NEW ISSUE—BOOK-ENTRY ONLY

RATINGS
(See "RATINGS" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, interest on the Series 2011B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Interest on the Series 2011B Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011B Bonds. See "TAX MATTERS" herein.

$271,820,000
CITY OF SAN JOSE, CALIFORNIA
AIRPORT REVENUE BONDS
SERIES 2011B
(TAXABLE)

Dated: Date of Delivery **Due: March 1, as shown on the inside cover**

The City of San José Airport Revenue Bonds, Series 2011B (Taxable) (the "Series 2011B Bonds") are being issued by the City of San José, California (the "City"). The Series 2011B Bonds are being issued (i) to refund certain Subordinated Commercial Paper Notes (as defined herein) that were originally issued to finance and/or refinance the costs of designing and constructing certain improvements to the Norman Y. Mineta San José International Airport, (ii) to pay a portion of the interest to accrue on the Series 2011B Bonds through March 1, 2014, (iii) to make a cash deposit to the 2011B Account of the Bond Reserve Fund, (iv) to fund an increase of the Rolling Coverage Amount, and (v) to pay the costs of issuing the Series 2011B Bonds.

The Series 2011B Bonds are being issued pursuant to the City Charter and pursuant to a Master Trust Agreement between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Series 2011B Bonds are limited obligations of the City payable solely from, and secured by a pledge of, General Airport Revenues and certain other funds held or made available under the Master Trust Agreement, after Maintenance and Operation Costs are paid. The City has covenanted in the Master Trust Agreement not to issue any obligations secured by a pledge of General Airport Revenues senior to the claim of the Series 2011B Bonds.

Interest on the Series 2011B Bonds will be payable on March 1 and September 1, commencing March 1, 2012. The Series 2011B Bonds are issuable as fully registered bonds and when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. Individual purchases and sales of the Series 2011B Bonds may be made in book-entry form only, in denominations of $5,000 and integral multiples thereof. Purchasers will not receive certificates from the City or the Trustee representing their interest in the Series 2011B Bonds purchased. So long as the Series 2011B Bonds are held by DTC, the principal of and interest on the Series 2011B Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2011B Bonds, as more fully described herein.

The Series 2011B Bonds are subject to optional and mandatory redemption prior to maturity as more fully described herein.

The principal of and interest on the Series 2011B Bonds are secured solely by the General Airport Revenues and certain other funds held or made available under the Master Trust Agreement, after Maintenance and Operation Costs are paid, and the City is not obligated to pay the Series 2011B Bonds except from the General Airport Revenues and such other funds held or made available under the Master Trust Agreement. The General Fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the principal of or interest on the Series 2011B Bonds. The Series 2011B Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the General Airport Revenues. The owners of the Series 2011B Bonds have no right to compel the exercise of any taxing power of the City.

The scheduled payment of principal of and interest on certain maturities of the Series 2011B Bonds (as identified on the inside cover hereof, the "Series 2011B Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2011B Insured Bonds by ASSURED GUARANTY MUNICIPAL CORP.

The cover page is not intended to be a summary of the terms of, or the security for, the Series 2011B Bonds. Investors are advised to read this Official Statement in its entirety to obtain information essential to the making of an informed investment decision.

The Series 2011B Bonds are offered when, as and if issued by the City and received by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. Certain legal matters will be passed upon on behalf of the City by the City Attorney, and certain legal matters will be passed upon for the City by Orrick, Herrington & Sutcliffe LLP as disclosure counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP. It is expected that the Series 2011B Bonds in book-entry form will be available for delivery through the facilities of DTC on or about December 14, 2011.

J.P. Morgan

Barclays Capital **Morgan Stanley**

December 2, 2011

MATURITY SCHEDULE

$271,820,000
CITY OF SAN JOSE, CALIFORNIA
AIRPORT REVENUE BONDS
SERIES 2011B (TAXABLE)

Maturity (March 1)	Amount	Interest Rate	Price	CUSIP†
2012	$7,735,000	1.00%	100%	798136TD9
2015	495,000	3.32	100	798136TE7
2016	800,000	3.72	100	798136TF4
2017	1,155,000	4.09	100	798136TG2
2018*	1,540,000	4.22	100	798136TH0
2019	1,945,000	4.70	100	798136TJ6
2020*	2,390,000	4.75	100	798136TK3
2021*	2,865,000	4.90	100	798136TL1
2022*	3,380,000	5.10	100	798136TM9
2023*	2,150,000	5.33	100	798136TN7
2024*	1,750,000	5.58	100	798136TP2
2025*	2,000,000	5.78	100	798136TQ0

$13,680,000 5.75% Term Bonds due March 1, 2026*, priced to yield 5.98%, CUSIP 798136TV9†
$5,610,000 6.60% Term Bonds due March 1, 2032, priced to yield 6.87%, CUSIP 798136TT4†
$48,800,000 6.45% Term Bonds due March 1, 2032*, priced to yield 6.72%, CUSIP 798136TU1†
$16,000,000 6.75% Term Bonds due March 1, 2041, priced to yield 6.97%, CUSIP 798136TR8†
$159,525,000 6.60% Term Bonds due March 1, 2041*, priced to yield 6.82%, CUSIP 798136TS6†

* Series 2011B Insured Bonds. The scheduled payment of principal of and interest on the Series 2011B Insured Bonds, when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2011B Bonds by Assured Guaranty Municipal Corp. See "BOND INSURANCE" herein.

CITY OF SAN JOSE

City Council
Chuck Reed, Mayor

District l:	Pete Constant, Member	District 6:	Pierluigi Oliverio, Member
District 2:	Ash Kalra, Member	District 7:	Madison Nguyen, Member (Vice Mayor)
District 3:	Sam Liccardo, Member	District 8:	Rose Herrera, Member
District 4:	Kansen Chu, Member	District 9:	Donald Rocha, Member
District 5:	Xavier Campos, Member	District 10:	Nancy Pyle, Member

Airport Commission

Keith Graham, Chair
George Gange
Spencer Horowitz
Ian Kluft

Andrés Quintero, Vice Chair
John Salah
Frank Sweeney

City Officials

Debra Figone, City Manager
Dennis Hawkins, City Clerk
Sharon Winslow Erickson, City Auditor
Richard Doyle, City Attorney
William F. Sherry, Director of Aviation
Julia Harper Cooper, Acting Director of Finance

City Staff

Edward Shikada, Assistant City Manager
Kimberly B. Aguirre, Assistant Director of Aviation
Arn Andrews, Acting Assistant Director of Finance
Terri A. Gomes, Deputy Director, Finance and Administration
Maria Öberg, Interim Treasury Division Manager
Charlene Sun, Debt Administrator
David Zolezzi, Financial Analyst
Evelyn Slotnick, Principal Accountant
Steven Lam, Senior Accountant

Professional Services

Bond Counsel
Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Disclosure Counsel
Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Trustee
The Bank of New York Mellon Trust
Company, N.A.
San Francisco, California

Financial Advisors
Public Financial Management
Largo, Florida

Public Resources Advisory Group
Los Angeles, California

Independent Airport Consultant
Ricondo & Associates, Inc.
Cincinnati, Ohio

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations other than as contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been given or authorized by the City or the Underwriters.

Use of this Official Statement. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2011B Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement does not constitute a contract between any owner of the Series 2011B Bonds and the City or the Underwriters.

Preparation of this Official Statement. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Norman Y. Mineta San José International Airport since the date hereof. This Official Statement is submitted in connection with the sale of the Series 2011B Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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 a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Bond Insurance. Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Series 2011B Bonds or the advisability of investing in the Series 2011B Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" in Appendix J.

Estimates and Forecasts. Certain statements contained in this Official Statement do not reflect historical facts but are forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "forecast," "project," "anticipate," "expect," "intend," "plan," "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

Document Summaries. All summaries of documents contained in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. Each reference in this Official Statement to a document is qualified in its entirety by reference to such document, which is on file with the City. Copies of documents referred to herein are available from the Finance Department—Debt Management, City of San José City Hall, 200 East Santa Clara Street, San José, CA 95113; Phone (408) 535-7010; Fax (408) 292-6482. The City may impose a charge for copying, mailing and handling.

No Registration or Qualification. The issuance and sale of the Series 2011B Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, and the Master Trust Agreement has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions provided thereunder.

Airport and City Websites. The City maintains a number of websites, including a website for the Airport. However, the information presented on the City's websites is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2011B Bonds.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2011B BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2011B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2011B BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER OR YIELDS HIGHER THAN THE PUBLIC OFFERING PRICES AND YIELDS STATED ON THE INSIDE COVER PAGE HEREOF, AND THE PUBLIC OFFERING PRICES AND YIELDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS WITHOUT PRIOR NOTICE.

CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY

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CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY

OFFICIAL STATEMENT

RELATING TO

$271,820,000
CITY OF SAN JOSE, CALIFORNIA
AIRPORT REVENUE BONDS
SERIES 2011B
(TAXABLE)

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page, inside cover page, table of contents and appendices, is to provide information concerning the sale and delivery by the City of San José, California (the "City") of $271,820,000 aggregate principal amount of City of San José Airport Revenue Bonds, Series 2011B (Taxable) (the "Series 2011B Bonds").

Pursuant to Sections 200 and 1220 of the Charter of the City of San José (the "City Charter"), the City has the power to issue revenue bonds for airport facilities. The Series 2011B Bonds are to be issued and secured pursuant to the City Charter and Chapter 4.38 of the City Municipal Code (collectively, the "Law") and pursuant to the Master Trust Agreement, dated as of July 1, 2001, between the City and The Bank of New York Mellon Trust Company, N.A., as successor to BNY Western Trust Company, as trustee (the "Trustee"), as supplemented by the First Supplemental Trust Agreement, dated as of July 1, 2001 (the "First Supplemental Trust Agreement"), by the Second Supplemental Trust Agreement, dated as of December 1, 2002 (the "Second Supplemental Trust Agreement"), by the Third Supplemental Trust Agreement and the Fourth Supplemental Trust Agreement, each dated as of June 1, 2004 (respectively, the "Third Supplemental Trust Agreement" and the "Fourth Supplemental Trust Agreement"), by the Fifth Supplemental Trust Agreement, dated as of September 1, 2007 (the "Fifth Supplemental Trust Agreement"), by the Sixth Supplemental Trust Agreement, dated as of May 1, 2009 (the "Sixth Supplemental Trust Agreement"), by a Seventh Supplemental Trust Agreement, dated as of July 1, 2011 (the "Seventh Supplemental Trust Agreement"), and by an Eighth Supplemental Trust Agreement, to be dated as of December 1, 2011 (the "Eighth Supplemental Trust Agreement"), each between the City and the Trustee (collectively, the "Master Trust Agreement"). All capitalized terms used in this Official Statement, unless otherwise defined herein, have the meanings assigned to such terms in the Master Trust Agreement. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT—Certain Definitions" in Appendix D.

Purpose of the Series 2011B Bonds

The Series 2011B Bonds are being issued (i) to refund certain Subordinated Commercial Paper Notes (as defined herein) that were originally issued to finance and/or refinance the costs of designing and constructing certain improvements to the Norman Y. Mineta San José International Airport (the "Airport"), (ii) to pay a portion of the interest to accrue on the Series 2011B Bonds through March 1, 2014, (iii) to make a cash deposit to the 2011B Account of the Bond Reserve Fund, (iv) to fund an increase of the

Rolling Coverage Amount, and (v) to pay the costs of issuing the Series 2011B Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF PROCEEDS."

The City and the Airport

The City is the tenth largest city in the United States and the third largest city in California, with a population of approximately 945,942 according to the U.S. Census Bureau's 2010 Census. The territory of the City encompasses approximately 178 square miles. Located at the southern end of San Francisco Bay, San José is the county seat of the County of Santa Clara (the "County"), also known as "Silicon Valley."

The Airport is a commercial service and general aviation airport owned and operated by the City. The Airport is classified by the Federal Aviation Administration (the "FAA") as a "medium hub" airport (an airport that enplanes at least 0.25% but less than 1.0% of the total number of passenger boardings at all commercial service airports in the United States). The Airport is located approximately two miles north of downtown San José and serves the California counties of Alameda, Monterey, San Benito, San Mateo, Santa Clara and Santa Cruz (the "Air Service Area"). In the City's fiscal year ended June 30, 2011 ("fiscal year 2010-11"), the Airport served approximately 4.19 million enplaned passengers (passengers embarking on airplanes, representing approximately 50% of the total number of passengers enplaning and deplaning at the Airport), compared to approximately 4.11 million in fiscal year 2009-10. The City estimates that approximately 97.5% of enplaned passengers at the Airport in fiscal year 2010-11 were passengers beginning their trips at the Airport (often referred to as "origin and destination" or "O&D" passengers), as opposed to passengers connecting through the Airport to other cities. See "PASSENGER SERVICES AND OPERATIONS" in Appendix A.

Passenger airline traffic at the Airport declined markedly during fiscal years 2001-02 and 2002-03, increased slightly during fiscal years 2003-04, 2004-05 and 2005-06, and then again declined markedly between fiscal years 2006-07 and 2009-10. In fiscal year 2010-11, enplanements grew by 2.0% compared to fiscal year 2009-10. In contrast, based upon unaudited results for fiscal year 2010-11, the Airport's total operating revenues increased by approximately 34.3% from fiscal year 2006-07 to fiscal year 2010-11, while total maintenance and operation expenses, excluding depreciation and amortization, decreased by approximately 16.7%. See "CERTAIN FACTORS AFFECTING THE AIRPORT" below, "AIRPORT FINANCIAL MATTERS" and "REPORT OF THE INDEPENDENT AIRPORT CONSULTANT" in Appendix A, and "REPORT OF THE INDEPENDENT AIRPORT CONSULTANT" in Appendix B.

Thirteen passenger airlines and two air cargo carriers provided scheduled service at the Airport as of October 1, 2011. Passenger airlines serving the Airport and leasing space directly from the City are operating at the Airport pursuant to the terms of an operating agreement and terminal building lease with the City (the "Airline Lease Agreement"). All passenger airlines, with the exception of Volaris, are operating at the Airport as Signatory Airlines (as defined in Appendix A). Volaris currently operates at the Airport as a Non-Signatory Airline (as defined in Appendix A). See "LEASE AND OPERATING AGREEMENTS—Airline Agreements" in Appendix A and "REPORT OF THE INDEPENDENT AIRPORT CONSULTANT—Financial Analysis—Airline Revenues" in Appendix B.

Security for the Series 2011B Bonds

The Series 2011B Bonds are limited obligations of the City secured by a pledge of General Airport Revenues and certain other funds held or made available under the Master Trust Agreement, after the payment of Maintenance and Operation Costs. As of November 1, 2011, the City had outstanding $45,710,000 aggregate principal amount of Series 2001A Bonds, $55,980,000 aggregate principal amount of City of San José Airport Revenue Refunding Bonds, Series 2002A and Series 2002B (collectively, the

"Series 2002 Bonds"), $107,000,000 aggregate principal amount of City of San José Airport Revenue Bonds, Series 2004C and Series 2004D (collectively, the "Series 2004C/D Bonds"), $725,015,000 aggregate principal amount of City of San José Airport Revenue Bonds, Series 2007A (the "Series 2007A Bonds") and Series 2007B (the "Series 2007B Bonds" and, together with the Series 2007A Bonds, the "Series 2007 Bonds") and $236,785,000 aggregate principal amount of City of San José Airport Revenue Bonds, Series 2011A-1 (the "Series 2011A-1 Bonds") and Series 2011A-2 (the "Series 2011A-2 Bonds" and, together with the Series 2011A-1 Bonds, the "Series 2011A Bonds"). On October 2, 1984, the City Council adopted Resolution No. 57794 providing for the issuance of City of San Jose airport revenue bonds (the "1984 Resolution"). On June 26, 2001, in connection with the issuance of the Series 2001A Bonds, the City Council adopted a resolution amending and restating the 1984 Resolution as the Master Trust Agreement. The Series 2001A Bonds, the Series 2002 Bonds, the Series 2004C/D Bonds, the Series 2007 Bonds and the Series 2011A Bonds (collectively, the "Outstanding Bonds") are secured under the Master Trust Agreement on a parity with the Series 2011B Bonds. The Series 2011B Bonds, together with the Outstanding Bonds and any other future parity bond obligations issued under the Master Trust Agreement (the "Additional Bonds"), are referred to in this Official Statement as the "Bonds." See "SECURITY FOR THE BONDS."

The principal of and interest on the Bonds, including the Series 2011B Bonds, are secured solely by the General Airport Revenues and certain other funds held or made available under the Master Trust Agreement, after Maintenance and Operation Costs are paid, and the City is not obligated to pay the Bonds except from the General Airport Revenues and such other funds held or made available under the Master Trust Agreement. The General Fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the principal of, premium, if any, or interest on the Bonds. The Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the General Airport Revenues. The Owners of the Bonds have no right to compel the exercise of any taxing power of the City. See "SECURITY FOR THE BONDS."

Bond Insurance

Payment of the principal of and interest on certain maturities of the Series 2011B Bonds identified on the inside cover of this Official Statement (collectively, the "Series 2011B Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2011B Insured Bonds by Assured Guaranty Municipal Corp. ("AGM" or the "2011B Bond Insurer"). See "BOND INSURANCE" and "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" in Appendix J.

Report of the Independent Airport Consultant

In connection with the issuance of the Series 2011A Bonds and the Series 2011B Bonds, Ricondo & Associates, Inc., as independent consultant to the City (the "Independent Airport Consultant"), prepared the Report of the Independent Airport Consultant, dated June 27, 2011 and, in connection with the issuance of the Series 2011B Bonds, a letter dated November 15, 2011 (collectively, the "Report of the Independent Airport Consultant"), each included in Appendix B to this Official Statement. The Independent Airport Consultant also will prepare the additional bonds certificate required under the Master Trust Agreement for the issuance of the Series 2011B Bonds. The Report of the Independent Airport Consultant presents, among other things, the Independent Airport Consultant's projections of activity and financial results of the Airport through the City's fiscal year ending June 30, 2017 and the assumptions upon which the projections are based. The Report of the Independent Airport Consultant is an integral part of this Official Statement and should be read in its entirety. The Report of the Independent Airport Consultant has not been revised to reflect the final terms of the Series 2011B Bonds. See "REPORT OF THE INDEPENDENT AIRPORT

CONSULTANT" in Appendix A and "REPORT OF THE INDEPENDENT AIRPORT CONSULTANT" in Appendix B.

Continuing Disclosure

The City is covenanting for the benefit of the Holders and Beneficial Owners of the Series 2011B Bonds to provide certain financial information and operating data and to give notices of certain events if material, to assist the Underwriters in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5). See "CONTINUING DISCLOSURE."

Presentation of Unaudited Results

Unaudited results from the Airport's fiscal year 2010-11 are included in this Official Statement, including in Appendix A. Such information is preliminary and subject to change, including as a result of accounting changes proposed as part of the audit process or otherwise required to conform such information to generally accepted accounting principles applicable to local governments such as the City, and such changes may be material. Thus, direct comparisons between corresponding information in the audited and unaudited results may not be completely informative. The most recent Comprehensive Annual Financial Report of the Airport, presenting the Airport's audited financial results for the fiscal year ended June 30, 2010 and including footnotes, is attached to this Official Statement as Appendix E.

Miscellaneous

The summaries of or references to the Master Trust Agreement, the Series 2011B Bonds, the Airline Lease Agreement and all other documents and instruments referred to in this Official Statement do not purport to be comprehensive or definitive. Each reference to any of the foregoing is qualified in its entirety by reference to each such document or instrument, copies of which are available for inspection at the Finance Department—Debt Management, City of San José City Hall, 200 East Santa Clara Street, San José, CA 95113.

Neither the City's independent auditors nor any other independent accountants have compiled, examined or performed any procedures with respect to the projected financial information contained in this Official Statement, nor have they expressed any opinion or any other form of assurance on such information or its achievability.

The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Airport or the City since the date hereof.

Certain statements contained in this Official Statement do not reflect historical facts but are forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "forecast," "project," "anticipate," "expect," "intend," "plan," "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

This Official Statement is not to be construed as a contract or agreement between the City and purchasers or owners of any of the Series 2011B Bonds.

PLAN OF REFUNDING

Proceeds of the Series 2011B Bonds are to be used to refund $224,672,000 aggregate principal amount of Subordinated Commercial Paper Notes Series C (the "Refunded Notes") originally issued to finance and/or refinance the costs of designing and constructing certain improvements to the Airport, including, without limitation, the completion of the construction of a Consolidated Rental Car Facility (the "ConRAC"). See "APPENDIX A—THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT." Proceeds of the Series 2011B Bonds are also to be used to pay a portion of the interest to accrue on the Series 2011B Bonds through March 1, 2014, to make a cash deposit to the 2011B Account of the Bond Reserve Fund, to fund an increase of the Rolling Coverage Amount, and to pay the costs of issuing the Series 2011B Bonds.

Proceeds of the Series 2011B Bonds to be applied to refund the Refunded Notes will be deposited with the Trustee. Such amounts will be applied by the Trustee to pay the principal of the Refunded Notes when and as such Refunded Notes come due. The Trustee will apply General Airport Revenues to pay accrued and unpaid interest on the Refunded Notes when and as such Refunded Notes come due.

ESTIMATED SOURCES AND USES OF PROCEEDS

The following table sets forth the estimated uses of proceeds of the Series 2011B Bonds.

Sources of Funds:	
Principal Amount	$271,820,000.00
Net Original Issue Discount	(6,798,626.95)
Total Sources	$265,021,373.05
Uses of Funds:	
Note Payment Fund[(1)]	$224,672,000.00
2011B Capitalized Interest Account[(2)]	5,149,504.14
2011B Account of the Bond Reserve Fund[(3)]	27,182,000.00
Deposit for Rolling Coverage Amount[(4)]	3,394,158.65
Costs of Issuance[(5)]	4,623,710.26
Total Uses	$265,021,373.05

(1) A portion of the proceeds of the Series 2011B Bonds will pay the principal of the Refunded Notes. Interest due on the Refunded Notes will be paid from General Airport Revenues.

(2) Represents the amount necessary to pay a portion of the interest to become due on the Series 2011B Bonds through March 1, 2014.

(3) Total represents the 2011B Required Reserve. See "SECURITY FOR THE BONDS—Bond Reserve Fund—2011B Reserve Account."

(4) To be deposited in the General Revenue Fund. See "SECURITY FOR THE BONDS—Other Available Funds, CFC Revenues and Available PFC Revenues—Other Available Funds and CFC Revenues," "—Rate Maintenance Covenant," and "—Additional Series of Bonds."

(5) Includes underwriters' discount, rating agency fees, bond insurance premium, legal and other professional fees and other costs of issuing the Series 2011B Bonds.

DESCRIPTION OF THE SERIES 2011B BONDS

Form and Denomination

The Series 2011B Bonds are to be dated the date of their initial delivery and are to mature and bear interest as set forth on the inside cover page of this Official Statement. Interest on the Series 2011B Bonds is to be payable on each March 1 and September 1 (each a "Payment Date"), commencing March 1, 2012. The interest on the Series 2011B Bonds is to be payable to the person whose name appears on the bond registration books of the Trustee as the Owner thereof (the "Owner") as of the close of business on the fifteenth day of the month immediately preceding an interest Payment Date (DTC so long as the book-entry system with DTC is in effect), whether or not such day is a business day, such interest to be paid by check mailed by first-class mail on such Payment Date to such Owner at such address as appears on such registration books. Any Owner of at least $1,000,000 aggregate principal amount of Series 2011B Bonds may elect to have interest payable by wire transfer to the bank account number on file with the Trustee (provided the Owner makes a written request to the Trustee before the fifteenth day of the month preceding each Payment Date).

Each of the Series 2011B Bonds is to bear interest from the Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the sixteenth day of the month next preceding any Payment Date to the Payment Date, inclusive, in which event it is to bear interest from such Payment Date, or unless it is authenticated on or before February 15, 2012, in which event it is to bear interest from the date of its initial delivery; provided, however, that if, at the time of authentication of any Bond, interest is in default on the Outstanding Bonds, such Bond is to bear interest from the Payment Date to which interest has previously been paid or made available for payment on the Outstanding Bonds.

The Series 2011B Bonds are to be issued in denominations of $5,000 and any integral multiple thereof. The Series 2011B Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., or such other name as may be requested by an authorized representative of DTC, as registered owner and nominee of DTC. DTC will act as securities depository for the Series 2011B Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2011B Bonds purchased. So long as Cede & Co., or such other name as may be requested by an authorized representative of DTC, is the registered owner of the Series 2011B Bonds, as nominee of DTC, references to the Owners or registered owners mean Cede & Co. and not the Beneficial Owners of the Series 2011B Bonds.

So long as Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the registered owner of the Series 2011B Bonds, principal of and premium, if any, and interest on the Series 2011B Bonds are payable by wire transfer by the Trustee to Cede & Co., or such other name as may be requested by an authorized representative of DTC, as nominee for DTC, which is required, in turn, to remit such amounts to the DTC Participants for subsequent disbursement to the Beneficial Owners. See "DTC AND THE BOOK-ENTRY SYSTEM" in Appendix I.

Redemption of the Series 2011B Bonds

Optional Redemption of the Series 2011B Bonds. The Series 2011B Bonds maturing on and after March 1, 2022 are subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part from any maturities selected by the City on any date on or after March 1, 2021, at a redemption price equal to 100% of the principal amount of the Series 2011B Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, but without premium.

Optional Make Whole Redemption of the Series 2011B Bonds. Prior to March 1, 2021, the Series 2011B Bonds are subject to redemption prior to their respective maturities, at the option of the City, from any source of available funds, as a whole or in part from any maturities selected by the City, at the Make-Whole Redemption Price, together with interest accrued thereon to the date fixed for redemption.

"Make-Whole Redemption Price" means the amount equal to the greater of the following:

(1) 100% of the principal amount of the Series 2011B Bonds to be redeemed; or

(2) the original issue price of the Series 2011B Bonds to be redeemed; or

(3) the sum of the present value of the remaining scheduled payments of principal of and interest on the Series 2011B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2011B Bonds are to be redeemed, discounted to the date on which the Series 2011B Bonds are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 50 basis points.

At the request of the City or the Trustee, the Make-Whole Redemption Price of the Series 2011B Bonds, with respect to paragraph (3) above, will be calculated by an independent accounting firm, investment banking firm or financial advisor retained by the City at the City's expense. The City and the Trustee may conclusively rely on the determination of the Treasury Rate by the Designated Investment Banker and on any Make-Whole Redemption Price calculated by an independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

"Treasury Rate" means, with respect to any redemption date for a particular Series 2011B Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series 2011B Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Series 2011B Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series 2011B Bond to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Series 2011B Bond, (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the City.

"Reference Treasury Dealer" means each of the four firms, specified by the City from time to time, that are primary United States Government securities dealers in the City of New York (as such, each a "Primary Treasury Dealer"); provided, however, that if any Reference Treasury Dealer ceases to be a Primary Treasury Dealer, the City will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2011B Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

"Valuation Date" means a Business Day not later than the third Business Day preceding the redemption date but no more than 30 calendar days prior to the redemption date.

Mandatory Redemption of the Series 2011B Bonds. The Series 2011B Bonds stated to mature on March 1, 2026 are subject to mandatory sinking fund redemption from the 2011B Sinking Fund Account at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, but without premium, on March 1 of the following years and in the following principal amounts:

Series 2011B Bonds Due March 1, 2026

Sinking Fund Payment Date (March 1)	Principal Amount
2023	$1,780,000
2024	2,790,000
2025	3,200,000
2026†	5,910,000

† Maturity date

The Series 2011B Bonds stated to mature on March 1, 2032 and bearing interest at a rate of 6.60% per annum are subject to mandatory sinking fund redemption from the 2011B Sinking Fund Account at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, but without premium, on March 1 of the following years and in the following principal amounts:

Series 2011B Bonds Due March 1, 2032 and
Bearing Interest at a Rate of 6.60% per annum

Sinking Fund Payment Date (March 1)	Principal Amount
2027	$690,000
2028	775,000
2029	875,000
2030	975,000
2031	1,090,000
2032†	1,205,000

† Maturity date

The Series 2011B Bonds stated to mature on March 1, 2032 and bearing interest at a rate of 6.45% per annum are subject to mandatory sinking fund redemption from the 2011B Sinking Fund Account at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, but without premium, on March 1 of the following years and in the following principal amounts:

Series 2011B Bonds Due March 1, 2032 and
Bearing Interest at a Rate of 6.45% per annum

Sinking Fund Payment Date (March 1)	Principal Amount
2027	$5,985,000
2028	6,760,000
2029	7,595,000
2030	8,495,000
2031	9,460,000
2032†	10,505,000

† Maturity date

The Series 2011B Bonds stated to mature on March 1, 2041 and bearing interest at a rate of 6.75% per annum are subject to mandatory sinking fund redemption from the 2011B Sinking Fund Account at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, but without premium, on March 1 of the following years and in the following principal amounts:

Series 2011B Bonds Due March 1, 2041 and
Bearing Interest at a Rate of 6.75% per annum

Sinking Fund Payment Date (March 1)	Principal Amount
2033	$1,185,000
2034	1,305,000
2035	1,440,000
2036	1,580,000
2037	1,735,000
2038	1,905,000
2039	2,075,000
2040	2,285,000
2041†	2,490,000

† Maturity date

The Series 2011B Bonds stated to mature on March 1, 2041 and bearing interest at a rate of 6.60% per annum are subject to mandatory sinking fund redemption from the 2011B Sinking Fund Account at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, but without premium, on March 1 of the following years and in the following principal amounts:

Series 2011B Bonds Due March 1, 2041 and
Bearing Interest at a Rate of 6.60% per annum

Sinking Fund Payment Date (March 1)	Principal Amount
2033	$11,775,000
2034	13,015,000
2035	14,345,000
2036	15,780,000
2037	17,310,000
2038	18,980,000
2039	20,700,000
2040	22,780,000
2041†	24,840,000

† Maturity date

The principal amount of the Series 2011B Bonds required to be redeemed on any sinking fund payment date pursuant to the operation of the mandatory sinking fund redemption provisions will be reduced, at the option of the City, by the principal amount of any Series 2011B Bonds scheduled for redemption on such sinking fund payment date or dates, which, at least 45 days prior to the sinking fund payment date, (1) have been acquired by the City and delivered to the Trustee for cancellation, or (2) have been optionally redeemed as described under "—Optional Redemption of the Series 2011B Bonds" or "—Optional Make Whole Redemption of the Series 2011B Bonds" and not previously credited to a scheduled mandatory sinking fund redemption. Upon such acquisition or optional redemption of such Series 2011B Bonds, the Trustee will then credit an amount equal to the principal of such 2011B Bonds so acquired or redeemed towards the sinking fund payments for the Series 2011B Bonds of such maturity as directed by the City.

Selection of Series 2011B Bonds for Redemption. If less than all of the Series 2011B Bonds are to be optionally redeemed, the particular maturities of Series 2011B Bonds to be redeemed at the option of the City will be determined by the City in its sole discretion.

For so long as the Series 2011B Bonds are Book-Entry Bonds, and so long as DTC or a successor securities depository is the sole registered owner of the Series 2011B Bonds, if less than all of the Series 2011B Bonds of a maturity are called for prior redemption as described in this section "Redemption of the Series 2011B Bonds," the particular Series 2011B Bonds or portions thereof to be redeemed will be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures. If the Trustee does not provide the necessary information and identify the redemption as on a pro rata pass-through distribution of principal basis, the Series 2011B Bonds will be selected for redemption in accordance with DTC procedures, which may effect redemption by lot. If the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Series 2011B Bonds will be selected for redemption in accordance with DTC procedures, which may effect redemption by lot.

Notice of Redemption

A notice of redemption is required to be mailed to the respective registered Owners of any Series 2011B Bonds (DTC so long as the book-entry system with DTC is in effect) designated for redemption at their addresses appearing on the bond registration books, at least 20 days but not more than 60 days prior to the redemption date, which notice, in the case of each Bond called only in part, the portion of the principal thereof that is to be redeemed; provided that neither failure to mail such notice nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the redemption of such Series 2011B Bonds; and provided further that such notice of redemption may be mailed as late as 15 days prior to the redemption date if such shorter notice period is permitted under the then-current guidelines of the securities depository for the Series 2011B Bonds or if the book entry system with DTC is in no longer in effect with respect to the Series 2011B Bonds.

Effect of Redemption

When notice of redemption has been duly given, and moneys for payment of the redemption price are held by the Trustee, the Series 2011B Bonds so called for redemption will, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice; and from and after the date so designated interest on the Series 2011B Bonds so called for redemption will cease to accrue, said Series 2011B Bonds will cease to be entitled to any benefit or security under the Master Trust Agreement, and the Owners of said Series 2011B Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. The Trustee is required, upon surrender for payment of any of said Series 2011B Bonds, to pay such Series 2011B Bonds at the redemption price as aforesaid, together with interest accrued thereon to the date fixed for redemption.

The Master Trust Agreement requires that all Series 2011B Bonds redeemed pursuant to the provisions described above be cancelled upon surrender and that no Series 2011B Bonds be issued in place thereof.

Rescission of Notice of Redemption

The City may condition any notice of optional redemption upon receipt of funds or any other event. The City may, at its option, prior to the date fixed for redemption in any notice of optional redemption rescind and cancel such notice of optional redemption.

Purchase of Series 2011B Bonds

The City may, at its option, direct the Trustee to purchase any Series 2011B Bond at public or private sale as and when and at such prices not in excess of the par value thereof (including brokerage and other charges, but excluding accrued interest, which is payable from the applicable interest account established for such Series 2011B Bonds) as the Trustee may in its discretion determine, and all Series 2011B Bonds so purchased are to be cancelled by the Trustee.

SECURITY FOR THE BONDS

Pledge of General Airport Revenues

Pursuant to the Master Trust Agreement, the City has irrevocably pledged the General Airport Revenues and certain other funds held or made available under the Master Trust Agreement, first, to the payment of Maintenance and Operation Costs of the Enterprise, and second, to the payment of principal of and premium, if any, and interest on the Bonds. See "—Flow of Funds." The facilities comprising the

Enterprise, however, have not been mortgaged to secure payment of the Bonds. Under certain circumstances described below under "Other Available Funds, CFC Revenues and Available PFC Revenues," Other Available Funds and Available PFC Revenues may be pledged to and/or used to pay debt service on the Bonds. Although PFC Revenues and federal grant amounts (other than security-related, operating grants) generally do not fall within the definition of pledged General Airport Revenues, PFC Revenues and federal grant amounts may be used at the discretion of the Airport, and are expected to be used but not pledged, to pay a portion of the Debt Service on the Series 2001A Bonds, the Series 2004C/D Bonds, the Series 2007A Bonds and the Series 2011A Bonds. PFC Revenues and federal grant amounts are not pledged, and may not be used, to pay debt service on the Series 2002 Bonds or the Series 2011B Bonds. To date, a portion of the proceeds received by the City from federal grants and PFC Revenues has been applied to pay for the annual debt service on the Series 2001A Bonds. See "—Other Available Funds, CFC Revenues and Available PFC Revenues" below and "AIRPORT FINANCIAL MATTERS" in Appendix A.

The Master Trust Agreement generally defines "Enterprise" as meaning the Airport, as now located partially within and partially outside the City, including runways, taxiways, landing pads, navigational and landing aids, control towers, facilities for storage of aircraft and for parking of automobiles, roadways, passenger and freight terminals, land, easements and rights in land for clear zone and approach purposes, maintenance hangars and related facilities and all equipment, buildings, grounds, facilities, utilities and structures owned, leased or operated by the City in connection with or for the promotion or the accommodation of air commerce and air navigation and services in connection therewith, together with all additions, betterments, extensions and improvements thereto, to the fullest extent permitted by the City Charter and the Law. The term "Enterprise," unless otherwise specifically limited in any Supplemental Trust Agreement, also includes all other airports, airfields, landing places, heliports or places for the take-off and landing of aircraft, and all airport facilities appurtenant thereto, wheresoever situated, subsequently owned or operated by the City.

The Master Trust Agreement generally defines "General Airport Revenues" as meaning all revenues, income, receipts and moneys derived by the City from the operation of the Enterprise, including income derived from landing fees, the sale or use of airplane fuel, all other rents and charges made to or for the account of airplanes making use of the Enterprise, receipts from agriculture, automobile service stations and automobile parking on Airport land, proceeds of loss of use or business interruption insurance, and all receipts from leases and concessions, including rents, percentages of income or receipts for business conducted on any property in the Enterprise or from services performed by the City in connection with or incidental to the operation of the Enterprise. General Airport Revenues also includes all interest, profits or other income derived from the deposit or investment of any moneys in the General Revenue Fund or any account therein established under the Master Trust Agreement. General Airport Revenues expressly excludes:

(a) any money received by or for the account of the City from the levy or collection of taxes,

(b) moneys received from the State of California and the United States of America to the extent required to be deposited in restricted funds and/or used for purposes inconsistent with the terms of the Master Trust Agreement,

(c) lease deposits and security deposits,

(d) moneys required to be paid to the State of California and the United States of America pursuant to agreements with the City,

(e) moneys received from insurance proceeds or settlements (except as otherwise provided in the Master Trust Agreement) or the sale of or upon the taking by or under the threat of eminent domain of all or any part of the Enterprise,

(f) proceeds from Bonds or Subordinate Obligations issued by the City or proceeds from loans, indebtedness or other obligations entered into by the City,

(g) moneys or securities received by the City as gifts or grants, to the extent the use thereof is restricted by the donor or grantor to purposes inconsistent with their use as General Airport Revenues under the terms of the Master Trust Agreement,

(h) CFC Revenues (generally, customer facilities charges; see Appendix D for a more complete definition and see "Other Available Funds, CFC Revenues and Available PFC Revenues" below),

(i) PFC Revenues (see "Other Available Funds, CFC Revenues and Available PFC Revenues" below),

(j) Special Facility Revenues (see "Special Facility Revenues" below),

(k) Unrealized Items (for a definition of this term, see Appendix D),

(l) Qualified Hedge Termination Payments (for a definition of this term, see Appendix D), and

(m) Cargo facility charges or similar fees imposed on any of cargo operators, cargo facilities or cargo parcels.

None of the City's agreements with its Airport tenants, including the Airline Lease Agreement, is or will be assigned or pledged to the Trustee as security for the Bonds, including the Series 2011B Bonds. See "LEASE AND OPERATING AGREEMENTS" in Appendix A and "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT" in Appendix H.

Other Available Funds, CFC Revenues and Available PFC Revenues

Other Available Funds and CFC Revenues. Under the Master Trust Agreement, the City may for any period elect to designate as Other Available Funds any amounts available to the City but not otherwise a part of General Airport Revenues, including without limitation CFC Revenues, but not PFC Revenues (together with the Rolling Coverage Amount (see definition below under "Rate Maintenance Covenant") and other fund balances as described below, the "Other Available Funds"), by filing with the Trustee a written statement designating the amount and source of such Other Available Funds and containing a statement that the Other Available Funds are legally available to be applied as Other Available Funds during such period. After the filing of such written statement, the Other Available Funds designated therein are required to be deposited in the General Revenue Fund and applied as provided in the Master Trust Agreement. Notwithstanding any other provision, if such Other Available Funds are subject to any prior pledge or lien, the application thereof to the payment of Debt Service will be subordinate to the terms of such pledge or lien and the written statement designating the Other Available Funds is required to indicate the amount of the obligation payable in such fiscal year (currently the period beginning July 1 and ending June 30) from the Other Available Funds pursuant to such pledge or lien. Additionally, on the first day of each fiscal year, the Rolling Coverage Amount and any additional beginning uncommitted balance of the General Revenue Fund (see "Rate Maintenance Covenant" below) will automatically be considered Other Available Funds unless the City provides otherwise in a written statement of the City delivered to the Trustee.

In addition to receiving certain lease payments (such payments constituting General Airport Revenues), the City expects to receive CFC Revenues related to the operations of the five on-Airport rental car companies (representing a total of ten rental car brands) in the ConRAC and intends to apply the CFC Revenues to the payment of a portion of the debt service on the Series 2011B Bonds. Under the Master Trust Agreement, CFC Revenues are excluded from the definition of General Airport Revenues and are not pledged to the payment of the Bonds, including the Series 2011B Bonds; however, CFC Revenues may, at the option of the City, be designated as Other Available Funds to pay debt service on obligations issued to fund the planning, development and construction of certain Airport facilities including, but not limited to, the ConRAC and related facilities. Pursuant to the Airport's agreements with the rental car companies, the rental car companies are required to make facility lease payments in an amount equal to the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC-related debt service, less CFC Revenues, plus operating costs for any transportation system operated by the City to transport passengers between the terminals and the ConRAC (the "ConRAC Transportation System"). In the event that CFC Revenues exceed the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC, each rental car company's share of any such CFC Revenues will be deducted from its share of operating costs for the ConRAC Transportation System, as calculated under the terms of the rental car company agreement. Lease payments made by the rental car companies are also required to include each rental car company's share of the City's cost to demolish the previous temporary common use rental car facilities at the Airport, as calculated under the terms of the rental car company agreement, amortized over the initial ten-year term of the agreement (however, the City may not apply CFC Revenues, or issue debt obligations to be repaid from CFC Revenues, to fund the costs of such demolition). Facility rent will thus vary each year, depending on the total amount of CFC Revenues collected, but the amounts derived from lease payments and CFC Revenues are expected to be equal to the annual debt service and transportation expenses associated with the ConRAC and related facilities. See "CERTAIN FACTORS AFFECTING THE AIRPORT—Bankruptcy Risks—Airline or Other Tenant Bankruptcies" and "—Availability of Funding from PFC Revenues and CFC Revenues" herein. See also "APPENDIX A—LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—Rental Car Agreements," "—AIRPORT FINANCIAL MATTERS—Customer Facility Charges," "APPENDIX B—RENTAL CAR ACTIVITY AND CUSTOMER FACILITY CHARGE REVENUE" and "—FINANCIAL ANALYSIS."

Available PFC Revenues. Under the Master Trust Agreement, the City may for any period elect to designate any PFC Revenues as "Available PFC Revenues" by filing with the Trustee a written statement designating the amount of such Available PFC Revenues and containing a statement that the Available PFC Revenues are legally available to be applied to pay Debt Service during such period. After the filing of a written statement, the Available PFC Revenues designated therein are required to be deposited in the Interest Fund and the Principal Fund, as directed by the City, and used to pay Debt Service. Notwithstanding any other provision, if such Available PFC Revenues are subject to any prior pledge or lien, the application thereof to the payment of Debt Service will be subordinate to the terms of such pledge or lien and the written statement of the City designating the Available PFC Revenues is required to indicate the amount of the obligation payable in such fiscal year from the Available PFC Revenues pursuant to such pledge or lien.

Use of Available PFC Revenues to pay Debt Service reduces the amount of Debt Service for purposes of compliance with the Rate Maintenance Covenant under the Master Trust Agreement. In addition, if Available PFC Revenues are pledged to pay Debt Service, then the amount of such Debt Service is reduced by the amount of such pledged Available PFC Revenues for purposes of compliance with the additional debt tests under the Master Trust Agreement. See "Rate Maintenance Covenant" and "Additional Series of Bonds" below. Currently, Available PFC Revenues are expected to be used, but are not pledged, to pay a portion of the Debt Service on the Series 2001A Bonds, the Series 2004C/D Bonds, the Series 2007 Bonds and the Series 2011A Bonds. "PFC Revenues" are defined under the Master Trust Agreement as passenger facility charges collected by the City pursuant to applicable law, as amended from

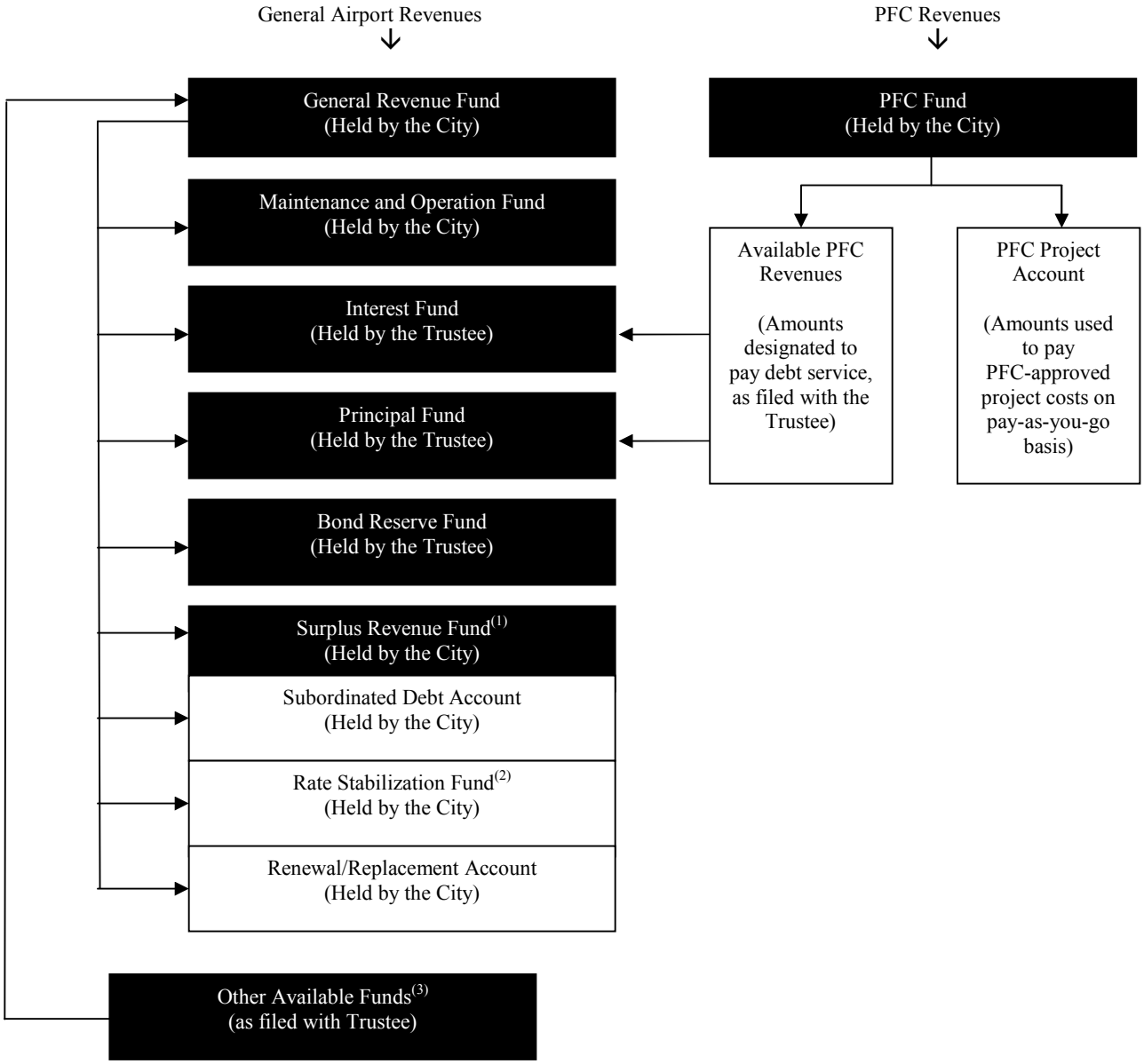
time to time, and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues. See "AIRPORT FINANCIAL MATTERS" and "CAPITAL DEVELOPMENT AT THE AIRPORT" in Appendix A. See also "CERTAIN FACTORS AFFECTING THE AIRPORT—Bankruptcy Risks—Airline or Other Tenant Bankruptcies" and "—Availability of Funding from PFC Revenues and CFC Revenues" herein. See also "APPENDIX B—FINANCIAL ANALYSIS."

Flow of Funds

Pursuant to the Master Trust Agreement, all General Airport Revenues are required to be deposited, upon receipt, by the City in a special fund in the City Treasury designated as the "City of San José Airport Revenue Fund" (the "General Revenue Fund"). Such fund was established by an ordinance of the City pursuant to Resolution No. 45333, adopted on March 12, 1974, as amended and supplemented (the "1974 Resolution"), and continues to be maintained under the Master Trust Agreement. For a summary of the flow of funds under the Master Trust Agreement, see Table 1.

The Master Trust Agreement requires that moneys or deposits in the General Revenue Fund shall be applied solely in accordance with the order of priorities established by the Master Trust Agreement. The first priority against the General Revenue Fund is the payment of Maintenance and Operation Costs of the Enterprise. The second priority is interest on the Bonds, followed by principal of the Bonds, including any Guaranteed Obligations and Regularly Scheduled Hedge Payments under a Qualified Hedge (unless otherwise provided in a Supplemental Trust Agreement). All moneys in the General Revenue Fund are required either to be set aside by the City or to be paid over to the Trustee and deposited in one or more of the funds described below. The Interest Fund, the Principal Fund and the Bond Reserve Fund are required to be maintained by the Trustee, and the Maintenance and Operation Fund and the Surplus Revenue Fund are required to be maintained by the City.

Table 1
Norman Y. Mineta San José International Airport
Summary of Flow of Funds Under the Master Trust Agreement



(1) Amounts remaining in the Surplus Revenue Fund at the end of each fiscal year (after required deposits have been made to the accounts therein) may be released to the City and used for any lawful Airport purpose.
(2) Formerly named the Safety Net Account.
(3) Other Available Funds includes the Rolling Coverage Amount, uncommitted balances in the General Revenue Fund at the end of each Fiscal Year, CFC Revenues that are used to pay debt service, and grant funds that are used to pay debt service.

If at any time the City is in payment default under the Master Trust Agreement, the City is required, within five days after receipt of the written request of the Trustee or of a Municipal Bond Insurer or of the Owners of 10% of the aggregate principal amount of Bonds Outstanding, to transfer to the Trustee all moneys held in all funds maintained by the City under the Master Trust Agreement, and thereafter is required, at least monthly, to transfer all General Airport Revenues received by the City to the Trustee until such default is cured.

General Airport Revenues are required to be so transferred to and deposited in the following respective funds in the following order of priority, the requirements of each such fund to be satisfied before any transfer is made to any fund subsequent in priority. In general, if General Airport Revenues are insufficient for the full deposit requested in any fund, the Trustee is required to apply the amount available pro rata in proportion to the amount required in each account within such fund.

(a) Maintenance and Operation Fund. On or before the first day of each month, the City is required to set aside out of the General Revenue Fund and to deposit in the Maintenance and Operation Fund an amount equal to (i) one-twelfth of the amount budgeted by the City in the original or a revised budget for Maintenance and Operation Costs of the Enterprise for the then-current fiscal year or (ii) such other amount as the City determines is necessary to pay the Maintenance and Operations Cost of the Enterprise in such month. Moneys in the Maintenance and Operation Fund are required to be used to pay the Maintenance and Operation Costs of the Enterprise as they become due and payable.

(b) Interest Fund. After making the deposit required by subsection (a) above, the City is required to transfer to the Trustee for deposit in the Interest Fund: (i) on or before the second Business Day before each Payment Date, the amount necessary to make the required interest payment on the Outstanding Series 2011B Bonds, Series 2011A Bonds, Series 2007 Bonds and Series 2004C/D Bonds on such Payment Date; (ii) on or before each Payment Date, the amount necessary to make the required interest payment on the Outstanding Series 2001A Bonds and Series 2002 Bonds on such Payment Date; and (iii) the amounts required to be deposited in the Interest Fund with respect to any Additional Bonds pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds. Moneys in each account of the Interest Fund are required to be used and withdrawn by the Trustee solely for the purpose of paying the interest on the applicable series of Bonds as it becomes due and payable.

(c) Principal Fund. After making the deposits required by subsections (a) and (b) above, the City is required to transfer to the Trustee for deposit in the Principal Fund: (i) on or before the second Business Day before each Payment Date, the amount necessary to make the required principal payment on the Outstanding Series 2011B Bonds, Series 2011A Bonds, Series 2007 Bonds and Series 2004C/D Bonds on such Payment Date; (ii) on or before each Payment Date, the amount necessary to make the required principal payment on the Outstanding Series 2001A Bonds and Series 2002 Bonds on such Payment Date; and (iii) the amounts required to be deposited in the Principal Fund with respect to the Principal Installments for any Additional Bonds and any associated Guaranteed Obligation Requirements pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds. Moneys in each account of the Principal Fund are required to be used and withdrawn by the Trustee solely for the purpose of paying the Principal Installments on the applicable series of Bonds as they become due and payable, the Guaranteed Obligation Requirements with respect to such Bonds when due and payable, and the purchase price of Bonds purchased pursuant to the Master Trust Agreement.

(d) Bond Reserve Fund. After making the deposits required by subsections (a), (b) and (c) above, on or before the first day of each month, the City is required to transfer to the Trustee for deposit in the Bond Reserve Fund such amount as will be required to maintain in each account in the Bond Reserve Fund a balance equal to the applicable Required Reserve for such account; provided that at the written direction of the City, the amount to be replenished to any account within the Bond Reserve Fund after a

draw on such account to pay debt service on any Bonds may be divided into no more than 12 equal monthly installments. Moneys in each account within the Bond Reserve Fund are required to be used and withdrawn by the Trustee solely for the purpose of paying the principal of and interest on the Bonds for which such account within the Bond Reserve Fund is available as provided in the Master Trust Agreement or in any Supplemental Trust Agreement in the event that no other moneys are available therefor, or for payment or redemption of all of such Bonds then outstanding. See "—Bond Reserve Fund."

(e) Surplus Revenue Fund. On the fifteenth day of each month, the City is required to determine the moneys remaining in the General Revenue Fund attributable to a prior calendar month which are available for transfer to the Surplus Revenue Fund after having set aside and transferred all amounts required to be set aside or transferred by the Trustee or the City as provided in the Master Trust Agreement, and the City will, at a minimum, transfer and deposit in the Surplus Revenue Fund an amount equal to the lesser of (i) the amount, if any, required to be deposited in the Subordinated Debt Account pursuant to the provisions of any Subordinate Obligations payable therefrom, or (ii) the amount remaining in the General Revenue Fund. The City may retain any moneys in excess of such minimum amount in the General Revenue Fund. All moneys in the Surplus Revenue Fund are required to be deposited in the following respective special accounts within the Surplus Revenue Fund in the following order of priority:

(1) Subordinated Debt Account;

(2) Rate Stabilization Fund (formerly called the "Safety Net Account"); and

(3) Renewal and Replacement Account.

The inability of the City to make any deposit described by this paragraph (e) by reason of a lack of General Airport Revenues will not constitute an event of default under the Master Trust Agreement. If at any time any moneys in the Surplus Revenue Fund are needed to pay the interest on or principal of the Bonds, or to pay Maintenance and Operation Costs of the Enterprise for the then-current fiscal year for which no adequate budgeted amount from General Airport Revenues was provided by the City, the City may transfer such moneys from any such account (except the Subordinated Debt Account) for such purposes. The procedures under the Master Trust Agreement with respect to funding and application of amounts within the Surplus Revenue Fund may be amended at any time without the consent of the Bondholders.

(1) Subordinated Debt Account. On or before the fifteenth day of each month, the City is required to set aside out of the Surplus Revenue Fund and deposit in the Subordinated Debt Account until there have been deposited in each month in the Subordinated Debt Account an amount equal to the amount, if any, required to be paid prior to the next scheduled deposit for all expenses, indebtedness, and other charges on all Subordinate Obligations payable therefrom. If in any month insufficient moneys are available in the Surplus Revenue Fund to provide for the required deposit into the Subordinated Debt Account, such deficit must be made up from moneys in any account in the Surplus Revenue Fund subsequent in priority to the Subordinated Debt Account.

(2) Rate Stabilization Fund. The Rate Stabilization Fund (formerly, the Safety Net Account) is established to facilitate the deposit and collection of moneys from the rates and charges of users of the facilities of the Enterprise in the amounts and at the times needed to satisfy the financial requirements of the Enterprise and to insure the City's ability to meet its obligations under the Master Trust Agreement. The moneys deposited in the Rate Stabilization Fund may be accumulated from any rates, fees, charges or surcharges which the City allocates or designates for the purposes of this Account (herein called the "Allocated General Airport Revenues"). Collection

of moneys into the Rate Stabilization Fund may be implemented by the City, in its discretion, upon a determination that due to unusual or exceptional circumstances it is necessary to accumulate and reserve sufficient amounts of moneys to assure the proper operation of the Enterprise and the City's compliance with the Master Trust Agreement. By way of example only, and not as a limitation, such a determination may be made upon a projected significant imbalance of rates and charges for various facilities of the Enterprise, projected extraordinary vacancy rates for certain facilities of the Enterprise, unusual discrepancies in activity levels which lead to anomalies in the calculation of rates and charges, or seismic disturbances or other natural disasters affecting the operation of the Enterprise. Moneys in the Rate Stabilization Fund also may be applied by the City to facilitate administration of revenue sharing or rate stabilization provisions of contractual agreements with airlines or other tenants of the Airport.

Moneys in the Rate Stabilization Fund are required to be used and withdrawn by the City from time to time for deposit into the Maintenance and Operation Fund, the Interest Fund and the Principal Fund, and the City may budget the payment of Maintenance and Operation Costs of the Enterprise and payment of principal of and interest on Bonds from moneys in the Rate Stabilization Fund.

(3) Renewal and Replacement Account. On or before the fifteenth day of each month, the City is required to set aside out of the Surplus Revenue Fund and deposit in the Renewal and Replacement Account all remaining moneys in the Surplus Revenue Fund (after the deposits described by paragraphs (e)(1) and (e)(2) above have been made) until such time as there have been deposited in the Renewal and Replacement Account in each fiscal year such amount as has been budgeted by the City for deposit into such account in such fiscal year. Moneys in the Renewal and Replacement Account are to be withdrawn by the City from time to time and deposited in a special fund of the City known as the Airport Renewal and Replacement Fund, as directed by a resolution of the Council.

All moneys remaining in the Surplus Revenue Fund on the fifteenth day of the last month of each fiscal year (after the deposits described by paragraphs (e)(1), (e)(2), and (e)(3) above have been made), may be transferred by the City to any other fund or account of the City to be used for any other lawful aviation-related purpose of the City; provided, however, the City may not withdraw any moneys held by the City in the Surplus Revenue Fund if and when the City is in default under the Master Trust Agreement.

Rate Maintenance Covenant

The City has covenanted in the Master Trust Agreement that it will, at all times while any of the Bonds remain outstanding, manage its operations and establish, fix, prescribe and collect rentals, rates, fees and charges in connection with the services and facilities furnished by the Enterprise in each fiscal year so that the sum of (i) Net General Airport Revenues (generally, General Airport Revenues less Maintenance and Operations Costs of the Enterprise, but not including such Maintenance and Operations Costs as may be paid from available moneys other than General Airport Revenues; see Appendix D for a summary of the definition of the term "Maintenance and Operation Costs of the Enterprise") for such fiscal year, plus (ii) any Other Available Funds for such fiscal year after making reasonable allowances for contingencies and errors in the estimates, will be at least sufficient to pay the sum of:

(a) the Annual Debt Service for such fiscal year on all of the Bonds as it becomes due and payable;

(b) all other payments required in such fiscal year for compliance with the terms of the Master Trust Agreement (except any requirement to apply funds with respect to the Surplus Revenue Fund), and of

any Supplemental Trust Agreement providing for the issuance of Additional Bonds pursuant to the Master Trust Agreement; and

(c) all other payments relating to Subordinate Obligations of the City in such fiscal year which are charges, liens or encumbrances upon, or payable from, the General Airport Revenues.

In addition to the requirements set forth above, the City will, at all times while any of the Bonds remain outstanding, manage its operations and establish, fix, prescribe and collect rentals, rates, fees and charges in connection with the services and facilities furnished by the Enterprise so that (i) the sum of (1) Net General Airport Revenues for each fiscal year, plus (2) any Other Available Funds for such fiscal year is equal to at least 125% of Annual Debt Service for such fiscal year, and (ii) the sum of (1) Net General Airport Revenues for each fiscal year, plus (2) any Other Available Funds for such fiscal year (excluding, however, the Rolling Coverage Amount and any amounts not generated from actual cash receipts during the fiscal year unless such amounts are included in the initial or amended budget for the Enterprise in that fiscal year and in the initial or amended calculation of airline and other rates and charges for such fiscal year), is equal to at least 100% of Annual Debt Service for such fiscal year. "Annual Debt Service" is defined under the Master Trust Agreement as the Debt Service for the fiscal year less the Available PFC Revenues for such fiscal year. See Appendix D for a definition of "Debt Service." "Rolling Coverage Amount" is defined under the Master Trust Agreement as the uncommitted amounts in the Maintenance and Operation Fund or the General Revenue Fund, in an amount not to exceed 25% of Annual Debt Service in any fiscal year, that are available to pay Maintenance and Operation Costs of the Enterprise or Debt Service on Bonds and that are designated as the Rolling Coverage Amount by the City.

The Master Trust Agreement provides that the City may make adjustments from time to time in such rentals, rates, fees and charges and may make such classification thereof as it deems necessary during such fiscal year, but shall not reduce such rentals, rates, fees and charges below those then in effect unless the Net General Airport Revenues and Other Available Funds from such reduced rates will at all times be sufficient to meet the requirements described above. Such covenants are collectively referred to in this Official Statement as the "Rate Maintenance Covenant."

In general, if the City does not achieve financial results that comply with the Rate Maintenance Covenant in any fiscal year, the City is required under the Master Trust Agreement to hire during the next fiscal year a Qualified Independent Airport Consultant to make recommendations as to a revision of the rates, fees and charges, or Maintenance and Operations Costs of the Enterprise, or methods of operations of the Enterprise, if any, that will result in producing the amounts so required in the then-current fiscal year. Non-compliance with the Rate Maintenance Covenant is not an Event of Default under the Master Trust Agreement unless it occurs in two consecutive fiscal years.

Bond Reserve Fund

The Master Trust Agreement requires the establishment and maintenance of a Bond Reserve Fund and requires the City to deposit to the General Account or to another Reserve Account within the Bond Reserve Fund the amount required to maintain in such account a balance equal to the applicable Required Reserve for such account. The General Account of the Bond Reserve Fund secures the Series 2001A Bonds, the Series 2002 Bonds and the Series 2011A Bonds (the "Existing General Account Bonds"), and, at the election of the City, may secure Additional Bonds issued in the future. The Series 2004C/D Bonds and the Series 2007 Bonds are, respectively, secured by a separate 2004 Reserve Account and a separate 2007 Reserve Account, each described below. The Series 2011B Bonds and any subsequently issued 2011B Refunding Bonds (as defined herein) will be secured by the 2011B Reserve Account established in the Bond Reserve Fund pursuant to the Eighth Supplemental Trust Agreement.

The 2011B Reserve Account. The Eighth Supplemental Trust Agreement provides for the establishment and maintenance within the Bond Reserve Fund of a separate account designated the "2011B Reserve Account." Amounts in the 2011B Reserve Account are to be available only to pay the Series 2011B Bonds and 2011B Refunding Bonds.

The Required Reserve with respect to the 2011B Reserve Account (the "2011B Required Reserve") is equal to ten percent (10%) of the principal amount of the Series 2011B Bonds and the 2011B Refunding Bonds, if any, Outstanding as of the date of calculation.

Upon the issuance of the Series 2011B Bonds, an amount equal to the 2011B Required Reserve will be deposited to the 2011B Reserve Account of the Bond Reserve Fund from a portion of the proceeds received from the sale of the Series 2011B Bonds. Following such deposit, no additional deposits to the 2011B Reserve Account will be required to satisfy the 2011B Required Reserve with respect to the Series 2011B Bonds unless the amounts in the 2011B Reserve Account are used to pay debt service on the Series 2011B Bonds or any 2011B Refunding Bonds. See "—Flow of Funds—Bond Reserve Fund" and "—Additional Series of Bonds—Conditions for the Issuance of Additional Bonds." Pursuant to the terms of the Eighth Supplemental Trust Agreement, the amount of the 2011B Required Reserve may be reduced at any time upon Written Request of the City after the maturity, defeasance or redemption of the Series 2011B Bonds or any 2011B Refunding Bonds secured by the 2011B Reserve Account, by an amount equal to the reduction in the 2011B Required Reserve due to the maturity, defeasance or redemption of the Series 2011B Bonds or any 2011B Refunding Bonds, but taking into account any corresponding increase in the 2011B Required Reserve as a result of the issuance of 2011B Refunding Bonds, if any, the proceeds of which will be applied, in whole or in part, to effect such defeasance or redemption.

The Eighth Supplemental Agreement permits the City to substitute a Qualified Reserve Facility for the cash and securities then on deposit in the 2011B Reserve Account. In such event, the amounts, if any, required under the Master Trust Agreement or a Supplemental Trust Agreement to be deposited in the 2011B Reserve Account will be available for reimbursement to the provider of said Qualified Reserve Facility in the event of a draw thereon; provided that the amount available to be drawn on said Qualified Reserve Facility is by its terms reinstated in the full amount of said reimbursement.

As provided in the Master Trust Agreement and the Eighth Supplemental Trust Agreement, so long as the City is not in default under the Master Trust Agreement, on or before the later of (i) the second Business Day before each Interest Payment Date or (ii) the date on which the Trustee receives written approval from the City of the calculations the Trustee made to determine the value of investments held in the Bond Reserve Fund, any investment earnings in the 2011B Reserve Account in excess of the 2011B Required Reserve are required to be withdrawn from the 2011B Reserve Account and transferred to the General Revenue Fund or upon Written Request of the City to any other fund or account, and any amount other than investment earnings that is released from the 2011B Reserve Account due to a decrease of the 2011B Required Reserve or the deposit of one or more Qualified Reserve Facilities, may be withdrawn from the 2011B Reserve Account and used for any lawful purpose upon Written Request of the City.

"2011B Refunding Bonds" means any series of Additional Bonds issued by the City, which the City designates in a Certificate of the City as "2011B Refunding Bonds," the proceeds of which (except for proceeds used to pay costs of issuance of or accrued interest on, or to increase funds held in the 2011B Reserve Account to satisfy the 2011B Required Reserve in connection with the issuance of, such series of Additional Bonds) are exclusively used, together with any other available moneys, if any, to pay or defease all or a portion of the Outstanding Series 2011B Bonds or 2011B Refunding Bonds, if any; provided that the City increases the funds on deposit in the 2011B Reserve Account, if and to the extent necessary, forthwith upon the receipt of the proceeds of the sale of such 2011B Refunding Bonds, to an amount at

least equal to the 2011B Required Reserve, taking into account the principal amount of such 2011B Refunding Bonds.

The General Account. The Master Trust Agreement provides for the establishment and maintenance of an account designated as the "General Account" in the Bond Reserve Fund. Amounts in the General Account are available only to pay principal of and interest on (i) the Existing General Account Bonds, and (ii) any Additional Bonds for which the General Account is made available pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds. The General Account is not available to pay the Series 2004C/D Bonds, the Series 2007 Bonds or the Series 2011B Bonds.

The Required Reserve for the Existing General Account Bonds and any Additional Bonds issued on a parity therewith and secured by the General Account within the Bond Reserve Fund shall be the lesser of (i) the Maximum Annual Debt Service on all Existing Bonds and such Additional Bonds, or (ii) the amount permitted to be held in the General Account within the Bond Reserve Fund by the arbitrage bond regulations issued by the United States Department of the Treasury under Section 148 of the Code, as such regulations are, at the time, applicable and in effect (the "General Account Required Reserve"); provided, however, that any Required Reserve may be provided in whole or in part by one or more Qualified Reserve Facilities.

The General Account Required Reserve with respect to the Existing General Account Bonds is currently satisfied with a combination of approximately $24.64 million of cash, an approximately $4.25 million surety bond from Ambac Indemnity Corporation ("Ambac") that expires on March 1, 2018, and an approximately $6.56 million surety bond from National Public Finance Guaranty Corporation ("NPFG"), as successor to MBIA Insurance Corporation, that expires on March 1, 2016. Each of Moody's Investors Service ("Moody's"), Fitch Ratings ("Fitch") and Standard and Poor's Ratings Service ("S&P") downgraded the claims-paying ability and financial strength of Ambac and NPFG subsequent to the deposit of the respective surety bonds into the General Account and, in certain cases, withdrew their ratings on Ambac or NPFG. Information concerning NPFG is available in reports and statements filed with the Securities and Exchange Commission (the "SEC"). This information is available on the SEC's website at http://www.sec.gov. Such information is not incorporated by reference herein. Ambac is no longer providing current financial and operating information.

The Master Trust Agreement does not require that the rating of any surety bond held in the General Account be maintained after the date of its deposit to the General Account. Until March 1, 2016, when the NPFG surety bond expires, no additional deposits to the General Account of the Bond Reserve Fund are expected to be required to satisfy the General Account Required Reserve (unless the General Account is drawn upon to pay principal of or interest on Bonds or is made available to any Additional Bonds in the future). If no additional Bonds are issued and no additional amounts were to be deposited in or paid from the General Account of the Bond Reserve Fund prior to March 1, 2016, the City expects that, upon expiration of the NPFG surety bond, amounts on deposit in the General Account would not be sufficient to satisfy the General Account Required Reserve at that time. Therefore, the City expects that it will be required to deposit approximately $6.56 million to the General Account from accumulated Airport surplus funds or a Qualified Reserve Facility in the same amount. If no additional Bonds are issued and no additional amounts were to be deposited in or paid from the General Account of the Bond Reserve Fund prior to the expiration of the surety bond provided by Ambac on March 1, 2018, the City expects that it will be required to deposit approximately $4.25 million (in addition to the approximately $6.56 million deposit following the expiration of the NPFG surety bond described above) to the General Account from accumulated Airport surplus funds or provide a Qualified Reserve Facility in the same amount.

The City may also be required to make a deposit of cash or another Qualified Reserve Facility in order to maintain the Required Reserve in the General Account in the case of non-payment under, or

cancellation of, either surety bond, including as a result of the liquidation of Ambac or NPFG. See "—Flow of Funds—Bond Reserve Fund."

As provided in the Master Trust Agreement, so long as the City is not in default under the Master Trust Agreement, any amount in any account within the General Account in excess of the General Account Required Reserve is to be withdrawn from the General Account, transferred to the Interest Fund and applied as a credit against the deposits required to be transferred to the Interest Fund as described above under "—Flow of Funds."

Other Reserve Accounts. Pursuant to any Supplemental Trust Agreement providing for the issuance of Additional Bonds, the Trustee may establish a separate account within the Bond Reserve Fund available only for the payment of such series of Additional Bonds and which account will have its own Required Reserve. The Master Trust Agreement provides that if such a separate account is created, said Additional Bonds do not have any claim on the other accounts maintained in the Bond Reserve Fund.

As permitted by the Master Trust Agreement, an account designated the "2004 Reserve Account" and an account designated the "2007 Reserve Account" have each been established within the Bond Reserve Fund. Amounts in the 2004 Reserve Account are available only to pay the Series 2004C/D Bonds and any Additional Bonds for which the 2004 Reserve Account is made available pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds. Amounts in the 2007 Reserve Account are available only to pay the Series 2007 Bonds and any Additional Bonds for which the 2007 Reserve Account is made available pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds. Neither the 2004 Reserve Account nor the 2007 Reserve Account is available to pay or secure the Series 2011B Bonds.

Amounts Held in the Bond Reserve Fund. The amounts held in the accounts previously established within the Bond Reserve Fund are shown in the following table.

Table 2
Bond Reserve Requirement Funding Sources
As of August 31, 2011

Account	Account Valuation	Surety Policy Limit	Surety Policy Provider
General Account[1]	$24,913,711.96		
		$ 6,557,882.20[2]	NPFG[3]
		4,251,000.00[4]	Ambac
General Account Totals:	$24,913,711.96	$10,808,882.20	
2004 Reserve Account[5]	$13,544,001.62		
2007 Reserve Account[6]	$47,770,005.94		

(1) Secures the Series 2001A, the Series 2002 Bonds and the Series 2011A Bonds. See "PLAN OF REFUNDING."
(2) Expires on March 1, 2016.
(3) Successor to MBIA Insurance Corporation.
(4) Expires on March 1, 2018.
(5) Amounts in the 2004 Reserve Account are available only to pay the Series 2004C/D Bonds and any Additional Bonds for which the 2004 Reserve Account is made available pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds.
(6) Amounts in the 2007 Reserve Account are available only to pay the Series 2007 Bonds and any Additional Bonds for which the 2007 Reserve Account is made available pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds.
Source: City of San José.

Additional Series of Bonds

General. The Master Trust Agreement provides that in addition to any Outstanding Bonds, the City may by Supplemental Trust Agreement issue other series of Additional Bonds payable from the General Airport Revenues on a parity with Outstanding Bonds and secured by a lien upon and pledge of such General Airport Revenues equal to the lien and pledge securing the Outstanding Bonds, but only upon compliance by the City with certain general conditions under the Master Trust Agreement, (additional conditions are described further below):

(a) The City will not be in default under the Master Trust Agreement or any Supplemental Trust Agreements or such default shall be cured by the delivery of such Additional Bonds.

(b) The aggregate principal amount of Additional Bonds proposed to be issued shall not exceed any limitation imposed by law, the Master Trust Agreement or any Supplemental Trust Agreement.

(c) If the Supplemental Trust Agreement providing for the issuance of such series of Additional Bonds provides that such series of Additional Bonds is required to be secured by the General Account or another account of the Bond Reserve Fund, such Supplemental Trust Agreement shall require that the Bond Reserve Fund established pursuant to the Master Trust Agreement be increased, if and to the extent necessary to an amount at least equal to the Required Reserve for such account. Said deposit may be satisfied from such proceeds or any other source, as provided in said Supplemental Trust Agreement.

(d) Principal Installments are required to be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such series on or before their respective maturity dates.

(e) The conditions for the issuance of such Additional Bonds contained in the Master Trust Agreement and in any applicable Supplemental Trust Agreement are complied with as certified by a Written Statement of the City.

Conditions for the Issuance of Additional Bonds. Subject to compliance with the Master Trust Agreement, the City may issue and the Trustee may authenticate and deliver Additional Bonds provided that the City satisfies the conditions described below. In the case of the Series 2011B Bonds, the City intends to comply with the alternative described in paragraph (c)(ii) below. On the delivery date of the Series 2011B Bonds the Independent Airport Consultant will deliver to the Trustee the additional bonds written report and the City will deliver the additional bonds certificate, both as described in paragraph (c)(ii) below, in connection with the issuance of the Series 2011B Bonds.

(a) If the proceeds derived from the sale of an earlier series of Bonds which are available for the payment of the cost of acquisition and construction of any portion of a Project to be financed from such proceeds, together with any other available funds, are not sufficient to pay the entire cost of acquisition and construction of such portion of such Project, and it is necessary to provide additional funds for completing the acquisition and construction of such portion of such Project and paying the cost thereof in an amount determined by the City, a series of Additional Bonds may be issued by the City in a principal amount not to exceed 15% of the principal amount of the prior series of Bonds to which such Additional Bonds relate.

(b) For the purpose of refunding any Bonds issued under the Master Trust Agreement, a series of Additional Bonds may be issued by the City only if (i) the proceeds of the Additional Bonds of such series (except for proceeds used to pay costs of issuance, accrued interest and to fund any required reserve for such series of Additional Bonds) are required to be used, together with any other available moneys, to pay or defease all or a portion of the Bonds then outstanding, and (ii) the Annual Debt Service for the Additional Bonds of such series shall be less than or equal to the Annual Debt Service on the Bonds to be paid or defeased in each year that such Additional Bonds are to be outstanding.

(c) For any other airport purpose authorized under the Master Trust Agreement, provided, that either:

(i) the Trustee receives a Certificate of the City setting forth a calculation showing that, for either (A) the most recently completed fiscal year for which audited financial statements are available preceding the issuance of such series of Additional Bonds, or (B) such other consecutive twelve month period during the eighteen months immediately preceding the issuance of such series of Additional Bonds selected by the City, the sum of (i) Net General Airport Revenues for such period, plus (ii) any Other Available Funds (subject to the provisions described in paragraph (d) below) for such period is at least 125% of Maximum Annual Debt Service after the proposed Additional Bonds are issued; provided that if a period other than a fiscal year is used to make the above calculation, the Certificate of the City is required to include a statement to the effect that the City does not expect Net General Airport Revenues for the fiscal year in which such Certificate is delivered to be lower than the Net General Airport Revenues as calculated in such Certificate; or

(ii) the Trustee receives a written report of a Qualified Independent Airport Consultant setting forth estimates of General Airport Revenues, Maintenance and Operation Costs of the Enterprise, Net General Airport Revenues, Other Available Funds and Available PFC Revenues, for the longer of (X) the next five fiscal years, or (Y) if any portion of the proceeds of such series of Additional Bonds is to be used to finance construction and capitalized interest on such Additional Bonds for the expected period of construction, the three fiscal years following the fiscal year in which the City estimates such portion of the Project will be completed. The Trustee

must also receive a Certificate of the City setting forth the Annual Debt Service on all Bonds (including such Additional Bonds) for each of the fiscal years covered by said report, including Annual Debt Service as estimated in such Certificate of the City with respect to future series of Bonds, if any, which the City estimates will be required to complete payment of the estimated cost of construction of such portion of the Project and any other uncompleted portion of the Project from which the report projects additional revenues. Such Certificate of the City must demonstrate that the sum of (A) the estimated Net General Airport Revenues in each of the fiscal years set forth in the report of the Qualified Independent Airport Consultant, plus (B) the Other Available Funds, if any, pledged by the City to the payment of the Bonds as provided in subsection (d), is at least equal to 125% of Annual Debt Service for the corresponding fiscal years as set forth in the Certificate of the City.

(d) With respect to both paragraphs (c)(i) and (c)(ii) above, the sum of (i) Net General Airport Revenues plus (ii) Other Available Funds (excluding, however, the Rolling Coverage Amount) will not be less than 100% of Maximum Annual Debt Service, Annual Debt Service or Debt Service for a 12-month period, as the case may be. In addition, Other Available Funds and Available PFC Revenues may not be included in the calculations pursuant to subsections (c)(i) or (c)(ii) above unless the City has pledged such Other Available Funds or Available PFC Revenues, as the case may be, to the payment of Debt Service until the final maturity date of the Bonds and such Additional Bonds pursuant to a Supplemental Trust Agreement; provided, however, that the City may at any time release such Other Available Funds or Available PFC Revenues, in whole or in part, from such pledge, pursuant to a Supplemental Trust Agreement, to the extent that the Net General Airport Revenues and any Other Available Funds or Available PFC Revenues not so released are sufficient to meet the coverage calculations described by paragraphs (c)(i) or (c)(ii) above; and provided further, that prior to any such release, the City will have obtained a confirmation from each Rating Agency then rating on the Bonds, that such release will not adversely affect the rating on the Bonds. Any such pledge need not be a first lien on the source of revenue from which such Other Available Funds or Available PFC Revenues are derived, but the City must certify that it expects that any prior pledge of such Other Available Funds or Available PFC Revenues will not cause the amount of Other Available Funds or Available PFC Revenues in any fiscal year to be less than the amount so pledged.

Subordinate Obligations

In November 1999, the City authorized the issuance from time to time of Subordinated Commercial Paper Notes (the "Subordinated Commercial Paper Notes") that are secured by a lien on General Airport Revenues that is subordinate to the lien of the Bonds. In 2008, the City further authorized the Subordinated Commercial Paper Notes to be issued in an aggregate principal amount of up to $600 million outstanding at any one time. In January 2011, the City entered into four separate letter of credit and reimbursement agreements with Bank of America, N.A., Citibank, N.A., JPMorgan Chase Bank, National Association and Wells Fargo Bank, N.A., pursuant to which the banks issued letters of credit supporting the Subordinated Commercial Paper Notes. The maximum principal component of the Subordinated Commercial Paper Notes program is currently approximately $351 million, as shown in Table 3. The letters of credit are stated to expire on January 11, 2013, January 12, 2012, January 11, 2013 and January 13, 2014, respectively and in each case unless such letter of credit is extended or terminated earlier pursuant to its terms. The table below sets forth the provider of each letter of credit, the letter of credit expiration date and the principal component of the initial stated amount of each letter of credit.

Table 3
Principal Component of Initial Stated Amounts of Letters of Credit
Supporting Subordinated Commercial Paper Notes
As of October 1, 2011

Letter of Credit Provider	Expiration Date	Principal Component
Bank of America, N.A.	January 11, 2013	$ 76,545,294
Citibank, N.A.	January 12, 2012	100,000,000
JPMorgan Chase Bank, National Association	January 11, 2013	100,000,000
Wells Fargo Bank, N.A.	January 13, 2014	75,000,000
TOTAL		$351,545,294

Source: City of San José.

An event of default under a reimbursement agreement would entitle the respective Bank to demand that no additional Subordinated Commercial Paper Notes be issued, that the City reimburse the respective Bank immediately for draws under the applicable letter of credit and that all other amounts owed by the City to the respective Bank be accelerated and become due immediately. Events of default under the reimbursement agreements include, among others: a default under the Master Trust Agreement or the issuing and paying agent agreement for the Subordinated Commercial Paper Notes; non-payment; a breach of a covenant; bankruptcy; and ratings events including a suspension or withdrawal (other than a withdrawal requested by the City for non-credit-related reasons) by any of Moody's, Fitch or S&P of their ratings on any of the Bonds, downgrades by any of Moody's, Fitch or S&P of its ratings on any of the Bonds below "Baa2," "BBB" and "BBB," respectively, or, during the term of the Citibank reimbursement agreement, downgrades by any of Moody's, Fitch or S&P of its ratings on any of the Bonds below "Baa1," "BBB+" and "BBB+," respectively, for a period of 120 consecutive calendar days. All amounts payable by the City to the Banks under the reimbursement agreements are secured by a lien on General Airport Revenues subordinate to the lien of the Bonds.

Although the Master Trust Agreement does not limit the City's right to issue additional Subordinate Obligations, in one or more of the City's reimbursement agreements, the City agreed that it would not issue any additional indebtedness secured by General Airport Revenues if a term loan under such reimbursement agreement is outstanding (except to repay all such term loans) and that it would not issue any additional indebtedness secured by Net General Airport Revenues unless the City certifies that certain financial metrics are projected to be met. The City also agreed that it would not issue additional Bonds unless proceeds of the Bonds are used to refund Outstanding Bonds or reduce the aggregate principal amount of the Subordinated Commercial Paper Notes program.

Special Facility Revenues

The Master Trust Agreement provides that, the City may enter into contracts, leases, subleases or other agreements ("Special Facility Agreements") pursuant to which the City or the other parties to such agreements will agree to construct a building or facility incident or related to the Enterprise and designated in such agreement as a Special Facility (a "Special Facility") on land constituting part of the Enterprise or will agree to acquire or construct a Special Facility on land not then constituting part of the Enterprise (which land if not then owned or leased by the City may be acquired for such purpose), or to acquire and

remodel, renovate or rehabilitate a building, structure, or other facility (including the site thereof) for a Special Facility under the following conditions:

(1) No Special Facility may be constructed or acquired and subject to a Special Facility Agreement under the Master Trust Agreement if the result of the use or occupation of such Special Facility under the Special Facility Agreement would result in a reduction of Net General Airport Revenues and Other Available Funds below the minimum amount of Net General Airport Revenues and Other Available Funds covenanted to be produced and maintained in accordance with the Master Trust Agreement as determined by a certificate of the City (see "Rate Maintenance Covenant" above); and

(2) Any financing for the Special Facility is required to be secured as provided in the Special Facility Agreement and may not be secured by or payable from the General Airport Revenues or any of the funds or accounts held under the Master Trust Agreement. The Special Facility Agreement may provide the terms and conditions under which any revenues of the Special Facility will become General Airport Revenues.

There are currently no Special Facilities at the Airport.

Other Security Features of the Master Trust Agreement

The Master Trust Agreement contains other covenants that relate to the security for the Bonds, including covenants concerning the sale of property, insurance, eminent domain proceeds, events of default and remedies, defeasance and other matters. The Master Trust Agreement does not provide for acceleration of the payment of principal and interest on the Bonds in the event of a default. See Appendix D for a summary of certain of these provisions.

OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

Table 4 provides information as of October 1, 2011 relating to each issue of the Outstanding Bonds and the City's currently outstanding Subordinated Commercial Paper Notes.

Table 4
Norman Y. Mineta San José International Airport
Certain Information Related to the Outstanding Bonds and Subordinated Commercial Paper Notes
As of October 1, 2011

Name of Issue	Date of Issuance	Original Principal Amount	Outstanding Principal Amount	Final Maturity Date
Senior Lien				
City of San José Airport Revenue Bonds, Series 2001A	August 14, 2001	$158,455,000	$45,710,000	March 1, 2031
City of San José Airport Revenue Refunding Bonds, Series 2002A	January 9, 2003	53,600,000	53,600,000	March 1, 2018
City of San José Airport Revenue Refunding Bonds, Series 2002B	January 9, 2003	37,945,000	2,380,000	March 1, 2012
City of San José Airport Revenue Bonds, Series 2004C	June 24, 2004	75,730,000	72,730,000	March 1, 2026
City of San José Airport Revenue Bonds, Series 2004D	June 24, 2004	34,270,000	34,270,000	March 1, 2028
City of San José Airport Revenue Bonds, Series 2007A	September 13, 2007	545,755,000	545,755,000	March 1, 2047
City of San José Airport Revenue Bonds, Series 2007B	September 13, 2007	179,260,000	179,260,000	March 1, 2037
City of San José Airport Revenue Bonds, Series 2011A-1	July 28, 2011	150,405,000	$150,405,000	March 1, 2034
City of San José Airport Revenue Bonds, Series 2011A-2	July 28, 2011	86,380,000	86,380,000	March 1, 2034
Total Senior Lien		**$1,321,800,000**	**$1,170,490,000**	
Subordinate Lien				
San José International Airport Subordinated Commercial Paper Notes, Series A-1, Series A-2, Series B, Series C[1]	Varies	-	$279,505,000	Rolling maturities of 270 days or less
Total Subordinate Lien				

[1] The Subordinated Commercial Paper Notes are currently authorized to be issued from time to time in four separate Series, with multiple subseries, in a maximum aggregate principal amount of $351,545,294 outstanding at any one time, based on the letters of credit currently supporting the Subordinated Commercial Paper Notes. The City Council has authorized the issuance of up to $600,000,000 of Subordinated Commercial Paper Notes, but has not at this time authorized further credit support for the Subordinated Commercial Paper Notes.

Source: City of San José.

Senior Lien. Tables 5-1 and 5-2 show the debt service requirements on the Series 2011B Bonds and the Outstanding Bonds.

Table 5-1
Series 2011B Bonds Debt Service Requirements

Fiscal Year Ended June 30	Principal Requirements on Series 2011B Bonds	Interest Requirements on Series 2011B Bonds[1]	Aggregate Debt Service on Series 2011B Bonds[1]
2012	$ 7,735,000	$ 3,634,920	$ 11,369,920
2013	-	16,917,082	16,917,082
2014	-	16,917,082	16,917,082
2015	495,000	16,917,082	17,412,082
2016	800,000	16,900,648	17,700,648
2017	1,155,000	16,870,888	18,025,888
2018	1,540,000	16,823,648	18,363,648
2019	1,945,000	16,758,660	18,703,660
2020	2,390,000	16,667,245	19,057,245
2021	2,865,000	16,553,720	19,418,720
2022	3,380,000	16,413,335	19,793,335
2023	3,930,000	16,240,955	20,170,955
2024	4,540,000	16,024,010	20,564,010
2025	5,200,000	15,765,935	20,965,935
2026	5,910,000	15,466,335	21,376,335
2027	6,675,000	15,126,510	21,801,510
2028	7,535,000	14,694,938	22,229,938
2029	8,470,000	14,207,768	22,677,768
2030	9,470,000	13,660,140	23,130,140
2031	10,550,000	13,047,863	23,597,863
2032	11,710,000	12,365,753	24,075,753
2033	12,960,000	11,608,650	24,568,650
2034	14,320,000	10,751,513	25,071,513
2035	15,785,000	9,804,435	25,589,435
2036	17,360,000	8,760,465	26,120,465
2037	19,045,000	7,612,335	26,657,335
2038	20,885,000	6,352,763	27,237,763
2039	22,775,000	4,971,495	27,746,495
2040	25,065,000	3,465,233	28,530,233
2041	27,330,000	1,807,515	29,137,515
Totals[2]	$271,820,000	$383,108,915	$654,928,915

[1] Includes amounts to be paid from funds on deposit in the 2011B Capitalized Interest Account.
[2] Totals may not add due to rounding.
Source: City of San José.

Table 5-2
Airport Revenue Bonds Debt Service Requirements[1]

Fiscal Year Ended June 30	Total Debt Service Requirements on Outstanding Bonds[1]	Total Debt Service Requirements on Series 2011B Bonds[2]	Total Debt Service Requirements on All Bonds[1][2][3]
2012	$ 69,623,437	$ 11,369,920	$ 80,993,357
2013	73,108,988	16,917,082	90,026,069
2014	81,072,400	16,917,082	97,989,482
2015	81,026,425	17,412,082	98,438,507
2016	80,987,263	17,700,648	98,687,910
2017	80,930,175	18,025,888	98,956,063
2018	80,887,094	18,363,648	99,250,742
2019	76,847,775	18,703,660	95,551,435
2020	76,642,850	19,057,245	95,700,095
2021	76,928,350	19,418,720	96,347,070
2022	76,658,769	19,793,335	96,452,104
2023	76,978,644	20,170,955	97,149,599
2024	77,010,419	20,564,010	97,574,429
2025	76,803,831	20,965,935	97,769,766
2026	77,095,594	21,376,335	98,471,929
2027	77,317,938	21,801,510	99,119,448
2028	77,531,788	22,229,938	99,761,725
2029	80,700,813	22,677,768	103,378,580
2030	80,999,738	23,130,140	104,129,878
2031	80,929,863	23,597,863	104,527,725
2032	80,849,688	24,075,753	104,925,440
2033	114,054,613	24,568,650	138,623,263
2034	113,615,363	25,071,513	138,686,875
2035	111,915,750	25,589,435	137,505,185
2036	111,911,250	26,120,465	138,031,715
2037	111,915,000	26,657,335	138,572,335
2038	10,190,000	27,237,763	37,427,763
2039	10,188,600	27,746,495	37,935,095
2040	10,191,800	28,530,233	38,722,033
2041	10,188,100	29,137,515	39,325,615
2042	10,191,600	–	10,191,600
2043	10,190,500	–	10,190,500
2044	10,188,600	–	10,188,600
2045	10,189,400	–	10,189,400
2046	10,191,100	–	10,191,100
2047	10,191,900	–	10,191,900
Totals[3]	$2,306,245,412	$654,928,915	$2,961,174,327

[1] Excludes debt service on Subordinated Commercial Paper Notes to be refunded with a portion of the proceeds of the Series 2011B Bonds.
[2] Includes interest on the Series 2011B Bonds to be paid from amounts on deposit in the 2011B Capitalized Interest Account.
[3] Totals may not add due to rounding.

Source: City of San José.

Subordinate Lien. The Subordinated Commercial Paper Notes are currently authorized to be issued from time to time in four separate Series, with multiple subseries, in a maximum aggregate principal amount of $351,545,294 outstanding at any one time, based on the letters of credit currently supporting the Subordinated Commercial Paper Notes. The City Council has authorized the issuance of up to $600,000,000 of Subordinated Commercial Paper Notes, but has not at this time authorized further

credit support for the Subordinated Commercial Paper Notes. See "SECURITY FOR THE BONDS—Subordinate Obligations."

CERTAIN FACTORS AFFECTING THE AIRPORT

The following is a general discussion of certain factors that may affect activities at the Airport and does not purport to be an exhaustive listing of factors and other considerations affecting the Airport. There are other factors not discussed below, in the Appendices hereto or elsewhere in this Official Statement that may affect activities at the Airport.

General Factors Affecting Airline and Passenger Activity

Future airline traffic at the Airport and demand for air travel will be affected by, among other things, the growth of or decline in the population and economy of the Air Service Area and by national, regional and international economic conditions, federal regulatory actions, airline service, air fare prices and operation of the national air traffic control system. In general, the price of air travel is, in turn, affected by the number of airlines serving a particular airport and a particular destination, the financial condition, cost structure, aircraft choices, hubbing strategies and route decisions of the airlines serving an airport, the willingness and ability of competing airlines to enter an airport market, the cost of operating at an airport, the price of fuel and any operating constraints (due to capacity, environmental concerns, noise restrictions and other related factors) limiting the frequency or timing of airport traffic within the national system or at a particular airport.

Reductions in airline traffic and/or shifts in airline traffic and market share at the Airport and financial difficulties at individual airlines could, over time, materially alter the relative financial obligations of the individual airlines operating at the Airport and lead to increases in per-passenger-mile costs of service and to reductions of service at the Airport. Such reductions and shifts have occurred in the past as a result of factors outside of the Airport's control, including reductions and shifts experienced by the Airport in the aftermath of the terrorist attacks of September 11, 2001 and during the economic recession in 2008 and 2009. Factors which could have an adverse effect on air travel in the future include, but are not limited to, terrorist attacks, additional or continued military activities involving U.S. troops, outbreaks of illness, airline accidents, the availability of business travel substitutes including video conferencing and streaming technology, regulatory changes, rising fuel prices, continuing elevated levels of unemployment, turmoil in the capital markets or general weakness in the national, state, regional or local economy. See "—Uncertainties in the Air Service Area and —Uncertainties of the Airline Industry."

The Airport is located two miles north of downtown San José, close enough so that FAA safety regulations result in restrictions on the height of the buildings in the downtown area. Based on the existing height of buildings in the downtown area and additional safety requirements governing departing flight patterns, airlines determine maximum aircraft load factors for the Airport, which, in turn, determine the maximum distance the airline's aircraft can travel from the Airport. The City may eventually consider amending City land use regulations to further limit downtown building heights below the thresholds required by applicable FAA safety regulations in order to account for additional safety requirements used by airlines to determine maximum aircraft load factors may result in an increase in long-haul and international departures from the Airport. Although no such land use regulations are currently scheduled for consideration, the City is monitoring planned development in the downtown area with regard to potential building height impacts on Airport operations. This is one of a number of factors that airlines may consider in determining whether to continue or expand service from the Airport. If the City does not amend its land use regulations to further limit downtown building heights below the thresholds required by the FAA safety regulations, existing building heights or future downtown high rise construction may

negatively impact the airlines' decisions to continue or expand long-haul and international departures from the Airport.

