential Impact of a City Bankruptcy

The City is authorized under California law to file for bankruptcy protection under Chapter 9 of the Bankruptcy Code. However, third parties cannot bring involuntary bankruptcy proceedings against the City. The Airport, being a department of the City, cannot itself file for bankruptcy protection. Should the City become a debtor in a bankruptcy proceeding, the owners of the Series 2014A/B Bonds would continue to have a lien on Net Revenues after the commencement of the bankruptcy case so long as the Net Revenues constitute "special revenues" within the meaning of the Bankruptcy Code. "Special revenues" are defined under the Bankruptcy Code to include, among other things, receipts by local governments from the ownership, operation or disposition of projects or systems that are primarily used to provide transportation services. While the Commission believes that Net Revenues constitute "special revenues," no assurance can be given that a court would not determine otherwise. If Net Revenues do not constitute "special revenues," there could be delays or reductions in payments by the Commission with respect to the Series 2014A/B Bonds.

Regardless of any specific determinations by the U.S. Bankruptcy Court in a City bankruptcy proceeding that may be adverse to the Airport or the Owners, the mere filing by the City for bankruptcy protection likely would have a material adverse effect on the marketability and market price of the Series 2014A/B Bonds. As of the date hereof, there have been no public discussions by any City officials, including the Mayor, any member of the Board of Supervisors or the City Attorney, with respect to any potential Chapter 9 filing by the City.

Also see "–Limitation of Remedies" above.

Future Legislation

The Airport is subject to various laws, rules and regulations adopted by the local, State and federal governments and their agencies. The Commission 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 the Airport.

Initiative, Referendum and Charter Amendments

The ability of the Commission to comply with its covenants under the 1991 Master Resolution and to generate revenues sufficient to pay the principal of and interest on the Series 2014A/B Bonds may be adversely affected by actions and events outside the control of the Commission, including without limitation by actions taken (or not taken) by voters. Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. Under the Charter, the voters of the City can restrict or revise the powers of the Commission through the approval of a Charter amendment. The Commission is unable to predict whether any such initiatives might be submitted to or approved by the voters, the nature of such initiatives, or their potential impact on the Commission or the Airport.

Potential Limitation of Tax Exemption of Interest on Series 2014A/B Bonds

From time to time, the President of the United States, the United States Congress and/or state legislatures have proposed and could propose in the future, legislation that, if enacted, could cause interest on the Series 2014A/B Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. Clarifications of the Internal Revenue Code of 1986, as amended (the "Code"), or court decisions may also cause interest on the Series 2014A/B Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation. The introduction or enactment of any such legislative proposals or any clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2014A/B Bonds. Prospective purchasers of the Series 2014A/B Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Co-Bond Counsel expresses no opinion. See "TAX MATTERS—Changes in Federal and State Tax Law."

Risk of Tax Audit

The Internal Revenue Service (the "IRS") includes a Tax Exempt and Government Entities Division (the "TE/GE Division"). The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. The number of tax-exempt bond examinations has increased significantly under the TE/GE Division. If the IRS undertook an examination of the Series 2014A/B Bonds or other Bonds issued by the Commission as tax-exempt bonds, it may have a material adverse effect on the marketability or the market value of the Series 2014A/B Bonds. The IRS has undertaken limited audits of two prior issues of the Bonds. Those audits were both closed without the IRS taking any action. The Commission is not aware of any other IRS examination or investigation of its tax-exempt bonds. See "TAX MATTERS."

SAN FRANCISCO INTERNATIONAL AIRPORT

Introduction

San Francisco International Airport, which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. The Airport is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and the San Francisco Bay. According to preliminary data for calendar year 2013 from the Airports Council International (the "ACI"), the Airport ranked 7th in the United States in terms of passengers and 17th in the United States in terms of air cargo tonnage. According to Fiscal Year 2012-13 U.S. Department of Transportation ("U.S. DOT") statistics, the Airport is also a major origin and destination point (7th for domestic origin and destination traffic and 5th for overall origin and destination traffic in the United States). The Airport is also one of the nation's principal gateways for Pacific traffic and serves as a domestic hub and Pacific gateway for United Airlines. Passenger enplanements and deplanements at the Airport have grown from approximately 32.6 million in Fiscal Year 2004-05 to approximately 46.1 million in Fiscal Year 2013-14.

Organization and Management

Under the Charter, the Commission is responsible for the operation and management of the Airport, which is a department of the City. The Commission consists of five members appointed by the Mayor of the City (the "Mayor") for four-year overlapping terms. All appointments are subject to rejection by a two-thirds vote of the Board of Supervisors and any member may be removed by a three-fourths vote of the Board of Supervisors but only for official misconduct.

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The current members of the Commission and their respective occupations and terms are as follows:

Member	Occupation	Term Ends August 31 of
Larry Mazzola, *President*	Retired Business Manager and Financial Secretary/Treasurer, U.A. Local 38 (United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada)	2014*
Linda S. Crayton, *Vice President*	Retired Regional Senior Director, Government Affairs, Comcast Cable Communications	2016
Richard J. Guggenhime	Attorney (Of Counsel), Schiff Hardin LLP	2017
Eleanor Johns	Executive Director of the Willie L. Brown, Jr. Institute on Politics and Public Service	2015
Peter A. Stern	Vice President, Sales, Kenandy, Inc.	2014*

* Under the Charter, the tenure of a member of the Commission terminates no later than 60 days after the expiration of the member's term, unless the member is re-appointed. A member may not serve as a hold-over member of the Commission for more than 60 days after the expiration of his or her term.

Under the Charter, the Commission is responsible for the "construction, management, supervision, maintenance, extension, operation, use and control of all property, as well as the real, personal and financial assets which are under the Commission's jurisdiction." The Commission has the exclusive authority to plan and issue revenue bonds for airport-related purposes, subject to the approval, amendment or rejection by the Board of Supervisors.

The Commission also has exclusive power to fix and adjust Airport rates, fees and charges for services and facilities provided by the Airport.

The Commission's budget and certain Commission contracts and leases (generally, those for a term of more than 10 years or involving revenue to the City of more than $1,000,000 or expenditures of more than $10,000,000), and modifications thereto, require approval of the Board of Supervisors. In addition, if any project is estimated to cost more than $25 million, and more than $1 million in predevelopment, planning or construction costs will be paid with City funds, then the Board of Supervisors is required to make a determination of fiscal feasibility prior to the commencement of environmental review, if any, on such project.

Other City departments provide various services to the Commission, including the Police Department, the Fire Department, the Water Department, the Hetch Hetchy Power Division, the Department of Public Works, the City Controller, the Purchasing Department and the City Attorney. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Payments to the City."

Airport Senior Management and Legal Counsel

Senior management is led by the Airport Director (the "Director"), who has the authority to administer the affairs of the Commission as the chief executive officer thereof. Under the Charter, the Director is appointed by the Mayor from candidates submitted by the Commission. Once appointed by the Mayor, the Director serves at the pleasure of the Commission.

The Airport has a Chief Operating Officer, a Chief Business and Finance Officer, a Chief Administration and Policy Officer and a Chief Communications and Marketing Officer, all of whom report directly to the Director. The Deputy Director of Operations and Security and the Deputy Director of Design and Construction, along with the divisions of Airport Facilities, Information Technology and Telecommunications, Museum, and Planning and Environmental Affairs report to the Chief Operating Officer.

Brief biographies of the principal members of the senior management and legal counsel at the Airport are set forth below:

John L. Martin was appointed Director in November 1995. Prior to this appointment, he served for two years as Deputy Airport Director–Business and Finance and five years as Assistant Deputy Airport Director-Business and Finance. He has worked for the Commission since 1981. Mr. Martin was the founding president of the California Airports Council, a Statewide consortium of 30 commercial airports that was formed in December 2009. He serves on the Executive Committee of the Bay Area Council and the Board of Directors of San Francisco Travel. He is also a past member of the Board of Directors and the Vice President of the Airports Council International, Pacific Region.

Ivar Satero was appointed as Chief Operating Officer in April 2014. Prior to this, he served as Deputy Airport Director-Design and Construction Division from December 2003. From February 2002 through November 2003, he served as the Administrator of the Bureau of Design and Construction and then as the Administrator of Airport Development. From February 1994 to February 2002, Mr. Satero was the Program Manager of transit projects for the Airport's Master Plan Program, including the AirTrain System and the BART extension to the Airport. Prior to joining the Airport in February 1994, Mr. Satero worked for the Public Utilities Commission of the City as Project Engineer/Project Manager for various municipal railway and Hetch Hetchy water system capital improvement projects.

Leonardo "Leo" Fermin, Jr. was appointed Deputy Airport Director-Business and Finance in July 2003, renamed Chief Business and Finance Officer under a recent reorganization. From October 2002 until July 2003, he served as Acting Deputy Airport Director Business and Finance. He has been with the Airport since July 1986, serving in a number of positions, including Assistant Deputy Director for Financial Planning and Analysis for five years and as Finance Director since November 2001. Prior to joining the Airport, Mr. Fermin served 13 years in a variety of financial and accounting capacities in the private sector. In October 2002, Mr. Fermin was nominated for the City's Public Managerial Excellence Award.

Julian Potter was appointed Chief Administration and Policy Officer effective in February 2014. Ms. Potter joined the Airport staff in January 2008 as the Federal and Regional Government Affairs manager and became Chief of Staff in December 2013. Prior to joining the Airport, Ms. Potter was the Director of Public Policy for the Mayor's office in the City. Ms. Potter has an additional 15 years of public policy and administrative experience serving as a Deputy Assistant Secretary at Housing and Urban Development, Chief Operating Officer of a building and construction apprenticeship program and Special Assistant to the President.

Jeff Littlefield was appointed Deputy Airport Director-Operations and Security in November 2011. Mr. Littlefield joined the Airport in 2008 as Airport Duty Manager, a position he held until he was appointed to his current position. Prior to joining the Airport, Mr. Littlefield served 21 years for United Airlines in a variety of operational capacities, including nine years as General Manager at Oakland Airport.

Kandace Bender was appointed Deputy Airport Director-Communications and Marketing in August 2002, renamed Chief Communications and Marketing Officer in a recent reorganization. From September 2000 to August 2002, she managed all public information and communications for the Airfield Development Bureau, focusing in particular on all aspects of communications surrounding the Runway Modernization Program. Prior to that, Ms. Bender served as Press Secretary to San Francisco Mayor Willie L. Brown Jr. for five years. She has 18 years of experience as a daily print reporter and editor.

Geoffrey Neumayr was appointed Deputy Director of Design and Construction effective in April 2014. He joined the Airport staff as Associate Deputy Airport Director of Design & Construction in August 2011. Prior to that Mr. Neumayr was Vice President of Operations of the Allen Group, LLC for 15 years. With the Allen Group, LLC Mr. Neumayr served as the Project Manager for many of the Airport's projects. Prior to joining the Allen Group in 1995, Mr. Neumayr was an Associate with the architectural and engineering firm of the Watry Design

Group where he served as project manager for many of the firm's projects. Mr. Neumayr is a licensed civil and structural engineer with over 30 years of experience in design & construction.

Sheryl L. Bregman was appointed Airport General Counsel in April 2011. Prior to this appointment, Ms. Bregman served on the City Attorney's Construction Team. Ms. Bregman joined the office of the City Attorney in 1995 and has represented the City in the design and construction of its public works. Ms. Bregman was construction counsel for numerous projects, including the Transbay Transit Center Program, the new Main Library, the San Francisco Courthouse, and the de Young Museum. Ms. Bregman served on the City Attorney and Mayor's Construction Contract Task Force and on the City Attorney's Stimulus Spending Task Force. Ms. Bregman received her J.D. in 1991 from Benjamin N. Cardozo School of Law and was in private practice before joining the Office of the City Attorney.

Current Airport Facilities

Airfield

The runway and taxiway system occupies approximately 1,700 acres and includes four intersecting runways, three of which are equipped with instrument landing systems (an "ILS") for arrivals. The east-west runways are 11,870 and 11,381 feet long, respectively. The north-south runways are 8,650 and 7,650 feet long, respectively. The current runway system can accommodate the arrival and departure at maximum loads of all commercial aircraft currently in service, including the Airbus A380. The current runways at the Airport are built on bay tidelands that were filled during and after World War II. As a result, the runways continue to settle at various rates, and require periodic repair and maintenance work.

The Airport commenced work on a four-year multi-phase project to improve conditions at its runway safety areas in the Spring of 2012. This work resulted in an approximately three month closure of runways 1L-19R and IR-19L from May through August of 2014. The runways reopened on August 10, 2014, and the remainder of the runway project is expected to be completed in September of 2014, approximately a full year ahead of the FAA's deadline.

Terminals

International Terminal. The International Terminal Complex (the "ITC") is a 2.5 million square foot facility located directly above an entry roadway network, and houses ticketing, Federal Inspection Service (customs and border control) ("FIS"), baggage facilities, concessions, and airline offices. The approximately 1.7 million square foot terminal connects to the new Boarding Areas A and G, which have a combined space of approximately 850,000 square feet and have 24 gates. The ITC includes a 250,000 square foot FIS facility capable of processing 5,000 passengers per hour. The ITC (with total floor area covering almost 44 football fields) was completed in 2000 and is the largest common-use airport terminal in the United States. The Airport owns and maintains the common-use baggage system that supports all airlines in the ITC.

Other Airport Terminals. In addition to the ITC, the Airport currently has three other terminal buildings (together with the ITC, the "Terminal Complex") consisting of a total of approximately 2.6 million square feet of space. Terminal 1 and Terminal 3 handle domestic flights and flights to Canada and Mexico. In April 2011, the Airport unveiled the renovated Terminal 2, which is the new home for American Airlines and Virgin America. Terminal 2 is the first airport terminal in the United States to achieve Gold Certification under the U.S. Green Building Council's Leadership in Energy and Environmental Designs (LEED™) program.

AirTrain System. The AirTrain System provides 24-hour light rail transit service over a "terminal loop" to serve the Terminal Complex and over a "north corridor loop" to serve the rental car facility and other locations situated north of the Terminal Complex. The AirTrain stations are located at the north and south sides of the ITC, Terminals 1, 2 and 3, at the two short-term ITC parking garages, on Lot "D" to serve the rental car facility, and on McDonnell Road to serve the West Field area of the Airport.

Gates

The Airport has 88 operational gates, 43 of which can accommodate wide-body aircraft. Of these, 24 gates are located in the ITC, 19 in Terminal 1, 14 in Terminal 2 and 31 in Terminal 3. On January 28, 2014, the Airport opened a newly renovated boarding area located in Terminal 3, adding a net total of ten gates to Terminal 3. Following its opening, the Airport removed from operation nine gates in Terminal 1 and three gates in Terminal 3 for boarding area renovations. The Airport expects to maintain at least the same number of operational gates throughout the renovations.

Generally, existing airport facilities in the United States are designed for aircraft having a maximum wingspan of 213 feet. New Large Aircraft (such as the Airbus 380) ("NLAs") have a wingspan of approximately 262 feet. The Airport currently operates three gates in the ITC with sufficient clearance to accept NLAs. The Airport currently is in the planning process of adding a fourth gate in the ITC with sufficient clearance to accept an NLA.

Gates in the domestic terminals are used by airlines on a preferential or common-use basis and gates in the ITC are used on a common or joint use basis. Gates assigned to an airline for preferential use are allocated on an annual basis in accordance with a formula taking into account each airline's scheduled seats. Gates can thus be recaptured by the Airport annually from airlines with decreasing traffic and allocated to other airlines with increasing traffic. Any preferential use gate can also be used by any airline when it is not actively being used by the airline to which it is allocated. See "–Airline Agreements–*Lease and Use Agreements*" and APPENDIX E – "SUMMARY OF CERTAIN PROVISIONS OF THE LEASE AND USE AGREEMENTS."

Jet Fuel Distribution System

Pursuant to a Fuel System Lease, dated as of July 1, 1997, the Airport leases its on-Airport jet fuel receipt, storage, distribution and other related facilities (collectively, the "Fuel System") to SFO Fuel. Substantially all of the airlines with regularly-scheduled service to the Airport are members of SFO Fuel. Pursuant to the Interline Agreement, the members of SFO Fuel are jointly responsible for all costs, liabilities and expenses of SFO Fuel. SFO Fuel is responsible for the management and operation of the Fuel System. Operation and management of the Fuel System is performed by a third-party pursuant to an operation and management agreement with SFO Fuel.

The Fuel System currently includes a pipeline system, with a loop around the Terminal Complex which provides redundancy in the event of a pipeline break; various hydrant systems, some of which are leased to SFO Fuel; storage tanks owned by the Airport and leased to SFO Fuel with total storage capacity of approximately 151,300 total usable barrels (representing approximately 2.6 days of operations based upon 2013 consumption); above-ground storage tanks owned by SFO Fuel, operated by Aircraft Service International Inc. and located on land leased from the Airport with total storage capacity of approximately 134,000 usable barrels (representing approximately 2.4 days of operations based upon 2013 consumption); and other related facilities.

In early 2007, SFO Fuel finalized an arrangement with an affiliate of Shell Oil for substantial additional off-Airport jet fuel storage at facilities immediately adjacent to the Airport. The total storage capacity at the Shell Oil facilities is approximately 186,000 total usable barrels (representing approximately 3.2 days of operations based on 2013 consumption). In addition, SFO Fuel has entered into other agreements for off-Airport jet fuel terminaling, storage, and transportation for the benefit of SFO Fuel members and to further supplement its on-Airport facilities. SFO Fuel currently has no plans to construct additional significant on-Airport jet fuel storage and related facilities, though it may elect to do so in the future.

Bay Area Rapid Transit ("BART") Service to SFO

The BART extension to the Airport opened in 2003. The extension creates a convenient connection between the Airport and the greater San Francisco Bay Area that is served by BART. According to BART statistics for Fiscal Year 2013-14, a weekday average of 6,481 riders exited at the SFO BART station. An intermodal station in the City of Millbrae provides a direct link between BART and CalTrain offering additional transit options and connection to the southern parts of the Bay Area as well as San Francisco. BART pays the Airport $2.5 million per year in rent for the BART station in the ITC, plus an additional amount (budgeted at $813,887 for Fiscal Year 2014-15) for custodial and electrical support services.

Public Parking and Rental Car Facilities

Public Parking. A 5,843 space hourly Domestic Parking Garage is connected to the three domestic terminals by seven pedestrian tunnels and three pedestrian bridges. The Domestic Parking Garage features ParkFAST, reserved covered parking with an automated entry and exit system, and ParkVALET providing valet service to all terminals (domestic and international). Two public garages located near the ITC provide 2,129 spaces for short-term parking. Approximately 2,621 indoor covered spaces and 4,701 uncovered spaces are available for public long-term parking approximately 1.5 miles from the Terminal Complex.

Rental Car Facility. A 5,000 space, full service rental car facility for all on-Airport rental car companies is located approximately one mile north of the Terminal Complex and is accessed from the terminals by the AirTrain.

Off-Airport Parking Facilities. In addition, parking facilities located near the Airport and operated by private companies offer more than 8,000 public remote parking spaces for Airport patrons, including a 1,500 space parking garage that is located near the long-term parking facility operated by the Airport.

Maintenance and Cargo Facilities

Airlines have made various investments in facilities at the Airport. The United Airlines maintenance center, containing approximately three million square feet of building and hangar floor area, is one of the country's largest private aircraft maintenance facilities. United Airlines also operates a large cargo facility at the Airport. Both of these facilities are owned by the Airport but leased to the airline. Certain other airlines operate significant cargo and other facilities at the Airport.

Seismic Design of Airport Facilities

The Airport is located in a zone 4 seismic area. Seismic zones aid in identifying and characterizing certain geological conditions and the risk of seismic damage at a particular location and are used in establishing building codes to minimize seismic damage. The five seismic zones are: zone 0 (no measurable damage), zone 1 (minor damage), zone 2 (moderate damage), zone 3 (major damage) and zone 4 (major damage and greater proximity than zone 3 to certain major fault systems).

The ITC was designed to exceed the minimum code requirements for a building of its type located in seismic zone 4, and is therefore expected to perform as an "essential facility" (*i.e.*, a facility that is immediately occupiable following a maximum credible seismic event). In addition, other buildings and facilities constructed by the Airport during the 1990s and early 2000s as part of the Airport's Master Plan Expansion Program were designed to comply with, and in some cases exceed, the then-current seismic design standards. These facilities include the AirTrain System (guideway, stations, and maintenance building); the elevated circulation roads and inbound/outbound freeway ramps; international, long-term and employee parking garages; the Rental Car Center; the Communications Center located in a portion of the North Connector Building that links Terminal 2 to Terminal 3; and the on-Airport BART station and guideway.

As part of the Airport's recently completed Terminal 2 Renovations program, the Terminal 2/Boarding Area D facility received a seismic upgrade which is expected to allow the facility to exceed current seismic standards once the existing FAA Air Traffic Control Tower and the upper floors of Terminal 2 containing office space are demolished. The demolition will occur following the completion and activation of a new Air Traffic Control Tower, which is scheduled to open in early 2016, as further described below.

The Airport, in partnership with the FAA, is in the process of replacing the existing FAA Air Traffic Control Tower, which was constructed in 1982 atop, and structurally integrated with, the original 1951 Terminal 2 facility. The planned Air Traffic Control Tower replacement is a result of seismic studies that indicated that the facility is susceptible to significant damage in the event of a major earthquake in the vicinity of the Airport, which could render it inoperable for an extended period. The FAA and the Airport have entered into a reimbursement agreement to replace the Air Traffic Control Tower as expeditiously as possible. To date, the Airport has received $58.2 million from the FAA to fund the Air Traffic Control Tower design activities and construction activities. The agreement between the Airport and the FAA provides for federal funding, subject to federal appropriation, for the full replacement cost of the existing Air Traffic Control Tower, which is currently estimated at $76.9 million, and assigns project management responsibility to the Airport. The Airport expects to complete construction work in late 2014, and the FAA is scheduled to activate and commission the replacement Air Traffic Control Tower by early 2016. Following activation of the new Air Traffic Control Tower, the Airport will be responsible for the demolition of the existing Air Traffic Control Tower. The current Capital Plan provides for the demolition of the existing Air Traffic Control Tower and upper floors of Terminal 2.

The FAA has developed contingency plans for the operation of air traffic control functions from a temporary site in the event the Air Traffic Control Tower is rendered inoperable. Such remote operations could result in a reduction in air traffic control service levels and capabilities, and may have a significant impact on the airspace system supporting the Airport.

Terminals 1 and 3 and certain boarding areas in these terminals do not meet current seismic requirements. The Airport currently is implementing a first phase of the Terminal 3 Program, with improvements to Terminal 3 East (T3 East) and Boarding Area E (BAE), which are expected to result in a complete seismic upgrade of the Boarding Area E facility, as well as a seismic upgrade to the eastern half of Terminal 3. This work is scheduled to be completed in phases, with the BAE facility completed in January 2014 and T3 East expected to be completed in 2015. This work is part of the Airport's longer-term strategy of bringing the entire Terminal 3 facility, including Boarding Area F up to current seismic standards. See "CAPITAL PROJECTS AND PLANNING–The Capital Plan."

Terminal 1 improvements are currently in the planning and initial design stages. Planned improvements include a complete replacement of Boarding Area B, a major renovation of Terminal 1, and significant improvements to Boarding Area C. The new Boarding Area B facility and the central section of Terminal 1 are expected to be completed in early 2019. The remaining north and south sections of Terminal 1 along with Boarding Area C are expected to be completed in phases between 2020 and 2023. The proposed improvements of the Terminal 1 Program are expected to bring the entire facility up to current seismic code requirements upon completion.

On-Time Performance

On-time flights are defined by the U.S. DOT as any flight that arrives or departs within 15 minutes of the scheduled arrival or departure time. Approximately 73% of domestic arrivals at the Airport were on time in 2013, according to the U.S. DOT statistics. The Airport, which operates four runways, was behind the other Bay Area airports in on-time arrivals during this period, with approximately 81% of on-time domestic arrivals at Oakland Airport, and approximately 81% of on-time domestic arrivals at San Jose Airport. Arrival on-time performance is lower at the Airport than that of the two other Bay Area airports due primarily to the prevalence of low clouds and fog around the Airport during various times of the year.

The Commission has acquired and installed an FAA Precision Runway Monitoring System (a "PRM") for its primary arrival runways. In good weather conditions (cloud ceiling of at least 3,600 feet), up to 60 planes per hour can land at the Airport. In adverse weather conditions (cloud ceiling of between 1,600 feet and 3,600 feet), 30 planes per hour were previously permitted to land at the Airport. The PRM, combined with the implementation of a Simultaneous Offset Instrument Approach flight procedure beginning in January 2012, allows as many as 40 planes per hour to land during adverse weather conditions. In addition, the FAA approved Closely Spaced Parallel Runway procedures for the Airport that increased dual runway availability beginning in the fall of 2013.

The FAA has, effective March 25, 2012, declared the Airport a Level 2 hub under the International Air Transport Association Worldwide Slot Guidelines. A Level 2 rating indicates an Airport where there is potential for congestion during some periods of the day, week or season, which can be resolved by voluntary cooperation between airlines.

Airport Security

In the immediate aftermath of September 11, 2001, the FAA mandated new safety and security requirements, which have been implemented by the Commission and the airlines serving the Airport. In addition, Congress passed the Aviation and Transportation Security Act (the "Aviation Act"), which imposed additional safety and security measures. Certain safety and security functions at the Airport were assumed by the Transportation Security Administration ("TSA"), which was established by the Aviation Act. Among other things, the Aviation Act required that (i) explosive detection screening be conducted for all checked baggage; (ii) all individuals, goods, property, vehicles and other equipment entering secured areas of airports be screened; and (iii) security screeners be federal employees, United States citizens and satisfy other specified requirements. All of these requirements have been implemented at the Airport.

The TSA operates 10 separate security checkpoints containing 50 security lanes using employees of a private security firm. The Airport is one of 16 airports in the nation at which the TSA operates security through its private partnership program. The employees of the private security firm undergo the same training and are under the same TSA management as federal-employed security operating at other United States airports. This private partnership program at the Airport has been in operation since 2002. TSA management utilizes staffing models and closed circuit images to monitor demand checkpoints to quickly accommodate increases in passenger flow.

The Airport is one of 180 airports in the United States using whole-body imaging screening machines referred to as "Millimeter Wave Technology." Under certain circumstances, passengers may still opt for alternate screening methods. The costs of acquisition and installation of the whole-body imaging machines at the Airport is paid for by the TSA.

Airline Service

General

During Fiscal Year 2013-14, the Airport was served by 46 passenger and nine cargo-only airlines. Domestic passenger air carriers provided non-stop service to 76 destinations and scheduled one-stop service to an additional 28 destinations in the United States. Thirty passenger airlines provided non-stop scheduled passenger service to 37 international destinations and one-stop service to an additional 24 international destinations.

During Fiscal Year 2012-13, the Airport was served by 46 passenger and 10 cargo-only airlines. Domestic passenger air carriers provided non-stop service to 78 destinations and scheduled one-stop service to an additional 27 destinations in the United States. Thirty-one passenger airlines provided non-stop scheduled passenger service to 33 international airport destinations and one-stop service to an additional 14 international destinations.

During Fiscal Year 2013-14, United Airlines (including SkyWest Airlines/United Express) handled 46.3% of the total enplaned passengers at the Airport (an increase in market share of 0.1 percentage point compared to Fiscal Year 2012-13); Virgin America handled 8.5% of total enplaned passengers and Delta Air Lines (including SkyWest Airlines/Delta Connection, and Compass Airlines) handled 8.0% of total enplaned passengers. Domestic enplanements of United Airlines (including SkyWest Airlines/United Express) during Fiscal Year 2013-14 increased by 3.6% compared to Fiscal Year 2012-13 while its international enplanements increased by 4.1% for the same period.

Although United Airlines (including SkyWest Airlines/United Express) handled 46.3% of the Airport's total enplanements during Fiscal Year 2013-14, preliminary unaudited results for Fiscal Year 2013-14 indicated that payments by United Airlines accounted for approximately 24% of the Airport's operating revenues. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Principal Revenue Sources."

American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged but continue to operate under separate FAA operating certificates. American Airlines was responsible for 6.4% of the Airport's enplanements in Fiscal Year 2013-14 and US Airways was responsible for 3.6%. The airlines currently provide non-stop service to eight destinations in the United States from the Airport, with no overlapping routes.

Low-Cost Carriers

A significant factor in the Airport's continuing strong performance has been its success in attracting low-cost carriers to the Airport. A "low-cost carrier" is an airline that operates under a generally recognized low-cost business model, which may include a single passenger class of service, use of standardized aircraft utilization, in-flight services, use of smaller and less expensive airports, and lower employee wages and benefits. Virgin America chose the Airport as its home base and currently utilizes more than half of the gates in Terminal 2. Virgin America, Southwest Airlines and jetBlue Airways started service at the Airport in 2007.

During Fiscal Year 2013-14, the following six airlines at the Airport offered low-cost carrier service:

- AirTran Airways
- Frontier Airlines
- jetBlue Airways
- Southwest Airlines
- Sun Country Airlines
- Virgin America Airlines

During Fiscal Year 2013-14, approximately 24.2% of total domestic enplanements at the Airport were provided by low-cost carriers, down from 24.8% in Fiscal Year 2012-13. Domestic enplanements by low-cost carriers were approximately 79.5% of the domestic enplanements at Oakland Airport and 55.0% of the domestic enplanements at San Jose Airport in Fiscal Year 2012-13.

On May 2, 2011, Southwest Airlines acquired AirTran Holdings, Inc., the parent company of AirTran Airways. The airlines combined operating certificates on March 1, 2012, although their operations are likely to remain separate through 2014. There were no overlapping destinations from the Airport between the two carriers, and service has not been impacted due to the merger.

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The following table lists the air carriers reporting enplaned passengers and/or enplaned cargo at the Airport during Fiscal Year 2013-14.

AIR CARRIERS REPORTING AIR TRAFFIC AT THE AIRPORT
(Fiscal Year 2013-14)

Domestic Passenger Air Carriers
AirTran Airways(1)
Alaska Airlines(2)*
American Airlines(3)*
Delta Air Lines(2)*
Frontier Airlines*
Hawaiian Airlines*
jetBlue Airways*
Southwest Airlines(1)*
Sun Country Airlines/MN Airlines*
United Airlines(2)*
US Airways(3)*
Virgin America Airlines(2)*
Foreign Flag Carriers
Aer Lingus
Aeromexico
Air Canada*
Air China (CAAC)*
Air France*
Air New Zealand*
All Nippon Airways*
Asiana Airlines*
British Airways*
Cathay Pacific Airways*
China Airlines*
China Eastern*
Emirates Airlines*
EVA Airways*
Japan Airlines*
KLM Royal Dutch Airlines*
Korean Air*

Foreign Flag Carriers (continued)
LAN Peru*
Lufthansa German Airlines*
Philippine Airlines*
Scandinavian Airlines*
Singapore Airlines*
Swiss International*
TACA International Airlines*
Virgin Atlantic Airlines*
WestJet Airlines*
XL Airways France
Cargo-Only Carriers
ABX Air*
Air Cargo Carriers*
Air Transport International
Ameriflight*
Atlas Air
Cargolux Airlines
Federal Express*
Kalitta Air*
Nippon Cargo Airlines*
Regional Affiliates(4)
Compass Airlines (Delta Air Lines)
Horizon Air (Alaska Airlines)
SkyWest Airlines (Delta Connection and United Express)(5)
Charter Air Carriers
Miami Air International
North American Airlines
Omni Air International
Republic Airlines

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* Indicates a Signatory Airline to a Lease and Use Agreement.
(1) On May 2, 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways. The airlines received FAA approval to operate under a single operating certificate in March 2012, although the airlines' operations are likely to remain separate through 2014.
(2) Provides international and domestic air passenger service at the Airport. Delta Air Lines ceased its international service at the Airport in March 2014.
(3) American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged but continue to operate under separate FAA operating certificates.
(4) Airlines designated as affiliates by Signatory Airlines per the Lease and Use Agreement. Affiliates may (i) be a wholly-owned subsidiary of a Signatory Airline, (ii) be a subsidiary of the same corporate parent of the Signatory Airline, (iii) share flight codes with a Signatory Airline, or (iv) operate cargo feeder flights under the direction and control of a Signatory Airline. Affiliates do not sell their own seats or flights at the Airport.
(5) Until October 2013, SkyWest Airlines was a United Airlines (United Express) and Delta Air Lines (Delta Connection) commuter air carrier at the Airport. Currently, SkyWest Airlines operates only for United Airlines at the Airport.
Source: Commission.

Passenger Traffic

During Fiscal Year 2013-14, according to traffic reports submitted by the airlines, the Airport served approximately 46.1 million passengers (enplanements and deplanements, excluding passengers who fly into and out of the Airport on the same aircraft), and handled 429,377 total flight operations, including 414,452 scheduled passenger airline operations. Scheduled passenger aircraft arrivals and departures during Fiscal Year 2013-14 increased by 2.3%, domestic passenger traffic (enplanements and deplanements) increased by 2.7%, international passenger traffic increased by 5.1%, and total passenger traffic increased by 3.3% compared to Fiscal Year 2012-13.

The Airport was ranked the 5th most active airport in the United States in terms of overall origin and destination passengers and the 7th most active airport in the United States in terms of domestic origin and destination passengers, according to Fiscal Year 2012-13 U.S. DOT statistics. For calendar year 2013, the Airport was also ranked the 7th most active airport in the United States in terms of total passengers, according to preliminary data from ACI. The Airport accounted for approximately 70.8% of the total air passenger traffic at the three San Francisco Bay Area airports during Fiscal Year 2013-14.

Air traffic data for the past ten Fiscal Years is presented in the table below.

PASSENGER TRAFFIC

	Scheduled Passenger Aircraft Arrivals and Departures		Passenger Enplanements and Deplanements					
Fiscal Year	Total	% Change	Domestic	% Change	International	% Change	Total	Total % Change
2013-14*	414,452	2.3%	35,985,757	2.7%	10,072,231	5.1%	46,057,988	3.3%
2012-13	405,320	0.8	35,024,595	4.3	9,583,582	3.3	44,608,177	4.1
2011-12	402,131	6.7	33,588,149	9.3	9,275,507	3.1	42,863,656	7.9
2010-11	376,939	2.3	30,725,774	3.5	9,000,697	5.8	39,726,471	4.0
2009-10	368,638	1.5	29,697,949	5.9	8,506,012	0.7	38,203,961	4.7
2008-09	363,034	(2.0)	28,030,334	1.7	8,445,278	(7.7)	36,475,612	(0.6)
2007-08	370,569	7.7	27,558,480	9.5	9,150,925	5.2	36,707,637	8.4
2006-07	344,048	2.6	25,159,432	1.9	8,695,950	4.9	33,855,382	2.6
2005-06	335,223	2.2	24,799,655	0.0	8,187,999	4.3	32,987,672	1.0
2004-05	328,014	0.6	24,800,769	5.8	7,847,866	7.0	32,648,635	6.1

* Preliminary.
Source: Commission.

Passenger traffic has grown at a compound annual growth rate of 4.1% over the last ten full Fiscal Years, with a 3.3% increase in Fiscal Year 2013-14. While the Airport expects traffic to continue to grow, such growth is likely to be at a more moderate pace than over the last few years. In addition, as is described above under "– Current Airport Facilities – *Airfield*," the Airport temporarily closed two runways in the summer of 2014 which were reopened on August 10, 2014. The Airport continued to experience passenger growth during the closures, with an average enplanement increase of 5.1% from May through July, compared to the same months in the prior year.

During Fiscal Year 2013-14 an estimated 78% of the passenger traffic at the Airport was "origin and destination" traffic, where San Francisco is the beginning or end of a passenger's trip. This relatively high percentage of origin and destination traffic pattern is in contrast to many other major airports which have a higher percentage of connecting passengers, largely as a result of airline hubbing practices. Historically, when airlines have reduced or ceased operations at the Airport, other airlines have absorbed the traffic with no significant adverse impact on Airport revenues. See "CERTAIN RISK FACTORS–Airline Concentration; Effect of Airline Industry Consolidation."

Enplanements

Total Enplanements. Total enplanements at the Airport increased 3.2% during Fiscal Year 2013-14 to approximately 23.0 million as compared to Fiscal Year 2012-13. The increase in total enplanements during Fiscal Year 2013-14 represents an increase of 722,252 passengers, 471,115 of which were domestic and the remaining 251,137 of which were international.

Total enplanements for the Airport's 10 most active airlines for Fiscal Years 2009-10 through 2013-14 are shown in the table below, ranked in the order of the results from Fiscal Year 2013-14. Enplanements for airlines include enplanements by affiliates.

TOTAL ENPLANEMENTS BY AIRLINE
(Fiscal Years)

Airline	2009-10	2010-11	2011-12	2012-13	2013-14*	% of 2013-14*(1)
United Airlines(2)	7,676,515	7,865,157	9,707,269	10,280,401	10,655,513	46.3%
Virgin America	1,266,273	1,340,921	1,825,382	1,934,777	1,965,310	8.5
Delta Air Lines(3)	1,197,502	1,687,309	1,708,370	1,742,918	1,843,363	8.0
Southwest Airlines(5)	1,468,238	1,504,611	1,476,055	1,554,598	1,567,768	6.8
American Airlines(4)	1,629,203	1,583,671	1,540,149	1,507,407	1,464,378	6.4
US Airways(4)	781,698	837,410	787,453	806,183	827,146	3.6
Alaska Airlines	554,062	578,161	562,944	596,236	663,557	2.9
jetBlue Airways	321,645	411,683	489,903	533,375	542,761	2.4
Air Canada	–	297,069	287,014	284,664	337,424	1.5
Lufthansa German Airlines	–	–	240,641	251,864	241,483	1.1
Continental Airlines(2)	730,780	784,173	–	–	–	–
Northwest Airlines(3)	394,115	–	–	–	–	–
SUBTOTAL	16,020,031	16,890,165	18,625,180	19,492,423	20,108,703	87.4
All others	3,080,371	2,946,545	2,794,362	2,780,999	2,886,971	12.6
TOTAL	19,100,402	19,836,710	21,419,542	22,273,422	22,995,674	100.0%
Percentage Change	4.8%	3.9%	8.0%	4.0%	3.2%	

* Preliminary.

(1) Figures do not total due to rounding.

(2) United Airlines and Continental Airlines merged on October 1, 2010. The combined airlines received FAA approval to operate under a single operating certificate in November 2011 and currently operate as United Airlines. Data for United Airlines and Continental Airlines combined for Fiscal Year 2011-12 and thereafter.

(3) Delta and Northwest merged in 2008. Northwest was operated as a wholly-owned subsidiary of Delta until December 31, 2009 when the two airlines began operating under a single FAA operating certificate. The reservation systems of the two airlines were merged on January 31, 2010, officially retiring the Northwest brand. Delta Air Lines ceased its international service at the Airport in March 2014.

(4) American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged but continue to operate under separate FAA operating certificates.

(5) On May 2, 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways. The airlines received FAA approval to operate under a single operating certificate in March 2012, although the airlines' operations are likely to remain separate through 2014. Data for Southwest and AirTran will be reported separately until operations are combined.

Source: Commission.

Total enplanements have grown at a compound annual growth rate of 4.8% over the last five full Fiscal Years, with a 3.2% increase in Fiscal Year 2013-14. While the Airport expects enplanements to continue to grow, such growth is likely to be at a more moderate pace than over the last few years.

Domestic Enplanements. During Fiscal Year 2013-14, total domestic passenger enplanements were 17,987,093, an increase of 2.7% compared to Fiscal Year 2012-13. Domestic enplanements for the 10 most active airlines for Fiscal Years 2009-10 through 2013-14, ranked in the order of the results from Fiscal Year 2013-14, are shown in the table below. Enplanements for airlines include enplanements by affiliates.

DOMESTIC ENPLANEMENTS BY AIRLINE
(Fiscal Years)

Airline	2009-10	2010-11	2011-12	2012-13	2013-14*	% of 2013-14*(1)
United Airlines(2)	6,200,095	6,290,503	8,053,026	8,544,790	8,849,198	49.2%
Virgin America	1,265,676	1,298,276	1,760,998	1,877,622	1,918,610	10.7
Delta Air Lines(3)	1,167,350	1,625,114	1,653,717	1,686,655	1,804,080	10.0
Southwest Airlines(5)	1,468,238	1,504,611	1,476,055	1,554,598	1,567,768	8.7
American Airlines(4)	1,629,203	1,583,671	1,540,149	1,507,407	1,464,378	8.1
US Airways(4)	781,698	837,410	787,453	806,183	827,146	4.6
Alaska Airlines	478,516	490,817	483,883	524,535	583,892	3.2
jetBlue Airways	321,645	411,683	489,903	533,375	542,761	3.0
Frontier Airlines	–	205,594	227,010	199,018	195,353	1.1
Hawaiian Airlines	–	–	–	–	97,966	0.5
AirTran Airways	–	–	201,179	133,278	–	–
Northwest Airlines(3)	350,424	–	–	–	–	–
Continental Airlines(2)	730,780	784,173	–	–	–	–
SUBTOTAL	14,393,625	15,031,852	16,673,373	17,367,461	17,851,152	99.2
All others	466,244	339,917	135,271	148,517	135,941	0.8
TOTAL	14,859,869	15,371,769	16,808,644	17,515,978	17,987,093	100.0%
Percentage Change	6.1%	3.4%	9.3%	4.2%	2.7%	

* Preliminary.
(1) Figures do not total due to rounding.
(2) United Airlines and Continental Airlines merged on October 1, 2010. The combined airlines received FAA approval to operate under a single operating certificate in November 2011 and currently operate as United Airlines. Data for United Airlines and Continental Airlines is combined for Fiscal Year 2011-12 and thereafter.
(3) Delta and Northwest merged in 2008. Northwest was operated as a wholly-owned subsidiary of Delta until December 31, 2009 when the two airlines began operating under a single FAA operating certificate. The reservation systems of the two airlines were merged on January 31, 2010, officially retiring the Northwest brand.
(4) American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged but continue to operate under separate FAA operating certificates.
(5) On May 2, 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways. The airlines received FAA approval to operate under a single operating certificate in March 2012, although the airlines' operations are likely to remain separate through 2014. Data for Southwest and AirTran will be reported separately until operations are combined.
Source: Commission.

International Enplanements. International enplanements during Fiscal Year 2013-14 totaled 5,008,581, an increase of 5.3% compared to Fiscal Year 2012-13.

International enplanements for the 10 most active airlines for Fiscal Years 2009-10 through 2013-14, ranked in the order of the results from Fiscal Year 2013-14, are shown in the table on the following page. Enplanements for airlines include enplanements by affiliates.

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INTERNATIONAL ENPLANEMENTS BY AIRLINE
(Fiscal Years)

Airline	2009-10	2010-11	2011-12	2012-13	2013-14*	% of 2013-14* (1)
United Airlines[(2)]	1,476,420	1,574,654	1,654,243	1,735,611	1,806,315	36.1%
Air Canada	276,574	297,069	287,014	284,664	337,424	6.7
Lufthansa Airlines	205,192	217,226	240,641	251,864	241,483	4.8
British Airways	194,120	203,366	214,014	209,358	210,648	4.2
Cathay Pacific Airlines	234,852	243,098	235,253	211,684	210,445	4.2
Singapore Airlines	168,675	167,251	168,043	191,310	176,721	3.5
EVA Airways	152,828	131,970	145,531	151,684	168,930	3.4
Air France	123,153	135,705	153,600	163,755	159,965	3.2
Virgin Atlantic Airways	–	–	118,233	126,170	119,471	2.4
China Airlines	121,137	113,701	–	116,306	119,365	2.4
Philippine Airlines	–	122,823	112,652	–	–	–
Mexicana[(3)]	122,354	–	–	–	–	–
SUBTOTAL	3,075,305	3,206,863	3,329,224	3,442,406	3,550,767	70.9
All others	1,165,228	1,258,078	1,281,674	1,315,038	1,457,814	29.1
TOTAL	4,240,533	4,464,941	4,610,898	4,757,444	5,008,581	100.0%
Percentage Change	0.5%	5.3%	3.3%	3.2%	5.3%	

* Preliminary.
(1) Column does not total due to rounding.
(2) United Airlines and Continental Airlines merged on October 1, 2010. The combined airlines received FAA approval to operate under a single operating certificate in November 2011 and currently operate as United Airlines. Data for United Airlines and Continental Airlines is combined for Fiscal Year 2011-12 and thereafter.
(3) Mexicana filed for bankruptcy and ceased operations in August 2010.
Source: Commission.

In Fiscal Year 2013-14, enplanements to Asia and the Middle East increased by 1.6%; enplanements to Canada increased by 7.8%; enplanements to Europe increased by 8.0%; enplanements to Latin America increased by 10.3%; and enplanements to Australia and Oceania increased by 5.9%, all as compared to Fiscal Year 2012-13.

International enplanements by destination for Fiscal Years 2009-10 through 2013-14 are shown in the table below.

INTERNATIONAL ENPLANEMENTS BY DESTINATION
(Fiscal Years)

						% of 2013-14*	
Destination	2009-10	2010-11	2011-12	2012-13	2013-14*	International Enplanements[(1)]	Total Enplanements
Asia/Middle East	1,985,540	2,058,424	2,099,129	2,129,047	2,162,721	43.2%	9.4%
Europe	1,051,735	1,146,595	1,227,484	1,286,374	1,389,903	27.8	6.0
Canada	609,465	670,818	625,058	629,379	678,770	13.6	3.0
Latin America	368,071	362,719	472,534	511,149	563,870	11.3	2.5
Australia/Oceania	225,722	226,385	186,693	201,495	213,317	4.3	0.9
TOTAL	4,240,533	4,464,941	4,610,898	4,757,444	5,008,581	100.0%	21.8%
Percentage Change	0.5%	5.3%	3.3%	3.2%	5.3%		

* Preliminary.
(1) Column does not total due to rounding.
Source: Commission.

Cargo Traffic and Landed Weight

Cargo Traffic

In Fiscal Year 2013-14, according to traffic reports submitted by the airlines, Airport air cargo volume was approximately 370,525 metric tons, including U.S. mail, freight and express shipments, an increase of 330 metric tons (0.1%) compared to reported cargo volume for Fiscal Year 2012-13. A total of approximately 233,820 metric tons of international cargo, mail, freight and express shipments were handled at the Airport during Fiscal Year 2013-14, compared to approximately 136,705 metric tons of domestic cargo, mail, freight and express shipments. The Airport was ranked 17th in the United States in terms of air cargo volume in calendar year 2013, according to preliminary 2013 data from the ACI.

Compared to Fiscal Year 2012-13, domestic cargo and mail traffic tonnage decreased 7,565 metric tons (-5.2%) and international cargo and mail traffic tonnage increased 7,895 metric tons (3.5%) during Fiscal Year 2013-14.

The following table provides information concerning cargo traffic at the Airport for the last five Fiscal Years.

AIR CARGO ON AND OFF
(in metric tons)

Fiscal Year	Freight and Express	U.S. and Foreign Mail	Total Cargo	Percent Change
2013-14*	328,828	41,697	370,525	0.1%
2012-13	329,571	40,624	370,195	(3.9)
2011-12	342,193	42,920	385,113	(3.3)
2010-11	358,357	40,026	398,383	(7.8)
2009-10	382,417	49,573	431,990	2.7

* Preliminary.
Source: Commission.

Landed Weight

For Fiscal Year 2013-14, total revenue landed weight at the Airport increased 956,001 thousand pounds (3.1%) when compared with Fiscal Year 2012-13.

Landing fees paid by each airline are based on landed weights of aircraft operating at the Airport. The revenue landed weights for the 10 most active airlines operating at the Airport for Fiscal Years 2009-10 through 2013-14, ranked in the order of the results from Fiscal Year 2013-14, are shown in the table on the following page. Landed weights for airlines include landed weight of affiliates.

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TOTAL REVENUE LANDED WEIGHT BY AIRLINE
(in thousands of pounds)
(Fiscal Years)

Airline	2009-10	2010-11	2011-12	2012-13	2013-14*	% of 2013-14* (1)
United Airlines(2)	11,425,026	11,530,643	13,162,108	13,161,654	13,607,516	43.0%
Virgin America	1,623,112	1,697,154	2,265,639	2,465,082	2,494,821	7.9
Delta Air Lines(3)	1,433,614	2,009,910	2,054,885	2,091,497	2,230,034	7.1
American Airlines(4)	2,140,797	1,991,480	1,898,722	1,888,888	1,865,682	5.9
Southwest Airlines(5)	1,847,152	1,842,278	1,831,956	1,877,368	1,832,578	5.8
US Airways(4)	909,195	912,566	863,749	826,201	859,552	2.7
Alaska Airlines	643,216	666,027	663,800	678,452	734,442	2.3
jetBlue Airways	–	495,140	539,933	571,217	596,813	1.9
Lufthansa Airlines	–	–	479,171	481,557	459,455	1.5
British Airways	–	–	–	–	457,210	1.5
Cathay Pacific	506,266	509,194	500,419	466,191	–	–
Northwest Airlines(3)	509,885	–	–	–	–	–
Continental Airlines(2)	740,573	825,332	–	–	–	–
SUBTOTAL	21,778,836	22,479,724	24,260,382	24,508,107	25,138,103	79.5
All others	6,813,777	6,564,369	6,199,386	6,164,463	6,490,469	20.5
TOTAL	28,592,613	29,044,093	30,459,768	30,672,570	31,628,572	100.0%
Percentage Change	0.4%	1.6%	4.9%	0.7%	3.1%	

* Preliminary.
(1) Figures do not total due to rounding.
(2) United Airlines and Continental Airlines merged on October 1, 2010. The combined airlines received FAA approval to operate under a single operating certificate in November 2011 and currently operate as United Airlines. Data for United Airlines and Continental Airlines combined for Fiscal Year 2011-12 and thereafter.
(3) Delta and Northwest merged in 2008. Northwest was operated as a wholly-owned subsidiary of Delta until December 31, 2009 when the two airlines began operating under a single FAA operating certificate. The reservation systems of the two airlines were merged on January 31, 2010, officially retiring the Northwest brand.
(4) American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged but continue to operate under separate FAA operating certificates.
(5) On May 2, 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways. The airlines received FAA approval to operate under a single operating certificate in March 2012, although the airlines' operations are likely to remain separate through 2014. Data for Southwest and AirTran will be reported separately until operations are combined.

Source: Commission.

Competition

General

According to preliminary 2013 data from ACI, the Airport is the principal airport in the San Francisco Bay Area and the second largest international gateway on the West Coast after Los Angeles International Airport (LAX). The San Francisco Bay Area is also served by Metropolitan Oakland International Airport (OAK) and Norman Y. Mineta San Jose International Airport (SJC). The passenger traffic data with respect to LAX, OAK, and SJC discussed below was obtained from websites maintained by LAX, OAK, and SJC, respectively.

The Commission expects the Airport to continue to be the major air traffic center for the Bay Area based on air traffic projections, the substantial investment by a number of major airlines at the Airport, terminal facility improvements and passenger preferences stemming from the Airport's location, service and frequent flights to domestic and international destinations.

Substantially all of the international passenger traffic (enplanements and deplanements) in the Bay Area is at the Airport. Thus, the primary competitor of the Airport on the West Coast for international passengers is LAX, rather than Oakland Airport or San Jose Airport. During Fiscal Year 2013-14, international passenger traffic (enplanements and deplanements) at the Airport totaled approximately 10.1 million (an increase of 5.1% over the prior Fiscal Year) compared to approximately 18.6 million at LAX (an increase of 7.5%). The choice by air carriers between the Airport and LAX for their international routes is affected by many factors, including the much larger population served by LAX, and the distance of each airport from various destinations.

In 2014, Delta Air Lines announced that the creation of an international gateway in Seattle was among its network strategies. According to statistics published by Seattle-Tacoma International Airport (SEA) in Fiscal Year 2013-14, its international enplanements and deplanements totaled 3.7 million compared to 10.1 million at the Airport. Delta Air Lines ceased its international service at the Airport in March 2014.

Passenger Traffic

According to traffic reports released by the three Bay Area airports for Fiscal Year 2013-14, the Airport accounted for approximately 66.1% of total domestic passenger traffic and approximately 95.3% of total international passenger traffic. The combined total passenger traffic increase at the three Bay Area airports during Fiscal Year 2013-14 was 1,963,779 enplanements and deplanements (approximately 3.1%) higher than in Fiscal Year 2012-13. While the Airport's enplanements and deplanements increased by 3.3%, Oakland Airport decreased by 0.6% and San Jose Airport increased by 6.8%, resulting in no change in market share for the Airport, at 70.8% in both Fiscal Year 2012-13 and Fiscal Year 2013-14.

The following table summarizes comparative passenger traffic data at the three Bay Area airports for the last five Fiscal Years.

COMPARISON OF BAY AREA AIRPORTS TOTAL PASSENGER TRAFFIC
(Enplanements and Deplanements)
(Fiscal Years)

					2013–14*	
Airport	2009-10	2010-11	2011-12	2012-13	Number	% Change
San Francisco	38,203,961	39,726,471	42,863,656	44,608,177	46,057,988	3.3%
Oakland	9,558,175	9,367,577	9,643,555	9,950,856	9,890,271	(0.6)
San Jose	8,229,442	8,389,050	8,256,223	8,488,459	9,063,012	6.8
TOTAL BAY AREA	55,991,578	57,483,098	60,763,434	63,047,492	65,011,271	3.1%
Percentage Change	1.4%	2.7%	5.7%	3.8%	3.1%	

* Preliminary.
Sources: Commission, the Metropolitan Oakland International Airport and the Norman Y. Mineta San Jose International Airport.

Air Cargo

During Fiscal Year 2013-14, the Airport accounted for approximately 39.5% of total air cargo at the three San Francisco Bay Area airports, compared with 41.0% in Fiscal Year 2012-13. Oakland Airport accounted for approximately 55.5% and San Jose accounted for approximately 5.0% of the total air cargo in the Bay Area during Fiscal Year 2013-14. The Airport handled approximately 20.1% of domestic loaded and unloaded cargo and approximately 90.6% of the Bay Area's international loaded and unloaded air cargo. Oakland Airport had the largest share of the domestic air cargo market (approximately 73.0% compared to approximately 72.2% during Fiscal Year 2012-13). This is attributable to its traffic in express package shipments, an activity that requires significant land area that is not available at or in the vicinity of the Airport. The Airport experienced an increase in international cargo (including mail) of 7,895 tons (3.5%) compared to Fiscal Year 2012-13, and a decrease in domestic cargo (including mail) of 7,565 tons (-5.2%) over the same period, resulting in an overall increase of 330 tons (0.1%). During Fiscal Year 2013-14, Oakland Airport experienced an increase in total cargo of 27,358 tons (5.5%) and San Jose Airport experienced an increase in total cargo of 7,784 tons (19.9%) each compared to Fiscal Year 2012-13. As a result, the Airport experienced a 1.5 percentage point decrease in cargo tonnage market share, while Oakland Airport had an increase in cargo tonnage market share of 0.9 percentage points and San Jose Airport had an increase in cargo tonnage market share of 0.7 percentage points.

The following table summarizes comparative air cargo data at the three Bay Area airports for the last five Fiscal Years.

COMPARISON OF BAY AREA AIRPORTS TOTAL AIR CARGO
(in metric tons)
(Fiscal Years)

					2013–14*	
Airport	2009-10	2010-11	2011-12	2012-13	Number	% Change
San Francisco	431,900	398,383	385,113	370,195	370,525	0.1%
Oakland	489,545	510,121	500,950	493,127	520,486	5.5
San Jose	48,248	42,935	37,996	37,177	46,961	19.9
TOTAL BAY AREA	969,783	951,438	924,059	902,498	937,971	3.9%
Percentage Change	(6.1%)	(1.9%)	(2.9%)	(2.3%)	3.9%	

* Preliminary.

Sources: Commission, the Metropolitan Oakland International Airport and the Norman Y. Mineta San Jose International Airport.

Airline Agreements

The City and 44 airlines have entered into 10-year Lease and Use Agreements that became effective on and after July 1, 2011 (the "Lease and Use Agreements") following the expiration of prior lease and operating agreements with the airlines. The airlines that are party to a Lease and Use Agreement are referred to as "Signatory Airlines." Non-signatory airlines operate at the Airport under month-to-month operating permits or on an itinerant basis. A brief description of certain major terms of the Lease and Use Agreements follows. For a more detailed summary of the Lease and Use Agreements, see APPENDIX E – "SUMMARY OF CERTAIN PROVISIONS OF THE LEASE AND USE AGREEMENTS." For information on which airlines currently serving the Airport are party to the Lease and Use Agreements, see the table entitled "Air Carriers Reporting Air Traffic at the Airport" under "–Airline Service" above.

Lease and Use Agreements

Signatories. The Lease and Use Agreements took effect on July 1, 2011 and expire on June 30, 2021. Only three airlines currently operating scheduled passenger flights at the Airport are non-signatory, AerLingus, Aeromexico and XL Airways France. These airlines' passengers comprised less than 1% of the Airport's total passengers in the month of June 2014. Airlines in addition to the 44 current signatories may sign the Lease and Use Agreement from time to time. United Airlines' and Continental Airlines' leases were merged on July 1, 2013.

Residual Methodology. The Lease and Use Agreements govern the use of terminal, baggage claim, ticketing, ramp and gate areas. Under the Lease and Use Agreements, the Signatory Airlines pay terminal rents and landing fees under a residual rate-setting methodology tied to six cost centers. This methodology is designed to provide revenues to the Commission sufficient to pay operating expenses and debt service costs. Under the residual rate-setting methodology, landing fees and terminal rentals are established each year to produce projected revenues from the airlines ("airline payments") equal to the difference between (i) the Airport's non-airline revenues and (ii) the Airport's total costs, including without limitation operating expenses and debt service costs ("net costs"). In other words, rates and charges are established each year to produce projected airline payments equal to projected net costs. Thus, increases in non-airline revenues, such as parking and concession revenues, generally result in decreases in airline landing fees and terminal rental rates, and vice versa.

Differences between receipts and expenditures in any Fiscal Year may result in adjustments of terminal rental rates and landing fees in subsequent Fiscal Years. The Commission's financial statements reflect such differences in the Fiscal Year in which they occur, with overcharges being recorded as liabilities (accounts payable) and undercharges as assets (accounts receivable).

Annual Adjustment of Terminal Rentals and Landing Fees. The Commission may adjust terminal rental rates and landing fees each year for the next Fiscal Year based on each Signatory Airline's proposed changes to its leased space, additions of new terminal space for lease, the forecast landed weight for the next Fiscal Year, and the Commission's budgetary forecast of attributed non-Airline revenues, operating expenses and debt service costs for the various Airport cost centers.

Mid-Year Adjustment of Terminal Rentals and Landing Fees. The Commission may increase terminal rental rates and/or landing fees at any time during the Fiscal Year if the actual expenses (including debt service) in one or more applicable cost centers are projected to exceed by 10% or more the actual revenues from such cost center. Prior to increasing terminal rental rates and/or landing fees, as applicable, the Commission must use commercially reasonable efforts to provide a 60-day notice to, and consult with, the Signatory Airlines. The Signatory Airlines are required to pay such increased terminal rentals and/or landing fees that would equal the projected deficiency for the remaining months of the then-current Fiscal Year. The Airport has not made any such mid-year adjustments since Fiscal Year 2000-01.

Terminal Rentals and Landing Fees. Landing fees, consisting of minimum fees for fixed-wing and rotary aircraft and a rate based on landed weight, are imposed primarily with respect to Airfield Area and Airport Support Area net costs. Each Signatory Airline and other airlines and airfield users are required to pay landing fees, the principal component of which is based upon landed weight, that are established by the Commission to fully recover all Airfield and Airport Support Area net costs. Airlines that are not Signatory Airlines or an Affiliate Airline (as defined in the Lease and Use Agreements) of a Signatory Airline pay a 25% premium on landing fees. However, if a Signatory Airline ceases or substantially reduces its operations at the Airport, it remains liable for certain terminal rentals calculated each year on a residual basis. Any shortfall in landing fees payable to the Commission by the Signatory Airlines and other airlines and airfield users in any Fiscal Year as a result of actual landed weights being less than those projected are made up either from a mid-year rate adjustment, or from adjustments to landing fee rates in the succeeding Fiscal Years.

Funding of Capital Improvements. The Commission, subject to the limited exception described below, must use commercially reasonable efforts to finance all capital improvements through grants, TSA funding, PFCs or the issuance of Airport revenue bonds. However, the Commission may annually budget for capital improvements from current revenues up to $4,200,000 in Fiscal Year 2008-09 dollars ($4,509,000 in 2013 dollars based on the Implicit Price Deflator), or a greater amount approved by a Majority-In-Interest of the Signatory Airlines (defined as more than 50% of the Signatory Airlines, which on the date of calculation represent more than 50% of the landed weight of such Signatory Airlines during the immediately preceding Fiscal Year).

Airline Review of Capital Improvements. The Commission is required to notify the Signatory Airlines in writing of proposed capital improvements. Within 45 days of the receipt of such notice, a Majority-In-Interest may require the Commission to defer a proposed capital improvement for up to six months in order for the airlines to present their views with respect to such capital improvement, after which time the Commission may proceed with the capital improvement. Capital improvements that are (i) required by a federal or state agency having jurisdiction over Airport operations, (ii) required by an emergency which, if the improvements are not made, would result in the closing of the Airport within 48 hours, or (iii) financed by the issuance of Special Revenue Bonds, are not subject to the airline review requirement. "Special Revenue Bonds" are obligations issued by the Commission or on behalf of the Airport, the debt service on which is payable from or secured in whole or substantial part by revenues other than Revenues.

Optional Reduction of Exclusive Use Space. Signatory Airlines will be granted a mid-term opportunity to relinquish up to 20% of their exclusive use space, effective July 1, 2016. Exclusive use space includes airline back offices, clubs and lounges, ticket counters, and baggage handling space in the domestic terminals.

Joint Use of Space. As of July 1, 2011, gates are no longer leased exclusively to one airline. Gates in the domestic terminals are used by airlines on a preferential or common-use basis while gates in the ITC are used on a common or joint use basis. Gates assigned to an airline for preferential use are allocated annually according to a formula taking into account each airline's scheduled seats. Gates can thus be recaptured by the Airport annually from airlines with decreasing traffic and allocated to other airlines with increasing traffic. Any preferential use gate can also be used by any airline when it is not actively being used by the airline to which it is allocated. With respect to the domestic terminals, the Airport may recapture unneeded support facilities from a Signatory Airline at any time if the number of preferential use gates allocated to such airline is reduced. These provisions allow the Airport to continue receiving terminal rentals on unused support facilities until they are needed by another airline. With respect to the ITC, most ITC gates, holdrooms, ticket counters and baggage systems are leased to a group of airlines on a joint use basis and allocated for use among the various airlines as needed during the day in accordance with management protocols. Rental charges for joint use facilities are based on a formula, with 80% of the charges allocated pro rata to the airlines based on passenger levels, and 20% shared equally by the airlines in the group. This arrangement facilitates the efficient use of the ITC facilities and enables the Airport to accommodate new domestic or international carriers or other market changes within the industry. A small number of domestic terminal and ITC gates and related facilities are designated for common use to accommodate itinerant airlines and overflow domestic departures and arrivals. Fees for common use facilities are charged on a per-turn basis.

Security Deposit. Each Signatory Airline is required to post security with the Commission to guaranty its performance and payment. Such security may consist of a surety bond, a letter of credit or another form of security acceptable to the Commission in an amount equal to two months of terminal area rentals, landing fees, and usage fees. Airlines operating at the Airport pursuant to ground leases or 30-day permits are required to post security bonds or letters of credit in an amount ranging from two to six months estimated rentals under such agreements.

Cross-Default Provisions. A Signatory Airline may have more than one agreement, lease or permit with the Airport. If a default occurs under any one of such other agreements, a cross-default is triggered under the Signatory Airline's Lease and Use Agreement. In addition, if a Signatory Airline is in default under its Lease and Use Agreement, the Airport may terminate any other agreement with such Signatory Airline.

Payments per Enplaned Passenger. The Airport has agreed to a goal of limiting airline payments per enplaned passenger to no more than $18.90, in constant Fiscal Year 2007-08 dollars, for a five-year period from Fiscal Year 2011-12 through Fiscal Year 2015-16. For further discussion of payments per enplaned passenger, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Operating Revenues–*Terminal Rental Rates and Landing Fees*."

Potential Effects of an Airline Bankruptcy

In the event a bankruptcy case is filed with respect to an airline operating at the Airport, the lease or permit governing such airline's use of Airport space would constitute an executory contract or unexpired lease pursuant to the United States Bankruptcy Code. A trustee in bankruptcy or the airline as debtor in possession may reject any executory contracts or unexpired leases of non-residential real property. Among other things, rejection of an unexpired lease is deemed to be a default of the lease immediately before the date of the filing of the bankruptcy petition. Under the Bankruptcy Code, upon rejection of an unexpired lease the airline debtor must surrender non-residential real property to the lessor. As a result, rejection of an unexpired lease by an airline debtor may result in the Commission regaining control of the applicable facilities (including gates and boarding areas). The Commission could then lease or permit such facilities to other airlines. The Commission's ability to lease such facilities to other airlines may depend on the state of the airline industry in general, on the nature and extent of the increased capacity at the Airport resulting from the departure of the debtor airline, and on the need for such facilities. Alternatively, under the Bankruptcy Code an airline debtor can "assume" its executory contracts and unexpired leases. The Bankruptcy Code further provides for an airline debtor to assume and assign its executory contracts and leases, subject to certain conditions. If the bankruptcy trustee or the airline assumes its executory contracts or unexpired leases as part of a reorganization, the airline debtor must "cure" or provide adequate assurance that the airline debtor will promptly cure its prepetition defaults, including arrearages in amounts owed. Even if all such amounts owed are eventually paid, the Commission could experience delays of many months or more in collecting such amounts.

In Chapter 11 cases, the debtor in possession or a trustee, if one is appointed, has 120 days from the date of filing of the bankruptcy petition to decide whether to assume or reject a nonresidential lease, such as the Lease and Use Agreements. The 120-day period may be extended by court order for an additional 90 days for cause. Any additional extensions are prohibited unless the debtor airline or trustee obtains the Airport's consent and a court order.

Under the Bankruptcy Code, any rejection of a lease could result in a claim by the Airport for lease rejection damages against the debtor airline. Such claim would be in addition to all pre-bankruptcy amounts owed by the debtor airline. A rejection damages claim is for the rent due under the lease and is capped under the Bankruptcy Code at the greater of one year, or 15%, not to exceed three years, of the remaining term of the lease. Rejection damages claims are generally treated as a general unsecured claim of the airline debtor. However, the Airport may have rights against any faithful performance bond or letter of credit required of an airline to secure its obligations under the Airport agreements or the right to set off against credits owed to the airline under the Airport agreements.

There can be no assurance that all claim amounts could be collected if an airline rejects its Lease and Use Agreement in connection with a bankruptcy proceeding. In addition, in the event an airline rejects its lease agreements, the Airport may be required to repay landing fees and terminal rentals paid by the airline in the 90-day period prior to the date of the bankruptcy filing, since such payments are treated as "preferential" and avoidable under the Bankruptcy Code.

Even if a debtor airline assumes its lease while in Chapter 11, a bankruptcy trustee could reject the assumed lease if the case were subsequently converted to a case under Chapter 7 of the bankruptcy code (liquidation). In that event, the Airport's claim against the bankruptcy estate would be treated as an administrative claim limited to all sums due under the lease for the two-year period following the later of the rejection date or the date of the actual turnover of the premises. Any remaining amounts due under the lease would be treated as a general unsecured claim limited to the greater of one year of rent reserved under the lease or 15% of the rent for the remaining lease term, not to exceed three years of rent.

Also see "CERTAIN RISK FACTORS–Bankruptcy of Airlines Operating at the Airport."

Certain Federal and State Laws and Regulations

Federal Law Prohibiting Revenue Diversion

Federal law requires that all revenues generated by a public airport be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the airport owner or operator and directly and substantially related to the air transportation of passengers or property. In February 1999, the FAA adopted its "Policies and Procedures Concerning the Use of Airport Revenue" (the "Final Policy") clarifying the application of these principles to airport sponsors that receive federal grants for airport development from the FAA, including the Airport. The City is the "sponsor" of the Airport for purposes of these federal requirements.

Examples of unlawful revenue diversion include using airport revenues for: (1) land rental to, or use of land by, the sponsor for non-aeronautical purposes at less than the fair market rate; (2) impact fees assessed by any governmental body that exceed the value of services or facilities provided to the airport; or (3) direct subsidies of air carrier operations. An otherwise unlawful revenue diversion may be "grandfathered" if such use was instituted pursuant to a law controlling financing by the airport owner or operator, or a covenant or assurance in a debt obligation issued by the airport owner prior to September 1982. The Final Policy acknowledges that the Commission's Annual Service Payment to the City's General Fund is "grandfathered" as a lawful revenue diversion.

The Commission makes substantial payments to the City, separate from and in addition to its Annual Service Payment, for direct services provided to the Airport by other City departments. The FAA has authority to audit the payments and to order the City to reimburse the Airport for any improper payments made to the City. The FAA may also suspend or terminate pending FAA grants to the Airport and/or any then-existing PFC (as defined below) authorizations as a penalty for any violation of the revenue diversion rules. In addition, the U.S. DOT may also withhold non-aviation federal funds that would otherwise be made available to the City as a penalty for violation of the revenue diversion rules (for example, grants to the City's municipal railway system). See also "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Payments to the City" and "CERTAIN RISK FACTORS–Reduction in FAA Grants."

State Tidelands Trusts

A substantial portion of the land on which the Airport's facilities are located is held in trust by the City and administered by the Commission pursuant to tidelands grants from the State. These grants, accomplished by special State legislation, date to 1943 and 1947. Generally, the use of this land is limited to Airport purposes under the terms of the grants. The Commission may not transfer any of this land, nor lease it for periods of more than 50 years. There are also certain limitations on the use of funds generated from facilities located on this land. However, none of the various restrictions is expected to affect the operations or finances of the Airport. The grants may be subject to amendment or revocation by the State legislature, as grantor of the trust and as representative of the beneficiaries (the people of the State). Under the law, any such amendment or revocation could not impair the accomplishment of trust purposes, or abrogate the existing covenants and agreements between the City, acting by and through the Commission, as trustee, and the Airport's bondholders. The Commission does not anticipate that the State will revoke the tidelands grants.

State Proposition 218

In November 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIIIC and XIIID to the California Constitution, and contains a variety of interrelated provisions concerning the ability of local governments, including the City, to impose both existing and future taxes, assessments, fees and charges.

Article XIIIC removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Consequently, the voters of the City could, by future initiative, seek to repeal, reduce, or prohibit the future imposition or increase of, any local tax, assessment, fee or charge. "Assessment," "fee," and "charge" are not defined in Article XIIIC and it is unclear whether the definitions of such terms contained in Article XIIID (which are generally property-related as described below) are so limited under Article XIIIC.

Article XIIID conditions the imposition of a new or increased "fee" or "charge" on either voter approval or the absence of a majority protest, depending upon the nature of the fee or charge. The terms "fee" and "charge" are defined to mean levies (other than ad valorem taxes, special taxes and assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a "property-related service." No assurance can be given that the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce, or prohibit the future imposition or increase of, assessments, fees, or charges, including the Commission's fees and charges, which are the source of Net Revenues pledged to the payment of debt service on the Bonds. The Commission believes that Article XIIID does not apply to Airport fees and charges imposed by the Commission.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation. The Commission is unable to predict the outcome of any such litigation or legislation.

State Proposition 26

In November 2010, the voters of the State approved Proposition 26, known as the "Supermajority Vote to Pass New Taxes and Fees Act." Proposition 26, among other things, amended Article XIIIC to the California Constitution principally to define what constitutes a "tax" under the limitations and requirements of that provision. Article XIIIC imposes limitations on local governments like the City when imposing certain taxes, including a requirement that the local government submit certain taxes to the electorate for its approval. Before Proposition 26, Article XIIIC did not define the term "tax" and the purpose of Proposition 26 is to broadly define what constitutes a tax under Article XIIIC to include "any levy, charge, or exaction of any kind imposed by a local government." Proposition 26 lists several exceptions to the definition of "tax," which include (a) a charge for a specific benefit or privilege, which does not exceed the reasonable costs of providing the benefit or privilege, (b) a charge for a government service or product, which does not exceed the reasonable costs of providing the service or product, (c) a charge for the reasonable regulatory costs of issuing licenses and permits, performing investigations, inspections, and audits, and the administrative enforcement thereof, (d) a charge for entrance to or use of local government property, or the purchase, rental, or lease of local government property, and (e) a fine, penalty, or other monetary charge imposed as a result of a violation of law. If any of the Airport's fees and charges were determined to be “taxes” under Article XIIIC, the Airport may no longer be able to impose or adjust those fees and charges without voter approval.

Employee Relations

The Commission budgeted 1,641 full time equivalent positions for Fiscal Year 2014-15 and budgeted 1,688 full-time equivalent positions for Fiscal Year 2015-16. The Charter governs the Airport’s employment policies. The Charter authorizes the San Francisco Civil Service Commission to establish rules and procedures to implement those policies.

There are presently 18 labor unions representing Airport employees. The Charter allows employee organizations representing City workers to negotiate wages, hours, benefits and other conditions of employment through collective bargaining. The decision to choose collective bargaining is irrevocable. All Airport employees now bargain collectively. Most Airport employee unions enter into new agreements with the City every three years, and most unions entered into new three-year agreements with the City on July 1, 2014. Not all agreements were open for negotiation, such as agreements covering public safety employees. Disagreements between the employees and the City in collective bargaining are resolved by an arbitration board whose decision is final. There have been no strikes by City employees since at least 1976. In 1976, an amendment to the City’s Charter was approved which prohibits strikes and similar work actions by City employees.

Hazardous Material Management

Environmental Staff

The Commission employs environmental staff responsible for management of hazardous materials and compliance with environmental regulations.

Remediation and Preventative Measures

The Commission and certain Airport tenants have discovered and remediated or are engaged in the process of remediating and managing certain contamination on Airport property pursuant to current regulatory standards and requirements of the California Regional Water Quality Control Board, San Francisco Bay Region (the “Regional Board”). The contamination has primarily consisted of leaked fuel constituents that most likely resulted from fueling practices of the 1940s through the early 1960s, accidental spills of fuel hydrocarbons, or releases from leaky pipes or underground tanks. However, the Commission has instituted regulations establishing fueling practices and facilities requirements that are intended to prevent hazardous materials from discharging into the environment. The Commission believes that the jet fueling system and other fuel storage tanks are currently in compliance with all applicable environmental regulations.

Remediation activities at the Airport in the majority of cases have consisted of removal and offsite disposal of contaminated soil and extraction and treatment of contaminated groundwater and the use of *in situ* remediation methods approved by the regulatory agencies with jurisdiction. Substantial hazardous material management work for the Master Plan has been completed within budget and on schedule.

Pursuant to requirements of the Regional Board, remediation activities have been undertaken in specific locations at the Airport by tenants responsible for the contamination in those locations, and the Airport has cleaned up contamination, and expects to continue to clean up contamination, that it encounters during construction on Airport property. As a result of litigation initiated by the Commission in 1997 over contamination on Airport property, the Commission reached settlement agreements with a number of current and former tenants that require such tenants to pay a set percentage of future environmental clean-up costs incurred by the Airport to address past contamination caused by such tenants’ activities. Since costs incurred by the Airport are not known until the Airport embarks on a construction project, the agreement with the settling tenants provides for payment on a pay-as-you-go basis, as the Airport incurs the costs. While the total clean-up costs that the Airport will incur are not presently known, the settlement agreements provide that the tenants’ obligation to pay ends when clean-up costs exceed $75 million or $98 million, depending on the tenant and the specific agreement. Some tenants’ obligations also terminate after October 2048. In the event a settling tenant is no longer in existence or is otherwise unable to pay its percentage share, the Commission would remain liable for the remediation costs attributable to that tenant. The Commission is in the process of assessing its total current exposure to remediation costs.

Water Quality Control Plant

The Commission owns and operates the Mel Leong Industrial Wastewater Treatment Plant (the "Plant") located at the Airport. The Plant utilizes current wastewater treatment technology and has a combined dry weather capacity of 3.4 million gallons per day. In 2013, the Airport received two Notices of Violation from the Bay Area Air Quality Management District ("BAAQMD") citing the generation of hydrogen sulfide (H2S) from the Plant in excess of the limits allowed under the Airport's permit. The Airport has installed ferric chloride injection facilities at the Plant which have eliminated the generation of excess hydrogen sulfide. The Airport also paid a fine of $21,000 for the duration of noncompliance when the treatment plant was not meeting the hydrogen sulfide generation limit. In addition, the Airport received a notice in 2013 from BAAQMD for failure to obtain the necessary permit for the renovation of the existing sanitary treatment plant. The Airport subsequently filed and obtained the appropriate permit and paid a late fee of $11,284.

CAPITAL PROJECTS AND PLANNING

The Capital Plan Process

The Airport's Capital Project Review Committee (the "CPRC") is comprised of senior staff, and the Capital Improvement Program (CIP) Working Group is comprised of management staff. The CIP Working Group evaluates and ranks new and existing capital projects with a view of increasing airline competition at the Airport and of maintaining and expanding the Airport's Facilities to address projected Airport traffic and any aging infrastructure. The CPRC reviews and approves the CIP Working Group's selection of projects for funding in a Capital Plan (the "Capital Plan"). In reviewing and approving the Capital Plan, the CPRC considers available funding and the projected impact of capital projects on terminal rental rates and landing fees that the airlines at the Airport pay. Generally, capital projects require the approval of the Commission, the Board of Supervisors and the Mayor. In most cases, an airline review is also required (see "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements").

The Capital Plan

The most recent revisions to the five-year Capital Plan correspond to the period between Fiscal Year 2014-15 and Fiscal Year 2018-19 and the most recent revisions to the ten-year Capital Plan correspond to the period between Fiscal Year 2014-15 and 2023-24. The Airport's current five-year Capital Plan includes projects related to health, safety and security enhancements; improvements to the airfield, groundside activities, terminals and customer service functions; environmental mitigation; asset preservation; utilities infrastructure upgrades; cost savings and revenue generating enhancements; and seismic retrofit of certain facilities. These revisions were approved by the Commission on February 18, 2014. The five-year Capital Plan includes an aggregate of $2.5 billion in projects, of which $108.1 million are expected to be funded with AIP funds and other grants, $23 million are expected to be funded with Airport operating funds, and $2.4 billion are expected to be funded with proceeds of additional Bonds expected to be issued in the future. The Airport bases its bond issuance needs on capital project cash flows, which includes projects budgeted in prior capital plans and does not include project costs if the cash flows extend beyond the planning period.

Included in the current five-year Capital Plan are initial planning and design funds for projects in the planning stage, including redevelopment of Boarding Area B and other areas in Terminal 1, a proposed on-airport hotel, the Terminal 3 East and West Redevelopment Projects, and maintenance and rehabilitation projects. Based on traffic and other economic indicators, the Commission will decide whether to commence each phase of these projects.

Included in the $4.4 billion ten-year Capital Plan are additional projects that are in early review and planning stages such as the full planned improvements of Terminal 1 and Boarding Area B with a total cost likely in excess of $2.0 billion. These projects have anticipated phased completion dates through 2021.

In addition, the Airport is evaluating another subset of projects in the ten-year Capital Plan which are in the early review and conceptual planning stages and may proceed in the future. These projects include improvements to Boarding Area F with preliminary cost estimates of $388 million that may be completed by 2022 and renovations to Terminal 1 Boarding Area C with a total cost likely in excess of $230 million and anticipated phased completion dates through 2022.

The Airport presented $686.1 million of projects that exceed the capital project review threshold in the current five-year Capital Plan to the Signatory Airlines for review in April 2014. The Signatory Airlines did not request the deferral of any capital projects.

The Report of the Airport Consultant assumes a $4.3 billion ten-year capital plan with $2.4 billion to be spent in the first five fiscal years (Fiscal Years 2014-15 through 2018-2019). The difference in amounts from the Airport's five-year and ten-year Capital Plans is the result of several minor changes based on revised project expenditure projections and timing over the next ten years, and the fact that there are projects that the Airport included in the Capital Plan that the Airport Consultant treats as having occurred before the period covered by the forecast in the Report. The Report reflects the projected issuance of approximately $2.7 billion of additional Bonds between Fiscal Years 2015-16 and 2019-20 (in addition to the Series 2014A/B Bonds). See APPENDIX A–"REPORT OF THE AIRPORT CONSULTANT" for additional information on the Capital Plan.

The Airport is in the beginning stages of writing a new Airport Development Plan (the "ADP"). The goal of the ADP is to provide the long-range planning framework needed to guide future Airport development to cost-effectively satisfy aviation demand while considering other potential constraints. The current Master Plan was finalized in 1989, and covered Airport growth to about 51 million annual passengers. The new ADP will include alternatives that cover potential growth up to about 71 million annual passengers.

Federal Grants

The Airport receives federal funding from the FAA, the TSA, and the Federal Highway Administration. The FAA administers the Airport's AIP and grants are made available to airport operators in the form of entitlement funds and discretionary funds. See "CERTAIN RISK FACTORS–Reduction in FAA Grants."

The Airport received $13.2 million in federal funds under the American Recovery and Reinvestment Act of 2009 ("ARRA") from the TSA in the Department of Homeland Security ("DHS") (for checked baggage screening equipment) and two grants totaling $14.5 million from the FAA in the Department of Transportation ("DOT") (for runway improvements). The Airport has been and continues to be audited with respect to these grants. In the past, audits have resulted in repayments of grants and reductions of other grant reimbursement requests. In addition, audits have resulted in changes to the Airport's internal controls and procedures. While some of these audits remain pending and the Airport may be required to repay grants it has received, the Commission does not believe any required repayments will have any material adverse impact on the business operations or financial condition of the Airport.

AIRPORT'S FINANCIAL AND RELATED INFORMATION

General

The Airport generates its operating revenues primarily from airline terminal rentals and landing fees, concession revenues, parking management revenues and Passenger Facility Charges. The Airport operates as a "residual" airport, which means that the Signatory Airlines are obligated under the Lease and Use Agreements to pay all of the Airport's operating expenses and debt service costs less any non-airline revenues of the Airport. The Commission establishes terminal rental rates and landing fees in advance for each upcoming Fiscal Year based on the Airport's estimated revenues and expenses. Actual receipts and expenses in any Fiscal Year are either more or less than estimated revenues and expenses. Due to the residual nature of the Lease and Use Agreements, to the extent there is an over-collection in any year (that is, receipts from the airlines exceed the Airport's net costs), the Airport is obligated to reduce future terminal rentals and landing fees by a corresponding amount. Similarly, if there is an under-collection in any year, the Airlines are obligated under the Lease and Use Agreements to pay such deficiency from future rates and charges. For a description of the Lease and Use Agreements, see "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements." Also see "SECURITY FOR THE SERIES 2014A/B BONDS –Pledge of Net Revenues; Source of Payment–*Certain Adjustments to 'Revenues' and 'Operation and Maintenance Expenses'*–Deferred Aviation Revenues."

Summary of Financial Statements

Summary of Statements of Net Position. A summary of the Airport's Statements of Net Position as reported in the Airport's annual financial statements for Fiscal Years 2008-09 through 2012-13 is shown in the table on the next page. See APPENDIX B – "FINANCIAL STATEMENTS WITH SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES JUNE 30, 2012 AND 2013 (WITH INDEPENDENT AUDITORS' REPORT THEREON)."

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SUMMARY OF AIRPORT'S STATEMENTS OF NET POSITION
($ in thousands)
(Fiscal Years)

	2008-09	2009-10	2010-11	2011-12	2012-13
Assets:					
Current Assets					
Unrestricted current assets:					
Cash and investments held in City Treasury – Operating Fund[1][3]	$ 307,696	$ 326,281	$ 336,063	$ 343,341	$ 364,687
Cash – Revolving Fund	10	10	10	10	10
Accounts Receivable [2]	33,674	30,902	35,542	40,754	32,485
Accrued Interest	960	1,180	903	1,337	939
Inventories	81	86	117	113	87
Other current assets	3,219	2,911	2,031	2,226	877
Total unrestricted current assets	$ 345,640	$ 361,370	$ 374,666	$ 387,781	$ 399,085
Restricted assets available for current outlay	91,962	125,689	106,323	114,727	159,004
Total current assets	$ 437,602	$ 487,059	$ 480,989	$ 502,508	$ 558,089
Restricted assets:					
Accounts Receivable – noncurrent	181	–	–	–	–
Restricted Assets	358,306	679,654	438,705	390,371	424,055
Capital Assets, net	3,584,425	3,711,791	3,814,264	3,734,426	3,720,791
Unamortized bond issuance costs	38,997	36,827	38,070	28,753	25,269
Total Assets	4,419,511	4,915,331	4,772,028	4,656,058	4,728,204
Deferred outflows on derivative instruments	57,157	89,505	63,382	98,979	64,743
Total assets and deferred outflows	$4,476,668	$5,004,836	$4,835,410	$4,755,037	$4,792,947
Liabilities					
Current liabilities					
Current liabilities payable from unrestricted assets[3]	$ 196,917	$ 262,551	$ 218,923	$ 424,916	$500,511
Current liabilities payable from restricted assets	171,733	242,554	78,803	91,139	295,698
Total current liabilities	368,650	505,105	297,726	516,055	796,209
Noncurrent Liabilities[4]	3,776,017	4,116,361	4,178,410	3,831,511	3,620,981
Derivative instrument liabilities	62,615	94,838	68,304	116,859	81,338
Total liabilities	$4,207,282	$4,716,304	$4,544,440	$4,464,425	$4,498,528
Net Position					
Invested in capital assets, net of related debt	$ (58,673)	$ (34,377)	$ 18,280	$ 4,190	$ (52,581)
Restricted for debt service	41,986	54,170	27,226	25,711	19,757
Restricted for capital projects	59,790	81,471	56,981	71,109	139,981
Unrestricted	226,283	187,268	188,483	189,602	187,262
Total Net Position	$ 269,386	$ 288,532	$ 290,970	$ 290,612	$294,419

(1) For a description of the cash and investments of the Airport, see "–Investment of Airport Funds."
(2) Net of allowance for doubtful accounts (in thousands): 2013: $384; 2012, $1,196; 2011, $595; 2010, $440; and 2009, $368.
(3) Includes deferred aviation revenue of (in thousands): 2013: $51,923; 2012, $57,622; 2011, $54,543; 2010, $49,014; and 2009, $51,075. Deferred aviation revenues consist of the amount, in each Fiscal Year, that terminal rental rates and landing fees under the airline lease agreements exceed the Airport's net operating expenses. The Airport is obligated to reduce future rates and charges by a corresponding amount. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements."
(4) Amounts include compensated absences, accrued worker's compensation, claims payable and long-term debt outstanding.
Source: Commission.

Summary of Statement of Revenues, Expenses, and Changes in Net Position. A summary of the Airport's Statements of Revenues, Expenses, and Changes in Net Position as reported in the Airport's annual financial statements for Fiscal Years 2008-09 through 2012-13 is shown in the table below. See APPENDIX B – "FINANCIAL STATEMENTS WITH SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES JUNE 30, 2013 AND 2012 (WITH INDEPENDENT AUDITORS' REPORT THEREON)."

SUMMARY OF AIRPORT'S STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET POSITION
($ in thousands)
(Fiscal Years)

	2008-09	2009-10	2010-11	2011-12	2012-13
Aviation Revenues	$315,777	$330,846	$340,812	$374,767	$413,918
Concession Revenues(1)	178,995	188,636	201,207	226,620	243,096
Net Sales and Services	56,511	58,559	65,304	67,285	69,344
Total Operating Revenues	551,283	578,041	607,323	668,672	726,358
Total Operating Expenses(2)	(478,589)	(475,509)	(494,940)	(543,063)	(561,458)
Operating Income	72,694	102,532	112,383	125,609	164,900
Nonoperating Revenue (Expense)(3)	(119,634)	(99,490)	(103,370)	(106,512)	(190,587)
Income (Loss) Before Capital Contribution and Transfers	(46,940)	3,042	9,013	19,097	(25,687)
Capital Contributions(4)	29,780	44,204	24,033	14,538	65,958
Transfer to the City	(26,849)	(28,100)	(30,608)	(33,993)	(36,464)
Changes in Net Position	($44,009)	$19,146	$2,438	($358)	$3,807

(1) Also includes parking and transportation revenues.
(2) Includes depreciation expense in the amounts of $158.2 million for Fiscal Year 2008-09, $163.5 million for Fiscal Year 2009-10, $160.0 million for Fiscal Year 2010-11, $167.3 million for Fiscal Year 2011-12 and $176.5 million for Fiscal Year 2012-13.
(3) Includes interest expense in the amount of $204.7 million for Fiscal Year 2008-09, $186.8 million for Fiscal Year 2009-10, $195.9 million for Fiscal Year 2010-11, $203.5 million for Fiscal Year 2011-12 and $195.5 million for Fiscal Year 2012-13.
(4) Represents federal grant funds.
Source: Commission.

Operating Revenues

General

Under the Lease and Use Agreements, the Airport's operating budget and non-airline revenue sources are projected for each new Fiscal Year. Then, using a residual cost methodology, airline landing fees and terminal rental rates are set such that estimated total Airport revenues each Fiscal Year are equal to estimated total Airport operating costs, which include debt service and certain capital items as well as general operation and maintenance expenses. Increases in non-airline revenue sources generally result in decreases in airline landing fees and terminal rental rates. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements–*Lease and Use Agreements*."

Terminal Rental Rates and Landing Fees

For Fiscal Year 2014-15, annual terminal rental rates range from $260.14 per square foot for Category I space (ticket counters and hold rooms) to $26.01 per square foot for Category V space (unenclosed or covered areas at ramp level), with an average rate per square foot of $149.98. For Fiscal Year 2013-14, annual terminal rental rates range from $247.29 per square foot for Category I space (ticket counters and hold rooms) to $24.73 per square foot for Category V space (unenclosed or covered areas at ramp level), with an average rate per square foot of $140.85.

The landing fee rate for Fiscal Year 2014-15 is $4.57 per thousand pounds of landed weight compared to $4.29 per thousand pounds of landed weight for Fiscal Year 2013-14. Operators without a lease or operating permit pay a landing fee charge of $5.71 per thousand pounds of landed weight. For Fiscal Year 2014-15, the minimum landing fee for fixed wing aircraft is $220 compared to $208 for Fiscal Year 2013-14.

Because of the variety of methodologies used by different airports to calculate airline landing fee and terminal rental rates, such fees and rates are not directly comparable between airports. However, terminal rental rates and landing fees represent a small proportion of overall costs to the airlines per enplaned passenger at the Airport, and are not a primary consideration in the establishment and maintenance of routes and schedules. Instead of rates, airline payments per passenger (for landing fees and terminal rental rates) is the principal index commonly used to compare the costs to the airlines for their facilities at different airports. Airline payments per enplaned passenger at the Airport are set forth in the table below. Overall, costs to the airlines are expected to rise in the near term, primarily due to the issuance of additional Bonds to fund the construction of capital projects needed to serve the current demand for domestic terminal space. See "CAPITAL PROJECTS AND PLANNING."

AIRLINE PAYMENTS PER PASSENGER

Fiscal Year	Amount
2012-13	$15.35
2011-12	14.41
2010-11	13.85
2009-10	13.91
2008-09	13.10

Terminal rental rates and landing fees are adjusted annually on July 1. The Lease and Use Agreements do not require the airlines, either individually or as a group, to maintain any minimum level of landed weight at the Airport. A summary of historical and current landing fees for scheduled aircraft with a lease or operating permit and average terminal rental rates for Fiscal Years 2010-11 through 2014-15 is set forth below.

HISTORICAL AND CURRENT LANDING FEES AND TERMINAL RENTALS
(Fiscal Years)

	2010-11	2011-12	2012-13	2013-14	2014-15
Landing Fees (per 1,000 pounds)	$3.59	$3.79	$4.01	$4.29	$4.57
Minimum Landing Fee (fixed wing)	158	185	205	208	220
Minimum Landing Fee (rotary)	79	93	103	104	110
Average Terminal Rental Rate (per square foot)	113.54	122.93	131.55	140.85	149.98

Source: Commission.

Airline Incentive and Stimulus Programs

The Airport has successfully attracted several new international flights and air carriers with airline incentive and stimulus programs. Beginning in January 2012, the Commission implemented a new Air Carrier Incentive Program, which provides a 100% waiver of landing fees for twelve months for any new non-stop international route to or from the Airport (including Mexico and Canada) that is not currently served by an existing carrier. On May 21, 2013, the Program was revised to increase the time period of the landing fee waiver from 12 months to up to 24 months. The Incentive Program replaced the prior Aviation Market Stimulus Program which offered a 50% landing fee reduction for certain new flights between 2004 and 2011, and resulted in six new international destinations offered by six international carriers (five of them new). As of August 1, 2014, the Incentive Program has resulted in three new destinations offered by two new carriers, and two new flights by two additional carriers that will commence service during Fiscal Year 2014-15.

SFO Transportation and Facility Fees

The rental car companies collect a $20.00 per rental contract fee that is paid to the Commission for reimbursement of certain costs of operating and providing the AirTrain facilities to and from the Terminal Complex and the rental car facility located one mile north of the Terminal Complex.

Concessions

Retail and Food and Beverage Program

Since the reopening of Terminal 2 in April 2011, the Airport has been recognized with numerous concessions and travel industry awards and public accolades. The 23 restaurants and shops that comprise the concessions offering in Terminal 2 have become the model for quality and revenue generation for future development of food and beverage and retail locations at the Airport. In Fiscal Year 2012-13, Terminal 2 passengers spent 21.2% more than the amount spent by passengers at the domestic terminals at the Airport as a whole on retail and food and beverage items, excluding duty free. Based on preliminary data, in Fiscal Year 2013-14, Terminal 2 passengers spent 22.7% more than the amount spent by passengers at the domestic terminals at the Airport as a whole on retail and food and beverage items, excluding duty free.

A fully renovated Boarding Area E in Terminal 3 opened in late January 2014 and includes thirteen new food and beverage and retail locations. The ambiance and quality of concessions in Boarding Area E is modeled after Terminal 2. Eight renovated concessions locations are expected to open in a newly renovated portion of Terminal 3 late in 2015. Fourteen more restaurant locations and thirteen retail locations are expected to be opened over the next four years.

Terminals 1 and 3 currently feature 32 food and beverage locations and 42 retail locations. Six of the 32 restaurants in these terminals are located in pre-security areas accessible to the general public. A newly constructed Boarding Area B in Terminal 1 is expected to open in phases during calendar years 2019 through 2021. Lease extensions are expected to be entered into with most of the existing 12 food and beverage and retail locations to provide service between lease expirations and the opening of Phase I of Terminal 1. While a concessions layout is still under development, the layout is expected to include significantly more square footage than the existing one. The redevelopment is expected to align Terminal 1 with the ambiance and quality of the other domestic terminals. New concessions have opened and more are expected to open through 2015 in Terminal 3. The leases for approximately half of the food and beverage and retail locations in Terminal 3 will expire during calendar years 2017 through 2019.

The International Terminal Complex (the "ITC") currently features 20 restaurants and over 40 retail concessions, including duty free. The ITC food and beverage program is intended to provide international and domestic passengers with a welcoming taste of the Bay Area culinary experience. The retail program in the ITC provides passengers the opportunity to shop for luxury fashion, beauty, and spirits brands. The Airport is planning a comprehensive renovation of the ITC concessions program, anticipated to roll out during calendar years 2016 through 2018. In conjunction with this renovation, all food and beverage leases, the duty free lease and nearly all of the specialty retail leases will expire during calendar years 2015 through 2018.

The majority of the Commission's retail and food and beverage leases are structured for the Commission to receive a percentage of gross revenues or a minimum annual guarantee, whichever is higher. The minimum annual guarantee provides the Airport with a guaranteed amount of revenues paid on the first of each month, which amount is unaffected by customer sales activity. Tenants compute their percentage of rent due and report sales to the Airport on a monthly basis. If the figure calculated is greater than the minimum annual guarantee, as prorated for such month, the tenant will pay an additional percentage of rent to the Airport. In Fiscal Year 2012-13, food and beverage domestic terminal sales increased over the prior year by 7.7% and ITC sales increased over the prior year by 12.8%. Based on preliminary results, in Fiscal Year 2013-14, food and beverage domestic terminal sales increased over the prior year by 9.8% and ITC sales increased over the prior year by 10.7%. In Fiscal Year 2012-13, food and beverage domestic terminal revenues to the Airport increased by 9.1% over Fiscal Year 2011-12 and ITC revenues increased over the prior year by 20.3%. Based on preliminary results, in Fiscal Year 2013-14, food and beverage domestic terminal revenues to the Airport increased by 9.6% over Fiscal Year 2012-13 and ITC revenues increased over the prior year by 15.3%. The increase in both sales and revenues is attributable to an increase in enplanements and deplanements at the Airport and a higher spend rate per passenger. The difference between sales and revenue growth reflects how the Airport's concessionaire leases are structured. Certain tenants pay a minimum annual guarantee rather than rent based on a percentage of sales. Overall, the domestic terminal passenger spend rate increased by 4.34% in Fiscal Year 2012-13 over the prior Fiscal Year to $8.31 from $7.96 and the ITC spend rate increased 5.98% from $6.11 to $6.48.

Retail sales, excluding duty free decreased 1.5% in Fiscal Year 2012-13 compared to the prior year, with a per passenger spend rate decline of 5.2% to $3.33 from $3.51. Retail sales declined in Fiscal Year 2012-13 due to the closing of certain Terminal 3 and ITC locations for construction and renovations and due to expirations of certain leases. In Fiscal Year 2012-13, rent from retail concessions decreased 3.0% as several leases expired earlier in the year and were on holdover status. Tenants under these holdover leases remitted rent based on a fixed percentage of sales rather than the higher MAG rent they paid in the prior year. Based on preliminary data, in Fiscal Year 2013-14, retail sales, excluding duty free increased 5.3% in Fiscal Year 2013-14 compared to the prior year, with a per passenger spend rate increase of 1.9% to $3.39 from $3.33. In Fiscal Year 2013-14, based on preliminary results, rent from retail concessions increased 2.0% due to the completion of tenant improvements.

Duty Free Program

The Commission's duty free concessionaire is DFS Group under a lease expiring on December 31, 2017. DFS Group, one of the Airport's principal retail concessionaires, pays the greater of $27.2 million per year or a tiered percentage rent structure. Duty free sales grew by 5.3% in Fiscal Year 2012-13 over the prior year. Based on preliminary data, duty free sales grew by 13.3% in Fiscal Year 2013-14 over Fiscal Year 2012-13. DFS Group has completed renovating and re-concepting various stores and kiosks, bringing more luxury brands to the Airport, such as a stand-alone Hermes boutique, a second Gucci store, a second Burberry store and the expansion of beauty and spirits brands in the large galleria stores.

Advertising Program

Clear Channel Airports has held the advertising concession lease with the Commission since 2001. The Commission entered into an eight year lease with Clear Channel on July 1, 2013, which requires Clear Channel Airports to pay the Commission fixed rent amount of $10.0 million per lease year.

Rental Cars

In January 2009, the Airport entered into new rental car leases with five on-Airport rental car companies representing nine brands to operate at the consolidated rental car facility, which is located approximately one mile north of the Terminal Complex. The Commission has exercised its option to extend each rental car company lease through December 2018.

The on-Airport rental car companies generated aggregate concession revenue to the Airport of approximately $44.7 million in Fiscal Year 2011-12 and $46.8 million in Fiscal Year 2012-13. Based on preliminary data, in Fiscal Year 2013-14, the on-Airport rental car companies generated aggregate concession revenue to the Airport of approximately $50.3 million.

The aggregate rent (the total concession fees and building space rental) received from the on-Airport rental car companies for Fiscal Year 2011-12 was $59.6 million and for Fiscal Year 2012-13 was $62.3 million. Based on preliminary data, in Fiscal Year 2013-14 the aggregate rent (the total concession fees and building space rental) received from the on-Airport rental car companies was $67.3 million.

Parking

In February 2012, New South Parking-California was selected by the Commission through a competitive process to provide public and employee parking management services, commencing July 1, 2012, for a guaranteed maximum fixed price ("GMP") of $19.2 million for year two of the contract. Subsequent year GMPs are capped at a 3% increase from the previous year's GMP. The parking management agreement has a term of five years.

Based on preliminary data, in Fiscal Year 2013-14, parking volume increased by 2.7% and revenues increased by 0.7% or $0.7 million from the prior fiscal year. In Fiscal Year 2012-13, parking volume increased by 0.7% and revenues increased by 8.7% or $8.1 million due primarily to the combined effect of daily rate increases in all public parking facilities in June 2012, and longer average parking durations. In Fiscal Year 2011-12, parking volume increased by approximately 4.8% and revenues increased by approximately 14.7% or $11.9 million. This was primarily due to the combination of the opening of the long-term overflow lot in November 2011 and daily rate increases for long-term parking and International Garage parking in July 2011 and January 2012, respectively.

The Airport's parking facilities compete with off-airport facilities located near the Airport that are operated by private companies. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Current Airport Facilities–*Public Parking and Rental Car Facilities*."

Concession Revenues

In Fiscal Year 2012-13, concession revenues, including revenues for parking and other ground transportation, were approximately $243.1 million, an approximate 7.8% increase compared to the previous Fiscal Year's revenues of approximately $226.6 million. Based on preliminary data, in Fiscal Year 2013-14, concession revenues, including revenues for parking and other ground transportation, were approximately $253.3 million, an approximate 4.7% increase compared to the previous Fiscal Year's revenues.

The table below summarizes concession revenues for Fiscal Years 2011-12 through 2013-14 attributable to the Airport's largest concession revenue sources. For the purpose of this table, "Concession Revenue" is defined as fees and rentals collected by the Commission for: (i) the right to provide and operate restaurants, bars, car rental services, newsstands, gift shops, specialty shops, advertising displays, insurance, public telephones and other merchandising concessions and consumer services in the Terminal Area; (ii) the right to provide and operate courtesy vehicles, ground transportation services, hotels, service stations and other concessions and services in the groundside area; and (iii) other activities and services in the groundside area of the Terminals such as public automobile parking and traffic fines.