Uncertainties in the Air Service Area

Approximately 97.5% of the enplaned passengers at the Airport are O&D passengers as opposed to passengers connecting through the Airport to other cities. As described in Appendix A and in the Report of the Independent Airport Consultant in Appendix B, air traffic at the Airport is thus dependent upon the economy of the Airport's Air Service Area as well as on the route decisions and financial condition of individual airlines. Although the Airport's six-county Air Service Area is large and has a relatively diversified socio-economic base, the economy in the Air Service Area depends in significant part upon the financial strength and stability of the software, technology and communications industries and upon the success of major employers in the Air Service Area. As described in Appendix A and in the Report of the Independent Airport Consultant in Appendix B, passenger air traffic has not yet returned to levels reached in fiscal year 2000-01, prior to the terrorist attacks of September 11, 2001 and the economic and financial downturns in the United States and particularly in the technology industry. Activity levels showed signs of leveling off until the combination of the national credit crisis, aviation fuel cost spike, and global recession in fiscal year 2008-09 caused traffic again to fall sharply through the end of fiscal year 2009-10. Passenger traffic at the Airport increased by approximately 2% in fiscal year 2010-11. No assurance can be given that the passenger traffic at the Airport will continue to grow or that the fiscal year 2010-11 levels will be maintained. Reduced demand for air travel in and out of the Air Service Area could result in fewer airlines serving the Airport. See "AIRPORT FINANCIAL MATTERS—Historical Operating Results" in Appendix A and "ECONOMIC BASE FOR AIR TRANSPORTATION" and "AIR TRAFFIC" in Appendix B.

Competition

As noted in the Report of the Independent Airport Consultant in Appendix B, the Airport competes for passengers and cargo with San Francisco International Airport ("SFO"), approximately 34 miles northwest of the Airport, and with Oakland International Airport ("OAK"), approximately 36 miles north of the Airport. From fiscal year 1999 through fiscal year 2002, the Airport experienced an increase in its share of domestic O&D passengers in the Bay Area from 24.5 percent in fiscal year 1999 to a high of 26.9 percent in fiscal year 2002. During the period beginning in fiscal year 2003 through fiscal year 2007, the Airport's share of domestic O&D passengers in the Bay Area decreased to approximately 24.2 percent. Since fiscal year 2007, the Airport's share of domestic O&D passengers in the Bay Area has decreased substantially to 20.0 percent in fiscal year 2010. OAK's share of domestic O&D passengers in the Bay Area has also decreased significantly since fiscal year 2007, from 33.3 percent in fiscal year 2007 to 22.3 percent in fiscal year 2010, whereas SFO's share of domestic O&D passengers has increased substantially from 40.9 percent in fiscal year 2003 to 57.8 percent in fiscal year 2010. No assurance can be given that the Airport's share will not decline further in the future. See "AIR TRAFFIC—Bay Area Airport Passenger Demand and Air Service" in Appendix B.

California High Speed Rail. The California High Speed Rail Authority (the "CHSR Authority") is pursuing a statewide, high speed rail system in California linking Los Angeles to the San Francisco Bay Area, with a proposed station to be located in the City. The CHSR Authority has indicated it will pursue a phased implementation of service. In December 2010, the CHSR Authority voted to begin construction of the high speed rail system in a portion of the Central Valley between a location in Madera County and the City of Corcoran, with construction expected to start in 2012 following delivery of an ongoing environmental review. In public information released in March 2011, the CHSR Authority indicated that it is proceeding with environmental review of the San José to Merced portion of the system on a schedule pursuant to which the CHSR Authority would complete all necessary work to operate trains between San

Francisco and Los Angeles by 2020. On May 9, 2011, the CHSR Authority was awarded $300 million in federal funding to be applied to the Central Valley segment, bringing the total federal funding plus State matching funds for the high speed rail project to approximately $6.33 billion. The CHSR Authority has stated that it plans to price its rail fares below air fares.

The City is unable to predict if or when a statewide, high speed rail system will become operational between the San Francisco Bay Area, the City and Los Angeles, or what effect such rail system would have, if any, on passenger traffic at the Airport or its revenues, including General Airport Revenues, PFC Revenues and CFC Revenues.

Uncertainties of the Airline Industry

The airline industry is highly cyclical and is characterized by intense competition, high operating and capital costs and varying demand. Passenger and cargo volumes are highly sensitive to general and localized economic trends, and passenger traffic varies substantially with seasonal travel patterns. The profitability of the airline industry can fluctuate dramatically from quarter to quarter and from year to year, even in the absence of catastrophic events such as the terrorist attacks of September 11, 2001, the economic recession of 2008 and 2009 and the continuing weakness in the national and international economies.

Since 2001, the global airline industry has undergone substantial structural changes and has sustained significant financial losses. Airlines continue to face significant challenges. Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the state of the U.S. economy, other regional and world economies, corporate profitability, fuel prices, security concerns and other factors. Structural changes to the industry also result from the impact of low cost carriers, internet travel web sites and carriers reorganizing under the U.S. Bankruptcy Code. See "—Bankruptcy Risks—Airline or Other Tenant Bankruptcies."

A number of airlines serving the Airport have filed for bankruptcy since September 11, 2001, including American Airlines, United Airlines, America West, Delta Air Lines, Northwest Airlines, Hawaiian Airlines, US Airways and Mexicana Airlines. With the exception of Mexicana Airlines, which ceased operations in August 2010 after filing bankruptcy earlier in the year, and American Airlines, each of the airlines has emerged from bankruptcy and continues to operate at the Airport.

On November 29, 2011, AMR Corporation ("AMR"), along with its subsidiaries American Airlines Inc. ("American Airlines") and American Eagle, filed to reorganize under Chapter 11 of the United Stated Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. American Airlines and American Eagle (the "American Carriers") enplaned approximately 10.4% of the passengers at the Airport during fiscal year 2010-11, almost all of which were O&D passengers. The American Carriers' share of enplanements at the Airport, which in fiscal year 2002-03 was approximately 26.5%, has decreased since their decision to de-hub at the Airport in fiscal year 2001-02. See "PASSENGER SERVICES AND OPERATIONS—Passenger Services—Enplanements By Airline" in Appendix A and "REPORT OF THE INDEPENDENT AIRPORT CONSULTANT—Air Traffic—Historical Passenger Activity—Enplaned Passengers" in Appendix B. As of November 29, 2011, the American Carriers owed the City approximately $323,000 in pre-petition obligations. As required by the Airline Lease Agreement, the American Carriers have provided the City with irrevocable letters of credit in the amount of $1.3 million (equal to approximately two months' rentals, fees and charges payable by the American Carriers). As of the date of this Official Statement, the American Carriers have not notified the City that they plan to make any service changes at the Airport as a result of the bankruptcy filing. However, the City cannot predict the ultimate outcome of the bankruptcy filing or the effect it will have

on the operations of the American Carriers at the Airport. See "—Bankruptcy Risks—Airline and Other Tenant Bankruptcies."

Of the airlines that currently serve the Airport, only Southwest Airlines has an investment-grade rating from any of the national rating agencies. Market conditions may limit further most of the airlines' access to additional financing if their existing sources of funds are exhausted. Business conditions within the airline industry, such as increases in fuel and other costs and aging aircraft fleets, together with increased competition from airlines that shed debt and other obligations in bankruptcy, among other factors, could adversely affect the ability of some of the airlines that serve the Airport to meet their financial obligations to the City. Such conditions are generally beyond the control of the Airport and, in some cases, the airlines. For example, after rising through most of the last decade, jet fuel spot prices declined in late 2008 and early 2009. Jet fuel spot prices began rising again in 2010 and continued to rise through the first half of 2011 before leveling off in July and August. Recent political unrest in oil-producing nations in the Middle East and North Africa may have a further impact on jet fuel prices. These and other market conditions could in the future result in additional airline bankruptcies, the inability of other weakened airlines to take over routes abandoned by a faltering airline, increased airline concentration at the Airport and a restructuring of the airline industry.

Three examples of consolidation within the airline industry after September 11, 2001, are the merger between US Airways and American West, completed in 2005, and the more recent mergers of United Airlines with Continental Airlines in 2010 and of Southwest Airlines with AirTran Airways on May 2, 2011. United and Continental completed their merger on October 1, 2010; however, they continue to operate as separate airlines until their operations have been fully integrated, which is expected to occur in 2012. Continental Airlines and United Airlines represented an approximately 8.5% market share at the Airport in fiscal year 2010-11, but the destinations served by each carrier from operations at the Airport are distinct. Also, on May 2, 2011, Southwest Airlines completed its merger with AirTran Airways. Southwest has indicated that the airlines will continue to operate independently until after the FAA grants a Single Operating Certificate, which Southwest currently expects to receive in the first quarter of 2012. AirTran Airways does not currently operate at the Airport. The City does not expect a reduction in service at the City as a result of any of these three mergers.

Other business decisions by airlines, such as abandoning domestic routes in favor of fewer but more lucrative international routes, increasing the use of smaller, regional jets and changing hubbing strategies, have also affected air traffic at the Airport and could have a more pronounced effect in the future. Although the Airline Lease Agreement permits the City to adjust rental rates and landing fees to take into account amounts that go unpaid by a defaulting airline, no assurance can be given that the non-defaulting airlines will continue to serve the Airport and to pay the higher rates and fees.

Bankruptcy Risks

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

Airline or Other Tenant Bankruptcies. A bankruptcy of an airline or of another tenant or tenants operating at the Airport could result in delays or reductions in payments on the Bonds.

The automatic stay provisions of the United States Bankruptcy Code (the "Bankruptcy Code") could prevent (unless approval of the bankruptcy court were obtained) any action to collect any amount owing by the airline or other tenant to the City or any action to enforce any obligation of the airline or other tenant to the City. With the authorization of the bankruptcy court, the airline or other tenant may be able to repudiate some or all of its agreements with the City and stop performing its obligations (including payment obligations) under such agreements. Such a repudiation could also excuse the other parties to such agreements from performing any of their obligations. The airline or other tenant may be able, without the consent and over the objection of the City, the Trustee and the Owners of the Bonds, to alter the terms, including the payment terms, of its agreements with the City, so long as the bankruptcy court determines that the alterations are fair and equitable. In addition, with the authorization of the bankruptcy court, the airline or other tenant may be able to assign its rights and obligations under any of its agreements with the City to another entity, despite any contractual provisions prohibiting such an assignment. The Trustee and the Owners of the Bonds also may be required to return to the airline or other tenant, as preferential transfers, any money that was used to make payments on the Bonds and that was received by the City or the Trustee from the airline or other tenant during the 90 days immediately preceding the filing of the bankruptcy petition. Claims by the City under any lease with the airline or other tenant may be subject to limitations.

As described in Appendix A, airlines that serve the Airport are required not only to make payments under various agreements with the City but also to pay to the City the PFCs collected from passengers on behalf of the City. An airline is likely to be in possession of PFCs at the time it goes into bankruptcy. Although there are provisions in the law requiring airlines to treat PFCs as trust funds, the application of these provisions in a bankruptcy case is not clear. The airline may not be required to turn over to the City or to the Trustee any PFCs in its possession at the time it goes into bankruptcy. Even while the airline is in bankruptcy, it may not be required to turn over PFCs that are collected prior to the time that the City or the Trustee demands the turnover of the PFCs. Even after a demand is made, it is possible that the airline would not be required to turn over subsequently-collected PFCs. See "AIRPORT FINANCIAL MATTERS—Passenger Facility Charges" in Appendix A for a discussion of other factors concerning PFCs.

A number of rental car companies that operate at the Airport have also been the subject of bankruptcy proceedings. In addition to lease and other payments, the Airport collects CFC Revenues from rental car companies operating at the Airport. Under the Master Trust Agreement, CFC Revenues are excluded from the definition of "General Airport Revenues" and are not pledged, but may be used, to pay debt service on the Bonds. See "SECURITY FOR THE BONDS—Pledge of General Airport Revenues" and "—Other Available Funds, CFC Revenues and Available PFC Revenues." The Airport has applied, and expects to continue to apply, CFC Revenues to the repayment of a portion of certain Series of Bonds, including the Series 2011B Bonds. The Airport also applied CFC Revenues to the repayment of a portion of its Subordinated Commercial Paper Notes in fiscal year 2010-11. See "—Availability of Funding from PFC Revenues and CFC Revenues" herein and "APPENDIX A—LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—Rental Car Agreements" and "—AIRPORT FINANCIAL MATTERS—Customer Facility Charges." A rental car company may owe current or future lease payments to the Airport and is likely to be in possession of CFC Revenues at the time it goes into bankruptcy. Although there are provisions in the agreements between the City and the rental car companies requiring the rental car companies to treat CFC Revenues as trust funds, the enforceability and application of these provisions in a bankruptcy case is not clear. A rental car company in bankruptcy may not be required to turn over to the City or to the Trustee any CFC

Revenues in its possession at the time it goes into bankruptcy. Even while the rental car company is in bankruptcy, it may not be required to turn over CFC Revenues that it collects to the City or the Trustee.

There likely will be delays in payments on the Bonds, including the Series 2011B Bonds, while the court considers any of these and other issues. There may be other effects of a bankruptcy of an airline or other tenant that could result in substantial delays or in reductions in payments to the holders of the Bonds, including the Series 2011B Bonds. Regardless of any specific adverse determinations in a bankruptcy proceeding, a bankruptcy proceeding could have an adverse effect on the liquidity and value of the Bonds, including the Series 2011B Bonds.

City Bankruptcy. The City is able to file for bankruptcy under Chapter 9 of the Bankruptcy Code. A bankruptcy filing by the City could result in substantial delays or reductions in payments on the Bonds, including the Series 2011B Bonds.

Should the City become a debtor in a bankruptcy case, the Owners of the Bonds will not have a lien on General Airport Revenues received by the City or the Trustee after the commencement of the bankruptcy case unless such revenues constitute "special revenues" within the meaning of the Bankruptcy Code. "Special revenues" is defined to include receipts from the ownership, operation, or disposition of projects or systems that are primarily used to provide transportation services, as well as other revenues or receipts derived from particular functions of the debtor. No assurance can be given that a court would determine that General Airport Revenues should be treated as special revenues. If General Airport Revenues are not special revenues, there could be substantial delays or reductions in payments to the Owners of the Bonds. Even if a court determines that General Airport Revenues are special revenues, the City will be able to use such revenues to pay operation and maintenance costs at the Airport, notwithstanding any provision of the Master Trust Agreement to the contrary.

The automatic stay provisions of the Bankruptcy Code could prevent (unless approval of the bankruptcy court is obtained) any action to collect any amount owing by the City to the Trustee or any action to enforce any obligation of the City to the Trustee. With the authorization of the bankruptcy court, the City may be able to repudiate some or all of its agreements with the Trustee, the airlines, the rental car companies and other concessionaires and stop performing its obligations under such agreements. Such a repudiation could also excuse the other parties to such agreements, including the rental car companies, the airlines and others, from performing any of their obligations.

The City may be able to cause any of its property that is subject to the lien of the Master Trust Agreement or any of the other agreements relating to the Bonds to be released to it, free and clear of such lien, so long as the bankruptcy court determines that the rights of the Trustee and the Owners of the Bonds will be adequately protected.

The City may be able, without the consent and over the objection of the Trustee and the Owners of the Bonds, to alter the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Master Trust Agreement, the Bonds, or any other agreement relating to the Bonds to which the City is a party, so long as the bankruptcy court determines that the alterations are fair and equitable. In addition, with the authorization of the bankruptcy court, the City may be able to assign its rights and obligations under the Master Trust Agreement, or any other agreement to which the City is a party, to another entity, despite any contractual provisions prohibiting such assignment.

There likely will be delays in payments on the Bonds while the court considers any of these issues.

There may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments to the holders of the Bonds.

Information Concerning the Airlines

The City makes no representation as to the business operations, financial condition or future viability of any airline and makes no representation about the filings referred to below.

The principal domestic airlines, or their respective parent corporations, and foreign airlines with American Depository Receipts ("ADRs") registered on a national exchange are subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the Securities and Exchange Commission (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, 100 F Street, N.E., Washington, D.C. 20549, and at 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 100 F Street, N.E., 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 and operating statistics with the Department of Transportation. Such reports can be inspected at the Bureau of Transportation Statistics, Research and Innovative Technology Administration, Department of Transportation, 1200 New Jersey Avenue, SE, 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 United States Department of Transportation.

Regulatory Uncertainties

General. As described in Appendix A, development at the Airport is regulated extensively by the City and by the State of California and requires a number of reviews and permits. Operations and development at the Airport are also subject to extensive federal oversight. The City operates the Airport pursuant to an airport operating certificate issued annually by the FAA after on-site review. In addition to this operating certificate, the Airport is required to obtain other permits and/or authorizations from the FAA and from other regulatory agencies and is bound by contractual agreements included as a condition to receiving grants under the federal Airport Improvement Program. All long-term planning and development is subject to the FAA's approval; outside audits of the Airport's financial statements are subject to periodic audits by the FAA; the City's use of Airport revenues, which is generally limited to airport-related purposes, is subject to audit and review by the FAA; and the City's use of PFC Revenues and grant proceeds is also subject to approval, audit and review. See "AIRPORT FINANCIAL MATTERS—Federal Grants" and "—Passenger Facility Charges" and "LITIGATION" in Appendix A.

The Airport is also subject to regulation and mandates by the Transportation Security Administration (the "TSA") as required by the Federal Aviation and Transportation Security Act. As described in Appendix A, the TSA has required the Airport to implement additional security-related projects and may in the future require the Airport to implement additional security-related projects, but the timing, scope and source of funding of such projects cannot be predicted. See "AIRPORT FINANCIAL MATTERS—Federal Security Grants—Aviation Security Act" in Appendix A.

Rates and Charges Regulation. The Federal Aviation Administration Authorization Act of 1994, as amended (the "1994 Act") and FAA regulations require that an airport maintain a rate structure that is as "self-sustaining" as possible and limit the use of all revenue generated by an airport receiving federal financing assistance (including local taxes on aviation fuel and other airport-related receipts) to purposes related to the airport. The statutes and regulations provide that for all airports, with certain exceptions, the use of airport revenue for purposes other than the capital or operating costs of the airport, the local airport system or other local facilities owned or operated by the airport owner or operator and directly and substantially related to the air transportation of passengers or property is unlawful revenue diversion and provide for monetary penalties and other remedies in the event of violations.

The 1994 Act also provides that without air carrier approval, an airport may not include in its rate base debt service allocable to projects not yet completed and in service. Section 113 of the 1994 Act ("Section 113") requires that airport fees be "reasonable" and provides a mechanism by which the Secretary of Transportation can review rates and charges complaints brought by air carriers. Section 113 specifically states that its provisions do not apply to (a) a fee imposed pursuant to a written agreement with air carriers using airport facilities, (b) a fee imposed pursuant to a financing agreement or covenant entered into prior to August 23, 1994, the date of enactment of Section 113, or (c) any other existing fee not in dispute as of August 23, 1994.

The 1994 Act also mandates an expedited administrative process by which the Secretary of Transportation is required to review rates and charges complaints brought by airlines. In January 1995, the U.S. Department of Transportation, acting through the FAA, issued its final rule outlining the procedures to be followed in determining the reasonableness of new fees or fee increases imposed on airlines and in June 1996, issued a policy statement (the "Policy Statement") setting forth the standards that the U.S. Department of Transportation will use in determining the reasonableness of the fees charged to airlines and other aeronautical users.

On August 1, 1997, the U.S. Court of Appeals to the District of Columbia Circuit in a case brought by the Air Transport Association vacated and remanded the Policy Statement to the Secretary of the U.S. Department of Transportation for reconsideration of the standards set forth in the Policy Statement. On October 15, 1997, the U.S. Court of Appeals amended its previous order to vacate only certain sections of the Policy Statement, including sections relating to valuation of the airfield, permissible components of the airfield rate base, use of any "reasonable methodology" for valuation of non-airfield assets and recovery of imputed interest in the airfield rate base. In February 2003, the FAA withdrew its advance notice of proposed policy regarding rates and charges and has not issued further guidance. The City cannot determine at this time when or whether new guidelines will be published, the costs that will be permitted to be included in determining an airport's rate base and/or the extent to which such future guidelines may limit the City's flexibility in negotiating airline agreements or in setting rates and charges by resolution or ordinance for use of the Airport's facilities. Any new federal legislation or other federal guidelines or any standards promulgated by a court in connection with a dispute could limit substantially the amounts and/or allocation of costs payable by airlines serving the Airport. In establishing any new rates and charge methodology for the Airport, the City intends to comply with federal law and with the Rate Maintenance Covenant contained in the Master Trust Agreement.

There is currently no dispute between the City and any of the air carriers over any existing rates and charges or the Airline Lease Agreement. No assurances can be given that disputes will not arise in the future. See "LEASE AND OPERATING AGREEMENTS" and "AIRPORT FINANCIAL MATTERS—Management Discussion of Recent Financial Results" in Appendix A.

Availability of Funding From PFC Revenues and CFC Revenues

The plan of finance assumes that (a) PFC Revenues will be available in certain amounts and at certain times for the payment of a portion of the debt service on certain Bonds; (b) that certain CFC Revenues and lease payments related to the ConRAC will be available in certain amounts and at certain times for the payment of a portion of the debt service on the Series 2011B Bonds; and (c) federal grants will be received in certain amounts and at certain times to pay certain capital project costs and a portion of the debt service on certain Bonds and/or Subordinated Commercial Paper Notes. No assurance can be given that these sources of funding will be available in the amounts or on the schedules assumed.

The amount of PFC Revenues received by the City in future years will vary based upon the actual number of PFC-eligible passenger enplanements at the Airport and the amount of the PFCs charged. No assurance can be given that any level of enplanements will be realized or that the amount of PFCs the City may impose would be increased. A shortfall in PFCs may require the City to increase rates and charges at the Airport to meet the debt service requirements on the Bonds, and/or require the City to identify other sources of funding for the payment of the debt service.

Additionally, under current law the FAA may terminate the City's authority to impose PFCs, subject to informal and formal procedural safeguards, if (a) PFC Revenues are not being used for approved projects in accordance with the FAA's approval, the statutes authorizing the PFC or the regulations promulgated thereunder, or (b) the City otherwise violates such statutes or regulations. The City's authority to impose PFCs may also be terminated if the City violates certain provisions of the Airport Noise and Capacity Act of 1990 ("ANCA") and its implementing regulations relating to the implementation of noise and access restrictions for certain types of aircraft. The regulations under ANCA also contain procedural safeguards to ensure that the City's authority to impose PFCs will not be summarily terminated. No assurance can be given that the City's authority to impose PFCs will not be terminated by Congress or the FAA, that the PFC program will not be modified or restricted by Congress or the FAA so as to reduce PFC Revenues available to the City or that the City will not seek to decrease the amount of PFCs to be collected. In the event the FAA or Congress reduced or terminated the City's ability to impose PFCs or reduced or eliminated the FAA's grant program or the size of the grants the City could receive, the City may need to increase rates and charges at the Airport to meet the debt service requirements on the Bonds. See "—Regulatory Uncertainties—Rates and Charges Regulation" above.

In addition to lease payments the City expects to receive from the five rental car companies with operations in the ConRAC, the City anticipates that the rental car companies will remit CFCs collected from their customers. Since January 1, 2008, the Airport has imposed a CFC of $10.00 per rental contract. Pursuant to Section 1936 of the California Civil Code ("Section 1936"), the City is currently permitted to increase the CFC to $6.00 per contract day, to a maximum of five days, on each rental instead of the $10.00 per rental contract CFC the City now charges. Section 1936 further permits the City to increase the per contract day CFC to $7.50 commencing January 1, 2014, and to $9.00 commencing January 1, 2017. The $6.00 per contract day CFC and any subsequent increase of the per contract day CFC are each subject to audit and substantiation by the California State Controller prior to City Council approval. The State Controller's audit substantiated the increase to a CFC of $6.00 per contract day on October 13, 2011. The City Council approved a CFC increase on November 8, 2011, establishing a CFC of $6.00 per contract day, to a maximum of five days, effective December 1, 2011 and authorizing a further increase of the CFC to $7.50 per contract day (subject to the five day maximum) beginning January 1, 2014. The increase to $7.50 per contract day remains subject to further audit and substantiation by the California State Controller. The rental car companies have expressed their support to the City regarding the changes to the CFC, as approved by the City Council on November 8, 2011.

No assurance can be given that the City's authority to impose CFCs will not be affected by future legislation or by future legal challenges so as to reduce CFC Revenues available to the City or that the City will not seek to decrease the amount of CFCs to be collected. For example, Federal legislation ("H.R. 2469") was introduced on July 8, 2011 in the House of Representatives that would have the effect of prohibiting certain state and local taxes (which the bill defines to include fees) on motor vehicle rentals. It is currently under consideration by the House Judiciary Committee. The City cannot predict whether or in what form H.R. 2469 might ultimately become law. As currently drafted, H.R. 2469 would not impact collection of CFC Revenues at existing rates but could have the effect of prohibiting certain future increases in the rates at which CFC Revenues are collected. To the extent that the City's authority to impose CFCs were reduced or eliminated, or the City decided to decrease the amount of CFCs it collects from customers of the rental car companies, the lease payments that rental car companies are required to make in connection with their operations at the ConRAC would increase pursuant to the lease agreements entered into with the rental car companies. No assurance can be given, however, that such increases would be sufficient to avoid the City needing to increase other rates and charges at the Airport to meet the debt service requirements on the Bonds, including the Series 2011B Bonds.

The initial term of the City's current agreements with the on-Airport rental car companies for use of the ConRAC is 10 years, beginning June 1, 2010 and ending May 31, 2020, subject to two optional ten year extensions, which must be approved by the City and the rental car companies. Should all of the rental car companies determine at the expiration of the 10-year term not to extend the agreements, the City could not continue to collect CFCs after the on-Airport rental car companies vacate the ConRAC (other than for CFCs collected by off-Airport rental car companies for on-Airport common use transportation costs). In such event, the City would seek other tenants or uses for the ConRAC, but would remain responsible for payment of the remaining Series 2011B Bonds from General Airport Revenues until such time as new rental car companies were to begin operations at the ConRAC and the City could again collect CFCs. See "APPENDIX A—LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—Rental Car Agreements" and "—AIRPORT FINANCIAL MATTERS—Customer Facility Charges."

Seismic Hazards

The Airport is located within 6 to 12 miles of the San Andreas fault, the Hayward fault and the Calaveras fault, which are known to be active earthquake faults and pose the greatest potential for surface rupture in the Bay Area. The City has experienced at least eight recorded earthquakes with a Richter scale magnitude of 6.0 or greater, and with the epicenter located within the Bay Area. The most recent such earthquake, which had a magnitude of 7.1, occurred on October 17, 1989.

The seismic risks to a structure are dependent upon several factors, including the distance of the structure from the active fault, the character of the earthquake, the nature of construction of the structure, and the geologic conditions underlying the structure. Ground surface rupture tends to occur along lines of previous faulting, where fault displacement intersects the ground surface. Displacement may either occur suddenly during an earthquake or it may occur slowly as the fault "creeps" over a long period of time. Pursuant to applicable state law, the California Division of Mines and Geology has prepared maps to identify certain areas as liquefaction hazard zones. "Liquefaction" is the transformation of soil from a solid state to a liquid state during a major earthquake, and liquefaction hazard zones are areas where historic occurrence of liquefaction or local geological, geotechnical and ground water conditions indicate a potential for permanent ground displacements during a major earthquake. According to the most recent published maps prepared by the California Division of Mines and Geology, the Airport is located within an area subject to a high potential for liquefaction during a major earthquake.

The Airport and its facilities remained open after the October 17, 1989 earthquake. Terminal A has been designed and inspected in accordance with the "essential facility" standards of the 1985 Uniform Building Code (the "UBC"). This standard means that Terminal A has been designed with a higher force factor, to a seismic factor of 1.5, as compared to non-essential facilities constructed to a seismic factor of 1.0. An "essential facility," as defined by the UBC, is a structure which must remain operational for emergency post-earthquake operations. Terminal A sustained no damage during the 1989 earthquake. At the time of the earthquake, Terminal A was nearing completion and was not yet occupied. Terminal B and its concourse were designed and constructed in accordance with the California Building Code, 2001 Edition.

Because the Airport is located within an area of active earthquake faults, the possibility does exist for operations at the Airport to be disrupted or for facilities at the Airport to be damaged by a strong earthquake. The Master Trust Agreement does not require earthquake insurance on the Airport facilities, and the City does not currently carry a policy of earthquake insurance. All Airport facilities, however, are designed and constructed in accordance with applicable state and local building codes, which are considered the most stringent in the nation.

Natural Gas Transmission Pipelines

On September 9, 2010 a Pacific Gas and Electric Company ("PG&E") high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. In a final Pipeline Accident Report, adopted by the National Transportation Safety Board (the "NTSB") on August 30, 2011, the NTSB found recurring deficiencies in PG&E's pipeline integrity management program, which the NTSB concluded were evidence of a systemic problem. There are numerous similar pipelines owned, operated and maintained by PG&E located throughout the City. In the immediate vicinity of the Airport, publicly available information on PG&E's website (www.pge.com) indicates that the three closest transmission level gas pipelines are approximately 1,200 to 4,000 feet from the Airport's property lines, but that there are 4 inch and 6 inch gas mains on Airport Boulevard. PG&E's website also provides information regarding its high pressure natural gas transmission pipelines and its long range natural gas transmission pipeline planning. PG&E has also indicated that it considers the proximity of its natural gas transmission pipelines to high density populations, potential reliability impacts and environmentally sensitive areas, and uses the data it collects to help plan and prioritize future work on its pipelines.

The effects of any failure of the high pressure natural gas transmission pipelines closest to the Airport or the gas mains on Airport Boulevard are difficult to predict, but could include explosion and concussive force, fire, smoke, transportation delays and detours on routes to and from the Airport, and potential forced evacuation of nearby structures. However, given the distance and the significant infrastructure separating PG&E's transmission pipelines from Airport facilities, it is anticipated that no immediate damage to the Airport would result from such a failure. In addition, any ancillary effects on transportation routes would in part be mitigated by the fact that the Airport has three entrances, and traffic could be rerouted should one entrance be impacted by such a failure. Finally, smoke from fires could impact air traffic depending on intensity and wind direction.

The City is not able to independently confirm the information set forth above or the information contained in the NTSB's Pipeline Accident Report or on the PG&E website, including the exact distances of any high pressure transmission lines from Airport facilities, and can provide no assurances as to the accuracy or completeness of such information. Information available in the NTSB's Pipeline Accident Report and from PG&E's website is not part of this Official Statement nor has such information been incorporated by reference herein, and should not be relied upon in making an investment decision with respect to the Series 2011B Bonds. Further, the City can provide no assurances as to the condition of PG&E pipelines and other facilities in the City, or predict the extent of the damage to the surrounding

property that would occur if a PG&E pipeline located within the City were to experience any type of failure, including a possible fire or explosion.

Flooding

The City and the Santa Clara Valley have a history of flooding due to heavy rain and inadequate storm drains and flood protection conveyance systems, which has resulted in property damage. The Santa Clara Valley Water District (the "District") is responsible for flood protection infrastructure in Santa Clara County on streams and waterways. The District coordinates flood hazard mitigation efforts for the major creeks and waterways in the City and assists the City in the review of development proposals that could impact flood protection efforts.

The Federal Emergency Management Agency ("FEMA") oversees the delineation of flood zones. FEMA publishes Flood Insurance Rate Maps ("FIRMs") that show the expected frequency and severity of flooding by area, typically for the existing land use and drainage/flood control facilities. The maps prepared by FEMA for the San Jose area indicate that during a 100-year flood event (area subject to a flood that has a one percent chance of being equaled or exceeded in any given year), sections of the City would be subject to flooding from creek overbanking, inadequate storm drains and levees or inundation from the San Francisco Bay. Approximately 20,000 parcels in the City are within the 100-year flood hazard area established by FEMA. This represents approximately 10 percent of the total number of properties within the City. This can be extrapolated to estimate that roughly 10 percent of the area of the City may be inundated by flood waters of at least one foot in depth.

The Guadalupe River channel on the east side of the Airport is designated on the FEMA maps as Zone A (areas of 100-year flood). In June 2005, the District informed the City of the completion of the Guadalupe River flood control improvements which removed the Airport from the 100-year flood zone. Additionally, the Airport has completed construction of airfield improvements and Airport Master Plan EIR mitigation measures designed to accommodate runoff from a 100-year flood event. The majority of the central, northern and eastern portions of the Airport are located in an area designated by FEMA as Zone X while some portions are in Zone AH. According to FEMA, Zone X is the flood insurance rate zone that corresponds to the areas of moderate or minimal flood hazard. Zone AH is used in areas subject to inundation by 1-percent-annual-chance shallow flooding (usually areas of ponding) where average depths are between one and three feet. The western portion of the Airport is in an area designated by FEMA as Zone D. The Zone D designation is used for areas where there are possible but undetermined flood hazards. In areas designated as Zone D, no analysis of flood hazards have been conducted.

The District is also responsible for several dams located upstream of the City. In a catastrophic event, damage to one or more of these dams could result in flooding within the City as shown on inundation maps originally prepared by the District in the early 1970's (the map for Lenihan Dam was further updated in the mid 1990's and the map for Anderson Dam updated in 2009). These inundation maps are on file with the California Emergency Management Agency and with the City.

The District has commenced seismic stability studies on eight of the District's dams. One evaluation analyzed how Anderson Dam, an earth and rockfill structure constructed in 1950, could be affected by a major earthquake with a magnitude of 7.25 on the Calaveras Fault within two kilometers of the dam. This evaluation found that Anderson Dam could be subject to a reduction in strength in connection with such an earthquake and, were the reservoir to be full at the time of the earthquake, such weakening could result in an uncontrolled release of water. Such a complete failure of the dam could send 35 feet of water into downtown Morgan Hill and 8 feet of water into San José, some of which would reach the Airport. Subsequent to this study, the District's dam operators have maintained reservoir levels below normal to provide an additional margin of safety for the downstream public.

On October 26, 2011, the District announced preliminary findings from a seismic study indicating that its Calero and Guadalupe dams could be subject to significant damage if a major earthquake occurred near either dam. In response to these preliminary findings, the District has further restricted reservoir levels at, and plans to develop potential remediation actions for, the Calero and Guadalupe dams. Failure of either of these two dams would impact the City, but it is not anticipated that the water released would reach the Airport.

The District continues to work with the State of California Division of Safety of Dams to study seismic stability of its other dams and is adapting operations accordingly. Although unlikely, the District has determined that failure of at least one other dam, Lenihan Dam, could cause flooding which would reach the Airport. Depending on the severity of flooding, flooding at the Airport could result in reduced operations at the Airport that could have a negative effect on the Airport's finances.

BOND INSURANCE

The following information has been furnished by Assured Guaranty Municipal Corp. ("AGM") for use in this Official Statement. The City makes no representation as to the accuracy or the completeness of such information or as to the absence of material adverse changes in such information. Additionally, the City undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of any material contained on websites described in this section including, but not limited to, updates of such information or links to other internet sites accessed through such websites. Reference is made to Appendix J for a specimen of AGM's financial guaranty insurance policy, which has been provided by AGM.

Bond Insurance Policy

Concurrently with the issuance of the Series 2011B Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series 2011B Insured Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Series 2011B Insured Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM's financial strength is rated "AA-" (stable outlook) by S&P and "Aa3" (negative outlook) by Moody's. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in

the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings. On November 30, 2011, S&P published a Research Update in which it downgraded AGM's financial strength rating from "AA+" to "AA-". At the same time, S&P removed the financial strength rating from CreditWatch negative and changed the outlook to stable. AGM can give no assurance as to any further ratings action that S&P may take. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

The most recent rating action by Moody's on AGM took place on December 18, 2009, when Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments. Moody's is in the process of reviewing AGL and its subsidiaries and there can be no assurance as to any ratings action that Moody's may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as amended by its Form 10-K/A; its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2011 and June 30, 2011, each as amended by its Form 10-Q/A; and its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011.

Capitalization of AGM. At September 30, 2011, AGM's consolidated policyholders' surplus and contingency reserves were approximately $3,105,604,840 and its total net unearned premium reserve was approximately $2,207,101,966, in each case, in accordance with statutory accounting principles.

AGM's statutory financial statements for the fiscal year ended December 31, 2010 and for the quarterly periods ended March 31, 2011, June 30, 2011 and September 30, 2011, which have been filed with the New York State Department of Financial Services and posted on AGL's website at http://www.assuredguaranty.com, are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference. Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as amended by Amendment No. 1 on Form 10-K/A (filed by AGL with the SEC on March 1, 2011 and October 31, 2011, respectively);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, as amended by Amendment No. 1 on Form 10-Q/A (filed by AGL with the SEC on May 10, 2011 and November 14, 2011, respectively);

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, as amended by Amendment No. 1 on Form 10-Q/A (filed by AGL with the SEC on August 9, 2011 and November 14, 2011, respectively); and

(iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 (filed by AGL with the SEC on November 14, 2011).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Series 2011B Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Series 2011B and may hold such Series 2011B Bonds for investment or may sell or otherwise dispose of such Series 2011B Bonds at any time or from time to time.

AGM makes no representation regarding the Series 2011B Bonds or the advisability of investing in the Series 2011B Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and in "Appendix J—SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

RATINGS

S&P and Moody's are expected to assign ratings of "AA-" and "Aa3," respectively, to the Series 2011B Insured Bonds with the understanding that upon delivery of the Series 2011B Insured Bonds, the Policy will be issued by the 2011B Bond Insurer. S&P's rating outlook with respect to the Series 2011B Insured Bonds is expected to be "stable." Moody's rating outlook with respect to the Series 2011B Insured Bonds is expected to be "negative." The Series 2011B Insured Bonds have also been assigned underlying ratings of "A-" and "A2" by S&P and Moody's respectively. S&P's rating outlook with respect to the underlying rating for the Series 2011B Insured Bonds is "stable." Moody's rating outlook with respect to the underlying rating for the Series 2011B Insured Bonds is "negative." The uninsured Series 2011B Bonds have been rated "A-" and "A2" by S&P and Moody's, respectively. S&P's rating outlook with respect to the uninsured Series 2011B Bonds is "stable." Moody's rating outlook with respect to the uninsured Series 2011B Bonds is "negative." The Series 2011B Bonds, including the

Series 2011B Insured Bonds, have been rated "A-" by Fitch. Fitch does not currently publish a rating for the 2011B Bond Insurer, and therefore Fitch will not be providing a separate rating on the Series 2011B Insured Bonds based on the delivery of the Policy. Fitch's rating outlook with respect to the Series 2011B Bonds, including the Series 2011B Insured Bonds, is "negative."

The ratings and outlooks assigned by S&P, Moody's and Fitch reflect only the views of such organizations. The explanation of the significance of such ratings and outlooks should be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating and outlook on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings or outlooks will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2011B Bonds. Neither the City nor the Underwriters have the obligation to contest any revision or withdrawal by the rating agencies of any such ratings.

TAX MATTERS

Interest on the Series 2011B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, interest on the Series 2011B Bonds is exempt from State of California personal income taxes.

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the Series 2011B Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Series 2011B Bonds.

Circular 230. Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the City and its tax advisors are (or may be) required to inform prospective investors that:

i. any advice contained herein is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;

ii. any such advice is written to support the promotion or marketing of the Series 2011B Bonds and the transactions described herein; and

iii. each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

LITIGATION

No Litigation Relating to the Series 2011B Bonds. There is no litigation now pending against the City with service of process accomplished or, to the knowledge, after due inquiry, of its Director of Finance, Director of Aviation or City Manager, threatened in writing, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2011B Bonds or contesting the validity of the Series 2011B Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2011B Bonds or the use of the Series 2011B Bond proceeds. As described in "APPENDIX A—LITIGATION," a number of litigation matters relating to the Airport are pending against the City.

Municipal Derivatives Litigation. On May 21, 2010, the City and the San José Redevelopment Agency filed a complaint in the United States District Court for the Northern District of California, City of San José and the San José Redevelopment Agency v. Bank of America, N.A., et al., Case No. CV-10-2199 (N.D. Cal) alleging antitrust violations related to municipal derivatives. The complaint named a number of financial institutions, banks, and brokers, including Bank of America, N.A., Morgan Stanley, affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets, Inc., that provided municipal derivatives, including guaranteed investment contracts and interest rate swaps. On June 25, 2010, the case was transferred to the Multi-District Litigation (MDL) proceeding in the United States District Court for the Southern District of New York, and consolidated with class actions and other individual actions for pretrial purposes in the multidistrict litigation *In re Municipal Derivatives Litigation*, MDL No. 1950, Case No. CV-08-2516 (S.D.N.Y) (VM) (GWG). Some of the financial institutions named in the complaint are, or are affiliates of, the Underwriters for the Series 2011B Bonds. See "UNDERWRITING" herein.

The City is not able to predict the outcome of this litigation, but does not believe that it will adversely impact the ability of the City to pay debt service on the Series 2011B Bonds.

LEGAL MATTERS

The validity of the Series 2011B Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. As Bond Counsel, Orrick Herrington & Sutcliffe LLP undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by Kutak Rock LLP, Underwriters' Counsel, and for the City by the City Attorney. Certain legal matters will be passed upon for the City by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel. All of the fees of Bond Counsel, Disclosure Counsel and Underwriters' Counsel with regard to the issuance of the Series 2011B Bonds are contingent upon the issuance and delivery of the Series 2011B Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners of the Series 2011B Bonds to provide certain financial information and operating data relating to the City and the Airport by not later than nine months after the end of the City's fiscal year in each year, commencing with the fiscal year ending June 30, 2011 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, in some cases only if such events material. The filing of the Annual Bond Disclosure Report or notices of material events will be made solely by transmitting such filing to the Municipal Securities Rulemaking Board pursuant to its Electronic Municipal Market Access ("EMMA") system as provided at http://www.emma.msrb.org. These covenants have been made to assist the Underwriters in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). For the specific nature of the information to be contained in the Annual Report or the notices of material events delivered by the City to provide certain information, see Appendix G. The Trustee has no obligation to enforce the undertakings of the City in the Continuing Disclosure Certificate, and a failure by the City to provide any information required thereunder shall not constitute an Event of Default under the Master Trust Agreement.

During the past five years, the City has never failed to comply, in all material respects, with an undertaking under the Rule.

FINANCIAL ADVISORS

The City has retained the services of Public Financial Management, Largo, Florida, and Public Resources Advisory Group, Los Angeles, California, as Financial Advisors in connection with the sale of

the Series 2011B Bonds. The Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. All of the fees of the Financial Advisors with regard to the issuance of the Series 2011B Bonds are contingent upon the issuance and delivery of the Series 2011B Bonds.

UNDERWRITING

Series 2011B Bonds

The Series 2011B Bonds are being purchased from the City by J.P. Morgan Securities LLC, Barclays Capital Inc. and Morgan Stanley & Co, LLC (the "Underwriters"). The Underwriters have agreed to purchase the Series 2011B Bonds at a purchase price of $263,725,515.90 (representing the aggregate principal amount of the Series 2011B Bonds of $271,820,000.00, less an underwriting discount of $1,295,857.15, less a net original issue discount of $6,798,626.95).

The Bond Purchase Agreement pursuant to which the Series 2011B Bonds are being sold (the "2011B Purchase Agreement") provides that the Underwriters' obligation to make such purchase is subject to certain terms and conditions set forth in the 2011B Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Series 2011B Bonds to certain dealers and others at a price lower than the offering price stated on the inside cover hereof. The offering prices may be changed from time to time by the Underwriters.

J.P. Morgan Securities LLC ("JPMS") provided the information contained in this paragraph for inclusion in this Official Statement and the City does not take any responsibility for or make any representations as to its accuracy or completeness. JPMS, one of the underwriters of the Series 2011B Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Series 2011B Bonds, at the original issue prices. Pursuant to each Dealer Agreement each of UBSFS and CS& Co. will purchase the Series 2011B Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2011B Bonds that such firm sells.

Morgan Stanley & Co. LLC provided the information contained in this paragraph for inclusion in this Official Statement and the City does not take any responsibility for or make any representation as to its accuracy or completeness. Morgan Stanley, the parent company of Morgan Stanley & Co. LLC, one of the underwriters of the Series 2011B Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2011B Bonds.

Additional Information

The following two paragraphs have been provided by the Underwriters for inclusion in this Official Statement and the City does not take any responsibility for or make any representations as to the accuracy or completeness of such statements or information.

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

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City. The market activities of the Underwriters and other market participants may impact the value of the Series 2011B Bonds.

FINANCIAL STATEMENTS

The audited financial statements of the Airport set forth in Appendix E have been examined by Macias Gini & O'Connell LLP, independent certified public accountants, for the periods indicated and to the extent set forth in their report thereon. The Master Trust Agreement requires the City to have its financial statements audited annually by an independent certified public accountant. The audited financial statements prepared by the City each fiscal year are required to be provided to the Trustee within 180 days after the end of each such year in accordance with the Master Trust Agreement. Macias Gini & O'Connell LLP has not been requested to consent to the use of its name or to the inclusion of its report in this Official Statement, has not performed any post-audit review of the financial condition or operations of the Airport and has not reviewed this Official Statement.

MISCELLANEOUS

Certain statements contained in this official statement, including the appendices, do not reflect historical facts but are forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

Any statement made in this Official Statement indicated to involve matters of opinion or estimates are represented as opinions or estimates in good faith. No assurance can be given that the facts will materialize as so opined or estimated. The City and the Airport maintain websites at www.sanjoseca.gov, www.sjc.org and www.csjfinance.org. Information on such websites is not part of this Official Statement nor has such information been incorporated by reference herein and should not be relied upon in deciding whether to invest in the Series 2011B Bonds.

This Official Statement has been duly authorized and approved by the City Council and duly executed and delivered on its behalf by the officials signing below.

CITY OF SAN JOSE, CALIFORNIA

By: /s/ Julia Harper Cooper
Acting Director of Finance

By: /s/ William F. Sherry
Director of Aviation

CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY

APPENDIX A

THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

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THE CITY AND THE AIRPORT DEPARTMENT

The City

The City of San José (the "City") was incorporated on March 27, 1850 and operates as a charter city, having had its first charter granted by the State of California (the "State") in 1897. In 1916, another charter was adopted enabling the City to institute a council-manager form of government, making it one of the first cities in the nation to take this step. Under the California Constitution, charter cities are generally independent of the state legislature in matters relating to municipal affairs. The present charter became effective on May 4, 1965 and created the Airport Department as a separate department of the City.

The City is governed by a City Council consisting of a Mayor and ten other council members. The Mayor is elected at large for a four-year term. Council members are elected by district for staggered, four-year terms. The Mayor and the council members are limited to two consecutive four-year terms.

The City Council appoints the City Manager who is responsible for the operation of all municipal functions except the offices of City Attorney, City Clerk, City Auditor and Independent Police Auditor. The officials heading these offices are appointed by and carry out the policies set forth by the City Council.

The Airport Department

The Airport Department is responsible to the City Manager and is headed by the Director of Aviation. The finances of the Airport Department are managed by Airport staff who coordinate with the staff of the City Department of Finance. An Airport Commission, made up of seven members appointed by the City Council for three-year terms, serves in primarily an advisory capacity to the City Council.

In addition to the Office of the Director of Aviation, the Airport Department has four divisions: Airport Planning and Development, Airport Facilities and Engineering, Airport Operations and Airport Finance and Administration. At its peak, the Airport Department had 400 authorized positions in fiscal year 2008-09. For fiscal year 2010-11, the Airport Department had 206 authorized positions and has 205 authorized positions in its budget for fiscal year 2011-12. For further information regarding the City's labor relations, see "OTHER MATTERS—Labor Relations" herein.

Presentation of Unaudited Results

Unaudited results from the Airport's fiscal year 2010-11 are included in the Official Statement, including this Appendix A. Such information is preliminary and subject to change, including as a result of accounting changes proposed as part of the audit process or otherwise required to conform such information to generally accepted accounting principles applicable to local governments such as the City, and such changes may be material. Thus, direct comparisons between corresponding information in the audited and unaudited results may not be completely informative. The most recent Comprehensive Annual Financial Report of the Airport, presenting the Airport's audited financial results for the fiscal year ended June 30, 2010 and including footnotes, is attached to this Official Statement as Appendix E.

THE AIRPORT

General

The Airport is located on approximately 1,050 acres of land approximately two miles north of downtown San José, between the Bayshore Freeway (Highway 101) and Interstate 880. The Airport had its beginning in 1945, with the lease of approximately 16 acres of farmland from the City to Mr. James M. Nissen. Mr. Nissen and his associates formed an operating company (California Aviation Inc.), which undertook the construction of a 1,900-foot runway, a hangar and an office building. Flight operations began in 1946. In the Fall of 1948, the City assumed the operation of the San José Municipal Airport from California Aviation Inc. The Airport was renamed San José International Airport (SJC) in 1984 with the addition of airline service to Canada and was again renamed Norman Y. Mineta San José International Airport (SJC) in 2001.

The original terminal building (Terminal C) was built at the Airport in 1965. To accommodate increased commercial service at the Airport, Terminal C was expanded in 1969, 1970, 1971 and 1983. Terminal A, including the Terminal A+ extension, opened in 1990 and the International Arrivals Facility opened in 2002. Beginning in 2007, portions of Terminal C were closed as construction of Terminal B began. In June 2010, Terminal B opened and the remainder of Terminal C was permanently closed. Following its closure, Terminal C was demolished.

The Airport is a commercial service and general aviation airport and is classified by the FAA as a "medium hub" (an airport that enplanes at least 0.25% but less than 1.0% of the total number of passenger boardings at all commercial service airports in the United States). The Airport is located in Santa Clara County, California (the "County"), which is commonly referred to as the "Silicon Valley." The County, together with the counties of Alameda, Monterey, San Benito, San Mateo and Santa Cruz, California, constitute the "Air Service Area" for the Airport. According to the U.S. Census Bureau's 2010 Census, the population of the Air Service Area was approximately 4.7 million residents, approximately 12.7% of the population of the State.

Three of the counties within the Air Service Area (Santa Clara, San Mateo and Alameda) are considered part of the "Bay Area," which includes the major metropolitan areas of San José, San Francisco and Oakland. In addition to the Airport, the Bay Area is served by San Francisco International Airport, approximately 34 driving miles northwest of the Airport, and Oakland International Airport, approximately 36 driving miles north of the Airport. Another commercial service airport that serves portions of the Air Service Area, Monterey Peninsula Airport, is approximately 75 driving miles from the Airport. See the Report of the Independent Airport Consultant in Appendix B for additional information about the Air Service Area and the other airports that serve the Air Service Area.

The Airport is often referred to as an "origin and destination airport" because it primarily serves passengers beginning or ending their trips at the Airport, as opposed to passengers connecting through the Airport to other cities. The City estimates that in fiscal year 2010-11, approximately 97.5% of the passengers enplaning at the Airport were origin and destination ("O&D") passengers. In general, at airports primarily serving O&D passengers, air traffic is more dependent upon the population and economy of the airport service area than upon the financial condition and route decisions of individual airlines. See "AIR TRAFFIC—Factors Affecting Aviation Demand and the Airline Industry" in Appendix B.

Approximately 4.19 million passengers were enplaned and approximately 122,000 operations occurred at the Airport (takeoffs and landings) during fiscal year 2010-11. See "PASSENGER SERVICES AND OPERATIONS." According to statistics published by the Airports Council

International—North America ("ACI-NA"), in calendar year 2010 the Airport was the 42nd busiest airport nationwide in terms of total passengers and the 60th busiest in terms of total cargo.

Passenger airline traffic at the Airport declined markedly during fiscal years 2001-02 and 2002-03, increased slightly during fiscal years 2003-04, 2004-05 and 2005-06, and then again declined markedly between fiscal years 2006-07 and 2009-10. In fiscal year 2010-11, enplanements grew by approximately 2.0% compared to fiscal year 2009-10. In contrast, from fiscal year 2006-07 to fiscal year 2010-11, the Airport's total operating revenues increased by approximately 34.3%, while total maintenance and operation expenses, excluding depreciation and amortization, decreased by approximately 16.7%.

See "AIRPORT FINANCIAL MATTERS" below and "AIR TRAFFIC—Factors Affecting Aviation Demand and the Airline Industry" in Appendix B.

Existing Facilities

General. Existing facilities at the Airport include three parallel runways; two commercial passenger terminals; an International Arrivals Facility; maintenance buildings; parking facilities; a control tower; and various other facilities.

For a description of the Airport's capital development program, see "CAPITAL DEVELOPMENT AT THE AIRPORT" below and "AIRPORT FACILITIES AND DEVELOPMENT" in Appendix B.

Airfield Facilities. The Airport's airfield facilities consist of three parallel runways, including two air carrier runways (Runway 30L and Runway 30R), one general aviation runway (Runway 11–29) and connecting taxiways. Runway 30R is the primary runway for departures, and Runway 30L is the primary runway for arrivals.

Staggered simultaneous operations on both runways are possible during Visual Flight Rules (VFR) operations, which are implemented to reduce peak period delays. Runway 30L and Runway 30R can each accommodate Boeing 747 and the future Boeing 787 and Airbus 340 (but not Airbus 380) aircraft on a limited basis with special operating procedures.

To accommodate air carriers, Runway 30R, which previously served as an approximately 4,400 foot commuter runway, was improved and extended to approximately 11,000 feet in 2001. In 2005, Runway 30L was extended from 10,200 feet in length to 11,000 feet, the maximum length allowed under the Airport Master Plan.

Runway 11-29, approximately 4,600 feet long, is a lighted, non-instrument runway located on the west side of the airfield which recently had been used exclusively by general aviation aircraft. Runway 11-29 is currently not in operation, and general aviation aircraft instead use Runway 30L and Runway 30R.

Lighting for the entire flight area, including lighting for the three runways and all connecting taxiways, approach lights, obstruction lights, lighted wind indicators and loading ramp floodlights, is provided on a 24-hour basis.

Terminal Facilities. Passenger services are located in Terminal A, Terminal B and the International Arrivals Facility, for a total of 28 gates, all of which have passenger loading bridges. American Airlines, American Eagle, Hawaiian Airlines, jetBlue Airways, US Airways, United Airlines

and Volaris are currently located in Terminal A, and Alaska Airlines, Delta Air Lines, Horizon Air and Southwest Airlines are currently located in Terminal B. The terminal facilities include food, beverage and other concessions.

Terminal A, including the Terminal A+ extension that opened in 1990 and the International Arrivals Facility, is a 16-gate, multi-story building. The renovated and expanded Terminal A is designed to handle up to approximately 7.2 million passengers annually and the International Arrivals Facility is designed to handle up to approximately 1.1 million passengers annually. The renovated Terminal A also includes significantly more concession space. See "AIRPORT FACILITIES AND DEVELOPMENT—New and Improved Terminal Facilities—Renovated and Expanded Terminal A" in Appendix B.

The International Arrivals Facility, which opened in 2002, is located between Terminal A and Terminal B, and is accessible from both the south end of Terminal A and the north end of Terminal B. In addition to offices for U.S. Customs and Border Protection, U.S. Public Health Service, U.S. Fish and Wildlife Service, U.S. Department of Agriculture and U.S. Immigration and Customs Enforcement personnel, the International Arrivals Facility houses two of the 16 aircraft gates in Terminal A and a waiting area for departing international passengers. See "AIRPORT FACILITIES AND DEVELOPMENT—New and Improved Terminal Facilities—Renovated and Expanded Terminal A" in Appendix B.

Effective July 12, 2011, the City temporarily deactivated six gates in the Terminal A+ extension and has shifted airline operations to gates in Terminal A and the International Arrivals Facility. See "LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—Terminal Concession, Advertising and Other Agreements" below.

Terminal B, which opened in June 2010, includes 12 gates, ticket counters, baggage claim areas, concession areas, security screening areas, passenger holdroom areas and airline and other tenant offices in approximately 380,000 square feet of terminal space. Terminal B also includes permanent facilities for the United Service Organizations ("USO"). Terminal B is designed to handle approximately 6.1 million passengers annually. See "AIRPORT FACILITIES AND DEVELOPMENT—New and Improved Terminal Facilities—New Terminal B" in Appendix B.

Rental Car Facilities. Currently, five rental car companies, representing a total of ten rental car brands, operate at the Airport in the new seven-story Consolidated Rental Car Facility (the "ConRAC") located immediately across the street from the new Terminal B. The ConRAC, which opened in June 2010, includes 3,000 ready/return spaces and approximately 320 hourly public parking spaces located on the first floor. See "LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—Rental Car Agreements" below and "AIR TRAFFIC—Airport Facilities and Development—Existing Airport Facilities—New Consolidated Rental Car Facility" in Appendix B.

Parking. As of October 1, 2011, the Airport had a total of approximately 5,530 available public parking spaces. Terminal A is connected to a parking garage with approximately 1,300 spaces for hourly public parking. The first floor of the ConRAC is dedicated to hourly public parking for Terminal B and includes approximately 320 spaces. Two additional hourly surface parking lots, one adjacent to Terminal B and one adjacent to the ConRAC, provide approximately 880 hourly parking spaces for Terminal B. Two daily surface parking lots provide a total of approximately 1,360 daily rate spaces for Terminal B. The Airport's economy surface parking lot is located on 16 acres of Airport property northeast of Terminal A and includes approximately 1,670 economy parking spaces. See "LEASE AND OPERATING AGREEMENTS—Parking, Concession Rental Car and Other Agreements—Parking Agreement" below and "FINANCIAL ANALYSIS—Nonairline Revenues—Automobile Parking Revenues" in Appendix B.

General Aviation Facilities. As of October 1, 2011, there were approximately 60 general aviation aircraft based at the Airport. General aviation facilities include a combination of T-hangars and tie-down spaces. Other general aviation facilities are provided by fixed-base operators ("FBOs"), which provide services such as aircraft sales, rentals and maintenance, charter service, flight instruction and aircraft radio sales.

The Airport currently has three FBOs. ACM Aviation Services, Inc. has been at the Airport under various owners and names since 1966 and offers full service to based and itinerant aircraft. Atlantic Aviation (formerly San José Jet Center) started operations in 1986 and currently has five hangars that offer full service to based and itinerant aircraft. ACM and Atlantic Aviation share a common parent entity, but operate as separate entities at the Airport. The third FBO, AvBase San José, LLC ("AvBase"), started operations in 2005, offering general aviation services to based and itinerant aircraft. AvBase also offers fueling services to aircraft owned by AvBase and its sub-lessees.

Hewlett Packard has a ground lease for corporate aviation operations at the Airport and handles only Hewlett Packard aircraft. Hewlett Packard completed its first hangar in 1987 and a second hangar in 2001. Hewlett Packard's lease is scheduled to expire in November 2028.

Fuel, Cargo and Other Support Facilities. An Airport fuel farm completed in December 2009 is located on Airport property on the north side of Highway 101, with a pipeline under Highway 101 that connects the fuel farm to fuel dispensing racks located on the airfield apron north of Terminal A. The airlines serving the Airport formed a consortium which funded and oversaw construction of the fuel farm. The consortium is responsible for the operation and maintenance of the fuel farm. The storage capacity of the fuel farm is 45,000 barrels of jet fuel (approximately equal to a seven day working supply at the Airport). Fuel is distributed to the fuel farm via a two-mile underground pipeline connected to the San José Kinder Morgan Products Terminal. See "CAPITAL DEVELOPMENT AT THE AIRPORT—Environmental Matters."

Other facilities include the City's aircraft rescue and firefighting facility, which is currently located near the southeast corner of the Airport, and ground support, equipment maintenance and belly freight facilities near the northeast and southeast corners of the airfield.

PASSENGER SERVICES AND OPERATIONS

Passenger Services

As of October 1, 2011, 13 passenger airlines provided nonstop service from the Airport to a total of 26 U.S. cities and two foreign cities, and two airlines provided scheduled all-cargo service at the Airport.

Table 6
Norman Y. Mineta San José International Airport
Airlines Serving the Airport
as of October 1, 2011

Domestic Airlines	Regional Commuter Airlines[1]	Foreign-Flag Airline
Alaska Airlines[2]	American Eagle[3]	Volaris
American Airlines	Horizon Air[2]	
Continental Airlines[4]	SkyWest[5]	
Delta Air Lines		
Hawaiian Airlines		
jetBlue Airways		
Southwest Airlines		
United Airlines[4]		
US Airways		
All-Cargo Service		
FedEx Corporation		
United Parcel Service		

(1) Commuter service is service on aircraft weighing less than 75,000 pounds. Other airlines listed may provide commuter service to certain destinations.
(2) Alaska Airlines and Horizon Air are separately certificated air carriers and wholly-owned subsidiaries of Alaska Air Group, Inc. Horizon Air is currently doing business at the Airport as Alaska Airlink.
(3) American Eagle is currently doing business at the Airport as American Airlines.
(4) Continental and United merged in October 2010. The combined airlines (named United Airlines) received FAA approval to operate under a single operating certificate in December 2011 but will continue to operate as separate airlines until their operations have been fully integrated, which is expected to occur in 2012.
(5) SkyWest is currently doing business at the Airport as United Express and Delta Connection.
Source: Norman Y. Mineta San José International Airport.

According to Airport records, the Airport reached a peak annual total of approximately 6.9 million enplanements in fiscal year 2000-01 following a period of extraordinary economic growth in Silicon Valley and the broader technology industry. Between fiscal year 1996-97 and fiscal year 2000-01, total enplanements at the Airport increased at a compound annual growth rate of 8.1%. Following the steep decline in the value of shares of technology companies listed on the NASDAQ Stock Exchange beginning in calendar year 2000, the subsequent technology industry recession and broader economic recession, and the terrorist attacks on September 11, 2001, Airport passenger traffic declined in fiscal years 2001-02 and 2002-03. Additionally, enplaned passengers decreased in fiscal year 2002-03, in part due to service cuts made by American Airlines as part of its de-hubbing at the Airport. In total, from fiscal year 2000-01 to fiscal year 2002-03 the number of enplanements decreased by 25%. Activity levels showed signs of leveling off, with overall growth in passenger activity from fiscal year 2002-03 to fiscal year 2005-06 at a compound annual growth rate of 1.3%, but traffic fell sharply during fiscal year 2007-

08 in conjunction with the national credit crisis, an aviation fuel cost spike, and a global recession. Enplaned passengers at the Airport decreased each fiscal year from fiscal year 2007-08 through fiscal year 2009-10. In addition to the economic recession that the nation entered in December 2007 and a spike in the cost of aviation fuel, Airport enplaned passengers between fiscal year 2006-07 and fiscal year 2009-10 were impacted by increased low cost carrier competition in the Bay Area. The Airport enplaned approximately 4.19 million passengers and deplaned approximately 4.19 million passengers for fiscal year 2010-11, which represented an increase in combined enplanements and deplanements of approximately 2.0% from fiscal year 2009-10, but a decrease in combined enplanements and deplanements of 22.7% from fiscal year 2005-06. Of the total enplaned passengers in fiscal year 2010-11, approximately 97.5% were O&D passengers and approximately 98.1% were traveling to U.S. cities. See "AIR TRAFFIC—Historical Passenger Activity" and "ECONOMIC BASE FOR AIR TRANSPORTATION—Silicon Valley and the Technology Industry" in Appendix B. Total enplanements at the Airport during the first three months of fiscal year 2011-12 have exceeded total enplanements during the same three months of fiscal year 2010-11.

Reduced passenger traffic between fiscal years 2000-01 and 2009-10 led to reduced operating revenues and required the Airport to reduce annual operating costs by carefully reviewing services and creating further efficiencies in order to provide a balanced budget. See "AIRPORT FINANCIAL MATTERS" herein. The following Tables 7, 9 and 10 illustrate the decline in total enplanements and landed weight at the Airport from fiscal year 2000-01 through fiscal year 2009-10, and the increase in total enplanements in fiscal year 2010-11, but continuing decrease in landed weight at the Airport for fiscal years 2009-10 and 2010-11. See "AIR TRAFFIC—Historical Passenger Activity" in Appendix B.

Table 7
Norman Y. Mineta San José International Airport
Historical Passenger Enplanements
Fiscal Years Ended June 30[1]

	Air Carrier Domestic Enplanements	Air Carrier International Enplanements	Total Air Carrier Enplanements	Regional Commuter Enplanements [2]	Total Enplanements	Percent Change in Total Enplanements
2000-01	6,664,821	214,115	6,878,936	58,441	6,937,377	–
2001-02	5,421,107	150,874	5,572,277	146,936	5,719,213	(17.6)%
2002-03	4,772,654	122,110	4,894,674	310,223	5,204,987	(9.0)
2003-04	4,651,137	134,176	4,785,313	506,536	5,291,849	1.7
2004-05	4,660,730	138,142	4,798,872	546,761	5,345,633	1.0
2005-06	4,706,038	137,054	4,843,092	571,739	5,414,831	1.3
2006-07	4,686,496	102,368	4,788,864	529,995	5,318,859	(1.8)
2007-08	4,584,448	67,459	4,651,907	526,696	5,178,603	(2.6)
2008-09	3,907,376	60,381	3,967,757	431,805	4,399,562	(15.0)
2009-10	3,636,146	62,437	3,698,583	408,811	4,107,394	(6.6)
2010-11	3,728,493	77,963	3,806,456	382,767	4,189,223	2.0
Compound Annual Growth Rates						
FY 2000-01 through FY 2010-11	(5.6)%	(9.6)%	(5.7)%	20.7%	(4.9)%	

(1) Some data reported previously have been revised to reflect more recent information.
(2) Includes scheduled and unscheduled commuter aircraft.

Source: Norman Y. Mineta San José International Airport

For a further discussion of historical trends in enplanements at the Airport, see "AIR TRAFFIC—Historical Passenger Activity" and "—Historical Air Service" in Appendix B.

Table 8 lists the cities served by nonstop flights from the Airport as of October 7, 2011.

Table 8
Norman Y. Mineta San José International Airport
Cities Served by Nonstop Service as of October 7, 2011

Domestic Cities
Atlanta, Georgia
Austin, Texas
Boise, Idaho
Boston, Massachusetts
Burbank, California
Chicago, Illinois
Dallas/Fort Worth, Texas
Denver, Colorado
Honolulu, Hawaii
Houston, Texas
Kahului-Maui, Hawaii
Kona, Hawaii
Las Vegas, Nevada
Lihue, Hawaii
Los Angeles, California
Minneapolis/St. Paul, Minnesota
New York, New York
Ontario, California
Orange County, California
Phoenix, Arizona
Portland, Oregon
Reno, Nevada
Sacramento, California
Salt Lake City, Utah
San Diego, California
Seattle, Washington
Foreign Cities
Cabo San Lucas, Mexico
Guadalajara, Mexico

Source: Official Airline Guide, Inc., October 7, 2011.

The City offers several air service incentive programs to support the development of new passenger air service at the Airport, including a program aimed at increasing service to unserved or underserved cities (the "New Service Program"), another program aimed at encouraging airlines to add additional service to designated cities (the "Focus City Program") and a program that reduces the Airport's share of indirect overhead expenses allocated to it by the City for support services the City provides to the Airport (the "Municipally-Funded Cost Incentive Program").

As part of the New Service Program, the Director of Aviation designates certain unserved or underserved cities as either qualifying short-haul domestic cities, medium-range domestic or international cities or long-haul international cities. The Director has the authority to change the cities on the list from time to time; depending on market conditions, passenger data, market research, route feasibility studies and community feedback. Under the New Service Program, an airline providing new nonstop service

between the Airport and an airport in a qualifying short-haul domestic city, medium-range domestic or international city or long-haul international city will receive credits against landing fees, facility rental charges, gate use fees, aircraft parking charges and Airport imposed international passenger processing fees (excluding Passenger Facility Charges) that the airline would otherwise have incurred for the new service, for a promotional period ranging from one to three years from the commencement of the service. All eligible fees are waived during the one-year promotional period for new nonstop service to qualifying short-haul domestic cities. New nonstop service to qualifying medium-range domestic or international cities is eligible for a two-year promotional period, with all eligible fees waived during the first year and fifty percent (50%) of eligible fees waived during the second year of the promotional period. New nonstop service to qualifying long-haul international cities is eligible for a three-year promotional period, with all eligible fees waived during the first year, sixty-six percent (66%) of eligible fees waived during the second year, and thirty-three (33%) of eligible fees waived during the third year. All airlines, including both new and incumbent carriers, are eligible to participate in the program. Past participants have included Southwest Airlines and Alaska Airlines, both with service to Austin. Current participants include jetBlue Airways, with service to Boston, and Alaska Airlines, with service to Cabo San Lucas, Kona, Lihue (Kauai) and Kahului-Maui. To receive the fee waiver credits, the airline must agree to begin new nonstop service between the Airport and an airport in a qualifying domestic or international city, and the qualifying service must be continuously operated during the length of the promotional period. In addition, an airline will qualify for the fee waiver only if the new service is not offset by a reduction in service by that airline on an existing nonstop route.

The Focus City Program is designed to encourage airlines to add new air service at the Airport. Compared to the New Service Program, the Focus City Program offers longer incentive periods to any airline that designates the City as a focus city and commits to two consecutive years of incremental growth at the Airport, adding a minimum number of new qualifying routes and frequencies. Under the Focus City Program, an airline would qualify for a waiver of fees for two years if it adds at least four flights each year, with at least two of those flights to currently unserved or underserved cities. Additional flights to destinations that are already well served would not receive the fee waiver, but those flights would count toward meeting the remaining Focus City Program incentive threshold of four new flights per year. The City has entered into negotiations with one or more airlines concerning participation in the Focus City Program, however none have yet executed a participation agreement with the City.

The Municipally-Funded Cost Incentive Program reduces the Airport's share of indirect overhead expenses allocated to it by the City for support services the City provides to the Airport. Terms and conditions of the Municipally-Funded Cost Incentive Program are set forth in the Airline Lease Agreement. For more information about the Municipally-Funded Cost Incentive Program, see "FINANCIAL ANALYSIS—Airline Agreement—Municipally-Funded Air Service Incentive Program" in Appendix B.

Enplanements by Airline. Southwest Airlines is the leading airline at the Airport with respect to enplanements, with a market share of approximately 52.2% in fiscal year 2010-11 and 51.7% in fiscal year 2009-10 (up from approximately 42.6% in fiscal year 2006-07). Over the same time period, American Airlines' and American Eagle's combined market share of enplanements declined, from 17.4% in fiscal year 2006-07 to approximately 10.4% in fiscal year 2010-11, in part due to continuing service cuts American Airlines made following its decision to discontinue hubbing operations at the Airport in 2002. The shares of enplanements of each of United Airlines (and its affiliates) and Delta Airlines (and its affiliates) decreased to approximately 5.3% and 5.2%, respectively, in fiscal year 2010-11 from 7.2% and 9.2%, respectively, in fiscal year 2006-07. Otherwise, the market shares of the passenger airlines that serve the Airport have been relatively stable in the five fiscal years ended June 30, 2011.

Alaska, Southwest and Volaris added flights at the Airport in fiscal year 2010-2011. Alaska and Hawaiian Airlines have announced plans to add additional service in 2012. Alaska added three weekly flights to Lihue beginning in March 2011 and daily flights to Kahului-Maui beginning in June 2011. Southwest added additional daily flights to Los Angeles and Denver in March 2011, an additional daily flight to Seattle in May 2011 and additional daily flights to San Diego and Orange County beginning in June 2011. Volaris added three additional weekly flights to Guadalajara in March 2011. Hawaiian Airlines has announced plans for three weekly non-stop flights to Maui beginning in January 2012, and Alaska has announced that it plans to initiate daily nonstop service to Honolulu beginning in April 2012 and to increase the frequency of service on both its Kauai and Kona routes to daily beginning in March 2012. Finally, Southwest has announced plans to discontinue daily service to Reno, but increase daily service to Seattle beginning in April 2012. See "AIR TRAFFIC—Bay Area Airport Passenger Demand and Air Service" and "—Airlines Serving the Airport" in Appendix B.

Table 9 sets forth enplanements for airlines (together with their affiliates) serving the Airport for the fiscal years 2006-07 through 2010-11.

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Table 9
Norman Y. Mineta San José International Airport
Enplaned Commercial Passengers by Airline [1]
Fiscal Years Ended June 30
(Ranked by Fiscal Year 2011 Results)

	FY 2006-07		FY 2007-08		FY 2008-09		FY 2009-10		FY 2010-11	
Airline	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,266,766	42.6%	2,333,432	45.1%	2,082,271	47.3%	2,121,917	51.7%	2,187,033	52.2%
Alaska Carriers	467,324	8.8	445,689	8.6	345,419	7.9	393,982	9.6	561,400	13.4
American Carriers	923,052	17.4	771,429	14.9	632,723	14.4	480,402	11.7	435,815	10.4
US Airways Carriers	323,328	6.1	314,740	6.1	254,389	5.8	211,891	5.2	184,380	4.4
Delta Carriers [2]	277,797	5.2	292,547	5.6	191,391	4.4	147,709	3.6	155,885	3.7
Skywest [3]	139,956	2.6	115,184	2.2	139,478	3.2	180,337	4.4	149,912	3.6
Continental Carriers [4]	169,220	3.2	171,189	3.3	136,153	3.1	132,942	3.2	134,449	3.2
United Carriers [4][5]	380,109	7.1	349,962	6.8	208,184	4.7	138,836	3.4	133,794	3.2
Hawaiian Airlines	82,561	1.6	84,259	1.6	81,397	1.9	72,266	1.8	85,571	2.0
JetBlue Airways	109,351	2.1	116,776	2.3	148,643	3.4	95,118	2.3	80,797	1.9
Volaris [6]	-	0.0	-	0.0	-	0.0	8,072	0.2	48,325	1.2
Other [7]	179,395	3.4	183,396	3.5	179,514	4.1	123,922	3.0	31,862	0.8
Total [8]	5,318,859	100.0%	5,178,603	100.0%	4,399,562	100.0%	4,107,394	100.0%	4,189,223	100.0%

(1) Certain values presented here differ from those in Table 9 presented in the Preliminary Official Statement, dated November 16, 2011, as supplemented by the Supplement thereto, dated November 29, 2011 (collectively, the "Preliminary Official Statement"), as a result of the inclusion of a line item for Skywest, whose enplaned passenger totals were previously included with Delta Carriers and United Carriers, and the correction of a sorting issue in the data for Fiscal Years 2008-09 and 2009-10. Other corrections have also been made to Table 9; however, overall enplaned passenger totals remain the same as those presented in the Preliminary Official Statement. Except as noted, mainline carriers and their regional/commuter affiliates are grouped to show relative market share by carrier.
(2) Excludes enplaned passengers on flights operated by Skywest as Delta Connection.
(3) Operates as United Express and Delta Connection.
(4) Continental and United merged in October 2010. The combined airlines (named United Airlines) received FAA approval to operate under a single operating certificate in December 2011 but will continue to operate as separate airlines until their operations have been fully integrated, which is expected to occur in 2012.
(5) Excludes enplaned passengers on flights operated by Skywest as United Express.
(6) Concesionaria Vuela Compania de Aviacion S.A DE CV (aka Volaris) started operations at the Airport in April 2010.
(7) Consists of airlines no longer serving the Airport and charter airlines.
(8) Totals may not add due to rounding.
Source: Norman Y. Mineta San José International Airport.

Historical Air Cargo

In addition to cargo carried by passenger airlines, FedEx Corporation and United Parcel Service provided domestic and international air cargo service at the Airport as of October 1, 2011. In fiscal year 2010-11, the total amount of enplaned and deplaned cargo carried by all-cargo carriers at the Airport decreased by approximately 1% from fiscal year 2009-10 to approximately 319,185,000 pounds.

Landed Weight and Airport Operations

Table 10 sets forth total landed weight of aircraft (other than general aviation and military aircraft) that used the Airport in fiscal years 2000-01 through 2010-11.

Table 10
Norman Y. Mineta San José International Airport
Historical Gross Landed Weight[1]
(in thousand pounds)
Fiscal Years Ended June 30

Fiscal Year	Mainline Air Carrier[2]	Regional Commuter	All-Cargo[3]	Total	Annual Percentage Change
2000-01	9,878,167	105,389	747,929	10,731,485	--
2001-02	8,566,942	232,223	734,778	9,533,943	(11.2)%
2002-03	7,476,745	425,177	648,405	8,550,327	(10.3)
2003-04	6,795,591	677,143	547,057	8,019,791	(6.2)
2004-05	6,468,513	660,694	531,843	7,661,050	(4.5)
2005-06	6,342,853	677,843	478,376	7,499,072	(2.1)
2006-07	6,351,084	638,449	511,763	7,501,296	<0.1
2007-08	6,255,828	656,298	492,624	7,404,750	(1.3)
2008-09	5,576,343	553,726	421,088	6,551,157	(11.5)
2009-10	4,903,780	506,737	322,267	5,732,784	(12.5)
2010-11	4,779,979	441,023	319,185	5,540,187	(3.4)
Compound Annual Growth Rates					
FY 2000-01 through FY 2010-11	(7.0)%	15.4%	(8.2)%	(6.4)%	

(1) Some data reported previously have been revised to reflect more recent information.
(2) Includes domestic and international airlines.
(3) Includes all-cargo service only. Includes cargo service provided by Air Transport International, which ceased cargo service operations from the Airport on September 2, 2011.

Source: Norman Y. Mineta San José International Airport.

Table 11 lists the number of aircraft operations (take-offs and landings) at the Airport for fiscal years 2000-01 through 2010-11. Total aircraft operations decreased at the Airport during this eleven-year period, from 282,935 in fiscal year 2000-01 to 122,091 in fiscal year 2010-11. In fiscal year 2010-11, total aircraft operations decreased by 7.2% to 122,091 from 131,590 in fiscal year 2009-10. However, regional commuter operations increased and held steady through fiscal year 2007-08, reflecting a general trend of airlines' shifting service to smaller planes in order to lower their costs and continue to serve decreased levels of passengers without eliminating destinations. Regional commuter operations subsequently declined during the economic downturn of fiscal years 2008-09 through 2010-11.

Table 11
Norman Y. Mineta San José International Airport
Historical Aircraft Operations[1][2]
Fiscal Years Ended June 30

Fiscal Year	Mainline Air Carrier Operations[3]	Regional Commuter Operations	All-Cargo Operations	Total Commercial Operations[4]	Commercial Operations as a % of Total	General Aviation Operations	Military Operations	Total Operations	% Change in Total Operations
2000-01	148,960	5,094	6,208	160,262	56.6%	122,435	238	282,935	---
2001-02	129,319	10,385	5,815	145,519	64.9	78,618	211	224,348	(20.7)%
2002-03	113,972	19,032	4,636	137,640	68.7	62,510	125	200,275	(10.7)
2003-04	103,526	30,838	3,586	137,950	69.8	59,521	113	197,584	(1.3)
2004-05	98,892	29,672	3,594	132,158	67.4	63,708	99	195,965	(0.8)
2005-06	97,198	30,756	3,464	131,418	67.9	61,907	83	193,408	(1.3)
2006-07	97,596	28,806	3,388	129,790	70.2	55,021	103	184,914	(4.4)
2007-08	96,860	29,504	3,140	129,504	70.1	55,146	64	184,714	(0.1)
2008-09	86,668	23,830	2,558	113,056	70.7	46,674	242	159,972	(13.4)
2009-10	76,024	19,776	2,076	97,876	74.4	33,439	275	131,590	(17.7)
2010-11	73,094	16,172	2,046	91,312	74.8	30,503	276	122,091	(7.2)
Annual Compound Growth Rate									
FY 2000-01 through FY 2010-11	(6.9)%	12.2%	(10.5)%	(5.5)%		(13.0)%	1.5%	(8.1)%	

(1) An aircraft operation is defined as the takeoff or landing of an aircraft.
(2) Some data reported previously have been revised to reflect more recent information.
(3) Includes domestic and international airlines.
(4) Represents the sum of Mainline Air Carrier Operations, Regional Commuter Operations and All-Cargo Operations.

Source: Norman Y. Mineta San José International Airport.

LEASE AND OPERATING AGREEMENTS

The Airport Department's operating revenues are derived primarily from airline agreements, parking, rental car and other concession agreements and from other business arrangements.

Airline Agreements

Airline Lease Agreement. The current Airline Lease Agreement for passenger and cargo airlines is a five-year agreement that became effective in 2007 and is scheduled to expire on June 30, 2012. Based on unaudited results, in fiscal year 2010-11, approximately 37% of the Airport's operating revenues were derived from payments made pursuant to the Airline Lease Agreement. The Airline Lease Agreement may be extended for one additional five year term by mutual consent of the City and the Signatory Airline (defined below) and is subject to early termination under certain circumstances. At its meeting on August 16, 2011, the City Council approved a recommendation that the City exercise the option to extend the Airline Lease Agreement to June 30, 2017, and the City has submitted amendments to extend the term accordingly to the passenger and cargo airlines for execution. The City expects all of the Signatory Airlines to sign the extension. The Airline Lease Agreement provides that any airline which does not execute the amendment to extend the Airline Lease Agreement prior to its June 30, 2012, expiration will be deemed to be a month-to-month tenant and shall pay the 25% Non-Signatory Premium (described below) for any period during which the airline holds over. For a summary of certain provisions of the Airline Lease Agreement, see "FINANCIAL ANALYSIS—Airline Agreement" in Appendix B and "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT" in Appendix H.

The provisions of the Airline Lease Agreement are subordinate to provisions of the Master Trust Agreement. The Airline Lease Agreement will not be assigned or pledged to the Trustee as security for the Series 2011B Bonds.

The Airline Lease Agreement provides that any passenger airline that (a) signs an agreement substantially similar to the Airline Lease Agreement, (b) provides passenger service at the Airport, (c) leases from the City an amount of Exclusive Use Premises (not including gates) in the terminal deemed sufficient by the Director of Aviation to support the airline's operation and (d) at the time the airline executes its agreement with the City, operates at least one scheduled flight, scheduled year round, at least three days per week shall be a "Signatory Airline." The Airline Lease Agreement provides that any air cargo carrier will also be a "Signatory Airline" if the air cargo carrier (a) signs an agreement with the City substantially similar to the Airline Lease Agreement (other than in connection with terminal facilities), (b) leases from the City cargo support space at the Airport for a term at least equal to the term of the Airline Lease Agreement, (c) guarantees a minimum of 142,000 pounds of maximum gross certificated landed weight per scheduled flight and (d) at the time it executes its agreement with the City, operates at least five scheduled flights per week. Signatory Airlines also participate in the "Majority-in-Interest" ("MII") review and approval process for capital projects proposed for the Airport.

Any passenger or air cargo carrier that does not meet the minimum requirements to be a Signatory Airline is given the opportunity to become a "Non-Signatory Airline" by executing a non-signatory agreement in a form similar to that of the Airline Lease Agreement. Non-Signatory Airlines are charged a premium of 25% over the rates and charges applicable to Signatory Airlines and will not participate in the MII review process.

Any passenger or air cargo carrier operating at the Airport that is neither a Signatory Airline nor a Non-Signatory Airline is subject to the Airline Rates and Charges Ordinance, which requires such air carriers to comply with all applicable rules and regulations as established by the Director of Aviation

regarding the proper use and occupancy of the Airport or any portion thereof. In addition, the Airline Rates and Charges Ordinance establishes all rates and charges applicable to such airline's operations at and use of the Airport or any portion thereof, including airfield and terminal rates and charges, at a 30% premium over the rates and charges as determined pursuant to the terms of the City's then current airline lease and operating agreement.

All passenger airlines, with the exception of Volaris, are operating at the Airport as Signatory Airlines. Volaris currently operates at the Airport as a Non-Signatory Airline.

Parking, Rental Car, Concession and Other Agreements

In addition to the Airline Lease Agreements, the City has entered into leases, concession agreements and other agreements with a parking operator, five automobile rental companies (representing a total of ten rental car brands), an in-flight kitchen operator, several Airport-based retailers, three FBOs and one corporate general aviation operator. Based on unaudited results, approximately 63% of the Airport's operating revenues in fiscal year 2010-11 were derived from these and other sources of non-airline revenues, compared to 58% in fiscal year 2010-11. See "AIRPORT FINANCIAL MATTERS—Historical Operating Results" and "—Management Discussion of Recent Financial Results."

Parking Agreement. The City's public parking and employee parking lots at the Airport are managed by AMPCO System Parking ("AMPCO") pursuant to a one year agreement that includes two one year options to extend. The agreement previously provided that AMPCO would be paid a management fee equal to 15.92% of net parking receipts. The City extended the agreement to no later than October 31, 2012 at a reduced rate of 15.49% of net parking receipts beginning November 1, 2011. The City has issued a request for proposals for a parking lot manager. It is anticipated that the agreement with the successful proposer will be scheduled for City Council approval in the spring of 2012.

The City sets rates for parking in the Airport's public parking lots and, in June 2011, changed the parking fee structure from $1.00 per 20 minutes with maximum daily charges of $15.00 in the long-term lot and $30.00 in the short-term lot to $2.00 per 30 minutes in the hourly lots with a maximum first 24 hour charge of $30.00 followed by $30 per day flat rates per 24 hour period or portions thereof. A $22.00 flat rate per day is charged in the daily parking lots, and a $15.00 flat rate per day is charged in the economy lot to reflect new parking lot configurations of hourly, daily, and economy parking. Based on unaudited results for fiscal year 2010-11, parking fees represented approximately 17% of Airport gross operating revenue in fiscal year 2010-11. See "AIRPORT FINANCIAL MATTERS – Management Discussion of Recent Financial Results – Parking and Roadway Revenues."

Rental Car Agreements. The City opened the ConRAC in June 2010. Each of the five rental car companies (representing a total of ten rental car brands) that currently operate on-Airport has an agreement with the City for its operations at the ConRAC that is to terminate on May 31, 2020, subject to two optional ten year extensions, which must be approved by the City and the rental car companies. Pursuant to these agreements, the rental car companies must pay facility rent to the City for use of the ConRAC and related transportation expenses (the "Facility Rent") and remit to the City customer facility charges ("CFCs") that are collected from the rental car companies' customers. Facility Rent is equal to the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC-related debt service, less revenues from CFCs (referred to as "CFC Revenues" in the Master Trust Agreement) plus operating costs for any transportation system operated by the City to transport passengers between the terminals and the ConRAC (the "ConRAC Transportation System"). In the event that CFC Revenues exceed the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the

ConRAC, each rental car company's share of any such CFC Revenues will be deducted from its share of operating costs for the ConRAC Transportation System, as calculated under the terms of the rental car agreement. Facility Rent also includes each rental car company's share of the City's cost to demolish the previous temporary common use rental car facilities at the Airport, as calculated under the terms of the agreement, amortized over the initial ten-year term of the agreement. These demolition costs are not CFC Eligible Costs (as defined below).

Facility Rent will vary each year in relation to any change in the total amount of CFC Revenues collected during such year. The City currently applies the CFCs collected from on-Airport rental car companies first toward payment of debt service and the City's actual costs related to CFC Eligible Obligations (as defined below), and second, toward common use transportation costs. See "AIRPORT FINANCIAL MATTERS—Customer Facility Charges."

In addition to Facility Rent and CFCs, the rental car companies pay the City a concession fee equal to the greater of a Minimum Annual Guarantee ("MAG") or 10% of gross revenues, ground rent equal to the fair market rental value of the underlying Airport land, and utility charges allocated based upon relative square footages occupied by the rental car companies at the ConRAC. Ground rent is subject to annual adjustment based upon year-to-year increases in the consumer price index, with the adjustment in the sixth year made by appraisal. In fiscal year 2010-11, rental car concession and facility and ground rental revenue represented approximately 16.5% of Airport gross operating revenue.

Terminal Concession, Advertising and Other Agreements. Food and beverage and retail concession services at the Airport are provided by three concessionaires under four separate agreements, each of which expires in June 2020. Host International, Inc., ("Host") provides food and beverage and retail services at the Airport under a food and beverage concession agreement and a retail concession agreement. Areas USA SJC, LLC provides food and beverage services at the Airport under a food and beverage concession agreement, and AMS-SJC-JV provides retail services under a retail concession agreement. Each food and beverage and retail concession agreement provides for payment to the City of the greater of a MAG or a percentage of gross revenues. The agreements include a number of retail food and beverage and retail providers as sub-concessionaires and food and beverage and retail outlets in both terminals. Based on unaudited results for fiscal year 2010-11, Airport operating revenue from the food and beverage and retail concession agreements in fiscal year 2010-11 equaled approximately $8.5 million, or 6.6% of Airport gross operating revenue (an increase of 225% from fiscal year 2009-10), representing the combined MAG for food and beverage, and retail concessions.

The City has an Airport Advertising Concession Agreement with Clear Channel Outdoor, Inc., d/b/a Clear Channel Airports ("Clear Channel") for fixed display in terminal advertising, outdoor advertising, transit and bus shelter advertising, and promotional marketing opportunities at the Airport for a term running through July 31, 2014, with an option in the City's sole discretion to extend the term for an additional three year period. The agreement guarantees the City the greater of a MAG of $4,222,324 or a percentage of revenues.

The City also has a ground lease with LSG/Skychefs, Inc. ("LSG/Skychefs"), the operator of an in-flight kitchen that provides catering services to some of the airlines at the Airport. The ground lease provides for a minimum payment of 10% of gross revenue or a MAG, whichever is greater, and expires in 2015.

The City issues licenses for the operation of newsracks and has agreements with operators of foreign currency exchanges, ATMs, luggage cart racks, pay phones, visitor information publications, prohibited item mailers, wireless antenna and wireless internet services. With the exception of the

luggage cart operator, which pays the greater of a MAG or a percentage of gross revenues, the operators pay fixed fees to operate at the Airport.

Effective July 12, 2011, the City temporarily deactivated six gates in the Terminal A+ extension and has shifted airline operations to gates in Terminal A and the International Arrivals Facility. This shift has concentrated passenger activity in areas with a wider variety of concession choices and, the Airport expects, should increase sales at concession locations in Terminal A. In conjunction with the temporary deactivation of gates in the Terminal A+ extension, the City has amended its concession contract with Host to allow for the closure of certain concessions facilities in the Terminal A+ extension. Closure of these facilities has decreased the MAG paid by Host to the City by approximately $350,000.

These temporary gate deactivations will remain in effect until the City determines that flight or passenger activity levels justify the re-activation of some or all of the six gates. Upon re-activation of all six of the gates, the closed concession facilities would be re-opened and the MAG restored to its level prior to the closure. Should all six gates remain closed for more than four years, however, the MAG would be permanently reduced and the City would compensate Host for remaining unamortized capital investment in an amount estimated to be approximately $900,000.

AIRPORT FINANCIAL MATTERS

Airport and City Budget Process

Airport Rate-Setting. The Airline Lease Agreement sets forth the following procedures related to landing fee and terminal rent determinations, which represent key components of the Airport's budget: No later than May 1 of each year during the term of the Airline Lease Agreement, the City is to disclose to all Signatory Airlines the revised landing fees and terminal rents that the City expects to charge for the next fiscal year, effective July 1. No later than June 1 of each year, the City is to consult with the Signatory Airlines to discuss the proposed revised landing fees and terminal rents. In connection with this consultation, the City is to provide to each Signatory Airline the calculations the City has made in determining the revised charges with reasonable supporting documentation. No later than June 10 of each year, the City is to notify the Signatory Airlines of the actual landing fees and terminal rents it will charge for the next fiscal year, effective July 1. The Airline Lease Agreement provides that the City's obligation to consult with the Signatory Airlines does not limit in any way the City's rate setting powers or otherwise cause any delay in the effectiveness of the revised charges. See "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT" in Appendix H.

The Airline Rates and Charges Ordinance establishes all rates and charges applicable to the operations of airlines that are neither Signatory Airlines nor Non-Signatory Airlines at the Airport and use of the Airport or any portion thereof, including airfield and terminal rates and charges, at a 30% premium over the rates and charges as determined pursuant to the terms of the City's then current airline lease and operating agreement. See "LEASE AND OPERATING AGREEMENTS – Airline Agreements" above.

City and Airport Budget. The Airport's and the City's fiscal year is from July 1 through June 30. Historically, the City's annual budget process begins each October with the determination by the City Council's Rules Committee (now the "Rules and Open Government Committee") of the budget schedule for the next fiscal year. The schedule sets dates for the release of the various documents (except those specified in the City Charter), the dates of the study sessions of the Council and of the public hearings to discuss the budget.

In the third quarter of each fiscal year, the City Manager releases the "City Manager's Budget Request and Five-Year Economic Forecast and Revenue Projections for the General Fund and Capital

Improvement Program." Since 1986, the City has used this five-year forecast to assist in projecting revenue levels and expenditures based upon certain assumptions and expectations.

Pursuant to the City Charter, the Mayor releases an annual "budget message." This document describes the budget process, the current fiscal situation of the City and the strategy for developing the proposed budget, recommendations on specific budget items and other related issues. The City Council reviews the Mayor's budget message, and a public hearing is held to discuss the budget message prior to its approval by the City Council.

The City Charter requires that the City Manager release the Proposed Capital Budget and Capital Improvement Program and the Proposed Operating Budget at least thirty days prior to the beginning of each fiscal year, or at such earlier time as the City Council may specify. As currently directed by the City Council, in early May, the City Manager releases the Proposed Operating and Capital Budgets and a report recommending fees and charges to be imposed during the next fiscal year for City services, excluding the Airport (the "Proposed Fees and Charges Report"). Under current City practice, fees and charges related to the Airport are considered separately by the City Council.

The Proposed Operating Budget contains the complete financial plan for the City, including the Airport Department, for the next fiscal year. It describes activities by City Service Area, department and core service and makes recommended additions or reductions to those activities. The Proposed Operating Budget accounts for all revenue received by the City and accounts for the usage of the revenue. The City Council holds a number of study sessions beginning in May to discuss the proposed operating and capital budgets and also holds a series of public hearings on these proposed budgets in May and June.

In early June, the Mayor releases the final budget modification message. It contains changes to the proposed budget recommended by the Mayor after City Council review and discussion of the document during the budget study sessions and public hearings. In June, the City Council adopts the operating and capital budgets for the next fiscal year, along with the implementing appropriation ordinances and funding sources resolutions that appropriate the budgeted amounts to the respective departments. The fiscal year 2011-12 Operating and Capital Budgets were adopted by City Council on June 14, 2011.

Though the Airport is a department within the City, and appears alongside other departments in the City's budget documents, its revenues are accounted for separately from other City funds (including the General Fund) and cannot be redirected to other non-Airport uses.

There are a number of policies, agreements and legal restrictions that regulate the application of Airport revenue. The federal Airport and Airway Improvement Act of 1982 and related statutes mandate that airport owners/operators use all internally generated revenues for the capital/operating costs of their local aviation-related facilities. Federal grant agreements entered into by the Airport also contain this restriction. Additionally, the Airport is organized as a proprietary enterprise fund which requires that its costs be recovered with fees and charges, which must also be set on a cost-recovery basis. Based upon unaudited results for fiscal year 2010-11, the amount the Airport paid for direct City services, excluding Police and Fire services, was approximately $1.2 million. See "LITIGATION—FAA Audit of Use of Airport Revenue—Cost Allocations."

Current City practice calls for the preparation of Bi-Monthly Financial Reports that are distributed to the City Council as a method of monitoring the budget and financial status. In January of each year, the Mid-Year Budget Review is released providing a detailed and expanded analysis of the operating and capital budget status. In February of each year, the City Council considers this report and takes actions as necessary to maintain a balanced budget. The City Council's Mid-Year Budget Review

is not the only time that the City Council takes budget actions to maintain a balanced budget; at any public meeting, the City Council may amend or supplement the budget by affirmative vote of at least a majority of the total members of the City Council. Historically, the City Council has taken budget actions throughout the fiscal year to balance the budget or to make budget adjustments to respond to changing circumstances.

Unrestricted Cash Balance. Based on unaudited results for fiscal year 2010-11, the Airport's unrestricted cash balance as of June 30, 2011 was approximately $62.7 million. Unrestricted cash balances fluctuate throughout the fiscal year due to timing of cash receipts and disbursements. Based on unaudited results for fiscal year 2010-11, month-end unrestricted cash balances ranged from a low of approximately $38.0 million to a high of approximately $62.9 million during fiscal year 2010-11. No assurance can be given that the Airport's future unrestricted cash balances will be similar to its unrestricted cash balances in fiscal year 2010-11, and the Master Trust Agreement does not require that the Airport maintain any particular unrestricted cash balance.

City Audit. The City Council engages an independent certified public accountant (the "Accountant") who examines books, records, inventories and reports of all officers and employees who receive, control, handle, or disburse public funds and of any other officers, employees or departments as the City Council directs. These duties are performed both annually and upon request. For each fiscal year beginning with the fiscal year 2005-06 financial statements, the City retained Macias Gini & O'Connell LLP as the Accountant. Within 180 days following the end of each fiscal year, the Accountant submits the final audit to the City Council. The City then publishes the City's financial statements as of the close of the fiscal year in the Comprehensive Annual Financial Report.

The audited financial statements of the Airport for fiscal year 2009-10 are included as Appendix E to this Official Statement. The Accountant has not reviewed this Official Statement, has not been requested to consent to the inclusion herein of the audited financial statements and has not performed any post-audit review of the financial condition or operations of the Airport.

Except for City Charter requirements, the above-described budget and audit process is determined by internal policies and can be changed at any time.

Passenger Facility Charges

Passenger Facility Charges ("PFCs") are fees authorized by the Aviation Safety and Capacity Expansion Act of 1990, as amended (the "PFC Act"), as implemented by the FAA pursuant to published regulations ("PFC Regulations"), to be collected from enplaned paying passengers to finance eligible, approved airport-related projects ("PFC Projects"). The PFC Act authorized the FAA to approve a PFC of $1.00, $2.00 or $3.00. In 2000, the Wendell M. Ford Aviation Investment and Reform Act for the 21st Century ("AIR-21") was signed into law, allowing the FAA to authorize a PFC of $4.00 or $4.50. Airport operators are required to apply to the FAA for approval before imposing or using PFCs.

The City currently imposes a PFC of $4.50 per paying enplaned passenger (net of a handling fee currently set at $0.11 per PFC), except for passengers on carriers in the air taxis/commercial operators class of carriers which the FAA agreed could be excluded. PFCs are collected and remitted to the City by the airlines from paying passengers that enplane at the Airport. Pursuant to the PFC Regulations, the current $4.50 PFC level collected by the City results in a 75% reduction in passenger based entitlement grants. See "—Federal Grants" below.

Airport industry groups have requested that federal PFC Regulations be changed to increase the PFC program's maximum PFC level from its current $4.50 maximum. If the current $4.50 maximum

PFC level is increased by Congress, the City plans to seek FAA approval for a higher PFC level at the Airport.

As of June 30, 2011, the City is authorized by the FAA to impose and use PFCs, including investment income thereon (collectively, "PFC Revenues"), of up to $1,064,522,397. The City estimates that it had collected approximately $357.3 million in PFC Revenues from the Airport's passenger airlines through June 30, 2011 and had spent approximately $311.6 million of that amount on approved projects (including debt service on certain Series of Bonds) as of the same date.

Debt service paid with PFC Revenues is not included in the calculation of rates and charges payable by the airlines, and PFC Revenues are not included in the definition of pledged "General Airport Revenues" under the Master Trust Agreement. PFC Revenues, however, in some cases have been and, in the future, are expected again to be used (but not pledged) to pay the portion of Debt Service on the Outstanding Bonds that is allocable to PFC Projects without FAA approval, potentially including Series 2001A Bonds, Series 2004C/D Bonds, Series 2007A Bonds and Series 2011A Bonds. PFC Revenues may not be used to pay Maintenance and Operation Expense or to pay debt service on Bonds other than Bonds that finance PFC Projects. Finally, when calculating Annual Debt Service, Debt Service in a given fiscal year will be reduced by the amount of any PFC Revenues designated by the City as "Available PFC Revenues" and deposited with the Trustee to pay Debt Service in such fiscal year as provided in the Master Trust Agreement. See "SECURITY FOR THE BONDS—Other Available Funds, CFC Revenues and Available PFC Revenues" in the forepart of this Official Statement.

The annual amount of PFCs payable to the City depends upon the number of passenger enplanements at the Airport and the payment of PFCs to the City by the airlines. No assurance can be given that PFCs will actually be received in the amounts or at the times contemplated by the City. In addition, the FAA may terminate or reduce the City's authority to impose PFCs, subject to informal and formal procedural safeguards, if the FAA determines that the City has violated certain provisions of the Airport Noise and Capacity Act of 1990, as amended ("ANCA"), the PFC Act (including as amended by the Vision 100-Century of Aviation Reauthorization Act, which was enacted on December 13, 2003 (the "Vision 100 Act")), AIR-21 or the PFC Regulations, or if the FAA determines that PFC Revenues are not being used for PFC Projects or that implementation of such projects did not begin within the time frames specified in the PFC Act or the PFC Regulations. Future PFC applications may be denied if the FAA determines that the City violated any of its federal grant assurances or violated the PFC Act, AIR-21, the Vision 100 Act or certain other federal statutes and regulations applicable to airports. Amounts received or receivable under the PFC program are also subject to audit and adjustment by the FAA. See "CERTAIN FACTORS AFFECTING THE AIRPORT—Bankruptcy Risks" and "—Regulatory Uncertainties" in the forepart of this Official Statement and "LITIGATION—FAA Audit of Use of Airport Revenue" in this Appendix A.

Customer Facility Charges

CFCs are collected by the rental car companies from their customers and then remitted to the City. From January 1, 2008 through November 30, 2011, the Airport imposed a CFC of $10.00 per rental contract. Pursuant to Section 1936 of the California Civil Code ("Section 1936") the City increased, effective December 1, 2011, the CFC to $6.00 per contract day, to a maximum of five days, on each rental. Section 1936 further permits the City to increase the per contract day CFC to $7.50 commencing January 1, 2014, and to $9.00 commencing January 1, 2017. The $6.00 per contract day CFC was, and any subsequent increase of the per contract day CFC will be, subject to audit and substantiation by the California State Controller prior and City Council approval. The State Controller's audit substantiated the increase to a CFC of $6.00 per contract day on October 13, 2011. The City Council approved a CFC

increase on November 8, 2011, establishing a CFC of $6.00 per contract day, to a maximum of five days, effective December 1, 2011 and authorizing a further increase of the CFC to $7.50 per contract day (subject to the five day maximum) beginning January 1, 2014. The increase to $7.50 per contract day remains subject to further audit and substantiation by the California State Controller. The rental car companies have expressed their support to the City regarding the changes to the CFC as approved by the City Council on November 8, 2011. Federal legislation ("H.R. 2469") was introduced on July 8, 2011 in the House of Representatives that would have the effect of prohibiting certain state and local taxes (which the bill defines to include fees) on motor vehicle rentals. It is currently under consideration by the House Judiciary Committee. The City cannot predict whether or in what form H.R. 2469 might ultimately become law. As currently drafted, H.R. 2469 would not impact collection of CFC Revenues at existing rates but could have the effect of prohibiting certain future increases in the rates at which CFC Revenues are collected.

CFC Revenues are currently used to pay the reasonable costs to finance, design, and construct the ConRAC and to finance, design, construct and provide the ConRAC Transportation System (collectively, the "CFC Eligible Costs"). Under the Master Trust Agreement, CFC Revenues (approximately $6.8 million in fiscal year 2010-11) are excluded from the definition of "General Airport Revenues" and are not pledged to the payment of the Bonds, including the Series 2011B Bonds; however, CFC Revenues may, at the option of the City, be designated as Other Available Funds to pay debt service on debt obligations issued to fund CFC Eligible Costs (referred to herein as the "CFC Eligible Obligations"). See "AIRPORT FINANCIAL MATTERS—Historical Operating Results" below, "FINANCIAL ANALYSIS—Trust Agreement—Other Available Funds" and "—Nonairline Revenues—Rental Car Revenues" in Appendix B and "Other Available Funds" in "APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT." Upon their issuance and while any Series 2011B Bonds remain outstanding, the City expects to designate CFC Revenues as Other Available Funds. See "INTRODUCTION—General" and "—Security for the Bonds—Other Available Funds, CFC Revenues and Available PFC Revenues" in the forepart of this Official Statement. Finally, to the extent that any CFC Revenues have been designated as "Other Available Funds" and pledged to the payment of Debt Service as provided in the Master Trust Agreement, such CFC Revenues may be added to Net General Airport Revenues for the purpose of satisfying certain requirements relating to the issuance of Additional Bonds. See "SECURITY FOR THE BONDS—Additional Series of Bonds—Conditions for the Issuance of Additional Bonds" in the forepart of this Official Statement.

Current State law permits the Airport to impose CFCs to pay for common use transportation costs or so long as CFC Eligible Obligations remain outstanding. CFC Eligible Obligations currently include the Subordinated Commercial Paper Notes to be refunded with a portion of the proceeds of the Series 2011B Bonds. Following such refunding, the Series 2011B Bonds will be the only outstanding CFC Eligible Obligations. It is anticipated the CFC Revenues will be collected until at least the final maturity date of the Series 2011B Bonds.

The initial term of the City's current agreements with the on-Airport rental companies for use of the ConRAC is 10 years, beginning June 1, 2010 and ending May 31, 2020, subject to two optional ten year extensions, which must be approved by the City and the rental car companies. Should all of the rental car companies determine at the expiration of the 10-year term not to extend the agreements, the City would not be able to continue to collect CFC Revenues after the on-Airport rental car companies vacate the ConRAC (other than for CFCs collected by off-Airport rental car companies for on-Airport common use transportation costs). In such event, the City would seek other tenants or uses for the ConRAC, but would remain responsible for payment of the remaining CFC Eligible Obligations from General Airport Revenues until such time as new rental car companies were to begin operations at the ConRAC and the City could again collect CFCs.

The City currently applies the CFC Revenues collected from on-Airport rental car companies first toward payment of debt service and the City's actual costs related to CFC Eligible Obligations, and second, toward ConRAC Transportation System costs. Because the ConRAC is located near Terminal B, only those rental car customers arriving or departing from Terminal A use the ConRAC Transportation System to and from the ConRAC. Therefore, in the event that any portion of CFC Revenues is available to pay ConRAC Transportation System costs, such transportation costs may only be paid from CFC Revenues collected by on-Airport rental car companies from customers arriving or departing from Terminal A.

Based upon current rental car transaction forecasts, it is anticipated the CFC Revenues will not be sufficient to pay all CFC Eligible Obligations and ConRAC Transportation System costs during the initial term of the current agreements between the Airport and the rental car companies. Pursuant to such agreements, the rental car companies must pay Facility Rent to the City for use of the ConRAC in an amount equal to the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC-related debt service, less CFC Revenues, plus operating costs for the ConRAC Transportation System. In the event that CFC Revenues exceed the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC, each rental car company's share of any such CFC Revenues will be deducted from its share of operating costs for the ConRAC Transportation System, as calculated under the terms of the rental car agreement. Facility Rent also includes each rental car company's share of the City's cost to demolish the previous temporary common use rental car facilities at the Airport, as calculated under the terms of the rental car agreement, amortized over the initial ten-year term of the agreement. The portion of Facility Rent attributable to the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC-related debt service is apportioned among the companies operating in the ConRAC according to the amount of exclusive use space allocated to each company, as a percentage of the total exclusive use space in the ConRAC. ConRAC Transportation System operating costs are allocated by the City pro-rata based upon ridership among rental car company customers and all other users of the ConRAC Transportation System. Each rental car company's share of the City's cost to demolish the previous temporary common use rental car facilities at the Airport is determined in the sole discretion of the Director of Aviation.

Based on unaudited results, total Facility Rent for the ConRAC in fiscal year 2010-11 was approximately $8.2 million. Facility Rent will vary each year in relation to any change in the total amount of CFC Revenues collected during such year. In the event that CFC Revenues are higher than estimated, the total Facility Rent would be lower. If the CFC Revenues are lower than estimated, total Facility Rent will be higher.

Federal Grants

The Airport and Airway Improvement Act of 1982, as amended, created the Airport Improvement Program (the "AIP"), which is administered by the FAA. Grants are available to airport operators in the form of entitlement funds and discretionary funds and are payable on a reimbursement basis. Entitlement funds are apportioned annually based upon the number of enplaned passengers and the aggregate landed weight of all-cargo aircraft; discretionary funds are available at the discretion of the FAA based upon a national priority system. Funds obligated for the AIP are drawn from the Airport and Airway Trust Fund that is supported by user fees, fuel taxes, and other similar revenue sources that must be authorized and approved by Congress. Authority for the existing federal user fees, fuel taxes and other revenue sources for the Airport and Airway Trust Fund, FAA expenditure authority for the Trust Fund, AIP appropriations and FAA authority to issue AIP grants expires at midnight on January 31, 2012. In the event that these authorizations are not extended before midnight on January 31, 2012, the FAA will no longer have the authority to issue new AIP grants. However, existing AIP grant funded projects for which FAA has

already obligated money will continue to be funded by automatic outlays. FAA air traffic control and tower operations and PFC authorizations and collections are not subject to the January 31, 2012, expiration deadline and will not be impacted by an expiration of these authorizations. See "CERTAIN FACTS AFFECTING THE AIRPORT — Regulatory Uncertainties—General" in the forepart of this Official Statement.

To enable airport operators to predict the availability of funds for major projects, the FAA established a procedure by which an airport operator may request a letter of intent from the FAA indicating the FAA's present intention of making grants in the future (an "LOI"). The funding of an LOI is subject to Congressional approval and is not a binding appropriation or a commitment of funds by the FAA. The City has in the past received grants pursuant to an LOI and expects in the future to apply for additional grants.

The City currently receives approximately $1.8 million of AIP entitlement grants per federal fiscal year ending September 30. The City currently expects to receive approximately $700,000 of additional AIP entitlement grant funding in connection with the CIP. Based on unaudited results, in fiscal year 2010-11, the City received approximately $8.9 million of AIP discretionary grants associated with taxiway and apron improvements at the Airport. The City also received approximately $5.18 million of AIP grant funding associated with the American Recovery and Reinvestment Act of 2009 ("ARRA") for prior taxiway improvements at the Airport, but does not expect to receive any additional ARRA grant funding for projects related to the CIP. On July 18, 2011, the City received a grant agreement for $7.5 million for the construction of a portion of Taxiway W. See "CAPITAL DEVELOPMENT AT THE AIRPORT—Five Year Capital Improvement Program."

Federal Security Grants

Aviation Security Act. In the immediate aftermath of the terrorist attacks of September 11, 2001, the FAA mandated new safety and security requirements, which have been implemented by the Airport and the airlines serving it. In addition, Congress passed the Aviation and Transportation Security Act (the "ASA"), which imposed additional safety and security measures. The ASA imposes additional security requirements on airlines and airport operators and imposes penalties against airport operators and airlines that violate ASA provisions (ranging from $1,000 to $10,000 for a single violation of a regulation by an airport operator).

Certain safety and security functions at the Airport were assumed by the TSA, which was established by the ASA and is now a part of the United States Department of Homeland Security (the "DHS"). Among other requirements, the ASA required that (i) explosive detection screening be conducted for all checked baggage; (ii) as soon as practicable after the date of enactment of the ASA, 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 ASA requirements currently mandated under TSA regulations have been implemented at the Airport. For passengers originating at the Airport, the TSA operates two separate security checkpoints, each containing eight security lanes. For passengers arriving on an international flight and connecting to a domestic flight, the TSA operates an additional checkpoint containing one security lane.

The Airport is one of a number of domestic airports in the nation where the backscatter x-ray whole-body imaging machines are being used by the TSA, although, under certain circumstances, passengers may still opt to be screened through the current metal detector system. The costs of acquisition and installation of the whole-body imaging machines at the Airport was paid for by the TSA.

Security Grants. The City received substantial TSA grant funding for costs associated with the construction of new automated baggage screening systems for both Terminal A and Terminal B. The City does not expect to receive any additional TSA grant funding in connection with capital development projects at this time. The Office of the Inspector General of the Department of Homeland Security is currently auditing the costs invoiced by the City to the TSA in connection with the grant funding for such costs for Terminal B. The City cannot predict the outcome of the audit. The draft audit recommends that the TSA resolve certain unsupported costs in the amount of approximately $255,000 and review total expenditures of approximately $3,678,000 of costs for iron, steel and manufactured goods used in the Terminal B baggage system to determine whether the City fully complied with applicable "Buy American" requirements under ARRA.

On June 14, 2007, the City submitted a cooperative agreement application to the TSA for the law enforcement officer reimbursement program. This program provides partial funding for the mandated security measure of providing a law enforcement officer presence at each passenger-screening location. The City applied for $5,545,000 in funding over the five-year period of the program, representing the estimated cost of the mandated security measure. Any federal funding provided through the reimbursement program would partially offset the Airport's total security costs. Based on unaudited results, the City received a total of approximately $359,000 of grant funds in fiscal year 2010-11 as part of this program and a total of approximately $200,000 to provide funding for canine units at the Airport.

Historical Operating Results

The following tables summarize operating revenues and maintenance and operation expenses at the Airport for fiscal years 2006-07 through 2010-11. The summary presented in Table 12 for fiscal years 2006-07 through 2009-10 is derived from the audited financial statements of the Airport Department for fiscal years 2006-07 through fiscal year 2009-10. The fiscal year 2010-11 figures summarized in Table 12 represent unaudited results for fiscal year 2010-11.

A "Net Operating Loss" is shown for each year in Table 12. This is primarily because the Maintenance and Operation Expenses in the audited financial statements include (1) depreciation and amortization and (2) the non-capitalized construction costs, particularly for soundproofing and noise mitigation in fiscal years 2006-07 through 2009-10 and Terminal C demolition costs in fiscal years 2009-10 and 2010-11, that are actually paid from certain Airport capital funds and not from the Maintenance and Operation Fund. These items are discussed in more detail under "Management Discussion of Recent Financial Results." Table 13, which presents the Airport's historical debt service coverage, reflects adjustments to these items and certain other adjustments and demonstrates that the Airport's actual debt service coverage has exceeded its Rate Covenant in each of the years shown.

Table 12
Norman Y. Mineta San José International Airport
Summary of Operating Revenues and Maintenance and Operation Expenses
Fiscal Years Ended June 30

	2006-07[1]	2007-08[1]	2008-09[1]	2009-10[1]	2010-11[2]
Operating Revenues[3]:					
Airline Rates & Charges:					
Landing Fees	$13,504,341	$13,083,948	$14,503,816	$13,190,345	$13,370,404
Terminal Rental	11,308,051	26,539,244	29,715,996	33,458,906	34,446,216
Total Airline Rates and Charges	$24,812,392	$39,623,192	$44,219,812	$46,649,251	$47,816,620
Other Operating Revenues:					
Terminal Concessions	$9,200,513	$11,469,631	$11,947,163	$11,156,946	16,876,892
Airfield Area	2,518,761	2,833,130	3,170,562	2,791,491	2,924,976
Parking and Roadway[4][5]	48,225,644	48,368,347	44,228,032	38,934,371	47,320,098
Fuel Handling Fees	1,592,337	1,806,169	1,473,647	1,309,532	1,503,834
General Aviation	4,419,745	4,725,880	5,127,335	4,995,007	4,481,424
CFC Revenues	4,451,055	6,350,575	6,713,160	6,021,365	6,839,740
Other	107,780	63,476	699,398	913,626	39,536
Total Other Revenues[5]	70,515,835	75,617,208	73,359,297	66,122,338	79,986,500
Total Operating Revenues[5][6]	$95,328,227	$115,240,400	$117,579,109	$112,771,589	$127,803,120
Maintenance and Operation Expenses[7]:					
Terminal Buildings	$26,928,516	$31,789,787	$28,813,366	$31,701,098	$33,019,384
Airfield Area	19,859,736	22,692,587	16,170,121	10,911,014	9,748,512
Parking and Roadway	28,559,202	27,935,599	26,852,623	24,031,701	25,344,190
Fuel Handling Costs	171,101	310,586	557,036	885,303	331,046
General Aviation	3,679,285	3,428,380	4,072,008	3,052,466	2,365,729
General and Administrative	28,786,983	32,878,854	28,268,277	23,623,554	19,095,433
Depreciation and Amortization[8]	19,324,493	22,834,484	20,646,758	55,288,220	51,532,165
Total Maintenance and Operation Expenses	$127,309,316	$141,870,277	$125,380,189	$149,493,356	$141,436,459
Net Operating Loss[5]	**($31,981,089)**	**($26,629,877)**	**($7,801,080)**	**($36,721,767)**	**($13,633,339)**

(1) Derived from the Airport Department's audited financial statements.

(2) Unaudited.

(3) Revenue categories have been presented in accordance with the provisions of the Airline Lease Agreement, which took effect on December 1, 2007. Certain revenue categories in fiscal year 2006-07 have been reclassified to conform with the provisions of the Airline Lease Agreement.

(4) Includes public parking, employee parking, taxi concession and other ground transportation fees, and rental car concession fees and space rentals.

(5) For accounting purposes, the City expects to reclassify ConRAC Facility Rent from non-operating revenue to operating revenue in the Airport Department's 2010-11 audited financial statements. The City does not expect to restate the Airport Department's prior audited financial statements in connection with such reclassification; however, totals for fiscal years 2006-07, 2007-08, 2008-09 and 2009-10 have been recalculated to reflect this accounting change for purposes of comparison. As a result, certain values presented here differ from those presented in Table 12 of the Preliminary Official Statement, dated November 16, 2011, as supplemented by the Supplement thereto, dated November 29, 2011.

(6) Does not include investment income, AIP grant proceeds or PFC Revenues. AIP grant proceeds and PFC Revenues are included in the City's audited financial statements as nonoperating revenues.

(7) Includes certain expenditures for projects that are treated in the Airport Department's audited financial statements as maintenance and operation expenses, but that are paid from certain Airport capital funds, rather than from Operating Revenues deposited in the Maintenance and Operation Fund. This is the primary cause for the Net Operating Loss. See "—Management Discussion of Recent Financial Results—Airport Revenues and Expenses" and Table 13.

(8) Depreciation and amortization have been restated retroactively to reflect the fact that intangible assets have indefinite useful lives and are not to be amortized in accordance with the provisions of Government Accounting Standards Board Statement No. 51, which was adopted by the City on July 1, 2009.

Source: Norman Y. Mineta San José International Airport.

Table 13
Norman Y. Mineta San José International Airport
Historical Bond Debt Service Coverage
Fiscal Years Ended June 30

	2006-07	2007-08	2008-09	2009-10	2010-11 [1]
Total Operating Revenues [2][3]	$95,328,227	$115,240,400	$117,579,109	$112,771,589	$127,803,120
Adjustments to Total Operating Revenues					
Plus: Interest income and nonoperating revenues	6,367,910	6,711,827	6,580,661	2,230,565	2,523,323
Less: Other revenues [4]	(5,035,507)	(6,768,591)	(9,044,515)	(8,498,750)	(6,879,276)
Adjusted Revenues	$96,660,630	$115,183,636	$115,115,255	$106,503,404	$123,447,167
Maintenance & Operation Expenses	$127,309,316	$141,870,277	$125,380,189	$149,493,356	$141,436,459
Adjustments to Maintenance and Operation Expenses					
Less: Maintenance and operation expenses paid from sources other than General Airport Revenues [5]	(21,476,052)	(22,929,430)	(14,100,056)	(11,690,051)	(8,541,475)
Less: Depreciation and Amortization	(19,324,493)	(22,834,484)	(20,646,758)	(55,288,220)	(51,532,165)
Expenses paid from Maintenance & Operation Fund	86,508,771	96,106,363	90,633,375	82,515,085	81,362,819
Add: Interest expense	0	153,552	286,983	76,414	0
Add: Transfer to General Fund	0	0	103,120	0	0
Add: Transfer to Vehicle Maintenance & Operation Fund	0	0	0	14,645	0
Less: LOC Fees [6]	(388,837)	(644,287)	(240,629)	0	(4,513,156)
Adjusted Maintenance and Operation Expenses	$86,119,934	$95,615,628	$90,782,849	$82,606,144	$76,849,663
Net General Airport Revenues	$10,540,696	$19,568,008	$24,332,406	$23,897,260	$46,597,504
Plus: AIP grant proceeds	10,559,465	10,555,270	10,560,440	9,832,518	2,183,000
Commercial paper proceeds	3,516,000	5,950,460	0	741,923	0
CFCs	0	0	0	0	6,839,740
Transfer from Rate Stabilization Fund (formerly "Safety Net Account")	4,016,000	507,000	0	5,934,738	1,200,000
Prior year's ending surplus	20,803,098	21,953,804	33,101,042	29,336,101	35,458,972
Rolling coverage	5,355,747	5,209,324	5,391,800	5,764,467	6,765,662
Total: Other Available Funds	$44,250,310	$44,175,858	$49,053,282	$51,609,747	$52,447,374
Net Revenues Available for Bond Debt Service	$54,791,006	$63,743,866	$73,385,688	$75,507,007	$99,044,878
Revenue Bond Debt Service Requirement	$20,837,295	$21,567,199	$23,036,635	$31,367,070	$53,889,951
Less: Available PFC Revenues	0	0	0	(4,588,000)	(21,388,340)
Net Revenue Bond Debt Service Payable from Revenues	$20,837,295	$21,567,199	$23,036,635	$26,779,070	$32,501,611
Revenue Bond Debt Service Coverage Ratio	2.63	2.96	3.19	2.82	3.05

(1) Unaudited.

(2) Does not include PFCs or AIP grant proceeds. AIP grant proceeds and PFC Revenues are included in the City's audited financial statements as nonoperating revenues.

(3) For accounting purposes, the City expects to reclassify ConRAC Facility Rent from non-operating revenue to operating revenue in the Airport Department's 2010-11 audited financial statements. The City does not expect to restate the Airport Department's prior audited financial statements in connection with such reclassification; however, totals for fiscal years 2006-07, 2007-08, 2008-09 and 2009-10 have been recalculated to reflect this accounting change for purposes of comparison. As a result, certain values presented here differ from those presented in Table 13 of the Preliminary Official Statement, dated November 16, 2011, as supplemented by the Supplement thereto, dated November 29, 2011.

(4) Includes reimbursements from the Airport's tenants for improvements initially funded by the Airport. Under the Master Trust Agreement, these payments are excluded from the definition of "General Airport Revenues" and are not pledged to the payment of Bonds. See "SECURITY FOR THE BONDS—Pledge of General Airport Revenues" in the forepart of this Official Statement.

(5) Consists of Maintenance and Operation Expenses that were paid from available moneys other than General Airport Revenues, which consist primarily of certain capital projects that did not meet the criteria for capitalization into fixed assets that were paid from Airport capital funds.

(6) Letter of credit fees associated with the Subordinated Commercial Paper Notes, net of capitalized fees. Letter of credit fees are reflected in this Table 13 and in Table 12 as a Maintenance and Operation Expense for accounting purposes; however, fees imposed pursuant to the reimbursement agreements relating to such letters of credit are Subordinate Obligations and are not incorporated in Maintenance and Operation Expenses for purposes of calculating debt service coverage.

Source: Norman Y. Mineta San José International Airport.

Management Discussion of Recent Financial Results

Airport Revenues and Expenses. Based on unaudited results for fiscal year 2010-11, total operating revenues increased by approximately 34.1% from $95,328,227 in fiscal year 2006-07 to approximately $127,803,120 in fiscal year 2010-11. The largest contributors to this increase were the terminal rents from the airlines, concession revenues, and CFCs. The decline in the parking and roadway category from 2007-08 through 2009-10 was due to the sharp decline in passenger activity, as well as the closure of the short-term parking lot in front of Terminal C during construction of the Terminal Area Improvement Program projects. Parking and roadway revenues increased approximately 21.5% from $38,934,371 in 2009-10 to approximately $47,320,098 in 2010-11. This increase was primarily due to facility rent associated with the new ConRAC facility, as well as increases in public parking and rental car concessions.

The amount of Maintenance and Operation Expenses shown in Table 12 includes depreciation and amortization and certain expenditures of projects that are treated in the Airport's audited financial statements as maintenance and operation expenses but that are paid from sources other than General Airport Revenues. Such other sources of funds include certain expenses paid from Airport capital funds that did not meet the criteria for capitalization into fixed assets. The total amount of such operating expenses paid annually from sources other than General Airport Revenues is shown in Table 12. The majority of the expenses paid from Airport capital funds primarily related to noise mitigation projects in fiscal years 2006-07 through 2009-10 and Terminal C demolition costs in fiscal years 2009-10 and 2010-11. The operating expenses actually paid from the Airport's Maintenance and Operation Fund in fiscal years 2006-07 through 2010-11, based on unaudited results for fiscal year 2010-11, were $86,119,034, $95,615,628, $90,782,849, $82,606,144, and approximately $76,849,663, respectively.

The Airport experienced an increase in Maintenance and Operation expenses in fiscal year 2007-08 by $9,597,592. Factors that contributed to this increase included (i) costs related to other postemployment benefits (OPEB) that were recorded as of June 30, 2008 as required by Statement 45 issued by the Government Accounting Standards Board; (ii) increases in personnel costs due to negotiated salary increases and the associated increases in retirement contributions; (iii) increases in lease payments for the Airport West Property (as defined below under "LITIGATION – FAA Audit of Use of Airport Revenue"); (iv) increase in private security services due to the elevation of the national security threat level from Yellow to Orange; and (v) higher shuttle bus operator costs due to the need for increased inter-terminal and employee parking lot bus services as a result of the closure, relocation and downsizing of the short-term and employee parking lots during construction.

Based on unaudited results for fiscal year 2010-11, Maintenance and Operation expenses in fiscal years 2008-09, 2009-10, and 2010-11 decreased by $5,472,988, $8,118,290, and approximately $1,152,266, respectively, compared to the previous fiscal years. Significant components of these decreases include (i) the downward adjustment of the OPEB costs in fiscal year 2008-09 to reflect the then latest actuarial study; (ii) a significant reduction in the lease rentals paid for the Airport West Property in fiscal year 2008-09; (iii) the sizeable reduction of staffing levels; (iv) the decrease in overhead as a result of the reduced staffing levels and the rate reduction in fiscal year 2009-10; (v) the substantial decrease in building rent due to a reduction in leased administration spaces effective January 1, 2010, and the eventual termination of the lease effective November 30, 2010; (vi) the decreased amounts paid for parking and shuttle bus operators in fiscal year 2009-10 as a result of the reduced passenger activity, and (vii) the lower fees charged by the City in fiscal year 2009-10 for airport rescue and firefighting services due to lower staffing requirements allowed by reduced passenger levels and reduced overhead rate.

Depreciation and amortization increased by $3,509,992 in fiscal year 2007-08 due to the write-off of the deferred bond issuance costs related to the Series 2004A/B Bonds that were refinanced with

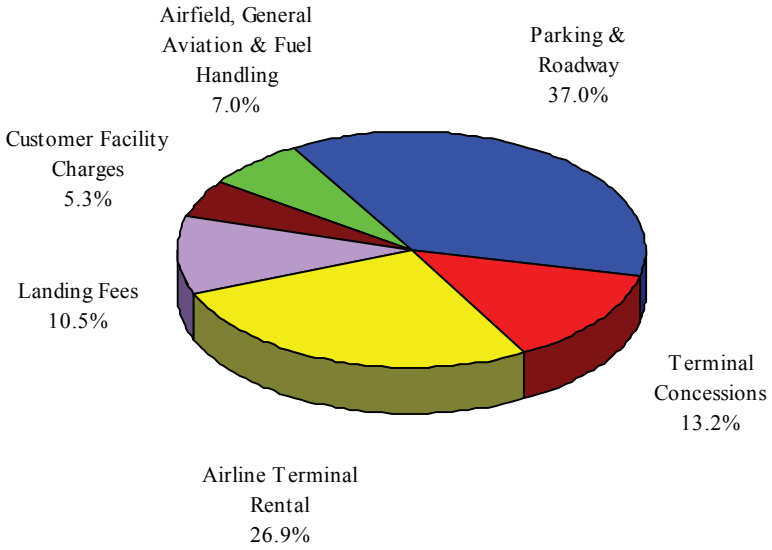
proceeds of commercial paper in April 2008, which in turn the City refunded with a portion of the proceeds of the Series 2011A-1 Bonds. Depreciation also posted a substantial increase of $34,641,642 in fiscal year 2009-10 due to the fact that the Airport ended airline and concession operations in Terminal C on June 29, 2010 and accelerated its depreciation schedule. The demolition of Terminal C was completed in September 2010.

Airline Rates and Charges. The primary charges paid by the airlines are landing fees and terminal rentals for leased space. For fiscal year 2010-11, the average terminal rental rate was $130.34 per square foot while landing fee rate was $2.47 per 1,000 pounds of aircraft maximum gross landed weight ("MGLW"). For fiscal year 2011-12, the average terminal rental rate is $153.20 per square foot while the landing fee rate is $2.14 per 1,000 pounds of aircraft MGLW. See "CERTAIN FACTORS AFFECTING THE AIRPORT—Regulatory Uncertainties—Rates and Charges Regulation" in the forepart of this Official Statement.

Parking and Roadway Revenues. Based on unaudited results for fiscal year 2010-11, public parking revenues of approximately $22,081,458 and concession fees from rental car companies of approximately $12,411,617 increased by 3.9% and 5.4%, respectively, compared to fiscal year 2009-10. The Airport also derived $4,586,761 in revenues in fiscal year 2010-11 from employee parking, dispatch and trip fees from taxi companies and other ground transportation operators and ground rental revenue and utility charges from rental car companies, compared to $4,340,568 in fiscal year 2009-10. Facility Rent in fiscal year 2010-11 was approximately $8,240,262. See "THE AIRPORT—Existing Facilities—Parking" and "LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession And Other Agreements" above.

Revenue Diversity. Based on unaudited results, the chart below summarizes the Airport Department's major sources of revenue for fiscal year 2010-11. As shown in the chart, the Airport Department derived approximately 37.5% of its revenues from the landing fees and terminal rentals paid by the airlines serving the Airport, compared to 41.9% in fiscal year 2009-10, and approximately 62.5% of its revenues from various sources other than the airlines (primarily parking, rental cars, terminal concessions, income from certain non-airline leases and interest income), compared to 58.1% in fiscal year 2009-10.

Norman Y. Mineta San José International Airport
Major Sources of Revenue
Fiscal Year 2010-11



Source: Norman Y. Mineta San José International Airport.

Historical Debt Service Coverage. The Annual Debt Service coverage ratios for the five fiscal years ended June 30, 2011, calculated in accordance with the Master Trust Agreement, are presented in Table 13. The prior year's ending surplus, the amount that the City maintains as "rolling coverage" on the Bonds, transfers from the Rate Stabilization Fund (formerly "Safety Net Account"), and the commercial paper proceeds are considered "Other Available Funds" and are added to the Net General Airport Revenues Available for Bond Debt Service under the Master Trust Agreement.

The Master Trust Agreement also provides a mechanism by which PFCs and certain other funds (including, among others, federal grants) can be considered in the calculation of debt service coverage when such funds are applied toward the payment of Debt Service. Since fiscal year 2001-02, the Airport has been applying certain federal grant funds toward Debt Service. In fiscal year, 2009-10, the Airport began applying PFCs toward Debt Service.

REPORT OF THE INDEPENDENT AIRPORT CONSULTANT

The City has retained Ricondo & Associates Inc. of Cincinnati, Ohio (the "Independent Airport Consultant"), which is recognized as an expert in its field, to prepare a report in connection with the Series 2011A Bonds and the Series 2011B Bonds. The Report of the Independent Airport Consultant, dated June 27, 2011 (the "Report"), and a letter dated November 15, 2011 (the "Update Letter" and, together with the Report, the "Report of the Independent Airport Consultant") are included in this Official Statement as Appendix B, with the Independent Airport Consultant's consent. The Independent Airport Consultant will also prepare the additional bonds written report required under the Master Trust Agreement for the issuance of the Series 2011B Bonds. The Report of the Independent Airport Consultant presents the Independent Airport Consultant's projections of activity and financial results of the Airport from the City's fiscal year ending June 30, 2011 through the fiscal year ending June 30, 2017 (the "Projection Period") and the assumptions upon which the projections are based. See "LEASE AND OPERATING AGREEMENTS—Airline Agreements" herein and "FINANCIAL ANALYSIS—Airline Revenues" in Appendix B.

The information regarding the analyses and conclusions contained in the Report of the Independent Airport Consultant is included in this Official Statement in reliance upon the expertise of the Independent Airport Consultant. The Report of the Independent Airport Consultant should be read in its entirety for an understanding of the assumptions and rationale underlying the financial projections contained therein.

The financial projections in the Report of the Independent Airport Consultant are based upon certain information and assumptions that were provided by, or reviewed and agreed to by the Airport's management. In the opinion of the Independent Airport Consultant, these assumptions provide a reasonable basis for the projections. See "AIR TRAFFIC—Projections of Aviation Demand," "RENTAL CAR ACTIVITY AND CUSTOMER FACILITY CHARGE REVENUE—Projected Rental Car Activity and CFC Revenue at the Airport" and "FINANCIAL ANALYSIS" in Appendix B.

Since the date of the Update Letter, the City has determined that passenger enplanements at the Airport for the month of October 2011 were down by approximately 3.3% compared to October 2010. Enplanements over the 12 months ending in October 2011, however, are 2.4% higher than in the same period last year, and 12 of the past 14 months have shown increases over the prior year. The City is not able to determine at this point what caused this single year-over-year, month decline. The City continues to believe that the projections in the Report of the Independent Airport Consultant are reasonable.

Neither the City's independent auditors nor any other independent accountants have compiled, examined or performed any procedures with respect to the projected financial information contained in the Report of the Independent Airport Consultant, nor have they expressed any opinion or any other form of assurance on such information or its achievability.

The Report of the Independent Airport Consultant is an integral part of this Official Statement and should be read in its entirety. See "APPENDIX B."

CAPITAL DEVELOPMENT AT THE AIRPORT

The Airport's capital development program (the "Airport Development Program") has been formulated through a master planning process, which originally received City Council approval in 1997. The Airport Development Program consists of two phases, Phase 1 and Phase 2. The City has substantially completed Phase 1 of the Airport Development Program, which includes projects in the Terminal Area Improvement Program, as described below under "—Phase 1 of the Airport Development Program." Projects in Phase 2 of the Airport Development Program are pre-approved in the Airline Lease Agreement, but construction of the Phase 2 projects is contingent upon satisfying specified activity based triggers. See "LEASE AND OPERATING AGREEMENTS—Airline Agreements" herein and "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT—Capital Expenditures" in Appendix H.

Airport Master Plan

In 1997, after extensive planning and environmental studies and reports, the City Council approved a new master plan for the Airport (the "Master Plan"). In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new Airport Layout Plan (the "ALP") displaying the Master Plan projects and unconditionally approved all of the near-term projects. Both the Master Plan and the ALP have been amended several times since 1997 and currently are intended to provide facility improvements needed to accommodate forecast demand in the year 2027 for commercial passenger service, air cargo and corporate general aviation demand. The Master Plan includes both the substantially complete Phase 1 and the planned Phase 2 of the Airport Development Program, which collectively comprise improvements to the Airport's terminal facilities, roadways, parking facilities and airfield facilities and includes 1.075 million square feet of passenger terminal facilities comprised of up to 49 gates; parking and garage facilities comprised of up to 16,200 public parking spaces, 2,600 employee parking spaces and 10,000 rental-car parking spaces (including 2,000 ready-return spaces); air cargo facilities; ground transportation, roadway and other access improvements; and runway improvements. In the fall of 2005, and in recognition of how current market conditions were impacting passenger growth, the Airport and its airline tenants reexamined the Master Plan and developed the Terminal Area Improvement Program, a program for implementing the Master Plan by aligning ongoing and planned construction activities with available fiscal resources, taking into account revised passenger growth projections. In June 2006, the City Council approved an amendment to the Master Plan to incorporate the Terminal Area Improvement Program and other Airport Development Program revisions.

In June 2010, the City Council approved an additional amendment to the Master Plan that updated projected aviation demand and facility requirements, and modified specific components of the Airport Development Program. Pursuant to the amended Master Plan, the former interim long-term public parking and employee parking lots on the northwest side of the Airport (which have been relocated to the east side terminal area) will be gradually converted to new general aviation leasehold facilities.

Phase 1 of the Airport Development Program

Construction of the Phase 1 projects was substantially complete in fiscal year 2010-11. The Phase 1 projects included nine new gates and approximately 366,000 square feet of new terminal space; design and construction of the new Terminal B; improvements to the existing Terminal A, including new ticketing facilities, a new in-line baggage system that serves both Terminals A and B and security checkpoint, lobby concessions and other improvements; the phased demolition of Terminal C; design and construction of the ConRAC; realignment and improvement of existing terminal roadways; parking improvements; airfield projects, including noise mitigation and the reconstruction of Taxiway Y; and other improvements, including construction of a new belly freight facility and an aircraft rescue and fire

fighting facility. The Phase 1 projects also include design of certain Phase 2 projects, but under the Airline Lease Agreement the commencement of construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers.

Phase 2 of the Airport Development Program

Phase 2 projects will consist primarily of the design and construction of the South Concourse of Terminal B and the second phase of Terminal B, including a total of 12 additional gates, and a new central plant facility. Under certain circumstances, the City is required to consult with the Signatory Airlines before proceeding with additional future capital developments. Phase 2 projects are pre-approved in the Airline Lease Agreement, but construction of the Phase 2 projects is contingent upon satisfying specified activity based triggers. Pursuant to the terms of the Airline Lease Agreement, the Airport must have either 217 scheduled operations on any one day or 12.2 million enplaned and deplaned passengers in any given fiscal year in order to begin the Phase 2 projects. See "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT—Capital Expenditures" in Appendix H and "PASSENGER SERVICES AND OPERATION—Landed Weight and Airport Operations" herein.

Costs and Funding Sources of the Airport Development Program

Phase 1 of the Airport Development Program was initially budgeted at $1.3 billion (including, among other costs, design, engineering, construction, reserves, contingency, insurance and escalation for inflation). The City currently estimates that, upon final completion of all Phase 1 projects, the total actual cost of the Phase 1 projects will have been significantly below the budgeted cost of $1.3 billion. Phase 1 costs have thus far been funded, and the City expects to continue to fund them, from a combination of federal grants, PFCs, internally generated Airport funds and the proceeds of Bonds and Subordinated Commercial Paper Notes.

Costs of Phase 2 of the Airport Development Program are currently estimated at $400 million in 2011 dollars; however, under the Airline Lease Agreement, the commencement of construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. See "—Phase 2 of the Airport Development Program." The City expects sources of funding for Phase 2 projects to include (but not necessarily be limited to) federal grants, PFCs, internally-generated Airport funds, and, if necessary, reasonable Airport user fees, the proceeds of additional Bonds or Subordinated Commercial Paper Notes.

Five Year Capital Improvement Program

In June 2011, the City also adopted a five year, 2012-2016 Airport Capital Improvement Program comprising projects that are not part of either Phase 1 or Phase 2 of the Airport Development Program (the "CIP"). The budgets for the projects included in the CIP total approximately $59.1 million, as summarized below. Approximately 75% of the estimated CIP costs (the Completion of Taxiway W Improvements and the Non-Terminal Area Projects) are contingent upon the receipt of grant funding, which the City anticipates it will receive from the FAA, and the future availability of other Airport funds. The City does not plan to use any of the proceeds of the Series 2011B Bonds for CIP projects and does not plan to issue any Bonds during the Projection Period for CIP projects.

Five Year CIP	Estimated Cost (millions)
Completion of Taxiway W Improvements	$36.3
Non-Terminal Area Projects	8.2
Airfield safety, signage, other improvements	2.7
Pavement Maintenance	2.6
Operations System Support Maintenance	2.5
Other Aviation Support Projects	3.1
Other (AVI, environmental, terminal)	3.7
Total 5-Year CIP:	$59.1

Completion of Taxiway W improvements includes certain extensions of Taxiway W and the strengthening and reconstruction of Taxiways C, G, and J. These improvements address concerns identified by the FAA Runway Safety Action Team, and will add taxiway capacity on the Airport's west side to support future general aviation demand. On July 18, 2011, the City received a grant agreement for $7.5 million for the construction of a portion of Taxiway W, and the City awarded a construction contract for the third phase of the Taxiway W improvements in the amount of $7.8 million in July 2011. Construction on the first phase of the Taxiway W improvements is scheduled for completion in August 2012. Completion of the remaining phases of the Taxiway W improvements is contingent upon the receipt of grant funding from the FAA and the availability of resources to fund the required local match.

The Non-Terminal Area Projects include planning and site preparation work for future facilities and improvements outside of the terminals. Future improvements may include development of aviation support facilities such as hangars, light maintenance facilities, airline provisioning, cargo operations, and other aviation support services by third parties, and Airport support facilities, such as shuttle bus storage and other Airport operational support. Such projects are contingent upon available funding.

Other future projects listed above include various safety, maintenance, and support projects with estimated costs ranging from $2.5 million to $3.7 million.

All Signatory Airlines have MII participation rights with respect to airfield CIP projects; only passenger Signatory Airlines have MII participation rights with respect to terminal CIP projects. MII review of CIP projects by the Signatory Airlines only applies to projects that: (a) will affect airline rates and charges during the term of the Airline Lease Agreement; and (b) have gross project costs expected to exceed $5 million. MII review will not apply to projects: (a) that are required by the federal government; (b) that must be rebuilt or replaced to meet the Airport's obligations under the Airline Lease Agreement or applicable law; (c) that are required to respond to emergencies in order to keep the Airport open for public use; (d) that are undertaken in cost centers other than the airfield and terminal cost centers; (e) for the increased requirements of any Signatory Airline(s) if such Signatory Airline(s) agree to increased rentals, fees, and charges sufficient to cover the annual debt service associated with the project; or (f) that are for special purpose facilities for which the user will pay or reimburse the Airport.

The City will not proceed to design or build CIP projects that are subject to MII review without first giving the Signatory Airlines a detailed description of the purpose and expected costs of each such project and an opportunity to voice any objections to the project. If an MII review by the Signatory Airlines does not disapprove the project, the Airport may proceed with design and construction. If, within 60 days of the Airport's notice, an MII review by the Signatory Airlines disapproves the proposed project, the Airport shall defer the project for a period of up to one year to allow for further consultation with the Signatory Airlines. At the end of the one-year deferral period, the Airport may proceed with the project notwithstanding any remaining airline objections.

The threshold for approval in the MII review process for airfield CIP projects shall be Signatory Airlines with at least 50% of the total landing fees paid by Signatory Airlines during the preceding fiscal year. The threshold for approval in the MII review process for terminal CIP projects shall be at least 50% of the Signatory Airlines who together have (a) paid at least 50% of the total terminal rents paid by Signatory Airlines during the preceding fiscal year; and (b) carried at least 50% of the enplaned passengers in the preceding fiscal year.

Environmental Matters

Master Plan EIR and EIS. All Airport development is subject to the requirements for environmental studies and appropriate clearances under the California Environmental Quality Act ("CEQA") and, where federal funding or other federal actions are involved, to the requirements of the National Environmental Protection Act ("NEPA").

An Environmental Impact Report under CEQA was prepared for the Master Plan (the "Master Plan EIR"). The Master Plan EIR was certified as complete by the City on June 10, 1997. As required by statute, the Master Plan EIR was made available for public review and City Council consideration prior to the adoption of the Master Plan. The Master Plan has been amended several times since the adoption of the Master Plan EIR and the Master Plan EIR has in turn been supplemented to reflect changes in the Master Plan.

An Environmental Impact Statement for the Master Plan (the "Master Plan EIS") under NEPA was prepared by the FAA during 1998 and 1999. The FAA issued a Record of Decision for the Master Plan EIS in December 1999. The EIS divided the Master Plan Projects into three phases. The City received unconditional approval of the Phase 1 Projects and conditional approval of the projects included in Phases 2 and 3, pending subsequent environmental clearance from the FAA. No legal challenge to the Master Plan EIS was filed, and the statutory time for making such a challenge has elapsed. On February 9, 2007, the FAA approved the Airport Layout Plan, including unconditional approval of the Terminal Area Improvement Program.

Airport Noise and Capacity Act of 1990. The Airport Noise and Capacity Act of 1990 ("ANCA") provides for a phaseout of Stage 2 aircraft by December 31, 1999 and also limits the scope of the local airport operator's regulatory discretion for adopting new aircraft operational restrictions for noise purposes. The FAA subsequently adopted regulations implementing ANCA under Part 161 of the Federal Aviation Regulations ("Part 161"). From 1990 forward, airport proprietors considering the adoption of restrictions or prohibitions on the operation of Stage 2 and Stage 3 aircraft are required to conduct studies that detail the economic costs and benefits of proposed restrictions, to publish proposed restrictions and to provide notice to potentially affected airlines and conduct any necessary environmental analysis, prior to enacting restrictions on the operations of Stage 2 or Stage 3 aircraft. Proposed restrictions on the operation of Stage 3 aircraft adopted after 1990 also require affirmative approval of the FAA under defined statutory criteria before they may legally be implemented. ANCA and Part 161 make the adoption of many traditional aircraft operating noise regulations by local airport proprietors infeasible without the concurrence of the airlines or other operators affected by the restrictions. Subject to certain procedural safeguards, violations of ANCA or of Part 161 could result in termination of an airport's authority to impose and use PFCs or to receive AIP grant awards.

California Airport Noise Regulations. The Airport operates under a variance pursuant to the California Airport Noise Regulations (CCR Title 21, Division 2.5, Chapter 6) (the "Noise Regulations"). The Noise Regulations identify an exterior 65 decibel ("dB") Community Noise Equivalent Level ("CNEL") contour at an airport as the "Noise Impact Boundary." The Noise Regulations provide that no proprietor of a "noise problem airport" shall operate an airport with a Noise Impact Boundary based on

the standard of 65 dB CNEL, unless the operator has applied for or received a variance as prescribed by the Noise Regulations. To obtain a variance, an airport that has been deemed a noise problem airport by the county in which the airport is located must demonstrate to the State that it is making good faith efforts to eliminate incompatible land uses within the Noise Impact Boundary. Under the Noise Regulations, residential land uses may be made compatible through land acquisition, sound insulation to an interior noise level of 45 dB CNEL, or by obtaining avigation easements for the incompatible land uses. See "—ACT Program" below. Once the county determines that an airport is a noise problem airport, an airport will remain subject to the variance requirement under the Noise Regulations until such time that the county determines that the airport is no longer a noise problem airport.

The Santa Clara County Board of Supervisors designated the Airport as a noise problem airport on June 19, 1972. Since that time, the State has issued a successive series of three-year variances to the City, and the City's current variance was renewed for a three-year term effective March 15, 2008. Because the City has eliminated incompatible land uses within the Noise Impact Boundary through completion of its ACT Program (described below), the City has requested that Santa Clara County determine that the Airport is no longer a noise problem airport. In anticipation of this determination by the County, the State has granted an extension of the current variance through February 15, 2012. The City will need to request a further extension to the variance from the State in the event that the County Board of Supervisors fails to act on the City's request prior to February 15, 2012.

Land Use Compatibility Measures. Since the late 1960s, the City has undertaken a series of land use compatibility measures to minimize the effects of aircraft noise on neighborhoods surrounding the Airport, and to provide an airport approach zone. These measures have included land acquisition, avigation easements, noise insulation of existing residences and schools and use of planning and building code measures to increase compatibility with Airport operations.

The City began acquiring residential and other incompatible land uses in the area to the south of the Airport in the late 1960s, for both approach zone and noise compatibility purposes. All 625 parcels, totaling approximately 120 acres, within this southern acquisition area have been acquired, largely, with federal grant funds. The area is designated as Public Park/Open Space in the City's General Plan. In compliance with the conditions to the federal grants used to fund the acquisition program, any reuse of property would require approval by the FAA. See "LITIGATION—FAA Audit of Use of Airport Revenue—Guadalupe Gardens" herein.

The City has also completed the acquisition of fee interests and habitation rights in two former mobile home parks to the north of the Airport, and the uses of such properties have been converted to uses compatible with Airport operations.

ACT Program. In 1993, the City Council established the Acoustical Treatment Program (the "ACT Program") for the noise insulation of residences and other incompatible structures, such as schools, surrounding the Airport. The purpose of the ACT Program was to improve the living environment of eligible residences and other structures by reducing interior noise to meet an interior noise level of 45 dB CNEL, as required by the Noise Regulations. Typical treatment included the replacement of windows and doors and the installation of attic insulation, weather-stripping and air conditioning. Participation in the ACT Program was voluntary. Undertaking the ACT Program was a required noise mitigation measure included in the Master Plan approved by the City Council in 1997 and by the FAA in 1999.

The ACT program was completed in January 2010. From its inception in 1989-1990, the program treated over 2,400 dwelling units and four schools using $139.8 million in AIP grants and PFCs. The Airport continues to conduct acoustical testing on an as-requested basis.

Airport Noise Control Program. Since 1973, time of day operational restrictions or a scheduling "curfew" has been in effect at the Airport, when it was promulgated by the Airport Director pursuant to the authority granted under the City's Municipal Code (the "Curfew"). The Airport Noise Control Program containing these restrictions was adopted in 1984 by the City Council as a formal Airport regulation and was subsequently amended by an ordinance adopted by the City Council on October 21, 2003 (the "Curfew Ordinance"). Under the Airport Noise Control Program, as amended by the Curfew Ordinance, jet aircraft operators are prohibited from scheduling or conducting takeoffs or landings between 11:30 p.m. and 6:30 a.m. (local time), unless any such takeoff or landing is conducted by a jet aircraft that is listed on a Schedule of Authorized Aircraft issued by the Director of Aviation. If a jet aircraft is not listed on the Schedule of Authorized Aircraft, the aircraft will be allowed to operate during Curfew Hours only if the operator demonstrates in writing to the Director of Aviation that the FAA part 36 manufacturer-certificated noise level of such aircraft (using the arithmetic average of the takeoff, sideline and approach noise levels) is equal to or less than 89.0 Effective Perceived Noise Decibel Level ("EPNdB"). In addition, Stage II aircraft operators (other than certain governmental operators) may only conduct takeoffs or landings at the Airport between the hours of 7:00 a.m. and 11:00 p.m., unless the aircraft was delayed solely because of a force majeure event. Operational procedures to minimize aircraft noise on departure are implemented by the FAA through its Air Traffic Control personnel. These procedures are intended to minimize noise impact on the surrounding community. By letter dated October 2, 2003, the FAA acknowledged that the Airport Noise Control Program is "grandfathered" under ANCA because it was adopted prior to 1990, and the FAA also found that the amendments made to the Airport Noise Control Program by the Curfew Ordinance do not present a current issue of noncompliance under either ANCA or the City's federal grant assurances. See "—Airport Noise and Capacity Act of 1990" above.

Underground Fuel Tanks. Until December 22, 1998, the City and Chevron U.S.A., Inc. ("Chevron"), operated adjacent fuel storage facilities at the Airport. The City's facilities have not been in operation since December 22, 1998, when the facilities were closed in response to the federal deadline for upgrade or closure of underground storage tanks. Chevron operated its fuel storage facility at the Airport until the opening of the new fuel storage facility owned and operated by a consortium of airlines in December 2009. See "AIRPORT FACILITIES AND DEVELOPMENT—Existing Airport Facilities—Fuel, Cargo and Other Support Facilities in Appendix B."

The City and Chevron entered into an agreement effective November 30, 2009, for coordinated corrective actions at the closed City and Chevron fuel storage facility sites at the Airport. Under the agreement, Chevron is the lead in coordinating and reporting to the regulators, conducting investigations, and performing remedial activities. The agreement provides for a 50/50 cost sharing responsibility for costs accrued until successful closure of the sites, with the City's share of the cost not to exceed $1,800,000.

OTHER MATTERS

Investment Policy and Practices of the City

The City and its related entities are required to invest all funds under the Director of Finance's control in accordance with principles of sound treasury management and in accordance with the provisions of the California Government Code, the Charter, the City Municipal Code and the City Investment Policy (the "Policy"). The Policy was originally adopted by the City Council on April 2, 1985 (Resolution No. 58200) and is reviewed annually by the City Council. The Investment Policy was recertified in December 2009 by The Association of Public Treasurers of the United States and Canada ("Association") that the revised policy is a professionally accepted policy based on the standards developed by the Association. This certification is applied for every two years.

On September 28, 2010, the City Council approved various updates to the Investment Policy. In August 2011, the City Council approved technical amendments to the Investment Policy. All changes are consistent with the California Government Code. The primary objectives of the Policy, in their order of priority, are to (1) provide for the safe preservation of principal, (2) ensure that there is sufficient liquidity for operating needs, and (3) attain the maximum yield possible as long as investment practices are consistent with the first two stated objectives.

The City has not entered into any interest rate or commodity swap or hedging agreements and does not currently expect to enter into any such agreements.

Current Investment Portfolio

As of August 31, 2011, the book value of the City's pooled investment fund was $816,743,138, while the market value was $821,511,390. The fund is classified by different types of investment securities. The composition of this fund, including the weighted average days to maturity and yield, is provided in Table 14. Airport Funds invested in the fund represented approximately 13.41% of the fund.

Table 14
City of San José Pooled Investment Fund
General Pool Investments
As of August 31, 2011[1]

	Book Value	Percent of Portfolio	Market Value	Weighted Average Days to Maturity	Weighted Average Yield
U.S. Treasury Bills and Notes	$ 0	0.0%	$ 0	0	0.00%
Federal Agency Securities[2]	621,038,404	76.0	625,548,002	570	0.811
Medium Term Notes (corporate)	24,928,250	3.1	25,179,688	100	3.048
Bankers Acceptance	0	0.0	0	0	0.000
Commercial Paper	31,962,666	3.9	31,964,229	48	0.155
Repurchase Agreements	0	0.0	0	0	0.000
Negotiable Certificate of Deposit	40,000,000	4.9	40,005,653	65	0.274
Money Market Mutual Fund	2,190,000	0.3	2,190,000	1	0.058
State of California Local Agency Investment Fund[3]	96,623,818	11.8	96,623,818	1	0.390
Total[4]	$816,743,138	100.0%	$821,511,390	441	0.727%

(1) Excludes funds invested in separate, segregated accounts as part of City held invested funds; excludes bond proceeds held by fiscal agents/trustees.
(2) Composed only of Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal Farm Credit Bank (FFCB) securities.
(3) Estimated based upon City's participation in the Local Agency Investment Fund (LAIF). Weighted average yield for LAIF is based upon the most recently reported quarterly earnings rate.
(4) Totals may not add due to independent rounding.
Source: City of San José Finance Department.

Pension Plans

All regular full time and certain part-time City employees, including employees assigned to the Airport, participate in one of two public employee retirement plans established pursuant to the City Charter: the Federated City Employees' Retirement System (the "Federated Plan") and the Police and Fire Department Retirement Plan (the "Police and Fire Plan" and together with the Federated Plan, the "Pension Plans"). Both Pension Plans are structured as tax-qualified defined benefit plans in which

retirement benefits are based upon salary and length of service. Both Pension Plans pay retirement benefits with fixed cost of living increases, and all or a portion of health and dental insurance premiums for retirees who qualify, their dependents and survivors.

Each Pension Plan is administered by its own Board of Administration, and day-to-day operations are carried out by the City's Director of the Department of Retirement Services and by the Department staff. Participation by covered employees in the Pension Plans is mandatory; employees contribute a percentage of their salaries to the applicable Pension Plan, and currently the City provides funding through contributions equal to a percentage of its full time employee covered payroll.

As a department of the City, the Airport shares in the risks, rewards and costs of the Pension Plans, including sharing benefit costs with the City. Employees of the City of San José Fire Department and Police Department staff the Airport's rescue and fire fighter station and provide police services at the Airport. The Airport reimburses the City's General Fund for these Police and Fire services. The Airport's share of the City's costs and liabilities associated with the Police and Fire Plan is a component of the aforementioned reimbursement, which totaled $16,945,384 in the fiscal year ended June 30, 2009 and $15,598,269 in the fiscal year ended June 30, 2010.

The total contribution rates for employees and the City are based upon actuarial calculations that take into consideration a number of assumptions, including assumed investment earnings on the valuation assets of the Pension Plans that are used to pay benefits. Prior to fiscal year 2010-11 actuarial valuations for the retirement benefits of both Pension Plans were prepared on a biennial basis. Commencing with the June 30, 2009 actuarial valuations, the valuations for the retirement and health and dental benefits of both Pension Plans will be prepared on an annual basis, and, in each actuarial valuation for each of the Pension Plans, the corresponding actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective Boards of the Pension Plans, these become the City's and the employees' legally required contribution rates for the fiscal year beginning one year after the valuation date. However, the Boards for both Pension Plans recently expressed support for implementing a fixed dollar contribution "floor" each year as determined by the respective Pension Plan's actuary as an alternative to the current percent of payroll method, so that future required contributions will be whichever method yields the higher contribution amount.

For a more detailed discussion of the City's Pension Plans, service retirement formulas, contributions and their calculation, funding status, other post-employment benefits and reform initiatives, see "Pension Plans" in Appendix C.

The payroll for Airport employees covered by the Federated Plan for the fiscal years ended June 30, 2010 and 2009 was $22,686,445 and $26,514,642, respectively. The Airport's total payroll for the fiscal years ended June 30, 2010 and 2009 was $28,829,122 and $32,951,096, respectively. Contribution rates for the Airport and the participating employees for 2010 and 2009 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2007 for the Federated Plan. Table 15 below shows the Airport and Airport employee contribution rates to the Federated Plan for fiscal years 2008-09 and 2009-10.

Table 15
Airport and Airport Employee Contribution Rates
Federated Plan

	Airport's Contribution Rate (% of covered payroll)		Employees' Contribution Rate (% of payroll)	
Pay Period	Retirement Benefits	Health and Dental Benefits	Retirement Benefits	Health and Dental Benefits
6/28/09 through 6/26/10	18.31%	5.70%(1)	4.28%	5.07%
6/29/08 through 6/27/09	18.31%	5.25%(1)	4.28%	4.65%

(1) The actual contribution rates paid by the City were 5.49% and 5.05% for fiscal years 2009-10 and 2008-09, respectively, as a result of the City exercising its option to make lump sum prepayments for 26 periods of fiscal year 2010 and 24 periods of fiscal year 2009.
Source: City of San José Finance Department.

In fiscal year 2006-07 and fiscal year 2007-08, the City engaged in a process to determine whether to implement a policy to fully pre-fund the ARC as calculated under GASB Statement No. 45 for each of the Healthcare Plans. The City implemented GASB Statement No. 45 in fiscal year 2008 and elected to report a zero net Other Post Employment Benefits ("OPEB") obligation at the beginning of the transition year for both Pension Plans. Since then the City has determined a Citywide annual required contribution (ARC) and annual other post-employment benefits cost (AOC) for the Federated Plan based upon an actuarial valuation performed in accordance with GASB Statement No. 45 by the Pension Plans' actuaries, as further described under "Pension Plans" in Appendix C.

For the fiscal year ended June 30, 2010, the City allocated to the Airport its proportionate share of the Citywide ARC and AOC for the Federated Plan based upon its percentage of retirement benefit costs for Federated Plan members. Actuarially required contributions were equal to the Airport's contributions made for retirement benefits under the Federated Plan. As shown in the table below, the difference between the prior year's cumulative AOC (Liability) and the current year contributions by the Airport for health and dental benefits determine the Airport's current year net OPEB obligation. The Airport's net OPEB obligation was $5,739,584 and $4,167,075 at June 30, 2010 and 2009, respectively, which is recorded as the Airport's net OPEB obligation. The Airport has reserved cash in an amount equal to such OPEB obligation. The following table sets forth the three-year trend information for the Airport's ARC, AOC, and contributions made toward the retirement and health and dental components of the Federated Plan:

Table 16
Airport Contributions and Liability
Federated Plan

Fiscal Year ended June 30,	Retirement Benefits			Health and Dental Benefits			
	ARC	Contributions	Liability	Unfunded ARC	Unfunded AOC[1]	Contributions	Liability
2008	$4,634,810	$4,634,810	--	$5,696,697	$5,696,697	$1,029,269	$4,667,428
2009	4,854,831	4,854,831	--	3,107,769	981,682	1,482,035	4,167,075
2010	4,153,888	4,153,888	--	3,404,451	3,476,282	1,903,773	5,739,584

(1) The AOC is equal to the ARC plus interest accrued on the outstanding net pension obligation at the beginning of the fiscal year and reduced by an adjustment to the ARC amount due to amortization of unfunded actuarial accrued liability.
Source: City of San José Finance Department.

Labor Relations

Overview. The City has eleven recognized employee bargaining units, seven of which represent employees assigned to the Airport. The representation and agreement dates are shown below in Table 17. Through the end of fiscal year 2010-11, the City had agreements with all bargaining units. As indicated in Table 17, the City and five bargaining units have entered into agreements with a term expiring on June 30, 2013. On May 31, 2011, the City Council approved the implementation of terms for four bargaining units for fiscal year 2011-12, effective June 26, 2011, with the exception of the Confidential Employees' Organization ("CEO") for which the implemented terms were effective on September 18, 2011. In addition to its represented employees, the City has 222 unrepresented employees budgeted for fiscal year 2011-12, twelve of which are assigned to the Airport.

Table 17
City of San José
Summary of Labor Agreements

	Agreement Expiration Date	Full-Time Equivalent Employment[1]	Assigned to Airport
Assoc. of Building, Mechanical and Electrical Inspectors (ABMEI)[2]	06/30/2013	52	-
Association of Maintenance Supervisory Personnel (AMSP)	06/30/2013	77	18
Association of Engineers and Architects (AEA)[3]	06/30/2013	199	5
Association of Legal Professionals (ALP)	06/30/2012	36	-
Operating Engineers, Local #3 (OE#3)	06/30/2011	697	59
International Brotherhood of Electrical Workers (IBEW)	06/30/2011	73	7
City Association of Management Personnel (CAMP)	06/30/2013	335	34
San José Police Officers' Association (POA)[4]	06/30/2012	1,085	-
International Association of Firefighters (IAFF, Local 230)	06/30/2013	645	-
Municipal Employees Federation (MEF)	06/30/2011	1,798	64
Confidential Employees' Organization (CEO)	09/17/2011	183	6
Total		5,180	193

(1) Full Time Equivalents ("FTEs") are the combined total number of budgeted full-time positions. For example, one full-time position equals one FTE. Similarly, two half-time positions equal one FTE. The FTE numbers presented are as of July 1, 2011, and have been rounded to the nearest FTE.
(2) Does not represent any employees paid by the Airport Department.
(3) The City has two separate agreements with AEA; the first agreement is related to employees of Unit 41 and Unit 42 and the second agreement is related to employees in Unit 43. Both agreements expire on June 30, 2013.
(4) See discussion below regarding the term of the agreement with the POA.
Source: City of San José, Office of Employee Relations, City Manager's Budget Office.

Under California law, sworn police and fire employees are not permitted to strike. The City Charter provides that police and fire bargaining units have the right to binding interest arbitration of labor disputes once either the City or the applicable bargaining unit declares that the negotiations are at impasse. A summary of the City Charter's binding arbitration provisions is set forth below in "– Binding Arbitration." The agreements with Association of Engineers and Architects ("AEA"), Confidential Employees' Organization ("CEO"), International Brotherhood of Electrical Workers ("IBEW"), Municipal Employees Federation ("MEF"), and Operating Engineers, Local #3 ("OE#3") have "no strike" clauses during the terms of their respective agreements.

Also, under California law, the City and the bargaining units have the mutual obligation to meet and confer promptly upon request by either party and to endeavor to reach agreement on matters within the scope of representation, which generally include wages, hours, benefits and other terms and conditions of employment. In the event that the City and a bargaining unit are unable to reach an agreement, the parties are required to follow the impasse procedures set forth in the City's resolution governing employer-employee relations, which specifies mediation of the dispute. The non-public safety bargaining units do not have the right to binding arbitration of disputes. In situations where mediation with a non-public safety bargaining unit does not result in an agreement, the City has the right to implement the terms of its last, best and final offer. Implementation of terms does not result in a bargaining agreement.

Reduction in Labor Costs; Bargaining Unit Agreements for Fiscal Year 2010-11. The City has commenced efforts to reduce its labor costs. During the period from fiscal year 2000-01 through fiscal

year 2011-12, the City's total compensation costs have increased significantly. The term "total compensation costs" refers to the City's cost of pay and benefits, including base pay, retirement contributions, health insurance and other benefits. The chart below shows the increase in budgeted costs of total compensation of the City's full-time employees ("FTEs") from fiscal year 2000-01 through fiscal year 2011-12 for all of the City's funds. Although the number of FTEs decreased during this period, the City's average total compensation cost per FTE has increased approximately 92% from $73,581 per FTE in fiscal year 2000-01 to $141,918 in fiscal year 2011-2012.

Table 18
City of San José
Citywide Salary and Benefits[1]

	FY 2000-01	FY 2011-12	Difference
Base Payroll	$416,010,420	$444,504,016	6%
Retirement Benefits	**$63,054,083**	**$244,424,404**	**287%**
Federated Retirement	$39,409,193	$107,327,541	172%
Police/Fire Retirement	$23,644,890	$137,096,863	479%
Health/Dental Benefits[2]	**$30,317,792**	**$56,498,083**	**86%**
Health	$24,856,910	$50,842,071	104%
Dental	$5,460,882	$5,656,012	3%
Other Benefits (Unemployment & Other Miscellaneous Benefits)	**$6,608,312**	**$20,935,476**	**216%**
Total (All Benefits)	**$99,980,187**	**$321,857,963**	**221%**
Grand Total	**$515,990,607**	**$766,361,979**	**48%**
Average Total Cost Per FTE	**$73,581**	**$141,918**	**92%**

(1) Does not include worker's compensation cost or overtime. The figures above are budgeted costs and include the cost of providing paid time off, such as vacation, holidays, personal/executive leave, and sick leave, to the extent that paid leave is taken during the fiscal year. The actual salary and benefit costs of individual employees vary.
(2) Health/Dental Benefits are the costs budgeted for the health and dental benefits provided to FTEs.

Source: City of San José Salary and Fringe Benefit Costs by Bargaining Unit & Fund for 2000-2001 through 2011-2012 Adopted Budget

Bargaining Agreements for Fiscal Year 2010-2011. Prior to the commencement of fiscal year 2010-11, the City reached agreement with six bargaining units, each for a one-year term, that resulted in a 10% reduction in total compensation for fiscal year 2010-11 for these bargaining units. Additionally, the City Council approved a compensation package for 237 unrepresented employees for fiscal year 2010-11 that includes a 10% reduction in total compensation for fiscal year 2010-11.

The City was unable to reach agreement with CEO, MEF and Association of Building, Mechanical and Electrical Inspectors ("ABMEI") to reduce their total compensation. In the case of CEO and MEF, their agreements are in effect through fiscal year 2010-11 and their members received a 2.0% wage increase in fiscal year 2010-11. The City and ABMEI were unable to reach an agreement for fiscal year 2010-11, and the City Council imposed the terms of its last, best and final offer on ABMEI, which resulted in a 5.0% ongoing reduction in total compensation for fiscal year 2010-11.

After the commencement of fiscal year 2010-11, the City entered into bargaining agreements with its two public safety bargaining groups, the POA and Local 230. In August 2010, the City and the POA entered into an agreement for fiscal year 2010-11 that avoided layoffs of 70 police officers. The reduction in total compensation agreed to by the POA was approximately 3.82%.

Bargaining Agreements for Fiscal Year 2011-12. The City was in negotiations with all of the bargaining units for fiscal year 2011-12. On November 18, 2010, the City Council gave direction to the City Manager regarding the negotiations with the bargaining units for the fiscal year 2011-12 agreements as follows: (1) continue, on an ongoing basis, the 10% total compensation reduction for those bargaining units that had agreed to the reduction in fiscal year 2010-11; (2) roll back any general wage increases received in fiscal year 2010-11 and reduce total compensation by 10% on an ongoing basis; (3) include healthcare cost containment in cost sharing, co-pays, health and dental in-lieu and dual coverage as had been previously recommended by the City's Auditor. In addition, the City Council directed the City Manager to negotiate reforms with respect to pension and retiree healthcare benefits, payments of accrued sick leave to employees upon retirement, disability leave supplement, supplemental retiree benefit reserve, and compensation structure. See "APPENDIX C—Pension Plans—Pension Reform Initiatives."

The City has entered into agreements with seven bargaining groups that achieved the Council directive. ABMEI, AEA, AMSP, and CAMP have agreements for a two year term of July 1, 2011 through June 30, 2013. The City and ALP have entered into an agreement with a one year term of July 1, 2011 through June 30, 2012. The City and the POA entered into an agreement with a one year term of July 1, 2011 through June 30, 2012. It is possible that the term of the agreement with the POA will be extended for an additional year. The length of the term will be determined through binding interest arbitration regarding the issue of whether the agreed-upon 10% base pay reduction will be one-time (resulting in a one-year term through June 23, 2012) or ongoing (resulting in a two-year term through June 30, 2013). See "—Binding Arbitration."

The agreement with IAFF, Local 230 includes a term retroactive to July 1, 2009 through June 30, 2013. Key components of the agreement with IAFF, Local 230 include: (1) a 10% total ongoing compensation reduction commencing as of June 26, 2011; (2) healthcare cost containment in cost sharing, co-pays, health and dental in-lieu and dual coverage effective as of July 1, 2011; (3) reduction of minimum staffing requirements effective upon the City Council's approval of the agreement; and (4) a five-year phase in of retiree healthcare funding commencing on June 26, 2011. Under the agreement, the City agreed to establish a qualified trust by July 1, 2011 for the retiree healthcare funding. See "APPENDIX C—Pension Plans—Other Postemployment Benefits—Agreement with Local 230 Related to Police and Fire Plan's Health and Dental Benefits" and "—Potential Tax Limitation on Phase-In Funding of ARC for both Healthcare Plans." In addition, IAFF, Local 230 and the City agreed to continue to meet and confer on a number of issues, including pension and retiree health care benefits for both current and future employees. See "APPENDIX C—Pension Plans—Pension Reform Initiatives" for a discussion of the various proposals to establish a second tier retirement plan for new employees and the proposals to reduce the retirement and retiree health care benefits for existing employees, including the legal risks associated with implementing changes to these benefits for existing employees.

The City Council also has approved the compensation package for its unrepresented employees. The terms of these agreements and compensation package include (1) reduction in base pay by approximately 10% from fiscal year 2009-10; (2) healthcare cost containment in cost sharing, co-pays, health and dental in-lieu and dual coverage effective as of July 1, 2011; (3) reduction of disability leave supplemental pay in fiscal year 2011-12 with its elimination as of the first pay period in fiscal year 2012-13; and (4) for the unrepresented employees and those bargaining groups with the right to sell vacation time, the reduction of the number of hours eligible to be sold in calendar year 2012 and the elimination of this benefit in calendar year 2013.

Additionally, the City and ABMEI, AEA, ALP, AMSP and CAMP agreed to continue to meet and confer on a number of issues, including sick leave payout, pension and retiree health care benefits for both current and future employees. See "APPENDIX C—Pension Plans—Pension Reform Initiatives."

The City and four bargaining groups (IBEW, OE#3, MEF and CEO) were unable to reach agreement on a successor agreement. On May 31, 2011, the City Council approved the implementation of the City's last, best final offer made to each of these bargaining groups. The implemented terms became effective as of July 1, 2011, except, for CEO, with respect to which the implemented terms became effective on September 18, 2011. The implemented terms mirror those that were agreed to by ABMEI, AEA, AMSP and CAMP, except that the City Council also implemented the elimination of sick leave payout for employees in these bargaining units who currently are eligible to receive a portion of accrued sick leave paid out to them upon retirement as of January 1, 2012. Additionally, there is no agreement to continue to meet and confer on pension and retiree health care benefits for both current and future employees. However, under State law, the City and bargaining groups have the obligation to meet and confer promptly upon request and to endeavor to reach agreement on matters within the scope of representation. The City is currently in negotiations with all bargaining groups on the issues of retirement. The City is also currently in negotiations on the issue of sick leave payout with AEA, AMSP, CAMP ALP, POA, IAFF, Local 230 and ABMEI.

The City estimates that the cost savings for all funds in fiscal year 2011-12 resulting from the agreements with its bargaining groups, including Local 230, the approval of the compensation package for unrepresented employees and the implementation of terms on the other bargaining units is $50.9 million with approximately $1.9 million in savings for the Airport.

Administrative Actions. The California Public Employment Relations Board ("PERB") oversees the implementation of the Meyers-Milias-Brown Act, which governs collective bargaining by certain public employers and their employees. PERB acts as an appellate body to hear challenges to proposed decisions that are issued by PERB staff. Two matters involving the City are now pending before PERB or its staff as described below.

OE#3 filed unfair labor practice charges with PERB arising out of the negotiations with the City and the City's declaration of impasse that preceded the agreement that the City and OE#3 entered into for fiscal year 2010-11. In June 2011, PERB issued its complaint against the City and scheduled an informal conference on June 29, 2011 before a PERB representative for the purpose of entering into a settlement agreement or limiting the number of issues to be heard by PERB. At the informal conference, no resolution of the matter was reached and a hearing before PERB was set for September 2011. The hearing was held in September for one day before an administrative law judge. Closing briefs of the parties are due to be filed in December. A number of the remedies sought by OE#3 are no longer relevant as the City and OE#3 entered into an agreement for fiscal year 2010-11, however, the City cannot predict the outcome of this matter.

In June 2011, the American Federation of State, County & Municipal Employees ("AFSCME") filed unfair labor charges with PERB on behalf of MEF and CEO arising out of the City Council's implementation of its last, best, final offer made to both MEF and CEO. AFSCME is requesting PERB to enjoin the City from implementing the last, best final offer with MEF and CEO. The City cannot predict the outcome of this matter; however, if PERB ultimately finds in AFSCME's favor, the remedies available range from a posting that an unfair practice has been found to a need to further negotiate. If the contract negotiations are required to recommence, then the estimated $1.9 million of savings attributable to the Airport with respect to the compensation reductions for fiscal year 2011-12 could be reduced. The City filed an unfair practices charge against MEF and CEO in conjunction with the same negotiations, asserting that the bargaining units engaged in several unfair and illegal bargaining practices.

Outsourcing. Employees of the City of San José Fire Department (the "Fire Department") and the City of San José Police Department (the "Police Department") staff the rescue and fire fighting station and provide law enforcement services at the Airport. The Airport Department reimburses the City's General Fund for these law enforcement and airport rescue and fire fighting ("ARFF") services.

After exploring other cost-cutting measures with City departments, the City issued requests for proposals for contract law enforcement and ARFF services at the Airport. The City received responsive proposals to each request for proposals, and an evaluation panel recommended the Santa Clara County Sheriff's Office (the "Sheriff's Office") for Airport law enforcement services, and Wackenhut Services, Inc. ("Wackenhut"), for ARFF services, and the City subsequently commenced negotiations on business terms with these two potential service providers.

The City implemented a new service delivery model for Airport law enforcement services based on reduced staffing levels provided by the Police Department that took effect in July 2011. No staff reductions were implemented for ARFF services.

On November 17, 2011, the Public Safety, Finance and Strategic Support Committee forwarded to the City Council a City staff recommendation to postpone any outsourcing of law enforcement services until at least July 1, 2013, based upon a proposal to further adjust Police Department staffing at the Airport and to manage Police Department costs charged to the Airport. Under the proposal, outsourcing discussions with the Sheriff's Office would be deferred to no later than early 2013, with further City Council consideration in the spring of 2013 of a possible outsourcing of law enforcement services to be effective July 1, 2013. The City Council approved the City's staff recommendation on November 29, 2011. The current Airport budget anticipates cost reductions resulting from outsourcing of Airport law enforcement services to the Sheriff's Office effective February 1, 2012. Staff has estimated the additional cost to maintain Police Department staffing at approximately $445,000 through June 30, 2012.

The City also postponed any outsourcing of ARFF services until at least July 1, 2013, based upon a proposal to use proceeds from a Staffing for Adequate Fire and Emergency Response ("SAFER") Grant from the Federal Emergency Management Agency/Department of Homeland Security to fund the cost differential between the cost of Fire Department staff and the cost proposal for ARFF services from Wackenhut for the two-year period from July 1, 2011, to June 30, 2013. The Police Department and Fire Department will continue to provide public safety services at the Airport until any service transitions take place.

The City has also commenced the process to evaluate the possible outsourcing of Airport parking and traffic control services currently provided by City employees at terminal curbs. Outsourcing Airport parking and traffic control services would affect 20 positions at the Airport, and is subject to meet and confer obligations for non-public safety bargaining units. See "—Overview" above. The estimate for potential Airport savings from a potential outsourcing of Airport parking and traffic control services ranges between $500,000 and $900,000 annually. The City anticipates this matter to be considered by the City Council by early 2012; however, the City is unable to predict whether the outsourcing of Airport parking and traffic control services will occur.

Binding Arbitration. In November 2010, the voters approved a Charter amendment to revise the Charter's binding arbitration provisions for the City's public safety bargaining units to, among other things, change the selection process for the neutral arbitrator member of the Arbitration Board (as defined below) and the factors to be weighed by the Arbitration Board in making its award, and to place limits on the Arbitration Board's authority. The Charter's provisions governing arbitration, as amended, are described below.

Under the City's Charter, the City and the bargaining unit each select one arbitrator and jointly select a third neutral arbitrator. The neutral arbitrator serves as the Chair of the three-person arbitration board ("Arbitration Board"). If the City and the bargaining unit cannot reach agreement on the selection of the neutral arbitrator, then either party may request the Superior Court to appoint the third arbitrator who shall be a retired judge of the Superior Court.

At the conclusion of the arbitration hearings, the Arbitration Board shall direct each of the parties to submit, within such time limit as the Board may establish, a last offer of settlement on each of the issues in dispute. The Arbitration Board shall decide each issue by majority vote by selecting whichever last offer of settlement on that issue it finds by the preponderance of the evidence submitted to the Arbitration Board satisfies the factors below, is in the best interest and promotes the welfare of the public, and most nearly conforms with those factors traditionally taken into consideration in the determination of wages, hours, and other terms and conditions of public and private employment, including, but not limited to, changes in the average consumer price index for goods and services, the wages, hours, and other terms and conditions of employment of other employees performing similar services.

The primary factors in decisions regarding compensation shall be the City's financial condition and, in addition, its ability to pay for employee compensation from on-going revenues without reducing City services. No arbitration award may be issued unless a majority of the Arbitration Board determines, based upon a fair and thorough review of the City's financial condition and a cost analysis of the parties' last offers, that the City can meet the cost of the award from on-going revenues without reducing City services. The arbitrators shall also consider and give substantial weight to the rate of increase or decrease of compensation approved by the City Council for other bargaining units.

Additionally, the Arbitration Board cannot issue an award that would (1) increase the projected cost of compensation at a rate that exceeds the rate of increase in revenues from the sales tax, property tax, utility tax and telephone tax averaged over the prior five fiscal years; (2) retroactively increase or decrease compensation, excluding base wages; (3) create a new unfunded liability for which the City would be obligated to pay; or (4) interfere with the discretion of the Police or Fire Chiefs to make operational or staffing decisions.

Insurance and Self-Insurance Programs

The City, including the Airport, reassesses its insurance coverage annually. Therefore, the City makes no representations that the insurance coverages described herein will be maintained in the future.

City-Wide Coverages. The City self-insures for liability (other than for the Airport and the San José/Santa Clara Water Pollution Control Plant), personal injury, and workers' compensation. The City currently maintains an all-risk property insurance policy with coverage for property owned by the City, including the Airport, and property owned by the Redevelopment Agency of the City of San José. This policy also provides coverage for boiler and machinery exposures and loss due to business interruption resulting from a covered risk or flood. The City generally does not carry earthquake insurance as it is not reasonably available. A summary of these coverages is provided in Table 19.

Table 19
City of San José
Summary of Citywide Property Insurance Coverage
(For Policy Period October 1, 2011 to October 1, 2012)

Coverage	Limit Per Occurrence	Deductible Per Occurrence
Property, including Business Interruption	$1 Billion	$100,000(1)
Flood:		
Flood Zones SFHA(3)	$15 Million per occurrence and annual aggregate	5% of values at risk Minimum $1 Million(2)
Flood Zone B	$25 Million per occurrence and annual aggregate	2% of values at risk Minimum $100,000(2)
All Other Flood Zones	$100 Million per occurrence and Annual Aggregate	$100,000(2)

(1) The deductible for property coverage and business interruption is combined $100,000 per occurrence.
(2) Deductible applies to values at risk.
(3) SFHA: Special Flood Hazard Area.
Source: City of San José, Finance Department – Risk & Insurance.

Unemployment Insurance. The City self-insures to the limits required by State statute. The City budgets for each year's anticipated unemployment insurance claims. By policy, the City also funds a reserve of the same amount in each fiscal year.

Airport Coverages.

Liability Coverages. The City has airport liability policies covering the Airport, which provide a $200 million combined single limit for bodily injury and property damage, with a sublimit of $50 million each occurrence and in the annual aggregate for personal injury and a sublimit of $100 million each occurrence and in the annual aggregate for war and terrorism. The City also maintains an automobile liability policy covering vehicles associated with the Airport and Water Pollution Control Plan operations. As part of general support services, the City charges the Airport for the cost of these liability insurance coverages. The limit of automobile liability is $1 million for each occurrence combined as a single limit for bodily injury and property damage and the City is self-insured for physical damage, except for leased shuttle buses.

Workers' Compensation Reserve. The Airport participates in the City's self-insurance program for workers' compensation. The Airport's workers' compensation program is accounted for on a separate contribution basis under which workers' compensation claims and reserves are maintained in Airport funds, separate from the City's General Fund. Estimated workers' compensation reserves are determined using actuarial methods. As of June 30, 2011, the Airport's reserve for workers' compensation was $3.3 million.

Additionally, all airlines operating under the Airline Lease Agreement are required to maintain certain insurance coverages. See "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT—Indemnification, Insurance and Public Liability" in Appendix H.

Airport Coverages For Phase 1 of the Airport Development Program.

Airport Owner-Controlled Insurance Program — North Concourse Project. On March 31, 2004, the City bound certain liability insurance coverages for the major components of the North Concourse project through an owner-controlled insurance program from Chartis, formerly American International Group, AIU Holdings, Inc. and AIU LLC ("Chartis"). An owner-controlled insurance program ("OCIP") is a single insurance program that provides insurance coverage for construction job site risks of the project owner, general contractors, and all subcontractors associated with construction at the designated project site. The specific coverages, limits, and deductibles are outlined in Table 20 below.

Table 20
City of San José
Summary of Airport Owner-Controlled Insurance Program – North Concourse Project

Coverages	Limit	Deductible Per Occurrence
General Liability	$2 million per occurrence $4 million aggregate	$250,000
Workers' Compensation	Statutory	$250,000
Employers' Liability	$2 million per accident	$250,000
Excess Liability	$150 million	

Source: *City of San José*

Due to delay in completing the North Concourse project, in March of 2007, the City was required to establish a claims loss reserve for the North Concourse Project in the aggregate principal amount of $3.6 million with an additional $300,000 available in a cash working fund. The claims loss reserve funds the deductible amount of up to $250,000 per occurrence, to a maximum loss exposure to the City of $3.9 million.

The North Concourse Project has been completed and the policies expired December 31, 2008. Chartis refunded to the City $2.5 million of the loss fund in June 2010. Chartis will continue to hold the remaining funds in the loss reserve fund until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

Airport Owner-Controlled Insurance Program - Terminal Area Improvement Program. On March 15, 2007, the City bound certain liability insurance coverages for the major components of the Terminal Area Improvement Program through another OCIP (the "TAIP OCIP") procured through Chartis. The terms of the TAIP OCIP require the City to fund a claims loss reserve with Chartis in the amount of $8.9 million which Chartis has permitted the City to fund incrementally. The claims loss reserve had a balance of approximately $4.9 million as of June 30, 2011. The specific coverages, limits, and deductibles are outlined in Table 21.

Table 21
City of San José
Summary of Airport Owner-Controlled Insurance Program – Terminal Area Improvement Program

	Limit	Deductible Per Occurrence
General Liability	$2 million per occurrence $4 million aggregate	$250,000
Workers' Compensation	Statutory	$250,000
Employers' Liability	$1 million per accident	$250,000
Excess Liability	$200 million	

Source: City of San José.

The City was obligated to maintain the TAIP OCIP through final acceptance of the Terminal Area Improvement Program, pursuant to the terms of its design-build contract with Hensel Phelps. The term of the TAIP OCIP expired on June 30, 2011. With the exception of certain remaining Airport signage work, certain punch list work in Terminal B, and improvements to airline tenant operations spaces in Terminal A and the Terminal A+ extension, the City's final acceptance of the Terminal Area Improvement Program occurred in June 2011. Hensel Phelps has provided the required coverages for the Airport signage work and improvements to airline tenant operations spaces in Terminal A and the Terminal A+ extension that remained to be completed after June 30, 2011. The Terminal B punch list work has been completed, the signage work is scheduled to be completed by December 31, 2011, and the improvements to airline tenant operations spaces in Terminal A and the Terminal A+ extension are scheduled to be completed by February 28, 2012.

Owner's and Contractor's Protective Professional Indemnity, Including Contractor's Pollution Liability Policies.

Hensel Phelps, under its design-build agreement with the City for the Terminal Area Improvement Program, has provided a contractor's protective professional liability insurance ("CPPI") policy specific to its design work on the Terminal Area Improvement Program. The CPPI affords vicarious liability coverage for the City and the contractor's pollution liability policy names the City as an additional insured. The limit on the coverage is $5.0 million.

LITIGATION

There are a number of litigation matters pending against the City relating to incidents at the Airport or contractual disputes involving the Airport. These claims and suits are of a nature usually incidental to the operation and development of the Airport and, in the aggregate, in the opinion of Airport

management, based upon the advice of the City Attorney, will not have a material adverse effect on the Net General Airport Revenues or financial condition of the Airport. It should be noted that a portion of the claims relating to personal injuries and property damage currently are covered by a comprehensive insurance program maintained by the City for the Airport. See "OTHER MATTERS—Insurance and Self-Insurance Programs" above.

FAA Audit of Use of Airport Revenue. The FAA commenced an audit of the City's use of Airport revenue in the spring of 2010. Federal law requires all airport owners that receive Federal assistance, such as the City, to use airport revenues for the capital or operating costs of the Airport. As a general rule, any use of airport revenues by an airport owner for costs that cannot properly be considered airport capital or operating costs is deemed to be improper revenue diversion. On June 2, 2010, auditors from the FAA provided the City with a draft audit finding improper use of Airport revenues by the City in three areas of expenditure as described below.

The City provided its response to the draft findings in June 2010. In March 2011, the FAA notified the City that the FAA was prepared to issue its final audit consistent with the draft findings, but would give the City the opportunity to comment on the final draft of the audit findings prior to issuance. The FAA has not provided the City with a timeframe for its issuance of a final audit. In the event that the FAA issues a final audit finding improper use of Airport revenue by the City, the City will have an opportunity for an administrative hearing to contest any such determination.

The improper uses of Airport revenues alleged by the FAA are described below.

Airport Lease Obligation. The City purchased approximately 75 acres of real property located near the southwest corner of the Airport from the FMC Corporation between 2005 and 2006, as a strategic effort to promote economic development opportunities and to preserve the future viability of the Airport. The City acquired the property in two phases. The initial phase, consisting of the acquisition of 52 acres of the property (referred to as the "Airport West Property") was completed in February 2005. The City completed the second phase, consisting of the acquisition of the remaining 23 acres of the property, in May 2006. The City intended to use the remaining 23 acres of the property for non-Airport economic development purposes.

The purchase of the Airport West Property was financed with lease revenue bonds issued by the City of San José Financing Authority (the "Authority"). Upon acquisition, the City leased the Airport West Property from the Authority and used a portion of the Airport West Property for construction laydown needs (including material storage and construction employee parking) to support the Terminal Area Improvement Program. The City agreed to make lease payments for the Airport West Property from Airport operating revenues available in the Maintenance and Operation Fund. At the time of the acquisition, the City contemplated other potential Airport uses for the Airport West Property, such as rental car storage, public or employee parking, flight kitchen operations, airport/airline warehouses and compatible non-aviation leaseholds. The City subsequently determined not to use the Airport West Property for these other potential Airport uses, and the City's use of the Airport West Property for construction laydown needs ceased with the completion of the Terminal Area Improvement Program on June 30, 2010. The City ceased using Airport operating revenues to make Airport West Property lease payments as of July 1, 2010.

In its June 2, 2010, draft audit finding, the FAA determined that the City could use Airport operating revenues to pay rent only for those portions of the Airport West Property that the City actually used for its Airport construction laydown needs and that the use of Airport operating revenues to pay rent for the remainder of the Airport West Property not actually used by the City for Airport purposes violated federal law regarding use of airport revenue. Consequently, the FAA auditors recommended that the City

recalculate the rent paid from Airport operating revenues based upon actual Airport use, set the rent at fair market value, and return the remainder to the Airport enterprise fund, with interest. The City paid approximately $2.2 million from Airport operating revenues and approximately $10.0 million from the issuance of Subordinated Commercial Paper Notes as rent for the Airport West Property from the date of its acquisition through June 30, 2010.