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TOP TEN SOURCES OF AIRPORT CONCESSION REVENUES

Concessionaire/Manager	Concession Revenue Sources	Lease/Agreement Expiration Date	FY 2011-12 Concession Revenue ($ in thousands)*	FY 2012-13 Concession Revenue ($ in thousands)	FY 2013-14 Concession Revenue** ($ in thousands)
DFS Group, L.P.	Duty Free and General Merchandise	12/31/17[1]	$ 26,415	$26,904	$28,236
Hertz Corporation	Rental Car	12/31/18[2,3]	14,261	14,352	15,555
EAN, LLC	Rental Car	12/31/18[2,4]	12,158	12,842	13,797
Avis Budget Rental Car, LLC	Rental Car	12/31/18[2,5]	11,483	12,287	13,324
Clear Channel Airports	Advertising	6/30/21[6]	9,773	11,186	10,000
DTG Operations Rental Car	Rental Car	12/31/18[2,7]	4,420	4,915	5,636
Travelex America, Inc.	Currency Exchange	12/9/14[8]	4,127	4,175	4,553
WDFG North America, LLC (Formerly Host International Inc.)	General Merchandise	Various[9]	2,734	3,132	3,554
D-Lew Enterprises	Food and Beverage	Various[10]	3,291	3,644	3,063
Pacific Gateway Concessions LLC	General Merchandise	Various[11]	2,933	2,639	2,370
SUB TOTAL			$ 91,595	$96,075	$100,087
Other Revenue[12]			135,025	147,021	153,149
TOTAL CONCESSION REVENUE			$226,620	$243,096	$253,236

* See also "–Concessions–*Retail and Food and Beverage Program*."
** Preliminary unaudited data.
(1) The minimum annual guaranteed rent was $27.2 million in Fiscal Year 2013-14.
(2) For each rental car company there are two leases: a concession lease and a facility lease. Revenue reflects only the concession lease.
(3) The minimum annual guaranteed rent for Hertz Corporation for Fiscal Year 2013-14 was $12.8 million.
(4) Doing business as Enterprise Rent-A-Car, Alamo Rent-A-Car and National Car Rental. The minimum annual guaranteed rent for Fiscal Year 2013-14 was $10.9 million.
(5) Doing business as Avis Rent-A-Car and Budget Rent-A-Car. The minimum annual guaranteed rent for Fiscal Year 2013-14 was $10.6 million.
(6) The minimum annual guaranteed rent for Fiscal Year 2013-14 was $10 million.
(7) Doing business as Dollar Rent-A-Car and Thrifty Car Rental. The minimum annual guaranteed rent for Fiscal Year 2013-14 was $4.3 million.
(8) The minimum annual guaranteed rent for Fiscal Year 2013-14 was $4.2 million.
(9) WDFG North America (formerly Host International Inc.) operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2013-14 was $3.5 million. On January 1, 2014, WDFG of North America, LLC purchased the Retail unit of Host International Inc. and continues to operate its location under the existing lease terms.
(10) D-Lew Enterprises operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2013-14 was $0.6 million. On January 1, 2014, two leases under D-Lew Enterprises were reassigned and established a separate lease agreement under Tastes on the Fly San Francisco, LLC.
(11) Pacific Gateway Concessions LLC operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2013-14 was $1.9 million.
(12) Represents the aggregate concession revenue received from approximately 87 additional concessionaires operating 130 concessions, public parking and ground transportation operators at the Airport, including approximately $92.8 million of parking revenues in Fiscal Year 2011-12, approximately $101.0 million in Fiscal Year 2012-13 and approximately $101.5 million projected for Fiscal Year 2013-14.

Source: Commission.

Principal Revenue Sources

Set forth in the table on the following page is a description of the Airport's principal revenue sources. Based on preliminary unaudited results, no single tenant accounted for more than 24% of total operating revenue or more than 22% of total revenue in Fiscal Year 2013-14. For the purpose of this table, the term "revenues" includes all amounts paid to the Airport by a company, including Concession Revenues, rent, utilities, etc.

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TOP TEN SOURCES OF REVENUE

Company/Source	FY 2012-13[1] Revenues ($ in thousands)	FY 2013-14[2] Revenues ($ in thousands)	FY 2013-14[2] Percent of Operating Revenue[3]	FY 2013-14[2] Percent of Total Revenue [3]
United Airlines	$159,932	$182,392	23.55%	21.02%
On Airport Parking[4]	100,909	101,610	13.12	11.71
The Hertz Corporation	30,216	32,409	4.19	3.73
EAN, LLC	27,118	29,305	3.78	3.38
DFS Group, L.P.	27,434	28,823	3.72	3.32
Avis Budget Car Rental, LLC	25,831	27,615	3.57	3.18
American Airlines[5]	25,357	26,536	3.43	3.06
Virgin America	24,117	25,542	3.30	2.94
Delta Air Lines	23,064	24,115	3.11	2.78
Southwest Airlines[6]	14,945	15,854	2.05	1.83
Subtotal Ten Highest	**$458,923**	**$494,201**	**63.82%**	**56.95%**
Other Operating Revenue	267,435	280,165	36.18	32.29
Total Operating Revenue	**$726,358**	**$774,366**	**100.00%**	**89.24%**
Other Revenue[7]	1,201	6,451		0.74
PFC Collections	84,329	86,943		10.02
Total Airport Revenue	**$811,888**	**$867,760**		**100.00%**

(1) Revenue is audited and includes operating and non-operating income and credit adjustments.
(2) Preliminary unaudited data. Includes operating and non-operating income and credit adjustments.
(3) Column does not total due to rounding
(4) New South Parking-California manages the Airport's public short-term garages and long-term parking facility and collects parking revenues on behalf of the Airport.
(5) American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged but continue to operate under separate FAA operating certificates. The revenue shown reflects only American Airlines.
(6) On May 2, 2011, Southwest Airlines acquired AirTran Holdings, the parent company of AirTran Airways. The airlines received FAA approval to operate under a single operating certficate on March 1, 2012, although the airlines' operations are likely to remain separate through 2014.
(7) Includes interest and other non-operating revenue.
Source: Commission.

Passenger Facility Charge

Prior to 2001, the Airport financed its capital program primarily through the issuance of revenue bonds and commercial paper secured by a pledge of the Net Revenues of the Airport, federal grants and Airport operating revenues. In 2001, the Airport received authorization from the FAA to commence collection and use of a PFC in the amount of $4.50 per enplaning passenger to pay for certain eligible capital projects as approved by the FAA. The PFC revenues received by the Airport are subject to audit and final acceptance by the FAA and costs reimbursed with PFC revenues are subject to adjustment upon audit.

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PFC Applications

The following is a summary of the Airport's approved PFC applications through June 30, 2014.

SUMMARY OF AIRPORT PFC APPLICATIONS
As of June 30, 2014

Application #	Date of Application	Date of FAA Approval	Original Amount (millions)	Revised Amount (millions)	Expiration Date	Collected[a] (millions)	Remaining (millions)
1[b]	March 2001	July 2001	$113	$ 0	June 2003	$ 0	$ 0
2	November 2001	March 2002	224	224	November 2005	224	0
3[c]	July 2003	November 2003	539	609	January 2017	609	0
5	October 2010	October 2013	610	610	June 2023	52	558
	TOTAL:			$1,443		$885	$558

(a) Includes interest earnings on collections.
(b) The Airport suspended the project to be funded by PFC revenues under Application #1 in June 2003 and submitted an amendment to delete Application #1 in December 2003. The FAA approved this request in January 2004. The PFC collections under the original Application #1, totaling $112.7 million, were applied toward Application #2. As such, the $224.0 million of PFC collections under Application #2 includes $112.7 million collected under Application #1.
(c) The Airport submitted, and later withdrew, PFC Application #4 for an authorization of $70 million. The $70 million was then included in the revised authorization amount under Application #3.
Source: Commission.

The Airport is currently working on an amendment to PFC #5, with the intent to increase the amount of collections by an additional $131.3 million and extend the collection period from June 2023 to October 2024. The Airport is also currently working on a sixth PFC application ("PFC #6") and FAA approval is anticipated by the end of calendar year 2014. The amount of PFC revenues estimated to be collected under this proposed PFC #6 is $179 million with an estimated collection period approximately two years after PFC #5 total authorized collection amount is achieved.

Designation of PFC Collections as Revenues

PFC collections are not included in the definition of "Revenues" under the 1991 Master Resolution. The Commission, however, has the ability under the 1991 Master Resolution to designate some portion or all of such collections as "Revenues" for a given Fiscal Year. These amounts thus contribute to the Airport's calculation of debt service coverage for purposes of its rate covenant. The actual amount of PFC collections to be designated as "Revenues" and used to pay debt service is dependent, in part, upon the amounts permitted for such use by PFC regulations and the Airport's PFC applications. The Commission to date has determined the amount to be designated as Revenues prior to the start of each Fiscal Year. The amount may later be adjusted downward, depending upon actual PFC collections during the Fiscal Year, Airport net revenues relative to budget, and other factors. PFC collections that are not applied as "Revenues" and used to pay debt service on related Bonds are deposited and retained in a separate account and are available to be applied for such purposes in future Fiscal Years. Set forth in the table on the next page is a summary of Airport PFC collections and amounts applied to pay debt service for the ten most recent Fiscal Years.

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PFC COLLECTIONS APPLIED BY THE COMMISSION FOR PAYMENT OF DEBT SERVICE ON OUTSTANDING BONDS

Applicable Fiscal Year	PFC Collections (millions)(1)	PFC Designated as Revenues (millions)(2)	Amount Applied to Pay Debt Service (millions)(3)
2014-15	– (4)	$62.6	– (4)
2013-14	– (4)	60.2	$35.7
2012-13	$85.1	51.5	45.0
2011-12	82.3	88.5	73.0
2010-11	77.9	87.2	87.2
2009-10	75.0	61.0	61.0
2008-09	70.3	51.0	51.0
2007-08	71.5	54.4	54.4
2006-07	66.7	58.4	58.4
2005-06	64.0	67.7	67.7
2004-05	61.4	68.4	68.4
2003-04	58.9	56.1	48.1

(1) Includes PFC collections and related interest earned for the year.
(2) Amount designated as Revenues to be applied to pay debt service.
(3) Amount actually applied to pay debt service.
(4) Final numbers are not available at this time.
Source: Commission.

The Commission's receipt of PFC revenues is subject to certain risks. See "CERTAIN RISK FACTORS–Availability of PFCs." A shortfall in PFC revenues may require the Commission to increase landing fees and terminal rentals to pay its debt service on the Bonds.

Collection of PFCs in the Event of Airline Bankruptcy

In order to ensure continuation of the PFC program, including the trust fund status of collected PFCs, Congress amended the PFC enabling legislation, effective December 12, 2003, to provide additional specific obligations for an air carrier operating under bankruptcy protection in Chapter 7 or Chapter 11. The statute provides that (i) the air carrier must segregate in a separate account an amount of PFCs equal to its average monthly liability, (ii) PFCs are funds held in trust for each airport regardless of the ability to identify or trace precise funds, (iii) the air carrier may not pledge the PFCs to a third party, (iv) an airport is entitled to recover costs for enforcing an air carrier's compliance with the statute, (v) the air carrier may keep any interest income earned on the segregated PFCs if it is in compliance with the PFC enabling legislation and (vi) PFCs may not be commingled with other air carrier revenues.

While the PFC enabling legislation provides that PFCs are trust funds both before and after an air carrier files for bankruptcy protection, there can be no assurance that the air carrier has collected, retained, segregated or properly accounted for its PFCs, or that the Airport would be able to collect the PFCs from the air carrier that were collected prior to the bankruptcy filing.

Operating Expenses

Fiscal Year 2012-13 operating expenses increased $18.4 million (3.4%) to $561.5 million from $543.1 million in Fiscal Year 2011-12. Personnel expenses were higher due to the expiration of wage reduction agreements on June 30, 2012 and higher pension contributions (see "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Payments to the City–*Employee Benefit Plans*"). Contractual service increased by $6.8 million (12.1%), due primarily to a new airfield shuttle service between terminals as a result of construction-related gate closures and a new shuttle bus service route. Repairs and maintenance increased $1.2 million (4.5%) due primarily to airfield, facilities, and groundside maintenance projects. Other expenses decreases included light, heat and power of $0.8 million (4.2%) and materials and supplies of $0.1 million (0.7%).

Fiscal Year 2011-12 operating expenses increased $48.1 million (9.7%) to $543.1 million, from $494.9 million in Fiscal Year 2010-11. Personnel expenses were higher due to a lower capitalization of indirect costs, rising contributions to the City's retirement system, and scheduled wage increases for recently hired employees. Contractual service increased by $4.3 million, due primarily to shuttle bus services, parking garage and lot management services, and a decrease in costs allocated to overhead. Repairs and maintenance increased due to maintenance of the Terminal 2 baggage handling system and equipment maintenance costs in information and communications technology. Other expense decreases included general and administrative expenses ($2.9 million) and environmental remediation costs ($0.3 million).

Review and Adjustment to Operating Expenditures

Each quarter, the Airport produces a financial forecast for the operating budget. If this forecast were to project that the operating budget would be in a deficit by the end of the Fiscal Year, Airport management likely would implement cost control measures. These cost control measures have included, but are not limited to, workforce reductions or hiring freezes on positions except those that have a direct impact on safety and security, and cuts in discretionary expenditures, such as professional service contracts.

Payments to the City

Annual Service Payment

Under the Lease and Use Agreements, the Commission makes an "Annual Service Payment" to the City to compensate the City for certain indirect services and facilities that it provides to the Airport and the Commission. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements." The Annual Service Payment is equal to the greater of (i) $5 million or (ii) 15% of "Concession Revenues" (as defined in the Lease Agreements), and is paid by the Commission in quarterly installments based on estimates and reconciled at year-end. The Annual Service Payment is made only after the payment of Operation and Maintenance Expenses and debt service on outstanding revenue bonds of the Commission, including the Bonds, and certain other expenditures. See "SECURITY FOR THE SERIES 2014A/B BONDS–Flow of Funds." The amount of Annual Service Payment for each of the last five fiscal years is set forth below.

The Annual Service Payment has been grandfathered under the FAA's 1999 *Policies and Procedures Concerning the Use of Airport Revenue.* However, the grandfathered status may not continue indefinitely. The FAA or new federal legislation may change or revoke this status. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Certain Federal and State Laws and Regulations–*Federal Law Prohibiting Revenue Diversion.*" Also see "CERTAIN RISK FACTORS–Reduction in FAA Grants."

Payments for Direct Services

In addition to the Annual Service Payment, the Lease and Use Agreements permit the Commission to reimburse the City's General Fund for the cost of direct services provided by other City departments to the Airport, such as those provided by the Police Department, the Fire Department, the City Attorney, the City Treasurer, the City Controller, the City Purchasing Agent and other City departments. Set forth in the table below is a summary of the payments made by the Airport to the City for Fiscal Years 2008-09 through 2012-13. The Commission is otherwise prohibited under the Lease and Use Agreements from making any payments to the City, directly or indirectly. See "SAN FRANCISCO INTERNATIONAL AIRPORT–Airline Agreements." Also see "SAN FRANCISCO INTERNATIONAL AIRPORT–Certain Federal and State Laws and Regulations–*Federal Law Prohibiting Revenue Diversion*."

SUMMARY OF PAYMENTS MADE BY THE AIRPORT TO THE CITY
($ in millions)

	Annual		Reimbursement for Direct Services				
	Service				Utility		
Fiscal Year	Payment	Police	Fire	Other[1]	Costs	Subtotal	Total
2012-13	$36.5	$44.8	$18.9	$16.7	$37.9[2]	$118.3	$154.8
2011-12	34.0	44.4	18.9	14.0	38.1[3]	115.4	149.4
2010-11	30.2	40.4	18.0	15.4	38.2[4]	111.9	142.5
2009-10	28.1	36.5	16.9	14.7	36.1[5]	104.2	132.3
2008-09	26.8	36.2	15.8	12.5	36.8[6]	101.3	128.1

(1) Represents costs of direct services provided by the City Attorney, City Treasurer, City Controller, City Purchasing Agent and other City departments.
(2) Approximately $16.1 million in utility costs were recovered from Airport tenants.
(3) Approximately $16.2 million in utility costs were recovered from Airport tenants.
(4) Approximately $16.4 million in utility costs were recovered from Airport tenants.
(5) Approximately $16.5 million in utility costs were recovered from Airport tenants.
(6) Approximately $15.4 million in utility costs were recovered from Airport tenants.
Source: Commission.

Employee Benefit Plans

Retirement System. All of the employees of the Airport are members of the San Francisco City and County Employees' Retirement System (the "Retirement System"), which is charged with administering a defined benefit pension plan (the "Fund") and an individual account deferred compensation plan (the "Deferred Compensation Plan"). These two plans are separate and distinct legal entities, with trust funds independent of each other. The Fund was initially established in the late 1880s and was constituted in its current form by the 1932 City Charter. It continues to exist and operate under the Charter. The Charter provisions governing the Retirement System may be revised only by a Charter amendment, which requires an affirmative public vote at a duly called election. The Retirement System is administered by the Retirement Board consisting of seven members, three appointed by the Mayor, three elected from among the members of the Retirement System and a member of the Board of Supervisors appointed by the President of the Board of Supervisors. There shall not be more than one retired person on the Retirement Board.

The table on the next page shows Fund contributions for Fiscal Years 2008-09 through 2012-13. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the value of assets held in trust adjusted according to the Fund's actuarial methods. The "Percent Funded" column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations. "Employer and Employee Contributions" reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System for Fiscal Years 2008-09 through 2012-13. The Fund's latest actuarial valuation was as of July 1, 2013 and was issued in March 2014.

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CITY AND COUNTY OF SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM
Fiscal Years 2008-09 through 2012-13
($ in thousands)

Fiscal Year	Market Value of Assets	Actuarial Value of Assets	Actuarial Liability	Percent Funded	Employee and Employer Contribution	Employer Contribution Rates†
2012-13	$17,011,545	$16,303,397	$20,224,777	80.6%	$701,596	20.71%
2011-12	15,293,725	16,027,683	19,393,854	82.6	608,957	18.09
2010-11	15,598,840	16,313,120	18,598,726	87.7	490,578	13.56
2009-10	13,136,786	16,069,058	17,643,394	91.1	413,563	9.49
2008-09	11,866,729	16,004,730	16,498,649	97.0	319,064	4.99

† Employer contribution rates are shown before required employer/employee cost-sharing first effective for Fiscal Year 2012-13; The rate for Fiscal Year 2012-13 is 20.71%; for Fiscal Year 2013-14 is 24.82%; and for Fiscal Year 2014-15 is 26.76%
Source: Retirement System Actuarial Valuation reports as of July 1, 2008, July 1, 2009, July 1, 2010, July 1, 2011, July 1, 2012 and July 1, 2013.

The Airport is required to contribute at an actuarially determined rate. The Airport's required contributions for Fiscal Years 2009-10 through 2014-15 are set forth below.

AIRPORT CONTRIBUTIONS TO THE RETIREMENT SYSTEM

Fiscal Year	Contribution Rate	Airport Contribution
2014-15	26.76%	$36.8 million†
2013-14	24.82	33.7 million†
2012-13	20.71	28.1 million
2011-12	18.09	25.8 million
2010-11	13.56	21.7 million
2009-10	9.49	16.4 million

† Based on budgets for Fiscal Year 2013-14 and Fiscal Year 2014-15.
Sources: Retirement System Actuarial Valuation Reports and Commission.

A decline in the actuarial value of assets over time, without a commensurate decline in the actuarial value of liabilities, will result in an increase in the contribution rates for the City and the Airport. As the tables above show, the funded ratio of the Retirement System has declined since Fiscal Year 2008-09 and the market value of the Retirement System's assets was substantially below the actuarial value of those assets through July 1, 2012. At the July 1, 2013 actuarial valuation, the market value of assets exceeds the actuarial value of assets.

Medical Benefits. Medical benefits for eligible active Airport and City employees and eligible dependents, for retired Airport and City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the "City Beneficiaries") are administered by the City's Health Service System (the "Health Service System") pursuant to Charter Sections 12.200 et seq. and A8.420 et seq. Pursuant to such Charter Sections, the Health Service System also administers medical benefits to active and retired employees of the SFUSD, SFCCD and the San Francisco Superior Court (collectively the "System's Other Beneficiaries"). However, the City is not required to fund medical benefits for the System's Other Beneficiaries and therefore this section focuses on the funding by the City of medical benefits for City Beneficiaries. The contributions for health care benefits made by the Airport for Fiscal Years 2009-10 through 2014-15 are set forth in the table on the next page:

AIRPORT CONTRIBUTIONS TO THE HEALTH SERVICE SYSTEM[(1)]
($ in millions)

Fiscal Year	Active Employees	Retirees	Total
2014-15	$26.2[(2)]	$11.1[(2)]	$37.2[(2)]
2013-14	24.8[(2)]	10.8[(2)]	35.6[(2)]
2012-13	24.4	10.4	34.8
2011-12	24.6	9.4	34.0
2010-11	21.4	9.0	30.4
2009-10	20.0	7.6	27.6

(1) Historical information has been restated to capture a more comprehensive allocation of Health Service System costs, including contributions made for Fire and Police, and to apply a more consistent methodology identifying direct and allocable costs prorated between active employees and retirees for each Fiscal Year.
(2) Budgeted.
Source: Commission.

The Health Service System is overseen by the City's Health Service Board (the "Health Service Board"). The seven member Health Service Board is composed of one member of the City's Board of Supervisors, appointed by the Board President; an individual who regularly consults in the health care field, appointed by the Mayor; a doctor of medicine, appointed by the Mayor; one member nominated by the City Controller; and three members of the Health Service System, active or retired, elected from among their members.

The plans (the "HSS Medical Plans") for providing medical care to the City Beneficiaries and the System's Other Beneficiaries (collectively, the "HSS Beneficiaries") are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to Charter Section A8.422.

The Health Service System oversees a trust fund (the "Health Service Trust Fund") established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the HSS Beneficiaries are funded. The Health Service System issues annually a publicly available, independently audited financial report that includes financial statements for the Health Service Trust Fund. This report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, California 94103, or by calling 415-554-1727. Audited annual financial statements for several years are also posted in the Health Service System website: www.myhss.org/finance.

As presently structured under the Charter, the Health Service Trust Fund is not a fund through which assets are accumulated to finance post-employment healthcare benefits (an "OPEB trust fund"). Thus, the Health Service Trust Fund is not currently affected by Governmental Accounting Standards Board ("GASB") Statement Number 45, Financial Reporting for Postemployment Benefit Plans Other Than Pensions ("GASB 45"), which applies to OPEB trust funds.

Post-Employment Health Care Benefits under GASB 45. Eligibility of former City employees for retiree health care benefits is governed by the Charter, as amended by Proposition B, passed by voters on June 3, 2008. Employees hired prior to January 2009 and a spouse or dependent are potentially eligible for health benefits following retirement after age 50 and completing five years of City service, subject to other eligibility requirements. Employees hired after January 2009 and a spouse or dependent are potentially eligible for gradually vesting health benefits following retirement after age 50 and completing 20 years of City service (for full benefits), subject to other eligibility requirements.

The City was required to begin reporting the liability and related information for unfunded post-retirement medical benefits ("OPEBs") in the City's financial statements for the Fiscal Year ending June 30, 2008. This new reporting requirement is defined under GASB 45. GASB 45 does not require that the affected government agencies, including the City, actually fund any portion of this post-retirement health benefit liability—rather, it requires that government agencies start to record and report a portion of the liability in each year if they do not fund it. GASB 45 requires that non-pension benefits for retirees, such as retiree health care, be shown as an accrued liability on the City's financial statements starting in Fiscal Year 2007-08.

The following table shows the components of the City's annual OPEB allocation for the Airport for Fiscal Years 2008-09 through 2012-13, the amount contributed to the plan, and changes in the City's net OPEB obligation (in thousands):

	2013	**2012**	**2011**	**2010**	**2009**
Annual Required Contribution (ARC)	$24,956	$24,488	$22,752	$21,363	$24,009
Interest on net OPEB Obligation	3,501	2,875	2,146	1,491	744
Adjustment to ARC	(2,902)	(2,383)	(1,683)	(1,169)	(551)
Annual OPEB Cost (expense)	25,555	24,980	23,215	21,685	24,202
Contribution Made	(10,666)	(9,693)	(8,959)	(7,630)	(7,389)
Increase in Net OPEB Obligation	14,889	15,287	14,256	14,055	16,813
Net OPEB Obligation - beginning of year	75,824	60,537	46,281	32,226	15,413
Net OPEB Obligation - end of year	$90,713	$75,824	$60,537	$46,281	$32,226

Source: Commission.

For purposes of determining the Airport's OPEB costs and obligations above, the City has allocated to the Airport a portion of the City-wide OPEB costs and obligations based the Airport's percentage of City-wide payroll costs. This allocation is for purposes of calculating the Airport's costs and obligations under GASB 45 and does not represent an assessment of the Airport's legal obligation to pay OPEB costs and obligations.

As of July 1, 2010, the most recent actuarial valuation date, the City's funded status of the retiree health care benefits was 0.1%. The City's actuarial accrued liability for benefits was approximately $4.4 billion, and the City's actuarial value of assets in the Retiree Health Care Trust Fund was approximately $3.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of the City of approximately $4.4 billion. The Retiree Health Care Trust Fund was established in December 2010. These figures are for the retiree health care benefits for all eligible City employees and retirees and not just those allocable to the Airport. The City has not calculated how much of the UAAL is allocable to the Airport; however, if the City were to allocate to the Airport a portion of the UAAL in accordance with its percentage of City-wide payroll costs in Fiscal Year 2012-13, then the Airport's portion of the UAAL would be equal to approximately 6.1%.

Since Fiscal Year 2007-08, the Airport has deposited funds within a sub-fund of the Airport's operating fund for the purpose of setting aside funds to pay its OPEB costs. As of June 30, 2013, $71.8 million was on deposit in this sub-fund. The disposition of this fund is under management's discretion and has not been placed in a trust fund.

The Health Service System issues a publicly available financial report that includes financial statements for the health care benefits plan. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling 415-554-7500.

Budget Process

The Airport budget is a part of the overall budget which is reviewed and approved according to the City's laws and policies. Starting in Fiscal Year 2012-13, the City's enterprise departments, which include the Airport, submitted two-year budget proposals for review and approval. The Airport's proposed two-year budget is approved by the Commission before being submitted to the Mayor. The Mayor's Office reviews and may amend the Airport's proposed budget, and then incorporates the proposed budget into the overall City budget that is submitted to the Board of Supervisors for approval. Under the Charter, the Board of Supervisors may increase or decrease any proposed expenditure in the Mayor's budget so long as the aggregate changes do not cause the expenditures to exceed the total amount of revenues proposed by the Mayor. The Charter further provides that the Mayor may reduce or reject any expenditure authorized by the Board of Supervisors except appropriations for bond interest, redemption or other fixed charges, subject to reinstatement of any such expenditure by a two-thirds vote of the Board of Supervisors. The second year of the two-year budget may be amended through a supplemental appropriation request, which is prepared by the Controller, submitted by the Mayor's Office and reviewed and approved by the Board of Supervisors.

The approved operating budget for the Airport for Fiscal Year 2014-15 is $940.2 million. Proposed total revenues in the amount of $940.2 million include aviation revenues ($462.3 million), parking and concessions ($256.0 million), other non-aviation revenues ($95.1 million) and non-operating revenues ($126.8 million). Proposed total expenditures for Fiscal Year 2014-15 total $940.2 million, including personnel costs ($237.6 million), overhead, non-personnel services, materials and supplies, equipment, and contribution to surety bond fund ($122.6 million), small capital outlay ($4.5 million), debt service ($390.5 million), utilities ($42.1 million), services of other departments, including Fire and Police Departments ($93.1 million), the Annual Service Payment ($38.4 million), and facilities maintenance and other transfers ($11.4 million). This compares to an overall operating budget of $858.8 million for Fiscal Year 2013-14.

The approved operating budget for the Airport for Fiscal Year 2015-16 is $963.6 million. Proposed total revenues in the amount of $963.6 million include aviation revenues ($491.5 million), parking and concessions ($263.9 million), other non-aviation revenues ($97.2 million) and non-operating revenues ($111.1 million). Proposed total expenditures for Fiscal Year 2015-16 total $963.6 million, including personnel costs ($218.6 million), overhead, non-personnel services, materials and supplies, equipment, and contribution to surety bond fund ($126.9 million), small capital outlay ($4.9 million), debt service ($424.4 million), utilities ($43.1 million) services of other departments, including Fire and Police Departments ($94.0 million), the Annual Service Payment ($39.6 million), and facilities maintenance and other transfers ($12.1 million).

Risk Management and Insurance

Under the 1991 Master Resolution, the Commission is required to procure or provide and maintain insurance, or to self-insure, against such risks as are usually insured by other major airports in amounts adequate for the risk insured against, as determined by the Commission and to file with the Trustee each year a written summary of all insurance coverage then in effect. The Commission is not required to nor does it carry insurance or self-insure against any risks due to land movement or seismic activity.

The Airport carries general liability insurance coverage of $1,000,000,000 subject to a deductible of $10,000 per single occurrence. The Airport also carries commercial property insurance coverage for full replacement value on all facilities at the Airport owned by the Commission; subject to a deductible of $500,000 per single occurrence. The Airport does not carry insurance for losses due to seismic activity. The Airport is self-insured as part of the City's workers' compensation program. The Airport carries public officials and employment practices liability coverage of $5 million, subject to a deductible of $100,000 per occurrence for Public Officials' and Public Entity Liability matters, and $250,000 per occurrence for Employment Practices Liability matters. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment and watercraft liability for Airport fire rescue vessels.

Prior to September 11, 2001, the Airport had liability insurance coverage in the amount of $750 million per occurrence for war, terrorism and hijacking. Immediately following the events of September 11, 2001, insurers cancelled their coverages for war, terrorism and hijacking for all airports, including the Airport, and for all airlines around the country. A number of insurers now provide this coverage through the Federal Government Terrorism Risk Insurance Act. However, the scope of the coverage is limited and the premiums are high. Due to these factors, the Commission, in consultation with the City's Director of Risk Management, has elected not to secure such coverage.

Investment of Airport Funds

Under the Charter and the 1991 Master Resolution, the Revenue Fund and the accounts therein, including the Contingency Account, are held by the Treasurer. The 1991 Master Resolution further provides that moneys in all funds and accounts (including Revenues) established under the 1991 Master Resolution which are held by the Treasurer shall be invested in Permitted Investments in accordance with the policies and procedures of the Treasurer in effect from time to time. For definitions of "Revenues" and "Permitted Investments" under the 1991 Master

Resolution, see APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION–Certain Definitions."

Under the Treasurer's current investment procedures, amounts in the Airport's Revenue Fund, Contingency Account, PFC Account and Construction Fund are invested in the City's larger pooled investment fund (the "City Pool"). Payments due from the Revenue Fund and the Construction Fund actually are made from the City Pool. Among other purposes, the City Pool serves in effect as a disbursement account for expenditures from the City's various segregated and pooled funds.

The objectives of the Treasurer's current investment policy, in order of priority, are preservation of capital, maintenance of liquidity and yield. Investments generally are made so that securities can be held to maturity. Under the Treasurer's current investment policy, amounts in the City Pool are invested in accordance with State law in types of securities which are more limited than Permitted Investments. The Treasurer calculated the current weighted average maturity of these investments as of June 30, 2014 to be approximately 711 days.

Set forth in the table below are the approximate book values, as of June 30, 2014, of amounts in the City Pool allocable to the Construction Fund, the PFC Account, the Revenue Fund, the Contingency Account and the Airport's Special Revenue Fund. These amounts include certain minimum balances maintained in the City Pool for liquidity purposes. Also set forth below are the types of the investments in the City Pool, and the percentage of total book value of the City Pool as of such date. As of June 30, 2014, the book value of the City Pool was approximately $6.03 billion and the book value of the amounts allocable to the Airport's various funds and accounts in the City Pool was approximately $763.66 million.

CITY POOLED INVESTMENT FUND
(As of June 30, 2014)

Book Value of Airport Funds in City Pool	
Construction Funds	$233.19 million
Operating Fund	294.50 million
Contingency Account	93.16 million
PFC Funds	131.61 million
Special Revenue Fund	1.20 million
TOTAL	$763.66 million

Investment Distribution (as Percentage of Book Value)	
U.S. Treasuries	11.00%
Federal Agencies	69.89
Money Market Funds	1.24
State and Local Obligations	1.31
Public Time Deposits	0.01
Negotiable Certificates of Deposit	5.64
Medium Term Notes	10.91
TOTAL	100.00%

Source: Office of the Treasurer & Tax Collector of the City and County of San Francisco.

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Currently Outstanding Bonds

The Commission had Outstanding $4,204,425,000 in aggregate principal amount of Second Series Revenue Bonds as of August 1, 2014.

Series	Dated Date	Original Principal Amount Issued	Outstanding Principal (as of August 1, 2014)	Purpose
Issue 29A (AMT)†	February 5, 2003	$ 31,870,000	$ 2,690,000	Refunding
Issue 29B (Non-AMT)†	February 5, 2003	125,105,000	9,155,000	Refunding
Issue 31F (Taxable)†	February 10, 2005	111,695,000	45,175,000	Refunding
Issue 32F (Non-AMT)†	November 16, 2006	260,115,000	248,300,000	Refunding
Issue 32G (Non-AMT)†	November 16, 2006	158,195,000	158,195,000	Refunding
Issue 34C (AMT)†	March 27, 2008	79,170,000	13,640,000	Refunding
Issue 34D (Non-AMT)†	March 27, 2008	81,170,000	81,170,000	Refunding
Issue 34E (AMT)†	March 27, 2008	299,365,000	205,655,000	Refunding
Issue 34F (Non-AMT/Private Activity)*†	March 27, 2008	16,645,000	16,645,000	Refunding
Issue 36A (Non-AMT/Private Activity)*	May 7, 2008	100,000,000	100,000,000	Refunding
Issue 36B (Non-AMT/Private Activity)*	May 7, 2008	40,620,000	40,620,000	Refunding
Issue 36C (Non-AMT/Private Activity)*	May 20, 2008	36,145,000	36,145,000	Refunding
Issue 37C (Non-AMT/Private Activity)†*	May 15, 2008	89,895,000	89,495,000	Refunding
2009A (Non-AMT/Private Activity)†	September 3, 2009	92,500,000	92,500,000	Refunding
2009B (Non-AMT/Private Activity)†	September 3, 2009	82,500,000	82,500,000	Refunding
2009C (Non-AMT/Private Activity)‡	November 3, 2009	132,915,000	103,490,000	Refunding
2009D (Non-AMT/Private Activity)†	November 4, 2009	88,190,000	84,295,000	Refunding
2009E (Non-AMT/Private Activity)†	November 18, 2009	485,800,000	485,800,000	New Money
2010A (AMT)(1)	February 10, 2010	215,970,000	215,220,000	Refunding
2010C (Non-AMT/Governmental Purpose)†	April 7, 2010	345,735,000	328,550,000	Refunding
2010D (Non-AMT/Private Activity)‡	April 7, 2010	89,860,000	85,390,000	Refunding
2010F (Non-AMT/Private Activity)†	August 5, 2010	121,360,000	121,360,000	New Money
2010G (Non-AMT/Governmental Purpose)†	August 5, 2010	7,100,000	7,100,000	New Money
2011A (AMT)†	February 22, 2011	88,815,000	60,520,000	Refunding
2011B (Non-AMT/Governmental Purpose)†	February 22, 2011	66,535,000	40,435,000	Refunding
2011C (AMT)†	July 21, 2011	163,720,000	163,720,000	Refunding
2011D (Non-AMT/Governmental Purpose)†	July 21, 2011	124,110,000	124,110,000	Refunding
2011E (Taxable)†	July 21, 2011	62,585,000	50,785,000	Refunding
2011F (AMT)†	September 20, 2011	123,325,000	123,325,000	Refunding
2011G (Non-AMT/Governmental Purpose)†	September 20, 2011	106,195,000	106,195,000	Refunding
2011H (Taxable)†	September 20, 2011	125,055,000	104,830,000	Refunding
2012A (AMT)†	March 22, 2012	208,025,000	208,025,000	Refunding
2012B (Non-AMT/Governmental Purpose)†	March 22, 2012	108,425,000	108,265,000	Refunding
2013A (AMT)†	July 31, 2013	360,785,000	360,785,000	New Money
2013B (Non-AMT/Governmental Purpose)†	July 31, 2013	87,860,000	87,860,000	New Money
2013C (Taxable)†	July 31, 2013	12,480,000	12,480,000	New Money
TOTAL		$4,729,835,000	$4,204,425,000	

* This Issue of Bonds was converted to Bonds the interest on which is not subject to the federal alternative minimum tax.
† Secured by Original Reserve Account. See "Security for the Series 2014A/B Bonds–Reserve Fund; Reserve Accounts; Credit Facilities–Original Reserve Account."
‡ Secured by 2009 Reserve Account. See "Security for the Series 2014A/B Bonds–Reserve Fund; Reserve Accounts; Credit Facilities–2009 Reserve Account."
(1) Approximately $1,145,000 principal amount of the Series 2010A Bonds are expected to be retired pursuant to a settlement with the IRS, as described under "TAX MATTERS–Tax Compliance Matters for Certain Outstanding Bonds" herein.
Source: Commission.

Additional Bonds are expected to be a significant source of funding for the Commission's Capital Plan. See "CAPITAL PROJECTS AND PLANNING–The Capital Plan." The Consultant's Report attached as APPENDIX A reflects the projected issuance of approximately $2.7 billion of Additional Bonds between Fiscal Year 2015-16 and Fiscal Year 2019-20 (in addition to the issuance of the Series 2014A/B Bonds).

Liquidity Facilities and Credit Facilities

As of August 1, 2014, the Commission had outstanding approximately $481.5 million of variable rate tender option bonds, in each case secured by a bank letter of credit, as summarized in the table below. If amounts are paid under a letter of credit, the obligation of the Commission to repay such amounts would constitute "Repayment Obligations" under the 1991 Master Resolution and would be accorded the status of Bonds. See "SECURITY FOR THE SERIES 2014A/B BONDS –Additional Bonds–*Repayment Obligations*."

CREDIT FACILITIES FOR BONDS

	Issue 36A	**Issue 36B**	**Issue 36C**	**Issue 37C**	**Series 2010A**
Principal Amount	$100,000,000	$40,620,000	$36,145,000	$89,895,000	$215,970,000
Type	LOC(1)	LOC(1)	LOC(1)	LOC(1)	LOC(1)
Expiration Date	October 26, 2016	April 25, 2018	April 25, 2018	July 13, 2015	December 14, 2016
Credit Provider	U.S. Bank(2)	Bank of Tokyo(3)	Bank of Tokyo(3)	Union Bank, N.A.	JPMorgan(4)
Credit Provider Ratings(5)					
Short-Term	P-1/A-1+/F1+	P-1/A-1/F1	P-1/A-1/F1	P-1/A-1/F1	P-1/A-1/F1
Long-Term	Aa3/AA-/AA-	Aa3/A+/A	Aa3/A+/A	A2/A+/A	Aa3/A+/A+

(1) Letter of credit.
(2) U.S. Bank National Association.
(3) The Bank of Tokyo-Mitsubishi UFJ, Ltd. acting through its New York Branch.
(4) JPMorgan Chase Bank, N.A.
(5) As of August 1, 2014**.** Ratings are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or re-verified by the rating agencies. The Commission does not take any responsibility for the accuracy of such ratings, or give any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant. Reflects the ratings of the credit provider, not the rating on the related Bonds. Ratings on related Bonds may be different. Ratings for the Credit Providers are displayed as Moody's/S&P/Fitch.

Source: Commission

In addition to the credit facilities described above, the Commission has obtained three irrevocable direct-pay letters of credit to support its Commercial Paper Notes. Repayment of amounts drawn on these letters of credit are secured by a lien on Net Revenues that is subordinate to the lien of the 1991 Master Resolution securing the Bonds. See "SECURITY FOR THE SERIES 2014A/B BONDS–Other Indebtedness–*Subordinate Bonds*" for additional information concerning these letters of credit.

Interest Rate Swaps

Pursuant to the 1991 Master Resolution, the Commission may enter into one or more Interest Rate Swaps in connection with one or more series of Bonds. An Interest Rate Swap is an agreement between the Commission or the Trustee and a Swap Counterparty under which a variable rate cash flow (which may be subject to an interest rate cap) on a principal or notional amount is exchanged for a fixed rate of return on an equal principal or notional amount. The Swap Counterparty must be a member of the International Swaps and Derivatives Association and must be rated in one of the three top rating categories by at least one rating agency. The 1991 Master Resolution provides that, if and to the extent provided in any Supplemental Resolution authorizing the issuance of a series of Bonds, regularly scheduled swap payments may be paid directly out of the account or accounts in the Debt Service Fund established with respect to such series of Bonds, and thus on a parity with debt service on the Bonds.

Individual Interest Rate Swap Agreements

The obligation of the Commission to make regularly scheduled payments to the Swap Provider under the Swap Agreements is an obligation of the Commission payable from Net Revenues on a parity with payments of principal of or interest on the Bonds. The Swap Agreements are subject to termination upon the occurrence of specified events and the Commission may be required to make a substantial termination payment to the respective Swap Provider depending on the then-current market value of the swap transaction even if the Commission were not the defaulting party. The termination payment would be approximately equal to the economic value realized by the Airport Commission from the termination of the Swap Agreement. Any payment due upon the termination of a Swap Agreement is payable from Net Revenues subordinate to payments of principal of or interest on the Bonds. All of the Swap Agreements are terminable at any time at the option of the Commission at their market value. The objective of each of the Swap Agreements was to secure a synthetic fixed interest rate obligation with respect to the related Bonds.

Swap Policy

The Commission has adopted a written Interest Rate Swap Policy (the "Swap Policy"), which establishes the Commission's policies for entering into new interest rate swap agreements. The Swap Policy is reviewed periodically by the Airport Director and revisions are submitted to the Commission for approval. The Swap Policy prohibits the Commission from entering into interest rate swaps or other derivative instruments for speculative purposes or to create extraordinary risk or leverage with respect to the related Bonds or investments, or that would result in the Commission lacking sufficient liquidity to make payments that may be due upon termination of the Swap or that lack sufficient price transparency to permit the Airport Director and the swap advisor to reasonably determine the market valuation of the Swap. The Swap Policy sets forth, among other things, criteria for qualified swap counterparties, maximum notional amounts of interest rate swap agreement and swap counterparty credit exposure limits.

Risks of Interest Rate Swap Agreements

The Commission's interest rate swap agreements entail risk to the Commission. Although the Commission intends that its interest rate swap agreements hedge various series of variable rate Bonds, the floating rate that the Commission receives under an interest rate swap agreement can materially differ from the variable rate of interest the Commission pays on its variable rate Bonds. This can reduce the effectiveness of an interest rate swap agreement as a hedge. In addition, the counterparties to the Commission's interest rate swap agreements may terminate the respective swaps upon the occurrence of specified termination events or events of default, which may include failure of the Commission or the counterparty to maintain credit ratings at required levels. If either the counterparty or the Commission terminates any interest rate swap agreement, the Commission may be required to make a termination payment to the counterparty (even if such termination is due to an event affecting the counterparty, including the counterparty's failure to maintain credit ratings at required levels), and any such payment could materially adversely impact the Commission's financial condition. The valuation of the swaps is volatile, and will vary based on a variety of factors, including current interest rates.

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The table below summarizes the interest rate swap agreements entered into by the Commission as of August 1, 2014.

SUMMARY OF INTEREST RATE SWAP AGREEMENTS

Associated Bonds	Effective Date	Initial Notional Amount	Counterparty	Counterparty Credit Ratings (Moody's/S&P/Fitch)[1]	Insurer	Fixed Rate Payable by Commission	Market Value to Commission[6]	Expiration Date
Issue 36A/B	02/10/05	$70,000,000	JPMorgan Chase Bank, N.A.	Aa3/A+/A+	FGIC/National	3.444%	($8,177,047.34)	May 1, 2026
	02/10/05	69,930,000	JPMorgan Chase Bank, N.A.	Aa3/A+/A+	FGIC/National	3.445	(8,176,961.61)	May 1, 2026
Subtotal Issue 36A/B		139,930,000					($16,354,008.95)	
Issue 36C	02/10/05	30,000,000	JPMorgan Chase Bank, N.A.[2]	Aa3/A+/A+	AGM	3.444	($3,504,448.86)	May 1, 2026
Series 2010A[3]	05/15/08	79,684,000	Merrill Lynch Capital Services[4]	NR/NR/NR	AGM	3.773	($13,603,077.03)	May 1, 2029
Issue 37C	05/15/08	89,856,000	JPMorgan Chase Bank, N.A.[2]	Aa3/A+/A+	AGM	3.898	($16,373,592.63)	May 1, 2029
Series 2010A	02/01/10	143,947,000	Goldman Sachs Bank USA[5]	A2/A/A		3.925	($27,848,601.78)	May 1, 2030
	TOTAL	$483,417,000					**($77,683,729.25)**	

(1) As of August 1, 2014. Ratings are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or re-verified by the rating agencies. The Commission takes no responsibility for the accuracy of such ratings, or gives any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant.
(2) The original counterparty to this swap agreement was Bear Stearns Capital Markets Inc.
(3) The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Commission subsequently refunded, and the Issue 37B Bonds are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds and the unhedged portions of the Issue 36B Bonds and Issue 36C Bonds for accounting purposes.
(4) Guaranteed by Merrill Lynch Derivative Products AG, which is rated Aa3/A+/NR as of August 1, 2014.
(5) Guaranteed by The Goldman Sachs Group, which is rated Baa1/A-/A as of August 1, 2014.
(6) The market values of the swaps were calculated by an independent third-party consultant to the Commission who does not have an interest in the Swap Agreements.
Source: Commission.

Debt Service Requirements

The following table presents the annual debt service requirements for the Outstanding Bonds and the Series 2014A/B Bonds, based upon monthly deposits.

DEBT SERVICE SCHEDULE(1)

Fiscal Year Ending June 30,	Debt Service on Outstanding Bonds(2)	2014A			2014B			2014A/B Total Debt Service	Aggregate Debt Service
		Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service		
2015	$379,038,864	$ -	$14,477,867	$14,477,867	$ -	$3,742,963	$3,742,963	$18,220,829	$397,259,694
2016	387,923,368	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	411,603,868
2017	390,306,383	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	413,986,883
2018	390,462,399	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	414,142,899
2019	390,951,297	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	414,631,797
2020	389,950,364	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	413,630,864
2021	390,485,569	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	414,166,069
2022	389,437,548	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	413,118,048
2023	388,954,880	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	412,635,380
2024	377,730,893	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	401,411,393
2025	358,185,733	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	381,866,233
2026	329,783,058	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	353,463,558
2027	317,828,090	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	341,508,590
2028	317,648,356	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	341,328,856
2029	201,098,860	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	224,779,360
2030	151,737,637	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	175,418,137
2031	102,658,969	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	126,339,469
2032	110,950,483	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	134,630,983
2033	212,082,221	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	235,762,721
2034	60,532,617	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	84,213,117
2035	60,535,100	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	84,215,600
2036	60,531,542	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	84,212,042
2037	69,512,558	-	18,816,000	18,816,000	-	4,864,500	4,864,500	23,680,500	93,193,058
2038	104,972,925	6,982,500	18,816,000	25,798,500	-	4,864,500	4,864,500	30,663,000	135,635,925
2039	51,507,292	45,515,833	18,466,875	63,982,708	3,056,667	4,864,500	7,921,167	71,903,875	123,411,167
2040	17,286,125	66,118,333	16,191,083	82,309,417	19,103,333	4,711,667	23,815,000	106,124,417	123,410,542
2041	4,393,000	79,265,833	12,885,167	92,151,000	23,110,833	3,756,500	26,867,333	119,018,333	123,411,333
2042	19,036,333	71,895,000	8,921,875	80,816,875	20,960,000	2,600,958	23,560,958	104,377,833	123,414,167
2043	76,877,500	30,705,000	5,327,125	36,032,125	8,950,833	1,552,958	10,503,792	46,535,917	123,413,417
2044	-	75,837,500	3,791,875	79,629,375	22,108,333	1,105,417	23,213,750	102,843,125	102,843,125
Total(3)	**$6,502,399,962**	**$376,320,000**	**$512,829,867**	**$889,149,867**	**$97,290,000**	**$134,218,463**	**$231,508,463**	**$1,120,658,329**	**$7,623,058,292**

(1) Gross debt service. Includes interest amounts expected to be paid from Bond proceeds.
(2) Includes credit facility and other ancillary fees with respect to variable rate bonds. In calculating the debt service for Bonds issued at variable rates, the Commission has made assumptions about interest rates, swap payments and ancillary fees.
(3) Various totals do not add due to rounding.

Historical Debt Service Coverage

The following table reflects historical Net Revenues and the calculation of debt service coverage on the Bonds based on such Net Revenues for Fiscal Years 2008-09 through 2012-13.

HISTORICAL DEBT SERVICE COVERAGE
(Fiscal Year)
($ in thousands)

	2008-09	2009-10	2010-11	2011-12	2012-13
Net Revenues[1]	$251,527	$262,695	$279,071	$310,514	$348,294
PFCs Treated as Revenues	51,000	61,000	87,200	73,000	45,000
Transfer from the Contingency Account[2]	92,417	93,043	92,894	93,427	92,559
TOTAL AVAILABLE FOR DEBT SERVICE	$394,944	$416,738	$459,164	$476,941	$485,854
Total Annual Debt Service[3]	$266,577	$288,205	$312,381	$325,456	$337,355
Historical Debt Service Coverage per the 1991 Master Resolution[4]	148.2%	144.6%	147.0%	146.5%	144.0%
Historical Debt Service Coverage Excluding Transfer	113.5%	112.3%	117.3%	117.8%	116.6%

(1) Using the definition of Net Revenues contained in the 1991 Master Resolution, but excluding PFCs treated as "Revenues" pursuant to the 1991 Master Resolution. See "–Passenger Facility Charge."
(2) Represents the Transfer from the Contingency Account to the Revenues Account in each such Fiscal Year. See "SECURITY FOR THE SERIES 2014A/B BONDS–Contingency Account."
(3) Annual Debt Service net of accrued and capitalized interest.
(4) Net Revenues plus Transfer divided by total Annual Debt Service. Must not be less than 125% pursuant to the 1991 Master Resolution. See "SECURITY FOR THE SERIES 2014A/B BONDS–Rate Covenant."
Source: Commission.

SFOTEC

The twenty-seven airlines that operate in the ITC formed the San Francisco Terminal Equipment Company, LLC ("SFOTEC") to use, operate and maintain certain Airport-owned common-use equipment and systems related to handling flights and passengers at the ITC. This equipment, which includes computer check-in systems with baggage and boarding pass printers, baggage handling systems, passenger boarding bridges, systems for delivering preconditioned air to aircraft and ground power for aircraft, was acquired by the Airport with approximately $100 million of Airport bond proceeds. SFOTEC also manages the daily assignment of the ITC joint use gates, holdrooms, ticket counters and baggage systems for the airlines operating in the ITC in accordance with Airport-approved protocols.

The Airport and SFOTEC have entered an agreement through June 30, 2021, pursuant to which SFOTEC is obligated to maintain, operate, repair and schedule the common-use of such equipment; pay the associated utility and custodial costs; and provide nondiscriminatory access to such equipment for all ITC carriers, whether or not they are members of SFOTEC. The costs of operating and maintaining the equipment are shared by all airline users of the equipment. The user fees for airlines that are members of SFOTEC are determined pursuant the terms of the SFOTEC Members Agreement, while the user fees of nonmember airlines are negotiated between SFOTEC and the nonmember airlines.

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REPORT OF THE AIRPORT CONSULTANT

General

The Commission has retained LeighFisher, as recognized experts in their field, to prepare a report on traffic, revenues, expenses, the Capital Plan and financial analyses in connection with the issuance of the Series 2014A/B Bonds. The Airport Consultant has consented to the Report of the Airport Consultant, dated September 4, 2014, being included as APPENDIX A. This Report should be read in its entirety for an explanation of the assumptions and methodology used therein.

The Report of the Airport Consultant is divided into five sections (1 through 5). Section 1 provides general background information with respect to the Commission and the Airport; Section 2 describes the economic base for air traffic, airline service at the Airport and the air traffic forecasts; Section 3 describes the financial framework of the Airport, including the 1991 Master Resolution, the Annual Service Payment, the Lease and Use Agreements and various other agreements with Airport users; Section 4 provides a summary of the Capital Plan and funding sources; and Section 5 provides the Airport Consultant's forecasts of Net Revenues demonstrating compliance by the Commission with the rate covenant provisions contained in the 1991 Master Resolution in connection with the Series 2014A/B Bonds and future Bond issuances planned during the projection period.

In the preparation of the forecasts in its Report, the Airport Consultant has made certain assumptions with respect to conditions that may occur and the course of action that management expects to take in the future. The Airport Consultant has relied upon Commission staff for representations about its plans and expectations and for disclosure of significant information that might affect the realization of forecast results. Commission staff has reviewed these assumptions and concur that they provide a reasonable basis for the forecast. While the Commission and the Airport Consultant believe these assumptions to be reasonable for the purpose of the forecasts, they are dependent upon future events, and actual conditions may differ from those assumed in the analysis. To the extent actual future factors differ from those assumed by the Airport Consultant or provided to the Airport Consultant by others, the actual results could vary materially from those forecast. The Airport Consultant has no responsibility to update its Report for events and circumstances occurring after the date of its Report. The forecast is based on assumptions that may not be realized and actual results may differ materially from the forecast. See "CERTAIN RISK FACTORS–Uncertainties of Projections, Forecasts and Assumptions."

Forecast of Debt Service Coverage

The following table reflects the forecast of Net Revenues and the calculation of debt service coverage on the Bonds (including the Series 2014A/B Bonds) based on such Net Revenues for Fiscal Year 2013-14 through Fiscal Year 2020-21 as set forth in Section 5 of the Report of the Airport Consultant. Such forecast reflects the impact on revenues and expenses associated with the Series 2014A/B Bonds as well as other Bond issues expected to be undertaken during the forecast period. The forecast does not reflect the impact on Commission finances of capital projects that are in the conceptual planning stage or any other projects that may be undertaken in the future (as described in the Report of the Airport Consultant). Any additional future capital projects may be financed by future Commission Bond issues.

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FORECAST OF DEBT SERVICE COVERAGE
(Fiscal Year)
($ in thousands)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Net Revenues[1]	$403,213	$433,621	$462,769	$489,054	$504,647	$536,043	$590,290	$683,046
Transfer from the Contingency Account	92,637	93,248	93,855	105,746	117,751	129,869	142,103	154,453
TOTAL AVAILABLE FOR DEBT SERVICE	$495,850	$526,869	$556,624	$594,800	$622,397	$665,912	$732,393	$837,499
Debt Service Requirement[2]	$356,338	$384,799	$411,680	$436,675	$450,474	$474,675	$510,189	$623,158
Forecast Debt Service Coverage per the Resolution	139%	137%	135%	136%	138%	140%	144%	134%
Forecast Debt Service Coverage Excluding Transfer	113%	113%	112%	112%	112%	113%	116%	110%

(1) Includes certain PFC revenues forecast to be designated as Revenues by the Commision, as described in the Report of the Airport Consultant.
(2) Cash basis. Includes projected debt service on outstanding Bonds, Series 2014A/B Bonds and future Bonds as described in the Report of the Airport Consultant.
Source LeighFisher, Report of the Airport Consultant.

The Report of the Airport Consultant and the forecast of Net Revenues and debt service coverage included therein incorporated assumptions of the debt service on the Series 2014A/B Bonds during each of the forecasted years based upon projections provided by Public Financial Management, Inc., co-financial advisor ("PFM") in July 2014.

In addition, the forecast is based on other assumptions that may not be realized and actual results may differ materially from the forecast. The Report should be read in its entirety for an explanation of the assumptions and methodology used in developing the forecast. Also see "CERTAIN RISK FACTORS–Uncertainties of Projections, Forecasts and Assumptions."

AIRLINE INFORMATION

The Commission cannot and does not assume any responsibility for the accuracy or completeness of any information contained or referred to herein regarding the business operations or financial condition of any of the airlines serving the Airport.

Each of the principal domestic airlines serving the Airport, or their respective parent corporations, and foreign airlines serving the Airport with American Depository Receipts ("ADRs") registered on a national exchange are subject to the information requirements of the Securities Exchange Act of 1934, and in accordance therewith files reports and other information with the SEC. Certain information, including financial information, concerning such domestic airlines or their respective parent corporations and such foreign airlines, is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected at the Public Reference Room of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549; and the offices of The New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005 (for certain airlines whose stock or whose parent's stock is traded on the New York Stock Exchange). Copies of such reports and statements can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates or from the SEC website at: http://www.sec.gov. In addition, each airline is required to file periodic reports of financial operating statistics with the U.S. DOT. Such reports can be inspected at the Bureau of Transportation Statistics, Research and Innovative Technology Administration, Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590.

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

LITIGATION MATTERS

There is no litigation pending concerning the validity of the 1991 Master Resolution or the Series 2014A/B Bonds or the issuance or delivery thereof, the existence of the Commission, the title of the officers thereof who executed or will execute the Series 2014A/B Bonds to their respective offices, or the pledge of Net Revenues to the payment of the Series 2014A/B Bonds.

In the regular course of the Airport's business, the Commission and the City are parties to a variety of pending and threatened lawsuits and administrative proceedings with respect to the Airport's operations and other matters, in addition to those specifically discussed herein. The Commission does not believe that any such lawsuits or proceedings will have a material adverse effect on the Airport's business operations or financial condition.

RATINGS

Moody's Investors Service ("Moody's") has assigned a rating of "A1" (stable outlook) to the Series 2014A/B Bonds, Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("Standard & Poor's") has assigned a rating of "A+" (stable outlook) to the Series 2014A/B Bonds and Fitch, Inc., doing business as Fitch Ratings ("Fitch") has assigned a rating of "A+" (stable outlook) to the Series 2014A/B Bonds.

A rating reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the Series 2014A/B Bonds. An explanation of the significance of each rating may be obtained from the rating agencies at their respective addresses, as follows: Moody's Investors Service Inc., 7 World Trade Center, at 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York 10041 and Fitch, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that a rating will apply for any given period of time, or that the rating will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant. The Commission undertakes no responsibility to maintain any rating or to oppose any revision or withdrawal of a rating. A downward revision or withdrawal of a rating may have an adverse effect on the marketability or market price of the Series 2014A/B Bonds.

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UNDERWRITING

Purchase of Series 2014A/B Bonds

J.P. Morgan Securities LLC ("J.P. Morgan") on its own behalf and as representative of RBC Capital Markets, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc., and Goldman, Sachs & Co. (together with J.P. Morgan, the "Underwriters") has entered into a purchase contract that will commit the Underwriters to purchase the Series 2014A/B Bonds. The purchase contract provides that the Underwriters will purchase all of the Series 2014A/B Bonds if any are purchased. Under the terms of the purchase contract, the obligation of the Underwriters to make the purchase is subject to certain terms and conditions set forth in the purchase contract.

The Series 2014A/B Bonds are being purchased through negotiation by the Underwriters at a purchase price equal to $516,419,715.39 (representing the principal amount of the Series 2014A/B Bonds, plus an original issue premium equal to $44,336,962.40 and less an underwriters' discount equal to $1,527,247.01).

The Underwriters may offer and sell the Series 2014A/B Bonds to certain dealers and other at prices lower than the public offering prices set forth on the inside cover. See "CERTAIN RELATIONSHIPS" herein.

Retail Brokerage Arrangements

The following paragraphs have been provided by and are being included in this Official Statement at the request of the respective Underwriters. The Commission does not assume any responsibility for the accuracy or completeness of such statements or information.

J.P. Morgan, one of the Underwriters of the Series 2014A/B Bonds, has entered into a negotiated dealer agreement (the "Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Series 2014A/B Bonds, at the original issue prices. Pursuant to the Dealer Agreement, CS&Co. will purchase Series 2014A/B Bonds from J.P. Morgan at the original issue price less a negotiated portion of the selling concession applicable to any Series 2014A/B Bonds that CS&Co. sells.

Goldman, Sachs & Co. ("Goldman Sachs"), one of the Underwriters of the Series 2014A/B Bonds, has entered into a master dealer agreement (the "Master Dealer Agreement") with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the Series 2014A/B Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase Series 2014A/B Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any Series 2014A/B Bonds that Incapital sells.

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CERTAIN RELATIONSHIPS

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, brokerage services, providing credit and liquidity facilities, and providing swaps and other derivative products. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, such services for the Commission 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 Commission.

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.

JPMorgan Chase Bank, N.A., an affiliate of J.P. Morgan, serves as the letter of credit provider for the Commission's Series 2010A Bonds and as swap counterparty for the Commission's Issue 36A Bonds, Issue 36B Bonds, Issue 36C Bonds and Issue 37C Bonds.

Royal Bank of Canada, parent company of RBC Capital Markets, LLC ("RBC"), serves as the letter of credit provider for the Commission's Series A-3, Series B-3 and Series C-3 Notes.

Merrill Lynch Capital Services, an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Goldman Sachs Bank USA, an affiliate of Goldman, Sachs & Co., serve as swap counterparties in connection with the Commission's Series 2010A Bonds.

J.P. Morgan and RBC currently serve as non-exclusive dealers (the "Dealers") for the Commission's Commercial Paper Program. A portion of the Series 2014A/B Bonds will be used to pay down all of the Commission's outstanding Commercial Paper Notes. See "PLAN OF FINANCE" herein. J.P. Morgan is currently holding some of the outstanding Commercial Paper Notes in inventory in the normal course of remarketing, which Commercial Paper Notes will be paid down using a portion of the proceeds of the Series 2014A/B Bonds.

In addition, the Underwriters may currently be serving as underwriters, remarketing agents or dealers in connection with the Commission's other outstanding obligations. For a description of certain relationships of the Underwriters to the Commission, see "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Liquidity Facilities and Credit Facilities" and "–Interest Rate Swaps."

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TAX MATTERS

General

In the opinion of Kutak Rock LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel to the Commission, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2014A/B Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2014A Bond for any period during which such Series 2014A Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2014A Bonds or by a "related person" within the meaning of Section 147(a) of the Code. Co-Bond Counsel are further of the opinion that (a) interest on the Series 2014A Bonds is a specific preference item for purposes of the federal alternative minimum tax, and (b) interest on the Series 2014B Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

The opinions described in the preceding paragraph assume the accuracy of certain representations and compliance by the Commission with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Series 2014A/B Bonds. Failure to comply with such requirements could cause interest on the Series 2014A/B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2014A/B Bonds. The Commission will covenant to comply with such requirements. Co-Bond Counsel have expressed no opinion regarding other federal tax consequences arising with respect to the Series 2014A/B Bonds.

Notwithstanding Co-Bond Counsel's opinion that interest on the Series 2014B Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

Co-Bond Counsel are further of the opinion that under existing laws, regulations, rulings and judicial decisions, interest on the Series 2014A/B Bonds is exempt from State of California personal income taxes.

Special Considerations with Respect to the Series 2014A/B Bonds

The accrual or receipt of interest on the Series 2014A/B Bonds may otherwise affect the federal income tax liability of the owners of the Series 2014A/B Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Co-Bond Counsel have expressed no opinion regarding any such consequences. Purchasers of the Series 2014A/B Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2014A/B Bonds.

Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2014A/B Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2014A/B Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the various state legislatures that, if enacted, could alter or amend federal and state tax matters referred to above or adversely affect the market value of the Series 2014A/B Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series 2014A/B Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2014A/B Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2014A/B Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Co-Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2014A/B Bonds and Co-Bond Counsel have expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Tax Treatment of Original Issue Premium

The Series 2014A/B Bonds that have an original yield below their respective interest rates, as shown on the inside front cover of this Official Statement (collectively, the "Premium Bonds") are being sold at a premium. An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Tax Compliance Matters for Certain Outstanding Bonds

The Commission follows certain federal tax law post-issuance compliance procedures that are intended to ensure that proceeds of its tax-exempt bonds are invested and expended consistent with applicable federal tax law, including the Code, the Regulations promulgated thereunder, and other applicable guidance from the U.S. Treasury Department and the IRS. As a result, the Commission from time to time identifies and addresses relatively minor tax law compliance issues.

As part of its tax diligence procedures, the Commission determined in August 2012 that small portions of the proceeds of a number of outstanding series of Bonds were applied for purposes that present tax law compliance issues. In particular, a small portion of the Airport's passenger terminal facilities financed from proceeds of those Bonds (less than 0.1%) were used for retail locations at which wine was sold for consumption off-Airport. Such uses of proceeds are prohibited by the Code. If not addressed with the IRS, the failure to observe such limitation could cause the interest on such Bonds to be includable in gross income for federal income tax purposes retroactively to the date of their issuance.

In November 2013, the Commission finalized a closing agreement with the IRS under its Tax Exempt Bond Voluntary Closing Agreement Program ("VCAP") with respect to the Commission's Series 2009C/D Bonds pursuant to which the Commission made a payment to the IRS of approximately $5,000 and retired a small portion ($200,000) of the Series 2009D Bonds allocable to such use of bond proceeds.

In September 2014, the Commission approved and expects to execute in the near future, a second closing agreement with the IRS with respect to the other Bonds affected by this compliance issue, pursuant to which the Commission will make a payment to the IRS of approximately $67,000 and retire $1,145,000 of the Commission's Series 2010A Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance and sale of the Series 2014A/B Bonds are subject to the approval of Kutak Rock LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel. Certain legal matters will be passed upon for the Commission by the City Attorney and by Nixon Peabody LLP, Disclosure Counsel and for the Underwriters by Hawkins, Delafield & Wood LLP, Underwriters' Counsel. Co-Bond Counsel expect to deliver separate opinions at the time of issuance of the Series 2014A/B Bonds each substantially in the form set forth in APPENDIX G—"PROPOSED FORM OF OPINION OF CO-BOND COUNSEL."

Co-Bond Counsel are not passing upon and undertake no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

PROFESSIONALS INVOLVED IN THE OFFERING

The Commission has retained Public Financial Management, Inc. and Backstrom McCarley Berry & Co., LLC, to serve as Co-Financial Advisors with respect to the issuance of the Series 2014A/B Bonds.

The Co-Financial Advisors, Co-Bond Counsel, Disclosure Counsel and Underwriters' Counsel will receive compensation with respect to the Series 2014A/B Bonds which is contingent upon the sale and delivery of the Series 2014A/B Bonds.

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FINANCIAL STATEMENTS

The audited financial statements of the Commission for Fiscal Years 2012-13 and 2011-12 prepared in accordance with GASB guidelines, are included as APPENDIX B attached hereto. The financial statements referred to in the preceding sentence have been audited by KPMG LLP, independent certified accountants, whose report with respect thereto also appears in APPENDIX B. KPMG LLP has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

The 1991 Master Resolution requires the Commission to have its financial statements audited annually by independent certified public accountants with knowledge and experience in the field of governmental accounting and auditing, and it is the policy of the City to select the independent auditor periodically through a competitive selection process. KPMG LLP was selected for a four-year contract pursuant to a regular request for proposals process conducted by the City. The audited financial statements prepared by the Commission each Fiscal Year are required to be provided to the Trustee within 120 days after the end of each such year in accordance with the 1991 Master Resolution. The financial statements also include the reporting of OPEB costs and obligations of the Airport as required under GASB 45. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Payments to the City–*Employee Benefit Plans*."

CONTINUING DISCLOSURE

The Commission will covenant for the benefit of the Holders and Beneficial Owners (as defined in the Continuing Disclosure Certificate) of the Series 2014A/B Bonds to provide certain financial information and operating data relating to the Commission (the "Annual Disclosure Report") by not later than 210 days following the end of each Fiscal Year, and to provide notices of certain enumerated events. The Annual Disclosure Report and notices of these enumerated events will be filed by the Commission with the means of the Electronic Municipal Market Access site ("EMMA") maintained by the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Disclosure Report or the notices of material events is summarized in APPENDIX F–"SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters of the Series 2014A/B Bonds in complying with SEC Rule 15c2-12(b)(5).

The Commission believes that it has complied in all material respects with its undertakings to provide Annual Disclosure Reports or notices of enumerated events. However, the Commission has become aware of certain facts that it does not consider to be material but that are disclosed below for the benefit of the Holders and Beneficial Owners of its Bonds.

Some information that was made available in a timely manner on EMMA was not linked to all relevant CUSIP numbers. This includes the Commission's Annual Disclosure Report for the Fiscal Year ended June 30, 2012, for which a cover letter indicating that a previously filed remarketing memorandum contained the required financial and operating data was inadvertently omitted from the filing. Also some of the CUSIP numbers to which various other continuing disclosure filings related were not properly inputted. The Commission has taken action to link such information to the applicable CUSIP numbers, including filing the missing 2012 cover letter.

In addition, the Commission executed an enhanced master continuing disclosure certificate in 2011 in which it undertook to update additional tables in its Annual Disclosure Report. However, the Annual Disclosure Report for the Fiscal Year ended June 30, 2011 did not include all or a portion of the information in three of these tables, although two of the tables were included in offering documents filed on EMMA prior to the filing of the Annual Disclosure Report and the third table was included in an offering document posted sooner than two months after the filing. Subsequent Annual Disclosure Reports included the additional data.

In addition, certain of the Commission's filings with respect to bond insurer downgrades and other ratings changes during 2009 and 2010 were made one to six months following such changes, and one other ratings change was disclosed in an offering document made available on EMMA but was not disclosed in separate filings linked to all applicable CUSIP numbers. Further, AGM, the insurer of certain Commission Bonds, including its San Francisco International Airport 1997 Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC) Series 2000A, received a ratings upgrade from S&P from AA- to AA in March 2014. Neither the Commission nor SFO Fuel made a continuing disclosure filing with respect to the S&P ratings change. The Commission has made a corrective filing with respect to the March 2014 ratings change.

The Commission is enhancing its continuing disclosure filing procedures to ensure that information that is filed on EMMA in the future contains all required information and is linked to the appropriate CUSIP numbers.

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MISCELLANEOUS

This Official Statement has been duly authorized, executed and delivered by the Commission.

The summaries and descriptions of provisions of the 1991 Master Resolution, the Swap Agreements, the Continuing Disclosure Certificate, the Lease and Use Agreements, the purchase contract pursuant to which the Underwriters are purchasing the Series 2014A/B Bonds, and the Reserve Account Credit Facilities and all references to other materials not purporting to be quoted in full are qualified in their entirety by reference to the complete provisions of the documents and other materials summarized or described. Copies of such documents may be obtained from the Trustee or, during the offering period, from the Underwriters. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

So far as any statements made in this Official Statement involve matters of opinion, forecasts or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact.

AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

By: /s/ John L. Martin
John L. Martin
Airport Director

APPENDIX A

REPORT OF THE AIRPORT CONSULTANT

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Appendix A

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

SAN FRANCISCO INTERNATIONAL AIRPORT
SECOND SERIES REVENUE BONDS
Series 2014A/B

Prepared for

Airport Commission
City and County of San Francisco, California

Prepared by

LeighFisher
Burlingame, California

September 4, 2014

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Leigh|Fisher

September 4, 2014

Mr. Larry Mazzola, President
Airport Commission
City and County of San Francisco
San Francisco International Airport
P.O. Box 8097
San Francisco, California 94128

**Re: Report of the Airport Consultant,
San Francisco International Airport,
Second Series Revenue Bonds, Series 2014A/B**

Dear Mr. Mazzola:

We are pleased to submit this Report of the Airport Consultant (the Report) on certain aspects of the proposed issuance of new money Second Series Revenue Bonds, Series 2014A/B (the 2014 Bonds) by the Airport Commission of the City and County of San Francisco (the City). This letter and the accompanying attachment and exhibits constitute the Report.

The City owns San Francisco International Airport (the Airport, or SFO) and operates the Airport through its Airport Commission as a financially self-sufficient enterprise. Located approximately 14 miles south of downtown San Francisco, the Airport is the largest airport serving the San Francisco Bay Area. The region's expanding population base, advanced levels of educational attainment, and relatively high per capita income contribute to strong demand for air travel. In the five years between Fiscal Year (FY)* 2009 and FY 2014, enplaned passengers at the Airport increased from 18.2 million to 23.0 million, a compound annual growth rate of 4.8%.

AIRPORT CAPITAL PLAN

Airport Commission staff periodically develops and updates a plan for the redevelopment, improvement, and expansion of Airport facilities, which is reviewed and approved by the Airport Commission. The plan is submitted to the Airport Commission annually and approved based on anticipated facility needs, current and expected future airline traffic, available funding sources, airline feedback, and project priority.

On February 18, 2014, the Airport Commission adopted a resolution approving a $4.4 billion capital plan for the Airport over the 10-year period from FY 2015 to FY 2024. Subsequent to the Airport Commission adopting the resolution, Airport Commission staff has continued planning and preliminary implementation work on the plan, and cost estimates for several projects have been further refined. Capital costs to be incurred during the first five-year period (FY 2015 to FY 2019) are now estimated to

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*The City's Fiscal Year ends June 30.

total $2.4 billion, with $4.3 billion of total capital spending over the 10-year period through FY 2024. The overall 10-year capital spending estimate is referred to in this Report as the Capital Plan.

The Capital Plan reflects completion costs of certain ongoing projects in FY 2015 and after, and estimated total costs for projects yet to be initiated. Before implementing a capital project, Airport Commission management is required to obtain approvals from the Airport Commission, the City Board of Supervisors, and the Mayor of San Francisco, and conduct a consultation with the airlines signatory to the Lease and Use Agreements when required by the terms of those agreements.

Although the scope and timing of implementation of certain projects, especially for the period beyond FY 2020, are subject to further refinements, Airport Commission management intends to obtain all necessary approvals and implement the Capital Plan using a modular and phased approach, so that future project phases could be deferred if unanticipated events occur (such as significant declines in aviation activity at the Airport). Therefore, future phases of certain projects, particularly those phases expected to be initiated in the second five-year period (FY 2020 to FY 2024), should be considered conceptual in nature at this time.

The Capital Plan is described in detail in Section 4, and includes the following projects, among others:

- Completion of ongoing projects such as the Air Traffic Control Tower, Baggage Handling System Modernization, Runway Safety Area (RSA) Improvement Program, and Terminal 3 East Checkpoint Reconfiguration

- Terminal 1 redevelopment

- Terminal 3 improvements

- Construction of an extension to the AirTrain

- Development of a new long-term public parking garage

- Construction of an on-Airport hotel

The City (acting through the Airport Commission) intends to issue the 2014 Bonds:

- To finance a portion of the projects in the Capital Plan,

- To refund outstanding commercial paper, the proceeds of which were used for projects in the Capital Plan, and

- To pay issuance and financing costs (including the funding of reserves) and capitalized interest, associated with the 2014 Bonds

The Airport Commission expects to issue future Bonds after the proposed 2014 Bonds to fund approximately $1.8 billion of capital costs from FY 2015 to FY 2019. In addition, for the purposes of this Report, it was assumed that the Airport Commission would issue another series of Bonds during calendar year 2019 (i.e., at the start of FY 2020) to provide full funding of the first phase of the Terminal 1 Redevelopment project, which is the largest project in the Capital Plan. Those bonds anticipated to be issued through FY 2020 (beyond the issuance of the 2014 Bonds) are collectively referred to as the Future Bonds.

Our study was undertaken to evaluate the ability of the Airport Commission to generate sufficient Net Revenues to meet the requirements of the Bond Resolution (further discussed below), taking into account Annual Debt Service on the current Outstanding Bonds, the proposed 2014 Bonds, and the Future Bonds. Since a portion of interest payments on the Future Bonds will be capitalized through FY 2020, the forecast period extends to FY 2021.

If the current project implementation schedule for the Capital Plan is adhered to, the Commission would need to issue additional Bonds during FY 2021 to FY 2024 to fund up to $1.7 billion of costs related to completion of the Capital Plan. These additional Bond issues are not reflected in the financial forecasts included in this Report. Interest on these additional Bonds would be capitalized until dates beyond the end of the forecast period (i.e., until after FY 2021).

THE BOND RESOLUTION

The 2014 Bonds are being issued under the terms and conditions of Resolution No. 91-0210 adopted by the Airport Commission on December 3, 1991, as amended and supplemented (collectively, the Bond Resolution), authorizing the issuance of San Francisco International Airport Second Series Revenue Bonds (the Bonds). Capitalized terms not otherwise defined herein shall have the meaning given in the Bond Resolution. The Bonds are secured by an irrevocable pledge of the Net Revenues of the Airport Commission. The Airport Commission has covenanted in the Bond Resolution not to issue any debt with a pledge of or lien on Net Revenues senior to that of the Bonds.

As defined in the Bond Resolution, Net Revenues are Revenues less Operation and Maintenance Expenses. Revenues include substantially all rentals, fees, and charges associated with possession, management, supervision, operation, and control of the Airport, but do not include, among other revenues, revenues derived from passenger facility charges (PFCs) unless designated as such by the Airport Commission. Since 2002, when the Airport Commission was first authorized to apply PFC revenues to the payment of debt service, the Airport Commission has designated a portion of its PFC revenues as Revenues each year for the purpose of paying part of its Annual Debt Service. The Airport Commission expects to continue to designate certain PFC revenues as Revenues on an annual basis during the forecast period considered in this Report.

Operation and Maintenance Expenses are defined to include substantially all expenses paid from Revenues, incurred for the operation and maintenance of the Airport, as determined in accordance with generally accepted accounting principles (GAAP). Operation and Maintenance Expenses do not include, among other costs, depreciation, amortization, or expenses that are paid from sources other than the Revenues of the Airport Commission.

Rate Covenant

The Airport Commission has covenanted in Section 6.04(a) of the Bond Resolution (the Rate Covenant) that, so long as any of the Bonds are outstanding, it shall establish and at all times maintain rates, rentals, charges, and fees for the use of the Airport and for services rendered by the Airport Commission so that:

1. Net Revenues in each Fiscal Year will be at least sufficient (a) to make all required payments and deposits in such Fiscal Year into the Revenue Bond Account ….and (b) to make the Annual Service Payment to the City; and

2. Net Revenues, together with any Transfer, in each Fiscal Year will be at least equal to 125% of aggregate Annual Debt Service with respect to the [Bonds] for such Fiscal Year.

A Transfer is defined as (a) the amount deposited on the last Business Day of any Fiscal Year from the Contingency Account into the Revenues Account, plus (b) any amounts withdrawn from the Contingency Account during such Fiscal Year for certain specified purposes, less (c) any amounts deposited in the Contingency Account from Revenues during such Fiscal Year. The balance in the Contingency Account was $93.2 million as of June 30, 2014, and for purposes of this Report it was assumed that it would increase gradually during the forecast period through a combination of interest earnings being retained in the account and additional Bond proceeds used to fund deposits to the Account. The Contingency Account balance is used as the amount of the Transfer for the purpose of forecasting compliance with the Rate Covenant in this Report.

Additional Bonds

To issue additional Bonds that are not refunding Bonds, the Airport Commission must meet the requirements of Section 2.11 of the Bond Resolution, which states that the Trustee must be provided with a certificate of either an Airport Consultant or an Independent Auditor, with specific requirements for each. The certificate of the Airport Consultant must state, among other things, that the Airport Commission is expected to be able to produce Net Revenues, together with any Transfer, at least sufficient to meet the requirements of the Rate Covenant in each Fiscal Year during the required forecast period. For purposes of the certificate, the Transfer amount used for any given Fiscal Year of the forecast period may not exceed 25% of Maximum Annual Debt Service as calculated for such Fiscal Year. The Airport Commission intends to meet this requirement of the Bond Resolution prior to issuing the 2014 Bonds.

In addition to the 2014 Bonds, the Airport Commission expects to issue five series of Future Bonds during the forecast period (between calendar years 2015 and 2019, with the 2019 Bonds being issued at the start of FY 2020) with a total principal amount of approximately $2.7 billion to fund elements of its Capital Plan, as described more fully later in the Report. The financial analysis section of the Report includes the forecast effects of those additional Bonds on Revenues, Operation and Maintenance Expenses, debt service, and Net Revenues of the Airport Commission. Additionally, the Airport Commission may undertake Bond refundings during the forecast period, to take advantage of favorable conditions in the municipal bond markets; however the Report does not take into account the effects that any such refunding Bonds may have on the forecasts.

The amount and timing of these Future Bond issues reflects the Airport Commission's currently anticipated Capital Plan and timetable for project implementation. Such Future Bond issue amounts and timing are subject to change as aviation activity levels, facility needs, and the Airport operating environment evolve over time.

THE AIRLINE LEASE AND USE AGREEMENTS

The City (acting through the Airport Commission) has entered into 10-year agreements with certain airlines serving the Airport that account for substantially all of the airline traffic at the Airport. Under these agreements, which are scheduled to expire on June 30, 2021, the airlines have agreed to pay terminal rentals and landing fees calculated under a residual airline rate-making methodology. Under a residual rate-making methodology, the airlines agree to pay the amounts necessary to enable the Airport Commission to fully recover its Airport-related costs as defined in the agreements.

PASSENGER FACILITY CHARGE PROGRAM

The Airport Commission is currently authorized to impose a $4.50 PFC at the Airport pursuant to approvals from the Federal Aviation Administration (FAA).

In FY 2013, the Airport Commission collected $87.9 million of PFC revenues on a cash basis, including restricted interest income. The Airport Commission's current PFC authorization totals $1.4 billion, and extends until the date on which the total authorized amount has been collected, but not later than June 2023, as approved by the FAA in its Final Agency Decision associated with the Airport Commission's most recently approved PFC application. The Airport Commission intends to submit further PFC applications and application amendment requests to the FAA for increased PFC collection and use authority in the future. As of June 30 a total of $884.9 million in PFC revenues (including restricted interest income) had been collected, including $141.8 million of PFC revenues collected but not yet expended.

SCOPE OF STUDY

As noted earlier, our study was undertaken to evaluate the ability of the Airport enterprise to generate sufficient Net Revenues to meet the requirements of the Rate Covenant, taking into account Annual Debt Service on the Outstanding Bonds, the proposed 2014 Bonds, and the Future Bonds.

In conducting the study, we reviewed and analyzed:

- Historical airline traffic demand at the Airport, giving consideration to the demographic and economic characteristics of the San Francisco Bay Area, historical trends in airline traffic, and other key factors that may affect future airline traffic, as the basis for preparing the aviation activity forecasts

- Debt service requirements on the current Outstanding Bonds, and estimated debt service requirements on the proposed 2014 Bonds and the Future Bonds that are expected to be issued during the forecast period

- Historical relationships among Revenues, Operation and Maintenance Expenses, PFC revenues, and airline traffic at the Airport and other factors that may affect future Revenues and expenses

- Audited financial statements of the Airport Commission for FY 2012 and FY 2013

- The Airport Commission's FY 2015 annual budget and FY 2014 Revenues and Operation and Maintenance Expenses for the Airport estimated based on 11 months of actual results, as well as other operational considerations

- The Airport Commission's approved Capital Plan for the Airport, and its most recent estimates of capital project costs and implementation schedules

- The Airport Commission's policies and contractual arrangements relating to the use and occupancy of Airport facilities, including the calculation of airline rentals, fees, and charges; the operation of concession privileges; and the leasing of buildings and grounds

- The Airport Commission's approved PFC program, PFC-eligible enplaned passengers, and historical PFC revenues (including restricted interest income)

We also identified key factors upon which the future financial results of the Airport may depend and, with Airport Commission management, formulated assumptions about those factors. On the basis of those assumptions, we assembled the financial forecasts presented in the exhibits provided at the end of this Report:

Exhibit	
A-1	Airport Capital Plan Costs
A-2	Airport Capital Plan Sources of Funding
B	PFC Revenue Forecast and Application of PFC Revenues
C	Sources and Uses of Bond Funds
D	Annual Debt Service Requirements
E	Operation and Maintenance Expenses
F	Revenues
F-1	Landing Fees
F-2	Terminal Area Rentals
F-3	Airline Payments per Enplaned Passenger
G	Application of Revenues
H	Rate Covenant Compliance Forecast
I	Summary of Financial Forecasts
J	Summary of Financial Projections – Sensitivity Scenario

SUMMARY OF FORECAST RESULTS

As indicated in Exhibits G and H and further discussed in the Report, it is forecast that the Airport Commission would meet the requirements of the Rate Covenant in each Fiscal Year of the forecast period.

The table below summarizes historical and forecast Net Revenues, Transfers, debt service on Bonds issued under the terms of the Bond Resolution (including the proposed 2014 Bonds and the anticipated Future Bonds), debt service coverage, and airline payments per enplaned passenger.

	Historical		Estimated	Forecast						
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Enplaned passengers	21,420	22,273	22,996	23,455	23,901	24,339	24,764	25,181	25,584	25,974
Percentage change		4.0%	3.2%	2.0%	1.9%	1.8%	1.7%	1.7%	1.6%	1.5%
Net Revenues	$383,513	$393,294	$403,213	$433,621	$462,769	$489,054	$504,647	$536,043	$590,290	$683,046
Transfer	93,427	92,559	92,637	93,248	93,855	105,746	117,751	129,869	142,103	154,453
Total Amount Available	$476,940	$485,854	$495,850	$526,869	$556,624	$594,800	$622,397	$665,912	$732,393	$837,499
Debt Service on Bonds – Cash Basis *(a)*	325,456	337,355	356,338	384,799	411,680	436,675	450,474	474,675	510,189	623,158
Debt Service Coverage	147%	144%	139%	137%	135%	136%	138%	140%	144%	134%
Passenger Airline Payments	$303,681	$331,454	$362,852	$381,183	$401,049	$434,069	$477,463	$505,961	$561,597	$619,647
Cost per Enplaned Passenger	$14.18	$14.88	$15.78	$16.25	$16.78	$17.83	$19.28	$20.09	$21.95	$23.86

Note: The Fiscal Year of the City ends June 30. Amounts in thousands, except percentages and ratios. Totals may not add due to rounding.

(a) Debt service is expressed on a "cash basis" (reflecting the timing of the actual cash payments to the bondholders).

Source: LeighFisher.

ASSUMPTIONS UNDERLYING THE FINANCIAL FORECASTS

The financial forecasts are based on information and assumptions that were provided by, or reviewed with and agreed to by, Airport management. Accordingly, the forecasts reflect the Airport Commission's expected course of action during the forecast period and, in Airport management's judgment, present fairly the expected financial results of the Airport enterprise.

The key factors and assumptions that are significant to the forecasts are set forth in the attachment, "Background, Assumptions, and Rationale for the Financial Forecasts." The attachment should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

In our opinion, the underlying assumptions provide a reasonable basis for the forecasts. However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material. Neither LeighFisher nor any person acting on our behalf makes any warranty, expressed or implied, with respect to the information, assumptions, forecasts, opinions, or conclusions disclosed in the Report. We have no responsibility to update this Report for events and circumstances occurring after the date of the Report.

* * * * *

We appreciate the opportunity to serve as the Airport Consultant for the Airport Commission of the City and County of San Francisco on this proposed financing.

Respectfully submitted,

LeighFisher

LEIGHFISHER

**BACKGROUND, ASSUMPTIONS, AND RATIONALE
FOR THE FINANCIAL FORECASTS**

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SECOND SERIES REVENUE BONDS
Series 2014A/B

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CONTENTS *(continued)*

TABLES

FIGURES

EXHIBITS

1. INTRODUCTION

This section provides an overview of the Airport Commission and San Francisco International Airport (the Airport, or SFO), including airfield facilities, terminal facilities, parking, Airport access, the AirTrain system, the consolidated rental car facility, and other facilities.

THE AIRPORT COMMISSION

The City and County of San Francisco (the City), through its Airport Commission (the Airport Commission, or the Commission), owns and operates the Airport as a financially self-sufficient enterprise.

The Airport Commission was created in 1970 pursuant to an amendment to the City Charter. Under the City Charter, the Airport Commission has control over the "construction, management, supervision, maintenance, extension, operation, use and control of all property, as well as the real, personal and financial assets which are under the Commission's jurisdiction." The City Charter further provides that "subject to the approval, amendment or rejection of the Board of Supervisors [of the City and County of San Francisco] of each issue, the Commission shall have exclusive authority to plan and issue revenue bonds for airport-related purposes." Bonds issued by the Commission are not general indebtedness of the City, but are limited, special indebtedness of the Commission payable solely from revenues received by the Commission from the operation of the Airport. The Commission has no taxing power.

The Airport Commission is governed by five members who are appointed for 4-year terms by the Mayor of San Francisco. The City Charter provides that the Board of Supervisors may reject any appointment to the Commission by a two-thirds vote. Under the City Charter, the Airport Director is appointed by the Mayor from a list of candidates submitted by the Commission. The Airport Director is empowered to appoint or remove senior management staff. The City Attorney serves as the legal advisor to the Commission.

THE AIRPORT

The Airport is located 14 miles south of downtown San Francisco, in San Mateo County, adjacent to the San Francisco Bay. The Airport occupies approximately 2,383 acres on a 5,171-acre site; the remaining 2,788 acres are undeveloped tidelands. Figure 1 shows the layout of the Airport from an aerial view, and Table 1 provides a summary of key Airport facilities.

Figure 1
AERIAL VIEW
San Francisco International Airport

Table 1
AIRPORT FACILITIES PROFILE
San Francisco International Airport

Runways	ILS category	Length (feet)
10L-28R	III	11,870
10R-28L	I *(a)*	11,381
1R-19L	I	8,650
1L-19R	No ILS approach	7,650
Gate Positions		Gates *(b)*
Terminal 1		
Boarding Area B		9
Boarding Area C		10
		19
Terminal 2		
Boarding Area D		14
Terminal 3		
Boarding Area E		10
Boarding Area F *(c)*		21
		31
International Terminal		
Boarding Area A		12
Boarding Area G		12
		24
Total gates		88
Widebody capability (all terminals)		43
Automobile Parking		**Spaces**
Public Parking		15,294
Employee Parking		6,289
Total parking spaces		**21,583**

ILS = Instrument landing system

(a) Runway 28L has available standard ILS Category I approaches and SA Category II approaches that require special aircrew and aircraft certification requirements.
(b) Reflects gates that are used on a common use basis or are preferentially allocated.
(c) Terminal 3 East Frontage area (consisting of 3 gates) is not currently in service and is being renovated.

Source: San Francisco Airport Commission, August 2014.

Airfield Facilities

The runway and taxiway system at the Airport occupies approximately 1,700 acres and provides four intersecting runways, three of which are equipped with an instrument landing system (ILS) for arrivals. The east-west runways are 11,870 and 11,381 feet long, respectively. The north-south runways are 8,650 and 7,650 feet long, respectively. Each of the four runways is 200 feet wide. The current runway system can accommodate the arrivals and departures at the maximum loads of all commercial aircraft currently in service, including the new large aircraft such as the Airbus A380. The Airport runways are built on Bay tidelands that were filled during and after World War II and, as a result, the runways continue to settle at various rates, requiring periodic repair and maintenance.

Terminal Facilities

The Airport currently has 88 operational gates, 43 of which can accommodate widebody aircraft. The Airport expects to open and close gates from time to time due to renovations to Terminals 1 and 3 and to keep at least 88 gates operational at any time.

The domestic passenger terminal complex at the Airport consists of approximately 2.6 million square feet of total space divided among three terminals in a five-pier configuration. The domestic terminals are located around two-thirds of the outer perimeter of the roadway that encircles the central parking garage, as follows:

- Terminal 1 comprises Boarding Areas B and C (Gates 20 through 39 and Gates 40 through 48, respectively)

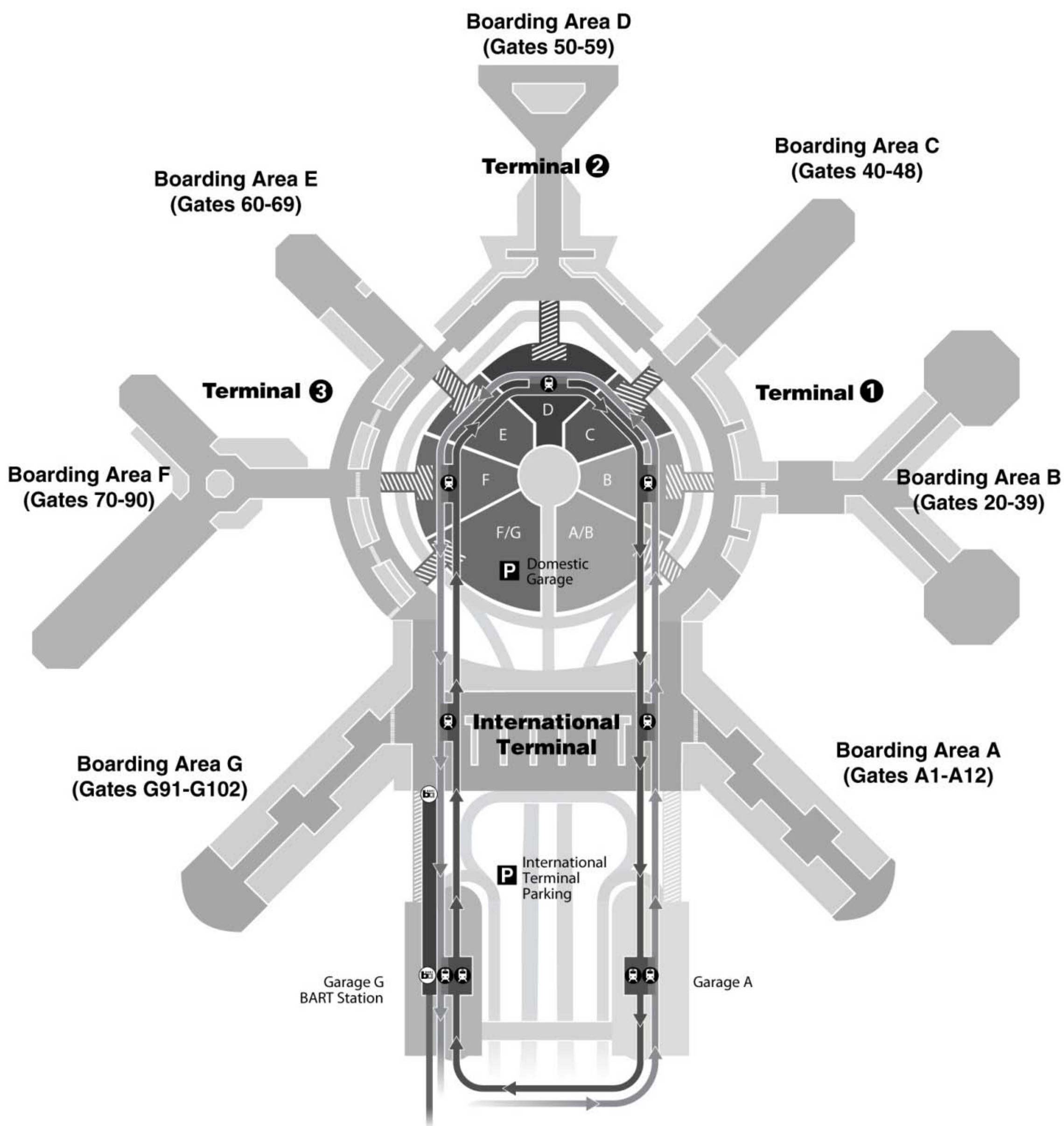
- Terminal 2 comprises Boarding Area D (Gates 50 through 59)

- Terminal 3 comprises Boarding Areas E and F (Gates 60 through 69 and Gates 70 through 90, respectively); Boarding Area E was redeveloped and opened in January 2014

The International Terminal Complex (ITC) straddles the main Airport entrance roadway and consists of 2.5 million square feet configured as a main hall and two piers (Boarding Areas A and G, which include Gates A-1 through A-12, and Gates G-91 through G-102, respectively). In addition to serving as the point of departure and arrival for flights requiring Federal Inspection Services (FIS) clearance, the ITC is also used for certain domestic flights.

The terminal configuration at the Airport is shown on Figure 2.

Figure 2
TERMINAL CONFIGURATION
San Francisco International Airport



Source: San Francisco Airport Commission, August 2014.

Parking

The Airport Commission owns the short- and long-term public parking facilities at the Airport. Table 2 provides details of these parking facilities. The Domestic Parking Garage, which is adjacent to the domestic terminal complex, provides approximately 5,843 short-term public parking spaces. Two parking garages, located adjacent to the ITC, provide a further 2,129 short-term parking spaces. A long-term parking garage and adjacent surface lot located approximately 1.5 miles from the terminal complex provides an additional 7,322 spaces. A total of 6,289 employee parking spaces are also provided.

Table 2
PARKING FACILITIES
San Francisco International Airport

Automobile Parking	Spaces
Public parking	
Domestic Parking Garage	5,843
Garage A	968
Garage G	1,161
Lot DD – Long-Term Garage and surface lot	7,322
Total	15,294
Employee parking	
Domestic Parking Garage	785
Garage A	617
Garage G	244
Lot B	811
Lot C	418
Lot D	800
Cargo	737
SFO Business Center	155
West Field Garage	1,722
Total	6,289
Total parking spaces	21,583

Source: San Francisco Airport Commission, August 2014.

Additionally, several independent companies offer parking facilities off Airport property and provide Airport access to their patrons via shuttle buses. The capacity of these off-Airport parking facilities is estimated to be more than 8,000 spaces.

Airport Access

Access to the Airport is provided by a roadway system and by the San Francisco Bay Area Rapid Transit (BART) District rail system.

The Airport is located on the east side of the Bayshore Freeway (U.S. Highway 101) between Millbrae Avenue to the south and Interstate 380 (I-380) to the north. The Bayshore Freeway is a major north-south artery that serves the San Francisco Peninsula, providing direct access to the Airport via four exits—Millbrae Avenue, Terminal Access Road, San Bruno Avenue, and North Access Road.

I-380, north of the Airport, connects with the North Access Road and the Terminal Access Road. I-380 is an east-west freeway that serves as a connector between the Bayshore Freeway and Interstate 280 (I-280), the other major north-south freeway serving the Peninsula.

BART is a 104-mile automated rapid transit system serving Alameda, Contra Costa, and San Francisco counties, as well as northern San Mateo County. A total of 44 BART stations are located along five lines. BART operation was extended directly to the Airport in June 2003.

AirTrain System

The AirTrain system provides transportation for travelers and others around and among key Airport facilities. The nine-station AirTrain system operates 24 hours per day on two lines (Red and Blue). Both lines connect to all Airport terminals, garages, and the Airport BART station, while the Blue line also connects to the consolidated rental car facility and certain support facilities. Several AirTrain stations are located adjacent to the domestic terminal complex atop the Domestic Parking Garage. These stations are accessed from their terminals via pedestrian "skybridges" over the loop road. AirTrain stations are also located in the ITC and in the adjacent parking facilities. One AirTrain station connects directly with the Airport BART station.

Consolidated Rental Car Facility

A consolidated rental car facility opened at the Airport in December 1998. The facility is a five-level structure containing approximately 1.5 million square feet, approximately 5,000 parking spaces, a quick turnaround area, rental car operator staging area, rental car fueling and cleaning facilities, ticket counter space, and administrative offices.

Aircraft Maintenance and Cargo Facilities

Several airlines operate maintenance and cargo facilities at the Airport. United Airlines' United Maintenance Operations Center at the Airport encompasses 3 million square feet and is one of the country's largest private aircraft maintenance facilities. Additionally, American Airlines operates a major maintenance facility at the Airport, and several other airlines operate line maintenance facilities. There are 10 cargo facilities at the Airport, providing more than 1 million square feet of warehouse and office space. Services offered by cargo tenants include refrigeration/cooler facilities, dangerous goods handling, valuable goods handling, and bonded storage.

2. AIRLINE TRAFFIC AND ECONOMIC ANALYSIS

This section presents discussions of (1) the region served by the Airport; (2) the demographic profile of the San Francisco Bay Area; (3) the economic profile of the Bay Area (as defined below); (4) the economic outlook of the nation and region; (5) the rankings and roles of the Airport in the national, state, and local air transportation systems as well as in terms of enplaned passengers; (6) the diverse group of airlines that service the Airport; (7) competition for regional and international airline service at alternate airports; (8) data on historical airline traffic at the Airport; (9) the key factors that will affect future airline traffic at the Airport; and (10) the enplaned passenger forecasts for the Airport.

AIRPORT SERVICE REGION

For the purpose of this Report, the Airport's airport service region is defined as the San Jose-San Francisco-Oakland Combined Statistical Area (the San Francisco CSA or the Bay Area). As shown on Figure 3, the 12-county San Francisco CSA encompasses seven Metropolitan Statistical Areas (MSAs): the Napa MSA (Napa County); the San Francisco-Oakland-Hayward MSA (San Francisco, Marin, San Mateo, Alameda, and Contra Costa counties); the San Jose-Sunnyvale-Santa Clara MSA (Santa Clara and San Benito counties); the Santa Cruz-Watsonville MSA (Santa Cruz County); the Santa Rosa MSA (Sonoma County); the Stockton-Lodi MSA (San Joaquin County); and the Vallejo-Fairfield MSA (Solano County).

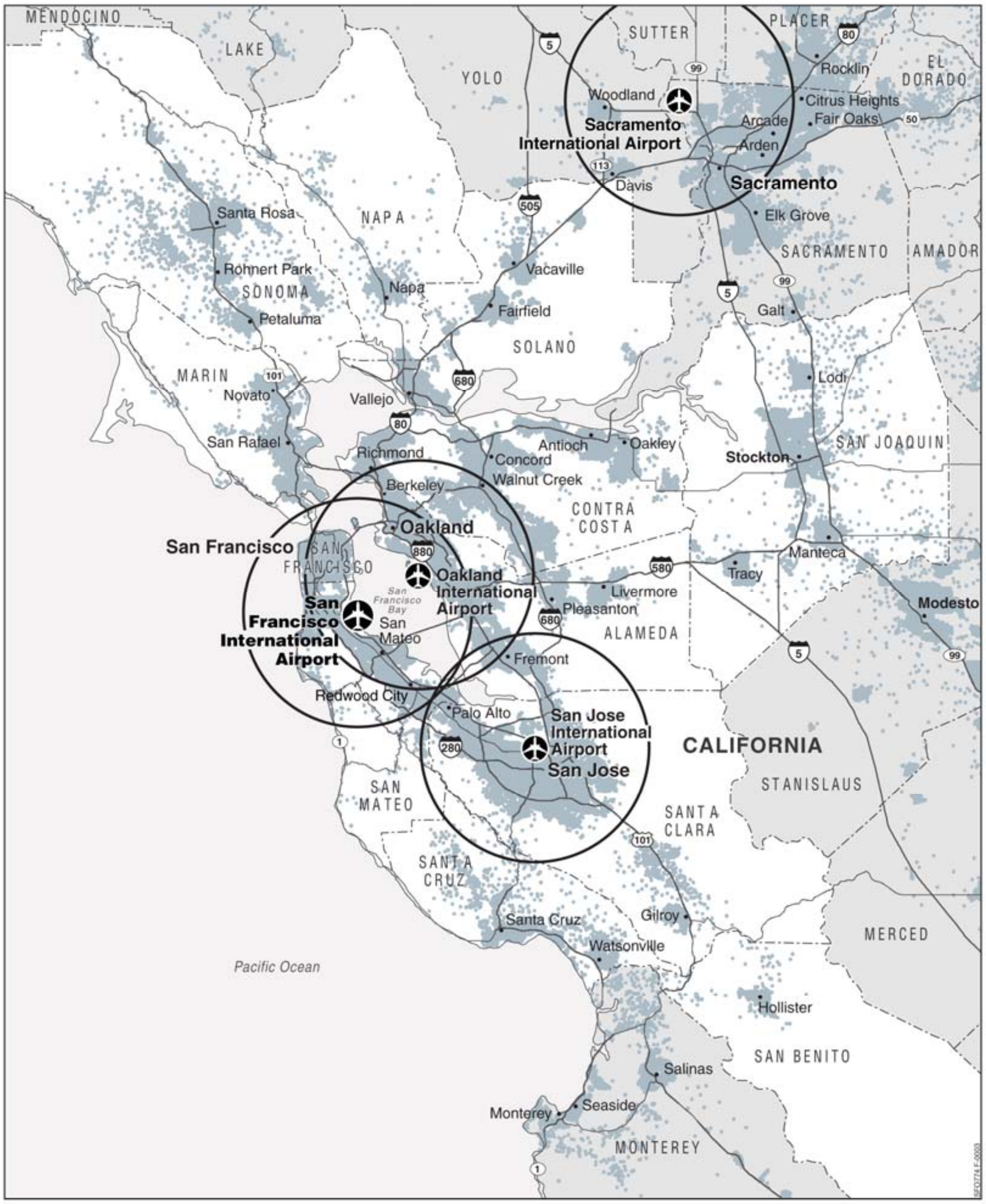
The Bay Area is served by three passenger-service airports – San Francisco (SFO), Oakland (OAK), and Mineta San Jose (SJC) international airports. Oakland and Mineta San Jose international airports provide primarily short- and medium-haul domestic service, while SFO dominates long-haul service and is the Bay Area’s international gateway. Historically, each airport has drawn passengers primarily from its closest surrounding geographical area for short- and medium-haul service, while SFO has captured most of the demand for longer domestic trips and international service from the entire Bay Area. Airlines at SFO continue to provide more than 86% of the Bay Area’s long-haul domestic flights and nearly all of the international flights.