The City believes that it has viable defenses to the FAA audit determination with regard to Airport West lease payments. The City further believes the acquisition of property for Airport purposes (whether by purchase or lease) necessarily requires planning and development prior to the commencement of actual Airport uses, and the use of Airport operating revenues to pay rent on property acquired for planned future Airport uses does not constitute improper use of Airport operating revenues under federal law. The City believes there is no basis under applicable federal law for the distinction made by the FAA auditors between rent payments for actual as opposed to planned airport uses. However, the City cannot predict the final outcome of the audit.

Guadalupe Gardens. In early 2002, the City Council approved a Master Plan for Guadalupe Gardens, consisting of approximately 120 acres of mostly vacant, City-owned property located south of the Airport, much of which falls within an FAA-established safety zone. The City acquired the Guadalupe Gardens properties using FAA grants for airport approach protection and noise compatibility, and the FAA grant agreements consequently required FAA approval of any planned City-use of the properties acquired with grant proceeds. By letter dated August 9, 2002, addressed to the City's Director of Aviation, the FAA San Francisco Airport District Office ("ADO") approved the City's Master Plan for reuse of Guadalupe Gardens for runway and approach protection, and the City finalized the Master Plan in reliance upon the FAA approval.

Citing provisions of federal law that require recipients of FAA grants for acquisition of land for noise compatibility purposes to dispose of any such acquired land when no longer needed by the airport owner for noise compatibility purposes, the FAA auditors determined that the FAA ADO erred in its 2002 approval of the Guadalupe Gardens Master Plan and that the City is obligated to prepare an inventory of the Guadalupe Gardens to identify those parcels that were acquired by the City with noise compatibility grant proceeds. This inventory would then be used to prepare for FAA review and approval of a disposition plan for those parcels no longer needed by the City for noise compatibility. Proceeds of the sale of the parcels proportionate to the FAA grant share of the original purchase price would be required to be used for other approved noise compatibility projects at the Airport or returned to the FAA.

The City believes that it has viable defenses to the FAA audit determination with regard to Guadalupe Gardens. The FAA ADO's 2002 approval of the Guadalupe Gardens Master Plan constituted an official FAA approval of the City's reuse of the parcels acquired with proceeds from FAA noise compatibility grants, and the approval expressly provides that the entire Guadalupe Gardens is necessary for the continuing aeronautical purpose of runway and approach protection. Having received official FAA approval of its reuse of the parcels, the City believes it is under no obligation to take any further action to secure further FAA approval of its continuing use of the Guadalupe Gardens. However, the City cannot predict the final outcome of the audit.

Cost Allocations. The FAA auditors reviewed the City's allocation of its costs to the Airport Department for services provided by the City to the Airport in fiscal year 2010-11. The City uses both direct and indirect methodologies to allocate costs to the Airport. The FAA auditors found the direct cost allocations to be acceptable.

The FAA contends that the City's indirect methodology does not correlate to the cost of services actually provided by the City to the Airport. Consequently, the auditors have recommended that the City

re-allocate its costs charged to the Airport for fiscal years 2005 through 2010 using an allocation methodology that reflects services actually provided to the Airport and repay any overcharges to the Airport enterprise fund, with interest. The amount of costs allocated by the City to the Airport using the indirect methodology for fiscal years 2005 through 2010 was estimated to be $59 million.

The City believes that its cost allocation methodologies reflect the cost of City services actually provided to the Airport and that the methodologies used by the City are consistent with applicable federal cost allocation guidance. However, the City cannot predict the final outcome of the audit.

APPENDIX B

City of San José
Norman Y. Mineta San José International Airport
Airport Revenue Bonds, Series 2011

Report of the Independent Airport Consultant

Ricondo & Associates, Inc.
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Cincinnati, OH 45202
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RICONDO
& ASSOCIATES

November 15, 2011

Mr. William F. Sherry
Director of Aviation
City of San José
1701 Airport Boulevard, Suite B-1130
San José, CA 95110-1206

RE: Report of the Independent Airport Consultant Dated June 27, 2011
City of San José
Airport Revenue Bonds, Series 2011B (Taxable)

Dear Mr. Sherry:

This letter was prepared by Ricondo & Associates, Inc. (R&A) in conjunction with the planned issuance by the City of San José (the City) of its Airport Revenue Bonds, Series 2011B (Taxable) (the Series 2011B Bonds) to refund certain outstanding commercial paper issued previously by the City to finance and refinance a portion of the costs of the construction of a new consolidated rental car facility (the ConRAC) which opened in June 2010 at Norman Y. Mineta San José International Airport (the Airport), to fund certain reserves, and to pay related costs of issuance. This letter, along with the Report of the Independent Airport Consultant dated June 27, 2011 (the Series 2011 Report), discussed below, is intended for inclusion in the Official Statement for the Series 2011B Bonds as Appendix B: Report of the Independent Airport Consultant.

Except as defined otherwise, the capitalized terms used in this letter are as defined in the Series 2011 Report and the Master Trust Agreement governing the City's Airport Revenue Bonds, as amended and supplemented.

In June 2011, in conjunction with the City's issuance of Airport Revenue Bonds, Series 2011A-1 and Series 2011A-2 (collectively, the Series 2011A Bonds) and the Series 2011B Bonds, R&A prepared the Series 2011 Report included as Appendix B in the Official Statement for the Series 2011A Bonds. R&A prepared the aviation activity, rental car activity, and financial projections reflected in the Series 2011 Report (collectively, the Series 2011 Projections). The Series 2011 Report incorporated estimates of future debt service associated with the Series 2011A Bonds and the Series 2011B Bonds for the fiscal years (FY) ending June 30, 2011 through FY 2017 (the Projection Period).

In July 2011, the City issued the Series 2011A Bonds to (1) refund certain outstanding commercial paper issued previously by the City to finance and refinance a portion of the cost of the construction of certain terminal and security improvements previously completed at the Airport; (2) refund all of the City's outstanding Airport Revenue Bonds, Series 1998A; (3) refund a portion of the City's outstanding Airport Revenue Bonds, Series 2001A; (4) fund a reserve; and (5) pay related costs of

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issuance. At the time the Series 2011 Report was prepared, the refunding of the outstanding Series 1998A Bonds and the partial refunding of the outstanding Series 2001A Bonds were not assumed, and the debt service savings related to the refunding of the Series 1998A and the 2001A Bonds were not incorporated in the Series 2011 Projections.

This letter serves to confirm that the findings reflected in the Series 2011 Report regarding the City's ability to satisfy the Rate Covenant requirements, as set forth in Section 7.13 of the Master Trust Agreement, and to provide Airport facilities sufficient to satisfy future passenger and user needs with reasonable levels of airline rates and charges for each Fiscal Year of the Projection Period are still valid. This confirmation is based upon our review of socioeconomic, airline traffic activity, rental car activity, and financial information available since the date of the Series 2011 Report, as described in the sections below.

Table 1 summarizes airline traffic activity, rental car activity, and financial information available since the date of the Series 2011 Report. Table 1 also discusses general differences and impacts, if any, to activity and financial projections from those provided in the Series 2011 Report. As reflected in Table 1, information available since the date of the Series 2011 Report has generally been favorable or neutral relative to the activity and financial projections in the Series 2011 Report.

Economic Base for Air Transportation

Our review of certain socioeconomic information available since the date of the Series 2011 Report, suggests the findings regarding the economic base for air transportation presented in the Series 2011 Report remain valid (see Chapter I *Economic Base for Air Transportation* of the Series 2011 Report) and the economic base of the Airport's air service area (defined as the six California counties of Alameda, Monterey, San Benito, San Mateo, Santa Clara, and Santa Cruz) is still relatively stable and diversified, and is capable of supporting the air transportation activity projected for the Airport in the Series 2011 Report.

- The most recently published surveys of leading economists by Blue Chip Economic Indicators (October 2011) indicate consensus for 2.3 percent growth in U.S. gross domestic product (GDP) for the fourth quarter of CY 2011 compared to the same quarter in CY 2010. The forecast panels also project that the unemployment rate in the U.S. will be 8.9 percent at the end of CY 2011 and will be 9.0 percent for CY 2012. Data provided in the Series 2011 Report showed that Blue Chip Economic Indicators (April 2011) forecasted annual GDP growth of 2.9 percent and an unemployment rate of 8.5 percent for the U.S. in CY 2011.
- Data released by the U.S. Bureau of Economic Analysis in September 2011 indicate that the San Jose-Santa Clara-Sunnyvale MSA (San Jose MSA) ranked 17th among MSAs nationwide in GDP for 2010 (GDP of $168.5 billion during this period). In addition, GDP for the San

Table 1

Summary of Updated Information Since the Series 2011 Report

	Updated Information Since 2011 Report	Comment on Projections in Series 2011 Report, Estimated Impact to Overall/Key Financial Results	Relative to Series 2011 Projections	
			Activity	Financial
Airline Traffic Activity	Enplaned passengers increased from 4.11 million in FY 2010 to 4.19 million in FY 2011 (a 2.0 percent increase) vs. 4.20 million (a 2.1 percent increase) projected in the Series 2011 Report.	Airline traffic projections reflected in the Series 2011 Report are still valid and have not changed.	Neutral	Neutral
	Announcement of new Hawaiian Airlines service to Maui in January 2012; new Horizon Airlines service to Palm Springs in February 2012; increased Alaska Airlines service to Hawaii/Kauai in March 2012; and new Alaska Airlines service to Oahu in April 2012.	Airline traffic projections reflected in the Series 2011 Report are still valid and have not changed.	Favorable	Favorable
	Enplaned passengers for the 1st quarter of FY 2012 were 0.8 percent higher than the 1st quarter of FY 2011, and enplaned passengers for the most recent 12-month period (through September 2011) were 2.6 percent higher than 12-months ending Sept. 2010.	Airline traffic projections reflected in the Series 2011 Report are still valid and have not changed.	Neutral	Neutral
Rental Car Activity	Actual FY 2011 transactions increased 13.5 percent from FY 2010 (vs. 8.4 percent estimated in Series 2011 Report). Actual FY 2011 transactions per O&D enplaned passenger was 0.167 (vs. 0.160 assumed for Projection Period in Series 2011 Report). Transactions for the 1st quarter of FY 2012 are up 9.0 percent from 1st quarter of FY 2011. The projection of transactions in the Series 2011 Report reflects an increase of 2.1 percent in FY 2012.	Rental car activity projections reflected in the Series 2011 Report are still valid and have not changed, even though actual FY 2011 activity suggests they are conservative. Higher than projected CFC Revenues would result in lower rental car facility rent payments.	Favorable	Neutral
	In October 2011, the Dollar Thrifty Automotive Group (DTAG) announced it is no longer for sale.	Whether or not DTAG is sold in the future, it is not expected to have a material impact on rental car demand at the nation's airports (or at the Airport).	Neutral	Neutral
CFC Revenues	$6.00 Per Day CFC expected to be implemented December 1, 2011 (vs. September 1, 2011, as reflected in the Series 2011 Report).	FY 2012 CFC Revenues are projected to be $1.2 million less than what was reflected in Series 2011 Report. Projections for FY 2013-2017 remain the same. Rental car facility rent for FY 2012 will increase by the amount of reduced CFC Revenues, with no overall impact to financial results.		Neutral
	Actual FY 2011 CFC Revenues (unaudited) were $6.8 million (vs. $6.0 million estimated in the Series 2011 Report).	No changes to projections even though actual FY 2011 results were higher than estimated, and actual FY 2011 rental car activity suggests activity projections are conservative.	Favorable	Neutral
Project Costs/ Funding	Amount of commercial paper being retired with Series 2011B bond proceeds has not changed since the 2011 Report.	No change from costs/funding reflected in the Series 2011 Report.		Neutral
Debt Service	Estimates for Series 2011B Debt Service reflected in the Series 2011 Report have been updated based on current market conditions.	Series 2011B Debt Service is projected to be $3.4 to $4.3 million lower than as projected in the Series 2011 Report for FY 2012 to FY 2017.		Favorable
	Estimated Series 2011A Debt Service now actual. Also, refunding of Outstanding Series 1998A and portion of Series 2001A Bonds with a portion of Series 2011A Bonds was not incorporated in the Series 2011 Report.	Overall Debt Service is $1.7 to $2.2 million lower than as projected in the Series 2011 Report for FY 2012 to FY 2017.		Favorable
Maintenance and Operation Expenses (M&O Expenses)	Actual FY 2011 M&O Expenses (unaudited) including LOC fees were $9.0 million less than as estimated in the Series 2011 Report.	M&O Expense projections reflected in the Series 2011 Report have not changed, even though actual (unaudited) FY 2011 results suggest FY 2012 Budget (which is the base for projections) is conservative.		Favorable
General Airport Revenues	Actual FY 2011 General Airport Revenues (unaudited) were approximately $0.5 million higher than as estimated in the Series 2011 Report.	General Airport Revenue projections reflected in the Series 2011 Report have not changed, with the exception of projected rental car facility rent based in part on the decrease of Series 2011B Debt Service.		Neutral
Projected Cost Per Enplaned Passenger	Calculations based on updated CFC Revenues and Debt Service info in sections above. See Table 2.	Projected Cost Per Enplaned passenger is lower than in Series 2011 Report for FY 2012 to FY 2017.		Favorable
Projected Debt Service Coverage Ratios	Calculations based on updated CFC Revenues and Debt Service info in sections above. See Table 2.	Projected Debt Service coverage ratios for Airport Revenue Bonds (and overall debt) are slightly higher than in the Series 2011 Report for FY 2012 to FY 2017.		Favorable

Sources: City of San José; Ricondo & Associates, Inc., November 2011.

Prepared by: Ricondo & Associates, Inc., November 2011.

Jose MSA increased 13.4 percent in 2010 from 2009 levels (the second-highest growth rate among all MSAs during this period), compared to a 2.4 percent decrease in 2009.

- As of September 2011 (the latest month for which data is available), the unemployment rate for the Air Service Area was 9.6 percent (non-seasonally adjusted). This is lower than the rate for California (11.4 percent non-seasonally adjusted) and higher than the rate for the U.S. (8.8 percent non-seasonally adjusted). By comparison, average annual unemployment rates for 2010 as provided in the Series 2011 Report were 11.2 percent (non-seasonally adjusted) for the Air Service Area, 12.4 percent (non-seasonally adjusted) for California, and 9.6 percent (non-seasonally adjusted) for U.S.
- According to the most recent PricewaterhouseCoopers/National Venture Capital Association's *MoneyTree Report* (October 2011), venture capital investment in the U.S. increased from $17.7 billion in the first three quarters of CY 2010 to $21.2 billion in the first three quarters of CY 2011, a 19.8 percent increase year-over-year. Venture capital investment for the Silicon Valley region increased from $7.0 billion to $8.4 billion during this same period, a 20.0 percent increase year-over-year. Venture capital investment in the third quarter of CY 2011 was 31.0 percent higher than the third quarter of CY 2010 for the U.S. and was 29.9 percent higher for Silicon Valley. The most recent data reflected in the Series 2011 Report was CY 2010 (venture capital investment in the Silicon Valley and the U.S. grew 15.9 percent and 19.4 percent, respectively, compared to CY 2009).
- In August 2011, Apple, Inc., submitted a proposal to the City of Cupertino for the development of a new 176-acre campus designed to house approximately 13,000 employees. The plans submitted include a 2.8 million square feet building that will serve as the company's headquarters. The planning process is expected to be completed approximately by the end of CY 2012, with construction beginning in CY 2013 and ending in CY 2015.

Airline Traffic

Our review of airline traffic activity data since the date of the Series 2011 Report as summarized below and reflected on Table 1, suggests the projections presented in the Series 2011 Report remain valid (see Chapter II *Air Traffic* of the Series 2011 Report).

- Actual FY 2011 enplaned passengers were 4,189,223 (a 2.0 percent increase from FY 2010) compared to 4,195,000 enplaned passengers projected for FY 2011 (a 2.1 percent increase from FY 2010) in the Series 2011 Report.
- Enplaned passengers for the first quarter of FY 2012 (July 2011 to September 2011) were 0.8 percent higher than the first quarter of FY 2011, and enplaned passengers for the most recent

12-month period (ending September 2011) were 2.6 higher than the 12-month period ending September 2010.

- The announcement of new service to Hawaii (Maui) by Hawaiian Airlines starting in January 2012; new service to Palm Springs by Horizon Airlines starting in February 2012; increased service by Alaska Airlines to Hawaii (Kauai and Hawaii) starting in March 2012; and new service to Hawaii (Oahu) by Alaska Airlines starting in April 2012.

Rental Car Activity and Customer Facility Charge Revenue

Our review of rental car activity and customer facility charge (CFC) information available since the date of the Series 2011 Report as summarized below and reflected on Table 1, suggests the rental car activity and CFC Revenue projections presented in the Series 2011 Report remain valid (see Chapter IV *Rental Car Activity and Customer Facility Charge Revenue* of the Series 2011 Report).

- Actual (unaudited) FY 2011 rental car transactions at the Airport increased 13.5 percent from FY 2010, compared to an 8.4 percent increase for FY 2011 projected in the Series 2011 Report.
- Rental car transactions per origin-destination (O&D) enplaned passenger at the Airport for FY 2011 was 0.167, compared to 0.160 estimated for FY 2011 and assumed for FY 2012 to FY 2017 in the Series 2011 Projections.
- Rental car transactions at the Airport for the first quarter of FY 2012 increased 9.0 percent compared to the first quarter of FY 2011.
- The City expects to begin charging a $6.00 per day CFC on December 1, 2011 (a change from the $10.00 per rental car contract currently charged by the City). The Series 2011 Projections assumed the $6.00 per day CFC would start on September 1, 2011. Projected FY 2012 CFC Revenues based on the December 1, 2011 implementation date are approximately $1.2 million lower than as reflected in the Series 2011 Report. Based on the City's agreement with the rental car companies operating at the Airport, the rental car company Facility Rent payments for FY 2012 are expected to increase by the same amount, with no overall impact to FY 2012 financial results.

Financial Analysis

Our review of financial information available since the date of the Series 2011 Report as summarized below and reflected on Table 1, suggests the financial projections presented in the Series 2011 Report remain valid (see Chapter V *Financial Analysis* of the Series 2011 Report).

- Current estimates of debt service for the Series 2011B Bonds are approximately $3.4 million to $4.3 million lower, annually, relative to estimates reflected in the Series 2011 Report for the Projection Period.
- In addition, as a result of (1) actual Series 2011A debt service being lower than as estimated in the Series 2011 Report and (2) the refunding of all of the outstanding Series 1998A Bonds and a portion of the outstanding Series 2001A Bonds, debt service is now $1.7 million to $2.2 million lower than debt service reflected in the Series 2011 Report for those series during the Projection Period.
- Unaudited actual FY 2011 Maintenance and Operation Expenses (M&O Expenses) including letter of credit fees were approximately $9.0 million less than M&O Expenses estimated for FY 2011 in the Series 2011 Report, suggesting that M&O Expenses reflected in the FY 2012 Budget (which was the base for the financial projections in the Series 2011 Report) may be conservative.
- Unaudited actual FY 2011 General Airport Revenues were approximately $0.5 million higher than General Airport Revenues estimated for FY 2011 in the Series 2011 Report.
- In conjunction with the planned issuance of the Series 2011B Bonds, the City is considering the issuance of its Airport Refunding Revenue Bonds, Series 2011C Bonds (Non-AMT) to refund all or a portion of the outstanding Series 2001A Bonds. This potential refunding, and any associated debt service savings, was not incorporated in the Series 2011 Report. If the City decides to issue such refunding bonds, the City expects that, relative to what was reflected in the Series 2011 Report, debt service would be lower, but there would not be a material impact to debt service coverage ratios or passenger airline payments per enplaned passenger.

Table 2 presents passenger airline payments per enplaned passenger and debt service coverage ratios (1) as reflected in the Series 2011 Report for FY 2011 through FY 2017, (2) based on unaudited actual information for FY 2011, and (3) calculated using updated debt service and FY 2012 CFC Revenues information for FY 2012 through FY 2017 (see "Debt Service" and "CFC Revenues" sections in Table 1). As reflected in Table 2, FY 2011 debt service coverage ratios based on unaudited information are higher than the estimates provided in the Series 2011 Report. Also, based on incorporating updated debt service and FY 2012 CFC Revenues, in each fiscal year between FY 2012 and FY 2017, calculations of airline payments per enplaned passenger are lower than provided in the Series 2011 Report and debt service coverage ratios are higher than provided in the Series 2011 Report.

Table 2

Projected Airline Payments Per Enplaned Passenger and Debt Service Coverage:
As Reflected in Series 2011 Report and As Calculated Using Updated Debt Service and FY 2012 CFC Revenues Information[1/]

Fiscal Years Ending June 30, 2011

	Estimated	Projected					
	2011	2012	2013	2014	2015	2016	2017
Passenger airline payments per enplaned passenger							
Reflected in Series 2011 Report [2/]	$11.11	$10.82	$11.43	$11.96	$11.98	$11.96	$11.95
Based on unaudited actual FY 2011 information [3/]	$11.23						
As calculated using updated debt service and FY12 CFC Revenues information since the Series 2011 Report		$10.63	$11.07	$11.79	$11.96	$11.70	$11.37
Difference	**$0.12**	**($0.19)**	**($0.36)**	**($0.17)**	**($0.02)**	**($0.26)**	**($0.58)**
Debt Service Coverage -- Airport Revenue Bonds							
Reflected in Series 2011 Report	2.75	1.72	1.83	1.58	1.55	1.58	1.62
Based on unaudited actual FY 2011 information [3/]	3.05						
As calculated using updated debt service and FY12 CFC Revenues information since the Series 2011 Report		1.79	1.93	1.64	1.63	1.66	1.69
Difference	**0.30**	**0.07**	**0.10**	**0.06**	**0.08**	**0.08**	**0.07**
Debt Service Coverage -- Overall							
Reflected in Series 2011 Report	1.71	1.55	1.63	1.42	1.40	1.42	1.46
Based on unaudited actual FY 2011 information [3/]	1.94						
As calculated using updated debt service and FY12 CFC Revenues information since the Series 2011 Report		1.58	1.69	1.46	1.45	1.48	1.50
Difference	**0.23**	**0.03**	**0.06**	**0.04**	**0.05**	**0.06**	**0.04**

Note:

1/ See Table 1 regarding updated debt service and FY 2012 CFC Revenues information.

2/ The City's FY 2012 Budget reflects passenger airline payments per enplaned passenger of $11.67. The amount reflected for FY 2012 in the Series 2011 Report is lower because debt service for Airport Revenue Bonds has been adjusted downward since the time the City's FY 2012 Budget was prepared.

3/ Reflects unaudited actual FY 2011 information for activity, debt service, expenses, and revenues. The Series 2011 Report reflected estimates for FY 2011.

Sources: City of San José; Ricondo & Associates, Inc., November 2011.

Prepared by: Ricondo & Associates, Inc., November 2011.

Mr. William F. Sherry, A.A.E.
Director of Aviation
City of San José
November 15, 2011

The Official Statement for the Series 2011B Bonds presents certain information and data that is more current than the information and data reflected in the Series 2011 Report. R&A has not updated the Series 2011 Report and has no obligation to update this letter or the Series 2011 Report.

The Series 2011 Report should be read in its entirety for an understanding of the projections and underlying assumptions contained therein. Any projection is subject to uncertainties, some assumptions will not be realized, unanticipated events and circumstances may occur, and there are likely to be differences between projections and actual results, and those differences may be material.

R&A complies with the recently enacted regulations related to Municipal Advisors, as it pertains to consulting firms such as R&A. Based on the definition of "Municipal Advisor" put forth in the Securities and Exchange Commission's (SEC) proposed rule implementing Section 975 of Title IX of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which includes firms providing feasibility studies for inclusion in an official statement for a municipal bond transaction, R&A has registered with both the SEC and the Municipal Securities Rulemaking Board as a Municipal Advisor.

Sincerely,

Ricondo & Associates, Inc.

RICONDO & ASSOCIATES, INC.

RICONDO & ASSOCIATES

June 27, 2011

Mr. William F. Sherry
Director of Aviation
City of San José
1701 Airport Boulevard, Suite B-1130
San José, CA 95110-1206

Re: City of San José
Airport Revenue Bonds, Series 2011A-1 (AMT)
Airport Revenue Bonds, Series 2011B (Taxable)

Appendix B: Report of the Independent Airport Consultant

Dear Mr. Sherry:

This report sets forth findings, assumptions, and projections of the air traffic and financial analyses developed by Ricondo & Associates, Inc. (R&A), in conjunction with the planned issuance by the City of San José (the City) of its Airport Revenue Bonds, Series 2011A-1 (AMT) (the Series 2011A-1 Bonds), and its Airport Revenue Bonds, Series 2011B (Taxable) (the Series 2011B Bonds), expected to be issued before the end of 2011. The Series 2011A-1 Bonds and the Series 2011B Bonds (referred to collectively in this report as the Series 2011 Bonds) are being issued to refund certain outstanding commercial paper previously issued for improvements at Norman Y. Mineta San José International Airport (the Airport). The Airport is owned by the City, operated as a department of the City, and accounted for as a self-supporting enterprise fund in the basic financial statements of the City. This report is intended for inclusion in the Official Statements for the Series 2011 Bonds as Appendix B: Report of the Independent Airport Consultant.

Except as defined otherwise, the capitalized terms used in this report are as defined in the Master Trust Agreement discussed below. The period Fiscal Year (FY)[1] 2011 to FY 2017 is referred to in this report as the Projection Period.

Series 2011 Bonds

Proceeds of the Series 2011 Bonds will be used to refund outstanding commercial paper issued previously by the City to help fund or refinance the construction of (1) certain terminal and security improvements previously completed at the Airport and (2) a new consolidated rental car facility (the ConRAC) at the Airport which opened in June 2010. Proceeds of the Series 2011 Bonds will also be used to fund required debt service reserve deposits and costs of issuance associated with the Series 2011 Bonds.

[1] The City's fiscal year is the 12-month period ending June 30.

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Potential Refundings

If debt service savings can be achieved, the City is also considering the issuance of (1) additional Series 2011A-1 Bonds (AMT) to refund all or a portion of its outstanding Airport Revenue Refunding Bonds, Series 1998A and (2) its Airport Revenue Bonds, Series 2011A-2 (Non-AMT) to refund all or a portion of its outstanding Airport Revenue Bonds, Series 2001A. These potential refundings, and any associated Debt Service savings, are not incorporated in this report. If the City decides to issue such refunding bonds, the City expects that, relative to what is reflected in this report, Debt Service would be lower, but there would not be a material impact to projected Debt Service coverage ratios or passenger airline payments per enplaned passenger.

No Future Airport Bonds Expected During Projection Period

The City does not expect to issue any additional new money Airport Revenue Bonds (subsequent to the Series 2011 Bonds) during the Projection Period to fund Airport projects.

Master Trust Agreement

The Series 2011 Bonds are to be issued pursuant to the Master Trust Agreement, governing the City's Airport Revenue Bonds, and the Seventh and Eighth Supplemental Trust Agreements. The Master Trust Agreement and all Supplemental Trust Agreements are referred to collectively in this report as the Trust Agreement. The City's Airport Revenue Bonds are to be paid from and secured by (1) General Airport Revenues after the payment of Maintenance and Operation (M&O) Expenses) and (2) Other Available Funds (as defined in the Trust Agreement).

The Trust Agreement requires that certain covenants be met while any such bonds are outstanding and that certain financial tests be met before future Airport Revenue Bonds can be issued—including an additional bonds test requiring that projected Net General Airport Revenues and Other Available Funds provide sufficient coverage for Debt Service associated with outstanding Airport Revenue Bonds (including the Series 2011 Bonds). This report presents estimates of future Debt Service coverage ratios incorporating Debt Service requirements associated with outstanding Airport Revenue Bonds, the Series 2011 Bonds, and subordinated commercial paper. A separate analysis and certificate will be provided at the bond closing incorporating requirements of the additional bonds test contained in the Trust Agreement.

Use of Passenger Facility Charge Revenues

Pursuant to the Trust Agreement, the City may use passenger facility charge (PFC) collections and associated interest earnings (together, PFC Revenues) to pay Debt Service.

As defined in the Trust Agreement, Annual Debt Service is equal to Debt Service for a given Fiscal Year less the Available PFC Revenues for such Fiscal Year. Pursuant to approvals previously received from the Federal Aviation Administration (FAA), during the Projection Period the City expects to use (but not pledge) certain PFC Revenues to pay a portion of the Debt Service associated with certain airfield and terminal projects already completed (funded in part with proceeds of the Outstanding Series 2001A Bonds, the Outstanding Series 2004 Bonds, the Outstanding Series 2007A Bonds, and commercial paper to be refunded with proceeds of the Series 2011A-1 Bonds).

The financial projections reflected in this report are based on the assumption that the $4.50 PFC level at the Airport is not increased during the Projection Period. If the current $4.50 maximum PFC level is increased by Congress during the Projection Period, the City plans to seek FAA approval for a higher PFC level at the Airport and use the additional PFC Revenues to reduce the level of projected airline payments reflected in this report.

Airline Agreement

The financial projections contained in this report for the Projection Period were developed based on the business terms and procedures for annual adjustment of rentals, fees, and charges contained in the current Airline Agreement, described in detail in Chapter V, Section 5.3 of this report. The current Airline Agreement expires at the end of FY 2012. For purposes of the financial projections in this report, it was assumed that airlines currently serving the Airport would continue to operate at the Airport throughout the Projection Period. It was also assumed for purposes of preparing financial projections that the business terms of the current Airline Agreement would extend beyond their expiration at the end of FY 2012 through FY 2017. Assuming the extension of current business terms beyond the current expiration date is reasonable and standard practice in preparing airport bond feasibility studies when specific changes to the current Airline Agreement have not been planned (as is the case at the Airport).

Rental Car Customer Facility Charge Revenues and Facility Rent

In connection with the construction costs and certain annual transportation expenses associated with the ConRAC at the Airport, the City imposes a rental car customer facility charge (CFC) on customers renting cars at the Airport and designates the CFC revenues collected (CFC Revenues) as Other Available Funds to pay debt service on Airport Revenue Bonds. The City currently imposes a CFC of $10.00 per transaction on vehicles rented at the Airport. As reflected in the financial projections in this report, pursuant to the State of California's recently amended CFC statute (the State CFC Statute), the City plans to change the CFC to $6.00 per transaction day (subject to a five-day maximum charge per transaction) in September 2011 and to $7.50 per transaction day (also subject to the five-day maximum charge) beginning January 1, 2014. The $6.00 per transaction day CFC and any subsequent

increase of the per transaction day CFC are each subject to audit and substantiation by the California State Controller prior to City Council approval. Pursuant to a rental car agreement between the City and the rental car companies operating at the Airport (the Rental Car Agreement) that expires in June 2020 (subject to two optional 10-year extensions), the rental car companies operating at the Airport are required to pay Facility Rent to the City equal to, for a given Fiscal Year, the sum of annual debt service associated with the ConRAC, plus coverage amounts and reserve fund requirements applicable to the debt service, minus CFC Revenues, plus operating costs for any transportation system operated by the City to transport passengers between the terminals and the ConRAC, plus the City's cost to demolish the previous temporary common use rental car facilities at the Airport amortized over the initial ten-year term of the rental car agreement. Facility Rent and other payments required to be made by the rental car companies to the City pursuant to the Rental Car Agreement (including concession fees and ground rents) are included in General Airport Revenues under the Trust Agreement.

Report of the Independent Airport Consultant and Findings

This report includes examinations of the underlying economic base of the Airport's Air Service Area (as defined in this Report) (Chapter I); the historical and projected air traffic activity at the Airport (Chapter II); a description of existing Airport facilities and potential future capital projects at the Airport (Chapter III); historical and projected rental car demand and customer facility charge revenue at the Airport (Chapter IV); and the financial structure of the Airport; Airport funding sources; the planned Series 2011 Bonds; projections of Debt Service, M&O Expenses, General Airport Revenues, and Other Available Funds; and projections of airline rates and charges and Debt Service coverage ratios (Chapter V).

On the basis of the assumptions and analyses described in this report, R&A is of the opinion that Net General Airport Revenues and Other Available Funds will be sufficient to meet the rate covenant requirement, as set forth in Section 7.13 of the Master Trust Agreement, during each Fiscal Year of the Projection Period.

Additional findings of these analyses include the following:

Economic Base

- **Considered the World's Top Technology Center.** As the largest city in Silicon Valley, the City of San Jose is often referred to as the "capital" of Silicon Valley. Silicon Valley, home to many of the world's largest technology companies, is considered by many to be the top technology center in the world.
- **Large Population Base and High Educational Attainment.** The Airport's Air Service Area, as defined in this report, has a substantial population base with

approximately 4.7 million residents in calendar year (CY) 2010. The percentage of the Air Service Area's population with a college degree or higher (the category most likely to travel by air) was approximately 41 percent in CY 2009, substantially higher than that of California (approximately 30 percent) and of the nation (approximately 28 percent). In addition, the percentage of the Air Service Area's population between the ages of 35 and 54 (the age group most likely to travel by air) is slightly higher than that of California and the nation.

- **High Per Capita Personal Income.** Per capita personal income (PCI) in the Air Service Area in CY 2009 was significantly higher than that of California and the United States, and the percentage of households in the Air Service Area that earned more than $75,000 in CY 2009 (the income category that generates the greatest demand for airline travel) was substantially higher than California and the United States.
- **Diverse Employment Base.** Measured in percentages, employment in major industry divisions (services, trade, manufacturing, transportation, etc.) in the Air Service Area was generally consistent with that of California and the United States in CY 2009, indicating that the Air Service Area has a diversified employment base.
- **Large Number of Fortune 500 Companies.** In CY 2010, 23 Fortune 500 companies were headquartered in the Air Service Area (out of 57 Fortune 500 companies in California, or 40 percent of California's total), including Hewlett-Packard, Safeway, Apple, Cisco, Intel, Google, and Oracle—helping to stimulate demand for business travel.
- **Silicon Valley Ranked First in the Nation for Venture Capital.** Innovative and specialized companies and industries within the Air Service Area such as the technology and bio-tech sectors and their dependent industries (manufacturing and services) attract significant amounts of venture capital investment and support growth of the Air Service Area's economy.
- **Wide Range of Cultural/Recreational Attractions and Nearby Tourist Destinations.** The Air Service Area enjoys a wide range of cultural, sporting, and recreational attractions that contribute to the quality of life in the region and will continue to attract visitors from all over the world. The Air Service Area is also located in close proximity to many Northern California tourist destinations and attractions (such as Carmel, Monterey, Napa Valley, San Francisco, and Sonoma Valley).
- As evidenced by the points above, the economic base of the Air Service Area is relatively stable and diversified, and is capable of supporting the projected air transportation activity at the Airport.

Air Traffic

- **Stable Airline Base.** Nine of the 13 passenger airlines currently serving the Airport have been operating there since FY 1997.
- **Southwest Airlines Presence.** Southwest is the largest passenger airline based on enplaned passengers, airline operations, and landed weight at the Airport. It is projected that Southwest will continue to be the largest passenger airline in each category through the Projection Period.
- **High Percentage of Origin & Destination (O&D) Passenger Activity.** O&D passengers accounted for approximately 97.3 percent of total passengers at the Airport in FY 2010.
- **Passenger Growth Between FY 2003 and FY 2006.** Overall, passenger activity at the Airport increased at a compound annual growth rate (CAGR) of 1.3 percent between FY 2003 and FY 2006, the most recent recovery period for the Airport. Enplaned passenger growth at the Airport during this period was limited by continued reductions in air service by American Airlines as part of its de-hubbing activity. Excluding this de-hubbing activity by American and American Eagle's, enplaned passengers of all other airlines increased at a CAGR of 4.7 percent from FY 2003 to FY 2006.
- **Passenger Activity Between FY 2006 and FY 2010.** After a 1.3 percent increase in FY 2006, Airport enplaned passengers declined each year from FY 2007 through FY 2010. During this period rising fuel prices and a nationwide recession led to capacity cuts resulting in a loss of domestic O&D Bay Area passenger market share. In addition to the capacity cuts, the loss in Bay Area passenger market share was attributable to significant increases in airline service, lower fares, and increased airline competition at San Francisco International Airport (SFO). From FY 2006 to FY 2010, enplaned passengers decreased from 5,414,831 to 4,107,394, or an average annual decrease of 6.7 percent.
- **FY 2011 Enplaned Passengers Projected to Increase 2.1 Percent.** Based on ten months of actual data and two months of future OAG scheduled data, enplaned passengers are projected to increase from 4,107,394 in FY 2010 to 4,195,000 in FY 2011, an increase of 2.1 percent.
- **Enplaned Passenger Projections Through FY 2017.** After a projected increase in FY 2011 of 2.1 percent, enplaned passengers are projected to continue to increase to 4,794,700 in FY 2017. This increase represents a CAGR of 2.2 percent from FY 2010.

- **Projected Passenger Growth is Lower Than FAA Forecast.** The 2010 FAA Terminal Area Forecast projects enplaned passengers to increase at a CAGR of 2.4 percent between Federal Fiscal Year (FFY) (ending September 30) 2010 and FFY 2017 for the Airport. In the FAA's forecast from FFY 2012 through FFY 2017, enplaned passengers are projected to increase at an average annual rate of 3.1 percent. As mentioned above, enplaned passenger projections presented here are projected to increase at a lower CAGR of 2.2 percent from FY 2010 through FY 2017.

Rental Car Activity

- **High Correlation to Passenger Activity.** Although rental car activity at the Airport is influenced by factors such as the economy, income, and car rental rates, it is primarily related to passenger activity at the Airport, which served as the basis for projecting future rental car demand at the Airport.
- **New Consolidated Rental Car Facility at the Airport.** The new seven-story ConRAC located immediately across the terminal roadway from the entrance to the new Terminal B is the most conveniently-located rental car facility of the three major Bay Area airports and is one of the most convenient airport rental car facilities in the nation.
- **Diverse Rental Car Market at the Airport.** Ten rental car brands currently operate at the Airport including nine brands owned by the four major rental car companies in the United States, as well as one smaller independent brand.
- **Lowest Rental Car Rates of the Bay Area Airports.** Of the three Bay Area airports, the Airport had the lowest weekend and weekday rental car rates (based on data recently obtained).
- **Rental Car Activity Is Recovering at the Airport.** Rental car transactions grew at a CAGR of 2.3 percent between FY 2003 and FY 2006. From FY 2007 to FY 2010, rental car transactions at the Airport decreased at an average annual rate of 12.2 percent, as deplaned passengers decreased by an average annual rate of 8.2 percent in response to the national economic recession. However, rental car transactions at the Airport have rebounded in the first nine months of FY 2011, increasing 13.9 percent compared to the same period for FY 2010.
- **Rental Car Activity Projections Through FY 2017.** Rental car transactions and transaction days are projected to grow 8.4 percent in FY 2011 and then increase with projected passenger growth between FY 2011 and FY 2017, at a CAGR of 2.3 percent between FY 2011 and FY 2017.

Financial Analysis

- **Sufficient Airport Capacity with Minimal Capital Needs.** Existing Airport facilities (including new and improved terminal, rental car, parking, and terminal roadway facilities) are expected to satisfy airline and air passenger needs through and beyond the Projection Period at a cost that will produce reasonable levels of rates and charges to the users of the Airport facilities. The Airport's 2012-2016 Capital Improvement Program is estimated to cost $59.1 million, with approximately $29.9 million expected to be funded with federal grants, and remaining costs expected to be funded with Airport funds and other/third party funds. The City does not expect to issue additional new money Airport Revenue Bonds during the Projection Period.
- **M&O Expense Reductions.** In response to substantial decreases in airline activity at the Airport beginning in FY 2008 (as discussed in detail in Chapter II of this report), the City has cut M&O Expenses substantially, relative to both budgeted amounts and to prior year actual M&O Expenses. Cuts to M&O Expenses have included substantial reductions in Airport staffing levels and associated overhead, building rent, post-employment benefits costs, and other expenses. Actual FY 2010 M&O Expenses were 8.8 percent lower than actual FY 2009 M&O Expenses and approximately 12.7 percent lower than budgeted FY 2010 M&O Expenses. M&O Expenses for the proposed FY 2012 budget, which are based on certain assumptions, are estimated to be approximately 9.1 percent lower than M&O Expenses estimated for FY 2011. See Chapter V for more information.
- **Projections of Required Airline Rates and Charges Are Reasonable.** The Signatory Airline terminal rental rate per square foot is projected to increase from $140.13 in FY 2012 to $183.02 in FY 2017. The Signatory Airline landing fee rate per 1,000-pound unit of landed weight is projected to decrease from $2.14 in FY 2012 to $2.10 in FY 2017. Additionally, passenger airline cost per enplaned passenger (future dollars) is projected to increase from $11.11 in FY 2011 to $11.95 in FY 2017.
- **Airport Revenues Are Projected to be Sufficient to Meet Obligations.** Airline rates and charges, together with other General Airport Revenues and Other Available Funds, are projected to be sufficient to pay M&O Expenses, Debt Service, and required fund deposits in each Fiscal Year of the Projection Period (FY 2011 to FY 2017).
- **Projected Debt Service Coverage Ratios Exceed Rate Covenant Requirements.** In FY 2011, the debt service coverage ratio for Airport Revenue Bonds is estimated to be 2.75x. Between FY 2012 and FY 2017, the debt service coverage ratio for Airport Revenue Bonds is estimated to range from a low of 1.55x to a high of 1.83x, exceeding the rate covenant requirement in each Fiscal Year of the Projection Period.

Mr. William F. Sherry, A.A.E.
Director of Aviation
City of San José
June 27, 2011

The techniques used in this report are consistent with industry practices for similar studies in connection with airport revenue bond sales. While R&A believes the approach and assumptions utilized are reasonable, some assumptions regarding future trends and events may not materialize. Achievement of projections described in this report, therefore, is dependent upon the occurrence of future events, and variations may be material.

R&A complies with the recently enacted regulations related to Municipal Advisors, as it pertains to consulting firms such as R&A. Based on the definition of "Municipal Advisor" put forth in the Securities and Exchange Commission's (SEC) proposed rule implementing Section 975 of Title IX of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which includes firms providing feasibility studies for inclusion in an official statement for a municipal bond transaction, R&A has registered with both the SEC and the Municipal Securities Rulemaking Board as a Municipal Advisor.

Sincerely,

Ricondo & Associates, Inc.

RICONDO & ASSOCIATES, INC.

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I. Economic Base for Air Transportation

The demand for air transportation at a particular airport is, to a large degree, a function of the demographic and economic characteristics of the airport's air service area (i.e., the primary geographical area served by an airport). The correlation between activity at Norman Y. Mineta San José International Airport (the Airport) and local economic characteristics of the surrounding region has been strong based on long-term historical data. This high correlation is due primarily to the fact that a majority of the Airport's passenger activity is origin and destination (O&D) in nature[1] - meaning that passengers either begin or end their trips at the Airport (whether they reside, work, commute for work in the San Jose area, or travel to the San Jose area for business or vacation) as opposed to connecting through the Airport to reach another destination. Based on United States Department of Transportation (DOT) data, O&D passengers accounted for approximately 97.3 percent of total passengers at the Airport in Fiscal Year[2] (FY) 2010.

This chapter describes the economic base of the Airport's air service area (Air Service Area), as defined in Section 1.2 below, including current conditions and trends. This chapter presents data that indicates that the economic base of the Airport's Air Service Area is capable of generating increased demand for air travel at the Airport during the projection period FY 2011 through FY 2017 (the Projection Period).

1.1 Summary

The Air Service Area's economy has shown early signs of recovery from the recent nationwide economic recession. Continued growth in population, a well-educated population base, per capita personal income significantly higher than the national average, and a real estate market that is showing signs of rebounding all provide evidence that the Air Service Area's economy will continue to drive demand for air transportation at the Airport.

A summary of key socioeconomic indicators and trends in the Air Service Area includes the following:

- **Population.** The Air Service Area has a substantial population base with approximately 4.7 million residents in 2010, representing approximately 60.2 percent of the 12 counties in the Air Service Area and the Bay Area (each as defined in Section 1.2 below). The Airport is located in San Jose, the largest city in the Bay Area, the third largest city in the State of California (California), and the tenth largest city in the nation. Population in the Air Service Area is projected to increase at a compound annual growth rate (CAGR) of 0.8 percent between 2010 and 2020 (similar rate of growth as the Bay Area yet slower than that of California and the nation). In 2009, the percentage of the Air Service Area's population between the ages of 35 and 54 (the age group most likely to travel by air) is slightly higher than that of California and the nation.
- **High Educational Attainment.** The percentage of the Air Service Area's population with a college degree or higher (the category most likely to travel by air) was approximately 41 percent in 2009, substantially higher than that for California and for the nation.

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1 The Airport served as a hub for American Airlines between the early 1990s and early 2000s.
2 The Airport's fiscal year (Fiscal Year or FY) is the 12-month period ending June 30.

- **Income.** Compared to California and the United States, per capita personal income (PCI) in the Air Service Area in 2009 was significantly higher and a greater percentage of its households earned more than $75,000 in 2009, the income category that generates the greatest demand for airline travel. This suggests a continuing ability by the Air Service Area's households to draw on discretionary income for spending on air travel. The Air Service Area's PCI is expected to increase at a CAGR of 3.7 percent between 2009 and 2017 (compared to 3.6 percent for the Bay Area and California, and 3.8 percent for the United States) and remain significantly higher than that of California and the nation through 2017.
- **Unemployment.** Annual unemployment rates for the Air Service Area have been below those for California every year from 1999 through 2010 with the exception of 2002 to 2005. This is likely due to the highly educated workforce in the Air Service Area and the impact that the Technology Industry recession had on employment in the Air Service Area.[3] Compared to the nation, the Air Service Area's unemployment rate was lower in 1996 through 2000, and equal to or higher in each year from 2001 through 2010. Unemployment is expected to remain relatively high in 2011 for the Air Service Area, California, and the United States.
- **Nonagricultural Employment.** Nonagricultural employment in the Air Service Area decreased at a compound annual rate of 3.4 percent from 2007 to 2009 during the nationwide recession, which was above the rate of decrease for California and the United States during this same period. Measured by percentages, employment in major industry divisions (services, trade, manufacturing, transportation, etc.) in the Air Service Area was generally consistent with that of California and the United States in 2009, indicating that the Air Service Area has a diversified employment base. Nonagricultural employment in the 12-County Area, as defined in Section 1.2 below, is projected to increase by approximately 260,400 employees between 2008 and 2018.

As evidenced by the points above, the economic base of the Air Service Area is relatively stable and diversified, and is capable of supporting the projected air transportation activity at the Airport (shown on Table II-14 of this report). The projections of aviation demand are supported by projected population growth, projected household income growth, a significant percentage of households in higher income categories, projected increases in employment, as well as other key demographic and socioeconomic characteristics of the Air Service Area summarized below:

- **Large Number of Fortune 500 Companies Stimulates Demand for Business Travel.** In 2010, 23 Fortune 500 companies were headquartered in the Air Service Area (out of 57 Fortune 500 companies in California, or 40 percent of California's total), including Hewlett-Packard, Safeway, Apple, Cisco, Intel, Google, and Oracle.
- **Housing Market and Commercial Real Estate.** Existing single family home prices have recently experienced year over year increases and prices are projected to continue to rise in 2011. Recent increases in building permits could be an indicator of increased housing construction in 2011, and office rental rates and occupancy rates are expected to increase in the next two to three years.

[3] As defined in Section 1.3, the various technology industries located in Silicon Valley (semiconductors, computer manufacturing, software, operating systems, internet, biotech, etc.) are referred to collectively in this report as the Technology Industry.

- **Innovation and Venture Capital Investment Will Help Stimulate Demand.** Innovative and specialized companies and industries within the Air Service Area such as the technology and bio-tech sectors and their dependent industries (manufacturing and services) attract significant amounts of venture capital investment and support growth of the Air Service Area's economy. Silicon Valley's research and development and innovation functions are projected to stay in the Bay Area, expanded venture capital investment is expected to continue supporting these dynamic and creative businesses. New activities are expected to continue developing in the Air Service Area with the emergence of clean and green enterprises, solar technologies, environmental, and energy research ventures.
- **Cultural and Recreational Attractions.** The Air Service Area enjoys a wide range of cultural, sporting, and recreational attractions that contribute to the quality of life in the region and will continue to attract visitors from all over the world. The Air Service Area is also located in close proximity to many Northern California tourist destinations and attractions (such as Carmel, Monterey, Napa Valley, San Francisco, and Sonoma Valley).
- **Importance to Regional and State Economies.** The San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) generated approximately $147 billion in gross regional product in 2008 — accounting for approximately 27.8 percent of the gross regional product of the 12-County Area and approximately 7.6 percent of California's gross state product in that year.

While the regional economy experienced the economic recession of the early 2000s, the Technology Industry recession in 2001 and 2002, and the recent national economic recession in 2008 and 2009, the regional economy has also shown the ability to rebound following economic downturns (and has at times experienced dramatic growth in connection with growth of the Technology Industry).

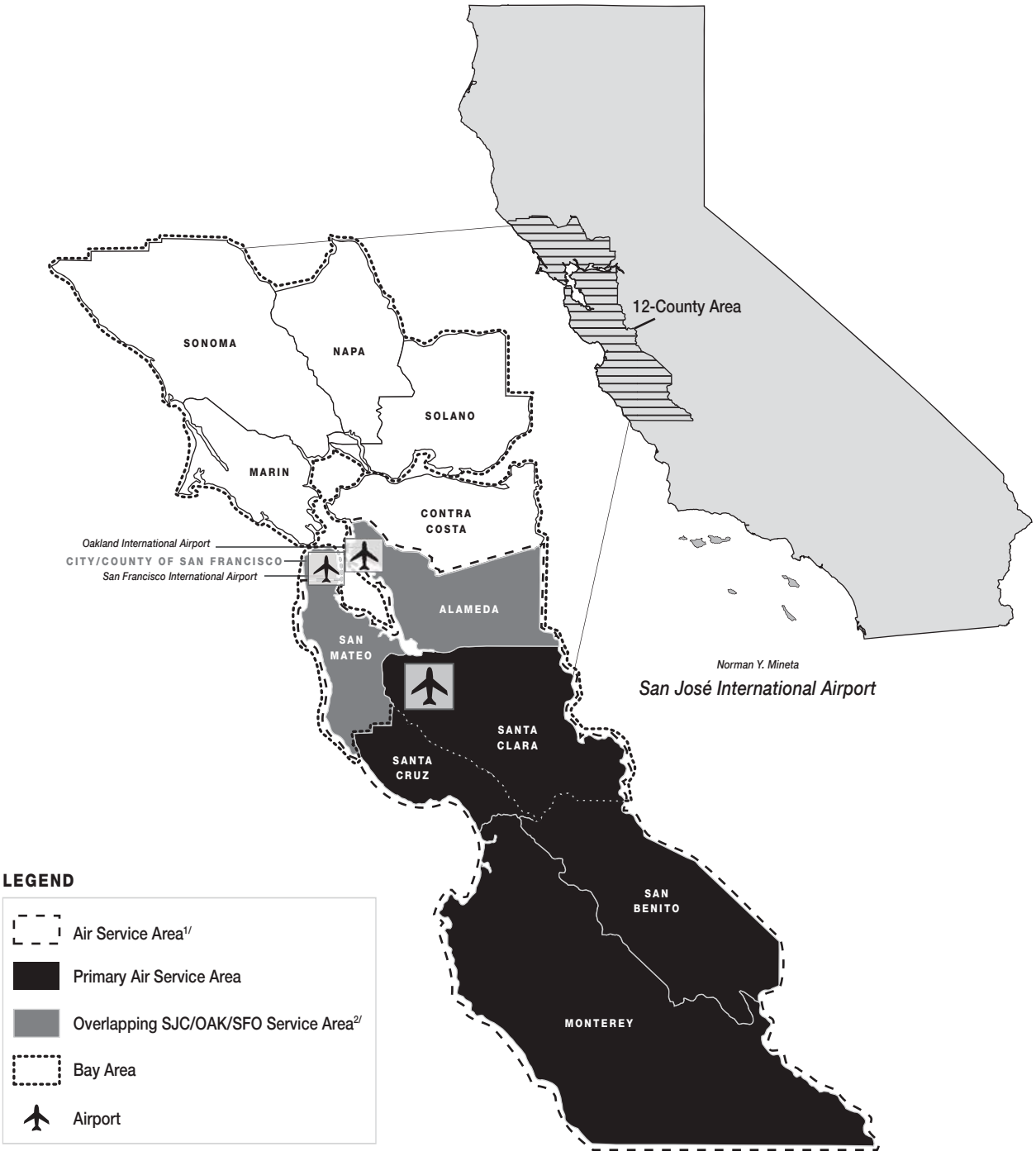
As pointed out in this Summary section, and discussed in greater detail in the sections which follow, the economic base of the Air Service Area is capable of supporting the projected air transportation activity at the Airport as discussed in Chapter II.

1.2 Air Service Area

Exhibit I-1 depicts the Air Service Area in relation to the San Francisco Bay Area (Bay Area), as defined below, and California. The Airport is located within the City of San Jose (two miles north of downtown), which is the third largest city in California (after Los Angeles and San Diego) and the tenth largest city in the nation, based on 2009 population estimates.

The Air Service Area is comprised of six California counties: Alameda, Monterey, San Benito, San Mateo, Santa Clara, and Santa Cruz. These six counties represent the Airport's primary air service area, as they capture the majority of the Airport's passengers due to the Airport's geographic proximity to their population and business centers. Alameda and San Mateo counties also belong to the air service areas of San Francisco International Airport and Oakland International Airport and are, therefore, part of an overlapping service area, as identified on Exhibit I-1.

For the purposes of this report, the Bay Area is defined to include the nine counties served by the Association of Bay Area Governments (ABAG): Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma. This definition of the Bay Area is consistent with definitions used by other government agencies (such as the Metropolitan



Note: The Bay Area, as defined in this report, does not include Monterey, San Benito, or Santa Cruz Counties.

1/ The Norman Y. Mineta San José International Airport's Air Service Area includes Alameda, San Mateo, Santa Cruz, Santa Clara, San Benito and Monterey counties.

2/ The City/County of San Francisco is included in the air service areas of San Francisco International Airport (SFO) and Oakland International Airport (OAK). The County of San Mateo is included in the air service areas of SFO and the Airport. Alameda County is included in the air service areas of OAK and the Airport.

Source: MapResources, 2007; Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Exhibit I-1

Air Service Area, Bay Area, and 12-County Area

Transportation Commission) and the Bay Area Census. Three of the counties in the Bay Area (Alameda, San Mateo, and Santa Clara) are also included in the Air Service Area.

The 12 counties that are included in either or both the Air Service Area or the Bay Area are referred to collectively in this report as the 12-County Area (as shown on Exhibit I-1). Based on the availability of data by region, various tables in this chapter reflect data for one or more of the Air Service Area, the Bay Area, and the 12-County Area, often in comparison to California and the United States.

Based on 2010 census population counts by the United States Census Bureau, **Table I-1** below shows the growth in population experienced between 2000 and 2010 for the Air Service Area and the Bay Area counties. In 2010, the Air Service Area's population accounted for approximately 60.2 percent of the total population for the 12-County Area. Three of the six Air Service Area counties (Alameda, San Mateo, and Santa Clara) ranked within the top five most populated counties of the Bay Area in 2010, with Santa Clara and Alameda Counties ranking first and second, and San Mateo County ranking fifth.

Table I-1

Air Service Area and Bay Area Population -- Historical 2000 and 2010 Data

County	Air Service Area	Bay Area	Census 2000	Census 2010	Total Increase	Census 2010 Share
1. Santa Clara	X	X	1,682,585	1,781,642	5.9%	22.6%
2. Alameda	X	X	1,443,741	1,510,271	4.6%	19.2%
3. Contra Costa		X	948,816	1,049,025	10.6%	13.3%
4. San Francisco		X	776,733	805,235	3.7%	10.2%
5. San Mateo	X	X	707,161	718,451	1.6%	9.1%
6. Sonoma		X	458,614	483,878	5.5%	6.1%
7. Monterey	X		401,762	415,057	3.3%	5.3%
8. Solano		X	394,542	413,344	4.8%	5.2%
9. Santa Cruz	X		255,602	262,382	2.7%	3.3%
10. Marin		X	247,289	252,409	2.1%	3.2%
11. Napa		X	124,279	136,484	9.8%	1.7%
12. San Benito	X		53,234	55,269	3.8%	0.7%
12-County Area			7,494,358	7,883,447	5.2%	100.0%
Air Service Area			4,544,085	4,743,072	4.4%	60.2%
Bay Area			6,783,760	7,150,739	5.4%	90.7%

Source: United States Department of Commerce, United States Census Bureau (Census 2000 & 2010 Population), April 2011.
Prepared by: Ricondo & Associates, Inc., April 2011.

The demographic and economic strength of the Air Service Area provides the primary base for supporting air transportation at the Airport.

1.3 Silicon Valley and the Technology Industry

The term “Silicon Valley” was first used in 1971 in a technology trade publication in reference to the material used to create most semiconductors and to the growing concentration of this industry in the Santa Clara Valley. Today, Silicon Valley is home to many of the world’s largest technology

companies, and the term Silicon Valley has come to refer to all of the technology industries in the area (semiconductors, computer manufacturing, software, operating systems, internet, biotech, etc.). For purposes of this report, these various technology industries are referred to collectively as the Technology Industry. As the largest city in Silicon Valley, the City of San Jose is often referred to as the "capital" of Silicon Valley.

Silicon Valley's role in the Technology Industry actually dates back to the early 1900s, beginning with innovations in radio, radar, television, and military electronics. A key development in the history of both Silicon Valley and the Technology Industry was collaboration between Stanford University professors and nearby industry following World War II, and the leasing of Stanford University land to technology companies (such as Hewlett-Packard). The 1950s through the 1970s in Silicon Valley saw the development of semiconductors, a venture capital network, microchips, general purpose computers, operating systems, and early personal computers. The 1980s marked the advent of the personal computer era based on microprocessors pioneered by Intel, along with significant growth in startup companies in Silicon Valley, and the 1990s witnessed the start of the internet era, further innovations in computer software, and development of mobile devices (e.g., Palm Pilot). Investment in Silicon Valley companies and employment increased dramatically in both the 1980s and the 1990s. In addition, population increased dramatically in Silicon Valley. Between CY 1970 and CY 1990, population in the City of San Jose increased from approximately 446,000 to approximately 782,000, and the population in the Santa Clara County increased by nearly 500,000. During the last decade, online social networking services increased dramatically, with services provided by companies such as Facebook, which is headquartered in the Air Service Area and employs 1,000 people.

As discussed in Chapter II of this report, enplaned passengers at the Airport also increased dramatically in the 1980s and the 1990s. Enplaned passengers at the Airport increased from approximately 1.4 million in FY 1981 to approximately 3.4 million in FY 1990, representing a CAGR of approximately 10.7 percent. Between FY 1981 and FY 2001 (when Airport enplaned passengers reached its peak), enplaned passengers grew at a CAGR of 8.5 percent.

Silicon Valley is generally considered to have been the center of the significant growth in the Technology Industry, which began in the mid-1990s and slumped after the NASDAQ stock market began to decline dramatically in early CY 2000. Following the Technology Industry recession and the events of September 11, 2001, enplaned passengers at the Airport decreased 17.6 percent in FY 2002 (from an Airport record high 6.9 million enplaned passengers in FY 2001 to 5.7 million enplaned passengers in FY 2002). Enplaned passengers at the Airport further decreased by 9.0 percent in FY 2003 from FY 2002 levels, remained relatively constant through FY 2008, and due to the recent recession, decreased from 5.2 million enplaned passengers in FY 2008 to 4.1 million enplaned passengers in FY 2010.

1.4 Regional Transportation Network

The Air Service Area is supported by a comprehensive regional transportation network that includes:

- Norman Y. Mineta San José International Airport (SJC)
- Oakland International Airport (OAK)
- San Francisco International Airport (SFO)

- An extensive network of local bus routes serving the urbanized portions of Santa Clara County (operated by Santa Clara Valley Transportation Authority)
- Several major highway corridors (including Interstates 280, 580, 680, and 880; U.S. Highway 101 and State Routes 85, 87 and 17; and the San Mateo/Dumbarton toll bridges)
- The Altamont Commuter Express (ACE) train service managed by the San Joaquin Regional Rail Commission
- Bay Area Rapid Transit (BART), with a 104-mile network and 43 stations that provide access to the four counties of San Francisco, San Mateo, Alameda, and Contra Costa and connections to Amtrak, the Alameda/Oakland ferry, and many regional bus networks
- Caltrain (commuter rail owned and operated by the Peninsula Corridor Joint Powers Board) serving 31 stations between San Francisco and Gilroy, with a total network of around 80 miles, and with connections to BART, to light rail, as well as to the Airport
- Two major freight rail companies, the Union Pacific Railroad and Burlington Northern Santa Fe Railway (BNSF), providing freight service to the Air Service Area and the Bay Area
- Amtrak, operating throughout the Bay Area and providing connectivity to the Air Service Area's other modes of transportation

1.5 Demographic Profile (Population, Age Distribution, Education)

Actual and projected population growth is a prevailing indicator when assessing demand for air travel. **Table I-2** illustrates historical and projected population for the Air Service Area, the Bay Area, California, and the United States. As shown in Table I-2, population for the Air Service Area increased at a CAGR of 0.8 percent between 1990 and 2010, which is below the CAGR of 0.9 percent for the Bay Area and the CAGR of 1.1 percent for California and the nation during this same period.

Population projections for 2020 indicate steady growth for the Air Service Area and for the Bay Area, at similar rates as experienced between 1990 and 2010. As also shown in Table I-2, population for the Air Service Area is projected to increase from approximately 4.7 million in 2010 to approximately 5.1 million in 2020. This increase represents a CAGR of 0.8 percent during this period (compared to 0.8 percent projected for the Bay Area, 1.0 percent for California, and 1.0 percent for the nation).

According to survey data from the United States Travel Association, air travel frequency in the United States varies by age group, and individuals between the ages of 35 and 54 tend to travel the most (46 percent of all air trips). Data in **Table I-3** shows that in 2009, Air Service Area residents between the ages of 35 and 54 made up approximately 29.9 percent of the population of the Air Service Area, compared with 28.2 percent of the population of California and 28.1 percent of the population of the United States. The Air Service Area's greater percentage of the population in the age category that travels most frequently represents an important source of demand for air service at the Airport.

Educational attainment of residents can also be a key indicator of an area's demand for air service, as evidenced by a 2007 study by Arbitron, Inc. that found that individuals with a college degree are more likely to travel by air. According to 2009 data shown in **Table I-4**, approximately 40.6 percent of the Air Service Area population over the age of 25 holds a bachelor's degree or higher advanced

Table I-2

Historical & Projected Population

	Historical			Projected	CAGR			
County	1990	2000	2010	2020	1990-2000	2000-2010	1990-2010	2010-2020
Alameda County	1,279,182	1,443,741	1,510,271	1,607,202	1.2%	0.5%	0.8%	0.6%
Monterey County	355,660	401,762	415,057	444,674	1.2%	0.3%	0.8%	0.7%
San Benito County	36,697	53,234	55,269	62,855	3.8%	0.4%	2.1%	1.3%
San Mateo County	649,623	707,161	718,451	778,040	0.9%	0.2%	0.5%	0.8%
Santa Clara County	1,497,577	1,682,585	1,781,642	1,950,223	1.2%	0.6%	0.9%	0.9%
Santa Cruz County	229,734	255,602	262,382	281,016	1.1%	0.3%	0.7%	0.7%
Air Service Area	4,048,473	4,544,085	4,743,072	5,124,010	1.2%	0.4%	0.8%	0.8%
Bay Area	6,023,577	6,783,760	7,150,739	7,741,712	1.2%	0.5%	0.9%	0.8%
State of California	29,760,021	33,871,648	37,253,956	41,294,381	1.3%	1.0%	1.1%	1.0%
United States	248,709,873	281,421,906	308,745,538	341,251,668	1.2%	0.9%	1.1%	1.0%

Sources: U.S. Department of Commerce, Bureau of the Census, April 2011 (historical) and Woods and Poole Economics, Inc., *2011 Complete Economic and Demographic Data Source (CEDDS),* 2010 (projected).

Prepared by: Ricondo & Associates, Inc., April 2011.

Table I-3

Age Distribution (CY 2009)

	Air Service Area [1/]	State of California	United States
Total Population	4,661,701	36,961,664	307,006,556
By Age Group			
17 and Under	23.8%	25.5%	24.3%
18 - 34	24.3%	24.6%	23.5%
35 - 54 [2/]	29.9%	28.2%	28.1%
55+	22.0%	21.7%	24.1%
Total	100.0%	100.0%	100.0%
Median Age	36.4 years	34.9 years	36.8 years

Notes:
1/ Data for San Benito County is not available and was excluded for purposes of this table.
2/ Data from the US Travel Association shows that this age group travels more frequently by air than other age groups.

Source: U.S. Department of Commerce, Bureau of the Census, *American Community Survey 2009* .
Prepared by: Ricondo & Associates, Inc., February 2011.

Table I-4

Educational Attainment (CY 2009)

	Air Service Area [1/]	State of California	United States
Population 25 years and over	3,123,880	23,782,109	201,952,383
Less Than High School Diploma	15.5%	19.4%	14.7%
High School Graduate	18.1%	20.9%	28.5%
Some College or Associate's Degree	25.8%	29.8%	28.9%
Bachelor's Degree [2/]	23.9%	19.1%	17.6%
Graduate or Professional Degree [2/]	16.7%	10.7%	10.3%
Total	100.0%	100.0%	100.0%
Bachelor's Degree or Higher [2/]	40.6%	29.8%	27.9%

Notes:

1/ Data for San Benito County is not available and was excluded for purposes of this table.

2/ Data from Arbitron, Inc. shows that individuals with a bachelor's degree or higher travel by air more frequently than individuals with lower levels of educational attainment.

Source: U.S. Department of Commerce, Bureau of the Census, *American Community Survey 2009* .

Prepared by: Ricondo & Associates, Inc., February 2011.

degree (e.g., graduate or professional degree). This percentage is significantly higher than that of both California and the United States where, respectively, 29.8 percent and 27.9 percent of the population over the age of 25 hold a bachelor's degree or higher advanced degree.

The Air Service Area is home to numerous public and private institutions of higher education, including Stanford University, California State University San Jose, Santa Clara University, the University of California at Santa Cruz, California State University Monterey Bay, and over 20 additional universities, colleges, and technical schools. Many of these universities and colleges were instrumental in the development of Silicon Valley and the Technology Industry and continue to play an important role in the economy of the Air Service Area, through corporate, medical, and government research; large student populations; contributions to the high levels of educational attainment in the Air Service Area; and significant contributions in terms of workforce for the Technology Industry and other industry sectors. The Air Service Area is also home to the NASA Ames Research Center located at Moffett Field, focusing on wind-tunnel, aeronautics, spaceflight, and information technology.

1.6 Income

A key indicator regarding demand for air travel is personal income. Personal income indicates the general level of affluence of local residents, which corresponds to an area's ability to afford air travel, as well as an area's attractiveness to business and leisure travelers.

Table I-5 illustrates historical per capita income (PCI) between 2000 and 2009 for the Air Service Area, the Bay Area, California, and the United States. As shown, the Air Service Area's PCI of $53,654 for 2009 is approximately $11,000 (or 26.8 percent) higher than California's PCI, approximately $14,500 (or 37.1 percent) higher than the nation's PCI, and approximately $2,700 (or 4.8 percent) lower than the Bay Area's PCI.

In 2009, PCI for the San Jose-Sunnyvale-Santa Clara MSA, which includes Santa Clara County and San Benito County, was the fifth highest of all MSAs in the nation, while Santa Clara County had the highest median household income of any county in California.[4]

The Air Service Area's PCI increased at a 1.2 percent CAGR for the period 2000 to 2009, compared to 1.6 percent for the Bay Area, 2.7 percent for California, and 2.9 percent nationwide. The CAGR for PCI in the Air Service Area for 2000 to 2009 was lower than the CAGRs for the Bay Area, California, and the United States as a result of lower growth during that period in San Benito, San Mateo, and Santa Clara Counties. As also shown, the Air Service Area's PCI is expected to increase at a CAGR of 3.7 percent between 2009 and 2017. PCI for the Bay Area, California, and the United States are expected to experience similar growth during this same period (with CAGRs between 3.6 percent and 3.8 percent). PCI for the Air Service Area and the Bay Area is projected to remain significantly higher than that of California and the nation.

As personal income increases, air travel becomes more affordable and can be used more frequently. The percentage of higher income households (defined as those earning $75,000 or more annually)

[4] Based on an average of 2006 through 2008 data compiled by the American Community Survey of United States Bureau of the Census, Santa Clara County ranked 19th among counties nationwide in median household income ($87,287).

Table I-5

Per Capita Personal Income

Calendar Year	Per Capita Personal Income			
	Air Service Area	Bay Area	California	United States
Historical				
2000	$48,021	$48,867	$33,398	$30,318
2001	$45,043	$46,979	$33,890	$31,145
2002	$43,248	$45,497	$34,045	$31,462
2003	$44,015	$46,155	$34,977	$32,271
2004	$46,688	$49,023	$36,904	$33,881
2005	$49,335	$52,023	$38,767	$35,424
2006	$53,525	$56,262	$41,567	$37,699
2007	$56,737	$59,396	$43,402	$39,392
2008	$56,317	$59,231	$43,852	$40,166
2009	$53,654	$56,357	$42,324	$39,138
Projected				
2017	$71,947	$74,760	$56,352	$52,854
CAGR				
2000 - 2002	(5.1%)	(3.5%)	1.0%	1.9%
2002 - 2007	5.6%	5.5%	5.0%	4.6%
2007 - 2009	(2.8%)	(2.6%)	(1.2%)	(0.3%)
2000 - 2009	1.2%	1.6%	2.7%	2.9%
2009 - 2017	3.7%	3.6%	3.6%	3.8%

Percentage of Households in Income Categories (2009)				
Income Category	Air Service Area	Bay Area	California	United States
Less than $75,000	57.2%	57.5%	68.8%	74.8%
$75,000 or More	42.8%	42.5%	31.2%	25.2%

Sources: Woods & Poole Economics, Inc., November 2010.
Prepared by: Ricondo & Associates, Inc., February 2011.

within the Air Service Area is another key indicator of potential demand for air transportation services. According to the Travel Industry Association, 62 percent of airplane trips are taken by travelers with an annual household income of $75,000 or more.[5] In addition to PCI, Table I-5 presents the percentage of higher income households. As shown, 42.8 percent of the households in the Air Service Area earned $75,000 or more in 2009, compared to 31.2 percent for California and 25.2 percent for the nation. As also shown, the Air Service Area's distribution among the income categories is similar to that of the Bay Area.

1.7 Employment

Civilian labor force and unemployment rates are presented in **Table I-6** for the Air Service Area, the Bay Area, California, and the United States. The Air Service Area's civilian labor force increased at a CAGR of 0.3 percent between 1996 and 2010, tracking behind the Bay Area's CAGR of 0.5 percent, California's CAGR of 1.1 percent, and the nation's CAGR of 0.9 percent during this same period.

The Air Service Area's civilian labor force grew by approximately 205,000 workers between 1996 and 2001, with an associated CAGR of 1.7 percent, compared to the 1.4 percent growth nationwide. During this same period, 362,000 civilian labor force jobs were created in the Bay Area, approximately 45 percent of which can be attributed to the Air Service Area alone. Between 2001 and 2006, the Air Service Area's civilian labor force decreased by approximately 190,000 workers due to the global economic recession environment, including the September 11 aftermath, economic impacts, and more specifically to the Bay Area, the recession that hit Silicon Valley's Technology Industry and its associated sectors. The Air Service Area's civilian labor force increased at a CAGR of 1.0 percent between 2006 and 2010, similar to the growth experienced in the Bay Area (0.9 percent) and higher than that for California (0.6 percent) and for the nation (0.4 percent).

As also shown in Table I-6, unemployment rates for the Air Service Area, the Bay Area, California, and the United States follow a noticeably similar pattern that can be broken down into three phases. First, an economic recession and the Technology Industry recession led to a rise in the unemployment rates between 2001 and 2003. All areas reported relatively higher unemployment rates compared to 1999 and 2000 levels, with the Air Service Area's unemployment rate at 7.5 percent in 2003 (versus 3.8 percent in 1999 and 3.7 percent in 2000). Second, all areas experienced year-over-year declines in unemployment rates between 2004 and 2006, with the Air Service Area's unemployment rate declining from 7.5 percent in 2003 to 4.6 percent in 2006, illustrating a relative return to economic growth. Among the Bay Area, California, and the United States, the Air Service Area reported the largest decline in unemployment rates with a reduction of 2.9 percentage points between 2003 to 2006, compared to the Bay Area (2.4 percentage points), California (1.9 percentage points), and the United States (1.4 percentage points). Third, unemployment rates increased significantly between 2008 and 2010 due to the impacts of a global recession that officially started in December 2007 and ended in June 2009. The unemployment rate for the Air Service Area increased from 4.9 percent in 2007 to 6.2 percent in 2008 and then further to 10.5 percent in 2009 and 11.2 percent in 2010, while the 2010 unemployment rate reached 10.6 percent in the Bay Area, 12.4 percent in California, and 9.6 percent nationwide.

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[5] *2006 Domestic Travel Market Report*, Travel Industry Association.

Table I-6

Civilian Labor Force & Unemployment Rates
(Data Not Seasonally Adjusted)

	Civilian Labor Force (000's)			
Calendar Year	Air Service Area	Bay Area	State of California	United States
1996	2,288	3,393	15,436	133,943
1997	2,356	3,490	15,793	136,297
1998	2,399	3,562	16,167	137,673
1999	2,421	3,608	16,431	139,368
2000	2,486	3,736	16,858	142,583
2001	2,493	3,755	17,152	143,734
2002	2,431	3,679	17,344	144,863
2003	2,361	3,594	17,391	146,510
2004	2,310	3,525	17,444	147,401
2005	2,289	3,502	17,545	149,320
2006	2,303	3,531	17,719	151,428
2007	2,346	3,597	17,971	153,124
2008	2,395	3,679	18,191	154,287
2009	2,397	3,666	18,204	154,142
2010	2,395	3,656	18,177	153,889
CAGR				
1996-2001	1.7%	2.0%	2.1%	1.4%
2001-2006	(1.6%)	(1.2%)	0.7%	1.0%
2006-2010	1.0%	0.9%	0.6%	0.4%
1996-2010	0.3%	0.5%	1.1%	0.9%

	Unemployment Rates			
Calendar Year	Air Service Area	Bay Area	State of California	United States
1996	5.0%	4.5%	7.3%	5.4%
1997	4.4%	3.9%	6.4%	4.9%
1998	4.3%	3.5%	6.0%	4.5%
1999	3.8%	3.0%	5.3%	4.2%
2000	3.7%	3.4%	4.9%	4.0%
2001	5.1%	4.5%	5.4%	4.7%
2002	7.4%	6.6%	6.7%	5.8%
2003	7.5%	6.7%	6.8%	6.0%
2004	6.3%	5.7%	6.2%	5.5%
2005	5.4%	4.9%	5.4%	5.1%
2006	4.6%	4.3%	4.9%	4.6%
2007	4.9%	4.5%	5.3%	4.6%
2008	6.2%	5.8%	7.2%	5.8%
2009	10.5%	10.0%	11.3%	9.3%
2010	11.2%	10.6%	12.4%	9.6%

Source: U.S. Department of Labor, Bureau of Labor Statistics, April 2011.
Prepared by: Ricondo & Associates, Inc., April 2011.

Table I-7 presents the employment trends by major industry divisions in the Air Service Area, the Bay Area and the United States. Similar to the discussion of Table I-6 above, the number of employees in the Air Service Area's nonagricultural sectors decreased at a compound annual rate of 3.5 percent between 2001 and 2004, due to a nationwide recession and the Technology Industry recession. The Bay Area also recorded a 2.9 percent decrease during the same period. However, signs of recovery were present during the period from 2004 to 2007, with CAGRs of 1.3 percent and 1.4 percent, respectively, for the Air Service Area and the Bay Area, which positioned these regions behind the nation's 1.5 percent CAGR for the same period. The recent economic recession resulted in a compound annual decrease of nonagricultural employment in the Air Service Area of 3.4 percent between 2007 and 2009 (compared to a 3.2 percent decrease for the Bay Area and a 2.5 percent decrease for the nation).

The diversity of employment in the Air Service Area is illustrated in **Exhibit I-2**, which highlights the comparable mix of industries compared to that of the Bay Area and the nation. As shown, the Air Service Area and the Bay Area's distribution among the nonagricultural industries is comparable to that of the nation. As also shown, the service industry represents an overwhelming portion of the nonagricultural workforce in the Air Service Area, the Bay Area, and the nation, with over 40 percent of the total nonagricultural workforce being employed by the services industry in 2009 (compared to 42.2 percent, 44.0 percent, and 41.4 percent, respectively, for the Air Service Area, the Bay Area, and the nation).

Table I-8 reflects the State of California Employment Development Department (CEDD) projections of increased employment by industry for each of the MSAs that comprise the 12-County Area. For each MSA, the top three industries based on largest projected employment increases to 2018 (i.e., ranked by increased number of jobs rather than growth rates) and the total projected nonagricultural employment increase to 2018 is reflected. Other industries have higher projected growth rates but represent a lower number of jobs.

Exhibit I-3 presents the change in nonagricultural employment by industry sector for the 12-County Area between 2008 and 2018, as projected by the CEDD. As shown, several industries are leading a return to growth in the Air Service Area: the services industry with an increase of approximately 178,000 employees between 2008 and 2018, the government industry with an increase of approximately 38,000 employees, and the trade industry with an increase of approximately 22,000 employees. The 12-County Area is projected by the CEDD to experience an increase in nonagricultural employment of approximately 260,400 employees between 2008 and 2018. This increase represents a CAGR of 0.7 percent during this period. The services, government, and trade industries are projected to increase at CAGRs of 1.1 percent, 0.7 percent, and 0.4 percent, respectively.

While the sectors of services, government, and trade are expected to be the leaders in employment growth in the Air Service Area and the Bay Area over the next decade, the outlook for the manufacturing sector is not as optimistic (although remaining more favorable than the outlook for the United States as a whole). The CEDD projections show a slight decline in manufacturing employment between 2008 and 2018, a loss of approximately 7,400 manufacturing jobs during this period, representing a decrease of 2.1 percent in total. By comparison, and based on projections by the Bureau of Labor Statistics, the manufacturing sector in the United States is projected to decline

Table I-7

Employment Trends By Major Industry Division -- Calendar Years 2001-2009

Air Service Area
Nonagricultural Employment

Industry	2001	2004	2007	2008	2009	CAGR 2001-2004	CAGR 2004-2007	CAGR 2007-2009	2009 Share
Services	881,600	814,400	880,300	899,000	856,700	(2.6%)	2.6%	(1.3%)	42.2%
Government	311,500	310,000	314,700	308,700	306,300	(0.2%)	0.5%	(1.3%)	15.1%
Trade	341,800	310,700	322,300	314,600	291,000	(3.1%)	1.2%	(5.0%)	14.3%
Manufacturing	391,300	295,100	283,600	281,900	256,700	(9.0%)	(1.3%)	(4.9%)	12.6%
Construction	123,200	115,400	122,700	113,600	89,600	(2.2%)	2.1%	(14.5%)	4.4%
Fin/Ins/Real Estate	99,700	100,800	101,700	94,700	85,900	0.4%	0.3%	(8.1%)	4.2%
Information	94,600	75,100	76,300	80,300	76,500	(7.4%)	0.5%	0.1%	3.8%
Transportation/Utilities	88,900	73,100	74,200	72,800	66,800	(6.3%)	0.5%	(5.1%)	3.3%
TOTAL 1/	2,332,300	2,094,300	2,175,700	2,165,200	2,029,300	(3.5%)	1.3%	(3.4%)	100.0%

Bay Area
Nonagricultural Employment

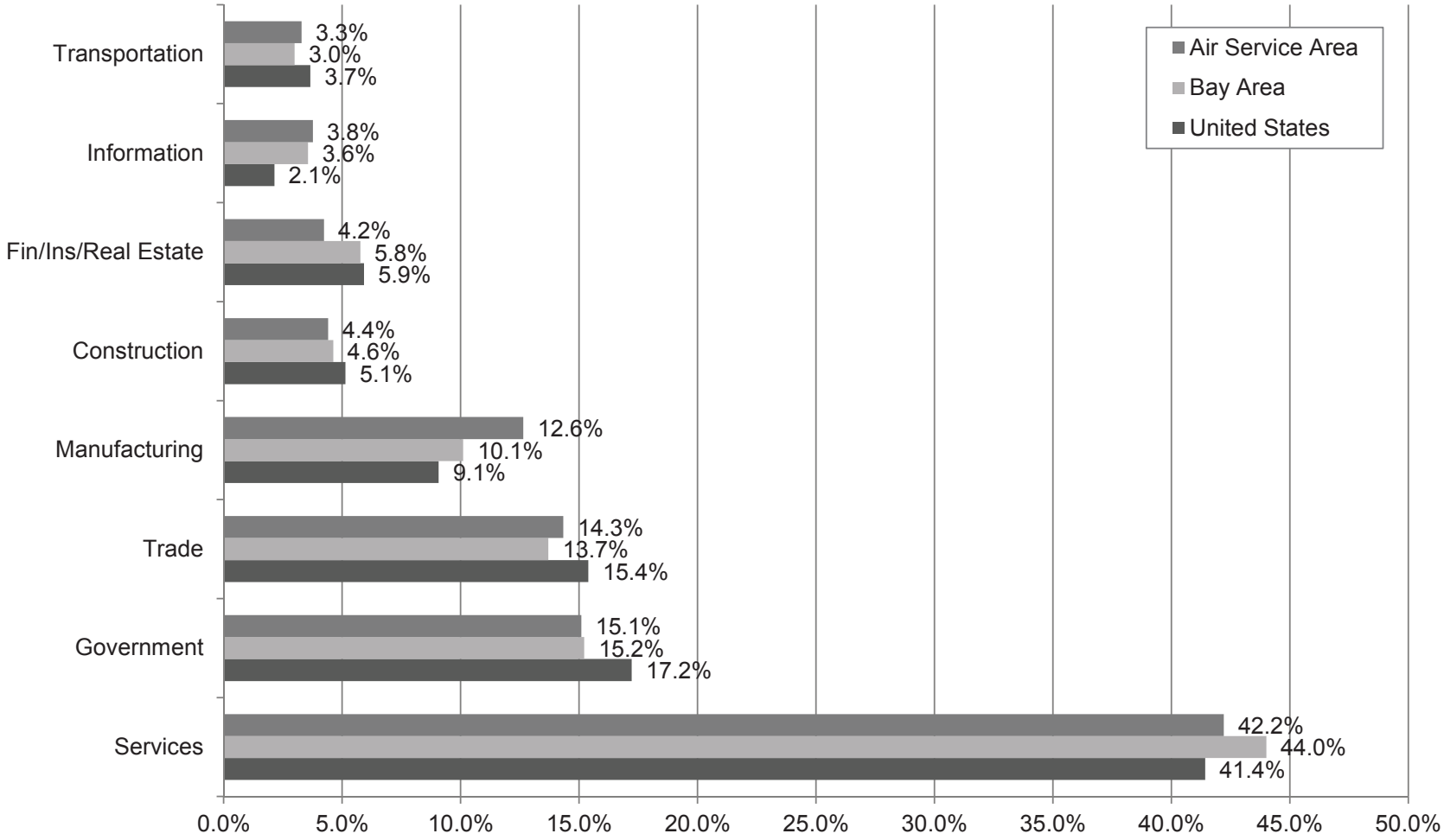
Industry	2001	2004	2007	2008	2009	CAGR 2001-2004	CAGR 2004-2007	CAGR 2007-2009	2009 Share
Services	1,377,200	1,292,000	1,402,200	1,432,200	1,366,300	(2.1%)	2.8%	(1.3%)	44.0%
Government	468,300	467,700	483,200	478,400	472,500	(0.0%)	1.1%	(1.1%)	15.2%
Trade	490,100	455,000	470,100	460,100	425,600	(2.4%)	1.1%	(4.9%)	13.7%
Manufacturing	466,200	358,100	345,000	343,800	313,900	(8.4%)	(1.2%)	(4.6%)	10.1%
Construction	197,500	186,100	194,700	180,100	143,700	(2.0%)	1.5%	(14.1%)	4.6%
Fin/Ins/Real Estate	213,900	208,700	205,600	194,300	179,300	(0.8%)	(0.5%)	(6.6%)	5.8%
Information	147,400	114,000	113,300	116,000	110,700	(8.2%)	(0.2%)	(1.2%)	3.6%
Transportation/Utilities	121,300	101,900	102,000	100,000	92,900	(5.6%)	0.0%	(4.6%)	3.0%
TOTAL 1/	3,481,600	3,182,500	3,315,800	3,304,500	3,104,600	(2.9%)	1.4%	(3.2%)	100.0%

United States
Nonagricultural Employment (000's)

Industry	2001	2004	2007	2008	2009	CAGR 2001-2004	CAGR 2004-2007	CAGR 2007-2009	2009 Share
Services	49,415	51,249	55,185	55,524	54,237	1.2%	2.5%	(0.9%)	41.4%
Government	21,118	21,621	22,218	22,509	22,549	0.8%	0.9%	0.7%	17.2%
Trade	21,011	20,721	21,535	21,226	20,153	(0.5%)	1.3%	(3.3%)	15.4%
Manufacturing	16,441	14,315	13,879	13,406	11,883	(4.5%)	(1.0%)	(7.5%)	9.1%
Construction	7,432	7,567	8,354	7,929	6,737	0.6%	3.4%	(10.2%)	5.1%
Fin/Ins/Real Estate	7,808	8,031	8,301	8,145	7,758	0.9%	1.1%	(3.3%)	5.9%
Information	3,629	3,118	3,032	2,984	2,807	(4.9%)	(0.9%)	(3.8%)	2.1%
Transportation/Utilities	4,971	4,812	5,094	5,067	4,796	(1.1%)	1.9%	(3.0%)	3.7%
TOTAL 1/	131,826	131,435	137,598	136,790	130,920	(0.1%)	1.5%	(2.5%)	100.0%

Note:
1/ Totals may not add due to individual rounding.

Sources: California Employment Development Department, Labor Market Information Division (Air Service Area & Bay Area);
U.S. Department of Labor, Burea of Labor Statistics (United States), January 2011.
Prepared by: Ricondo & Associates, Inc., February 2011.



Note: Employment in the Technology Industry is included in multiple sectors (Manufacturing, Services, Trade, etc.).

Sources: California Employment Development Department; Labor Market Information Division (Air Service Area & Bay Area);
U.S. Department of Labor, Bureau of Labor Statistics (U.S.), January 2011.
Prepared by: Ricondo & Associates, Inc., January 2011.

Exhibit I-2

Percent of 2009 Nonagricultural Employment by Industry

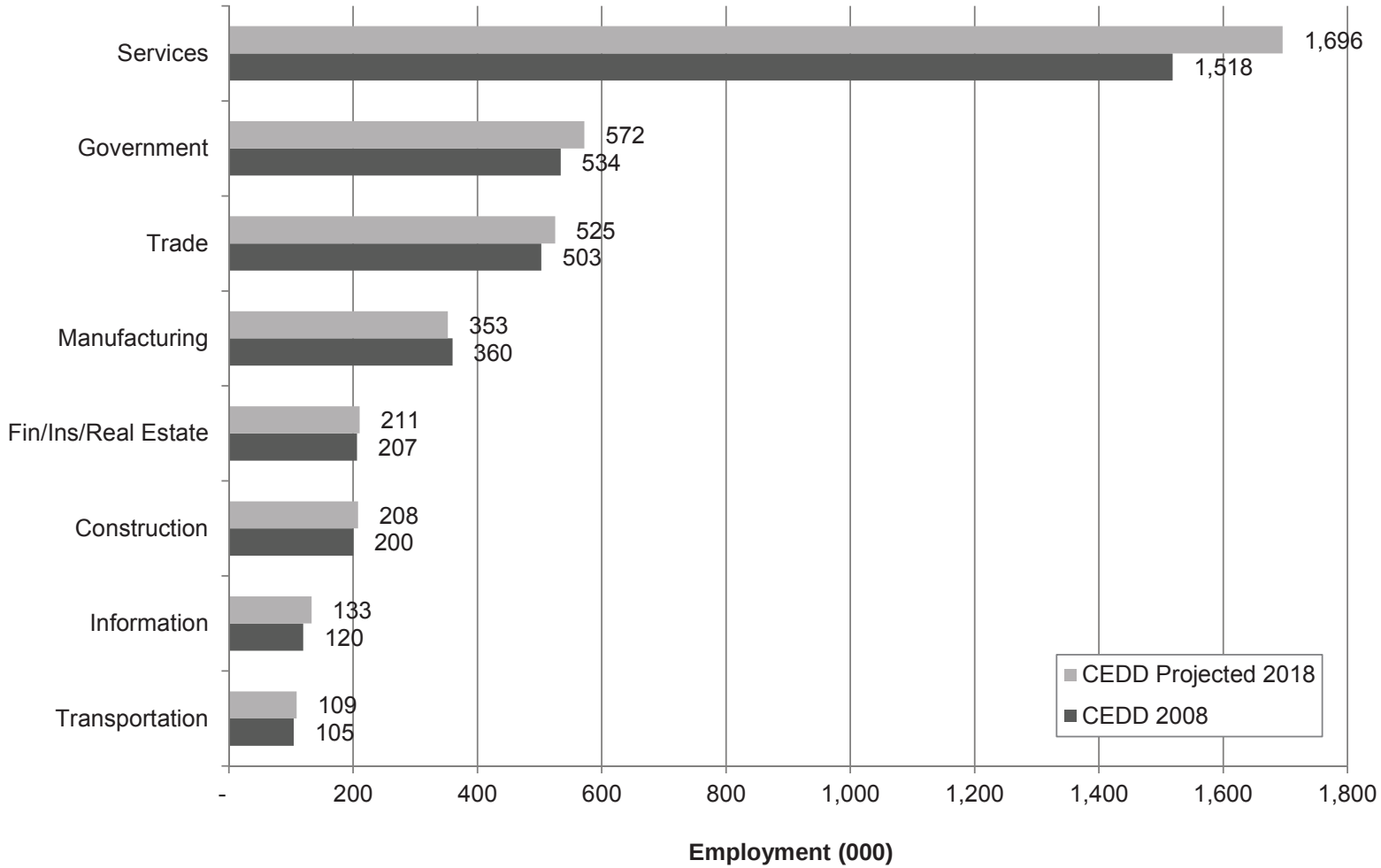
Table I-8

Projections of Employment Growth by Industry for the 12-County Area--CY 2008 to CY 2018
(Industries are ranked based on increased employment)

County	CY 2008 - CY 2018 Increased Employment	CY 2008 - CY 2018 Total Growth Rate
Alameda & Contra Costa		
Educational and Health Services	28,300	22.0%
Professional and Business Services	18,400	11.3%
Government	13,300	7.5%
Total Nonagricultural Employment	74,000	7.2%
Monterey		
Educational and Health Services	3,400	26.0%
Government	3,200	9.9%
Leisure and Hospitality Services	2,000	9.3%
Total Nonagricultural Employment	8,900	6.9%
Napa 1/		
Professional and Business Services	1,800	31.6%
Leisure and Hospitality Services	1,600	18.8%
Government	1,400	14.0%
Total Nonagricultural Employment	8,300	13.2%
San Benito & Santa Clara		
Professional and Business Services	16,800	9.4%
Educational and Health Services	16,700	15.5%
Information	9,800	23.2%
Total Nonagricultural Employment	65,500	7.2%
San Mateo, Marin, & San Francisco		
Professional and Business Services	20,700	9.9%
Leisure and Hospitality Services	12,600	9.9%
Educational and Health Services	9,600	8.9%
Total Nonagricultural Employment	64,100	6.4%
Santa Cruz 1/		
Government	3,300	15.1%
Educational and Health Services	1,700	14.0%
Trade	1,200	6.9%
Total Nonagricultural Employment	8,300	8.7%
Solano 1/		
Educational and Health Services	4,100	25.3%
Professional and Business Services	1,600	13.9%
Manufacturing	1,400	14.4%
Total Nonagricultural Employment	4,900	3.8%
Sonoma 1/		
Professional and Business Services	6,600	29.9%
Trade	4,200	13.4%
Government	3,800	12.4%
Total Nonagricultural Employment	26,400	14.0%
Combined 12-County Area		
Educational and Health Services	67,600	16.2%
Professional and Business Services	67,100	11.0%
Government	38,200	7.2%
Total Nonagricultural Employment	260,400	7.3%

Note:
1/ Data for this county is reflected for CY 2006 to CY 2016.

Source: State of California Employment Development Department (EDD),
Projections of Employment by Industry and Occupation, June 2010 (2006 - 2016) and October 2010 (2008 - 2018).
Prepared by: Ricondo & Associates, Inc., February 2011.



Note: Employment in the Technology Industry is included in multiple sectors (Manufacturing, Services, Trade, etc.).

Source: California Employment Development Department (CEDD), October 2010.
Prepared by: Ricondo & Associates, Inc., January 2011.

Exhibit I-3

Nonagricultural Employment Projections by Industry for the 12-County Area

by 9 percent between 2008 and 2018 as productivity gains, automation, and international competition adversely affect employment in most manufacturing industries.[6]

As presented in **Table I-9**, the Air Service Area benefits from the presence of many large companies that operate in various industries. The largest public and private employers in the Air Service Area include Cisco Systems Inc., Santa Clara County, Kaiser Permanente, Stanford University, and Apple. As of March 2011, Apple, Google, Intel, Cisco, and Hewlett-Packard each had a market capitalization (equal to current stock price multiplied by number of outstanding shares of stock) of greater than $90 billion (market capitalization of $310 billion, $179 billion, $110 billion, $95 billion, and $92 billion, respectively). In January 2011, Google announced that it would hire approximately 6,200 employees worldwide including approximately 2,000 employees in the Air Service Area.

As shown on **Table I-10**, 23 Fortune 500 companies are headquartered in the Air Service Area. These 23 companies represent approximately 40 percent of the 57 Fortune 500 companies located within California. The 31 Fortune 500 companies shown on Table I-10 for the Air Service Area and other counties in the Bay Area represent approximately 54 percent of the Fortune 500 companies located within California. Other than California, only five states (Illinois, New York, Ohio, Pennsylvania, and Texas) have as many Fortune 500 companies (23 or more) as the Air Service Area.

Exhibit I-4 reflects the proximity of various Technology Industry companies to the Airport (including, among others, Adobe, Apple, Cisco, eBay, Google, Hewlett-Packard, Intel, and Yahoo),

1.7.1 Services, Government, Trade, and Manufacturing

As shown in Table I-7, employment sectors including services (which include professional, business, educational, health, leisure, and hospitality services), government, trade, and manufacturing provide for the vast majority of employment in the Air Service Area. In 2009, these four sectors combined employed approximately 1.7 million workers, or approximately 84 percent of the total of 2.0 million workers employed in the Air Service Area.

The effects of the national economic recession in the early 2000s and the Technology Industry recession on employment in the Air Service Area and the Bay Area were unmistakable and substantial. With a high concentration of jobs in a few industries, as well as the highly specialized economy of Silicon Valley (high technology, biotech, semiconductors, and computer manufacturing), the Air Service Area employment numbers showed significant decreases between 2001 and 2004. While the government sector was insulated from the effects of the economy, the other three major industries lost jobs at compound annual rates of 9.0 percent for the manufacturing industry, 3.1 percent for the trade industry, and 2.6 percent for the services industry during this period.

With the exception of manufacturing, the period from 2004 through 2007 showed signs of recovery among the industries, as positive year-over-year growth in employment was experienced during this period. Although manufacturing decreased at a compound annual rate of 1.3 percent between 2004 and 2007, services increased at a CAGR of 2.6 percent, trade at 1.2 percent, and government at 0.5 percent.

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[6] United States Bureau of Labor Statistics, Office of Occupational Statistics and Employment Projections, *Occupational Outlook Handbook, 2010-11 Edition.*

Table I-9

Major Silicon Valley Employers [1/]

Rank	Employer	Product or Service	Number of Employees in Air Service Area
1	Cisco Systems Inc.	Networking	17,100
2	County of Santa Clara	Government	15,000
3	Kaiser Permanente Northern California	Health Care	13,501
4	Stanford University, SLAC National Accelerator Laboratory	Higher Education, Academic Research	11,979
5	Apple Inc.	Computer and Consumer Electronic Products	10,000
6	Oracle Corp.	Business Software	8,000
7	Lockheed Martin Space Systems Co.	Aerospace	7,845
8	State of California	State Government	7,454
9	Stanford Hospital & Clinics	Health Care	7,294
10	Google Inc.	Internet Applications	6,000
11	San Mateo County	Government	5,600
12	City of San Jose	Government	5,252 [2/]
13	Intel Corp.	Semiconductors Manufacturer	5,090
14	Yahoo Inc.	Internet Information Provider	4,895
15	County of Monterey	Government	4,848
16	New United Motor Manufacturing Inc.	Automobile Manufacturer	4,700
17	San Jose State University	State University	4,693
18	IBM Corp.	Information Technology	4,100
19	Wells Fargo Bank	Financial Services	4,049
20	University of California, Santa Cruz	Public University	4,000
21	U.S. Postal Service	Shipping and Mailing Services	3,885
22	Applied Materials Inc.	Nanomanufacturing Technology	3,500
22	Lucile Salter Packard Children's Hospital at Stanford	Children's Health Care	3,500
24	Department of Veterans Affairs, Palo Alto Health Care Syster	Veteran's Health Care	3,464
25	eBay Inc.	E-commerce	3,300
26	San Jose Unified School District	School District	3,035
27	AT&T Inc.	Telecommunications	3,000
27	Palo Alto Medical Foundation	Health Care	3,000
29	NVIDIA Corp.	Semiconductors	2,723
30	Juniper Networks Inc.	Networking	2,700
30	Sun Microsystems Inc.	Computer Software, Services, Microelectronics	2,700
30	VMware Inc.	Software Developer	2,700
33	Fremont Unified School District	School District	2,684
34	NetApp Inc.	IT-Storage/Date Management	2,496
35	El Camino Hospital	Health Care	2,368
36	Space Systems/Loral	Satelite Manufacturer	2,350
37	Community Hospital of the Monterey Peninsula	Health Care	2,300
37	County of Santa Cruz	Government	2,300
37	Salinas Valley Memorial Healthcare System	Health Care	2,300
40	Symantec Corp.	Software Developer	2,200
41	Sanmina-SCI Corp.	Electronics Manufacturer	2,170
42	Pacific Gas and Electric Co.	Electric and Gas Utility	2,154
43	SAP Labs U.S.	Business Software	2,109
44	Santa Clara Valley Transportation Authority	Transportation and Congestion Management	2,053
45	Hewlett-Packard Co.	Computer Products	2,001
46	Brocade Communications Systems Inc.	Networking	2,000
46	Electronic Arts Inc.	Video Games	2,000
46	Hitachi Global Storage Technologies/Hitachi America Ltd.	Hard Disk Drive Manufacturer	2,000
46	Pajaro Valley Unified School District	School District	2,000
46	Western Digital Corp.	Hard Disk Drive Manufacturer	2,000

Notes:

1/ The Business Journal's list defines Silicon Valley to include: Santa Clara County; Fremont, Newark, and Union City in Alameda County; Atherton, Belmont, East Palo Alto, Foster City, Menlo Park, Portola Valley, Redwood City, San Carlos, San Mateo, and Woodside in San Mateo County; San Benito County, Santa Cruz County, and Monterey County.

2/ The City of San Jose's FY 2012 Proposed Operating Budget includes approximately 5,252 full-time equivalent positions.

Source: San Jose/Silicon Valley Business Journal 2011 Book of Lists (December 2010 CD); City of San Jose, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Table I-10

"Fortune 500" Companies Headquartered in the Air Service Area and the Bay Area--2010

Air Service Area

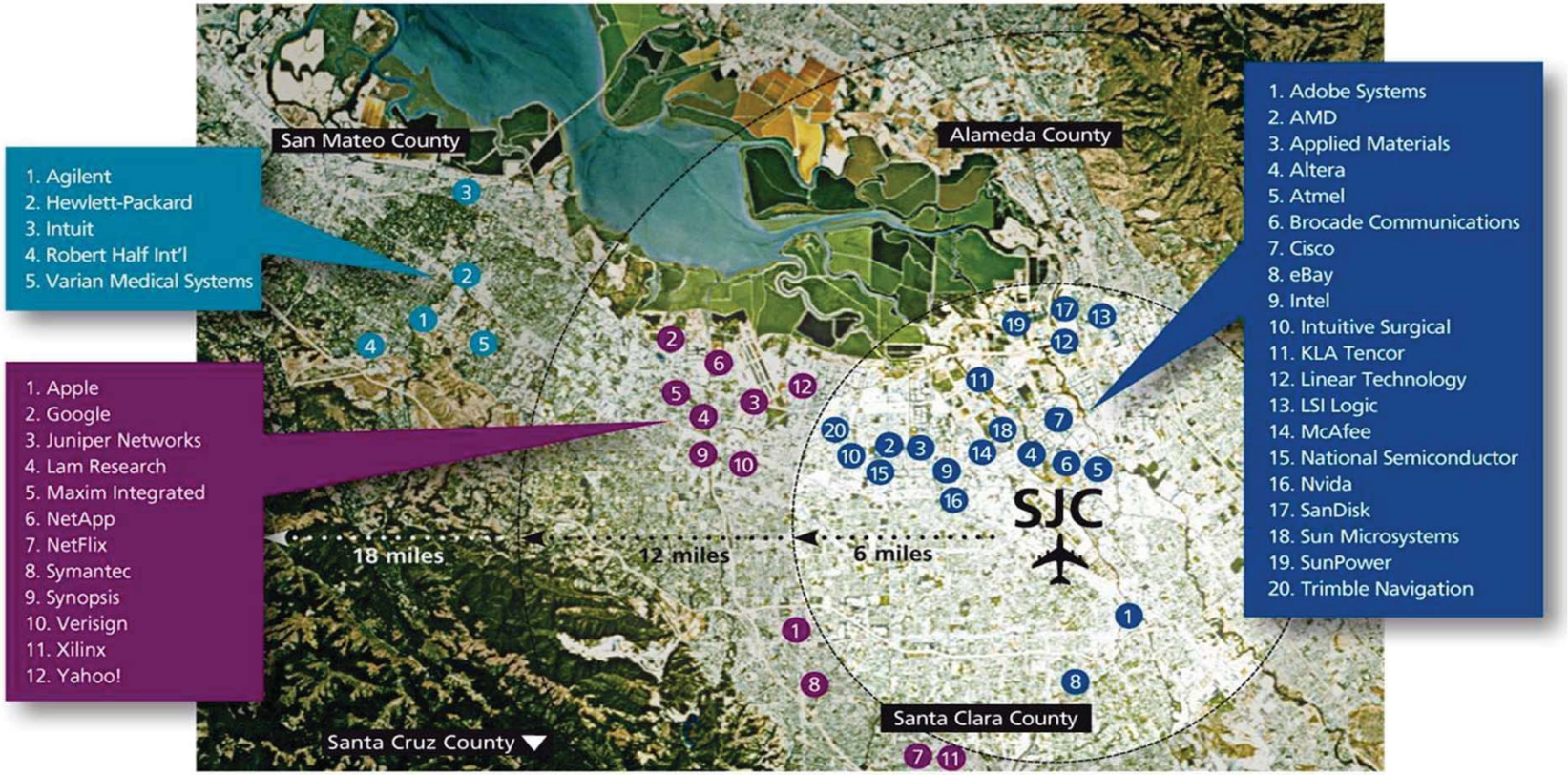
	Company	City	County	Revenues ($ millions)	Fortune 500 rank	State Rank (of 57 Fortune (500s in CA)
1	Hewlett-Packard	Palo Alto	Santa Clara	$ 114,552	10	2
2	Safeway	Pleasanton	Alameda	40,851	52	5
3	Apple	Cupertino	Santa Clara	36,537	56	6
4	Cisco Systems	San Jose	Santa Clara	36,117	58	8
5	Intel	Santa Clara	Santa Clara	35,127	62	10
6	Google	Mountain View	Santa Clara	23,651	102	12
7	Oracle	Redwood City	San Mateo	23,252	105	13
8	Sun Microsystems	Santa Clara	Santa Clara	11,449	204	22
9	eBay	San Jose	Santa Clara	8,727	267	25
10	Synnex	Fremont	Alameda	7,756	294	27
11	Ross Stores	Pleasanton	Alameda	7,184	316	29
12	Gilead Sciences	Foster City	San Mateo	7,011	324	30
13	Yahoo	Sunnyvale	Santa Clara	6,460	343	33
14	Symantec	Mountain View	Santa Clara	6,150	353	35
15	Clorox	Oakland	Alameda	5,450	384	39
16	Advanced Micro Devices	Sunnyvale	Santa Clara	5,403	390	41
17	Sanmina-SCI	San Jose	Santa Clara	5,178	405	44
18	Core-Mark Holding	South San Francisco	San Mateo	5,016	419	46
19	Applied Materials	Santa Clara	Santa Clara	5,014	421	47
20	Agilent Technologies	Santa Clara	Santa Clara	4,481	461	50
21	Con-way	San Mateo	San Mateo	4,269	483	53
22	Electronic Arts	Redwood City	San Mateo	4,212	494	55
23	Franklin Resources	San Mateo	San Mateo	4,194	495	56
				$ 408,041		

Other Counties in the Bay Area

	Company	City	County	Revenues ($ millions)	Fortune 500 rank	State Rank (of 57 Fortune (500s in CA)
1	Chevron	San Ramon	Contra Costa	$ 163,527	3	1
2	McKesson	San Francisco	San Francisco	106,632	14	3
3	Wells Fargo	San Francisco	San Francisco	98,636	19	4
4	Gap	San Francisco	San Francisco	14,197	162	18
5	PG&E Corp.	San Francisco	San Francisco	13,399	173	19
6	URS	San Francisco	San Francisco	9,249	252	24
7	Visa	San Francisco	San Francisco	6,911	326	31
8	Charles Schwab	San Francisco	San Francisco	4,414	465	51
				$ 416,965		

Source: Fortune Magazine, January 2011.

Prepared by: Ricondo & Associates, Inc., February 2011.



Source: Bloomberg Financial, Securities and Exchange Commission, San Jose Mercury News, April 2010.
Prepared by: San José Norman Y. Mineta International Airport, February 2011

Exhibit I-4

Silicon Valley Companies
Located Around the Airport

While retail sales are an indicator of consumer spending, they can also be linked to the retail trade sector's employment, as revenues generated by retail sales contribute to salaries and employment. Retail sales consist of all net sales (gross sales minus refunds and allowances for returns). **Table I-11** presents the total retail sales volumes for the Air Service Area, the Bay Area, California, and the United States. As shown, the Air Service Area's retail sales volumes increased at a CAGR of 1.2 percent between 2000 and 2007, compared to 1.5 percent for the Bay Area, 2.2 percent for California, and 1.9 percent for the nation during this same period. While the recent recession contributed to decreases in retail sales in 2008 and 2009 for each area depicted, retail sales are projected to increase at a CAGR of 2.2 percent in the Air Service Area and in the Bay Area between 2009 and 2017, comparable to the 2.5 percent growth projected for California and the 2.4 percent growth projected for the nation during this same period.

1.7.2 Construction, Financial/Insurance/Real Estate, Information, and Transportation/Utilities

The construction, financial/insurance/real estate (FIRE), information, and transportation/utilities sectors collectively represented approximately 16 percent of the total nonagricultural employment in the Air Service Area in 2009.

As shown in Table I-7, the Air Service Area's employment in the construction industry decreased from 123,200 employees in 2001 to 115,400 in 2004, a compound annual decrease of 2.2 percent during this period. Construction employment in the Air Service Area, however, nearly rebounded to 2001 levels of employment with 122,700 employees in 2007, increasing at a CAGR of 2.1 percent between 2004 and 2007. With the nationwide downturn in construction, which hit California especially hard, construction employment in the Air Service Area decreased from 122,700 in 2007 to 89,600 in 2009, a compound annual decrease of 14.5 percent during this period. This recent trend can also be seen for the Bay Area and the nation, as construction employment for these areas decreased at a compound annual rate of 14.1 percent and 10.2 percent, respectively, during this same period.

The FIRE industry represented approximately 4.2 percent of the total nonagricultural employment in the Air Service Area in 2009. This percentage is lower than in the Bay Area and the United States where FIRE employment accounted for 5.8 percent and 5.9 percent of nonagricultural employment in 2009, respectively. Similar to nationwide trends, FIRE employment in the Air Service Area and the Bay Area remained relatively constant between 2001 and 2007, followed by decreases in 2008 and 2009.

The information industry represented approximately 3.8 percent of the total nonagricultural employment in the Air Service Area in 2009. This percentage is higher than in the Bay Area and the United States where information jobs accounted for 3.6 percent and 2.1 percent of nonagricultural employment in 2009, respectively. During the period from 2001 to 2004, information industry employment in the Air Service Area decreased at a compound annual rate of 7.4 percent (compared to compound annual decreases of 8.2 percent for the Bay Area and 4.9 percent for the nation). From 2004 to 2009, employment in the information industry remained relatively flat (compared to slight decreases in the Bay Area and for the nation).

The transportation/utilities industry represented approximately 3.3 percent of the total nonagricultural employment in the Air Service Area in 2009. This percentage is higher than in the Bay Area and lower than in the United States. During the period from 2001 to 2004, the transportation/utilities industry employment decreased at a compound annual rate of 6.3 percent, followed by a period of

Table I-11

Retail Sales
(Amounts in Millions of 2005 Dollars)

Calendar Year	Air Service Area	Bay Area	California	United States
Historical				
2000	$63,263	$95,174	$413,428	$3,613,909
2001	$63,588	$96,297	$422,779	$3,627,082
2002	$63,270	$96,446	$431,845	$3,642,407
2003	$63,935	$97,650	$442,761	$3,727,549
2004	$65,608	$100,346	$459,285	$3,869,610
2005	$67,159	$102,865	$472,584	$3,992,285
2006	$68,322	$104,721	$481,268	$4,084,437
2007	$68,693	$105,334	$482,702	$4,109,239
2008	$66,386	$101,637	$463,926	$3,947,379
2009	$62,299	$95,229	$433,509	$3,682,032
Projected				
2017	74,240	113,453	$527,428	$4,465,222
CAGR				
2000 - 2007	1.2%	1.5%	2.2%	1.9%
2007 - 2009	(4.8%)	(4.9%)	(5.2%)	(5.3%)
2009 - 2017	2.2%	2.2%	2.5%	2.4%

Sources: Woods & Poole Economics, Inc., November 2010.
Prepared by: Ricondo & Associates, Inc., February 2011.

slight recovery between 2004 and 2007. Between 2007 and 2009, employment in the transportation/utilities industry decreased at a compound annual rate of 5.1 percent.

1.8 Housing and Commercial Real Estate Market

According to the most recent data from the National Association of Realtors, the median sales price of existing single family homes in the San Jose-Sunnyvale-Santa Clara MSA increased from $585,000 in Q4 2009 to $591,000 in Q4 2010, a 1.0 percent increase. The median sales price of existing single-family homes for the United States as a whole increased from $170,300 in Q4 2009 to $170,600 in Q4 2010 (a 0.2 percent increase). Although the March 2011 median home price for single family homes within the City of San Jose fell 5.9 percent below the March 2010 median, the overall Air Service Area housing market may be recovering more quickly than the rest of the nation.

Based on data from the Bureau of the Census as of December 31, 2010, total residential single-family building permits for the San Jose-Sunnyvale-Santa Clara MSA increased by 34.1 percent from 2009 to 2010, compared to a 0.7 percent increase for California and a 1.4 percent increase for the United States. The increase in building permits could be an indicator of increased housing construction in 2011.

The California Association of Realtors recently concluded that 2010 was a year of transition toward stability, based on 2010 performance in terms of median price, sales, and unsold inventory. The California Association of Realtors predicts that 2011 will continue to move forward toward stabilization, expecting median prices to increase approximately 2.0 percent with foreclosures expected to remain high in 2011 (as unemployment rates are expected to remain relatively high in 2011).

According to the Allen Matkins/UCLA Anderson Forecast (Winter/Spring 2011), the Silicon Valley and Bay Area office markets, as with the rest of California office markets, are characterized by "falling rental rates, vacancy rates in the mid to high teens, and little construction activity." The forecast states that their recent Bay Area Office Market Survey is showing signs of recovery in the Bay Area and Silicon Valley office markets. The report predicts "rental rates and occupancy rates increasing sharply in the next two to three years as increased demand for technology and software push up employment in office using fields."

If the first quarter of 2011 is an indication of the turnaround in the Silicon Valley office market, sharp increases in rental rates and occupancy rates have begun. According to real estate brokerage firm Jones Lang LaSalle, the amount of occupied office space in Silicon Valley is on pace to increase by 3.0 million square feet in 2011, which would be the largest one-year increase since 1999.[7] Rents for the best space in the most highly desired market, downtown Palo Alto, are up 25.1 percent from a year ago, while the vacancy rates has fallen from 14.0 percent in 1Q 2010 to 7.3 percent in 1Q 2011, the brokerage firm reported.

1.9 Venture Capital

Venture capital is financial capital provided to early-stage, high growth potential startup companies. According to the National Venture Capital Association, the leading trade association representing the venture capital industry in the country, approximately 11 percent of private sector jobs comes from venture capital-based companies, and venture capital-backed revenues account for approximately 21 percent of United States Gross Domestic Product. These investments benefit several industries, with

[7] Jones Lang LaSalle defines Silicon Valley as Cupertino/West Valley, Fremont/Newark, Milpitas, Mountain View, Palo Alto, San Jose, Santa Clara, and Sunnyvale.

the software, semiconductors and networking industries ranking as the top three sectors among all. Other sectors that receive venture capital funding include health care, consumer technology, biotechnology, IT services and infrastructure, clean/"green" technology, digital media and financial services.

Table I-12 presents venture capital investment in the United States between 2000 and 2010. As shown, Silicon Valley accounted for 30.9 percent to 39.9 percent of total venture capital during this period. After reaching a high of $32.1 billion in 2000 prior to the Technology Industry recession, venture capital to Silicon Valley averaged approximately $8.5 billion per year between 2002 and 2010. On a weighted average basis, venture capital to Silicon Valley averaged 36.5 percent of the total United States amount during this period. The NASDAQ crash and Technology Industry slump that started in March 2000 unsettled the venture capital industry, as valuations for startup technology companies collapsed. The recovery in venture capital investments started in 2003, supporting and feeding the general economic recovery. While venture capital funding to Silicon Valley startups slowed to 32.2 percent of the total in the first quarter of 2010, this percentage share increased to 43.6 percent of the total in the second quarter of 2010, 36.3 percent in the third quarter of 2010, and 39.9 percent in the fourth quarter of 2010 (39.0 percent for the entire year).

As shown in **Exhibit I-5**, Silicon Valley ranked first among all regions to receive venture capital investment in 2010 with approximately $8.5 billion (39.0 percent of the total amounts invested nationwide). In California, the Los Angeles/Orange County and San Diego regions also benefit from significant amounts of venture capital investment, with approximately $1.6 billion and $847 million, respectively, in 2010.

Table I-12

Venture Capital Investment--United States
(Billions of Dollars)

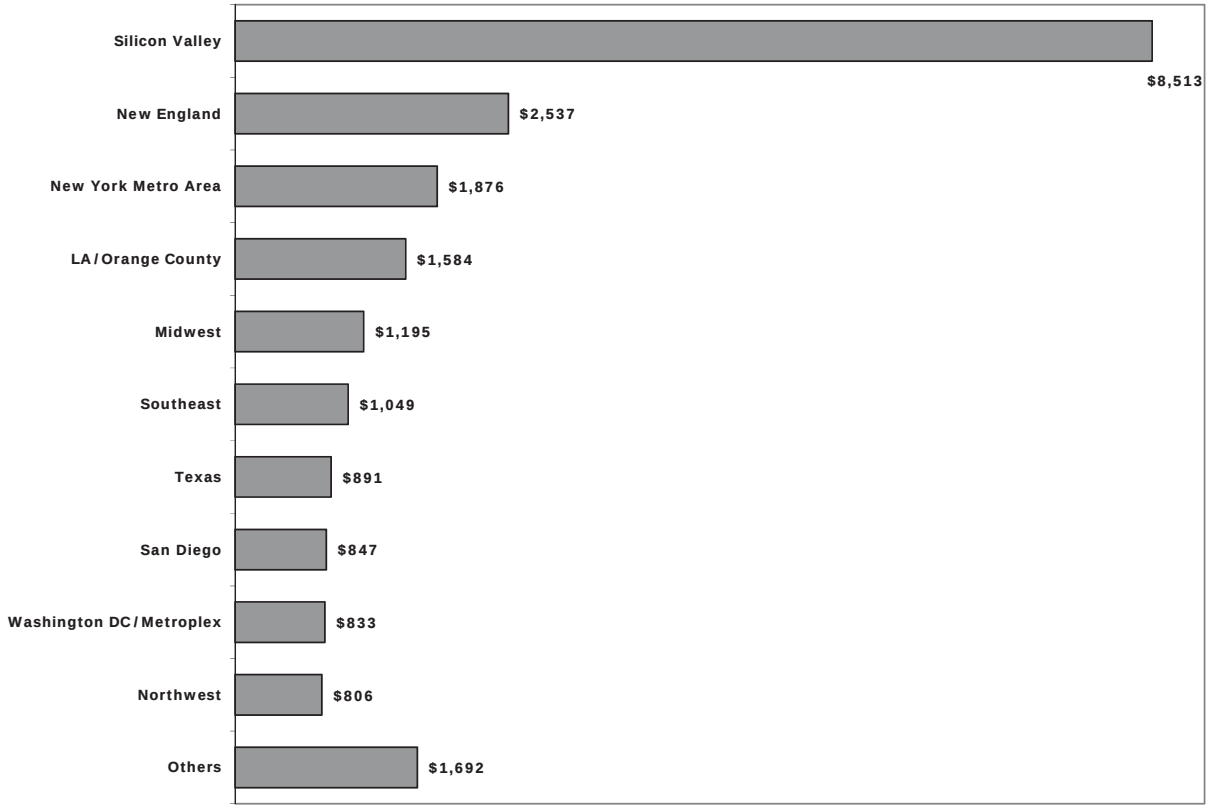
Calendar Year	Silicon Valley [1/]	Other Areas	Total U.S. [2/]	Silicon Valley Percent of U.S.
2000	$32.1	$67.9	$100.1	32.1%
2001	$11.8	$26.4	$38.2	30.9%
2002	$6.8	$14.0	$20.9	32.7%
2003	$6.4	$12.5	$18.9	33.7%
2004	$7.8	$14.0	$21.8	35.6%
2005	$8.1	$14.5	$22.6	35.6%
2006	$9.5	$16.6	$26.1	36.3%
2007	$10.9	$19.1	$30.0	36.4%
2008	$10.9	$17.2	$28.1	38.9%
2009	$7.3	$11.0	$18.3	39.9%
2010	$8.5	$13.3	$21.8	39.0%

Notes:
1/ Defined as "Northern California, bay area, and coastline" in source report.
2/ Totals may not add due to rounding.

Source: PricewaterhouseCoopers/National Venture Capital Association Moneytree Report, January 2011.
Prepared by: Ricondo & Associates, Inc., March 2011.

Exhibit I-5

United States Venture Capital Investment by Region – 2010 Total ($ millions)



Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree Report, 2010.
Prepared by: Ricondo & Associates, Inc., March 2011.

1.10 Gross Domestic Product

As reflected in **Table I-13**, Gross Domestic Product (GDP) for the San Jose-Sunnyvale-Santa Clara MSA (which includes Santa Clara County and San Benito County) decreased from $118.1 billion in 2001 to $110.4 billion in 2002 (a 6.5 percent decrease) primarily due to the Technology Industry recession and generally remained at that level in 2003. However, its GDP grew at a CAGR of 6.4 percent between 2003 and 2008, compared to a 6.1 percent CAGR for the 12-County Area, a 5.7 percent CAGR for California, and a 5.2 percent CAGR for the nation. Due to the recent global recession, GDP for all four areas decreased in 2009 from 2008 levels.

GDP for the San Jose-Sunnyvale-Santa Clara MSA as a percentage of GDP for the 12-County Area, California, and the United States has remained relatively steady since 2003.

1.11 Cultural and Recreational Attractions

The Air Service Area enjoys a wide range of cultural, sporting, and recreational attractions that contribute to the quality of life in the region and attract visitors from all over the world. It is home to numerous major sporting and entertainment venues, museums, a world-renowned aquarium, theme parks, retail centers, and other attractions.

Table I-13

Gross Domestic Product
(Amounts in Billions of Dollars)

	San Jose-Sunnyvale-Santa Clara (MSA) [1/]						
Calendar Year	Amount	Share of 12-County Area GDP	Share of California GDP	Share of United States GDP	12-County Area	California	United States
2001	$118.1	28.9%	8.8%	1.1%	$408.9	$1,338.1	$10,286.2
2002	$110.4	27.3%	8.0%	1.0%	$404.4	$1,385.7	10,642.3
2003	$111.3	26.7%	7.6%	1.0%	$417.1	$1,460.3	11,142.1
2004	$120.1	27.1%	7.6%	1.0%	$442.4	$1,571.2	11,867.8
2005	$129.6	27.0%	7.7%	1.0%	$480.5	$1,692.0	12,638.4
2006	$139.1	27.2%	7.7%	1.0%	$511.5	$1,800.8	13,398.9
2007	$149.1	27.6%	7.9%	1.1%	$540.6	$1,881.8	14,061.8
2008	$151.9	27.1%	7.9%	1.1%	$560.9	$1,925.5	14,369.1
2009	$147.4	26.7%	7.8%	1.0%	$552.8	$1,884.5	14,119.0
CAGR							
2001 - 2002	(6.5%)				(1.1%)	3.6%	3.5%
2002 - 2003	0.8%				3.1%	5.4%	4.7%
2003 - 2008	6.4%				6.1%	5.7%	5.2%
2008 - 2009	(3.0%)				(1.4%)	(2.1%)	(1.7%)

Notes:
1/ Includes Santa Clara County and San Benito County.
N/A = Not available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 2011.
Prepared by: Ricondo & Associates, Inc., March 2011.

Noteworthy attractions and venues in the Air Service Area include:

- HP Pavilion
- The Tech Museum
- Children's Discovery Museum
- San Jose McEnery Convention Center
- San Jose Event Center
- San Jose Museum of Art
- Shoreline Amphitheatre
- Opera San Jose
- Happy Hollow Park & Zoo
- Santa Clara Convention Center
- Logitech Ice at San Jose
- Lick Observatory
- Santana Row Retail Center
- Stanford Shopping Mall
- Monterey Bay Aquarium
- Cannery Row
- Mazda Raceway Laguna Seca

Construction will begin in 2011 to renovate and expand the 192,000 square foot San Jose McEnery Convention Center. In addition to renovating the existing facilities, this two-year construction project will add 35,000 square feet of new ballroom space and 25,000 square feet of additional breakout space (approximately 30 percent of new space to the existing base).

San Jose is home to the National Hockey League's San Jose Sharks and the Arena Football League's San Jose SaberCats. Both of these teams play their home games at the HP Pavilion in San Jose, a 17,500-seat indoor arena that hosts an average of 190 events a year, including many non-sporting events (concerts, Cirque Du Soleil, etc.). San Jose's Major League Soccer team, the San Jose Earthquakes play at Buck Shaw Stadium at Santa Clara University. San Jose State University, Santa Clara University, and Stanford University each compete in various NCAA Division I sports including football, basketball, volleyball, track & field, golf, and others. Venues include Stanford Stadium, Spartan Stadium at San Jose State University, and Buck Shaw Stadium at Santa Clara University. The George F. Haines International Swim Center located in the City of Santa Clara has produced over 50 United States Olympic and World Record swimmers, divers, and synchronized swimmers.

Prominent theme parks located in the Air Service Area include Santa Cruz Beach Boardwalk, California's Great America in Santa Clara, Raging Waters, and Gilroy Gardens.

Important events and festivals that occur annually in the Air Service Area include, among others, the San Jose Jazz Festival, San Jose's Cinco de Mayo Parade and Festival, the Monterey Jazz Festival, the Silicon Valley Marathon, the Gilroy Garlic Festival, the Pebble Beach National Pro-Am Golf Tournament, the Watsonville Strawberry Festival, the Monterey Historic Automobile Races at Mazda Raceway Laguna Seca, and the Pebble Beach Concours d'Elegance Car Show.

The Airport's proximity to popular tourist destinations in Northern California, in driving miles, is reflected below.

Destination	Driving Miles from the Airport
Santa Cruz, CA	30
Downtown San Francisco	45
Monterey, CA	75
Carmel, CA	80
Napa, CA	80
Sonoma, CA	90
Yosemite National Park	190
Lake Tahoe	215

1.12 Economic Outlook

Despite showing some signs of improvement from the recent global economic recession, the United States economy continues to experience weakness in housing construction, consumer spending, and business investment, as well as relatively high unemployment rates and low GDP growth.[8]

The most recently published surveys of leading economists by Blue Chip Economic Indicators and the National Association for Business Economics (NABE) indicate consensus for modest GDP growth in 2011.[9] The Blue Chip Economic Indicators and the NABE forecast panels both project an annual unemployment rate of 8.5 percent for the United States in 2011, and both expect consumer spending to be restrained as savings-conscious households reduce debt. The California Department of Finance currently projects that the unemployment rate for California will decrease to 12.1 percent in 2011, 11.3 percent in 2012, and 10.0 percent in 2013.

The Blue Chip Economic Indicators forecast annual GDP growth of 2.9 percent for the United States in 2011. The NABE forecasts 2.8 percent growth in GDP for the United States in 2011.

As discussed in earlier sections of this chapter, population, per capita personal income, and employment are all projected to grow in the Air Service Area during the Projection Period.

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8 Building Permits - States and Metro Areas, National Association of Homebuilders, http://www.nahb.org/reference_list.aspx?sectionID=130, accessed January 2011; Table 2.1. Personal Income and Its Disposition, Bureau of Economic Analysis, http://www.bea.gov/national/nipaweb/TableView.asp, accessed January 2011; Table 5.3.2. Contributions to Percent Change in Real Private Fixed Investment by Type and Table 5.6.6B. Change in Real Private Inventories by Industry, Chained Dollars, Bureau of Economic Analysis, http://www.bea.gov/national/nipaweb/ TableView.asp, accessed January 2011; Labor Force Statistics from the Current Population Survey, Bureau of Labor Statistics, http://www.bls.gov/cps/, accessed January 2011; Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product, Bureau of Economic Analysis, http://www.bea.gov/national/nipaweb/TableView.asp, accessed January 2011.

9 *Blue Chip Economic Indicators*, Vol. 36, No. 4, April 10, 2011, Aspen Publishers; *NABE Outlook*, May 2011, National Association for Business Economics.

A January 2011 forecast from the University of the Pacific Business Forecasting Center predicts San Jose's employment growth in 2011 to be 1.5 percent (compared to 1.0 percent for California and 0.5 percent for both Oakland and San Francisco). The forecast cites the concentration of fast-growing industries like the Technology Industry in San Jose, while the economies of other cities depend on industries that have been slower to rebound, such as financial services in San Francisco. Statewide, an increase of 5.3 percent in Information Technology jobs in March 2011 outpaced all other industries, as companies, particularly in the Bay Area, continued to expand amid booming demand for social networking, clean technology, and other services.

A December 2010 survey by the National Venture Capital Association and Dow Jones (with responses from 330 venture capitalists and 118 chief executive officers of United States-based venture capital firms), reflects that venture capital investment in the United States is expected to increase in 2011, and Silicon Valley is expected to continue to rank first among all areas across the nation receiving venture capital investment. Fifty-one percent of all respondents expect venture capital investment to increase in 2011, while 58 percent of chief executive officers responding expect 2011 investment to increase. Approximately 79 percent of venture capitalist respondents and 68 percent of chief executive officers predict that Silicon Valley will remain the most active region of investment in the United States.

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II. Air Traffic

This chapter describes historical traffic activity at the Airport; key factors affecting these activity levels; and assumptions and methodologies analyzed and incorporated in projections of Airport activity. Following an Airport overview (Section 2.1), this chapter discusses Bay Area airport regional aviation demand and air service (Section 2.2), airlines serving the Airport (Section 2.3), historical passenger activity at the Airport (Section 2.4), historical air service at the Airport (Section 2.5), historical aircraft operations and landed weight at the Airport (Section 2.6), factors affecting aviation demand and the airline industry (Section 2.7), and projections of aviation demand at the Airport (Section 2.8) for the period FY 2011 to FY 2017 (the Projection Period).

It should be noted that some tables and exhibits in this chapter reflect fiscal year information and others reflect calendar year information, depending upon the availability of data.

2.1 Airport Overview

The Airport is classified by the FAA as a Medium Hub airport based on its percentage of nationwide enplaned passengers and ranked 42nd nationwide in terms of enplaned passengers in CY 2009.

The Airport's facilities (described in Chapter III of this report) accommodate a wide variety of aviation activity, including commercial passenger airlines, all-cargo airlines, and general aviation. A diverse mix of airlines provide service from the Airport with scheduled air service available to 27 non-stop destinations including 17 of the Airport's 20 top O&D destinations (as of June 2011). As presented in Section 2.3 of this report, as of June 15, 2011, scheduled passenger service is provided by the following airlines:

- Mainline – Alaska Airlines, American Airlines, Continental Airlines, Delta Air Lines, Hawaiian Airlines, JetBlue Airways, Southwest Airlines, United Airlines, and US Airways (formerly America West).
- Regional/commuter – American Eagle Airlines, Horizon Air, and SkyWest.
- Foreign flag – Volaris.

Aviation activity at the Airport is also augmented by air cargo and general aviation activity. Three all-cargo airlines operate at the Airport, namely Air Transport International, FedEx, and United Parcel Service.

Enplaned passengers at the Airport increased significantly between FY 1981 through FY 2001, as significant growth occurred in the Technology Industry and various airlines (including PSA, AirCal, Southwest Airlines, and Reno Air) started or increased service at the Airport and American Airlines established a hub at the Airport in FY 1990. Between FY 1981 and FY 2001, annual enplaned passengers at the Airport increased from approximately 1.4 million to approximately 6.9 million, representing a compounded annual growth rate (CAGR) of approximately 8.5 percent. In FY 2002, following the September 11th terrorist attacks, the nationwide recession, and the Technology Industry recession, enplaned passengers decreased approximately 17.6 percent compared to FY 2001. Enplaned passengers at the Airport were depressed further in FY 2002 as a result of service cuts by American Airlines, which marked the beginning of American's de-hubbing at the Airport. Between FY 2003 and FY 2006, enplaned passengers increased at a CAGR of 1.3 percent. During this time,

passenger growth was limited by continued reductions in air service by American. Excluding American and American Eagle, enplaned passengers by all other airlines increased by a CAGR of 4.7 percent during that timeframe.

Since FY 2007, enplaned passengers at the Airport have decreased each Fiscal Year to approximately 4.1 million enplaned passengers in FY 2010. In addition to the economic recession that the nation entered in December 2007, Airport enplaned passengers between FY 2007 and FY 2010 were impacted by high oil prices and increased airline competition in the Bay Area. The initiation of service at San Francisco International Airport (SFO) by Virgin America and Southwest's pre-emptive re-initiation of service at SFO resulted in a shifting of enplaned passenger market shares among Bay Area airports.

Data regarding monthly enplaned passengers at the Airport for the period FY 2005 through FY 2011 YTD (through March 2011), is presented in **Exhibit II-1**. Included in Exhibit II-1 are total monthly enplaned passenger levels, the year-over-year percentage change for each month, and the percentage change of the rolling 12-month total enplaned passenger count. As shown, year over year enplaned passenger declines at the Airport during this period were most severe in March 2009 with more than a 23 percent decrease in monthly enplaned passengers compared to March 2008. With the exception of October 2010, year-over-year enplaned passenger growth was experienced in each month between September 2010 and March 2011, with year-over-year increases of 4.8 percent in November 2010, 4.1 percent in December 2010, 7.5 percent in January 2011, 6.8 percent in February 2011, and 4.6 percent in March 2011, respectively.

Since July 2010, the rolling 12-months percentage change in Airport enplaned passengers as compared to the prior year is positive; a trend that indicates that enplaned passengers at the Airport are increasing.

2.2 Bay Area Airport Passenger Demand and Air Service

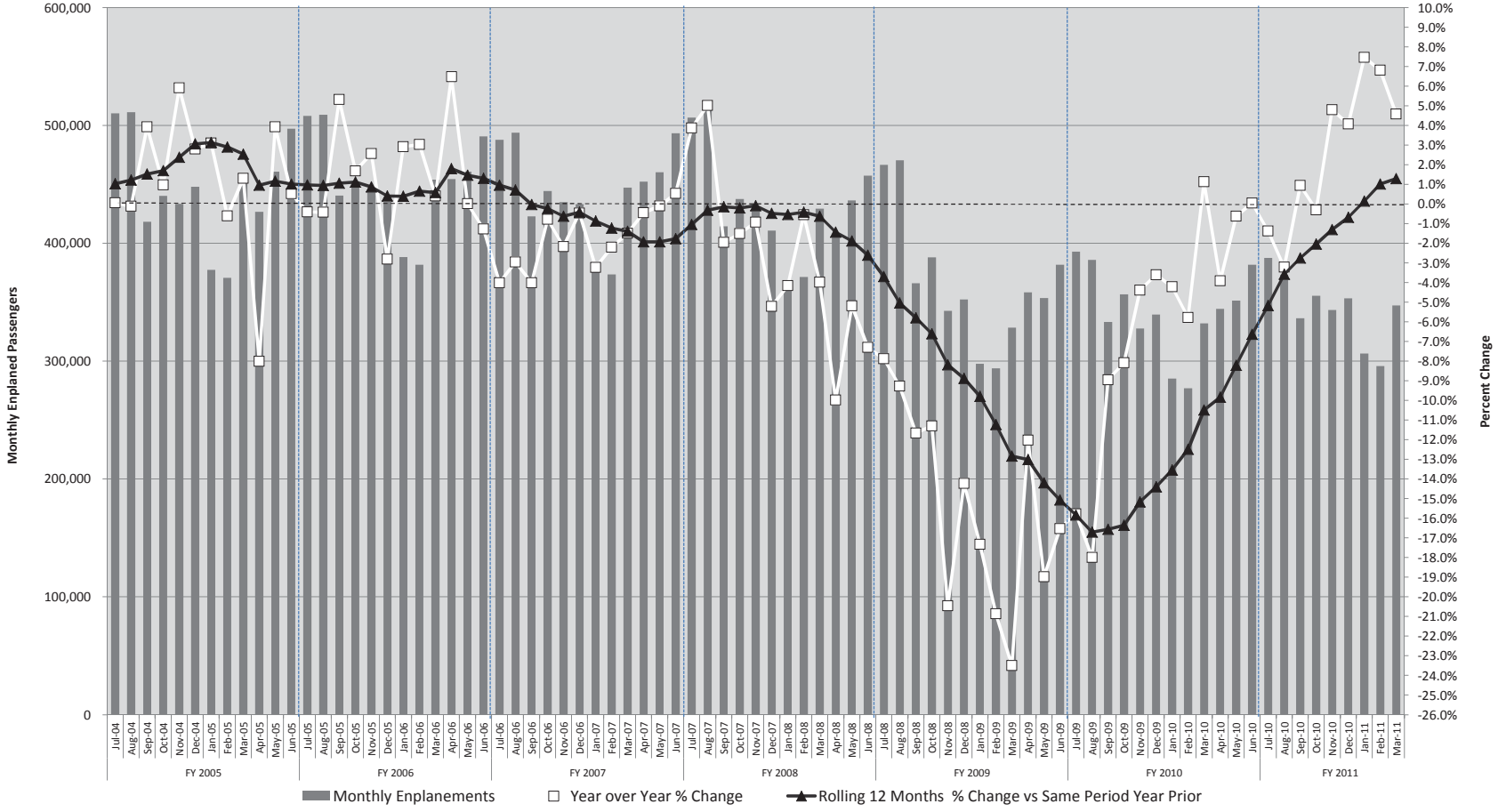
The Bay Area is served by three commercial service airports - the Airport, Oakland International Airport (OAK), and SFO. As shown earlier in Exhibit I-1, SFO is located in northern San Mateo County, approximately 34 driving miles northwest of the Airport, while OAK is located in Alameda County, approximately 36 driving miles north of the Airport. These three airports serve the entire 12-County Area, ranging from Sonoma County to the north and Monterey County to the south. This section provides an overview of historical passenger demand, travel patterns, and air service levels from each of the three primary Bay Area Airports.

2.2.1 Bay Area Airport Passenger Demand

Both the Airport and OAK serve predominately domestic origin and destination (O&D) traffic on short- to medium-haul routes. SFO is considered the Bay Area's international gateway, serving as the primary point of departure and arrival for international passengers traveling between Pacific Rim countries and the United States. In addition, SFO is a major domestic hub and the principal international gateway to Asian/Pacific destinations for United Airlines. Each of the three airports operates with fiscal years ending June 30.

A 2009 survey of Bay Area residents conducted for the Regional Airport Planning Committee of the Association of the Bay Area Governments (ABAG) identified that 71 percent of respondents had taken at least one commercial passenger airline trip in the last 12 months that originated at a Bay

Exhibit II-1
Monthly Enplaned Passengers (SJC)



Source: San José Norman Y. Mineta International Airport, April 2011.

Prepared by: Ricondo & Associates, Inc., April 2011.

Area airport. Among those that had taken a commercial passenger airline trip in the last 12 months, the survey results indicated that approximately 20 percent flew mostly out of the Airport, approximately 46 percent flew mostly out of SFO, and approximately 31 percent flew mostly out of OAK. However, 59 percent of those that had taken a flight in the last 12 months indicated that they had flown out of more than one Bay Area airport during that period. These survey results highlight both the willingness of Bay Area passengers to utilize any of the airports in the region and the competition between the Airport, SFO, and OAK to capture passenger activity market share.

Table II-1 presents historical domestic and international enplaned passengers for the Airport, OAK, and SFO from FY 1997 through FY 2010. Total enplaned passengers at these three airports (including O&D and connecting passengers) decreased to approximately 28.0 million in FY 2010 (an average annual decrease of 0.4 percent over the period FY 1997 through FY 2010) after peaking in FY 2001 at approximately 32.0 million enplaned passengers. A number of factors contributed to this overall decrease, including the terrorist attacks of September 11, 2001, the Technology Industry recession, the spread of Severe Acute Respiratory Syndrome (SARS) and a new strain of swine flu, designated as H1N1, and two national recessions. Overall, the three Bay Area airports experienced a 1.5 percent increase in enplaned passengers in FY 2010 as compared to FY 2009, and experienced a 2.9 percent increase for the first nine months of FY 2011. While enplaned passengers for these three airports combined have recovered from the recent slump in FY 2009, combined passenger levels have yet to recover to the peak level experienced in FY 2001.

The Airport, however, has experienced decreases in enplaned passengers in each year from FY 2007 through FY 2010. During this period, the United States entered into an economic recession in December 2007 and two low-cost airlines initiated new service from SFO. Virgin America launched nonstop service from SFO to New York – JFK and Los Angeles in August 2007. Virgin selected SFO over other major United States airports as its principal base of operations as SFO lacked a genuine low-cost alternative after Southwest pulled out in 2001. However, Southwest returned to SFO after a six-year absence with 18 daily flights in August 2007 in order to enhance its competitive position in the Bay Area compared to other low-cost airlines. Additionally, JetBlue introduced nonstop service from SFO to Boston and New York – JFK in May 2007 and to Salt Lake City in July 2007.

Table II-2 illustrates the trends in domestic O&D passenger shares for the three airports. From FY 1999 through FY 2002, the Airport experienced an increase in its share of the domestic O&D Bay Area passengers from a 24.5 percent share in FY 1999 to a high of a 26.9 percent share in FY 2002. During the period FY 2003 to FY 2007, the Airport's share of domestic O&D passengers in the Bay Area decreased to approximately 24.2 percent. Since FY 2007, the Airport's share of domestic O&D Bay Area passengers has decreased substantially to 20.0 percent in FY 2010, primarily attributable to increased airline service, lower fares, and increased airline competition at SFO during this period. OAK's share of domestic O&D Bay Area passengers has decreased even more significantly since FY 2007 (from 33.3 percent in FY 2007 to 22.3 percent in FY 2010), whereas SFO's share has increased substantially from 40.9 percent in FY 2003 to 57.8 percent in FY 2010.

Table II-1

Comparison of Bay Area Airport Enplaned Passengers

	SJC				SFO				OAK				Total Bay Area Airports			
Fiscal Year	Domestic Enplaned Passengers	International Enplaned Passengers	Total	Airport Growth	Domestic Enplaned Passengers	International Enplaned Passengers	Total	Airport Growth	Domestic Enplaned Passengers	International Enplaned Passengers	Total	Airport Growth	Domestic Enplaned Passengers	International Enplaned Passengers	Total	Airport Growth
1997	4,947,290	139,152	5,086,442	--	16,148,720	3,406,354	19,555,074	--	4,670,211	441	4,670,652	--	25,766,221	3,545,947	29,312,168	--
1998	4,893,654	151,554	5,045,208	(0.8%)	16,490,131	3,439,006	19,929,137	1.9%	4,574,723	1,426	4,576,149	(2.0%)	25,958,508	3,591,986	29,550,494	0.8%
1999	5,297,035	172,692	5,469,727	8.4%	16,178,679	3,425,363	19,604,042	(1.6%)	4,743,156	14,437	4,757,593	4.0%	26,218,870	3,612,492	29,831,362	1.0%
2000	5,875,167	176,638	6,051,805	10.6%	16,361,868	3,786,351	20,148,219	2.8%	5,025,226	35,014	5,060,240	6.4%	27,262,261	3,998,003	31,260,264	4.8%
2001	6,723,262	214,115	6,937,377	14.6%	15,356,235	4,067,045	19,423,280	(3.6%)	5,619,735	39,713	5,659,448	11.8%	27,699,232	4,320,873	32,020,105	2.4%
2002	5,568,043	150,874	5,718,917	(17.6%)	11,926,656	3,612,399	15,539,055	(20.0%)	5,713,312	43,905	5,757,217	1.7%	23,208,011	3,807,178	27,015,189	(15.6%)
2003	5,082,877	122,110	5,204,987	(9.0%)	11,249,563	3,365,822	14,615,385	(5.9%)	6,575,442	68,653	6,644,095	15.4%	22,907,882	3,556,585	26,464,467	(2.0%)
2004	5,157,673	134,176	5,291,849	1.7%	11,706,115	3,690,024	15,396,139	5.3%	6,865,566	91,664	6,957,230	4.7%	23,729,354	3,915,864	27,645,218	4.5%
2005	5,207,491	138,142	5,345,633	1.0%	12,319,662	3,929,431	16,249,093	5.5%	7,048,894	122,247	7,171,141	3.1%	24,576,047	4,189,820	28,765,867	4.1%
2006	5,277,777	137,054	5,414,831	1.3%	12,392,819	4,097,526	16,490,345	1.5%	7,082,017	105,570	7,187,587	0.2%	24,752,613	4,340,150	29,092,763	1.1%
2007	5,216,491	102,368	5,318,859	(1.8%)	12,608,974	4,333,798	16,942,772	2.7%	7,180,316	86,854	7,267,170	1.1%	25,005,781	4,523,020	29,528,801	1.5%
2008	5,111,144	67,459	5,178,603	(2.6%)	13,807,474	4,566,015	18,373,489	8.4%	6,716,004	86,482	6,802,486	(6.4%)	25,634,622	4,719,956	30,354,578	2.8%
2009	4,339,181	60,381	4,399,562	(15.0%)	14,003,850	4,221,214	18,225,064	(0.8%)	4,903,613	52,129	4,955,742	(27.1%)	23,246,644	4,333,724	27,580,368	(9.1%)
2010	4,044,957	62,437	4,107,394	(6.6%)	14,859,869	4,240,533	19,100,402	4.8%	4,658,588	118,926	4,777,514	(3.6%)	23,563,414	4,421,896	27,985,310	1.5%
FYTD 1/																
2010	2,987,322	42,618	3,029,940		10,929,980	3,087,209	14,017,189		3,459,086	94,215	3,553,301		17,376,388	3,224,042	20,600,430	
2011	3,045,309	54,588	3,099,897	2.3%	11,296,522	3,274,842	14,571,364	4.0%	3,446,602	76,773	3,523,375	(0.8%)	17,788,433	3,406,203	21,194,636	2.9%
CAGR																
FY 1997 - 2001	8.0%	11.4%	8.1%		(1.3%)	4.5%	(0.2%)		4.7%	208.1%	4.9%		1.8%	5.1%	2.2%	
FY 2001 - 2003	(13.1%)	(24.5%)	(13.4%)		(14.4%)	(9.0%)	(13.3%)		8.2%	31.5%	8.4%		(9.1%)	(9.3%)	(9.1%)	
FY 2003 - 2006	1.3%	3.9%	1.3%		3.3%	6.8%	4.1%		2.5%	15.4%	2.7%		2.6%	6.9%	3.2%	
FY 2006 - 2010	(6.4%)	(17.8%)	(6.7%)		4.6%	0.9%	3.7%		(9.9%)	3.0%	(9.7%)		(1.2%)	0.5%	(1.0%)	
FY 1997 - 2010	(1.5%)	(6.0%)	(1.6%)		(0.6%)	1.7%	(0.2%)		(0.0%)	53.8%	0.2%		(0.7%)	1.7%	(0.4%)	

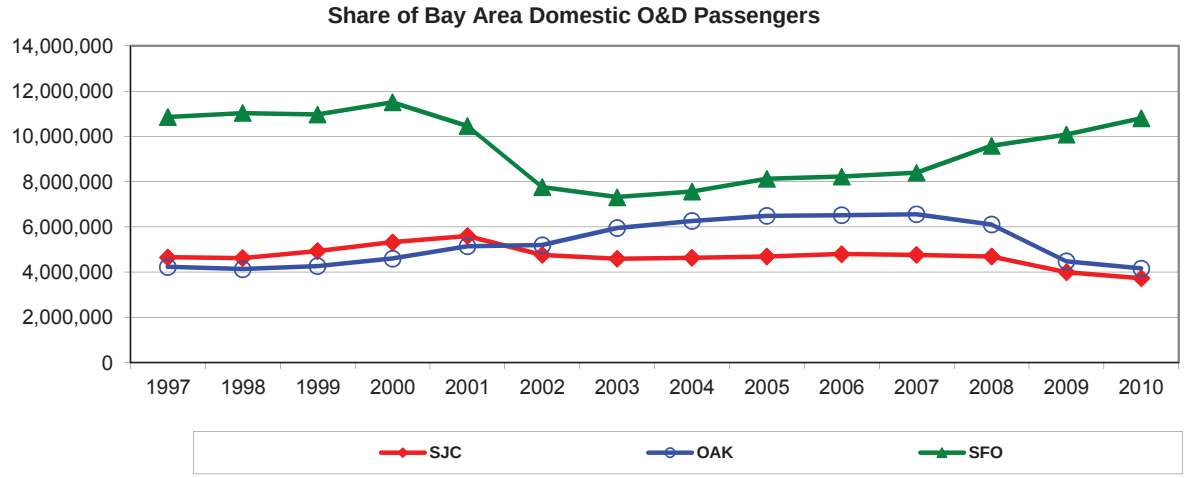
Note:
1/ Fiscal Year-To-Date (FYTD) includes July - March.

Sources: San José Norman Y. Mineta International Airport; San Francisco International Airport; Oakland International Airport, April2011.
Prepared by: Ricondo & Associates, Inc., June 2011.

Table II-2

Comparison of Bay Area Airport Domestic Originating Passengers

	O&D Passengers			Share of Total Bay Area		
Fiscal Year	SJC	OAK	SFO	SJC	OAK	SFO
1997	4,659,210	4,234,010	10,857,670	23.6%	21.4%	55.0%
1998	4,625,690	4,137,100	11,031,950	23.4%	20.9%	55.7%
1999	4,928,280	4,265,890	10,962,290	24.5%	21.2%	54.4%
2000	5,322,150	4,602,030	11,503,080	24.8%	21.5%	53.7%
2001	5,598,950	5,145,960	10,465,980	26.4%	24.3%	49.3%
2002	4,765,330	5,195,530	7,762,990	26.9%	29.3%	43.8%
2003	4,599,280	5,952,130	7,314,570	25.7%	33.3%	40.9%
2004	4,640,530	6,260,620	7,559,240	25.1%	33.9%	40.9%
2005	4,697,390	6,483,820	8,129,100	24.3%	33.6%	42.1%
2006	4,799,240	6,512,580	8,229,160	24.6%	33.3%	42.1%
2007	4,765,340	6,561,030	8,395,160	24.2%	33.3%	42.6%
2008	4,695,380	6,112,160	9,588,920	23.0%	30.0%	47.0%
2009	4,000,880	4,481,280	10,077,200	21.6%	24.1%	54.3%
2010	3,734,480	4,165,080	10,805,380	20.0%	22.3%	57.8%
FYTD 1/						
2010	1,942,410	2,187,870	5,660,980	19.8%	22.3%	57.8%
2011	1,946,800	2,184,010	5,802,210	19.6%	22.0%	58.4%



Notes:
1/ Fiscal Year-To-Date (FYTD) includes July - December.
2/ Share percentages may not total 100.0 percent due to rounding.

Source: O&D Survey of Airline Passenger Traffic, U.S. DOT, April 2011.
Prepared by: Ricondo & Associates, Inc., April 2011.

2.2.2 Overview of Bay Area Airport Air Service

Table II-3 illustrates the trends in average domestic fares and average yields for the three airports from FY 1997 through FY 2010, respectively.[1] As shown, average fares at the Airport have consistently been above average fares at OAK but substantially lower than average fares at SFO. Yields for the Airport for FY 1997 through FY 2008 were the highest for the three airports, and only recently in FY 2009 and FY 2010 have yields at the Airport dipped slightly below yields at OAK. SFO yields have declined post-FY 2008, primarily due to increased airline competition resulting from new activity by Virgin America, Southwest, JetBlue, and AirTran. Since FY 2005, average yield at the Airport has increased at a CAGR of 2.7 percent between FY 2005 to FY 2010. Since FY 2008, the spread between the average yields at both the Airport and OAK compared to SFO has grown, reflecting the significant declines in enplaned passengers and seat capacity at the Airport and OAK compared to SFO.

Exhibit II-2 presents a comparison of domestic nonstop weekly flights at each Bay Area airport between CY 2006 and CY 2010. Weekly nonstop domestic departures at SFO grew at a CAGR of 3.6 percent between CY 2006 and CY 2010, compared to average annual decreases of 10.4 percent for OAK and 8.1 percent for the Airport.

2.2.3 Overview of Other Bay Area Airport Characteristics

As previously presented, results of a survey conducted for ABAG indicated that the majority of Bay Area residents who had taken a commercial flight within 12 months of completing the survey had used more than one Bay Area airport. Bay Area residents' decisions on which airport to use when starting their travels is subject to many factors including the availability of flights, airfares, proximity of their residence or place of business to the airport, airport accessibility, and overall airport reliability, among other factors. Data presented in the following sections summarize historical data regarding existing and projected runway capacity, average delay times, and aircraft gate usage metrics.

Taken individually, none of these factors are considered to materially impact an airport's passenger demand. When considered collectively, however, they can influence passenger travel patterns and activity levels at Bay Area airports over the Projection Period and beyond. As discussed further below, these factors reinforce the expectation for continued long-term growth in passenger traffic at the Airport (as discussed further in Section 2.8).

Table II-4 reflects information regarding airfield capacity, average delay times, and terminal facilities at the Airport compared to OAK and SFO.

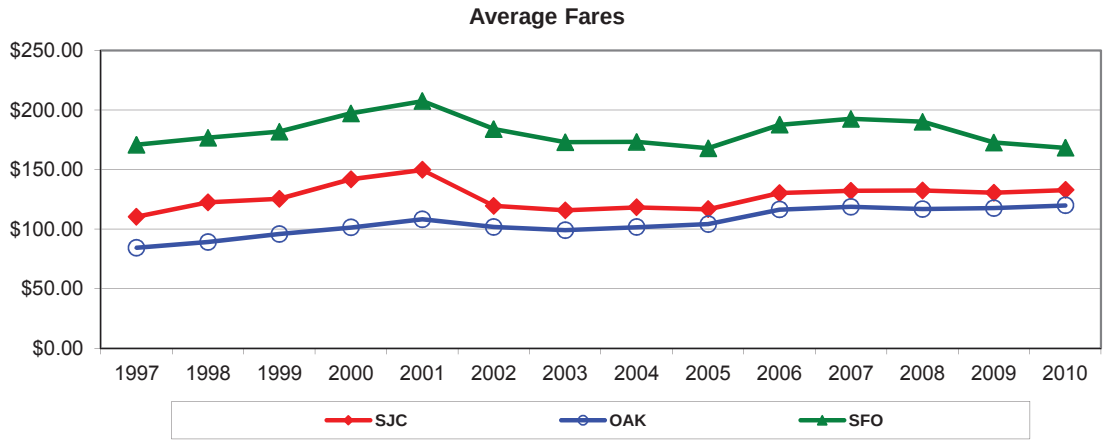
An update to the Regional Aviation System Plan (RASP) is currently being undertaken jointly by ABAG, the San Francisco Bay Conservation and Development Association, and the Metropolitan Transportation Commission. The RASP, expected to be completed in 2011, will serve as the Bay Area's overall policy document for aviation planning by identifying the region's future demand and capacity needs and identifying and evaluating potential strategies for accommodating future aviation demand through 2035. The RASP's Baseline Runway Capacity and Delays Report, published in August 2010, estimated the airfield capacity limits at each of the primary Bay Area airports and

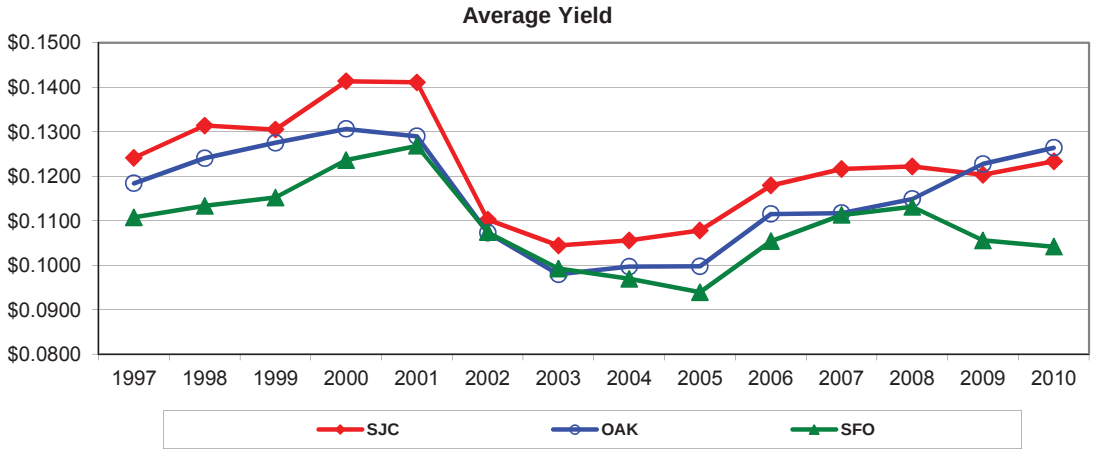
[1] Revenue yield provides a relative measure of the profitability of the market, and is defined as the average revenue received from each passenger for each mile flown on particular route.

Table II-3

Comparison of Bay Area Airport Domestic Fares and Yields

	Average Fare			Average Yield		
Fiscal Year	SJC	OAK	SFO	SJC	OAK	SFO
1997	$110.27	$84.43	$170.81	$0.1241	$0.1184	$0.1108
1998	$122.46	$89.17	$176.73	$0.1314	$0.1240	$0.1134
1999	$125.46	$95.85	$181.87	$0.1305	$0.1275	$0.1152
2000	$141.81	$101.39	$197.06	$0.1413	$0.1306	$0.1236
2001	$149.71	$108.12	$207.43	$0.1411	$0.1290	$0.1268
2002	$119.55	$101.82	$183.98	$0.1103	$0.1073	$0.1074
2003	$115.77	$99.13	$172.93	$0.1045	$0.0979	$0.0993
2004	$118.29	$101.65	$173.29	$0.1056	$0.0997	$0.0970
2005	$116.70	$104.23	$167.73	$0.1078	$0.0998	$0.0940
2006	$130.19	$116.43	$187.54	$0.1179	$0.1115	$0.1054
2007	$132.09	$118.76	$192.45	$0.1216	$0.1117	$0.1113
2008	$132.43	$116.87	$190.02	$0.1222	$0.1149	$0.1131
2009	$130.51	$117.57	$172.62	$0.1203	$0.1227	$0.1056
2010	$132.80	$119.90	$168.21	$0.1233	$0.1264	$0.1042

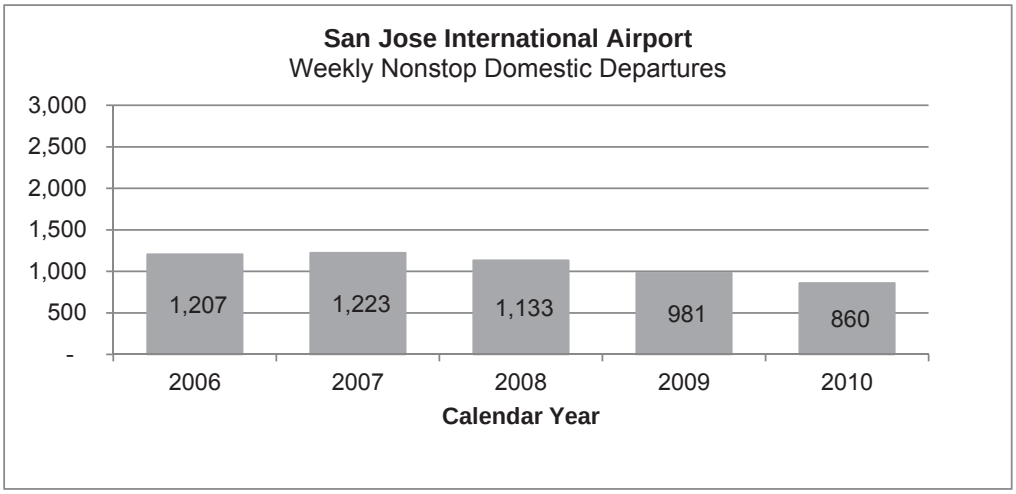


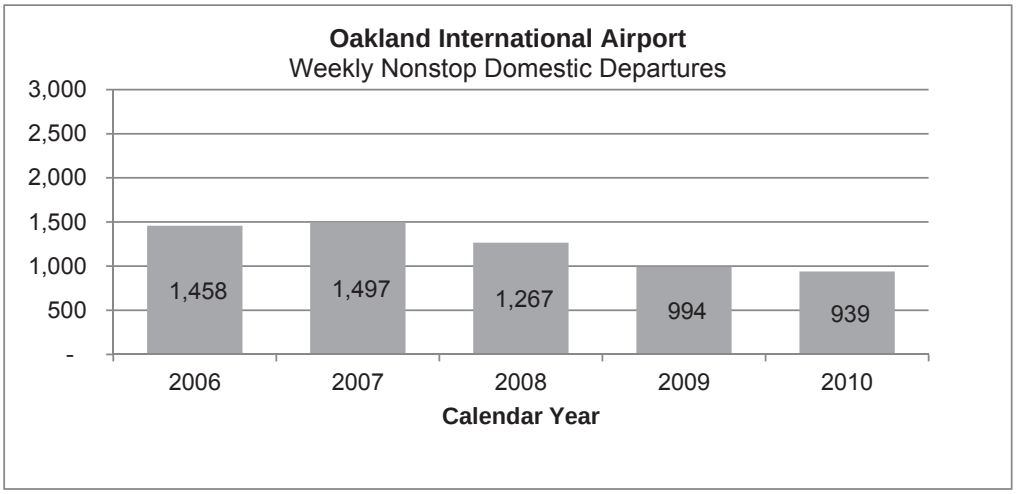


Source: O&D Survey of Airline Passenger Traffic, U.S. DOT, January 2011.
Prepared by: Ricondo & Associates, Inc., February 2011.

Exhibit II-2

Bay Area Airport Weekly Nonstop Domestic Departures





Source: Official Airline Guide, January 2011.

Prepared by: Ricondo & Associates, Inc., January 2011.

Table II-4

Comparison of Bay Area Airports - Airfield Capacity [1/], Average Delay, and Terminal Facilities
(Best percentages or values are highlighted)

	Airfield Capacity Characteristics		
Airport	Maximum Airfield Capacity [2/]	Total Operations (2010)	Demand/Capacity Ratio (2010)
SJC	550,000	138,300	25%
OAK	450,000	228,743	51%
SFO	485,000	383,457	79%

	Approximate Average Delay per Aircraft Operation - 2020 (minutes)		
Airport	VFR [3/]	IFR [4/]	Average
SJC	0.3	3.2	0.3
OAK	1.0	4.0	1.5
SFO	6.0	24.0	8.4

	Comparison of Terminal Facilities		
Airport	Total Enplaned Passengers FY10	Total Gates	Total Enplaned Passengers per Gate (FY10)
SJC	4,107,394	28	146,693
OAK	4,777,514	29	164,742
SFO	19,100,402	95	201,057

Notes:

1/ For domestic flights only.

2/ Upper range of the ultimate airfield capacity identified in the RASP Update.

3/ Visual flight rule conditions.

4/ Instrument flight rule conditions.

Source: Regional Airport System Plan (RASP) Update, Baseline Runway Capacity and Delay Reports, (all data except 2010 total operations and demand capacity ratio); Flight Transportation Associates, August 2010.
Airport websites (2010 total operations), accessed January 2011.
Norman Y. Mineta San Jose International Airport (SJC enplaned passengers and gates), February 2011.
Individual airport websites for SFO and OAK passengers and gates, February 2011.

Prepared by: Ricondo & Associates, Inc., April 2011.

developed projections of future aviation activity to determine when these capacity limits would likely be reached. In addition, this component of the RASP used simulation modeling to estimate average aircraft delay at each of the airports in the benchmark years 2020 and 2035. The simulation modeling process used in the RASP incorporated airport-specific characteristics, such as airfield geometry, operating procedures, weather, user characteristics, and the baseline projections of aviation activity that were developed for each airport as part of the RASP. Table II-4 presents estimates from the RASP. Based on RASP analysis, maximum annual airfield capacity, presented in terms of total annual aircraft operations, ranges from 450,000 operations at OAK, 485,000 operations at SFO, to approximately 550,000 at the Airport. Based on actual 2010 aircraft operations statistics for each airport and estimated maximum annual airfield capacities, calculated demand/capacity ratios for Bay Area airports are 25 percent for the Airport, 51 percent for OAK, and 79 percent for SFO. In general, as an airport's ratio of demand to capacity increases, aircraft delays become more prevalent in all weather conditions. Unacceptable levels of delay can be encountered well before the demand capacity ratio reaches 100 percent.

While the RASP is tasked with identifying and evaluating alternatives for addressing future capacity constraints, and it only examines airfield constraints given current facility and operational characteristics, the results do provide a comparative illustration of how Bay Area airports could be impacted by facility constraints and aircraft delays in the future given projected activity levels. As shown in Table II-4, the estimated average delay per aircraft operation at SFO in 2020 is significantly higher than projections for the Airport and OAK.

The analysis and projections presented in the RASP's Baseline Runway Capacity and Delays Report indicate that it is likely that SFO will reach existing maximum airfield capacity sooner than the Airport and OAK. According to the RASP, the average aircraft delay at SFO is expected to increase exponentially over the analysis period of the RASP even before the airfield at SFO reaches its maximum estimated capacity. As a result, both the Airport and OAK are in a comparatively better situation to serve increased enplaned passenger and aircraft operational levels.

Airport terminal facilities and their ability to efficiently process arriving and departing passengers is another factor impacting overall airport capacity. The analysis conducted in the RASP focuses exclusively on airfield capacity and constraints at Bay Area airports. Although a comparable analysis related to terminal facilities has not been conducted, a summary review of existing gate information for Bay Area airports is also presented in Table II-4. While it is often difficult to measure the capacity of an airport's terminal facilities, a number of factors can be examined to assess the overall terminal and aircraft gate capacity at an airport, including terminal facilities, layout, and airline operational characteristics. The summary data presented in Table II-4 is intended to illustrate existing facilities and activity levels at Bay Area airports.

As shown in Table II-4, dividing the Airport's 4.1 million total enplaned passengers in FY 2010 by the total number of aircraft gates (28) results in a ratio of 146,693 total enplaned passengers per gate. Using the same approach, comparable ratios of 164,742 enplaned passengers per gate and 201,057 enplaned passengers per gate are calculated for OAK and SFO, respectively.

Given the role that Southwest plays at the Airport, having enplaned over 51 percent of the Airport's total FY 2010 enplaned passengers, and its reputation as one of the most efficient users of gate and terminal space among airlines, it is reasonable to assume that the Airport's existing 28 gates could accommodate significantly more passenger activity.

It is important to note that each of the Bay Area airports currently have plans that would allow the construction of additional aircraft gates in the future, if needed, to accommodate additional aircraft activity and passenger demand. As a result, terminal capacity is not anticipated to impact projected activity and passenger demand at the Bay Area airports during the Projection Period, but could potentially in the long term. However, the Airport enjoys the greatest amount of existing capacity, allowing for growth with no significant capital costs required during the Projection Period and relatively lower capital costs required in the longer term.

2.3 Airlines Serving the Airport

As of June 2011, the Airport has scheduled passenger service provided by the airlines presented in **Table II-5**. The Airport is provided with scheduled passenger service by 13 airlines, including nine mainline, three regional/commuters, and one international airline. In addition, three all-cargo airlines provide scheduled cargo service at the Airport.

Table II-6 presents the historical airline base at the Airport since FY 1997. The Airport has benefited from a large and relatively stable mix of airlines during this period, which has helped promote competitive pricing and scheduling diversity in the Airport's major markets. Since FY 1997, the Airport's airline base has increased from 12 airlines to 13 airlines (Skywest is listed twice--for United Express and Delta Connection).

Specific points concerning the Airport's historical airline base are presented below:

- Nine of the 13 passenger airlines currently serving the Airport have been operating there since FY 1997.
- The Airport's strong O&D passenger base is supported by the presence of four airlines, including Alaska, Horizon, Southwest, and US Airways that provide high frequency, low-fare service to densely populated markets located within the West Coast corridor. JetBlue provides low-fare service from the Airport to New York and Boston. In addition to service by these domestic airlines, the Airport is served by American, Continental, Delta, Hawaiian, United, and their regional/commuter affiliates.
- In recent years, two airlines have initiated new service at the Airport, including Mesaba and Volaris, while two airlines (Frontier and Mexicana) have discontinued service.
    - Mesaba began operating at the Airport in FY 2010 and provided regional/commuter service as Delta Connection. In June 2011, Mesaba operations have been replaced by SkyWest.
    - Volaris initiated service in FY 2010 with nonstop service to Guadalajara, Mexico.
    - Frontier discontinued service at the Airport in FY 2010. Frontier had offered nonstop service to Denver.
    - Mexicana initiated international service at the Airport in FY 1990. In early FY 2011, Mexicana ceased system-wide operations.

2.4 Historical Passenger Activity

This section presents historical trends in enplaned passengers at the Airport and the major factors influencing these trends, as well as historical market shares of enplaned passengers by airline.

Table II-5

Airlines Serving the Airport [1/]

Mainline (9)	Regional/Commuter (3)	Foreign Flag (1)	All-Cargo (3)
Alaska	American Eagle	Volaris	Air Transport International
American	Horizon Air		FedEx Corporation
Continental [2/]	SkyWest		United Parcel Service
Delta			
Hawaiian			
JetBlue			
Southwest			
United [2/]			
US Airways			

Passenger Carrier Groups [1/ 3/]

Alaska Carriers	American Carriers	Delta Carriers	United Carriers
Alaska	American	Delta	United [2/]
Horizon	American Eagle	SkyWest	SkyWest

Notes:

1/ As of June 15, 2011.

2/ Continental and United merged in October 2010. The combined airlines (named United) plan to operate under a single certificate by the end of CY 2011.

3/ Hawaiian, JetBlue, and Southwest operate all routes under their mainline service. Continental and US Airways currently operate all routes under their mainline service; however historically these airlines have provided service under their regional/commuter airline affilates.

Source: Official Airline Guide (OAG), May 2011.

Prepared by: Ricondo & Associates, Inc., May 2011.

Table II-6

Airlines Serving the Airport Since FY 1997

Airline	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 1/
American Airlines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Alaska Airlines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Continental Airlines 2/	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Delta Air Lines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Southwest Airlines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
SkyWest (United Express)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
United Airlines 2/	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
US Airways	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Horizon Air	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
American Eagle		●	●	●		●	●	●	●	●	●	●	●	●	●
JetBlue Airways								●	●	●	●	●	●	●	●
Skywest (Delta Connection)									●	●	●	●	●	●	●
Hawaiian Airlines										●	●	●	●	●	●
Volaris														●	●
Airlines No Longer Serving the Airport															
Mesaba														●	●
Mexicana Airlines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Frontier Airlines							●	●	●	●	●	●	●	●	
Mesa Air										●	●	●	●		
Independence									●	●					
ATA							●	●							
Air Wisconsin						●	●								
Air Canada			●	●	●	●									
Trans World Airlines	●	●	●	●	●	●									
Western Pacific	●	●													

Notes:
1/ As of June 2011.
2/ Continental and United merged in October 2010. The combined airlines (named United) plan to operate under a single certificate by the end of CY 2011.

Source: Official Airline Guide, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

2.4.1 Enplaned Passengers

The Airport is classified by the FAA as a Medium Hub airport based on its percentage of nationwide enplaned passengers and ranked 42nd nationwide in terms of enplaned passengers in CY 2009.[2] **Table II-7** presents historical data for enplaned passengers at the Airport between FY 1997 and FY 2010, and for the Airport and the United States for the 12-month periods ending September 30, 1997 through 2010.

Overall passenger activity at the Airport decreased from 5,086,442 enplaned passengers in FY 1997 to 4,107,394 in FY 2010 as described in more detail below. This decline represents an average annual decrease of 1.6 percent during this period. Following decreases in the Airport's enplaned passengers in FY 2002 and FY 2003, total enplaned passengers increased modestly, from 5,204,987 in FY 2003 to 5,414,831 in FY 2006, representing a CAGR of 1.3 percent. Excluding American's and American Eagle's de-hubbing activity, enplaned passengers by all other airlines operating at the Airport increased by a CAGR of 4.7 percent between FY 2003 and FY 2006, with much of this growth coming from Alaska, JetBlue, Southwest, and US Airways.

From FY 2006 through FY 2010, enplaned passengers at the Airport have declined on a year over year basis for various reasons described below. In FY 2006, Airport enplaned passengers totaled 5,414,831 and decreased to 4,107,394 in FY 2010. This decline represents an average annual decrease of 6.7 percent.

Specific details concerning enplaned passengers at the Airport between FY 1997 and FY 2011 (to-date) are discussed below:

- **FY 1997 - FY 2001.** The rapid expansion of the Technology Industry triggered significant growth in the Silicon Valley economy in the late 1990's. The information technology (IT) sector played a large role in this increase; employment in IT industries increased 67 percent and directly accounted for nearly 30 percent of job growth in the Bay Area during this five-year period.

  Similarly, the Airport also experienced significant growth in enplaned passengers between FY 1997 and FY 2001, increasing from 5,086,442 enplaned passengers in FY 1997 to 6,937,377 enplaned passengers in FY 2001, the all-time peak in fiscal year enplaned passengers at the Airport. This increase represents a CAGR of 8.1 percent during this period. The initiation of service at the Airport by Southwest in FY 1993 and continued expansion through FY 2001, and the rapid growth in the local economy were the primary factors contributing to this significant growth in passenger activity at the Airport.

- **FY 2001 - FY 2003.** Passenger activity at the Airport decreased from a high of 6,937,377 enplaned passengers in FY 2001 to 5,204,987 in FY 2003, a total decrease of 25.0 percent. A number of factors contributed to the dramatic decreases in the Airport's enplaned passengers in FY 2002 and FY 2003, including the Technology Industry recession, the terrorist attacks of September 11, and the subsequent national recession.

- **FY 2003 - FY 2006.** Overall, passenger activity at the Airport increased from 5,204,987 enplaned passengers in FY 2003 to 5,414,831 in FY 2006. This increase represents a CAGR

[2] As defined by the FAA, a medium hub airport enplanes more than 0.25 percent and less than 1.0 percent of nationwide enplaned passengers during a calendar year.

Table II-7

Historical Airport Enplaned Passengers

Fiscal Year Ending June 30

Fiscal Year	Airport Enplaned Passengers	Airport Growth
1997	5,086,442	-
1998	5,045,208	(0.8%)
1999	5,469,727	8.4%
2000	6,051,805	10.6%
2001	6,937,377	14.6%
2002	5,719,213	(17.6%)
2003	5,204,987	(9.0%)
2004	5,291,849	1.7%
2005	5,345,633	1.0%
2006	5,414,831	1.3%
2007	5,318,859	(1.8%)
2008	5,178,603	(2.6%)
2009	4,399,562	(15.0%)
2010	4,107,394	(6.6%)
FY 2010 (Jul - Mar)	3,029,940	
FY 2011 (Jul - Mar)	3,099,897	2.3%

CAGR	
FY 1997 - 2001	8.1%
FY 2001 - 2003	(13.4%)
FY 2003 - 2006	1.3%
FY 2006 - 2010	(6.7%)
FY 1997 - 2010	(1.6%)

12-Month Period Ending September 30

12-Month Period Ending Sept. 30	Airport Enplaned Passengers	Airport Growth	U.S. Domestic Enplaned Passengers	U.S. Growth	Airport Share of U.S.
1997	5,120,419	-	577,800,000	-	0.886%
1998	5,091,774	(0.6%)	590,400,000	2.2%	0.855%
1999	5,570,709	9.4%	610,900,000	3.5%	0.895%
2000	6,315,451	13.4%	641,200,000	5.0%	0.985%
2001	6,937,294	9.8%	626,800,000	(2.2%)	1.107%
2002	5,354,769	(22.8%)	574,600,000	(8.3%)	0.932%
2003	5,222,165	(2.5%)	587,800,000	2.3%	0.888%
2004	5,307,339	1.6%	628,500,000	6.9%	0.844%
2005	5,363,567	1.1%	669,500,000	6.5%	0.801%
2006	5,361,690	(0.0%)	668,400,000	(0.2%)	0.802%
2007	5,354,154	(0.1%)	690,100,000	3.2%	0.776%
2008	5,042,240	(5.8%)	681,300,000	(1.3%)	0.740%
2009	4,208,424	(16.5%)	631,300,000 1/	(7.3%)	0.667%
2010	4,092,473	(2.8%)	634,100,000 2/	0.4%	0.645%

CAGR		
1997 - 2001	7.9%	2.1%
2001 - 2003	(13.2%)	(3.2%)
2003 - 2006	0.9%	4.4%
2006 - 2010	(6.5%)	(1.3%)
1997 - 2010	(1.7%)	0.7%

Notes:
1/ Estimated by the FAA.
2/ Forecast by the FAA.

Sources: Norman Y. Mineta San José International Airport, April 2011.
FAA (U.S. activity), March 2011.

Prepared by: Ricondo & Associates, Inc., June 2011.

of 1.3 percent. Enplaned passenger growth at the Airport during this period, however, was limited by continued reductions in air service by American. Combined, American and American Eagle's enplaned passengers decreased from 1,382,143 in FY 2003 to 1,029,154 in FY 2006, representing an average annual decrease of 9.4 percent. Excluding American's and American Eagle's de-hubbing activity, enplaned passengers by all other airlines increased by a CAGR of 4.7 percent from FY 2003 to FY 2006.

- **FY 2006 – FY 2010.** After a 1.3 percent increase in FY 2006, Airport enplaned passengers declined in each year from FY 2007 through FY 2010. In FY 2007 and FY 2008, Airport enplaned passengers decreased 1.8 and 2.6 percent respectively. During this period, capacity cuts were made in American and American Eagle service to Southern California (Los Angeles, Orange County, and San Diego) and by United to Chicago O'Hare and Denver. In FY 2009, Airport enplaned passengers decreased 15.0 percent to 4,399,562 due to a nationwide recession and the Airport's loss of domestic O&D Bay Area passenger market share during this timeframe. As discussed above in Section 2.2, this loss in Bay Area passenger market share was primarily attributable to significant increases in airline service, lower fares, and increased airline competition at SFO. Southwest, the Airport's largest passenger carrier, along with the majority of other scheduled passenger carriers reduced capacity and enplaned fewer passengers at the Airport. Frontier and JetBlue were the only two scheduled passenger airlines to experience increased enplaned passengers in FY 2008 and FY 2009. Below is a list of notable capacity reductions in FY 2009:

  - American reduced capacity to Austin, Dallas/Ft. Worth, and Orange County while American Eagle continued to trim capacity to Los Angeles and San Diego.
  - Alaska reduced capacity to Seattle and Portland. Regional/commuter affiliate Horizon reduced daily nonstop service to Boise from two to one.
  - Continental discontinued service to New York/Newark.
  - Delta's reductions included dropping service to Atlanta and a shift of one mainline daily nonstop to regional/commuter affiliate SkyWest (dba Delta Connection) on its Salt Lake City route.
  - Southwest's largest reductions were to Burbank, Chicago, Las Vegas, Los Angeles, Ontario, and Reno. Southwest increased capacity to Denver.
  - Nonstop service to United's hubs in Chicago O'Hare, Denver, and Washington Dulles was reduced.
  - US Airways reduced capacity to Las Vegas, but increased capacity to Phoenix.

  In FY 2010, as the impacts of the nationwide recession persisted and as increases in airline service, lower fares, and airline competition continued at SFO, enplaned passengers at the Airport declined to 4,107,394, a decrease of 6.6 percent from FY 2009. Southwest's enplaned passengers increased to 2.1 million, an increase of 1.9 percent over FY 2009. Southwest continued to trim capacity in FY 2010 even as demand returned. Alaska Carriers and Delta Carriers also experienced increased enplaned passengers in FY 2010. The 14.1 percent enplaned passenger increase by Alaska Carriers is a result of new service initiated to Austin, Kahului (Maui), Kona, Mammoth Lakes, Spokane, and increased service to Portland and Sacramento. JetBlue, United Carriers, and American Carriers, experienced the largest percentage decrease in FY 2010.

- JetBlue discontinued service to Long Beach.
- United Carriers continued service reductions to Denver and eliminated nonstop service to Chicago O'Hare.
- American and American Eagle continued to trim capacity to Southern California markets and also reduced nonstop service to Austin.
- Frontier discontinued service at the Airport in May 2010.
- Foreign Flag carrier Volaris initiated service to Guadalajara in April 2010.

Airport construction activity in FY 2008, FY 2009, and FY 2010 may have also contributed to decreases in enplaned passengers in those Fiscal Years.

- **Fiscal Year-To-Date (FYTD) 2011 (July 2010 – March 2011).** Airport enplaned passengers increased 2.3percent for the first nine months of FY 2011 compared to the same period in FY 2010. Southwest and Alaska Carriers enplaned passengers increased at 4.3 and 51.5 percent respectively. Alaska's increased enplaned passengers are a result of new service to Austin, Kona, Los Angeles, and Maui with the addition of new international service to Cabo San Lucas and Guadalajara, Mexico. Southwest increased service to Austin and announced additional service to Denver, Los Angeles, Orange County, San Diego, and Seattle starting in the second half of FY 2011. During this period, Continental experienced a 3.6 percent increase in enplaned passengers. Mexicana ceased system-wide operations in August 2010 and is in the process of reorganizing. Foreign flag carrier Volaris continues to operate at the Airport and added three additional weekly nonstop operations to Guadalajara in March 2011.

Table II-8 presents historical enplaned passengers at the Airport from FY 1997 through FY 2010 by type of airline, including mainline, regional/commuter, and international. A number of fundamental shifts have occurred in the Airport's airline makeup since FY 1997, which are further described below:

- The mainline share of total Airport enplaned passengers peaked at approximately 96.1 percent in FY 2001. From FY 1997 to FY 2001, enplaned passengers provided by mainline service increased at a CAGR of 8.1 percent to 6.7 million, primarily as a result of increased hubbing activity by American and American's acquisition of Reno Air in FY 2000. Since FY 2001, the mainline share of total Airport enplaned passengers has decreased from 96.1 percent in FY 2001 to 88.5 percent in FY 2010 due to decisions by some airlines to shift service to regional/commuter affiliates on selected routes. As passenger demand decreased and mainline airlines shifted selected service to regional/commuter affiliates, mainline enplaned passengers declined from 6.7 million in FY 2001 to 3.6 million in FY 2010 or at an average annual decrease of 6.5 percent.
- The regional/commuter share of total enplaned passengers remained relatively constant through FY 2002, averaging approximately 1.7 percent of total Airport enplaned passengers from FY 1997 to FY 2002. Since that time, however, the regional/commuter share of total Airport enplaned passengers increased to 10.6 percent in FY 2006. This increase was primarily a result of American converting its mainline service to Southern California to regional jet service on American Eagle. In addition, US Airways, Delta, and United augmented their mainline service with regional jet service on regional/commuter affiliates to Phoenix, Salt Lake City, Denver and Southern California, respectively. While the

Table II-8

Historical Airport Enplaned Passengers by Carrier Type

	Domestic Enplaned Passengers							
	Mainline		Regionals/Commuters		International 1/		Total Airport	
Fiscal Year	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share
1997	4,887,854	96.1%	59,436	1.2%	139,152	2.7%	5,086,442	100.0%
1998	4,790,474	95.0%	103,180	2.0%	151,554	3.0%	5,045,208	100.0%
1999	5,207,835	95.2%	89,200	1.6%	172,692	3.2%	5,469,727	100.0%
2000	5,808,992	96.0%	66,175	1.1%	176,638	2.9%	6,051,805	100.0%
2001	6,664,821	96.1%	58,441	0.8%	214,115	3.1%	6,937,377	100.0%
2002	5,421,403	94.8%	146,936	2.6%	150,874	2.6%	5,719,213	100.0%
2003	4,772,654	91.7%	310,223	6.0%	122,110	2.3%	5,204,987	100.0%
2004	4,651,137	87.9%	506,536	9.6%	134,176	2.5%	5,291,849	100.0%
2005	4,660,730	87.2%	546,761	10.2%	138,142	2.6%	5,345,633	100.0%
2006	4,706,038	86.9%	571,739	10.6%	137,054	2.5%	5,414,831	100.0%
2007	4,686,496	88.1%	529,995	10.0%	102,368	1.9%	5,318,859	100.0%
2008	4,584,448	88.5%	526,696	10.2%	67,459	1.3%	5,178,603	100.0%
2009	3,907,376	88.8%	431,805	9.8%	60,381	1.4%	4,399,562	100.0%
2010	3,636,146	88.5%	408,811	10.0%	62,437	1.5%	4,107,394	100.0%
CAGR								
FY 1997 - 2001	8.1%		(0.4%)		11.4%		8.1%	
FY 2001 - 2010	(6.5%)		24.1%		(12.8%)		(5.7%)	
FY 1997 - 2010	(2.2%)		16.0%		(6.0%)		(1.6%)	

Note:
1/ Includes enplaned passengers from U.S. and Foreign Flag airlines serving international destinations.

Source: Norman Y. Mineta San José International Airport, January 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

regional/commuter share of total enplaned passengers has decreased from a high in FY 2006, it has remained stable between FY 2007 and FY 2010. However, over this same period, regional/commuter enplaned passengers have decreased at an average annual rate of 8.3 percent. The majority of this decline is a result of continued capacity cuts by American Eagle to Southern California (i.e. Los Angeles, San Diego, and Orange County). As of January 2011, service to Los Angeles continues, however service to San Diego and Orange County has discontinued.

- The share of international enplaned passengers at the Airport remained relatively constant between FY 1997 and FY 2006, averaging approximately 2.8 percent during the years shown. Following the discontinuation of American's flight to Tokyo Narita in October 2006, the share of international enplaned passengers at the Airport decreased to approximately 1.9 percent in FY 2007. Between FY 2008 and FY 2010, international enplaned passengers declined, but the share of international enplaned passengers has slowly increased. In FY 2008 and FY 2009, Mexicana was the only foreign flag airline operating at the Airport. In FY 2010, Volaris, another foreign flag airline based in Mexico, initiated service at the Airport and foreign flag enplaned passengers increased 1.5 percent from FY 2009. In August 2010, Mexicana ceased system-wide operations and is in the process of re-organizing.

2.4.2 Long-Term Historical Enplaned Passengers

Exhibit II-3 reflects historical enplaned passengers at the Airport from FY 1981 to FY 2010, and projected FY 2011 to FY 2017 (as discussed in Section 2.8 of this chapter). Exhibit II-3 identifies certain key events that have impacted enplaned passenger levels at the Airport over this period. Enplaned passengers increased at a CAGR of 8.5 percent between FY 1981 and FY 2001. Over the period FY 1981 to FY 2010, enplaned passengers grew at a CAGR of 3.9 percent.

Exhibit II-4 reflects year-over-year growth rates for the 12-month periods ending June 30, 1981 to 2010, for the Airport, OAK, SFO and the domestic revenue enplaned passengers for the United States as a whole. Exhibit II-4 indicates that, with certain exceptions, the Airport and OAK experienced substantially higher positive growth rates through FY 2001, and in recent years have experienced more significant decreases relative to SFO and the United States.

2.4.3 Enplaned Passengers by Airline

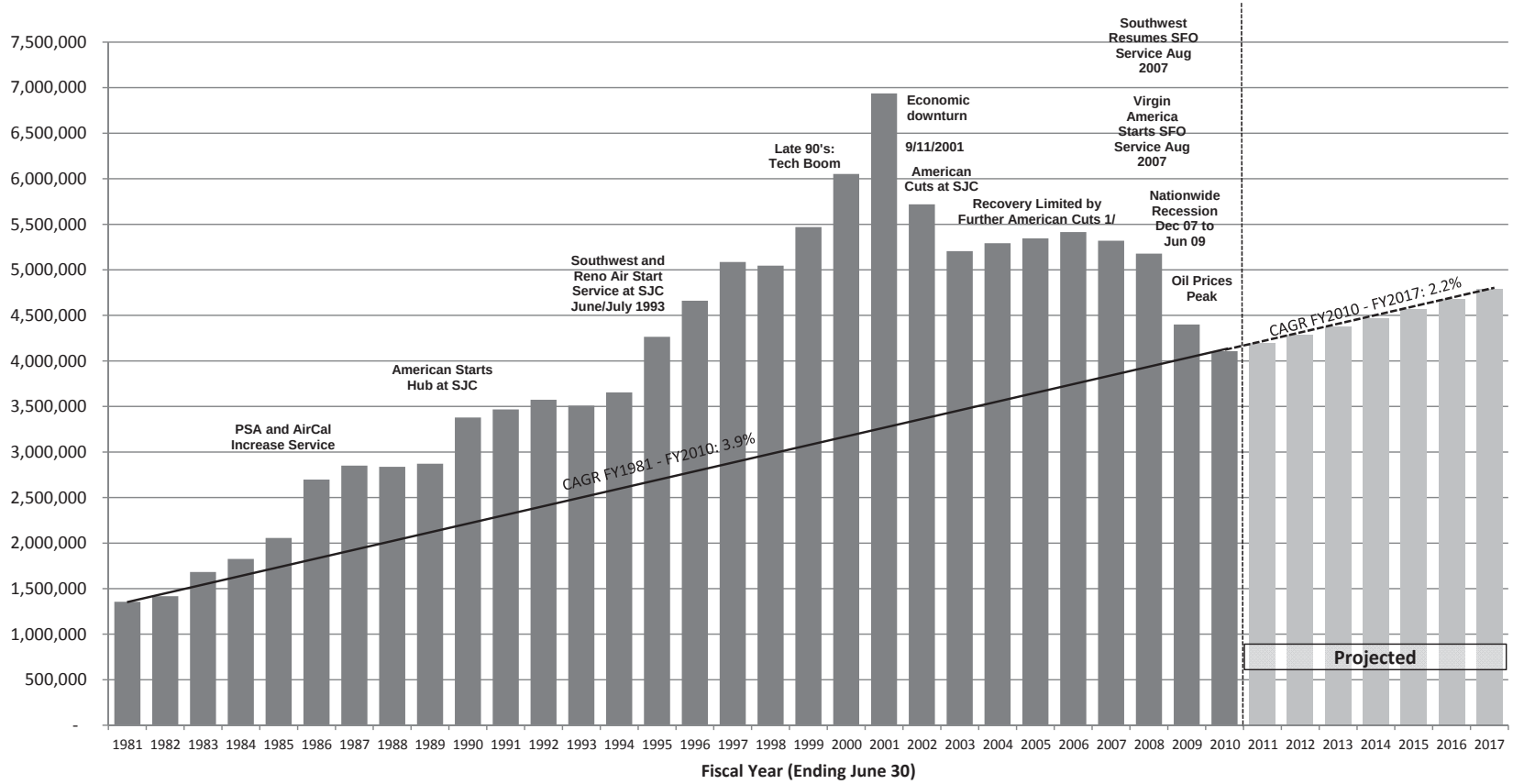
As shown earlier in Table II-6, the Airport has a relatively large and diverse airline base. To further illustrate this point, **Table II-9** presents the historical share of enplaned passengers by the carriers serving the Airport between FY 2006 and FY 2010. Southwest's share of Airport enplaned passengers has increased in each of the years shown, from 40.6 percent in FY 2006 to 51.7 percent in FY 2010. The American Carriers (i.e., American Airlines and American Eagle) had the second highest share of Airport enplaned passengers with a 11.7 percent share of enplaned passengers in FY 2010, which is a decrease from a 19.0 percent share in FY 2006. Overall, the top five carriers at the Airport accounted for nearly 88.4 percent of the Airport's annual enplaned passengers in FY 2010.