Oakland and Mineta San Jose international airports have also benefited from population growth occurring at the suburban edge locations, closer to those airports. Over time, the weighted center of population of the Bay Area has shifted south and east. Figure 3 illustrates the current geographic distribution of population in the Bay Area.

DEMOGRAPHIC PROFILE

The Bay Area acts as a magnet attracting both new residents and tourists. The region’s expanding population base, advanced educational levels, and relatively high per capita income contribute to strong demand for air travel.

Figure 3
AIRPORT SERVICE REGION
San Francisco International Airport



LEGEND

Airport service region (San Francisco Combined Statistical Area CSA)

Population density: 1 dot represents 100 people

30 mile diameter (15 mile radius from airport center)

County boundary

Passenger air carrier service

N

8 0 8 16
Graphic Scale in Miles

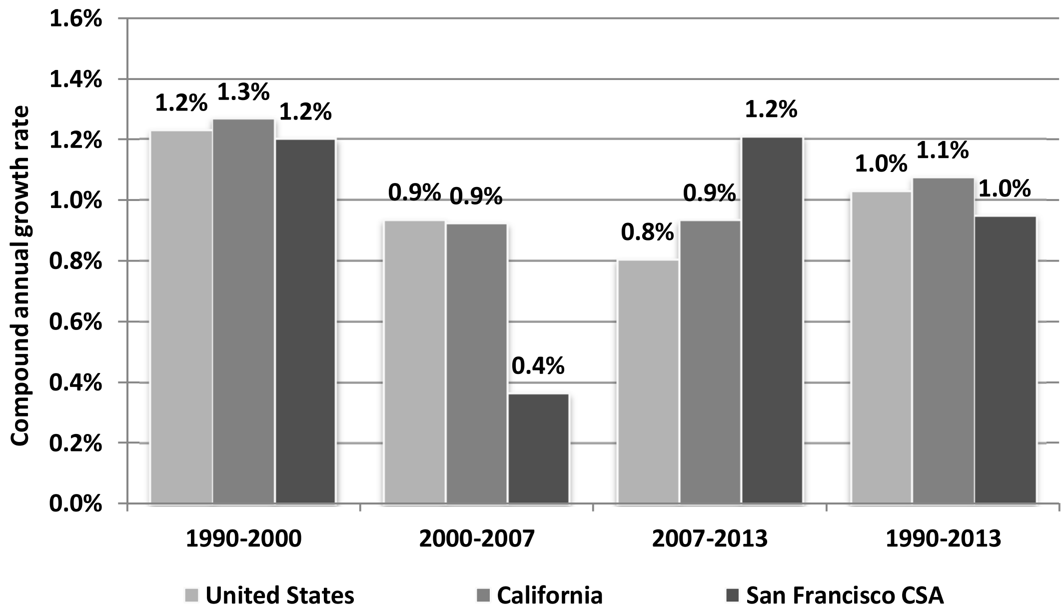
Source: U.S. Census data, 2010.

Population Trends

Population growth is a key factor influencing the demand for airline travel. California is the most populous state in the nation, and it ranked second (after Texas) in terms of absolute population growth between 2000 and 2010, according to the U.S. Department of Commerce, Bureau of the Census. In 2013, the San Francisco CSA had a population of nearly 8.5 million and was the second most populous CSA in California, after the Los Angeles-Long Beach CSA.

Figure 4 shows that, in terms of population growth, the San Francisco CSA, California, and the nation grew at virtually the same rate between 1990 and 2000. Between 2000 and 2007, however, population growth continued in the nation and in California but plateaued in the San Francisco CSA, following the collapse of the Silicon Valley "dot-com bubble" in 2000. Between 2007 and 2013, population in the San Francisco CSA grew at a faster rate than for California or the nation.

Figure 4
POPULATION TRENDS



Source: U.S. Department of Commerce, Bureau of the Census website, accessed July 2014, www.census.gov.

Education

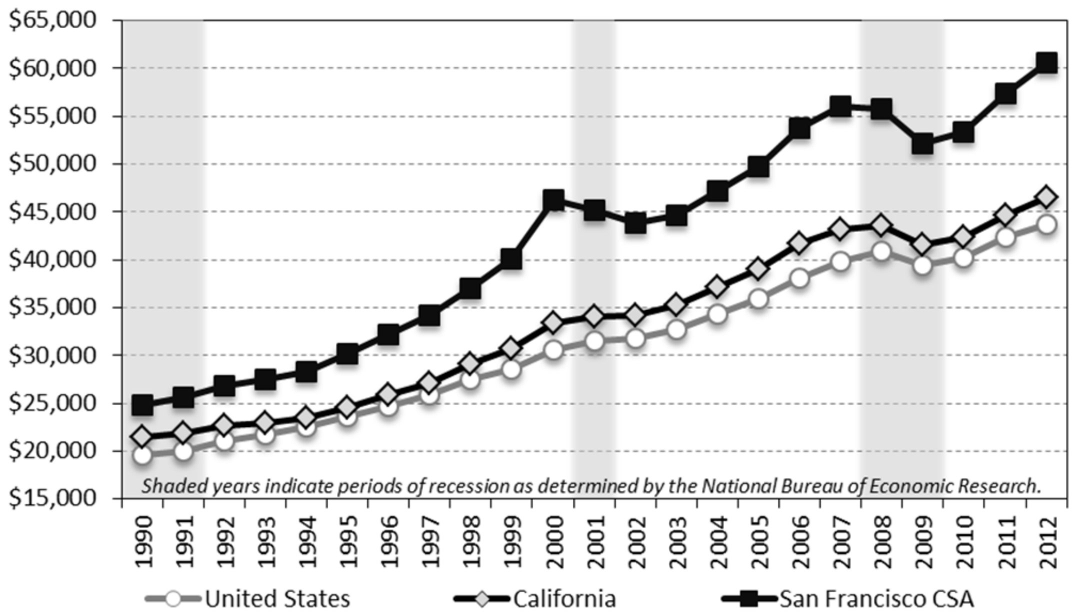
Bay Area residents have higher levels of education relative to the state and nation. In 2012 (the most recent data available), more than 51% of San Francisco CSA residents over the age of 25 had earned post-secondary degrees, compared with 39% of California residents as a whole and 37% of U.S. residents overall, according to the U.S. Department of Commerce, Bureau of the Census. The high level of educational attainment in the San Francisco CSA is associated with its high labor force productivity and high per capita income.

The Bay Area is home to numerous public and private institutions of higher education. These institutions include universities, such as Stanford University and the University of California, Berkeley; medical research institutions, such as those at the University of California, San Francisco, and Stanford University School of Medicine; and five of the 23 campuses in the California State University system. The 15 largest universities in the Bay Area together enroll approximately 131,000 students, according to the San Francisco Business Times, *2014 Bay Area Book of Lists*. The presence of these institutions of higher learning contributes to the Bay Area's high levels of educational attainment and generates airline travel demand to attend academic meetings and conferences, as well as visiting professorships, study-abroad programs, and individual student and faculty travel.

Income Trends

Figure 5 shows that per capita personal income in the Bay Area is substantially higher than in California and the nation as a whole. In 2012 (the most recent data available) per capita income, in constant dollars, in the San Francisco CSA was 30% higher than in California and 39% higher than in the nation as a whole. It is worth noting, however, that the San Francisco CSA also has a substantially higher cost of living than the national average—approximately 50% higher according to the Bay Area Council Economic Institute. In 2012, the San Francisco CSA had the highest per capita income of the five most populous combined statistical areas nationwide, followed by New York, Washington, DC, Chicago, and Los Angeles, according to the U.S. Department of Commerce, Bureau of Economic Analysis. High income correlates closely with demand for airline travel.

Figure 5
PER CAPITA INCOME
(1990-2012; in constant dollars)



Compound annual growth rate	1990-2000	2000-2003	2003-2012
United States	4.6%	2.2%	3.3%
California	4.5	1.9	3.1
San Francisco CSA	6.4	(1.2)	3.5

Source: U.S. Department of Commerce, Bureau of Economic Analysis website, accessed July 2014, www.bea.gov.

ECONOMIC PROFILE

The Bay Area economy is one of the most dynamic and innovative in the world. Its high level of economic production yielded approximately $607 billion in gross regional product in 2012, roughly comparable in scale to the national economies of Switzerland, Sweden, or Norway.*

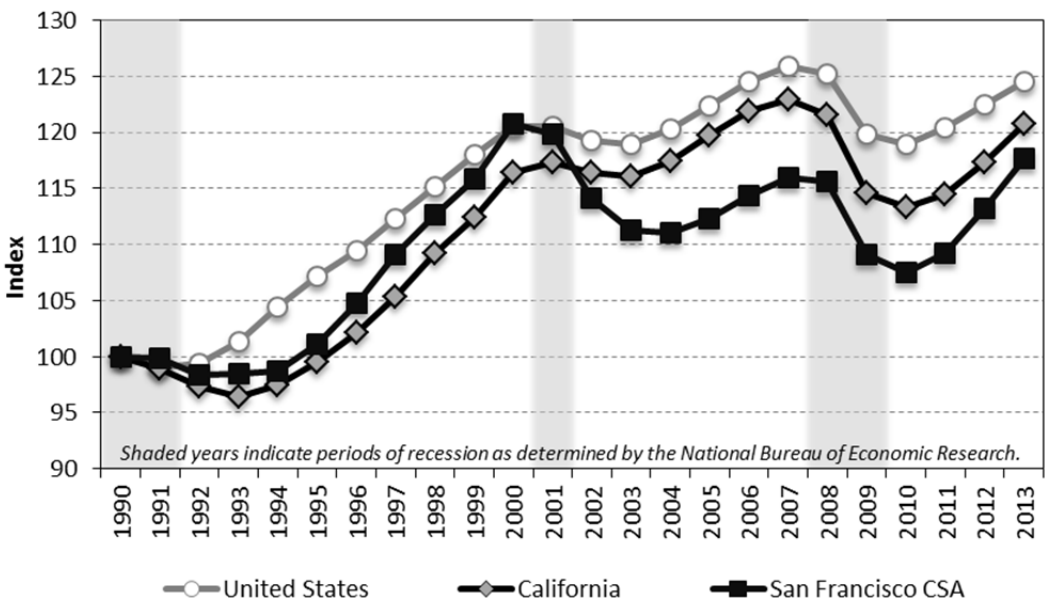
The Bay Area has significant competitive advantages in its highly educated labor force, extensive research and development facilities, and high quality of life. These advantages have contributed to the Bay Area becoming a leading center of knowledge-based industries, such as information technology, software, biotechnology, "clean technology," and digital media. The Bay Area, with its strategic location as a gateway to the Pacific Rim, also benefits from having a major role in international trade. The Bay Area's diverse economy, its role as a leading center of technology development, and its tourism and convention market should continue to support growth in demand for air transportation.

*U.S. Department of Commerce, Bureau of Economic Analysis; International Monetary Fund.

Employment Trends

Figure 6 shows that, in the 1990s, employment growth in the San Francisco CSA matched the nation. Substantial losses in employment accompanied both the 2001 and 2008-2009 national economic downturns. However, in the most recent three years, employment growth in the San Francisco CSA outpaced both the state and the nation. Despite this growth, employment in the San Francisco CSA in 2013 remained 2.5% below its peak 2000 level. Bay Area employment tends to be more volatile than that of California or the nation. Between 2010 and 2013, employment in the San Francisco CSA increased an average of 3.1% per year, the fastest growth of the five most populous combined statistical areas nationwide—New York (1.5%), Washington, DC (1.5%), Chicago (1.5%), and Los Angeles (2.0%), according to the U.S. Department of Labor, Bureau of Labor Statistics.

Figure 6
COMPARATIVE INDEX OF NONAGRICULTURAL EMPLOYMENT
(1990 = 100)

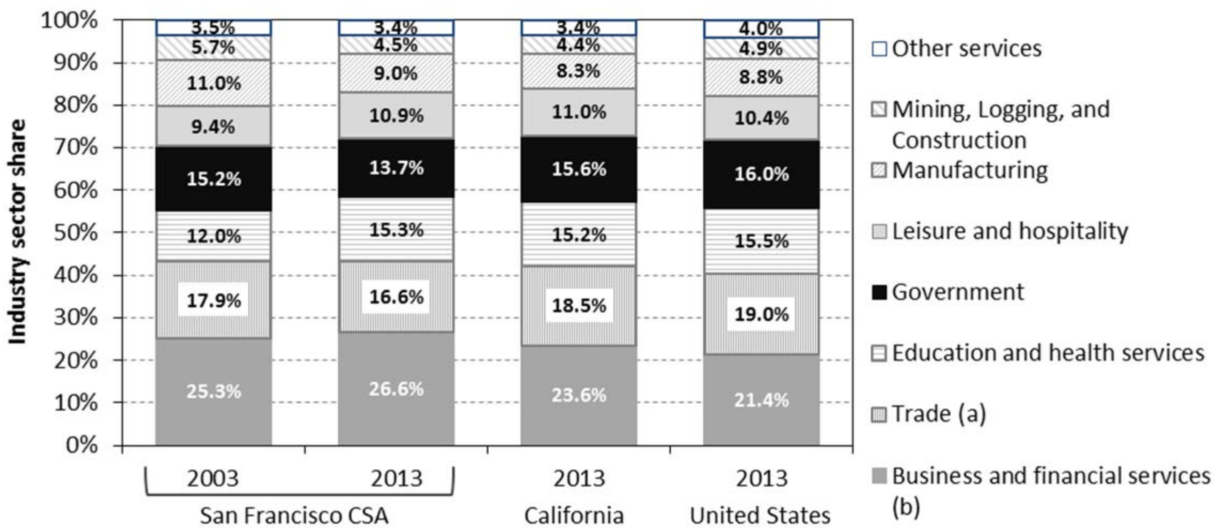


Compound annual growth rate	1990-2000	2000-2010	2010-2013
United States	1.9%	(0.1%)	1.5%
California	1.5	(0.3)	2.2
San Francisco CSA	1.9	(1.2)	3.1

Source: U.S. Department of Labor, Bureau of Labor Statistics website, accessed July 2014, www.bls.gov.

Figure 7 compares employment growth by the major nonagricultural sectors. In 2013, the employment mix by industry sector in the San Francisco CSA differed somewhat from that of California and the nation. The Bay Area had larger shares of employment in the business and financial services and manufacturing sectors relative to both California and the nation. While the manufacturing sector is in decline—in all three geographic areas—the shift in production and assembly to lower-cost overseas labor markets could have positive implications for air-based trade as supply chains and consumer outlets expand globally. Business and financial services constitute the largest employment sector in the Bay Area and account for a larger share of total employment in the San Francisco CSA than in California and the nation. The trade and education and health services sectors constitute the second- and third-largest sectors of employment, respectively, in the Bay Area. However, trade accounts for a smaller share of total employment in the San Francisco CSA than in California and the nation. Among all sectors of the San Francisco CSA economy, education and health services experienced the greatest increase in employment between 2003 and 2013, followed by the leisure and hospitality sector.

Figure 7
COMPARATIVE DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT



Compound annual growth rate	2003-2013		
	CSA	CA	U.S.
Other services	0.4%	0.2%	0.1%
Mining, Logging, and Construction	(1.9)	(2.0)	(0.9)
Manufacturing	(1.4)	(2.1)	(1.9)
Leisure and hospitality	2.1	1.8	1.6
Government	(0.5)	(0.2)	0.1
Education and health services	3.0	3.1	2.3
Trade *(a)*	(0.2)	0.3	0.2
Business and financial services *(b)*	1.1	0.4	0.7
Total	0.6%	0.4%	0.5%

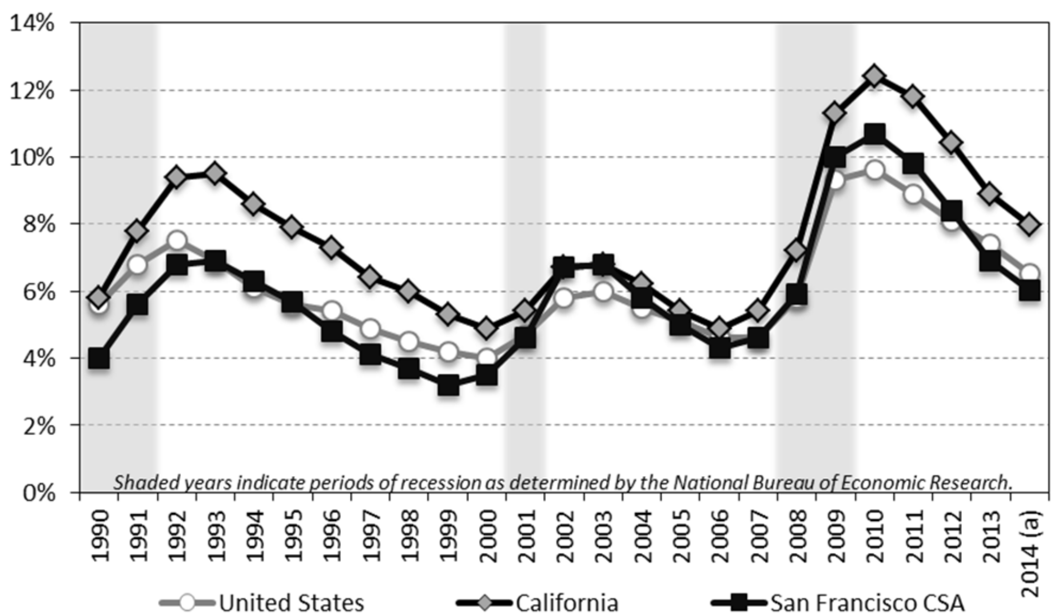
(a) Includes transportation and public utilities.
(b) Includes professional and business services, financial activity, and information services.

Source: U.S. Department of Labor, Bureau of Labor Statistics website, accessed July 2014, www.bls.gov.

Unemployment

Unemployment rates reflect an area's current economic health, which, in turn, affects near-term demand for air travel and air cargo services. Figure 8 shows how the CSA's unemployment rate has tracked the national unemployment rate since 1990, but with somewhat more volatility (i.e., wider swings). During the most recent economic recession, unemployment rates increased substantially. The Bureau of Labor Statistics estimates that unemployment in the San Francisco CSA peaked at 10.7% in 2010 and declined to 6.9% in 2013, below the national rate (7.4%) and that of California as a whole (8.9%). During the first five months of 2014, unemployment in the San Francisco CSA continued to decline (6.0%) and remains below the rates for both the nation and California. In comparison, the San Francisco-San Mateo-Redwood City Metropolitan Division, consisting of San Mateo, and Marin counties, and home to the City and County of San Francisco, had a low unemployment rate of 4.8% in the first five months of 2014.

Figure 8
CIVILIAN UNEMPLOYMENT RATE
(1990-2014)



(a) Partial year, January through May.

Source: U.S. Department of Labor, Bureau of Labor Statistics website, accessed July 2014, www.bls.gov.

Top Employers

Table 3 lists the top 20 private-sector employers in the San Francisco Bay Area (based on the number of Bay Area employees). The table indicates a diversity of economic activity, as well as a strong presence of health care and high-technology employers. Many of the companies listed are involved in national and international operations that rely on airline travel. Of these 20 employers, 11 are listed on the Fortune 500 list of largest U.S. companies, ranked on 2013 revenues (the most recent data available).

While not shown in Table 3, the Bay Area contains a substantial amount of public sector employment, including the City and County of San Francisco (26,900 employees), the University of California San Francisco and Berkeley campuses (22,700 and 21,400 employees, respectively), and the State of California (30,000 employees).

Table 3
MAJOR PRIVATE-SECTOR EMPLOYERS IN THE SAN FRANCISCO BAY AREA
(ranked by number of employees)

Company	Employment	Type of business
Kaiser Permanente	44,303	Health care
Safeway Inc. *(a)*	18,450	Retail grocer
Cisco Systems Inc. *(a)*	16,461	Information technology
Wells Fargo Bank *(a)*	15,111	Financial services
Google Inc. *(a)*	13,750	Information technology
Apple Inc. *(a)*	13,000	Consumer electronics
Stanford University	12,973	Higher education
United Airlines Inc. *(a)*	9,000	Airline
Genentech Inc.	8,800	Biotechnology
California Pacific Medical Center	8,559	Health care
Stanford Hospital & Clinics	8,451	Health care
PG&E Corp. *(a)*	8,330	Utility
Oracle Corp. *(a)*	8,000	Information technology
VMware Inc.	7,098	Information technology
John Muir Health	6,809	Health care
Chevron Corp. *(a)*	6,595	Energy
Lockheed Martin Space Systems Co.	6,400	Aerospace
Gap Inc. *(a)*	6,000	Specialty retailer
Intel Corp. *(a)*	5,800	Information technology
Dignity Health	5,393	Health care

Notes: Includes employers in: Alameda, Contra Costa, Marin, Monterey, San Benito, San Francisco, San Mateo, Santa Clara, and Santa Cruz counties.
Differences from previously published employment data reflect inconsistent reporting by company and the preparation of estimates from available current information. If complete data are not available, a company may be excluded from the list.

(a) Ranked in 2014 Fortune 500 list of largest U.S. companies (based on 2013 revenues).

Source: San Francisco Business Times, *2014 San Francisco Bay Area Book of Lists*; Silicon Valley Business Journal, *2014 Book of Lists*.

Industry Clusters

The economy of the Bay Area is driven, in part, by companies that export goods and services nationally and globally, thereby generating new investment and job creation that will, in turn, help to spur air travel demand. The Bay Area is home to several "industry clusters," which are a coalescence of companies in the same industry operating in the same region. Industry clusters draw competitive advantage from their proximity to customers, suppliers, competitors, and a skilled workforce, and from a shared base of sophisticated knowledge about a given industry.

The San Francisco Center for Economic Development describes six key industry clusters in the Bay Area, each of which is a substantial user of air travel:

- **Information Technology and Software.** The Bay Area is home to more than 6,700 information technology (IT) and computer software companies (e.g., Cisco, Apple, Salesforce, and Oracle), together supporting a workforce of nearly 273,000.

- **Social and Digital Media.** Closely related to IT and software, the field of online social and digital media supports more than 300 companies with substantial employment in the Bay Area (e.g., Google, Facebook, Twitter, and Pixar). San Francisco State University is considered an educational leader in the area of digital media, as well.

- **Life Sciences and Biotechnology.** The Bay Area is a global leader in life sciences and biotech—home to nearly 1,400 companies (e.g., Applied Biosystems, Chiron Corporation, Genentech, and Gilead Sciences) employing a workforce of more than 90,000—supported by industry-leading programs at Stanford University and University of California campuses at Berkeley, Davis, Santa Cruz, and San Francisco, as well as numerous private research centers.

- **Environmental and "Clean" Technology.** The Bay Area is home to more than 200 clean technology companies (e.g., Amyris Biotechnologies, Clean Edge, and Tesla Motors)—one of the nation's largest concentrations of environmental and clean technology investment. Moreover, the region is a leading adopter of clean and sustainable energy practices.

- **Professional Services.** The Bay Area is home to a myriad of companies falling under the umbrella of professional services: financial advisory, management consulting, legal services, and other specialized and high value-added businesses.

- **International Business.** Home to more than 80 consulates and foreign trade offices, large exporting and financial sectors, and numerous foreign banking institutions (e.g., Barclays Bank of the United Kingdom, Hong Kong and Shanghai Bank of China (now HSBC), Sumitomo Bank of California, and Industrial and Commercial Bank of China), the Bay Area has substantial infrastructure supporting international business and trade.

The development of certain of these industry clusters in the San Francisco CSA is related, in part, to the availability of venture capital funds. According to CB Insights 2013 survey, San Francisco based venture capital firms are ranked among the world's most active seed-stage venture-capital firms in 2013, including 500 Startups, Andreessen Horowitz, Crunch Fund, First Round Capital, and SVAngel.*

Bay Area Housing Market

Trends in the housing market in a region generally follow economic cycles and are an indicator of overall economic activity that will, in turn, help to spur air travel demand. During the 2008-2009 economic recession, housing prices in the Bay Area decreased 23% between December 2007 (the first

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*Forbes, "Money for Startups: Top 10 Seed Funders of 2013," January 15, 2014, www.forbes.com. CB Insights is a venture capital database and angel investment database that provides daily real-time information about venture capital and angel investors.

month) and June 2009 (the final month), reflecting the effects of U.S. subprime mortgage crisis and the financial credit crisis. Since then, housing prices in the Bay Area have stabilized, with increases for 25 consecutive months since May 2012, based on the Standard & Poor's/Case-Shiller Home Price Index.* From May 2012 through May 2014, Bay Area home prices increased an average of nearly 20% compared with the previous year, nearly twice the growth rate for the composite indices for the 10 and 20 selected metropolitan areas included in the index.

Tourism

Another highlight of the Bay Area's diverse economy is tourism. San Francisco continues to be a popular destination for tourists and business travelers from throughout the United States and around the world.

Popular U.S. Travel Destination. As shown in Table 4, San Francisco ranks third among all travel destinations in the United States, according to a 2013 readers' poll *in Condé Nast Traveler* magazine. Carmel, located on the coast approximately 120 miles south of San Francisco, ranked sixth, and Napa, in the center of "wine country" approximately 50 miles north of San Francisco, ranked tenth. Monterey, just a few miles from Carmel, is also a popular tourist destination.

Table 4
READER POLL RANKING OF U.S. TRAVEL DESTINATIONS
(2013)

Rank	City
1	Charleston, South Carolina
2	Santa Fe, New Mexico
3	**San Francisco, California**
4	Honolulu, Hawaii
5	Chicago, Illinois
6	**Carmel, California**
7	New Orleans, Louisiana
8	New York City, New York
9	Savannah, Georgia
10	**Napa, California**

Source: *Condé Nast Traveler*: Readers' Choice Awards, 2013.

In 2013, according to the San Francisco Travel Association, San Francisco hosted 16.9 million visitors who spent an estimated $9.4 billion. Popular tourist attractions in the San Francisco area include Fisherman's Wharf, the Golden Gate Bridge, Chinatown, and Union Square. Many visitors also travel to the nearby coastal regions north and south of San Francisco, including Carmel and Monterey, the wine-producing areas in the Napa and Sonoma valleys, and the Sierra Nevada Mountains.

Leading Convention Destination. The most recent air passenger survey conducted at the Airport in May 2013 indicated that 30% of airline travelers visiting San Francisco made the journey for business reasons and an additional 3% traveled to San Francisco for conventions or conferences. The

*Standard & Poor's/Case-Shiller Home Price Index, www.homeprice.spdji.com, accessed July 2014.

importance of San Francisco as a business destination is due, in part, to the high demand for the Bay Area's convention facilities. San Francisco's Moscone Center continues to have a significant role in drawing visitors to the city. Of the estimated 33,000 hotel rooms in San Francisco, more than 20,000 are within walking distance of the Moscone Center. In a typical year, the Moscone Center hosts 90 to 100 events attended by nearly one million people. In February 2013, the San Francisco Board of Supervisors approved funding for a substantial expansion of the Moscone Center, with construction planned to begin in November 2014 and completion targeted for 2018.

Reflecting strong demand from both business and leisure travelers, San Francisco's hotel occupancy rates have historically ranked high among the top 30 hotel markets in the United States. In 2013, San Francisco's 83.0% hotel occupancy rate (up from 80.3% in 2012) was the third highest in the nation, according to HVS Global Hospitality Services. Also according to HVS Global Hospitality Services, between 2012 and 2013 the average revenue per available hotel room in San Francisco increased 12.9%, reflecting high occupancy rates, a stable inventory of hotel rooms, and the strength of San Francisco as a destination for tourism, conventions, and business. The development of new hotels (more than 2,200 new rooms are in the planning stages) and extensive renovations to existing hotels are underway. *

Fifth Busiest U.S. Destination for Overseas Visitors. San Francisco is a top destination for overseas visitors to the United States. Figure 9 shows that approximately 3 million travelers from abroad visited San Francisco in 2013 (the most recent data available). San Francisco ranked fifth in the nation for overseas visitors, ahead of Las Vegas, Honolulu, and Washington, D.C.

California Resident Travel Overseas. In 2013, California ranked first in terms of the number of U.S. residents traveling to Asia and accounted for more than 90% of U.S. residents traveling from the U.S. Pacific states (i.e., California, Washington, Oregon, and Alaska) to Asia, according to the U.S. Department of Commerce, International Trade Administration. (Data are not available for the San Francisco CSA.) The primary trip purpose of U.S. residents traveling to Asia in 2013 was to visit family and friends and for vacation (76% of total), with business accounting for the remainder (24%).**

California's share of the U.S. travel market to Asia reflects the large concentration of the Asian population in California (32% of the U.S. Asian population). Similarly, in 2013, the San Francisco CSA ranked second among all U.S. consolidated statistical areas in terms of the number of Asian residents (the Los Angeles CSA ranked first and the New York CSA ranked third).***

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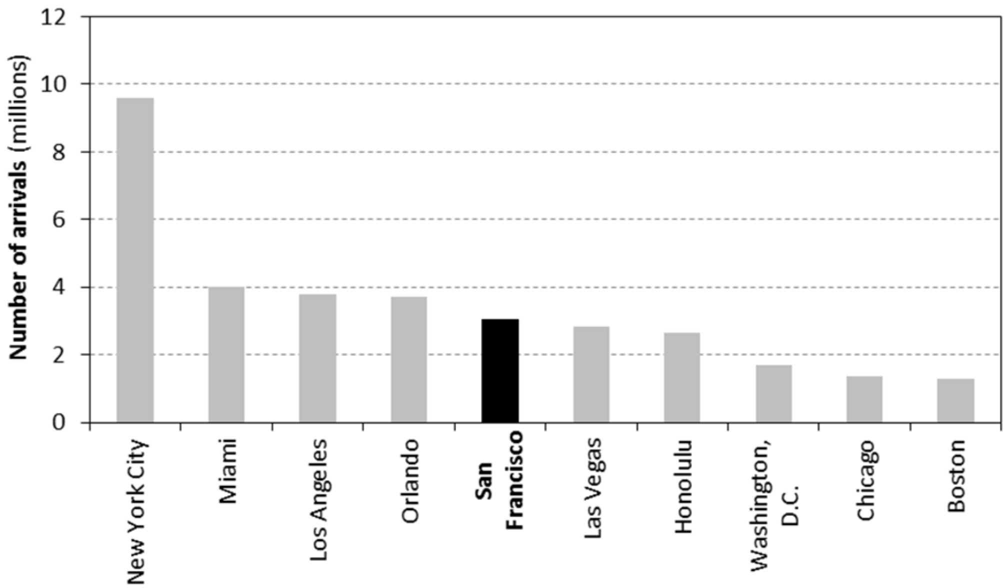
*HVS Global Hospitality Services, *San Francisco Hotel Market – Best of the West*, www.hvs.com, May 2014. HVS Global Hospitality Services is a consulting firm that specializes in providing services to the hospitality industry.

**U.S. Department of Commerce, International Trade Administration, Office of Travel and Tourism Industries, *2013 U.S. Resident Travel to Asia*, www.tinet.ita.doc.gov.

***U.S. Census Bureau, *The Asian Population: 2010*, March 2012 and www.census.gov, accessed August 2014.

Figure 9
TOP U.S. DESTINATION CITIES FOR TRAVELERS FROM OVERSEAS
(2013)



Note: Excludes visitors from Canada and Mexico.

Source: U.S. Department of Commerce, International Trade Administration, Office of Travel and Tourism Industries, accessed July 2014, www.tinet.ita.doc.gov.

ECONOMIC OUTLOOK

The economic outlook for the United States and the San Francisco CSA forms a basis for anticipated growth in airline traffic at the Airport. Economic activity in the San Francisco CSA is directly linked to the production of goods and services in the United States and the world. Both airline travel and the movement of cargo through the Airport depend on the economic linkages between and among the regional, national, and global economies. The economic and other assumptions underlying the forecasts of enplaned passengers are based on a review of global, national, and regional economic outlooks as well as an analysis of historical socioeconomic trends and airline traffic trends.

Global Economic Outlook

Globalization of the world economy has linked national economies, with positive impacts on travel as well as trade. The San Francisco CSA and the State are strongly connected to the global economy through a number of industry sectors and the three world regions that are currently served at SFO. The economic growth of these world regions, in terms of Gross Domestic Product (GDP), is directly related to the growth in air travel. According to IHS Global Insight, world GDP, in 2005 dollars, is forecast to increase an average of 3.3% per year between 2013 and 2021, with the strongest growth forecast for Asia and the Pacific Region (an average increase of 4.7% per year).* Continued growth in the

*Federal Aviation Administration, *FAA Aerospace Forecast, Fiscal Years 2014-2034*, www.faa.gov, March 2014. IHS Global Insight is a global economics company that prepares the underlying economic forecasts used for the FAA's annual national aviation forecasts.

economies of the world regions most closely aligned with the San Francisco CSA economy and airline service at SFO are expected to contribute to continued growth in passenger traffic at the Airport.

National Economic Outlook

The U.S. economy has grown at a slow-to-moderate pace since the 2008-2009 economic recession. The Congressional Budget Office (CBO) forecasts stronger economic growth in 2014 than in 2013, with GDP increasing 3.1% compared with 2.1% in 2013. Thereafter, the CBO projects economic growth of 3.4% percent in 2015 and 2016 and 2.7% in 2017, before settling into a longer-term 2.2% rate of growth through 2021.

Regional Economic Outlook

The Economic Analysis Branch of the California Department of Transportation publishes county-level projections of demographic and economic variables, prepared by the California Economic Forecast. According to the California Economic Forecast, continued economic growth is forecast for the San Francisco CSA between 2013 and 2021, including:

- Population growth of 0.8% per year
- Nonagricultural employment growth of 1.6% per year
- Per capita income growth, in constant dollars, of 2.7% per year

A favorable long-term economic outlook for the Bay Area is supported by its growing population, well-educated work force, high per capita income, diverse local economy, popularity as a domestic and international tourist destination, and its strong competitive position in the six key industry clusters described earlier.

AIRPORT RANKINGS AND ROLES

The Airport plays an important role in the national, state, and local air transportation systems. The Airport is a large-hub airport* in the national air transportation system and is one of three commercial service airports in the Bay Area (along with Oakland and Mineta San Jose international airports); it is the only airport in the Bay Area with substantial levels of international service and connecting traffic. United Airlines operates one of its largest and fastest-growing hubs and a major trans-Pacific gateway at the Airport. In Fiscal Year (FY) 2014,** a total of 23.0 million passengers were enplaned at the Airport, 3.2% more than in FY 2013. Since mid-2007, the initiation of service and the low fares offered at the Airport by several low-cost carriers (LCCs)*** (most notably Southwest Airlines, Virgin America, and JetBlue Airways) have stimulated strong traffic growth.

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*A large-hub airport is defined by the Federal Aviation Administration (FAA) as one that enplanes 1% or more of annual nationwide passenger boardings.

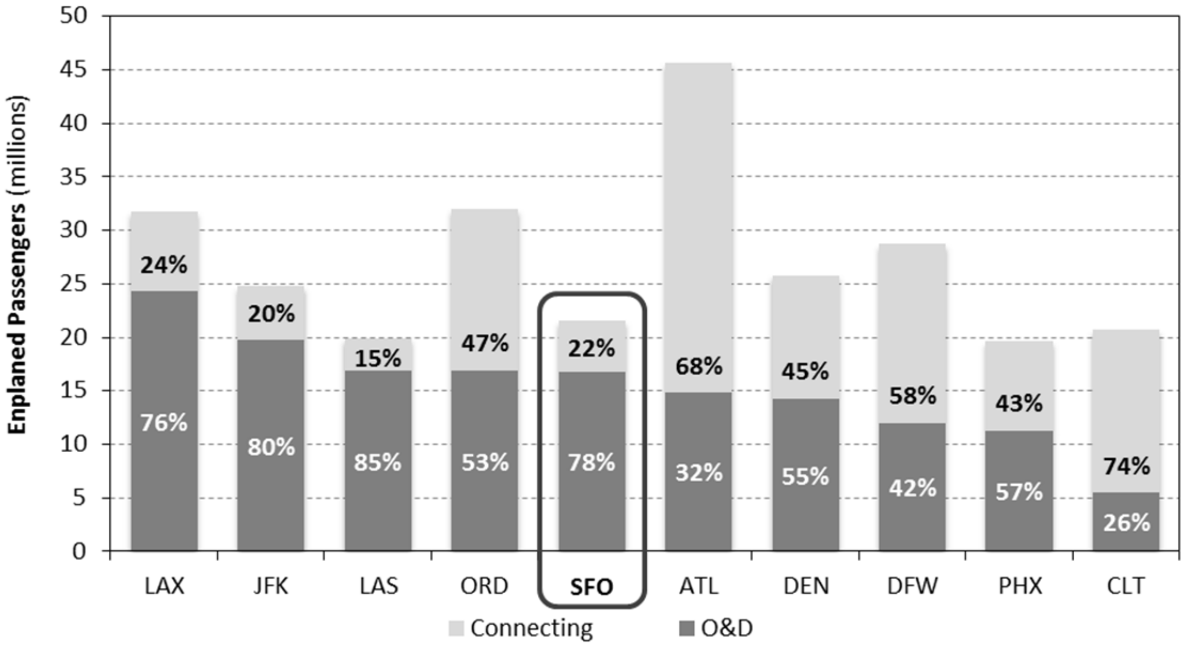
**The Fiscal Year for the City and the Airport Commission ends June 30.

***The U.S. Department of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics defines current industry structure in terms of business model definition. Therefore, a "low-cost carrier" operates under a generally recognized low-cost business model, which may include a single passenger class of service, use of standardized aircraft utilization, in-flight services, use of smaller and less expensive airports, and lower employee wages and benefits.

Ranking Among Top 10 U.S. Airports

The Airport was the seventh largest U.S. airport in terms of total enplaned passengers during the 12 months ended June 30, 2013, according to U.S. Department of Transportation (DOT) statistics.* Figure 10 shows that, among the 10 largest U.S. airports (ranked by number of enplaned passengers), the Airport enplaned the fifth largest number of total (domestic and international) origin and destination (O&D) passengers (passengers originating or terminating their air journeys at the airport) and had the third-highest percentage of O&D passengers.

Figure 10
TOTAL REVENUE ENPLANED PASSENGERS, BY ORIGIN AND DESTINATION AND CONNECTING
Top U.S. Airports in Terms of Enplaned Passengers
(for the 12 months ended June 30, 2013; in descending order by O&D passengers)



Airport legend: LAX=Los Angeles, JFK=New York-Kennedy, LAS=Las Vegas, ORD=Chicago-O'Hare, SFO=San Francisco, ATL=Atlanta, DEN=Denver, DFW=Dallas/Fort Worth, PHX=Phoenix, CLT=Charlotte.

Note: Due to reporting anomalies, O&D passengers shown here also include passengers making a connection from one international flight to another international flight on foreign-flag airlines.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1; U.S. DOT, Schedule T100.

*Passenger numbers reported to the DOT exclude nonrevenue passengers and will differ from those reported by individual airports.

Ranking as California's Second-Largest Airport

The West Coast location of the Airport allows for international gateway connections that minimize route circuity, particularly between the U.S. mainland and Pacific Rim countries. The Airport is the second-largest commercial service airport in California and one of only two (with Los Angeles International Airport) that serve as major international gateways. Table 5 shows that the Airport accounts for 22.7% of the domestic passengers, and 33.1% of the international passengers, enplaned in California. The other two Bay Area airports, Oakland and Mineta San Jose, rank fourth- and seventh-largest, respectively, in California. (Competition for passengers among the three Bay Area airports is discussed later under "Competition for Domestic Traffic.")

Table 5
REVENUE PASSENGERS AT CALIFORNIA COMMERCIAL SERVICE AIRPORTS
(for the 12 months ended June 30, 2013)

		Enplaned passengers					
Rank	Airport	Domestic	Percent of total	International	Percent of total	Total	Percent of total
1	Los Angeles	23,299,807	31.4%	8,386,325	60.3%	31,686,132	35.9%
2	**San Francisco**	**16,851,550**	**22.7**	**4,604,598**	**33.1**	**21,456,148**	**24.3**
3	San Diego	8,493,523	11.4	284,846	2.0	8,778,369	10.0
4	Oakland	4,802,085	6.5	75,178	0.5	4,877,263	5.5
5	Orange County	4,321,836	5.8	185,883	1.3	4,507,719	5.1
6	Sacramento	4,270,436	5.8	46,933	0.3	4,317,369	4.9
7	San Jose	4,062,308	5.5	109,895	0.8	4,172,203	4.7
8	Ontario	2,025,442	2.7	27,649	0.2	2,053,091	2.3
9	Burbank	1,980,424	2.7	173	0.0	1,980,597	2.2
10	Long Beach	1,478,348	2.0	18	0.0	1,478,366	1.7
11	Palm Springs	759,070	1.0	119,925	0.9	878,995	1.0
12	Fresno	606,739	0.8	61,821	0.4	668,560	0.8
	All other	1,308,489	1.8	175	0.0	1,308,664	1.5
	Total—California airports	**74,260,057**	**100.0%**	**13,903,419**	**100.0%**	**88,163,476**	**100.0%**

Note: Columns may not add to totals shown because of rounding.
Passenger numbers reported to the DOT exclude nonrevenue passengers and will differ from those reported by individual airports.

Source: U.S. DOT, Schedule T100.

Ranking by Domestic Enplaned Passengers

Table 6 shows that, in the 12 months ended June 30, 2013, the Airport ranked ninth among U.S. airports in terms of total domestic enplaned passengers. The number of domestic enplaned passengers at the Airport declined between 2001 and 2007, in contrast to the national trend, largely due to the collapse of the dot-com economy in the Bay Area, the departure of Southwest Airlines from the Airport, and the termination of Shuttle by United Airlines. Since 2007, the number of domestic enplaned passengers at the Airport has increased more rapidly than either the national trend or any of the other top 30 airports, reflecting the initiation and expansion of LCC service in 2007 (including the return of Southwest), above average economic growth in the region, and growth by United at SFO. Charlotte was the only other top 30 airport to experience growth in excess of 2%.

Ranking by International Enplaned Passengers

Table 7 shows that, based on total number of passengers boarding international flights during the 12 months ended June 30, 2013, the Airport ranked seventh among U.S. airports. Growth in international passenger traffic at the Airport accelerated from an average of 0.4% per year between 2001 and 2007, to an average of 1.8% per year between 2007 and 2013. This faster growth was stimulated, in large part, by increases in nonstop transatlantic service offered at the Airport, including new service by Emirates to Dubai, SAS to Copenhagen, and Swiss to Zurich. Over this same period, United and Lufthansa increased service to Frankfurt and scheduled departing seats to Paris increased by 122%; United and XL Airways France initiated SFO-Paris service and Air France increased its service by more than 50%.

Table 6
COMPARATIVE TRENDS IN DOMESTIC REVENUE ENPLANED PASSENGERS
Top 30 U.S. Airports
(for the 12 months ended June 30; passengers in thousands)

2013 Rank	City(-Airport)	Domestic enplaned passengers 2001	2007	2013	Compound annual growth rate 2001-2007	2007-2013	2013 as percent of 2001
1	Atlanta	35,892	37,503	40,731	0.7%	1.4%	113.5%
2	Chicago-O'Hare	28,313	31,032	26,739	1.5	(2.5)	94.4
3	Dallas/Fort Worth	25,157	25,747	25,577	0.4	(0.1)	101.7
4	Denver	17,567	22,335	24,817	4.1	1.8	141.3
5	Los Angeles	23,933	21,573	23,300	(1.7)	1.3	97.4
6	Charlotte	11,442	14,633	19,119	4.2	4.6	167.1
7	Phoenix	17,683	19,877	18,476	2.0	(1.2)	104.5
8	Las Vegas	16,160	21,136	18,415	4.6	(2.3)	113.9
9	**San Francisco**	**14,701**	**12,431**	**16,852**	**(2.8)**	**5.2**	**114.6**
10	Orlando	13,580	15,932	15,106	2.7	(0.9)	111.2
11	Minneapolis/St. Paul	15,369	15,855	14,992	0.5	(0.9)	97.5
12	Seattle	12,666	13,710	14,709	1.3	1.2	116.1
13	Houston-Bush	13,911	16,968	14,601	3.4	(2.5)	105.0
14	Detroit	15,050	15,715	14,018	0.7	(1.9)	93.1
15	Philadelphia	11,070	13,706	12,761	3.6	(1.2)	115.3
16	New York-LaGuardia	12,056	11,991	12,439	(0.1)	0.6	103.2
17	Boston	11,289	11,806	12,349	0.8	0.8	109.4
18	New York-Kennedy	7,169	12,210	12,003	9.3	(0.3)	167.4
19	New York-Newark	12,680	12,847	11,520	0.2	(1.8)	90.9
20	Baltimore	9,873	9,957	10,741	0.1	1.3	108.8
21	Fort Lauderdale	7,536	9,227	9,806	3.4	1.0	130.1
22	Washington DC-Reagan	7,671	8,804	9,642	2.3	1.5	125.7
23	Salt Lake City	9,299	10,205	9,424	1.6	(1.3)	101.3
24	Chicago-Midway	7,361	8,887	9,381	3.2	0.9	127.4
25	Miami	8,188	8,259	9,145	0.1	1.7	111.7
26	San Diego	7,775	8,688	8,494	1.9	(0.4)	109.2
27	Tampa	7,948	9,041	8,050	2.2	(1.9)	101.3
28	Washington DC-Dulles	6,634	8,977	7,316	5.2	(3.4)	110.3
29	Honolulu	7,778	8,259	7,116	1.0	(2.5)	91.5
30	Portland	6,435	6,792	7,055	0.9	0.6	109.6
	Total—top 30 airports	**402,185**	**444,105**	**444,693**	**1.7%**	**0.0%**	**110.6%**
	All other	227,761	225,025	200,762	(0.2)	(1.9)	88.1
	Total—all U.S. airports	**629,946**	**669,131**	**645,455**	**1.0%**	**(0.6)%**	**102.5%**

Note: Columns may not add to totals shown because of rounding.
Passenger numbers reported to the DOT exclude nonrevenue passengers and will differ from those reported by individual airports.

Sources: U.S. DOT, Schedules T100 and 298C T1.

Table 7
COMPARATIVE TRENDS IN INTERNATIONAL REVENUE ENPLANED PASSENGERS
Top 20 U.S. Airports
(for the 12 months ended June 30 for years noted; passengers in thousands)

2013 Rank	City(-Airport)	International enplaned passengers 2001	2007	2013	Compound annual growth rate 2001-2007	2007-2013	2013 as percent of 2001
1	New York-Kennedy	8,859	10,162	12,694	2.3%	3.8%	143.3%
2	Miami	7,837	7,429	9,957	(0.9)	5.0	127.0
3	Los Angeles	8,244	8,055	8,386	(0.4)	0.7	101.7
4	New York-Newark	4,329	5,112	5,564	2.8	1.4	128.5
5	Chicago-O'Hare	4,910	5,678	5,175	2.5	(1.5)	105.4
6	Atlanta	3,204	4,292	4,857	5.0	2.1	151.6
7	**San Francisco**	**4,029**	**4,138**	**4,605**	**0.4**	**1.8**	**114.3**
8	Houston-Bush	2,742	3,708	4,285	5.2	2.4	156.3
9	Washington DC-Dulles	1,957	2,670	3,275	5.3	3.5	167.4
10	Dallas/Fort Worth	2,426	2,523	3,057	0.7	3.3	126.0
11	Honolulu	2,440	1,834	2,310	(4.6)	3.9	94.7
12	Boston	2,073	1,874	2,032	(1.7)	1.4	98.0
13	Orlando	1,178	1,042	1,944	(2.0)	10.9	165.0
14	Philadelphia	1,381	1,735	1,895	3.9	1.5	137.2
15	Fort Lauderdale	733	1,199	1,792	8.6	6.9	244.6
16	Seattle	1,110	1,163	1,622	0.8	5.7	146.2
17	Detroit	1,898	1,832	1,590	(0.6)	(2.3)	83.8
18	Charlotte	512	1,004	1,477	11.9	6.6	288.5
19	Las Vegas	528	1,045	1,431	12.1	5.4	271.2
20	Phoenix	537	872	1,108	8.4	4.1	206.4
	Total—top 20 airports	**60,925**	**67,368**	**79,055**	**1.7%**	**2.7%**	**129.8%**
	All other	6,816	7,354	6,925	1.3	(1.0)	101.6
	Total—all U.S. airports	**67,741**	**74,722**	**85,980**	**1.6%**	**2.4%**	**126.9%**

Notes: Excludes nonrevenue passengers.
Excludes airports in Puerto Rico, the U.S. Virgin Islands, and the Trust Territory of the Pacific Islands.
Columns may not add to totals shown because of rounding.
Passenger numbers reported to the DOT exclude nonrevenue passengers and will differ from those reported by individual airports.

Sources: U.S. DOT, Schedules T100 and 298C T1.

Role as a Connecting Hub

In addition to its role as a large O&D airport, the Airport serves as a major connecting hub for United. In total, nearly 4.9 million passengers connected between flights at the Airport in FY 2013, representing 22% of all enplaned passengers at the Airport. Almost half (2.2 million) of those connecting passengers were connecting to, from, or between international flights. Table 8 shows that the Airport is among the busiest international gateway airports in the United States and second only to Los Angeles International Airport among West Coast U.S. airports. Among all U.S. airports, the Airport ranks third by number of departing seats to the Asia-Pacific region, fifth to Canada, eighth to Mexico, and tenth to Europe, Middle East, and Africa.

The remaining 2.6 million connecting passengers at the Airport in FY 2013 were connecting between domestic flights. United Airlines, in conjunction with the integrated route network of its United Express partners, conducts the only domestic airline hubbing operation of any significance at the Airport. United also accounts for the vast majority of passengers connecting between domestic and international flights (gateway connections) at the Airport.

Role in the United Airlines Route System

United Airlines, the Airport's largest airline, is the third-largest airline in the U.S. (behind the combined American-US Airways and Delta) in terms of domestic revenue passenger miles, according to the DOT. In October 2010, United and Continental Airlines completed a merger and, in November 2011, the FAA issued the merged entity a single operating certificate.

The Airport is one of United's seven U.S. hub airports, which also include Houston-Bush, Chicago-O'Hare, Newark, Denver, Washington-Dulles, and Los Angeles international airports. Table 9 shows that United has increased its capacity at the Airport in recent years, in contrast to systemwide capacity reductions at most of its other major airports. Between 2012 and 2014, for instance, United increased domestic departing seats 7.7% at the Airport, in contrast to a 2.1% reduction in domestic departing seats at Los Angeles, the airline's other West Coast hub airport, and seat reductions at its other domestic hubs. Based upon published flight schedules*, the Airport ranks fifth domestically and fourth internationally in United's system in terms of scheduled departing seats for the 12 months ending June 30, 2014.

*Since the 2013 Bonds were issued, OAG Aviation Worldwide Ltd, the provider of published flight schedules information used in this report has made enhancements to its databases, which has resulted in revised data for prior years. As a result, historical published flight schedules data appearing in this report may differ from data shown in the disclosure documentation related to SFO's 2013 Bonds.

Table 8

SCHEDULED INTERNATIONAL DEPARTING SEATS, BY WORLD REGION DESTINATION

Top 20 U.S. Gateway Airports

(for the 12 months ended June 30, 2014)

			Average daily departing seats on nonstop flights									
			Transpacific *(a)*						Trans-atlantic *(b)*			Caribbean & Latin America
Rank	City(-Airport)	TOTAL	China—Mainland	Japan	South Korea	Taiwan	Other	Total		Canada	Mexico	
1	New York-Kennedy	**46,496**	1,638	1,398	1,008	230	446	4,720	25,766	1,166	1,882	12,963
2	Miami	**33,649**	-	-	-	-	-	-	5,165	1,328	2,306	24,850
3	Los Angeles	**29,790**	2,740	2,287	1,733	1,472	4,962	13,194	6,304	3,136	4,910	2,247
4	Chicago-O'Hare	**19,628**	1,643	1,179	498	-	342	3,662	9,133	4,216	1,720	897
5	New York-Newark	**19,262**	886	263	-	-	871	2,020	10,534	2,917	784	3,007
6	Atlanta	**16,598**	-	376	414	-	-	790	5,834	1,053	2,491	6,429
7	Houston-Bush	**16,076**	205	332	42	-	-	578	4,023	1,749	4,931	4,794
8	**San Francisco**	**15,895**	**2,608**	**1,502**	**1,207**	**968**	**1,024**	**7,309**	**4,569**	**2,145**	**1,593**	**279**
9	Washington DC-Dulles	**12,341**	267	505	274	-	-	1,047	8,761	843	396	1,294
10	Dallas/Ft. Worth	**12,119**	31	493	500	-	354	1,377	2,312	1,440	4,738	2,252
11	Honolulu	**8,674**	224	5,456	980	179	1,448	8,287	-	387	-	-
12	Boston	**7,568**	4	186	-	-	-	190	4,958	1,386	115	919
13	Philadelphia	**7,449**	-	-	-	-	-	-	4,618	1,257	496	1,078
14	Fort Lauderdale	**7,027**	-	-	-	-	-	-	184	1,546	378	4,920
15	Orlando	**6,546**	-	-	-	-	-	-	2,123	1,442	468	2,514
16	Seattle	**6,013**	532	850	457	264	-	2,103	1,779	1,955	176	-
17	Detroit	**5,549**	521	651	354	-	-	1,526	2,373	831	556	262
18	Charlotte	**5,464**	-	-	-	-	-	-	1,562	455	722	2,724
19	Las Vegas	**4,759**	-	2	116	-	-	119	1,081	2,495	843	221
20	Minneapolis-St. Paul	**3,927**	-	269	-	-	-	269	1,327	1,612	583	135
	Total—top 20 gateways	**284,830**	**11,300**	**15,750**	**7,584**	**3,113**	**9,446**	**47,192**	**102,405**	**33,358**	**30,090**	**71,786**
	All other gateways	**26,195**	-	748	1	-	43	792	3,448	12,734	7,592	1,630
	Total—all U.S. gateways	**311,025**	**11,300**	**16,497**	**7,585**	**3,113**	**9,489**	**47,983**	**105,853**	**46,091**	**37,681**	**73,416**

Notes: Columns may not add to totals shown because of rounding.
Excludes airports in Puerto Rico, the U.S. Virgin Islands, and the Trust Territories of the Pacific Islands.

(a) Transpacific includes Asia, Australia, New Zealand, and the South Pacific.

(b) Transatlantic includes Europe, the Middle East, and Africa.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed June 2014.

Table 9
SCHEDULED DEPARTING SEATS OPERATED BY UNITED AIRLINES
Ranking of U.S. Airports in the Combined United/Continental System
(for the 12 months ended June 30)

2014 Rank	City-(Airport)	2012 Seats	2012 % of Total	2013 Seats	2013 % of Total	2014 Seats	2014 % of Total	Percent change 2012-2014
	Domestic							
1	Chicago-O'Hare	16,766,194	11.4%	16,218,447	11.6%	16,330,294	11.9%	(2.6)%
2	Houston-Bush	17,179,914	11.7	15,383,019	11.0	14,890,153	10.8	(13.3)
3	Denver	12,230,248	8.3	11,722,491	8.4	11,708,739	8.5	(4.3)
4	Newark	11,048,580	7.5	10,585,653	7.6	10,478,862	7.6	(5.2)
5	**San Francisco**	**9,562,294**	**6.5**	**9,628,804**	**6.9**	**10,301,621**	**7.5**	**7.7**
6	Washington-Dulles	7,404,883	5.1	7,051,792	5.1	6,829,161	5.0	(7.8)
7	Los Angeles	6,972,005	4.8	6,605,838	4.7	6,828,601	5.0	(2.1)
8	Cleveland	4,042,140	2.8	3,837,833	2.8	3,334,767	2.4	(17.5)
9	Las Vegas	2,421,377	1.7	2,230,715	1.6	2,184,556	1.6	(9.8)
10	Boston	2,170,437	1.5	2,034,736	1.5	2,154,408	1.6	(0.7)
	All other airports	56,830,579	38.8	54,119,204	38.8	52,267,373	38.1	(8.0)
	Total—all airports	146,628,651	100.0%	139,418,532	100.0%	137,308,535	100.0%	(6.4)%
	International							
1	Newark	4,985,898	27.0%	4,708,452	26.5%	4,601,773	25.5%	(7.7)%
2	Houston-Bush	4,498,954	24.3	4,237,165	23.8	4,404,747	24.4	(2.1)
3	Chicago-O'Hare	2,363,486	12.8	2,275,468	12.8	2,427,290	13.4	2.7
4	**San Francisco**	**1,900,753**	**10.3**	**1,986,413**	**11.2**	**2,101,946**	**11.6**	**10.6**
5	Washington-Dulles	2,223,257	12.0	2,027,062	11.4	1,970,878	10.9	(11.4)
6	Guam	769,699	4.2	789,364	4.4	812,588	4.5	5.6
7	Los Angeles	733,885	4.0	709,097	4.0	694,351	3.8	(5.4)
8	Denver	509,129	2.8	523,038	2.9	685,745	3.8	34.7
9	Honolulu	124,400	0.7	132,306	0.7	155,644	0.9	25.1
10	Cleveland	120,981	0.7	116,490	0.7	92,849	0.5	(23.3)
	All other airports	250,121	1.4	268,072	1.5	109,274	0.6	(56.3)
	Total—all airports	18,480,563	100.0%	17,772,927	100.0%	18,057,085	100.0%	(2.3)%

Notes: Includes seats on United Express, Continental, Continental Connection, and Continental Express for all years shown.
Columns may not add to totals shown because of rounding.
Since the 2013 Bonds were issued, OAG Aviation Worldwide Ltd, the provider of published flight schedules information used in this report has made enhancements to its databases, which has resulted in revised data for prior years. As a result, historical published flight schedules data appearing in this report may differ from data shown in the disclosure documentation related to SFO's 2013 Bonds.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed June 2014.

In 1997, United announced the formation of the Star Alliance, a commercial arrangement made in conjunction with five other airlines.* As of August 2014, the Star Alliance had 27 member airlines. Under the alliance agreement, United and the other airlines work together in a number of ways, including flight code sharing, scheduling and pricing, marketing and sales, and airport ground handling. The benefits to United include additional connecting traffic, access to markets where the airline does not currently operate, and cost savings in such areas as training, purchasing, and airport ground handling. The primary benefit to the Airport is increased gateway connecting traffic, which increases airport revenue, e.g., concession revenue, and helps to reduce airport costs on a per enplanement basis for all airlines serving the Airport. In FY 2014, United and its Star Alliance partners accounted for 52.8% of enplaned passengers at the Airport.

In 2013, United reported a $571 million net profit, compared to a $723 million net loss in 2012. Excluding special charges (e.g., integration-related costs following its merger with Continental), the company reported a $1.1 billion net profit in 2013. In terms of operating revenue, United reported $38.3 billion for 2013, a 3.0% increase from 2012. This increase in revenue occurred against a backdrop of reduced capacity (as measured by available seat miles [ASMs]), resulting in an increase in revenue per ASM (up 2.3%) relative to 2012.

In the first half of 2014, United Continental Holdings, Inc. reported $180 million net income, more than triple the $52 million reported in the first half of 2013.**

*United formed the Star Alliance with Lufthansa German Airlines, Air Canada, Scandinavian Airlines System (SAS), Thai Airways International, and Varig. While Varig is no longer part of the alliance, the following airlines have since joined: Adria Airways; Aegean Airlines; Air China; Air India; Air New Zealand; ANA; Asiana Airlines; Austrian Airlines; Avianca TACA Airlines; Brussels Airlines; Copa Airlines; Croatia Airlines; Egyptair; Ethiopian Airlines; EVA Air; LOT Polish Airlines; Shenzhen Airlines; Singapore Airlines; South African Airways; Swiss; TAP Portugal; and Turkish Airlines. TAM Airlines withdrew from the Star alliance in March 2014 as a result of its merger with Oneworld-aligned LAN Airlines. Similarly, US Airways also withdrew from the Star Alliance in March 2014 as a result of its merger with Oneworld-aligned American.

**United Continental Holdings, Inc, Quarterly Report on Form 10-Q, For the Quarter Ended June 30, 2014, http://ir.unitedcontinentalholdings.com, accessed July 2014.

AIRLINE SERVICE AT THE AIRPORT

The Airport is served by a diverse group of airlines. Table 10 shows that a total of 50 airlines* reported enplaned passengers or cargo at the Airport during FY 2014. Of the 42 passenger airlines, 15 were U.S. airlines, which accounted for 87% of the total passengers enplaned at the Airport in FY 2014. The remaining 13% of passengers were enplaned by 27 foreign-flag airlines.

Figure 11 shows the 76 U.S. cities linked with the Airport by daily scheduled nonstop or one-stop same-aircraft passenger flights in the second week of July 2014. Over the same period, non-daily nonstop or one-stop service was provided to an additional 5 cities.

Airlines also operate scheduled passenger service from the Airport to 46 destinations in other parts of the world. Figure 12 shows the international cities linked with the Airport by scheduled nonstop or one-stop same-aircraft passenger flights in the second week of July 2014.

Table 11 shows that scheduled airline service at the Airport increased in the seven years from July 2007 to July 2014. The number of airports served nonstop increased from 93 in July 2007 to 110 in July 2014, and the number of airlines serving those airports increased from 34 to 37. Approximately 19,310 more seats per day departed from the Airport, a 30% increase. Service increased every year since 2007 (except 2009) and nearly all increases were accommodated by mainline aircraft and large regional jets (i.e., jet aircraft with 51 to100 seats).

Regional jets (i.e., jet aircraft with 100 seats or fewer) and turboprops together provide a small but stable share of domestic departing seats at the Airport. In July 2007, these smaller aircraft accounted for 11.4% of domestic departing seats (6.9% on regional jets, 4.5% on turboprops). In July 2014, their combined share remained the same (9.4% on regional jets, 2.0% on turboprops).

In the international sector, service increases to Europe by foreign-flag airlines (as discussed earlier) and Mexico were the primary drivers of a 14.4% increase in total international departing seats between July 2007 and July 2014. Over this period, Aeromexico and Virgin America initiated service from SFO to Mexico and United more than doubled its Mexico service.

United began three times weekly nonstop service from SFO to Chengdu in June 2014 and has announced new daily nonstop service from the Airport to Kelowna, Canada (beginning September 2014) and Tokyo-Haneda (beginning October 2014). The flight to Tokyo-Haneda is a relocation of one of United's existing flights from the Airport to Tokyo-Narita.

In July 2014, Etihad Airways and Turkish Airlines both announced new service at the Airport. Etihad Airways will begin daily nonstop flights to Abu Dhabi in November 2014. Turkish Airlines will operate five weekly flights to Istanbul starting in April 2015; the airline plans to increase service to daily flights in May 2015.

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* Excludes airlines reporting fewer than 300 enplaned passengers or fewer than 50 tons of cargo.

Table 10
AIRLINES REPORTING PASSENGER AND AIR CARGO ACTIVITY
San Francisco International Airport
(Fiscal Year 2014)

U.S. airlines (22)	Passengers	Cargo
Passenger/Cargo Services *(a)*		
AirTran	X	
Alaska	X	X
American	X	X
Compass (DL)	X	
Delta	X	X
Frontier	X	X
Hawaiian	X	X
Horizon (AS)	X	
JetBlue	X	X
SkyWest (DL, UA)	X	
Southwest	X	X
Sun Country	X	X
United	X	X
US Airways	X	X
Virgin America	X	
All-Cargo Services		
ABX Air		X
Air Cargo Carriers		X
Air Transport International		X
Ameriflight		X
Atlas Air		X
FedEx		X
Kalitta Air		X

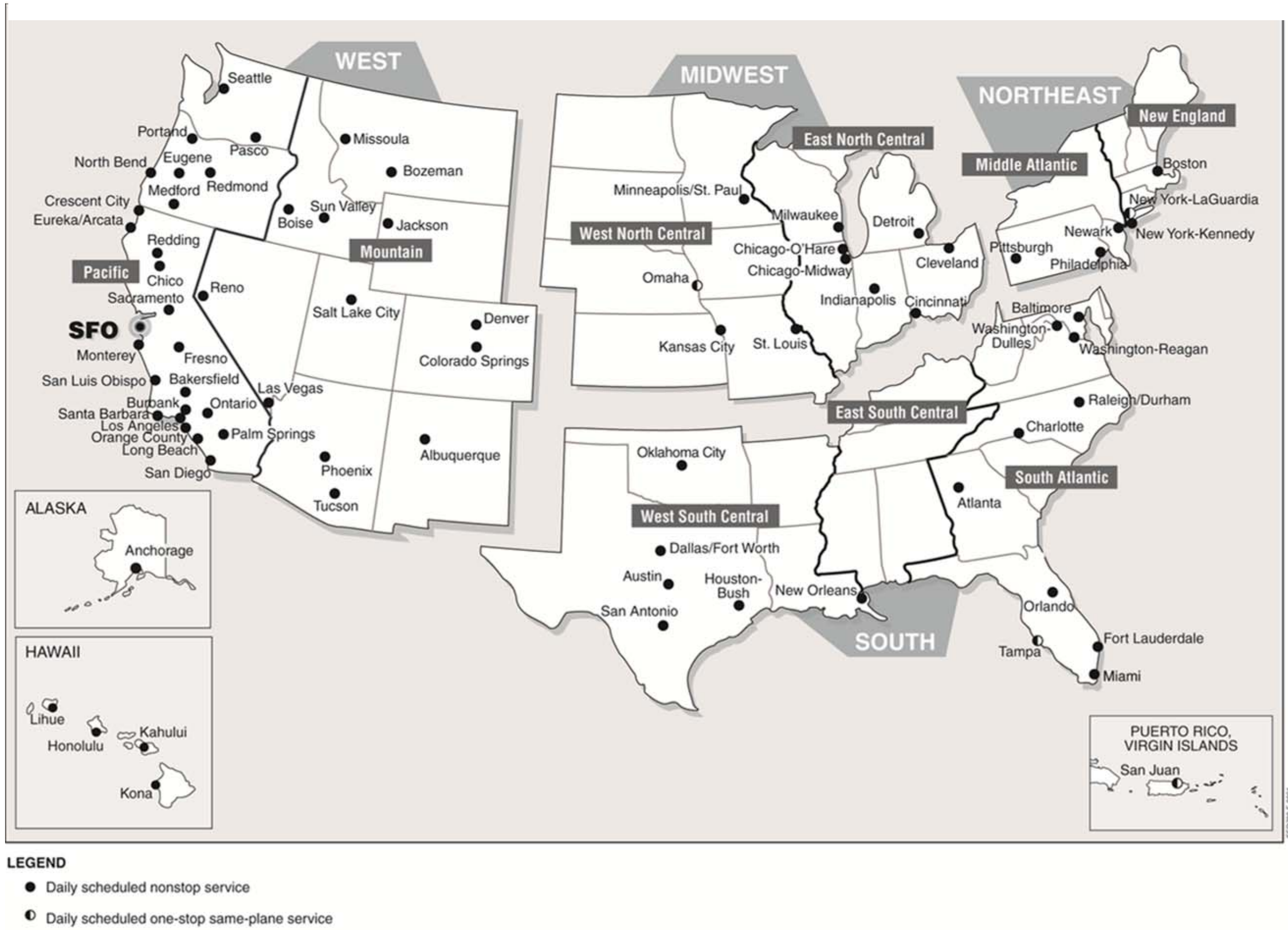
Foreign-flag airlines (28)	Passengers	Cargo
Mexico & Central America		
Aeromexico	X	
Lan Peru	X	X
TACA (El Salvador)	X	X
Europe, Mid-East, & Africa		
Aer Lingus (Ireland)	X	X
Air France	X	X
British Airways	X	X
Emirates (UAE)	X	X
KLM (Netherlands)	X	X
Lufthansa (Germany)	X	X
SAS (Scandinavia)	X	X
Swiss	X	X
Virgin Atlantic (U.K.)	X	X
XL Airways France	X	
Canada		
Air Canada	X	X
WestJet	X	
Asia & South Pacific		
Air China	X	X
Air New Zealand	X	X
All Nippon (Japan)	X	X
Asiana (South Korea)	X	X
Cathay Pacific (Hong Kong)	X	X
China Airlines (Taiwan)	X	X
China Eastern	X	X
EVA (Taiwan)	X	X
JAL (Japan)	X	X
Korean	X	X
Philippine	X	X
Singapore	X	X
All-Cargo Services		
Nippon Cargo (Japan)		X

Notes: Excludes airlines reporting fewer than 300 enplaned passengers or fewer than 50 tons of cargo. Certain airlines transport cargo on behalf of other airlines. Excludes seasonal and charter flights operated by Atlas Air, Miami Air International, North American Airlines, Omni Air International, and Republic Airlines.

(a) Code sharing airline, if any, in parentheses: AS=Alaska; DL=Delta; UA=United.

Source: San Francisco Airport Commission.

Figure 11
U.S. CITIES SERVED BY DAILY SCHEDULED ROUND TRIP PASSENGER FLIGHTS
San Francisco International Airport
(second week of July 2014)



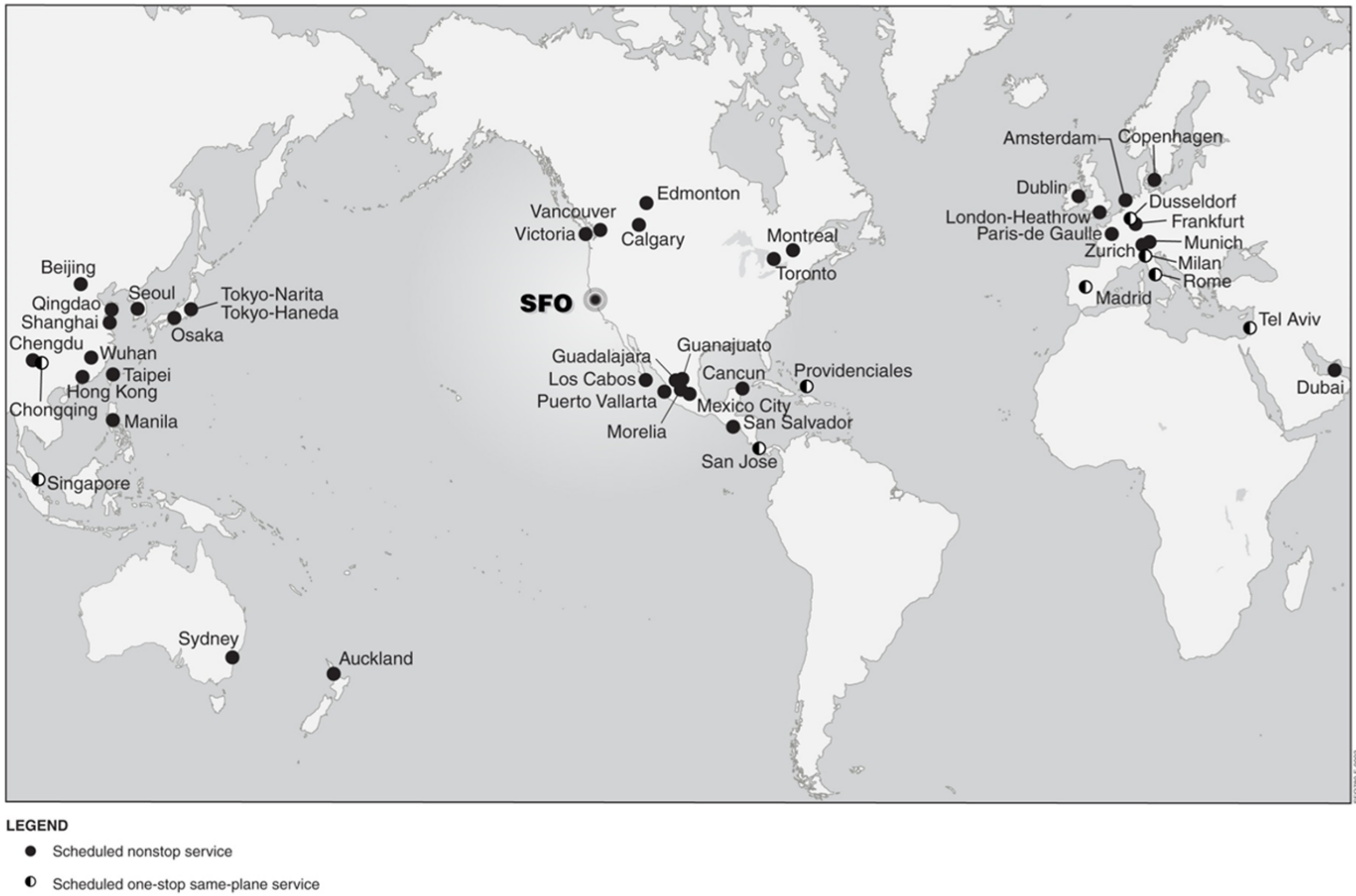
Note: Non-daily nonstop or one-stop service was provided to an additional 5 cities.
Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed June 2014.

Figure 12

INTERNATIONAL CITIES SERVED BY SCHEDULED ROUND TRIP PASSENGER FLIGHTS

San Francisco International Airport

(second week of July 2014)



Note: Etihad Airways will begin daily nonstop flights to Abu Dhabi in November 2014. Turkish Airlines will operate five weekly flights to Istanbul starting in April 2015. United will begin daily nonstop flights to Kelowna, Canada in September 2014.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed June 2014.

Table 11
TRENDS IN SCHEDULED PASSENGER SERVICE
San Francisco International Airport
(for the second week of July)

Destination region Region/aircraft type Airline flag	Number of airports served nonstop 2007	2014	Number of airlines serving *(a)* 2007	2014	Scheduled departing seats: Average daily seats 2007	2014	Change 2007-2014
Total—all destinations	**93**	**110**	**34**	**37**	**64,720**	**84,031**	**+19,310**
Total domestic	**65**	**73**	**14**	**11**	**48,389**	**65,354**	**+16,965**
Domestic by region:							
California	18	17	5	7	9,531	13,223	+3,691
Hawaii	4	4	5	3	3,157	2,902	(255)
West	25	31	10	9	18,151	24,456	+6,306
East	18	21	10	7	17,550	24,773	+7,223
Domestic by aircraft type:							
Jet	55	64	14	11	46,191	64,055	+17,865
Mainline jet	*42*	*45*	*14*	*11*	*42,868*	*57,921*	*+15,053*
Large regional jet	*14*	*22*	*4*	*2*	*1,042*	*4,020*	*+2,978*
Small regional jet	*18*	*21*	*4*	*1*	*2,281*	*2,114*	*(167)*
Turboprop	14	12	1	1	2,199	1,299	(900)
Total international	**28**	**37**	**23**	**29**	**16,331**	**18,677**	**+2,346**
International by airline flag:							
U.S. airlines	19	21	3	3	7,277	7,217	(60)
Foreign-flag airlines	21	29	20	26	9,054	11,460	+2,406
International by region:							
Trans-Pacific	**11**	**14**	**14**	**13**	**8,052**	**7,779**	**(273)**
U.S. airlines	9	9	2	1	3,759	3,095	(664)
Foreign-flag airlines	8	11	12	12	4,294	4,684	+390
Trans-Atlantic	**5**	**9**	**6**	**11**	**3,893**	**5,730**	**+1,837**
U.S. airlines	2	3	1	1	1,350	1,605	+255
Foreign-flag airlines	5	9	5	10	2,543	4,125	+1,582
Canada	**5**	**6**	**4**	**3**	**2,874**	**2,957**	**+83**
U.S. airlines	5	4	2	1	1,261	986	(275)
Foreign-flag airlines	4	4	2	2	1,613	1,971	+358
Mexico	**6**	**7**	**3**	**4**	**1,212**	**2,018**	**+805**
U.S. airlines	4	5	2	3	908	1,531	+623
Foreign-flag airlines	3	4	1	1	304	487	+182
Caribbean & Latin America	**1**	**1**	**1**	**1**	**300**	**193**	**(107)**
U.S. airlines	-	-	-	-	-	-	--
Foreign-flag airlines	1	1	1	1	300	193	(107)

Notes: Columns and rows may not add to totals shown because of rounding.
East includes destinations east of the Mississippi River. West includes destinations west of the Mississippi River, excluding California and Hawaii.
Mainline jets are generally classified as jet aircraft with more than 100 seats; large regional jets are classified as jet aircraft with 51 to 100 seats; small regional jets are classified as jet aircraft with 50 seats or fewer.

(a) Each mainline airline and its code-sharing affiliates were counted as one airline. Southwest Airlines and AirTran Airways were counted together in 2014.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed June 2014.

Table 12 shows that, between July 2007 and July 2014, nonstop jet service increased 46% in the Airport’s 15 largest domestic O&D city-pair markets. The number of departing seats increased in all of the Airport's top 15 domestic O&D city-pairs.

The level of airline competition in the Airport's largest domestic O&D markets is high. In July 2014, 14 of the top 15 domestic city markets were served nonstop from the Airport by three or more airlines.

The Airport is a major domestic hub and the busier of two Pacific gateways for United Airlines, the other being LAX. The Airport and its service region have geographic and demographic advantages that enable United to (1) minimize route circuity for connecting passengers while drawing from a large local market, and (2) effectively integrate its domestic and international route systems.

Figure 13 shows that United substantially expanded the scale of its mainline flight operations at the Airport through the 1990s. In FY 1991, United operated a daily average of 149 domestic departures and 9 international departures from the Airport. At its peak in FY 1998, the airline operated a daily average of 226 domestic departures and 17 international departures from the Airport. By FY 2013, however, although United averaged 21 daily international departures from the Airport, it operated only 131 daily domestic departures, on average.

In July 2014, United’s code-sharing partner SkyWest Airlines, operating as United Express, accounted for all scheduled turboprop flights and 80% of scheduled regional jet flights at the Airport. Since SkyWest initiated United Express service at the Airport in September 2001, it has replaced many of United’s shorter-haul domestic flights. Of all domestic scheduled flights operated at the Airport in July 2014 by United and United Express combined, SkyWest was scheduled to operate about 43%.

In July 2014, United announced plans to remove more than 130 50-seat regional jets from its fleet in the next year, replacing 70 of these with larger 76-seat aircraft and taking some out of commission completely. This switch will help offset higher fuel costs and a shortage of pilots systemwide, and will help to ease airfield capacity constraints at SFO.

The San Francisco hub continues to be strategically important, both domestically and internationally, to United, post-merger. The trans-Pacific market is important to United’s long-term profitability, and connectivity with domestic markets is part of what makes an international hub viable. United’s commitment to the Airport is evidenced by its March 2013 signing of a 10-year lease extension for the airline’s largest maintenance facility, which employs a workforce of 3,500. The airline bases the majority of its fleet of 26 Boeing 747-400 aircraft at the Airport due to the proximity of the maintenance facility.

Table 12

COMPARISON OF NONSTOP SERVICE IN THE TOP 15 DOMESTIC CITY MARKETS

San Francisco International Airport

(for the second week of July)

Rank *(a)*	City market *Airport*	Airlines operating nonstop service *(b)* 2014	Average daily scheduled departing: Flights 2007	Flights 2014	Seats 2007	Seats 2014
1	Los Angeles	AA,B6,DL,WN,UA,VX	54	76	5,478	8,843
	Los Angeles	*AA,DL,WN,UA,VX*	*33*	*49*	*3,878*	*6,289*
	Orange County	*WN,UA*	*11*	*13*	*905*	*1,575*
	Long Beach	*B6*	*-*	*3*	*-*	*450*
	Burbank	*UA*	*6*	*6*	*497*	*279*
	Ontario	*UA*	*4*	*5*	*197*	*250*
2	New York *(c)*	AA,B6,DL,UA,VX	29	45	4,479	6,647
3	Washington DC/Baltimore *(d)*	UA,VX	10	15	1,807	2,528
4	Chicago *(e)*	AA,WN,UA,VX	16	29	3,005	4,495
5	Las Vegas	WN,UA,VX	15	23	2,191	3,115
6	Boston	B6,UA,VX	8	15	1,324	2,338
7	San Diego	WN,UA,VX	13	21	1,671	2,718
8	Seattle	AS,DL,UA,VX	16	29	2,186	3,895
9	Denver	F9,WN,UA	16	18	2,667	2,834
10	Dallas *(f)*	AA,UA,VX	12	17	1,666	2,457
11	Philadelphia	UA,US,VX	7	9	948	1,371
12	Atlanta	DL,WN,UA	12	13	2,069	2,386
13	Portland, OR	AS,UA,VX	12	14	1,387	1,790
14	Phoenix	WN,UA,US	11	15	1,514	2,078
15	Minneapolis/St. Paul	DL,SY,UA	8	10	1,323	1,887
	Total—top 15 markets		**239**	**348**	**33,715**	**49,383**
	All other markets		173	162	14,674	15,971
	Total—all markets		**412**	**510**	**48,389**	**65,354**

(a) Top 15 city markets ranked by total domestic origin and destination (O&D) passengers for the 12 months ended June 30, 2013.

(b) Certified U.S. airlines operating scheduled passenger jet services. Each mainline airline and its code-sharing affiliates were counted as one airline. Legend: AA=American, AS=Alaska, B6=JetBlue, DL=Delta, F9=Frontier, SY=Sun Country, UA=United, US=US Airways, VX=Virgin America, WN=Southwest/AirTran.

(c) Market includes Kennedy, LaGuardia, and Newark airports.

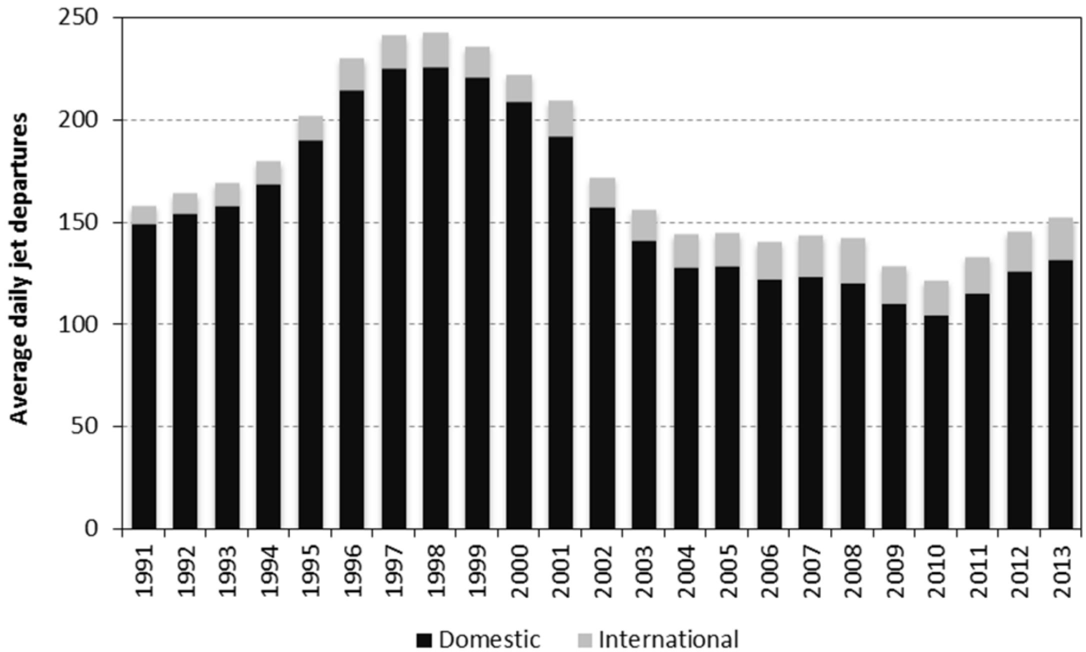
(d) Market includes Dulles, Reagan, and Baltimore airports.

(e) Market includes O'Hare and Midway airports.

(f) Market includes Dallas/Fort Worth International Airport and Love Field.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed June 2014.

Figure 13
AVERAGE DAILY JET DEPARTURES BY UNITED AIRLINES
San Francisco International Airport
(for Fiscal Years ended June 30)



Notes: Includes flights operated by Shuttle by United and Ted, but excludes United Express flights due to lack of data prior to FY 2003. Includes flights operated by Continental Airlines starting in FY 2011.

Source: U. S. DOT, Schedule T100.

AIRLINE SERVICE AT ALTERNATE AIRPORTS

The Airport competes for passengers with other airports in the Bay Area offering similar services. Competition for the domestic airline traveler was traditionally based on the level of service (i.e., flight frequency and timing, number of stops, type of aircraft, level of onboard service) but, as LCCs introduced service at many California airports over the past 25 years, price of airfare has become a key competitive factor. In addition to level of service and price, competition for international travelers is characterized by the funneling of passengers to international flights at gateway airports such as the Airport.

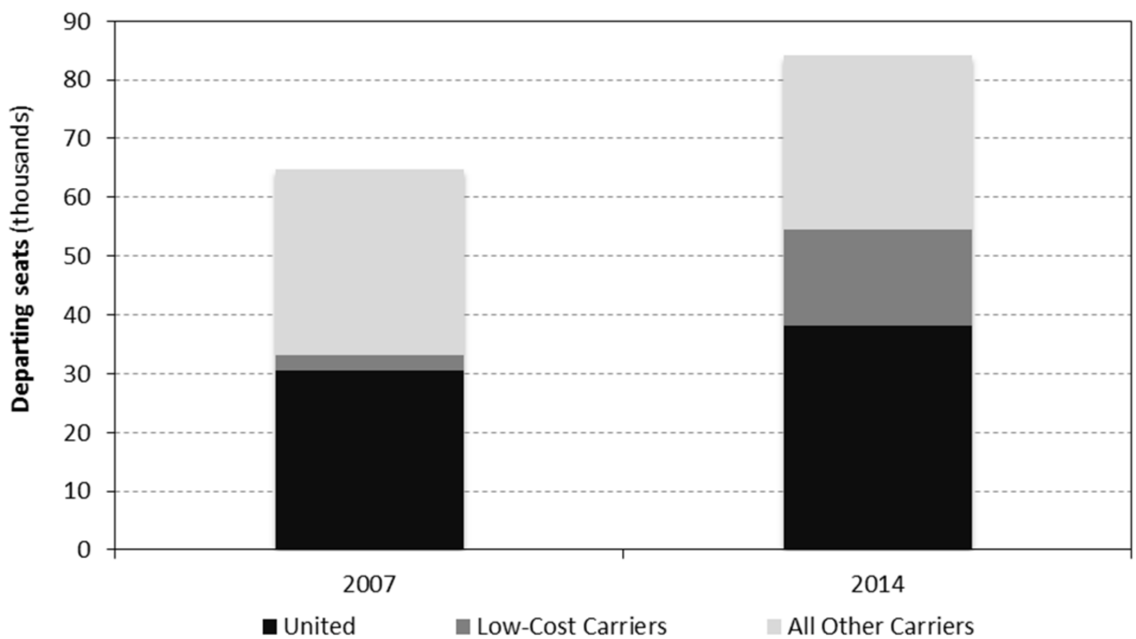
Competition for Domestic Traffic

Competition for the Bay Area's domestic airline passenger traffic is manifested in a number of ways. The three Bay Area airports compete with each other for (1) service by LCCs and the increased passenger traffic that their lower fares typically generate, (2) a share of the Bay Area's domestic O&D passenger market in general, and (3) a share of the passenger traffic linking the Bay Area with the five Los Angeles area airports. Each of these competitive markets is discussed below.

Low Cost Carrier Activity. Figure 14 shows how the introduction of service and lower airfares at the Airport by three LCCs in 2007 substantially changed the composition of departing seats at the Airport. In July 2007, 4% of all departing seats were offered by LCCs. However, by September 2007, JetBlue initiated service at the Airport, Southwest returned to the Airport after a 6-year hiatus, and Virgin America initiated service, using the Airport as its primary base of operations. By July 2014, the LCC share of all departing seats at the Airport had quintupled, to 20%. Virgin America, Southwest, and JetBlue account for roughly 94% of that LCC capacity, with Frontier Airlines and Sun Country Airlines accounting for the remainder.

Although the five LCCs at SFO served 27 airports nonstop in July 2014, LCC concentration was even higher at the other two Bay Area airports. At Oakland International, four LCCs (Southwest, JetBlue, Spirit, and Allegiant Air) accounted for 80% of all departing seats and served 31 airports nonstop. At Mineta San Jose International, two LCCs (Southwest and JetBlue) accounted for 54% of all departing seats and served 14 airports nonstop.

Figure 14
AVERAGE DAILY DEPARTING SEATS, BY AIRLINE GROUPING
San Francisco International Airport
(for the second week in July)



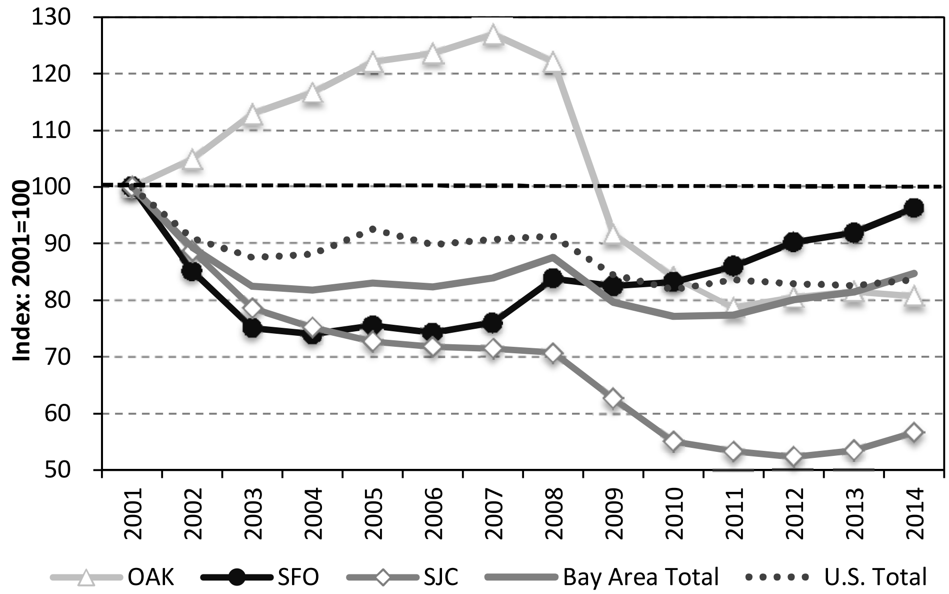
Airline group	Average daily departing seats		Percent of total	
	2007	2014	2007	2014
United	30,418	38,162	47.0%	45.4%
Low-cost carriers	2,751	16,394	4.3	19.5
Virgin America	-	*7,176*	-	*8.5*
Southwest	-	*6,560*	-	*7.8*
JetBlue	*750*	*1,629*	*1.2*	*1.9*
Frontier	*1,049*	*654*	*1.6*	*0.8*
Sun Country	*162*	*375*	*0.3*	*0.4*
AirTran	*646*	-	*1.0*	-
Spirit	*144*	-	*0.2*	-
Other U.S. airlines	22,497	18,015	34.8	21.4
Foreign-flag airlines	9,054	11,460	14.0	13.6
Total—all airlines	**64,720**	**84,031**	**100.0%**	**100.0%**

Notes: United Express is included with United. Continental Airlines is included with United Airlines and AirTran is included with Southwest in 2014.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed June 2014.

Bay Area Airports. Figure 15 shows that, since 2001, the decrease in the total number of scheduled departing seats in the Bay Area as a whole has been on par with the decrease experienced nationwide.

Figure 15
INDEX OF TOTAL SCHEDULED DEPARTING SEATS
San Francisco, Oakland, and Mineta San Jose International Airports and All U.S. Airports
(for the 12 months ended June 30)



Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed June 2014.

The airports in San Francisco, San Jose, and Oakland, however, experienced dramatically different capacity trends since 2001. Between 2001 and 2007, relative capacity declines at the Airport and Mineta San Jose International Airport were nearly identical, but since 2007, the patterns have diverged. At the Airport, capacity has rebounded to nearly its 2001 level, while at Mineta San Jose International, capacity continued to decline until 2012 and has grown only slightly in the last two years. At Oakland International, the number of departing seats experienced uninterrupted growth until 2007, a substantial reduction through 2011, and virtually no increase in the most recent three years.

Table 13 shows changes in the composition of scheduled domestic airline service offered at the three Bay Area airports between 2007 and 2014.

Table 13
COMPARATIVE TRENDS IN DOMESTIC SCHEDULED PASSENGER SERVICE
San Francisco Bay Area Airports
(for the second week in July)

Flight distance / Airport	Number of cities served *(a)* 2007	2014	Change 2007-2014	Average daily departing seats 2007	2014	Change 2007-2014
All Bay Area airports	**61**	**66**	**+5**	**99,005**	**102,983**	**+3,978**
Long-haul (>1,800 miles)	24	23	(1)	28,512	32,570	+4,058
Medium-haul (600-1,800 miles)	14	20	+6	24,972	27,986	+3,014
Short haul (<600 miles)	23	23	-	45,521	42,427	(3,094)
Total, by airport						
San Francisco	**57**	**64**	**+7**	**48,389**	**65,354**	**+16,965**
Oakland	27	24	(3)	29,390	20,137	(9,253)
San Jose	21	20	(1)	21,226	17,492	(3,734)
By flight stage length, by airport						
Long-haul (>1,800 miles)						
San Francisco	**21**	**23**	**+2**	**21,030**	**27,957**	**+6,927**
Oakland	12	8	(4)	5,062	2,535	(2,527)
San Jose	6	6	-	2,420	2,079	(341)
Medium-haul (600-1,800 miles)						
San Francisco	**13**	**18**	**+5**	**11,625**	**16,791**	**+5,165**
Oakland	8	10	+2	6,962	5,404	(1,558)
San Jose	7	7	-	6,385	5,792	(593)
Short haul (<600 miles)						
San Francisco	**23**	**23**	**-**	**15,733**	**20,606**	**+4,873**
Oakland	7	6	(1)	17,366	12,199	(5,167)
San Jose	8	7	(1)	12,421	9,622	(2,799)

Note: Columns and rows may not add to totals shown because of rounding.

(a) Number of city markets served nonstop by at least five flight departures per week. Some city markets contain more than one airport.

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed June 2014.

From July 2007 to July 2014, total domestic airline seat capacity in the Bay Area increased 4% (by 4,000 daily departing seats). Oakland and Mineta San Jose international airports lost approximately 9,300 and 3,700 daily departing seats, respectively, while SFO gained approximately 17,000 daily departing seats. Over the same period, the number of U.S. cities served from SFO increased by seven, while the number from Mineta San Jose and Oakland decreased by one and three, respectively. Over the same seven-year period, SFO increased its already dominant share of capacity aboard long-haul domestic flights to and from the Bay Area—the number of average daily departing seats on long-haul domestic flights operated at the Airport in July 2014 (28,000) was six times the combined total at the Oakland and Mineta San Jose international airports (4,600). SFO also increased its shares of capacity on medium-haul and short-haul flights to 60% and 49% in July 2014 (up from 47% and 35% in July 2007), respectively.

Because SFO accounts for the majority of connecting passengers at the three Bay Area airports, a comparison of domestic O&D passengers provides a better representation of each airport's share of domestic airline travel, by considering only passengers that either originated or terminated their journeys in the Bay Area. Figure 16 shows that, since FY 2007, the Airport's share of Bay Area domestic O&D traffic has increased—in all passenger trip distance categories—indicating recapture of regional passenger traffic as a result of a more competitive air service offering. In FY 2013, the Airport's share of Bay Area domestic O&D traffic was 60%. That compares to 49% in FY 2001, and as low as 41% in FY 2003.

In FY 2013, 4% fewer domestic O&D passengers departed from the three Bay Area airports than in FY 2001. Figure 17 shows that SFO reported 17% more O&D passengers during that period, while there were decreases of 16% and 33% at Oakland and Mineta San Jose international airports, respectively.

Average airfares tend to be higher at SFO than at Oakland and Mineta San Jose international airports due to longer trips and a higher use of premium fares.

Between FY 2003 and FY 2013, average domestic airfares paid at SFO increased 19%, compared to average airfare increases of 38% and 43% at Oakland and Mineta San Jose international airports, respectively.* Over the same period, the number of domestic O&D passengers increased 67% at San Francisco International, while they *declined* 27% and 18% at Oakland and Mineta San Jose international airports, respectively.

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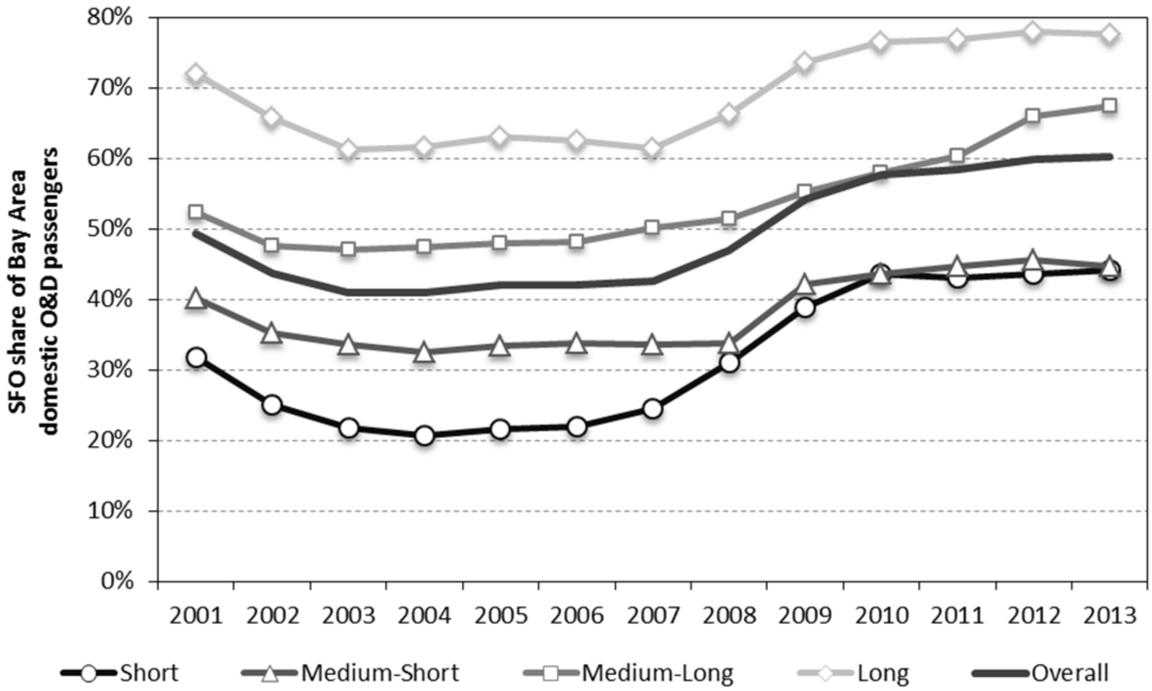
*The fares that airlines report to the U.S. DOT are exclusive of many ancillary charges (fees for checked baggage and preferred aircraft seating, for example) and, given the rapid rise in such fees beginning in 2008, have increasingly understated the consumer's real cost of air travel.

Figure 16
SHARE OF BAY AREA DOMESTIC O&D PASSENGERS, BY TRIP DISTANCE
San Francisco International Airport
(for the 12 months ended June 30)



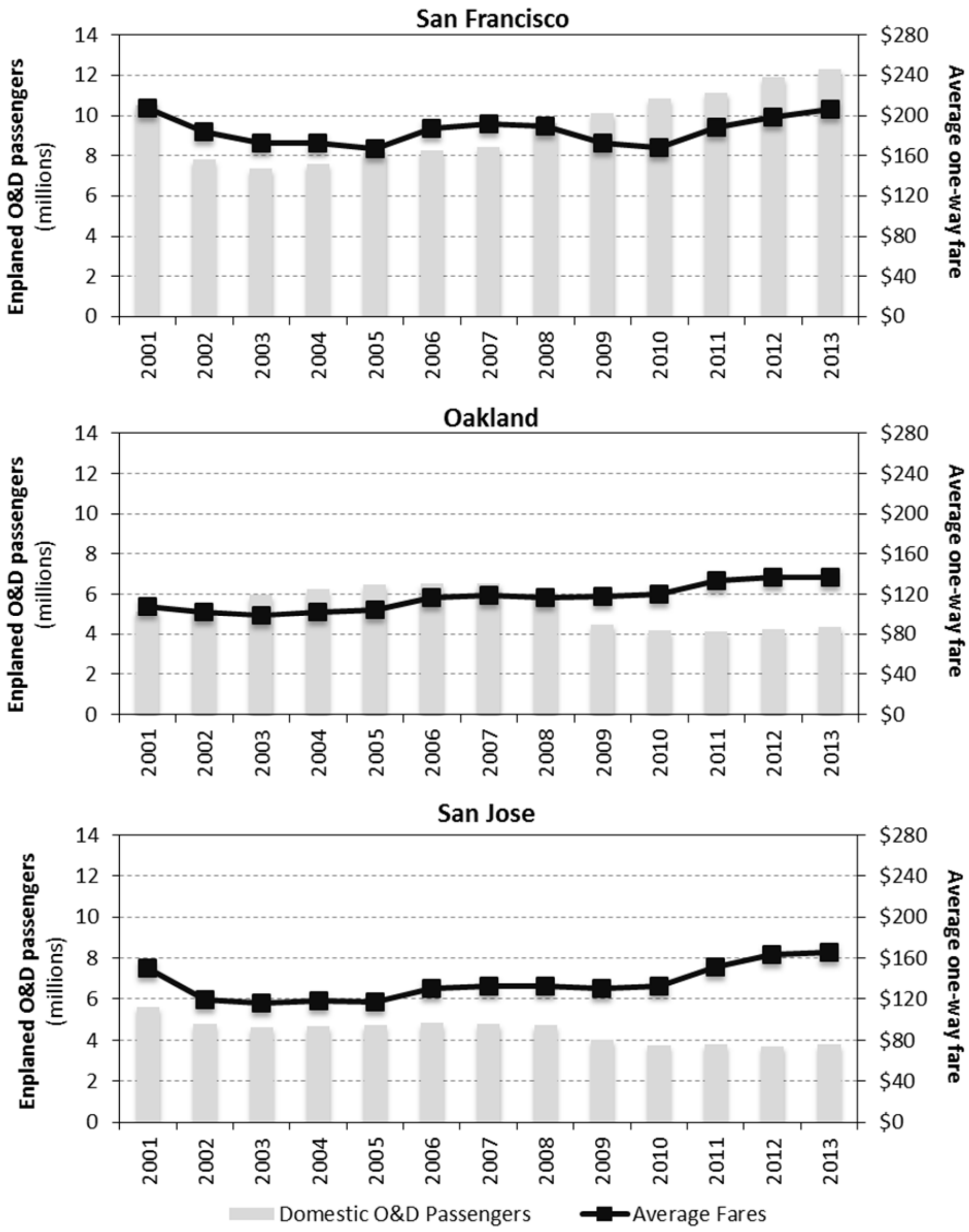
Note: Short haul = <600 miles, medium-short haul = 600-1,200 miles, medium-long haul = 1,200-1,800 miles, long haul = >1,800 miles.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Bay Area-Los Angeles Area Corridor. Table 14 shows total departing seats in the "California Corridor" (linking the Bay Area with the Los Angeles area) by airport pair and by airline. In July 2014, seats operated in the Corridor constituted 14% of all domestic capacity offered at the Airport. Between July 2001 and July 2014, the total number of departing seats from the Airport to the Los Angeles area decreased by 8%; the decrease was primarily attributable to capacity cuts by United to Los Angeles International and Burbank (Bob Hope) and by American Airlines to John Wayne Airport, Orange County. However, because the number of corridor seats declined 34% and 40% at Oakland and Mineta San Jose international airports, respectively, over the 13-year period, SFO's share of capacity in the corridor increased, from 34% in 2001 to 43% in 2014.

Figure 18 shows the changing composition, by Bay Area airport, of total annual scheduled flights operated on the California Corridor. Total corridor flights declined sharply in FY 2002, gradually recovered by FY 2008, and declined again in the subsequent years. The Airport's share of corridor flights declined from 32% in FY 2001 to a low of 24% in FY 2004 and then increased to 46% by FY 2013.

Figure 17
TRENDS IN DOMESTIC O&D PASSENGERS AND AIRLINE FARES
San Francisco Bay Area Airports
(for the 12 months ended June 30)



Notes: Average one-way fares shown are net of all taxes, fees, and passenger facility charges, and exclude ancillary fees charged by the airlines.

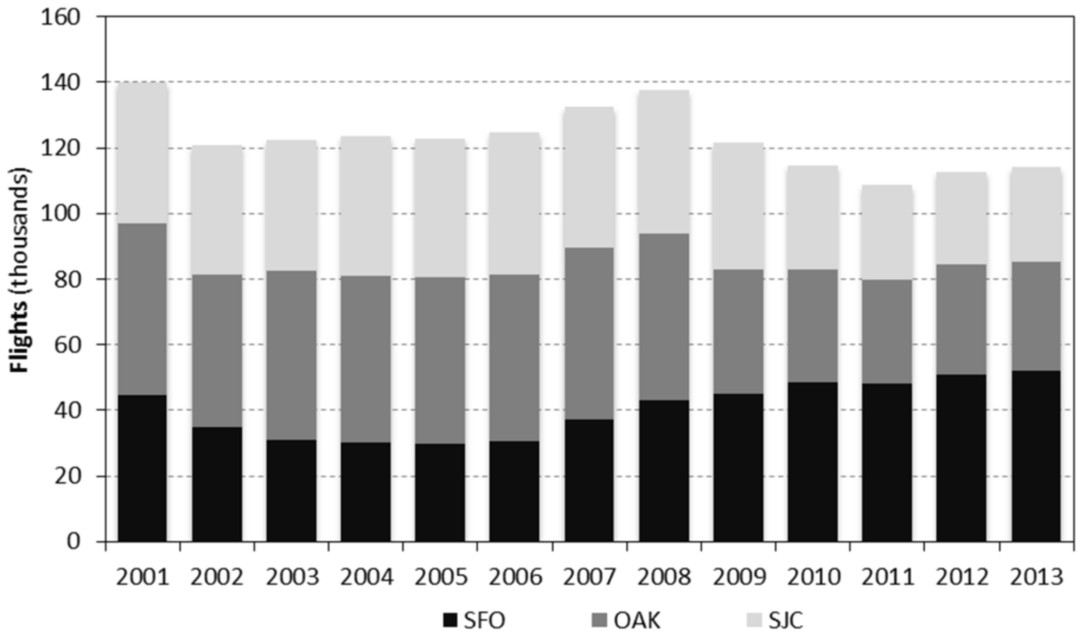
Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Table 14
AVERAGE DAILY DEPARTING SEATS TO LOS ANGELES AREA AIRPORTS
FROM THE SAN FRANCISCO BAY AREA AIRPORTS
(for the second week in July)

Bay Area Airport Los Angeles Area Airport *Airline*	2001	2007	2013	2014
San Francisco	**9,573**	**5,478**	**9,331**	**8,843**
Los Angeles (LAX)	5,600	3,878	6,609	6,289
United	*4,258*	*2,256*	*2,161*	*1,942*
Southwest	-	-	*1,475*	*1,369*
Virgin America	-	-	*1,261*	*1,188*
American	*1,017*	*933*	*888*	*900*
Delta	*185*	*286*	*824*	*890*
Alaska	*140*	*301*	-	-
Frontier	-	*103*	-	-
Orange County (SNA)	1,841	905	1,750	1,575
Southwest	-	-	*797*	*797*
United	*1,048*	*660*	*816*	*779*
AirTran	-	-	*137*	-
American	*793*	*245*	-	-
Long Beach (LGB)	-	-	450	450
JetBlue	-	-	*450*	*450*
Burbank (BUR)	1,469	497	322	279
United	*1,469*	*497*	*322*	*279*
Ontario (ONT)	664	197	200	250
United	*664*	*197*	*200*	*250*
Oakland	**9,918**	**9,457**	**6,560**	**6,559**
Los Angeles	4,586	3,227	1,952	2,298
Burbank	1,906	2,099	1,859	1,634
Orange County	1,538	1,816	1,103	1,083
Ontario	1,888	1,566	1,046	944
Long Beach	-	750	600	600
San Jose	**8,421**	**6,454**	**5,722**	**5,042**
Los Angeles	4,239	2,590	2,806	2,376
Orange County	1,915	1,411	1,205	1,185
Burbank	1,046	1,279	1,062	940
Ontario	1,220	1,174	649	541
Long Beach	-	-	-	-

Source: OAG Aviation Worldwide Ltd, OAG Analyser database, accessed June 2014.

Figure 18
CHANGES IN SCHEDULED PASSENGER FLIGHTS ON "CALIFORNIA CORRIDOR"
BY BAY AREA AIRPORT
(for the 12 months ended June 30)



Note: Total nonstop scheduled passenger flights in both directions linking San Francisco, Oakland, and San Jose airports in the Bay Area with Los Angeles, Ontario, Santa Ana, Burbank, and Long Beach airports in the Los Angeles Area.

Source: U.S. DOT, Schedule T100.

Competition for International Traffic

Table 15 shows that West Coast airports account for a substantial share of total international passengers arriving in the continental United States. In FY 2013, virtually all passengers from the South Pacific, and more than half of those from Asian countries, entered the United States at a West Coast airport.

The Airport's location on the West Coast, together with the Bay Area's cultural, business, and social ties to Asian countries, has made it a major gateway airport for travel between the United States and Asia. In FY 2013, of all passengers arriving in the United States from Asia, nearly one-fifth entered the country at the Airport.

In 2014, Delta announced that the creation of an international gateway in Seattle was among its network strategies.* According to published airline schedules, Delta is expanding its domestic and

*Delta Air Lines, Inc., Form 10-Q, Filed July 24, 2014 for the period ending June 30, 2014, http://ir.delta.com, accessed July 2014.

international service at Seattle, increasing from 46 average daily departures in July 2013 to 77 in July 2014 and to 83 by the end of 2014.

Table 15
COMPARATIVE WEST COAST GATEWAY SHARES OF
INTERNATIONAL PASSENGERS ARRIVING AT THE CONTINENTAL UNITED STATES
(for Fiscal Years ended June 30; passengers in thousands)

	Asia *(a)*		Europe		Mexico		Canada		South Pacific	
	2007	2013	2007	2013	2007	2013	2007	2013	2007	2013
Total U.S.	**8,892**	**9,914**	**25,080**	**25,968**	**9,948**	**9,985**	**10,398**	**11,994**	**1,283**	**1,575**
West Coast	**4,795**	**5,204**	**2,951**	**3,427**	**2,275**	**2,081**	**2,062**	**2,152**	**1,203**	**1,379**
Los Angeles	2,553	2,626	1,495	1,564	1,517	1,266	859	872	986	1,174
San Francisco	1,811	1,961	1,097	1,281	320	402	629	611	217	206
Seattle	332	540	273	418	135	103	423	493	-	-
Portland	77	58	75	70	61	18	79	102	-	-
San Diego	2	16	8	86	79	111	69	74	-	-
Oakland	-	-	3	8	81	72	3	0	-	-
San Jose	20	3	-	0	81	109	1	0	-	-
	Share of total international passengers arriving at the Continental U.S.									
West Coast	**53.9%**	**52.5%**	**11.8%**	**13.2%**	**22.9%**	**20.8%**	**19.8%**	**17.9%**	**93.7%**	**87.6%**
Los Angeles	28.7	26.5	6.0	6.0	15.3	12.7	8.3	7.3	76.8	74.5
San Francisco	20.4	19.8	4.4	4.9	3.2	4.0	6.0	5.1	16.9	13.1
Seattle	3.7	5.4	1.1	1.6	1.4	1.0	4.1	4.1	--	--
Portland	0.9	0.6	0.3	0.3	0.6	0.2	0.8	0.9	--	--
San Diego	0.0	0.2	0.0	0.3	0.8	1.1	0.7	0.6	--	--
Oakland	--	--	0.0	0.0	0.8	0.7	0.0	0.0	--	--
San Jose	0.2	0.0	--	0.0	0.8	1.1	0.0	0.0	--	--

Notes: Includes scheduled and nonscheduled (i.e., charter) passengers.
Excludes regions accounting for fewer than 3% of international enplaned passengers at SFO.
Total U.S. excludes Alaska, Hawaii, Trust Territory of the Pacific Islands, Puerto Rico, and the Virgin Islands.
Columns and rows may not add to totals shown because of rounding.
"0" equals more than zero but less than 500 passengers. "-" equals zero passengers.

(a) Excludes Middle East.

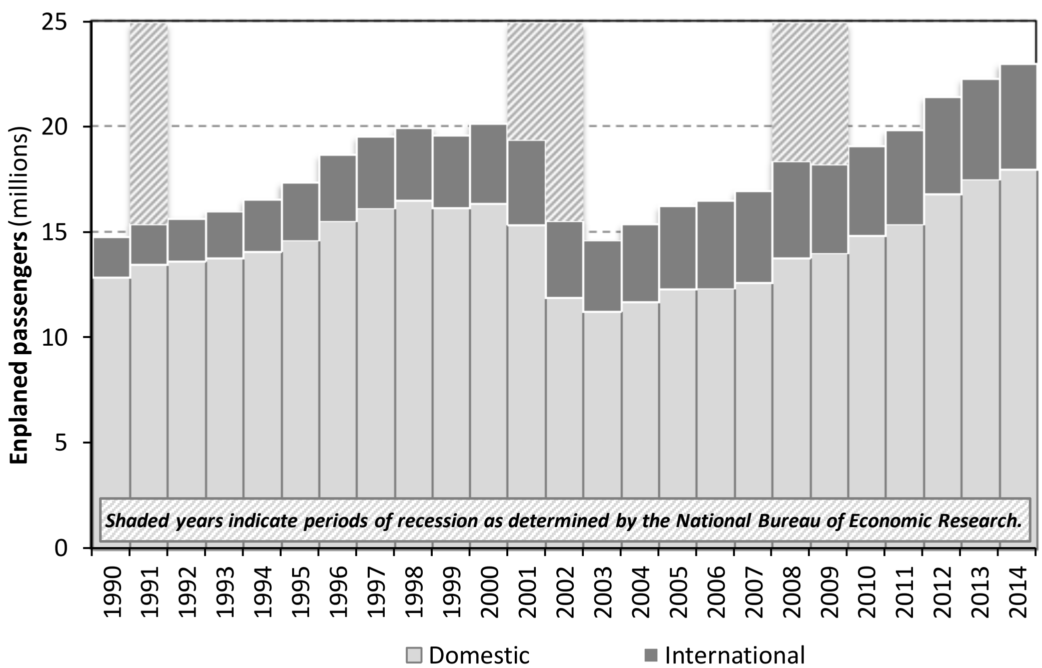
Source: U.S. DOT, Schedule T100.

HISTORICAL AIRLINE TRAFFIC

Figure 19 shows that 23.0 million passengers enplaned at the Airport in FY 2014, an increase of 3.2% from FY 2013. This number is 14% above the prior peak level recorded in FY 2000, prior to the downturn in passenger traffic following the events of September 11, 2001, the collapse of the dot-com bubble in 2000, the 2001 recession, Southwest's departure from the Airport, the cessation of Shuttle by United service, and the severe acute respiratory syndrome (SARS) outbreak. It represents a 57% increase from the number enplaned in FY 2003, a historical low traffic year at the Airport.

Table 22, presented at the end of this section, provides a more complete chronology of key events affecting passenger numbers at the Airport and nationwide.

Figure 19
ENPLANED PASSENGER TRENDS
San Francisco International Airport
(for Fiscal Years ended June 30)



Source: San Francisco Airport Commission records.

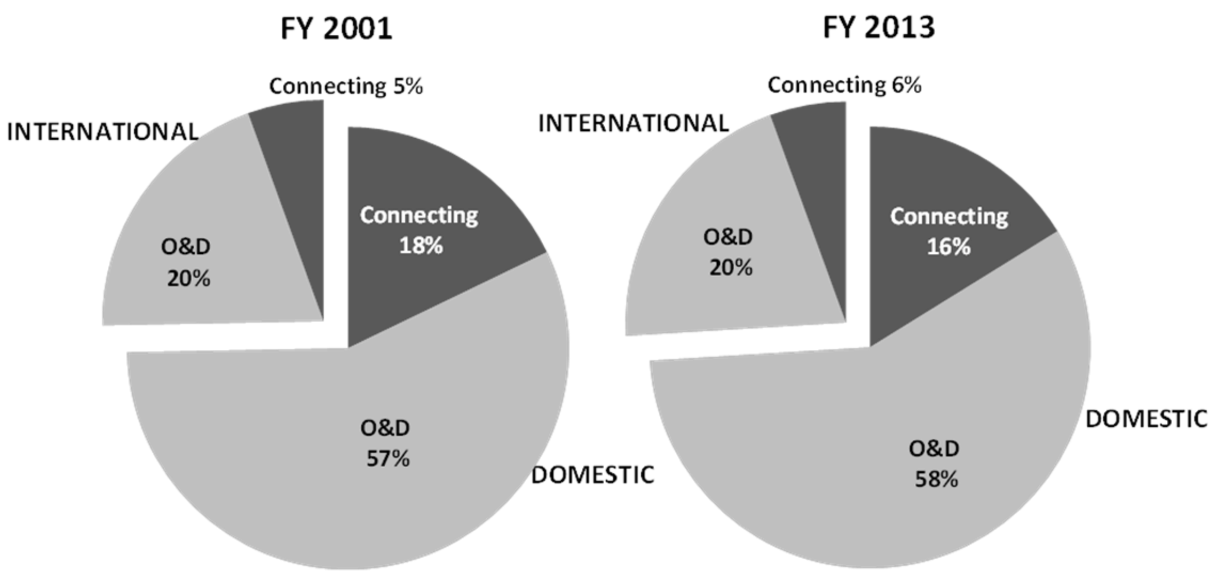
Airport Passenger Characteristics

One of the key strengths of the Airport is the diversity of its passenger base. A large base of international passengers, a relatively high percentage of O&D passengers, and a strong business travel component provide the Airport with a solid base of airline travel demand.

A substantial proportion of passengers enplaned at the Airport were bound for international destinations, either nonstop or via connecting flights at other hub airports: 26% of total enplaned passengers in FY 2013, up slightly from 25% in FY 2001.

Although the Airport serves as a connecting hub, the majority of its passengers either originate or terminate their air journeys at the Airport. Figure 20 shows that, in both FY 2001 and FY 2013, an estimated 77%-78% of airline travelers who used SFO were O&D passengers. Of those passengers who connected between flights at the Airport in FY 2013, it is estimated that 54% connected between domestic flights, 40% connected between domestic and international flights, and 6% connected between international flights (i.e., passengers whose origins and destinations are locations outside the United States).

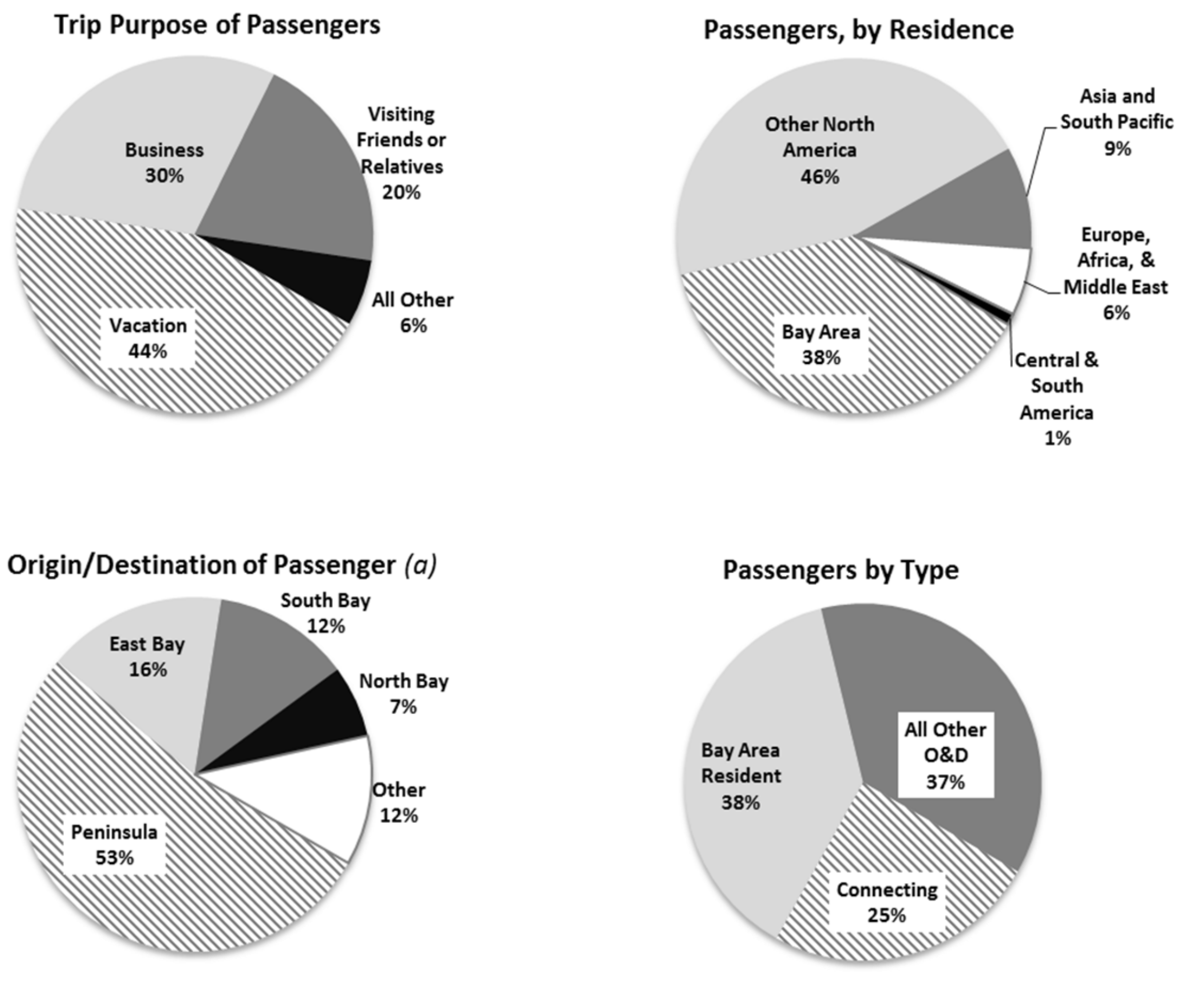
Figure 20
ENPLANED PASSENGERS, BY ORIGIN-DESTINATION AND CONNECTING
San Francisco International Airport
(for Fiscal Years ended June 30)



Sources: San Francisco Airport Commission; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Figure 21 shows that business travelers to and from the Bay Area accounted for 30% of all passengers using the Airport, according to the annual passenger survey conducted at the Airport by the City and County of San Francisco in May 2013. Survey results indicated that an additional 64% were leisure travelers (44% on vacation, 20% visiting friends and relatives) and 6% were traveling for other reasons. Bay Area residents accounted for 38% of travelers using the Airport, while other North America residents accounted for an additional 46%. Of the 16% of overseas residents, more than half were from Asia and the South Pacific.

Figure 21
PASSENGER CHARACTERISTICS
San Francisco International Airport
(Survey conducted May 1-19, 2013)



Note: The Peninsula includes San Mateo County and the City and County of San Francisco. East Bay includes Alameda, Contra Costa, Napa, Solano, and San Joaquin counties. South Bay includes Monterey, Santa Clara, and Santa Cruz counties. North Bay includes Marin and Sonoma counties.

(a) Excludes connecting passengers.

Sources: City and County of San Francisco, *2013 SFO Customer Survey Report*.

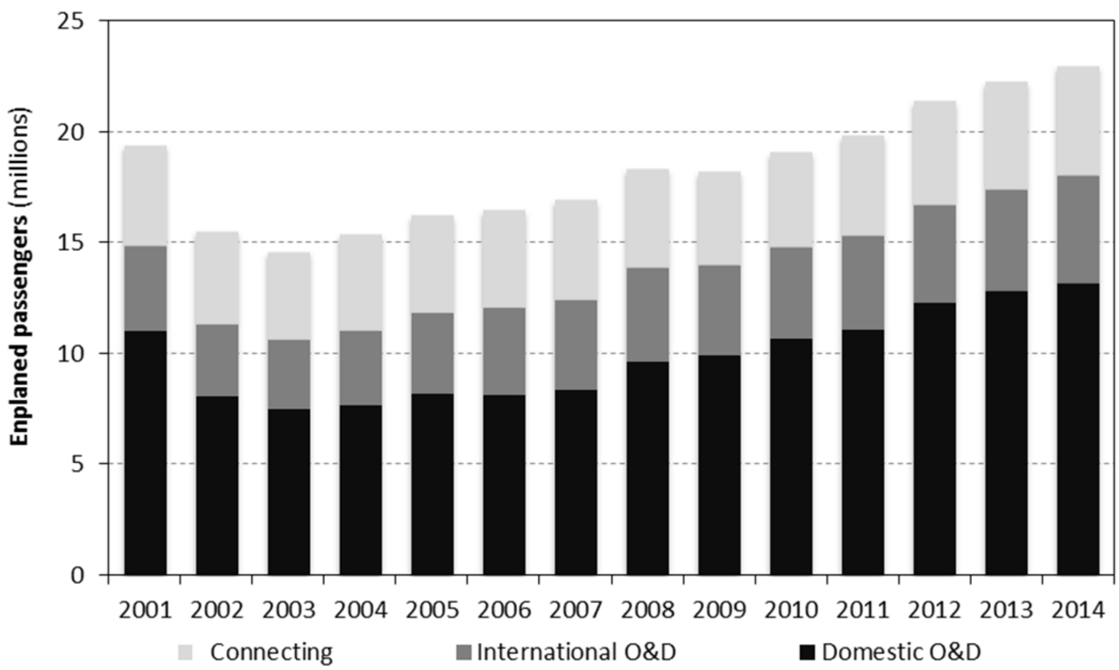
Residents of and visitors to the Peninsula, including the City, accounted for 53% of all Bay Area O&D trips at the Airport in May 2013. East Bay residents and visitors accounted for another 16%, while travelers to and from the South Bay, the North Bay, and beyond accounted for the remainder (31%).

Bay Area residents made up 38% of all travelers using the Airport during the survey period, visitors to the Bay Area constituted 37%, and 25% were making connections between flights.

Passenger Trends

Figure 22 shows changes in the number and composition of enplaned passengers at the Airport since FY 2001. After a decrease of 25% between FY 2001 and FY 2003, overall passenger traffic at the Airport recovered about half of that decline in the subsequent four years and by FY 2011 surpassed the FY 2001 level.

Figure 22
ENPLANED PASSENGER TRENDS
San Francisco International Airport
(for Fiscal Years ended June 30)



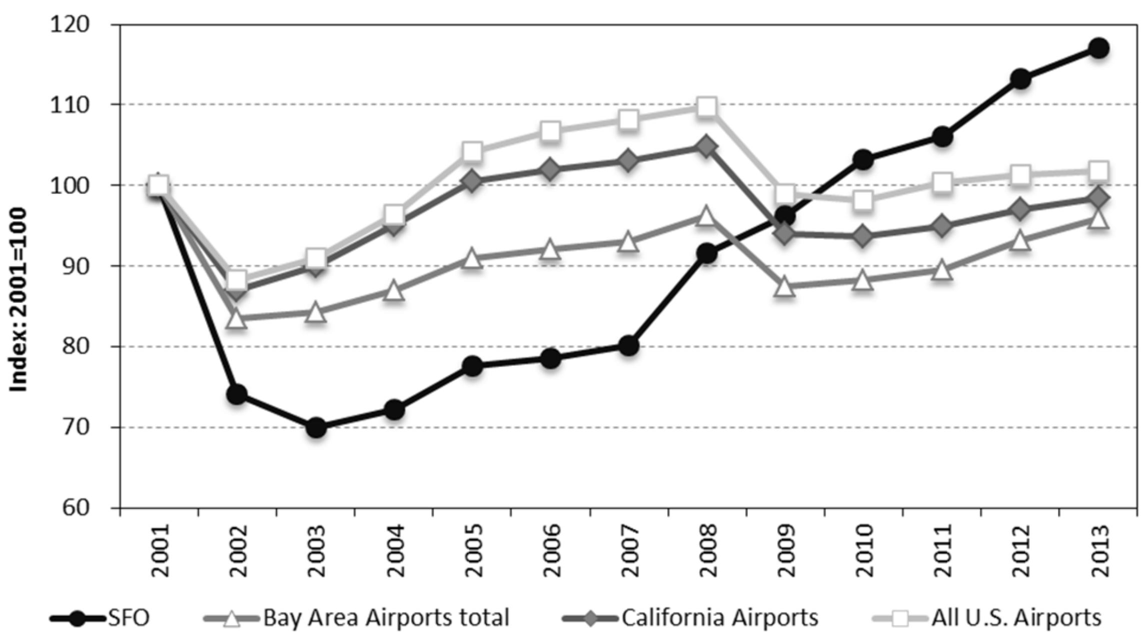
Note: 2014 total represents actual results, O&D and connecting totals represent estimates.

Sources: San Francisco Airport Commission; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Passenger traffic growth at the Airport accelerated in mid-2007 as a result of the introduction of service by the three LCCs. Affected only to a small degree by the economic recession in 2008 and 2009, the total number of enplaned passengers increased 36% between FY 2007 and FY 2014. The increase was led by growth in domestic O&D traffic (up 57%), while the numbers of international O&D passengers and connecting passengers increased 20% and 9%, respectively. Trends relating to domestic O&D passengers, international O&D passengers, connecting passengers, and airline activity are described below.

Domestic O&D Passenger Trends. Figure 23 shows that the number of domestic O&D passengers at the Airport exhibited a different pattern between FY 2001 and FY 2013 than the Bay Area as a whole, California, and the nation. Between FY 2001 and FY 2003, the drop in the number of domestic O&D passengers was much more pronounced at the Airport than in the other Bay Area airports, California, or the nation, attributable largely to the collapse of the dot-com bubble, Southwest Airline's service termination at the Airport, and the cessation of Shuttle by United service. Between FY 2003 and FY 2007, domestic O&D passenger growth tracked broader trends. Since FY 2007, however, robust growth in domestic O&D passenger traffic at the Airport (up 46%) stood in stark contrast to the 4% and 6% declines in domestic O&D passengers at all California airports taken together and nationwide, respectively. This growth was, in large part, due to the launch of service by LCCs JetBlue and Virgin America and the re-launch of service by Southwest at the Airport in mid-2007 and the subsequent stimulation of travel demand and recapture of Bay Area traffic share. These developments more than offset any weakness in travel demand stemming from the 2008-2009 economic recession.

Figure 23
INDEX OF DOMESTIC O&D PASSENGER TRENDS
San Francisco International Airport, Bay Area Airports, All California Airports, & All U.S. Airports
(for the 12 months ended June 30)



Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Table 16 shows passenger traffic and airfares paid in the Airport's top 15 domestic O&D city markets since FY 2007.

Table 16

PASSENGERS AND AIRFARES IN TOP DOMESTIC O&D CITY MARKETS

San Francisco International Airport

(for Fiscal Years ended June 30; passengers in thousands)

		Outbound O&D passengers						Average one-way fare *(a)*				
					% of	CAGR					CAGR	
2013	City market				2013	2007-	2012-				2007-	2012-
Rank	*Airport*	2007	2012	2013	total	2012	2013	2007	2012	2013	2012	2013
1	Los Angeles	803	1,483	1,521	12.4%	13.1%	2.6%	$99.57	$99.95	$99.82	0.1%	(0.1)%
	Los Angeles	*581*	*1,020*	*1,009*	*8.2*	*11.9*	*(1.1)*	*85.80*	*93.83*	*98.58*	*1.8*	*5.1*
	Orange County	*109*	*269*	*315*	*2.6*	*19.7*	*17.2*	*143.75*	*120.22*	*104.25*	*(3.5)*	*(13.3)*
	Long Beach	-	*128*	*132*	*1.1*	--	*2.6*	-	*74.34*	*74.34*	--	*(0.0)*
	Burbank	*79*	*43*	*37*	*0.3*	*(11.4)*	*(14.6)*	*136.06*	*196.38*	*168.24*	*7.6*	*(14.3)*
	Ontario	*33*	*22*	*28*	*0.2*	*(7.8)*	*28.4*	*108.17*	*96.71*	*124.03*	*(2.2)*	*28.3*
2	New York *(b)*	948	1,303	1,340	10.9	6.6	2.8	287.35	307.37	314.66	1.4	2.4
3	Washington DC/Baltimore *(c)*	360	611	644	5.3	11.2	5.4	279.96	260.14	268.74	(1.5)	3.3
4	Chicago *(d)*	323	643	611	5.0	14.8	(5.0)	242.79	195.12	226.06	(4.3)	15.9
5	Las Vegas	349	580	557	4.5	10.7	(4.0)	96.65	101.04	109.40	0.9	8.3
6	Boston	342	515	539	4.4	8.6	4.6	256.21	259.03	283.14	0.2	9.3
7	San Diego	205	540	529	4.3	21.4	(2.0)	104.72	100.70	102.65	(0.8)	1.9
8	Seattle	280	471	457	3.7	10.9	(3.0)	131.48	125.34	141.87	(1.0)	13.2
9	Denver	280	358	390	3.2	5.1	8.8	163.11	148.67	158.86	(1.8)	6.9
10	Dallas *(e)*	207	373	345	2.8	12.5	(7.4)	203.67	175.57	197.76	(2.9)	12.6
11	Philadelphia	186	232	294	2.4	4.5	26.5	245.39	270.03	241.90	1.9	(10.4)
12	Atlanta	247	270	286	2.3	1.8	6.2	207.32	231.61	235.28	2.2	1.6
13	Portland, OR	147	163	229	1.9	2.1	40.1	114.24	151.32	123.32	5.8	(18.5)
14	Phoenix	179	237	227	1.9	5.9	(4.3)	127.75	138.38	139.77	1.6	1.0
15	Minneapolis/St. Paul	235	203	211	1.7	(2.8)	4.0	186.50	229.68	240.70	4.3	4.8
	Total—top 15 markets	5,089	7,984	8,181	66.8%	9.4%	2.5%	$192.39	$186.25	$195.19	(0.6)%	4.8%
	All other markets	3,306	3,873	4,068	33.2	3.2	5.0	192.55	224.98	228.69	3.2	1.6
	Total—all markets	8,395	11,857	12,249	100.0%	7.1%	3.3%	$192.45	$198.90	$206.32	0.7%	3.7%

Notes: Columns may not add to totals shown because of rounding.
CAGR = Compound annual growth rate.

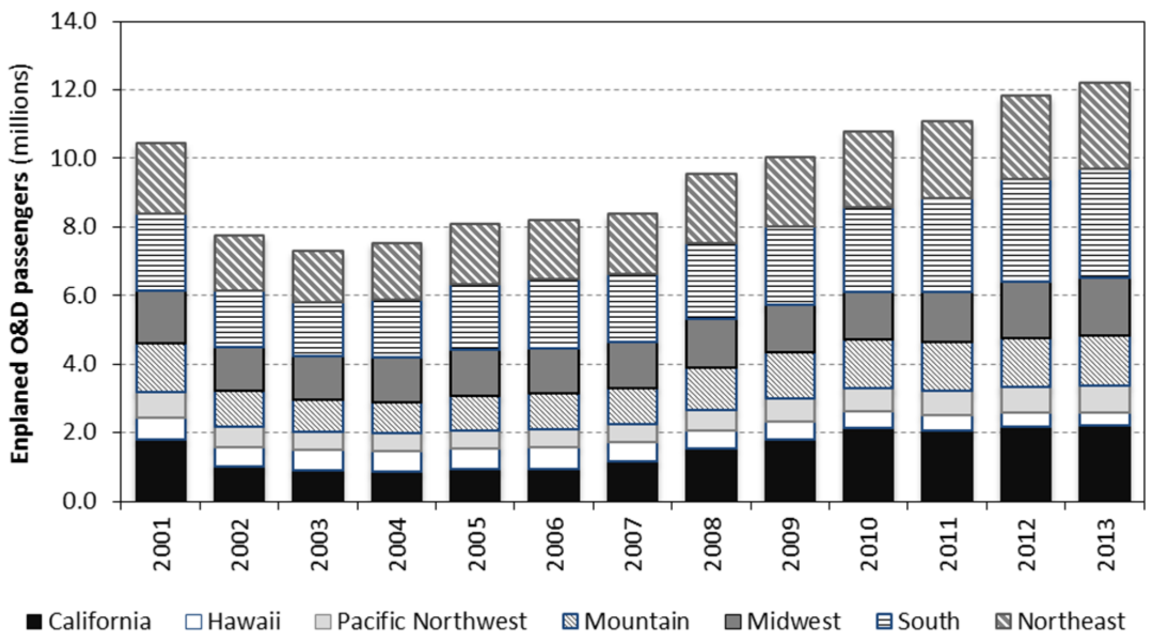
(a) Average one-way fares shown are net of all taxes, fees, and passenger facility charges and exclude ancillary fees charged by the airlines.
(b) Market includes Kennedy, Newark, and LaGuardia airports.
(c) Market includes Dulles, Reagan, and Baltimore airports.
(d) Market includes O'Hare and Midway airports.
(e) Market includes Dallas/Fort Worth International Airport and Love Field.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Between FY 2007 and FY 2013, domestic O&D passengers increased 46% at the Airport, while average one-way airfares paid increased 7%. Over this period, 14 of the top 15 domestic O&D markets at SFO experienced substantial increases in passenger traffic with 13 of the markets growing in excess of 40%. By comparison, the only city in the top 15 markets at SFO that recorded a passenger decline over the six-year period, Minneapolis/St. Paul, also experienced the largest increase in average airfares among the top markets.

Changes since FY 2001 in the Airport's domestic O&D passengers by region are illustrated in Figure 24. In the two years from FY 2001 to FY 2003, the number of domestic O&D passengers at the Airport declined 30%. Slightly more than half of this decline resulted from passenger traffic declines to destinations in the western United States (California, the Mountain region, the Pacific Northwest, and Hawaii).

Figure 24
DOMESTIC O&D PASSENGERS, BY DESTINATION REGION
San Francisco International Airport
(for Fiscal Years ended June 30)



Notes: Data exclude Puerto Rico, the U.S. Virgin Islands, and the Trust Territory of the Pacific Islands. Pacific Northwest includes Alaska, Oregon, and Washington. Mountain, Midwest, South, and Northeast regions are defined on Figure 11.

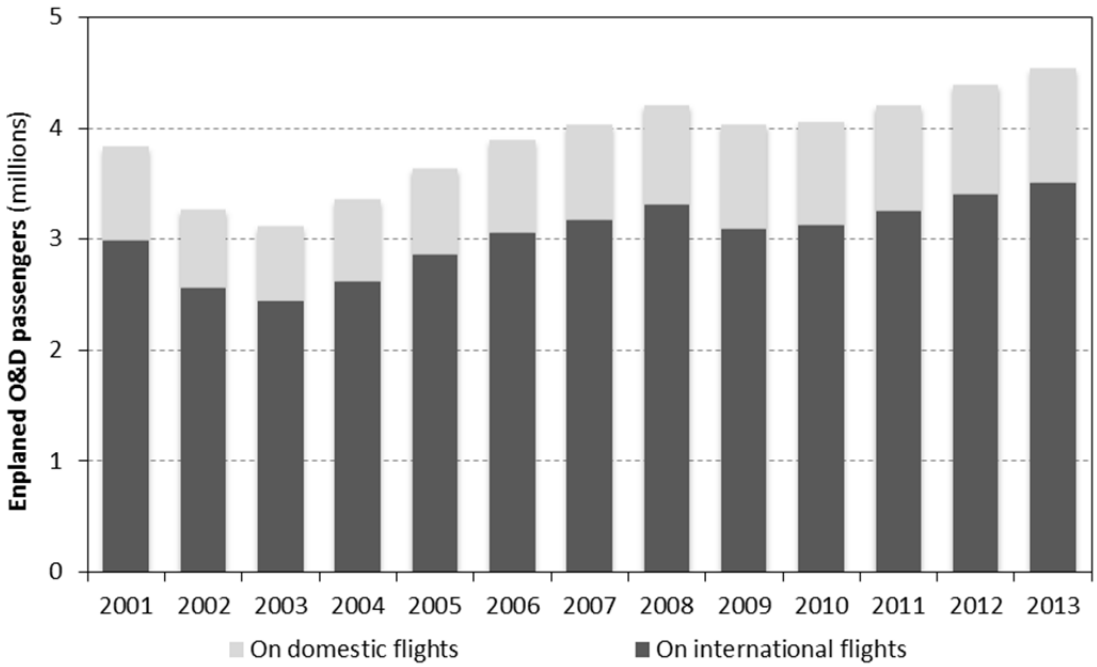
Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

By contrast, between FY 2003 and FY 2013, the number of domestic O&D passengers at the Airport rebounded, increasing 67% and surpassing the FY 2001 level by 1.8 million passengers. Approximately 40% of this increase was attributable to a rebound in passenger traffic to destinations in the western United States (e.g., intra-California traffic more than doubled), but 60% of the increase since FY 2003 was to longer-haul domestic destinations in the eastern part of the country (Midwest, South, and the Northeast).

The net result of this differential growth of O&D passengers is that, since 2003, nearly 60% of the Airport's domestic passengers have been destined for the eastern United States, up several percentage points from earlier years. The remainder (approximately 40%) is now destined for the western United States.

International O&D Passenger Trends. Figure 25 shows that, from FY 2001 to FY 2003, the Airport experienced a substantial decline (down 18.7%) in international O&D passengers. Between FY 2003 and FY 2013, however, the number of international O&D enplaned passengers at the Airport resumed growth and increased 3.8% per year, on average. By FY 2012, the number of international O&D passengers at the Airport exceeded the Airport's previous FY 2008 record.

Figure 25
INTERNATIONAL O&D PASSENGER TRENDS
San Francisco International Airport
(for Fiscal Years ended June 30)



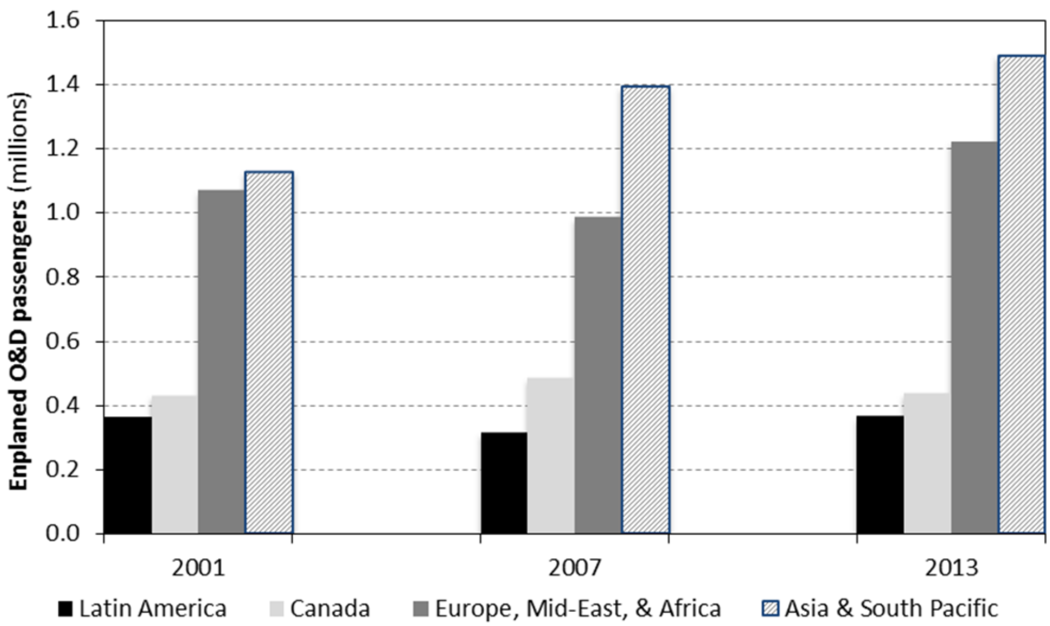
Notes: O&D passengers on international flights include international O&D passengers on scheduled flights along with small numbers of passengers on charter flights and nonrevenue passengers. O&D passengers on domestic flights are passengers who boarded domestic flights to other U.S. gateway airports where they connected with flights to their international destinations.

Sources: San Francisco Airport Commission; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

In addition to using international service at the Airport, Bay Area residents also use domestic flights at the Airport to connect with international flights at other U.S. gateway airports. Over the past 12 years, the share of international O&D passengers departing San Francisco International on domestic flights has fluctuated in a narrow range of 21% to 23%.

Figure 26 shows that the composition of international O&D traffic growth at the Airport has changed over the past 12 years. Between FY 2001 and FY 2013, the number of international O&D passengers at the Airport increased 17%. About 70% of this increase was attributable to growth in the number of O&D passengers to Asia, while the remainder of the increase was nearly all attributable to growth in the number of O&D passengers to Europe, the Middle East, and Africa.

Figure 26
INTERNATIONAL O&D PASSENGERS, BY DESTINATION WORLD AREA
San Francisco International Airport
(for Fiscal Years ended June 30)

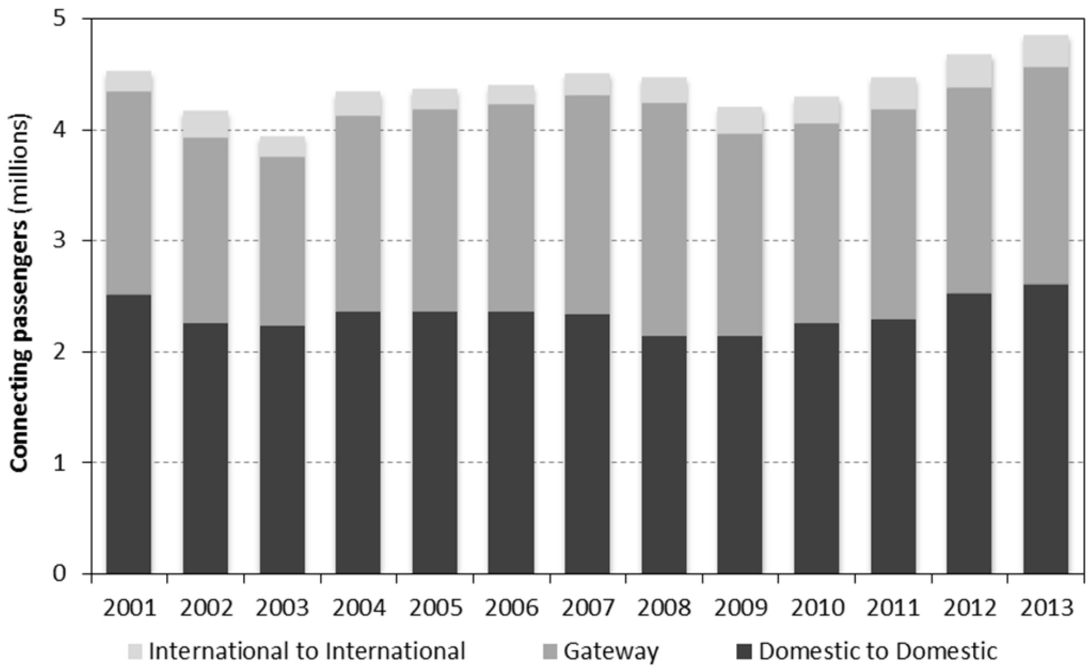


Notes: Excludes international O&D passengers originating their trips on domestic flights at San Francisco and connecting through other U.S. gateway airports. Latin America is defined here to include Mexico, Central America, South America, and the Caribbean.

Sources: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1; U.S. DOT, Schedule T100.

Connecting Passenger Trends. Figure 27 shows that the number of connecting passengers at the Airport experienced very little net change (up 7%) between FY 2001 and FY 2013. Approximately 54% (2.6 million) of all connecting passengers at the Airport in FY 2013 connected from one domestic flight to another. An additional 40% (1.9 million) of all connecting passengers made gateway connections (between domestic and international flights) at the Airport. The remaining 6% of connecting passengers (approximately 290,000) connected between international flights at the Airport.

Figure 27
TRENDS IN CONNECTING PASSENGERS
San Francisco International Airport
(for Fiscal Years ended June 30)

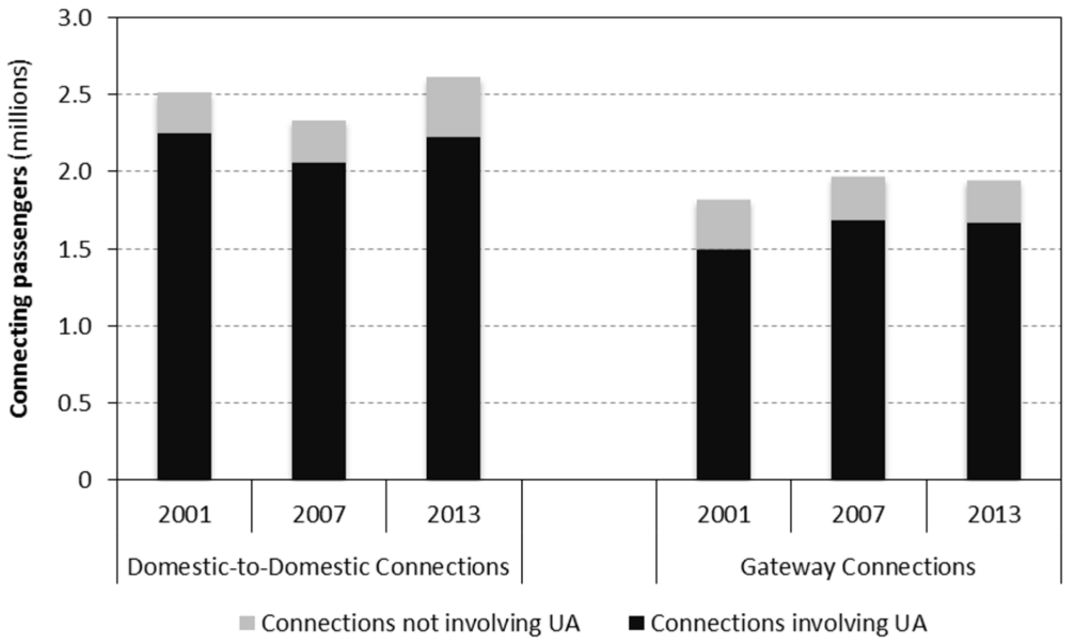


Note: Gateway connections include connections from domestic flights to international flights, and vice versa.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

United and United Express account for most of the passenger connections at the Airport. Figure 28 shows that approximately 85% of domestic-to-domestic connections and 86% of gateway connections at the Airport in FY 2013 involved connections from one United flight to another or between a United flight and a flight operated by another airline.

Figure 28
DOMESTIC-DOMESTIC AND GATEWAY CONNECTING PASSENGERS,
BY AIRLINE GROUP
San Francisco International Airport
(for Fiscal Years ended June 30)



Notes: Domestic-domestic connections are connections from one domestic flight to another domestic flight. Gateway connections include connections from domestic flights to international flights and vice-versa.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Airline Activity. Compared with other U.S. large-hub airports, the Airport has only a moderate degree of airline concentration. Table 17 shows that United and United Express together enplaned 46.3% of all passengers at the Airport in FY 2014, down from 53.2% in FY 2001. The combined American-US Airways ranked second with 10.0% of the total in FY 2014 and Virgin America ranked third with 8.5%. Virgin America (headquartered just a few miles from the Airport), which reported its first full-year profit in 2013 since its 2007 inception, has shown strong growth at the Airport.

In FY 2014, 49.2% of all domestic passengers at the Airport boarded a flight operated by United or United Express. American-US Airways and Virgin America ranked second and third, respectively. The three LCCs that initiated service at the Airport in 2007—Southwest, Virgin America, and JetBlue—accounted for a combined 22.8% of all domestic enplaned passengers at the Airport in FY 2014.

Table 17
ENPLANED PASSENGERS, RANKED BY AIRLINE
San Francisco International Airport
(for Fiscal Years ended June 30, unless otherwise noted; passengers in thousands)

2014 Rank	Airline *(a)*	2001	2007	2013	2014	Airline share of total 2001	2007	2013	2014
Domestic:									
1	United *(b)*	8,958	7,291	8,545	8,849	58.3%	57.8%	48.8%	49.2%
	United	*8,367*	*6,644*	*6,548*	*8,849*	*54.5*	*52.7*	*37.4*	*49.2*
	Continental	*591*	*647*	*1,996*	*-*	*3.8*	*5.1*	*11.4*	*-*
2	American-US Airways *(c)*	2,858	2,607	2,314	2,292	18.6	20.7	13.2	12.7
	American	*1,857*	*1,734*	*1,507*	*1,464*	*12.1*	*13.8*	*8.6*	*8.1*
	US Airways	*1,001*	*873*	*806*	*827*	*6.5*	*6.9*	*4.6*	*4.6*
3	Virgin America	-	-	1,878	1,919	-	-	10.7	10.7
4	Southwest *(d)*	295	99	1,688	1,639	1.9	0.8	9.6	9.1
	Southwest	*295*	*-*	*1,555*	*1,568*	*1.9*	*-*	*8.9*	*8.7*
	AirTran	*-*	*99*	*133*	*72*	*-*	*0.8*	*0.8*	*0.4*
5	Delta *(e)*	1,794	1,516	1,687	1,804	11.7	12.0	9.6	10.0
6	Alaska	445	573	525	584	2.9	4.5	3.0	3.2
	All others	1,006	523	881	901	6.6	4.1	5.0	5.0
	Total	**15,356**	**12,609**	**17,516**	**17,987**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
International:									
1	United *(b)*	1,374	1,603	1,736	1,806	33.8%	36.9%	36.5%	36.1%
2	Air Canada	315	304	285	337	7.7	7.0	6.0	6.7
3	Lufthansa	208	230	252	241	5.1	5.3	5.3	4.8
4	British Airways	185	215	209	211	4.5	5.0	4.4	4.2
5	Cathay Pacific	78	123	212	210	1.9	2.8	4.4	4.2
6	Singapore	177	196	191	177	4.4	4.5	4.0	3.5
7	EVA Airways	116	153	152	169	2.9	3.5	3.2	3.4
8	Air France	94	117	164	160	2.3	2.7	3.4	3.2
	All others	1,520	1,404	1,558	1,697	37.4	32.3	32.7	33.9
	Total	**4,067**	**4,345**	**4,757**	**5,009**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total:									
1	United *(b)*	10,332	8,894	10,280	10,656	53.2%	52.5%	46.2%	46.3%
2	American-US Airways *(c)*	2,858	2,607	2,314	2,292	14.7	15.4	10.4	10.0
3	Virgin America	-	-	1,935	1,965	-	-	8.7	8.5
4	Delta *(e)*	1,888	1,596	1,743	1,843	9.7	9.4	7.8	8.0
5	Southwest *(d)*	295	99	1,688	1,639	1.5	0.6	7.6	7.1
6	Alaska	634	778	596	664	3.3	4.6	2.7	2.9
7	JetBlue	-	38	533	543	-	0.2	2.4	2.4
8	Air Canada	315	304	285	337	1.6	1.8	1.3	1.5
	All others	3,102	2,638	2,900	3,057	16.0	15.6	13.0	13.3
	Total	**19,423**	**16,954**	**22,273**	**22,996**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Note: Columns may not add to totals shown because of rounding.

(a) Includes regional code sharing affiliates, if any.
(b) United and Continental merged in October 2010.
(c) American and US Airways merged in December 2013. Includes TWA in 2001 and American West in 2001 and 2007.
(d) Southwest and AirTran merged in February 2013.
(e) Delta and Northwest merged in October 2008. Includes Northwest for all years shown.

Source: San Francisco Airport Commission.

United also enplaned the most passengers on international flights at the Airport in FY 2014, with 36.1% of the total. The remainder of the Airport's top eight airlines of international passengers were foreign-flag airlines.

Cargo

Air cargo tonnage was reported at the Airport by 43 airlines in FY 2014 (refer to Table 10 for a list of the airlines). Seventeen U.S. airlines accounted for nearly half of the cargo handled at the Airport in FY 2014. Twenty-six foreign-flag airlines accounted for the remaining half, most of which was carried by Asian airlines.

The carriage of cargo is a key source of operating revenue for many passenger airlines, particularly foreign-flag airlines, and cargo is an important contributor to the viability of their passenger flights. Approximately 83% of all cargo handled at the Airport in FY 2014 was carried on passenger flights, while the remainder was carried on all-cargo aircraft. All-cargo aircraft operations have relatively little effect on the Airport's revenues, given that (1) all-cargo aircraft carry less than 20% of all cargo handled at the Airport and (2) reductions in cargo revenue resulting from fewer all-cargo aircraft operations are made up by the passenger airlines because of the residual airline rate-making methodology in place at the Airport.

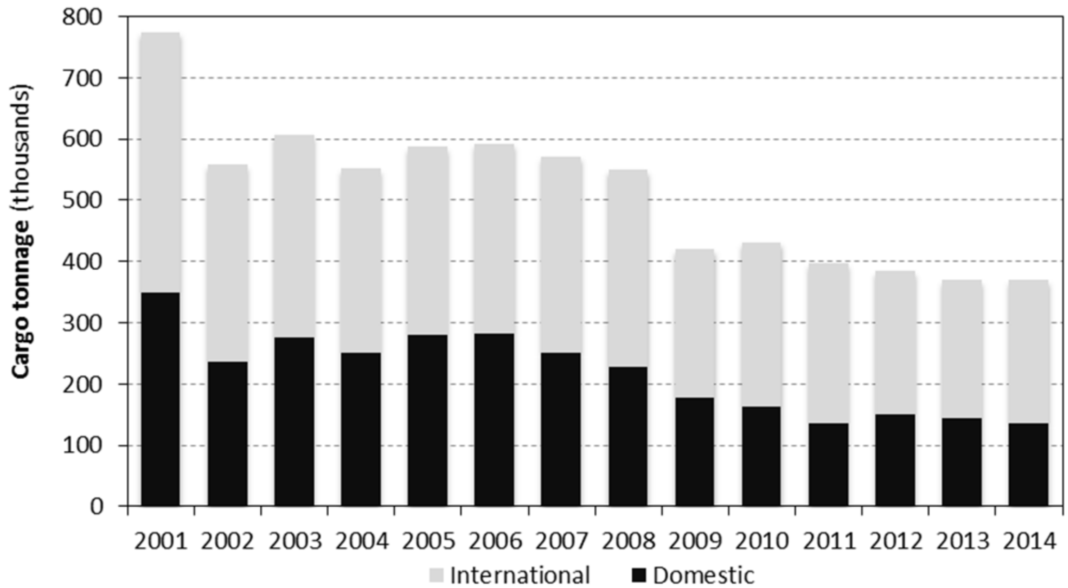
Figure 29 shows the declining trend in air cargo tonnage experienced at the Airport since FY 2001. Cargo tonnage in FY 2014 stood at about half the level recorded in FY 2001; domestic cargo tonnage declined more than international over the period (-61% and -45%, respectively). A long-term declining trend in air cargo tonnage such as this is fairly common among U.S. airports; shipper (consumer) cost sensitivity has shifted some cargo formerly transported by air to less costly surface modes of transport.

The cargo market at the Airport shows a relatively low degree of airline concentration. Table 18 shows the top carriers of cargo at the Airport, ranked by domestic cargo tonnage, international cargo tonnage, and total cargo tonnage. United, the top cargo carrier at the Airport, accounted for 22.8% of all cargo tonnage handled in FY 2014, down 3 percentage points from its share in FY 2001. The next-ranking carrier, FedEx, accounted for 7.7% of all cargo tonnage handled at the Airport in FY 2014, the same as in FY 2001.

Table 19 shows that international cargo tonnage at the Airport declined 45% between FY 2001 and FY 2014. Over the 13-year period, there were significant shifts in the share of international cargo from all-cargo airlines to passenger airlines, and from U.S. airlines to Asian airlines.

According to the 2013 Economic Impact Study prepared by Economic Development Research Group, Inc. for the Airport, commodities valued at roughly $30 billion were exported to international and domestic destinations from SFO, nearly half of which originated in the Bay Area in 2012. Air freight that originated in the Bay Area overwhelmingly consisted of technology goods. Three commodity groups accounted for two-thirds of international exports—electrical machinery, optics and instruments, and industrial machinery. The two leading commodity groups in domestic exports, electronics and precision instruments, accounted for 92% of domestic value.

Figure 29
TRENDS IN TOTAL AIR CARGO TONNAGE
San Francisco International Airport
(for Fiscal Years ended June 30; cargo in metric tons)



Note: Sum of enplaned and deplaned freight and mail.

Source: San Francisco Airport Commission.

Table 18

TOTAL AIR CARGO TONNAGE HANDLED, BY CARRIER

San Francisco International Airport

(for Fiscal Years ended June 30; cargo in metric tons)

2014 Rank	Airline	2001	2007	2013	2014	Airline share of total 2001	2007	2013	2014
Domestic:									
	United *(a)*	125,911	41,366	49,130	43,439	36.1%	16.4%	34.1%	31.8%
	United	*114,617*	*34,166*	*38,229*	*43,439*	*32.8*	*13.6*	*26.5*	*31.8*
	Continental	*11,294*	*7,200*	*10,901*	-	*3.2*	*2.9*	*7.6*	-
1	FedEx	49,467	94,480	27,060	28,467	14.2	37.5	18.8	20.8
2	ABX Air *(b)*	22,988	26,976	8,695	18,613	6.6	10.7	6.0	13.6
3	American-US Airways *(c)*	62,338	41,088	17,550	17,121	17.8	16.3	12.2	12.5
	American	*51,856*	*35,126*	*14,634*	*14,325*	*14.8*	*13.9*	*10.1*	*10.5*
	US Airways	*10,482*	*5,962*	*2,916*	*2,796*	*3.0*	*2.4*	*2.0*	*2.0*
4	Delta *(d)*	51,826	15,888	13,828	14,050	14.8	6.3	9.6	10.3
5	Hawaiian	3,236	2,389	4,855	4,620	0.9	0.9	3.4	3.4
6	Southwest	2,480	-	3,026	3,053	0.7	-	2.1	2.2
	All others	31,021	29,899	20,127	7,341	8.9	11.9	14.0	5.4
	Total	349,267	252,086	144,270	136,705	100.0%	100.0%	100.0%	100.0%
International:									
1	United *(a)*	74,943	73,623	43,518	40,968	17.6%	23.0%	19.3%	17.5%
2	Korean	20,755	26,839	20,494	22,709	4.9	8.4	9.1	9.7
3	China Airlines *(e)*	21,580	21,661	21,277	18,457	5.1	6.8	9.4	7.9
4	Asiana	19,874	19,771	10,817	17,567	4.7	6.2	4.8	7.5
5	EVA	26,273	22,972	15,850	15,864	6.2	7.2	7.0	6.8
6	Singapore	22,454	6,911	6,166	15,514	5.3	2.2	2.7	6.6
7	Nippon Cargo	29,012	17,639	11,644	11,199	6.8	5.5	5.2	4.8
8	British Airways	11,671	11,244	10,317	11,099	2.7	3.5	4.6	4.7
	All others	199,673	119,581	85,842	80,443	46.8	37.3	38.0	34.4
	Total	426,235	320,240	225,925	233,820	100.0%	100.0%	100.0%	100.0%
Total:									
1	United *(a)*	200,854	114,989	92,648	84,407	25.9%	20.1%	25.0%	22.8%
2	FedEx	60,099	94,480	27,060	28,467	7.7	16.5	7.3	7.7
3	Korean	20,755	26,839	20,494	22,709	2.7	4.7	5.5	6.1
4	ABX Air *(b)*	22,988	26,976	8,695	18,613	3.0	4.7	2.3	5.0
5	China Airlines *(e)*	21,580	21,661	21,277	18,457	2.8	3.8	5.7	5.0
6	Asiana	19,874	19,771	10,817	17,567	2.6	3.5	2.9	4.7
7	American-US Airways *(c)*	62338	41088	17550	17121	8.0	7.2	4.7	4.6
8	Delta *(d)*	82,423	25,761	16,883	16,065	10.6	4.5	4.6	4.3
	All others	284,591	200,762	154,771	147,119	36.7	35.1	41.8	39.7
	Total	775,502	572,326	370,195	370,525	100.0%	100.0%	100.0%	100.0%

Notes: Sum of enplaned and deplaned freight and mail.
Columns may not add to totals shown because of rounding.

(a) United and Continental merged in October 2010.

(b) In August 2003, DHL purchased the sales and ground network of Airborne Express. As a result, ABX Air became an independent publicly traded company, entering into contracts with DHL to continue providing service. In January 2009, DHL discontinued domestic ground service within the United States. ABX Air continues to operate the U.S. portion of DHL's international network.

(c) American and US Airways merged in December 2013. TWA is included in 2001 and America West is in 2001 and 2007.

(d) Delta and Northwest merged in October 2008. Includes Northwest for all years shown.

(e) Includes cargo carried on passenger and all-cargo flights.

Source: San Francisco Airport Commission.

Table 19
TRENDS IN INTERNATIONAL AIR CARGO
San Francisco International Airport
(for Fiscal Years ended June 30; cargo in metric tons)

	2001		2007		2013		2014	
	Tons	% of Total	Tons	% of Total	Tons	% of Total	Tons	% of Total
Total International Air Cargo	**426,235**	**100.0%**	**320,240**	**100.0%**	**225,925**	**100.0%**	**233,820**	**100.0%**
By Type of Carrier:								
Passenger	343,683	80.6%	284,823	88.9%	207,806	92.0%	222,436	95.1%
All-Cargo	82,552	19.4	35,417	11.1	18,119	8.0	11,383	4.9
By Carrier Nationality								
U.S.	142,010	33.3%	88,837	27.7%	53,296	23.6%	43,328	18.5%
All Foreign Flags	284,225	66.7	231,403	72.3	172,629	76.4	190,492	81.5
By World Area:								
Asia and South Pacific	200,780	47.1%	183,034	57.2%	129,280	57.2%	143,484	61.4%
Europe	79,191	18.6	46,405	14.5	39,589	17.5	44,338	19.0
Mexico, Central & South America	905	0.2	40	0.0	3,265	1.4	2,150	0.9
Canada	3,349	0.8	1,924	0.6	494	0.2	519	0.2

Notes: Sum of enplaned and deplaned freight and mail.
Columns may not add to totals shown because of rounding.

Source: San Francisco Airport Commission.

KEY FACTORS AFFECTING FUTURE AIRLINE TRAVEL

In addition to the economy and demographics of the San Francisco CSA and intra-airport competition, as discussed earlier, key factors that will affect future airline traffic at the Airport include:

- Economic and political conditions
- Financial health of the airline industry
- Airline service and routes
- Airline competition and airfares
- Airline consolidation and alliances
- Availability and price of aviation fuel
- Aviation safety and security concerns
- Capacity of the national air traffic control system
- Capacity of the Airport
- High-speed rail in California

Economic and Political Conditions

Historically, airline passenger traffic nationwide has correlated closely with changes in the U.S. economy and levels of real disposable income. Recession in the U.S. economy in 1990-1991, 2001, and

2008-2009 and associated high unemployment reduced discretionary income and contributed to reduced airline travel demand in those years.

With the globalization of business and the increased importance of international trade and tourism, the state of the U.S. economy has become more closely tied to worldwide economic, political, and social conditions. As a result, international economics, trade balances, currency exchange rates, political relationships, and hostilities all influence passenger traffic at major U.S. airports. Sustained future increases in passenger traffic at the Airport will depend on stable international conditions as well as national and global economic growth.

Financial Health of the Airline Industry

The number of passengers using the Airport will depend partly on the profitability of the airline industry and the associated ability of the industry and individual airlines, particularly United, to make the necessary investments to continue providing service.

As a result of the 2001 economic recession, the disruption of the airline industry that followed the September 2001 terrorist attacks, increased fuel and other operating costs, and price competition, the industry experienced huge financial losses. In 2001 through 2005, the major U.S. passenger airlines collectively recorded net losses of nearly $60 billion.

To mitigate those losses, all of the major network airlines restructured their route networks and flight schedules and reached agreement with their employees, lessors, vendors, and creditors to cut costs, either under Chapter 11 bankruptcy protection or the possibility of such. Between 2002 and 2005, US Airways, United Airlines, Delta Air Lines, Northwest Airlines, Hawaiian Airlines, ATA Airlines, Aloha Airlines, and Independence Air filed for bankruptcy protection. Of the major network airlines, American Airlines and Continental Airlines were the only airlines not to file for bankruptcy during this period (although American did subsequently file in 2011).

In 2006 and 2007, the U.S. passenger airline industry as a whole was profitable, recording net income of approximately $23 billion, but beginning in mid-2008, as oil and aviation fuel prices increased to unprecedented levels, the industry experienced a profitability crisis. In 2008 and 2009, the U.S. passenger airline industry recorded net losses of approximately $27 billion. The industry responded by grounding older, less fuel-efficient aircraft; adopting fuel-saving operating practices; hedging fuel purchases and prices; reducing scheduled seat capacity; eliminating unprofitable routes and hubs; laying off employees; reducing employee compensation; reducing other non-fuel expenses; increasing airfares; and imposing ancillary fees and charges. Between 2007 and 2009, the U.S. passenger airlines collectively reduced domestic capacity (as measured by available seat-miles) by approximately 10%.

In 2010 through 2013, the U.S. passenger airline industry as a whole recorded net income of approximately $8 billion, in spite of sustained high fuel prices, by controlling capacity and nonfuel expenses, increasing airfares, recording high load factors, and increasing ancillary revenues. Over the four years 2009 to 2013, the airlines collectively increased domestic seat-mile capacity by an average of just 1.0% per year.

Sustained industry profitability will depend on, among other factors, economic growth to support airline travel demand, continued capacity control to allow increased airfares, and stable fuel prices. Consolidation of the airline industry has resulted in four airlines (American, Delta, Southwest, and United) now accounting for approximately 90% of domestic capacity. Such consolidation is expected by airline industry analysts to contribute to industry profitability. However, any resumption of financial losses could cause U.S. airlines to seek bankruptcy protection or liquidate. The liquidation of any of the large network airlines would drastically affect airline service at certain connecting hub airports, present business opportunities for the remaining airlines, and change airline travel patterns nationwide.

Airline Service and Routes

The Airport serves as a gateway to the Bay Area and as a connecting hub. The number of O&D passengers at the Airport depends on the intrinsic attractiveness of the Bay Area as a business and leisure destination, the propensity of its residents to travel, airline fares, and the service provided at the Airport and at other airports. The number of connecting passengers, on the other hand, depends entirely on the level of airline service provided, as discussed in “The Role as a Connecting Hub”.

Most mainline airlines have developed hub-and-spoke systems that allow them to offer high-frequency service in many city-pair markets. Because most connecting passengers have a choice of airlines and intermediate airports, connecting traffic at an airport depends on the route networks and flight schedules of the airlines serving that airport and competing hub airports. Since 2003, as the U.S. airline industry has consolidated, airline service has been or is being drastically reduced at many former connecting hub airports, including those serving St. Louis (American 2003-2005), Dallas-Fort Worth (Delta 2005), Pittsburgh (US Airways 2006-2008), Las Vegas (US Airways 2007-2010), Cincinnati (Delta 2009-2011), Memphis (Delta 2011-2013), and Cleveland (United 2014).

As discussed earlier, the Airport is an important connecting hub for United. In contrast to O&D passenger volumes, connecting traffic at the Airport derives from the route network and flight schedules of United rather than the economy of the San Francisco CSA. If United were to reduce connecting service at the Airport, such flights would not necessarily be replaced by other airlines.

Airline Competition and Airfares

Airline fares have an impact on passenger demand, particularly for relatively short trips for which the automobile and other travel modes are alternatives, and for price-sensitive “discretionary” travel. The price elasticity of demand for airline travel increases in weak economic conditions when the disposable income of potential airline travelers is reduced. Airfares are influenced by airline capacity and yield management; passenger demand; airline market presence; labor, fuel, and other airline operating costs; taxes, fees, and other charges assessed by governmental and airport agencies; and competitive factors. Future passenger numbers, both nationwide and at the Airport, will depend, in part, on the level of airfares.

Overcapacity in the industry, the proliferation of services by low-cost airlines, the ability of consumers to compare airfares and book flights easily via the Internet, and other competitive factors combined to reduce airfares between 2000 and 2005. During that period, the average domestic yield for U.S. airlines decreased from 16.1 cents to 13.8 cents per passenger-mile. In 2006 through 2008, as airlines reduced capacity and were able to sustain fare increases, the average domestic yield increased to 15.9 cents per passenger-mile. In 2009, yields again decreased, but beginning in 2010, as airline travel demand increased and seat capacity was restricted, yields increased to 17.5 cents per passenger-mile in 2013. Beginning in 2006, ancillary charges were introduced by most airlines for services such as checked baggage, preferred seating, in-flight meals, entertainment, and ticket changes, thereby increasing the effective price of airline travel more than these yield figures indicate.

Airline Consolidation and Alliances

In response to competitive pressures, the U.S. airline industry has consolidated. In April 2001, American completed an acquisition of failing Trans World Airlines. In September 2005, US Airways and America West Airlines merged. In October 2009, Republic Airways Holdings completed purchases of Frontier and Midwest airlines. In December 2009, Delta and Northwest merged. In October 2010, United and Continental completed a merger. In May 2011, Southwest completed its acquisition of AirTran, and expects to integrate operations in 2014. In December 2013, American and US Airways completed their merger, and the merged airline has stated its intention to maintain all hubs in the combined system.

Alliances, joint ventures, and other marketing arrangements provide airlines with many of the advantages of mergers; most of the largest U.S. airlines are members of such alliances with foreign-flag airlines. Alliances typically involve marketing, code sharing, and scheduling arrangements to facilitate the transfer of passengers between the airlines. Joint ventures involve even closer cooperation and the sharing of costs and revenues on designated routes.

Availability and Price of Aviation Fuel

The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainty. Beginning in 2003, fuel prices increased as a result of the invasion and occupation of Iraq; political unrest in other oil-producing countries; the growing economies of China, India, and other developing countries; and other factors influencing the demand for and supply of oil. By mid-2008, average fuel prices were three times higher than in mid-2004 and represented the largest airline operating expense, accounting for between 30% and 40% of expenses for most airlines. Fuel prices fell sharply in the second half of 2008 as demand declined worldwide, but increased in 2010 and 2011 as global demand increased. In 2011 and 2012, political instability and conflicts in North Africa and the Middle East contributed to further volatility in fuel prices. Average fuel prices decreased overall between 2011 and 2013, partly as a result of increased supply from U.S. domestic production. At the end of 2013, average aviation fuel prices were approximately 2.5 times the prices prevailing in 2003.

Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term. However, there is widespread agreement that fuel prices are likely to remain high relative to historical levels and to increase over the long term as global energy demand increases in the face of finite and increasingly expensive oil supplies.

Aviation fuel prices will continue to affect airfares, passenger volumes, airline profitability, and the ability of airlines to provide service. Airline operating economics will also be affected as regulatory costs are imposed on the airline industry as part of efforts to reduce aircraft emissions contributing to global climate change.

Aviation Safety and Security Concerns

Concerns about the safety of air travel and the effectiveness of security precautions influence passenger travel behavior and affect demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures can lead to avoidance of travel or switching to surface modes of transportation for short trips.

Safety concerns in the aftermath of the terrorist attacks in September 2001 were partly responsible for the steep decline in airline travel nationwide in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against changing threats and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration (TSA), more effective dissemination of information about threats, more intensive screening of passengers and baggage, and deployment of new screening technologies.

Public health and safety concerns have also affected airline travel demand from time to time. In 2003, concerns about the spread of severe acute respiratory syndrome (SARS) led public health agencies to issue advisories against nonessential travel to certain regions of the world. In 2009, concerns about the spread of influenza caused by the H1N1 virus reduced certain international travel, particularly to and from Mexico and Asia. In April 2010, airspace and airports in much of Europe were closed for several days because of the threat to flight safety related to the ash cloud from the eruption of a volcano in Iceland. In March 2011, airline travel to and from Japan decreased following a destructive earthquake and tsunami. In August 2014, the U.S. Centers for Disease Control and Protection issued a travel advisory for U.S. residents to avoid nonessential travel to Guinea, Liberia, and Sierra Leone because of an unprecedented outbreak of the Ebola virus which began in Guinea in March 2014.

On July 6, 2013, an accident occurred on the final approach of Asiana Airlines Flight 214 at the Airport killing three people and injuring several others. The Airport was closed for approximately five hours following the incident. The National Transportation Safety Board completed its investigation in June 2014 and found that the mismanagement of the final approach and inadequate monitoring of airspeed (by the aircraft pilot crew) led to the crash of Asiana Flight 214, along with other contributing factors.

Historically, airline travel demand has recovered after temporary decreases stemming from terrorist attacks or threats, hijackings, aircraft crashes, public health and safety concerns, and international hostilities. Provided that precautions of government agencies, airlines, and airport operators serve to maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at the Airport will depend primarily on economic, not safety or security, factors.

Capacity of the National Air Traffic Control System

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing its Next Generation Air Transport System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and procedures. Since 2007, airline traffic delays have decreased as a result of reduced numbers of aircraft operations, but, as airline travel increases in the future, flight delays and restrictions may occur.

Capacity of the Airport

In addition to any future constraints that may be imposed by the capacity of the national air traffic control system, future growth in airline traffic at the Airport will depend on the provision of capacity to accommodate aircraft flights and passengers. The forecasts presented later in this section were based on the assumption that no capacity enhancements or additions will be implemented at the Airport during the forecast period (i.e., through FY 2021). It is assumed that neither available airfield capacity nor demand management initiatives will constrain traffic growth at the Airport. Furthermore it is assumed that the forecast increases in enplaned passengers can be accommodated by existing terminal capacity in conjunction with the capital improvements planned through the end of the forecast period.

High-Speed Rail in California

In November 2008, California voters passed a referendum authorizing the State to issue roughly $10 billion in bonds to fund the first phase of a high-speed electric train system. The California High-Speed Rail Authority plans a rail network stretching from Sacramento and San Francisco, through the Central Valley, to Los Angeles and San Diego. Such rail service is not expected to be operational before the end of the forecast period considered in this Report.

AIRLINE TRAFFIC FORECASTS

The forecast of enplaned passengers at the Airport through FY 2021 was developed taking into account travel demand to and from the Bay Area, economic projections, trends in historical passengers, and other key factors likely to affect future passenger levels, all discussed in earlier sections.

In developing the passenger forecast for this Report, it was assumed that, over the long term, airline traffic at the Airport will increase as a function of growth in the economy of the San Francisco CSA and continued airline competition. It was assumed that airline service at SFO will not be constrained by the availability of aviation fuel, the capacity of the air traffic control system or the Airport, charges for the use of aviation facilities, or government policies or actions that restrict growth. Runway construction at the Airport in the summer of 2014 is not assumed to have a material impact on enplanement growth in FY 2015. As noted in "Capacity of the Airport", it was assumed that the forecast increases in enplaned passengers could be accommodated by existing terminal capacity in conjunction with the capital improvements planned through the end of the forecast period.

Underlying Assumptions

In developing the forecast, the following key assumptions were made:

- The U.S. economy will increase an average of 2.0% to 2.5% per year during the forecast period.
- The economy of the Bay Area will grow at rates comparable to that of the U.S. economy as a whole.
- The airlines currently serving the Airport will be financially viable and, together with those airlines that may introduce service in the future, will provide the seat capacity required to accommodate additional demand at the Airport.
- Any airline consolidation that may occur during the forecast period, including the merger of American and US Airways, will not have a material impact on the level of passenger activity at the Airport.
- United will continue to develop the Airport as its primary West Coast connecting hub and international gateway. United will gradually increase the number of destinations served and the frequency of flights from the Airport. Other airlines will continue to provide competitive nonstop service to and from large travel markets.

- Competition among airlines serving the major markets at the Airport will ensure the continued availability of competitive airfares.

- Neither the Oakland nor the Mineta San Jose international airports will attract sufficient domestic feeder traffic to support international gateway operations on more than a very limited scale, and international airline travel demand to and from the Bay Area (other than some travel to and from Mexico and Canada) will continue primarily through the Airport.

- A generally stable international political environment and enhanced passenger and baggage screening procedures will maintain airline traveler confidence in aviation security without imposing unreasonable inconvenience.

- There will be no material disruption of airline service or passenger travel behavior as a result of international hostilities, terrorist acts or threats, or global safety or health concerns.

Enplaned Passenger Forecast

The number of enplaned passengers at the Airport is forecast to be 23.5 million in FY 2015, up 2.0% from the number in FY 2014. Thereafter, the number of enplaned passengers at the Airport is forecast to increase at gradually declining annual rates from 1.9% in FY 2016 to 1.5% in FY 2021. The enplaned passenger forecast for the Airport is displayed in Table 20 and on Figure 30. The number of enplaned passengers is forecast to reach 26.0 million in FY 2021.

Between FY 2015 and FY 2021, the number of enplaned passengers at the Airport is forecast to increase an average of 1.7% per year— somewhat lower than the 2.2% average rate of growth forecast for the Airport by the FAA over the same period in its February 2014 *Terminal Area Forecast* (TAF). This higher long-term rate of growth in passenger numbers is characteristic of forecasts developed by the FAA and others for facility planning purposes, in comparison with forecasts such as those included in this Report, which were developed as a basis for financial planning.

Table 20
HISTORICAL AND FORECAST ENPLANED PASSENGERS
San Francisco International Airport
(for Fiscal Years ended June 30; passengers in thousands)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast depends on future events, which cannot be assured. Therefore, actual results may vary from this forecast, and the variance could be material.

	Domestic enplaned passengers					International enplaned passengers			
	On scheduled flights								
	Originating		Connections from						
Year	Domestic O&D	Bound for international destinations	Domestic flights	International flights	**Domestic total** *(a)*	On U.S. carriers	On foreign-flag carriers	**International total**	**Total enplaned passengers**
Historical									
2001	10,466	838	2,515	932	**15,356**	1,678	2,389	**4,067**	**19,423**
2002	7,763	695	2,266	856	**11,927**	1,551	2,062	**3,612**	**15,539**
2003	7,315	665	2,238	781	**11,250**	1,418	1,948	**3,366**	**14,615**
2004	7,559	734	2,371	895	**11,706**	1,599	2,091	**3,690**	**15,396**
2005	8,129	775	2,370	928	**12,320**	1,683	2,246	**3,929**	**16,249**
2006	8,229	830	2,368	945	**12,343**	1,728	2,419	**4,147**	**16,490**
2007	8,395	848	2,340	1,000	**12,609**	1,839	2,506	**4,345**	**16,954**
2008	9,594	893	2,150	1,066	**13,807**	2,000	2,566	**4,566**	**18,373**
2009	10,077	936	2,150	924	**14,004**	1,688	2,533	**4,221**	**18,225**
2010	10,805	928	2,259	918	**14,860**	1,627	2,614	**4,241**	**19,100**
2011	11,111	952	2,297	960	**15,372**	1,767	2,698	**4,465**	**19,837**
2012	11,857	987	2,523	943	**16,809**	1,852	2,759	**4,611**	**21,420**
2013	12,249	1,025	2,614	992	**17,516**	1,921	2,837	**4,757**	**22,273**
2014	12,710 E	1,097 E	2,606 E	1,054 E	**17,987**	1,982 E	3,026 E	**5,009**	**22,996**
Forecast									
2015	12,922	1,122	2,634	1,092	**18,296**	2,051	3,108	**5,159**	**23,455**
2016	13,132	1,147	2,663	1,130	**18,603**	2,112	3,186	**5,298**	**23,901**
2017	13,330	1,173	2,695	1,170	**18,904**	2,172	3,263	**5,435**	**24,339**
2018	13,514	1,201	2,727	1,211	**19,194**	2,231	3,339	**5,570**	**24,764**
2019	13,688	1,230	2,759	1,253	**19,476**	2,291	3,414	**5,705**	**25,181**
2020	13,847	1,260	2,792	1,297	**19,747**	2,350	3,487	**5,837**	**25,584**
2021	13,993	1,290	2,825	1,342	**20,007**	2,408	3,559	**5,967**	**25,974**

Table 20 *(page 2 of 2)*
HISTORICAL AND FORECAST ENPLANED PASSENGERS—COMPOUND ANNUAL GROWTH RATE
San Francisco International Airport
(for Fiscal Years ended June 30; passengers in thousands)

	Domestic enplaned passengers					International enplaned passengers			
	On scheduled flights								
	Originating		Connections from						
Year	Domestic O&D	Bound for international destinations	Domestic flights	International flights	**Domestic total** *(a)*	On U.S. carriers	On foreign-flag carriers	**International total**	**Total enplaned passengers**
Historical									
2001-2002	(25.8)%	(17.0)%	(9.9)%	(8.2)%	**(22.3)%**	(7.6)%	(13.7)%	**(11.2)%**	**(20.0)%**
2002-2003	(5.8)	(4.3)	(1.2)	(8.8)	**(5.7)**	(8.6)	(5.5)	**(6.8)**	**(5.9)**
2003-2004	3.3	10.4	5.9	14.6	**4.1**	12.7	7.4	**9.6**	**5.3**
2004-2005	7.5	5.5	(0.0)	3.7	**5.2**	5.3	7.4	**6.5**	**5.5**
2005-2006	1.2	7.1	(0.1)	1.8	**0.2**	2.7	7.7	**5.5**	**1.5**
2006-2007	2.0	2.2	(1.2)	5.7	**2.2**	6.4	3.6	**4.8**	**2.8**
2007-2008	14.3	5.3	(8.1)	6.7	**9.5**	8.8	2.4	**5.1**	**8.4**
2008-2009	5.0	4.9	0.0	(13.3)	**1.4**	(15.6)	(1.3)	**(7.6)**	**(0.8)**
2009-2010	7.2	(0.9)	5.0	(0.7)	**6.1**	(3.6)	3.2	**0.5**	**4.8**
2010-2011	2.8	2.6	1.7	4.6	**3.4**	8.6	3.2	**5.3**	**3.9**
2011-2012	6.7	3.6	9.8	(1.8)	**9.3**	4.8	2.2	**3.3**	**8.0**
2012-2013	3.3	3.9	3.6	5.1	**4.2**	3.7	2.8	**3.2**	**4.0**
2013-2014	3.8	7.0	(0.3)	6.3	**2.7**	3.2	6.7	**5.3**	**3.2**
Forecast									
2014-2015	1.7%	2.3%	1.1%	3.6%	**1.7%**	3.5%	2.7%	**3.0%**	**2.0%**
2015-2021	1.3	2.4	1.2	3.5	**1.5**	2.7	2.3	**2.5**	**1.7**

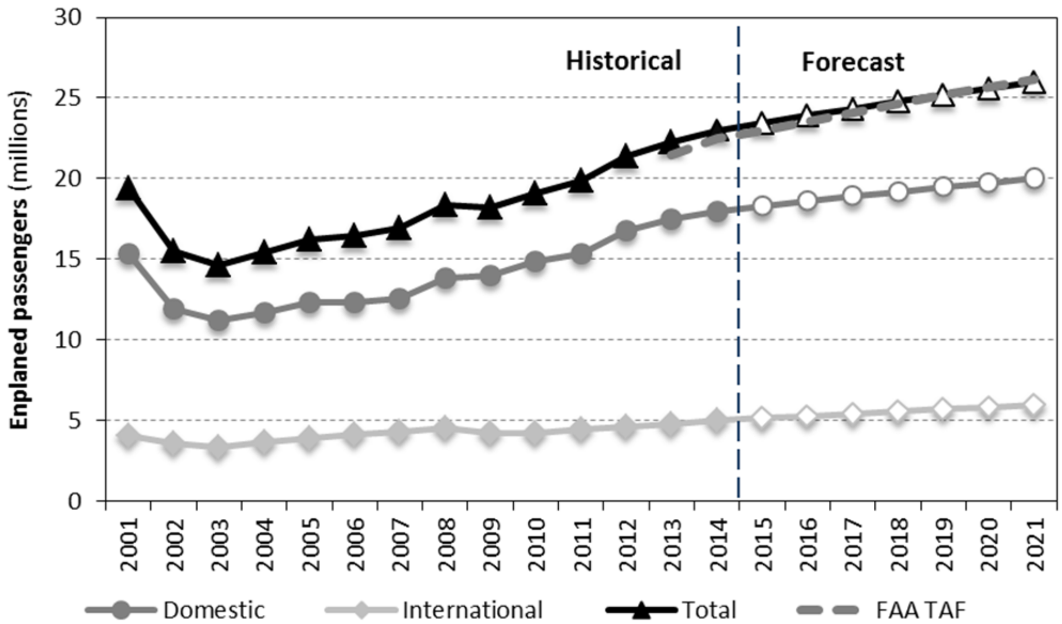
Note: E=Estimated. 2014 represents actual values unless otherwise noted.

(a) In addition to the number of passengers on scheduled flights, this column includes a relatively small number of passengers who enplaned on nonscheduled flights as well as some other non-revenue passengers.

Sources: Historical: San Francisco Airport Commission records; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.
Forecast: LeighFisher, July 2014.

Figure 30
ENPLANED PASSENGERS FORECAST
San Francisco International Airport
(for Fiscal Years ended June 30)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast depends on future events, which cannot be assured. Therefore, actual results may vary from this forecast, and the variance could be material.



Note: FAA TAF is in Federal Fiscal Years ended September 30 and excludes non-revenue passengers.

Sources: Historical: San Francisco Airport Commission records.
Forecast: LeighFisher, July 2014; Federal Aviation Administration, *Terminal Area Forecast*, February 2014.

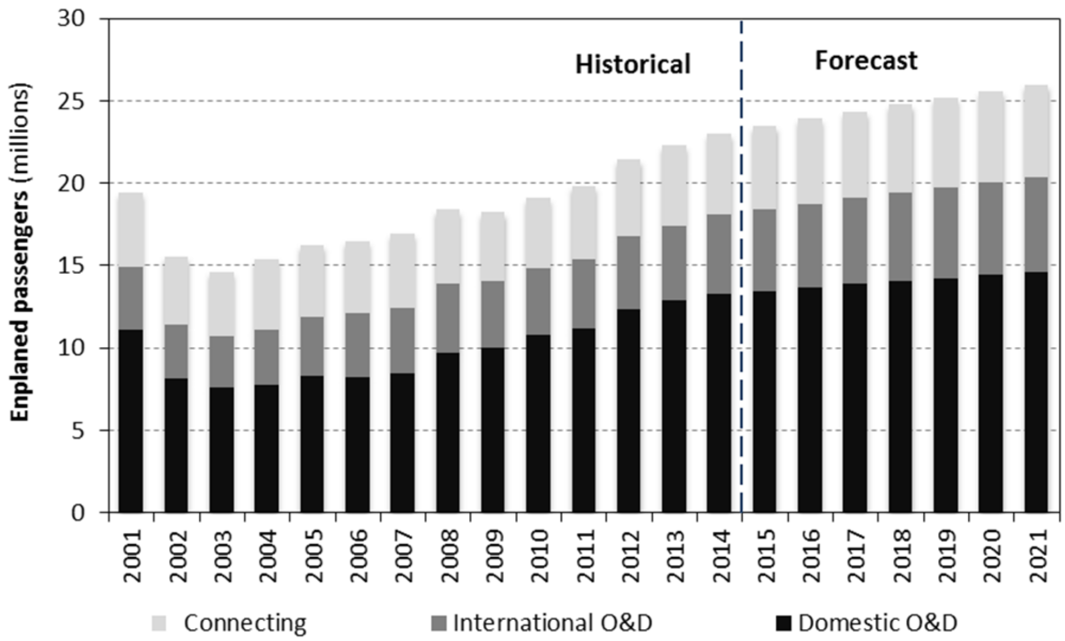
Between FY 2015 and FY 2021, the number of international enplaned passengers at the Airport is forecast to increase at a long-term average annual rate of 2.5%, greater than the 1.5% long-term average annual growth rate forecast for domestic enplaned passengers at the Airport. This higher long-term growth rate for international travel is consistent with our previous forecasts and reflects the continued role of the Airport as an international gateway serving a growing trans-Pacific market as well as increasing demand for travel to other international destinations.

Forecast by Traffic Segment

Figure 31 shows the enplaned passenger forecast by traffic segment. The three major segments of passenger traffic at the Airport (domestic O&D, international O&D, and connecting) are forecast to increase at somewhat different rates over the forecast period. In the years FY 2015 through FY 2021, domestic O&D passengers are forecast to increase 1.3% per year, on average, international O&D passengers to increase 2.6% per year, and connecting passengers to increase 1.9% per year.

Figure 31
ENPLANED PASSENGER TRENDS
San Francisco International Airport
(for Fiscal Years ended June 30)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast depends on future events, which cannot be assured. Therefore, actual results may vary from this forecast, and the variance could be material.



Note: 2014 total represents actual results. O&D and connecting totals represent estimates.

Sources: Historical: San Francisco Airport Commission records; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.
Forecast: LeighFisher, July 2014.

Aircraft Landed Weight

In FY 2014, a total of 31.6 billion pounds of aircraft landed weight was reported by the airlines operating at the Airport. Table 21 shows that passenger airlines accounted for 96% (30.4 billion pounds) of the total, while all-cargo airlines accounted for the remaining 4% (1.2 billion pounds). Passenger airline landed weight is forecast to increase 1.5% in FY 2015, coincident with airline increases in departing seats and flights. Passenger airline landed weight is forecast to increase 1.3% per year, on average, between FY 2015 and FY 2021, slightly below forecast passenger growth rates, primarily due to increasing load factors.

All-cargo airline landed weight is forecast to decrease 1.0% in FY 2015 and then show no net growth through FY 2021.

Table 21
HISTORICAL AND FORECAST AIRCRAFT DEPARTURES AND LANDED WEIGHT
San Francisco International Airport
(for Fiscal Years ended June 30)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast depends on future events, which cannot be assured. Therefore, actual results may vary from this forecast, and the variance could be material.

	Aircraft departures				Landed weight (millions of pounds)			
Fiscal	Passenger airlines		All-cargo	Total—all	Passenger airlines		All-cargo	Total—all
Year	Domestic	International	flights	flights	Domestic	International	flights	flights
Historical								
2001	162,475	23,260	3,877	189,612	23,619	8,963	1,524	34,106
2002	135,804	20,968	3,538	160,310	20,265	7,955	1,400	29,620
2003	128,591	19,989	4,005	152,585	18,557	7,534	1,510	27,602
2004	129,599	19,844	4,128	153,571	17,957	7,606	1,433	26,997
2005	129,566	19,970	5,207	154,743	17,514	7,458	2,150	27,122
2006	132,070	20,498	4,958	157,526	17,294	7,607	2,258	27,159
2007	134,309	22,565	4,575	161,449	17,521	8,017	2,226	27,764
2008	147,369	24,201	3,837	175,407	18,780	8,780	1,862	29,422
2009	147,093	23,091	3,294	173,478	18,791	8,213	1,483	28,487
2010	150,657	22,347	3,553	176,557	19,463	7,711	1,418	28,593
2011	153,812	23,478	3,453	180,743	19,585	8,190	1,269	29,044
2012	165,804	23,822	3,339	192,965	20,864	8,354	1,242	30,460
2013	167,911	24,550	2,962	195,423	20,889	8,616	1,167	30,673
2014	170,911	25,690	3,017	199,618	21,426	8,971	1,232	31,629
Forecast								
2015	173,300	26,390	2,985	202,675	21,687	9,202	1,219	32,108
2016	176,100	27,070	2,955	206,125	21,928	9,439	1,207	32,574
2017	178,800	27,740	2,955	209,495	22,152	9,673	1,207	33,033
2018	181,300	28,400	2,955	212,655	22,349	9,903	1,207	33,460
2019	183,800	29,060	2,955	215,815	22,543	10,133	1,207	33,884
2020	186,200	29,690	2,955	218,845	22,722	10,353	1,207	34,282
2021	188,500	30,320	2,955	221,775	22,885	10,573	1,207	34,665
	Compound annual growth rate							
Historical								
2001-2014	0.4%	0.8%	(1.9)%	0.4%	(0.7)%	0.0%	(1.6)%	(0.6)%
Forecast								
2014-2015	1.4%	2.7%	(1.1)%	1.5%	1.2%	2.6%	(1.0)%	1.5%
2015-2021	1.4	2.3	(0.2)	1.5	0.9	2.3	(0.2)	1.3

Note: Rows may not add to total shown because of rounding.

Sources: Historical: San Francisco Airport Commission records.
Forecast: LeighFisher, July 2014.

A chronology of key events affecting SFO since 1997 is shown in Table 22.

Table 22
CHRONOLOGY OF EVENTS

1997	May	-United, Lufthansa, Air Canada, SAS, Thai, and Varig launched Star Alliance
1998	September	-American, British Airways, Canadian, Cathay Pacific, and Qantas launched oneworld alliance
2000	March-April	-The Silicon Valley dot-com bubble burst, generating significant losses in the NASDAQ Composite Index
	June	-Delta, Air France, Aeromexico, and Korean Air launched SkyTeam alliance
	December	-New International Terminal opened at the Airport
2001	January	-American announced an agreement to purchase the assets of TWA
	March	-A national economic recession began, continuing until November 2001
		-Southwest terminated service at the Airport
	Sept. 11	-Terrorist attacks in New York and Washington D.C. were followed by an unprecedented 3-day shutdown of the U.S. air transportation system
	November	-United terminated its Shuttle by United operation
2002	August	-US Airways filed for Chapter 11 bankruptcy protection
	December	-United filed for Chapter 11 bankruptcy protection
2003	March	-War commenced in Iraq
		-World Health Organization (WHO) issued first international emergency travel advisory relating to severe acute respiratory syndrome (SARS)
		-US Airways emerged from Chapter 11 bankruptcy protection
	July	-WHO removed all SARS-related travel advisories
	November	-AirTran initiated service at the Airport
2004	April	-United launched service by its low-cost brand, Ted, at the Airport
	July	-FAA certified the Airport to receive the A380 new large aircraft
	September	-US Airways filed for Chapter 11 bankruptcy for a second time
2005	September	-Delta and Northwest both filed for Chapter 11 bankruptcy protection
		-US Airways emerged from bankruptcy and completed merger with America West
2006	February	-United and ATA emerged from bankruptcy protection
	April	-ATA shifted all Bay Area operations to Oakland International Airport
2007	April, May	-Delta and Northwest emerged from bankruptcy protection
	May	-JetBlue initiated service at the Airport
	August	-Virgin America initiated service at the Airport
		-Southwest reintroduced service at the Airport
	September	-FAA approved a single operating certificate for US Airways and America West
	December	-A national economic recession began, continuing until June 2009
2008	March, April	-Aloha, ATA, and Skybus ceased operations
	July	-Price of crude oil peaked at $147 per barrel
	October	-Delta and Northwest completed their merger
2009	January	-United merged its low-cost brand, Ted, into its mainline operation
	December	-FAA approved a single operating certificate for Delta and Northwest
2010	October	-United and Continental completed their merger
2011	May	-Southwest and AirTran completed their merger
	November	-American filed for Chapter 11 bankruptcy protection
		-FAA approved a single operating certificate for United and Continental
2012	March	-FAA approved a single operating certificate for Southwest and AirTran
	June	-United ceased all operations at Oakland International Airport
2013	February	-American and US Airways announced their intent to merge
	July	-Asiana Airlines Flight 214 accident occurred at the Airport
	December	-American and US Airways completed their merger

3. FRAMEWORK FOR FINANCIAL OPERATION

The framework of the Airport's financial operation is discussed in this section, which contains descriptions of the Bond Resolution, the Annual Service Payment, airline Lease and Use Agreements, commercial agreements and leases, and Special Facility Obligations.

THE BOND RESOLUTION*

Pursuant to the City Charter, the City (acting through the Airport Commission) is authorized to issue airport revenue bonds "[s]ubject to the approval, amendment or rejection of each issue" by the Board of Supervisors of the City. Bonds issued by the Commission are not general indebtedness of the City, but are limited, special indebtedness of the Commission payable solely from revenues received by the Commission from its airport facilities. The Commission has no taxing power.

On December 3, 1991, the Commission adopted Resolution No. 91-0210 (together with amendments and supplemental resolutions, the Bond Resolution) authorizing the issuance of San Francisco International Airport Second Series Revenue Bonds.

These Bonds are called "second series" Bonds to distinguish them from bonds of the Commission issued prior to December 1991. All bonds issued under prior bond resolutions have now been defeased or refunded, and the Airport Commission does not intend to issue additional bonds under the terms of those prior resolutions. The Commission's Second Series Revenue Bonds have the most senior lien on the revenues of the Commission of any outstanding debt, and the Commission has covenanted in the Bond Resolution not to issue any debt with a pledge of, or lien on, Net Revenues senior to that of the Second Series Revenue Bonds.

Definitions

The Bond Resolution contains certain key definitions, as follows:

Annual Debt Service generally means the sum of the (a) interest, (b) principal, and (c) mandatory sinking fund redemptions scheduled to become due and payable in a Fiscal Year for any Bonds issued under the Bond Resolution.

Maximum Annual Debt Service means the maximum amount of Annual Debt Service in any Fiscal Year (beginning with the Fiscal Year in which such calculation is made and ending with the Fiscal Year in which the last of such revenue bonds mature) for an issue or group of issues of Bonds for which such calculation is being made.

Net Revenues means Revenues less Operation and Maintenance Expenses. Net Revenues are pledged to and secure payment of interest on and principal of the Bonds.

Operation and Maintenance Expenses are defined as being:

"For any period, all expenses of the Commission incurred for the operation and maintenance of the Airport, as determined in accordance with generally accepted

*References in this Report to the Bond Resolution, the Lease and Use Agreements, and various leases and agreements entered into by the City and the Commission are not intended to be comprehensive or definitive. Capitalized terms have the same meaning as defined in the Bond Resolution, except as otherwise noted herein.

accounting principles. Operation and Maintenance Expenses shall not include: (a) the principal of, premium, if any, or interest on any . . . [Bonds], Subordinate Bonds or general obligation bonds issued by the City for Airport purposes; (b) any allowance for amortization, depreciation or obsolescence of the Airport; (c) any expense for which, or to the extent to which, the Commission is or will be paid or reimbursed from or through any source that is not included or includable as Revenues; (d) any extraordinary items arising from the early extinguishment of debt; (e) Annual Service Payments; (f) any costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to the Airport which, under generally accepted accounting principles, are properly chargeable to the capital account or the reserve for depreciation; and (g) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any Airport properties. Operation and Maintenance Expenses shall include the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Commission may establish or the Board of Supervisors may require with respect to employees of the Commission, as now provided in Section 6.408 of the Charter."

Revenues are defined as:

"All revenues earned by the Commission from or with respect to its possession, management, supervision, operation and control of the Airport, as determined in accordance with generally accepted accounting principles. Revenues shall not include: (a) interest income on, and any profit realized from, the investment of moneys in (i) the Construction Fund or any other construction fund funded from proceeds of . . . any Subordinate Bonds, or (ii) the Debt Service Fund which constitute capitalized interest, to the extent required to be paid into the Debt Service Fund, or (iii) the Reserve Fund if and to the extent there is any deficiency therein; (b) interest income on, and any profit realized from, the investment of the proceeds of any Special Facility Bonds; (c) Special Facility Revenues and any interest income or profit realized from the investment thereof, unless such receipts are designated as Revenues by the Commission; (d) any passenger facility charge or similar charge levied by or on behalf of the Commission against passengers, unless all or a portion thereof are designated as Revenues by the Commission; (e) grants-in-aid, donations and/or bequests; (f) insurance proceeds which are not deemed to be Revenues in accordance with generally accepted accounting principles; (g) the proceeds of any condemnation award; (h) the proceeds of any sale of land, buildings or equipment; and (i) any money received by or for the account of the Commission from the levy or collection of taxes upon any property in the City."

Transfer is defined as being the sum of:

"(a) The amount deposited on the last Business Day of any Fiscal Year from the Contingency Account into the Revenues Account, plus (b) any amounts withdrawn from the Contingency Account during such Fiscal Year for the purposes specified in Section 5.05(f)(i) through (iii) [of the Bond Resolution], less (c) any amounts deposited in the Contingency Account from Revenues during such Fiscal Year."

The purposes set forth in Section 5.05(f) are: "(i) to pay Operation and Maintenance Expenses; (ii) to make any required payments or deposits to pay or secure the payment of the principal or purchase price of or interest or redemption premium on the Bonds; and (iii) to pay the cost of any additions, improvements, repairs, renewals or replacements to the Airport, in each case only if and to the extent that moneys otherwise available to make such payments or deposits are insufficient therefor."

Rate Covenant

The Commission has covenanted in Section 6.04(a) of the Bond Resolution that so long as any Bonds are outstanding, the Commission shall establish and at all times maintain rentals, rates, fees, and charges for the use of the Airport, and for services rendered by the Commission in connection with the Airport, so that:

(i) Net Revenues in each Fiscal Year will be at least sufficient (a) to make all required payments and deposits in such Fiscal Year into the Revenue Bond Account. . .and (b) to make the Annual Service Payment to the City; and

(ii) Net Revenues, together with any Transfer, in each Fiscal Year will be at least equal to 125% of aggregate Annual Debt Service with respect to the. . .[Bonds] for such Fiscal Year.