2.5 Historical Air Service

An important airport characteristic is the distribution of its O&D markets, which is a function of air travel demands and available services and facilities. This is particularly true for the Airport, as approximately 97 percent of its passengers are O&D passengers. The Airport serves as a major

Exhibit II-3

Historical and Projected Airport Enplaned Passengers (FY 1981 - FY 2017)



Note:

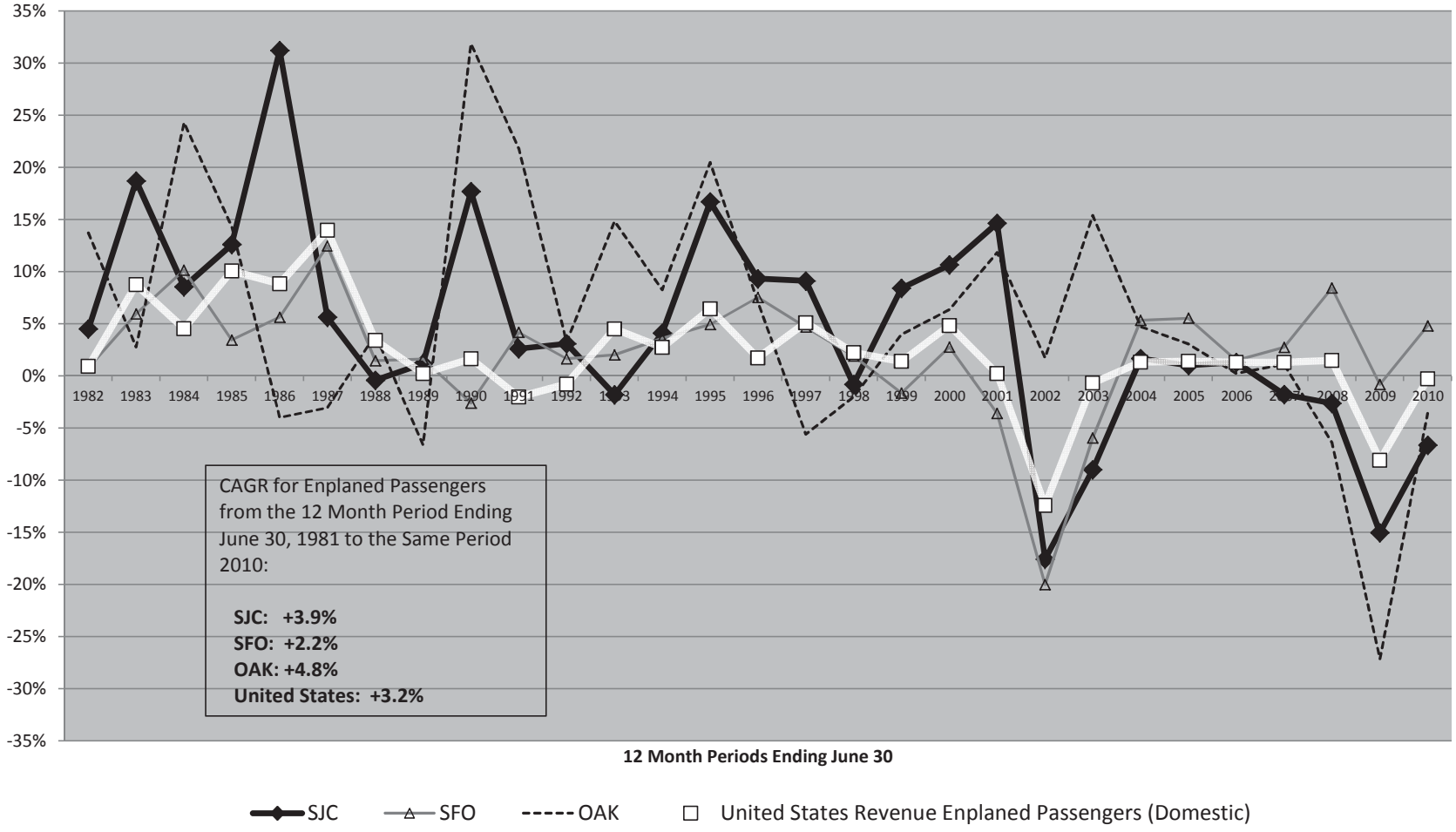
1/ Excluding the American cuts during this time, enplaned passengers grew at a CAGR of 4.7 percent between FY 2003 and FY 2006.

Source: Norman Y. Mineta San José International Airport for historical data; Ricondo & Associates, Inc. for projected, April 2011.

Prepared by: Ricondo & Associates, Inc., April 2011.

Exhibit II-4

Year-Over-Year Growth Rates for Enplaned Passengers for 12-Month Periods Ending June 30



Sources: San José Norman Y. Mineta International Airport for SJC; bond official statements and website data (SFO and OAK); Air Transport Association (United States); February 2011.

Prepared by: Ricondo & Associates, Inc., February 2011.

Table II-9

Historical Airport Enplaned Passengers by Airline [1/]

	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
Airline	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share	Enplaned Passengers	Share
Southwest Airlines	2,198,806	40.6%	2,266,766	42.6%	2,333,432	45.1%	2,082,271	47.3%	2,121,917	51.7%
American Carriers	1,029,154	19.0%	923,052	17.4%	771,429	14.9%	632,723	14.4%	480,402	11.7%
Delta Carriers	507,273	9.4%	491,234	9.2%	451,609	8.7%	401,655	9.1%	427,644	10.4%
Alaska Carriers	489,022	9.0%	467,324	8.8%	445,689	8.6%	345,419	7.9%	393,982	9.6%
US Airways Carriers	316,935	5.9%	323,328	6.1%	314,740	6.1%	254,389	5.8%	208,809	5.1%
United Carriers [2/]	408,400	7.5%	384,341	7.2%	349,962	6.8%	208,184	4.7%	138,836	3.4%
Continental Carriers [2/]	155,324	2.9%	169,220	3.2%	171,189	3.3%	136,153	3.1%	132,942	3.2%
JetBlue Airways	136,666	2.5%	109,351	2.1%	116,776	2.3%	148,643	3.4%	95,118	2.3%
Hawaiian Airlines	62,261	1.1%	82,561	1.6%	84,259	1.6%	81,397	1.9%	72,266	1.8%
Volaris	-	0.0%	-	0.0%	-	0.0%	-	0.0%	8,072	0.2%
Other [3/]	110,990	2.0%	101,682	1.9%	139,518	2.7%	108,728	2.5%	27,406	0.7%
AIRPORT TOTAL [4/]	5,414,831	100.0%	5,318,859	100.0%	5,178,603	100.0%	4,399,562	100.0%	4,107,394	100.0%

Notes:

1/ As appropriate, mainline airline and their regional/commuter affiliates are grouped to show relative market share by carrier.

2/ Continental and United merged in October 2010. The combined airlines (named United) plan to operate under a single certificate by the end of CY 2011.

3/ Consists of airlines no longer serving the Airport and charter airlines.

4/ Columns may not add to totals shown because of rounding.

Source: Norman Y. Mineta San José International Airport, January 2011.

Prepared by: Ricondo & Associates, Inc., March 2011.

O&D point for major markets throughout the United States and was ranked 37th in terms of domestic O&D traffic in FY 2010.[3]

Table II-10 presents historical data on the Airport's primary (i.e., top 20) O&D markets for FY 1997, FY 2001, FY 2006, and FY 2010. The Airport's top 20 O&D markets constituted approximately 76.5 percent of the total domestic O&D traffic at the Airport in FY 1997 and approximately 72.4 percent in FY 2010. The Airport primarily served short- and medium-haul markets in the periods depicted, with an average stage length (i.e., passenger trip distance) of 890 miles in FY 1997 and 1,032 miles in FY 2010.[4] The Airport's average stage lengths during these periods reflects the Airport's geographical location and strong local demand for service to major regional markets in California and along the West Coast corridor. Changes in the O&D rankings and passenger levels are discussed below.

- Overall, the rankings for the top 20 O&D markets from FY 1997 to FY 2010 have remained relatively stable. The Los Angeles market, which includes the airports of Los Angeles International, Bob Hope (Burbank), LA/Ontario International, and John Wayne (Orange County), has consistently been the Airport's top O&D market over the last 14 years.
- O&D passengers (enplaned passengers and deplaned passengers) for the Airport's top 20 markets increased from 7.7 million in FY 1997 to nearly 9.0 million in FY 2001 as a result of growth in the local economy and increased airline competition between American and Southwest. Since FY 2001, however, the number of O&D passengers for the Airport's top 20 markets decreased, from nearly 9.0 million passengers in FY 2001 to 7.6 million passengers in FY 2006. This decrease was primarily due to a decrease of overall passenger demand resulting from the economic downturn in the region, and a drop in the supply of seats at the Airport (primarily as a result of service reductions by American). In FY 2010 O&D passengers continued to decrease to 5.8 million as a result of a continued decline in overall passenger demand.
- Reflecting the Airport's diverse range of airlines and choices in air service, daily nonstop service was provided to 17 of the top 20 O&D markets in FY 2010.
- As a result of new service to medium- and long-haul markets since FY 1997, the Airport's average trip length has increased from 890 miles in FY 1997 to 1,032 miles in FY 2010.

Nonstop scheduled air service available from the Airport is presented in **Table II-11**. As of June 15, 2011, 25 markets were served with a total of 133 daily nonstop flights. The Los Angeles area, the largest O&D market for the Airport, was provided 43 daily nonstop flights by American Eagle, Horizon, Southwest, and United Express to the four airports serving the Los Angeles market, including Los Angeles International, Burbank, LA/Ontario International, and Orange County. Other top daily nonstop markets from the Airport include: Phoenix (11), San Diego (10), Denver (9), Las Vegas (9), Portland (9), and Seattle (9). In addition to the Airport's domestic service, scheduled daily international service is provided by Alaska and Volaris to Guadalajara. In addition to the daily non-stops reflected on Table II-11, Alaska Airlines provides nonstop service to Lihue, Hawaii with three flights per week and to Los Cabos, Mexico with two flights per week.

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3 U.S. DOT data.

4 Short haul is defined as a passenger trip distance of zero to 600 miles; medium haul is defined as 601 to 1,800 miles; and long haul as over 1,800 miles.

Table II-10

The Airport's Primary O&D Passenger Markets

FY 1997				FY 2001				FY 2006				FY 2010				
Rank	Market	Trip Length 1/	Total O&D Passengers 2/	Rank	Market	Trip Length 1/	Total O&D Passengers 2/	Rank	Market	Trip Length 1/	Total O&D Passengers 2/	Rank	Market	Daily Nonstop Service 3/	Trip Length 1/	Total O&D Passengers 2/
1	Los Angeles Area 4/	SH	2,741,450	1	Los Angeles Area 4/	SH	2,829,780	1	Los Angeles Area 4/	SH	2,235,050	1	Los Angeles Area 4/	●	SH	1,730,200
2	San Diego	SH	763,550	2	San Diego	SH	862,180	2	San Diego	SH	775,600	2	San Diego	●	SH	601,960
3	Seattle	MH	649,260	3	Las Vegas	SH	684,230	3	Las Vegas	SH	607,250	3	Las Vegas	●	SH	464,460
4	Las Vegas	SH	576,480	4	Seattle	MH	662,910	4	Seattle	MH	566,740	4	Seattle	●	MH	440,960
5	Portland	SH	515,260	5	Portland	SH	545,080	5	Phoenix	MH	454,460	5	Phoenix	●	MH	362,890
6	Phoenix	MH	433,460	6	Phoenix	MH	503,670	6	Portland	SH	433,500	6	Denver	●	MH	322,640
7	Reno	SH	282,670	7	New York/Newark	LH	319,350	7	New York/Newark	LH	323,000	7	Portland	●	SH	315,770
8	Dallas	MH	214,070	8	Denver	MH	302,490	8	Chicago	MH	296,830	8	Dallas	●	MH	225,220
9	Chicago	MH	209,720	9	Chicago	MH	295,310	9	Denver	MH	291,090	9	Chicago	●	MH	216,670
10	Denver	MH	179,870	10	Dallas	MH	288,740	10	Dallas	MH	243,370	10	New York/Newark	●	LH	156,330
11	Boston	LH	176,790	11	Austin	MH	247,360	11	Austin	MH	238,200	11	Austin	●	MH	145,320
12	Austin	MH	173,610	12	Boston	LH	230,370	12	Boston	LH	167,500	12	Houston	●	MH	116,780
13	Salt Lake City	SH	172,600	13	Reno	SH	216,590	13	Washington D.C.	LH	155,000	13	Washington, DC	●	LH	104,330
14	Houston	MH	108,540	14	Salt Lake City	SH	165,590	14	Houston	MH	147,440	14	Honolulu	●	LH	98,070
15	New York/Newark	LH	96,400	15	Washington D.C.	LH	149,340	15	Reno	SH	139,880	15	Salt Lake City	●	SH	90,570
16	Colorado Springs	MH	88,180	16	Atlanta	LH	143,820	16	Salt Lake City	SH	136,800	16	Orlando		LH	89,360
17	Albuquerque	MH	86,710	17	Houston	MH	143,350	17	Atlanta	LH	109,660	17	Philadelphia		LH	87,430
18	Tucson	MH	85,850	18	Baltimore	LH	127,420	18	Orlando	LH	93,470	18	Long Beach		SH	79,660
19	Washington D.C.	LH	85,740	19	Raleigh	LH	119,420	19	Baltimore	LH	86,270	19	Reno	●	SH	75,540
20	Atlanta	LH	78,250	20	Orlando	LH	115,720	20	Honolulu	LH	83,310	20	Minneapolis	●	MH	75,330
Total Top 20 O&D Markets		76.5%	7,718,460	Total Top 20 O&D Markets		68.8%	8,952,720	Total Top 20 O&D Markets		72.9%	7,584,420	Total Top 20 O&D Markets			72.4%	5,799,490
Other O&D Markets		23.5%	2,367,446	Other O&D Markets		31.2%	4,052,007	Other O&D Markets		27.1%	2,822,507	Other O&D Markets			27.6%	2,213,696
O&D Passengers		100.0%	10,085,906	O&D Passengers		100.0%	13,004,727	O&D Passengers		100.0%	10,406,927	O&D Passengers			100.0%	8,013,186
Total Airport Passengers			10,249,904	Total Airport Passengers			13,908,799	Total Passengers			10,851,853	Total Passengers				8,232,446
O&D % of Total Passengers			98.4%	O&D % of Total Passengers			93.5%	O&D % of Total Passengers			95.9%	O&D % of Total Passengers				97.3%
Average Trip Length				Average Trip Length				Average Trip Length				Average Trip Length				
Airport 5/		890		Airport 5/		1,061		Airport 5/		1,105		Airport 5/			1,032	
United States		766		United States		800		United States		871		United States			870	

Notes:

1/ (SH) Short Haul = 0 to 600 miles
(MH) Medium Haul = 601 to 1,800 miles
(LH) Long Haul = over 1,800 miles

2/ Enplanements plus deplanements.

3/ Based on OAG schedule for January 21, 2011.

4/ Includes Los Angeles International Airport, John Wayne Airport, Ontario International Airport, and Bob Hope Airport.

5/ Average calculated for all of the Airport's O&D markets.

Source: O&D Survey of Airline Passenger Traffic, U.S. DOT, January 2011.
Prepared by: Ricondo & Associates, Inc., February 2011.

Table II-11

Daily Nonstop Markets and Flights from the Airport
(Alphabetical Order)

	Market	Daily Nonstop Flights	Airline(s)
1	Atlanta	1	Delta Air Lines
2	Austin	2	Southwest Airlines
3	Boise	1	Horizon Air
4	Boston	1	JetBlue Airways
5	Burbank	8	Southwest Airlines
6	Chicago (Midway)	1	Southwest Airlines
6	Chicago (O'Hare)	2	American Airlines
7	Dallas/Ft. Worth	6	American Airlines
8	Denver	9	Southwest Airlines (4), United Airlines (5)
9	Guadalajara, Mexico	2	Alaska Airlines, Volaris
10	Honolulu	1	Hawaiian Airlines
11	Houston (George Bush Int'l)	2	Continental Airlines
12	Kahului - Maui	1	Alaska Airlines
13	Kona	1	Alaska Airlines
14	Las Vegas	9	Southwest Airlines
15	Los Angeles	22	American Eagle (6), Horizon Air (3), Southwest Airlines (10), United Express (3)
16	Minneapolis/St. Paul	2	Delta Air Lines
17	New York (JFK)	1	JetBlue Airways
18	Ontario	5	Southwest Airlines
19	Orange County	8	Southwest Airlines
20	Phoenix	11	Southwest Airlines (6), US Airways (5)
21	Portland	9	Alaska Airlines (2), Horizon Air (3), Southwest Airlines (4)
22	Reno	3	Southwest Airlines
23	Salt Lake City	5	Delta Air Lines (1), Delta Connection (4)
24	Sacramento	1	Horizon Air
25	San Diego	10	Southwest Airlines
26	Seattle	9	Alaska Airlines (6), Southwest Airlines (3)
	TOTAL DAILY NONSTOP FLIGHTS 1/	133	

Note:

1/ In addition to the daily nonstops reflected on Table II-11, Alaska Airlines provides nonstop service to Lihue, Hawaii with three flights per week and to Los Cabos, Mexico with two flights per week.

Source: Official Airline Guide, Inc., week of June 12 -18, 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

2.6 Historical Aircraft Operations and Landed Weight

This section presents historical commercial aircraft operations (takeoffs and landings) by mainline, regional/commuter and international carriers. Landed weight is presented based on the individual airline or carriers grouping, including a grouping of all-cargo carriers[5].

2.6.1 Aircraft Operations

Table II-12 presents historical aircraft operations at the Airport between FY 1997 and FY 2010. Total commercial activity at the Airport decreased from a high of 300,007 operations in FY 1997 to 131,590 operations in FY 2010. Specific points concerning trends in operational activity by major user categories at the Airport are discussed below.

- **Passenger Airlines.** Passenger airline operations at the Airport increased from approximately 128,936 operations in FY 1997 to a peak of 154,054 operations in FY 2001. This increase represents a CAGR of 4.6 percent, compared to 2.1 percent experienced by passenger carriers nationwide. This growth between FY 1997 and FY 2001 was primarily due to the rapid growth of the regional economy and increased competition between the airlines at the Airport. From FY 2001 to FY 2006 passenger airline activity decreased from 154,054 operations to 127,954 operations, representing an average annual decrease of 3.6 percent. These annual decreases were primarily due to the downturn in the Technology Industry in early 2001 and the impacts of the September 11 terrorist attacks and the subsequent elimination or reduction of service by American. Increases in operations by the regional/commuter airlines served to offset some of the decreases by mainline airlines. In particular, American and Delta shifted certain operations to American Eagle and Delta Connection. In FY 2007 and FY 2008, passenger airline operations remained flat as mainline airlines reduced service or shifted some operations to regional/commuters. As noted earlier, due to the economic downturn, which lead to reduced demand, airlines cut capacity at the Airport, including the majority of airports across the nation. From FY 2008 through FY 2010, passenger airline operations declined from 126,364 to 95,800, or at an average annual decrease of 12.9 percent.
- **General Aviation**. General aviation activity at the Airport, which includes activity by air taxi operators (for-hire charters, fixed base operators, etc.), decreased steadily from 166,910 operations in FY 1997 to 122,435 operations in FY 2001. Operations by general aviation decreased 36.0 percent to 78,618 in FY 2002 from FY 2001 levels, primarily due to a corresponding decrease by based aircraft storage facilities and the closure of two fixed base operators (FBOs) on the southwest side of the Airport (Aris and AirOne). Another key factor affecting general aviation activity levels was the FAA's initiation of a new operations counting policy at the Airport, which made the counting more accurate yet reduced the reported number of general aviation operations at the Airport in FY 2002 from previous years. Since that time, general aviation operations continued to decrease to 61,907 operations in FY 2006. After nearly flat operational growth from FY 2007 to FY 2008, general aviation operations continued to decline to 33,439 in FY 2010. Once again, due to the economic slowdown and higher operating costs (i.e. fuel and insurance), operations declined at an

[5] All-cargo carrier grouping includes numerous unscheduled cargo operators, but primary carriers include ABX Air, Air Transport International, Federal Express (FedEx), and United Parcel Service (UPS). Over the last five fiscal years, these four carriers accounted for 95 – 99 percent of all-cargo operations and over 99 percent of all-cargo landed weight. ABX Air discontinued service in June 2008.

Table II-12

Historical Aircraft Operations at the Airport

Fiscal Year	Passenger Airlines: Mainline	Passenger Airlines: Regionals/ Commuters	Passenger Airlines: International Operations 1/	Passenger Airlines: Total Airline Operations	General Aviation	All Cargo	Military	Airport Total
1997	119,468	7,294	2,174	128,936	166,910	3,827	334	300,007
1998	116,484	10,598	2,280	129,362	156,200	4,502	230	290,294
1999	127,058	6,110	2,300	135,468	152,911	5,704	631	294,714
2000	129,173	4,848	1,882	135,903	146,202	6,028	225	288,358
2001	146,984	5,094	1,976	154,054	122,435	6,208	238	282,935
2002	127,603	10,385	1,716	139,704	78,618	5,815	211	224,348
2003	112,264	19,032	1,708	133,004	62,510	4,636	125	200,275
2004	101,706	30,838	1,820	134,364	59,521	3,586	113	197,584
2005	97,118	29,672	1,774	128,564	63,708	3,594	99	195,965
2006	95,310	30,756	1,888	127,954	61,907	3,464	83	193,408
2007	95,620	28,806	1,976	126,402	55,021	3,388	103	184,914
2008	95,352	29,504	1,508	126,364	55,146	3,140	64	184,714
2009	85,418	23,830	1,250	110,498	46,674	2,558	242	159,972
2010	74,774	19,776	1,250	95,800	33,439	2,076	275	131,590
CAGR								
FY 1997 - 2001	5.3%	(8.6%)	(2.4%)	4.6%	(7.5%)	12.9%	(8.1%)	(1.5%)
FY 2001 - 2006	(8.3%)	43.3%	(0.9%)	(3.6%)	(12.7%)	(11.0%)	(19.0%)	(7.3%)
FY 1997 - 2006	(2.5%)	17.3%	(1.6%)	(0.1%)	(10.4%)	(1.1%)	(14.3%)	(4.8%)
FY 1997 - 2010	(3.5%)	8.0%	(4.2%)	(2.3%)	(11.6%)	(4.6%)	(1.5%)	(6.1%)

Note:

1/ Includes operations from U.S. and Foreign Flag airlines serving international destinations.

Source: Norman Y. Mineta San José International Airport, January 2011.

Prepared by: Ricondo & Associates, Inc., May 2011.

average annual decrease of 2.2 percent from FY 2008 through FY 2010. Based on a Federal Fiscal Year (October – September), the nation's general aviation operations have declined at an average annual decrease of 8.3 percent from 2008 through 2010. See Chapter III of this report for the City's plans with respect to general aviation facilities at the Airport.

- **All-Cargo Carriers.** Similar to passenger airline activity, operations by all-cargo carriers at the Airport peaked in FY 2001 at 6,208 annual operations. Following FY 2001, all-cargo operations at the Airport decreased nine out of the ten years between FY 2001 and FY 2010, from approximately 6,208 operations in FY 2001 to 2,076 in FY 2010. These decreases were primarily a result of the downturn of the economy in FY 2002 and FY 2003 and FY 2009 and FY 2010. Between FY 2004 and FY 2007, during the economic recovery and expansion all-cargo operations remained stable and averaged approximately 3,500 operations per year. Also noted, ABX Air reduced service in FY 2008 and eventually discontinued service in July 2008. ABX Air recorded 516 operations in FY 2007 and reduced operations to 422 in FY 2008.

2.6.2 Landed Weight by Commercial Airlines

Table II-13 presents the historical share of landed weight at the Airport between FY 2006 and FY 2010. As shown, total landed weight has decreased consistently since FY 2006, from 7,499,072 thousand pounds to 5,732,784 thousand pounds in FY 2010. In FY 2006, Southwest accounted for 40.9 percent of landed weight at the Airport, with the next top nine airlines accounting for an additional 44.8 percent of landed weight. Overall, Southwest's share of landed weight at the Airport has increased each year shown, from 40.9 percent in FY 2006 to 52.9 percent in FY 2010, however total landed weight for the carrier has decreased from 3,065,960 to 3,033,408 thousand pounds over the comparable period. As with enplaned passengers, American and American Eagle's share of Airport landed weight has decreased each year shown. The all-cargo carriers' share decreased from 6.4 percent to 5.6 percent of the Airport's total landed weight between FY 2006 and FY 2010.

2.7 Factors Affecting Aviation Demand and the Airline Industry

This section discusses qualitative factors that could influence future aviation activity at the Airport. While data and/or information related to these factors (e.g., jet fuel prices) have not specifically been incorporated into the projections of Airport activity discussed in Section 2.8, these factors were indirectly considered and analyzed in developing the projections.

2.7.1 Regional Economy

The underlying economic conditions of the Airport's Air Service Area are anticipated to continue to recover, driving future demand for air travel at the Airport and several factors that impact demand bode well for the region. The Air Service Area's key resources, including its universities, research labs, skilled workforce, and high income levels relative to California and the nation remain intact. Recent data shows the regional economy is improving somewhat, as evidenced by continued population growth, reduced unemployment rates, and increased contributions of venture capital (see Chapter 1 of this report – Economic Base for Air Transportation). Expected improvements in economic conditions for the regional economy and California are anticipated to lead to future growth in activity at the Airport.

Table II-13

Historical Airport Landed Weight by Airline
(Weight in 1,000 Pound Units)

	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
Airline	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share
Southwest Airlines	3,065,960	40.9%	3,197,472	42.6%	3,366,428	45.5%	3,236,828	49.4%	3,033,408	52.9%
American Airlines	850,139	11.3%	733,523	9.8%	572,925	7.7%	480,870	7.3%	366,797	6.4%
Alaska Airlines	490,114	6.5%	472,515	6.3%	441,300	6.0%	337,540	5.2%	363,017	6.3%
US Airways	377,223	5.0%	415,366	5.5%	387,348	5.2%	316,454	4.8%	262,199	4.6%
SkyWest Airlines	151,419	2.0%	166,716	2.2%	146,500	2.0%	174,983	2.7%	217,883	3.8%
United Airlines 1/	515,943	6.9%	490,735	6.5%	474,724	6.4%	277,027	4.2%	182,268	3.2%
Delta Air Lines	367,240	4.9%	334,490	4.5%	296,483	4.0%	220,738	3.4%	168,315	2.9%
Horizon Air	104,759	1.4%	98,525	1.3%	115,790	1.6%	111,530	1.7%	144,240	2.5%
Continental Airlines 1/	164,858	2.2%	178,500	2.4%	181,657	2.5%	142,465	2.2%	133,055	2.3%
American Eagle	391,471	5.2%	346,514	4.6%	305,779	4.1%	254,983	3.9%	131,181	2.3%
JetBlue Airways	155,706	2.1%	124,565	1.7%	147,688	2.0%	188,439	2.9%	115,710	2.0%
Hawaiian Airlines	87,360	1.2%	128,960	1.7%	115,545	1.6%	109,970	1.7%	94,075	1.6%
Volaris	-	0.0%	-	0.0%	-	0.0%	-	0.0%	8,320	0.1%
Mesaba	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,624	0.0%
All Cargo Carriers	478,376	6.4%	511,763	6.8%	492,624	6.7%	421,088	6.4%	322,267	5.6%
Other 2/	298,504	4.0%	301,652	4.0%	359,959	4.9%	278,242	4.2%	188,425	3.3%
AIRPORT TOTAL 3/	7,499,072	100.0%	7,501,296	100.0%	7,404,750	100.0%	6,551,157	100.0%	5,732,784	100.0%

Notes:
1/ Continental and United merged in October 2010. The combined airlines (named United) plan to operate under a single certificate by the end of CY 2011.
2/ Consists of airlines no longer serving the Airport and charter airlines.
3/ Columns may not add to totals shown because of rounding.

Source: Norman Y. Mineta San José International Airport, January 2011.
Prepared by: Ricondo & Associates, Inc., June 2011.

2.7.2 National Economy

Air travel demand nationwide is directly correlated to consumer income, business profits, and United States Gross Domestic Product (GDP). As consumer income, business profits, and GDP increases, so does demand for air travel. Recent econometric research by the International Air Transport Association [6] and the MIT International Center for Air Transportation [7] found that demand for air passenger service is responsive to changes in GDP with a very high correlation coefficient.

As discussed in Chapter 1 of this report, the nation experienced an economic recession between December 2007 and June 2009, which was marked by a combination of declines in construction activity, falling home prices, rising oil prices and a falling stock market. Demand for air travel weakened nationwide in 2008, registering a 3.1 percent decline, followed by an additional 5.2 percent decline nationwide in 2009. As noted in Southwest's first quarter 2009 earnings statement, the airline attributed its operating loss of $50 million to a rapid weakening in passenger demand during the same quarter, particularly among business travelers.

Recently, trends in United States GDP have improved, with the nation recording an increase of 1.6 percent in the third quarter of 2009, followed by additional gains of 5.0 percent and 3.7 percent in the fourth quarter of 2009 and the first quarter of 2010, respectively. According to the "third" estimate released by the Bureau of Economic Analysis (BEA), United States GDP increased at an annual rate of 1.7 percent in the second quarter of 2010. For the third and fourth quarters of 2010, United States GDP increased at an annual rate of 2.6 percent and 3.1 percent respectively, according to the "third" estimate released by the BEA. The rise in real GDP in recent quarters is reflective of positive contributions from stronger consumer spending, private inventory investment, nonresidential fixed investment, exports, and federal government spending, during these periods. In September 2010, the National Bureau of Economic Research determined that a trough in business activity occurred in the United States economy in June 2009, thus officially marking the end of the recession that began in December 2007 and the beginning of an expansion. The recession lasted 18 months, which makes it the longest of any recession since World War II. The most recently published surveys of leading economists by Blue Chip Economic Indicators and the National Association for Business Economics (NABE) indicate consensus for modest GDP growth in 2011.[8] According to United States Bureau of Transportation Statistics data, air travel demand began to rebound in late 2009. In 2010, total scheduled enplaned passengers on United States airlines increased to 720.5 million from 703.9 million in 2009, or an increase of 2.4 percent. In January 2011, total scheduled enplaned passengers on United States airlines increased 2.2 percent compared to January 2010.

Exhibit II-5 shows the quarterly United States GDP percent change from the preceding period from the first quarter of 2007 through the fourth quarter of 2010.

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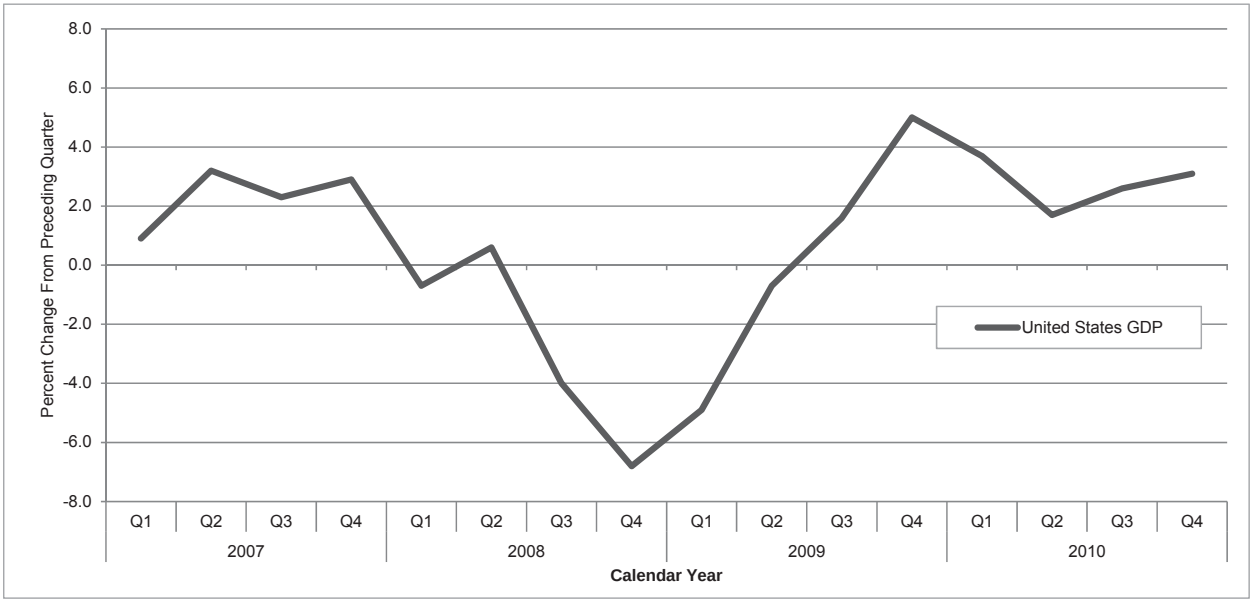
6 *Air Travel Demand, IATA Economics Briefing No. 9,* International Air Transport Association, April 2008.

7 *Analysis of Interaction Between Air Transportation and Economic Activity: A Worldwide Perspective,* MIT International Center for Air Transportation, March 2009.

8 *Blue Chip Economic Indicators*, Vol. 36, No. 4, April 10, 2011, Aspen Publishers; *NABE Outlook*, May 2011, National Association for Business Economics.

Exhibit II-5

Historical Quarterly GDP (United States)



Source: United States Department of Commerce, Bureau of Economic Analysis, April 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

The Blue Chip Economic Indicators forecast projects annual GDP growth of 2.9 percent for the United States in 2011. The NABE forecasts 2.8 percent growth in GDP for the United States in 2011. According to the latest forecast from the Congressional Budget Office (CBO), United States GDP is projected to grow by 3.1 percent in 2011, 2.8 percent in 2012, and by an average of 3.4 percent between 2013 and 2016,[9] which suggests the upward trend in nationwide air travel should continue. However, should the economy stall, or again trend downward (e.g., encounter a "double-dip" recession), aviation demand nationwide would likely be negatively impacted.

2.7.3 State of the Airline Industry

In the aftermath of the events of September 11th, the airline industry saw a downturn in demand for air travel. The result was five years of reported industry operating losses, totaling more than $28 billion dollars (excluding extraordinary charges and gains). The airline industry finally gained ground in 2007 with virtually every United States airline posting profits. However, in 2008 and through the first half of 2009, the combination of record high fuel prices, weakening economic conditions, and a weak dollar resulted in the worst financial environment for United States airlines since the September 11th terrorist attacks. In response, most airlines announced significant capacity reductions, increased fuel surcharges, increased fares and fees, and adopted other measures to address the financial challenges. Whereas the capacity reductions following the events of September 11th were the direct result of terror threats targeting the traveling public, the industry reductions starting in late 2008 and continuing through the first half of 2009 were primarily driven by

[9] Source: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, available online at http://www.cbo.gov/ftpdocs/120xx/doc12061/FY2011Outlook_Testimony.pdf, January 27, 2011.

significant increases in fuel costs over a span of two and a half years, a weak dollar exacerbating the impact of increased fuel costs, and the contraction of the United States economy.

After nearly $10 billion of losses in 2009 and a $16 billion profit for the global airline industry in 2010, the International Air Transport Association (IATA) is predicting a $8.6 billion profit in 2011. Globally, passenger traffic is forecast to rise 5.6 percent in 2011. Even though recovery is uneven across different regions, North American airline profits are projected by IATA to be $3.2 billion in 2011, below the $4.7 billion profits earned in 2010.

2.7.3.1 Airline Mergers and Acquisitions

In recent years airlines have experienced increased costs and industry competition both domestically and internationally. As a result, airlines have merged and acquired competitors in an attempt to combine operations in order to increase cost synergies and become more competitive. In 2009, Delta fully completed its merger with Northwest Airlines which initiated a wave of airline mergers and acquisitions within the United States. That same year, Republic Airways Holdings, a regional airline, bought Frontier Airlines and Midwest Airlines. In October 2010, United Airlines and Continental Airlines merged, creating the world's largest airline in terms of operating revenue and revenue passenger miles.

On September 27, 2010, Southwest Airlines announced it had entered into an agreement to acquire all of the outstanding common stock of AirTran Holdings, Inc., the parent company of AirTran Airways, for a combination of cash and Southwest Airlines' common stock. The acquisition will extend Southwest's route network and add new markets, such as Atlanta (the largest domestic market Southwest currently does not serve) and Reagan National Airport (Washington, D.C.), and provides access to international leisure markets in the Caribbean and Mexico. Southwest plans to integrate AirTran into the Southwest brand by transitioning the AirTran fleet to the Southwest's livery and consolidating corporate functions into its Dallas headquarters. Southwest Airlines' integration plans include transitioning the operations of the two carriers to a single operating certificate. The merger closed in May 2011. The acquisition of AirTran by Southwest is not expected to have any major impact at the Airport as AirTran does not serve the Airport. However, SFO could potentially be a stronger draw for certain Bay Area residents once Southwest completes its purchase of AirTran Airways and acquires AirTran's operations at San Francisco.

2.7.3.2 Cost of Aviation Fuel

The price of fuel is one of the most significant forces affecting the airline industry today. In 2000, jet fuel accounted for nearly 14 percent of airline industry operating expenses and, historically, fuel expense was the second highest operating expense for the airline industry behind labor. In 2008, jet fuel surpassed labor as an airline's largest operating expense and, according to the ATA, fuel comprised approximately 30.6 percent of an airline's total operating costs while labor represented approximately 20.3 percent of the total. As oil prices fell in the first quarter of 2009, fuel expenses retreated and labor once again became the airline industry's largest operating expense representing 25.8 percent of total operating expenses while fuel was at 21.3 percent. As of the third quarter of CY 2010, fuel once again was the largest percentage of total operating expense at 25.4 percent followed by labor at 24.7 percent.

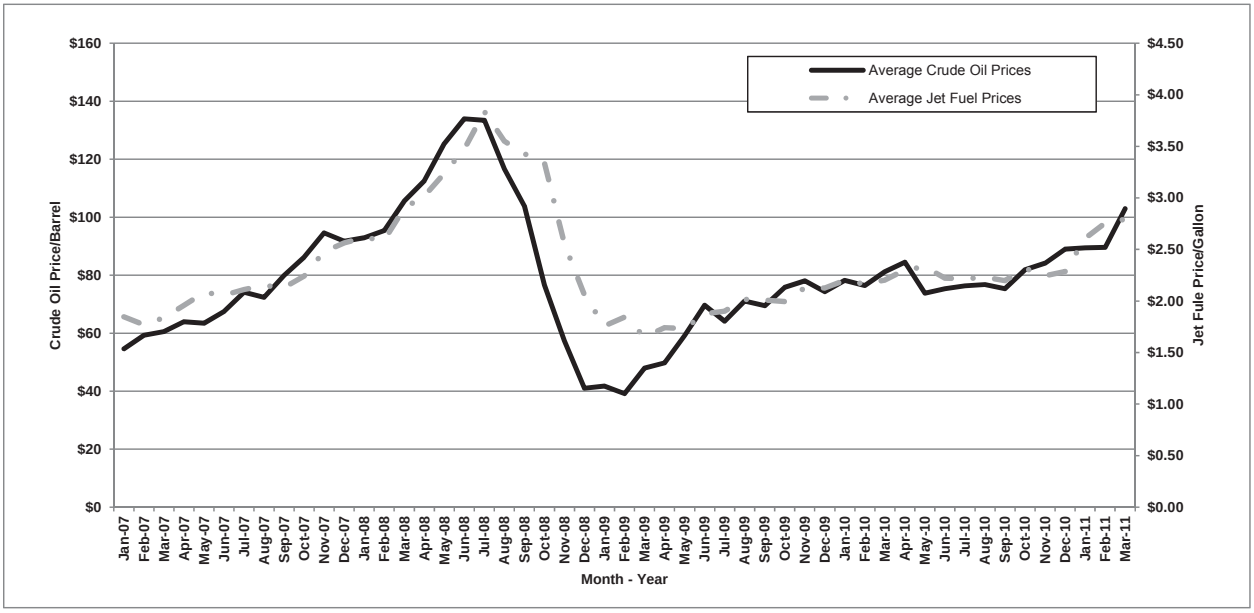
The average price of jet fuel was $0.82 per gallon in 2000 compared to $2.24 per gallon in 2010, an increase of 172 percent. According to the ATA, every one-cent increase in the price per gallon of jet fuel increases annual airline operating expenses by approximately $190 million to $200 million.

If jet fuel prices approach or surpass their mid-2008 peak (July's average price of $3.84 per gallon), aviation demand nationwide may be negatively impacted due to potential activity reductions by the airlines or higher ticket prices the airlines might impose in efforts to remain profitable. The average price of jet fuel in March 2011 was $2.79 per gallon, a 26.7 percent increase over the March 2010 average price.

Exhibit II-6 shows the monthly averages of jet fuel and crude oil prices from January 2007 through March 2011.

Exhibit II-6

Historical Monthly Averages of Jet Fuel and Crude Oil Prices



Source: Air Transport Association (ATA), May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

2.7.3.3 Airport Security and Threat of Terrorism

As has been the case since the September 11th terrorist attacks, the recurrence of terrorism incidents against either domestic or international aviation targets during the Projection Period remains a risk to achieving the activity projections contained herein. Any terrorist incident aimed at aviation would have an immediate and significant adverse impact on the demand for aviation services. With the enactment of the Aviation and Transportation Security Act (ATSA) in November 2001, the Transportation Security Administration (TSA) was created, which established different and improved security processes and procedures. The ATSA mandates certain individual, cargo and baggage screening requirements, security awareness programs for airport personnel and deployment of explosive detection devices. The ATSA also permits the deployment of air marshals on all flights and requires air marshals on all "high-risk" flights. In November 2002, Congress enacted the Homeland Security Act, which created the Department of Homeland Security (DHS) to accomplish several primary goals: (1) prevent terrorist attacks within the United States, (2) reduce the nation's vulnerability to terrorism, (3) minimize the damage of and assist in the recovery from terrorist attacks that do occur, and (4) monitor connections between illegal drug trafficking and terrorism and coordinate efforts to sever such connections. The TSA is now a part of the DHS. Increased security requirements due to unexpected events could increase costs directly and indirectly to the industry and could have an adverse effect on passenger demand.

2.7.4 High Speed Rail in California

In November 2008, California voters passed a referendum allowing the State to issue approximately $9.0 billion of bonds to help fund the first phase of a high-speed rail system that would ultimately connect various cities in Northern California (including San Jose) to cities in Southern California. According to information from the California High Speed Rail Authority, high speed rail service would not begin until 2020 (after the Projection Period).

2.8 Projections of Aviation Demand

Projections of aviation demand were developed based on an analysis of local socioeconomic and demographic factors; the Airport's historical share of United States enplaned passengers; the impacts of the factors described previously; projected departing seats and load factors, and anticipated activity trends at the Airport. Market share, socioeconomic regression, and departing seats/load factor approaches were used to assist in the development of Airport activity projections. The following provides a general overview of these methodologies:

- **Market Share Approach.** In this methodology, judgments are made as to how and to what extent the Airport's rate of growth in domestic enplaned passengers will differ from the rate of growth projected for the nation by the FAA. The FAA's activity projections contained in FAA Aerospace Forecasts, Fiscal Years 2010 - 2030, were used as a basis for the market share analysis. On a macro scale, the United States projection provides a base for anticipated industry traffic growth. The FAA's United States forecast considers factors such as the nation's economic health, aviation industry trends, and airline fuel and fare pricing trends. In the absence of significant local influences, activity at an airport would be expected to increase at a rate comparable to the national rate. The growth rate used for the Airport can be reflected as an increase or decrease in its future share of the market.

- **Socioeconomic Regression Approach.** A regression analysis compares proven relationships between various socioeconomic variables for the Airport's Air Service Area to aviation activity. A mathematical regression analysis model was developed to correlate the historical relationships of these socioeconomic variables to the Airport's enplaned passengers. Airport enplaned passengers were then projected using independent forecasts of these economic/demographic variables. Independent variable inputs were tested, and a simple trend line was determined to test the resulting projections. Of interest in the analyses, among other factors, was how well each socioeconomic variable explained the annual variations in enplaned passengers at the Airport (i.e., the model's correlation coefficient).

  The Airport's long-term demand for air service is generally driven by factors directly related to the Air Service Area's demographic and economic characteristics. Three socioeconomic variables that were analyzed as independent variables for the regression analysis include:

  - **Population.** The number of persons residing in the region.
  - **Employment.** Number of persons employed in the region, based on nonagricultural employment data collected by the United States Department of Labor, Bureau of Labor Statistics.
  - **Per Capita Income (PCI).** PCI indicates a relationship between the wealth of the residents of the Air Service Area with the population level for the region. Residents with higher relative income levels are more likely to travel by air.

In addition to the socioeconomic regression analyses, a linear trend analysis was undertaken. The linear trend analysis examines the historical growth in enplaned passengers and then produces a linear formula that best describes the Airport's historical activity by a straight line. The resulting straight line represents the "best fit," in which an equal number of historical data observations are both above and below that line. This line is then extended outward to provide enplaned passenger projections.

- **Departing Seats/Load Factor Approach.** In addition to the other two approaches, a departing seats/load factor approach was utilized. In this approach, airline schedule information provided from Official Airline Guide, Inc. was analyzed, as well as service announcements, along with certain assumptions in future aircraft load factors were made to project future activity for the Airport through the Projection Period.

2.8.1 Activity Projection Assumptions

Activity projections for the Airport are based on a number of underlying assumptions that are further based on national aviation trends, regional economic conditions, and our professional judgment. The following presents the specific assumptions used in developing activity projections at the Airport for the Projection Period.

- Southwest will continue to be the largest passenger carrier to operate at the Airport over the Projection Period. Mainline, regional/commuter, and foreign flag shares will remain relatively constant.
- Long-term activity at the Airport is assumed to increase as a result of expected growth in population and projected improvement to the economic conditions in the Air Service Area.
- The Airport is assumed to continue to provide nonstop service to a high percentage of its primary O&D markets. The composition of its airline base will also continue to foster competitive pricing and scheduling diversity. The mix of mainline, regional/commuter, and international airlines operating at the Airport is expected to remain the same throughout the Projection Period.
- In the near-term, SFO is assumed to continue to attract certain passenger demand from the Airport's Air Service Area, particularly if Virgin America, Southwest, and other airlines continue expanding service and reducing fares at SFO. Southwest's acquisition of AirTran could potentially attract additional Air Service Area passengers to SFO, but this specific assumption has not been assumed.
- It is anticipated that air fares among the three San Francisco Bay Area airports will continue to converge; however, fares at SFO are assumed to remain higher than fares at the Airport or OAK primarily as a result of the United Airlines hub and international service.
- For the purposes of these projections, no additional growth at the Airport is assumed as a result of potential capacity constraints at SFO (discussed in Section 2.2.1) during the Projection Period (through FY 2017).
- Future airline consolidation/mergers (including United/Continental and Southwest/AirTran) or bankruptcies that may occur during the Projection Period are not likely to have a long-term negative impact on passenger activity levels at the Airport due to the size of the local market and the diverse airline base serving the Airport.

- The Airport will continue its role in the San Francisco Bay Area in serving O&D passengers in short- to medium-haul markets. Continued growth in medium- and long-haul markets is assumed to occur in Southern, Midwestern, and Northeastern United States markets during the Projection Period.
- For these analyses, and similar to the Federal Aviation Administration's (FAA) nationwide projections, it is assumed that there will not be terrorist incidents against either domestic or international aviation during the Projection Period. Additionally, it is assumed that the aviation industry will not undergo a major contraction through bankruptcy, consolidation, or liquidation during this same period. Although strategies and success levels can be expected to differ among air carrier groupings, the aviation industry in aggregate will not be materially altered during the Projection Period.
- It is assumed that fuel prices will not spike during the Projection Period to levels that would negatively impact airline traffic nationwide or at the Airport (e.g., due to potential route reductions airlines might make or higher fares the airlines might impose in efforts to remain profitable).
- Economic disturbances will likely occur in the Projection Period causing year-to-year traffic variations; however, long-term increases in nationwide and Airport traffic are expected to occur.
- It is assumed no major "Acts of God", such as earthquakes, which may disrupt the national and/or global airspace system and negatively impact aviation activity at the Airport, will occur during the Projection Period.

Many of the factors influencing aviation demand cannot necessarily or readily be quantified, and any projection is subject to uncertainties. As a result, the projection process should not be viewed as precise. Actual future traffic levels at the Airport may differ from projections presented herein because events and circumstances do not occur as expected, and these differences may be material. The projections contained herein depict anticipated long-term trends, and as such, variations can be expected year to year.

2.8.2 Enplaned Passenger Projections

Table II-14 presents historical and projected enplaned passengers at the Airport. Specific assumptions and points regarding projected enplaned passengers for the Near-Term (FY 2011 and FY 2012) and the Longer-Term (FY 2013 to FY 2017) are discussed below. As shown on Table II-14, total enplaned passengers are projected to increase 2.1 percent from FY 2010 to FY 2011. Overall, enplaned passengers at the Airport are projected to increase at a CAGR of 2.2 percent from FY 2010 to FY 2017.

For projecting Near-Term enplaned passengers at the Airport, the "scheduled departing seats/load factor" methodology was utilized. Based on discussions with Official Airline Guide, Inc., scheduled airline seat data can be considered reliable up to six months in the future. The quality of scheduled data beyond six months tends to be limited, as airlines are still in the planning/design process for intermediate and future schedules. As a result, the scheduled departing seat analysis was limited to the last three months of FY 2011 in comparison to a similar period in FY 2010.

Actual data for the first nine months of FY 2011, airline schedule information for the remainder of FY 2011 provided from Official Airline Guide, Inc. data, load factor information, specific airline

Table II-14
Enplaned Passenger Projections

Fiscal Year	Mainline	Regional/ Commuters	International [1/]	Airport Total
Historical				
1995	4,072,006	77,086	114,927	4,264,019
1996	4,468,713	69,804	123,040	4,661,557
1997	4,887,854	59,436	139,152	5,086,442
1998	4,790,474	103,180	151,554	5,045,208
1999	5,207,835	89,200	172,692	5,469,727
2000	5,808,992	66,175	176,638	6,051,805
2001	6,664,821	58,441	214,115	6,937,377
2002	5,421,403	146,936	150,874	5,719,213
2003	4,772,654	310,223	122,110	5,204,987
2004	4,651,137	506,536	134,176	5,291,849
2005	4,660,730	546,761	138,142	5,345,633
2006	4,706,038	571,739	137,054	5,414,831
2007	4,686,496	529,995	102,368	5,318,859
2008	4,584,448	526,696	67,459	5,178,603
2009	3,907,376	431,805	60,381	4,399,562
2010	3,636,146	408,811	62,437	4,107,394
FYTD - 2010 [2/]	2,672,027	315,295	42,618	3,029,940
FYTD - 2011 [2/]	2,764,187	281,122	54,588	3,099,897
Projected				
2011	3,751,800	384,200	59,000	4,195,000
2012	3,830,500	393,700	60,000	4,284,200
2013	3,909,900	403,300	60,300	4,373,500
2014	3,991,900	412,900	63,200	4,468,000
2015	4,083,500	423,100	66,100	4,572,700
2016	4,176,100	433,400	69,000	4,678,500
2017	4,279,000	443,700	72,000	4,794,700
Compounded Annual Growth				
1995 - 2001	8.6%	(4.5%)	10.9%	8.4%
2001 - 2003	(15.4%)	130.4%	(24.5%)	(13.4%)
2003 - 2006	(0.5%)	22.6%	3.9%	1.3%
2006 - 2010	(6.2%)	(8.0%)	(17.8%)	(6.7%)
FYTD 2010 - 2011	3.4%	(10.8%)	28.1%	2.3%
2010 - 2011	3.2%	(6.0%)	(5.5%)	2.1%
2010 - 2017	2.4%	1.2%	2.1%	2.2%

Note:
1/ Includes enplaned passengers from U.S. and Foreign Flag airlines serving international destinations. Projected enplanements for foreign flag carriers only.
2/ FYTD (Jul - Mar).

Source: Norman Y. Mineta San José International Airport (historical), Ricondo & Associates, Inc. (projected), May 2011.
Prepared by: Ricondo & Associates, Inc., June 2011.

service announcements, and industry information were all analyzed in developing Airport passenger projections for FY 2011 and FY 2012. Based on these analyses, enplaned passengers at the Airport are expected to increase from 4,107,394 in FY 2010 to approximately 4,195,000 in FY 2011, representing an increase of 2.1 percent.

For longer-term projections of enplaned passengers, the market share and regression approaches were analyzed, and the FAA's 2010 Terminal Area Forecast (TAF) was also reviewed. The FAA's TAF projected enplaned passengers to reach approximately 4.8 million enplaned passengers in Federal Fiscal Year (FFY) 2017, representing a CAGR of 2.4 percent from FFY 2010 to FFY 2017.

Specific points concerning the Airport's projected enplaned passengers are presented below:

- **Mainline Enplaned Passengers.** Mainline enplaned passengers are expected to increase from 3,636,146 in FY 2010 to approximately 4,279,000 in FY 2017, representing a CAGR of 2.4 percent. In FY 2011, mainline airlines enplaned passengers are projected to increase 3.2 percent due to increased load factors and increased announced service by Alaska, Delta, and Southwest. Estimated mainline share of total Airport enplaned passengers is projected to decrease slightly from 89.4 percent in FY 2011 to 89.2 percent in FY 2017. Over the Projection Period, mainline airlines' average seats per departure and load factor are assumed to increase on a year over year basis resulting in increased enplaned passengers. Excluding the projected increase of 3.2 percent in FY 2011, mainline enplaned passengers are projected to increase at CAGR of 2.2 percent from FY 2011 through FY 2017.
- **Regional/Commuter Enplaned Passengers.** The regional/commuter share of total enplaned passengers at the Airport is expected to remain relatively stable at approximately nine percent during the Projection Period. Due to service reductions by American Eagle and SkyWest (dba United Express), regional/commuter enplaned passengers are projected to decrease from 408,811 in FY 2010 to 384,200 in FY 2011, at a rate of 6.0 percent. Following a projected decrease in enplaned passengers in FY 2011, regional/commuter enplaned passengers are projected to increase to approximately 443,700 in FY 2017, representing a CAGR of 1.2 percent from FY 2010 to FY 2017. Over the Projection Period, it is assumed regional/commuter airlines will increase operations, average seats per departure will remain stable, and load factors are assumed to increase on a year over year basis resulting in increased enplaned passengers. After the projected decline in FY 2011, regional/commuter enplaned passengers are projected to increase at CAGR of 2.4 percent from FY 2011 through FY 2017.
- **Foreign Flag Enplaned Passengers.** Based on nine months of actual data, foreign flag enplaned passengers are anticipated to decrease to approximately 59,000 in FY 2011 as a result of discontinued service by Mexicana (August 2010). Volaris, the only foreign flag airline currently operating at the Airport, initiated service at the Airport in April 2010 and has formed a partnership with Southwest to provide connecting service to Volaris's Mexican destinations. Volaris added three additional weekly flights to Guadalajara in March 2011. Beyond FY 2011, international enplaned passengers are projected to increase to approximately 72,000 by FY 2017, representing a CAGR of 2.1 percent between FY 2010 and FY 2017. After the projected decline in FY 2011, foreign flag enplaned passengers are projected to increase at CAGR of 3.4 percent from FY 2011 through FY 2017.

Based on points and assumptions discussed below, enplaned passengers at the Airport are projected to increase from 4,107,394 in FY 2010 to 4,794,700 in FY 2017, resulting in a CAGR of 2.2 percent during this period.

2.8.3 Aircraft Operations Projections

Table II-15 presents historical and projected aircraft operations for passenger airlines, general aviation, all-cargo carriers, and military. Total aircraft activity at the Airport is projected to increase from 131,590 operations in FY 2010 to approximately 133,970 operations in FY 2017, representing a CAGR of 0.3 percent.

Passenger airline operations at the Airport are projected to increase slightly from 95,800 operations in FY 2010 to 97,560 in FY 2017. In general, passenger airline operations will increase at a lower rate than enplaned passengers as a result of assumed increases in the average number of aircraft seats and aircraft load factors. In addition, passenger airline projections were developed based on historical relationships among enplaned passengers, load factors, and average seating capacities of aircraft utilized at the Airport. Over the Projection Period, it is assumed that airlines will focus on increasing load factors and aircraft size, before adding additional operations. Specifically, projections of operations for the Airport's passenger airlines are based on the following factors:

- **Mainline Operations.** From FY 2001 to FY 2010, the mainline airlines reduced their aircraft fleets, decreasing seat capacity and increasing average aircraft load factors. Nationwide, domestic aircraft load factors for large jet airlines have increased from 70 percent in 2001 to 81.6 percent in 2010. Average load factors at the Airport for mainline airlines have followed the same trend, increasing from approximately 63 percent in FY 2001 to approximately 70 percent in FY 2010.

  The Airport's largest airline, Southwest, operates Boeing 737s with a 122-seat or 137-seat configuration. It is projected that as demand increases Southwest will phase out the older 122-seat aircraft and maintain operations in the 137-seat aircraft. In FYTD 2011, Southwest's operations represented approximately 65 percent of total mainline operations. Average seats per departure for mainline airlines at the Airport is projected to be approximately 140 seats in FY 2011 and is anticipated to remain largely unchanged at approximately 141 seats in FY 2017, primarily due to Southwest's share of operations. In FYTD 2011, load factors for some mainline airlines averaged in the 80 percentile; however Southwest's average load factor was approximately 69 percent. As a result of Southwest's market share, load factors for mainline airlines are anticipated to increase from approximately 70 percent in FY 2010 to 77 percent in FY 2017. Mainline operations at the Airport are also projected to increase from 74,774 in FY 2010 to approximately 78,180 in FY 2017, representing a CAGR of 0.6 percent.

- **Regional/Commuter Operations.** Over the last several years, certain mainline airlines have shifted some of their capacity to their regional/commuter affiliates. In addition, as a result of restructured agreements with the mainline airlines the regional/commuter airlines have been allowed to operate larger regional jet aircraft in the 75- to 99-seat range in recent years. As a result, the average size of regional/commuter aircraft has increased nationwide, from 40.5 seats in 2001 to 56.2 seats in 2010. Similarly, the Airport's average seats per aircraft for regional/commuter aircraft have also increased from 40.7 seats in FY 2001 to 55.1 seats in FY 2010. Based on published airline schedules for regional/commuter airlines, average seats

Table II-15
Operations Projections

Fiscal Year	Passenger Airlines: Mainline	Passenger Airlines: Regional/ Commuters	Passenger Airlines: Foreign Flag 1/	Passenger Airlines: Total	General Aviation	All Cargo	Military	Airport Total
Historical								
2001	146,984	5,094	1,976	154,054	122,435	6,208	238	282,935
2002	127,603	10,385	1,716	139,704	78,618	5,815	211	224,348
2003	112,264	19,032	1,708	133,004	62,510	4,636	125	200,275
2004	101,706	30,838	1,820	134,364	59,521	3,586	113	197,584
2005	97,118	29,672	1,774	128,564	63,708	3,594	99	195,965
2006	95,310	30,756	1,888	127,954	61,907	3,464	83	193,408
2007	95,620	28,806	1,976	126,402	55,021	3,388	103	184,914
2008	95,352	29,504	1,508	126,364	55,146	3,140	64	184,714
2009	85,418	23,830	1,250	110,498	46,674	2,558	242	159,972
2010	74,774	19,776	1,250	95,800	33,439	2,076	275	131,590
FYTD - 2010 2/	56,162	15,422	904	72,488	25,450	1,610	204	99,752
FYTD - 2011 2/	53,724	12,120	744	66,588	22,849	1,538	206	91,181
Projected								
2011	72,600	16,000	900	89,500	32,200	2,060	280	124,040
2012	73,500	16,360	1,040	90,900	32,500	2,090	280	125,770
2013	74,400	16,720	1,040	92,160	32,800	2,120	280	127,360
2014	75,300	17,080	1,085	93,465	33,000	2,150	280	128,895
2015	76,200	17,440	1,130	94,770	33,300	2,180	280	130,530
2016	77,100	17,800	1,175	96,075	33,600	2,210	280	132,165
2017	78,180	18,160	1,220	97,560	33,900	2,230	280	133,970
Compounded Annual Growth								
2001 - 2003	(12.6%)	93.3%	(7.0%)	(7.1%)	(28.5%)	(13.6%)	(27.5%)	(15.9%)
2003 - 2006	(5.3%)	17.3%	3.4%	(1.3%)	(0.3%)	(9.3%)	(12.8%)	(1.2%)
2006 - 2010	(5.9%)	(10.5%)	(9.8%)	(7.0%)	(14.3%)	(12.0%)	34.9%	(9.2%)
FYTD 2010 - 2011	(4.3%)	(21.4%)	(17.7%)	(8.1%)	(10.2%)	(4.5%)	1.0%	(8.6%)
2010 - 2011	(2.9%)	(19.1%)	(28.0%)	(6.6%)	(3.7%)	(0.8%)	1.8%	(5.7%)
2010 - 2017	0.6%	(1.2%)	(0.3%)	0.3%	0.2%	1.0%	0.3%	0.3%

Notes:
1/ Includes historical operations from U.S. and Foreign Flag carriers serving international destinations. Projected operations are foreign flag airlines.
2/ FYTD (Jul - Mar).

Source: Norman Y. Mineta San José International Airport (historical), Ricondo & Associates, Inc. (projected), May 2011.
Prepared by: Ricondo & Associates, Inc., June 2011.

per departure at the Airport are projected to reach 60.0 seats in FY 2011, an increase of more than 20 percent from FY 2009, when average seats per departures were 49.6 seats.

Average seats per departure for the regional/commuter airlines at the Airport are projected to increase slightly from 60.0 in FY 2011 seats to approximately 60.2 seats by FY 2017, based on the significant increase experienced from FY 2009 to FY 2011. In addition, average aircraft load factors for the regional/commuter airlines are anticipated to increase from approximately 75.4 percent in FY 2010 to 81.0 percent in FY 2017.

Regional/commuter carrier operations at the Airport are projected to decrease from 19,776 in FY 2010 to approximately 16,000 in FY 2011, representing a decrease of 19.1 percent. The majority of this decrease can be attributed to a reduction in service by American Eagle and SkyWest. American Eagle discontinued service to San Diego and Orange County. SkyWest (dba United Express) discontinued operations to Santa Barbara. From FY 2011 to FY 2017, regional/commuter carrier operations are projected to increase from approximately 16,000 to 18,160, representing a CAGR of 2.1 percent. Regional/commuter carrier operations are projected to decrease from 19,776 in FY 2010 to 18,160 in FY 2017, representing an average annual decline of 1.2 percent.

- **Foreign Flag Operations.** Foreign flag operations at the Airport have steadily declined over the past ten years. As mentioned earlier, due to Mexicana's termination of service, foreign flag operations are projected to decrease sharply from 1,250 in FY 2010 to approximately 900 in FY 2011, representing a decrease of 28.0 percent. From FY 2011 through FY 2012, foreign flag operations are projected to increase, notably due to a full year of Volaris's additional service to Guadalajara, from 900 operations to 1,040 operations. Foreign flag operations are projected to remain flat in FY 2013 and increase to 1,220 operations in FY 2017. Foreign flag operations are projected to decline at an average annual rate of 0.3 percent from FY 2010 through FY 2017; however from FY 2011 through FY 2017, operations are projected to increase at a CAGR of 5.2 percent.

Projected operations by general aviation, all-cargo, and military activity are discussed below:

- **General Aviation.** For the first nine months of FY 2011, general aviation operations were 10.2 percent below that for the same period in FY 2010. Reflecting recent historical trends, general aviation activity at the Airport is expected to continue to decrease from 33,439 operations in FY 2010 to approximately 32,200 operations in FY 2011. From FY 2011 through FY 2017, general aviation operations are projected to increase from 32,200 to 33,900, this increase represents a CAGR of 0.8 percent. General aviation operations are projected to increase from 33,439 in FY 2010 to 33,900 in FY 2017, at a CAGR of 0.2 percent.
- **All Cargo.** All-cargo activity at the Airport during the first nine months of FY 2011 was 4.5 percent below that for the same period in FY 2010. Similar to general aviation operations, this relationship is assumed to continue through the end of FY 2011. As a result, all-cargo activity at the Airport is expected to decrease nominally from 2,076 operations in FY 2010 to approximately 2,060 operations in FY 2011. Thereafter, projected growth in all-cargo operations at the Airport is expected to recover as the regional economy improves, reaching approximately 2,230 operations in FY 2017. From FY 2010 through FY 2017, all-cargo activity is projected to increase at a CAGR of 1.0 percent.

- **Military.** Future military activity at the Airport will be influenced by United States Department of Defense policy, which largely dictates the level of military activity at an airport. Given its unpredictability, military activity at the Airport is projected to remain constant at approximately 280 operations each year during the Projection Period, comparable to its estimated activity level for FY 2011.

2.8.4 Commercial Airline and All-Cargo Landed Weight Projections

Projected increases in landed weight are expected as a result of anticipated use of larger aircraft and/or increased operations at the Airport during the Projection Period as described in the previous section. **Table II-16** presents historical and projected commercial airline landed weight at the Airport. As shown, passenger airline landed weight is projected to increase from 5,410,517 thousand pounds in FY 2010 to 5,762,838 thousand pounds in FY 2017 or at a CAGR of 0.9 percent. As also shown, all-cargo landed weight at the Airport is projected to increase from 322,267 thousand pounds in FY 2010 to 341,875 thousand pounds in FY 2017, representing a CAGR of 0.8 percent.

Table II-16
Landed Weight Projections
(Weight in Thousand Pounds)

Fiscal Year	Domestic Mainline	Domestic Regional/ Commuters	Foreign Flag 1/	Passenger Airlines Total	All Cargo	Airport Total
Historical						
2001	9,569,736	105,389	308,431	9,983,556	747,929	10,731,485
2002	8,316,987	232,223	249,955	8,799,165	734,778	9,533,943
2003	7,241,752	425,177	234,993	7,901,922	648,405	8,550,327
2004	6,548,183	677,143	247,408	7,472,734	547,057	8,019,791
2005	6,227,308	660,694	241,205	7,129,207	531,843	7,661,050
2006	6,159,200	677,843	183,653	7,020,696	478,376	7,499,072
2007	6,235,556	638,449	115,528	6,989,533	511,763	7,501,296
2008	6,152,953	656,298	102,875	6,912,126	492,624	7,404,750
2009	5,488,347	553,726	87,996	6,130,069	421,088	6,551,157
2010	4,816,695	506,737	87,085	5,410,517	322,267	5,732,784
FYTD - 2010 2/	3,614,607	392,292	61,773	4,068,672	249,241	4,317,913
FYTD - 2011 2/	3,505,749	330,028	50,366	3,886,142	241,146	4,127,288
Projected						
2011	4,757,795	441,891	65,700	5,267,001	315,782	5,582,394
2012	4,822,288	453,060	76,440	5,353,424	320,386	5,673,416
2013	4,886,917	464,284	76,960	5,429,817	324,990	5,754,406
2014	4,951,680	475,561	80,833	5,509,751	329,595	5,838,939
2015	5,016,578	486,893	84,750	5,589,919	334,199	5,923,706
2016	5,081,612	498,278	88,713	5,670,321	338,804	6,008,707
2017	5,158,657	509,718	92,720	5,762,838	341,875	6,104,292
Compounded Annual Growth						
2001 - 2003	(13.0%)	100.9%	(12.7%)	(11.0%)	(6.9%)	(10.7%)
2003 - 2006	(5.3%)	16.8%	(7.9%)	(3.9%)	(9.6%)	(4.3%)
2006 - 2010	(6.0%)	(7.0%)	(17.0%)	(6.3%)	(9.4%)	(6.5%)
FYTD 2010 - 2011	(3.0%)	(15.9%)	(18.5%)	(4.5%)	(3.2%)	(4.4%)
2010 - 2011	(1.2%)	(12.8%)	(24.6%)	(2.7%)	(2.0%)	(2.6%)
2010 - 2017	1.0%	0.1%	0.9%	0.9%	0.8%	0.9%

Notes:
1/ Includes enplaned passengers from U.S. and Foreign Flag airlines serving international destinations. Projected enplanements for foreign flag carriers only.
2/ FYTD (Jul - Mar).

Source: Norman Y. Mineta San José International Airport (historical), Ricondo & Associates, Inc. (projected), May 2011.
Prepared by: Ricondo & Associates, Inc., June 2011.

III. Airport Facilities and Development

This chapter presents a review of existing Airport facilities (including new facilities and improvements that were recently completed as part of a comprehensive modernization of the Airport) and a discussion of potential future capital improvements at the Airport.

3.1 Existing Airport Facilities

The Airport occupies approximately 1,050 acres of land in San José, California (in Santa Clara County), approximately two miles north of downtown San José, between the Bayshore Freeway (Highway 101) and Interstate 880. Existing Airport facilities are described in the following sections and reflected in **Exhibit III-1** (Existing Airport Facilities) and **Exhibit III-2** (Terminal Area Facilities).

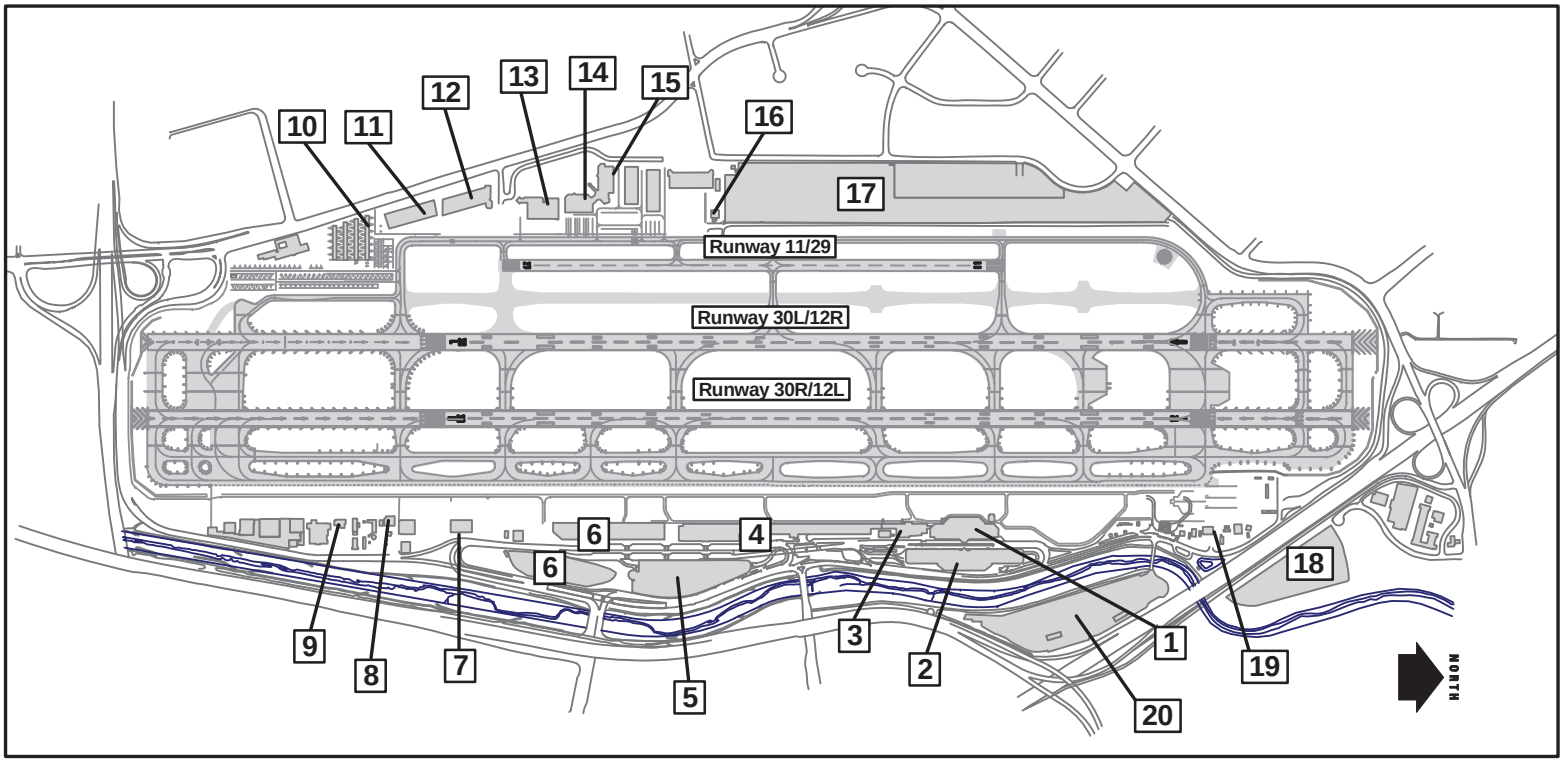
In 2010, the City completed Phase 1 of the Airport's Development Plan, a comprehensive modernization of the Airport which (as discussed in sections below) included construction of the new Terminal B; renovation, expansion, and upgrade of Terminal A; demolition of the Airport's oldest facility, Terminal C; construction of a seven-story consolidated rental car facility located immediately across the terminal roadway from the entrance to Terminal B; construction of new automated baggage screening systems for both Terminal A and Terminal B; and construction of various parking, roadway, signage, and public art improvements. The City utilized a "design/build" process for Phase 1, and Phase 1 was completed on time and approximately $140 million under budget. The completion of Phase 1 has resulted in a state of the art international airport with innovations in the use of technology and delivery of services that serves as the gateway for San José and Silicon Valley.

3.1.1 Airfield Facilities

The airfield facilities at the Airport consist of three parallel runways, including two air carrier runways (Runway 30L and Runway 30R) and one general aviation runway (Runway 11-29), and connecting taxiways. The primary air carrier runway for departures, Runway 30R, is 11,000 feet in length and the primary air carrier runway for arrivals, Runway 30L, is 11,000 feet in length. Both air carrier runways are 150 feet wide and are capable of handling aircraft serving any domestic and many international destinations.

Staggered simultaneous operations on both air carrier runways are possible during Visual Flight Rules (VFR) operations to reduce peak period delays. Runway 30L and Runway 30R can accommodate Boeing 747 and 787 or Airbus 340 (but not Airbus 380) aircraft on a limited basis with special operating procedures.

Runway 11-29, approximately 4,600 feet long, is a lighted, non-instrument runway located on the west side of the airfield which recently had been used exclusively by general aviation aircraft. Runway 11-29 is currently not in operation, and general aviation aircraft instead use Runway 30L and Runway 30R. The City is currently studying future alternatives related to Runway 11-29 including required maintenance, possible closure/removal, and impacts on Airport runway capacity. For purposes of this report, it has been assumed that future actions related to Runway 11-29 do not have a material impact on aviation demand at the Airport during the Projection Period.

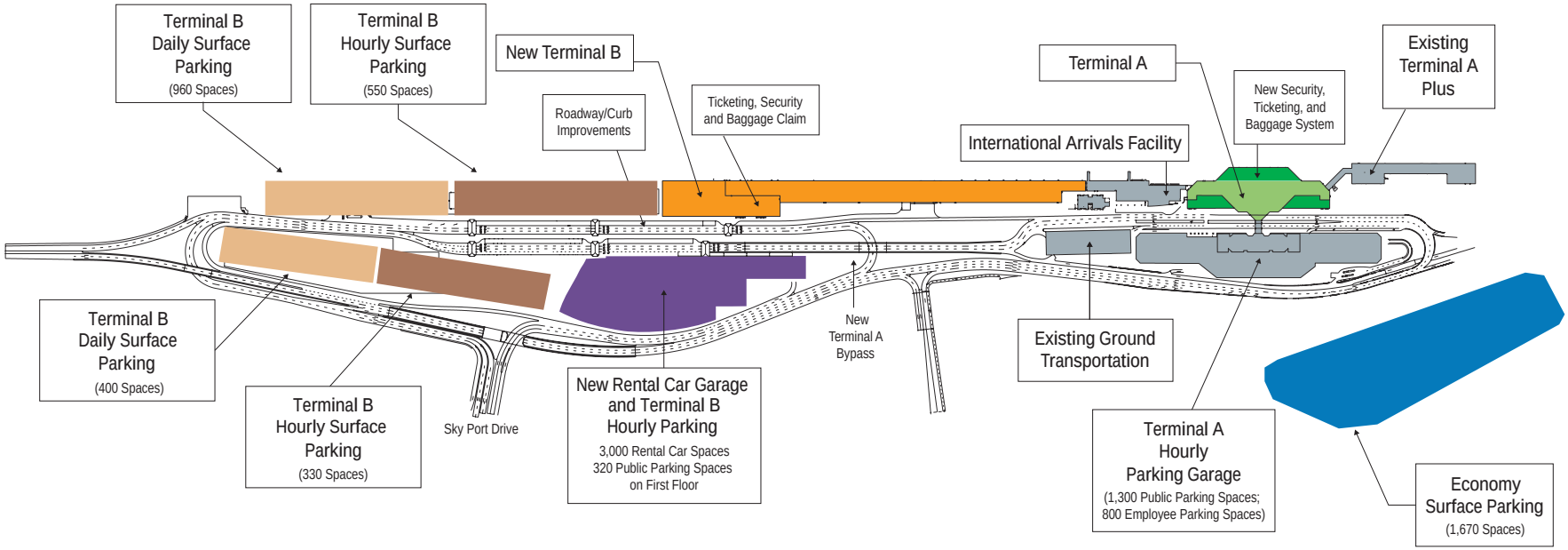


1. Terminal A
2. Terminal A Hourly Parking and Employee Parking Garage
3. International Arrivals Facility
4. Terminal B
5. Consolidated Rental Car Facility and Terminal B Hourly Parking
6. Terminal B Hourly and Daily Surface Parking
7. Air Freight
8. Fire Station 20
9. SJPD Airport Division
10. GA West
11. AvBase Aviation
12. Atlantic Aviation
13. HP Aviation (Corporate)
14. FAA-FSDO
15. Atlantic San Jose (Fueling & Transient Services)
16. FAA Air Traffic Control Tower
17. Economy Parking Lot (Future General Aviation Development)
18. Fuel Farm Location
19. North Air Cargo
20. Economy Surface Parking Lot

Source: City of San Jose, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Exhibit III-1

Existing Airport Facilities



Source: City of San Jose, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Exhibit III-2

Terminal Area Facilities

Lighting for the entire flight area, including lighting for the three runways and all connecting taxiways, approach lights, obstruction lights, lighted wind indicator and loading ramp floodlights, is provided on a 24-hour basis.

3.1.2 New and Improved Terminal Facilities

Terminal facilities at the Airport include the new Terminal B (12 gates), the renovated and expanded Terminal A (14 gates), and the International Arrivals Facility (2 gates), which combine for a total of 28 gates, all of which have passenger loading bridges. Southwest, Delta, Alaska, and Horizon are currently located in the new Terminal B. American, Continental, Hawaiian, JetBlue, United, US Airways, and Volaris are currently located in Terminal A.

3.1.2.1 New Terminal B

The new Terminal B (including the Terminal B Concourse) opened in June 2010, replacing the out-of-date and inadequately sized Terminal C, which was demolished in September 2010. Terminal B has 12 gates (each with passenger loading bridges) and includes approximately 380,000 square feet of terminal space. The first level includes ticket counters, baggage claim areas, and concession areas. The second level contains passenger security screening areas, public circulation space, passenger holdroom areas, airline and other tenant offices, and concession areas.

Terminal B includes a variety of shops and restaurants, free wireless services, and ample power outlets for passengers. There are currently 16 different food and beverage concessions and 10 retail merchandise shops in Terminal B. The passenger security checkpoint in Terminal B has eight lanes but is expandable to ten. Terminal B also utilizes a common use technology system to improve airline flexibility and efficient use of Terminal B equipment and facilities.

Terminal B is designed to handle up to approximately 6.1 million passengers annually. The look of the new terminal is futuristic and was inspired by a data cable untwisting to welcome the next-generation broadband world. Terminal B's façade features a curved roof made of perforated metal panels, which create a translucent, glowing appearance at night. A glass and steel curtain wall stretches more than 500 feet, allowing for expansive views and day-lit spaces up to 55 feet high. Each ground connection of the façade's curved metal panels can glide up to 28 inches horizontally to accommodate expansion/contraction and meet seismic requirements for earthquakes. The arrivals hall has a 62-foot arched ceiling, built to allow ample natural daylight for passengers checking in at ticket counters and self-service kiosks. Passengers ascend to the second floor, with a 45-foot vaulted ceiling for security checkpoints and the concourse. A 240-foot skylight runs the length of the concourse, again, bringing in natural light and reducing energy consumption. Thirteen-foot-high curtain walls give passengers a view of activity on the airfield.

Terminal B utilizes the new state-of-the-art continuous-feed CTX-9800 baggage screening equipment, which is faster and more efficient than manual baggage screening systems, allowing both TSA and the airlines to operate with fewer personnel, less manual handling of baggage, and lower costs, which help enhance the Airport’s competitiveness for airlines. This system is used in Terminal A as well. The Airport was the first airport in the nation to use this type of baggage screening equipment.

Terminal B has achieved the Leadership in Energy and Environmental Designs (LEED®) Silver certification from the United States Green Building Council in recognition of the Airport’s

significant commitment to environmentally sustainable design and construction. Terminal B is the first new passenger terminal west of the Mississippi River to be given this certification.

Public art in Terminal B features the nation's most extensive permanent exhibit of technology and digitally-based artworks in a public setting and was selected to showcase the innovation, diversity, and dynamism of San José and Silicon Valley.

Terminal B also features state of the art terminal seating. The "air chair", a new seating product, merges passenger amenities with environmental efforts. The new seats are designed to diffuse air throughout seating areas more efficiently and effectively than standard air diffusing systems. The seating also features integrated power outlets for charging laptops, cell phones, etc.

Terminal B also includes permanent facilities at the Airport for the USO.

3.1.2.2 Renovated and Expanded Terminal A

Terminal A, including a terminal extension located at the north end of Terminal A (referred to as Terminal A+), opened in 1990. Terminal A also includes the International Arrivals Facility (located at the south end of Terminal A) that opened in 2002. In 2009, Terminal A was renovated and expanded as part of the Airport's Phase 1 Development Program. Terminal A is a multi-story facility with 16 total gates (each with passenger loading bridges).

The first level of Terminal A includes new ticket counters, baggage claim areas, and ground transportation service counters. The second level contains passenger security screening areas, public circulation space, passenger holdroom areas, and concession areas. The third level of Terminal A contains airline and other tenant offices. The passenger security checkpoint in Terminal A has eight lanes but is expandable to ten. A common use technology system was also implemented in Terminal A to improve airline flexibility and efficient use of Terminal A equipment and facilities. The renovated and expanded Terminal A is designed to handle up to approximately 7.2 million passengers annually.

As part of the Airport's Phase 1 Development Program, renovation and expansion of Terminal A was completed in 2009. Terminal A's functionality was improved by doubling the capacity of security checkpoints on the second floor, nearly doubling the number of ticket counters (including the addition of six curbside counters and two bag drop counters inside), and increasing passenger queuing areas for ticket counters by approximately 60 percent. The amount of concession space in Terminal A was increased significantly. There are currently nine different food and beverage concessions and nine retail merchandise shops in Terminal A. Terminal A was also completely renovated with new terrazzo flooring and carpeting, new ceilings, new bathrooms and new seating throughout. Renovations in Terminal A also included procurement and installation of new pre-conditioned air passenger boarding bridges, new furniture and equipment, and technology upgrades. In addition, new automated baggage handling systems were installed in Terminal A. As discussed above for the new Terminal B, Terminal A is also equipped with state-of-the-art continuous-feed CTX-9800 baggage screening equipment, which allows both the TSA and the airlines to operate with fewer personnel, less manual handling of baggage, and lower costs, which helps enhance the Airport's competitiveness for airlines.

Effective July 12, 2011, the City plans to temporarily deactivate six gates in the Terminal A+ extension and shift airline operations associated with those gates to gates in Terminal A and the International Arrivals Facility. This shift is expected to concentrate passenger activity in areas with a

wider variety of concession choices and increase sales at concession locations in Terminal A. These temporary gate deactivations will remain in effect until the City decides that flight or passenger activity levels justify their re-activation.

As reflected on Exhibit III-2, the International Arrivals Facility is located at the south end of Terminal A, and is accessible from either the south end of Terminal A or the north end of Terminal B. The first level includes bag claim areas, customs and agricultural checkpoints, currency exchange, and traveler information areas. The second level includes duty free, concessions, and passenger holdroom areas. As part of the Airport's Phase 1 Development Program, general improvements were made to the International Arrivals Facility including restroom upgrades, carpet replacement, painting, and upgrade finishes enhancing the appearance of the facilities. The International Arrivals Facility is designed to handle up to approximately 1.1 million passengers annually.

3.1.2.3 Terminal Roadway

The passenger terminal facilities at the Airport are served by a single-level, one-way public roadway with a Terminal A bypass, allowing drivers to go directly to Terminal B and the consolidated rental car facility (discussed in the next section) without circling by Terminal A. The terminal roadway also provides access to public parking facilities and public roads. As part of the Airport's Phase 1 Development Program, the terminal roadway was recently widened, straightened, repaved, and re-marked. These improvements, along with new roadway signage and lighting, have significantly improved access and navigation on the Airport's terminal roadway.

3.1.3 New Consolidated Rental Car Facility

Currently, ten rental car company brands (associated with five rental car companies) operate at the Airport in the new seven-story consolidated rental car facility (the ConRAC) located immediately across the terminal roadway from the entrance to the new Terminal B. The ConRAC, which opened in June 2010, includes 3,000 ready/return spaces and approximately 320 hourly public parking spaces located on the first floor. The ConRAC is now the most conveniently-located rental car facility of the three major Bay Area airports and one of the most convenient airport rental car facilities in the nation. See Chapter IV of this report for detailed information regarding rental car activity and rental car companies at the Airport.

The ConRAC includes all facilities necessary for each of the ten rental car company brands serving the Airport and their associated operations, including customer service, administrative offices, ready/return parking, fueling, and maintenance facilities. The ConRAC is the first elevated "quick-turn-around" (QTA) facility to open at an airport in the United States. The QTA allows the rental car company brands to wash and fuel all their cars on site in order to return them to service efficiently. The three-level indoor elevated fueling station represents a significant technological and engineering achievement to ensure reliable and safe operations.

The ConRAC was constructed with a one megawatt solar power array on the roof, with more than 4,500 solar panels covering 3.4 acres. The City estimates that this solar power system provides approximately 20 percent of the power required by the ConRAC.

3.1.4 Public Parking Facilities

As of June 2011, the Airport had a total of approximately 5,530 available public parking spaces, as reflected in the various parking facilities shown on Exhibit III-2.

The six-story Terminal A parking garage is connected directly to Terminal A and includes approximately 1,300 hourly parking spaces.

The first floor of the ConRAC is dedicated to hourly public parking for Terminal B and includes approximately 320 spaces. In addition, two surface parking lots (one adjacent to Terminal B and one adjacent to the ConRAC) provide a total of approximately 880 hourly public parking spaces for Terminal B. There are two additional surface parking lots that provide a total of approximately 1,360 daily spaces for Terminal B. The Airport's Economy surface parking lot is located on 16 acres of Airport property northeast of Terminal A and includes approximately 1,670 economy parking spaces.

A free parking area for "cell phone" waiting is located very close to the Airport on both sides of Airport Parkway between Technology Drive and the Highway 87 overcrossing.

As part of the Airport's Phase 1 Development Program completed in 2010, each of the Airport's parking facilities now has an integrated parking access control system and automatic vehicle identification system, in addition to updated ticket booths, control arms, and cameras. Electrical vehicle charging stations are located on the first floor of the Terminal A parking garage.

All of the Airport's public parking spaces are currently operated by AMPCO System Parking, pursuant to a management agreement with the City. See Chapter V of this report for more information regarding the agreement between the City and AMPCO.

3.1.5 General Aviation Facilities

All general aviation activity is located on the west side of the Airfield Area. As of May 1, 2011, there were approximately 60 general aviation aircraft based at the Airport. General aviation facilities at the Airport currently include a combination of T-hangars and tie-down spaces. Other general aviation facilities at the Airport are provided by fixed-base operators (FBOs) that provide services such as aircraft sales, rentals and maintenance, charter service, flight instruction, and aircraft radio sales. FBOs currently operating at the Airport include ACM Aviation Services, Atlantic Aviation, and AvBase. Hewlett-Packard also leases a site at the Airport for its own corporate aviation operations.

The City is currently exploring options for general aviation development on 40 acres on the west side of the Airport at the site where the Airport's economy parking lot used to be located. See Section 3.2.1 below for more information related to the Airport's general aviation facilities.

3.1.6 Fuel, Cargo, and Other Support Facilities

A new Airport fuel farm completed in June 2010 is located on Airport property on the north side of Highway 101, with a pipeline under Highway 101 that connects the fuel farm to fuel dispensing racks located on the airfield apron north of Terminal A. The airlines serving the Airport formed a consortium which funded and oversaw construction of the new fuel farm. The consortium is responsible for the operation and maintenance of the fuel farm. The storage capacity of the fuel farm is 45,000 barrels of jet fuel (approximately equal to a seven day working supply at the Airport). Fuel is distributed to the fuel farm via an underground pipeline connected to the San José Kinder Morgan Products Terminal which is located approximately 2 miles from the fuel farm. This underground pipeline, which was completed in 2009, eliminated the need for fuel trucks bringing fuel to the Airport.

A state-of-the-art compressed natural gas (CNG) fueling station located near the northeast corner of the Airport on Airport Parkway serves CNG buses, taxis, and private sector vehicles that operate at the Airport, and is also open to the public.

Airline ground support equipment maintenance and air cargo (belly freight) operations are currently located near the northeast and southeast corners of the airfield. The City operates a 19,200 square foot cargo building (located near the southeast corner of Airport property) for air freight and cargo operations at the Airport.

The Aircraft Rescue and Firefighting (ARFF) facility at the Airport is currently located near the southeast corner of Airport property.

3.2 Future Airport Projects

The City intends to undertake future Airport projects only as they become required by airline traffic demand, are economically justified, necessary environmental reviews have been completed, necessary approvals have been obtained, and associated project costs can be supported by discrete funding sources such as grants, PFCs, or other/third party funding and reasonable Airport user fees.

3.2.1 5-Year Capital Improvement Program

The Airport's 2012-2016 Adopted Capital Improvement Program (CIP) totals approximately $59.1 million as summarized below. As discussed below, projects that comprise approximately 75 percent of the estimated CIP cost (the Completion of Taxiway W Improvements and the Non-Terminal Area Projects) are contingent upon the receipt of grant funding expected by the City from the FAA and the availability of future Airport funds. The City does not plan to use any of the proceeds of the Series 2011 Bonds for CIP projects and does not plan to issue any Airport Revenue Bonds during the Projection Period for CIP projects.

5-Year Capital Improvement Program	Estimated Cost (millions)
Completion of Taxiway W Improvements:	$36.3
Non-Terminal Area Projects:	8.2
Airfield safety, signage, other improvements:	2.7
Pavement Maintenance:	2.6
Operations System Support Maintenance:	2.5
Other Aviation Support Projects:	3.1
Other (AVI, environmental, terminal):	3.7
Total 5-Year CIP:	$59.1

The City does not expect any of the projects in the CIP to have a material impact on projected operating expenses or revenues, and no impacts have been assumed in the financial analysis incorporated in this report.

Completion of Taxiway W Improvements includes certain extensions of Taxiway W and the strengthening and reconstruction of Taxiways C, H, and J. These improvements address concerns identified by the FAA Runway Safety Action Team, and will add taxiway capacity on the Airport's west side to support future general aviation demand. These improvements are contingent upon

receiving grant funding expected from the FAA and the availability of resources to fund the required local match.

The Non-Terminal Area Projects provide for planning and site preparation work for future facilities and improvements outside of the terminal zone, including the west side of the Airport. Future improvements on the southeast area of the Airport may include development of aviation support facilities such as hangars, light maintenance facilities, airline provisioning, cargo operations, and other aviation support services by third parties. Airport support facilities such as shuttle bus storage and other Airport operational support may be developed in the northeast quadrant. These projects are contingent upon available funding.

Other future projects listed above include various safety, maintenance, and support projects with estimated costs ranging from $2.5 million to $3.7 million.