Application of Revenues

The City Charter caused the creation of the Commission's Airport Revenue Fund. The Bond Resolution established a Revenues Account and five other accounts within the Airport Revenue Fund. In addition to the accounts created within the Airport Revenue Fund, a Debt Service Fund and a Reserve Fund were also established for Bonds issued under the Bond Resolution. On the first business day of each month, moneys in the Revenues Account are applied in the following order to accounts within the Airport Revenue Fund:

(a) Into the Operation and Maintenance Account, an amount equal to one-twelfth (1/12) of the estimated Operation and Maintenance Expenses for the then current Fiscal Year or such other amount as may be required to provide for the payment of Operation and Maintenance Expenses due;

(b) Into the Revenue Bond Account, the amount necessary:

   (i) To make all payments and deposits required to be made during such month into the Debt Service Fund and the Reserve Fund and the accounts therein in the amounts and at the times required by the Bond Resolution and by supplemental resolutions with respect to Bonds; and

(ii) To make all payments and deposits required to be made during such month into any funds and accounts created to pay or secure the payment of the principal or purchase price of or interest or redemption premium on any Subordinate Bonds in the amounts and at the times required by the resolutions and other agreements authorizing the issuance and providing the terms and conditions thereof.

(c) Into the General Obligation Bond Account, amounts, if any, required with respect to general obligation bonds of the City issued for Airport purposes.

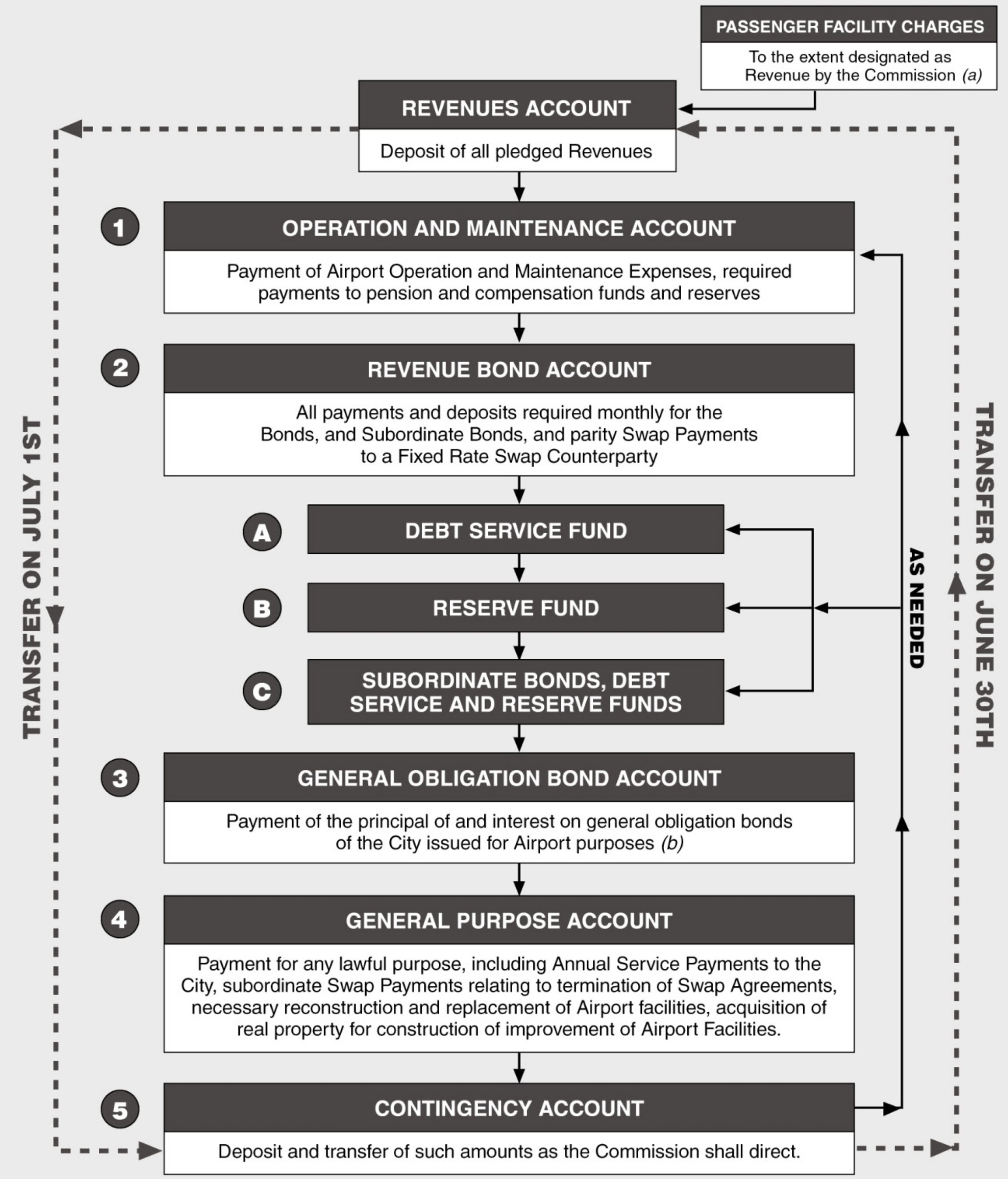
(d) Into the General Purpose Account, an amount at least equal to the payments estimated to be made from the account during such month. Moneys in the General Purpose Account may be used for any lawful purpose of the Commission.

(e) Into the Contingency Account, such amounts, if any, as the Commission may determine from time to time.

While the Rate Covenant and application of Revenues makes provision for the payment of debt service on General Obligation Bonds, the City currently has no General Obligation Bonds outstanding related to the Airport, and does not expect to issue any in the future.

The application of Revenues in accordance with the Bond Resolution is illustrated on Figure 32.

Figure 32
APPLICATION OF REVENUES
Airport Revenue Fund



(a) PFCs are not pledged Revenues as defined in the Bond Resolution, but can be used to pay Bond debt service if so designated by the Commission.
(b) There are no general obligation bonds related to the Airport currently outstanding, and the City does not expect to issue any in the future.

Source: Resolution No. 91-0210, San Francisco Airport Commission, December 3, 1991, as amended and supplemented (the Bond Resolution).

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Additional Bonds

Whenever the Commission wishes to issue additional Bonds that are not for the purpose of refunding Outstanding Bonds, the Commission is required by Section 2.11 of the Bond Resolution to file with the Bond Trustee either:

(a) A certificate of an Airport Consultant dated within 30 days prior to the date of delivery of the Bonds stating that:

(i) For the period, if any, from and including the first full Fiscal Year following the issuance of such Bonds through and including the last Fiscal Year during any part of which interest on such Bonds is expected to be paid from the proceeds thereof, projected Net Revenues, together with any Transfer, in each such Fiscal Year will be at least equal to 1.25 times Annual Debt Service; and

(ii) For the period from and including the first full Fiscal Year following the issuance of such Bonds during which no interest on such Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Bonds, or (B) the third full Fiscal Year during which no interest on such Bonds is expected to be paid from the proceeds thereof, projected Net Revenues, together with any Transfer, if applicable, in each such Fiscal Year will be at least sufficient to satisfy the rate covenants set forth in subsection (a) of Section 6.04 of the Bond Resolution;

or

(b) A certificate of an Independent Auditor stating that Net Revenues together with any Transfer, in the most recently completed Fiscal Year were at least equal to 125% of the sum of (i) Annual Debt Service on the . . . [Bonds] in such Fiscal Year, plus (ii) Maximum Annual Debt Service on the Bonds proposed to be issued.

For the purpose of paragraphs (a) and (b) above, the amount of any Transfer taken into account by the Airport Consultant or the Independent Auditor, as the case may be, shall not exceed 25% of Maximum Annual Debt Service in such Fiscal Year.

Refunding Bonds may be issued by the Commission under Section 2.12 of the Bond Resolution, but:

> ...only (i) upon compliance with the conditions set forth in Section 2.11 hereof, or (ii) if the Commission shall deliver to the Trustee a certificate of an Airport Consultant or Financial Consultant to the effect that (A) aggregate Annual Debt Service in each Fiscal Year with respect to all . . . [Bonds] to be Outstanding after the issuance of such refunding Bonds shall be less than aggregate Annual Debt Service in each such Fiscal Year in which . . . [Bonds] are Outstanding prior to the issuance of such refunding Bonds, and (B) Maximum Annual Debt Service with respect to all . . . [Bonds] to be Outstanding after issuance of such refunding Bonds shall not exceed Maximum Annual Debt Service with respect to all . . . [Bonds] Outstanding immediately prior to such issuance.

Subordinate Debt

Section 2.13 of the Bond Resolution permits issuance of ". . . Subordinate Bonds with a pledge of, lien on, and security interest in Net Revenues which are junior and subordinate to those of the Bonds, whether then issued or thereafter to be issued."

On May 20, 1997, the Commission adopted Resolution No. 97-0146 (the Subordinate Debt Resolution) authorizing the issuance of San Francisco International Airport Second Series Subordinate Revenue Bonds (the Subordinate Bonds). At the same time, the Commission authorized, pursuant to the Subordinate Debt Resolution, the issuance of Subordinate Commercial Paper Notes provided that the amount outstanding "… shall not at any time exceed $400,000,000. The aggregate principal amount of each Series of Notes that may be Outstanding at any one time hereunder shall not exceed the Principal Component … then available under the Letter of Credit securing such Series of Notes."

The Commission has obtained three Letters of Credit for a total of $400 million of principal repayment, with one of them expiring June 17, 2016; one expiring on May 19, 2017; and one expiring on May 2, 2019. The Airport Commission expects to obtain future Letters of Credit when necessary on substantially similar terms.

Outstanding Bonds

The Commission had $4.2 billion of Bonds outstanding as of July 1, 2014. Of this amount, $481.5 million was issued as Variable Rate Bonds pursuant to the Bond Resolution (and hedged with swaps) and $3.8 billion was issued with fixed interest rates to maturity. The last maturity date on the Outstanding Bonds is May 1, 2043.

Proposed and Future Bonds

The Airport Commission expects to issue future Bonds after the proposed 2014 Bonds to fund approximately $1.8 billion of capital costs from FY 2015 to FY 2019. In addition, for the purposes of this Report, it was assumed that the Airport Commission would issue another series of Bonds during calendar year 2019 (at the start of in FY 2020) to provide full funding of the first phase of the Terminal 1 Redevelopment project, which is the largest project in the Capital Plan. Those bonds anticipated to be issued through FY 2020 (beyond the issuance of the 2014 Bonds) are collectively referred to as the Future Bonds. The financial analysis presented in Section 5 of this Report reflects the effect on the Commission's finances of the proposed 2014 Bonds and the Future Bonds.

Additionally, the Commission may refund certain currently outstanding Bonds during the forecast period, depending on financial market conditions and the ability of the Commission to lower its debt service payments. The Commission may pursue both fixed-rate current and advance refundings for debt service savings. The effect of such potential Bond refundings has not been included in the financial analysis.

Reserve Funding

The Commission may, pursuant to the Bond Resolution and the supplemental resolutions authorizing each issue of Bonds, maintain accounts within the Reserve Fund for an individual Bond issue or for a group of Bond issues. Each account secures only the issue or group of issues to which that account applies (the Participating Series for such account). Each such account is maintained at the reserve requirement, if any, for the Participating Series to which such account applies.

At the time of issuance, proceeds of the Issue 1 Bonds were deposited into an account within the Reserve Fund titled the Issue 1 Reserve Account. Most of the currently outstanding Bonds are secured by the Issue 1 Reserve Account, except for Issues 36A, 36B, 36C, and the Series 2009C, 2010A, and 2010D Bonds. As permitted under the Bond Resolution, the Commission determined that it would not establish any debt service reserve account for the Issue 36A, 36B, 36C or the Series 2010A Bonds, instead electing to secure them with a Letter of Credit. The Series 2009C and 2010D Bonds are secured by the 2009 Reserve Account.

The Commission plans to issue the 2014 Bonds as a Participating Series with respect to the Issue 1 Reserve Account. Future series of Bonds may be, but are not required to be, secured by any of the current reserve accounts.

THE ANNUAL SERVICE PAYMENT

The City Charter provides that up to 25% of the nonairline revenues generated at the Airport each Fiscal Year can be transferred into the General Fund of the City. This transfer, the Annual Service Payment, is computed as the greater of (a) 15% of “Concession Revenues” as defined in the Lease and Use Agreements, or (b) $5 million. The Annual Service Payment to the City constitutes full satisfaction of all obligations of the Airport, the Commission, and the airlines for any and all indirect services provided each year by the City to the Airport and the Commission. Direct services provided by the City to the Airport are paid for as received and are reflected in the financial statements of the Commission as an operating expense.

LEASE AND USE AGREEMENTS

The City (acting through the Airport Commission) and most of the airlines serving the Airport have entered into Lease and Use Agreements, effective July 1, 2011 and expiring June 30, 2021, which govern, among other things, the procedures and formulas for the periodic setting of terminal rental rates and landing fees for the use of the Airport by the airlines serving the Airport.

Airlines that are not signatory to the Lease and Use Agreements or that operate on an itinerant basis may use the Airport under the terms of a 30-day operating permit and pay landing fees at a rate 25% higher than the signatory rates.

Terminal Rentals and Landing Fees

The Lease and Use Agreements provide that, among other things, the airlines are to pay landing fees and terminal rentals each year to recover the difference between Commission expenses and Commission Non-Airline Revenues (i.e., a residual airline rate-making methodology).

The Commission expenses for any given Fiscal Year include the sum of the following:

(i) Operating expenses, including:

a. Operation and Maintenance Expenses

b. Recurrent maintenance expenses referred to as Facilities Maintenance expenses in the budget of the Commission

c. Other expenses, if any, required to be paid from the Operations and Maintenance Account or to be treated as Operation and Maintenance Expenses under the Bond Resolution

(ii) Equipment and Small Capital Outlay

(iii) Debt service requirements, including amounts required:

a. For debt service on Bonds

b. For debt service on Special Facility Bonds, when applicable

c. For deposits to the Contingency Account

d. To ensure compliance with the Rate Covenant (if any)

e. To be paid under credit and liquidity facilities, interest rate swaps, and other agreements entered into in connection with Airport debt

f. Other subordinate contractual or debt-related payments

(iv) The Annual Service Payment to the City

The Commission's Non-Airline Revenues include concession revenues, revenues from other sales and fees, fixed or cost-recovery rentals, interest income, and those PFC revenues designated as Revenues.

The Commission computes, in accordance with procedures set forth in the Lease and Use Agreements, the landing fee rates and the terminal rental rates for the ensuing Fiscal Year using budgetary and estimated information for the Airport Cost Centers (noted below). Not less than 60 days prior to the start of a Fiscal Year, the airlines are notified of the proposed rates, rentals, and fees for the ensuing year. These proposed rates, rentals, and fees are subject to review by, but not the approval of, the airlines at a meeting with representatives of the Commission, as provided for in Article 5 of the Lease and Use Agreements. Rates, rentals, and fees become effective July 1 each year – the first day of the City's Fiscal Year.

Additionally, if at any time during a Fiscal Year, the actual expenses (including debt service) are projected by the City to exceed by 10% or more the actual revenues in certain areas as defined in the Lease and Use Agreements, then the Commission may, after consultation with the airlines and after using commercially reasonable efforts to reduce expenses, increase landing fees and/or terminal rental rates following a 60-day notification period. The airlines are required to pay such additional landing fees and/or terminal rentals, which shall equal the projected deficiency, over the remaining months of the then-current Fiscal Year.

At the end of each Fiscal Year, the amount the airlines should have paid in landing fees and terminal rentals to meet the requirement of the Rate Covenant is compared with the amount actually paid in such Fiscal Year. Differences are recorded on the balance sheet in the Commission's financial statements for that Fiscal Year; overcharges are recorded as liabilities, undercharges are recorded as assets. The terminal rentals and landing fees calculated in subsequent years are adjusted to clear these balance sheet amounts in such subsequent years.

Airport Cost Centers

The Commission allocates both costs and revenues to five Airport Cost Centers to calculate the landing fee rate and terminal rental rates to be charged to the airlines in the ensuing Fiscal Year. The five Airport Cost Centers used in the rate calculations are the:

- **Airfield Area**, which includes all runways, taxiways, ramps, aprons, landing areas, adjacent infield areas, and related support facilities (e.g., perimeter dike, drainage pumping stations, field lighting, navigational aids, aircraft rescue and fire-fighting (ARFF) support facilities, fire and rescue watercraft, boathouses and related support facilities, and cart roads).

- **Airport Support Area**, which includes all areas and facilities that support airline functions (e.g., hangars, aircraft maintenance facilities, cargo facilities, fuel farms, flight kitchens), Airport support, City/State/federal installations, fixed base operators (FBOs), airline and certain other offices outside the Terminal Area, airline and Commission employee parking, sewage/waste treatment plants, detention ponds, other related facilities, and all unleased land not included in another cost center.

- **Terminal Area**, which includes all areas within the passenger terminals of the Airport (e.g., concourses, boarding areas, public circulation space, pedestrian bridges, entrance areas to the underground walkways to the parking garages, mechanical/utility areas, lobbies, offices, concession areas, Commission facilities, baggage facilities, and storage areas).

- **Groundside Area**, which includes all roadways, parkways, courtyards, fences, walks, bridges, culverts, public parking lots, garages, hotels, service stations, shuttle bus service (nonairline), the consolidated rental car facility,* the AirTrain system (including pedestrian bridges to the terminals), leased commercial unimproved areas, paved areas, and buildings/structures other than terminals and Airport/government installations.

- **Utilities Area**, which includes the facilities for water, gas, electricity, and telecommunications and information systems, including distribution systems. The net cost of the Utilities Area is allocated to the other four Airport Cost Centers.

The Lease and Use Agreements also identify a sixth Airport Cost Center, the West of Bayshore Area, which consists of undeveloped land that is not relevant to the rate calculations until such time as it might be developed by the Commission. The Commission does not expect to develop the West of Bayshore Area in the foreseeable future and, in the meantime, any associated costs incurred are included in the Groundside Area.

Airline Review of Capital Improvements

The Lease and Use Agreements provide for review of proposed Airport capital improvements by the airlines that are signatory to the agreements. A "capital improvement" is defined as any item of capital expenditure with a cost exceeding $626,257 in FY 2009 dollars (as adjusted annually pursuant to the Lease and Use Agreements) and a useful life of more than 3 years.

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*Revenues generated from the rental car privilege fee have been included in the Groundside Area cost center since FY 2012. Prior to FY 2012, such revenues were recorded in the Terminal Area cost center.

A Majority-in-Interest (MII) of the airlines signatory to the Lease and Use Agreements may require the Commission to defer a capital improvement for 6 months so that such airlines can present their opposition to the improvement. In the absence of MII concurrence by the airlines, the Commission may undertake such capital improvement after the end of the 6 month period. The following three types of capital improvements are not subject to the MII review process: (1) those required by a federal or State agency having jurisdiction over Airport operations, (2) those financed by Special Facility Bonds, or (3) an emergency that, if not made, would result in the closing of the Airport within 48 hours.

Pursuant to the terms of the Lease and Use Agreements, the Commission is to use commercially reasonable efforts to finance all capital improvements through grants, TSA funding, passenger facility charges, or the issuance of airport revenue bonds. The Commission may budget and spend up to $4,200,000 in FY 2009 dollars (as adjusted pursuant to the Lease and Use Agreements) per year from its revenues on capital improvements, or a greater amount, as may be agreed to by an MII of the airlines.

COMMERCIAL AGREEMENTS AND LEASES

The Airport Commission enters into commercial agreements and leases for automobile parking operations, rental car facilities, duty free operations, general merchandise concessions, and food and beverage operations, among other services.

Automobile Parking

The public automobile parking facilities at the Airport are operated for the Commission by New South Parking - California under a management contract with a term that extends through June 30, 2017. The Commission periodically reviews and adjusts parking rates, receives all revenues, and pays all costs of operation and maintenance of the facilities. The Commission does not impose a privilege fee on the off-Airport parking operations of private companies, but does impose a trip fee for the shuttle bus operations of off-Airport parking companies.

Rental Cars

By resolution of the Commission, all on-Airport rental car transactions must take place at the consolidated rental car facility, and all off-Airport rental car companies must pick up and drop off their customers at that facility. No rental car counters are located in the terminal complex.

In 2008, the Commission solicited proposals and executed agreements and leases related to on-Airport rental car operations. The agreements and leases were executed with five companies that operate nine rental car brands on-Airport. These nine rental car brands are Alamo, Avis, Budget, Dollar, Enterprise, Fox, Hertz, National, and Thrifty. The agreements and leases expire on December 31, 2018.

The concession agreements require a concession fee equal to the greater of 10% of gross receipts or the minimum annual guarantee (MAG). The aggregate MAG for the on-Airport rental car companies was $40.1 million in FY 2014, compared to estimated total concession fees of $50.3 million. Additionally, the on-airport rental car companies pay facility rent at the consolidated rental car facility.

The Commission imposes a fee on rental car customers per rental contract for transportation between the terminal complex and the consolidated rental car facility. The rental car companies collect this transportation fee (which is currently $20.00 per rental car contract) to reimburse the Commission for a portion of the cost of operating and maintaining the AirTrain system. Revenues from the transportation fee for use of the AirTrain system are presented under the Net Sales and Services category of Exhibit F.

In addition to the transportation fee, off-Airport rental car companies also pay a privilege fee equal to 10% of their monthly gross receipts.

Duty Free

The Commission entered into a concession agreement with DFS Group L.P. (DFS, or DFS Group) in December 1999 covering approximately 53,000 square feet of space in the ITC for the exclusive right to sell duty-free merchandise (25,000 square feet) as well as for a nonexclusive right to sell duty-paid merchandise (28,000 square feet). The leasehold was increased by 3,100 square feet in 2007. The expiration date of the agreement was extended to December 31, 2017.

The agreement provides for the payment of concession fees equal to the greater of a MAG or a percentage of gross sales. The MAG was adjusted to an annual total of $27.2 million on January 1, 2013 (midway through FY 2013), including both duty-free and duty-paid merchandise, and is subject to inflation adjustment. The percentage rent for the duty free portion of the agreement is calculated as 20% of the first $50 million in gross sales from the duty free operations, 25% of the second $50 million, and 30% of gross sales in excess of $100 million.

Retail

The Commission provides for retail concessions on a duty-paid basis through agreements with multiple vendors, including DFS, as noted above. All of these agreements have a MAG provision. The Commission continues to review and improve its retail concession activities as opportunities arise. The terms of many of the retail concessionaire agreements result in concession fees equal to the MAG.

Food and Beverage

Food and beverage operations are provided by multiple vendors throughout the terminals under different agreements. These agreements provide for a rental payment equal to the greater of a MAG or a percentage of gross sales. The domestic terminals currently have 46 restaurants and the international terminal has 20 restaurants.

Other Commercial Leases and Agreements

The Commission has entered into other terminal area concession agreements for advertising, banking, foreign currency exchange, and vending machines, among other services. These agreements provide for a rental payment equal to the greater of a MAG or a percentage of gross sales. Among them are an agreement with Travelex to provide currency exchange services and automated teller machines at the Airport, which has a MAG of $4.2 million and extends through December 9, 2014.

The Commission awarded an eight year advertising agreement with Clear Channel Airports, effective July 1, 2013, with an annual MAG of $10.0 million. The Commission also has numerous leases, agreements, and permits with airlines and others for various types of rentals and other activities at the Airport, including, among others, ground transportation, hangar rentals, cargo handling, FBO facilities, aviation support, airline employee parking, and the federal government.

SPECIAL FACILITY OBLIGATIONS

The Commission, pursuant to Section 2.16 of the Bond Resolution:

> . . . may (a) designate an existing or planned facility, structure, equipment or other property, real or personal, which is at the Airport or part of any facility or structure at the Airport as a "Special Facility," (b) provide that revenues earned by the Commission from or with respect to such Special Facility shall constitute "Special Facility Revenues" and shall not be included in Revenues, and (c) issue Special Facility Bonds [to fund] such Special Facility [provided certain conditions are met].

Debt service on Special Facility Bonds is payable from and secured by the associated Special Facility Revenues and not from or by Net Revenues of the Commission.

In October 1997, $105.6 million of Special Facility Lease Revenue Bonds were issued to finance certain additions and improvements to jet fuel and gasoline delivery facilities serving domestic and international airlines and ground service equipment users at the Airport. Certain payments made by SFO Fuel Company LLC pursuant to a lease with the Commission are designated as Special Facility Revenues and are the source of payment for these Special Facility Bonds. In June 2000, the Commission issued $19.4 million of additional Special Facility Bonds for SFO Fuel Company LLC. As of June 30, 2014, $82.6 million in principal amount of the Special Facility Bonds was outstanding.

4. AIRPORT CAPITAL PLAN AND FUNDING

This section includes summaries of the Airport Commission's Capital Plan, the funding sources for the Capital Plan.

SUMMARY OF THE CAPITAL PLAN

Airport staff periodically develops and updates a plan for the redevelopment, improvement, and expansion of Airport facilities, which is reviewed and approved by the Airport Commission. The plan is submitted to the Airport Commission annually and approved based on anticipated facility needs, current and expected future airline traffic, available funding sources, airline feedback, and project priority.

On February 18, 2014, the Airport Commission adopted a resolution approving a $4.4 billion capital plan for the Airport over the 10-year period from FY 2015 to FY 2024. Subsequent to the Airport Commission adopting the resolution, Airport Commission staff has continued planning and preliminary implementation work on the plan, and cost estimates for several projects have been further refined. Capital costs to be incurred during the first 5-year period (FY 2015 to FY 2019) are now estimated to total $2.4 billion, with remaining spending expected to be incurred during the second 5-year period (FY 2020 to FY 2024). The overall 10-year spending estimate is referred to in this Report as the Capital Plan.

The Capital Plan reflects completion costs of certain ongoing projects in FY 2015 and after and estimated total costs for projects yet to be initiated. Before implementing a capital project, Airport Commission management is required to obtain approvals from the Airport Commission, City Board of Supervisors, and the Mayor of San Francisco, and conduct a consultation with the airlines signatory to the Lease and Use Agreements when required by the terms of those Agreements.

Although the scope and timing of implementation of certain projects, especially for the period beyond FY 2020, are subject to further refinements, Airport Commission management intends to obtain all necessary approvals, and implement the Capital Plan using a modular and phased approach, so that future project phases could be deferred if unanticipated events occur (such as significant declines in aviation activity at the Airport). Therefore, future phases of certain projects, particularly those phases expected to be initiated in the second five year period (FY 2020 to FY 2024), should be considered conceptual in nature at this time. The annual cash flow of the Capital Plan projects are summarized in Exhibit A-1, which includes any capital costs for those projects expected to be incurred beyond the end of the forecast period.

If the current project implementation schedule for the Capital Plan is adhered to, the Commission would need to issue additional Bonds during FY 2021 to FY 2024 to fund up to $1.7 billion of costs to complete the Capital Plan. These additional Bond issues are not reflected in the financial forecasts included in this Report. Interest on these additional Bonds would be capitalized until dates beyond the forecast period (i.e., until after FY 2021).

Major Projects in the Capital Plan

The Capital Plan is classified as follows:

- ***Terminal Area Projects***

  a. ***Terminal 1 Redevelopment:*** The comprehensive redevelopment of Terminal 1. This program can be further divided into three project groups:

     i. ***Temporary Facility.*** This group of projects includes development of a temporary 9-gate facility at the existing Boarding Area B location, relocation of the adjacent Taxilanes H and M, utility and technology system improvements, spacial and security systems, and relocation of certain offices. These project elements are expected to cost $206 million during the period between FY 2015 and FY 2017, when they will be substantially complete.

     ii. ***Phase 1 (24 gates).*** This group of projects includes completion of a new 24-gate Boarding Area B facility, a new adjacent aircraft apron, a jet fuel system, passenger boarding bridges, a new departure hall, consolidated passenger and baggage screening systems, secured connectors to other terminals, and a consolidated inbound and outbound baggage handling system, among other improvements. These project elements are expected to cost $1,106 million in total, of which $682 million would be expended between FY 2015 and FY 2019. For purposes of the financial analysis described in Section 5, it was assumed that the full 24-gate facility would be built and operational by June 30, 2020, so the forecast for FY 2021 reflects a full year of operation of the new 24-gate facility.

     iii. ***Phase 2.*** This group of projects includes Terminal 1 North Side and Terminal 1 South Side development, a secure connector to the International Terminal, and Terminal 1 Boarding Area C redevelopment. These project elements are expected to start after the completion of Phase 1 (beyond FY 2021), and are not reflected in the financial analysis described in Section 5.

  b. ***Terminal 3 East Checkpoint Reconfiguration:*** Creation of a unified Terminal checkpoint near Terminal 3 Boarding Area E, to improve circulation and concessions, and to replace aging building systems and make seismic improvements. The Commission expects to complete this project in FY 2016, with remaining costs of $126 million to be financed as part of the 2014 Bond issue. This project has received all necessary approvals and is currently underway.

  c. ***Terminal 3 Improvements:*** This program includes further improvements to Terminal 3, such as Terminal 3 Boarding Area F Plaza Improvements, to be completed in FY 2018, and other Terminal 3 Boarding F improvements and Terminal 3 West Improvements, with the majority of costs to be incurred after FY 2019. These project elements have yet to receive the necessary approvals, and are expected to cost $194 million during the FY 2015 to FY 2019 period.

  d. ***Air Traffic Control Tower Development:*** The construction of a new Air Traffic Control Tower (ATCT) for the Airport, located between Terminal 1 and Terminal 2, in Courtyard #2. The Commission expects to complete the project in FY 2015, with remaining costs of $78 million to be financed as part of the 2014 Bond issue. This project has received all necessary approvals and is currently underway.

e. ***Miscellaneous Terminal Improvements:*** General improvements to the terminal complex, such as revenue enhancement and customer hospitality programs, security improvements, fire and life safety system improvements, international terminal improvements, and other smaller projects. Those projects have received all necessary approvals and are expected to cost $70 million between FY 2015 and FY 2019.

- **Airfield Area Projects**

a. ***Runway Safety Area Improvements:*** Improvements to the runway safety areas (RSAs) associated with all four runways, including adjusting the thresholds on the 10-28 runways and adding engineered materials arresting systems (EMAS) at the four ends of the 1-19 runways. The Commission expects to complete the project in December 2014, with remaining costs of $81 million to be financed as part of the 2014 Bond issue. This project has received all necessary approvals and is currently underway.

b. ***Taxiway Improvements, Runway Improvements, and Miscellaneous Airfield Improvements:*** Improvements to the airfield area, such as improvements to the taxiway system, overlay and reconstruction of Runway 1R-19L pavement, drainage improvements, and airfield lighting and electrical infrastructure upgrades. Those projects are expected to cost $64 million between FY 2015 and FY 2019.

- ***Support Area Projects***

a. ***West Field Cargo Development:*** The development of a cargo processing facility with 57,000-square feet of warehouse space and 11,200 square feet of office space. It is expected to be a multi-tenant facility and include a wide range of cargo processing activities. This project has received all necessary approvals and is expected to cost $34 million and to be implemented between FY 2015 and FY 2019.

b. ***South Field and Plot 700 Program:*** This group of projects includes the South Field Program and Plot 700 Program, which will involve relocating certain airfield facilities related to the Terminal 1 redevelopment project. These projects have received all necessary approvals and are expected to cost $59 million and to be completed in FY 2017.

c. ***Miscellaneous Support Projects:*** This group of projects includes demolition of the existing Terminal 2 Air Traffic Control Tower and Terminal 2 improvements, ground transportation management system replacement, support facility improvements and other miscellaneous projects.

- ***Groundside Area Projects***

a. ***AirTran Extension:*** Extension of the AirTrain System from the Airport Rental Car Center to parking Lot DD. This project has received all necessary approvals and is expected to cost $85.0 million and to be completed in FY 2018.

b. ***New Public Parking Garage Development:*** The development of a new 3,100-space public parking garage located next to the existing long-term parking garage. This project has received all necessary approvals and is expected to start during FY 2015 and be completed by the summer of 2018 at a total cost of $72 million.

c. ***Consolidated Administration Campus (Phase 1):*** The development of the first phase of a new consolidated administration campus for the Airport Commission staff and administrative operations of the Airport, to be located near the existing Consolidated Rental Car Facility just north of the Terminal Area. This project has received all necessary approvals and would be developed between FY 2015 and FY 2017, at a cost of $56 million.

d. ***On-Airport Hotel:*** The development of a new luxury hotel on the Airport, at an estimated total cost of $165 million. The hotel would be located on Plot 2, the site of the old Hilton Hotel which has been demolished. The Airport Commission may investigate alternative financing methods for this project, including stand-alone financing or the use of Bonds, and expects to initiate and complete the project prior to FY 2021. Because project financing has not yet been finalized, this project is not reflected in the financial analysis described in Section 5. Airport Commission management expects to develop the on-Airport hotel only if it is projected to provide a positive financial benefit over time.

e. ***Miscellaneous Groundside Projects***. This group of projects includes elevator, escalator and moving walkway replacements, the realignment of McDonnell Road, parking lot and garage improvements, and other road improvements.

- ***Other Projects***

a. ***Power and Lighting Improvements:*** Upgrading the 12 KV electrical distribution system, including switch gear, transformers and cabins, and 400 Hertz system improvements at Boarding Area A, and upgrading the field lighting and building electrical systems. This project has received all necessary approvals and is expected to cost $43 million and be implemented between FY 2015 and FY 2019.

b. ***Wastewater Improvements:*** Construction of a new wastewater process building, improvement to piping systems throughout the Airport and miscellaneous improvements to the sewer system. This project has received all necessary approvals and is expected to cost $35 million and be implemented between FY 2015 and FY 2019.

c. ***Other Miscellaneous Projects:*** This group of projects includes central plant improvements, water system improvements, and storm drain improvements.

SUMMARY OF CAPITAL PLAN FUNDING

Several funding sources are expected to be available to finance the improvements in the Capital Plan, including the following sources, as shown in more detail in Exhibit A-2.

Federal and State Grants

The Airport Commission expects to receive a total of $169 million in federal grants for projects in the Capital Plan for the period through FY 2019. These grants primarily consist of $108 million of anticipated federal Airport Improvement Program (AIP) grants and $61 million of TSA grants, which are to be approved and dispensed by the FAA and the TSA respectively. AIP grants encompass both entitlement grants and discretionary grants; entitlement grants are determined on a formula based on passenger numbers, while discretionary grants are determined by the FAA based on the nature of the specific project in comparison with projects at other airports in the FAA region.

In recent years, AIP discretionary grants requested by the Airport Commission were reduced by the FAA, citing the growing Annual Service Payments to the City as a contributory factor for the reduction. Growing levels of Annual Service Payments are a direct function of the Airport Commission's success in increasing concession revenues at the Airport, as noted in Section 3. There may be similar reductions in AIP discretionary grants in the future for the same reason. In FY 2014, the Airport Commission received \$7.1 million of entitlement grants and \$38.6 million of discretionary grant, for a total of \$45.7 million in AIP grant funding.

The Commission intends to apply the majority of its AIP discretionary and entitlement grants to airfield related projects. The Airport Commission has also executed Other Transaction Agreements (OTAs) with the TSA to receive up to \$61 million of grants related to Checked Baggage Inspection System (CBIS) improvements.

Any reductions in AIP and TSA grant funding amounts below the \$169 million total assumed for this analysis would instead necessitate the Airport Commission to issue additional Bonds to make up for the shortfall (and include the associated debt service in the airline rate base), or fund those shortfalls with PFCs on a pay-as-you-go basis, or with other available Airport Commission funds such as unrestricted cash balances.

The Commission is not anticipating State grants for the projects in the Capital Plan.

Bonds

The Airport Commission currently expects to fund a total of \$2,261 million in project costs through FY 2019, including \$248 million already spent through FY 2014, and \$2,013 million to be spent between FY 2015 and FY 2019. As mentioned previously, the financial analysis in this Report has also reflected an assumed Bond issue to fund \$325 million of project costs in FY 2020, for the completion of the first phase of Terminal 1 redevelopment. The Airport Commission has approved the issuance of up to \$578.5 million of 2014 Bond principal, and expects to obtain the additional approvals required before the issuance of the planned Future Bonds during the forecast period. Bond proceeds are to be used to fund a wide range of projects in the Capital Plan. Proceeds of the 2014 Bonds are also to be used for retiring outstanding commercial paper balances of \$248 million, to finance \$212 million of capital expenditure planned in FY 2015, and for issuance and financing costs (including the funding of reserves) associated with the 2014 Bonds.

Passenger Facility Charges

As shown in Exhibit A-2, the Airport Commission anticipates spending \$47 million of PFC revenues on a pay-as- you-go basis for the Capital Plan. In addition, as shown in Exhibit B, the Airport Commission plans to reserve a total of approximately \$173 million of PFC revenues from FY 2015 to FY 2021, which could be used for projects in the Capital Plan on a pay-as-you-go basis. The Commission has yet to identify specific projects for the application of the reserved PFC revenues of \$173 million, and will include projects in future PFC applications to the FAA once those projects are identified. To the extent that PFCs are approved by the FAA and applied in this manner, the Bond funded amounts would be reduced.

Additionally, PFC revenues are to be applied to pay a portion of the debt service on outstanding Bonds. As described more fully in Section 3, PFC revenues are not defined as Revenues pursuant to the Bond Resolution, unless specifically designated as such by the Airport Commission. Annually since 2002, the Commission has designated and applied a certain amount of PFC revenues as Revenues, and used those amounts to pay debt service on Outstanding Bonds. (In certain circumstances, the Commission may elect to actually apply fewer PFCs as Revenues than it had earlier designated as Revenues, during any given period.) During FY 2013 and FY 2014, a total of $45.0 million and $35.7 million in PFC revenues, respectively, was applied as Revenues pursuant to the Bond Resolution, and applied to Bond debt service.

The total amount of authorized PFC collections under the Airport Commission's approved PFC applications, as amended, is $1.4 billion, which at the time of receipt of the FAA's approval of PFC Application #5 was projected to be fully collected by June 1, 2023. The PFC revenues received by the Commission are subject to audit and final acceptance by the FAA and costs reimbursed with PFC revenues are subject to adjustment upon audit. As of June 30, 2014, the Commission had collected a total of $884.9 million in PFC revenues (including associated interest income) on a cash basis, including $141.8 million in PFC revenues collected but not yet expended.

The Commission is currently working with the FAA to amend a prior approved PFC Application to increase PFC collection and use authority by an additional $131.3 million, and to submit another new PFC application with requested authority of $179 million, in addition to the current PFC collection and spending authority of $1.4 billion.

Exhibit B shows the forecast collection of PFC revenues during the forecast period, and the projected application of those PFC revenues. Annual PFC revenues are forecast to increase from $87.5 million in FY 2015 to $96.9 million in FY 2021 (excluding associated interest income). The Airport Commission plans to adjust the amount of PFC revenues included as Revenues to manage realized airline payments in each future year, and to increase the amount to $96.9 million in FY 2021, which equals the anticipated collection amount in that year. From FY 2015 through FY 2021, the Airport Commission plans to include a total of $497 million of PFC revenues as Revenues, which is within the remaining PFC spending authorization of $700 million. As discussed above, the Airport Commission expects to continue submitting PFC applications to obtain additional PFC authorization in the future.

Other Funding Sources

Additional sources of funds available to the Airport Commission to finance capital improvements at the Airport include the Airport's unrestricted or available cash balances. Unrestricted cash balances are those amounts that are primarily generated from the day-to-day operation of the Airport (i.e., operating cash flow, net of Bond debt service and reserve funding requirements). Third party funding sources may also be used for certain types of projects in the Capital Plan.

OTHER POTENTIAL AIRPORT CAPITAL IMPROVEMENTS

As noted earlier, the Airport Commission expects to continue to develop and finance needed capital improvements at the Airport, including repair and rehabilitation of existing facilities, and development of new facilities to accommodate anticipated airline traffic demand at the Airport. These projects would only be undertaken as needed, based on market demand for airfield facilities, terminal facilities, gates, and landside facilities. Such projects, if any, are outside the Capital Plan and have not been reflected in the financial forecasts in this Report.

5. FINANCIAL ANALYSIS

Our study was undertaken to evaluate the ability of the Airport Commission to generate sufficient Net Revenues to meet the requirements of the Bond Resolution, taking into account Annual Debt Service on the currently Outstanding Bonds, the proposed 2014 Bonds, and anticipated Future Bonds. Since a portion of interest payments on Future Bonds will be capitalized through FY 2020, the forecast period for this Report extends to FY 2021.

The financial data for FY 2012 and FY 2013 reflect the actual operating results; the financial data for FY 2014 are estimated based on 11 months of actual results; the financial data for FY 2015 are forecast based on the Airport Commission's budget (adjusted primarily to reflect the proposed 2014 Bond debt service as described below). Data for FY 2016 through FY 2021 were forecast by taking into consideration historical operating results, the estimated results for FY 2014, the Commission's FY 2015 budget, and the aviation activity forecasts described in Section 2, among other factors.

To provide the basis for the financial analysis the following are presented: annual debt service requirements, reconciliation of historical financial results, Operation and Maintenance Expenses, Revenues, application of Revenues, debt service coverage, a summary of financial forecasts, and a sensitivity scenario.

ANNUAL DEBT SERVICE REQUIREMENTS

Exhibit C presents a summary of estimated sources and uses of funds for the proposed 2014 Bonds. Public Financial Management (PFM), the Airport Commission's co-financial adviser, provided the estimated sources and uses of funds based on certain data and information provided by the Commission. For purposes of this Report, it was assumed that the proposed 2014 Bonds are to be issued as fixed-rate securities and a term to final maturity of 30 years. An estimated all-in true interest cost of 5.88% on the new money Series 2014 Bonds was provided by PFM in July 2014, which is higher than comparable rates in the financial markets as of the date of this report.

Exhibit C also presents a summary of the estimated sources and uses of funds for the anticipated Future Bonds, which are expected to be issued during the forecast period, although the timing and amount of these issues may change based on future events and circumstances. The estimated sources and uses of funds for the Future Bonds were also provided by PFM, based on certain data and information provided by the Commission. These planned Bonds were assumed to have a term to final maturity of 30 years with level annual debt service, and to be issued at a true interest cost of approximately 6.09%. In addition to providing funds for the Capital Plan, the Airport Commission intends to use a portion of the proceeds of the Future Bonds to increase the balance of the Contingency Account by approximately $55 million through FY 2021. A summary of the 2014 Bonds and the Future Bond issues assumed for purposes of this Report is shown in Table 23.

Table 23
SUMMARY OF 2014 BONDS AND FUTURE BONDS
San Francisco International Airport

		Future Bonds (by calendar year of issue)				
	2014 Bonds	2015 Bonds	2016 Bonds	2017 Bonds	2018 Bonds	2019 Bonds
Estimated issuance date	Sep-2014	Nov-2015	Nov-2016	Nov-2017	Nov-2018	July-2019
Principal amount ($ millions)	520	619	600	615	440	389
Project costs ($ millions)	460	506	465	478	352	325
Final maturity	2044	2045	2046	2047	2048	2049
Assumed all-in true interest cost	5.88%	6.09%	6.09%	6.09%	6.09%	6.09%
Interest capitalized through FY *(a)*	2018	2020	2019	2020	2020	2020

(a) The capitalized interest amount beyond June 2020 is immaterial.

Source: Public Financial Management, July 2014.

Exhibit D shows annual debt service for all current and anticipated Future Bonds to be issued under the Bond Resolution during the forecast period, including the proposed 2014 Bonds. Debt service on a cash basis is forecast to increase from $384.8 million in FY 2015 to $623.2 million in FY 2021.

Since financial forecasts in this Report only reflect funding of the Capital Plan in FY 2015 through FY 2019 in addition to an assumed Bond issue in calendar year 2019 (i.e., the start of FY 2020) to complete Terminal 1 Redevelopment Phase 1, the Airport Commission would need to issue additional Bonds during FY 2021 to FY 2024 totaling approximately $1.7 billion to complete the Capital Plan, assuming the current 10-year Capital Plan is fully implemented in that period. The actual level of future debt issuance by the Airport Commission will ultimately depend on the size and structure of the Bond transactions after the forecast period, and prevailing market conditions. The Airport Commission intends to closely monitor aviation activity levels at the Airport, the Airport Commission's financial position, Airport operational factors, and general financial market conditions; and make adjustments as needed to its Capital Plan phasing, overall debt levels, and airline payments per enplaned passenger levels to ensure that needed Airport facilities are provided on a timely basis and in a manner that will not impede the Airport's competitive position or financing capability.

Additionally, the Airport Commission intends to use commercial paper as interim financing for the Capital Plan, and to repay the principal amount of commercial paper using the proceeds of Future Bonds. The interest payments on the commercial paper, as well as related expenses, are subordinate debt service of the Airport Commission. PFM estimated that subordinate debt service would increase from $4.8 million in FY 2015 to $12.0 million in FY 2021, primarily due to a projected increase in commercial paper interest rates.

RECONCILIATION OF HISTORICAL FINANCIAL RESULTS

The Airport Commission maintains its accounting records on an accrual basis, in conformance with generally accepted accounting principles (GAAP) for governmental entities. Table 24 presents a summary and reconciliation of the historical operating results of the Commission for FY 2012 and FY 2013, as obtained from the Commission's audited financial statements.

OPERATION AND MAINTENANCE EXPENSES

As described in Section 3, under the Bond Resolution, Operation and Maintenance (O&M) Expenses are defined as substantially all operating and maintenance expenses of the Airport, excluding depreciation and amortization expenses.

Forecast O&M Expenses for FY 2015 through FY 2021 are based on the Commission's FY 2015 budget, its FY 2016 preliminary estimate, and its plan for operating Airport facilities through the forecast period. O&M Expenses were forecast using FY 2016 as the base year, with assumed inflationary increases in the cost of labor, services, utilities, and supplies, as well as the effect of new facilities coming into service during the forecast period.

Exhibit E shows O&M Expenses for the forecast period, as determined in accordance with the Bond Resolution. In total, O&M Expenses are forecast to increase from $409.5 million estimated for FY 2014 to $541.6 million in FY 2021, representing an average increase of 4.1% per year.

For the purposes of this Report, the following assumptions were used:

- The cost of labor (salaries) and benefits for the Commission, including police and fire services, will increase on average 3.3% per year during the forecast period, which reflects assumed inflation and a small real (net of inflation) increase.

  – Post-retirement benefit liability will be $14.9 million per year through the forecast period and a portion of that amount will be excluded from the allocation of O&M Expenses to cost centers, as shown in Exhibit E.

- Contractual services will increase on average 6.0% per year.

- Other expenses, including services provided by other City departments, repairs and maintenance, utilities, materials and supplies, general and administration, and environmental expenses, will increase on average 4.3% per year.

- Incremental operating expenses are expected to be $1.0 million in FY 2016 associated with the Terminal 3 Improvements project, and an additional $7.0 million per year in FY 2020 associated with completion of a 17-gate facility at Terminal 1, Boarding Area B.

- There is assumed to be a reduction in annual operating expenses of approximately $4.4 million starting in FY 2019 due to the elimination of certain shuttle bus expenses after the AirTran extension is completed and in operation, extending to the long term parking garages.

Table 24
RECONCILIATION OF HISTORICAL FINANCIAL RESULTS
San Francisco International Airport
For Fiscal Years ended June 30; dollars in thousands

	2012	2013
Financial Statements (FS)		
Operating Revenues	$668,672	$726,358
Operating Expenses exc. Depreciation & Amortization	(375,754)	(384,936)
Depreciation and Amortization	(167,309)	(176,522)
Operating Income	$125,609	$164,900
Non-operating Revenues (expenses)		
Interest Income	$ 32,353	$ 1,686
Interest Expenses	(203,547)	(195,503)
Passenger Facility Charge Revenues	81,437	84,329
Write-offs and Loss on Disposal	(19,233)	(52,442)
Net Other Non-operating Revenues (expenses)	2,478	(28,657)
Total Non-operating Revenues (expenses)	$(106,512)	$(190,587)
Income before Contributions and Special Items	$19,097	$(25,687)
Capital Grant Contributions	14,538	65,958
Transfers to the City and County of San Francisco	(33,993)	(36,464)
Changes in Net Assets	$(358)	$3,807
Net Revenues under Bond Resolution		
Revenues	$755,514	$783,870
Operation and Maintenance Expenses	(372,001)	(390,576)
Net Revenues under Bond Resolution	$383,513	$393,294
Reconciliation		
Changes in Net Assets	$(358)	$3,807
Excluding		
Passenger Facility Revenues Collected	(81,437)	(84,329)
Interest Income	(32,353)	(1,686)
Interest Expenses	203,547	195,503
Write-offs and Loss on Disposal	19,233	52,442
Net Other Non-operating Revenues (expenses)	(2,478)	28,657
Capital Grant Contributions	(14,538)	(65,958)
Transfers to the City and County of San Francisco	33,993	36,464
Including		
Depreciation	167,309	176,522
Passenger Facility Revenues Designated as Revenues	73,000	45,000
Interest Income Classified as Revenues	13,843	12,512
Net Expenses Adjustment under Bond Resolution	3,752	(5,640)
Net Revenues under Bond Resolution	$383,513	$393,294

Sources: Airport Commission, financial statements for FY 2012 and FY 2013. Reconciliation prepared by LeighFisher.

The allocation of O&M Expenses to Airport Cost Centers, as shown in Exhibit E, was based on the Airport Commission's procedures and cost accounting system, as described in the airline Lease and Use Agreements.

The main categories of O&M Expenses are described below.

Personnel Expenses

Personnel expenses include the salaries and fringe benefits of Commission employees, as well as the direct expenses for police and fire services provided by the City. Personnel expenses of the Commission accounted for 46.3% of O&M Expenses in FY 2013. Police and firefighting expenses accounted for 11.6% and 5.0% of O&M expenses, respectively, in FY 2013.

Contractual Services

Contractual services include payments made to outside vendors for services such as maintenance, professional services, and rents. Contractual services accounted for 16.4% of O&M Expenses in FY 2013.

Other Operating Expenses

Other operating expenses include services provided by other City departments, repairs and maintenance, utilities, materials and supplies, general administration, and environmental expenses.

- ***Services Provided by Other City Departments*** include legal, purchasing, human resources, the Contract Monitoring Division, workers' compensation, and finance services, as well as water supply. (These are direct services in addition to those paid for with the Annual Service Payment.) This expense category accounted for 3.8% of O&M Expenses in FY 2013.

- ***Repairs and Maintenance*** includes routine maintenance expenses for buildings, vehicles, and equipment, including elevators, escalators, and moving sidewalks. Write-offs of construction work in progress may also be recorded as part of this line item. Repairs and maintenance accounted for 7.3% of O&M Expenses in FY 2013.

- ***Utilities*** include expenses for light, heat, power, and natural gas at the Airport. The gross costs for electricity net of the cost of electricity sold to tenants are recorded as part of this line item. Utilities accounted for 5.1% of O&M Expenses in FY 2013. The gross costs increased in FY 2014 due to the expiration of a 1982 Stipulated Judgment (an arrangement under which the Airport Commission pays for utilities at a discounted price and passes the discount on to the tenants), offset by higher recovery from the tenants.

- ***Materials and Supplies*** reflect expenses incurred to support the maintenance and repair of buildings, vehicles, and equipment and to support various services of the Airport. Materials and supplies accounted for 3.7% of O&M Expenses in FY 2013.

- ***General Administration*** includes expenses related to insurance; taxes, licenses, and permits; judgments and claims; and write-offs for bad debts. General and administration expenses accounted for 0.7% of O&M Expenses in FY 2013.

- ***Environmental*** includes the costs of environmental cleanup incurred in connection with normal operations or with capital improvement projects; the costs are offset by reimbursements, if any, for such costs. The Commission did not incur environmental expenses in FY 2012 or FY 2013.

REVENUES

Airport Revenues consist of substantially all airline revenues and nonairline revenues generated from the operation of the Airport, as shown in Table 25. Exhibit F presents Revenues of the Airport Commission for FY 2012 and FY 2013 (actual), FY 2014 (estimated), and FY 2015 through FY 2021 (forecast).

Airline Revenues

Airline revenues are derived from landing fees and terminal rentals paid by airlines to the Airport Commission pursuant to the Lease and Use Agreements. Airline revenues, taken in the aggregate, are equivalent to the airline revenue requirement in the residual rate-making methodology used at the Airport.

The airline revenue requirement is calculated by subtracting nonairline revenues from the total revenue requirement as determined pursuant to the Lease and Use Agreements. Nonairline revenues are discussed in more detail below.

As of FY 2013, the Airport Commission has recorded deferred aviation revenues of $51.9 million, which are revenues over-collected from airlines in prior fiscal years (and therefore not recognized as revenues in the prior years). As provided for in the Lease and Use Agreement, the Airport Commission can apply deferred aviation revenue balances to reduce future airline rates and charges. Deferred aviation revenues used for this purpose in future years will be recognized as part of Revenues.

Table 25
OPERATING REVENUE SUMMARY
For Fiscal Years Ending June 30

	Actual FY 2013		Estimated FY 2014		Forecast FY 2021	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Aviation Revenues						
Landing Fee Revenues	$127,404	17.5%	$137,194	17.8%	$248,407	22.5%
Terminal Rentals	214,578	29.5%	231,002	30.0%	379,890	34.4%
Airline Revenue	$341,982	47.1%	$368,196	47.8%	$628,297	57.0%
Other Aviation Revenues						
Other Rental Revenue	49,009	6.7%	51,125	6.6%	54,798	5.0%
Other Aviation Revenue	26,076	3.6%	27,616	3.6%	36,037	3.3%
	75,085	10.3%	78,741	10.2%	90,835	8.2%
Total Aviation Revenues	$417,068	57.4%	$446,937	58.0%	$719,132	65.2%
Concession Revenues						
Parking	100,910	13.9%	100,980	13.1%	120,145	10.9%
Rental Car	46,383	6.4%	50,282	6.5%	60,153	5.5%
Duty Free	24,294	3.3%	25,335	3.3%	31,456	2.9%
Retail	15,234	2.1%	15,661	2.0%	20,047	1.8%
Food & Beverage	16,346	2.3%	17,988	2.3%	22,240	2.0%
Telephone & Other Services	20,530	2.8%	19,977	2.6%	24,484	2.2%
Other Concession Revenue	17,524	2.4%	20,140	2.6%	25,485	2.3%
	241,222	33.2%	250,363	32.5%	304,009	27.6%
Net Sales and Services						
Utilities (Net of Costs)	6,251	0.9%	7,665	1.0%	8,542	0.8%
BART Payments	3,208	0.4%	3,295	0.4%	3,405	0.3%
Rental Car Facility Fees	12,464	1.7%	13,475	1.7%	16,319	1.5%
Rental Car Transportation Fees	34,662	4.8%	37,034	4.8%	40,386	3.7%
Other Sales and Services	11,484	1.6%	11,439	1.5%	11,182	1.0%
	68,069	9.4%	72,908	9.5%	79,834	7.2%
Total Nonairline Revenues	309,291	42.6%	323,271	42.0%	383,843	34.8%
Total operating revenues	$726,359	100.0%	$770,208	100.0%	$1,102,975	100.0%

Note: Columns may not add to totals shown because of rounding.

Sources: Airport Commission for FY 2013. LeighFisher for FY 2014 and FY 2021.

Landing Fee Revenues. The calculation of the landing fee rate and landing fee revenues is shown in Exhibit F-1. Allocated costs of the Airfield Area (including O&M Expenses and allocable debt service) are calculated first. Then, certain adjustments are made, as follows:

- Allocable Utilities Area expenses are added
- Nonairline revenues generated from airfield activities, including allocated PFC revenues, are deducted
- Airport Support Area deficits or surpluses are added (or subtracted, as applicable)
- Adjustments for prior year Airfield Area surpluses (or deficits) are added (or subtracted, as applicable)

The resulting net amount is then divided by the landed weight of the scheduled airlines to calculate a basic landing fee rate.

Subsequently, a landing fee surcharge is collected to recover 50% of the Rental Surcharge (described below) net of surplus in the Groundside Area, if any. The sum of the basic landing fee rate and the surcharge rate is the effective landing fee rate to be paid by the airlines.

The effective landing fee rate is forecast to increase from $4.57 per 1,000 pounds of landed weight charged in FY 2015 to $7.17 per 1,000 pounds of landed weight in FY 2021. Landing fee revenues are forecast to increase from $159.8 million to $248.4 million over the same period.

Terminal Rentals. The calculation of the terminal rental rate and terminal rental revenues are shown in Exhibit F-2. Allocated costs of the Terminal Area (including allocable O&M Expenses and debt service) are calculated first. Then, certain adjustments are made as follows:

- Allocable Utilities Area expenses are added
- The Annual Service Payment to the City is added
- Adjustments to prior year surpluses (or deficits) in the Terminal Area are added (or subtracted, as applicable)

The resulting amount is divided by the gross terminal building square footage to calculate the basic terminal rental rate per square foot.

Subsequently, a terminal Rental Surcharge is added, as follows:

- The cost of public space in the terminal complex (the basic rental rate multiplied by total public space) is calculated
- Nonairline revenues generated in the Terminal Area, including allocated PFC revenues, are deducted
- Groundside Area deficits are added

If the resulting net amount is a deficit, it is allocated 50% to the Terminal Area (and 50% to the Airfield Area, as noted above), with the 50% share allocated to the Terminal Area divided by airline leased space to calculate the terminal rental surcharge rate per square foot. If the resulting net amount is a surplus, it is allocated 100% to the Terminal Area. The effective terminal rental rate paid by the airlines is the sum of the basic rental rate and the Rental Surcharge.

The effective average terminal rental rate is forecast to increase from $149.98 per square foot charged in FY 2015 to $224.75 per square foot in FY 2021. Airline terminal rental revenues are forecast to increase from $257.5 million to $379.9 million over the same period.

Total Airline Revenues and Airline Payments per Enplaned Passenger. As shown in Exhibit F-3, airline payments per enplaned passenger are forecast to increase from $15.78 and $16.25 estimated for FY 2014 and FY 2015 respectively, to $23.86 in FY 2021, primarily reflecting additional debt service associated with the 2014 Bonds and Future Bonds to be issued to implement the Airport Capital Plan. The enplaned passenger forecasts used to calculate these figures are described earlier in Section 2, and such enplanement forecasts took into account the anticipated increases in airline cost levels associated with the Capital Plan, among numerous other factors.

Other Aviation Revenues

The Commission generates revenues from aviation sources in addition to fees and charges paid by the airlines. It was assumed that the Airport Commission's current operating practices related to the other aviation revenue items would remain generally unchanged during the forecast period; and where applicable, expiring contracts and agreements would be renewed or replaced on generally the same terms as the current contracts and agreements.

Other Rental Revenue. This revenue category represents monies collected from the aviation-related activities of Airport tenants. It consists primarily of (1) rental revenue from ground leases, cargo building leases, and aircraft parking area leases, and (2) fees for parking by airline employees. Other rental revenue totaled an estimated $51.1 million in FY 2014 and is forecast to increase to $54.8 million in FY 2021.

Other Miscellaneous Aviation Revenue. This revenue category consists primarily of rentals, fees, and charges related to the sale of aviation fuel, servicing of airline and general aviation aircraft, and for the use and occupancy of general aviation facilities. Other aviation revenue totaled an estimated $27.6 million in FY 2014 and is forecast to increase to $36.0 million in FY 2021.

Nonairline Revenues

Nonairline revenues include revenues generated from automobile parking, automobile rentals, duty free, retail, food and beverage, telephone and other services, and other concessions. Additionally, nonairline revenues include certain interest earnings of the Commission. It was assumed that the Airport Commission's current operating practices related to nonairline revenue items would remain generally unchanged during the forecast period unless otherwise noted; and where applicable, expiring contracts and agreements would be renewed or replaced on generally the same terms as the current contracts and agreements. These revenues are described below and shown in Exhibit F.

Automobile Parking. Automobile parking revenues consist of all revenues derived from public parking at the Airport, including 15,294 public parking spaces in parking garage and surface lots, as described in Section 1. The remote long-term parking facility is served by shuttle bus. Parking rates are

$2 per 20-minute increment up to a maximum of $36 for each 24 hours in the Domestic Parking Garage, $28 in the ITC garages, and $18 in the long term parking Lot DD. Revenues from valet parking, the sale of impounded vehicles, and parking for employees of concession operators are also included in parking revenues.

Revenues from the Commission's parking operation increased from $92.8 million in FY 2012 to $100.9 million in FY 2013. This revenue increase was driven by daily rate increases for long-term parking, International Garage parking, and Lot DD parking in June 2012. Parking revenues are estimated to increase to $101.0 million in FY 2014.

Parking revenues were forecast as a function of forecast numbers of originating passengers, parking transactions per passenger, and revenue per transaction. The parking revenue forecast for FY 2021 is $120.1 million, including approximately $6.0 million annually from a new long-term parking garage planned to open in FY 2019. The FY 2013 actual parking revenue represents $5.83 per originating passenger. For purposes of this Report, it was assumed that parking rates would not be adjusted during the forecast period.

Rental Cars. Rental car revenues consist of concession fees from on-Airport rental car companies. Under the terms of new agreements with the rental car companies that became effective January 1, 2009, the on-Airport rental car companies pay a privilege fee to the Commission equivalent to 10% of their gross revenues, subject to MAGs. Rental car concession fee revenues increased from $44.1 million in FY 2012 to $46.4 million in FY 2013, attributable primarily to passenger growth.

Rental car concession fee revenues from on-Airport operators are forecast to increase from an estimated $50.3 million in FY 2014 to $60.2 million in FY 2021, which is equivalent to an average annual increase of 2.6% over the period. It was also assumed that the terms and conditions governing the use of the Airport by off-Airport rental car operators, which represents a minimal amount of revenue, would not change materially during the forecast period.

Duty Free. The Airport Commission has a contract with the DFS Group for the duty free concession in the ITC, which provides for payment to the Commission of a certain percentage of the concessionaire's gross sales at the Airport, subject to a MAG. The percentage of gross sales paid to the Commission varies from 20% to 30%, depending on the volume of sales. Of the total $26.9 million of revenues received from the DFS Group in FY 2013, $24.3 million was recognized as duty-free revenues and $2.6 million was recognized as duty-paid general merchandise revenues.

Duty free gross sales are expected to increase, driven by international passenger growth and inflation adjustments. No increases in per passenger spending on a real (net of inflation) basis were assumed. As a result, percentage fees are expected to exceed the MAG, increasing duty-free revenues from an estimated $25.3 million in FY 2014 to $31.5 million in FY 2021. As described in Section 3, the Airport Commission's contract with the DFS Group extends to December 31, 2017; for purposes of this Report it was assumed that it would be extended or replaced on substantially the same terms through the end of the forecast period.

Retail. Retail revenues consist of concession fees paid by gift and retail concessionaires in both the ITC and the domestic terminals, including those from the duty-paid operations under the DFS Group contract. Revenues in this category increased from $14.9 million in FY 2012 to $15.2 million in FY 2013, and are estimated to be $15.7 million in FY 2014.

The Airport Commission expects retail revenues to increase when the Terminal 1 Redevelopment program is completed, or FY 2020. For purpose of this Report, it was assumed that overall Airport-wide retail and food and beverage revenues would increase by 2.5% in FY 2020, in addition to adjustments for inflation and passenger growth (this reflects a real, net of inflation, increase of approximately 10% in the per passenger retail spend in Terminal 1). Total retail revenues are expected to increase to $20.0 million in FY 2021.

Food and Beverage. Food and beverage revenues consist mainly of rents and fees paid by food and beverage concessionaires for in-terminal operations. In FY 2014, food and beverage revenues totaled an estimated $18.0 million.

As noted above for retail, food and beverage revenues are expected to increase, driven by inflation and passenger growth, as well as planned capital projects (in particular, the anticipated completion of the redeveloped Terminal 1). Food and beverage revenues are expected to increase to $22.2 million in FY 2021.

Telephone and Other Services. Telephone and other services revenues consist of rents and privilege fees paid by public telephone concessionaires, banks, advertising companies, and several other miscellaneous concessionaires. Revenues in this category totaled an estimated $20.0 million in FY 2014 and are forecast to increase to $24.5 million in FY 2021.

Other Concession Revenues. Other concession revenues consist of nonairline revenues from terminal and other building space, miscellaneous fees and charges, privilege fees assessed off-Airport rental car companies, rents from on-Airport rental car companies for unimproved land, and ground transportation and taxicab trip fees. Other concession revenues are estimated to be $20.1 million in FY 2014 and are forecast to increase to $25.5 million in FY 2021. The increase reflects a planned increase in the taxi trip fee from $4 to $5 expected to be effective January 1, 2015.

Net Sales and Services Revenues. Net sales and services revenues consist primarily of revenues from utilities, BART District payments, rental car facility fees, rental car transportation fees, and other miscellaneous sales and services. Revenues in this category totaled an estimated $72.9 million in FY 2014 and are forecast to increase to $79.8 million in FY 2021. Among the individual revenue items in this category are the following.

Utilities. The Commission sells gas and electricity to Airport tenants. Revenues from such sales, net of the cost to purchase the gas and electricity from suppliers, are recorded as utility revenues.

BART District Payments. The BART District pays the Commission a fixed rental amount of $2.5 million per year and a fee for recovery of certain O&M expenses, which totaled an estimated $3.3 million in FY 2014.

Rental Car Facility Fees. This category represents revenues derived under facility leases with the on-Airport rental car companies for the use and occupancy of the consolidated rental car facility. This is in addition to the concession fees paid by these companies.

Rental Car Transportation Fees. Rental car companies collect a per rental car contract fee (called the Transportation and Facilities Fee), which is paid to the Commission for reimbursement of certain costs of operating and providing the AirTrain facilities. The current Transportation and Facilities Fee is $20.00 per rental car contract, and is assumed to remain unchanged during the forecast period.

Other Sales and Services. This category represents, among other sources of revenue, cost-based reimbursements paid by San Francisco Terminal Equipment Company, LLC for equipment and operating expenses in the ITC, revenues from a telecommunications access fee, and revenues from fees for licenses, permits, and security badges.

Interest Earnings

Certain categories of interest earnings of the Commission are categorized as Revenues in accordance with the Bond Resolution. Specifically, interest earnings on operating funds and accounts, the Debt Service Fund, the Debt Service Reserve Fund, and the Contingency Account are classified as Revenues. Interest earnings are estimated to be $6.8 million in FY 2014, and are forecast to increase to $24.8 million in FY 2021, due to an assumed increase in the interest earning rates, and an increase in the Debt Service Reserve Fund balance, reflecting the additional Bonds assumed to be issued during the period.

PFCs Designated and Applied as Revenues

As described earlier in Section 3, the Commission uses a portion of its PFC revenues to pay debt service on certain FAA-approved and PFC-eligible costs associated with development of the ITC, Terminal 2, and other projects. When declared and applied as such by the Commission, PFC revenues used to pay debt service are classed as Revenues under the terms of the Bond Resolution, which also serve to reduce the amount of the airline revenue requirement under the terms of the Lease and Use Agreements. In any given period, the Commission may decide to apply an amount of PFCs less than the amount it earlier designated for such purpose.

APPLICATION OF REVENUES

Exhibit G presents the forecast application of Airport Commission Revenues for FY 2014 through FY 2021 in accordance with the provisions of the Bond Resolution, as well as historical data for FY 2012 and FY 2013.

After fulfillment of the higher priority funding obligations described in Section 5.06 of the Bond Resolution, all remaining amounts are deposited into the General Purpose Account. For purposes of this Report, it was further assumed that interest income generated from balances in the Contingency Account were applied to the Account (i.e., interest income in the Contingency Account is retained within the Account).

DEBT SERVICE COVERAGE

Exhibit H presents Revenues; O&M Expenses; debt service requirements for current Outstanding Bonds, estimated debt service requirements on the proposed 2014 Bonds, and anticipated debt service on Future Bonds assumed to be issued during the forecast period; and debt service coverage.

Transfer Amount Available

The forecast of the amount available for deposit by the Commission into the Revenues Account from the Contingency Account in each Fiscal Year of the forecast period is shown in Exhibit H. Based upon the plans of, and actions taken by, the Commission, it was assumed that the Commission will maintain a balance in the Contingency Account and increase the amount when needed; however, the Commission is not required to do so. It was further assumed that, as provided for in the Bond Resolution, the amount in the Contingency Account will be deposited into the Revenues Account at the end of such

Fiscal Year and that such amount will be re-deposited into the Contingency Account from the Revenues Account at the beginning of the following Fiscal Year.

For the purposes of this Report, as noted above it was assumed that the Airport Commission would retain interest earnings of the Contingency Account, at approximately $1 million annually, and deposit a total of $55 million of Future Bond proceeds into the Contingency Account, as shown in Exhibit C.

The amount used for the Transfer in the Rate Covenant calculations is limited to the lesser of (1) the amount available in the Contingency Account for such Fiscal Year, or (2) an amount equal to 25% of Maximum Annual Debt Service as calculated for such Fiscal Year. In FY 2021, the anticipated balance in Contingency Account is approximately equal to 25% of that year's Annual Debt Service net of capitalized interest.

Forecast Debt Service Coverage

In each year of the forecast period, Net Revenues (together with Transfers) are forecast to exceed the requirements of the Rate Covenant contained in the Bond Resolution. The forecast debt service coverage reflects the effects of the Commission's Bond issuances during the forecast period, specifically the proposed 2014 Bonds and the anticipated Future Bonds to be issued during the forecast period. Debt service coverage is forecast to decline from 139% estimated in FY 2014 to 134% in FY 2021, primarily due to an increase in Annual Debt Service.

The forecast coverage meets or exceeds 125% in each year of the forecast period primarily because certain categories of expenses are included in the airline rate base for the calculation of airline rentals, fees, and charges, but are not included in the application of Revenues for the payment of Bond debt service. These expenses are "below the line" items, and are to be paid after the payment of Bond debt service and the calculation of debt service coverage. The largest of these expense items is the Annual Service Payment to the City.

Further, Net Revenues in each Fiscal Year are forecast to be at least sufficient to make all required payments and deposits to the Revenue Bond Account, as well as to make the Annual Service Payment to the City.

Thus, the Rate Covenant provision of the Bond Resolution is forecast to be met in each Fiscal Year of the forecast period.

SUMMARY OF FINANCIAL FORECASTS

Exhibit I summarizes the forecast financial results of the Airport Commission presented in Exhibits A through H, as discussed in the preceding sections, and includes the calculation of airline payments (costs) per enplaned passenger based on such data. Revenues and O&M Expenses were forecast using the forecast of enplaned passengers and aircraft landed weight presented in Section 2 of this Report.

SENSITIVITY SCENARIO

Exhibit J is an identical presentation of financial projections for a hypothetical sensitivity scenario. The hypothetical sensitivity scenario is based on the same assumptions described in the sections above, except:

- The number of enplaned passengers, and all other related airline traffic activities, would be 10% lower, starting in FY 2016, than the forecast of enplaned passengers presented in Table 20.

- Projections of those categories of nonairline and commercial revenues that are variable based on passenger activity were decreased proportionately.

- PFC revenues were recalculated based on the lower enplaned passenger projections. As a result, lower amounts of PFC revenues were projected to be applied as Revenues during the forecast period.

Airline payments were calculated under the residual cost rate-setting methodology of the airline Lease and Use Agreements. Under this hypothetical scenario, the Commission would generate sufficient Net Revenues to meet the requirements of the Rate Covenant, and debt service coverage would be approximately the same as under the base case forecasts, given the residual airline ratemaking system. Passenger airline payments per enplaned passenger would increase to $28.03 in FY 2021, compared to $23.86 in FY 2021 under the baseline.

In the event that enplaned passenger levels actually declined substantially, the Airport Commission would have a range of options at its disposal to mitigate the impact of such a downturn. Among them would be the ability to reduce Operation and Maintenance Expenses, and to defer capital improvements (thereby reducing Future Bond issuance during the forecast period).

Additionally, the Airline Lease and Use Agreements provide for mid-year airline rate adjustments, in the event that there is a significant drop in aviation activity at the Airport during the course of a year.

Exhibit A-1

AIRPORT CAPITAL PLAN COSTS
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; amounts in millions)

	Prior to FY 2015	2015	2016	2017	2018	2019	Subtotal FY 2015-19	FY 2020-24	Total FY 2015-24
Terminal Area									
Terminal 1 Redevelopment Program									
Terminal 1 Redevelopment - Temporary Facilities	$ 3	$ 15	$ 144	$ 42	$ 3	$ 3	$ 206	$ 27	$ 233
Terminal 1 Redevelopment - Phase 1	-	10	46	187	286	251	781	325	1,106
Terminal 1 Redevelopment - Phase 2	-	-	-	-	-	16	16	811	827
Subtotal	$ 3	$ 24	$ 190	$ 229	$ 290	$ 270	$ 1,003	$ 1,164	$ 2,167
Terminal 3 Improvements									
Terminal 3 Boarding Area F Renovation	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 400	$ 400
Terminal 3 Boarding Area F Plaza Improvements	0	-	18	23	7	-	48	-	48
Terminal 3 West Improvements	1	-	-	26	80	40	146	94	240
Terminal 3 East Checkpoint Reconfiguration	50	79	47	-	-	-	126	-	126
ATCT Replacement and Integrated Facilities	38	40	-	-	-	-	40	-	40
Miscellaneous Terminal Projects	36	20	32	8	17	1	79	1	80
	$ 128	$ 164	$ 287	$ 286	$ 393	$ 311	$ 1,442	$ 1,659	$ 3,101
Airfield Area									
Taxiway Improvements	$ 1	$ -	$ -	$ 0	$ 4	$ 3	$ 7	$ 92	$ 99
Runway Improvements	-	-	-	1	20	13	34	41	75
Runway Safety Area (RSA) Improvement Program	81	-	-	-	-	-	-	-	-
Miscellaneous Airfield Projects	4	24	27	38	25	17	131	20	151
	$ 85	$ 24	$ 27	$ 39	$ 49	$ 33	$ 172	$ 153	$ 325
Airport Support Area									
West Field Cargo Development	$ 1	$ 0	$ 14	$ 13	$ 5	$ 1	$ 34	$ -	$ 34
South Field Redevelopment Program	-	4	21	5	-	-	31	-	31
Plot 700 Redevelopment Program	-	-	12	15	-	-	28	-	28
Miscellaneous Support Projects	30	22	35	18	6	1	81	-	81
	$ 31	$ 26	$ 83	$ 52	$ 11	$ 2	$ 174	$ -	$ 174
Groundside Area									
AirTrain Extension	$ -	$ 0	$ 27	$ 42	$ 16	$ -	$ 85	$ -	$ 85
Long Term Garage Development	-	1	14	34	23	-	72	-	72
Consolidated Administration Campus	1	1	30	23	1	1	56	6	62
On-Airport Hotel (a)	-	-	-	-	-	-	165	-	165
Miscellaneous Groundside Projects	0	4	25	29	40	6	103	-	103
	$ 1	$ 6	$ 96	$ 127	$ 80	$ 6	$ 480	$ 6	$ 486
Other Projects									
Power and Lighting Improvements	$ 1	$ 3	$ 11	$ 8	$ 6	$ 15	$ 43	$ 58	$ 102
Wastewater Improvements	1	18	11	6	1	0	35	-	35
Miscellaneous Other Projects	0	0	29	16	2	1	48	10	58
	$ 2	$ 21	$ 51	$ 29	$ 9	$ 17	$ 127	$ 68	$ 195
CAPITAL PLAN TOTAL (a)	**$ 248**	**$ 240**	**$ 544**	**$ 534**	**$ 542**	**$ 369**	**$ 2,394**	**$ 1,886**	**$ 4,280**

(a) Since the funding plan, and specific schedule, for the on-Airport hotel project has not been finalized, it was excluded from the financial forecasts in this Report.
Note: Figures may not sum to totals due to rounding.
Source: Airport Commission, July 2014.

Exhibit A-2

AIRPORT CAPITAL PLAN SOURCES OF FUNDING
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; amounts in millions)

	Grants	PFC Pay-as-you-go (a)	Bonds	Subtotal FY 2015-19	FY 2020-24 (b)	Total FY 2015-24
Terminal Area						
Terminal 1 Redevelopment Program						
Terminal 1 Redevelopment - Temporary Facilities	$ -	$ -	$ 206	$ 206	$ 27	$ 233
Terminal 1 Redevelopment - Phase 1	61	38	682	781	325	1,106
Terminal 1 Redevelopment - Phase 2	-	-	16	16	811	827
Subtotal	$ 61	$ 38	$ 905	$ 1,003	$ 1,164	$ 2,167
Terminal 3 Improvements						
Terminal 3 Boarding Area F Renovation	$ -	$ -	$ -	$ -	$ 400	$ 400
Terminal 3 Boarding Area F Plaza Improvements	-	-	48	48	-	48
Terminal 3 West Improvements	-	-	146	146	94	240
Terminal 3 East Checkpoint Reconfiguration	-	-	126	126	-	126
ATCT Replacement and Integrated Facilities	-	-	40	40	-	40
Miscellaneous Terminal Projects	-	9	70	79	1	80
	$ 61	$ 47	$ 1,334	$ 1,442	$ 1,659	$ 3,101
Airfield Area						
Taxiway Improvements	$ -	$ -	$ 7	$ 7	$ 92	$ 99
Runway Improvements	-	-	34	34	41	75
Runway Safety Area (RSA) Improvement Program	-	-	-	-	-	-
Miscellaneous Airfield Projects	108	-	23	131	20	151
	$ 108	$ -	$ 64	$ 172	$ 153	$ 325
Airport Support Area						
West Field Cargo Development	$ -	$ -	$ 34	$ 34	$ -	$ 34
South Field Redevelopment Program	-	-	31	31	-	31
Plot 700 Redevelopment Program	-	-	28	28	-	28
Miscellaneous Support Projects	-	-	81	81	-	81
	$ -	$ -	$ 174	$ 174	$ -	$ 174
Groundside Area						
AirTrain Extension	$ -	$ -	$ 85	$ 85	$ -	$ 85
Long Term Garage Development	-	-	72	72	-	72
Consolidated Administration Campus	-	-	56	56	6	62
On-Airport Hotel (c)	-	-	-	165	-	165
Miscellaneous Groundside Projects	-	-	103	103	-	103
	$ -	$ -	$ 315	$ 480	$ 6	$ 486
Other Projects						
Power and Lighting Improvements	$ -	$ -	$ 43	$ 43	$ 58	$ 102
Wastewater Improvements	-	-	35	35	-	35
Miscellaneous Other Projects	-	-	48	48	10	58
	$ -	$ -	$ 127	$ 127	$ 68	$ 195
CAPITAL PLAN TOTAL (c)	**$ 169**	**$ 47**	**$ 2,013**	**$ 2,394**	**$ 1,886**	**$ 4,280**

(a) Does not reflect the Commission's future plan to use PFC on a pay-as-you-go basis, which, when approved, would reduce the required bond borrowing amount.
(b) Total costs, funded through several funding sources.
(c) Specific funding sources for the $165 million on-Airport hotel have not yet been finalized.
Note: Figures may not sum to totals due to rounding.
Source: Airport Commission, July 2014.

Exhibit B

PFC REVENUE FORECAST AND APPLICATION OF PFC REVENUES
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; amounts in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	Historical 2012	Historical 2013	Estimated 2014	Forecast 2015	2016	2017	2018	2019	2020	2021
PFC Collections										
Enplaned Passengers	21,420	22,273	22,996	23,455	23,901	24,339	24,764	25,181	25,584	25,974
Percent of PFC Eligible Passengers Paying	83.1%	89.0%	86.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
PFC Eligible Enplaned Passengers	17,803	19,825	19,788	19,937	20,316	20,688	21,049	21,404	21,746	22,078
PFC Level	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50
Less: PFC Airline Collection Fee	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)	(0.11)
Net PFC Level	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39
PFC Collections (not including interest income)	$ 78,156	$ 87,033	$ 86,868	$ 87,522	$ 89,187	$ 90,821	$ 92,407	$ 93,963	$ 95,467	$ 96,922
Cumulative PFC Collections (a)	$ 709,273	$ 797,138	$ 884,874	$ 973,370	$ 1,064,035	$ 1,156,242	$ 1,250,132	$ 1,345,937	$ 1,443,622	$ 1,542,954
PFC Cash Flow										
PFC Fund - Beginning Balance	$ 40,756	$ 46,894	$ 89,759	$ 141,795	$ 158,741	$ 153,805	$ 139,513	$ 174,203	$ 215,508	$ 253,693
Deposits:										
PFC Collections	$ 78,156	$ 87,033	$ 86,868	$ 87,522	$ 89,187	$ 90,821	$ 92,407	$ 93,963	$ 95,467	$ 96,922
Interest Earnings	981	832	868	974	1,478	1,387	1,483	1,842	2,218	2,410
Total Annual PFC Revenues	$ 79,138	$ 87,865	$ 87,736	$ 88,496	$ 90,664	$ 92,208	$ 93,890	$ 95,805	$ 97,685	$ 99,332
Annual Use of PFC Revenues										
Planned Pay-as-you-go	$ -	$ -	$ -	$ (9,000)	$ (19,000)	$ (19,000)	$ -	$ -	$ -	$ -
Debt Service under Existing PFC Authorization	(73,000)	(45,000)	(35,700)	(62,550)	(76,600)	(87,500)	(59,200)	(54,500)	(59,500)	(96,922)
Total Annual Use of PFC Revenues	$ (73,000)	$ (45,000)	$ (35,700)	$ (71,550)	$ (95,600)	$ (106,500)	$ (59,200)	$ (54,500)	$ (59,500)	$ (96,922)
PFC Fund - Ending Balance	$ 46,894	$ 89,759	$ 141,795	$ 158,741	$ 153,805	$ 139,513	$ 174,203	$ 215,508	$ 253,693	$ 256,103
Cumulative Reserved for Pay-as-you-go	-	22,273	45,269	68,724	92,625	116,964	141,728	166,909	192,493	218,467
Other Available Balance	46,894	67,485	96,526	90,017	61,180	22,549	32,475	48,599	61,200	37,636

(a) The Airport Commission has received PFC collection authority for a total of $1,444 million, and expects to receive additional PFC collection authority in the future.
Note: Figures may not sum to totals due to rounding.
Sources: Historical - Airport Commission; Estimated and Forecast - LeighFisher.

Exhibit C

SOURCES & USES OF BOND FUNDS
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; amounts in thousands)

	2014 Bonds	Future Bonds through FY 2020	Total
Sources of Funds			
Bond Proceeds	$ 520,415	$ 2,663,515	$ 3,183,930
Premium / (Discount)	4,966	5,503	10,469
Total	$ 525,381	$ 2,669,018	$ 3,194,399
Uses of Funds			
Capital Plan Project Expenditures			
Including Commercial Paper Refunding (a)	$ 460,110	$ 2,126,833	$ 2,586,943
Deposit to Contingency Account	-	55,000	55,000
Capitalized Interest	20,497	257,071	277,568
Bond Reserve Account	39,627	203,955	243,582
Cost of Issuance	5,147	26,159	31,306
Total	$ 525,381	$ 2,669,018	$ 3,194,399

(a) Including $248 million spent through FY 2014, $2,013 million from FY 2015 through FY 2019, and $325 million in FY 2020, for a total of $2,587 million.

Note: Figures may not sum to totals due to rounding.

Sources: Airport Commission; Public Financial Management, Inc., July 2014.

Exhibit D

ANNUAL DEBT SERVICE REQUIREMENTS
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; amounts in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		Historical	Estimated	Forecast						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
DEBT SERVICE - CASH BASIS (a)										
Fixed Rate Bonds	$ 308,349	$ 320,738	$ 334,831	$ 352,698	$ 360,822	$ 346,956	$ 341,166	$ 339,117	$ 337,834	$ 338,114
Variable Rate Bonds	16,775	16,617	21,507	25,807	27,366	43,028	48,838	51,545	51,298	51,974
Notes	332	-	-	-	-	-	-	-	-	-
Subtotal	$ 325,456	$ 337,355	$ 356,338	$ 378,505	$ 388,188	$ 389,984	$ 390,004	$ 390,662	$ 389,132	$ 390,088
Proposed 2014 Bonds	-	-	-	6,293	20,449	29,606	30,276	30,582	30,582	30,582
Future Bonds	-	-	-	-	3,044	17,085	30,194	53,431	90,475	202,489
Total Debt Service - Cash Basis	$ 325,456	$ 337,355	$ 356,338	$ 384,799	$ 411,680	$ 436,675	$ 450,474	$ 474,675	$ 510,189	$ 623,158
DEBT SERVICE - DEPOSIT BASIS (a)										
Fixed Rate Bonds	$ 318,154	$ 326,847	$ 337,780	$ 354,558	$ 358,691	$ 345,991	$ 340,825	$ 338,903	$ 337,881	$ 337,900
Variable Rate Bonds	16,775	16,617	21,507	25,816	30,010	44,151	49,393	51,760	51,680	52,207
Notes	332	-	-	-	-	-	-	-	-	-
Subtotal	$ 335,261	$ 343,463	$ 359,287	$ 380,374	$ 388,701	$ 390,142	$ 390,218	$ 390,663	$ 389,561	$ 390,107
Proposed 2014 Bonds	-	-	-	8,972	22,630	29,787	30,332	30,582	30,582	30,582
Future Bonds	-	-	-	-	4,992	19,888	31,266	59,606	112,116	202,808
Total Debt Service - Deposit Basis	$ 335,261	$ 343,463	$ 359,287	$ 389,346	$ 416,323	$ 439,817	$ 451,816	$ 480,851	$ 532,259	$ 623,497
DEBT SERVICE BY COST CENTER (b)										
Airfield Area			$ 41,664	$ 54,319	$ 60,372	$ 59,797	$ 60,580	$ 59,900	$ 55,454	$ 55,053
Airport Support Area			20,878	25,580	36,937	37,330	35,164	40,812	40,466	46,856
Terminal Area			168,049	172,760	184,648	214,887	216,866	225,804	284,624	358,803
Groundside Area			113,542	119,593	115,813	106,170	112,536	126,045	122,185	130,789
Utility			15,155	17,095	18,553	21,633	26,669	28,290	29,532	31,995
Total Debt Service by Cost Center			$ 359,287	$ 389,346	$ 416,323	$ 439,817	$ 451,816	$ 480,851	$ 532,259	$ 623,497

(a) Debt service expressed on a deposit basis reflects the monthly payments the Commission is required to make to the Trustee, while debt service expressed on a cash basis reflects the actual payment of principal and interest to the Bond holders.
(b) Expressed on a Deposit Basis.
Note: Figures may not sum to totals due to rounding.
Sources: Airport Commission; Public Financial Management, Inc., July 2014.

Exhibit E

OPERATION AND MAINTENANCE EXPENSES
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; amounts in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		Historical	Estimated	Forecast						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Salaries & Benefits										
Commission Staff	$ 176,721	$ 180,955	$ 198,365	$ 216,899	$ 220,383	$ 225,833	$ 230,702	$ 235,703	$ 240,840	$ 246,115
Police	44,323	45,432	46,563	50,548	50,888	52,627	54,279	55,992	57,770	59,614
Fire	19,125	19,474	20,500	22,499	22,579	23,427	24,312	25,096	25,911	26,758
Total Salaries and Benefits	$ 240,168	$ 245,861	$ 265,428	$ 289,946	$ 293,850	$ 301,887	$ 309,293	$ 316,792	$ 324,521	$ 332,487
Contractual Services										
Parking Garage Management Services	$ 18,868	$ 19,289	$ 19,617	$ 19,875	$ 20,503	$ 21,119	$ 21,752	$ 22,405	$ 23,077	$ 23,769
Other Contractual Services	37,198	44,592	41,534	55,378	58,928	60,696	62,517	64,393	66,325	68,314
Total Contractual Services	$ 56,066	$ 63,881	$ 61,151	$ 75,254	$ 79,432	$ 81,815	$ 84,269	$ 86,797	$ 89,401	$ 92,083
Services Provided by Other City Departments	$ 12,711	$ 15,027	$ 16,470	$ 21,852	$ 21,979	$ 22,638	$ 23,317	$ 24,017	$ 24,737	$ 25,479
Repairs and Maintenance	26,728	28,446	30,825	32,058	33,341	34,526	35,732	36,958	37,707	38,478
Light Heat and Power	20,345	19,845	19,140	20,809	21,294	21,947	22,621	23,315	24,030	24,766
Materials and Supplies	14,306	14,472	14,624	17,291	17,551	18,077	18,619	19,178	19,753	20,346
General and Administration	1,678	2,894	1,832	1,905	1,982	2,041	2,102	2,165	2,230	2,297
Environmental	-	150	-	-	-	-	-	-	-	-
BASE EXPENSES	$ 372,001	$ 390,576	$ 409,471	$ 459,114	$ 469,427	$ 482,931	$ 495,953	$ 509,223	$ 522,380	$ 535,937
Incremental Expenses for Future Facilities (a)	-	-	-	-	1,009	1,039	1,070	(1,448)	5,509	5,674
OPERATION AND MAINTENANCE EXPENSES	$ 372,001	$ 390,576	$ 409,471	$ 459,114	$ 470,436	$ 483,970	$ 497,024	$ 507,775	$ 527,889	$ 541,612
Percent Change		5.0%	4.8%	12.1%	2.5%	2.9%	2.7%	2.2%	4.0%	2.6%
O&M Expenses by Cost Center										
Airfield Area			$ 33,661	$ 38,558	$ 38,925	$ 40,300	$ 41,644	$ 42,821	$ 43,997	$ 45,204
Airport Support Area			39,186	42,133	43,169	44,399	45,617	46,835	48,039	49,277
Terminal Area			200,009	222,617	229,360	235,844	245,405	251,716	264,967	271,621
Groundside Area			99,715	111,485	114,571	117,770	117,314	118,002	121,132	124,366
Utility Area			30,354	37,040	37,911	38,990	40,207	41,392	42,566	43,771
Total O&M Expenses by Cost Center			$ 402,924	$ 451,833	$ 463,935	$ 477,303	$ 490,187	$ 500,765	$ 520,700	$ 534,240
Adjustment (b)			6,547	7,281	6,501	6,667	6,837	7,010	7,189	7,372
OPERATION AND MAINTENANCE EXPENSES			$ 409,471	$ 459,114	$ 470,436	$ 483,970	$ 497,024	$ 507,775	$ 527,889	$ 541,612

(a) It is anticipated that the AirTrain extension would be completed in FY 2018, resulting in more than $4 million of annual savings by discontinuing shuttle bus service to existing long-term garage.
(b) Adjustments are for the difference in other post-retirement benefit expenses between the amounts charged to the airlines and the amount recognized under GAAP.
Note: Figures may not sum to totals due to rounding.
Sources: Historical - Airport Commission; Estimated and Forecast - LeighFisher. Estimates are based on 11 months of actual results.

Exhibit F

REVENUES

Airport Commission, City and County of San Francisco

(for Fiscal Years ending June 30; amounts in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		Historical	Estimated	Forecast						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Aviation Revenues										
Landing Fees	$ 117,108	$ 127,404	$ 137,194	$ 159,773	$ 167,123	$ 165,738	$ 197,460	$ 215,809	$ 227,925	$ 248,407
Terminal Rentals	188,400	214,578	231,002	257,477	262,042	274,387	287,127	297,840	341,697	379,890
Aviation Revenue - Airlines	$ 305,509	$ 341,982	$ 368,196	$ 417,250	$ 429,165	$ 440,126	$ 484,586	$ 513,649	$ 569,622	$ 628,297
Other Rental Revenues	47,409	49,009	51,125	49,219	50,103	51,005	51,926	52,864	53,821	54,798
Other Aviation Revenues	24,617	26,076	27,616	27,799	28,628	30,227	31,191	32,053	34,276	36,037
	$ 377,535	$ 417,068	$ 446,937	$ 494,268	$ 507,896	$ 521,359	$ 567,703	$ 598,566	$ 657,719	$ 719,132
Concession Revenues										
Parking	$ 92,791	$ 100,910	$ 100,980	$ 101,448	$ 104,737	$ 106,603	$ 108,413	$ 115,774	$ 118,383	$ 120,145
Rental Car	44,103	46,383	50,282	51,375	52,829	54,299	55,764	57,232	58,693	60,153
Duty Free (a)	23,805	24,294	25,335	26,296	27,183	28,058	28,921	29,783	30,626	31,456
Retail	14,925	15,234	15,661	16,730	17,229	17,727	18,222	18,719	19,550	20,047
Food & Beverage	14,975	16,346	17,988	17,767	19,024	19,563	20,100	20,640	21,692	22,240
Telephone & Other Services	18,589	20,530	19,977	21,741	22,176	22,619	23,072	23,533	24,004	24,484
Other Concession Revenues	15,686	17,524	20,140	20,987	22,359	23,890	24,300	24,704	25,098	25,485
	$ 224,874	$ 241,222	$ 250,363	$ 256,344	$ 265,538	$ 272,759	$ 278,791	$ 290,385	$ 298,046	$ 304,009
Net Sales and Services										
Utilities (net of costs)	$ 7,672	$ 6,251	$ 7,665	$ 7,412	$ 7,576	$ 7,760	$ 7,948	$ 8,141	$ 8,339	$ 8,542
BART Payments	3,247	3,208	3,295	3,296	3,313	3,331	3,349	3,367	3,386	3,405
Rental Car Facility Fees	12,079	12,464	13,475	14,491	14,781	15,076	15,378	15,686	15,999	16,319
Rental Car Transportation Fees	32,524	34,662	37,034	36,579	37,249	37,912	38,556	39,186	39,794	40,386
Other Sales and Services	10,740	11,484	11,439	10,724	10,797	10,871	10,946	11,023	11,102	11,182
	$ 66,263	$ 68,069	$ 72,908	$ 72,502	$ 73,716	$ 74,950	$ 76,177	$ 77,403	$ 78,620	$ 79,834
TOTAL OPERATING REVENUES	$ 668,672	$ 726,359	$ 770,208	$ 823,114	$ 847,150	$ 869,068	$ 922,672	$ 966,354	$ 1,034,385	$ 1,102,975
PFCs CLASSIFIED AS REVENUES (b)	$ 73,000	$ 45,000	$ 35,700	$ 62,550	$ 76,600	$ 87,500	$ 59,200	$ 54,500	$ 59,500	$ 96,922
INTEREST INCOME (c)	$ 13,843	$ 12,512	$ 6,776	$ 7,071	$ 9,456	$ 16,456	$ 19,799	$ 22,964	$ 24,294	$ 24,760
TOTAL REVENUES	$ 755,514	$ 783,870	$ 812,684	$ 892,735	$ 933,205	$ 973,024	$ 1,001,670	$ 1,043,818	$ 1,118,179	$ 1,224,658

(a) Revenues from duty-free sales only. Amounts attributed as revenues from duty-paid sales under the DFS Group contract are included in retail revenues.
(b) Portion of PFC receipts used to pay debt service in such fiscal year, based on the Airport Commission's expectations.
(c) Certain interest income included by the Commission in Airline Rates and Charges calculations.
Note: Figures may not sum to totals due to rounding.
Sources: Historical - Airport Commission; Estimated and Forecast - LeighFisher. Estimates are based on 11 months of actual results.

Exhibit F-1

LANDING FEES
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; numbers in thousands except rates)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	Forecast 2015	2016	2017	2018	2019	2020	2021
Airfield Area							
Operation and Maintenance Expenses	$ 38,558	$ 38,925	$ 40,300	$ 41,644	$ 42,821	$ 43,997	$ 45,204
Existing Debt Service	47,747	49,677	53,279	54,399	52,598	46,470	42,224
Future Debt Service	6,572	10,695	6,517	6,181	7,303	8,984	12,830
Subordinate Lien Debt	340	375	487	669	704	815	850
Small Capital Outlays	-	-	-	-	-	-	-
Equipment	441	341	315	324	334	343	354
Airfield Area Expenses	$ 93,658	$ 100,012	$ 100,899	$ 103,216	$ 103,759	$ 100,608	$ 101,462
Allocated Expenses from Utility Area	3,499	3,659	3,948	4,410	4,601	4,779	5,058
PFCs Classified as Revenues	(35,100)	(49,500)	(48,800)	(26,500)	(18,800)	(20,800)	(38,000)
Airfield Nonairline Revenues	(1,009)	(1,322)	(2,208)	(2,626)	(2,860)	(2,591)	(2,303)
Deficit/(Surplus) from Prior Fiscal Years	(11,264)	(8,769)	-	-	-	-	-
Adjusted Airfield Area Expenses	$ 49,784	$ 44,080	$ 53,838	$ 78,500	$ 86,701	$ 81,997	$ 66,217
Deficit/(Surplus) from Airport Support Area	(1,599)	9,088	8,366	6,466	6,680	4,968	10,299
Gross Landing Fee Payable by Airlines	$ 48,185	$ 53,167	$ 62,205	$ 84,966	$ 93,380	$ 86,965	$ 76,516
Landed Weight of Scheduled Airlines	32,108	32,574	33,033	33,460	33,884	34,282	34,665
Basic Landing Fee Rate (per 1,000 lbs)	$ 1.50	$ 1.63	$ 1.88	$ 2.54	$ 2.76	$ 2.54	$ 2.21
Total Terminal and Groundside Area Surcharge	$ 200,649	$ 210,373	$ 231,198	$ 245,933	$ 258,936	$ 306,385	$ 351,744
Airfield Portion (50%)	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Terminal Area Rental Surcharge	$ 100,324	$ 105,187	$ 115,599	$ 122,966	$ 129,468	$ 153,193	$ 175,872
Surplus of Groundside Area	-	-	(12,065)	(10,473)	(7,039)	(12,233)	(3,981)
Subtotal	$ 100,324	$ 105,187	$ 103,534	$ 112,494	$ 122,429	$ 140,960	$ 171,892
Landed Weight of Scheduled Airlines	32,108	32,574	33,033	33,460	33,884	34,282	34,665
Landing Fee Surcharge Rate (per 1,000 lbs)	$ 3.12	$ 3.23	$ 3.13	$ 3.36	$ 3.61	$ 4.11	$ 4.96
Basic Landing Fee Rate	$ 1.50	$ 1.63	$ 1.88	$ 2.54	$ 2.76	$ 2.54	$ 2.21
Landing Fee Surcharge Rate	3.12	3.23	3.13	3.36	3.61	4.11	4.96
Effective Landing Fee Rate (per 1,000 lbs) (a)	$ 4.63	$ 4.86	$ 5.02	$ 5.90	$ 6.37	$ 6.65	$ 7.17
Total Landing Fee Revenues	$ 148,509	$ 158,354	$ 165,738	$ 197,460	$ 215,809	$ 227,925	$ 248,407
Adjustment for Deferred Aviation Revenues	11,264	8,769	-	-	-	-	-
Landing Fee Revenues Recognized	$ 159,773	$ 167,123	$ 165,738	$ 197,460	$ 215,809	$ 227,925	$ 248,407

(a) Actual charged landing fee rate in FY 2015 is 4.57 per thousand lbs. The difference is primarily due to changes in projected debt service on the proposed 2014 Bonds.
Note: Figures may not sum to totals due to rounding.
Source: LeighFisher.

Exhibit F-2

TERMINAL AREA RENTALS
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; numbers in thousands except rates)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

	Forecast 2015	2016	2017	2018	2019	2020	2021
Terminal Area							
Operation and Maintenance Expenses	$ 222,617	$ 229,360	$ 235,844	$ 245,405	$ 251,716	$ 264,967	$ 271,621
Existing Debt Service	170,367	170,471	174,549	180,097	183,691	192,368	197,451
Future Debt Service	2,393	14,178	40,338	36,768	42,113	92,256	161,352
Subordinate Lien Debt	2,801	3,092	4,017	5,514	5,805	6,718	7,009
Small Capital Outlays	-	-	-	-	4,938	5,052	5,168
Equipment	1,287	899	918	946	973	1,002	1,032
Terminal Area Expenses	$ 399,464	$ 417,999	$ 455,667	$ 468,730	$ 489,236	$ 562,363	$ 643,633
Allocable Expenses from Utility Area	30,182	31,556	34,048	38,036	39,688	41,220	43,628
Annual Service Payments	38,761	40,146	41,236	42,147	43,892	45,048	45,949
Total Terminal Area Expenses	$ 468,407	$ 489,701	$ 530,950	$ 548,913	$ 572,816	$ 648,630	$ 733,211
Deficit/(Surplus) from Prior Fiscal Years	(18,736)	(13,154)	-	-	-	-	-
Adjusted Terminal Area Expenses	$ 449,671	$ 476,548	$ 530,950	$ 548,913	$ 572,816	$ 648,630	$ 733,211
Divided by Gross Building Area (square feet)	5,248	5,353	5,400	5,400	5,497	5,669	6,075
Annual Cost per Square Foot ("Basic Rate")	$ 85.69	$ 89.03	$ 98.33	$ 101.66	$ 104.21	$ 114.42	$ 120.70
Airline Leased Space (square feet)	1,615	1,614	1,615	1,615	1,616	1,647	1,690
Airline Rental Payable	$ 138,416	$ 143,701	$ 158,788	$ 164,160	$ 168,372	$ 188,505	$ 204,018
Annual Cost per Square Foot ("Basic Rate")	$ 85.69	$ 89.03	$ 98.33	$ 101.66	$ 104.21	$ 114.42	$ 120.70
Public Space (square feet)	3,632	3,739	3,785	3,785	3,881	4,021	4,384
Cost of Public Space	$ 311,255	$ 332,846	$ 372,162	$ 384,753	$ 404,444	$ 460,126	$ 529,193
PFCs Classified as Revenues	(27,450)	(27,100)	(38,700)	(32,700)	(35,700)	(38,700)	(58,922)
Terminal Nonairline Revenues	(92,059)	(96,161)	(102,264)	(106,120)	(109,809)	(115,041)	(118,527)
Deficit of Groundside Area	8,903	788	-	-	-	-	-
Total Terminal and Groundside Area Surcharge	$ 200,649	$ 210,373	$ 231,198	$ 245,933	$ 258,936	$ 306,385	$ 351,744
Terminal Portion (50%)	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Terminal Area Rental Surcharge	$ 100,324	$ 105,187	$ 115,599	$ 122,966	$ 129,468	$ 153,193	$ 175,872
Airline Leased Space	1,615	1,614	1,615	1,615	1,616	1,647	1,690
Rental Surcharge Rate	$ 62.11	$ 65.17	$ 71.58	$ 76.15	$ 80.13	$ 92.99	$ 104.05
Basic Rate (per square foot)	$ 85.69	$ 89.03	$ 98.33	$ 101.66	$ 104.21	$ 114.42	$ 120.70
Rental Surcharge Rate	62.11	65.17	71.58	76.15	80.13	92.99	104.05
Effective Average Rental Rate (per square foot) (a)	$ 147.80	$ 154.20	$ 169.91	$ 177.80	$ 184.34	$ 207.41	$ 224.75
Total Airline Terminal Rentals	$ 238,741	$ 248,888	$ 274,387	$ 287,127	$ 297,840	$ 341,697	$ 379,890
Adjustment for Deferred Aviation Revenues	18,736	13,154	-	-	-	-	-
Terminal Revenues Recognized	$ 257,477	$ 262,042	$ 274,387	$ 287,127	$ 297,840	$ 341,697	$ 379,890

(a) Actual charged average rental rate in FY 2015 is $149.98 per square foot. The difference is primarily due to changes in projected debt service on the proposed 2014 Bonds.
Note: Figures may not sum to totals due to rounding.
Source: LeighFisher.

Exhibit F-3

AIRLINE PAYMENTS PER ENPLANED PASSENGER
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; numbers in thousands except ratios)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		Historical	Estimated	Forecast						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Aviation Revenue - Airlines										
Landing Fees	$ 117,108	$ 127,404	$ 137,194	$ 159,773	$ 167,123	$ 165,738	$ 197,460	$ 215,809	$ 227,925	$ 248,407
Terminal Area Rentals	188,400	214,578	231,002	257,477	262,042	274,387	287,127	297,840	341,697	379,890
Aviation Revenue - Airlines	$ 305,509	$ 341,982	$ 368,196	$ 417,250	$ 429,165	$ 440,126	$ 484,586	$ 513,649	$ 569,622	$ 628,297
Adjustment for Deferred Aviation Revenues (a)	2,947	(5,700)	-	(30,000)	(21,923)	-	-	-	-	-
Subtotal	$ 308,455	$ 336,283	$ 368,196	$ 387,250	$ 407,242	$ 440,126	$ 484,586	$ 513,649	$ 569,622	$ 628,297
Estimated Cargo Carrier Landing Fees	(4,774)	(4,829)	(5,344)	(6,068)	(6,193)	(6,057)	(7,124)	(7,688)	(8,026)	(8,650)
Passenger Airline Payments	$ 303,681	$ 331,454	$ 362,852	$ 381,183	$ 401,049	$ 434,069	$ 477,463	$ 505,961	$ 561,597	$ 619,647
Enplaned Passengers	21,420	22,273	22,996	23,455	23,901	24,339	24,764	25,181	25,584	25,974
Airline Cost per Enplaned Passenger	$ 14.18	$ 14.88	$ 15.78	$ 16.25	$ 16.78	$ 17.83	$ 19.28	$ 20.09	$ 21.95	$ 23.86

(a) The amount reflects the difference between actual receipts and recalculated airline requirement. Amounts in 2015 and 2016 are the Commission's planned use of deferred aviation revenues.
Note: Figures may not sum to totals due to rounding.
Sources: Historical - Airport Commission; Estimated and Forecast - LeighFisher.

Exhibit G

APPLICATION OF REVENUES
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; amounts in thousands)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		Historical	Estimated	Forecast						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
REVENUES										
Operating Revenues										
Aviation	$ 377,535	$ 417,068	$ 446,937	$ 494,268	$ 507,896	$ 521,359	$ 567,703	$ 598,566	$ 657,719	$ 719,132
Concession	224,874	241,222	250,363	256,344	265,538	272,759	278,791	290,385	298,046	304,009
Net Sales and Service	66,263	68,069	72,908	72,502	73,716	74,950	76,177	77,403	78,620	79,834
	$ 668,672	$ 726,359	$ 770,208	$ 823,114	$ 847,150	$ 869,068	$ 922,672	$ 966,354	$ 1,034,385	$ 1,102,975
PFCs Classified as Revenues	73,000	45,000	35,700	62,550	76,600	87,500	59,200	54,500	59,500	96,922
Interest Income	13,843	12,512	6,776	7,071	9,456	16,456	19,799	22,964	24,294	24,760
Total Revenues	$ 755,514	$ 783,870	$ 812,684	$ 892,735	$ 933,205	$ 973,024	$ 1,001,670	$ 1,043,818	$ 1,118,179	$ 1,224,658
APPLICATION OF REVENUES										
Operation and Maintenance Expenses	$ 372,001	$ 390,576	$ 409,471	$ 459,114	$ 470,436	$ 483,970	$ 497,024	$ 507,775	$ 527,889	$ 541,612
Debt Service on Bonds - Deposit Basis	335,261	343,463	359,287	389,346	416,323	439,817	451,816	480,851	532,259	623,497
Reserve Fund Deposits	-	-	-							
Subordinate Debt Service	6,476	6,479	4,199	4,808	5,308	6,897	9,466	9,966	11,533	12,033
Deposit to General Purpose Account										
For Annual Service Payment to City	33,993	36,464	37,868	38,761	40,146	41,236	42,147	43,892	45,048	45,949
Other Deposits to the General Purpose Account	7,783	6,887	1,248	100	100	100	100	100	100	100
Deposits to the Contingency Account (a)	-	-	611	606	892	1,005	1,119	1,234	1,350	1,467
Total Application of Revenues	$ 755,514	$ 783,870	$ 812,684	$ 892,735	$ 933,205	$ 973,024	$ 1,001,670	$ 1,043,818	$ 1,118,179	$ 1,224,658

(a) Equal to interest income earned in the Contingency Account.
Note: Figures may not sum to totals due to rounding.
Sources: Historical - Airport Commission; Estimated and Forecast - LeighFisher.

Exhibit H

RATE COVENANT COMPLIANCE FORECAST
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; numbers in thousands except ratios)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		Historical	Estimated	Forecast						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
RATE COVENANT CALCULATIONS										
Requirement 6.04(a)(i)										
Revenues (a)	$ 755,514	$ 783,870	$ 812,684	$ 892,735	$ 933,205	$ 973,024	$ 1,001,670	$ 1,043,818	$ 1,118,179	$ 1,224,658
Less: Operation and Maintenance Expenses	(372,001)	(390,576)	(409,471)	(459,114)	(470,436)	(483,970)	(497,024)	(507,775)	(527,889)	(541,612)
Net Revenues	$ 383,513	$ 393,294	$ 403,213	$ 433,621	$ 462,769	$ 489,054	$ 504,647	$ 536,043	$ 590,290	$ 683,046
Debt Service on Bonds - Deposit Basis	(335,261)	(343,463)	(359,287)	(389,346)	(416,323)	(439,817)	(451,816)	(480,851)	(532,259)	(623,497)
Deposit to Debt Service Reserve Fund	-	-	-	-	-	-	-	-	-	-
Subordinate Debt Service	(6,476)	(6,479)	(4,199)	(4,808)	(5,308)	(6,897)	(9,466)	(9,966)	(11,533)	(12,033)
Annual Service Payment to City	(33,993)	(36,464)	(37,868)	(38,761)	(40,146)	(41,236)	(42,147)	(43,892)	(45,048)	(45,949)
Equals: Remaining Amounts (must not be < zero)	$ 7,783	$ 6,887	$ 1,859	$ 706	$ 992	$ 1,105	$ 1,219	$ 1,334	$ 1,450	$ 1,567
Requirement 6.04(a)(ii)										
Contingency Account Balance	$ 93,427	$ 92,559	$ 92,637	$ 93,248	$ 93,855	$ 105,746	$ 117,751	$ 129,869	$ 142,103	$ 154,453
Net Revenues	$ 383,513	$ 393,294	$ 403,213	$ 433,621	$ 462,769	$ 489,054	$ 504,647	$ 536,043	$ 590,290	$ 683,046
Transfer	93,427	92,559	92,637	93,248	93,855	105,746	117,751	129,869	142,103	154,453
Total Amount Available	$ 476,940	$ 485,854	$ 495,850	$ 526,869	$ 556,624	$ 594,800	$ 622,397	$ 665,912	$ 732,393	$ 837,499
Debt Service on Bonds - Cash Basis (b)	$ 325,456	$ 337,355	$ 356,338	$ 384,799	$ 411,680	$ 436,675	$ 450,474	$ 474,675	$ 510,189	$ 623,158
Coverage (must not be < 125%)	147%	144%	139%	137%	135%	136%	138%	140%	144%	134%

(a) Revenue totals include PFCs classified as Revenues.
(b) Annual Debt Service is presented net of accrued interest and net of capitalized interest.
Note: Figures may not sum to totals due to rounding.
Sources: Historical - Airport Commission; Estimated and Forecast - LeighFisher.

Exhibit I

SUMMARY OF FINANCIAL FORECASTS
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; numbers in thousands except rates and ratios)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those forecast, and the variations could be material.

		Historical	Estimated	Forecast						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
ENPLANED PASSENGERS	21,420	22,273	22,996	23,455	23,901	24,339	24,764	25,181	25,584	25,974
Percentage Change		4.0%	3.2%	2.0%	1.9%	1.8%	1.7%	1.7%	1.6%	1.5%
DEBT SERVICE COVERAGE										
Revenues (a)	$ 755,514	$ 783,870	$ 812,684	$ 892,735	$ 933,205	$ 973,024	$ 1,001,670	$ 1,043,818	$ 1,118,179	$ 1,224,658
Operation and Maintenance Expenses	(372,001)	(390,576)	(409,471)	(459,114)	(470,436)	(483,970)	(497,024)	(507,775)	(527,889)	(541,612)
Net Revenues	$ 383,513	$ 393,294	$ 403,213	$ 433,621	$ 462,769	$ 489,054	$ 504,647	$ 536,043	$ 590,290	$ 683,046
Debt Service on Bonds - Cash Basis	325,456	337,355	356,338	384,799	411,680	436,675	450,474	474,675	510,189	623,158
Debt Service Coverage (without Transfer)	118%	117%	113%	113%	112%	112%	112%	113%	116%	110%
Transfer Amount	$ 93,427	$ 92,559	$ 92,637	$ 93,248	$ 93,855	$ 105,746	$ 117,751	$ 129,869	$ 142,103	$ 154,453
Debt Service Coverage (with Transfer)	147%	144%	139%	137%	135%	136%	138%	140%	144%	134%
PFCs Classified as Revenues	$ 73,000	$ 45,000	$ 35,700	$ 62,550	$ 76,600	$ 87,500	$ 59,200	$ 54,500	$ 59,500	$ 96,922
AIRLINE FEES AND CHARGES										
Landing Fee Rate (per 1,000 lbs)	$ 3.79	$ 4.01	$ 4.29	$ 4.57	$ 4.86	$ 5.02	$ 5.90	$ 6.37	$ 6.65	$ 7.17
Average Terminal Rate (per square foot)	122.93	131.55	140.85	149.98	154.20	169.91	177.80	184.34	207.41	224.75
Airline Payments per Enplaned Passenger	14.18	14.88	15.78	16.25	16.78	17.83	19.28	20.09	21.95	23.86
CONCESSION REVENUES										
Concession Revenues	$ 224,874	$ 241,222	$ 250,363	$ 256,344	$ 265,538	$ 272,759	$ 278,791	$ 290,385	$ 298,046	$ 304,009
Concession Revenues per Enplaned Passenger	$ 10.50	$ 10.83	$ 10.89	$ 10.93	$ 11.11	$ 11.21	$ 11.26	$ 11.53	$ 11.65	$ 11.70
Percentage Change		3.2%	0.5%	0.4%	1.7%	0.9%	0.5%	2.4%	1.0%	0.5%

(a) Revenue totals include PFCs classified as Revenues.
Note: Figures may not sum to totals due to rounding.
Sources: Historical - Airport Commission; Estimated and Forecast - LeighFisher.

Exhibit J

SUMMARY OF FINANCIAL PROJECTIONS - SENSITIVITY SCENARIO
Airport Commission, City and County of San Francisco
(for Fiscal Years ending June 30; numbers in thousands except rates and ratios)

This exhibit is based on information from the sources indicated and assumptions provided by, or reviewed with and approved by, Airport Commission management, as described in the accompanying text. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances could occur. Therefore, the actual results will vary from those projected, and the variations could be material.

		Historical	Estimated	Projected						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
ENPLANED PASSENGERS	21,420	22,273	22,996	23,455	21,511	21,905	22,288	22,663	23,026	23,377
Percentage Change		4.0%	3.2%	2.0%	-8.3%	1.8%	1.7%	1.7%	1.6%	1.5%
DEBT SERVICE COVERAGE										
Revenues (a)	$ 755,514	$ 783,870	$ 812,684	$ 892,735	$ 929,599	$ 969,259	$ 997,824	$ 1,039,890	$ 1,114,159	$ 1,220,559
Operation and Maintenance Expenses	(372,001)	(390,576)	(409,471)	(459,114)	(470,436)	(483,970)	(497,024)	(507,775)	(527,889)	(541,612)
Net Revenues	$ 383,513	$ 393,294	$ 403,213	$ 433,621	$ 459,163	$ 485,289	$ 500,800	$ 532,115	$ 586,270	$ 678,948
Debt Service on Bonds - Cash Basis	325,456	337,355	356,338	384,799	411,680	436,675	450,474	474,675	510,189	623,158
Debt Service Coverage (without Transfer)	118%	117%	113%	113%	112%	111%	111%	112%	115%	109%
Transfer Amount	$ 93,427	$ 92,559	$ 92,637	$ 93,248	$ 93,855	$ 105,746	$ 117,751	$ 129,869	$ 142,103	$ 154,453
Debt Service Coverage (with Transfer)	147%	144%	139%	137%	134%	135%	137%	139%	143%	134%
PFCs Classified as Revenues	$ 73,000	$ 45,000	$ 35,700	$ 62,550	$ 68,940	$ 78,750	$ 53,280	$ 49,050	$ 53,550	$ 87,230
AIRLINE FEES AND CHARGES										
Landing Fee Rate (per 1,000 lbs)	$ 3.79	$ 4.01	$ 4.29	$ 4.57	$ 6.02	$ 6.44	$ 7.30	$ 7.74	$ 8.15	$ 8.68
Average Terminal Rate (per square foot)	122.93	131.55	140.85	149.98	162.19	174.81	183.16	191.01	212.64	233.04
Airline Payments per Enplaned Passenger	14.18	14.88	15.78	16.25	20.06	21.30	22.78	23.66	25.76	28.03
CONCESSION REVENUES										
Concession Revenues	$ 224,874	$ 241,222	$ 250,363	$ 256,344	$ 241,496	$ 247,660	$ 253,147	$ 264,200	$ 271,248	$ 276,686
Concession Revenues per Enplaned Passenger	$ 10.50	$ 10.83	$ 10.89	$ 10.93	$ 11.23	$ 11.31	$ 11.36	$ 11.66	$ 11.78	$ 11.84
Percentage Change		3.2%	0.5%	0.4%	2.7%	0.7%	0.5%	2.6%	1.1%	0.5%

(a) Revenue totals include PFCs classified as Revenues.
Note: Figures may not sum to totals due to rounding.
Sources: Historical - Airport Commission; Estimated and Projected - LeighFisher.

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APPENDIX B

FINANCIAL STATEMENTS WITH SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES JUNE 30, 2013 AND 2012 (WITH INDEPENDENT AUDITORS' REPORT THEREON)

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AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Financial Statements with
Schedule of Passenger Facility Charge Revenues and Expenditures

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

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KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

Report on the Financial Statements

We have audited the accompanying financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), an enterprise fund of the City and County of San Francisco, California (the City), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 Airport'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 Airport'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 financial statements referred to above present fairly, in all material respects, the financial position of the Airport Commission, City and County of San Francisco, San Francisco International Airport as of June 30, 2013 and 2012, and changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1, the financial statements of the Airport are intended to present the net position and the changes in net position and cash flows of only that portion of the City that is attributable to the transactions of the Airport. They do not purport to, and do not, present fairly the net position of the City as of June 30, 2013 and 2012, the changes in its net position, or, where applicable, the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis on pages 4 through 31 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, which 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 audits 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.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures is presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies,* issued by the Federal Aviation Administration, and is not a required part of the basic financial statements. Such information 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. The Schedule of Passenger Facility Charge Revenues and Expenditures 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 Schedule of Passenger Facility Charge Revenues and Expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of the Airport's internal control over financial reporting and our report dated October 25, 2013 on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California
October 25, 2013

The management of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO), an enterprise fund of City and County of San Francisco (the City), presents the following narrative overview and analysis of the financial activities of the Airport for the fiscal year ended June 30, 2013, with comparative data for the fiscal year ended June 30, 2012.

The Airport's financial statements are comprised of two components: (1) Financial Statements and (2) Notes to Financial Statements. The Airport's financial statements include:

Statements of Net Position present information on the Airport's assets, deferred outflows, and liabilities as of the year end, with the difference between the amounts as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Airport is improving or weakening.

While the statements of net position provide information about the nature and amount of resources and obligations at the year end, the *Statements of Revenues, Expenses, and Changes in Net Position* present the results of the Airport's operations over the course of the fiscal year and information as to how the net position changed during the fiscal year. These Statements can be used as an indicator of the extent to which the Airport has successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The *Statements of Cash Flows* present changes in cash and cash equivalents resulting from operating, noncapital financing, capital financing, and investing activities. These statements summarize the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or revenue and exclude noncash accounting measures of depreciation or amortization of assets.

The *Notes to Financial Statements* provide information that is not displayed on the face of the financial statements but is essential to a full understanding of the financial statements.

Highlights of Airline Operations at the Airport

Fiscal Year 2013 passenger traffic at SFO concluded with 22.3 million enplanements, an increase of 4.0% compared to the prior fiscal year that established a new peak for the Airport. Service additions from SFO's largest carrier, United Airlines, and second largest and hometown airline, Virgin America, led to most of the increase. Two new international carriers, Scandinavian Airlines and China Eastern, introduced service in April 2013. Total cargo and U.S. mail tonnage declined by 3.9% with reduced domestic and Asia shipments.

The 4.0% fiscal year-over-year enplanement increase at SFO compares to an increase of 3.1%[1] at Oakland International Airport and an increase of 2.7%[2] at Mineta San Jose International Airport, resulting in a Bay Area passenger market share increase of 0.3 percentage point for SFO to 70.8%. As compared to Department of

[1] Source: Oakland International Airport Traffic Report

[2] Source: Mineta San Jose International Traffic Report

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT
Management's Discussion and Analysis
June 30, 2013 and 2012

Transportation (DOT) data through June 2013, SFO's enplanement increase of 4.0% fared better than a national average increase of 0.2%.[3]

Passenger and Other Traffic Activity

The number of flight operations (takeoffs and landings) increased 0.7% fiscal year-over-year, mainly from scheduled passenger aircraft operations. Aircraft revenue landed weight, which impacts revenue generated by landing fees, was also 0.7% above prior fiscal year levels. Total Airport passengers, which comprise enplaned, deplaned and in-transit passengers (defined as passengers who fly into and out of SFO on the same aircraft) were 44.7 million, establishing a new peak for the Airport. Overall enplaned passengers totaled 22.3 million, a 4.0% increase, with 17.5 million domestic and 4.8 million international enplaned passengers, increases of 4.2% and 3.2%, respectively. Cargo and U.S. mail tonnage declined by 3.9%, with mail and freight declines of 5.3% and 3.7% respectively.

The following table[4] presents a comparative summary of passenger and other traffic at the Airport for the fiscal years ended June 30, 2013, 2012, and 2011:

	FY 2013	FY 2012*	FY 2011	% Change FY 2013	% Change FY 2012
Flight operations	420,262	417,430	392,669	0.7%	6.3%
Landed weight (in 000 lbs.)	30,671,776	30,459,768	29,044,093	0.7	4.9
Total Airport passengers	44,741,921	43,061,106	39,980,029	3.9	7.7
Enplaned passengers	22,273,122	21,419,542	19,836,710	4.0	8.0
Domestic enplaned passengers	17,515,978	16,808,644	15,371,769	4.2	9.3
International enplaned passengers	4,757,144	4,610,898	4,464,941	3.2	3.3
Cargo and U.S. mail tonnage (in metric tons)	370,195	385,113	398,383	(3.9)	(3.3)

* Numbers updated to include revised data received subsequent to the 2012 fiscal year end.

Fiscal Year 2013

Passenger Traffic

Compared to fiscal year 2012, passenger enplanements in fiscal year 2013 increased by 4.0% from 21.4 million to 22.3 million passengers. Domestic passenger enplanements increased 4.2%, while international enplanements increased 3.2%. The enplanement increase totaled 853,580 passengers, 707,334 of which were domestic and 146,246 were international. Domestic enplanement growth was primarily due to United Airlines and Virgin America service increases. International growth was from overall increased service and strong demand to Asia, Europe, and Latin America. Europe had the highest international passenger growth with 58,590, followed by

[3] Source: U.S. Department of Transportation, Bureau of Transportation Statistics.

[4] Sources: Analysis of Airline Traffic, Fiscal Years 2012 and 2013.

Asia with 29,918. Both regions benefitted from new service that began in April 2013 by Scandinavian Airlines to Copenhagen, China Eastern to Shanghai, and United Airlines to Paris.

Enplaned passenger growth averaged 6.7% in the first half of the year, then moderated to 1.2% in the second half as most service additions by United Airlines and Virgin America experienced gains in the first half then completed one full year. Airline seat capacity increased by 1.3%, with a domestic increase of 1.3% and an international increase of 1.6%. Due to enplanement growth outpacing the seat capacity increase, overall load factor increased 2.2 percentage points to 85.7%. Domestic load factor increased by 2.4 percentage points to 85.9% and international increased by 1.3 percentage points to 85.1%.

Flight Operations

During fiscal year 2013, the number of aircraft operations (takeoffs and landings) increased by 2,832 flights (0.7%). Commercial traffic increased by 3,189 flights (0.8%). Civil and military traffic declined by 357 flights (2.3%).

Total scheduled airline passenger and cargo landings increased by 1.5% with an increase in landed weight for these landings of 1.0%. Domestic passenger landings increased by 1.3%, while landed weight increased by 0.1%. International passenger landings increased by 3.1% with an equal increase in landed weight. Average passenger aircraft size was relatively stable at approximately 133 seats per flight. Domestic had approximately 119, and international had about 228 scheduled seats per flight in fiscal year 2013. The overall balance between mainline passenger aircraft (wide body and narrow body) and commuters (regional jets and turbo props) shifted slightly towards mainline, which increased in share by 0.9 percentage point to 71.1% for domestic and international operations combined. Mainline landings increased by 3,636, and commuter landings decreased by 802. Cargo only aircraft landings decreased by 11.3%, while landed weight decreased by 6.0%.

Cargo Tonnage

Fiscal year 2013 cargo and U.S. mail tonnage decreased by 14,918 metric tons (3.9%). Mail declined by 2,296 metric tons (5.3%), and cargo volume excluding mail decreased by 12,624 metric tons (3.7%). The decline in shipments was in the domestic sector and to Asia, which combined for decreased cargo volume excluding mail of 15,156 metric tons. This was partially offset by an increase to all other regions of 2,532 metric tons. Cargo-only carriers' tonnage share decreased by 2.3 percentage points to 15.3%. Declines in ABX Air and World Airways shipments were the primary reasons for the lower share, which outpaced the reduction in shipments on passenger airlines.

Fiscal Year 2012

Passenger Traffic

Compared to fiscal year 2011, passenger enplanements in fiscal year 2012 increased by 8.0% from 19.8 million to 21.4 million passengers. Domestic passenger enplanements increased 9.4%, while international enplanements increased 3.3% compared to the prior fiscal year. The enplanement increase totaled 1,583,353 passengers, 1,437,986 of which were domestic and 145,367 were international.

The domestic enplanement growth was on a 7.2% increase in seat capacity, primarily due to service increases by United Airlines and Virgin America, which added net totals of 23 and 10 daily flights to domestic schedules, respectively. International enplanement growth was on a 3.6% increase in seat capacity. New and increased service by a number of foreign flag carriers to Europe and Asia and by United Airlines and Virgin America to Mexico, fully offset service reductions to Canada and Australia. The international region with the highest enplanement growth in fiscal year 2012 was Latin America. Europe had the second highest growth, weathering uncertain economies in the region. Asia/Mid East enplanements experienced increases in the second half of the year, offsetting declines during the first half. Compared to the prior fiscal year, load factor increased in the domestic sector by 1.6 percentage points to 82.2%. Load factor in the international sector declined slightly by 0.2 percentage point to 83.3%.

Flight Operations

During fiscal year 2012, the number of aircraft operations (takeoffs and landings) increased by 24,761 flights, or 6.3%, from prior fiscal year levels. Commercial traffic increased by 6.7%, or 25,192 flights. Civil and military traffic declined by 2.7%, or 431 flights.

Total scheduled airline passenger and cargo landings increased by 6.8% with an increase in landed weight for these landings of 4.9% compared to the prior fiscal year. Domestic passenger landings increased by 7.8% while landed weight increased by 6.5%. The balance between mainline aircraft (wide body and narrow body) and commuters (regional jets and turboprops) in the domestic sector was relatively stable, with approximately 68% of landings comprising mainline aircraft in both fiscal years 2012 and 2011, while the remainder were commuters. Narrow body domestic landings increased by 8,428, or 8.7%. Wide body landings declined by 325, or 4.1%. Regional jet and turboprop landings increased by 3,893, or 8.0%. Average domestic seats per flight declined slightly, from approximately 122 to 121.

In the international passenger market, fiscal year-over-year landings increased by 1.5%, while landed weight increased by 2.0%, indicating a trend towards larger aircraft size. Wide body landings increased slightly by 39, or 0.3%, primarily on long haul routes, narrow body landings increased by 620, or 9.0%, primarily on flights to Mexico, while regional jets that served the Canada market decreased in landings by 317, or 7.7%. Average international seats per flight increased slightly from approximately 226 to 228.

In relation to the overall decline in cargo shipments at SFO, Cargo only aircraft landings decreased by 3.3%, while landed weight decreased by 2.2%.

Cargo Tonnage

Fiscal year 2012 cargo and U.S. mail tonnage decreased by 13,270 metric tons, or 3.3%, compared to fiscal year 2011. Mail increased by 2,894 metric tons, or 7.2%, and cargo volume excluding mail decreased by 16,164 metric tons, or 4.5%. Excluding mail, domestic cargo volume increased by 13,101 metric tons, or 11.4%, which partially offset the decline in international cargo of 29,265 metric tons, or 12.0%. Shipments to all international regions declined. Cargo only airlines, which carried 17.4% of cargo tonnage, showed a fiscal year-over-year decrease in tonnage of 9.3%. A decrease in Federal Express and Nippon Cargo Airlines' cargo tonnage of over

6,000 metric tons was the primary reason for the decline. Airlines with passenger only or mixed passenger and freight operations showed a tonnage decline of 2.0%.

Financial Highlights, Fiscal Year 2013

- The assets and deferred outflows of the Airport exceeded liabilities at the close of the fiscal year by $294.4 million.
- Total revenue bonds payable by the Airport decreased by $146.8 million.
- Operating revenues were $726.4 million.
- Operating expenses were $561.5 million.
- Nonoperating expenses, net of revenues from nonoperating sources (including revenues of $84.3 million from passenger facility charges), were $190.6 million.
- Capital contributions from Federal Aviation Administration's (FAA) Airport Improvement Program, Airport Traffic Control Tower, and Runway Status Lights System; and Transportation Security Administration's (TSA) Airport Checked Baggage Screening System and Closed Circuit TV Enhancement Program were $66.0 million.
- Transfers to City and County of San Francisco as annual service payment were $36.5 million.
- Net position increased by $3.8 million.

Financial Highlights, Fiscal Year 2012

- The assets and deferred outflows of the Airport exceeded liabilities at the close of the fiscal year by $290.6 million.
- Total revenue bonds payable by the Airport decreased by $126.9 million.
- Operating revenues were $668.7 million.
- Operating expenses were $543.1 million.
- Nonoperating expenses, net of revenues from nonoperating sources (including revenues of $81.4 million from passenger facility charges), were $106.5 million.
- Capital contributions from FAA Airport Improvement Program, TSA Closed Circuit TV Enhancement Program, FAA Airport Traffic Control Tower, and TSA Airport Checked Baggage Screening System were $14.5 million.
- Transfers to City and County of San Francisco as annual service payment were $34.0 million.
- Net position decreased by $0.4 million.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Management's Discussion and Analysis

June 30, 2013 and 2012

Overview of the Airport's Financial Statements

Net Position Summary

A condensed summary of the Airport's net position for the fiscal years 2013, 2012, and 2011 is shown below (in thousands):

SAN FRANCISCO INTERNATIONAL AIRPORT'S NET POSITION

	FY 2013	FY 2012	FY 2011	FY 2013 Increase (Decrease)	FY 2012 Increase (Decrease)
Assets:					
Unrestricted current assets	$ 399,085	387,781	374,666	11,304	13,115
Restricted assets available for current outlay	159,004	114,727	106,323	44,277	8,404
Restricted assets	424,055	390,371	438,705	33,684	(48,334)
Capital assets, net	3,720,791	3,734,426	3,814,264	(13,635)	(79,838)
Unamortized bond issuance costs	25,269	28,753	38,070	(3,484)	(9,317)
Total assets	4,728,204	4,656,058	4,772,028	72,146	(115,970)
Deferred outflows on derivative instruments	64,743	98,979	63,382	(34,236)	35,597
Total assets and deferred outflows	4,792,947	4,755,037	4,835,410	37,910	(80,373)
Liabilities:					
Current liabilities payable from unrestricted assets	500,511	424,916	218,923	75,595	205,993
Current liabilities payable from restricted assets	295,698	91,139	78,803	204,559	12,336
Noncurrent liabilities	3,620,981	3,831,511	4,178,410	(210,530)	(346,899)
Derivative instruments	81,338	116,859	68,304	(35,521)	48,555
Total liabilities	4,498,528	4,464,425	4,544,440	34,103	(80,015)
Net position:					
Net investment in capital assets	(52,581)	4,190	18,280	(56,771)	(14,090)
Restricted for debt service	19,757	25,711	27,226	(5,954)	(1,515)
Restricted for capital projects	139,981	71,109	56,981	68,872	14,128
Unrestricted	187,262	189,602	188,483	(2,340)	1,119
Total net position	$ 294,419	290,612	290,970	3,807	(358)

Fiscal Year 2013

Total net position serves as an indicator of the Airport's financial position. The Airport's assets and deferred outflows exceeded liabilities by $294.4 million and $290.6 million as of June 30, 2013 and June 30, 2012, respectively, representing an increase of $3.8 million (1.3%). Unrestricted net position represented 63.6% and 65.2% of total net position as of June 30, 2013 and June 30, 2012, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by $11.3 million (2.9%) as of June 30, 2013, primarily due to the increase in the Airport's cash and investments held in the City Treasury generated from Airport operations.

Restricted assets available for current outlay consist of cash and investments held in the City Treasury, debt service funds held by the bond trustee, and passenger facility charges (PFC). Restricted assets available for current outlay increased by $44.3 million (38.6%) as of June 30, 2013. The increase was primarily due to the increase in cash and investments held in the City Treasury generated from strong growth of passenger traffic.

Restricted assets increased by $33.7 million (8.6%) as of June 30, 2013. The increase was primarily due to an increase of $14.2 million in cash and investments held in the City Treasury and a $27.2 million increase in grants receivable. The increase was offset by the $8.1 million decrease in the fair value of investment derivative instruments (see note 3c).

Capital assets consist of land, buildings, structures, improvements, equipment, and intangible assets. Capital assets, net of depreciation, decreased by $13.6 million (0.4%) as of June 30, 2013, primarily due to the disposition of capital assets.

Unamortized bond issuance costs decreased by $3.5 million (12.1%) as of June 30, 2013. The decrease was primarily due to unamortized issue costs of refunded bonds in fiscal year 2012 that were capitalized as deferred refunding costs and amortized as interest expense.

Deferred outflows on derivative instruments decreased by $34.2 million (34.6%) as of June 30, 2013, represent deferred outflows of resources offsetting interest rate swap liabilities in accordance with Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53).

Current liabilities payable from unrestricted assets increased by $75.6 million (17.8%) as of June 30, 2013, primarily due to Revenue Refunding Bonds associated with letters of credit expiring within the next fiscal year.

Current liabilities payable from restricted assets increased by $204.6 million (224.4%) as of June 30, 2013, primarily due to the issuance of commercial paper notes during fiscal year 2013 for capital improvement projects.

Noncurrent liabilities consist of long-term bonds payable net of related premium and discount, and long-term liabilities representing the accrual of compensated absences (vacation and vested sick leave), workers' compensation, general liabilities, and other postemployment benefits obligation. Noncurrent liabilities before derivative instruments decreased by $210.5 million (5.5%) as of June 30, 2013, primarily due to defeasance and

redemption of the revenue bonds and reclassification of revenue bonds with expiring letters of credit as current bonds payable.

Derivative instruments decreased by $35.5 million (30.4%) as of June 30, 2013, due to the change in fair values of interest rate swap contracts per GASB 53.

The Airport's net investment in capital assets decreased by $56.8 million (1,354.9%) as of June 30, 2013, primarily due to the residual effect of the Airport depreciating its capital assets faster than repaying its bonded debt and the disposition of capital assets.

Fiscal Year 2012

The Airport's assets and deferred outflows exceeded liabilities by $290.6 million and $291.0 million as of June 30, 2012, and June 30, 2011, respectively, representing a 0.1% decrease, or $0.4 million. Unrestricted net position represented 65.2% and 64.8% of total net position as of June 30, 2012, and June 30, 2011, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by 3.5% from $374.7 million as of June 30, 2011, to $387.8 million as of June 30, 2012, due principally to the increase in the Airport's cash and investments held in the City Treasury generated from Airport operations.

Restricted assets available for current outlay consist of cash and investments held in the City Treasury, debt service funds held by the bond trustee, and passenger facility charges. Restricted assets available for current outlay increased by 7.9% from $106.3 million as of June 30, 2011, to $114.7 million on June 30, 2012, principally due to the increase in cash and investments held in the City Treasury generated from strong growth of passenger traffic.

Restricted assets decreased from $438.7 million in fiscal year 2011 to $390.4 million in fiscal year 2012, primarily due to a decrease of $64.7 million in cash and investments held in the City Treasury representing depletion of unspent proceeds from the sale of revenue bonds. The decrease of $64.7 million was offset by the recognition of $13.3 million of investment derivative instruments in fiscal year 2012 in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (see note 3c).

Capital assets consist of land, easements, buildings, structures, improvements, and equipment. Capital assets, net of depreciation, decreased 2.1% to $3.7 billion in fiscal year 2012 due to higher depreciation expense with the opening of Terminal 2.

Unamortized bond issuance costs decreased from $38.1 million in fiscal year 2011 to $28.8 million in fiscal year 2012 due to amortization of the bond issuance costs in addition to current refunding activities in fiscal year 2012.

Deferred outflows on derivative instruments of $99.0 million as of June 30, 2012, represent deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53).

Current liabilities payable from unrestricted assets increased by 94.1% from $218.9 million as of June 30, 2011, to $424.9 million as of June 30, 2012, primarily due to the mandatory tender requirement of the $88.2 million Series 2009D Revenue Refunding Bonds on December 4, 2012, and the $100.0 million Issue 36A Revenue Refunding Bonds as the associated letter of credit will expire on May 7, 2013.

Current liabilities payable from restricted assets increased by 15.6% from $78.8 million as of June 30, 2011, to $91.1 million as of June 30, 2012, primarily due to the issuance of commercial paper notes during fiscal year 2012 for capital improvements.

Noncurrent liabilities consist of long-term bonds payable net of related premium and discount, and long-term liabilities representing the accrual of compensated absences (vacation and vested sick leave) and workers' compensation and general liabilities and other postemployment benefits obligation. Noncurrent liabilities before derivative instruments decreased by 8.3% to $3.8 billion in fiscal year 2012, primarily due to defeasance and redemption of the revenue bonds and notes.

Derivative instruments increased by $48.6 million to $116.9 million as of June 30, 2012, due to the change in fair values of interest rate swap contracts per GASB 53.

As of June 30, 2012, the Airport's net investment in capital assets was $4.2 million compared to $18.3 million in fiscal year 2011, primarily due to the residual effect of the Airport depreciating its capital assets faster than repaying its bonded debt.

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Highlights of Changes in Net Position

The following table shows a condensed summary of changes in net position for fiscal years 2013, 2012, and 2011 (in thousands):

SAN FRANCISCO INTERNATIONAL AIRPORT'S CHANGES IN NET POSITION

	FY 2013	FY 2012	FY 2011	FY 2013 Increase (Decrease)	FY 2012 Increase (Decrease)
Operating revenues	$ 726,358	668,672	607,323	57,686	61,349
Operating expenses	561,458	543,063	494,940	18,395	48,123
Operating income	164,900	125,609	112,383	39,291	13,226
Other nonoperating expenses, net	(190,587)	(106,512)	(103,370)	(84,075)	(3,142)
Income (loss) before capital contributions and transfers	(25,687)	19,097	9,013	(44,784)	10,084
Capital contributions	65,958	14,538	24,033	51,420	(9,495)
Transfers to City and County of San Francisco	(36,464)	(33,993)	(30,608)	(2,471)	(3,385)
Changes in net position	3,807	(358)	2,438	4,165	(2,796)
Total net position at beginning of year	290,612	290,970	288,532	(358)	2,438
Total net position at end of year	$ 294,419	290,612	290,970	3,807	(358)

Operating Revenues

The Airport derives its revenues from rates, fees, and charges assessed to the airlines; operation of the public and employee parking facilities; rents and fees assessed to concessionaires and ground transportation operators; and fees assessed for telecommunication access services. Terminal rental rates and landing fees assessed to air carriers are set periodically based on formulas and procedures described in the 1981 Lease and Use Agreement and the new 2011 Lease and Use Agreement (Agreement).[5]

A brief summary of the underlying rate-setting methodology under this Agreement is presented below:

[5] In 1981, the City entered into long-term Lease and Use Agreements with a number of airlines covering, among other things, the procedures and formulas for the periodic setting of terminal rentals and landing fees for the use of the Airport. In January 2000, the City approved amendments to the original Lease and Use Agreements to address, among other issues, the relocation of certain tenants from the old International Terminal to the new International Terminal Complex (ITC). The City also executed new Lease and Operating Agreements with nonsignatory airlines operating in the new ITC. The Lease and Use Agreements each expired on June 30, 2011. In fiscal year 2010, the Airport and airlines reached agreement on a new 10-year Lease and Use Agreement that became effective on July 1, 2011. The Lease and Use Agreements and Lease and Operating Agreements are referred to generally as the "Lease and Use Agreement," and the airlines that are parties to those agreements are referred to as the "Signatory Airlines."

The Agreement establishes the methodology for the calculation of the landing fee rates and terminal rental rates using certain cost centers. In accordance with the procedures set forth in the Agreement, landing fee rates and terminal rental rates are calculated for the ensuing fiscal year using budgetary and estimated information. The Agreement provides for matching revenues each fiscal year to the Airport's expenditures by adjusting payments from the airlines. Differences between actual revenues and expenditures and amounts estimated in the calculation of airline fees and charges for that fiscal year result in adjustments of terminal rentals and landing fees in subsequent years. Such differences are recorded on the balance sheet in the financial statements of the Airport in the fiscal year to which such differences pertain. Net overcharges are recorded as liabilities and net undercharges are recorded as assets.

The overcharge balance declined by $5.7 million, from $57.6 million as of June 30, 2012 to $51.9 million as of June 30, 2013 and is recorded as deferred aviation revenue in the statements of net position.

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The following table shows the air carriers that served the Airport in fiscal year 2013:

AIR CARRIERS SERVING THE AIRPORT

Fiscal Year 2013

Domestic passenger air carriers	Foreign flag carriers	Cargo only carriers
AirTran Airways	Aeromexico	ABX Air Inc.
Alaska Airlines	Air Berlin	Air Cargo Carriers
American Airlines	Air Canada	Ameriflight
Delta Air Lines	Air China (CAAC)	Atlas Air (DHL)
Frontier Airlines	Air France	Evergreen Airlines
Hawaiian Airlines	Air New Zealand	Federal Express
JetBlue Airways	All Nippon Airways	Kalitta Air
Southwest Airlines	Asiana Airlines	Nippon Cargo Airlines
Sun Country (MN Airlines)	British Airways	Southern Air
United Airlines	Cathay Pacific Airways	World Airways
US Airways	China Airlines	
Virgin America	China Eastern Airlines	
	Emirates Airlines	**Charter air carriers**
	EVA Airways	Allegiant Air
	Japan Airlines	Atlas Air
	KLM Royal Dutch Airlines	North American Airlines
	Korean Air Lines	Ryan International Airlines
	LAN Peru	
Commuter air carriers	Lufthansa German Airlines	
Horizon Air (Alaska Airlines)	Philippine Airlines	
SkyWest Airlines (Delta Connection and United Express)	Scandinavian Airlines	
	Singapore Airlines	
	Swiss International Air Lines	
	TACA International	
	Virgin Atlantic Airlines	
	WestJet Airlines	
	XL Airways France	

The following table shows a comparison of terminal rental rates and airline landing fees for fiscal years 2013, 2012, and 2011:

SAN FRANCISCO INTERNATIONAL AIRPORT TERMINAL RENTAL RATES AND LANDING FEES

		FY 2013	FY 2012	FY 2011
Effective average terminal rental rate (per sq. ft.)	$	131.55	122.93	113.54
Scheduled aircraft with permit – landing fee rate (per 1,000 lbs.)		4.01	3.79	3.59
General aviation and itinerant aircraft – landing fee rate (per 1,000 lbs.)		4.41	4.17	3.95

During fiscal years ended June 30, 2013, June 30, 2012, and June 30, 2011, revenues realized from the following source equal or exceed 5% of the Airport's total operating revenues:

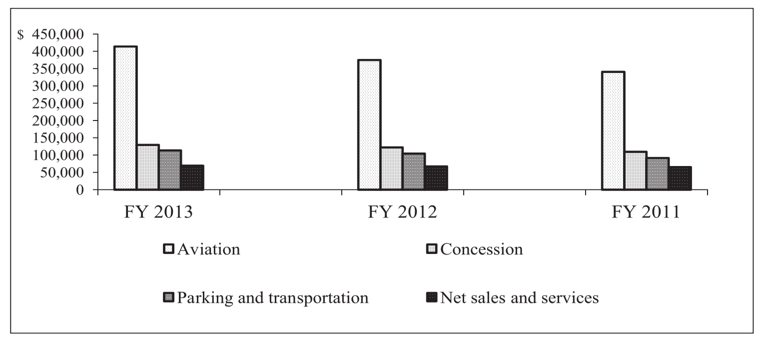
	FY 2013	FY 2012	FY 2011
United Airlines	22.2%	21.9%	21.6%

On October 1, 2010, United Airlines and Continental Airlines completed the merger of their operations and retained the United Airlines name. The percentage for fiscal year 2011 reflects the revenue of United Airlines only. The percentages for fiscal years 2013 and 2012 reflect the combined revenues of United Airlines and Continental Airlines.

The following shows a comparative summary of operating revenues for fiscal years 2013, 2012, and 2011 (in thousands):

Comparative Summary of Airport's Operating Revenues

		FY 2013	FY 2012	FY 2011	Percentage Increase FY 2013	Percentage Increase FY 2012
Aviation	$	413,918	374,767	340,812	10.4%	10.0%
Concession		129,545	122,366	109,574	5.9	11.7
Parking and transportation		113,551	104,254	91,633	8.9	13.8
Net sales and services		69,344	67,285	65,304	3.1	3.0
Total operating revenues	$	726,358	668,672	607,323	8.6%	10.1%



Fiscal Year 2013

Operating revenues increased by 8.6%, from $668.7 million in fiscal year 2012 to $726.4 million in fiscal year 2013. The Airport experienced increases in aviation revenues, concession revenues, parking revenues, and net sales and services revenues.

Aviation revenues increased by 10.4%, from $374.8 million in fiscal year 2012 to $413.9 million in fiscal year 2013, due to increases in airline landing fees and terminal rent. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased 5.8%, from $3.79 in fiscal year 2012 to $4.01 in fiscal year 2013. The airline average annual terminal rent per square foot increased 7.0%, from $122.93 in fiscal year 2012 to $131.55 in fiscal year 2013, partially due to a 9.8% increase in airline terminal rental revenue requirement. Airline leased space increased 2.6% to 1.58 million square feet.

Before the deferred aviation revenue adjustment, revenues from landing fees increased by $7.0 million (6.0%), which reflects the rate increase and a 0.7% increase in airline landed weight. Terminal rentals increased by $20.8 million (10.9%), based on the rate increase and additional leased space. The overcharge balance declined by $5.7 million, from $57.6 million at the end of fiscal year 2012 to $51.9 million in fiscal year 2013. In aggregate, all other aviation revenues increased by $2.7 million (3.8%), from $69.3 million in fiscal year 2012 to $71.9 million in fiscal year 2013, with net aviation rental revenue, activity-based fees, including aircraft parking, jet bridge fees, and employee parking all showing increases.

Concession revenues, consisting of rentals and fees derived from food and beverage concessions, duty free, retail merchandise (gifts, candy, tobacco, and news) and rental car concessions increased by 5.9%, from $122.4 million in fiscal year 2012 to $129.5 million in fiscal year 2013. The higher revenues were primarily driven by a 3.9% increase in passenger enplanements and deplanements, and a higher spend rate per passenger. Revenues from rental car concessions increased by $2.8 million (6.4%), primarily due to a 5.6% increase in rental car transactions. Food and beverage revenues increased $1.4 million (9.2%), based on the aforementioned passenger increases and the opening of several newly introduced food and beverage locations in domestic terminals. Retail merchandise excluding Duty Free Shops (DFS) revenue increased $0.3 million (2.5%). Several retail leases expired during the year and were replaced by new retail tenants in renovated spaces. DFS revenue increased $0.5 million from a Consumer Price Index (CPI) Minimum Annual Guarantee (MAG) adjustment. Despite an increase in sales activity of 5.3%, the resulting revenue was below the MAG threshold. Advertising revenues experienced a year-over-year increase of $1.4 million (14.5%), based on strong advertising demand that led to increased sales. Other concession revenues increased by $0.5 million (19.1%), primarily from Expedited Traveler Service, which returned to the Airport in May 2012. Net miscellaneous changes for other concession services and non-airline terminal space rental revenues increased $0.3 million (2.6%).

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 8.9%, from $104.3 million in fiscal year 2012 to $113.6 million in fiscal year 2013. Total parking transactions increased by 23,000 exits (0.7%), and the average ticket price was higher by 8.1%, due to the combined effect of daily rate increases in all public parking facilities in June 2012, and longer average parking durations. As a result, parking revenues in fiscal year 2013 increased by $8.1 million (8.7%). Ground transportation trip fee revenues increased by $1.2 million (10.9%), primarily driven by a 47.2% increase in limousine trips.

Net sales and service revenues consist of revenues derived from utility services, telecommunication access fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from net sales and services increased by 3.1%, from $67.3 million in fiscal year 2012 to $69.3 million in fiscal year 2013. The transportation and facility fee (AirTrain fee charged on rental car contracts) increased $2.0 million (6.2%), due to the aforementioned 5.6% increase in rental car contracts. The per rental car contract rate of $20 was unchanged in fiscal year 2013. Collection charges, which can be variable, increased $0.7 million (390.2%). Rent from government agency rentals increased $0.4 million (13.2%), as additional rental space was leased to the TSA. Fees collected from licenses & permits increased $0.3 million (24.8%), from increased tenant and construction employment. Revenues from electricity usage declined by $0.7 million (23.5%), primarily from a one-time adjustment for prior year tenant billing. Revenues from water and sewage disposal decreased by $0.6 million (14.5%), due to lower overall consumption by tenants and the closure of the United Airlines cogeneration plant in fiscal year 2012. Net revenue from all other sales and services including food court infrastructure and cleaning fees, settlements, refuse disposal, and telecommunication access fees, was flat.

Fiscal Year 2012

Operating revenues increased by 10.1% from $607.3 million in fiscal year 2011 to $668.7 million in fiscal year 2012. The Airport experienced increases in aviation revenues, concession revenues, parking revenues, and net sales and services revenues.

Aviation revenues increased by 10.0% from $340.8 million in fiscal year 2011 to $374.8 million in fiscal year 2012 due to an increase in airline landing fees and terminal rent. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased 5.6% from $3.59 in fiscal year 2011 to $3.79 in fiscal year 2012. The airline average annual terminal rent per square foot increased 8.3% from $113.54 in fiscal year 2011 to $122.93 in fiscal year 2012, partially due to a 9.2% increase in airline terminal rental revenue requirement. Airline leased space increased 0.9% to 1.54 million square feet.

Before the deferred aviation revenue adjustment, revenues from landing fees increased by $12.2 million, or 11.6%, which reflects the rate increase and a 4.9% increase in airline landed weight. Terminal rentals increased by $16.0 million, or 9.2%, based on the rate increase and additional leased space. The overcharge increased $3.1 million from $54.5 million in fiscal year 2011 to $57.6 million in fiscal year 2012. In aggregate, all other aviation revenues increased by $3.3 million, or 4.9%, from $66.0 million in fiscal year 2011 to $69.3 million in fiscal year 2012 with net aviation rental revenue, activity-based fees, including aircraft parking, jet bridge fees, and employee parking, all showing increases.

Concession revenues, consisting of rentals and fees derived from food and beverage concessions, duty free, retail merchandise (gifts, candy, tobacco, and news), and rental car concessions increased by 11.7% from $109.6 million in fiscal year 2011 to $122.4 million in fiscal year 2012. The higher revenues were primarily driven by the 7.9% increase in passenger enplanements and deplanements and the continuation of an improving economy. Revenues from rental car concessions increased by $6.3 million, or 16.3%. Rental car transactions increased 11.4% and the average sale per rental contract was higher by 1.9%. Food and beverage revenues increased $2.2 million, or 17.5%, based on the aforementioned passenger increases and the full-year revenue effect of the reopening of Terminal 2. Retail merchandise revenues (excludes Duty Free Shop activities) increased $0.6 million, or 5.3%, due to a higher percentage of retail concessionaires exceeding their MAG. DFS, however, did not exceed its MAG despite a 12.6% increase in sales activity, and its rent increased only marginally through a CPI MAG adjustment. Advertising revenues experienced a year-over-year increase of $3.1 million, or 45.4%, as advertising sales activity increased 50.2% compared to the prior year. Telephone revenues increased by $0.2 million, or 9.6%, based on fixed rent increases for the four wireless service providers. Net miscellaneous changes for other concession services and nonairline terminal space rental revenues resulted in a $0.4 million, or 3.7%, increase compared to the prior year.

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 13.8% from $91.6 million in fiscal year 2011 to $104.3 million in fiscal year 2012. Total parking transactions increased by 158,000 exits, or 4.8%, and the average ticket price was higher by 9.4% due to longer parking durations, and daily rate increases in the international parking garages and long term parking. As a result, parking revenues in fiscal year 2012 increased by $11.9 million, or 14.7%. Ground transportation trip fee revenues increased by $0.7 million, or 6.9%, primarily driven by a 7.3% increase in taxi activity and a 20.8% increase in limousine service likely as a result of continued business travel recovery.

Net sales and service revenues consist of revenues derived from utility services, telecommunication access fees, passenger security fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from net sales and services increased by 3.0% from $65.3 million in fiscal year 2011 to $67.3 million in fiscal year 2012. The transportation and facility fee (AirTrain fee charged on rental car contracts) increased $3.6 million, or 12.3%, due to the aforementioned 11.4% increase in rental car contracts. The per rental car contract rate of $20 was unchanged in fiscal year 2012. Security services were terminated in fiscal year 2012. The security services revenue for fiscal year 2011 totaled $3.0 million. Revenues from electricity usage increased by $0.3 million, or 10.3%. Revenues from water and sewage disposal decreased by $0.7 million, or 14.4%, due to lower consumption by tenants during the fiscal year. Telecommunication access fees increased by $0.4 million, or 18.1%, from fiscal year 2011 to fiscal year 2012 from additional telecommunication and technology service offerings associated with the reopening of Terminal 2. Rental car facility structure rent increased by $1.0 million, or 8.5%, due to an administrative adjustment made in fiscal year 2011 for fiscal year 2010 to properly reflect the separation of the structure and land value for the rental car center. Revenues from miscellaneous terminal fees increased $1.4 million, or 56.0%, representing reimbursement for the baggage claim maintenance contract from airlines occupying the newly renovated Terminal 2. Reimbursement from San Francisco Terminal Equipment Corporation for custodial services in the International Terminal was largely incorporated into overall airline rates starting in fiscal year 2012, resulting in a revenue decline of $1.2 million, or 94.5%. The net revenue increase over the prior year from all other sales and services sources including fees from government agencies, settlements, refuse disposal, and license (badge) and permit was $0.2 million, or 2.2%.

Operating Expenses

The following table shows a comparative summary of operating expenses for fiscal years 2013, 2012, and 2011 (in thousands):

	FY 2013	FY 2012	FY 2011	Percentage Increase (Decrease) FY 2013	Percentage Increase (Decrease) FY 2012
Personnel	$ 239,194	238,382	210,243	0.3%	13.4%
Depreciation	176,522	167,309	160,050	5.5	4.5
Contractual services	62,939	56,155	51,856	12.1	8.3
Light, heat, and power	19,250	20,096	19,522	(4.2)	2.9
Services provided by other City departments	14,576	12,555	11,818	16.1	6.2
Repairs and maintenance	27,593	26,401	20,712	4.5	27.5
Materials and supplies	14,038	14,130	12,416	(0.7)	13.8
General and administrative	2,807	1,657	4,522	69.4	(63.4)
Amortization of bond issuance costs	4,393	6,378	3,490	(31.1)	82.8
Environmental remediation	146	—	311	100.0	(100.0)
Total operating expenses	$ 561,458	543,063	494,940	3.4%	9.7%

Fiscal Year 2013

Operating expenses increased $18.4 million (3.4%), from $543.1 million in fiscal year 2012 to $561.5 million in fiscal year 2013, due to increases in contractual services, services provided by other City departments, and depreciation. The increase was partially offset by a decrease in amortization expense. In fiscal year 2013, the Airport capitalized $11.7 million of indirect costs related to construction of capital projects as overhead, compared to $4.6 million in fiscal year 2012. The variances in the different operating expense categories are discussed below.

Personnel costs increased $0.8 million (0.3%), from $238.4 million in fiscal year 2012 to $239.2 million in fiscal year 2013. The increase in personnel costs was $5.2 million that resulted from the expiration of wage reduction agreements on June 30, 2012 and higher pension contribution. In fiscal year 2013, the City's pension contribution rate was 20.71% as compared to 18.09% in fiscal year 2012. The increase in personnel costs was partially offset by the increase of $4.4 million of personnel costs allocated to capital improvement projects as overhead.

Depreciation increased $9.2 million (5.5%), from $167.3 million in fiscal year 2012 to $176.5 million in fiscal year 2013. The increase was primarily due to reassessment of the estimated useful lives and salvage values of capital assets.

Contractual services increased $6.8 million (12.1%), from $56.2 million in fiscal year 2012 to $62.9 million in fiscal year 2013. The increase was primarily due to a new airfield shuttle service between terminals as a result of construction-related gate closures and a new shuttle bus service route.

Light, heat, and power expenses decreased $0.8 million (4.2%), from $20.1 million in fiscal year 2012 to $19.3 million in fiscal year 2013. The decrease was primarily due to energy savings from lighting improvement projects.

Services provided by other City departments increased $2.0 million (16.1%), from $12.6 million in fiscal year 2012 to $14.6 million in fiscal year 2013. The increase was primarily due to an increase in aviation insurance premium, a new builder's risk policy, and partial funding of a police academy class.

Repairs and maintenance increased $1.2 million (4.5%), from $26.4 million in fiscal year 2012 to $27.6 million in fiscal year 2013. The increase was primarily due to airfield, facilities, and groundside maintenance projects.

Materials and supplies expenditures decreased $0.1 million (0.7%), from $14.1 million in fiscal year 2012 to $14.0 million in fiscal year 2013. The decrease was primarily due to higher indirect costs allocated to capital improvement projects as overhead.

General and administrative expenses increased $1.2 million (69.4%), from $1.7 million in fiscal year 2012 to $2.8 million in fiscal year 2013. The increase was primarily due to less legal expenses incurred in fiscal year 2012.

Amortization of bond issuance costs decreased $2.0 million (31.1%), from $6.4 million in fiscal year 2012 to $4.4 million in fiscal year 2013. The decrease was primarily due to unamortized issue costs of refunded bonds in fiscal year 2012 that were capitalized as deferred refunding costs and amortized as interest expense.

Environmental remediation costs increased $0.1 million (100%) in fiscal year 2013. The increase was primarily due to emission mitigation cost.

Fiscal Year 2012

Operating expenses increased 9.7%, or $48.1 million, from $494.9 million in fiscal year 2011 to $543.1 million in fiscal year 2012, primarily due to an increase in personnel costs related to scheduled wage increases for employees hired for the opening of Terminal 2, retirement contribution increases, and a decrease in indirect costs capitalized during the current fiscal year. In fiscal year 2012, the Airport capitalized $4.6 million of indirect costs related to construction of capital projects as compared to $12.8 million in fiscal year 2011. The variances in the different operating expense categories are discussed below.

Personnel costs increased 13.4%, or $28.2 million, from $210.2 million in fiscal year 2011 to $238.4 million in fiscal year 2012 partially due to a decrease in personnel costs capitalized as overhead from fiscal year 2011 to 2012. This is attributable to a decrease in capital projects during the current year. The indirect cost rates were 6.6% and 5.9% in fiscal years 2012 and 2011, respectively. Personnel costs also increased due to scheduled wage increases for recently hired employees, the higher cost of health benefits, and the City's higher pension contribution rates. For fiscal year 2012, the City's contribution rate was 18.09% of pensionable salary, compared to 13.56% of pensionable salary for fiscal year 2011.

(Continued)

Depreciation increased 4.5%, or $7.2 million, from $160.1 million to $167.3 million for fiscal years 2011 and 2012, respectively. This increase was mainly due to a reclassification in the categorization of Terminal 2 which resulted in a corresponding increase to depreciation expense.

Contractual services increased 8.3%, or $4.3 million, from $51.9 million in fiscal year 2011 to $56.2 million in fiscal year 2012 primarily due to an increase in expenses for shuttle bus services, parking garage and lot management services, and a decrease in costs allocated to overhead.

Light, heat, and power increased 2.9%, or $0.6 million, from $19.5 million in fiscal year 2011 to $20.1 million in fiscal year 2012 due to a decrease in overhead allocated costs in fiscal year 2012.

Services provided by other City departments increased 6.2%, or $0.7 million, from $11.8 million in fiscal year 2011 to $12.6 million in fiscal year 2012 due to an increase in the cost of legal services, insurance premiums, financial and human capital management systems, and workforce development programs and a decrease in costs allocated to overhead.

Repairs and maintenance increased 27.5%, or $5.7 million, from $20.7 million in fiscal year 2011 to $26.4 million in fiscal year 2012 due to a decrease in costs allocated to overhead and an increase in expenses for the maintenance of the Terminal 2 baggage handling system and equipment maintenance costs in Information Technology Telecommunication.

Materials and supplies increased 13.8%, or $1.7 million, from $12.4 million in fiscal year 2011 to $14.1 million in fiscal year 2012 due to an increase in expenses by maintenance and operations and a decrease in cost allocated to overhead.

General and administrative expenses decreased 63.4%, or $2.9 million, from $4.5 million in fiscal year 2011 to $1.7 million in fiscal year 2012 mainly due to a decrease in the Airport's estimated claims adjustment as determined by actuarial valuation.

Amortization of bond issuance costs increased 82.8%, or $2.9 million, from $3.5 million in fiscal year 2011 to $6.4 million in fiscal year 2012 mainly due to an increase in bond refunding transactions in fiscal year 2012.

Environmental remediation costs decreased 100%, or $0.3 million, in fiscal year 2012 principally due to the result of the new evaluation performed by SFO environmental engineers.

(Continued)

Nonoperating Revenues and Expenses

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2013, 2012, and 2011 (in thousands):

	FY 2013	FY 2012	FY 2011	Percentage Increase (Decrease) FY 2013	Percentage Increase (Decrease) FY 2012
Nonoperating revenues:					
Passenger facility charges (PFC)	$ 84,329	81,437	77,004	3.6%	5.8%
Investment income	1,686	32,353	15,386	(94.8)	110.3
Other	(485)	2,478	2,102	(119.6)	17.9
Total nonoperating revenues	85,530	116,268	94,492	(26.4)%	23.0%
Nonoperating expenses:					
Interest expense	195,503	203,547	195,935	(4.0)%	3.9%
Write-offs, loss on disposal, and demolition costs	52,442	19,233	1,927	172.7	898.1
Other	28,172	—	—	—	—
Total nonoperating expenses	276,117	222,780	197,862	23.9%	12.6%
Capital contributions	65,958	14,538	24,033	353.7%	(39.5)%
Transfers to City and County of San Francisco	(36,464)	(33,993)	(30,608)	7.3%	11.1%
Total	$ (161,093)	(125,967)	(109,945)	27.9%	14.6%

Fiscal Year 2013

Nonoperating revenues consist primarily of PFC revenues and investment income, while nonoperating expenses consist of interest expense, write-offs and loss on the disposal of capital assets, and capital improvement costs that did not meet the capitalization requirement. PFCs, which became effective in October 2001, generated $84.3 million during fiscal year 2013, an increase of 3.6% compared to the $81.4 million received in fiscal year 2012. The increase in PFC revenues was primarily due to an increase in passenger traffic.

Investment income decreased $30.7 million (94.8%), from $32.4 million in fiscal year 2012 to $1.7 million in fiscal year 2013. The decrease was primarily due to the fair value adjustment of the three Forward Purchase Sales Agreements in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* and the $6.6 million of investment fair value adjustment of the City's investment pool in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

Other nonoperating revenues in fiscal years 2013 and 2012 were primarily operating grants received during the fiscal years. The negative amount in fiscal year 2013 was due to the classification of two federal grants totaling

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$1.2 million recognized as operating grants in fiscal year 2012 when they should be recognized as capital grants. The operating grants received in fiscal year 2013 were $0.7 million.

Interest expense decreased $8.0 million (4.0%), from $203.5 million in fiscal year 2012 to $195.5 million in fiscal year 2013, primarily due to interest savings from fixed rate bonds and increase in the capitalization of interest expense to capital improvement projects.

Write-offs and loss on disposal increased $33.2 million, from $19.2 million in fiscal year 2012 to $52.4 million in fiscal year 2013, primarily due to the disposal and write-off of immaterial items that should have been expensed in prior years.

Other nonoperating expenses of $28.2 million in fiscal year 2013 were capital improvement costs that did not meet the capitalization requirement. Prior to fiscal year 2013, the expensed capital costs were included in the write-offs and loss on disposal category.

Capital contributions received from federal grants during fiscal year 2013 were $66.0 million for FAA's Airport Improvement Program, Airport Traffic Control Tower, and Runway Status Lights System; and TSA's Airport Checked Baggage Screening System and Closed Circuit TV Enhancement Program.

The annual service payments transferred to the City increased $2.5 million (7.3%), from $34.0 million in fiscal year 2012 to $36.5 million in fiscal year 2013. The increase in annual service payments was proportionate to the increase in concession, parking, and transportation revenues during fiscal year 2013.

Fiscal Year 2012

Nonoperating revenues consist primarily of PFC revenues and investment income, while nonoperating expenses consist of interest expense and loss on the disposal of capital assets. PFCs, which became effective in October 2001, generated $81.4 million during fiscal year 2012, an increase of 5.8% compared to the $77.0 million received in fiscal year 2011. The increase in PFC revenues was mainly due to an increase in passenger traffic.

The increase in investment income was primarily due to the recognition of $13.3 million of investment derivative instruments in fiscal year 2012 in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, (see note 3c) and the $3.7 million of investment fair value adjustment in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

Other nonoperating revenues in fiscal years 2012 and 2011 were principally operating grants received during the fiscal years.

Interest expense increased 3.9%, or $7.6 million, from $195.9 million in fiscal year 2011 to $203.5 million in fiscal year 2012 mainly due to the completion of Terminal 2 in April 2011, which resulted in less interest expense being capitalized as part of the capital improvement project costs.

Write-offs and loss on disposal increased $17.3 million from $1.9 million in fiscal year 2011 to $19.2 million in fiscal year 2012, primarily due to write-off of construction projects that were either abandoned or should be expensed.

Capital contributions received from federal grants during fiscal year 2012 were $14.5 million.

The annual service payments transferred to the City increased 11.1%, or $3.4 million, from $30.6 million in fiscal year 2011 to $34.0 million in fiscal year 2012. The increase in annual service payments was proportionate to the increase in concession, parking, and transportation revenues during fiscal year 2012.

Fiscal Year 2013

Capital Acquisitions and Construction

Under the Lease and Use Agreement, the Airport Commission is obligated to use its best efforts to finance all capital improvements (above certain de minimis amounts) through the issuance of Airport revenue bonds, grants, TSA funding, and PFCs. The Lease and Use Agreement also provides for airline review of capital projects that meet the dollar thresholds established in the Agreement.

The fiscal year's major capital projects included:

		Amount
Runway Safety Area Program	$	49,357,260
Terminal 3 Boarding Area E Refurbishment		47,776,049
International Terminal and Terminal 3 Checked Baggage Inspection System Modernization		46,259,801
Air Traffic Control Tower and Terminal 1 Integrated Facility		25,440,721
New Data Center Facility		10,524,351
Terminal 3 Improvements		6,825,188
West Field Cargo Redevelopment Phase 1		3,509,447
Plot 2 Employee Parking Development		2,753,234
Taxiway C, F1, and S Reconstructions		1,985,166
Air Operations Area Security Checkpoints Improvement		1,699,441
Domestic Terminal Seating		1,693,473
Terminal 2 Boarding Area D Renovations		1,479,377
Access Layer Switch		1,442,503
Superbay Hangar Door Upgrade		1,329,705
Boarding Area C and E Apron Reconstructions		1,181,085
Ground Transportation Management System		1,100,454
Closed Circuit Television Cameras		1,075,454
International Terminal Arrival Level Seismic Joint Cover Replacement		1,002,473
Total	$	206,435,182

The Airport has five- and ten-year Capital Plans to build new facilities, improve existing facilities, renovate buildings, repair or replace infrastructure, preserve assets, enhance safety and security, develop systems functionality, and perform needed maintenance. Significant projects underway during fiscal year 2014 include Terminal 3 East Checkpoint Reconfiguration, the Runway Safety Area (RSA) Program with partial funding from the FAA, West Field Cargo Redevelopment, the Air Traffic Control Tower (ATCT) Program with partial funding

from the FAA, the Terminal 3 Boarding Area E Redevelopment, improvement to the Baggage Handling System (BHS), and the Checked Baggage Inspection System (CBIS) with partial funding from the TSA.

Additional information about the Airport's capital acquisitions and construction is presented in note 5 to the financial statements.

Fiscal Year 2012

Capital Acquisitions and Construction

The fiscal year's major capital projects included:

		Amount
Runway Safety Area Program	$	13,357,912
Terminal 2 Boarding Area D Renovations		9,612,544
Terminal 3 Boarding Area E Refurbishment		8,243,982
Emergency Response Boathouse		6,204,596
Terminal 1 Complex Master Architect		4,436,824
Taxiway "S" Reconstruction		4,071,763
Air Traffic Control Tower and Terminal 1 Integrated Facility		4,064,415
Boarding Area "A" and "E" Apron Reconstruction		3,640,776
San Jose Shuttle Bus Purchase		3,599,760
International Terminal Boarding Area "G" and Terminal 3 Boarding Area "F" Checked Baggage Inspection System Modernization		3,371,408
New Data Center Facility		2,251,926
Terminal 3 Improvement		1,908,436
Storm Drainage System Expansion		1,636,018
Central Plant Improvement		1,503,994
Boarding Area "F" Apron Reconstruction		1,455,264
Airport Geographic Information System		1,312,325
Access Control System Upgrade		1,295,713
McDonnel Road Resurface and Reconstruction		1,078,568
Total	$	73,046,224

Additional information about the Airport's capital acquisitions and construction is presented in note 5 to the financial statements.

Fiscal Year 2013

Debt Administration

Capital Plan Bonds: The Airport did not issue additional bonds to fund new capital projects during fiscal year 2013.

Refunding Bonds: The Airport did not issue any refunding bonds during fiscal year 2013.

Remarketed Bonds: The Airport remarketed two series of outstanding bonds during fiscal year 2013:

- On December 4, 2012, the Airport remarketed its outstanding Second Series Revenue Refunding Bonds, Series 2009D (Non-AMT/Private Activity) in the principal amount of $84.7 million as long-term fixed rate bonds with a final maturity date of May 1, 2029. The 2009D Bonds were originally issued on November 4, 2009, and were scheduled to become due in a single "balloon" payment on December 4, 2012, via a mandatory tender by bondholders for purchase by the Airport.

- On April 30, 2013, the Airport remarketed its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 36A (Non-AMT/Private Activity) with a new letter of credit from U.S. Bank National Association that expires on October 26, 2016. The bonds were originally secured by a letter of credit provided by Wells Fargo Bank, National Association, that expired on May 7, 2013.

Subordinate Commercial Paper Notes: During fiscal year 2013, the Airport issued $170.1 million in new money commercial paper notes (excluding refunding notes). The Airport obtained two new $100.0 million direct-pay letters of credit from Wells Fargo Bank, National Association and Royal Bank of Canada. Each of the new letters of credit supports a separate subseries of commercial paper notes. The Wells Fargo Bank, National Association letter of credit expires on June 17, 2016. The Royal Bank of Canada letter of credit expires on May 20, 2016.

Interest Rate Swaps: The Airport ended fiscal year 2013 with six interest rate swaps outstanding with a total notional amount of $483.4 million. The Airport's interest rate swaps are intended as a hedge against the potential volatility of the interest rates on the Airport's variable rate bonds. Under the Airport's swap agreements, the Airport receives a monthly variable rate payment from each counterparty that is intended to approximate the interest payments the Airport makes on the associated variable rate bonds, while the Airport makes a monthly fixed rate payment to the swap counterparties, resulting in a synthetic fixed rate for these bonds. As of June 30, 2013, the Airport's interest rate swaps were associated with the Airport's Issue 36A/B/C, Issue 37C, and Series 2010A Bonds, either directly or indirectly.

More detailed information about the Airport's subordinate commercial paper notes, long-term debt, and interest rate swaps is presented in notes 6, 7, and 8 to the financial statements.

During fiscal year 2013, the Airport's operating revenues, together with the permitted transfers from the Airport's contingency account, were sufficient to meet the rate covenant requirements under the Airport's 1991 Master Resolution.

Fiscal Year 2012

Debt Administration

Capital Plan Bonds: The Airport did not issue additional bonds to fund new capital projects during fiscal year 2012.

Refunding Bonds: The Airport completed the following refunding bond transactions during fiscal year 2012:

- On July 21, 2011, the Airport issued its Second Series Revenue Refunding Bonds, Series 2011C Alternative Minimum Tax (AMT), 2011D (Non-AMT/Governmental Purpose), and 2011E (Taxable) in the principal amount of $350.4 million to refund the Airport's $25.5 million of Second Series Revenue Notes, Series 2008A-4 (AMT), as well as $332.4 million of long-term fixed rate bonds, which were refunded for debt service savings.

- On September 20, 2011 the Airport issued its Second Series Revenue Refunding Bonds, Series 2011F (AMT), 2011G (Non-AMT/Governmental Purpose), and 2011H (Taxable) in the principal amount of $354.6 million to refund $302.0 million of long-term fixed rate bonds for debt service savings, refund the Airport's $52.4 million Issue 36D/37D outstanding variable rate bonds, and finance the amount due upon termination of the interest rate swap associated with the Issue 36D Bonds.

- On March 22, 2012, the Airport issued its Second Series Revenue Refunding Bonds, Series 2012A (AMT), and 2012B (Non-AMT/Governmental Purpose) in the principal amount of $316.5 million to refund $351.9 million of long-term fixed rate bonds for debt service savings.

Remarketed Bonds: During fiscal year 2012, the Airport remarketed two series of outstanding bonds:

- On July 13, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity) with a new three-year letter of credit from U.S. Bank National Association. The bonds were originally secured by a standby bond purchase agreement provided by Dexia Crédit Local (Dexia) and a bond insurance provided by Assured Guaranty Municipal Corp. (Assured), both of which were terminated.

- On July 13, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 37C (Non-AMT/Private Activity) with a new four-year letter of credit from Union Bank of California, N.A. The bonds were originally secured by a Dexia standby bond purchase agreement and an Assured bond insurance policy, both of which were terminated.

Subordinate Commercial Paper Notes: During fiscal year 2012, the Airport issued $10.5 million in commercial paper notes (excluding refunding notes).

Interest Rate Swaps: The Airport ended fiscal year 2012 with six interest rate swaps outstanding with a total notional amount of $483.4 million. The Airport's interest rate swaps are intended as a hedge against the potential volatility of the interest rates on the Airport's variable rate bonds. Under the Airport's swap agreements, the Airport receives a monthly variable rate payment from each counterparty that is intended to approximate the interest payments the Airport makes on the associated variable rate bonds, and the Airport makes a monthly fixed rate payment to the swap counterparties, resulting in a synthetic fixed rate for these bonds. As of June 30, 2012, the Airport's interest rate swaps were associated with the Airport's Issue 36A/B/C, Issue 37C, and Series 2010A Bonds, either directly or indirectly.

On September 20, 2011, the Airport terminated a $30.0 million interest rate swap with JP Morgan Chase Bank NA. The swap was related to the Issue 36D Bonds that were refunded by the Series 2011G Bonds (Non-AMT).

More detailed information about the Airport's subordinate commercial paper notes, long-term debt, and interest rate swaps is presented in notes 6, 7, and 8 to the financial statements.

During fiscal year 2012, the Airport's operating revenues, together with the permitted transfers from the Airport's contingency account, were sufficient to meet the rate covenant requirements under the Airport's 1991 Master Resolution.

Fiscal Year 2013

Credit Ratings and Bond Insurance

Credit Ratings: During fiscal year 2013, Moody's Investors Service Inc. (Moody's), Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business (S&P), and Fitch Inc. (Fitch) affirmed their underlying credit ratings of the Airport of "A1", "A+", and "A+" with Stable Rating Outlooks, respectively.

On December 4, 2012, Moody's assigned ratings of "A1", S&P assigned ratings of "A+", and Fitch assigned ratings of "A+" to the Series 2009D Bonds in connection with their remarketing as long-term fixed rate bonds with a final maturity of May 1, 2029.

On April 30, 2013, Moody's assigned ratings of "Aa1/VMIG 1", S&P assigned ratings of "AAA/A-1+", and Fitch assigned ratings of "AA+/F1+" to the Issue 36A Bonds in connection with their remarketing, on a jointly supported rating basis with the letter of credit from U.S. Bank National Association.

Ratings on the Airport's commercial paper notes reflect the short-term credit ratings of the respective letter of credit banks. As of June 30, 2013, Moody's, S&P, and Fitch assigned ratings of "P-1", "A-1+", and "F1+", respectively, to the State Street Bank and Trust Company (State Street) supported subseries of commercial paper notes. As of June 30, 2013, Moody's, S&P, and Fitch assigned ratings of "P-2", "A-1", and "F1", respectively, to the Barclays Bank PLC (Barclays) supported commercial paper notes. As of June 30, 2013, Moody's, S&P, and Fitch assigned ratings of "P-1", "A-1+", and "F1+", respectively, to the Royal Bank of Canada (RBC) supported commercial paper notes. As of June 30, 2013, Moody's, S&P, and Fitch assigned ratings of "P-1", "A-1+", and "F1+", respectively, to the Wells Fargo Bank, National Association (Wells Fargo) supported commercial paper notes. Each letter of credit supports separate subseries of commercial paper notes up to an aggregate principal amount of $100.0 million.

Bond Insurance: In prior years, the Airport generally purchased municipal bond insurance policies in connection with the issuance of many series of its outstanding revenue bonds from monoline bond insurance companies that enjoyed "AAA" ratings at the time. The insured credit ratings on these Airport bonds has declined in tandem

with the credit ratings of most bond insurance companies as a result of the global financial crisis that began in fiscal year 2008.

In fiscal year 2013, one of the bond insurance companies was downgraded and another was upgraded by the credit rating agencies.

Fiscal Year 2012

Credit Ratings and Bond Insurance

Credit Ratings: During fiscal year 2012, Moody's, S&P, and Fitch affirmed their underlying credit ratings of the Airport of "A1", "A+", and "A+" with Stable Rating Outlooks, respectively.

On July 13, 2011, Moody's assigned ratings of "Aa1/VMIG 1", S&P assigned ratings of "AAA/A-1+", and Fitch assigned ratings of "AA+/F1+" to the Issue 36C Bonds in connection with their remarketing, on a jointly supported (long-term rating) basis with the letter of credit from U.S. Bank National Association.

On July 13, 2011, Moody's assigned ratings of "Aa2/VMIG 1", S&P assigned ratings of "AAA/A-1", and Fitch assigned ratings of "AA/F1" to the Issue 37C Bonds in connection with their remarketing, on a jointly supported rating basis with the letter of credit from Union Bank of California, N.A.

As of June 30, 2012, Moody's had assigned ratings of "Aa1/VMIG 1", S&P assigned ratings of "AAA/A-1", and Fitch assigned ratings of "AA/F1" to the Series 2010A Bonds, on a jointly supported (long-term rating) basis with the letter of credit from JP Morgan Chase Bank N. A. The ratings reflect downward revisions of JP Morgan Chase Bank N. A. by S&P and Fitch during the fiscal year.

Ratings on the Airport's commercial paper notes reflect the short-term credit ratings of the respective letter of credit banks. As of June 30, 2012, Moody's, S&P, and Fitch assigned ratings on the State Street Bank and Trust Company (State Street) supported subseries of commercial paper notes of "P-1", "A-1+", and "F1+", respectively. As of June 30, 2012, Moody's, S&P, and Fitch assigned ratings on the Barclays supported commercial paper notes of "P-1", "A-1", and "F1", respectively. Each letter of credit supports separate subseries of commercial paper notes up to an aggregate principal amount of $100.0 million.

Bond Insurance: In fiscal year 2012, several of the bond insurance companies were put on review by the credit rating agencies. All bonds issued by the Airport during fiscal year 2012 were sold without municipal bond insurance.

(In thousands)

Fiscal Year 2014 Airline Rates and Charges

Rates and Charges, Fiscal Year 2014

Terminal rental rates and airline landing fees for fiscal year 2014 have been developed as part of the annual budget process that started in October 2012. The Lease and Use Agreement between the Airport and the Signatory Airlines provides the rate-setting methodology for calculating the terminal rental rates and Airline landing fees. Not less than 60 days prior to the start of the fiscal year, the Signatory Airlines are notified of the proposed rates and fees. These fees are subject to review by, but not the approval of, the Signatory Airlines. The terminal rental rates and airline landing fees for fiscal year 2014, which became effective on July 1, 2013, are as follows:

Effective average terminal rental rate (per sq. ft)	$140.85
Signatory Airline – landing fee rate (per 1,000 lbs.)	4.29
Non-Signatory Airline – landing fee rate (per 1,000 lbs.)	5.36
General aviation – landing fee rate (per 1,000 lbs.)	4.72

The effective average terminal rental rate increased by 7.1%, from $131.55 per sq. ft. in fiscal year 2013 to $140.85 per sq. ft. in fiscal year 2014. The fiscal year 2013 landing fee rate for Signatory Airlines increased by 7.0%, from $4.01 per 1,000 pounds in fiscal year 2013 to $4.29 per 1,000 pounds in fiscal year 2014, while the fiscal year 2014 landing fee rate for general aviation aircraft increased by 7.0%, from $4.41 per 1,000 pounds in fiscal year 2013 to $4.72 per 1,000 pounds in fiscal year 2014. The Non-Signatory Airline landing fee rate increased by 7.0%, from $5.01 per 1,000 pounds in fiscal year 2013 to $5.36 per 1,000 pounds in fiscal year 2014.

Requests for Information

This report is designed to provide a general overview of the San Francisco International Airport's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Deputy Airport Director, Business and Finance Division, P.O. Box 8097, San Francisco International Airport, San Francisco, California 94128.

	2013	2012
Assets:		
Current assets:		
Unrestricted current assets:		
Cash and investments held in City Treasury – Operating Fund	$ 364,687	343,341
Cash – Revolving Fund	10	10
Accounts receivable (net of allowance for doubtful accounts: 2013, $384; 2012, $1,196)	32,485	40,754
Accrued interest:		
City Treasury	97	240
Other	842	1,097
Inventories	87	113
Other current assets	877	2,226
Total unrestricted current assets	399,085	387,781
Restricted assets available for current outlay:		
Cash and investments held in City Treasury	89,816	47,198
Revenue bond debt service:		
Investments with Trustee	55,416	54,613
Grants receivable	3,560	—
Passenger facility charges receivable	10,212	12,916
Total restricted assets available for current outlay	159,004	114,727
Total current assets	558,089	502,508
Restricted assets:		
For capital outlay:		
Cash and investments held in City Treasury	84,561	70,367
Accrued interest – City Treasury	78	155
For revenue bond debt service reserve:		
Investments with Trustee	295,152	295,704
Investment derivative instruments	5,166	13,305
Grants receivable	38,038	10,840
Other assets	1,060	—
Total restricted assets	424,055	390,371
Capital assets, net	3,720,791	3,734,426
Unamortized bond issuance costs	25,269	28,753
Total assets	4,728,204	4,656,058
Deferred outflows on derivative instruments	64,743	98,979
Total assets and deferred outflows	4,792,947	4,755,037

(Continued)

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Net Position

June 30, 2013 and 2012

(In thousands)

		2013	2012
Liabilities:			
Current liabilities:			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued liabilities	$	33,222	29,162
Accrued payroll		13,571	13,535
Compensated absences		8,167	7,943
Accrued workers' compensation		1,121	998
Estimated claims payable		755	503
Deferred aviation revenue		51,923	57,622
Current maturities of long-term debt		391,752	315,153
Total current liabilities payable from unrestricted assets		500,511	424,916
Current liabilities payable from restricted assets:			
Accounts payable and accrued liabilities		56,255	25,993
Accrued payroll		794	467
Grants received in advance		2,783	—
Accrued bond interest payable		28,158	28,837
Commercial paper		180,525	10,450
Current maturities of long-term debt		27,183	25,392
Total current liabilities payable from restricted assets		295,698	91,139
Total current liabilities		796,209	516,055
Noncurrent liabilities:			
Compensated absences, net of current portion		7,432	7,686
Accrued workers' compensation, net of current portion		4,112	4,077
Estimated claims payable, net of current portion		807	829
Long-term debt, net of current maturities		3,517,917	3,743,095
Other postemployment benefits obligation		90,713	75,824
Total noncurrent liabilities before derivative instruments		3,620,981	3,831,511
Derivative instruments		81,338	116,859
Total liabilities		4,498,528	4,464,425
Net Position:			
Net Investment in capital assets		(52,581)	4,190
Restricted for debt service		19,757	25,711
Restricted for capital projects		139,981	71,109
Unrestricted		187,262	189,602
Total net position	$	294,419	290,612

See accompanying notes to financial statements.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Operating revenues:			
Aviation	$	413,918	374,767
Concession		129,545	122,366
Parking and transportation		113,551	104,254
Net sales and services		69,344	67,285
Total operating revenues		726,358	668,672
Operating expenses:			
Personnel		239,194	238,382
Depreciation		176,522	167,309
Contractual services		62,939	56,155
Light, heat, and power		19,250	20,096
Services provided by other City departments		14,576	12,555
Repairs and maintenance		27,593	26,401
Materials and supplies		14,038	14,130
General and administrative		2,807	1,657
Amortization of bond issuance costs		4,393	6,378
Environmental remediation		146	—
Total operating expenses		561,458	543,063
Operating income		164,900	125,609
Nonoperating revenues (expenses):			
Investment income		1,686	32,353
Interest expense		(195,503)	(203,547)
Passenger facility charges		84,329	81,437
Write-offs, loss on disposal, and demolition costs		(52,442)	(19,233)
Other nonoperating revenues		(485)	2,478
Other nonoperating expenses		(28,172)	—
Total nonoperating expenses, net		(190,587)	(106,512)
Income (loss) before capital contributions and transfers		(25,687)	19,097
Capital contributions:			
Grants		65,958	14,538
Transfers to City and County of San Francisco (note 11)		(36,464)	(33,993)
Changes in net position		3,807	(358)
Total net position – beginning of year		290,612	290,970
Total net position – end of year	$	294,419	290,612

See accompanying notes to financial statements.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

	2013	2012
Cash flows from operating activities:		
Cash received from airline carriers, concessionaires, and others	$ 744,328	675,812
Cash paid for employees' services	(224,141)	(219,203)
Cash paid to suppliers of goods and services	(152,825)	(156,296)
Net cash provided by operating activities	367,362	300,313
Cash flows from noncapital financing activities:		
Transfers to City and County of San Francisco	(36,464)	(33,993)
Other noncapital financing revenues	(485)	2,478
Other noncapital financing expenses	(28,172)	—
Net cash used in noncapital financing activities	(65,121)	(31,515)
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds and commercial paper notes	(152,555)	(135,760)
Interest paid on revenue bonds and commercial paper notes	(195,639)	(208,049)
Acquisition and construction of capital assets	(181,029)	(99,753)
Revenues from passenger facility charges	87,033	78,156
Proceeds from sale of revenue bonds	—	6,273
Proceeds from commercial paper notes	170,075	10,450
Capital contributed by federal agencies and others	37,983	10,308
Net cash used in capital and related financing activities	(234,132)	(338,375)
Cash flows from investing activities:		
Sales of investments with Trustee	2,147,700	2,146,893
Purchases of investments with Trustee	(2,148,780)	(2,146,754)
Interest received on investments	15,378	15,769
Net cash provided by investing activities	14,298	15,908
Net increase (decrease) in cash and cash equivalents	82,407	(53,669)
Cash and cash equivalents, beginning of year	457,240	510,909
Cash and cash equivalents, end of year	$ 539,647	457,240
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and investments held in City Treasury – Operating Fund	$ 364,687	343,341
Cash – Revolving Fund	10	10
Restricted cash and investments in City Treasury	174,377	117,565
Cash, cash equivalents, and investments	539,074	460,916
Unrealized loss (gain) on investments	573	(3,676)
Cash and cash equivalents, June 30	$ 539,647	457,240

(Continued)

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 164,900	125,609
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	176,522	167,309
Provision for doubtful accounts	(811)	600
Amortization of bond issuance costs	4,393	6,378
Changes in operating assets and liabilities:		
Accounts receivable	8,424	(5,485)
Inventories	26	4
Travel advance	6	(5)
Other current assets	260	(5,085)
Accrued payroll receivable	(1)	—
Accounts payable and other liabilities	4,290	(4,580)
Accrued payroll	36	2,792
Compensated absences	(30)	991
Accrued workers' compensation	158	109
Other postemployment benefits obligation	14,889	15,287
Deferred aviation revenue	(5,700)	3,079
Rent collected in advance	—	(6,690)
Net cash provided by operating activities	$ 367,362	300,313
Noncash transactions:		
Accrued capital asset costs	$ 57,050	27,520
Bond refunding	88,875	1,204,069

See accompanying notes to financial statements.

(1) Definition of Reporting Entity

The accompanying financial statements reflect the net position and changes in net position of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO), a commercial service airport owned and operated as a department of City and County of San Francisco (the City). The Airport opened in 1927 and is currently the seventh busiest airport in the United States in terms of passengers and eighteenth in terms of cargo.[6] The Airport is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic. A five-member Airport Commission is responsible for its operation, development, and maintenance. Commission members are appointed by the City's Mayor for terms of four years.

The Airport is an integral part of the City and is reported as a major enterprise fund in the City's Comprehensive Annual Financial Report. There are no component units considered for inclusion in the Airport's financial reporting entity. The accompanying financial statements present only the financial operations of the Airport and do not purport to, and do not, present the financial position of the City, and the results of its operations and the cash flows of its proprietary fund types.

(2) Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

The Airport's financial activities are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

The Airport distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an organization's principal ongoing operations. The principal operating revenues of the Airport are charges to airlines, concessionaires, and parking and transportation charges. Operating expenses of the Airport include personnel costs, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(b) Implementation of New Accounting Standards

Governmental Accounting Standards Board (GASB) No. 61

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*, which is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, to better meet the needs of users and

[6] Source: Airports Council International – North America, 2012 North American Traffic Report.

address reporting entity issues that have come to light since these statements were issued in 1991 and 1999, respectively. This Statement modifies existing requirements for the assessment of potential component units to be included in the primary government's financial reporting entity. Application of this statement is effective for the Airport's fiscal year ended June 30, 2013. The implementation of this statement did not have a significant impact on the Airport for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board (GASB) No. 62

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and American Insitute of CPAs (AICPA) Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures which does not conflict with or contradict other GASB pronouncements. The requirements of this statement are effective for the Airport's fiscal year ended June 30, 2013. The implementation of this statement did not have a significant impact on the Airport for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board (GASB) No. 63

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and renames the resulting measure as net position rather than net assets. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of July 1, 2012, the Airport adopted the provisions of this statement, which did not have a significant impact on its financial statements.

Governmental Accounting Standards Board (GASB) No. 65

In April of 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The new standard is effective for periods beginning after December 15, 2012. The Airport will implement the provisions of Statement No. 65 in fiscal year 2014.

Governmental Accounting Standards Board (GASB) No. 68

In June of 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions.* GASB Statement No. 68 revises and establishes new accounting and financial reporting requirements for most governments that provide their employees with pension benefits. The new standard is effective for periods beginning after June 15, 2014. The Airport will implement the provisions of Statement No. 68 in fiscal year 2015.

Governmental Accounting Standards Board (GASB) No. 69

In January of 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations.* GASB Statement No. 69 establishes accounting and financial reporting standards for governments that combine or dispose of their operations. The new standard is effective for periods beginning after December 15, 2013. The Airport will implement the provisions of Statement No. 69 in fiscal year 2015.

Governmental Accounting Standards Board (GASB) No. 70

In April 2013, the GASB issued Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* GASB Statement No. 70 establishes accounting and financial reporting standards for governments that offer or receive financial guarantees that are nonexchange transactions. The new standard is effective for periods beginning after June 15, 2013. The Airport will implement the provisions of Statement No. 70 in fiscal year 2014.

(c) Cash, Cash Equivalents, and Investments

The Airport maintains its cash, cash equivalents, investments, and a significant portion of its restricted cash and investments as part of the City's pool of cash and investments. The Airport's portion of this pool is displayed on the statements of net position as "Cash and investments held in City Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis to appropriate funds and entities based on their average daily cash balances.

The City reports certain investments at fair value in the statements of net position and recognizes the corresponding change in fair value of investments in the year in which the change occurred.

The Airport considers its pooled deposits held with the City Treasurer to be demand deposits and therefore cash for financial reporting. The City considers highly liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash and investments held by the bond trustees are not considered to be cash and cash equivalents.

The debt service fund and the debt service reserve fund for the Airport's revenue bonds are held and invested at the Airport's direction by an independent bond trustee. A portion of these funds are also invested in accordance with three Forward Purchase and Sale Agreements that are intended to produce guaranteed earnings rates, one of which expired on May 1, 2013. The Airport reports these investments at fair value based on quoted market information obtained from fiscal agents or other sources.

(d) Capital Assets

Capital assets are stated at historical cost, or if donated, at fair value at the date of donation. The capitalization threshold for real property is $100,000 and $5,000 for personal property with a useful life greater than one year.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

	Years
Buildings, structures, and improvements	5 – 50
Equipment	5 – 20
Intangible assets	3 – 20

Maintenance, repairs, and minor replacements are charged against operations in the year performed. Major replacements that extend the useful life of the related assets are capitalized. No depreciation is provided on construction in progress until construction is substantially complete and the asset is placed in service. The Airport begins depreciation on capital assets the month following the date in which assets are placed in service. Additionally, the Airport commenced allocating indirect costs on self-constructed assets starting fiscal year 2007. The indirect cost rate applied is based on a cost allocation plan developed in accordance with Office of Management and Budget Circular A-87, *Cost Principles for State and Local Governments* (see note 5).

(e) Capitalized Interest

Interest cost of debt issued for acquiring capital asset is capitalized as part of the historical cost of the asset. Interest costs of tax-exempt bond funds used for specified construction purposes, net of interest earned on the temporary investment of the proceeds of such tax-exempt borrowings, are capitalized from the date of borrowings until the asset is ready for its intended use. Interest costs of other borrowings are capitalized based on average accumulated construction expenditures.

(f) Derivative Instruments

The Airport has entered into certain derivative instruments, which it values at fair value, in accordance with GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*. The Airport applies hedge accounting for changes in the fair value of hedging derivative instruments, in accordance with GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, an amendment of GASB Statement No. 53. Under hedge accounting, the changes in the fair value of hedging derivative instruments are reported as either deferred inflows or deferred outflows in the statements of net position.

(g) Bond Issuance Costs, Discounts, and Premiums

Bond issuance costs, discounts, and premiums are amortized using the effective-interest method. Original bond issuance discounts and premiums are offset against the related debt.

(h) Compensated Absences

Vested vacation, sick leave, and related benefits are accrued when incurred for all Airport employees.

(i) Net Position

A significant portion of the Airport's net position is restricted by bond resolutions and indentures and the Lease and Use Agreement with the airlines for the purpose of capital improvements and contingencies.

(j) Aviation Revenue and Deferred Aviation Revenue

Aviation revenue is based on reimbursable expenditures as defined in the Lease and Use Agreement with the airlines. Under the Lease and Use Agreement, the airlines are required to pay terminal rents and landing fees in amounts that, when aggregated with certain other Airport revenues, will be equal to the Airport's expenditures for: operating expenses other than depreciation and amortization; principal and interest on outstanding debt; annual service payments to the City; and certain acquisitions of capital assets. Other capital asset additions are funded with proceeds of revenue bonds for which the airlines are required to fund debt service. During fiscal year 2010, the Airport reached an agreement with the airlines on a new 10-year Lease and Use Agreement that became effective on July 1, 2011. Airlines that are not signatories to one of these long-term agreements operate under month-to-month permits.

Amounts billed to airlines are based on budgeted revenues and expenditures, including debt service. Aviation revenue collected in advance will be applied to reduce future billings and is recorded as a liability in the financial statements. Aviation revenue due will be reduced by increases in future billings and is recorded as an asset in the financial statements. Pursuant to the terms of the Lease and Use Agreement, the Airport owed the Airlines approximately $51.9 million and $57.6 million on June 30, 2013 and 2012, respectively, which represents aviation revenue collected in advance.

(k) Concession Revenues

Concession revenues consist of rentals and fees derived from food and beverage concessions, duty free, retail merchandise and rental car concessions. Revenues are based on terms of lease agreements entered between the Airport and concessionaires, and are the greater of a percentage of tenant's gross revenues or a MAG amount.

(l) Parking and Transportation Revenues

Parking and transportation revenues consist of fees derived from parking facilities and ground transportation operations. Parking revenues are parking fees collected from all public parking facilities at the Airport. Transportation revenues are ground transportation trip fees assessed to commercial vehicles that service the Airport.

(m) Net Sales and Service Revenues

Net sales and services revenues are collected for utility, security, and miscellaneous services provided to the tenants. Utility services are provided by the City (see note 11).

(n) Environmental Remediation Expenses and Recoveries

The Airport incurs costs associated with environmental remediation activities, which arise during the normal course of business, in accordance with GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. These costs are recorded as a liability when the airport is required to perform the remediation and if the costs can be reasonably estimated. The Airport records environmental remediation costs, net of related cost recoveries, as an operating expense.

(o) Capital Contributions

The Airport receives federal grants for the purpose of acquisition or construction of property and equipment. These grants are recorded as capital contributions when generally earned upon expenditures of the funds.

(p) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(3) Cash, Cash Equivalents, and Investments

(a) Pooled Cash and Investments

The Airport maintains its operating cash, cash equivalents, investments, and its restricted cash and investments as part of the City's pool of cash and investments. The City's investment pool is an unrated pool pursuant to investment policy guidelines established by the City Treasurer and is treated as a cash equivalent for financial reporting purposes. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Cash and investments, at fair value, held by the City in the City's pool as of June 30, 2013 and 2012 are as follows (in thousands):

	2013	2012
Pooled cash and investments:		
Cash and investments held in City Treasury – operating	$ 364,687	343,341
Cash and investments held in City Treasury – restricted for current outlay	89,816	47,198
Cash and investments held in City Treasury – restricted for capital outlay	84,561	70,367
Total cash and investments in City Treasury	$ 539,064	460,906

The following table shows the percentage distribution of the City's pooled investments by maturity:

Investment maturities (in months)			
Under 1	1 – less than 6	6 – less than 12	12 – 60
9.1%	4.9%	9.4%	76.6%

(b) Cash and Investments with Fiscal Agent

The restricted assets for revenue bond reserves and debt service are held by an independent bond trustee for the Airport's senior lien bonds (the Senior Trustee) and a separate independent bond trustee for the Airport's subordinate lien bonds (the Subordinate Trustee, and collectively with the Senior Trustee, the Trustees). As of June 30, 2013, and June 30, 2012, the Senior Trustee held investments for the benefit of the Airport with maturities as follows (in thousands):

Investments	Credit Ratings (S&P/Moody's/ Fitch)	June 30, 2013 Maturities	June 30, 2013 Fair value	June 30, 2012 Maturities	June 30, 2012 Fair value
Federal National Mortgage Association Discount Notes	A-1+/P-1/F1+	November 1, 2013	$ 102,139	—	—
Federal National Mortgage Association Discount Notes	A-1+/P-1/F1+	July 3, 2013	21,935	—	—
U.S. Treasury Bills	Non-Rated	October 31, 2013	223,291	October 25, 2012	43,397
Federal National Mortgage Association Discount Notes	A-1+/P-1/F1+	—	—	July 5, 2012	47,242
Federal Home Loan Mortgage Corp. Discount Notes	A-1+/P-1/F1+	—	—	November 1, 2012	102,126
Federal Home Loan Bank Discount Notes	A-1+/P-1/F1+	—	—	October 31, 2012	157,485
Cash	Non-Rated		3,203		67
Total cash and investments with fiscal agent			$ 350,568		350,317

The primary objectives of the Airport's policy on investments of debt service reserve funds and debt service funds (including principal and interest accounts) held by the Trustees are safety, liquidity, and yield.

Safety is the foremost objective of the investment program. Investments undertaken seek to ensure the preservation of capital in the overall portfolio, the objective of which is to mitigate credit and interest rate risk.

The term of any investment is based on the cash flow needs of the Airport's debt service requirements. Consequently, investment of any debt service reserve funds is limited to seven years or less, and investments in any principal and interest payment accounts are to mature no later than the dates on which the principal or interest payments are due.

The Airport will maximize the retainable earnings of all bond proceeds after meeting the requirements of safety and liquidity. After these objectives are met, the Airport's investment policy will attempt to achieve net investment yield as close to each bond fund's arbitrage yield.

Funds held by the Senior Trustee in funds and accounts established under the Airport Commission's Resolution No. 91-0210 adopted on December 3, 1991, as amended and supplemented (the 1991

Master Resolution), are invested in "Permitted Investments" as defined in the 1991 Master Resolution.

Funds held by the Subordinate Trustee in funds and accounts established under the 1997 Subordinate Resolution are invested in "Permitted Investments" as defined in the 1997 Subordinate Resolution (excluding Banker's Acceptances that are permitted investments only for funds relating to the 1991 Master Resolution). The Airport's policy on Banker's Acceptances of a banking institution requires the highest short-term rating category by at least two Rating Agencies, and must not exceed 270 days maturity or forty percent (40%) of monies invested pursuant to the 1991 Master Resolution. In addition, no more than twenty percent (20%) of monies invested pursuant to the 1991 Master Resolution is to be invested in the Banker's Acceptances of any one commercial bank. The Airport has approximately $350.6 million and $350.3 million in investments held by, and in the name of, the Trustees as of June 30, 2013 and 2012, respectively.

All other funds of the Airport are invested in accordance with the (1) Treasurer's policy and (2) the 1991 Master Resolution or the 1997 Subordinate Resolution, as appropriate, if such funds are also subject to the 1991 Master Resolution or the 1997 Subordinate Resolution, respectively. The Airport's Senior Trustee invests a portion of the Airport's debt service fund deposits and debt service reserve funds according to "Forward Purchase and Sale Agreements."

(c) *Forward Purchase and Sale Agreements*

Objective and Terms – The Airport's Senior Trustee invests a portion of the Airport's debt service fund deposits and debt service reserve funds in investments delivered in accordance with two Forward Purchase and Sale Agreements (FPSAs) that are intended to produce guaranteed earnings at rates of 4.329%–4.349%, depending on the agreement. The two FPSAs are 10-year agreements that expire between November 2013 and November 2014. The Airport had a third FPSA (with Citigroup Financial Products, Inc.) that expired on May 1, 2013. The reserve funds that were invested in the Citigroup FPSA have not been reinvested in a new FPSA.

Under each FPSA, the Senior Trustee purchases a predetermined amount and type of investment security from the provider at prices that will result in the guaranteed fixed rate of return. Under the FPSA with Morgan Stanley Capital Services, the Senior Trustee is required to purchase between $10.9 million and $23.5 million of investment securities every month for the debt service fund, depending on the amount of deposits into the fund. Of the $257.2 million principal amount of investments purchased during the fiscal year ended June 30, 2013, $235.4 million have matured and the proceeds thereof have been used to pay debt service on the Commission's bonds, leaving $21.8 million invested as of June 30, 2013. Under the FPSA with Merrill Lynch Capital Services, the Senior Trustee is required to purchase $100.0 million of investment securities every six months, maturing on the following May 1 or November 1, as applicable, for the bond reserve fund. The amounts of unmatured investment securities purchased under the two FPSAs and held by the Senior Trustee as of June 30, 2013, are shown in the following table:

Provider	Purpose	Amount	Fixed Rate	Start Date	End Date
Merrill Lynch Capital Services	Reserve Funds	$ 100,000,000	4.329%	12/10/2004	11/1/2014
Morgan Stanley Capital Services	Debt Service Fund[1]	21,861,653	4.349%	1/29/2004	11/1/2013

[1] *The amount invested varies depending on principal and interest deposits on the outstanding bonds.*

All investments under the FPSAs are made with the intention that securities will be held to maturity, and all are invested only in specified eligible securities pursuant to California Government Code and as defined by the Airport's 1991 Master Resolution. These investments are scheduled to mature on or before each debt service payment date on the associated bonds.

If necessary, the Airport may direct the Senior Trustee to sell the securities at any time prior to their maturity in the open market and use the proceeds of such sale for the permitted purposes of the applicable fund. The securities are recorded at their fair market value as of June 30, 2013, and not at the guaranteed rate of return of the respective FPSA under which the investments were delivered. As of June 30, 2013, the accrued interest was recorded in the interest receivable account.

The Airport accounted for and disclosed the FPSAs as investment derivatives in accordance with GASB 53 as of and for the years ended June 30, 2013 and June 30, 2012.

Fair Value – Fair value of each FPSA takes into consideration the prevailing interest rate environment and the specific terms and conditions of the FPSA. All fair values were estimated using the zero-coupon discounting method. This method calculates the future earnings under each FPSA, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve and compared to the future earnings at the guaranteed rate, also discounted using the spot rates implied by the current yield curve.

As of June 30, 2013 and June 30, 2012, fair values of the FPSAs are as follows:

Provider		June 30, 2013	June 30, 2012
Merrill Lynch Capital Services	$	4,439,108	8,438,708
Citigroup Financial Products, Inc.*		—	733,570
Morgan Stanley Capital Services		727,110	4,132,921
Total FPSAs	$	5,166,218	13,305,199

* *The FPSA with Citigroup expired on May 1, 2013.*

Credit Risk – The provider under each FPSA sells the specified investment securities to the Senior Trustee on a "delivery-versus-payment" basis. Therefore, at any given time, the Senior Trustee holds either cash or the delivered investments. Airport has received bankruptcy opinions of counsel to the respective providers to the effect that, subject to customary qualifications, investment securities purchased by the Senior Trustee would not constitute part of the bankruptcy estate of the provider. Thus, the Airport believes that the principal amounts invested in accordance with the FPSAs are not at risk in the event of the bankruptcy or insolvency of the respective providers. In the event a provider fails to perform, the Airport can invest its funds in alternative investments available at that time, which would likely produce a different rate of return. If an FPSA is terminated, the Airport would receive or pay a termination amount approximately equivalent to the fair value of the FPSA at that time, depending on market conditions. As of June 30, 2013, the fair value of each FPSA was positive to the Airport as shown above.