3.2.2 Phase 2 – Airport Development Program

As stated in Section 12.03 of the Airline Agreement (which is discussed in Chapter V of this report), the City may undertake Phase 2 of the Airport's Development Program, without additional approvals from the airlines, subject to certain activity demand triggers being met (including 217 scheduled departures at the Airport on any one day or 12.2 million total enplaned and deplaned passengers in any given Fiscal Year). Total enplaned and deplaned passengers were roughly 8.2 million in FY 2010. Peak day scheduled departures were 157 in FY 2010. Based on the projections of airport activity discussed in Chapter II of this report, the activity demand triggers specified in the Airline Agreement for Phase 2 projects are not expected to be met until after the Projection Period, and therefore Phase 2 projects (described below) and any associated financial impacts are not reflected in this report.

Phase 2 of the Airport's Development Program is primarily related to additional terminal expansion including the addition of twelve (12) terminal gates, increasing the Airport's total number of terminal gates to 40. Projects currently included in Phase 2 include:

- Terminal B Phase 2 (6 gates)
- South Concourse of Terminal B (6 gates)
- Apron Expansion
- New Central Plant
- Other Utility Improvements

The City has estimated that Phase 2 projects will cost roughly $400 million in current dollars, and a plan of finance has not been finalized. The City expects sources of funding for Phase 2 projects to include (but not necessarily be limited to) federal grants, PFC funds, internally-generated Airport funds, and, if necessary and supported by reasonable Airport user fees, the proceeds of additional Airport Revenue Bonds or commercial paper.

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IV. Rental Car Activity and Customer Facility Charge Revenue

As described in more detail in the sections below, in connection with construction costs associated with the new Consolidated Rental Car Facility (ConRAC) at the Airport, the City imposes a rental car customer facility charge (CFC) on customers renting cars at the Airport and designates the CFC revenue collected (CFC Revenues) as Other Available Funds under the Trust Agreement (discussed in Chapter V of this report). While the Series 2011B Bonds are outstanding, the City plans to continue to designate CFC Revenues as Other Available Funds. As discussed in Chapter V of this report, rental car companies operating at the Airport also pay Facility Rent to the City (which is included in General Airport Revenues under the Trust Agreement) in connection with the costs of the ConRAC. Pursuant to the rental car agreement between the City and the rental car companies operating at the Airport (described in more detail in Section 4.4 below and in Chapter V), the Facility Rent requirement for a given Fiscal Year is equal to the sum of annual debt service associated with the ConRAC, plus coverage amounts and reserve fund requirements applicable to the debt service, minus CFC Revenues, plus operating costs for any transportation system operated by the City to transport passengers between the terminals and the ConRAC, plus the City's cost to demolish the previous temporary common use rental car facilities at the Airport amortized over the initial ten-year term of the rental car agreement. Debt service associated with the City's Airport Revenue Bonds (including the Series 2011 Bonds) is paid and secured by Net General Airport Revenues and Other Available Funds.

This chapter provides information on the national market for rental cars including descriptions of the major rental car companies and brands; the rental car market at the Airport, including the relationship between rental car demand and passenger activity at the Airport; historical and projected rental car activity at the Airport; the current and proposed CFC at the Airport; and projected CFC Revenues at the Airport.

4.1 Rental Car Industry

The United States rental car market consists of two basic components: (1) the airport segment and (2) the local/insurance replacement segment. According to the most recent historical data from Auto Rental News, car rentals at the top 100 airports accounted for roughly 51 percent of total United States rental car activity based on gross revenues.[1] As discussed later in this chapter, demand within the airport segment is directly related to trends in the national economy, with airport-related rental car activity declining significantly following the terrorist attacks of September 11, growing steadily between CY 2002 and CY 2008 as the national economy expanded, declining again in CY 2009 due to the economic recession, and then rebounding in CY 2010.

The United States rental car industry is dominated by four major rental car companies that operate a total of nine national brands: Avis Budget Group, Inc. (owner of the Avis Rent a Car and Budget Rent a Car brands), Dollar Thrifty Automotive Group, Inc. (owner of the Dollar Rent a Car and Thrifty Rent a Car brands), Enterprise Holdings, Inc. (owner of the Enterprise Rent-A-Car, Alamo Rent A Car, and National Car Rental brands), and the Hertz Global Holdings, Inc. (owner of Hertz

[1] Source: Auto Rental News, *Revenue and Market Share Data*, January / February 2005.

Car Rental and Advantage Rent a Car brands). Below are brief profiles of each major national brand, obtained from their respective websites, grouped by their parent organization:

Avis Budget Group, Inc., owner of Avis Rent a Car and Budget Rent a Car:

- **Avis Rent a Car** was founded in 1946 and was the first company to rent cars from airport locations. The company's business mix is 60 percent corporate and 40 percent leisure; 75 percent airport and 25 percent off-airport; and 85 percent United States domestic and 15 percent international. The company has 344 United States airport locations and 905 United States off-airport locations. [2]
- **Budget Rent a Car** was founded in 1958 and the name was chosen to appeal to the "budget minded" or "value-conscious" renter. The company's business mix is 30 percent corporate and 70 percent leisure, 75 percent airport and 25 percent off-airport, and 90 percent United States and 10 percent international. It has 272 United States airport locations and 559 United States off-airport locations.[3]

Dollar Thrifty Automotive Group, Inc., owner of Dollar Rent a Car and Thrifty Rent a Car

- **Dollar Rent a Car** was founded in 1966 in Los Angeles, California. The company has more than 640 worldwide locations in 53 countries, including more than 260 in the United States. [4]
- **Thrifty** was founded in 1958. The company brands itself as a value-oriented car rental company that has a significant presence both in the airport and local car rental markets. In the United States, approximately 80 percent of its business is focused on the airport market and 20 percent in the local market.[5]

  On September 30, 2010, shareholders of the Dollar Thrifty Automotive Group accepted a bid from Avis Budget Group that is currently under review by the Federal Trade Commission (FTC). See below for more detail.

Enterprise Holdings, Inc., owner of Enterprise Rent-A-Car, Alamo Rent a Car, and National Car Rental

- **Enterprise Rent-A-Car** was founded in 1957 in St. Louis. The company has more than 5,000 neighborhood and airport branch offices located within 15 miles of 90 percent of the United States population.[6]
- **Alamo Rent a Car** was founded in 1974 in Florida, and it is known for pioneering the concept of unlimited free mileage. The company provides rental cars primarily to family and leisure travelers.[7]

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2 Source: www.Avis.com, *Investor Presentation dated 11-09-10.*
3 Source: www.Budget.com, *Investor presentation dated 11-09-10.*
4 Source: www.Dollar.com, *Corporate Background*, last accessed May 2011.
5 Source: www.Thrifty.com, *General Information*, last accessed May 2011.
6 Source: www.Enterprise.com, *Fact Sheet*, last accessed May 2011.
7 Source: www.Alamo.com, *About Alamo Rent A Car*, last accessed May 2011.

- **National Car Rental** was founded in 1947 by a group of 24 independent car rental operators. The company brands itself as a premium, international recognized brand serving the daily rental needs of the frequent airport business traveler.[8]

Hertz Global Holdings, Inc., owner of Hertz Car Rental and Advantage Rent a Car

- **Hertz Car Rental** was founded in 1918 in Chicago with a dozen Model T Ford cars. The company has approximately 8,100 locations in 147 countries. Hertz is the largest general use car rental brand in the world and the leading rental car brand in the United States airport market segment. [9]
- **Advantage Rent a Car** was founded in San Antonio, Texas in 1963. The company started out to serve the large military population in San Antonio but expanded quickly, and at its peak operated over 150 United States locations and 130 locations internationally. Advantage filed for protection under Chapter 11 of the United States Bankruptcy Code in December 2008 and closed about 40 percent of its United States locations. On April 18, 2009, Hertz purchased the assets of Advantage Rent a Car (including its brand and website) for $33 million. Hertz plans to use Advantage for 'further expansion into the price-oriented travel demographic' as the acquisition allows Hertz to sell under an additional brand.[10]

Table IV-1 presents the overall United States rental car market share, based on gross revenues, held by each company, and with the four leaders combined, accounting for an estimated 94.1 percent of total gross rental car revenues generated in the United States in CY 2010.[11] As shown in Table IV-1, as of CY 2010 Enterprise Holdings held the largest share (47.7 percent) of the total United States rental car market, with $9.8 billion of gross revenues estimated for CY 2010, due in large part to its dominance of the insurance/car replacement market through its Enterprise Rent-A-Car brand.

These same four companies, and the brands they operate, also dominate the airport segment, representing 98 percent of the gross revenues generated at the top 190 United States airports during the first eight months of CY 2009.[12] **Table IV-2** presents the market share of each company from CY 2003 – CY 2009, based on gross revenues, in the airport segment by brand. Based on the strength of its Alamo and National brands, Enterprise Holdings, Inc. is currently the largest operator in the airport segment after surpassing Avis Budget Group, Inc. in the nine months ended September 30, 2009. Avis Budget Group Inc., with its Avis and Budget brands, held 28.9 percent of the airport segment for the nine months ended September 30, 2009, followed by Hertz Global Holdings, Inc. at 25.7 percent and Dollar Thrifty Automotive Group, Inc. at 12.0 percent. While Hertz Global Holdings, Inc. ranks third on a corporate basis, its Hertz Car Rental brand held the largest share for an individual brand in the airport segment for the nine months ended September 30, 2009 at 25.7 percent, followed by Alamo/National at 21.2 percent and Avis at 18.5 percent.

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8 Source: www.NationalCar.com, *Company Information*, last accessed May 2011.
9 Source: www.Hertz.com, *Hertz History*, last accessed May 2011.
10 Sources: USA Today, "Advantage Rent-A-Car Files for Bankruptcy," December 18, 2008; www.Hertz.com, last accessed May 2011.
11 Source: Auto Rental News, http://www.autorentalnews.com/Content/Research-Statistics.aspx, May 2011
12 Source: Hertz Global Holdings Inc., 2009 Annual Report, http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9Mzc2NTI0fENoaWxkSUQ9Mzc1MTMxfFR5cGU9MQ==&t=1

Table IV-1

U.S. Rental Car Company Market Share
(Calendar Years, Dollars in Billions)

	Total U.S. Rental Car Market					
	2008		2009		2010 Estimate [1/]	
Operator	Gross Revenues	Share	Gross Revenues	Share	Gross Revenues	Share
Enterprise Holdings, Inc.	$10.400	48.4%	$9.500	47.4%	$9.800	47.7%
Avis Budget Group, Inc.	4.700	21.9%	4.000	20.0%	3.850	18.7%
Hertz Global Holdings, Inc.	3.670	17.1%	3.950	19.7%	4.158	20.2%
Dollar Thrifty Automotive Group, Inc.	1.690	7.9%	1.467	7.3%	1.540	7.5%
Others	1.029	4.8%	1.128	5.6%	1.203	5.9%
Total	$21.489	100.0%	$20.045	100.0%	$20.551	100.0%

Note:
1/ Latest data available.

Source: Auto Rental News, http://www.autorentalnews.com/Content/Research-Statistics.aspx, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Table IV -2

US Airport Car Rental Market Share[1/]
(Calendar Years)

Company / Brand	2003	2004	2005	2006	2007	2008	2009 [2/]
Enterprise Holdings, Inc.	25.8%	25.8%	26.4%	27.4%	28.3%	29.2%	31.4%
Enterprise Rent-A-Car	5.0%	6.0%	7.0%	7.7%	8.5%	9.1%	10.2%
Alamo Rent a Car / National Car Rental	20.8%	19.8%	19.4%	19.7%	19.8%	20.1%	21.2%
Avis Budget Group, Inc.	31.6%	30.4%	30.7%	30.1%	30.0%	30.0%	28.9%
Avis Rent a Car	21.2%	20.2%	20.2%	19.8%	19.8%	19.6%	18.5%
Budget Rent a Car	10.4%	10.2%	10.5%	10.3%	10.2%	10.4%	10.4%
Hertz Global Holdings, Inc.	29.0%	29.6%	29.2%	28.5%	27.9%	27.4%	25.7%
Hertz Car Rental	29.0%	29.6%	29.2%	28.5%	27.9%	27.4%	25.7%
Dollar Thrift Automotive Group, Inc.	11.8%	12.2%	11.4%	11.5%	11.4%	11.3%	12.0%
Dollar Rent a Car	7.4%	7.7%	7.1%	7.1%	7.1%	6.9%	7.1%
Thrifty	4.4%	4.5%	4.3%	4.4%	4.3%	4.4%	4.9%
Others	1.8%	2.0%	2.3%	2.5%	2.4%	2.1%	2.0%

Notes:

1/ Based on revenues on which concession or off-airport permit fees are reported to the operators of the approximately 190 largest U.S. airports where Hertz has operations.

2/ For the nine months ended September 30.

Source: Hertz Global Holdings, Inc. 2009 Annual Report, http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9Mzc2NTI0fENoaWxkSUQ9Mzc1MTMxfFR5cGU9MQ==&t=1, May 2011.

Prepared by: Ricondo & Associates, Inc. May 2011.

On September 30, 2010, shareholders of the Dollar Thrifty Automotive Group, Inc. rejected a $1.46 billion dollar takeover offer from Hertz Global Holdings Inc. The shareholder vote cleared the way for a $1.53 billion dollar offer from Avis Budget Group, Inc. that is currently under review by the FTC. The transaction, if approved by the FTC, would solidify the new Avis Budget Group, Inc. as the second largest rental car company in the nation with 26.2 percent of the overall United States market (as presented in Table IV-1 for estimated 2010) market, trailing Enterprise Holdings, Inc.'s 52.3 percent share (see Table IV-1). The new Avis Budget Group, Inc. would become the largest rental car company in the airport segment (see Table IV-2), with a 40.9 percent share at the nation's top 190 airports, topping Enterprise Holdings, Inc. at 31.4 percent. The FTC could reject Avis' bid, in which case Hertz might receive further consideration in a second round with the possibility of FTC reopening its review of the Hertz bid.

Whether or not the Dollar Thrifty Automotive Group, Inc. is eventually bought by either the Avis Budget Group, Inc. or Hertz Global Holdings, Inc., or remains independent, it should have minimal effect on the demand for rental cars at the nation's airports; as such demand is largely a function of economic conditions and resultant origin & destination (O&D) passenger activity at a particular location. It is also worth noting that previous rental car company mergers, such as Enterprise's acquisition of Vanguard (parent of the Alamo and National brands) and Avis's combination with Budget, over the last ten years had minimal effects on the demand for rental cars in the airport segment of the market. **Exhibit IV-1** presents a timeline regarding the creation of multi-brand rental car organizations since CY 1995.

4.2 Rental Car Industry Trends

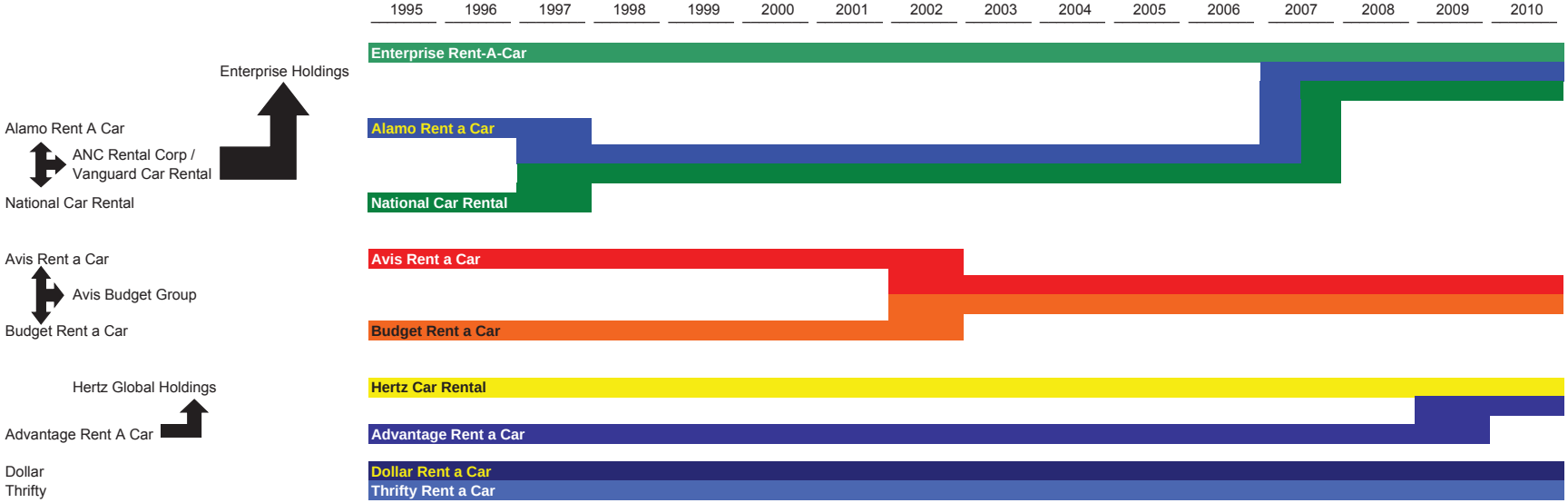
Although growth of the United States airport rental car market is influenced by factors such as the economy and car rental rates, it is primarily related to O&D passenger activity—more specifically, destination or inbound passenger levels.

Exhibit IV-2 depicts total United States rental car gross sales compared to total United States domestic O&D deplaned passengers between CY 1994 and CY 2010; and **Exhibit IV-3** shows the yearly percentage change of total United States rental car gross sales compared to total United States domestic O&D deplaned passengers and total United States gross domestic product (GDP), between CY 1995 and CY 2010. These two exhibits demonstrate the strong relationship between economic conditions and demand for travel-related services including rental car gross sales. The United States economy expanded at a 6.1 percent CAGR, as measured by GDP, between CY 1995 and CY 2000. The strong economy spurred demand for travel, with deplaned passengers rising at a 3.6 percent CAGR and total United States rental car gross sales increasing at a 8.3 percent CAGR during this period. The United States economy began to weaken in early CY 2001, a trend that was exacerbated by the terrorist attacks of September 11. Furthermore, air travel demand was depressed by the outbreak of severe acute respiratory syndrome during this period. For the period CY 2001 to CY 2002, GDP growth slowed to 3.4 percent, with deplaned passengers declining 2.9 percent and total United States rental car gross sales declining 9.7 percent.

The United States economy began to rebound in CY 2003, with GDP rising at a 6.0 percent CAGR between CY 2003 and CY 2007. During this same period, total United States domestic O&D deplaned passengers increased at a CAGR of 4.5 percent, while total United States rental car gross sales grew at a 7.0 percent CAGR, reflecting gains in both the airport and local/insurance

Exhibit IV-1

Timeline of Rental Car Company Brand Consolidation
(Calendar Years)



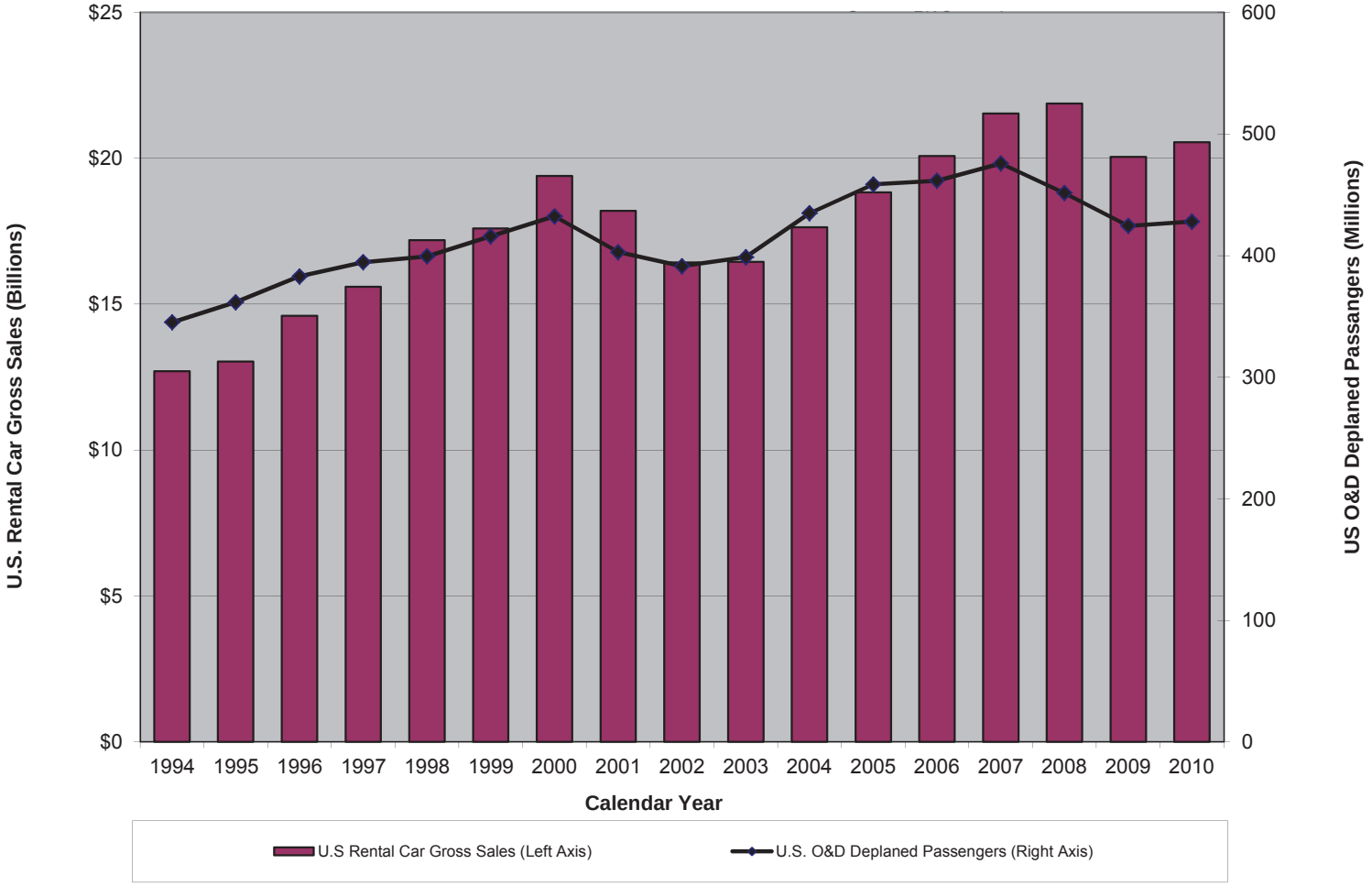
Note:
This table presents the timing of transactions that resulted in a combination of rental car brands under a holding company, not every financial transaction where a brand changed ownershi

Sources: Dunn, Darrell, InformationWeek.com, March 15, 2004, http://www.informationweek.com/news/software/showArticle.jhtml?articleID=18312125 (accessed June 14, 2010; AvisBudgetGroup.com http://www.avisbudgetgroup.com/about/our_brands/the_avis_budget_timeline.cfm (accessed June 14, 2010); Enterprise.com, http://aboutus.enterprise.com/who_we_are/milestones.html (accessed June 10, 2010); dtag.com, http://www.dtag.com/phoenix.zhtml?c=71946&p=irol-abouthistory (accessed June 14, 2010).

Prepared by: Ricondo & Associates, Inc., May 2011.

Exhibit IV-2

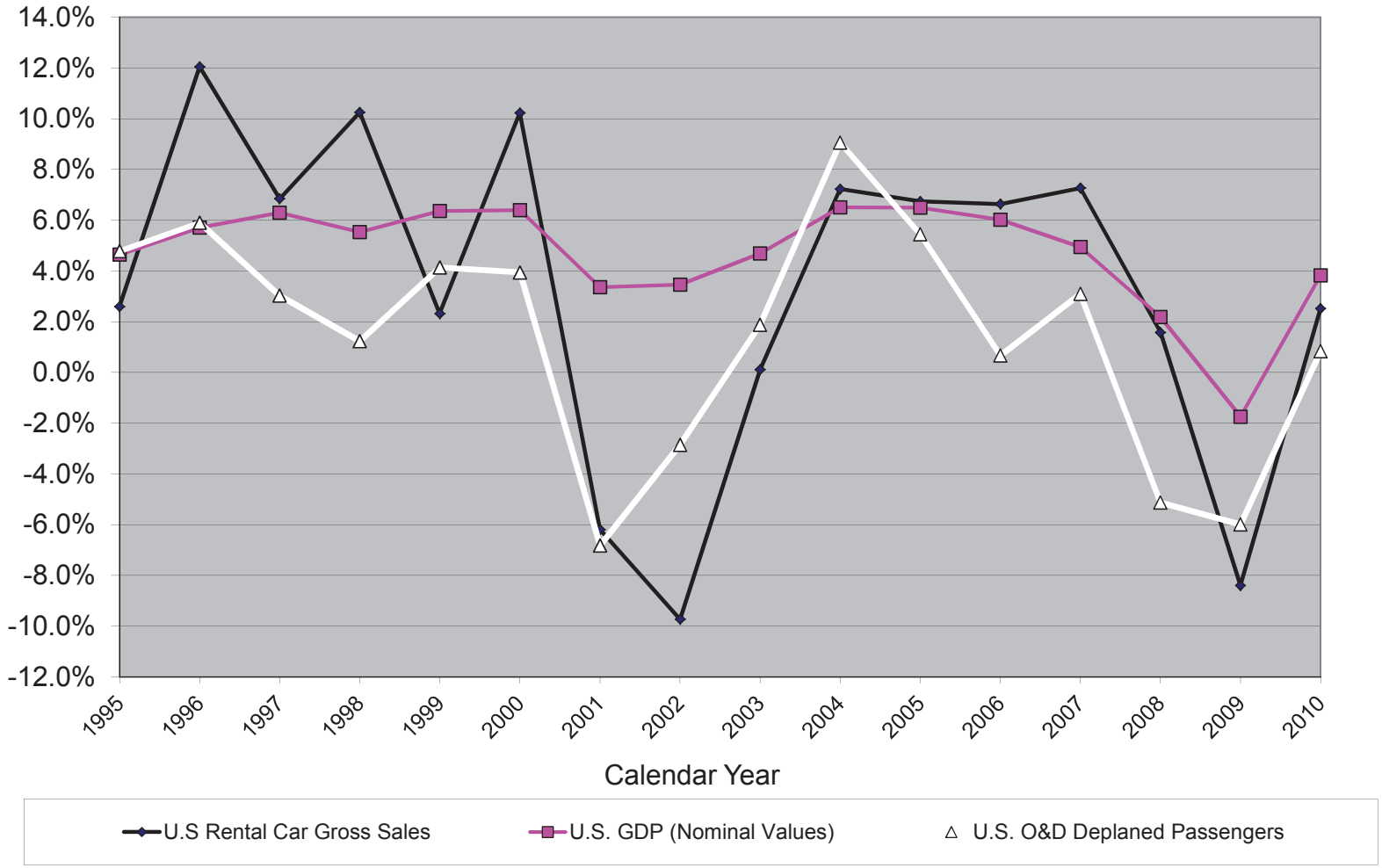
U.S. Rental Car Market Gross Sales
(Calendar Years)



Sources: Auto Rental News; US DOT Origin & Destination Survey of Airline Passenger Traffic; Bureau of Economic Analysis, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Exhibit IV-3

U.S. Rental Car Gross Sales Annual Percent Change Comparison
(Calendar Years)



Sources: Auto Rental News; US DOT Origin & Destination Survey of Airline Passenger Traffic; Bureau of Economic Analysis, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

replacement markets. In December 2007 the economy entered an economic downturn,[13] with GDP growth slowing to 2.6 percent for CY 2008 and a 1.3 percent decline for CY 2009. Due to the economic weakness and the airlines' actions to reduce system wide capacity, the number of deplaning passengers decreased 5.1 and 6.0 percent nationwide in CY 2008 and CY 2009, respectively, while the United States rental car gross sales recorded a modest increase of 1.6 percent in CY 2008 and a decrease of 8.5 percent in CY 2009. In CY 2010, the United States economy began to recover, with a reported United States GDP growth rate of 3.8 percent spurring growth in travel services, with 0.8 percent growth in O&D deplaned passengers and 2.5 percent growth in rental car gross sales.

4.3 Rental Car Demand at the Airport

Demand for rental cars at an airport is highly correlated to passenger activity; however, additional factors weigh in on a traveler's decision to rent a car at their destination, such as rental rates, CFCs and other local fees assessed on rental cars, gas prices, availability of alternative modes of transportation, time constraints, distance between the local origin and destination points, the number of places to be visited, and convenience. This section presents information on the rental car market at the Airport, including the companies that serve the Airport and their market share, and historical rental car activity, as well as factors that influence rental car demand including rental rates, the CFC and other local governmental fees, and alternative modes of transportation.

4.3.1 Rental Car Companies Serving the Airport and Market Share

Table IV-3 presents the ten rental car brands that operate at the Airport including nine brands owned by the four major national rental car companies as well as one smaller independent brand. All of the airport rental car brands serving the Airport (the Airport Rental Car Brands) operate from the new ConRAC located directly across the terminal roadway from the entrance to Terminal B. Currently, there are no off-Airport rental car brands serving the Airport and any potential future off-Airport rental car brands would be required to pick up customers from the ConRAC.

Exhibit IV-4 below presents the market share held by each of the ten current brands as measured by rental car gross sales reported to the City for FY 2010. Hertz (including Advantage) is the largest brand in terms of gross sales market share at the Airport, with an approximate 32 percent share in FY 2010. Avis held the second largest share of the market for FY 2010 at 19 percent. On a holding company basis, Hertz Global Holdings, Inc. held the largest market share in FY 2010 at 32 percent, followed by the Avis Budget Group, Inc. at 28 percent, Enterprise Holdings, Inc. at 24 percent, Dollar Thrifty Automotive Group, Inc. at 13 percent, and Fox Rent A Car at 3 percent.

[13] Source: National Bureau of Economic Research Business Cycle Dating Committee, "Determination of the December 2007 Peak in Economic Activity", December 11, 2008.

Table IV-3

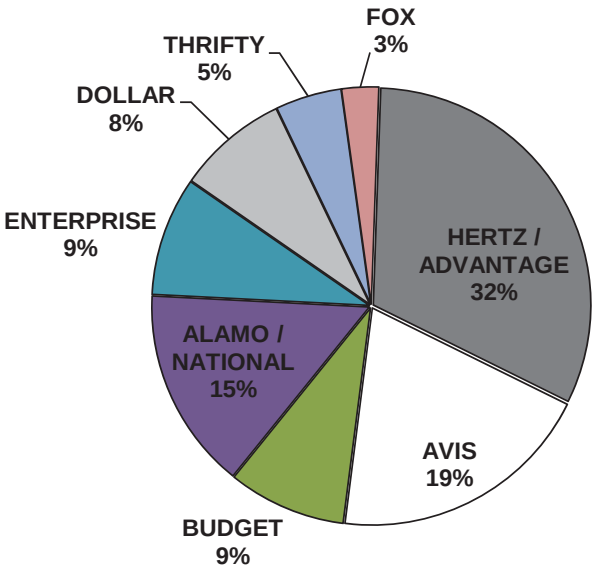
Car Rental Brands Currently Serving the Airport (As of May 2011)

	Brand	Brand Owned By
1	Advantage	Hertz Global Holdings, Inc.
2	Alamo	Enterprise Holdings, Inc.
3	Avis	Avis Budget Group, Inc.
4	Budget	Avis Budget Group, Inc.
5	Dollar	Dollar Thrifty Automotive Group, Inc.
6	Enterprise	Enterprise Holdings, Inc.
7	Fox	Fox Rent A Car, Inc.
8	Hertz	Hertz Global Holdings, Inc.
9	National	Enterprise Holdings, Inc.
10	Thrifty	Dollar Thrifty Automotive Group, Inc.

Source: San José Norman Y. Mineta International Airport, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Exhibit IV-4

San José International Airport Rental Car Market Share Based on FY 2010 Gross Sales



Note: Certain data is submitted to the City by brand and others are submitted by company.

Source: San José Norman Y. Mineta International Airport, February 2011.
Prepared by: Ricondo & Associates, Inc., March 2011.

4.3.2 Historical Rental Car Activity at the Airport

Table IV-4 presents historical rental car data for the Airport from FY 2003 through FY 2010, and a comparison of the first nine months of FY 2010 to the first nine months of FY 2011.

Rental car transactions at the Airport increased at a CAGR of 2.3 percent from FY 2003 to FY 2006. From FY 2007 to FY 2010, rental car transactions at the Airport decreased at an average annual rate of 12.2 percent, as deplaned passengers decreased by an average annual rate of 8.2 percent in response to the national economic recession. During this time, various terminal area roadway and terminal construction at the Airport may have also had a negative impact on rental car activity. However, rental car transactions at the Airport have rebounded in the first nine months of FY 2011, increasing 13.9 percent compared to the same period the previous year. This increase in transactions for the first nine months of FY 2011 is substantially higher than the 2.5 percent increase in O&D deplaned passengers for the same period, likely as a result of other factors that influence rental car activity at the Airport, including, among others, the convenience of the ConRAC which opened at the beginning of FY 2011 and improving economic conditions.

Rental car transactions per O&D deplaned passenger have ranged from a low of 0.150 in FY 2010 to a high of 0.173 in FY 2007, with a four year average of 0.162 for FY 2007 to FY 2010. Rental car transactions per O&D deplaned passenger for the first nine months of FY 2011 were 0.163 compared to 0.147 for the first nine months of FY 2010. Rental car transaction days per transaction have

Table IV-4

Historical Rental Car Activity at the Airport
(Fiscal Years Ending June 30)

		Historical									
										First nine months of FY	
		2003	2004	2005	2006	2007	2008	2009	2010	2010	2011
Gross Rental Car Sales [1/]	[A]	$111,172,972	$110,548,087	$111,081,267	$125,355,751	$142,115,487	$156,573,989	$128,168,995	$114,614,430	$83,586,539	$92,448,475
Annual % Change			-0.6%	0.5%	12.9%	13.4%	10.2%	-18.1%	-10.6%	-	10.6%
Deplaned Passengers	[B]	5,200,221	5,275,550	5,381,512	5,437,022	5,334,958	5,202,222	4,421,890	4,125,052	3,052,590	3,117,040
O&D Deplaned Passengers	[C]	4,940,563	4,999,710	5,107,992	5,213,977	5,160,306	5,068,092	4,304,075	4,015,422	2,966,628	3,040,258
Annual % Change			1.2%	2.2%	2.1%	-1.0%	-1.8%	-15.1%	-6.7%	-	2.5%
Percentage of O&D to Total Deplaned Passengers	[D = C / B]	95.0%	94.8%	94.9%	95.9%	96.7%	97.4%	97.3%	97.3%	97.2%	97.5%
Gross Rental Car Sales per O&D Deplaned Passenger	[E = A / C]	$22.50	$22.11	$21.75	$24.04	$27.54	$30.89	$29.78	$28.54	$28.18	$30.41
Annual % Change			-1.7%	-1.6%	10.6%	14.5%	12.2%	-3.6%	-4.1%		7.9%
Rental Car Transactions	[F]	838,454	836,634	859,483	897,820	890,222	851,204	669,580	602,847	436,363	497,065
Annual % Change			-0.2%	2.7%	4.5%	-0.8%	-4.4%	-21.3%	-10.0%	-	13.9%
Per O&D Deplaned Passenger	[G = F / C]	0.170	0.167	0.168	0.172	0.173	0.168	0.156	0.150	0.147	0.163
Estimated Average Days Per Transaction [2/]	[H]	n/a	n/a	n/a	n/a	3.38	3.35	3.39	3.43	3.46	3.56
Estimated Rental Car Transaction Days [3/]	[I = F * H]	n/a	n/a	n/a	n/a	3,010,476	2,855,031	2,270,923	2,067,765	1,509,816	1,769,551
Annual % Change							-5.2%	-20.5%	-8.9%		17.2%
Average Transaction Amount [4/]	[J = A / F]	$132.59	$132.13	$129.24	$139.62	$159.64	$183.94	$191.42	$190.12	$191.55	$185.99
Annual % Change			-0.3%	-2.2%	8.0%	14.3%	15.2%	4.1%	-0.7%		-2.9%

Notes:
1/ Gross rental car sales do not include CFC collections.
2/ Average days per transaction based on Avis, Budget, and Hertz for FY 2007-FY 2009; Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National, and Thrifty for FY 2010 and FY 2011. FY 2010 and FY 2011 year-to-date average days per transaction based on six months of data ending December 31, 2010.
3/ Rental car transaction days are estimated using estimated average days per transaction.
4/ Does not include CFC.

Sources: San José Norman Y. Mineta International Airport; Rental car companies serving the airport, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

ranged from a low of 3.35 in FY 2008 to a high 3.43 in FY 2010[14]. **Exhibit IV-5** display rental car transactions and O&D deplaned passengers. This exhibit highlights the close correlation between O&D deplaned passengers and rental car transactions at the Airport.

4.3.3 Rental Car Rates

Table IV-5 reflects average two-day leisure (weekend) and three-day business (weekday) rental car rates for the Airport, SFO, and OAK. Rental rates were obtained on February 16, 2011 from the websites of three of the ten United States rental car brands operating at the Airport and were based on the following:

Two-day weekend rental:

Pick up Friday, March 4, 2011 at 5pm
Drop off Sunday, March 6, 2011 at 5pm
Standard size car (Pontiac G6 or similar)

Three-day weekday rental:

Pick up Monday, March 7, 2011 at 10am
Drop off Thursday, March 10, 2011 at 10am
Standard size car (Pontiac G6 or similar)

As shown on Table IV-5, the average rate at the Airport for a 2-day weekend rental is approximately $67, which is the lowest among the three airports. SFO has the highest rate for a 2-day weekend rental at approximately $87, with OAK second highest.

The Airport has the lowest rate of the three airports for weekday rentals, with an average 3-day weekday rental rate of approximately $272. SFO has the highest rate of the three airports for a 3-day weekday rental at approximately $358. Table IV-5 also reflects the breakdown of other charges and taxes charged at each airport. As shown, CFCs, facility fees, and/or transportation charges range from 15 to 23 percent of total rental rates for weekend rentals (with the Airport at 15 percent), and from 4 to 6 percent of total rental rates for weekday rentals (with the Airport at 4 percent).

Compared to rental car rates at SFO and OAK, rental car rates at the Airport are competitive and are not considered to have a negative impact on rental car demand at the Airport.

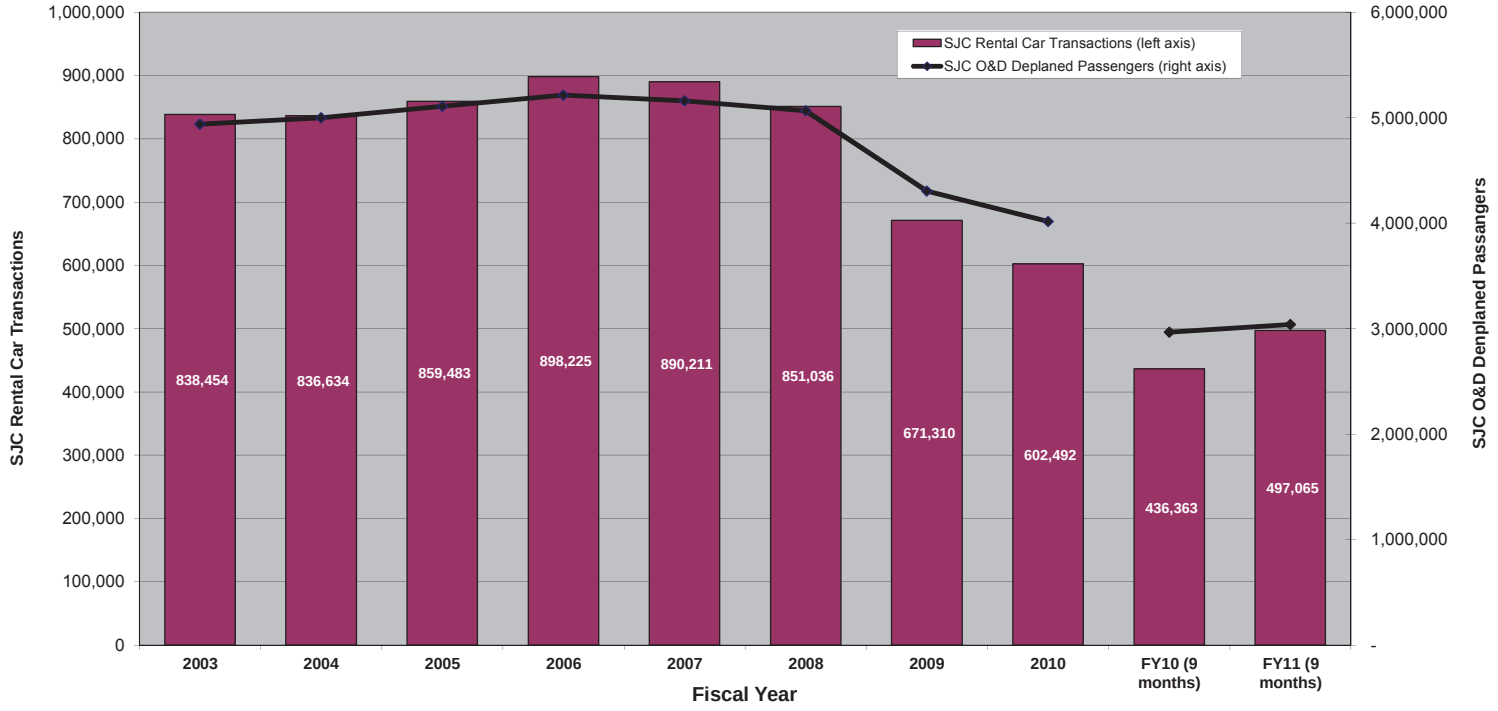
4.3.4 Customer Facility Charges

CFCs have become a common user fee levied by airports around the nation to support the development of new rental car facilities. Some airports also levy a transportation charge to recover capital and operating expenses related to a common use transportation system serving the airport passenger terminals and consolidated rental car facilities.

Table IV-6 provides information on rental car CFC and transportation fees assessed at several United States airports. Most airports in the United States levy the CFC on a per transaction day basis

[14] Average days per transaction were estimated based on data from Avis, Budget, and Hertz for FY 2007-FY 2009; and data from Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National, and Thrifty for FY 2010 and FY 2011.

Exhibit IV-5
Rental Car Transactions and O&D Deplaned Passengers at the Airport
(Fiscal Years)



Source: San José Norman Y. Mineta International Airport, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Table IV-5

Car Rental Rate Comparison - Major Bay Area Airports

2-Day Weekend Rental [1/]
(ordered most expensive to least expensive)

	San Francisco International (SFO)	Oakland International (OAK)	San Jose International (SJC)
Base Rental Rate	$52.92	$45.09	$44.87
Taxes	5.49	4.94	4.66
Customer Facility Charge:	20.00	10.00	10.00
Airport concession fee recovery	5.95	5.06	5.06
Vehicle Licensing Cost Recovery	0.66	0.66	0.66
California Tourism Commission Assessment	1.85	1.58	1.57
Total Rental Rate	$86.87	$67.33	$66.82
Base Rental Rate	61%	67%	67%
Facility /Transportation Charges	23%	15%	15%
Other Charges	10%	11%	11%
Taxes	6%	7%	7%
Total	100%	100%	100%

3-Day Weekday Rental [2/]
(ordered most expensive to least expensive)

	San Francisco International (SFO)	Oakland International (OAK)	San Jose International (SJC)
Base Rental Rate	$269.47	$214.73	$208.70
Taxes	27.77	23.34	21.53
Customer Facility Charge:	20.00	10.00	10.00
Airport concession fee recovery	30.04	23.93	23.29
Vehicle Licensing Cost Recovery	0.99	0.99	0.99
California Tourism Commission Assessment	9.43	7.52	7.30
Total Rental Rate	$357.70	$280.51	$271.81
Base Rental Rate	75%	77%	77%
Facility /Transportation Charges	6%	4%	4%
Other Charges	11%	12%	12%
Taxes	8%	8%	8%
Total	100%	100%	100%

Notes:
1/ Standard car (Pontiac G6 or similar); pick-up Friday, March 04, 2011 at 5pm; drop off Sunday, March 6, 2011 at 5pm.
2/ Standard car (Pontiac G6 or similar); pick-up Monday, March 7, 2011 at 10am; drop off Thursday, March 10, 2011 at 10am.

Sources: www.Hertz.com, www.Avis.com, www.enterprise.com, February 16, 2011.
Prepared by: Ricondo & Associates, Inc. May 2011.

Table IV-6

Customer Facility Charge and Transportation Fees at Select U.S. Airports

Airport	Airport Code	Hub Size	CFC	Additional Fee	Fee Maximum
Charged Per Transaction Day			Per Day		
Chicago - O'Hare	ORD	L	$8.00		
Anchorage	ANC	M	6.50		
New Orleans	MSY	M	6.20		
Phoenix	PHX	L	6.00		
Seattle	SEA	L	5.00		
Providence	PVD	M	5.00		
Atlanta	ATL	L	5.00		
Miami	MIA	L	4.60		
Nashville	BNA	M	4.50		
Dallas/Fort Worth	DFW	L	4.00	$2.20 1/	
Albuquerque	ABQ	M	4.00		
Fort Lauderdale	FLL	L	3.95		7 days
Columbus	CMH	M	3.85	3.46 2/	
Houston	IAH	L	3.75	4.49 3/	
Chicago - Midway	MDW	L	3.75		
Cincinnati	CVG	M	3.75		
Baltimore	BWI	L	3.75		
Las Vegas	LAS	L	3.75		
Austin	AUS	M	3.50		
Charleston	CHS	S	3.50		
Minneapolis	MSP	L	3.25		
Kansas City	MCI	M	3.00		
Orlando	MCO	L	2.50		5 days
Washington Reagan	DCA	L	2.50		
Burlington	BTV	S	2.00		
Denver	DEN	L	1.60		
Charged Per Contract			Per Contract		
San Francisco	SFO	L	$20.00		
Los Angeles	LAX	L	10.00		
San Diego	SAN	L	10.00		
Burbank	BUR	M	10.00		
Oakland	OAK	M	10.00		
San Jose	SJC	M	10.00 4/		
Fresno	FAT	S	10.00		
Ontario	ONT	S	10.00		
Palm Springs	PSP	S	10.00		
Louisville	SDF	M	5.00		
Tucson	TUC	M	4.50		

Notes:
1/ Transportation fee per transaction day.
2/ Garage recoupment charge per transaction.
3/ Busing fee per transaction.
4/ The City of San Jose plans to begin charging a $6.00 per transaction day fee in September 2011 (subject to a five day maximum).

Source: www.Enterprise.com, February 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

(for example, a five day rental equals five transaction days, with the CFC charged each day). Prior to 2011, airports in California desiring to impose a CFC had been required by state statute to levy the CFC on a per transaction basis (meaning the CFC is a flat charge, regardless of the length of the transaction). Chicago – O'Hare currently levies the highest CFC per transaction day in the nation at $8.00, while SFO has the highest CFC per transaction at $20.00. When compared on a per transaction day basis, SFO's CFC equates to the highest for a one- or two-day rental, while Chicago – O'Hare becomes the highest CFC for rentals of three days or more.

At least three airports, Houston George Bush Intercontinental, Dallas Fort Worth International, and Port Columbus International, impose both a CFC (per transaction day) and a separate fee for bussing or facility maintenance costs (either per day or per transaction).

As discussed in more detail in Section 4.4 below, the City currently imposes a $10.00 per transaction CFC on vehicles rented at the Airport. Pursuant to recent State of California legislation regarding CFCs, the City expects to begin charging a $6.00 per transaction day CFC at the Airport in September 2011 (subject to a 5 day maximum). The $6.00 per transaction day CFC is subject to audit and substantiation by the California State Controller and City Council approval.

4.3.5 Alternative Modes of Transportation

Passengers arriving at the Airport have several transportation alternatives (other than renting a car) to reach their destinations, including door-to-door and hotel shuttle buses, public transportation, taxis, and scheduled bus service to limited destinations (not including downtown San Jose)—each varying in terms of cost and convenience (schedule, availability, luggage handling, etc.).

- Door-to-door shuttle buses to downtown San José cost about $20-$25 one-way and are accessible from Terminal A and Terminal B (on-demand service).
- Metro Light Rail to downtown San José involves taking the Santa Clara Valley Transportation Authority (VTA) Airport Flyer VTA Route #10 bus from the Airport to the Metro Light Rail Station located approximately 1.5 miles from the Airport, and then taking Light Rail to downtown San José. The Airport Flyer departs every 15-30 minutes from 5:00 am to 11:30 pm and Light Rail departs every 10 to 15 minutes on weekdays and every 15 to 30 minutes on weekends. The total one-way cost including the Airport Flyer and Light Rail is $2.00 for adults (non-express, 18-64 years old).
- Taxi service from Terminal A or Terminal B to downtown San José costs approximately $15-$18.
- Scheduled bus service from the Airport is available to select destinations, but not to downtown San Jose.

A review of the VTA's Short Range Transit Plan for 2010 to 2019 indicates that planning efforts are underway regarding a future Airport people mover connecting the Airport to light rail, BART, and Caltrain, but there is no indication the VTA expects such a people mover to be completed by 2019. Any potential changes to alternative transportation modes at the Airport are not expected to have a significant effect on rental car demand at the Airport during the Projection Period.

4.4 Current and Planned Customer Facility Charge at the Airport

The City currently imposes a $10.00 per transaction CFC on vehicles rented at the Airport to help pay for debt service associated with the ConRAC and certain operating expenses related to the

transportation of rental car customers from Terminal A to the ConRAC. The City began collecting a $5.00 CFC per transaction in May 2000. The City subsequently increased the CFC and began collecting the current $10.00 per transaction in January 2008.

Pursuant to a ten year Rental Car Operations Agreement and Lease between the City and the Airport Rental Car Companies which expires in May 2020 (the Rental Car Agreement), discussed in more detail in Chapter V of this report, the CFC is to be collected by the Airport Rental Car Companies, which must itemize the CFC as a separate charge on its customers' rental agreements or invoices. The Airport Rental Car Companies are required to remit CFC Revenues to the City. CFC Revenues can be designated by the City as Other Available Funds (discussed in more detail in Chapter V of this report). The Rental Car Agreement requires the Airport Rental Car Companies to conduct all of their operations serving Airport customers at the ConRAC. The Rental Car Agreement also requires the Airport Rental Car Companies to pay certain concession, Facility Rent, and ground rent amounts to the City which are included in General Airport Revenues (as discussed in Chapter V of this report). Pursuant to the Rental Car Agreement, for a given Fiscal Year, the Airport Rental Car Companies must pay Facility Rent to the City equal to the sum of annual debt service associated with the ConRAC, plus coverage amounts and reserve fund requirements applicable to the debt service, minus CFC Revenues, plus operating costs for any transportation system operated by the City to transport passengers between the terminals and the ConRAC, the City's cost to demolish the previous temporary common use rental car facilities at the Airport amortized over the initial ten-year term of the Rental Car Agreement.

Pursuant to the State of California's recently amended CFC statute (the State CFC Statute), as of January 1, 2011, the Airport has two options for establishing the rate structure of the CFC:

- <u>Option 1</u>
  Ten dollars ($10.00) per rental car transaction. This was the only option available prior to January 1, 2011.
- <u>Option 2</u>
  Effective January 1, 2011 an airport can impose an alternative CFC on a per transaction-day basis, in lieu of the $10.00 per transaction CFC. To impose the alternative CFC, the amended CFC statute requires an airport to follow a specific process to substantiate the need to impose the alternative per-transaction-day CFC. The amended statute also mandates additional reporting requirements to the State legislature. The alternative CFC has the following restrictions:
  - Commencing January 1, 2011, the CFC rate may not exceed $6.00 per day.
  - Commencing January 1, 2014, the CFC rate may not exceed $7.50 per day.
  - Commencing January 1, 2017, the CFC rate may not exceed $9.00 per day.
  - In no event shall the CFC be collected from any customer for more than five days for each individual rental car transaction.

In order to help reduce the Facility Rent to be paid by the Airport Rental Car Companies, the City may increase the CFC to $6.00 per transaction day, to a maximum of five days, on each rental instead of the $10.00 per rental transaction CFC the City currently charges. The City currently plans to bring this proposed CFC increase to the City Council for approval in August 2011, with the increased CFC recommended to be effective in September 2011. For purposes of this report, it was assumed that the $6.00 per transaction day CFC is effective September 1, 2011. The City also plans

to increase the CFC per transaction day to $7.50 (subject to the 5-day maximum) beginning January 1, 2014. The $6.00 per transaction day CFC and any subsequent increase of the per transaction day CFC are each subject to audit and substantiation by the California State Controller prior to City Council approval. The Airport Rental Car Companies have expressed to the City their support regarding the City's plans regarding changes to the CFC. Based on analysis of historical rental car activity at the Airport in relation to prior increases in the cost of renting a car at the Airport (including but not limited to the increase in the CFC from $5 to $10 per transaction in January 2008), the City's plan to begin collecting a $6.00 CFC per transaction day in September 2011 and a $7.50 CFC per transaction day (subject to a five-day maximum) beginning January 2014 is not expected to have a significant impact on rental car activity at the Airport.

If the City were not able to change the CFC at the Airport (as outlined above), future CFC Revenues at the Airport would be substantially lower and Facility Rent would be substantially higher than as projected in this report. Projected CFC Revenues assuming the current $10.00 per transaction CFC would be approximately $4.2 million to $8.9 million lower than as projected in this report.

4.5 Projected Rental Car Activity and CFC Revenue at the Airport

Rental car transaction activity at the Airport has generally followed the trends for O&D deplaned passengers in each Fiscal Year between FY 2005 and FY 2010, but not necessarily at the same growth rate in any given fiscal year. Other factors such as the cost of renting a car at the Airport, convenience, and economic conditions affect rental car activity to some extent, but rental car activity is primarily related to O&D deplaned passenger levels. Based on this relationship, the passenger projection for the Airport detailed in Chapter II serves as the basis for the projection of rental car activity at the Airport. Specific assumptions made by R&A regarding rental car activity at the Airport are as follows:

- **O&D Deplaned Passengers**. The percentage of O&D deplaned passengers to total deplaned passengers at the Airport is assumed at 97.3 percent throughout the Projection Period, equal to the percentage for FY 2010. Total deplaned passengers are assumed to equal total enplaned passengers for the Projection Period.
- **Rental Car Transactions.** The number of rental car transactions per O&D deplaned passenger is assumed to be 0.160 throughout the Projection Period, slightly lower than (1) the actual level experienced for the first nine months of FY 2011 at 0.163 and (2) the overall average for FY 2007 to FY 2010 at 0.162.
- **Average Days Per Transaction.** The number of rental car days per transaction is assumed to be 3.43 throughout the Projection Period, based on FY 2010 data reported by eight of the ten current airport rental car brands representing approximately 97 percent of rental car gross sales at the Airport.
- **Adjustment to Transaction Days Related to 5-Day Maximum.** Transaction days are assumed to be adjusted downward by 15.0 percent to account for transaction days over the 5-day maximum. This reduction is based on CY 2009 and CY 2010 data received from four rental car brands representing approximately 56 percent of rental car gross sales at the Airport.
- **Local/National Economy.** The economic base of the Air Service Area will remain stable and diversified during the Projection Period, as described in Chapter I of this report.

- **Passenger Levels at the Airport.** Passenger projections provided in Chapter II will be realized.
- **Car Rental Rates.** Average daily car rental rates at the Airport will remain competitive in relation to other means of transportation during the Projection Period and are not anticipated to decrease rental car demand.
- **CFC Rate.** The current CFC of $10.00 per rental car transaction at the Airport is assumed to change to $6.00 per transaction day (subject to a 5 day maximum charge) beginning September 1, 2011, and to $7.50 per transaction day (subject to a 5 day maximum) on January 1, 2014.
- **Rental Car Companies.** The Airport Rental Car Companies will continue to operate at the Airport for the duration of the Projection Period. In the event one or more Airport Rental Car Companies leave the market, the Airport Rental Car Companies remaining (and any new entrant rental car companies) will act to serve demand and capture the market share of any departing companies.
- **Alternative Forms of Transportation.** No significant changes in the forms of alternative transportation or expansion of existing modes of alternative transportation are expected at the Airport that would influence rental car demand during the Projection Period.

Based on these assumptions, R&A developed its projection of rental car activity and CFC Revenues (as reflected in **Table IV-7**) by:

- Multiplying projected O&D deplaned passengers by the assumed ratio of transactions per O&D deplaned passenger of 0.160 to derive projected transactions. As discussed in Section 4.3.2, the assumed ratio of 0.160 is slightly lower than the actual ratio of 0.163 for the first nine months of FY 2011 and the average of 0.162 for FY 2007 to FY 2010.
- Multiplying the projected number of transactions by the assumed average number of days per transaction of 3.43 to derive the number of annual transaction days.
- Adjusting the total projected number of rental car transaction days downward by 15.0 percent to account for transaction days longer than the 5-day maximum.
- Multiplying the number of projected transactions by the CFC rate of $10.00 per transaction for FY 2011 and the first two months of FY 2012 yields CFC Revenues for FY 2011 and the first two months of FY 2012.
- Multiplying the number of adjusted transaction days by $6.00 per transaction day for September 1, 2011 to December 31, 2013, and by $7.50 for January 1, 2014 through the remainder of the Projection Period yields CFC Revenues for FY 2012 through FY 2017.

Rental car transactions and transaction days are projected to increase by 8.4 percent in FY 2011 from FY 2010 levels, based on a 1.7 percent increase in deplaned passengers in FY 2011, and an increase in the ratio of rental car transactions per O&D deplaned passenger. Rental car transactions are projected to grow with projected passenger activity for FY 2012 through FY 2017 and the average number of days per transaction is assumed to remain constant through the Projection Period. This results in a CAGR of 2.3 percent for the number of rental car transaction days between FY 2011 and FY 2017.

As the CFC rate is assumed to change to $6.00 per transaction day beginning September 1, 2011, and

Table IV-7

Projection of Rental Car Activity and CFC Revenues
(Fiscal Years Ending June 30)

		Actual	Estimated	Projected					
		2010	2011	2012	2013	2014	2015	2016	2017
Total Airport Deplaned Passengers [1/]	[A]	4,125,052	4,195,000	4,284,200	4,373,500	4,468,000	4,572,700	4,678,500	4,794,700
Annual % Change			1.7%	2.1%	2.1%	2.2%	2.3%	2.3%	2.5%
Percentage of O&D Deplaned Passengers to Total Deplaned Passengers (=FY 2010)	[B]	97.3%	97.3%	97.3%	97.3%	97.3%	97.3%	97.3%	97.3%
O&D Deplaned Passengers	[C = A * B]	4,015,422	4,083,500	4,170,300	4,257,300	4,349,300	4,451,200	4,554,200	4,667,300
Annual % Change			1.7%	2.1%	2.1%	2.2%	2.3%	2.3%	2.5%
Rental Car Transactions Per O&D Deplaned Passenger [2/]	[D]	0.150	0.160	0.160	0.160	0.160	0.160	0.160	0.160
Rental Car Transactions	[E = C * D]	602,847	653,400	667,200	681,200	695,900	712,200	728,700	746,800
Annual % Change			8.4%	2.1%	2.1%	2.2%	2.3%	2.3%	2.5%
CAGR FY 2011 - FY 2017									2.3%
Average Rental Car Transaction Days Per Transaction (= FY 2010) [3/]	[F]	3.43	3.43	3.43	3.43	3.43	3.43	3.43	3.43
Estimated Rental Car Transaction Days	[G = E * F]	2,067,765	2,241,200	2,288,500	2,336,500	2,386,900	2,442,800	2,499,400	2,561,500
Annual % Change			8.4%	2.1%	2.1%	2.2%	2.3%	2.3%	2.5%
CAGR FY 2011 - FY 2017									2.3%
Estimated Reduction Associated with 5-Day Maximum [4/]	[H = G * - 15%]			(343,300)	(350,500)	(358,000)	(366,400)	(374,900)	(384,200)
Rental Car Transaction Days CFC Applies To in FY12-FY17	[I = G + H]			1,945,200	1,986,000	2,028,900	2,076,400	2,124,500	2,177,300
Annual % Change					2.1%	2.2%	2.3%	2.3%	2.5%
CFC Rate per Transaction	[J]	$10.00	$10.00	$10.00	n/a	n/a	n/a	n/a	n/a
CFC Rate per Transaction Day	[K]	n/a	n/a	7/1/11-8/31/11; $6.00 9/1/11-6/30/12;	$6.00	$6.00 for 7/1/13-12/31/13; $7.50 for 1/1/14-6/30/14	$7.50	$7.50	$7.50
CFC Revenues (per Transaction basis) [5/]	[L = E * J]	$6,021,365	$6,009,000	$1,112,000	n/a	n/a	n/a	n/a	n/a
CFC Revenues (per Transaction Day basis) [6/]	[M = I * K]	n/a	n/a	9,726,000	11,916,000	13,695,000	15,573,000	15,934,000	16,330,000
Total CFC Revenues	[N = L + M]	$6,021,365	$6,009,000	$10,838,000	$11,916,000	$13,695,000	$15,573,000	$15,934,000	$16,330,000
Annual % Change			-0.2%	80.4%	9.9%	14.9%	13.7%	2.3%	2.5%

Notes:
1/ Deplaned passengers are assumed to equal enplaned passengers for FY 2011 to FY 2017.
2/ The assumption of 0.160 for FY 2011 through FY 2017 is slightly lower then the number of actual rental car transactions per O&D deplaned passenger for the first 9 months of FY 2011. See Table IV-4.
3/ See Table IV-4.
4/ Estimated reduction for transaction days over 5-day maximum per State CFC Statute.
5/ FY 2011 CFC Revenues reflected to match current amount City is using, which is conservative relative to estimated transactions multiplied by $10.00 per transaction.
6/ Displays projected CFC Revenues if a CFC rate of $6.00 per transaction day would be implemented on September 1, 2011, and a CFC rate of $7.50 per transaction day would be implemented on January 1, 2014.

Sources: San José Norman Y. Mineta International Airport; Rental car companies serving the Airport; Ricondo & Associates (Projections), May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

to $7.50 on January 1, 2014, CFC Revenues are projected to increase from approximately $6.0 million in FY 2011 to approximately $16.3 million in FY 2017.

4.6 Flow of CFC Revenues

The City may designate CFC Revenues as Other Available Funds (discussed in Chapter V of this report). Debt service associated with the City's Airport Revenue Bonds is paid from and secured by Net General Airport Revenues and Other Available Funds. After the City files the appropriate paperwork with the Trustee for the City's Airport Revenue Bonds, CFC Revenues are deposited in the General Airport Revenue Fund. See Chapter V of this report for more information regarding General Airport Revenues and Other Available Funds.

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V. Financial Analysis

This chapter examines the financial structure of the Airport; Airport funding sources; the planned Series 2011 Bonds; debt service, operating expenses, and revenue projections; and presents projections of debt service coverage, airline rates and charges, and other key financial measures.

5.1 Airport Financial Structure

The Airport is owned by the City, is operated as a department of the City, and is accounted for as a self-supporting enterprise fund in the basic financial statements of the City. The City is a charter city that operates under a council-manager form of government. The eleven members of the City Council serve as the governing body that oversees the operation of the Airport. The Director of Aviation is responsible for the operation for the Department and reports directly to the City Manager.

The Department's annual operating budget is prepared on a modified accrual basis. The City funds operations and capital improvements at the Airport with revenues generated from rentals, fees, and charges; passenger facility charge collections and associated interest earnings (PFC Revenues); rental car customer facility charge revenues (CFC Revenues); federal grants-in-aid; and other revenue sources. The City maintains its financial records in accordance with generally accepted accounting principles as they apply to governmental entities. The Airport, as with the City, also uses encumbrance accounting as another technique of accomplishing budgetary control of Airport funds. Purchase commitments are earmarked for particular purposes and become unavailable for general spending.

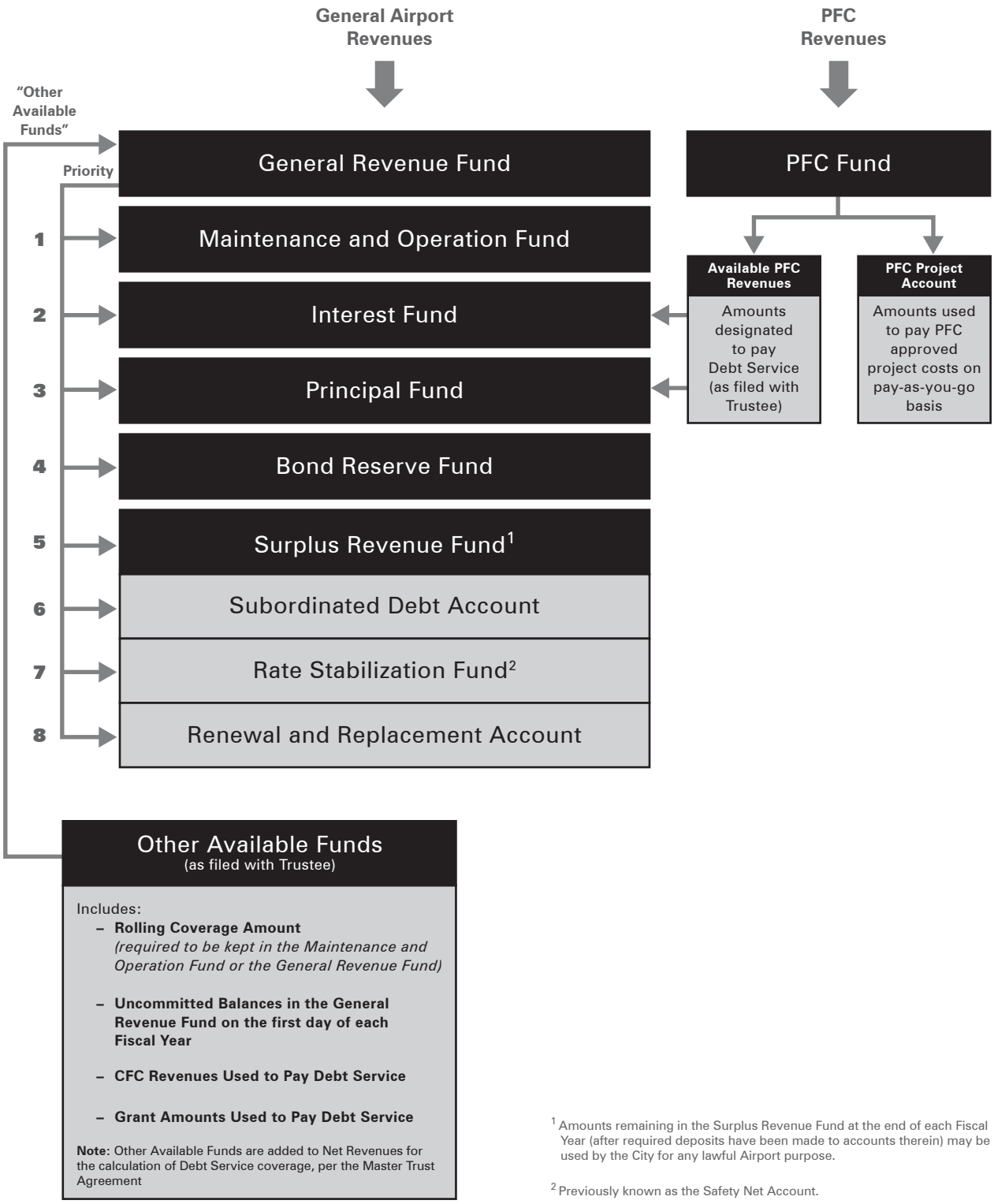
5.2 Trust Agreement

The Series 2011 Bonds are to be issued pursuant to the Master Trust Agreement and the Seventh and Eighth Supplemental Trust Agreements, authorizing and providing for the issuance of such bonds. The Series 2011 Bonds are to be issued as Additional Bonds in accordance with the Master Trust Agreement. The Master Trust Agreement and all Supplemental Trust Agreements are referred to collectively herein as the Trust Agreement.

The Series 2011 Bonds are to be paid from and secured by (1) Net General Airport Revenues (equal to General Airport Revenues less Maintenance and Operation Expenses) and (2) Other Available Funds pursuant to Section 5.03 of the Trust Agreement. The Series 2011 Bonds are to be equally secured, with respect to Net General Airport Revenues and Other Available Funds, with all Outstanding Bonds issued by the City pursuant to the Trust Agreement. The City expects to use (but not pledge) PFC Revenues to pay for a portion of debt service associated with the Series 2001A Bonds, the Series 2004 Bonds, the Series 2007A Bonds, and the Series 2011A-1 Bonds—See Section 5.2.2 below (Available PFC Revenues).

5.2.1 Other Available Funds

Pursuant to Section 5.03(a) of the Trust Agreement, and as reflected on **Exhibit V-1**, the City may for any period elect to designate as Other Available Funds any amounts available to the City not otherwise a part of General Airport Revenues--including CFC Revenues, the Rolling Coverage Amount, any beginning uncommitted balance of the General Revenue Fund on the first day of each Fiscal Year, but not PFC Revenues--by filing with the Trustee a Written Statement of the City designating the amount and source of such Other Available Funds and containing a statement that the



[1] Amounts remaining in the Surplus Revenue Fund at the end of each Fiscal Year (after required deposits have been made to accounts therein) may be used by the City for any lawful Airport purpose.

[2] Previously known as the Safety Net Account.

Source: Master Trust Agreement, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Exhibit V-1

Flow of Funds Under the Master Trust Agreement

Other Available Funds are legally available to be applied as Other Available Funds during such period. After the filing of such Written Statement of the City, the Other Available Funds designated therein shall be deposited in the General Revenue Fund and applied as provided in the Trust Agreement.

Historically, the City has designated the following as Other Available Funds: the Rolling Coverage Amount, uncommitted balances in the General Revenue Fund, and certain Federal Aviation Administration (FAA) Airport Improvement Program (AIP) Letter of Intent grant proceeds received (and used to pay debt service) for airfield projects originally funded with proceeds of the Series 2001A Bonds. The City designated CFC Revenues in FY 2011 (and certain CFC Revenues in FY 2010) as Other Available Funds, and plans to continue to designate CFC Revenues as Other Available Funds while the Series 2011B Bonds are outstanding.

5.2.2 Available PFC Revenues

Pursuant to Section 5.03(b) of the Trust Agreement, the City may, for any period, elect to designate any PFC Revenues to be applied to pay Debt Service as Available PFC Revenues by filing a Written Statement with the Trustee designating the amount of such Available PFC Revenues and stating that the Available PFC Revenues are legally available to be applied to pay Debt Service during such period. After filing the Written Statement with the Trustee, the Available PFC Revenues designated therein shall be deposited in the Interest Fund and the Principal Fund and used to pay Debt Service.

As defined in the Trust Agreement, Annual Debt Service is equal to Debt Service for a given Fiscal Year less the Available PFC Revenues for such Fiscal Year.

Pursuant to approvals previously received from the FAA, the City expects to use (but not pledge) certain approved PFC Revenues as Available PFC Revenues to pay a portion of the Debt Service associated with certain airfield and terminal projects already completed (funded in part with proceeds of the Outstanding Series 2001A Bonds, the Outstanding Series 2004 Bonds, the Outstanding Series 2007A Bonds, and commercial paper to be refunded with proceeds of the Series 2011A-1 Bonds).

5.2.3 Rate Covenant

In Section 7.13 (Amounts of Rates and Charges) of the Trust Agreement, referred to as the Rate Covenant, the City covenants and agrees to, among other things while any of the Bonds remain outstanding, manage its operations and establish, fix, prescribe, and collect rentals, rates, fees, and charges each Fiscal Year for use of the Airport so that:

(a) the sum of Net General Airport Revenues plus any Other Available Funds for such Fiscal Year will be at least sufficient to pay the sum of:

(1) Annual Debt Service for such Fiscal Year

(2) All other payments required in such Fiscal Year for compliance with the terms of the Trust Agreement

(3) All other payments related to Subordinated Obligations of the City in such Fiscal Year; and

(b) the sum of Net General Airport Revenues plus any Other Available Funds for such Fiscal Year is at least equal to 125% of Annual Debt Service for such Fiscal Year; and

(c) the sum of Net General Airport Revenues plus any Other Available Funds for such Fiscal Year (excluding, however, the Rolling Coverage Amount and any amounts not generated from actual cash receipts during the Fiscal Year unless such amounts are included in the initial or amended budget in that Fiscal Year and in the initial or amended calculation of airline and other rates and charges for such Fiscal Year) is at least equal to 100% of Annual Debt Service for such Fiscal Year.

5.2.4 Application of General Airport Revenues and Other Available Funds

Section 5.02 of the Trust Agreement establishes certain funds and accounts and the priority for the flow of General Airport Revenues and certain other moneys to such funds and accounts, as illustrated on Exhibit 4.1. All General Airport Revenues are deposited to the General Revenue Fund. Revenues or any Other Available Funds transferred to the General Revenue Fund (as described in the Trust Agreement) are then applied as necessary on a monthly basis for various purposes to funds and accounts in the priority listed below.

- **Maintenance and Operation Fund**. Deposit required to pay the following month's Maintenance and Operation (M&O) Expenses.
- **Interest Fund**. Deposit required to pay bond interest due on Outstanding Bonds. This fund shall contain separate accounts with respect to each Series of Outstanding Bonds.
- **Principal Fund**. Deposit required to pay bond principal due on Outstanding Bonds. This fund shall contain separate accounts with respect to each Series of Outstanding Bonds.
- **Bond Reserve Fund**. Deposit required so that the amounts on deposit are equal to the Bond Reserve Fund Requirement. This fund contains a general account and additional accounts supporting specified Series of Outstanding Bonds. Moneys in such accounts shall be used to pay debt service on the related Series of Bonds when insufficient moneys are available in applicable account(s) in the Interest and/or Principal Fund.
- **Surplus Revenue Fund**. Deposit of all remaining moneys in the General Revenue Fund which are available for transfer to the Surplus Revenue Fund after having set aside and transferred deposits as required in funds and accounts above. All moneys in the Surplus Revenue Fund shall be deposited in the following respective special accounts, in the following order of priority:
  - **Subordinated Debt Account**. Deposit required to pay for expenses, indebtedness, and other charges on bonds, notes, or other obligations or evidence of indebtedness required to be paid from the Subordinated Debt Account.
  - **Rate Stabilization Fund**. Deposit necessary, as described in more detail in Section 5.02 of the Trust Agreement, to satisfy the financial requirements of the Airport and to ensure the City's ability to meet its obligations under the Trust Agreement. The Rate Stabilization Fund was previously known as the Safety Net Account.
  - **Renewal and Replacement Account**. Deposit as necessary to pay the renewal and replacement costs for Airport facilities.

All moneys remaining in the Surplus Revenue Fund (after required deposits as described above have been made) may be transferred to any other fund or account of the City to be used for any other lawful aviation-related purpose of the City.

Exhibit V-1 also reflects Other Available Funds expected to be designated by the City (including CFC revenues, the Rolling Coverage Amount, any beginning uncommitted balance of the General Revenue Fund on the first day of each Fiscal Year, but not PFC Revenues) to be deposited in the General Revenue Fund.

Exhibit V-1 also reflects the flow of PFC Revenues for the Airport. All PFC Revenues are deposited into the PFC Fund. The City expects to designate certain PFC Revenues to be applied to pay Debt Service (as Available PFC Revenues) by filing a required Written Statement with the Trustee. After filing the Written Statement with the Trustee, the Available PFC Revenues designated therein shall be deposited in the Interest Fund and the Principal Fund and used to pay Debt Service. All other PFC Revenues not designated as Available PFC Revenues are expected to be used on approved projects on a pay-as-you-go basis.

5.3 Airline Agreement

The City entered into an Airline-Airport Lease and Operating Agreement (the Airline Agreement) in 2007 with the various passenger and cargo airlines serving the Airport. Currently, all of the passenger and cargo airlines serving the Airport, with the exception of Volaris (who has executed a non-signatory agreement), have executed the Airline Agreement with the City. The Airline Agreement establishes procedures for annual adjustment of rates, fees, and charges collected from signatory airlines for the use of Airport facilities. The Airline Agreement permits signatory airlines to land at the Airport and governs airline use of certain airport facilities, including (among other areas) terminal, ramp, baggage claim, ticket counters, and gate areas.

Key provisions of the Airline Agreement, as discussed in greater detail below, include:

- Expiration date: June 30, 2012 (unless canceled prior to such date as provided for in the Airline Agreement). The term of the Airline Agreement may be extended for one additional five-year term by the mutual written consent of the City and signatory airlines.
- All gates and ticket counters are to be either common use or preferential use; no gates or ticket counters are to be exclusive use.
- Rate-making methodology (for the entire term of the Airline Agreement):
  - Compensatory terminal rate methodology (with a terminal rentable space divisor)
  - Cost center residual landing fee methodology (Airfield revenues other than landing fees are credited toward the Airfield Revenue Requirement)
  - Revenue sharing (with the airline portion of revenue sharing crediting the Airline Terminal Revenue Requirement in the following Fiscal Year).
- Rolling debt service coverage.
- Provision for Signatory Airline Majority-in-Interest (MII) disapproval of capital expenditures in the Airfield or Terminal cost centers proposed by the City (the City may move forward with any such disapproved projects after a one-year deferral period).

Any passenger airline that (a) signs an agreement with the City substantially similar to the Airline

Agreement, (b) provides passenger service at the Airport, (c) leases from the City an amount of Exclusive Use Premises (such as office space, storage areas, VIP lounge space, and employee break room space) in the terminal deemed sufficient by the Director of Aviation of the City (the "Director") to support its operation, and (d) at the time it executes its agreement with the City, operates at least one (1) scheduled flight, scheduled year round, at least three (3) days per week shall be a "Signatory Airline" under the Airline Agreement.

In addition, any all-cargo airline that (a) signs an agreement with the City substantially similar to the Airline Agreement, (b) leases from the City cargo support space at the Airport for the term of the Airline Agreement, (c) guarantees a minimum of 142,000 pounds of maximum gross certificated landing weight per scheduled flight, and (d) at the time it executes its agreement with the City, operates at least five (5) scheduled flights per week shall be considered a "Signatory Airline."

Any passenger or cargo airline that does not meet the minimum requirements to be a Signatory Airline will be given the opportunity to become a Non-Signatory Airline by executing an agreement in similar form. Rates and charges for a Non-Signatory Airline will be charged at a 25% premium over the rates and charges for a Signatory Airline. In addition, Non-Signatory Airlines will not participate in any MII consideration of proposed capital projects. Volaris is currently the only Non-Signatory Airline operating at the Airport.

Effective July 1, 2007, a City ordinance established minimum requirements for the operation at and use of the Airport by any passenger or cargo airline that operates at the Airport without having entered into an agreement with the City. The ordinance requires any such airline to comply with all applicable rules and regulations as established by the Director of Aviation. In addition, the ordinance establishes airfield and terminal rates and charges for any such airline at a 30% premium over the rates and charges as determined pursuant to the terms of the City's then current airline lease and operating agreement.

The financial projections contained in this report for the Projection Period were developed based on the business terms and procedures for annual adjustment of rentals, fees, and charges contained in the Airline Agreement, as described in detail in the remainder of Section 5.3. As mentioned above, the current Airline Agreement expires at the end of FY 2012. For purposes of the financial projections in this report, it was assumed that airlines currently serving the Airport would continue to operate at the Airport throughout the Projection Period. It was also assumed for purposes of preparing financial projections that the business terms of the current Airline Agreement would extend beyond their expiration at the end of FY 2012 through FY 2017. Assuming the extension of current business terms beyond the current expiration date is reasonable and standard practice in preparing airport bond feasibility studies when specific changes to the current Airline Agreement have not been planned (as is the case at the Airport).

5.3.1 Facility Control

Under the Airline Agreement, Airport gates and ticket counters are leased on either a common-use or preferential-use basis. No gates or ticket counters are leased on an exclusive-use basis. Baggage make-up and baggage claim areas are leased on a common-use basis.

5.3.2 Airline Rates and Charges Methodology

As described in more detail under Section 5.9 of this report, the Signatory Airline terminal rate methodology contained in the Airline Agreement is based on a compensatory rate-making approach,

using terminal rentable space as the divisor. The Signatory Airline landing fee rate methodology contained in the Airline Agreement is based on a cost center residual rate-making approach (where costs in the Airfield cost center are offset by all revenues in the Airfield cost center other than landing fees).

Airlines that have executed a Non-Signatory Airline Agreement pay a 25 percent premium over landing fees and terminal rental rates paid by Signatory Airlines. Airlines that have not executed an agreement with the City and that are not in month-to-month holdover under an existing agreement with the City pay a 30 percent premium over landing fees and terminal rental rates paid by Signatory Airlines. For purposes of the financial projections in this report, it was assumed that all airlines serving the Airport would be Signatory Airlines for the Projection Period.

5.3.3 Revenue Sharing

Pursuant to Section 9.10 of the Airline Agreement, in any Fiscal Year in which there are Net Remaining Revenues (defined below) generated at the Airport, and all requirements of the Trust Agreement (and any subsequent Supplemental Trust Agreements) have been satisfied, including the Rate Covenant, the Net Remaining Revenues shall be divided equally between the City and the passenger airlines operating at the Airport—subject to certain adjustments related to the Rate Stabilization Fund described below.

Net Remaining Revenues are defined in the Airline Agreement as equal to General Airport Revenues plus Other Available Funds less M&O Expenses less Annual Debt Service less the Coverage Amount for the current Fiscal Year less other required fund deposits or payments pursuant to Section 5.02 of the Trust Agreement (including required renewal and replacement expenditures and Subordinated Indebtedness, if any).

If the actual Net Remaining Revenues exceed the projected Net Remaining Revenues in the forecast shown in the Airline Agreement (the "Airport Forecast"), the airlines' share of the difference will be deposited into the Rate Stabilization Fund up to a cap of $9 million. Once the Rate Stabilization Fund has been fully funded, or in the event that the actual Net Remaining Revenues do not exceed the projected Net Remaining Revenues, the airlines' share of Net Remaining Revenues shall be applied as a credit to the Airline Terminal Requirement in the subsequent Fiscal Year, thus reducing passenger airline terminal rents for the following year.

5.3.4 Debt Service Coverage in Airline Rates

The Airline Agreement incorporates rolling debt service coverage. A debt service coverage amount equal to 25% of Debt Service less PFC Revenues used to pay such Debt Service is included in both the Terminal and Airfield revenue requirements each Fiscal Year. Debt service coverage amounts collected are set aside by the City and offset the debt service coverage charge in the following Fiscal Year.

5.3.5 Rate Stabilization Fund

Pursuant to Section 9.11 of the Airline Agreement, a Rate Stabilization Fund will be maintained by the City for the purpose of providing for potential future withdrawals from the Rate Stabilization Fund to be used as credits offsetting airline terminal rental payments and landing fees in order to help achieve targeted passenger airline cost per enplaned passenger levels at the Airport. The Rate Stabilization Fund is subject to a maximum balance requirement of $9.0 million.

Any potential withdrawals for the purpose of meeting targeted passenger airline cost per enplaned passenger levels are subject to the availability of funds in the Rate Stabilization Fund.

As described in Section 9.11 of the Airline Agreement, in any Fiscal Year in which passenger airline cost per enplaned passenger is projected to be lower than originally targeted, the City may increase passenger airline cost per enplaned passenger (i.e., airline rates and charges) to the targeted level in order to replenish the Rate Stabilization Fund (subject to the $9 million maximum fund balance).

5.3.6 Airline Consideration of Capital Projects

Article 12 of the Airline Agreement contains specific provisions regarding including capital costs in the Terminal and Airfield cost centers. The City may undertake projects in cost centers other than the Airfield and Terminal cost centers without airline consideration. For Terminal and/or Airfield projects costing more than $5 million, the City may include capital costs in the respective cost center (once the projects are completed) if a MII of the Signatory Airlines does not disapprove of the project within 15 days after the City's meeting with the Signatory Airlines to discuss the proposed capital projects.

MII for the Airfield Cost and Revenue Center is defined in the Airline Agreement as such group of Signatory Airlines representing at least 50 percent of the Signatory Airlines and who together have paid at least 50 percent of the total Landing Fees paid by Signatory Airlines during the immediately preceding Fiscal Year. MII for the Terminal Cost and Revenue Center shall mean such group of Signatory Airlines representing at least 50 percent of the Signatory Airlines and who together have (a) paid at least 50 percent of the total Signatory Airline Terminal Rents for the immediately preceding Fiscal Year and (b) carried at least 50 percent of the enplaned passengers in the immediately preceding Fiscal Year. Airlines not signatory to the Airline Agreement will not have MII participation rights.

For Airfield or Terminal cost center projects that are disapproved by a MII, the City may proceed with the projects one year after the disapproval (and include the capital costs in the respective cost center following project completion).

Pursuant to Section 12.03 of the Airline Agreement, certain projects may be undertaken by the City at any time (without being subject to consideration by the Signatory Airlines) including, but not limited to:

- Projects funded directly or indirectly by PFCs, CFCs or grants
- Projects required by the FAA, the United States Department of Transportation, the TSA, or similar governmental authority, other than the City, having jurisdiction over the Airport
- Projects to repair certain casualty damage to Airport property
- Expenditures of an emergency nature
- Phase II of the Airport's Development Program, as identified in Exhibit K of the Airline Agreement, so long as specific airline and/or passenger activity triggers (as detailed in Section 12.03 of the Airline Agreement) have been met and specific airline cost per enplaned passenger targets are realized.

5.3.7 Municipally-Funded Air Service Incentive Program

Pursuant to Article 11 of the Airline Agreement, a municipally-funded air service incentive program is to be established during the term of the Airline Agreement. Because the operation and management of the Airport are supported by a number of City departments, employees, and resources that are not directly charged to the Airport operating budget, the City allocates a percentage of its total indirect overhead expenses to the Airport operating budget. If in any year during the term of the Airline Agreement the percentage growth in enplaned passengers at the Airport exceeds the growth in enplaned passengers nationwide (as measured by data published in the FAA Aviation Forecast or similar report/forecast if the FAA Aviation Forecast is no longer available), then the City shall reduce the amount of its indirect overhead expenses that would otherwise be allocated to the Airport's operating budget for the next Fiscal Year by a corresponding percentage. Notwithstanding the foregoing provisions, the Airline Agreement provides that in no event will the City's indirect overhead expenses allocated to the Airport operating budget exceed twenty-five percent (25%) or be less than fifteen percent (15%) during the term of the Airline Agreement. The City reserves the right to amend or terminate this incentive program after any increase in the number of gates at the Airport. For purposes of this report, no reductions in the City's indirect overhead expenses allocated to the Airport's operating budget have been assumed during the Projection Period.

5.4 Airport Funding Sources

As discussed in Chapter III of this report, the City intends to undertake future Airport projects only as they become required by airline traffic demand, are economically justified, necessary environmental reviews have been completed, necessary approvals have been obtained, and associated project costs can be supported by discrete funding sources such as grants, PFCs, Airport funding, or other/third party funding and reasonable Airport user fees.

The Airport's 2012-2016 Capital Improvement Program (CIP) is estimated to cost approximately $59.1 million. Projects that comprise approximately 75 percent of the estimated CIP cost (the Completion of Taxiway W Improvements and the Non-Terminal Area Projects) are contingent upon the receipt of AIP grant funding expected from the FAA and the availability of other funding. As discussed below in Section 5.4.1, the City expects to receive approximately $29.2 million of AIP grant funding for the Completion of Taxiway W Improvements (approximately 49 percent of total CIP funding). The City expects to use approximately $8.2 million of Other Funds for the Non-Terminal Area Projects. If the AIP grant funds and Other Funds expected for these two projects are not available, the City expects to defer these projects until funding is obtained.

The City does not plan to use any of the proceeds of the Series 2011 Bonds for CIP projects and does not plan to issue any Airport Revenue Bonds during the Projection Period for CIP projects.

In addition to the funds described in the following sections, as discussed in Section 5.2.1 and in Chapter IV of this report, the City imposes a rental car customer facility charge on customers renting cars at the Airport and may designate CFC Revenues as Other Available Funds to help pay debt service and certain transportation expenses associated with the new ConRAC. While the Series 2011B Bonds are outstanding, the City plans to designate CFC Revenues as Other Available Funds.

5.4.1 FAA Airport Improvement Program Grants

The City expects to utilize both FAA Airport Improvement Program (AIP) entitlement and discretionary grants to fund certain CIP projects. In connection with costs estimated for the

Completion of Taxiway W Improvements (equal to approximately 61 percent of total CIP costs), the City expects to receive approximately $29.2 million of AIP entitlement and discretionary grants. The timing of the Completion of Taxiway W Improvements is contingent upon receiving the expected AIP grant funding and the availability of Airport Funds to pay for the required local match.

The City also expects to receive approximately $700,000 of AIP grant funding in connection with other CIP projects. AIP grants are distributed to airport operators on a reimbursement basis.

The City currently receives approximately $1.8 million of AIP passenger entitlement grants per Federal Fiscal Year (FFY) ending September 30. The City previously committed these entitlement grant amounts along with certain AIP discretionary grants the City received in connection with a prior Letter of Intent for Airfield projects at the Airport (not included in Phase 1) that were funded in part with Series 2001 Bond proceeds.

The City received approximately $6.1 million of AIP grants in FY 2010 associated with taxiway and apron improvements at the Airport (not included in the CIP). The City also received approximately $5.2 million of AIP grant funding associated with the American Recovery and Reinvestment Act (ARRA) of 2009 for prior taxiway improvements at the Airport (not included in the CIP), but does not expect to receive any additional ARRA grant funding for projects in the CIP.

5.4.2 Passenger Facility Charges

The City received its first PFC approval from the FAA to impose a PFC in June 1992, and began collecting a $3.00 PFC on September 1, 1992. The City subsequently received FAA approval to increase its PFC level to $4.50 per eligible enplaned passenger and begin collecting at the $4.50 level on April 1, 2001. Pursuant to FAA regulations, the current $4.50 PFC level collected by the City results in a 75 percent reduction in AIP passenger entitlements.

Airport industry groups have requested that federal PFC regulations be changed to increase the PFC program's maximum PFC level from its current $4.50 maximum. The financial projections and the financing plan reflected in this report assume the City's current $4.50 PFC level is in place for the Projection Period. If the current $4.50 maximum PFC level is increased by Congress during the Projection Period, the City plans to seek FAA approval for a higher PFC level at the Airport and use the additional PFC Revenues to reduce the level of projected airline payments reflected in this report.

The City is currently authorized by the FAA to impose and use $1.065 billion of PFC Revenues (at the $4.50 PFC level), pursuant to various FAA approvals for specified pay-as-you-go projects and projects funded with bond proceeds (the debt service for which is to be paid with Available PFC Revenues). Through March 31, 2011, the City had collected $349.9 million of its total approved collection authority and had spent approximately $311.6 million on approved projects.

Pursuant to approvals previously received from the FAA, the City expects to use (but not pledge) certain approved PFC Revenues as Available PFC Revenues to pay a portion of the Debt Service associated with certain airfield and terminal projects already completed (funded in part with proceeds of the Outstanding Series 2001A Bonds, the Outstanding Series 2004 Bonds, the Outstanding Series 2007A Bonds, and commercial paper to be refunded with the proceeds of the Series 2011A-1 Bonds).

The City does not expect to use PFC Revenues for costs associated with projects included in the CIP.

5.4.3 TSA Grants

The City received substantial TSA grant funding for costs associated with the construction of new automated baggage screening systems for both Terminal A and Terminal B. The City does not expect to receive any TSA grant funding in connection with CIP projects.

5.4.4 Internal Airport Funds

The City expects to use approximately $14.0 million of Airport Renewal and Replacement Fund amounts and internally-generated Airport Funds for costs associated with projects included in the CIP, including the required local match amounts for projects funded with AIP grants.

5.4.5 Other Funds

The City expects to use approximately $15.1 million of other funds for projects included in the CIP, including approximately $8.2 million for the Non-Terminal Area Projects. Other funds include third party funds and existing bond proceeds.

5.4.6 Commercial Paper

The City estimates that approximately $417.0 million of commercial paper will be outstanding at the time the Series 2011A-1 Bonds are issued (against a current borrowing limit of $481.1 million), and that approximately $129.6 million of that amount will be repaid from the proceeds of the Series 2011A-1 Bonds and $225.0 million will be repaid from the proceeds of the Series 2011B Bonds. The commercial paper is payable from General Airport Revenues on a subordinate basis to the Airport Revenue Bonds (including the Series 2011 Bonds).

For purposes of the projections reflected in this report, it has been assumed that certain commercial paper amounts issued for Phase 1 projects (other than the ConRAC) are not refunded with future Airport Revenue Bonds during the Projection Period—however, interest and certain principal associated with the commercial paper that remains outstanding is assumed to be paid each Fiscal Year of the Projection Period. Repayment of commercial paper that is assumed to remain outstanding during the Projection Period is based on a 30-year amortization period and 3.50 percent to 4.50 percent interest rates for taxable commercial paper, and a 30-year amortization period and 1.75 percent to 3.00 percent interest rates for tax-exempt commercial paper.

5.5 Planned Series 2011 Bonds

Table V-1 presents a listing of estimated sources and uses of funds for the planned Series 2011 Bonds, broken out into the Series 2011A-1 Bonds (AMT) and the Series 2011B Bonds (Taxable). A total of $407.9 million of Series 2011 Bond principal is estimated to be required to refund certain outstanding commercial paper related to previously-completed terminal improvements, to refund outstanding commercial paper associated with the new ConRAC, and to fund debt service reserve funds and to pay other costs of issuance.

The estimated sources and uses of funds and debt service for the planned Series 2011 Bonds were provided by Public Financial Management, co-financial advisor to the City, based on certain information provided by the City. Debt Service estimates for the planned Series 2011 Bonds are based on the following assumptions:

Table V-1

Estimated Sources and Uses for Series 2011 Bonds

	Series 2011A-1 Bonds (AMT)	Series 2011B Bonds (Taxable)	Total
Sources:			
Par of bonds	$144,315,000	$263,570,000	$407,885,000
Premium	1,122,000	0	1,122,000
Total Sources	$145,437,000	$263,570,000	$409,007,000
Uses:			
Repayment of Outstanding Commerical Paper	$129,578,000	$225,000,000	$354,578,000
Capitalized Interest Fund Deposit	0	6,137,000	6,137,000
Debt Service Reserve Fund deposit	14,432,000	26,357,000	40,789,000
Coverage Fund deposit	0	3,924,000	3,924,000
Other costs of issuance	1,427,000	2,152,000	3,579,000
Total Uses	$145,437,000	$263,570,000	$409,007,000

Source: Public Financial Management, May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

- **Series 2011A-1 Bonds (AMT):**
  - Bond principal: $144.3 million
  - Issued to refund certain outstanding commercial paper related to previously-completed terminal improvements
  - First principal payment date: March 1, 2029
  - Final principal payment date: March 1, 2034
  - True interest cost: 6.87 percent
  - A portion of the proceeds of the Series 2011A-1 Bonds will fund a deposit to the Debt Service Reserve Fund

- **Series 2011B Bonds (Taxable):**
  - Bond principal: $263.6 million
  - Issued to refund outstanding commercial paper used to finance construction of the ConRAC which opened in June 2010
  - First principal payment date: March 1, 2012
  - Final principal payment date: March 1, 2041
  - True interest cost: 7.70 percent
  - A portion of the proceeds of the Series 2011B Bonds will fund a deposit to the Debt Service Reserve Fund
  - A portion of the proceeds of the Series 2011B Bonds will be used to fund approximately $6.1 million of capitalized interest.