The providers and guarantors of the FPSAs and their credit ratings are as follows:

Provider	Guarantor	Guarantor credit ratings June 30, 2013 Moody's/S&P
Merrill Lynch Capital Services	Merrill Lynch & Company	Baa2/A-
Morgan Stanley Capital Services	Morgan Stanley	Baa1/A-

Termination Risk – Under the terms of the FPSAs, if an investment provider is downgraded below "A-" by Standard & Poor's or "A3" by Moody's, a "Downgrade Event" occurs, and the provider must take corrective action by either assigning the FPSA to a more highly rated investment provider, obtaining a guaranty from a more highly rated guarantor, or collateralizing its obligations under the FPSA. If the provider fails to cure the Downgrade Event within 10 business days, the Airport has a 45-day option to terminate the FPSA and make or receive a cash payment, depending on the then market value of the FPSA. The downgrade of any FPSA provider increases the risk to the Airport that the provider will not perform under the FPSA.

Merrill Lynch & Co. was downgraded by Moody's on September 21, 2011, to "Baa1" (and subsequently to "Baa2") resulting in a Downgrade Event. Consequently, Merrill Lynch Capital Services, Inc. (MLCS) entered into a collateral agreement in January 2012 with the Senior Trustee for the benefit of the Airport to post collateral equal to 105% of the fair value (or "termination amount") calculated on a weekly basis to secure MLCS' obligations under the FPSA. The collateral delivered by MLCS is held by U.S. Bank National Association, as custodian (the Custodian). If an event of default by MLCS occurs under the FPSA and the FPSA is terminated, the Senior Trustee is entitled to instruct the Custodian to transfer the collateral to the Senior Trustee or to liquidate the collateral and transfer the proceeds to the Senior Trustee.

Morgan Stanley was downgraded by Moody's to "Baa1" on June 21, 2012 resulting in a Downgrade Event. The Airport and Morgan Stanley continue to negotiate an appropriate cure to this Downgrade Event.

(4) Grants Receivable

The Airport receives federal funding from the FAA, the TSA, and other Federal Agencies. Grants receivable of $41.6 million and $10.8 million as of June 30, 2013, and June 30, 2012, respectively, were based on actual costs incurred, subject to federal reimbursement limits.

In making decisions concerning the distribution of discretionary grants to an airport, federal law requires the Secretary of Transportation to consider, as a negative mitigating factor, the fact that the airport in question is using its revenues above specified historical levels for purposes other than its capital or operating costs. The Airport Commission pays a portion of the Airport's revenues to the City's General Fund as an Annual Service Payment, in part as compensation for all indirect services, management and facilities provided by the City to the Airport. The Airport Commission uses discretionary grants from the FAA to offset a portion of the costs of various capital projects at the Airport. In federal fiscal year ended September 30, 2012, the FAA provided discretionary grants of $6.4 million less than the Airport had requested as a result of the amount of the Annual Service Payments. The FAA notified the Airport Commission that the first $9.8 million it requested that otherwise qualified for discretionary grants for federal fiscal year 2013 similarly was not funded as a result of the Annual Service Payments. The FAA may continue to reduce discretionary grants in the future. The reduction in discretionary grants awarded to the Airport increases by a corresponding amount the capital expenditures that the Airport Commission needs to fund from other sources, including operating revenues, PFCs, and bond proceeds.

Project costs are subject to audit by the funding agencies to ensure that the costs are allowable under the grant agreements. If any project costs are disallowed, amounts recorded as grants receivable will be reduced or refunded to the respective funding agencies.

The Airport received $13.2 million in federal funds under the American Recovery and Reinvestment Act of 2009 (ARRA) from the TSA in the Department of Homeland Security (for checked baggage screening equipment) and two grants totaling $14.5 million from the FAA in the DOT (for runway improvements). The Office of Inspector General for each of the DHS and DOT have audited ARRA grants for a number of randomly selected airports nationwide, including the above three grants received by the Airport.

The DHS audit concluded that one Airport expenditure was questionable because it was not adequately supported by the Airport's accounting records. The Airport has repaid $0.1 million of the TSA funding. The DOT audit concluded that several Airport expenditures of the two FAA ARRA grants were questionable because of inadequate documentation, work outside the approved scope for otherwise eligible projects, and non-qualifying expenditures. The FAA indicated that it would seek to recover approximately $2.1 million of grant funds from the Airport by December 31, 2013. The Airport resolved this audit by repaying approximately $0.9 million of the two ARRA grants and voluntarily reducing other AIP grant reimbursement requests by $1.2 million. No FAA grant-funded capital projects have been delayed.

(5) Capital Assets

Capital assets consist of the following (in thousands):

	July 1, 2012	Additions	Deletions	Adjustment	June 30, 2013
Capital assets not being depreciated:					
Land	$ 3,074	—	—	—	3,074
Construction in progress	85,852	181,041	(39,615)	—	227,278
Total capital assets not being depreciated	88,926	181,041	(39,615)	—	230,352
Capital assets being depreciated/ amortized:					
Buildings, structures, and improvements	5,633,273	60,464	(253,889)	(9,830)	5,430,018
Equipment	187,006	6,241	(6,147)	—	187,100
Intangible assets	141,348	—	—	6,881	148,229
Total capital assets being depreciated/ amortized	5,961,627	66,705	(260,036)	(2,949)	5,765,347
Less accumulated depreciation/ amortization for:					
Buildings, structures, and improvements	(2,140,483)	(152,136)	211,760	—	(2,080,859)
Equipment	(73,305)	(17,172)	5,981	—	(84,496)
Intangible assets	(102,339)	(7,214)	—	—	(109,553)
Total accumulated depreciation/ amortization	(2,316,127)	(176,522)	217,741	—	(2,274,908)
Total capital assets being depreciated/ amortized, net	3,645,500	(109,817)	(42,295)	(2,949)	3,490,439
Total capital assets, net	$ 3,734,426	71,224	(81,910)	(2,949)	3,720,791

	July 1, 2011	Additions	Deletions	Adjustment	Transfers	June 30, 2012
Capital assets not being depreciated:						
Land	$ 2,787	—	—	287	—	3,074
Construction in progress	83,830	101,421	(15,286)	(14,814)	(69,299)	85,852
Total capital assets not being depreciated	86,617	101,421	(15,286)	(14,527)	(69,299)	88,926
Capital assets being depreciated/ amortized:						
Buildings, structures, and improvements	5,640,378	2,554	—	(64,608)	54,949	5,633,273
Equipment	97,573	2,736	(2,587)	74,991	14,293	187,006
Intangible assets	141,086	12	—	193	57	141,348
Total capital assets being depreciated/ amortized	5,879,037	5,302	(2,587)	10,576	69,299	5,961,627
Less accumulated depreciation/ amortization for:						
Buildings, structures, and improvements	(1,997,652)	(143,582)	—	751	—	(2,140,483)
Equipment	(58,576)	(15,082)	2,572	(2,219)	—	(73,305)
Intangible assets	(95,162)	(7,194)	—	17	—	(102,339)
Total accumulated depreciation/ amortization	(2,151,390)	(165,858)	2,572	(1,451)	—	(2,316,127)
Total capital assets being depreciated/ amortized, net	3,727,647	(160,556)	(15)	9,125	69,299	3,645,500
Total capital assets, net	$ 3,814,264	(59,135)	(15,301)	(5,402)	—	3,734,426

Total interest costs were approximately $199,213,000 for fiscal year 2013 and $205,444,000 for fiscal year 2012, of which approximately $3,710,000 and $1,897,000, respectively, were capitalized. Total investment income for fiscal year 2013 was $1,686,000 and fiscal year 2012 was $32,353,000, with no interest capitalization for either fiscal year.

In fiscal year 2007, the Airport completed a cost allocation plan (CAP) developed in accordance with OMB Circular A-87, *Cost Principles for State and Local Governments*. Capturing indirect costs as a component of a building or other capital asset will enable the Airport to capture the full and true cost of a capital asset.

In fiscal year 2013, the Airport revised the CAP methodology to be based on preliminary financial data and direct labor expense as an allocation factor for fiscal year 2013. In fiscal year 2012, the CAP was updated based on the fiscal year 2011 audited historical costs. The indirect costs capitalized for the years ended June 30, 2013 and 2012, were $11.7 million and $4.6 million, respectively.

(6) Subordinate Commercial Paper Notes

Fiscal Year 2013

On May 20, 1997, the Airport Commission authorized the issuance of subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of $400 million or the stated amount of the letter(s) of credit securing the CP.

The Airport's CP are secured by two $100.0 million direct-pay letters of credit from State Street Bank and Trust Company and Barclays that expire on May 2, 2014. The direct-pay letter of credit from Barclays was terminated on July 3, 2013. During fiscal year 2013, the Airport obtained two additional $100.0 million direct-pay letters of credit from Wells Fargo Bank, National Association, and Royal Bank of Canada, that expire on June 17, 2016 and May 20, 2016, respectively. Each of these letters of credit supports separate subseries of CP and permits the Airport to issue CP up to a combined maximum principal amount of $400.0 million as of June 30, 2013. The amount was reduced to $300.0 million following the termination of the Barclays letter of credit on July 3, 2013.

During fiscal year 2013, the Airport issued $170.1 million of new money CP to fund capital improvement projects.

The following table summarizes the issuance of new money CP (excluding refunding CP) during the fiscal year ended June 30, 2013 (in thousands):

	Interest rate	July 1, 2012	Increases	Decreases	June 30, 2013
Commercial paper (Taxable)	0.13% – 0.24%	$ —	15,425	—	15,425
Commercial paper (AMT)	0.13% – 0.25%	2,300	122,850	—	125,150
Commercial paper (Non-AMT)	0.11% – 0.24%	8,150	31,800	—	39,950
Total		$ 10,450	170,075	—	180,525

Fiscal Year 2012

During fiscal year 2012, the Airport has two $100 million direct-pay letters of credit from State Street Bank and from Barclays both of which expire on May 2, 2014. Each of these letters of credit supports separate subseries of commercial paper notes and permits the Airport to issue CP up to a combined maximum principal amount of $200 million.

During fiscal year 2012, the Airport issued $10.45 million of CP to fund capital improvement projects.

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For fiscal year 2012, the interest rate on private activity CP (AMT) was 0.18%, and the interest rates on tax-exempt governmental purpose CP (Non-AMT) ranged from 0.16% to 0.20%. No taxable CP was outstanding during fiscal year 2012.

The following table summarizes the issuance of CP during the fiscal year ended June 30, 2012 (in thousands):

	Interest rate	July 1, 2011	Increases	Decreases	June 30, 2012
Commercial paper (AMT)	0.18%	$ —	2,300	—	2,300
Commercial paper (Non-AMT)	0.16% – 0.20%	—	8,150	—	8,150
Total		$ —	10,450	—	10,450

(7) Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2013 and 2012, was as follows (in thousands):

	July 1, 2012	Additions	Reductions	June 30, 2013	Due within one year
Revenue bonds payable	$ 4,062,265	84,675	(240,545)	3,906,395	418,935
Less unamortized discounts	(301)	—	7	(294)	—
Unamortized deferred amount on refundings	(127,868)	—	19,287	(108,581)	—
Add unamortized premiums	149,544	4,200	(14,412)	139,332	—
Total revenue bonds payable	4,083,640	88,875	(235,663)	3,936,852	418,935
Other postemployment benefits obligation	75,824	14,889	—	90,713	—
Compensated absences	15,629	11,589	(11,619)	15,599	8,167
Accrued workers' compensation	5,075	2,244	(2,086)	5,233	1,121
Estimated claims payable	1,332	307	(77)	1,562	755
Total	$ 4,181,500	117,904	(249,445)	4,049,959	428,978

	July 1, 2011	Additions	Reductions	June 30, 2012	Due within one year
Revenue bonds payable	$ 4,215,230	1,021,440	(1,174,405)	4,062,265	340,545
Less unamortized discounts	(4,249)	—	3,948	(301)	—
Unamortized deferred amount on refundings	(104,418)	(50,038)	26,588	(127,868)	—
Add unamortized premiums	103,964	62,861	(17,281)	149,544	—
Total revenue bonds payable	4,210,527	1,034,263	(1,161,150)	4,083,640	340,545
Notes payable	25,460	—	(25,460)	—	—
Unamortized deferred amount on refundings	(730)	—	730	—	—
Add unamortized premiums	26	—	(26)	—	—
Total notes payable	24,756	—	(24,756)	—	—
Other postemployment benefits obligation	60,537	15,287	—	75,824	—
Compensated absences	14,638	11,110	(10,119)	15,629	7,943
Accrued workers' compensation	4,966	2,013	(1,904)	5,075	998
Estimated claims payable	11,557	(1,386)	(8,839)	1,332	503
Total	$ 4,326,981	1,061,287	(1,206,768)	4,181,500	349,989

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(8) Long-Term Debt

Bond Transactions and Balances

As of June 30, 2013 and June 30, 2012, long-term revenue bonds consisted of the following (in thousands):

Description	Date of issue	Interest rate	2013	2012
Second Series Revenue Bonds:				
Issue 29 A/B	02/05/03	4.00% – 5.50%	$ 22,515	32,740
Issue 31F	01/26/05	4.60% – 4.91%	63,195	76,165
Issue 32F/G	11/16/06	4.00% – 5.25%	414,665	418,310
Issue 34C/D/E/F	03/27/08	4.00% – 5.75%	351,645	375,240
Issue 36A	06/03/09	Variable rate	100,000	100,000
Issue 36B	06/03/09	Variable rate	40,620	40,620
Issue 36C	06/03/09	Variable rate	36,145	36,145
Issue 37C	06/03/09	Variable rate	89,895	89,895
Issue 2009A/B	09/03/09	4.90%	175,000	175,000
Issue 2009C	11/03/09	3.88% – 5.00%	113,975	122,955
Issue 2009D	11/04/09	2.00% – 4.00%	84,675	88,190
Issue 2009E	11/18/09	4.38% – 6.00%	485,800	485,800
Issue 2010A	02/10/10	Variable rate	215,970	215,970
Issue 2010C	04/07/10	3.00% – 5.00%	345,735	345,735
Issue 2010D	04/07/10	3.00% – 5.00%	89,860	89,860
Issue 2010E	04/07/10	2.42% – 2.97%	28,840	85,135
Issue 2010F	08/05/10	5.00%	121,360	121,360
Issue 2010G	08/05/10	5.00%	7,100	7,100
Issue 2011A	02/22/11	4.00% – 5.75%	71,515	81,170
Issue 2011B	02/22/11	4.00% – 5.50%	47,210	55,770
Issue 2011C	07/21/11	5.00%	163,720	163,720
Issue 2011D	07/21/11	5.00%	124,110	124,110
Issue 2011E	07/21/11	1.51% – 4.48%	56,925	60,250
Issue 2011F	09/20/11	5.00%	123,325	123,325
Issue 2011G	09/20/11	5.00% – 5.25%	106,195	106,195
Issue 2011H	09/20/11	0.95% – 4.15%	109,950	125,055
Issue 2012A	03/22/12	5.00%	208,025	208,025
Issue 2012B	03/22/12	2.50% – 5.00%	108,425	108,425
			3,906,395	4,062,265
Unamortized discount			(294)	(301)
Unamortized deferred amount on refunding			(108,581)	(127,868)
Unamortized premium			139,332	149,544
Total revenue bonds payable			3,936,852	4,083,640
Less current portion			(418,935)	(340,545)
Total long-term revenue bonds payable			$ 3,517,917	3,743,095

Fiscal Year 2013

(a) Second Series Revenue Bonds (Capital Plan Bonds)

Pursuant to resolutions approved in fiscal years 2008 and 2012, the Airport Commission has authorized the issuance of up to $1.2 billion of San Francisco International Airport Second Series Revenue Bonds for the purposes of financing and refinancing the construction, acquisition, equipping, and development of capital projects undertaken by the Airport, including retiring all or a portion of the Airport's outstanding subordinate commercial paper notes issued for capital projects, funding debt service reserves, and for paying costs of issuance.

No new capital plan bonds were issued during fiscal year 2013. As of June 30, 2013, $605.9 million of the authorized capital plan bonds remained unissued.

(b) Second Series Revenue Refunding Bonds

Pursuant to sale resolutions approved between fiscal years 2005 through 2011, the Airport Commission has authorized the issuance of up to $8.4 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Resolution Bonds and outstanding subordinate commercial paper notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums.

During fiscal year 2013, no new refunding bonds were issued. As of June 30, 2013, net of expired sale authorizations, $1.4 billion of such refunding bonds remained unissued.

(c) Second Series Revenue Refunding Bonds (Remarketing)

During Fiscal year 2013, the Airport Commission remarketed the following refunding bonds:

Second Series Refunding Bonds, Series 2009D

On December 4, 2012, the Airport remarketed its Second Series Revenue Refunding Bonds, Series 2009D (Non-AMT/Private Activity) in the principal amount of $84.7 million as long-term bonds with fixed interest rates to their respective maturity dates. The Series 2009D Bonds were originally issued on November 4, 2009 with a May 1, 2029 nominal final maturity date but were scheduled to become due in a single "balloon" payment on December 4, 2012 via a mandatory tender by bondholders for purchase by the Airport.

The Series 2009D Bonds were remarketed at a premium with $88.9 million in remarketing proceeds and $0.2 million in the related interest account being used to pay the purchase price of the bonds on the December 4, 2012 mandatory tender date. $0.2 million of Airport funds were used to refund a portion of the Series 2009D Bonds in connection with a voluntary closing agreement with the Internal Revenue Service. When originally issued, the Series 2009D Bonds were secured by a separate reserve account. Following the remarketing, the Series 2009D Bonds are secured by the Airport's parity reserve (the Issue 1 Reserve Account).

The entire $8.8 million released from the 2009D reserve account was deposited into the Issue 1 Reserve Account.

Second Series Variable Rate Revenue Refunding Bonds, Series 36A

On April 30, 2013, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 36A (Non-AMT/Private Activity) with a new letter of credit from U.S. Bank National Association expiring on October 26, 2016. The bonds were originally secured by a letter of credit from Wells Fargo Bank, National Association, that expired on May 7, 2013. The Issue 36A Bonds were remarketed with the original maturity date of May 1, 2026 and no changes to principal amortization.

(d) Variable Rate Demand Bonds

As of June 30, 2013, the Airport Commission had outstanding an aggregate principal amount of $482.6 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 36A/B/C and Issue 37C, and Series 2010A, (collectively, the "Variable Rate Bonds") with final maturity dates of May 1, 2026 (Issue 36A/B/C), May 1, 2029 (Issue 37C), and May 1, 2030 (Series 2010A). The Variable Rate Bonds are long-term, tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The interest rate on the Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal and purchase price of and interest on the Variable Rate Bonds is secured by separate irrevocable direct-pay letters of credit issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the tables below.

Amounts drawn under a letter of credit that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the letters of credit range between 0.57% and 1.05% per annum. As of June 30, 2013, there were no unreimbursed draws under these facilities.

The $225.6 million aggregate principal amount of Issue 36A/C and Issue 37C Variable Rate Bonds is included in long-term debt as of June 30, 2013. The $256.6 million aggregate principal amount of Series 2010A and Issue 36B Variable Rate Bonds is included in current liabilities as of June 30, 2013, because the associated letters of credit expire on January 31, 2014 and May 2, 2014, respectively, requiring a mandatory tender of the related bonds on or before those dates, followed by a remarketing with a new letter of credit or in a new interest rate mode. If the Airport Commission is unable to secure a replacement credit facility or remarket the bonds on or prior to the applicable letter of credit expiration date, the related bank is required to purchase the bonds under the expiring letter of credit, subject to reimbursement by the Airport in accordance with the terms of "Repayment Obligations" under the 1991 Master Resolution.

The primary terms of the letters of credit securing the Variable Rate Bonds included in long-term debt as of June 30, 2013, are as follows:

	Issue 36A	Issue 36C	Issue 37C
Principal Amount	$100,000,000	$36,145,000	$89,895,000
Expiration Date	October 26, 2016	July 11, 2014	July 13, 2015
Credit Provider	U.S. Bank[1]	U.S. Bank[1]	Union Bank[2]

(1) U.S. Bank National Association
(2) Union Bank, N.A.

The primary terms of the letters of credit securing the Variable Rate Bonds included in current liabilities as of June 30, 2013, are as follows:

	Issue 36B	Series 2010A
Principal Amount	$40,620,000	$215,970,000
Expiration Date	May 2, 2014	January 31, 2014
Credit Provider	U.S. Bank[1]	JP Morgan[2]

(1) U.S. Bank National Association
(2) JP Morgan Chase Bank, N.A.

(e) *Interest Rate Swaps*

Objective and Terms – On December 16, 2004, the Airport entered into seven forward starting interest rate swaps (the 2004 swaps) with an aggregate notational amount of $405 million, in connection with the anticipated issuance of Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E on February 10, 2005, and Second Series Variable Rate Revenue Refunding Bonds, Issue 33 on February 15, 2006. The swap structure was intended as a means to increase the Airport's debt service savings when compared with fixed rate refunding bonds at the time of issuance. The expiration date of the 2004 swaps is May 1, 2026.

On July 26, 2007, the Airport entered into four additional forward starting interest rate swaps in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, on May 15, 2008 (the 2007 swaps), and Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, on February 10, 2010 (the 2010 swaps). The expiration dates of the 2007 and 2010 swaps are May 1, 2029 and May 1, 2030, respectively.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate bonds, including Issue 32 and Issue 33. The 2004 swaps associated with these issues then became associated with the Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D, and Issue 37A. Subsequently, on October 30 and December 3, 2008, the Airport refunded Issues 37A and Issue 37B,

respectively. Concurrently, with the refunding of Issue 37A, the three associated swaps, with an aggregate notional amount of $205.1 million, were terminated. The swap associated with Issue 37B was not terminated upon the refunding of Issue 37B.

On December 16, 2010, the Airport terminated the swap associated with the Series 2010A-3 Bonds, with a notional amount of $72 million. The Airport paid a termination amount of $6.7 million to the counterparty, Depfa Bank plc. The payment was funded with taxable commercial paper, which was subsequently retired with Airport operating funds on March 28, 2011.

Following the termination of the Depfa swap, the Series 2010A-3 Bonds, which are variable rate, were no longer hedged with an interest rate swap. The swap associated with the Issue 37B Bonds, however, is now associated with the Series 2010A-3 Bonds and the unhedged portions of Issue 36A/B/C.

On September 20, 2011, the Airport refunded the Issue 36D Bonds with proceeds of the San Francisco International Airport Second Series Revenue Bonds, Series 2011H and terminated the swap associated with Issue 36D, which had an initial notational amount of $30.0 million and JP Morgan Chase Bank, N.A. as counterparty. The Airport paid a termination fee of $4.6 million to the counterparty.

Under the 2004 swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.50% of USD-LIBOR-BBA plus 0.29%. Under the 2007 and 2010 swaps, the Airport receives 61.85% of USD-LIBOR-BBA plus 0.34%. These payments are intended to approximate the variable interest rates on the bonds originally hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below which commenced on the date of issuance of the related bonds. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged bonds. All of the outstanding interest rate swaps are terminable at their market value at any time solely at the option of the Airport.

As of June 30, 2013, the Airport's derivative instruments comprised six interest rate swaps that the Airport entered into to hedge the interest payments on several series of its variable rate Second Series Revenue Bonds. The Airport determined the hedging relationship between the variable rate bonds and the related interest rate swaps to be effective as of June 30, 2013 and 2012.

#	Current Bonds	Initial Notional Amount	Effective Date
1	36AB	$ 70,000,000	2/10/2005
2	36AB	69,930,000	2/10/2005
3	36C	30,000,000	2/10/2005
4	2010A*	79,684,000	5/15/2008
5	37C	89,856,000	5/15/2008
6	2010A	143,947,000	2/1/2010
	Total	$ 483,417,000	

*The swap previously associated with Issue 37B is now indirectly hedging Series 2010A-3 and the unhedged portions of the Issue 36A-C.

Fair Value

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

As of June 30, 2013, the fair value of the Airport's six outstanding swaps, counterparty credit ratings, and fixed rate payable by the Airport Commission are as follows:

#	Current Bonds	Counterparty/guarantor	Counterparty credit ratings (S&P/Moody's/Fitch)	Fixed rate payable by Commission	Fair value to Commission
1	36AB	J.P. Morgan Chase Bank, N.A	A+/Aa3/A+	3.444%	$ (8,993,654)
2	36AB	J.P. Morgan Chase Bank, N.A	A+/Aa3/A+	3.445%	(8,992,150)
3	36C	J.P. Morgan Chase Bank, N.A	A+/Aa3/A+	3.444%	(3,854,316)
4	2010A	Merrill Lynch Capital Services, Inc./Merrill Lynch & Co.	A-/Baa2/A	3.898%	(13,918,344)
5	37C	J.P. Morgan Chase Bank, N.A	A+/Aa3/A+	3.898%	(16,856,309)
6	2010A	Goldman Sachs Bank USA/ Goldman Sachs Group, Inc.	A-/A3/A	3.925%	(28,375,800)
		Total			$ (80,990,573)

The impact of the interest rate swaps on the financial statements for the years ended June 30, 2013 and 2012, is as follows (in thousands):

	Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2012	$ 98,979	116,859
Change in fair value to year end	(34,236)	(35,521)
Balance as of June 30, 2013	$ 64,743	81,338

The fair value of the interest rate swap portfolio is recorded as a liability (since the swaps are out of the money from the perspective of the Airport) in the statements of net position. Unless a swap was determined to be an off-market swap at the inception of its hedging relationship, the fair value of the swap is recorded as a deferred outflow asset (if out of the money) or inflow liability (if in the money). The off-market portions of the Airport's swaps are recorded as carrying costs with respect to various refunded bond issues. Unlike fair value and deferred inflow/outflow values, the balance of remaining off-market portions are valued on a present value, or fixed yield, to maturity basis. The difference between the deferred outflows and derivative instruments above is the unamortized off-market portions of the swaps as of June 30, 2013.

Risks

Basis Risk – The Airport has chosen a variable rate index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year ended June 30, 2013, the Airport received $1.3 million in excess payments from its counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk – As of June 30, 2013, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps become positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

Counterparty Risk – The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty, or its failure to perform would be a default under the applicable swap documents, none of the Airport's swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at its fair value, which may result in a payment to the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. In order to diversify the Airport's swap counterparty credit risk and to limit the Airport's credit exposure to any one counterparty, the Airport's swap policy imposes limits on the maximum net termination exposure to any one counterparty. Maximum net termination exposure is calculated as of the date of execution of each swap and is monitored regularly during the term of the swap. The exposure limits vary for collateralized and non-collateralized swaps based upon the credit rating of the counterparty. If any exposure limit is exceeded by a counterparty during the term of a swap, the Airport Director is required to consult with the Airport's swap advisor and bond counsel regarding appropriate actions to take, if any, to mitigate such increased exposure, including, without limitation, transfer or substitution of a swap. As of June 30, 2013, the fair value of the Airport's swaps was negative to the Airport (representing an amount payable by the Airport to each counterparty in the event the relevant swap was terminated). Although the Airport was not exposed to the credit of any counterparty with respect to termination amounts, the maximum net termination exposure limits in the Airport's swap policy were exceeded with respect to several counterparties. Following the consultation required by the Airport's swap policy, the Airport Director determined not to terminate, transfer or substitute such swaps.

Termination Risk – All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for all its regular payments and some termination payments due under all

its interest rate swaps, except the swaps associated with the Series 2010A Bonds, from the following insurers:

#	Swap	Swap Insurer	Insurer credit ratings June 30, 2013 (S&P/Moody's)
1	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	A/Baa1
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	A/Baa1
3	Issue 36C	Assured Guaranty Municipal Corp.	AA-/A2
4	Series 2010A	None	N/A
5	Issue 37C	Assured Guaranty Municipal Corp.	AA-/A2
6	Series 2010A	None	N/A

If the Airport is rated between Baa1/BBB+/BBB+ and Baa3/BBB-/BBB- (Moody's/S&P/Fitch), and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any, unless the Airport chooses to provide suitable replacement credit enhancement, assign the Airport's interest in the swaps to a suitable replacement counterparty, or post collateral to secure the swap termination value. If the Airport is rated below Baa3/BBB-/BBB- (Moody's/S&P/Fitch) or its ratings are withdrawn or suspended, and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any. With respect to the Series 2010A swaps with no swap insurance, the counterparty termination provisions and the Airport rating thresholds are the same as described above.

Additional Termination Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating downgrades or specified insurer nonpayment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade. Additional Termination Events under the swap documents with respect to a counterparty include a rating downgrade below A3/A1/A1 (Moody's/S&P/Fitch), followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

Each of the Airport's three bank counterparties, Goldman Sachs Group, Inc., JPMorgan Chase Bank N.A., and Merrill Lynch & Co. was downgraded by one or more of the rating agencies during the year ending June 30, 2012. During fiscal year 2013, the rating agencies did not take a rating action on any of the banks acting as swap counterparty or guarantor.

Merrill Lynch & Co. was downgraded by Moody's on September 21, 2011 to "Baa1" (and subsequently to "Baa2" in June 2012). The downgrade constituted an Additional Termination Event (ATE) under the interest rate swap agreement. On December 14, 2012, the Merrill Lynch swap was amended to cure the ATE by lowering the fixed rate from 3.898% to 3.773% effective as of October 1, 2012, and adding a new guarantee from Merrill Lynch Derivative Products AG effective as of December 18, 2012. Merrill Lynch also reimbursed the Airport $0.02 million for excess payments from October 1 through November 30, 2012.

The downgrades to Goldman Sachs and JPMorgan did not constitute Additional Termination Events under the swap agreement with either counterparty. The downgrade of any swap counterparty increases the risk to the Airport that such counterparty may become bankrupt or insolvent and not perform under the applicable swap. If a counterparty does not perform under its swap, the Airport may be required to continue making its fixed rate payments to the counterparty even though it does not receive a variable rate payment in return. The Airport may elect to terminate a swap with a non-performing counterparty and may be required to pay a substantial termination payment approximately equal to the fair value of such swap, depending on market conditions at the time. As of June 30, 2013, the fair value of each swap was negative to the Airport as shown above. The risks and termination rights related to the Airport's swaps are discussed in further detail above.

(f) Special Facilities Lease Revenue Bonds

In addition to the long-term obligations discussed above, there were $87.0 million and $91.1 million of the Airport Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 1997A/B and 2000A outstanding as of June 30, 2013 and June 30, 2012, respectively. SFO Fuel Company LLC (SFO Fuel) is required to pay facilities rent to the Airport in an amount equal to debt service payments and required bond reserve account deposit on the bonds. The principal and interest on the bonds are paid solely from the facilities rent payable by SFO Fuel to the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of the obligations, and as such, they are not reported in the accompanying financial statements.

(g) Debt Service Requirement

The Airport Commission issues its senior lien San Francisco International Airport Second Series Revenue Bonds under the 1991 Master Resolution, which provides, among other things, the general terms and conditions of the bonds, the funds and accounts relating to the bonds, and certain covenants made by the Airport Commission for the benefit of bondholders. Such covenants include not creating liens on its property essential to operations or disposing of any property essential to maintaining revenues or operating the Airport, and maintaining specified levels of insurance or self-insurance. The Airport Commission may also establish one or more reserve accounts with different reserve requirements to secure one or more series of bonds. Accordingly, the Airport Commission has established two reserve accounts in the Reserve Fund: the Issue 1 Reserve Account and the 2009 Reserve Account, both of which are held by the Senior Trustee.

Issue 1 Reserve Account

The Issue 1 Reserve Account is the Airport's original parity reserve account established in connection with the first issuance of bonds under the 1991 Master Resolution and which now secures most of the Airport Commission's outstanding bonds. The Airport Commission may designate any

series of bonds as a "participating series" secured by the Issue 1 Reserve Account. The reserve requirement is equal to the maximum annual debt service accruing in any year during the life of all participating series of bonds secured by the Issue 1 Reserve Account. As of June 30, 2013, the reserve requirement was $310.0 million, which was satisfied by $276.2 million of cash and investment securities, and reserve policies in the principal amount of $146.5 million. Of such reserve policies, $50.2 million have likely experienced a reduction in value in accordance with their terms, and the providers of the remaining $39.3 million in reserve policies are no longer rated or are now rated below the Airport's credit rating.

2009 Reserve Account

The Airport Commission has established an additional pooled reserve account identified as the 2009 Reserve Account in the Reserve Fund, as security for each series of bonds (a 2009 Reserve Series) that is designated as being secured by the 2009 Reserve Account. Currently, only the Series 2009C and 2010D Bonds are secured by the 2009 Reserve Account. The reserve requirement for each 2009 Reserve Series is the lesser of: (i) maximum annual debt service for such 2009 Reserve Series Bonds, (ii) 125% of average annual debt service for such 2009 Reserve Series Bonds, and (iii) 10% of the outstanding principal amount of such series (or allocable issue price of such series if such Series is sold with more than a de minimis (2%) amount of original issue discount), in each case as determined from time to time. With respect to all 2009 Reserve Series, the reserve requirement is the aggregate of such amounts for each individual series. As of June 30, 2013, the reserve requirement for the 2009 Reserve Account was $20.4 million, which was satisfied by $19.0 million in cash and investment securities, and a reserve policy in the principal amount of $3.4 million issued by Financial Security Assurance Inc. (now known as Assured Guaranty Municipal Corp.). The value of this reserve policy may be adjusted downward under certain circumstances and may have experienced a reduction in value.

Series Secured by Other or No Reserve Accounts

As permitted under the 1991 Master Resolution, the Airport Commission may establish separate reserve accounts for individual series of bonds, or may issue bonds without a reserve account.

The Airport Commission established a separate reserve account for its Second Series Revenue Refunding Bonds, Series 2009D, which were remarketed on December 4, 2012. The Series 2009D Bonds are now secured by the Issue 1 Reserve Account. In connection with the remarketing, the entire $8.8 million in the Series 2009D Reserve Account was transferred to the Issue 1 Reserve Account.

The Airport Commission did not establish reserve accounts for its Second Series Variable Rate Revenue Refunding Bonds, Issue 36A/B/C and Series 2010A, all of which are secured by letters of credit.

Reserve Policies

Under the 1991 Master Resolution, the Airport Commission may satisfy a portion of a reserve requirement by depositing with the Senior Trustee one or more reserve policies issued by a credit provider rated in the highest category by at least two rating agencies. However, the 1991 Master Resolution does not require that those ratings be maintained after the date of deposit. Each of the providers of the reserve policies in the reserve accounts was rated "AAA" at the time the policies were deposited. However, as a result of the financial crisis that began in 2007, all of the major municipal bond insurance companies have been downgraded, and several are no longer providing current financial and operating information. In addition, under the terms of several of the reserve policies, the value of the policies may be adjusted downward from time to time as related bonds are refunded and such policies may have experienced a reduction in value. The Airport has periodically deposited additional cash in the Issue 1 Reserve Account to satisfy the reserve requirement and compensate for the diminished value or downgraded providers of these reserve policies.

Rate Covenant

Under the terms of the 1991 Master Resolution, the Airport has covenanted that it will establish and at all times maintain rentals, rates, fees, and charges for the use of the Airport and for services rendered by the Airport so that:

(a) Net revenues (as defined in the 1991 Master Resolution) in each fiscal year will be at least sufficient (i) to make all required debt service payments and deposits in such fiscal year with respect to the bonds, any subordinate bonds, and any general obligation bonds issued by the City for the benefit of the Airport and (ii) to make all payments required to be made to the City, and

(b) Net revenues, together with any transfer from the Contingency Account to the Revenue Account (both held by the City Treasurer), in each fiscal year will be at least equal to 125% of aggregate annual debt service with respect to the bonds for such fiscal year.

The methods required by the 1991 Master Resolution for calculating debt service coverage differ from the U.S. generally accepted accounting principles used to determine amounts reported in the Airport's financial statements.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT
Notes to Financial Statements
June 30, 2013 and 2012

Revenue bond debt service requirements to maturity are as follows (in thousands):

		Principal	Interest	Total
Fiscal year:				
2014	$	163,095	188,918	352,013
2015		181,670	182,738	364,408
2016		187,230	175,095	362,325
2017		181,140	166,652	347,792
2018		197,270	158,360	355,630
2019 – 2023		1,207,605	628,046	1,835,651
2024 – 2028		1,091,125	331,089	1,422,214
2029 – 2033		421,000	126,459	547,459
2034 – 2038		211,670	55,568	267,238
2039 – 2040		64,590	4,325	68,915
Total	$	3,906,395	2,017,250	5,923,645

The table below presents the revenue bond debt service requirements in the event the letters of credit securing the Airport's outstanding variable rate bonds had to be drawn upon to pay such bonds and the amount drawn had to be repaid by the Airport pursuant to the terms of the related agreements with the banks providing such letters of credit (in thousands):

		Principal	Interest	Total
Fiscal year:				
2014	$	418,535	186,832	605,367
2015		216,620	170,646	387,266
2016		275,875	158,562	434,437
2017		264,025	147,414	411,439
2018		173,415	138,174	311,589
2019 – 2023		1,052,250	544,791	1,597,041
2024 – 2028		881,015	287,756	1,168,771
2029 – 2033		348,400	122,260	470,660
2034 – 2038		211,670	55,568	267,238
2039 – 2040		64,590	4,325	68,915
Total	$	3,906,395	1,816,328	5,722,723

Fiscal Year 2012

(a) Second Series Revenue Bonds (Capital Plan Bonds)

Pursuant to resolutions approved in fiscal years 2008 and 2012, the Airport Commission has authorized the issuance of up to $1.22 billion of San Francisco International Airport Second Series Revenue Bonds for the purposes of financing and refinancing the construction, acquisition, equipping, and development of capital projects undertaken by the Airport, including retiring all or a portion of the Airport's outstanding subordinate commercial paper notes issued for capital projects, funding debt service reserves, and for paying costs of issuance.

The Airport issued $614.3 million of capital plan bonds in fiscal years 2010 and 2011, and no new capital plan bonds during fiscal year 2012. As of June 30, 2012, $605.9 million of the authorized capital plan bonds remains unissued.

(b) Second Series Revenue Refunding Bonds

Pursuant to sale resolutions approved between fiscal years 2005 through 2011, the Airport Commission has authorized the issuance of up to $8.4 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Resolution Bonds and outstanding subordinate commercial paper notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums. As of June 30, 2012, net of expired sale authorizations and refunding bonds issued over fiscal year 2011, $1.42 billion of such refunding bonds remained unissued.

During fiscal year 2012, the Airport issued the following new refunding bonds under the 1991 Master Resolution:

Second Series Revenue Refunding Bonds, Series 2011C/D/E

On July 21, 2011, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2011C/D/E, in the total amount of $350.4 million for debt service savings. The Series 2011C (AMT) and Series 2011D (Non-AMT/Governmental Purpose) bonds refunded long-term fixed rate bonds that were currently callable, while Series 2011E (Taxable) advance refunded fixed rate bonds and all of the Second Series Revenue Notes, Series 2008A-4. The Series 2011C Bonds mature on May 1, 2025, the Series 2011D Bonds on May 1, 2031, and the Series 2011E Bonds on May 1, 2020. The Series 2011C/D/E Bonds are long-term fixed rate bonds that bear interest at rates between 0.70% and 5.0%.

The total proceeds of $370.9 million (consisting of the $350.4 million par amount of the Series 2011C/D/E Bonds, plus original issue premium of $12.6 million, plus $5.2 million accumulated in the Debt Service Fund relating to the refunded bonds, plus $2.7 million released from the Series 2008A-4 Reserve Account) were used to pay $1.7 million in underwriter's discount and $1.2 million in costs of issuance, make a $2.7 million deposit into the Issue 1 Reserve Account, and make a $365.3 million deposit into irrevocable escrow funds with the Airport to defease and refund $357.8 million in revenue bonds and notes described below.

	Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond Issue:			
15A (AMT)	$ 51,225,000	5.00%	100%
16B (Non-AMT)	9,275,000	4.75%	100%
17 (Non-AMT)	3,960,000	4.75%	100%
18A (AMT)	23,055,000	5.00%	100%
20 (Non-AMT)	18,455,000	4.50%	100%
21 (Non-AMT)	4,255,000	4.50%	100%
22 (AMT)	10,785,000	4.75%	100%
23A (AMT)	22,460,000	5.00%	100%
27A (AMT)	60,715,000	5.13% – 5.25%	100%
27B (Non-AMT)	93,815,000	5.00% – 5.13%	100%
28A (AMT)	16,555,000	5.25% – 5.50%	100%
30 (Non-AMT)	17,810,000	5.25%	102%
Series 2008A Notes:			
2008A-4	25,460,000	6.50%	100%
Total	$ 357,825,000		

The refunded bonds were defeased and redeemed on August 1, 2011 (Issues 15A, 16B, 17, 18A, 20, 21, 22, 23A, 27A, and 27B), and May 1, 2012 (Issues 28A, 30, and Series 2008A-4). Accordingly, the liability for these bonds has been removed from the accompanying statements of net position.

The refunding resulted in the recognition of a deferred accounting gain of $0.6 million for fiscal year ended June 30, 2012. The Airport reduced its aggregate debt service payments by approximately $19.0 million over the next 20 years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $12.7 million.

Second Series Revenue Refunding Bonds, Series 2011F/G/H

On September 20, 2011, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2011F/G/H, in the total amount of $354.6 million, which were sold to refund $52.4 million of the Airport's Issue 36D/37D outstanding variable rate bonds to fixed rate, finance a payment related to the termination of the Issue 36D interest rate swap, and refund a portion of the Airport's outstanding fixed rate bonds for debt service savings. The Series 2011F (AMT) and Series 2011G (Non-AMT/Governmental Purpose) bonds refunded currently callable long-term fixed rate bonds as well as the Issue 36D/37D variable rate bonds, while Series 2011H (Taxable) advance refunded fixed rate bonds. The Series 2011F and 2011G Bonds mature on May 1, 2030 and the 2011H Bonds mature on May 1, 2022. The Series 2011F/G/H Bonds mature between May 1, 2022, and May 1, 2030, and bear interest at rates between 0.947% and 5.250%.

The total proceeds of $376.3 million (consisting of the $354.6 million par amount of the Series 2011F/G/H Bonds, plus original issue premium of $12.3 million, plus $6.6 million accumulated in the Debt Service Fund relating to the refunded bonds, plus $2.5 million released from the Issue 36D/37D Reserve Account, and $0.3 million released from the Issue 36D/37D cost of issuance account) were used to pay $1.5 million in underwriter's discount and $1.0 million in costs of issuance, make a $4.6 million swap termination payment, deposit $1.3 million into the Issue 1 Reserve Account, and deposit $367.9 million into irrevocable escrow funds with the Senior Trustee to defease and refund $354.4 million in revenue bonds described below.

		Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond				
Issue:				
15A (AMT)	$	30,240,000	5.00%	100%
15B (Non-AMT)		13,970,000	4.50%	100%
16A (AMT)		6,940,000	5.00%	100%
16B (Non-AMT)		5,025,000	4.75%	100%
17 (Non-AMT)		2,145,000	4.75%	100%
18A (AMT)		13,515,000	5.00%	100%
20 (Non-AMT)		19,825,000	4.50%	100%
21 (Non-AMT)		4,580,000	4.50%	100%
22 (AMT)		11,945,000	4.75%	100%
23A (AMT)		17,110,000	5.00%	100%
27A (AMT)		45,700,000	5.25%	100%
28A (AMT)		29,320,000	5.00% – 5.25%	100%
28B (Non-AMT)		13,895,000	5.00%	100%
28C (Non-AMT)		11,405,000	4.00%	100%
29A (AMT)		11,540,000	5.25%	100%
29B (Non-AMT)		53,175,000	5.125%	100%
30 (Non-AMT)		11,705,000	4.00% – 5.00%	102%
36D (Non-AMT)		32,685,000	3.45% – 3.52%	100%
37D (AMT)		19,690,000	3.52%	100%
Total	$	354,410,000		

The refunded bonds were defeased and redeemed or scheduled for redemption on September 23, 2011 (Issues 15A, 15B, 16A, 16B, 17, 18A, 20, 21, 22, 23A, 27A, 36D, 37D), May 1, 2012 (Issues 28A, 28B, 28C, 30) and May 1, 2013 (Issues 29A, 29B). Accordingly, the liability for these bonds has been removed from the accompanying statements of net position.

The refunding resulted in the recognition of a deferred accounting gain of $0.5 million for fiscal year ended June 30, 2012. The Airport reduced its aggregate debt service payments (over forecasted payments, as Issue 36D/37D debt service was in variable-rate mode) by approximately $10.0 million over the next 18 years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $6.3 million.

Second Series Revenue Refunding Bonds, Series 2012A/B

On March 22, 2012, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2012A (AMT) and 2012B (Non-AMT/Governmental Purpose) in the total amount of $316.5 million to refund long-term fixed rate bonds that were currently callable. The Series 2012A/B Bonds bear interest at fixed rates between 2.5% and 5.0%, with final maturity on May 1, 2032, and May 1, 2030, respectively.

The net proceeds of $361.5 million (consisting of the $316.5 million par amount of the Series 2012A/B Bonds, plus original issue premium of $37.9 million, plus $7.1 million accumulated in the Debt Service Fund relating to the refunded bonds) were used to pay $1.3 million underwriter's discount and $1.0 million in costs of issuance and deposit $359.2 million into irrevocable escrow funds with the Senior Trustee to defease and refund $351.9 million in revenue bonds as described below.

		Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond				
Issue:				
15A (AMT)	$	52,200,000	5.00%	100%
15B (Non-AMT)		46,910,000	4.50%	100%
16B (Non-AMT)		10,895,000	4.75%	100%
17 (Non-AMT)		4,650,000	4.75%	100%
18A (AMT)		2,560,000	5.00%	100%
20 (Non-AMT)		9,670,000	4.50%	100%
21 (Non-AMT)		14,740,000	4.50%	100%
22 (AMT)		44,130,000	4.75%	100%
23A (AMT)		51,720,000	5.00%	100%
27A (AMT)		26,515,000	5.25%	100%
28A (AMT)		50,365,000	5.125%	100%
28B (Non-AMT)		32,210,000	5.00%	100%
30 (Non-AMT)		5,305,000	3.60% – 4.10%	102%
Total	$	351,870,000		

The refunded bonds were defeased and redeemed on March 23, 2012 (Issues 15A, 15B, 16B, 17, 18A, 20, 21, 22, 23A, 27A), and May 1, 2012 (Issues 28A, 28B, 30). Accordingly, the liability for these bonds has been removed from the accompanying statements of net position.

The refunding resulted in the recognition of a deferred accounting loss of $0.3 million for fiscal year ended June 30, 2012. The Airport reduced its aggregate debt service payments by approximately $56.5 million over the next 20 years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $33.3 million.

(c) Second Series Revenue Refunding Bonds (Remarketing)

The Airport Commission's variable rate bonds are subject to tender at par at the option of the holder thereof on seven days notice. These bonds are also subject to mandatory tender upon the occurrence of certain events such as the Airport's election to change the interest rate mode on such bonds or to replace the credit facility securing such bonds. Any tendered variable rate bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The following variable rate bonds were remarketed with new letters of credit:

Second Series Variable Rate Revenue Refunding Bonds, Series 36C

On July 13, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity Bonds) with a new three-year letter of credit from U.S. Bank National Association expiring on July 11, 2014. The bonds were originally secured by a standby bond purchase agreement provided by Dexia Crédit Local (Dexia) and a bond insurance provided by Assured Guaranty Municipal Corp. (Assured), both of which were terminated. The Issue 36C Bonds were remarketed with the original maturity date of May 1, 2026 and no changes to principal amortization. As the Issue 36C Bonds are secured by a letter of credit, they are no longer secured by a reserve account. The costs of remarketing were paid from Airport funds.

Second Series Variable Rate Revenue Refunding Bonds, Series 37C

On July 13, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 37C (Non-AMT/Private Activity Bonds) with a new four-year letter of credit from Union Bank of California, N.A. expiring on July 13, 2015. The bonds were originally secured by a Dexia standby bond purchase agreement and an Assured bond insurance policy, both of which were terminated. The Issue 37C Bonds were remarketed with the original maturity date of May 1, 2029 and no changes to principal amortization. The costs of remarketing were paid from Airport funds.

(d) Variable Rate Demand Bonds

Included in long-term debt as of June 30, 2012, is an aggregate principal amount of $382,630,000 of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 36A/B/C, Issue 37C, and Series 2010A (collectively, the "Variable Rate Bonds") with final maturity dates of May 1, 2026

(Issue 36A/B/C), May 1, 2029 (Issue 37C), and May 1, 2030 (Series 2010A). The Variable Rate Bonds are long-term, tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The interest rate on the Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal and purchase price of and interest on the Variable Rate Bonds is secured by four separate irrevocable direct-pay letters of credit issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the table below.

Amounts drawn under a letter of credit that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the letters of credit range between 0.60% and 1.05% per annum. As of June 30, 2012, there were no unreimbursed draws under these facilities.

On July 13, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity Bonds) with a new three-year letter of credit from U.S. Bank National Association. The bonds were originally secured by a standby bond purchase agreement provided by Dexia Crédit Local (Dexia) in combination with bond insurance provided by Assured Guaranty Municipal Corp. (Assured). The Airport elected to replace Dexia due to concerns about the firm's financial condition and canceled the bond insurance policy.

On July 13, 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 37C (Non-AMT/Private Activity Bonds) with a new four-year letter of credit from Union Bank of California, N.A. The bonds were originally secured by a standby bond purchase agreement provided by Dexia in combination with bond insurance provided by Assured. The Airport elected to replace Dexia due to concerns about the firm's financial condition and cancelled the bond insurance policy.

The primary terms of the letters of credit are as follows:

	Issue 36B	Issue 36C	Issue 37C	Series 2010A
Principal Amount	$40,620,000	$36,145,000	$89,895,000	$215,970,000
Expiration Date	May 2, 2014	July 11, 2014	July 13, 2015	January 31, 2014
Credit Provider	U.S. Bank(1)	U.S. Bank(1)	Union Bank(2)	JP Morgan(3)

(1) U.S. Bank National Association
(2) Union Bank, N.A.
(3) JP Morgan Chase Bank, N.A.

(e) Interest Rate Swaps

As of June 30, 2012, the Airport's derivative instruments comprised six interest rate swaps that the Airport entered into to hedge the interest payments on several series of its variable rate Second Series Revenue Bonds. The Airport determined the hedging relationship between the variable rate bonds and the related interest rate swaps to be effective as of June 30, 2012 and 2011.

#	Current Bonds	Initial Notional Amount	Effective Date
1	36AB	$ 70,000,000	2/10/2005
2	36AB	69,930,000	2/10/2005
3	36C	30,000,000	2/10/2005
4	2010A*	79,684,000	5/15/2008
5	37C	89,856,000	5/15/2008
6	2010A	143,947,000	2/1/2010
	Total	$ 483,417,000	

*The swap previously associated with Issue 37B is now indirectly hedging Series 2010A-3 and the unhedged portions of the Issue 36A-C and 37C Bonds.

Fair Value

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

As of June 30, 2012, the fair value of the Airport's six outstanding swaps, counterparty credit ratings, and fixed rate payable by the Airport Commission are as follows:

#	Current Bonds	Counterparty/guarantor	Counterparty credit ratings (S&P/Moody's/Fitch)	Fixed rate payable by Commission	Fair value to Commission
1	36AB	J.P. Morgan Chase Bank, N.A	A+/Aa3/A+	3.444%	$ (12,984,208)
2	36AB	J.P. Morgan Chase Bank, N.A	A+/Aa3/A+	3.445%	(12,981,789)
3	36C	J.P. Morgan Chase Bank, N.A	A+/Aa3/A+	3.444%	(5,564,401)
4	2010A	Merrill Lynch Capital Services, Inc./Merrill Lynch & Co.	A-/Baa2/A	3.898%	(21,520,422)
5	37C	J.P. Morgan Chase Bank, N.A	A+/Aa3/A+	3.898%	(24,267,696)
6	2010A	Goldman Sachs Bank USA/ Goldman Sachs Group, Inc.	A-/A3/A	3.925%	(41,120,788)
		Total			$ (118,439,304)

The fair value of the interest rate swap portfolio is recorded as a liability (since the swaps are out of the money from the perspective of the Airport) in the statements of net position. Unless a swap was determined to be an off-market swap at the inception of its hedging relationship, the fair value of the swap is recorded as a deferred outflow asset (if out of the money) or inflow liability (if in the money). The off-market portions of the Airport's swaps are recorded as carrying costs with respect to various refunded bond issues. Unlike fair value and deferred inflow/outflow values, the balance of remaining off-market portions are valued on a present value, or fixed yield, to maturity basis.

The impact of the interest rate swaps on the financial statements for the years ended June 30, 2012 and 2011, is as follows (in thousands):

	Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2011	$ 63,382	68,304
Change in fair value to year end	35,597	48,555
Balance as of June 30, 2012	$ 98,979	116,859

Deferred outflows on derivative instruments of $99.0 million and $63.4 million as of June 30, 2012 and 2011, respectively, represented deferred outflows of resources offsetting interest rate swap liabilities. Derivative instruments of $116.9 million and $68.3 million as of June 30, 2012 and 2011, respectively, represented the fair values of interest rate swap contracts. The difference between the deferred outflows and derivative instruments above is the unamortized off-market portions of the swaps as of June 30, 2012.

Risks

Basis Risk – The Airport has chosen a variable rate index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year ended June 30, 2012, the Airport received $1.1 million in excess payments from its counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk – As of June 30, 2012, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps become positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value. Under the terms of the swaps, counterparties are required to post collateral consisting of specified

U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

Counterparty Risk – The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty, or its failure to perform would be a default under the applicable swap documents, none of the Airport's swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at its fair value, which may result in a payment to the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. In order to diversify the Airport's swap counterparty credit risk and to limit the Airport's credit exposure to any one counterparty, the Airport's swap policy imposes limits on the maximum net termination exposure to any one counterparty. Maximum net termination exposure is calculated as of the date of execution of each swap and is monitored regularly during the term of the swap. The exposure limits vary for collateralized and non-collateralized swaps based upon the credit rating of the counterparty. If any exposure limit is exceeded by a counterparty during the term of a swap, the Airport Director is required to consult with the Airport's swap advisor and bond counsel regarding appropriate actions to take, if any, to mitigate such increased exposure, including, without limitation, transfer or substitution of a swap. As of June 30, 2012, the fair value of the Airport's swaps was negative to the Airport (representing an amount payable by the Airport to each counterparty in the event the relevant swap was terminated). Although the Airport was not exposed to the credit of any counterparty with respect to termination amounts, the maximum net termination exposure limits in the Airport's swap policy were exceeded with respect to several counterparties. Following the consultation required by the Airport's swap policy, the Airport Director determined not to terminate, transfer or substitute such swaps.

Termination Risk – All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for all its regular payments and some termination payments due under all its interest rate swaps, except the swaps associated with the Series 2010A Bonds, from the following insurers:

#	Swap	Swap Insurer	Insurer credit ratings June 30, 2012 (S&P/Moody's)
1	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	WD/WD*
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	WD/WD*
3	Issue 36C	Assured Guaranty Municipal Corp.	AA-/Aa3
4	Series 2010A	None	N/A
5	Issue 37C	Assured Guaranty Municipal Corp.	AA-/Aa3
6	Series 2010A	None	N/A

*S&P downgraded FGIC's credit ratings to "CC" from "CCC" and subsequently withdrew their ratings on FGIC on April 22, 2009. Moody's downgraded FGIC to "Caa3" from "Caa1" and subsequently withdrew their ratings on FGIC on March 24, 2009.

If the Airport is rated between Baa1/BBB+/BBB+ and Baa3/BBB-/BBB- (Moody's/S&P/Fitch), and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any, unless the Airport chooses to provide suitable replacement credit enhancement, assign the Airport's interest in the swaps to a suitable replacement counterparty, or post collateral to secure the swap termination value. If the Airport is rated below Baa3/BBB-/BBB- (Moody's/S&P/Fitch) or its ratings are withdrawn or suspended, and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any. With respect to the Series 2010A swaps with no swap insurance, the counterparty termination provisions and the Airport rating thresholds are the same as described above.

Additional Termination Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating downgrades or specified insurer nonpayment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade. Additional Termination Events under the swap documents with respect to a counterparty include a rating downgrade below A3/A1/A1 (Moody's/S&P/Fitch), followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

Each of the Airport's three bank counterparties, Goldman Sachs Group, Inc., JPMorgan Chase Bank N.A., and Merrill Lynch & Co. was downgraded by one or more of the rating agencies during the year ended June 30, 2012. Merrill Lynch & Co. was downgraded by Moody's on September 21, 2011 to "Baa1" (and subsequently to "Baa2"). This downgrade constitutes an Additional Termination Event under the interest rate swap agreement.

The Airport is discussing appropriate cures to the Additional Termination Event with Merrill Lynch. The downgrades to Goldman Sachs and JPMorgan did not constitute an Additional Termination Events under the swap agreement with either counterparty. The downgrade of any swap counterparty increases the risk to the Airport that such counterparty may become bankrupt or insolvent and not perform under the applicable swap. If a counterparty does not perform under its swap, the Airport may be required to continue making its fixed rate payments to the counterparty even though it does not receive a variable rate payment in return. The Airport may elect to terminate a swap with a non-performing counterparty and may be required to pay a substantial termination payment approximately equal to the fair value of such swap, depending on market conditions at the time. As of June 30, 2012, the fair value of each swap was negative to the Airport as shown above. The risks and termination rights related to the Airport's swaps are discussed in further detail above.

(f) Special Facilities Lease Revenue Bonds

In addition to the long-term obligations discussed above, there were $91,120,000 and $95,060,000 of the Airport Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), Series 1997A/B and 2000A outstanding as of June 30, 2012 and June 30, 2011, respectively. SFO Fuel Company LLC (SFO Fuel) is required to pay facilities rent to the Airport in an amount equal to debt service payments and required bond reserve account deposit on the bonds. The principal and interest on the bonds are paid solely from the facilities rent payable by SFO Fuel to the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of the obligations, and as such, they are not reported in the accompanying financial statements.

(9) Concession Revenue and Minimum Future Rents

Certain of the Airport's rental agreements with concessionaires specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount. Concession percentage rents in excess of minimum guarantees were approximately $21,674,000 and $22,200,700 as of June 30, 2013 and 2012, respectively.

A new car rental agreement became effective January 1, 2009, and will expire on December 31, 2013, with the option to extend for five years. Under this agreement, the rental car companies pay 10% of gross revenues or a minimum guaranteed rent, whichever is higher. Also in accordance with the terms of their concession agreement, the Minimum Annual Guarantee (MAG) for the rental car operators does not apply if the actual Enplanements achieved during a one-month period is less than 80% of the actual Enplanements of the same Reference Month in the Reference Year, and such shortfall continues for three consecutive months.

The MAG attributable to the rental car companies was approximately $38,765,000 and $36,344,000 as of June 30, 2013 and 2012, respectively.

Minimum future rents under noncancelable operating leases having terms in excess of one year are as follows (in thousands):

Fiscal year ending:		
2014	$	87,444
2015		84,568
2016		80,827
2017		77,514
2018 and thereafter		96,535
Total	$	426,888

(10) Employee Benefit Plans

(a) Retirement Plan – City and County of San Francisco

Plan Description

The City has a single-employer defined benefit retirement plan (the Plan), which is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). The Plan covers substantially all full-time employees of the Airport along with other employees of the City. The Plan provides basic service retirement, disability, and death benefits based on specified percentages of final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority that establishes and amends the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information (RSI) for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102, or by calling (415) 487-7020.

Funding Policy

Contributions are made to the basic plan by both the Airport and its employees. Employee contributions are mandatory. Employee contribution rates for 2013, 2012, and 2011, range from 7.5% to 12.0% as a percentage of covered payroll. The Airport is required to contribute at an actuarially determined rate. The actuarially determined contribution rate as a percentage of covered payroll was 20.71% in 2013, 18.09% in 2012, and 13.56% in 2011. The Airport contributed 100.0% of its annual contributions of $28,104,000 in 2013, $25,836,000 in 2012, and $21,749,000 in 2011.

(b) Health Care Benefits

Health care benefits of Airport employees, retired employees, and surviving spouses are financed by beneficiaries and by the City through City and County of San Francisco Health Service System (the Health Service System). The Airport's annual contribution, which amounted to approximately $34,835,000 and $33,989,000 in fiscal years 2013 and 2012, respectively, is determined by a Charter provision based on similar contributions made by the 10 most populous counties in California.

Included in these amounts are $10,422,000 and $9,421,000 for fiscal years 2013 and 2012, respectively, to provide postretirement benefits for retired Airport employees on a pay-as-you-go basis, as well as $244,000 and $272,000 for fiscal years 2013 and 2012, respectively, to fund the Airport's share of the City's retiree healthcare trust fund. The City did not allocate to the Airport any additional share of the payments made by the City's Health Service System for postretirement health benefits in fiscal years 2013 and 2012.

The City has determined a Citywide Annual Required Contribution (ARC), interest on net Othaer postemployment benefits other than pensions (OPEB), ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45, by the City's actuaries. The City's allocation of the OPEB-related costs to Airport for the years ended June 30, 2013 and 2012, based upon its percentage of Citywide payroll costs is presented below.

The following table shows the components of the City's annual OPEB allocations for Airport for the fiscal year, the amount contributed to the plan, and changes in the net OPEB obligation (in thousands):

		2013	2012
Annual required contribution	$	24,956	24,488
Interest on net OPEB obligation		3,501	2,875
Adjustment to ARC		(2,902)	(2,383)
Annual OPEB cost (expense)		25,555	24,980
Contribution made		(10,666)	(9,693)
Increase in net OPEB obligation		14,889	15,287
Net OPEB obligation – beginning of year		75,824	60,537
Net OPEB obligation – end of year	$	90,713	75,824

As of June 30, 2013, the Airport has set aside $71,809,000 in a separate fund for purposes of the OPEB obligations and such amount is included in Unrestricted Cash and Investment in the accompanying statements of net position. The disposition of this fund is under management's discretion and has not been placed in a trust fund.

The City issues a publicly available financial report for Citywide level that includes the complete note disclosures and required supplementary information related to the City's postretirement health

care obligations. The report may be obtained by writing to City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling (415) 554-7500.

(11) Related-Party Transactions

The Airport receives services from various other City departments that are categorized in the various operating expense line items in the statements of revenues, expenses, and changes in net position. These services include utilities provided to tenants (see note 2m) and the Airport. The cost of all services provided by the City work order system totaled approximately $118,252,000 and $115,388,000 in fiscal years 2013 and 2012, respectively. Included in personnel operating expenses are approximately $63,686,000 and $63,337,000 in fiscal years 2013 and 2012, respectively, related to police and fire services.

The Lease and Use Agreement with the airlines provides for continuing annual service payments to the City equal to 15% of concession revenues (net of certain adjustments), but not less than $5,000,000 per fiscal year. Annual service payments to the City were $36,464,000 and $33,993,000 in fiscal years 2013 and 2012, respectively. The annual service payments are reported as transfers in the statements of revenues, expenses, and changes in net position.

(12) Passenger Facility Charges

In July 2001, the FAA approved the Airport's first application (PFC #1) for the collection and use of a passenger facility charge totaling $112,739,000 to pay for the development activities and studies relating to the runway reconfiguration project. The collection period for this application was October 1, 2001, to June 1, 2003. In January 2004, the FAA approved the Airport's amendment to delete PFC #1 as a result of the suspension of the runway reconfiguration project.

In March 2002, the FAA approved the Airport's second application (PFC #2) for $224,035,000 to pay for debt service on a portion of the bonds issued to finance certain eligible costs relating to the new International Terminal complex. This application extended the PFC collection period to April 1, 2008. In January 2004, when the FAA approved the Airport's amendment to delete PFC #1, receipts from PFC #1 were applied to PFC #2 and the FAA revised PFC #2's collection period to expire on January 1, 2006. In October 2005, the FAA approved an amendment to PFC #2 to change the expiration date to October 6, 2005, due to full collection of the authorized amount. In September 2006, the FAA notified the Airport that the expiration date of PFC #2 was recorded as November 1, 2005.

In November 2003, the FAA approved the Airport's third application (PFC #3) for $539,108,000 to pay for debt service costs related to the construction of the new International Terminal Building and Boarding Areas A and G. The collection period for this application, as originally approved, was from November 1, 2008 to November 1, 2018. In January 2004, the collection period was revised to commence January 1, 2006 with an expiration date of January 1, 2016. In October 2005, the collection period for PFC #3 was revised to commence October 6, 2005. Subsequently in July 2006, the FAA approved an amendment to PFC #3 increasing the authorized amount by $70 million for a revised application of $609,108,000. In

September 2006, the FAA notified the Airport that the revised start date for the collections for PFC #3 was recorded as November 1, 2005 with a revised estimated expiration date of January 1, 2017.

PFC collections and related interest earned for the year ended June 30, 2013 and 2012, are as follows (in thousands):

		2013	2012
Amount collected	$	84,329	81,437
Interest earned		737	876
Total	$	85,066	82,313

Interest earned on PFC revenues is included in investment income in the accompanying financial statements.

(13) Commitments, Litigation, and Contingencies

(a) Commitments

Purchase commitments for construction, material, and services as of June 30, 2013 are as follows (in thousands):

Construction	$	35,909
Operating		7,724
Total	$	43,633

The Airport's Noise Insulation Program was implemented to mitigate the aircraft noise impact in the surrounding communities. This involved execution of a Memorandum of Understanding in 1992 with neighboring communities to insulate eligible properties and acquire easements for noise, vibration, and other effects resulting from aircraft operations at SFO, and implementation of a supplemental program in 2000 to complete the work. This program was managed by the local communities with SFO funds (using bond proceeds, operating and other internally generated funds), as well as federal grants.

In fiscal year 2008, these components of the program were finalized and a new phase was started, with the Airport managing all new noise insulation work directly. In fiscal year 2013, the Airport disbursed approximately $414,000 ($284,000 federal grants and $130,000 SFO funds). In fiscal year 2012, the Airport disbursed approximately $1,155,000 in this new phase of the program ($885,000 federal grants and $270,000 SFO funds). As of June 30, 2013, the cumulative disbursements of SFO funds under this program were approximately $121,600,000.

(b) Agreements with Airlines

In 1981, to settle disputes among the City, Airport, and airlines, the parties agreed to enter into a settlement agreement and simultaneously the Lease and Use Agreement. These agreements provide for terms and restrictions related to use of Airport revenues, payments to the City, calculation of landing fees, bond financing, capital projects, and certain other matters. These agreements expired on June 30, 2011. In fiscal year 2010, the Airport and airlines reached an agreement on a new 10-year Lease and Use Agreement that became effective on July 1, 2011. The aforementioned financial terms are unchanged in the new agreement including the residual rate-making methodology whereby the required revenue from airlines for landing fees and terminal rentals is based on Airport costs less non-airline revenue sources.

(c) Security Deposits

Airline leases and permits require airlines to deliver a security deposit to the Airport prior to the effective date of the lease or permit. Such deposits are either in the form of (a) a surety bond payable to the City or (b) a letter of credit naming the City as a beneficiary. Under the 2011 Lease and Use Agreement, security deposits are renewed and increased annually in order to equal two months of fees, as estimated by the Airport Director. Under most other leases and permits, a deposit equal to six months is required.

The bonds or letters of credit are required to be kept in full force and effect at all times to ensure the faithful performance by the respective lessee or permittee of all covenants, terms, and conditions of the leases or permits, including payment of the monthly fees.

(d) Litigation

The Airport is a defendant in various legal actions and claims that arise during the normal course of business. Insurance policies cover certain actions, claims, and defense costs. Only those items not covered by insurance are included in the financial statements. The Airport's potential liabilities have been estimated and reported in the financial statements, in conformity with U.S. generally accepted accounting principles.

(e) Risk Management

Under the 1991 Master Resolution, the Airport is required to procure or provide and maintain insurance, or to self-insure, against such risks as are usually insured by other major airports in amounts adequate for the risk insured against, as determined by the Airport, and to file with the Trustee each year a written summary of all insurance coverage then in effect. The Airport is not required to nor does it carry insurance or self-insure against any risks due to land movement or seismic activity.

The Airport has an ongoing loss prevention program, a safety officer, property loss control, and ongoing employee training programs. The Airport has instituted an Enterprise Risk Management Program by implementing a comprehensive risk identification, assessment, and treatment protocol to address key risks that may adversely affect the Airport's ability to meet its business goals and objectives. The Airport carries general liability insurance coverage of $1.0 billion, subject to a deductible of $10,000 per single occurrence. The Airport also carries commercial property insurance coverage for full replacement value on all facilities at the Airport owned by the Airport, subject to a deductible of $500,000 per single occurrence.

Additionally, tenants and contractors on all contracts are required to carry commercial general and automobile liability insurance in various amounts, naming the Airport as additional insured. The Airport is self-insured as part of the City's workers' compensation program. From current revenues, the Airport pays losses from workers' compensation claims of Airport employees, the deductible portion of insured losses, and losses from other uninsured risks. The Airport carries public officials' liability and employment practices liability coverage of $5 million, subject to a deductible of $100,000 per single occurrence for each wrongful act other than employment practices' violations, and $250,000 per each occurrence for each employment practices' violation. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment, and watercraft liability for Airport fire and rescue vessels.

Prior to September 11, 2001, the Airport had liability insurance coverage in the amount of $750 million per occurrence for war, terrorism, and hijacking. Immediately following the events of September 11, 2001, insurers canceled the coverage for war, terrorism, and hijacking for all airports, including the Airport, and for all airlines around the country. A number of insurers now provide this coverage through the Terrorism Risk Insurance Program Reauthorization Act (TRIPA) of 2007. However, the scope of the coverage is limited and the premiums are high. Due to these factors, the Airport, in consultation with the City's Director of Risk Management, has elected not to secure such coverage.

The estimated claims payable are actuarially determined as part of the City's self-insurance program. Changes in the reported amount since June 30, 2011, resulted from the following activity (in thousands):

Balance as of June 30, 2011	$	11,557
Claim payments		(8,839)
Claims and changes in estimates		(1,386)
Balance as of June 30, 2012		1,332
Claim payments		(77)
Claims and changes in estimates		307
Balance as of June 30, 2013	$	1,562

The Airport is self-insured as part of the City's program for workers' compensation. All self-insurance claims are processed by the City. Liability and risk are retained by the Airport. Accrued workers' compensation includes provisions for claims reported and claims incurred but not reported. This accrued workers' compensation liability is actuarially determined as part of the City's program and is as follows (in thousands):

Balance as of June 30, 2011	$	4,966
Claim payments		(1,904)
Claims and changes in estimates		2,013
Balance as of June 30, 2012		5,075
Claim payments		(2,086)
Claims and changes in estimates		2,244
Balance as of June 30, 2013	$	5,233

(f) Grants

Grants that the Airport receives are subject to audit and final acceptance by the granting agency. Current and prior year costs of such grants are subject to adjustment upon audit.

(g) Loan Guarantees

The Airport no longer serves as the guarantor of certain loans on behalf of various food and beverage concession tenants within the International Terminal.

(h) Concentration of Credit Risk

The Airport leases facilities to the airlines pursuant to the Lease and Use Agreement (see note 2j) and to other businesses to operate concessions at the Airport. For fiscal years ended June 30, 2013 and 2012, revenues realized from the following source exceeded 5% of the Airport's total operating revenues:

	2013	**2012**
United Airlines	22.2%	21.9%

(i) Noncancelable Operating Leases

The Airport has noncancelable operating leases for certain buildings and equipment that require the following minimum annual payments, net of sublease income (in thousands):

Fiscal year ending:		
2014	$	193
2015		75
2016		—
2017		—
2018		—
Total	$	268

Net operating lease expense incurred for the fiscal year ended 2013 was the same as 2012 at approximately $0.2 million.

(14) Subsequent Events

On July 3, 2013, the Airport terminated the $100.0 million direct-pay letter of credit from Barclays which supported a subseries of the Airport Commission's subordinate commercial paper notes.

On July 31, 2013, the Airport issued its Second Series Revenue Bonds, Series 2013A-C in the amount of $461.1 million to finance and refinance (through the repayment of subordinate commercial paper notes) a portion of the Capital Plan. The Series 2013A-C Bonds are uninsured, long-term, fixed rate bonds. The Series 2013A (AMT) Bonds mature between May 1, 2020 and May 1, 2038 with interest rates from 5.00% to 5.50%. The Series 2013B (Non-AMT/Governmental Purpose) Bonds mature on May 1, 2043, with an interest rate of 5.00%. The Series 2013C (Taxable) Bonds mature between May 1, 2017 and May 1, 2019, with interest rates from 2.12% to 2.86%. The net proceeds of $405.8 million ($461.1 million in bond principal, less $71.8 million in underwriting fees, deposits to the capitalized interest accounts, a deposit to the reserve account, and payment of costs of issuance, together with $16.5 million in net original issue premium) were used to repay the entire outstanding balance of subordinate commercial paper notes ($180.5 million), and make a deposit into the Airport's construction accounts to fund capital projects at the Airport ($225.3 million). As of September 30, 2013, the Airport had no subordinate commercial paper notes outstanding.

The direct-pay letter of credit securing the Airport Commission's Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, will expire in January 2014. The Airport expects to replace the letter of credit in advance of its expiration date.

The direct-pay letter of credit securing the Airport Commission's Second Series Variable Rate Revenue Refunding Bonds, Issue 36B, will expire in May 2014. The Airport expects to replace the letter of credit in advance of its expiration date.

The direct-pay letter of credit from State Street Bank securing a subseries of the Airport commission's subordinate commercial paper notes will expire in May 2014. The Airport expects to replace the letter of credit in advance of its expiration date.

On July 6, 2013, Asiana Airlines Flight 214 crashed on final approach to the Airport. The City anticipates litigation related to this matter but believes that any such litigation would not have a material financial impact. The City intends to tender all claims to Asiana Airlines and Asiana's insurance carriers. Under the

(Continued)

Lease and Use Agreement, Asiana Airlines must defend, hold harmless and indemnify the City and the City is named as an additional insured under Asiana Airline's insurance policy. The City also believes that in the unlikely event that there is any potential liability not covered by Asiana Airlines and/or its insurance policies, the Airport's insurance policies will cover any such loss.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Schedule of Passenger Facility Charge Revenues and Expenditures

Years ended June 30, 2013 and 2012

(In thousands)

	Passenger Facility Charge revenues	Interest earned	Total revenues	Expenditures on approved projects	Over (under) expenditures on approved projects
Program to date as of June 30, 2011	$ 626,443	13,433	639,876	(589,379)	50,497
Fiscal year 2011 – 2012 transactions:					
Reversal of prior year passenger facility charges accrual	(9,636)	—	(9,636)	—	(9,636)
Quarter ended September 30, 2011	20,078	159	20,237	—	20,237
Quarter ended December 31, 2011	19,315	225	19,540	—	19,540
Quarter ended March 31, 2012	18,674	249	18,923	—	18,923
Quarter ended June 30, 2012	20,090	347	20,437	(73,000)	(52,563)
Unrealized loss on investments	—	(104)	(104)	—	(104)
Passenger facility charges accrual	12,916	—	12,916	—	12,916
Total fiscal year 2011 – 2012 transactions	81,437	876	82,313	(73,000)	9,313
Program to date as of June 30, 2012	707,880	14,309	722,189	(662,379)	59,810
Fiscal year 2012 – 2013 transactions:					
Reversal of prior year passenger facility charges accrual	(12,916)	—	(12,916)	—	(12,916)
Quarter ended September 30, 2012	24,591	244	24,835	—	24,835
Quarter ended December 31, 2012	18,729	165	18,894	—	18,894
Quarter ended March 31, 2013	21,522	206	21,728	—	21,728
Quarter ended June 30, 2013	22,191	217	22,408	(45,000)	(22,592)
Unrealized loss on investments	—	(95)	(95)	—	(95)
Passenger facility charges accrual	10,212	—	10,212	—	10,212
Total fiscal year 2012 – 2013 transactions	84,329	737	85,066	(45,000)	40,066
Program to date as of June 30, 2013	$ 792,209	15,046	807,255	(707,379)	99,876

See accompanying independent auditors' report and notes to schedule of passenger facility charge revenues and expenditures.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Notes to Schedule of Passenger Facility Charge Revenues and Expenditures

Year ended June 30, 2013

(1) General

The accompanying schedule of passenger facility charge revenues and expenditures includes activities related to applications 02-02-C-00-SFO and 03-03-C-01-SFO of the passenger facility charge (PFC) program of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport). The level of PFCs authorized, charge effective dates, and approved collection amounts of the Airport's PFC program are as follows (in thousands):

Application number	Level of PFCs authorized	Charge effective date for collection	Amounts approved for collection
02-02-C-00-SFO	$ 4.50	October 1, 2001	$ 224,035
03-03-C-01-SFO	4.50	November 1, 2005	609,108
Total			$ 833,143

(2) Basis of Accounting – Schedule of Passenger Facility Charge Revenues and Expenditures

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures (the Schedule) has been prepared on the accrual basis of accounting which is described in note 2(a) of the Airport's basic financial statements.

KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), an enterprise fund of the City and County of San Francisco, California (the City), which comprise the statement of financial position as of June 30, 2013, and the related statements of changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

KPMG

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airport's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California
October 25, 2013

PASSENGER FACILITY CHARGE PROGRAM AUDIT REPORT

KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Passenger Facility Charge Program and on Internal Control Over Compliance in Accordance with the Passenger Facility Charge Audit Guide for Public Agencies

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

Report on Compliance for the Passenger Facility Charge Program

We have audited the Airport Commission, City and County of San Francisco, San Francisco International Airport's (the Airport) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies,* issued by the Federal Aviation Administration (the Guide), that could have a direct and material effect on the Airport's passenger facility charge program for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the passenger facility charge program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Airport's passenger facility charge program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion of the Passenger Facility Charge Program

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

San Francisco, California
October 25, 2013

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Schedule of Findings and Responses

Year ended June 30, 2013

I. Summary of Auditors’ Results

1. The type of report issued on the basic financial statements: **Unqualified opinion**

2. Significant deficiencies in internal control were disclosed by the audit of the financial statements: **None reported**

   Material weaknesses: **None**

3. Noncompliance which is material to the financial statements: **None**

4. Significant deficiencies in internal control over the passenger facility charge program: **None reported**. Material weaknesses: **None**

5. The type of report issued on compliance for the passenger facility charge program: **Unqualified opinion**

6. Any audit findings: **No**

II. Findings and Responses Related to the Passenger Facility Charge Program

None

APPENDIX C

INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM

Introduction

The information below concerning DTC and DTC's book-entry system has been obtained from DTC, and the Commission assumes no responsibility for the accuracy or completeness thereof. DTC has established a book-entry depository system pursuant to certain agreements between DTC and its participants (the "Participants"). The Commission is not a party to those agreements. The Commission and the Trustee do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, or to any other person who is not shown on the registration books as being an owner of the Series 2014A/B Bonds, with respect to any matter including (i) the accuracy of any records maintained by DTC or any of its Participants, (ii) the payment by DTC or its Participants of any amount in respect of the principal of, redemption price of, or interest on the Series 2014A/B Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the 1991 Master Resolution; (iv) the selection by DTC or any of its Participants of any person to receive payment in the event of a partial redemption of the Series 2014A/B Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter. The Commission and the Trustee cannot and do not give any assurances that DTC, its Participants or others will distribute payments of principal of or interest on the Series 2014A/B Bonds paid to DTC or its nominee, as the registered owner, or give any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement.

General

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2014A/B Bonds. The Series 2014A/B Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2014A/B Bond certificate will be issued for each maturity and Series of Series 2014A/B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's 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. The information contained in such websites is not incorporated by reference herein.

Purchases of the Series 2014A/B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014A/B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014A/B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase.

Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014A/B 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 the Series 2014A/B Bonds, except in the event that use of the book-entry system for the Series 2014A/B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014A/B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2014A/B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014A/B 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 Series 2014A/B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Issue Series 2014A/B Bonds, such as redemptions, defaults, and proposed amendments to the authorizing documents. For example, Beneficial Owners of the Series 2014A/B Bonds may wish to ascertain that the nominee holding the Series 2014A/B Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2014A/B Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2014A/B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2014A/B 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 Commission or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the 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.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2014A/B BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR OWNERS OF THE SERIES 2014A/B BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2014A/B BONDS.

Discontinuance of DTC Services

DTC may discontinue providing its services as depository with respect to the Series 2014A/B Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2014A/B Bond certificates will be printed and delivered as described in the 1991 Master Resolution.

The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2014A/B Bond certificates will be printed and delivered as described in the 1991 Master Resolution.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE 1991 MASTER RESOLUTION

The following is a summary of certain provisions contained in Resolution No. 91-0210, adopted by the Commission on December 3, 1991 (the "1991 Master Resolution"), as subsequently amended and supplemented, and is not to be considered as a full statement thereof. See also "DESCRIPTION OF THE SERIES 2014A/B BONDS." Taken together, the 1991 Master Resolution, as previously amended and supplemented, (collectively, the "Supplemental Resolutions"), and certificates of additional terms are herein called the "Resolution." Reference is made to the Resolution for full details of the terms of the Series 2014A/B Bonds, the application of revenues therefor, and the security provisions pertaining thereto. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Resolution.

Certain Definitions

Act means the Charter of the City and County of San Francisco, as supplemented and amended, all enactments of the Board adopted pursuant thereto, and all laws of the State of California incorporated therein by reference.

Aggregate Maximum Annual Debt Service means the maximum amount of Annual Debt Service on all Participating Series in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of the Participating Series.

Airport means the San Francisco International Airport, located in San Mateo County, State of California, together with all additions, betterments, extensions and improvements thereto. Unless otherwise specifically provided in any Supplemental Resolution, the term shall include all other airports, airfields, landing places and places for the take-off and landing of aircraft, together with related facilities and property, located elsewhere, which are hereafter owned, controlled or operated by the Commission or over which the Commission has possession, management, supervision or control.

Airport Consultant means a firm or firms of national recognition with knowledge and experience in the field of advising the management of airports as to the planning, development, operation and management of airports and aviation facilities, selected and employed by the Commission from time to time.

Amortized Bonds means the maximum principal amount of any existing or proposed Commercial Paper Program authorized by the Commission to be outstanding at any one time.

Annual Debt Service means the amount scheduled to become due and payable on the outstanding Bonds or any one or more Series thereof in any Fiscal Year as (i) interest, plus (ii) principal at maturity, plus (iii) mandatory sinking fund redemptions. For purposes of calculating Annual Debt Service, the following assumptions shall be used:

(a) All principal payments and mandatory sinking fund redemptions shall be made as and when the same shall become due;

(b) Outstanding Variable Rate Bonds shall be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to the average of the actual rates on such Bonds for each day during the 365 consecutive days (or any lesser period such Bonds have been outstanding) ending on the last day of the month next preceding the date of computation, or at the effective fixed annual rate thereon as a result of an interest rate swap with respect to such Bonds;

(c) Variable Rate Bonds proposed to be issued shall be deemed to bear interest at a fixed annual rate equal to the estimated initial rate or rates thereon, as set forth in a certificate of a Financial

Consultant dated within 30 days prior to the date of delivery of such Bonds, or at the effective fixed annual rate thereon as a result of an interest rate swap with respect to such Bonds;

(d) Amortized Bonds shall be deemed to be amortized on a level debt service basis over a 20-year period beginning on the date of calculation at the Index Rate;

(e) Payments of principal of and interest on Repayment Obligations shall be deemed to be payments of principal of and interest on Bonds to the extent provided in the Resolution; and

(f) Capitalized interest on any Bonds and accrued interest paid on the date of initial delivery of any Series of Bonds shall be excluded from the calculation of Annual Debt Service if cash and/or Permitted Investments have been irrevocably deposited with and are held by the Trustee or other fiduciary for the owners of such Bonds sufficient to pay such interest.

Annual Service Payments means amounts paid to the City pursuant to the Charter (pursuant to the Lease and Use Agreements, this amount is limited to approximately 15% of concession revenues at the Airport).

Authorized Denominations means with respect to the Series 2014A/B Bonds, $5,000 or any integral multiple thereof.

Bond Insurance Policy means a municipal bond insurance policy insuring the payment of principal of and interest on all or a portion of a Series of Bonds.

Bond Insurer means the provider of a Bond Insurance Policy.

Bonds means any evidences of indebtedness for borrowed money issued from time to time by the Commission by the Resolution or by Supplemental Resolution, including but not limited to bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein and Repayment Obligations to the extent provided in the Resolution.

Business Day means a day on which the principal office of the Trustee, any Paying Agent, the Remarketing Agent, the Credit Provider, if any, with respect to that Series of Bonds, the Liquidity Provider, if any, with respect to that Series of Bonds, or banks or trust companies in New York, New York, are not authorized or required to remain closed and on which the New York Stock Exchange is not closed.

Closing Date means the date upon which a Series of Bonds is initially issued and delivered in exchange for the proceeds representing the Purchase Price of such Series of Variable Rate Bonds paid by the original purchaser thereof.

Costs of Issuance means payment of, or reimbursement of the Commission for, all reasonable costs incurred by the Commission in connection with the issuance of a Series of Bonds, including, but not limited to: (a) counsel fees related to the issuance of such Series of Bonds (including bond counsel, co-bond counsel, disclosure counsel, Trustee's counsel and the City Attorney); (b) financial advisor fees incurred in connection with the issuance of such Series of Bonds; (c) rating agency fees; (d) fees of any Credit Provider for the provision of a Credit Facility, as applicable; (e) the initial fees and expenses of the Trustee, the Registrar, the Authenticating Agent, Underwriters and any Series Escrow Agent; (f) accountant fees and any escrow verification fees related to the issuance of such Series of Bonds; (g) printing and publication costs; (h) costs of engineering and feasibility studies necessary to the issuance of such Series of Bonds; and (i) any other cost incurred in connection with the issuance of the Bonds that constitutes an "issuance cost" within the meaning of Section 147(g) of the Code.

Credit Facility means a letter of credit, line of credit, standby purchase agreement, municipal bond insurance policy, surety bond or other financial instrument which obligates a third party to pay or provide funds for the payment of the principal or purchase price of and/or interest on any Bonds and which is designated as a Credit Facility in the Supplemental Resolution authorizing the issuance of such Bonds.

Credit Provider means the person or entity obligated to make a payment or payments with respect to any Bonds under a Credit Facility.

Electronic Means means telecopy, telegraph, telex, facsimile transmission, e-mail transmission or other similar electronic means of communication of a written image, and shall include a telephonic communication promptly confirmed in writing or by electronic transmission of a written image.

Event of Default means any one or more of the events described hereinafter under the caption "Events of Default".

Financial Consultant means a firm or firms of financial advisors of national recognition with knowledge and experience in the field of municipal finance selected or employed by the Commission

Fiscal Year means the one-year period beginning on July 1 of each year and ending on June 30 of the succeeding year, or such other one-year period as the Commission shall designate as its Fiscal Year.

Government Certificates means evidences of ownership of proportionate interests in future principal or interest payments of Government Obligations, including depository receipts thereof. Investments in such proportionate interests must be limited to circumstances wherein (i) a bank or trust company acts as custodian and holds the underlying Government Obligations; (ii) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Government Obligations; and (iii) the underlying Government Obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, or any person claiming through the custodian, or any person to whom the custodian may be obligated.

Government Obligations means direct and general obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

Holder, *Bondholder*, *Owner* and *Bondowner* mean the person or persons in whose name any Bond or Bonds are registered on the records maintained by the Registrar or, in the case of bearer obligations, who hold any Bond or Bonds, and shall include any Credit Provider to which a Repayment Obligation is then owed, to the extent that such Repayment Obligation is deemed to be a Bond pursuant to the Resolution.

Independent Auditor means a firm or firms of independent certified public accountants with knowledge and experience in the field of governmental accounting and auditing selected or employed by the City.

Index Rate means for a Variable Rate Mode, the SIFMA Rate plus the Applicable Spread determined pursuant to the Resolution.

Insolvent shall be used to describe the Trustee, any Paying Agent, Authenticating Agent, Registrar, other agent appointed under the 1991 Master Resolution or any Credit Provider, if (a) such person shall have instituted proceedings to be adjudicated a bankrupt or insolvent, shall have consented to the institution of bankruptcy or insolvency proceedings against it, shall have filed a petition or answer or consent seeking reorganization or relief under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall have consented to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator or other similar official of itself or of any substantial part of its property, or shall fail to timely controvert an involuntary petition filed against it under the federal Bankruptcy Code, or shall consent to the entry of an order for relief under the federal Bankruptcy Code or shall make an assignment for the benefit of creditors or shall admit in writing its inability to pay its debts generally as they become due; or (b) a decree or order by a court having jurisdiction in the premises adjudging such person as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such person under the federal Bankruptcy Code or any other similar applicable federal or state law or for relief under the federal Bankruptcy Code after an involuntary petition has been filed against such person, or appointing a receiver, liquidator, assignee, trustee or sequestrator or other similar official of such person or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, shall have been entered and shall have continued unstayed and in effect for a period of 90 consecutive days.

Interest Payment Date means with respect to the Series 2014A/B Bonds, May 1 and November 1 of each year, commencing November 1, 2014.

Issue 1 Reserve Account means the Issue 1 Reserve Account established in the Reserve Fund pursuant to the 1991 Master Resolution as security for the Issue 1 Bonds and any other Participating Series of Bonds designated by Supplemental Resolution as being secured by the Issue 1 Reserve Account, including the Series 2014A/B Bonds.

Mandatory Sinking Fund Payment means a principal amount of Bonds of a Series which is subject to mandatory redemption on a Mandatory Sinking Fund Redemption Date.

Mandatory Sinking Fund Redemption Date means each May 1 upon which Bonds of a Series are subject to mandatory redemption under the Supplemental Resolutions.

Maximum Annual Debt Service means the maximum amount of Annual Debt Service in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of the Bonds.

Maximum Series Annual Debt Service means the maximum amount of Annual Debt Service in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of a single Series of Bonds.

Net Revenues means Revenues less Operation and Maintenance Expenses.

Operation and Maintenance Expenses means, for any period, all expenses of the Commission incurred for the operation and maintenance of the Airport, as determined in accordance with generally accepted accounting principles. Operation and Maintenance Expenses shall not include: (a) the principal of, premium, if any, or interest on any Bonds, Subordinate Bonds or general obligation bonds issued by the City for Airport purposes; (b) any allowance for amortization, depreciation or obsolescence of the Airport; (c) any expense for which, or to the extent to which, the Commission is or will be paid or reimbursed from or through any source that is not included or includable as Revenues; (d) any extraordinary items arising from the early extinguishment of debt; (e) Annual Service Payments; (f) any costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to the Airport which, under generally accepted accounting principles, are properly chargeable to the capital account or the reserve for depreciation; and (g) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any Airport properties. Operation and Maintenance Expenses shall include the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Commission may establish or the Board of Supervisors may require with respect to employees of the Commission, as now provided in the Charter.

Outstanding means, as of any date of determination, all Bonds of such Series which have been executed and delivered under the 1991 Master Resolution except: (a) Bonds cancelled by the Trustee or delivered to the Trustee for cancellation; (b) Bonds which are deemed paid and no longer Outstanding as provided in the 1991 Master Resolution or in any Supplemental Resolution authorizing the issuance thereof; (c) Bonds in lieu of which other Bonds have been issued pursuant to the provisions of the 1991 Master Resolution or of any Supplemental Resolution authorizing the issuance thereof; and (d) for purposes of any consent or other action to be taken under the 1991 Master Resolution by the Holders of a specified percentage of Principal Amount of Bonds of a Series or all Series, Bonds held by or for the account of the Commission.

Participating Series means the Issue 1 Bonds and any Series of Bonds designated by Supplemental Resolution as being secured by the Issue 1 Reserve Account, including the Series 2014A/B Bonds.

Permitted Investments means and includes any of the following, if and to the extent the same are at the time legal for the investment of the Commission's money:

(a) Government Obligations and Government Certificates.

(b) Obligations issued or guaranteed by any of the following:

(i) Federal Home Loan Banks System;
(ii) Export-Import Bank of the United States;
(iii) Federal Financing Bank;
(iv) Government National Mortgage Association;
(v) Farmers Home Administration;
(vi) Federal Home Loan Mortgage Corporation;
(vii) Federal Housing Administration;
(viii) Private Export Funding Corporation;
(ix) Federal National Mortgage Association;
(x) Federal Farm Credit System;
(xi) Resolution Funding Corporation;
(xii) Student Loan Marketing Association; and
(xiii) any other instrumentality or agency of the United States.

(c) Pre-refunded municipal obligations rated in the highest rating category by at least two Rating Agencies and meeting the following conditions:

(i) such obligations are: (A) not subject to redemption prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and redemption, and (B) the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;

(ii) such obligations are secured by Government Obligations or Government Certificates that may be applied only to interest, principal and premium payments of such obligations;

(iii) the principal of and interest on such Government Obligations or Government Certificates (plus any cash in the escrow fund with respect to such pre-refunded obligations) are sufficient to meet the liabilities of the obligations;

(iv) the Government Obligations or Government Certificates serving as security for the obligations have been irrevocably deposited with and are held by an escrow agent or trustee; and

(v) such Government Obligations or Government Certificates are not available to satisfy any other claims, including those against the trustee or escrow agent.

(d) Direct and general long-term obligations of any State of the United States of America or the District of Columbia (a "State") to the payment of which the full faith and credit of such State is pledged and that are rated in either of the two highest rating categories by at least two Rating Agencies.

(e) Direct and general short-term obligations of any State to the payment of which the full faith and credit of such State is pledged and that are rated in the highest rating category by at least two Rating Agencies.

(f) Interest-bearing demand or time deposits with, or interests in money market portfolios rated in the highest rating category by at least two Rating Agencies issued by, state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation ("FDIC"). Such deposits or interests must either be: (i) continuously and fully insured by FDIC; (ii) if they have a maturity of one year or less, with or issued by banks that are rated in one of the two highest short term rating categories by at least two Rating Agencies; (iii) if they have a maturity longer than one year, with or issued by banks that are rated in one of the two highest rating categories by at least two Rating Agencies; or (iv) fully secured by Government Obligations and Government Certificates. Such Government Obligations and Government Certificates must have a market value at all times at least equal to the principal amount of the deposits or interests. The Government Obligations and Government

Certificates must be held by a third party (who shall not be the provider of the collateral), or by any Federal Reserve Bank or depository, as custodian for the institution issuing the deposits or interests. Such third party must have a perfected first lien in the Government Obligations and Government Certificates serving as collateral, and such collateral must be free from all other third party liens.

(g) Eurodollar time deposits issued by a bank with a deposit rating in one of the two highest short-term deposit rating categories by at least two Rating Agencies.

(h) Long-term or medium-term corporate debt guaranteed by any corporation that is rated in one of the two highest rating categories by at least two Rating Agencies.

(i) Repurchase agreements with maturities of either (A) 30 days or less, or (B) longer than 30 days and not longer than one year provided that the collateral subject to such agreements are marked to market daily, entered into with financial institutions such as banks or trust companies organized under State or federal law, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, or with a dealer or parent holding company that is rated investment grade ("A" or better) by at least two Rating Agencies. The repurchase agreement must be in respect of Government Obligations and Government Certificates or obligations described in paragraph (b) of this definition. The repurchase agreement securities and, to the extent necessary, Government Obligations and Government Certificates or obligations described in paragraph (b), exclusive of accrued interest, shall be maintained in an amount at least equal to the amount invested in the repurchase agreements. In addition, the provisions of the repurchase agreement shall meet the following additional criteria:

(1) the third party (who shall not be the provider of the collateral) has possession of the repurchase agreement securities and the Government Obligations and Government Certificates;

(2) failure to maintain the requisite collateral levels will require the third party having possession of the securities to liquidate the securities immediately; and

(3) the third party having possession of the securities has a perfected, first priority security interest in the securities.

(j) Prime commercial paper of a corporation, finance company or banking institution rated in the highest short-term rating category by at least two Rating Agencies.

(k) Public housing bonds issued by public agencies which are either: (i) fully guaranteed by the United States of America; or (ii) temporary notes, preliminary loan notes or project notes secured by a requisition or payment agreement with the United States of America; or (iii) state or public agency or municipality obligations rated in the highest credit rating category by at least two Rating Agencies.

(l) Shares of a diversified open-end management investment company, as defined in the Investment Company Act of 1940, as amended, or shares in a regulated investment company, as defined in Section 851(a) of the Code, that is a money market fund that has been rated in the highest rating category by at least two Rating Agencies.

(m) Money market accounts of any state or federal bank, or bank whose holding parent company is, rated in the top two short-term or long-term rating categories by at least two Rating Agencies.

(n) Investment agreements the issuer of which is rated in one of the two highest rating categories by at least two Rating Agencies.

(o) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments otherwise permitted in paragraphs (a) through (m) above.

(p) Any other debt or fixed income security specified by the Commission (except securities of the City and any agency, department, commission or instrumentality thereof other than the Commission) and rated in the highest category by at least two Rating Agencies.

(q) Bankers acceptances of a banking institution rated in the highest short-term rating category by at least two Rating Agencies, not exceeding 270 days maturity or 40% of moneys invested pursuant to the 1991 Master Resolution. No more than 20% of moneys invested pursuant to the 1991 Master Resolution shall be invested in the bankers acceptances of any one commercial bank pursuant to this paragraph (q).

Principal Amount means, as of any date of calculation, (i) with respect to any capital appreciation Bond or compound interest Bond, the accreted value thereof, and (ii) with respect to any other Bonds, the stated principal amount thereof.

Principal Payment Date means, with respect to any Series of Bonds, each date specified in the 1991 Master Resolution or in the Supplemental Resolution authorizing the issuance thereof for the payment of the principal of such Bonds either at maturity, or upon prior redemption from Mandatory Sinking Fund Payments.

Rating Agency means Fitch, Moody's and Standard & Poor's or any other nationally recognized credit rating agency specified in a Supplemental Resolution; provided, however, that the term “Rating Agency” shall in any event include Fitch, Moody's or Standard & Poor's, respectively, during such time that such rating agency maintains a credit rating on any Series of Bonds Outstanding under the 1991 Master Resolution.

Repayment Obligation means an obligation under a written agreement between the Commission and a Credit Provider or Liquidity Provider to reimburse such Credit Provider or Liquidity Provider for amounts paid under or pursuant to a Credit Facility or Liquidity Facility, as applicable, for the payment of the principal or purchase price of and/or interest on any Bonds.

Revenues means all revenues earned by the Commission from or with respect to its possession, management, supervision, operation and control of the Airport, as determined in accordance with generally accepted accounting principles. Revenues shall not include: (i) interest income on, and any profit realized from, the investment of moneys in (A) the Construction Fund or any other construction fund funded from proceeds of any Subordinate Bonds, or (B) the Debt Service Fund which constitute capitalized interest, to the extent required to be paid into the Debt Service Fund, or (C) the Reserve Fund if and to the extent there is any deficiency therein; (ii) interest income on, and any profit realized from, the investment of the proceeds of any Special Facility Bonds; (iii) Special Facility Revenues and any interest income or profit realized from the investment thereof, unless such receipts are designated as Revenues by the Commission; (iv) any passenger facility charge or similar charge levied by or on behalf of the Commission against passengers, unless all or a portion thereof are designated as Revenues by the Commission; (v) grants-in-aid, donations and/or bequests; (vi) insurance proceeds which are not deemed to be Revenues in accordance with generally accepted accounting principles; (vii) the proceeds of any condemnation award; (viii) the proceeds of any sale of land, buildings or equipment; and (ix) any money received by or for the account of the Commission from the levy or collection of taxes upon any property in the City.

Series of Bonds or *Bonds of a Series* or *Series* shall mean a series of Bonds issued pursuant to the 1991 Master Resolution.

Special Facility means any existing or planned facility, structure, equipment or other property, real or personal, which is at the Airport or a part of any facility or structure at the Airport and designated as such by the Commission.

Special Facility Bonds means any bonds, notes, bond anticipation notes, commercial paper or other evidences of indebtedness for borrowed money issued by the Commission to finance a Special Facility, the principal of, premium, if any, and interest on which are payable from and secured by Special Facility Revenues derived from such Special Facility, and not from or by Net Revenues.

Special Facility Revenues means the revenues earned by the Commission from or with respect to any Special Facility and designated as such by the Commission.

Subordinate Bonds means any evidences of indebtedness for borrowed money issued from time to time by the Commission pursuant to the 1991 Master Resolution, including but not limited to bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein, with a pledge of, lien on, and security interest in Net Revenues which are junior and subordinate to those of the Bonds whether then issued or thereafter to be issued.

Supplemental Resolution means a resolution supplementing or amending the provisions of the 1991 Master Resolution which is adopted by the Commission pursuant to Article IX of the 1991 Master Resolution.

Transfer means (i) the amount deposited on the last Business Day of any Fiscal Year from the Contingency Account into the Revenues Account, plus (ii) any amounts withdrawn from the Contingency Account during such Fiscal Year for the purposes specified in the 1991 Master Resolution, less (iii) any amounts deposited in the Contingency Account from Revenues during such Fiscal Year.

Trustee means, with respect to the Series 2014A/B Bonds, The Bank of New York Mellon Trust Company, N.A., and its successors and assigns and any other person or entity which may at any time be substituted for it, as successor trustee and paying agent under the Resolution.

2009 Reserve Account means the 2009 Reserve Account established in the Reserve Fund pursuant to the Refunding Series Sale Resolution for the 2009C Bonds as security for the 2009C Bonds and any other 2009 Reserve Account Series designated by Supplemental Resolution or Refunding Series Sale Resolution as being secured by the 2009 Reserve Account.

2009 Reserve Account Series means the 2009C Bonds, the 2010D Bonds and any other Series of Bonds designated by Supplemental Resolution or Refunding Series Sale Resolution as being secured by the 2009 Reserve Account.

2009 Reserve Requirement means an amount with respect to each 2009 Reserve Account Series equal to the lesser of: (i) Maximum Annual Debt Service for such Series of Bonds, (ii) 125% of average Annual Debt Service for such Series of Bonds, and (iii) 10% of the outstanding principal amount of such Series, (or allocable issue price of such Series if such Series is sold with more than a *de minimis* amount of original issue discount or premium), in each case as determined from time to time, and with respect to all 2009 Reserve Account Series means the aggregate of such amounts for each individual 2009 Reserve Account Series.

2009C Bonds means the Airport Commission of the City and County of San Francisco, San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2009C.

2010D Bonds means the Airport Commission of the City and County of San Francisco, San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2010D.

Variable Rate Bonds means one or more Series of variable rate bonds authorized by the Supplemental Resolutions to be issued under the 1991 Master Resolution, in the aggregate principal amounts specified in one or more Series Sale Resolutions. Variable Rate Bonds may bear interest at Daily Rates, Weekly Rates, Index Rate, Commercial Paper Rates, Term Rates or a Fixed Rate, as such terms are defined in the 1991 Master Resolution.

Pledge of Revenues

The Bonds are revenue bonds, are not secured by any taxing power of the Commission (which as of the date hereof has no taxing power) and are payable as to both principal and interest, and any premium exclusively from, and are secured by a pledge of, lien on and security interest in Net Revenues of the Airport. Net Revenues constitute a trust fund for the security and payment of the principal of, purchase price, if any, premium, if any, and interest on, the

Bonds. The Commission has assigned to the Trustee for the benefit of the Bondholders all of its right, title and interest in, the following:

(a) Amounts on deposit from time to time in the funds and accounts created pursuant to the 1991 Master Resolution, including the earnings thereon, subject to the provisions of the 1991 Master Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein; provided, however, that there expressly is excluded from any pledge, assignment, lien or security interest created by the 1991 Master Resolution, Revenues appropriated, transferred, deposited, expended or used for the payment of Operation and Maintenance Expenses;

(b) Amounts constituting Net Revenues; and

(c) Any and all other property of any kind from time to time by delivery or by writing of any kind specifically conveyed, pledged, assigned or transferred, as and for additional security for the Bonds, by the Commission or anyone on its behalf or with its written consent in favor of the Trustee, which is authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the 1991 Master Resolution.

The pledge of Net Revenues and other moneys and property made in the 1991 Master Resolution is irrevocable until all of the Bonds have been paid and retired.

All Bonds issued and outstanding under the 1991 Master Resolution are and will be equally and ratably secured with all other outstanding Bonds, with the same right, lien, preference and priority with respect to Net Revenues, without preference, priority or distinction on account of the date or dates or the actual time or times of the issuance or maturity of the Bonds. All Bonds of a particular Series will in all respects be equally and ratably secured and will have the same right, lien and preference established under the 1991 Master Resolution for the benefit of such Series of Bonds, including, without limitation, rights in any related account in the Construction Fund, the Debt Service Fund or the Reserve Fund. Amounts drawn under a Credit Facility with respect to particular Series of Bonds and all other amounts held in funds or accounts established with respect to such Bonds pursuant to the provisions of the 1991 Master Resolution and of any Supplemental Resolution will be applied solely to make payments on such Bonds.

Revenue Fund; Allocation of Net Revenues

The Airport Revenue Fund has been heretofore created and is held by the Treasurer of the City. The 1991 Master Resolution establishes the following accounts within the Revenue Fund:

Revenues Account
Operation and Maintenance Account
Revenue Bond Account
General Obligation Bond Account
General Purpose Account
Contingency Account

The entire gross Revenues of the Commission must be set aside and deposited in the Revenues Account in the Airport Revenue Fund as received. On the first Business Day of each month, moneys in the Revenues Account will be set aside and applied for the following purposes in the following amounts and order of priority, each priority to be fully satisfied before the next priority in order:

First: *Operation and Maintenance Account*. In the Operation and Maintenance Account an amount equal to one-twelfth (1/12th) of the estimated Operation and Maintenance Expenses for the then-current Fiscal Year as set forth in the budget of the Airport for such Fiscal Year as finally approved by the Commission. In the event that the balance in the Operation and Maintenance Account at any time is insufficient to make any required payments therefrom, additional amounts at least sufficient to make such payments will immediately be deposited in the Operation and Maintenance Account from the Revenues

Account, and may be credited against the next succeeding monthly deposit upon the written direction of the Commission to the Treasurer of the City.

Second: *Revenue Bond Account*. In the Revenue Bond Account such amount as is necessary:

(a) to make all payments and deposits required to be made during such month into the Debt Service Fund and the Reserve Fund and the accounts therein in the amounts and at the times required by the 1991 Master Resolution and by any Supplemental Resolution with respect to the Bonds; and

(b) to make all payments and deposits required to be made during such month into any funds and accounts created to pay or secure the payment of the principal or purchase price of or interest or redemption premium on any Subordinate Bonds in the amounts and at the times required by the resolutions and other agreements authorizing the issuance and providing the terms and conditions thereof.

Third: *General Obligation Bond Account*. In the General Obligation Bond Account an amount equal to one-sixth (1/6) of the aggregate amount of interest coming due on the next succeeding interest payment date, plus one-twelfth (1/12) of the aggregate amount of principal coming due on the next succeeding principal payment date, with respect to general obligation bonds of the City issued for Airport purposes.

Fourth: *General Purpose Account*. In the General Purpose Account an amount at least equal to the payments estimated to be made therefrom during such month.

Fifth: *Contingency Account*. In the Contingency Account such amount, if any, as shall be directed by the Commission from time to time.

Construction Fund

The 1991 Master Resolution creates the Construction Fund as a separate fund to be maintained and accounted for by the Treasurer of the City. Moneys in the Construction Fund will be used for the purposes for which Bonds are authorized to be issued, including but not limited to the payment of principal and purchase price of and interest and redemption premium on the Bonds and the costs of issuance and sale thereof. A separate account will be created within the Construction Fund with respect to each Series of Bonds. Amounts in the Construction Fund may be invested in any Permitted Investment, in accordance with the policies and procedures of the Treasurer.

Costs of Issuance Fund

The 1991 Master Resolution creates the Costs of Issuance Fund as a separate fund to be maintained and accounted for by the Trustee. A separate account will be created within the Costs of Issuance Fund with respect to each Series of Bonds. Monies deposited in each Costs of Issuance Account shall be used only for the authorized costs of issuing such Series of Bonds. Any balance remaining in any Costs of Issuance Account is to be transferred to the appropriate account in the Construction Fund, no later than one year following the date of issuance of each such Series of Bonds. Amounts in the Costs of Issuance Fund may be invested in any Permitted Investment.

Debt Service Holding Fund

The 1991 Master Resolution creates the Debt Service Holding Fund as a separate fund to be maintained and accounted for by the Trustee, which is not pledged to the payment of the Bonds, but is established for the convenience of the Commission in the administration and investment of monies delivered to the Trustee prior to the time the Commission is required to make deposits into the Debt Service Fund and the series principal and interest accounts therein as required by the 1991 Master Resolution. The Commission may at any time, deliver to the Trustee monies for deposit in the Debt Service Holding Fund, to be held and invested therein as directed by the Commission. Upon the order of the Commission, monies in the Debt Service Holding Fund and investment earnings thereon may be invested in any Permitted Investment, transferred to the Debt Service Fund and the series principal and interest accounts therein, or returned to the Commission.

Debt Service and Reserve Funds

The 1991 Master Resolution establishes the following funds and accounts to be held by the Trustee:

Debt Service Fund
Reserve Fund

The Commission will establish separate accounts within the Debt Service Fund with respect to any or all of the Bonds of one or more Series. Moneys in the Debt Service Fund and the accounts therein will be held in trust and applied to pay principal and purchase price of and interest and redemption premium on such Bonds, in the amounts, at the times and in the manner set forth in the 1991 Master Resolution and in the Supplemental Resolutions with respect thereto; provided, however, that each Supplemental Resolution must require to the extent practicable that amounts be accumulated in the applicable accounts in the Debt Service Fund so that moneys sufficient to make any regularly scheduled payment of principal of or interest on the Bonds are on deposit therein at least one month prior thereto. Moneys in the accounts in the Debt Service Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations to the extent provided in the 1991 Master Resolution or in the Supplemental Resolutions with respect thereto.

The Commission may establish a separate account or accounts in the Reserve Fund with respect to any or all of the Bonds of one or more Series. Moneys in the Reserve Fund and the accounts therein will be held in trust for the benefit and security of the Holders of the Bonds to which such accounts are pledged, and will not be available to pay or secure the payment of any other Bonds. Each account in the Reserve Fund will be funded and replenished in the amounts, at the times and in the manner provided in the 1991 Master Resolution or in the Supplemental Resolutions with respect thereto, including without limitation through the use of a Credit Facility. Moneys in the respective accounts in the Reserve Fund will be applied to pay and secure the payment of such Bonds as provided in the 1991 Master Resolution or in the Supplemental Resolutions with respect thereto. Moneys in an account in the Reserve Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations to the extent provided in the 1991 Master Resolution or in the Supplemental Resolutions with respect thereto.

If and to the extent provided in any Supplemental Resolution authorizing the issuance of a Series of Bonds, interest rate swap payments may be paid directly out of, and interest rate swap receipts paid directly into, the account or accounts in the Debt Service Fund established with respect to such Series of Bonds.

Issue 1 Reserve Account

The 1991 Master Resolution establishes the "Issue 1 Reserve Account" as security for the Issue 1 Bonds and any other Participating Series of Bonds designated by Supplemental Resolution as being secured by the Issue 1 Reserve Account. ***The Series 2014A/B Bonds are a Participating Series secured by the Issue 1 Reserve Account****.*

2009 Reserve Account

The Refunding Series Sale Resolution for the 2009C Bonds established the "2009 Reserve Account" as security for the 2009C Bonds and any other 2009 Reserve Account Series designated by Supplemental Resolution or by a Series Sale Resolution as being secured by the 2009 Reserve Account. ***The Series 2014A/B Bonds are not a 2009 Reserve Account Series and are not secured by the 2009 Reserve Account.*** The 2009 Reserve Account is required to be funded at the 2009 Reserve Requirement. The moneys in said account will be used solely for the purpose of paying principal, interest or mandatory sinking fund payments on the Series of Bonds secured by such reserve account is established whenever any moneys then credited to the accounts within the Debt Service Fund for such Series of Bonds are insufficient for such purposes.

Separate Reserve Accounts for Bonds not Designated as 2009 Reserve Account Series or Participating Series

Unless otherwise provided in a Series Sale Resolution, each Series of Bonds will be a 2009 Reserve Account Series or a Participating Series, or will be secured by a Series Reserve Account. The amount in each Series Reserve Account will be established and maintained at an amount equal to the Series Reserve Requirement which will be Maximum Series Annual Debt Service or such other amount as shall be set forth in a Series Sale Resolution.

Application and Valuation of the Reserve Accounts

The moneys in the Issue 1 Reserve Account, the 2009 Reserve Account and any separate Series Reserve Account (each a "Reserve Account") are to be used solely for the purposes of paying interest, principal or mandatory sinking fund payments on the Bonds to which such accounts are pledged whenever any moneys then credited to the accounts within the Debt Service Fund for the applicable Series of Bonds are insufficient for such purposes and to pay one or more Credit Providers principal due with respect to any Credit Facility deposited in the Reserve Account for the applicable Series of Bonds to the extent that such payment will cause the amount available to be drawn under the related Credit Facility or Credit Facilities to be reinstated in an amount at least equal to the amount of such payment. In the event that the Trustee is required to apply amounts in a Reserve Account to pay interest, principal or mandatory sinking fund payments on the Bonds to which such accounts are pledged, the Trustee will apply all amounts (the "Cash Amount") in such Reserve Account, other than amounts available pursuant to draws on Credit Facilities deposited in such Reserve Account, to such payments before drawing on any such Credit Facility. If after exhausting the Cash Amount, the Trustee has insufficient moneys to pay interest, principal or mandatory sinking fund payments on the applicable Series of Bonds, the Trustee will draw on the Credit Facilities deposited in the Reserve Account on a pro rata basis to the extent required to remedy the remaining deficiency.

If at any time the balance in any Reserve Account shall for any reason be diminished below the amount required to be on deposit therein, the Trustee is required to immediately notify the Commission of such deficiency, and the Commission is required to cause the applicable Reserve Account to be replenished by transfers from available Net Revenues over a period not to exceed 12 months from the date the Commission receives notice from the Trustee of such deficiency.

Subject to the terms and conditions of the 1991 Master Resolution, each Reserve Account is to be replenished from available Net Revenues in the following order of priority, each requirement to be satisfied in full before the next requirement in priority: (1) on a pro rata basis, payments to Credit Providers of principal then due with respect to any Credit Facility deposited in such Reserve Account to the extent that such payments will cause the amounts available to be drawn under such Credit Facility or Credit Facilities to be reinstated in an amount at least equal to such payments; and (2) other amounts required to be deposited in such Reserve Account to increase the amount therein to the Aggregate Maximum Annual Debt Service on the then outstanding Bonds to which such accounts are pledged.

Under the 1991 Master Resolution, the Trustee is required to determine the amount in each Reserve Account from time to time but not less frequently than annually. Permitted Investments in each Reserve Account are to be valued at cost plus accreted value. In the event that the Trustee determines on any valuation date that the amount in each Reserve Account exceeds Aggregate Maximum Annual Debt Service on all then outstanding Bonds to which such accounts are pledged, upon the request of the Commission, the Trustee will transfer the amount of such excess to the Treasurer for deposit in the applicable Revenues Account.

In the event Bonds of a Series are to be redeemed in whole or in part pursuant to the 1991 Master Resolution, or the Commission notifies the Trustee in writing of its intention to refund Bonds of a Series in whole or in part, the Trustee is required to value the amount in the Reserve Account applicable to such Bonds, and if the Trustee determines that the amount in the applicable Reserve Account exceeds Aggregate Maximum Annual Debt Service on the Bonds to which such accounts are pledged to remain outstanding after such redemption or refunding, upon the request of the Commission, the Trustee will transfer the amount of such excess in accordance with such request.

At its option, the Commission may at any time substitute a Credit Facility meeting the requirements of the 1991 Master Resolution for amounts on deposit in each Reserve Account. The 1991 Master Resolution requires that the substitution of a Credit Facility for amounts on deposit in each Reserve Account not cause the then-current ratings on the Bonds to which such accounts are pledged to be downgraded or withdrawn. In the event that after the substitution of a Credit Facility for all or any part of the amounts on deposit in a Reserve Account, the amount in such Reserve Account is greater than the amount required to be on deposit therein, upon the request of an authorized Commission representative, the Trustee will transfer such excess to the Commission to be used solely for Airport purposes. The 1991 Master Resolution further requires that any such Credit Facility provided in the form of a surety bond be issued by an institution then rated in the highest rating category, without regard to subcategories, by Moody's and Standard & Poor's, and that any such Credit Facility provided in the form of a letter of credit be issued by an institution then rated in at least the second highest rating category, without regard to subcategories, by Moody's and Standard & Poor's.

Any draw on any Credit Facility on deposit in a Reserve Account shall be made only after all the funds in such Reserve Account have been expended. In such event, draws on each Credit Facility shall be made on a pro rata basis to fund the insufficiency. The 1991 Master Resolution provides that a Reserve Account shall be replenished in the following priority: (i) principal of each Credit Facility shall be paid from first available Net Revenues on a pro rata basis to the extent that such payments will cause the amounts available to be drawn under each Credit Facility to be reinstated in an amount at least equal to such payments: and (ii) after all such amounts are paid in full, amounts necessary to fund a Reserve Account to the required level, after taking into account the amounts available under each Credit Facility shall be deposited from next available Net Revenues.

Permitted Investments

Amounts in the Debt Service Accounts are to be invested in Permitted Investments described in clause (a) or (b) of the definition thereof maturing on or before the Bond payment date on which the proceeds of such Permitted Investments are intended to be applied for the purposes of the Debt Service Account to which such Permitted Investments are allocated. Amounts in each Reserve Account are to be invested in Permitted Investments described in clause (a) or (b) of the definition thereof maturing no later than seven years after the date of purchase of the Permitted Investment. Amounts in Series Construction Accounts may be invested in any Permitted Investment. For a further description of the Permitted Investments with respect to the Series 2014A/B Bonds, see also "Summary of the Supplemental Resolutions – Application of 2014A/B Debt Service Account" in this Appendix C.

Issuance of Additional Series of Bonds

General Requirements

Whenever the Commission determines to issue any additional Bonds, the Commission is required to adopt a Supplemental Resolution authorizing the issuance of such Series of Bonds and to deliver to the Trustee (i) a certificate to the effect that the Commission is not then in default under the terms and provisions of the 1991 Master Resolution or any Supplemental Resolution; (ii) an opinion of bond counsel to the effect that such Series of Bonds has been duly authorized in conformity with law and all prior proceedings of the Commission; and (iii) certain other items specified by the 1991 Master Resolution or the Supplemental Resolution or which may be reasonably requested by the Commission or the Trustee.

Additional Bonds Test

The Commission is not permitted to issue any Series of Bonds (other than refunding Bonds) unless the Trustee has been provided with either:

(a) a certificate of an Airport Consultant dated within 30 days prior to the date of delivery of the Bonds stating that:

(i) for the period, if any, from and including the first full Fiscal Year following the issuance of such additional Bonds through and including the last Fiscal Year during any part of which interest on such Bonds is expected to be paid from the proceeds thereof, projected Net Revenues, together with any Transfer, in each such Fiscal Year will be at least equal to 1.25 times Annual Debt Service; and

(ii) for the period from and including the first full Fiscal Year following the issuance of such Bonds during which no interest on such Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Bonds, or (B) the third full Fiscal Year during which no interest on such Bonds is expected to be paid from the proceeds thereof, (1) projected Net Revenues in each such Fiscal Year will be at least sufficient to make all required payments and deposits in such Fiscal Year into the Revenue Bond Account and the General Obligation Bond Account pursuant to the 1991 Master Resolution, and to make the Annual Service Payment to the City and (2) projected Net Revenues, together with any Transfer, in each such Fiscal Year will be at least equal to 125% of aggregate Annual Debt Service with respect to the Bonds for such Fiscal Year; or

(b) a certificate of an Independent Auditor stating that Net Revenues, together with any Transfer, in the most recently completed Fiscal Year were at least equal to 125% of the sum of (i) Annual Debt Service on the Bonds in such Fiscal Year, plus (ii) Maximum Annual Debt Service on the Bonds proposed to be issued.

For purposes of (a) and (b) above, the amount of any Transfer taken into account shall not exceed 25% of Maximum Annual Debt Service on the Bonds. In determining projected Net Revenues for purposes of (a) above, the Airport Consultant may take into account reasonably anticipated changes in Revenues and Operation and Maintenance Expenses over such period. In determining Annual Debt Service for purposes of (a) or (b) above, Bonds that will be paid or discharged immediately after the issuance of the Series of Bonds proposed to be issued will be disregarded, and Variable Rate Bonds will be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to 1.25 times the rate determined pursuant to paragraphs (b) and (c), as the case may be, of the definition of "Annual Debt Service" herein.

In the event that the Commission proposes to assume any indebtedness for borrowed money in connection with assuming the possession, management, supervision and control of any airport or other revenue-producing facilities, such indebtedness may constitute additional Bonds under the 1991 Master Resolution entitled to an equal pledge of and lien on Net Revenues as the Bonds provided that the requirements of the 1991 Master Resolution relating to additional Bonds are satisfied with respect to the assumption of such indebtedness.

Refunding Bonds

The Commission may issue Bonds for the purpose of refunding any Bonds or Subordinate Bonds. The Commission is permitted to issue such refunding Bonds only (i) upon compliance with the additional Bonds test established by the 1991 Master Resolution, or (ii) if the Commission provides the Trustee with a certificate of an Airport Consultant or financial consultant that (A) aggregate Annual Debt Service in each Fiscal Year with respect to all Bonds to be outstanding after the issuance of such refunding Bonds will be less than aggregate Annual Debt Service in each such Fiscal Year in which Bonds are outstanding prior to the issuance of such refunding Bonds, and (B) Maximum Annual Debt Service with respect to all Bonds to be outstanding after issuance of such refunding Bonds will not exceed Maximum Annual Debt Service with respect to all Bonds outstanding immediately prior to such issuance.

Repayment Obligations

If so provided in the applicable Supplemental Resolution and in the written agreement between the Commission and the Credit Provider or Liquidity Provider, as applicable, a Repayment Obligation may be accorded the status of a Bond solely for purposes of the 1991 Master Resolution, provided, however, that the Credit Facility or Liquidity Provider, as applicable, with respect thereto shall not constitute a bond for any other purpose, including without limitation for purposes of the Charter. The Credit Provider or Liquidity Provider, as applicable, shall be deemed to be the Holder of such Bond, and such Bond shall be deemed to have been issued as of the original date of the Bond or Bonds for which such Credit Facility or Liquidity Provider, as applicable, was provided.

Notwithstanding the stated terms of the Repayment Obligation, the Bond deemed to be held by the Credit Provider or Liquidity Provider, as applicable, shall be deemed to be amortized on a level debt service basis at the Index Rate over a period equal to the lesser of (a) 20 years, or (b) the period ending on the later of (i) the final maturity date of the Bonds payable from or secured by such Credit Facility or Liquidity Provider, as applicable, or (ii) the date the Repayment Obligation is due under the terms of the written agreement with respect thereto, with principal payable annually commencing on the next Principal Payment Date with respect to such Bonds and interest payable semiannually commencing on the next Interest Payment Date with respect to such Bonds. Such Bond shall be deemed to bear interest at the rate provided in the written agreement with respect to the Repayment Obligation. Any amount which becomes due and payable on the Repayment Obligation under the written agreement with respect thereto (but not earlier than 15 years from the date such Repayment Obligation is incurred) and which is in excess of the amount deemed to be principal of and interest on a Bond shall be junior and subordinate to the Bonds. The rights of a Credit Provider or Liquidity Provider, as applicable, under the 1991 Master Resolution shall be in addition to any rights of subrogation which the Credit Provider or Liquidity Provider, as applicable, may otherwise have or be granted under law or pursuant to any Supplemental Resolution. Notwithstanding anything in the 1991 Master Resolution to the contrary, a Bond and an unreimbursed Repayment Obligation arising with respect to such Bond shall not be deemed to be Outstanding at the same time.

Subordinate Bonds

The Commission may issue, at any time while any of the Bonds are outstanding, Subordinate Bonds with a pledge of, lien on, and security interest in Net Revenues which are junior and subordinate to those of the Bonds. The principal and purchase price of and interest, redemption premium and reserve fund requirements on such Subordinate Bonds will be payable from time to time out of Net Revenues only if all amounts then required to have been paid or deposited from Net Revenues with respect to principal, purchase price, redemption premium, interest and reserve fund requirements on the Bonds then outstanding or thereafter to be outstanding shall have been paid or deposited as required in the 1991 Master Resolution and any Supplemental Resolution.

Special Facility Bonds

The Commission may (a) designate an existing or planned facility, structure, equipment or other property, real or personal, which is at the Airport or part of any facility or structure at the Airport as a Special Facility, (b) provide that revenues earned by the Commission from or with respect to such Special Facility shall constitute Special Facility Revenues and shall not be included as Revenues, and (c) issue Special Facility Bonds for the purpose of acquiring, constructing, renovating, or improving such Special Facility, or providing financing to a third party for such purposes. Principal, purchase price, if any, redemption premium, if any, and interest with respect to Special Facility Bonds shall be payable from and secured by the Special Facility Revenues, and not from or by Net Revenues.

No Special Facility Bonds shall be issued by the Commission unless an Airport Consultant has certified (i) that the estimated Special Facility Revenues with respect to the proposed Special Facility will be at least sufficient to pay the principal, or purchase price, interest, and all sinking fund, reserve fund and other payments required with respect to Special Facility Bonds when due, and to pay all costs of operating and maintaining the Special Facility not paid by a party other than the Commission; (ii) that estimated Net Revenues calculated without including the Special Facility Revenues and without including any operation and maintenance expenses of the Special Facility as Operation and Maintenance Expenses will be sufficient so that the Commission will be in compliance with the rate covenant (see "Certain Covenants–*Rate Covenant*") during each of the five Fiscal Years immediately following the issuance of the Special Facility Bonds; and (iii) no Event of Default exists.

Upon the payment in full or other discharge of the Special Facility Bonds, Special Facility Revenues with respect to the Special Facility shall be included as Revenues.

Certain Covenants

Punctual Payment

The Commission will punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the 1991 Master Resolution and any applicable Supplemental Resolution, and it will faithfully observe and perform all of the conditions, covenants and requirements of the 1991 Master Resolution and all Supplemental Resolutions and of the Bonds.

Negative Pledge

The Commission will not create any pledge, lien on, security interest in or encumbrance upon, or permit the creation of any pledge of, lien on, security interest in or encumbrance upon, Revenues or Net Revenues except for a pledge, lien, security interest or encumbrance subordinate to the pledge, lien and security interest granted by the 1991 Master Resolution for the benefit of the Bonds.

Rate Covenant

The Commission has covenanted that it will establish and at all times maintain rentals, rates, fees and charges for the use of the Airport and for the services rendered by the Commission in connection with the Airport so that:

(a) Net Revenues in each Fiscal Year will be at least sufficient (i) to make all required payments and deposits into the Revenue Bond Account and the General Obligation Bond Account pursuant to the 1991 Master Resolution, and (ii) to make the Annual Service Payment to the City; and

(b) Net Revenues, together with any Transfer, in each Fiscal Year will be at least equal to 125% of aggregate Annual Debt Service with respect to the Bonds for such Fiscal Year.

The Commission covenants in the 1991 Master Resolution that if Net Revenues, together with any Transfer, in any Fiscal Year are less than the amount specified in clause (b) above, the Commission will retain and direct an Airport Consultant to make recommendations as to the revision of the Commission's business operations and its schedule of rentals, rates, fees and charges for the use of the Airport and for services rendered by the Commission in connection with the Airport, and after receiving such recommendations or giving reasonable opportunity for such recommendations to be made the Commission will take all lawful measures to revise the schedule of rentals, rates, fees and charges as may be necessary to produce Net Revenues, together with any Transfer, in the amount specified in clause (b) above in the next succeeding Fiscal Year.

In the event that Net Revenues for any Fiscal Year are less than the amount specified in clause (b) above, but the Commission promptly has taken prior to or during the next succeeding Fiscal Year all lawful measures to revise the schedule of rentals, rates, fees and charges as required by the previous paragraph, such deficiency in Net Revenues will not constitute an Event of Default under the provisions of Section 7.01(d) of the 1991 Master Resolution. Nevertheless, if after taking the measures required in the previous paragraph to revise the schedule of rentals, rates, fees and charges, Net Revenues in the next succeeding Fiscal Year (as evidenced by the audited financial statements of the Commission for such Fiscal Year) are less than the amount specified in clause (b) above, such deficiency in Net Revenues will constitute an Event of Default under the provisions of Section 7.01(e) of the 1991 Master Resolution.

Operation and Maintenance of the Airport

The Commission has covenanted that it will operate and maintain the Airport as a revenue producing enterprise in accordance with the Act. The Commission will make such repairs to the Airport as are necessary or appropriate in the prudent management thereof. The Commission has also covenanted that it will operate and maintain the Airport in a manner which will entitle it at all times to charge and collect fees, charges and rentals in accordance with Airport use agreements, if any, or as otherwise permitted by law, and the Commission will take all reasonable measures permitted by law to enforce prompt payment to it of such fees, charges and rentals when and as due. The Commission will, from time to time, duly pay and discharge, or cause to be paid and discharged, any taxes, assessments or other governmental charges lawfully imposed upon the Airport or upon any part thereof, or upon the revenues from the operation thereof, when the same become due, as well as any lawful claim for labor, materials or supplies which, if unpaid, might by law become a lien or charge upon the Airport or such revenues, or which might impair the security of the Bonds. Notwithstanding the foregoing, the Commission need not pay or discharge any tax, assessment or other governmental charge or claim for labor, materials or supplies, if and so long as the Commission contests the validity or application thereof in good faith. The Commission will continuously operate the Airport so that all lawful orders of the FAA and any other governmental agency or authority having jurisdiction in the premises will be complied with, but the Commission is not required to comply with any such orders so long as the validity or application thereof is being contested in good faith.

Maintenance of Powers; Retention of Assets

The Commission has covenanted that it will use its best efforts to keep the Airport open for landings and takeoffs of commercial aircraft using facilities similar to those at the Airport and to maintain the powers, functions, duties and obligations now reposed in it pursuant to law, and will not at any time voluntarily do, suffer or permit any act or thing the effect of which would be to hinder, delay or imperil either the payment of the indebtedness evidenced by any of the Bonds or any other obligation secured by the 1991 Master Resolution or the performance or observance of any of the covenants contained therein. The Commission has also covenanted that it will not dispose of assets necessary to operate the Airport in the manner and at the levels of activity required to enable it to perform its covenants contained in the 1991 Master Resolution.

Insurance

Subject in each case to the condition that insurance is obtainable at reasonable rates from responsible insurers and upon reasonable terms and conditions:

(a) The Commission will procure or provide and maintain, at all times while any of the Bonds shall be outstanding, insurance or qualified self-insurance on the Airport against such risks as are usually insured by other major airports. Such insurance or qualified self-insurance shall be in an adequate amount as to the risk insured against as determined by the Commission. The Commission is not required to carry insurance or qualified self-insurance against losses caused by land movement, including but not limited to seismic activity.

(b) Any qualified self-insurance must be established in accordance with applicable law; must include reserves or reinsurance in amounts which the Commission determines to be adequate to protect against risks assumed under such qualified self-insurance, including without limitation any potential retained liability in the event of the termination of such qualified self-insurance; and must be reviewed at least once every 12 months by an insurance consultant who will deliver to the Commission a report on the adequacy of the reserves established or reinsurance provided thereunder. If the insurance consultant determines that such reserves or reinsurance are inadequate, it will make a recommendation as to the amount of reserves or reinsurance that should be established and maintained, and the Commission will comply with such recommendation unless it can establish to the satisfaction of, and receive a certification from, the insurance consultant that a lower amount is reasonable to provide adequate protection to the Airport and the Commission.

(c) The Commission will secure and maintain adequate fidelity insurance or bonds on all officers and employees handling or responsible for funds of the Commission, except to the extent that such insurance is provided by the City.

(d) Within 120 days after the close of each Fiscal Year, the Commission will file with the Trustee a certificate containing a summary of all insurance policies and qualified self-insurance then in effect with respect to the Airport and the Commission.

(e) The proceeds of any insurance on the Airport will be applied solely for Airport purposes.

Financial Records and Statements

The Commission will maintain, or cause to be maintained, proper books and records in which full and correct entries shall be made in accordance with generally accepted accounting principles, of all its business and affairs. The Commission will have an annual audit made by an independent auditor and will within 120 days after the end of each of its Fiscal Years furnish to the Trustee copies of the audited financial statements of the Commission for such Fiscal Year.

Tax Covenants

The Commission covenants that, if applicable, it will make no use of the proceeds of any Series of Bonds or take any other action or permit any other action to be taken that would affect adversely the exclusion from gross income of interest on such Series of Bonds for federal income tax purposes or, if applicable, the non-preference status of such interest for federal alternative minimum income tax purposes.

Limitation on Covered Obligations

The Commission covenants and agrees that it will not issue or incur any obligation for borrowed money payable from Net Revenues (i) which is subject to optional or mandatory purchase or tender for purchase prior to maturity (other than at the option of the Commission), or (ii) which matures in less than 365 days from the date of issuance thereof (collectively, "Covered Obligations") to the extent the aggregate principal amount of all such Covered Obligations, at the time of issuance or incurrence thereof, would exceed 40% of the aggregate principal amount of all obligations of the Commission for borrowed money payable from Net Revenues then outstanding. The limitation in the foregoing sentence shall not apply to Covered Obligations described in (i) the scheduled maturity of which is not subject to acceleration. The credit or liquidity facility in connection with any Covered Obligation any portion of the repayment or reimbursement obligation with respect to which is on a parity with the Bonds shall be subject to the limitations thereon described in the section entitled "Repayment Obligations" above.

Events of Default

The 1991 Master Resolution provides that "Event of Default" with respect to a Series of Bonds means any one of the following events:

(a) if payment by the Commission in respect of any installment of interest on any Bond of such Series is not made in full when the same becomes due and payable;

(b) if payment by the Commission in respect of the principal or accreted value of any Bond of such Series is not made in full when the same becomes due and payable, whether at maturity or by proceedings for redemption or otherwise;

(c) if payment of the purchase price of any Bond tendered for optional or mandatory purchase in accordance with the provisions of the Supplemental Resolution providing for the issuance of such Bond is not made in full as and when due;

(d) if the Commission fails to observe or perform any other covenant or agreement on its part under the 1991 Master Resolution (other than the covenant or agreement to maintain rentals, rates, fees and charges sufficient to meet the rate covenant with respect to the Bonds), for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Commission by the Trustee, or to the Commission and the Trustee by the Holders of at least 25% in aggregate Principal Amount of Bonds of such Series then outstanding; provided, however, that if the breach of covenant or agreement is one which cannot be completely remedied within the 60 days after written notice has been given, it shall not be an Event of Default with respect to such Series as long as the Commission has taken active steps within the 60 days after written notice has been given to remedy the failure and is diligently pursuing such remedy;

(e) if the Commission is required pursuant to the rate covenant contained in the 1991 Master Resolution to take measures to revise the schedule of rentals, rates, fees and charges for the use of the Airport, and Net Revenues, together with any Transfer, for the Fiscal Year in which such adjustments are made are less than the amount required by the rate covenant with respect to the Bonds (See "Certain Covenants–*Rate Covenant*");

(f) if either the Commission or the City institutes proceedings to be adjudicated a bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it, or files a petition or answer or consent seeking reorganization or relief under the federal Bankruptcy Code or any other similar applicable federal or state law, or consents to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Commission or of any substantial part of its property, or fails to timely controvert an involuntary petition filed against it under the federal Bankruptcy Code, or consents to entry of an order for relief under the federal Bankruptcy Code or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due; and

(g) the occurrence of any other Event of Default with respect to such Series of Bonds as is provided in a Supplemental Resolution.

An Event of Default with respect to one Series of Bonds will not in and of itself constitute an Event of Default with respect to any other Series of Bonds unless such event or condition on its own constitutes an Event of Default with respect to such other Series of Bonds pursuant to the 1991 Master Resolution.

No Acceleration

The Bonds are not subject to acceleration under any circumstance or for any reason, including without limitation upon the occurrence and continuance of an Event of Default under the 1991 Master Resolution or any Supplemental Resolution. Moreover, the Bonds will not be subject to mandatory redemption or mandatory purchase or tender for purchase upon the occurrence and continuance of an Event of Default to the extent the redemption or purchase price is payable from Net Revenues.

Remedies Upon Default

Upon the occurrence and continuance of an Event of Default with respect to one or more Series of Bonds, the Trustee may, or upon the written request of the Holders of not less than a majority in aggregate Principal Amount of the Bonds of all such Series together with indemnification of the Trustee to its satisfaction therefor shall, proceed forthwith to protect and enforce its rights and the rights of the Bondholders under the 1991 Master Resolution and under the Act and such Bonds by such suits, actions or proceedings as the Trustee, being advised by counsel, deems expedient, including but not limited to:

(a) Actions to recover money or damages due and owing;

(b) Actions to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of such Bonds; and

(c) Enforcement of any other right of such Bondholders conferred by law, including the Act, or by the 1991 Master Resolution, including without limitation by suit, action, injunction, mandamus or other proceedings to enforce and compel the performance by the Commission of actions required by the Act or the 1991 Master Resolution, including the fixing, changing and collection of fees or other charges.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Holders of not less than 25% in aggregate Principal Amount of the Bonds of one or more Series, shall upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the 1991 Master Resolution by any acts or omissions to act which may be unlawful or in violation of the 1991 Master Resolution, or (ii) to preserve or protect the interests of the Holders, provided that such request is in accordance with law and the provisions of the 1991 Master Resolution and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Holders of Bonds of each Series not making such request.

Notwithstanding anything else in the 1991 Master Resolution to the contrary, the remedies provided for with respect to obtaining moneys on deposit in funds or accounts shall be limited to the funds or accounts pledged to the applicable Series of Bonds with respect to which an Event of Default exists. Furthermore, while a Credit Facility with respect to any Bonds is in effect, a Supplemental Resolution may provide that so long as the Credit Provider is not Insolvent and is not in default under the Credit Facility, no right, power or remedy under the 1991 Master Resolution with respect to such Bonds may be pursued without the prior written consent of the Credit Provider.

If an Event of Default with respect to one or more but not all Series of Bonds outstanding shall have occurred and be continuing, the Holders of a majority in aggregate principal amount of the Bonds of such one or more Series then outstanding shall have the right at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken with respect to funds or assets solely securing such one or more Series in connection with the enforcement of the terms and conditions of the 1991 Master Resolution; provided, that such direction is in accordance with law and the provisions of the 1991 Master Resolution (including any indemnity to the Trustee as provided in the 1991 Master Resolution) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondholders of each Series of Bonds not joining in such direction; and provided further, that the Trustee shall have discretion to take any other action under the 1991 Master Resolution which it may deem proper and which is not inconsistent with such direction by Bondholders.

If an Event of Default with respect to all Series of Bonds shall have occurred and be continuing, the Holders of a majority in aggregate Principal Amount of all Bonds then outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee to direct the method and place of conducting any proceeding to be taken with respect to Net Revenues or other assets securing all Bonds in connection with the enforcement of the terms and conditions of the 1991 Master Resolution; provided, that such direction is in accordance with law and the provisions of the 1991 Master Resolution (including indemnity to the Trustee as provided in the 1991 Master Resolution) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Holders of Bonds not joining in such direction; and provided further, that the Trustee shall have discretion to take any other action under the 1991 Master Resolution which it may deem proper and which is not inconsistent with such direction by Holders of Bonds.

The 1991 Master Resolution provides that no Holder of any Bond of a Series shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the 1991 Master Resolution unless:

(a) an Event of Default has occurred with respect to such Series and the Trustee is deemed to have notice of such Event of Default, the Trustee has actual knowledge of such Event of Default or the Trustee has been notified in writing of such Event of Default by the Commission or by the Holders of at least 25% in aggregate Principal Amount of all such Series of Bonds with respect to which an Event of Default has occurred;

(b) the Holders of at least a majority in aggregate Principal Amount of Bonds of all such Series then outstanding with respect to which an Event of Default has occurred shall have made written request to the Trustee to proceed to exercise the powers granted under the 1991 Master Resolution or to institute such action, suit or proceeding in its own name;

(c) such Holders of Bonds shall have offered the Trustee indemnity as provided under the 1991 Master Resolution; and

(d) the Trustee shall have failed or refused to exercise the powers granted under the 1991 Master Resolution or to institute such action, suit or proceedings in its own name for a period of 60 days after receipt by it of such request and offer of indemnity.

No one or more Holders of Bonds of such Series shall have any right in any manner whatsoever to affect, disturb or prejudice the security of, or to enforce any right under, the 1991 Master Resolution except for the equal benefit of the Holders of all Bonds of such Series then outstanding.

No Holder of any Bond of such Series may institute or prosecute any such suit or enter judgment therein if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien of the 1991 Master Resolution on the moneys, funds and properties pledged thereunder for the equal and ratable benefit of all Holders of Bonds of such Series.

Defeasance

Payment of any Bonds may be provided for by the deposit with the Trustee, in trust, of moneys, noncallable Government Obligations, noncallable Government Certificates, certain types of pre-refunded municipal obligations or any combination thereof. Provided that the moneys and the maturing principal and interest income on any securities so deposited will be sufficient and available without reinvestment to pay when due the principal, whether at maturity or upon fixed redemption dates, or purchase price and premium, if any, and interest on such Bonds, and provision for any required notice of redemption prior to maturity has been made, such Bonds will no longer be deemed outstanding under the 1991 Master Resolution. No Bond may be so provided for if, as a result thereof or of any other action in connection with which the provision for payment of such Bond is made, the interest payable on any tax-exempt Bond is made subject to federal income taxes.

Modification or Amendment of the 1991 Master Resolution

The 1991 Master Resolution and the rights and obligations of the Commission and of the Holders of the Bonds may be modified or amended at any time by a Supplemental Resolution with the written consent, without a meeting, of the Holders of a majority in aggregate Principal Amount of the outstanding Bonds of all Series affected. No such modification or amendment may (i) extend the stated maturity of or time or change the currency for paying the principal or purchase price of, premium, if any, or interest on any Bond or reduce the Principal Amount or purchase price of or the redemption premium or rate of interest payable on any Bond without the consent of the Holder of such Bond; (ii) except as expressly permitted by the 1991 Master Resolution, prefer or give a priority to any Bond over any other Bond without the consent of the Holder of each Bond then outstanding not receiving such preference or priority; or (iii) permit the creation of a lien not expressly permitted by the 1991 Master Resolution upon or pledge of Net Revenues ranking prior to or on a parity with the lien of the 1991 Master Resolution or reduce the aggregate Principal Amount of Bonds then outstanding the consent of the Holders of which is required to authorize such Supplemental Resolution, without the consent of the Holders of all Bonds then outstanding.

The 1991 Master Resolution and the rights and obligations of the Commission and of the Holders of the Bonds may also be modified or amended at any time by a Supplemental Resolution, without the consent of any Bondholders, for one or more of the following purposes:

(a) to cure any ambiguity or formal defect or omission in the 1991 Master Resolution;

(b) to correct or supplement any provision of the 1991 Master Resolution which may be inconsistent with any other provision of the 1991 Master Resolution or to make any other provisions with respect to matters or questions arising thereunder that will not have a material adverse effect on the interests of the Holders;

(c) to grant or confer upon the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;

(d) to secure additional revenues or provide additional security or reserves for payment of any Bonds;

(e) to preserve the excludability of interest on any Bonds from gross income for purposes of federal income taxes, or to change the tax covenants set forth in the 1991 Master Resolution, pursuant to an opinion of nationally recognized bond counsel that such action will not affect adversely such excludability;

(f) to provide for the issuance of, and to set the terms and conditions of, each additional Series of Bonds, including covenants and provisions with respect thereto which do not violate the terms of the 1991 Master Resolution;

(g) to add requirements the compliance with which is required by a Rating Agency in connection with issuing a rating with respect to any Series of Bonds;

(h) to confirm, as further assurance, any interest of the Trustee in and to Net Revenues or in and to the funds and accounts held by the Trustee or in and to any other moneys, securities or funds of the Commission provided pursuant to the 1991 Master Resolution;

(i) to comply with the requirements of the Trust Indenture Act of 1939, as amended, to the extent applicable;

(j) to provide for uncertificated Bonds or for the issuance of coupon or bearer Bonds or Bonds registered only as to principal;

(k) to accommodate the use of a Credit Facility for specific Bonds or a Series of Bonds;

(l) to designate any other airports, airfields, landing places or places for the take-off and landing of aircraft, together with related facilities or property, which are hereafter owned, controlled or operated by the Commission or over which the Commission has possession, management, supervision or control as not a part of the Airport; and

(m) to make any other change or addition to the 1991 Master Resolution which, in the opinion of nationally recognized bond counsel, will not have a material adverse effect on the interests of the Holders of the Bonds.

Rights and Duties of the Trustee

The Trustee may resign at any time. Written notice of such resignation must be given to the Commission and such resignation will take effect upon the later of the date 90 days after receipt of such notice by the Commission and the date of the appointment, qualification and acceptance of a successor Trustee. In the event a successor Trustee has not been appointed and qualified within 60 days after the date notice of resignation is given, the Trustee or the Commission may apply to any court of competent jurisdiction for the appointment of a successor Trustee to act until such time as a successor is appointed.

In addition, the Trustee may be removed at any time by the Commission so long as (i) no Event of Default has occurred and is continuing and (ii) the Commission determines that the removal of the Trustee will not have an adverse effect upon the rights or interests of the Holders of Bonds. Subject to clause (ii) of the preceding sentence, in the event the Trustee becomes Insolvent, the Commission may remove the Trustee by written notice effective immediately upon the appointment, qualification and appointment of a successor Trustee.

In the event the Trustee resigns, is removed, is dissolved, becomes Insolvent or otherwise becomes incapable to act as the Trustee, the Commission is entitled to appoint a successor Trustee. In any event, no removal or resignation of the Trustee will be effective until a successor trustee has accepted appointment by the Commission.

Unless otherwise ordered by a court or regulatory body, or unless required by law, any successor Trustee will be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business within the State of California and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least $50,000,000; provided, such an institution is willing, qualified and able to accept the trust upon reasonable or customary terms.

The recitals, statements and representations contained in the 1991 Master Resolution or in any Bond are to be taken and construed as made by and on the part of the Commission and not by the Trustee, and the Trustee neither assumes nor has any responsibility for the correctness of the same other than the Trustee's certification of authentication of any Bonds as to which it is authenticating agent.

Except as otherwise provided in the 1991 Master Resolution, the Trustee is under no duty of inquiry with respect to any default which constitutes, or with notice or lapse of time or both would constitute, an Event of Default without actual knowledge of the Trustee or receipt by the Trustee of written notice of such default from the Commission or any Holder of Bonds.

Except as expressly required under the 1991 Master Resolution, the Trustee is not required to institute any suit or action or other proceeding in which it may be a defendant, nor is it required to take any steps to enforce its rights and expose it to liability, unless and until it has been indemnified, to its satisfaction, against any and all reasonable costs and against all liability and damages. The Trustee nevertheless, may begin suit, or appear in and defend suit, or do anything else which in its judgment is proper to be done by it as the Trustee, without prior assurance of indemnity, and in such case the Commission is required to reimburse the Trustee for all reasonable costs and for all liability and damages suffered by the Trustee in connection therewith, except for the Trustee's own negligent action, its own negligent failure to act, its own willful misconduct or self-dealing constituting a breach of trust under applicable law.

In the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely upon and will be protected in acting or refraining from acting in reliance upon any document reasonably believed by it to be genuine and to have been signed or presented by the proper officials of the Commission, the Treasurer, the City, an Airport Consultant, an Independent Auditor or the Holders of Bonds or agents or attorneys of such holders; provided, in the case of any such document specifically required to be furnished to the Trustee under the 1991 Master Resolution, the Trustee shall be under a duty to examine the same to determine whether it conforms to the requirements of the 1991 Master Resolution. The Trustee is not bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, facsimile transmission, bond or other paper or document submitted to the Trustee.

SUMMARY OF THE SUPPLEMENTAL RESOLUTIONS

The following is a summary of certain provisions contained in the Supplemental Resolutions, as the same may have been subsequently amended or supplemented, and is not to be considered as a full statement thereof. Reference is made to each of these Supplemental Resolutions and to the 1991 Master Resolution for full details of the terms of the Bonds, the application of revenues therefor, and the security provisions pertaining thereto. See also "DESCRIPTION OF THE SERIES 2014A/B BONDS" in the front portion of this Official Statement for a summary of the provisions related to the Series 2014A/B Bonds.

Funds and Accounts

The 1991 Master Resolution establishes the following funds and accounts:

Within the Costs of Issuance Fund:
Series 2014A Costs of Issuance Account
Series 2014B Costs of Issuance Account

Within the Construction Fund:
Series 2014A Construction Account
Series 2014B Construction Account

Within the Debt Service Fund:
Series 2014A Capitallized Interest Account
Series 2014B Capitalized Interest Account
Series 2014A Interest Account
Series 2014B Interest Account

Series 2014A Principal Account
Series 2014B Principal Account

Series 2014A Redemption Account
Series 2014B Redemption Account

Within the Rebate Fund:
Series 2014A/B Rebate Account

The 1991 Master Resolution established the Issue 1 Reserve Account as security for the Issue 1 Bonds and any other Participating Series of Bonds designated by Supplemental Resolution or by the Director as being secured by the Issue 1 Reserve Account. The Series 2014A Bonds and the Series 2014B Bonds have each been designated as a Participating Series of Bonds with respect to the Issue 1 Reserve Account.

Application of Series 2014A/B Bonds Costs of Issuance Accounts

The 1991 Master Resolution requires the Trustee to apply moneys in the Series 2014A Costs of Issuance Account and the Series 2014B Costs of Issuance Account to the payment of costs of issuance of the Series 2014A/B Bonds. Amounts in the Series 2014A/B Costs of Issuance Accounts may be invested in any Permitted Investment.

Application of Series 2014A/B Bonds Construction Accounts

The 1991 Master Resolution requires the Trustee to disperse moneys in the Series 2014A Construction Account and the Series 2014B Construction Account to the payment of Capital Plan Projects. Upon completion of the Series 2014A/B Capital Plan Projects, the Commission shall give written notice to the Trustee as set forth in the tax certificate and shall apply any remaining moneys in accordance with said notice.

Application of Series 2014A/B Debt Service Accounts

The Series 2014A Interest Account, the Series 2014A Principal Account and the Series 2014A Redemption Account are sometimes referred to herein as the Series 2014A Debt Service Accounts. The Series 2014B Interest Account, the Series 2014B Principal Account and the Series 2014B Redemption Account are sometimes referred to herein as the Series 2014B Debt Service Accounts. The Supplemental Resolutions require the Trustee to apply moneys in the Series 2014A Interest Account and the Series 2014B Interest Account to the payment of interest on the applicable Series of Bonds when due, including accrued interest on any Bonds of such Series purchased or redeemed prior to maturity. The Supplemental Resolutions require the Trustee to apply moneys in the Series 2014A Principal Account and the Series 2014B Principal Account to the payment of the Principal Amount of the applicable Series of Bonds when due.

The Commission may, from time to time, purchase any Series 2014A/B Bonds out of available moneys of the Commission at such prices as the Commission may determine plus accrued interest thereon. All Series 2014A/B Bonds purchased or redeemed under the provisions of the 1991 Master Resolution will be delivered to, and canceled and destroyed by, the Trustee and shall not be reissued.

The Trustee is required to apply moneys in the Series 2014A Redemption Account and the Series 2014B Redemption Account, to the payment of the redemption price of the applicable Series of Bonds called for redemption. Accrued interest on the Series 2014A Bonds and the Series 2014B Bonds redeemed pursuant to the 1991 Master Resolution will be paid from the Series 2014A Interest Account or the Series 2014B Interest Account, as applicable.

In the event that the amount on deposit in any Series 2014A Debt Service Account is insufficient to pay the interest or Principal Amount or redemption price coming due on the 2014A Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the Issue 1 Reserve Account to the Series 2014A Interest Account, the Series 2014A Principal Account or the Series 2014A Redemption Account, as the case may be, not later than five days prior to the date on which such payment is required.

In the event that the amount on deposit in any Series 2014B Debt Service Account is insufficient to pay the interest or Principal Amount or redemption price coming due on the 2014B Bonds, the 1991 Master Resolution requires the Trustee to transfer the amount of such deficiency from the Issue 1 Reserve Account to the Series 2014B Interest Account, the Series 2014B Principal Account or the Series 2014B Redemption Account, as the case may be, not later than five days prior to the date on which such payment is required.

Rebate; Series 2014A/B Rebate Account

The Commission will pay or cause to be paid to the United States Government the amounts required by Section 148(f) of the Code and any Regulations promulgated thereunder at the times required thereby. The 1991 Master Resolution requires the Trustee to hold any payments received from the Commission for deposit into the Series 2014A/B Rebate Account for purposes of ultimate rebate to the United States. Pending payment to the United States, moneys held in the Series 2014A/B Rebate Account are pledged to secure such payments to the United States as provided in the 1991 Master Resolution and in the Tax Certificate for the Series 2014A Bonds and the Series 2014B Bonds and neither the Commission, the Bondholders nor any other person shall have any rights in or claim to such moneys. The 1991 Master Resolution requires the Trustee to invest all amounts held in the Series 2014A/B Rebate Account in Nonpurpose Investments (as defined in the Tax Certificate for the Series 2014A/B Bonds), as directed by the Commission in the Tax Certificate for the 2014A/B Bonds.

Permitted Investments

Amounts in the Series Debt Service Accounts for each Series of Bonds shall be invested in Permitted Investments described in clauses (a) or (b) of the definition of Permitted Investments maturing on or before the Payment Date on which the proceeds of such Permitted Investments are intended to be applied for the purposes of the Series Debt Service Account to which such Permitted Investments are allocated. Amounts in the Issue 1 Reserve Account shall be invested in Permitted Investments described in clauses (a) or (b) of the definition of Permitted Investments maturing no later than seven years after the date of purchase of said Permitted Investment. Amounts in Series Construction Accounts may be invested in any Permitted Investment. Amounts in the Series Escrow Funds shall be invested as provided in the corresponding Series Escrow Agreement.

Deposits of Net Revenues in Series Debt Service Accounts

In accordance with the 1991 Master Resolution, the Treasurer is required, on the second Business Day of each month, to allocate and transfer to the Trustee for deposit in the Series Debt Service Accounts for each Series of 2014A/B Bonds amounts from Net Revenues, as follows:

(a) In each Series Interest Account, in approximately equal monthly installments, an amount equal to at least one-sixth (1/6) of the aggregate amount of interest becoming due and payable on the applicable Series of 2014A/B Bonds on the next succeeding semiannual interest payment date; provided, however, that no moneys need be deposited in the Series Interest Account except to the extent that such moneys are required for the payment of interest to become due on the applicable Series of Series 2014A/B Bonds on the next succeeding semiannual interest payment date, after the application of the moneys then on deposit in the applicable Series Interest Account; and provided, further, that subject to the preceding proviso, during the period preceding the first interest payment date on the applicable Series of 2014A/B Bonds, the amount of each monthly installment shall be equal to the product of a fraction the numerator of which is one and the denominator of which is the number of whole calendar months from the Closing Date to the first interest payment date on the applicable Series of 2014A/B Bonds minus one, and the aggregate amount of interest becoming due and payable on the applicable Series of 2014A/B Bonds on said interest payment date.

(b) In each Series Principal Account in approximately equal monthly installments, commencing on the second Business Day of the month determined pursuant to a Series Sale Resolution or Bond Purchase Contract, an amount equal to at least one twelfth (1/12) of the aggregate Principal Amount becoming due and payable on any Outstanding serial Bonds of the applicable Series of 2014A/B Bonds on the next succeeding Principal Payment Date, until there shall have been accumulated in the applicable Series Principal Account an amount sufficient to pay the Principal Amount of all serial Bonds of the applicable Series of 2014A/B Bonds maturing by their terms on the next Principal Payment Date.

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE LEASE AND USE AGREEMENTS

The City and County of San Francisco (the "City"), acting by and through its Airport Commission (the "Commission"), has entered into a new form of Lease and Use Agreement (the "Lease and Use Agreement") with a majority of the airlines ("Signatory Airlines") operating at the Airport. The following summary of the Lease and Use Agreements does not purport to be complete and reference is hereby made to the complete text of the document, copies of which are on file and are available for examination at the offices of the Commission.

Term of Lease

The Lease and Use Agreements took effect on July 1, 2011 and expire on June 30, 2021.

Any airline that holds over with the Commission's consent beyond the expiration date of its Lease and Use Agreement is deemed a month-to-month tenant, and the holdover airline will continue to pay the same rate of rentals and landing fees as Signatory Airlines, unless different rates are agreed upon. Any airline that holds over without the Commission's consent is deemed a month-to-month tenant, and the holdover airline will pay the 25% premium on landing fees charged to other non-signatory airlines. Any holding over without the Commission's consent also constitutes an event of default by the airline.

Signatory Airlines, Non-Signatory Airlines and Affiliates

Any air carrier that is certified by the Secretary of Transportation, is engaged in the business of scheduled or non-scheduled commercial transportation by air of persons, property, mail, parcels and/or cargo, and signs a Lease and Use Agreement, is considered a "Signatory Airline."

Any air carrier that does not qualify as a Signatory Airline, may operate at the Airport under a month-to-month Operating Permit or as an itinerant airline. Airlines that are not Signatory Airlines or an Affiliate Airline of a Signatory Airline will pay a 25% premium on landing fees.

An "Affiliate Airline" is a non-Signatory Airline that is operating at the Airport under an Operating Permit and either (i) is a wholly owned subsidiary of a Signatory Airline, (ii) is a subsidiary of the same corporate parent of the Signatory Airline, (iii) shares flight codes with a Signatory Airline at the Airport, or (iv) operates cargo feeder flights at the Airport under the direction and control of a Signatory Airline. If the non-Signatory Airline is able to sell its own seats for flights at the Airport, however, it will not be classified as an Affiliate Airline of any Signatory Airline even if it may satisfy one of the criteria described above. Each Lease and Use Agreement constitutes an agreement by a Signatory Airline to guarantee the performance of all reporting and payment obligations of its Affiliate Airline(s) to the Commission. An Affiliate Airline has no Majority-in-Interest voting rights, but is included with its Signatory Airline's revenue aircraft arrivals for purposes of determining a Majority-in-Interest.

Lease of Premises

The Commission leases terminal space under the Lease and Use Agreements on an exclusive use basis, a preferential use basis, a joint use basis and a common-use basis, each with the following characteristics:

Exclusive use space, which includes back offices, clubs and lounges, ticket counters, and baggage handling space in domestic terminals, is leased to one Signatory Airline and is charged on a per-square-foot basis. Gates are no longer leased exclusively to one airline.

Preferential use space, which includes only domestic gates and holdrooms, is assigned annually to one Signatory Airline based on a formula taking into account the Signatory Airline's share of traffic at the Airport. See "–Preferential Use Gate Allocation Methodology" below. Rent for preferential use space is charged on a per-square-foot basis, with the rent for holdrooms being calculated based on the average size of all holdrooms in the applicable boarding area. The Signatory Airline to which a gate has been assigned has a preferential right to use the gate during its scheduled operations, but the Airport retains the right to let other airlines use the gate when not in active use by the assigned Signatory Airline. See "–Airport Scheduling Rights at Preferential Use Gates" below.

Joint use space applies primarily to gates, holdrooms, ticket counters and baggage facilities in the ITC, although joint use baggage systems are also located in Terminals 1 and 2. Joint use space and facilities are leased to a group of Signatory Airlines for their collective use in accordance with gate and ticket counter management protocols approved by the Airport. Rental charges are based on a formula, in accordance with which 80% of the charges are allocated pro rata to the Signatory Airlines in the group based on their passenger levels, and 20% of the charges are shared equally by the Signatory Airlines in the group.

Common-use space and facilities include gates in the domestic and international terminals, as well as ticket counters and baggage handling facilities in the domestic terminals. The Airport Director is permitted under the Lease and Use Agreements annually to designate up to 10% of the domestic terminal gates for common-use by any airline. Common-use facilities are not leased to any airline, but are used as needed by airlines which pay per-use fees. Common-use fees are calculated annually based on the cost of the applicable facilities divided by an average number of "turns" (i.e. periods of use). Airlines are charged 100% of the applicable common-use fee for a narrow-body aircraft and 115% of the fee for a wide-body aircraft.

As defined in the Lease and Use Agreement, a "gate" includes the passenger holdroom, together with any or all of the following equipment if owned by the Commission: a passenger loading bridge, a 400 MHz power unit, a pre-conditioned air unit, and related equipment. The related ramp (apron) is not included in the gate, but is retained by the Commission and used by the air carrier using the related gate.

Designation of Common Use Gates and Facilities

Common Use Gates

The Lease and Use Agreements provide that, no later than October 1 of each year, the Commission is to present to the Resource Management Advisory Committee ("RMAC") (a committee composed of three representatives of the Commission and three representatives of the Signatory Airlines) for review and discussion a preliminary plan indicating the number of gates in each terminal proposed to be reserved for use as common-use gates in the following Fiscal Year. Although the Director has sole discretion, after taking into consideration any recommendations by the RMAC, to determine the total number of gates to be reserved as common-use gates effective July 1, 2011 and July 1 of each Fiscal Year thereafter, such number may not exceed 10% of the total number of domestic terminal gates. Gates other than joint use gates remaining available after such determination shall be offered by the Commission to Signatory Airlines for use as preferential use gates to be allocated in accordance with the procedure described below. The Commission is to notify in writing all Signatory Airlines of its determination with respect to common-use gates no later than December 1 of each Fiscal Year.

Common Use Ticket Counters and Support Facilities

As of the effective date of the Lease and Use Agreement, the Director is to identify the initial ticket counters and support facilities to be designated for common-use. Thereafter, if in the Director's reasonable discretion an adjustment to the location or number of common-use ticket counters and common-use support facilities would be desirable, the Director may designate additional ticket counters and support facilities for common-use. The Director may also change ticket counters and support facilities from common-use to joint use or exclusive use for lease to Signatory Airlines. The Commission retains exclusive control of the use of all common-use gates, common-use ticket counters and common-use support facilities, provided that common-use facilities in the international terminal are to be managed and scheduled in accordance with the applicable gate and ticket counter management protocols.

Preferential Use Gate Allocation Methodology

After determination by the Airport Director of the total number of common-use gates as described above, the Commission is to apply the following methodology to determine the total number of preferential use gates that are to be offered to each Signatory Airline during each Fiscal Year, effective July 1, 2011 and July 1 of each Fiscal Year thereafter:

(a) The Commission will first divide the number of Scheduled Seats for each Signatory Airline, including its affiliate airline(s), by the total number of Scheduled Seats for all Signatory Airlines to determine the Signatory Airline's percentage share of all Scheduled Seats ("Scheduled Seats Percentage"). "Scheduled Seats" means the average daily number of departing seats on the scheduled operations of a Signatory Airline (including its affiliate airlines) to destinations in the United States or Canada and on international flights allowed by the Commission to operate from a domestic terminal, for the month of August immediately preceding the Fiscal Year for which the determination is being made, which is computed by dividing total departing seats for the scheduled operations of a Signatory Airline (including its affiliate airlines) for the month of August by 31.

(b) The Commission will calculate the number of preferential use gates to be offered to a Signatory Airline by multiplying the Signatory Airline's Scheduled Seats Percentage by the total number of gates to be made available for preferential use, rounding the product to the nearest whole number; provided that a product less than 0.5 will not be eligible for rounding during this step.

(c) If as a result of rounding, the total number of preferential use gates to be offered to all Signatory Airlines computed as described in paragraph (b) is less than the total number of gates available for preferential use, the Commission will allocate such remaining preferential use gates to Signatory Airlines based on the unrounded results of the computations described in paragraph (b). The remaining preferential use gates will be allocated in priority order by first increasing by one the number of preferential use gates to be offered to the Signatory Airline whose unrounded product is nearest to 0.5 without equaling or exceeding 0.5 and next proceeding to increase by one the number of preferential use gates to be offered to the Signatory Airline whose unrounded product is second nearest to 0.5 without equaling or exceeding 0.5 and so on until the total number of preferential use gates to be made available to all Signatory Airlines by the Commission is reached.

(d) If as a result of rounding, the total number of preferential use gates to be offered to all Signatory Airlines computed as described in paragraph (b) exceeds the total number of preferential use gates, the Commission will reduce the number of calculated preferential use gates to be offered to Signatory Airlines based on the unrounded results of the computations described in paragraph (b). The number of over-allocated preferential use gates will be reduced in priority order by first reducing by one the number of allocated preferential use gates to the Signatory Airline whose unrounded product calculated as described in paragraph (b) is nearest to 0.5 without being less than 0.5 and next proceeding to reduce by one the number of preferential use gates to be offered to the Signatory Airline whose unrounded product calculated as described in paragraph (b) is second nearest 0.5 without being less than 0.5 and so on until the total number of preferential use gates to be made available to all Signatory Airlines by the Commission is reached.

(e) No later than December 1 of each Fiscal Year, the Commission will provide written notice to all Signatory Airlines of its annual determination of preferential use gates as described above and will offer each Signatory Airline the opportunity to be allocated the number of preferential use gates indicated by these calculations. Each Signatory Airline will provide written notice to the Commission no later than February 1 of each Fiscal Year either accepting or rejecting any or all of the gates offered to it by the Commission for preferential use.

(f) If a Signatory Airline does not accept the allocation of a preferential use gate by February 1 of each Fiscal Year, the Signatory Airline rejecting such gate may request the Commission allocate such preferential use gate to another Signatory Airline if, within the acceptance period, the following two conditions are met: (i) the Signatory Airline rejecting the preferential use gate has a written handling agreement with the Signatory Airline accepting allocation of the rejected preferential use gate, and (ii) the Signatory Airline accepting allocation of the rejected preferential use gate demonstrates to the Commission's satisfaction that it needs the rejected preferential use gate reasonably to accommodate the rejecting Signatory Airline's flights, in which case the gate will be allocated to that other Signatory Airline as a preferential use gate. Alternatively, if any Signatory Airline does not accept the allocation of a preferential use gate, the Commission may elect to reallocate such gate to another Signatory Airline if the Commission determines the number of common-use gates is adequate to accommodate all airline operations needing to use gates at the Airport. The Commission may reallocate such gates until all gates available for use as preferential use gates are allocated to Signatory Airlines or rejected for use as preferential use gates.

(g) Any gate rejected for allocation during a Fiscal Year as a preferential use gate by all eligible Signatory Airlines may be deactivated or used during such Fiscal Year as the Commission sees fit, including, without limitation, as a common-use gate, even though such election may cause the total number of common-use gates to exceed ten percent of the total number of domestic terminal gates.

(h) The Commission will, in its sole discretion, determine the locations of any preferential use gates to be offered to a Signatory Airline, after taking into consideration the compatibility of such Signatory Airline's aircraft with the gate being assigned and the desirability of assigning contiguous gates within the same terminal for preferential use by any given Signatory Airline and minimizing the frequency of changes in the locations of preferential use gates, as well as any recommendations by the RMAC. By March 1 of each Fiscal Year, the Commission will provide Signatory Airlines notice of the assignments of preferential use gates and the locations of common-use gates, to be effective the following July 1.

Airport Scheduling Rights at Preferential Use Gates

A Signatory Airline will have scheduling preference during a period of use at its preferential use gates only for an operation (arrival or departure) that occurs in accordance with a published schedule. The Commission will have the right, upon reasonable notice to a Signatory Airline, to schedule arrivals and departures by a requesting airline at a preferential use gate at all periods of time other than the Signatory Airline's periods of use of that assigned preferential use gate. In accommodating the Commission in its right to schedule such operations at a preferential use gate, the Signatory Airline will allow for use of its facilities or equipment (not including ground service equipment) at the preferential use gate or permit use of the Commission's equipment and podiums as may be required for the efficient use of the preferential use gate by a requesting airline. Whenever practical, the Commission will first consider the availability of common-use gates and any recommendations of the RMAC before scheduling requesting airline arrivals and departures at any preferential use gate. Any requesting airline that is accommodated at any of a Signatory Airline's preferential use gates shall be required to pay the Commission the same charges for use of the preferential use gate that it would have been required to pay for use of a common-use gate. The Commission will provide a credit to the Signatory Airline for one-half of the amount of any such gate-use payment.

Airport's Rights to Accommodate Other Airlines and Recapture Space

Accommodation of Other Air Carriers in a Signatory Airline's Exclusive Use Space

To facilitate the entry of new airlines and to maximize the utilization of facilities at the Airport, the Commission will first attempt to accommodate airlines needing space with preferential use gates as described above, common-use facilities, joint use space, or uncommitted space available in the applicable terminal. If such facilities cannot adequately accommodate the requesting airline's needs, the Commission will have the right to require the temporary accommodation of a requesting airline in a Signatory Airline's exclusive use space if (i) the Signatory Airline has adequate capabilities, capacity, facilities and personnel for its own needs and the needs of the requesting airline, (ii) the two airlines enter into an agreement and satisfy certain documentary requirements, such as fees, indemnification and insurance.

Recapture of Exclusive Use Space Following Reduction in Number of Preferential Use Gates

If the number of preferential use gates assigned to a Signatory Airline is reduced, the Commission may at any time thereafter and from time to time, after taking into account any recommendations of the RMAC, at the Commission's sole discretion and upon 30 days written notice to the Signatory Airline, terminate the Signatory Airline's rights to use all or a portion of its exclusive use space, including ticket counters and support facilities, that is reasonably required to support the operations of other airlines using the preferential use gates no longer assigned to the Signatory Airline. The Commission will not terminate rights to exclusive use space that, in the Director's reasonable discretion, is required to support the Signatory Airline's continued operations at its remaining preferential use gate(s), if any.

Recapture of Exclusive Use Space Following Rejection of Preferential Use Gates

Whenever a Signatory Airline declines to accept a preferential use gate following the annual allocation of gates described above, the Commission may at any time thereafter and from time to time, after taking into account any recommendations of the RMAC, at the Commission's sole discretion and upon 60 days notice, reclaim all or a portion of the Signatory Airline's exclusive use space associated with the rejected preferential use gate, including ticket counters and support facilities, as follows:

(a) If there is another Signatory Airline that is willing to lease the reclaimed space, the two Signatory Airlines will attempt to negotiate an agreement as to any changes to the condition or layout of the space, any required sharing of support facilities, any associated costs, and any other provisions required to permit the other Signatory Airline to use the reclaimed space for its intended purpose.

(b) If the two Signatory Airlines cannot reach agreement, the Commission will join the negotiations and attempt to mediate an agreement.

(c) If the Commission is unable to mediate an agreement, the Airport Director will formulate a reasonable solution and notify both Signatory Airlines.

(d) If there is no other Signatory Airline willing to lease the reclaimed space, the space will revert to the possession and control of the Commission and may thereafter be made available by the Commission on a common-use basis to other airlines, or leased on an exclusive use or preferential use basis to other Signatory Airlines or Airport tenants.

Relocation of Signatory Airline Operations

Under the Lease and Use Agreements, the Commission has the right upon 60 days notice, to require a Signatory Airline to relocate its operations at the Airport in order to improve Airport facilities, accommodate the traveling public, or maximize the use of the terminals and related facilities by all users thereof. All reasonable moving costs resulting from relocation of a Signatory Airline in a Commission-imposed temporary reallocation of space shall be funded by the Commission; provided that if the removal and reinstallation of the Signatory Airline's trade fixtures and other movable property is possible and not unreasonable, the Signatory Airline will not be entitled to a replacement of such fixtures or property. In addition, a Signatory Airline will not be entitled to reimbursement for relocation of or within joint use space, or preferential use space resulting from the annual reallocation, acceptance or rejection of gates.

Rates and Charges

Airport Cost Centers and Space Categories

The Lease and Use Agreements set forth following six cost centers based on functional areas of the Airport to be used in accounting for revenues, expenses and debt service: Airfield Area, Airport Support Area, Terminal Area, Groundside Area, Utilities Area and West of Bayshore Area. Direct and indirect expenses are recorded and allocated to the appropriate cost centers. Terminal Area space, including ticket counters, ticket counter back offices, administrative and operation offices, baggage handling areas, and unenclosed or covered areas, is classified in five space categories, each with a different rental rate.

Rentals and Landing Fees and their Adjustment

The Lease and Use Agreements provide for the residual rate setting methodology at the Airport, in order to match revenues each year to the Commission's expenditures by adjusting aviation revenues. Differences between actual receipts and expenditures result in adjustment of Terminal Area rentals and landing fees in subsequent years. The Commission's financial statements reflect such adjustments in the year in which the difference occurs.

The Lease and Use Agreements provide a methodology for computing the landing fee rate and Terminal Area rental rates to ensure that revenues equal expenditures. Airlines that are not Signatory Airlines or an Affiliate Airline of a Signatory Airline will pay a 25% premium on landing fees.

Landing fees and Terminal Area rental rates are adjusted annually. Not fewer than 90 days before the end of each fiscal year, each Signatory Airline is required to submit to the Commission the landed weight forecast for itself and its affiliate airlines, and notice of any proposed additions to the space in the Terminal Area it leases, for the next fiscal year. Concurrently, the Commission submits to the airlines its budgetary forecast for the various cost centers for the next fiscal year. The Commission then computes and forwards to the Signatory Airlines not fewer than 60 days before the end of the Fiscal Year its computations made in accordance with the requirements of the Lease and Use Agreements of the landing fee rate and the Terminal Area rental rates for the next fiscal year. The Signatory Airlines and the Commission may meet to discuss the proposed rates and charges, and the Commission will give due regard to any comments offered by the Signatory Airlines on the proposed calculations. Within 30 days after the meeting, or the forwarding of the rentals and fees to the Signatory Airlines if no meeting is held, the rentals and fees, as calculated by the Commission in accordance with Lease and Use Agreements and the 1991 Master Resolution, will become effective.

If at any time during the Fiscal Year, the actual expenses (including debt service) of the Terminal Area and the Groundside Area are projected to exceed by ten percent or more the actual revenues in the Terminal Area and Groundside Area, the Commission may, after using commercially reasonable efforts to reduce expenses, and upon 60 days notice to, and in consultation with, the Signatory Airlines, increase the Terminal Area rentals. The Lease and Use Agreements require the Signatory Airlines to pay such increased rentals or such lesser amount which equals the projected deficiency for the remaining months of the then-current fiscal year. Landing fees may similarly be increased in the event the actual expenses (including debt service) of the Airfield Area and Airport Support Area are projected to exceed by ten percent or more the actual revenues in such areas.

Airline Review of Capital Improvements

Under the Lease and Use Agreements, the Commission is limited in any Fiscal Year to appropriating from current revenues up to $4,200,000 in Fiscal Year 2008-09 dollars, as adjusted, to finance capital improvements. A Majority-in-Interest of the Signatory Airlines may approve the use of additional current revenues to fund capital improvements. The Commission must otherwise use commercially reasonable efforts to finance capital improvements in excess of such amount through the use of grants, funding from the Transportation Security Administration, and passenger facility charges, and through the issuance of Airport revenue bonds. A "capital improvement" is a single Airport addition or improvement, including equipment, which is purchased, leased or constructed at a cost of $626,257 in Fiscal Year 2008-09 dollars or more, and a useful life of more than three years. The dollars amounts are to be adjusted annually by the Implicit Price Deflator Index for Gross Domestic Product published by the U.S. Department of Commerce, Bureau of Economic Analysis.

Proposed capital improvements with a cost in excess of $626,257 in Fiscal Year 2008-09 dollars that would result in a charge to Signatory Airlines in the terminal area rentals or landing fees are subject to certain review procedures established under the Lease and Use Agreements. A Majority-in-Interest of the Signatory Airlines (defined as more than 50% in number of the Signatory Airlines who, on the date in question, also account for more than 50% of the aggregate revenue aircraft landed weight landed by the Signatory Airlines at the Airport during the immediately preceding fiscal year) may require the Commission to defer a proposed capital improvement for six months to give the airlines time to present their views regarding the capital improvement. Capital improvements that are (i) required by a federal or state agency having jurisdiction over Airport operations, (ii) to be financed by the issuance of Special Revenue Bonds, or (iii) of an emergency nature, which, if not made, would result in the closing of the Airport within 48 hours, are not subject to the review procedures.

"Special Revenue Bonds" are taxable and tax-exempt obligations (such as special facility bonds) issued by the Commission, the principal of, premium, if any, and interest on which are payable from or secured in whole or substantial part by revenues other than Airport "Revenues," as defined under the 1991 Master Resolution. The Commission may pledge Revenues as further security for Special Revenue Bonds, or issue general Airport revenue bonds to refund Special Revenue Bonds in accordance with the 1991 Master Resolution, if (i) the Signatory Airlines are notified in writing of the proposed pledge or issuance, and (ii) the Majority-in-Interest approves the pledge or issuance within 45 days of the mailing of the notice. The Commission may not proceed with any such pledge or issuance that is not so approved by a Majority-in-Interest.

Public Liability and Property Damage Insurance

A Signatory Airline, at its own cost and expense, must obtain and maintain certain public liability and property damage insurance during the term of its Lease and Use Agreement, including (i) an aircraft liability policy with coverage of at least $500 million combined single limit for bodily injury and property damage, (ii) at least $100 million War and Named Perils coverage for bodily injury and property damage, (iii) a workers' compensation and employers' liability policy, (iv) a commercial business auto policy with a minimum limit of not less than $2 million combined single limit for bodily injury and property damage, and (v) property insurance in an amount equal to the value of airline improvements and betterments during the course of any construction and after completion of construction. The Commission has the right at any time to review the coverage, form and amount of insurance and may require a Signatory Airline to obtain additional insurance, provided it is commercially reasonable.

Security Deposit

A Signatory Airline's faithful performance of its Lease and Use Agreement will be secured by a security deposit equal to two months of Terminal Area rentals, landing fees, usage fees, rates and charges. The security deposit may be in the form of a surety bond or a letter of credit to be renewed annually at the Signatory Airline's cost, and kept in full force and effect at all times. If the Signatory Airline fails to pay any amounts due or otherwise defaults under the Lease and Use Agreement, the Commission may draw on the Signatory Airline's security deposit for the payment of any delinquent amounts, or to compensate the Commission for any loss or damages suffered by the Commission. The Signatory Airline is required to replenish its security deposit within 10 days.

Assignment and Subletting

A Signatory Airline is not permitted to transfer or assign its leased premises, its Lease and Use Agreement, or any right thereunder without the Director's prior written consent. Any transfer made without the Director's consent constitutes an event of default hereunder and will be voidable at the Director's election. The merger of a Signatory Airline with any other entity or the transfer of any controlling ownership interest in a Signatory Airline, or the assignment or transfer of a substantial portion of the assets of a Signatory Airline, whether or not located on the leased premises will be deemed a transfer to which the consent requirements are applicable. In addition, a Signatory Airline's entering into any operating agreement, license or other agreement where a third party, other than a subsidiary, affiliate airline, or code share partner of the Signatory Airline, is given rights or privileges to utilize portions of the leased space will be considered an attempted transfer which requires Airport consent.

However, the restrictions on asset transfers in the Lease and Use Agreements will not apply to stock or limited liability company interest transfers of corporations or limited liability companies the stock or interests of which are traded through an exchange or over the counter. A Signatory Airline will also have the right, without first obtaining the Airport's written consent, to assign or transfer its Lease and Use Agreement, to an entity controlling, controlled by or under common control with such Signatory Airline, or to a successor by merger, consolidation or acquisition to all or substantially all of the assets of the Signatory Airline, if such entity or successor operates at the Airport and assumes all rights and obligations under the Lease and Use Agreement.

Damage and Destruction; Condemnation/Eminent Domain

Damage and Destruction

If any part of a Signatory Airline's leased space is partially damaged by fire or other casualty but is not rendered untenantable, the damaged space will be repaired by the parties as described below. If any part of the leased premises is so extensively damaged by fire or other casualty as to render any portion of the space untenantable but capable of being repaired, the same will be repaired by the parties as described below, and the Commission will use commercially reasonable efforts to provide the Signatory Airline with comparable temporary alternative facilities sufficient to allow the Signatory Airline to continue its operations while repairs are being completed. If any part of the leased premises will be damaged by fire or other casualty, and is so extensively damaged as to render any portion of the leased premises untenantable and not economically feasible to repair, the Commission will notify the Signatory Airline within 45 days after the date of such damage of its decision whether said space should be reconstructed or replaced. If the Commission elects to replace or reconstruct the affected space, the same will be reconstructed by the parties as described below, and the Commission will use commercially reasonable efforts to provide the Signatory Airline with comparable temporary alternative facilities sufficient to allow the Signatory Airline to continue its operations while reconstruction is being completed. If the Commission elects to not reconstruct or replace the damaged leased premises, the Commission will either relocate the Signatory Airline, or if no replacement premises are available, permanently reduce the space leased to the Signatory Airline. If the Signatory Airline is not relocated and its remaining tenantable leased premises are not sufficient to maintain operations at the Airport, the Signatory Airline may terminate its Lease and Use Agreement.

Allocation of Responsibility for Reconstruction; No Abatement of Rent

In the event any Signatory Airline's alterations in its exclusive or preferential use space are to be reconstructed or repaired following damage by a casualty, the Signatory Airline will use commercially reasonable efforts to repair its alterations, at its sole cost and expense, within 90 days for space that is open to the public and within 180 days for space that is not open to the public, and its Lease and Use Agreement will continue in full force and effect. In the event any improvements in the joint use space included in the leased premises of one or more Signatory Airlines is to be reconstructed or repaired following damage by a casualty, the responsibility to repair such damage will be allocated among the applicable Signatory Airlines and the Commission in accordance with the maintenance responsibilities set forth in the Lease and Use Agreement. Any other replacement, repair or reconstruction will be completed by the Commission.

If Signatory Airline's leased space is wholly or partially destroyed or damaged, the Signatory Airline will have no claim against the Commission for any damage suffered by reason of any such damage, destruction or repair. In addition, the Signatory Airline will not be entitled to an abatement of rent resulting from any damage, destruction or repair; provided that the Signatory Airline will not be charged rent for both untenantable leased premises and temporary alternative facilities.

Condemnation/Eminent Domain

If all or a substantial part of a Signatory Airline's leased premises will be taken or condemned through eminent domain, the Signatory Airline may terminate its Lease and Use Agreement upon 30 days' notice if the Commission does not notify the Signatory Airline in writing within 60 days before the date of taking that it will provide the Signatory Airline with mutually acceptable substitute facilities. If only a portion of the leased premises will be taken, the Signatory Airline will have the right to amend its Lease and Use Agreement to remove the leased premises so taken upon 30 days' notice, if the Commission does not notify the Signatory Airline in writing within 60 days before the date of taking that it will provide the Signatory Airline with mutually acceptable substitute facilities.

Payments from Commission to City

The Lease and Use Agreements provide for payments from the Commission to the City consisting of the Annual Service Payments and reimbursement for the costs of direct services provided by City departments to the Commission. See "AIRPORT'S FINANCIAL AND RELATED INFORMATION–Payments to the City" in the forepart of this Official Statement.

"Annual Service Payments" are to be paid from the Airport Revenue Fund to the City's General Fund for each fiscal year beginning with Fiscal Year 2011-12 through Fiscal Year 2020-21 during the term of the Lease and Use Agreement. These payments constitute full satisfaction of all obligations of the Airport, the Commission, and the airlines for all indirect services, management and facilities provided by the City to the Airport, and are equal the greater of (i) 15% of Concession Revenues and (ii) $5 million. "Concession Revenues" is defined in the Lease and Use Agreements as the fees and rentals collected by Commission for the right to provide and operate restaurants, car rental services, shops, advertising, courtesy vehicles, ground transportation services, parking and other services.

The Lease and Use Agreements provide that if a Signatory Airline was a signatory to certain prior agreements with the Airport or signed certain releases relating to prior litigation, that such Signatory Airline waives any rights it may have either under the prior agreements or by reason of such releases, to challenge any Annual Service Payments made after June 30, 2011.

The Lease and Use Agreements further provide that the Commission may reimburse the City for the cost of certain direct services provided to the Airport by other City departments, such as the City Attorney, the Fire Department, the Police Department, the City Controller, the Water Department, the Department of Public Works, the Purchasing Department and the City-wide risk manager.

Events of Default; Termination or Suspension of Lease and Use Agreement Provisions

Each of the following events constitutes an Event of Default under the Lease and Use Agreement: (i) a failure punctually to pay any amount due that continues beyond the date specified in a written notice of default from the Airport, which date will be no earlier than the tenth (10th) day after the date of the notice; provided that if two payment defaults occur, the Commission will have no obligation to give further notices and an immediate Event of Default will occur; (ii) various events of insolvency or bankruptcy relating to the Signatory Airline; (iii) an involuntary bankruptcy petition is filed against the Signatory Airline and not dismissed within 30 days; (iv) an unauthorized transfer of the Lease and Use Agreement without the prior approval of the Commission that is not voided or rescinded within ten days after receipt of notice to the Signatory Airline; (v) the abandonment of the leased premises; (vi) a lien is filed against the lease premises as a result of an act or omission of the Signatory Airline, and is not discharged or contested within 30 days after receipt of notice; (vii) a failure to maintain the required security deposit for a period of more than three days after receipt of notice; (viii) a failure to maintain the required insurance or self-insured reserves; (ix) a failure to observe any covenant in the Lease and Use Agreement for a period of more than ten days after receipt of notice, or failure to commence a cure within ten days after receipt of notice, followed by a failure to diligently prosecute the cure within one hundred twenty days after the notice; (x) the occurrence a default under any other agreement between the Signatory Airline and the Commission that is not cured as provided in the other agreement; or (xi) a failure timely to remit any passenger facility charges collected by the Signatory Airline.

Upon the occurrence and continuation of an Event of Default, the Commission may elect from the following remedies in addition to any other rights and remedies available to the Commission at law or in equity: (i) terminate the Signatory Airline's use of the leased premises and recover statutory damages from the Signatory Airline; (ii) not terminate the Lease and Use Agreement and continue to collect rent as it becomes due; (iii) appoint a receiver to take possession of the leased premises and collect rents therefrom; (iv) terminate any other agreement between the Signatory Airline and the Commission; or (v) require prepayment of any amounts due under the Lease and Use Agreement.

If a Signatory Airline fails to perform a duty under its Lease and Use Agreement and does not cure within 3 days (as to any emergency) or 30 days (as to any non-emergency) following notice, the Commission has the right to perform such duty at the Signatory Airline's expense. The Commission also has the right to impose and collect fines from the Signatory Airlines as set forth in the Airport Rules as established and updated from time to time by the Commission.

In addition, the Commission may terminate a Lease and Use Agreement if the Signatory Airline ceases revenue aircraft arrivals at the Airport for more than 30 consecutive days for reasons other than certain force majeure events.

A Signatory Airline may terminate its Lease and Use Agreement upon the occurrence of any of the following events: (i) the issuance of a permanent injunction by any court of competent jurisdiction which remains in force for 180 days and substantially prevents the Signatory Airline from using all or major portions of the Airport; (ii) any action of any governmental authority, board, agency or officer with proper jurisdiction preventing the Signatory Airline from operating at the Airport; (iii) the involuntary termination by any governmental authority, board, agency or officer having jurisdiction, of Signatory Airline's right to serve the Airport; (iv) a default by the Commission in the performance of any material covenant, which default materially and adversely limits or prohibits the Signatory Airline's operations at the Airport, and the failure by the Commission to remedy such default in a timely manner as provided in the Lease and Use Agreement; (v) if the Signatory Airline's leased premises are completely destroyed and the Commission elects not to reconstruct or replace the premises, does not relocate the Signatory Airline, and the remaining premises are not sufficient to maintain operations at the Airport; (vi) all or a substantial part of a Signatory Airline's leased premises are taken or condemned by any competent authority through exercise of its power of eminent domain, and the Commission does not notify the Signatory Airline within 60 days before the date of taking that it will provide mutually acceptable substitute facilities; or (vii) the Annual Service Payments can no longer be made and the Commission elects to suspend certain portions of the Lease and Use Agreement. See "*–Commission's Right to Suspend Part of Lease and Use Agreement*" below.

In addition, each Signatory Airline will have a one-time mid-term option to request termination of its use of up to twenty percent of its exclusive use space upon ninety days notice, effective July 1, 2016. If, in the Commission's sole determination, the exclusive use space the Signatory Airline intends to vacate has independent physical access and is otherwise functional and useable by other air carriers or tenants, the Commission will not unreasonably withhold approval of the Signatory Airline's request.

Commission's Right to Suspend Part of Lease and Use Agreement

In the event that the Annual Service Payments cannot be made for any reason for 12 months, other than through the City's or Commission's own inaction or action not in conformance with the Lease and Use Agreements, including, but not limited to, supervening legislation or court decision, the Commission may elect to suspend uniformly as to all Signatory Airlines, all or some of the provisions of the Lease and Use Agreements relating to: the calculation and adjustment of landing fees; the limitation on funding capital projects from current revenues; the right of a Majority-in-Interest of the Signatory Airlines to delay capital improvements; and the Commission's covenant to require all users of the Airfield Area to pay for their use thereof and to credit the amounts received to the appropriate cost centers, so as to reduce the amounts needing to be collected from the Signatory Airlines through landing fees. If the Commission elects to suspend any of these provisions, any Signatory Airline may terminate its Lease and Use Agreement upon 30 days notice.

In addition, during any period of suspension of some or all of the provisions described above, the Commission may: (1) appropriate an amount equal to the then-payable Annual Service Payments for capital improvements included in its five-year capital program; and (2) adjust the level of terminal rental rates, observing in the calculations of such adjusted rental rates the cost centers and procedures for allocation of revenues, expenses, and debt service to such cost centers in accordance with the Lease and Use Agreement, and maintaining the relationships between rental rates for each category of space described in the Lease and Use Agreement.

During the period when the Annual Service Payments cannot be made, the Commission is required to segregate the amounts that would otherwise have been paid to the City General Fund in an identifiable, interest-bearing subaccount of the Airport Revenue Fund, to be applied to any lawful purpose of the Commission other than as security for any bond issue. To the extent monies are so segregated and applied, the Annual Service Payments will be deemed to have been satisfied.

Upon resumption of the Annual Service Payments or receipt of an equivalent amount by City's General Fund, the right of the Commission to suspend the provisions of the Lease and Use Agreements described above will terminate and the Commission will release any segregated amounts to the Airport Revenue Fund for customary budgeting disposition. The Commission will also make any necessary adjustments to terminal rentals and landing fees.

Limited Obligations of the City

Any obligation or liability of the City created by or arising out of the Lease and Use Agreements will be payable solely out of the Revenues and other lawfully available moneys of the Airport, and will not constitute a general obligation of the City or a charge upon its General Fund. The Lease and Use Agreements will not obligate the City to make any appropriation from its General Fund for any payment due hereunder. No breach by the Commission under the Lease and Use Agreements will impose any pecuniary liability upon the City, other than from Revenues, or be payable from or constitute a charge upon the general credit or against the taxing power of the City.

West of Bayshore Lands

The Lease and Use Agreements restrict the development of Airport property west of the Bayshore Freeway. Maintenance costs of the property in its current undeveloped state are an obligation of the Commission and are included in calculations to determine landing fee rates. Any future development of such property, however, may be undertaken solely with non-Airport revenues and without the use of Airport staff, facilities and resources. The airlines disclaim the right to any revenues from the area.

Other Lease and Use Agreement Covenants

The Commission covenants in the Lease and Use Agreements to: (i) efficiently manage and operate the Airport on the basis of sound business and airport management principles in effect at airports of comparable size in the continental United States and with efficient and prudent control of all capital and operating expenses; (ii) use commercially reasonable efforts to operate the Airport in a manner consistent with its strategic marketing and public relations plans in order to maximize revenues from concessionaires, lessees and other non-airline users; (iii) require all users to pay for use of the airfield, with the fees paid by users other than Signatory Airlines and their Affiliate Airlines to be credited to the appropriate cost centers so as to reduce the amounts required to be collected from the Signatory Airlines and their Affiliate Airlines through landing fees.

Except as otherwise provided in the Lease and Use Agreements or as the Commission and Signatory Airlines may subsequently agree, the Commission may not to charge any Signatory Airline, its passengers, employees, furnishers of services, or suppliers, any charges, fees or tolls of any nature, direct or indirect, for any of the premises or privileges granted in the Lease and Use Agreement. The Commission, however, may impose and use passenger facility charges in accordance with applicable law.

In the Lease and Use Agreement, the Commission agrees that all Airport-related functions provided as of July 1, 2009, by City employees assigned to the Commission and working under the direct authority and control of the Director will continue to be provided by employees assigned to the Commission and may only be transferred to other City departments upon 60 days notice to the Signatory Airlines, and consideration and response to any comments, questions or objections of the Signatory Airlines to the proposed transfer of functions within 45 days of receipt. Any City department head whose department receives work relating to the Airport in a transfer of functions is to coordinate and consult with the Director at least annually to ensure that the work is performed in a manner that is efficient, meets the needs of the Airport, conforms to sound business and airport management principles, and is properly documented as required by FAA rules and regulations.

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APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE CERTIFICATE

The following is a summary of certain provisions of the master Continuing Disclosure Certificate entered into by the Commission, the terms of which will apply to of the Series 2014A/B Bonds (the "Disclosure Certificate"). This summary is not to be considered as a full statement of the Disclosure Certificate and reference is made thereto for the full details of the terms thereof.

Purpose

The Disclosure Certificate is being executed and delivered by the Commission for the benefit of the Holders and Beneficial Owners of the Series 2014A/B Bonds and in order to assist the Participating Underwriter in complying with SEC Rule 15c2-12(b)(5).

Definitions

In addition to the definitions set forth in the 1991 Master Resolution, which apply to any capitalized term used in the Disclosure Certificate unless otherwise defined below, the following capitalized terms have the following meanings for purposes of the Disclosure Certificate:

"Annual Disclosure Report" shall mean any Annual Disclosure Report provided by the Commission pursuant to, and as described in, the Disclosure Certificate.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2014A/B Bonds, including persons holding Series 2014A/B Bonds through nominees, depositories or other intermediaries.

"Dissemination Agent" shall mean the Commission, or any successor Dissemination Agent designated in writing by the Commission and which has filed with the Commission a written acceptance of such designation.

"Holder" shall mean the person in whose name any Series 2014A/B Bond shall be registered.

"Listed Events" shall mean any of the events listed in as such in the Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Participating Underwriter" shall mean any of the Underwriters of the Series 2014A/B Bonds required to comply with the Rule in connection with the issuance of the Series 2014A/B Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Provision of Annual Disclosure Reports

The Commission shall, or shall cause the Dissemination Agent to, not later than 210 days after the end of the Commission's fiscal year (which currently ends June 30), commencing with Fiscal Year 2013-14, provide to the MSRB an Annual Disclosure Report which is consistent with the requirements of the Disclosure Certificate, with a copy to the Trustee. The Annual Disclosure Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in the Disclosure Certificate; provided that the audited financial statements of the Commission may be submitted separately from the balance of the Annual Disclosure Report, and later than the date required above for the filing of the Annual Disclosure Report if they are not available by that date. If the Commission's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under the Disclosure Certificate.

Not later than fifteen (15) Business Days prior to the date specified above for providing the Annual Disclosure Report to the MSRB, the Commission shall provide the Annual Disclosure Report to the Dissemination Agent (if other than the Commission).

If the Commission is unable to provide to the MSRB an Annual Disclosure Report by the date required above, the Commission shall send a notice, in electronic format to the MSRB, in substantially the form attached to the Disclosure Certificate.

The Dissemination Agent shall file a report with the Commission (if the Commission is not the Dissemination Agent) certifying that the Annual Disclosure Report has been provided pursuant to the Disclosure Certificate and stating the date it was provided.

Content of Annual Disclosure Reports

The Commission's Annual Disclosure Report shall contain or include by reference the following for the most recently ended fiscal year:

1. Audited Financial Statements of the Commission, presented in accordance with generally accepted accounting principles applicable to the Commission from time to time. If the Commission's audited financial statements are not available by the time the Annual Disclosure Report is required to be filed as described above, the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Disclosure Report when they become available.

2. Air Traffic Data (number of scheduled aircraft arrivals and departures, domestic enplanements and deplanements, international enplanements and deplanements, and total passengers at the Airport; number of enplanements by carrier for top ten carriers).

3. Cargo Traffic Data (weight of air cargo on and off at the Airport).

4. Total Landed Weights (landed weight by carrier of the top ten carriers and total landed weight at the Airport).

5. Airline Service (identity of all domestic and international carriers serving the Airport during such Fiscal Year).

6. Ten Highest Revenue Producing Concessionaires (name, lease expiration, minimum annual rent, if any, and concession revenues).

7. Ten Highest Revenue Producers (name and revenues produced).

8. Total Outstanding Long-Term Debt of the Commission (outstanding principal amount and lien position).

9. Historical Landing Fees and Terminal Rentals.

10. Calculation of Net Revenues and compliance with the Rate Covenant (each as defined in the Resolution).

11. Passenger Facility Charge Collections Designated as Revenues by the Commission for Payment of Debt Service on Outstanding Bonds (designation date, amount designated, and applicable fiscal year).

12. Summary of Payments Made by the Airport to the City and County of San Francisco (annual service payment and reimbursement for direct services, including police, fire, other and utility costs).

13. Liquidity Facilities and Credit Facilities Supporting Outstanding Bonds and Commercial Paper (principal amount, type, expiration date, insurer and insurer rating, credit or liquidity provider, short term and long term rating).

14. Summary of Interest Rate Swap Agreements (effective date and expiration date, initial notional amount, counterparty or guarantor and ratings, insurer, fixed rate payable by Commission, market value to Commission).

Any of all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Commission or related public entities, which have been made available to the public on MSRB's website. The Commission shall clearly identify each such other document so included by reference.

Reporting of Significant Events

A. Pursuant to the provisions of the Disclosure Certificate, the Commission shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2014A/B Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB)

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the "obligated person" (within the meaning of the Rule).

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an 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 such jurisdiction has been assumed by leaving the existing governmental body and 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 obligated person.

B. The Commission shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2014A/B Bonds, if material, not later than ten business days after the occurrence of the event:

1. Unless described in subparagraph A5 above, adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2014A/B Bonds or other material events affecting the tax status of the Series 2014A/B Bonds;

2. Modifications to rights of the Series 2014A/B Bond holders;

3. Optional, unscheduled or contingent the Series 2014A/B Bond calls;

4. Release, substitution, or sale of property securing repayment of the Series 2014A/B Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

Whenever the Commission obtains knowledge of the occurrence of an event listed in the paragraph B above, the Commission shall as soon as possible determine if such event would be material under applicable federal securities laws.

If the Commission learns of the occurrence of an event listed in A above or determines that knowledge of the occurrence of an event listed in paragraph B above would be material under applicable federal securities laws, the Commission shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in A.7 and B.3 above need not be given any earlier than the notice (if any) of the underlying event is given to Holders of affected Series 2014A/B Bonds pursuant to the 1991 Master Resolution.

Termination of Reporting Obligation

The Commission's obligations under the Disclosure Certificate shall terminate upon (a) the legal defeasance, prior redemption or payment in full of all of the Series 2014A/B Bonds or (b) if, in the opinion of nationally recognized bond counsel, the Commission ceases to be an obligated person with respect to the Bonds or the Bonds otherwise cease to be subject to the requirements of the Rule. If such termination occurs prior to the final maturity of the Bonds, the Commission shall give notice of such termination in the same manner as for a Listed Event.

Dissemination Agent

The Commission may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Commission.

Amendment; Waiver

Notwithstanding any other provision of the Disclosure Certificate, the Commission may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions described in the first paragraph under "Provision of Annual Disclosure Reports" or described under "Content of Annual Disclosure Reports" or described in the first two paragraphs under "Reporting of Significant Events," it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status or an obligated person with respect to the Series 2014A/B Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2014A/B Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Series 2014A/B Bonds in the same manner as provided in the 1991 Master Resolution for amendments to the 1991 Master Resolution with the consent of the Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Series 2014A/B Bonds.

In the event of any amendment or waiver of any provision of the Disclosure Certificate, the Commission shall describe such amendment in the next Annual Disclosure Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change in accounting principles, on the presentation) of financial information or operating data being presented by the Commission. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event, and (ii) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Additional Information

Nothing in the Disclosure Certificate shall be deemed to prevent the Commission from disseminating any other information, using the means of dissemination set forth in the Disclosure Certificate or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Certificate. If the Commission chooses to include any information in any Annual Disclosure Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Disclosure Certificate, the Commission shall have no obligation under the Disclosure Agreement to update such information or include it in any future Annual Disclosure Report or notice of occurrence of a Listed Event.

Default

In the event of a failure of the Commission to comply with any provision of the Disclosure Certificate, the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Series 2014A/B Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the Series 2014A/B Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Commission to comply with its obligations under the Disclosure Certificate. Failure by the Commission to comply with any provision of the Disclosure Certificate shall not be deemed an Event of Default under the 1991 Master Resolution, and the sole remedy under the Disclosure Certificate in the event of any failure of the Commission to comply with the Disclosure Certificate shall be an action to compel performance.

Beneficiaries

The Disclosure Certificate shall inure solely to the benefit of the Commission, the Trustee, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Series 2014A/B Bonds, and shall create no rights in any other person or entity.

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APPENDIX G

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

[Closing Date]

Airport Commission of the City
and County of San Francisco
San Francisco International Airport
San Francisco, California

$473,610,000
Airport Commission of the City and County of San Francisco
San Francisco International Airport
Second Series Revenue Bonds
Series 2014A/B

$376,320,000 **Series 2014A** **(AMT)**	**$97,290,000** **Series 2014B** **(Non-AMT/** **Governmental Purpose)**

Ladies and Gentlemen:

We have acted as Co-Bond Counsel to the Airport Commission of the City and County of San Francisco (the "Commission") in connection with the issuance by the Commission of its San Francisco International Airport Second Series Revenue Bonds, Series 2014A in the aggregate principal amount of $376,320,000 (the "Series 2014A Bonds"), and Series 2014B in the aggregate principal amount of $97,290,000 (the "Series 2014B Bonds," and together with the Series 2014A Bonds, the "Series 2014A/B Bonds"). The Series 2014A/B Bonds are being issued pursuant to the Charter of the City and County of San Francisco (the "Charter") and all laws of the State of California supplemental thereto (collectively, the "Law"), and Resolution No. 91-0210, adopted by the Commission on December 3, 1991, as supplemented and amended to the date hereof, including as supplemented by the Certificate of Additional Terms of the Commission relating to the Series 2014A/B Bonds, dated the date hereof (collectively, the "1991 Master Resolution"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the 1991 Master Resolution.

In connection with the issuance of the Series 2014A/B Bonds, we have examined: (a) copies of the 1991 Master Resolution, the Charter and the Law; (b) an executed copy of the Tax Certificate, dated the date hereof, relating to the Series 2014A/B Bonds and other matters (the "Tax Certificate"); (c) certifications of the Commission, the Co-Financial Advisors, the Trustee, the Underwriters and others; (d) opinions of counsel to the Commission, the Trustee and the Underwriters; and (e) such other documents, opinions and matters as we deemed relevant and necessary rendering the opinions set forth herein. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and the validity against, any parties, other than the Commission, thereto. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in this paragraph.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We call attention to the fact that the obligations of the Commission, the security provided therefor, as contained in the Series 2014A/B Bonds and the 1991 Master Resolution, may be subject to general principles of equity which permit the exercise of judicial discretion, and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, and to the limitations on legal remedies against charter cities and counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the Series 2014A/B Bonds or the 1991 Master Resolution. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated September 16, 2014, or any other offering material relating to the Series 2014A/B Bonds and express no opinion relating thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2014A/B Bonds constitute the valid and binding special, limited obligations of the Commission secured by a pledge of and lien upon and are a charge upon and are payable from the Net Revenues and certain funds and accounts provided for in the 1991 Master Resolution.

2. The 1991 Master Resolution has been duly adopted by the Commission and constitutes the valid and binding obligation of the Commission, enforceable against the Commission in accordance with its terms. The 1991 Master Resolution creates a valid pledge, to secure the payment of the principal of and interest on the Series 2014A/B Bonds, of the Net Revenues and certain amounts on deposit in certain funds and accounts provided for in the 1991 Master Resolution, subject to the provisions of the 1991 Master Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The Series 2014A/B Bonds are not a debt of the City and County of San Francisco, nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Revenues and the funds and accounts specifically pledged to the payment thereof. Neither the faith and credit nor the taxing power of the City and County of San Francisco, the State of California or any political subdivision thereof is pledged to the payment of the principal of or interest on the Series 2014A/B Bonds, and the Commission is not obligated to pay the principal of and interest on the Series 2014A/B Bonds except from Net Revenues. An owner of the Series 2014A/B Bonds may not compel the exercise of the taxing power of the City and County of San Francisco or the forfeiture of any of its property to pay the principal of or interest on the Series 2014A/B Bonds. The Commission has no taxing power.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2014A Bonds is excluded from gross income for federal income tax purposes, except that such exclusion does not apply with respect to interest on any Series 2014A Bond for any period during which such Series 2014A Bond is held by a person who is a "substantial user" of the facilities financed or refinanced by the Series 2014A Bonds or a "related person" to such substantial user within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2014A Bonds constitutes an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations by the Code.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2014B Bonds is excluded from gross income for federal income tax purposes. Interest on the Series 2014B Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, such interest is included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

6. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2014A/B Bonds is exempt from present State of California personal income tax.

The opinions set forth in numbered paragraphs 4 and 5 above regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the Commission with covenants regarding federal tax law contained in the 1991 Master Resolution and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2014A/B Bonds to be included in gross income retroactive to the date of issue of the Series 2014A/B Bonds. Although we are of the opinion that interest on the Series 2014A/B Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2014A/B Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

Our engagement with respect to the Series 2014A/B Bonds has concluded with their issuance, and we disclaim any obligation to update, revise or supplement this opinion letter.

Very truly yours,

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