5.6 Debt Service

Table V-2 presents actual and estimated Annual Debt Service for outstanding Airport Revenue Bonds and the planned Series 2011 Bonds for FY 2009 through FY 2017. As discussed in earlier sections of this chapter, Annual Debt Service is equal to Debt Service less Available PFC Revenues (as defined in the Trust Agreement). Table V-2 reflects Available PFC Revenues expected to be used by the City for certain Debt Service associated with the Series 2001A Bonds, the Series 2004 Bonds, the Series 2007A Bonds, and the Series 2011A-1 Bonds.

The debt service included in Table V-2 for the Series 2007A and 2007B Bonds reflects the City's intent to use certain unspent proceeds of the Series 2007A Bonds and 2007B Bonds and certain other Airport funds to defease a portion of the Series 2007A Bonds and 2007B Bonds. Specifically, the amounts in Table V-2 assume that unspent Series 2007A Bond proceeds and certain other funds will be applied to defease approximately $52.0 million of the Series 2007A Bonds, which will reduce total debt service on such bonds by approximately $38.4 million during the period from FY 2012 through 2017. The amounts in Table V-2 also assume that unspent Series 2007B Bond proceeds will be applied to reduce total debt service on the Series 2007B Bonds by approximately $29.0 million during the period from FY 2012 through FY 2017 (including the defeasance of approximately $9.6 million of principal on the Series 2007B Bonds).

As shown in Table V-2, Annual Debt Service is estimated to increase from approximately $26.8 million in FY 2010 to approximately $66.5 million in FY 2017.

Table V-2 also presents estimates of payments for debt service associated with Subordinated Obligations (commercial paper). Both Annual Debt Service and Subordinated Obligations payments are broken out by cost center.

Table V-2
Annual Debt Service - Net of Capitalized Interest (Fiscal Years Ending June 30)

		Actual		Estimated	Projected					
		2009	2010	2011	2012	2013	2014	2015	2016	2017
Outstanding Series										
Series 1998A [1/]		$1,089,729	$1,097,241	$1,096,000	$1,106,000	$1,112,000	$1,116,000	$1,123,000	$1,128,000	$1,132,000
Series 2001A [1/]		10,560,440	9,832,518	10,553,000	10,557,000	10,555,000	10,553,000	10,556,000	10,554,000	10,556,000
Series 2002A		2,854,275	2,854,275	2,854,000	7,314,000	9,811,000	9,806,000	9,800,000	9,793,000	9,788,000
Series 2002B		6,973,250	6,965,750	6,979,000	2,499,000	0	0	0	0	0
Series 2004		1,036,723	2,791,161	5,722,000	6,429,000	6,379,000	6,329,000	6,279,000	6,233,000	6,180,000
Series 2007A [2/]		522,218	7,169,929	22,575,000	25,785,000	25,785,000	26,885,000	26,830,000	25,875,000	25,665,000
Series 2007B [2/]		0	656,196	4,933,000	4,337,000	0	6,337,000	6,242,000	7,543,000	8,539,000
Total Outstanding Series	[A]	$ 23,036,635	$31,367,070	$54,712,000	$58,027,000	$53,642,000	$61,026,000	$60,830,000	$61,126,000	$61,860,000
Planned Series 2011										
Series 2011A-1 (AMT)		$0	$0	$0	$5,884,000	$9,944,000	$9,944,000	$9,944,000	$9,944,000	$9,944,000
Series 2011B (Taxable) [3/]		0	0	0	14,763,000	16,169,000	17,589,000	19,206,000	19,788,000	20,230,000
Total Planned Series 2011	[B]	$0	$0	$0	$20,647,000	$26,113,000	$27,533,000	$29,150,000	$29,732,000	$30,174,000
Total Debt Service	[C = A + B]	$23,036,635	$31,367,070	$54,712,000	$78,674,000	$79,755,000	$88,559,000	$89,980,000	$90,858,000	$92,034,000
Less: Available PFC Revenues used to pay Debt Service										
Series 2001A		$0	$0	($8,370,000)	($10,057,000)	($10,555,000)	($10,553,000)	($10,556,000)	($10,554,000)	($10,556,000)
Series 2004		0	(2,244,000)	(3,359,000)	(1,783,000)	(2,108,000)	(1,884,000)	(2,252,000)	(2,441,000)	(2,407,000)
Series 2007A		0	(2,344,000)	(9,658,000)	(7,214,000)	(14,214,000)	(9,168,000)	(8,968,000)	(8,819,000)	(8,768,000)
Series 2011A-1			0	0	(2,676,000)	(3,191,000)	(2,877,000)	(3,470,000)	(3,792,000)	(3,774,000)
Total Available PFC Revenues	[D]	$0	($4,588,000)	($21,387,000)	($21,730,000)	($30,068,000)	($24,482,000)	($25,246,000)	($25,606,000)	($25,505,000)
Equals: Annual Debt Service	[E = C + D]	$23,036,635	$26,779,070	$33,325,000	$56,944,000	$49,687,000	$64,077,000	$64,734,000	$65,252,000	$66,529,000
Subordinated Commercial Paper [4/]										
Taxable for ConRAC		$0	$0	$9,297,000	$388,000	$0	$0	$0	$0	$0
Other		0	354,469	5,298,000	3,885,000	4,141,000	4,870,000	4,870,000	5,091,000	5,091,000
Total Subordinated Commercial Paper	[F]	$0	$354,469	$14,595,000	$4,273,000	$4,141,000	$4,870,000	$4,870,000	$5,091,000	$5,091,000
Annual Debt Service plus Subordinated Commercial Paper	[G = E + F]	$23,036,635	$27,133,539	$47,920,000	$61,217,000	$53,828,000	$68,947,000	$69,604,000	$70,343,000	$71,620,000
Annual Debt Service allocation										
Airfield		$10,560,440	$9,832,518	$3,600,000	$1,684,000	$1,142,000	$1,215,000	$1,210,000	$1,217,000	$1,222,000
Terminal		3,462,575	7,066,901	14,460,000	29,056,000	26,783,000	33,190,000	32,324,000	30,980,000	30,837,000
Parking & Roadway		8,970,798	9,407,887	13,833,000	25,705,000	21,565,000	29,018,000	30,553,000	32,319,000	33,666,000
Other cost centers		42,822	471,764	1,432,000	499,000	197,000	654,000	647,000	736,000	804,000
Total Annual Debt Service	[E]	$23,036,635	$26,779,070	$33,325,000	$56,944,000	$49,687,000	$64,077,000	$64,734,000	$65,252,000	$66,529,000
Subordinated Commercial Paper allocation										
Airfield		$0	$0	$280,000	$292,000	$312,000	$332,000	$332,000	$336,000	$336,000
Terminal		0	354,469	3,341,000	1,291,000	1,376,000	1,462,000	1,462,000	1,282,000	1,282,000
Parking & Roadway		0	0	10,397,000	2,079,000	1,805,000	1,919,000	1,919,000	2,281,000	2,281,000
Other cost centers		0	0	577,000	611,000	648,000	1,157,000	1,157,000	1,192,000	1,192,000
Total	[F]	$0	$354,469	$14,595,000	$4,273,000	$4,141,000	$4,870,000	$4,870,000	$5,091,000	$5,091,000

Notes:
1/ Does not incorporate potential Debt Service savings associated with possible refunding being contemplated by the City.
2/ Reflects the City's expected use of unspent Series 2007A and Series 2007B bond proceeds to pay debt service on each respective series.
3/ CFC Revenues and rental car Facility Rent are expected to be sufficient to pay this Debt Service (associated with Bonds expected to repay commercial paper issued to fund the ConRAC).
CFC Revenues are included as Other Available Funds (see Table V-8) and rental car Facility Rent is included as nonairline revenues as part of General Airport Revenues (see Table V-4).
4/ FY 2012 to FY 2017 payments reflect the repayment of certain outstanding Subordinated Commercial Paper with the proposed Series 2011 Bonds. Letter of credit fees are included in M&O Expenses on Table V-3.

Source: City of San José (Outstanding debt service information and PFCs applied to debt service); Public Financial Management (Series 2007 Bonds and Series 2011 Bonds), May 2011.

Prepared by: Ricondo & Associates, Inc. May 2011.

5.7 Maintenance and Operation Expenses

Table V-3 presents M&O Expenses for the Airport for actual FY 2009 and FY 2010, estimated FY 2011, proposed budget FY 2012, and projected FY 2013 through FY 2017, based on the definition of M&O Expenses in the Trust Agreement. Projections of M&O Expenses were based on the proposed FY 2012 budget. Projections were based on a review of historical trends, the proposed FY 2012 budget, assumed inflation (discussed below), and the City's ongoing efforts to reduce M&O Expenses.

M&O Expenses are categorized by direct cost centers (including Terminal, Airfield, Parking & Roadway, and General & Non-Aviation) and indirect cost centers (including General & Administration, Aircraft Rescue & Firefighting, and Police). Expenses reflected for each cost center include amounts for Personal Services, Contractual Services, Utilities, Materials, Supplies, and Other expenses.

Letter of credit (LOC) fees associated with the Airport's commercial paper program are also reflected on Table V-3. Based on LOC reimbursement agreements, LOC fees are subordinated obligations and are not to be incorporated for the purposes of calculating debt service coverage for Airport Revenue Bonds. LOC fees are reflected on Table V-3 and later on Table V-8 (Summary of Airport Revenues, Expenses, and Other Costs) as an expense for accounting purposes, but are reflected as a subordinated obligation in the calculation of overall debt service coverage in Table V-9 (Annual Debt Service Coverage). The discussion of expenses in the paragraphs below is based on M&O Expenses excluding LOC fees.

For rate-setting purposes, all M&O Expenses are allocated to direct Airport cost centers.

In response to substantial decreases in airline activity at the Airport beginning in FY 2008 (as discussed in detail in Chapter II of this report), the City has reduced M&O Expenses substantially relative to both budgeted amounts and to prior year actual M&O Expenses. Reductions in M&O Expenses have included substantial reductions in Airport staffing levels and associated overhead, building rent, other post-employment benefits (OPEB) costs, and other expenses. Actual FY 2010 M&O Expenses were 8.8 percent lower than actual FY 2009 M&O Expenses and approximately 12.7 percent lower than budgeted FY 2010 M&O Expenses. Between FY 2008 and FY 2010, the City reduced M&O Expenses at an average annual rate of 4.8 percent.

As shown on Table V-3, M&O Expenses decreased to $87.3 million in FY 2010 and are estimated to decrease to $84.6 million in FY 2011, a 3.1 percent decrease. M&O Expenses reflected for the proposed FY 2012 budget, at $76.9 million, are approximately $7.7 million (or 9.1 percent) lower than M&O Expenses estimated for FY 2011.

M&O Expenses reflected for the proposed FY 2012 budget incorporate certain proposed actions by the City including the reduction of certain custodial staff and the outsourcing Police and Aircraft Rescue and Firefighting (ARFF) services at the Airport assumed to begin February 2012. The City is reviewing alternatives to the full outsourcing of law enforcement services at the Airport as incorporated in the proposed FY 2012 budget. The City has postponed any outsourcing of ARFF services until at least July 1, 2013, based upon a proposal to use proceeds from a Staffing for Adequate Fire and Emergency Response (SAFER) grant from the Federal Emergency Management Agency/Department of Homeland Security to fund the cost differential between the proposed budget amount (based on outsourcing beginning February 2012) and the estimated cost of Fire Department

Table V-3

Maintenance and Operation Expenses (Fiscal Years Ending June 30) [1/]

	Actual		Estimated	Proposed Budget	Projected				
	2009	2010 [2/]	2011 [3/]	2012 [4/]	2013 [5/]	2014	2015	2016	2017
Maintenance and Operation (M&O) Expenses									
Terminal (Direct)	$20,033,920	$19,915,548	$21,054,000	$22,112,000	$22,554,000	$23,005,000	$23,465,000	$23,934,000	$24,413,000
Airfield (Direct)	5,874,463	5,186,033	5,760,000	5,915,000	6,033,000	6,154,000	6,277,000	6,403,000	6,531,000
Parking & Roadway (Direct)	25,049,350	21,423,167	21,678,000	21,141,000	21,563,000	21,995,000	22,435,000	22,884,000	23,342,000
General & Non Aviation (Direct)	1,543,247	1,269,567	1,067,000	1,012,000	1,032,000	1,053,000	1,074,000	1,095,000	1,117,000
General & Administration	26,312,231	23,203,363	20,533,000	18,649,000	18,602,000	18,762,000	18,929,000	19,104,000	19,487,000
Aircraft Rescue and Firefighting (ARFF)	4,881,652	4,070,275	3,496,000	3,089,000	1,684,000	1,696,000	1,736,000	1,779,000	1,813,000
Police	12,063,732	11,527,994	11,012,000	5,004,000	4,446,000	4,533,000	4,622,000	4,712,000	4,804,000
Airport West Land Lease	(62,511)	681,543	0	0	0	0	0	0	0
M&O Expenses Excluding Letter of Credit (LOC) Fees	**$95,696,084**	**$87,277,490**	**$84,600,000**	**$76,922,000**	**$75,914,000**	**$77,198,000**	**$78,538,000**	**$79,911,000**	**$81,507,000**
Annual % change	-0.7%	-8.8%	-3.1%	-9.1%	-1.3%	1.7%	1.7%	1.7%	2.0%
CAGR FY 2012 - FY 2017									1.2%
LOC Fees [6/]	240,629	0	5,714,000	2,100,000	$2,142,000	$2,185,000	$2,229,000	$2,274,000	$2,319,000
M&O Expenses Including LOC Fees	$95,936,713	$87,277,490	$90,314,000	$79,022,000	$78,056,000	$79,383,000	$80,767,000	$82,185,000	$83,826,000
Allocation to Direct Cost Centers									
Airfield	$16,148,210	$14,130,551	$14,158,000	$12,917,000	$11,857,000	$12,030,000	$12,228,000	$12,434,000	$12,681,000
Terminal	39,263,932	37,488,057	38,004,000	34,401,000	34,328,000	34,906,000	35,500,000	36,108,000	36,829,000
Parking & Roadways	36,068,290	30,980,717	34,481,000	28,975,000	29,312,000	29,847,000	30,394,000	30,952,000	31,571,000
Other	4,456,281	4,678,164	3,671,000	2,729,000	2,559,000	2,600,000	2,645,000	2,691,000	2,745,000
	$95,936,713	$87,277,490	$90,314,000	$79,022,000	$78,056,000	$79,383,000	$80,767,000	$82,185,000	$83,826,000

Notes:

1/ M&O Expenses Including LOC Fees reflected on this table for FY 2009 and FY 2010 are approximately $5.2 million and $4.7 million higher, respectively, than Adjusted Maintenance and Operation Expenses reflected in Table 14 of Appendix A in the Official Statements for the Series 2011 Bonds because transportation expenses associated with the ConRAC are reflected in this table (under Parking & Roadway) but are deducted in Table 14 of Appendix A under the row "Maintenance and operation expenses paid from sources other than General Airport Revenues."

2/ FY 2010 reflects the expansion of Terminal A and the initial gates of the North Concourse coming online.

3/ FY 2011 reflects the remaining gates of the North Concourse/Terminal B coming online.

4/ FY 2012 reflects reduced General & Administration expenses for Airport offices, and 5 months of contracted Police and ARFF services.

5/ FY 2013 reflects first full year of contracted Police and ARFF services.

6/ LOC Fees associated with the Airport's Commerical Paper (CP) Program, net of capitalized fees. Based on LOC reimbursement agreements, LOC Fees are subordinated obligations and are not to be incorporated for the purposes of calculating debt service coverage for Airport Revenue Bonds. LOC Fees are reflected on this table and on Table V-8 as an expense for accounting purposes, but are reflected on Table V-9 as a subordinated obligation in the calculation of overall debt service coverage. FY 2011 LOC Fees include approximately $3.6 million of fees associated with CP used to fund the ConRAC.

Sources: City of San José; Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

staff through June 30, 2013. Any portion of expenses for ARFF services that would be paid for by the SAFER grant would not be defined as M&O Expenses and are not included on Table V-3. The Police Department and Fire Department will continue to provide public safety services at the Airport until any service transitions take place.

Projections of M&O Expenses for FY 2013 through FY 2017 were based on the following:

- M&O Expenses associated with the outsourcing of Police services at the Airport are estimated by the City to decrease approximately $560,000 in FY 2013 (based on a full Fiscal Year of such outsourcing) and then increase annually with inflation.
- M&O Expenses associated with the ARFF services at the Airport are estimated by the City to decrease approximately $1.4 million in FY 2013 (based on a full Fiscal Year of ARFF expenses being paid in part with the SAFER grant) and then in FY 2014 through FY 2017 it is assumed that ARFF services would be outsourced and associated expenses would increase annually with inflation.
- 2.0 percent annual general expense inflation.
- The City does not expect any of the projects included in the CIP to have a material impact on future M&O Expenses, and no M&O Expenses have been incorporated for future projects during the Projection Period.

M&O Expenses are projected to increase from $76.9 million reflected in the proposed FY 2012 budget to approximately $81.5 million in FY 2017, representing a CAGR of 1.2 percent.

M&O Expenses Including LOC Fees reflected in Table V-3 for FY 2009 and FY 2010 are approximately $5.2 million and $4.7 million higher, respectively, than Adjusted Maintenance and Operation Expenses reflected in Table 14 of Appendix A in the Official Statements for the Series 2011 Bonds because operating costs associated with transporting passengers between the terminals and the ConRAC are reflected in Table V-3 (under Parking and Roadway) but are not included in Table 14 of Appendix A.

5.8 Nonairline Revenues

Table V-4 presents nonairline revenues at the Airport by category for actual FY 2009, actual FY 2010, estimated FY 2011, proposed budget FY 2012, and projected FY 2013 through FY 2017.

Between FY 2004 and FY 2006, nonairline revenues at the Airport increased at a CAGR of 5.1 percent. Between FY 2007 and FY 2010, as passenger activity at the Airport decreased significantly, nonairline revenues at the Airport decreased at an average annual rate of 6.0 percent. In FY 2010, total nonairline revenues accounted for 56.8 percent of General Airport Revenues. Projections of nonairline revenues were based on the proposed FY 2012 budget. In general, projections of future nonairline revenues were based on a review of historical trends; proposed FY 2012 budget amounts; the anticipated impacts of inflation; expected rate increases; minimum annual guarantees (MAGs) and other business terms of relevant agreements; and projected growth in passenger activity. Specific points concerning these projections are discussed in the following sections.

5.8.1 Terminal Nonairline Revenues

Terminal nonairline revenues include food & beverage revenues, retail merchandise revenues, advertising revenues, and other revenues (which include telephone/antenna lease revenues, space

Table V-4

Nonairline Revenues (Fiscal Years Ending June 30)

	Actual		Estimated	Proposed Budget	Projected				
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Terminal									
Food & beverage [1/]	$2,034,355	$2,163,738	$4,885,000	$4,885,000	$4,885,000	$4,885,000	$4,885,000	$4,885,000	$4,885,000
Retail merchandise [1/]	1,291,479	1,604,766	3,620,000	3,620,000	3,620,000	3,620,000	3,620,000	3,620,000	3,620,000
Advertising [1/]	4,575,000	3,776,183	4,222,000	4,222,000	4,222,000	4,222,000	4,222,000	4,222,000	4,222,000
Other [2/]	4,046,327	3,612,259	4,065,000	3,205,000	3,317,000	3,433,000	3,554,000	3,678,000	3,805,000
Total Terminal	$11,947,161	$11,156,946	$16,792,000	$15,932,000	$16,044,000	$16,160,000	$16,281,000	$16,405,000	$16,532,000
Ground Transportation									
Automobile parking	$24,372,171	$21,894,313	$22,846,000	$24,390,000	$25,333,000	$26,338,000	$27,431,000	$28,561,000	$29,785,000
Rental car concession fees	14,763,847	11,770,400	12,463,000	12,171,000	12,608,000	13,074,000	13,582,000	14,105,000	14,672,000
Rental car Facility Rent [3/]	1,651,109	1,563,739	10,295,000	7,385,000	7,504,000	7,445,000	7,297,000	7,325,000	7,403,000
Rental car rentals and utilities	1,410,775	1,386,576	1,303,000	1,467,000	1,518,000	1,571,000	1,626,000	1,683,000	1,742,000
Other ground transportation [4/]	2,049,284	2,319,325	2,429,000	2,408,000	2,482,000	2,561,000	2,648,000	2,736,000	2,832,000
Total Ground Transportation	$44,247,186	$38,934,353	$49,336,000	$47,821,000	$49,445,000	$50,989,000	$52,584,000	$54,410,000	$56,434,000
Airfield									
Airfield area revenues [5/]	$2,099,705	$1,887,699	$1,925,000	$1,956,000	$2,024,000	$2,095,000	$2,168,000	$2,244,000	$2,323,000
Air carrier parking	290,281	231,364	248,000	253,000	262,000	271,000	280,000	290,000	300,000
In-flight kitchen revenues	780,574	672,428	781,000	775,000	775,000	775,000	775,000	775,000	775,000
Total Airfield	$3,170,560	$2,791,491	$2,954,000	$2,984,000	$3,061,000	$3,141,000	$3,223,000	$3,309,000	$3,398,000
Other									
Land rentals [6/]	$3,773,253	$3,919,406	$3,509,000	$3,492,000	$3,614,000	$3,740,000	$3,871,000	$5,806,000	$6,009,000
Petroleum Program revenues	1,473,647	1,309,532	1,453,000	1,482,000	1,534,000	1,588,000	1,644,000	1,702,000	1,762,000
Interest income	1,609,381	814,623	358,000	204,000	211,000	218,000	226,000	234,000	242,000
Other [7/]	5,960,810	2,447,551	2,584,000	3,101,000	3,210,000	3,323,000	3,440,000	3,560,000	3,684,000
Total Other	$12,817,091	$8,491,112	$7,904,000	$8,279,000	$8,569,000	$8,869,000	$9,181,000	$11,302,000	$11,697,000
Total Nonairline Revenues [8/]	$72,181,998	$61,373,902	$76,986,000	$75,016,000	$77,119,000	$79,159,000	$81,269,000	$85,426,000	$88,061,000
Annual % change	-3.6%	-15.0%	25.4%	-2.6%	2.8%	2.6%	2.7%	5.1%	3.1%
CAGR FY 2012 - FY 2017									3.3%

Notes:

1/ Reflects minimum annual guarantee for FY 2011 through FY 2017 (constant).
2/ Includes Phone, space rent, and International Arrival Facility
3/ Amount required to be paid by rental car companies in connection with rental car portion of ConRAC. This amount decreases in FY 2012 as a result of increased CFC revenues.
4/ Includes taxi and other ground transportation revenues.
5/ Includes ground support concessions, ground support storage fees, pavement fees, and utility fees.
6/ Assumes a $1.8 million dollar increase in Land Rentals in FY 2016.
7/ Includes general aviation hangars, belly freight space rents, rented buildings, and other General Aviation and Non-Aviation revenues.
8/ Nonairline revenues reflected in Table V-4 for FY 2009 and FY 2010 are different than Other Operating Revenues reflected in Table 12 of Appendix A in the Official Statements for the Series 2011 Bonds because (1) certain revenue items reflected in Table 12 of Appendix A (including CFC Revenues) are not defined as General Airport Revenues under the Trust Agreement and are not incorporated in Table V-4 and (2) certain revenue items reflected on Table V-4 (including Facility Rent and interest income) that are defined as General Airport Revenues under the Trust Agreement are not incorporated in Table 12 of Appendix A because they are reflected as non-operating revenues in Appendix A.

Sources: City of San José; Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

rents, utility fees, Federal Inspection Services fees, and security fees). In FY 2010, terminal nonairline revenues of $11.2 million accounted for 10.3 percent of General Airport Revenues.

Between FY 2003 and FY 2010, terminal nonairline revenues increased at a CAGR of 6.1 percent. Total terminal nonairline revenues are projected to increase at a CAGR of 0.7 percent between FY 2012 and FY 2017 based primarily on the assumption that food & beverage, retail merchandise, and advertising revenues will remain constant at the proposed FY 2012 budget amounts (equal to the MAGs) as discussed below:

- Food and Beverage and Retail Merchandise. Food and beverage and retail services at the Airport are provided by three concessionaires (Areas, Host, and Hudson) under four separate agreements, each of which expires in June 2020. Each food and beverage and retail agreement provides for payment to the City of the greater of a MAG or a percentage of gross revenues. The agreements include a number of retail food and beverage and retail providers as sub-concessionaires and food and beverage and retail outlets in both terminals. The financial projections assume that revenues paid to the City for food and beverage and retail will remain at the MAG throughout the Projection Period.
- Advertising. The City has an Airport Advertising Concession Agreement with Clear Channel Outdoor, Inc., ("Clear Channel") for fixed display in terminal advertising, outdoor advertising, transit and bus shelter advertising, and promotional marketing opportunities at the Airport for a term running through July 31, 2014, with an option in the City's sole discretion to extend the term for an additional three year period. Clear Channel pays the City the greater of a MAG or a percentage of advertising revenues. The financial projections assume advertising revenue paid to the City will remain at the MAG throughout the Projection Period.
- Other Terminal Revenues. The City issues licenses for the operation of news racks and has agreements with operators of foreign currency exchanges, ATMs, luggage cart racks, pay phones, visitor information publications, prohibited item mailers, wireless antenna and wireless internet services. With the exception of the luggage cart operator, which pays the greater of a MAG or a percentage of gross revenues, the operators pay fixed fees to operate at the Airport. The financial projections assume other terminal revenues to increase 3.5 percent annually based on traffic growth and inflation.

Effective July 12, 2011, the City plans to temporarily deactivate six gates in the Terminal A+ extension and shift airline operations associated with those gates to gates in Terminal A and the International Arrivals Facility. This shift is expected to concentrate passenger activity in areas with a wider variety of concession choices and increase sales at concession locations in Terminal A. In conjunction with the temporary deactivation of gates in the Terminal A+ extension, the City is amending the contract with Host to allow for the deactivation of certain concessions facilities in the Terminal A+ extension, and to decrease associated MAGs. The City estimates that Terminal concession revenues will decrease by approximately $350,000 (relative to the proposed FY 2012 budget) in connection with the temporary deactivation and the contract amendments. The estimated $350,000 reduction has not been incorporated in the financial projections in this report and is not expected to have a material impact on financial results. Should the Terminal A+ gate deactivation last more than four years, the associated MAGs would be permanently reduced and the City would be required to compensate Host for remaining unamortized capital investment in an amount estimated by the City to be approximately $900,000. It has been assumed for purposes of the

financial projections that any required compensation related to unamortized capital investment would be made from internally-generated Airport Funds.

5.8.2 Automobile Parking Revenues

The City's public parking and employee parking lots at the Airport are managed by AMPCO System Parking ("AMPCO") pursuant to a one year agreement that includes two one-year options to extend. The current contract has been extended through October 31, 2011, and provides that AMPCO will be paid a management fee equal to 15.9% of net parking receipts. The City has issued a request for proposals for a new parking management agreement (with submissions due in June 2011).

In FY 2010, parking revenues of $21.9 million represented approximately 20.3 percent of General Airport Revenues.

The City sets rates for parking in the Airport's public parking lots and, in June 2011, changed the parking fee structure from $1.00 per 20 minutes with maximum daily charges of $15.00 in the long-term lot and $30.00 in the short-term lot to $2.00 per 30 minutes in the hourly lots with a maximum charge of $30.00 for the first 24 hours followed by $30.00 per day flat rates per 24 hour period or portions thereof. A $22.00 per day flat rate is charged in the daily parking lots, and a $15.00 per day flat rate is charged in the economy lot to reflect new parking lot configurations of hourly, daily, and economy parking.

Parking revenues are estimated to increase approximately 4.3 percent in FY 2011, and proposed FY 2012 budget parking revenues are estimated to increase 6.8 percent from FY 2011. As shown on Table V-4, parking revenues are projected to increase from $24.4 million in FY 2012 to $29.8 million in FY 2017, at a CAGR of 4.1 percent, based on projected growth in O&D enplaned passengers and 1.0 percent to 2.0 percent annual increases in parking revenues per O&D passenger based on expectations of higher revenues related to the new parking fee structure. No parking rate changes or increases subsequent to the June 2011 changes have been assumed for the Projection Period. Based on the projections, parking revenues will reach the actual FY 2008 parking revenue amount of approximately $29.4 million again in FY 2017.

5.8.3 Rental Car Revenues

The City opened the ConRAC in June 2010. Each of the five rental car companies that currently operate from the ConRAC (the Airport Rental Car Companies) executed a Rental Car Operations Agreement and Lease (the Rental Car Agreement) with the City in February 2008 for operations at the ConRAC. The Rental Car Agreements expire in May 2020, subject to two additional ten-year terms upon the mutual agreement of the parties.

The Rental Car Agreement requires the Airport Rental Car Companies to conduct all of their operations serving Airport customers at the ConRAC. The Rental Car Agreement also requires the Airport Rental Car Companies to pay certain concession fees, Facility Rent, and ground rent/utility amounts to the City which are included in General Airport Revenues. Rental car concession fees, Facility Rent, and ground rent/utility amounts are included in General Airport Revenues under the Trust Agreement and are reflected on Table V-4. In FY 2010, rental car concession revenues, Facility Rent, and ground rent/utility amounts (totaling $14.7 million) represented approximately 13.6 percent of General Airport Revenues.

Pursuant to the Rental Car Agreement, for a given Fiscal Year, the Airport Rental Car Companies pay the City a concession fee equal to the greater of a MAG or 10 percent of gross revenues. In addition, the Airport Rental Car Companies must pay Facility Rent equal to the sum of annual debt service associated with the ConRAC, plus coverage amounts and reserve fund requirements applicable to the debt service, minus CFC Revenues, plus operating costs for any transportation system operated by the City to transport passengers between the terminals and the ConRAC, the City's cost to demolish the previous temporary common use rental car facilities at the Airport amortized over the initial ten-year term of the Rental Car Agreement.

In addition, the Rental Car Agreement requires the Airport Rental Car Companies to collect and remit a CFC as described in detail in Chapter IV of this report. The Airport Rental Car Companies must itemize the CFC as a separate charge on its customers' rental agreements or invoices. CFC Revenues are not included in General Airport Revenues under the Trust Agreement, but can be designated by the City as Other Available Funds (as reflected on Table V-8). See Chapter IV of this report for more information regarding CFC Revenues.

Between FY 2003 and FY 2008, rental car concession fees increased at a CAGR of 5.9 percent. Rental car concession fees decreased substantially in FY 2009 and FY 2010 as a result of reduced passenger activity at the Airport. During this time, various terminal area roadway and terminal construction at the Airport may have also had a negative impact on rental car revenues. Rental car concession fees are estimated to increase 5.9 percent in FY 2011, and are expected to decrease slightly for the proposed FY 2012 budget.

Specific assumptions incorporated in the projections of rental car revenues paid to the City include:

- Rental Car concession fees per O&D deplaned passenger are budgeted at $2.92 in FY 2012 (a slight decrease), and are projected to increase 1.5 percent annually to $3.15 in FY 2017. Rental car concession fees per O&D deplaned passenger grew more than 9.2 percent each Fiscal Year between FY 2006 and FY 2009, decreased by 14.6 percent in FY 2010, and are estimated to increase 3.7 percent in FY 2011.
- Facility Rent is calculated as the sum of annual debt service associated with the ConRAC, plus any coverage and reserve fund requirements applicable to the debt service, minus CFC Revenues, plus operating expenses associated with transportation of passengers between the terminals and the ConRAC. For purposes of the financial projections, amortization related to the City's cost to demolish the previous temporary common use rental car facilities at the Airport has not been included in the calculation of Facility Rent.
- Rental car ground rent and utilities are assumed to increase 3.5 percent annually based on projected passenger growth and inflation.

As shown on Table V-4, rental car concession fees are projected to increase from $12.2 million in FY 2012 to $14.7 million in FY 2017, at a CAGR of 3.8 percent. Based on the projection, rental car concession revenues will almost reach the actual FY 2009 concession revenues of approximately $14.8 million in FY 2017.

Facility Rent is projected to remain relatively flat at approximately $7.4 million from FY 2012 to FY 2017. Rental car ground rent and utilities are projected to increase from $1.5 million in FY 2012 to $1.7 million in FY 2017.

When combined, rental car concession fees, Facility Rent, and ground rent/utility amounts are projected to increase from $21.0 million in FY 2012 to $23.8 million in FY 2017, at a CAGR of 2.5 percent.

5.8.4 Other Ground Transportation Revenues

Other Ground Transportation Revenues include taxi revenues and miscellaneous transportation fees paid to the City (including courtesy shuttle fees). In FY 2010, other ground transportation revenues represented approximately 2.1 percent of General Airport Revenues. Other Ground Transportation Revenues are projected to increase from $2.4 million in FY 2012 to $ 2.8 million in FY 2017, at a CAGR of 3.3 percent, assuming a 1.0 percent annual increase in Other Ground Transportation Revenues per O&D enplaned passenger.

5.8.5 Airfield Nonairline Revenues

Airfield nonairline revenues include inflight kitchen revenues, air carrier parking revenues, ground support concession revenues, ground support storage fees, pavement fees, and utility fees. In FY 2010, airfield nonairline revenues represented approximately 2.6 percent of General Airport Revenues. Airfield nonairline revenues are projected to increase from $3.0 million in FY 2012 to $3.4 million in FY 2017 representing a CAGR of 2.6 percent.

5.8.6 Other Nonairline Revenues

Other nonairline revenues include land rentals, petroleum program revenues (associated with aircraft fueling), interest income, general aviation hangar rentals, belly freight space rentals, rented buildings, and other general aviation and non-aviation revenues. In FY 2010 other nonairline revenues represented approximately 7.9 percent of General Airport Revenues.

Other nonairline revenues are projected to increase from $8.3 million in FY 2012 to $11.7 million in FY 2017, representing a CAGR of 12.3 percent. Excluding the assumed increase in Land Rental revenues in FY 2016, other nonairline revenues are projected to increase at a CAGR of 3.6 percent.

Total nonairline revenues reflected on Table V-4 are projected to increase from approximately $75.0 million in FY 2012 to approximately $88.1 million in FY 2017, at a CAGR of 3.3 percent.

Nonairline revenues reflected in Table V-4 for FY 2009 and FY 2010 are different than Other Operating Revenues reflected in Table 12 of Appendix A in the Official Statements for the Series 2011 Bonds because (1) certain revenue items reflected in Table 12 of Appendix A (including CFC Revenues) are not defined as General Airport Revenues under the Trust Agreement and are not incorporated in Table V-4 and (2) certain revenue items reflected on Table V-4 (including Facility Rent and interest income) that are defined as General Airport Revenues under the Trust Agreement are not incorporated in Table 12 of Appendix A because they are reflected as non-operating revenues in Appendix A.

5.9 Airline Revenues

Airline revenues generated by the Airport include terminal rentals and landing fees (payable by the airlines). The rate-setting formulas for these revenues are summarized below. For purposes of the financial projections in this report, it was assumed that all current Signatory Airlines serving the Airport would be Signatory Airlines under the Airline Agreement through the Projection Period.

5.9.1 Terminal Rental Rate

Table V-5 presents the calculation of Signatory Airline terminal rental rates for FY 2012 through FY 2017, under the terminal rate methodology contained in the Airline Agreement. The terminal rate methodology contained in the Airline Agreement is based on a compensatory rate-making approach, using terminal rentable space as the divisor (as described in detail below).

Pursuant to Section 9.03 of the Airline Agreement, the Terminal Revenue Requirement is calculated by computing the sum of the following budgetary items for each Fiscal Year:

(a) Debt service allocable to Terminal capital projects funded from Bonds or Subordinated Indebtedness net of any PFC Revenues used to pay such debt service (note that Debt Service is defined in the Airline Agreement as net of such PFC Revenues, and is defined in the Trust Agreement before netting out such PFC Revenues); plus

(b) the Coverage Amount applicable to the debt service amount calculated pursuant to subsection (a) above (i.e., Coverage Amount calculated on debt service net of applicable PFC Revenues); plus

(c) the annual Operating Expenses allocable to the Terminal; plus

(d) an amount equal to (i) the total deposits needed to replenish the Bond Reserve Fund to required levels times (ii) a fraction, the numerator of which is the total amount of Net Bond Proceeds allocable to the Terminal and the denominator of which is the total amount of Net Bond Proceeds; plus

(e) the share of annual costs for renewal and replacement allocable to the Terminal; less

(f) any grant amounts used to pay debt service; less

(g) the Coverage Amount calculated pursuant to subsection (b) above for the immediately preceding Fiscal Year.

The Terminal Revenue Requirement is then divided by the total amount of Rentable Terminal Space. The resulting rate is then multiplied by the total square feet of Airline Premises at the Airport, yielding the Airline Terminal Revenue Requirement. In accordance with Section 9.10 of the Airline Agreement regarding revenue sharing (as discussed in detail in Section 5.3.3 of this report), the City shall credit the airline share of any Net Remaining Revenues (defined earlier in Section 5.3.3) against the Airline Terminal Revenue Requirement (subject to certain adjustments), yielding the Net Airline Terminal Revenue Requirement.

The Net Airline Terminal Revenue Requirement is projected to increase from $34.9 million in FY 2012 to $45.6 million in FY 2017. The average airline terminal rental rate is projected to increase from $140.13 in FY 2012 to $183.02 in FY 2017. The average airline terminal rental rate reflected for FY 2012 is lower than the City's proposed FY 2012 budget rate of $153.20 because debt service for Airport Revenue Bonds was adjusted downward since the time the City's FY 2012 Budget was prepared.

5.9.2 Landing Fee Rate

Table V-6 presents the calculation of landing fee rates budgeted for FY 2012 and projected for FY 2013 through FY 2017, under the landing fee rate methodology contained in the Airline Agreement.

Table V-5
Average Terminal Rental Rate Calculation (Fiscal Years Ending June 30)

		Projected					
		2012	2013	2014	2015	2016	2017
Terminal Revenue Requirement							
Maintenance and Operation Expenses		$34,401,000	$34,328,000	$34,906,000	$35,500,000	$36,108,000	$36,829,000
Annual Debt Service [1/]		29,056,000	26,783,000	33,190,000	32,324,000	30,980,000	30,837,000
Annual Debt Service Coverage Amount (25%)		7,264,000	6,696,000	8,298,000	8,081,000	7,745,000	7,709,000
Less: Annual Debt Service Coverage Amount (from Prior Fiscal Year)		(3,615,000)	(7,264,000)	(6,696,000)	(8,298,000)	(8,081,000)	(7,745,000)
Subordinated Commercial Paper		1,291,000	1,376,000	1,462,000	1,462,000	1,282,000	1,282,000
Subordinated Commercial Paper Coverage Amount (20%)		258,000	275,000	292,000	292,000	256,000	256,000
Less: Subordinated Commercial Paper Coverage Amount (from Prior Fiscal Year)		(668,000)	(258,000)	(275,000)	(292,000)	(292,000)	(256,000)
Less: Unspent 2004 Bond Proceeds		(4,452,000)	(717,000)	0	0	0	0
Renewal and Replacement Expenditures		1,645,000	1,645,000	1,645,000	1,645,000	1,645,000	1,645,000
Terminal Revenue Requirement	[A]	$65,180,000	$62,864,000	$72,822,000	$70,714,000	$69,643,000	$70,557,000
Total Rentable Space (sq.ft.)	[B]	350,827	350,827	350,827	350,827	350,827	350,827
Average cost per sq. ft.	[C = A / B]	$185.79	$179.19	$207.57	$201.56	$198.51	$201.12
Airline rented space	[D]	249,245	249,245	249,245	249,245	249,245	249,245
Airline Terminal Revenue Requirement	[E = C * D]	$46,307,000	$44,662,000	$51,736,000	$50,239,000	$49,478,000	$50,127,000
Less: Adjustment to Airline Requirement	[F]	0	0	(700,000)	(2,300,000)	(1,400,000)	0
Less: True-up Credit for FY 2010	[G]	(5,286,000)	0	0	0	0	0
Less: Airlines' share of Net Remaining Revenues from prior Fiscal Year [2/]	[H]	(6,095,000)	(5,172,000)	(8,885,000)	(4,556,000)	(3,650,000)	(4,510,000)
Net Airline Terminal Revenue Requirement	[I = E + F + G + H]	$34,926,000	$39,490,000	$42,151,000	$43,383,000	$44,428,000	$45,617,000
Airline rented space	=[D]	249,245	249,245	249,245	249,245	249,245	249,245
Average terminal rental rate [3/]	[J = I / D]	$140.13	$158.44	$169.11	$174.06	$178.25	$183.02

Notes:
1/ Amounts shown are net of Available PFC Revenues used to pay Debt Service. See Table V-2.
2/ See Table V-8.
3/ The City's FY 2012 Budget reflects an average terminal rental rate of $153.20. The rate calculated in this table is lower because debt service for Airport Revenue Bonds has been adjusted downward since the time the City's FY 2012 Budget was prepared.

Sources: City of San José; Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Table V-6

Calculation of Required Landing Fees (Fiscal Years Ending June 30)

		Proposed Budget	Projected				
		2012	2013	2014	2015	2016	2017
Airfield Cost							
Maintenance and Operation Expenses		$12,917,000	$11,857,000	$12,030,000	$12,228,000	$12,434,000	$12,681,000
Annual Debt Service 1/		1,684,000	1,142,000	1,215,000	1,210,000	1,217,000	1,222,000
Annual Debt Service Coverage Amount (25%)		421,000	286,000	304,000	303,000	304,000	306,000
Subordinated Commercial Paper		292,000	312,000	332,000	332,000	336,000	336,000
Subordinated Commercial Paper Coverage Amount (20%)		58,000	62,000	66,000	66,000	67,000	67,000
Replenish/(Deposit From) Rate Stabilization Fund		100,000	(100,000)	0	0	0	0
Renewal and Replacement Expenditures		1,953,000	1,953,000	1,953,000	1,953,000	1,953,000	1,953,000
Total Airfield costs	[A]	$17,425,000	$15,512,000	$15,900,000	$16,092,000	$16,311,000	$16,565,000
Airfield Credits:							
Other Airfield Revenue		$2,984,000	$3,061,000	$3,141,000	$3,223,000	$3,309,000	$3,398,000
Less: Unspent 2004 Bond Proceeds		962,000	431,000	0	0	0	0
Transfer from Grant Fund		500,000	0	0	0	0	0
Debt Service Coverage Amount (from prior Fiscal Year)		900,000	421,000	286,000	304,000	303,000	304,000
Subordinated Commercial Paper Coverage Amount (from prior Fiscal Year)		56,000	58,000	62,000	66,000	66,000	67,000
Total Airfield credits	[B]	$5,402,000	$3,971,000	$3,489,000	$3,593,000	$3,678,000	$3,769,000
Airfield Revenue Requirement	[C = A - B]	$12,023,000	$11,541,000	$12,411,000	$12,499,000	$12,633,000	$12,796,000
		Budgeted					
Total landed weight	[D]	5,654,396	5,753,817	5,838,355	5,923,126	6,008,132	6,103,716
Landing Fee Rate per 1,000 lbs MGLW 2/	[E = C / D]	$2.14	$2.01	$2.13	$2.11	$2.10	$2.10
Estimated Landing Fees	[C = D * E]	$12,074,000	$11,541,000	$12,411,000	$12,499,000	$12,633,000	$12,796,000

Notes:
1/ Amounts shown are net of Available PFC Revenues used to pay Debt Service. See Table V-2.
2/ The City's budgeted FY 2012 Landing Fee Rate of $2.14 is reflected for FY 2012. The calculated rate for FY 2012 based on requirements reflected on this page would be approximtaely $0.09 (nine cents) lower than the budgeted rate as a result of adjustments to Airfield credits since the time the budget was prepared.

Sources: City of San Josè; Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

The landing fee rate methodology contained in the Airline Agreement is based on a cost center residual rate-making approach (as described in detail below).

Pursuant to Section 9.02 of the Airline Agreement, the Airfield Revenue Requirement is calculated by computing the sum of the following budgetary items for each Fiscal Year:

(a) Debt service allocable to Airfield capital projects funded from Bonds or Subordinated Indebtedness net of any PFC Revenues used to pay such Debt Service (note that Debt Service is defined in the Airline Agreement as net of such PFC Revenues, and is defined in the Trust Agreement before netting out such PFC Revenues); *plus*

(b) the Coverage Amount applicable to the debt service amount calculated pursuant to subsection (a) above (i.e., Coverage Amount calculated on debt service net of applicable PFC Revenues); *plus*

(c) the annual Operating Expenses allocable to the Airfield; *plus*

(d) an amount equal to (i) the total deposits needed to replenish the Bond Reserve Fund to required levels times (ii) a fraction, the numerator of which is the total amount of Net Bond Proceeds allocable to the Airfield and the denominator of which is the total amount of Net Bond Proceeds; *plus*

(e) the share of annual costs for renewal and replacement allocable to the Airfield; *less*

(f) Revenues (other than Landing Fees charged to Air Transportation Companies) that are accrued by City for the use of the Airfield, including Revenue accrued from Landing Fee premiums paid by Non-Signatory Airlines, and Revenue accrued from charges paid for parking aircraft at Common Use Gates; *less*

(g) any grant amounts used to pay Debt Service; less

(h) the Coverage Amount calculated pursuant to subsection (b) above for the immediately preceding Fiscal Year.

The Landing Fee will be calculated by dividing the Airfield Revenue Requirement by the projected Aggregate Maximum Gross Landed Weight for all aircraft carrying passengers or cargo in commercial service at the Airport that Fiscal Year. The Landing Fee will be expressed in dollars and cents per one thousand pounds in landed weight.

Landing Fee revenues are projected to decrease from $12.1 million in FY 2012 to $11.5 million in FY 2013, and then increase to $12.8 million in FY 2017. The Landing Fee Rate is projected to decrease from $2.14 in FY 2012 to $2.10 in FY 2017.

5.9.3 Nonsignatory Airline Rates

Air carriers that have executed a Non-Signatory Agreement will pay a 25 percent premium over landing fees and terminal rental rates paid by Signatory Carriers. Airlines that have not executed an agreement with the City and that are not in month-to-month holdover under an existing agreement with the City will pay a 30 percent premium over landing fees and terminal rental rates paid by Signatory Airlines. For purposes of the financial projections in this report, it was assumed that all airlines serving the Airport would be Signatory Airlines for the Projection Period.

5.9.4 Passenger Airline Cost Per Enplaned Passenger

Table V-7 presents passenger airline cost per enplaned passenger for actual FY 2010, estimated FY 2011, and projected FY 2012 through FY 2017. Passenger airline cost per enplaned passenger was $11.18 in FY 2010 and is estimated to decrease slightly to $11.11 in FY 2011.

Based on the estimates and calculations described in the previous sections of this chapter, passenger airline cost per enplaned passenger (in future dollars) is estimated to increase from $10.82 in FY 2012 to $11.95 in FY 2017. The passenger airline cost per enplaned passenger reflected for FY 2012 is lower than the City's proposed FY 2012 Budget amount of $11.67 because debt service for Airport Revenue Bonds was adjusted downward since the time the City's FY 2012 Budget was prepared.

5.10 Application of General Airport Revenues and Other Available Funds

Incorporating General Airport Revenues, Maintenance and Operation Expenses, Annual Debt Service estimates, and required fund deposits developed and presented earlier in this report, **Table V-8** presents the application of General Airport Revenues and Other Available Funds for FY 2011 (estimated), and FY 2012 through FY 2017 (projected).

5.11 Annual Debt Service Coverage

Estimated Annual Debt Service coverage ratios are presented in **Table V-9**. As stated in the Rate Covenant, Net General Airport Revenues plus Other Available Funds are required to be at least 125 percent of Annual Debt Service with respect to all Outstanding Bonds for such Fiscal Year. As shown, Annual Debt Service coverage exceeds the requirement in each year of the Projection Period.

The calculation of overall debt service coverage ratios (including Airport Revenue Bonds and Subordinated Commercial Paper) is also included on Table V-9.

Table V-7

Passenger Airline Cost per Enplaned Passenger (Fiscal Years Ending June 30)

		Actual	Estimated	Projected					
		2010	2011	2012	2013	2014	2015	2016	2017
Airline payments									
Terminal rentals		$33,458,906	$34,510,000	$34,926,000	$39,490,000	$42,151,000	$43,383,000	$44,428,000	$45,617,000
Landing Fees		13,190,345	12,869,000	12,074,000	11,541,000	12,411,000	12,499,000	12,633,000	12,796,000
Airline Payments		$46,649,251	$47,379,000	$47,000,000	$51,031,000	$54,562,000	$55,882,000	$57,061,000	$58,413,000
Less cargo landing fees		(747,801)	(766,000)	(656,000)	(1,044,000)	(1,117,000)	(1,120,000)	(1,127,000)	(1,135,000)
Passenger airline payments	[A]	$45,901,450	$46,613,000	$46,344,000	$49,987,000	$53,445,000	$54,762,000	$55,934,000	$57,278,000
Enplaned passengers	[B]	4,107,394	4,195,000	4,284,200	4,373,500	4,468,000	4,572,700	4,678,500	4,794,700
Annual % change		-6.6%	2.1%	2.1%	2.1%	2.2%	2.3%	2.3%	2.5%
Passenger airline payments per enplaned passenger [1/]	[C = A / B]	$11.18	$11.11	$10.82	$11.43	$11.96	$11.98	$11.96	$11.95
In 2011 dollars (assuming 3.0% inflation)			$11.11	$10.50	$10.77	$10.95	$10.64	$10.31	$10.00

Note:
1/ The City's FY 2012 Budget reflects passenger airline payments per enplaned passenger of $11.67. The amount reflected for FY 2012 on this table is lower because debt service for Airport Revenue Bonds has been adjusted downward since the time the City's FY 2012 Budget was prepared.

Sources: City of San José; Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Table V-8
Summary of Airport Revenues, Expenses, Other Costs (Fiscal Years Ending June 30)

		Estimated	Projected					
		2011	2012	2013	2014	2015	2016	2017
GENERAL AIRPORT REVENUES AND OTHER AVAILABLE FUNDS								
General Airport Revenues								
Airline Revenues	[A]	$47,379,000	$47,000,000	$51,031,000	$54,562,000	$55,882,000	$57,061,000	$58,413,000
Nonairline Revenues	[B]	76,986,000	75,016,000	77,119,000	79,159,000	81,269,000	85,426,000	88,061,000
General Airport Revenues	[C = A + B]	$124,365,000	$122,016,000	$128,150,000	$133,721,000	$137,151,000	$142,487,000	$146,474,000
Other Available Funds								
Contribution from Airport Funds		$7,255,000	$6,094,500	$5,171,000	$8,884,000	$4,556,000	$3,650,000	$4,510,000
Airline revenue sharing from prior Fiscal Year [1/]		7,255,000	6,094,500	5,172,000	8,885,000	4,556,000	3,650,000	4,510,000
True-up credit from prior Fiscal Year		10,571,000	10,571,000	0	0	0	0	0
Reserve for Future Deficit		10,406,000	0	0	0	0	0	0
Unspent 2004 Bond Proceeds [2/]		0	5,499,000	1,148,000	0	0	0	0
Transfer from Grant Fund [3/]		2,183,000	500,000	0	0	0	0	0
Rolling Debt Service Coverage Amount from prior Fiscal Year [4/]		6,695,000	8,331,000	14,469,000	12,422,000	16,019,000	16,184,000	16,313,000
Transfer from General Fund		213,000	0	0	0	0	0	0
Rolling Coverage Deposit for Series 2011B (from bond proceeds)		0	3,924,000	0	0	0	0	0
Rolling Subordinated CP Coverage Amount from prior Fiscal Year		71,000	1,060,000	777,000	828,000	974,000	974,000	1,018,000
Commercial Paper Used for Airport West Property Lease Payment		0	0	0	0	0	0	0
CFC Revenues used to pay Debt Service and ConRAC Transportation Expenses		6,009,000	10,838,000	11,916,000	13,695,000	15,573,000	15,934,000	16,330,000
Transfer from Rate Stabilization Fund [5/]		1,200,000	0	100,000	0	0	0	0
Other Available Funds	[D]	$51,858,000	$52,912,000	$38,753,000	$44,714,000	$41,678,000	$40,392,000	$42,681,000
General Airport Revenues and Other Available Funds	[E = C + D]	$176,223,000	$174,928,000	$166,903,000	$178,435,000	$178,829,000	$182,879,000	$189,155,000
M&O EXPENSES, DEBT SERVICE, AND OTHER PAYMENTS								
Maintenance and Operation Expenses Including LOC Fees	[F]	$90,314,000	$79,022,000	$78,056,000	$79,383,000	$80,767,000	$82,185,000	$83,826,000
Annual Debt Service and Coverage								
Annual Debt Service [6/]		$33,325,000	$56,944,000	$49,687,000	$64,077,000	$64,734,000	$65,252,000	$66,529,000
Annual Debt Service coverage amount, current Fiscal Year (excluding Series 2011B)		8,331,000	10,545,000	8,380,000	11,622,000	11,382,000	11,366,000	11,575,000
Annual Debt Service coverage amount related to ConRAC (Series 2011B)		0	3,924,000	4,042,000	4,397,000	4,802,000	4,947,000	5,058,000
Annual Debt Service and Coverage	[G]	$41,656,000	$71,413,000	$62,109,000	$80,096,000	$80,918,000	$81,565,000	$83,162,000
Other Payments								
Subordinated Commercial Paper -- RAC Garage		$9,297,000	$388,000	$0	$0	$0	$0	$0
Subordinated Commercial Paper -- Other		5,298,000	3,885,000	4,141,000	4,870,000	4,870,000	5,091,000	5,091,000
Annual coverage amount for Other CP (excludes RAC CP), current Fiscal Year		1,060,000	777,000	828,000	974,000	974,000	1,018,000	1,018,000
Deposit to Rate Stabilization Fund [7/]		0	100,000	0	0	0	0	0
Transfer to Capital Fund		0	0	0	0	0	0	0
Renewal and Replacement Expenditures		4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Contingency reserve		839,000	4,000,000	0	0	0	0	0
Reserve for Discretionary Expenditures		1,000,000	1,000,000	0	0	0	0	0
True-up credit from prior fiscal year		10,571,000	0	0	0	0		
Other Payments	[H]	$32,065,000	$14,150,000	$8,969,000	$9,844,000	$9,844,000	$10,109,000	$10,109,000
Total M&O Expenses, Debt Service, and Other Payments	[I = F + G + H]	$164,034,000	$164,585,000	$149,134,000	$169,323,000	$171,529,000	$173,859,000	$177,097,000
NET REMAINING REVENUES	[J = E - I]	$12,189,000	$10,343,000	$17,769,000	$9,112,000	$7,300,000	$9,020,000	$12,058,000
Airline share	[= J x 50%]	$6,094,500	$5,172,000	$8,885,000	$4,556,000	$3,650,000	$4,510,000	$6,029,000
City share	[= J x 50%]	6,094,500	5,171,000	8,884,000	4,556,000	3,650,000	4,510,000	6,029,000
	[J]	$12,189,000	$10,343,000	$17,769,000	$9,112,000	$7,300,000	$9,020,000	$12,058,000

Notes:
1/ Pursuant to the Airline Agreement, 50% of Net Remaining Revenues are to be credited to the Airline Terminal Requirement--subject to certain adjustments.
2/ Assumed to be used to pay operating expenses related to projects funded with Series 2004 Bond proceeds and to pay certain Series 2004 debt service.
3/ Grant amounts used to pay Series 2001 Debt Service.
4/ Debt Service Coverage from prior Fiscal Year.
5/ Transfer from the Rate Stabilization Fund to the General Airport Revenue Fund, subject to availability, to help achieve targeted airline cost per enplaned passenger levels--pursuant to Section 9.11 of the Airline Agreement.
6/ See Table V-2. Annual Debt Service is net of Available PFC Revenues.
7/ Deposit to Rate Stabilization fund pursuant Section 9.11 of the Airline Agreement.

Sources: City of San José, Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

Table V-9
Annual Debt Service Coverage (Fiscal Years Ending June 30)

	Reference		Estimated 2011	Projected 2012	2013	2014	2015	2016	2017
Debt Service Coverage -- Airport Revenue Bonds									
Net General Airport Revenues									
General Airport Revenues	Table V-8	[A]	$124,365,000	$122,016,000	$128,150,000	$133,721,000	$137,151,000	$142,487,000	$146,474,000
Less: Maintenance & Operation Expenses Excluding LOC Fees	Table V-3	[B]	(84,600,000)	(76,922,000)	(75,914,000)	(77,198,000)	(78,538,000)	(79,911,000)	(81,507,000)
Net General Airport Revenues		[C = A + B]	$39,765,000	$45,094,000	$52,236,000	$56,523,000	$58,613,000	$62,576,000	$64,967,000
Other Available Funds	Table V-8	[D]	51,858,000	52,912,000	38,753,000	44,714,000	41,678,000	40,392,000	42,681,000
Net General Airport Revenues plus Other Available Funds		[E = C + D]	$91,623,000	$98,006,000	$90,989,000	$101,237,000	$100,291,000	$102,968,000	$107,648,000
Annual Debt Service -- Airport Revenue Bonds									
Debt Service -- Airport Revenue Bonds	Table V-2		$54,712,000	$78,674,000	$79,755,000	$88,559,000	$89,980,000	$90,858,000	$92,034,000
Less: Available PFC Revenues	Table V-2		(21,387,000)	(21,730,000)	(30,068,000)	(24,482,000)	(25,246,000)	(25,606,000)	(25,505,000)
Equals: Annual Debt Service -- Airport Revenue Bonds	Table V-2	[F]	$33,325,000	$56,944,000	$49,687,000	$64,077,000	$64,734,000	$65,252,000	$66,529,000
Annual Debt Service Coverage -- Airport Revenue Bonds		**[G = E / F]**	**2.75**	**1.72**	**1.83**	**1.58**	**1.55**	**1.58**	**1.62**
Required coverage			1.25	1.25	1.25	1.25	1.25	1.25	1.25
Debt Service Coverage -- Overall									
Net General Airport Revenues									
Net General Airport Revenues plus Other Available Funds	Table V-8	=[E] above	$91,623,000	$98,006,000	$90,989,000	$101,237,000	$100,291,000	$102,968,000	$107,648,000
Annual Debt Service and Subordinated Commercial Paper									
Annual Debt Service -- Airport Revenue Bonds	Table V-2	= [F]	$33,325,000	$56,944,000	$49,687,000	$64,077,000	$64,734,000	$65,252,000	$66,529,000
Plus: Subordinated Commercial Paper	Table V-2	[H]	14,595,000	4,273,000	4,141,000	4,870,000	4,870,000	5,091,000	5,091,000
Plus: LOC Fees	Table V-3	[I]	5,714,000	2,100,000	2,142,000	2,185,000	2,229,000	2,274,000	2,319,000
Annual Debt Service, Subordinated Commercial Paper, and LOC Fees	Table V-2	[J = F+H+I]	$53,634,000	$63,317,000	$55,970,000	$71,132,000	$71,833,000	$72,617,000	$73,939,000
Coverage for Annual Debt Service and Subordinated Commercial Paper		[K = E / J]	1.71	1.55	1.63	1.42	1.40	1.42	1.46

Sources: City of San José, Ricondo & Associates, Inc., May 2011.
Prepared by: Ricondo & Associates, Inc., May 2011.

APPENDIX C

THE CITY OF SAN JOSE PENSION PLANS

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Update to Appendix C

This section includes certain updates to the information in this Appendix C that was not available at the time of publication of the Preliminary Official Statement, dated November 16, 2011. The information in the first paragraph of this section was previously included in the Supplement to the Preliminary Official Statement dated November 29, 2011. Unless otherwise defined in this section, capitalized terms used in this section are defined below in this APPENDIX C. Discussed below in "—Pension Reform Initiatives" is the potential for the City's declaration of a fiscal emergency as well as negotiations with the City's bargaining groups regarding a proposed City Charter amendment to reform pension benefits of retirees, current employees and new employees. On November 22, 2011, the City Manager released two reports for City Council consideration on December 6, 2011: the "*City of San Jose Fiscal & Service Level Emergency Report"* ("Fiscal Emergency Report") recommending that the City Council declare a fiscal and service level emergency and a separate report ("Ballot Measure Report") recommending that the City Council call a special election on March 6, 2012 for voter consideration of a City Charter amendment related to pension reform. The Fiscal Emergency Report's primary focus is on the City's General Fund, which supports the City's municipal services, such as police, fire, parks and libraries and the impact of escalating retirement costs on the City's ability to continue to provide the same level of these services. The proposed City Charter amendment as recommended in the City Manager's Ballot Measure Report differs from the October 27, 2011 draft described below in "—Pension Reform Initiatives—-Summer/Fall 2011 Negotiations Related to City Charter Amendments and Changes to Pension Plans and Other Employee Benefits." The revisions to the proposed City Charter amendment in the City Manager's Ballot Measure Report included, among others, increases to the benefit levels from those proposed in the October 27, 2011 draft.

On December 6, 2011, the City Council voted to defer consideration of the declaration of a fiscal emergency to an undetermined date. The City Manager had recommended that the City Council defer action on the fiscal emergency declaration in light of the preliminary June 30, 2011 Actuarial Valuation for the Police and Fire Plan ("Preliminary June 30, 2011 Police and Fire Valuation") that the Police and Fire Board had approved at its meeting on December 1, 2011. It is anticipated that based on the Preliminary June 30, 2011 Police and Fire Valuation that in fiscal year 2012-13, the City's contribution for retirement benefits will be significantly reduced from the amounts that had been previously projected by Cheiron, the actuary for the Police and Fire Plan. See discussion below in "—Summary of Pension Plans, Historical and Projected Contributions." City staff has not yet completed its analysis of the Preliminary June 30, 2011 Police and Fire Valuation; however, it appears that the reason for the significantly reduced contribution for retirement is the reduced payroll of the Police and Fire Departments as a result of layoffs and the 10% reduction of total compensation in fiscal year 2011-12. See "APPENDIX A—Other Matters —Labor Relations." It is anticipated that the Police and Fire Board will consider approving the June 30, 2011 Police and Fire Valuation at its meeting in January, 2012.

Also, on December 6, 2011, the City Council voted to place a measure to amend the City Charter on the ballot for voter approval in June, 2012, instead of calling a special election in March, 2012. The proposed City Charter amendment differs from the one proposed by the City Manager in the Ballot Measure Report. The language of the proposed City Charter amendment, as approved by the City Council, was revised in a number of respects to reflect that the City Council had not taken action on the declaration of the fiscal emergency. The most significant change was to the provision related to the suspension of the current automatic 3% adjustment to the retirement allowance paid by both Pension Plans. This provision now specifies that the suspension will occur for a specified period of 5 years only if there is a declaration of fiscal emergency by the City Council and the City Council makes a finding that it is necessary to suspend the adjustment.

The City Council also voted to defer forwarding the proposed City Charter amendment to the Santa Clara County Registrar of Voters for placement on the June, 2012 ballot. This deferral is to allow time for the City to engage in mediation on the terms of the proposed City Charter amendment with the nine bargaining groups that represent members in the Federated Plan and the two bargaining groups that represent members in the Police and Fire Plan. However, in order to engage in mediation, the bargaining groups must agree to waive all other impasse procedures.

The City cannot predict whether a fiscal emergency will be declared or whether any of the proposed pension reform measures will be implemented through negotiations or by voter approval of a City Charter amendment. As discussed below in "—Pension Reform Initiatives—Summer/Fall 2011 Negotiations Related to City Charter Amendments and Changes to Pension Plans and Other Employee Benefits—Fiscal Emergency/Legal Risks", there are a number of legal issues raised by the pension reform measures that could impede or prevent their implementation. Prior to the City Council's approval on December 6, 2011, to place the proposed City Charter amendment on the June, 2012 ballot, one bargaining group had filed a unfair labor practice with the California Public Employment Relations Board ("PERB") seeking to enjoin the City from placing the then proposed version of the City Charter amendment on the March, 2012 ballot and from implementing the last, best final offer that was approved by the City Council in May, 2011 and requesting that PERB order the City to make whole all employees that had been adversely impacted by the implementation of the last, best final offer. See "APPENDIX A—Other Matters —Labor Relations", for the discussion of the City Council's May, 2011 implementation of its last, best, final offer made to four bargaining groups. The City cannot predict the outcome of this unfair labor charge or whether other bargaining groups will also file unfair labor charges with PERB or pursue legal action against the City to enjoin the implementation of the proposed City Charter amendment.

In the section below entitled: "—Recent Tax Filings by Boards of Administration", there is a reference to a private letter ruling request filed on October 17, 2011 with the IRS related to the Internal Revenue Code 115 trust that was established by the City Council as an alternative medical and dental benefits funding vehicle for the Federated Healthcare Plan. The IRS has requested that a portion of the private letter ruling request be withdrawn. The Federated Board will consider the IRS's request at its meeting on December 15, 2011. City staff are evaluating how to advise the Federated Board on responding to the IRS's request and the implication of the IRS's request on the Internal Revenue Code 115 trust. See "—Potential Tax Limitation on Phase-In Funding of ARC for Both Healthcare Plans."

Introduction to Appendix C

This Appendix C is the part of the Official Statement that provides investors with information concerning the Pension Plans (as defined below) for the City of San Jose (the "City"). Investors are advised to read the entire Official Statement, including this Appendix C, to obtain information essential to making an informed investment decision.

When used in this Appendix C and in any continuing disclosure made by the City, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," and "intend," and similar expressions identify "forward looking statements." Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is also subject to such risks and uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. This Appendix C speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice.

This Appendix C summarizes portions of the City's Basic Financial Statements for the Fiscal Year Ended June 30, 2010, the most recent Actuarial Valuation Reports for the City's Federated City Employees Retirement Plan and the City's Police and Fire Department Retirement Plan for the year ended June 30, 2010, as well as the Federated City Employees' Retirement System Consolidated Annual Financial Report ("Federated CAFR") for the year ended June 30, 2010 and the CAFR for the Police and Fire Department Retirement Plan ("Police and Fire CAFR") for the year ended June 30, 2010. In addition, other documents relevant to the Pension Plans are referenced or discussed in this Appendix C including the experience studies and investment policies for both Pension Plans

Investors can obtain copies of the documents for each Pension Plan by writing to the following addresses:

Federated City Employees' Retirement System	Police and Fire Department Retirement Plan
Board of Administration Federated City Employees' Retirement System 1737 North First Street, Suite 580 San José, CA 95112	Board of Administration Police and Fire Department Retirement Plan 1737 North First Street, Suite 580 San José, CA 95112
	General Contact
	Debt Management City of San José - Finance 200 East Santa Clara Street San José, CA 95113-1905

Investors may also contact the Debt Management division of the City's Finance Department for a copy of any other document summarized in Appendix C.

General

All regular full time employees of the City and certain part-time employees participate in one of two public employee retirement plans established pursuant to the City Charter: the Federated City Employees' Retirement System (the "Federated Plan") and the Police and Fire Department Retirement Plan (the "Police and Fire Plan" and together with the Federated Plan, the "Pension Plans"). Each of the Pension Plans consists of a Retirement Plan that is structured as tax qualified defined benefit plan in which retirement benefits are based upon salary and length of service and a Retiree Health and Dental Plan that pays all or a portion of health and dental insurance premiums for qualified retirees and their survivors and dependents.

Each Pension Plan is administered by its own Board of Administration (each a "Board"), and day to day operations are carried out by the City's Director of the Retirement Services Department and by the Retirement Services Department staff. Participation by covered employees in the Pension Plans is mandatory; employees contribute a percentage of their salaries to the applicable Pension Plan, and the City provides funding either through contributions equal to a percentage of its full time employee covered payroll or on a lump sum basis. The total contribution rates for the City and employees are based upon actuarial calculations that take into consideration a number of economic and demographic assumptions, including assumed investment earnings on the valuation assets of the Pension Plans that are used to pay benefits. See "Funding Status and Contribution Rates —Federated Plan Contribution Rates; —Police and Fire Contribution Rates," below.

The information presented hereafter regarding retirement benefits and postretirement healthcare and dental benefits for the Pension Plans excludes assets, liabilities and costs associated with the Supplemental Retiree Benefit Reserves (the "SRBRs") for each Pension Plan which are separately described below.

The following terms will be used in this Appendix C:

Actuarial Accrued Liability (the "AAL"): That portion of the present value of future benefits not provided for by future normal costs. The AAL can be thought of as the value of benefits already earned (under the Pension Plan's funding method) in exchange for employees' past service. The AAL is based on a series of economic and demographic assumptions applied to the Pension Plan's membership as of each valuation date.

Actuarial Value of Assets: In order to reduce the impact of market fluctuations on City contribution rates, market returns above/below the assumed net rates of return are recognized over a five-year period, beginning with the year the returns are first measured. The actuarial value of assets is determined by the Pension Plan's respective actuary and incorporates a smoothing methodology.

Annual Required Contribution (the "ARC"): The City's actuarially determined contributions to the Pension Plans have two components, the "normal cost" and the amortized amount of the unfunded actuarial accrued liability (the "UAAL"). The amortization of the UAAL represents the current year's portion of the unfunded actuarial accrued liability costs (i.e., the UAAL) attributable to past years' employment that is charged to the City.

Market Value of Assets: The market value of assets is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. The market value of assets is adjusted for accruals at the end of each fiscal year and is reported in the Comprehensive Annual Financial Report (the "CAFR") of each Pension Plan.

Normal Cost: Normal Cost is the portion of the contribution that is expected to cover the present value of benefits that are attributable to current service by covered employees under the funding method adopted by each Board. The City and the covered employees each contribute a portion of the Normal Cost. Currently, the Pension Plans use the entry age normal cost method to calculate the annual Normal Cost rates of contribution.

Smoothing: When measuring assets for determining the UAAL, many pension plans, including each of the Pension Plans, "smooth" gains and losses to reduce the volatility of contribution rates. Specific smoothing methodologies for the respective plans are discussed below in "— Actuarial Valuations— Smoothing Methodology."

Unfunded Actuarial Accrued Liability: The UAAL is the excess of the AAL over the actuarial value of assets. The UAAL typically results from investment losses and gains and changes in actuarial assumptions benefit improvements and other experiences that differ from those anticipated by the actuarial assumptions. The purpose of the UAAL calculation is to determine, as of the date of the calculation, the sufficiency of the assets in the Pension Plan for funding, the accrued costs attributable to currently active, vested terminated (i.e., the deferred members) and retired employees. The funding sufficiency is typically expressed as the ratio of the actuarial valuation of assets to the actuarial accrued liabilities. If the actuarially calculated funding level of a plan is less than 100%, the plan has a UAAL.

Recent Governance Changes to Boards of Administration

In August 2010, the City Council adopted ordinances to implement governance changes for the Board for each Pension Plan to provide for the following: (1) the majority of each Board be members of the public; (2) minimum qualifications for the public members, including education and expertise related to pension plan administration; (3) geographical requirements for the public members; and (4) revising the process for removal of Board members and defining the causes for removal, including provisions for removal due to actual, potential or the appearance of a conflict of interest. The membership changes to both Boards eliminated the seats designated for City Council members, and the Civil Service Commission member seat and the City's Administration seat on the Board of the Police and Fire Plan ("Police and Fire Board").

The governance changes to the Police and Fire Board increased the size of the Police and Fire Board from seven to nine members and changed the composition to: (1) five public members; (2) one current Fire Department employee and one current Police Department employee who are members of the Police and Fire Plan; and (3) one retired Fire Department employee and one retired Police Department employee who are members of the Police and Fire Plan. The governance changes to the Board of the Federated Plan (the "Federated Board") maintained the Federated Board's size of seven members but changed the composition to: (1) four public members; (2) two current City employees who work in different City departments and who are members of the Federated Plan; and (3) one retired employee who is a member of the Federated Plan.

The appointments to both the Federated Board and the Police and Fire Board have been made consistent with these governance changes.

Recent Tax Filings by Boards of Administration

On January 28, 2011, applications were filed with the Internal Revenue Service (the "IRS") pursuant to the direction of both Boards, for a tax compliance statement and favorable determination letter under the streamlined procedures of the Voluntary Correction Program ("VCP") pursuant to Revenue Procedure 2008-50. Tax qualified governmental plans are not required to file these applications, but receipt of a tax compliance statement provides assurance that the plan submitted for review to the IRS is tax compliant as of the date of the review. In addition, receipt of a favorable determination letter under the VCP provides assurance that the IRS will not pursue sanctions under Internal Revenue Code Section 401(a), 403(b) or 408(p) on account of any plan failures identified in the VCP filing. The Pension Plans' VCP filings sought relief for failure to timely adopt certain Plan amendments, including requirements related to compliance with IRC Section 401(h) and U.S. Treasury Regulation 1.401-14, which relate to the provisions of medical and dental benefits to retirees and survivors. On February 15, 2011, the City Council adopted amendments to the City's Municipal Code (the "Municipal Code") as recommended by outside tax counsel for submission to the IRS. Both Pension Plans' tax applications are currently pending with the IRS and there is no estimated date for commencement of IRS review or decision.

On October 17, 2011, a request for private letter ruling was filed with the IRS concerning the IRC 115 trust that was adopted by the City Council as an alternative medical and dental benefits funding vehicle for the Federated Healthcare Plan. There is no estimated date for commencement of IRS review or decision on the requested private letter ruling. See "—Potential Tax Limitation on Phase-In Funding of ARC for Both Healthcare Plans."

Summary of Pension Plans, Historical and Projected Contributions

A summary of each Pension Plan's characteristics and actuarial results as of the most recently completed valuation is presented in Table C-1. The UAAL and funded ratio calculations provided in the table exclude SRBR assets for both Pension Plans. As described in Table C-2a, over the past ten years, both Pension Plans have experienced steady and significant increases in UAAL, primarily attributable to changes in actuarial assumptions, unfavorable demographic experience and unfavorable investment returns.

In order to achieve and maintain the appropriate funding status of the Pension Plans, the Pension Plans' actuaries analyze the respective assets and liabilities of the Pension Plans to determine what level of required annual contributions are needed. The actuarial process can employ various funding methodologies to determine annual contribution levels and currently both Pension Plans' actuaries employ the entry age normal funding method. Under this method, there are two components to the total required annual contribution: the Normal Cost, and the UAAL contribution.

Normal Costs for both Retirement Plans, as governed by the City Charter (the "Charter") and the Municipal Code, are shared by the City and the active employee members of the Pension Plans with a contribution ratio of 8/11 for the City and 3/11 for the employee. Historically, the City has been responsible for funding the cost of amortizing the majority of the UAAL and other miscellaneous costs of the Pension Plans.

The annual contribution costs for the health and dental benefits provided to qualified retirees, their survivors and dependents, by both Retiree Health and Dental Plans are allocated to both the City and the active employee members. For the Federated Plan, the annual contributions for health costs are shared 50/50 and the dental costs are shared in a ratio of 8/11 for the City and 3/11 for the employee. For the Police and Fire Plan, the annual contribution for health costs is shared 50/50 and the annual contributions for dental costs are shared in a ratio of 75/100 for the City and 25/100 for the employee. The City is in the process of phasing in payment of the annual required contributions for the retiree health and dental benefits provided by both Pension Plans as calculated pursuant to Governmental Accounting Standards Board ("GASB") Statements 43 and 45 ("GASB 43/45"). For more information on the City's funding of retiree health and dental costs, see "—Other Postemployment Benefits", below.

The Federated Plan's actuary has concluded as of June 30, 2010 that employer contribution rates are expected to increase for the next few years as the balance of recent market value investment losses are recognized under the asset Smoothing method and as the actuarially assumed net rate of return is decreased to 7.75%. In addition, the Police and Fire Plan's actuary has concluded as of June 30, 2010 that contribution requirements are expected to increase over the next few years as a result of deferred investment losses under the actuarial value of assets Smoothing process, to the extent those losses are not offset by future investment gains. In addition to the plan assessments provided by the Pension Plan's respective actuaries, on September 29, 2010, the City Auditor published the audit report as discussed below in "Pension Reform Initiatives—September 2010-Auditor's Pension Report."

Table C-1
City of San José
Summary of Pension Plans' Characteristics and Actuarial Results[1]
As of June 30, 2010

	Federated Plan	Police and Fire Plan
Membership		
Active	3,818	2,021
Deferred[2]	732	79
Retired + Beneficiaries	3,111	1,810
Total	7,661	3,910
Covered Payroll	$ 300,811,165	$ 251,058,473
Retirement Unfunded Actuarial Accrued Liability (UAAL)[3]		
Actuarial Accrued Liability	$ 2,510,358,000	$ 3,230,456,034
Actuarial Value of Assets	1,729,414,000	2,576,704,563
UAAL	$ 780,944,000	$ 653,751,471
Retirement Actuarial Funded Ratio[3]	68.9%	79.8%
Employer Cost (% of covered payroll)		
Health and Dental Plan UAAL	$ 818,360,000	$ 887,722,000
Health and Dental Plan Actuarial Funded Ratio	12%	6%
Employer Cost (% of covered payroll)		
Retirement Benefits[4]	28.34%	50.44%[6] [7]
Health and Dental Benefits[5]	7.16	6.74[6]
Total	35.50%	57.18%
Employee Cost (% of covered payroll)		
Retirement Benefits[4]	4.68%	10.57%[6]
Health and Dental Benefits[5]	6.52	6.21[6]
Total	11.20%	16.78%

(1) The contribution rates are effective for fiscal year 2011-12 and are the result of actuarial valuation reports dated as of June 30, 2010. These City contribution rates do not reflect contribution prefunding described in "—Funding Status and Contribution Rates for both Pension Plans."
(2) Deferred refers to vested employees who have left City service.
(3) UAAL and funded ratio calculations exclude SRBRs assets for both Pension Plans.
(4) For the Police and Fire Plan, the rates for the Employer and Employee as shown are a blend of the different rates calculated for police employees and fire employees. Retirement contribution rates for the Federated Plan reflect the second year of a three-year phase-in of economic assumptions changes applicable for the June 30, 2010 actuarial valuation.
(5) The Federated Plan and Police and Fire Plan contribution rates for health and dental benefits only provide partial funding of the liabilities for these benefits. See "—Other Postemployment Benefits—Contribution Rates for Phase-In of ARC for Federated Plan" and "—Other Postemployment Benefits— Agreement with POA Related to Police and Fire Plan's Health and Dental Benefits" and " —Other Postemployment Benefits— Agreement with Local 230 Related to Police and Fire Plan's Health and Dental Benefits" for a discussion of increased contribution rates for health and dental benefits.
(6) Represents payroll based weighted average of Police and Fire Board adopted separate rates for police employees and fire employees.
(7) Will be offset by 0.49% on account of a transfer of $1.3 million from the SRBR to the valuation assets which will be applied to reduce the City's required contributions, but only for fiscal year 2011-12.

Sources: *Report of the Actuarial Valuation of Federated City Employees' Retirement System as of June 30, 2010, dated December 3, 2010 and City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2010, dated December 22, 2010. Report of the Actuarial Valuation of Federated City Employees' Retiree Healthcare Plan as of June 30, 2010, dated January 7, 2011 and City of San José Police and Fire Department Medical and Dental Actuarial Valuation Report as of June 30, 2010, dated May 31, 2011.*

Table C-2a below shows the historical dollar amount of the UAAL for both Retirement Plans as of the last six valuation dates, calculated using the actuarial (smoothed) value of assets.

Table C-2a
City of San José
Historical Retirement Plan UAAL and Funded Ratio

	Federated Plan		Police and Fire Plan		Total
Fiscal Year	**UAAL**	**Funded Ratio**	**UAAL**	**Funded Ratio**	**UAAL**
6/30/2001	$ 12,189,000	99%	$ (221,080,000)	115%	$ (208,891,000)
6/30/2003	30,972,000	98%	(3,087,000)	100%	27,885,000
6/30/2005	326,916,000	81%	44,342,000	98%	371,258,000
6/30/2007	338,092,000	83%	6,596,000	100%	344,688,000
6/30/2009	729,567,000	71%	393,913,000	87%	1,123,480,000
6/30/2010	780,944,000	69%	653,751,000	80%	1,434,695,000

Source: City of San José, Retirement Services Department.

Table C-2b below shows the historical dollar amount of the unfunded liability and the funded ratio for both Retirement Plans as of the last six valuation dates, calculated using the market value of assets.

Table C-2b
City of San José
Historical Retirement Plan
Market Value of Assets Unfunded Liability and Market Value Funded Ratio

	Federated Plan		Police and Fire Plan		Total
Fiscal Year	**Unfunded Liability**	**Funded Ratio**	**Unfunded Liability**	**Funded Ratio**	**Unfunded Liability**
6/30/2001	$ (41,256,000)	104%	$ (170,577,000)	111%	$ (211,833,000)
6/30/2003	176,958,000	87%	191,103,000	90%	368,061,000
6/30/2005	293,366,000	83%	(17,110,000)	101%	276,256,000
6/30/2007	213,136,000	89%	(282,257,000)	112%	(69,121,000)
6/30/2009	1,149,303,000	54%	994,350,000	66%	2,143,653,000
6/30/2010	997,556,000	60%	999,749,000	69%	1,997,305,000

Source: City of San José, Retirement Services Department.

As shown in Table C-2c, the Pension Plans' actuaries initiated Health and Dental actuarial valuations for both Retiree Health and Dental Plans in 2006.

Table C-2c
City of San José
Historical Health and Dental Plan UAAL and Funded Ratio

	Federated Health and Dental Plan		Police and Fire Health and Dental Plan		Total
Fiscal Year	**UAAL**	**Funded Ratio**	**UAAL**	**Funded Ratio**	**UAAL**
6/30/2006	$ 621,651,000	12%	$ 812,836,000	5%	$ 1,434,487,000
6/30/2007	520,148,000	16%	620,834,000	7%	1,140,982,000
6/30/2009	710,884,000	11%	705,987,000	7%	1,416,871,000
6/30/2010	818,360,000	12%	887,722,000	6%	1,706,082,000

Source: City of San José, Retirement Services Department.

As shown in Tables C-3a and C-3b, the City's contribution rates have recently been an increasing percentage of the City's covered payroll. The employee contribution rate is also growing.

Table C-3a
City of San José
Retirement and Health and Dental Contribution Rates
Federated Plan

Fiscal Year	Employer Cost (% of covered payroll)	Employee Cost (% of covered payroll)
1999-00	16.52%	5.31%
2000-01	16.09	4.76
2001-02	17.40	4.96
2002-03	15.20	5.08
2003-04	15.20	5.08
2004-05	17.12	6.06
2005-06	17.12	6.06
2006-07	21.98	7.58
2007-08	21.98	7.58
2008-09[(1)]	23.56	8.93
2009-10[(1)]	24.01	9.35
2010-11[(1)]	29.59[(3)]	10.30
2011-12[(1)]	35.50[(2)]	11.20

[(1)] These City contribution rates do not reflect contribution prefunding described in "—Funding Status and Contribution Rates."

[(2)] The resolution adopted by the Federated Board setting the contribution rates for fiscal year 2011-12 provides that the City's Budget Office may adjust the employer's contribution rate based on the City's actual payroll in order to achieve the minimum dollar contribution for fiscal year 2011-12 using the "floor" methodology described below in "—Funding Status and Contribution Rates."

[(3)] The Employer contribution rate does not include an additional 2.57% reflecting City funding of an additional $8.1 million described in "—Actuarial Valuations."

Source: City of San José, Retirement Services Department for fiscal years 1999-00 through 2010-11. Report of the Actuarial Valuation of Federated City Employees' Retirement System as of June 30, 2010, dated December 3, 2010 and Report of the Actuarial Valuation of Federated City Employees' Retiree Healthcare Plan as of June 30, 2010, dated January 7, 2011 for 2011-12 and Resolution No. 6734 of the Federated Board, dated June 16, 2011.

Table C-3b
City of San José
Retirement and Health and Dental Contribution Rates
Police and Fire Plan

Fiscal Year	Employer Cost (% of covered payroll)		Employee Cost (% of covered payroll)	
1999-00	20.11%[1]		10.22%[1]	
2000-01	15.70		9.79	
2001-02	15.70		9.79	
2002-03	14.22		10.25	
2003-04	14.22		10.25	
2004-05	24.59		11.16	
2005-06[2]	25.04		11.16	
	Police[3]	**Fire**[4]	**Police**[3]	**Fire**[4]
2006-07	28.51%	25.22%	11.67%	11.26%
2007-08[5]	28.90	25.61	11.67	11.26
2008-09[6]	25.80	28.31	11.96	12.40
2009-10[6]	26.89	28.31	12.96	12.40
2010-11[6][7]	45.03	44.61	15.57	13.70
2011-12[6][8]	57.39	56.81	17.47	15.62

[1] Combined rate for police and fire employees.
[2] Was offset by 0.45% on account of a transfer of $955,515 from the SRBR to the valuation assets which was applied to reduce the City's required contributions, but only for fiscal year 2005-06.
[3] Rate for police employees.
[4] Rate for fire employees.
[5] Was offset by 0.39% on account of a transfer of $849,227 from the SRBR to the valuation assets which was applied to reduce the City's required contributions, but only for fiscal year 2007-08.
[6] These City contribution rates do not reflect contribution prefunding described in the section "—Funding Status and Contribution Rates."
[7] Was offset by 0.45% on account of a transfer of $1.2 million from the SRBR to the valuation assets which was applied to reduce the City's required contributions, but only for fiscal year 2010-11.
[8] Will be offset by 0.49% on account of a transfer of $1.3 million from the SRBR to the valuation assets which will be applied to reduce the City's required contributions, but only for fiscal year 2011-12. The resolutions adopted by the Police and Fire Board setting the contribution rates for fiscal year 2011-12 provide that the City's Budget Office may adjust the employer's contribution rate based on the City's actual payroll in order to achieve the minimum dollar contribution for fiscal year 2011-12 using the "floor" methodology described below in "—Funding Status and Contribution Rates."

Source: City of San José, Retirement Services Department for fiscal years 1999-00 through 2010-11. For fiscal year 2011-12, City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2010, dated December 22, 20101 and City of San José Police and Fire Department Medical and Dental Actuarial Valuation Report as of June 30, 2010, dated May 31, 2011; Resolution No. 3703 and Resolution No. 3704 of the Police and Fire Board, both dated June 2, 2011.

As shown in Table C-3c the City's annual dollar contribution to both Pension Plans has also been increasing.

Table C-3c
City of San José
Retirement and Health and Dental Contributions[1]

Fiscal Year	Federated Plan	Police and Fire Plan	Total
2006-07	$ 61,732,000	$ 55,707,000	$ 117,439,000
2007-08	66,518,000	66,990,000[2]	133,508,000
2008-09	73,388,000	62,991,000	136,379,000
2009-10	71,593,000	63,599,000	135,192,000
2010-11	66,986,000[5]	89,144,000[3]	156,130,000
2011-12	112,558,000	143,540,000[4]	256,098,000

[1] These City contributions do not reflect contribution prefunding discounts starting in fiscal year 2008-09, described in "—Funding Status and Contribution Rates" for both Pension Plans.
[2] Was offset by a transfer of $849,227 from the SRBR to the valuation assets which was applied to reduce the City's required contribution, but only for fiscal year 2007-08.
[3] Was offset by a transfer of $1.2 million from the SRBR to the valuation assets which was applied to reduce the City's required contribution, but only for fiscal year 2010-11.
[4] Will be offset by a transfer of $1.3 million from the SRBR to the valuation assets which will be applied to reduce the City's required contribution. The "floor" methodology described below in "— Funding Status and Contribution Rates" was used to determine the prefunding dollar amount.
[5] The City contribution reflects temporary employee agreement to pay a portion of the UAAL contribution, but does not include City funding of an additional $8.1 million described in "—Actuarial Valuations."

Source: City of San José, Retirement Services Department.

In addition to the increases in contribution amounts illustrated in Table C-3c, it is projected that annual dollar contributions to the Pension Plans will continue to increase through the City's fiscal year 2015-16. Total City contributions have been projected to increase to $431.5 million in fiscal year 2015-16. Table C-3d below represents anticipated contribution levels for all funds, as prepared by Cheiron, the actuarial firm retained by both Pension Plans. Cheiron's actuarial projections ("Cheiron's Projections") are based on the June 30, 2010 actuarial valuations for the Retirement Plans and the Retiree Health and Dental Plans under both Pension Plans and assume that all assumptions, including payroll growth assumptions, in those valuations are met in the future except as specifically noted below and that payments are made throughout each year instead of lump sum payments at the beginning of each fiscal year.

For the Federated Plan, Cheiron's Projections assume that the actuarially assumed net investment rate of return and wage growth assumptions are reduced to 7.75% and 3.83% respectively as of June 30, 2011 as adopted by the Federated Board in conjunction with the June 30, 2010 actuarial valuation. For the Police and Fire Plan, Cheiron's Projections assume that the actuarially assumed net investment rate of return is reduced to 7.5% effective with the June 30, 2011 actuarial valuation, but the payroll growth assumption remains at 4.25%. In addition, the labor agreements with the bargaining groups representing the members of the Police and Fire Plan stipulate that if the City's contribution rate for the postemployment health and dental benefits ever exceeds 11% of pensionable pay after the phase-in to full funding, the parties should meet and confer. Consequently, for the Cheiron Projections, Cheiron limited the City's contribution rate for these benefits for police members to a maximum of 11% of pensionable pay after the phase-in period. The contribution rate attributable to the benefits provided to the fire department members of the Police and Fire Plan just reaches the end of the phase-in period in the final year of the projection. As noted by Cheiron, Cheiron's Projections are highly dependent on the projected

payroll for the members of each of the Pension Plans. Further, there is no assurance that the City's contribution rate will be limited to 11% of pensionable pay for police members in the Police and Fire Plan as projected by Cheiron in Cheiron's Projections. See "—Other Postemployment Benefits— Agreement with POA Related to Police and Fire Plan's Health and Dental Benefits; and — Agreement with Local 230 Related to Police and Fire Plan's Health and Dental Benefits."

The City's Budget Office has estimated that for fiscal year 2011-12 the retirement costs associated with the costs of police and fire service provided at the Airport and the City staff assigned to the Airport will be $1.04 million for Police, $1.2 million for Fire, and $6.8 million for employees in the Federated Plan for a total of $9.04 million, representing approximately 11.52% of the Airport's Maintenance and Operating Fund expenditures. The Airport's retirement cost for fiscal year 2011-12 equates to 2.08% of the City's total projected retirement and health and dental contribution of $431,535,000 in fiscal year 2015-16 as illustrated in Table C-3d.

Table C-3d
City of San José
Projected City Retirement and Health and Dental Contributions[1]

Fiscal Year	Federated Plan	Police/Fire Plan	Total
2011-12	$ 113,101,000	$ 149,654,000	$ 262,755,000
2012-13	134,889,000	188,514,000	323,403,000
2013-14	160,970,000	219,450,000	380,420,000
2014-15	174,155,000	241,976,000	416,131,000
2015-16	179,559,000	251,976,000	431,535,000

[1] Does not include retirement costs associated with part-time benefited employees and the Mayor and Council, who do not participate in the City's Pension Plans.

Source: City of San Jose 5 Year Budget Projections prepared by Cheiron.

Actuarial Methods and Assumptions. Investors are cautioned that, in considering the amount of the UAAL, the funded ratio, and the calculations of Normal Cost as reported by the Pension Plans and the resulting amounts of required contributions by the City, this is "forward looking" information. Such "forward looking" information reflects the judgment of the Boards of the respective Pension Plans and their actuaries as to the amount of assets which the Pension Plans will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees, existing retired employees, and their beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or that may change with the future experience of the Pension Plans. The actuarial methods and assumptions could be changed by the Boards of the respective Pension Plans at anytime. Such changes could cause the City's obligations to the Pension Plans to be higher or lower in any particular year.

Some of the more significant actuarial methods and assumptions used in the calculations of employer and employee contributions for the retirement benefits of each Retirement Plan are summarized in Table C-8. At this time, both Boards are in the process of reviewing their assumptions. The review and potential impact of changes being considered are discussed below in the sections entitled: "Federated Plan Preliminary June 30, 2011 Valuation Results" and "Police and Fire Plan Preliminary June 30, 2011 Experience Study."

The Mayor, in his Budget Message dated June 3, 2011, emphasized the potential for significantly increased contribution amounts for the City in the event the Boards of the Pension Plans adopt actuarial

assumption changes significantly different from those assumed in arriving at the projected contribution amounts in Table C-3d.

Investments

The State Constitution and the Municipal Code provide that the Board of each Pension Plan has exclusive control over the investment of the assets of the respective Pension Plans. The Municipal Code also specifies that each Board is to manage the investments for the purpose of providing benefits to its members and beneficiaries, maintaining the actuarial soundness of the Pension Plan, and defraying reasonable expenses of administering the Pension Plan. The Boards for both Pension Plans have retained investment consultants to advise them.

Potential investment returns and the subsequent risk associated with those returns are partially a function of the underlying assets of the respective Pension Plans. Each Board, as part of its fiduciary responsibilities, adopts asset allocation targets commensurate with the applicable Board's diversification goals and risk tolerance. Tables C-4 and C-5 below illustrate each Pension Plan's approved asset allocation targets. It is important to note that the stated asset allocation targets for both Pension Plans represent the ultimate allocation goal of the Pension Plans; however, during periods of allocation transition asset allocation target objectives may not be achieved. For detailed asset class holdings and for further information on plan assets and allocation refer to the Federated CAFR for the year ended June 30, 2010 and the Police and Fire CAFR for the year ended June 30, 2010. In addition, the investment policies of both Pension Plans provide more detailed information on allowable asset classes and constraints.

Table C-4
City of San José
Federated Plan Asset Allocation[1]

Asset Class	Minimum	Target	Maximum
Global Equity	43.0%	49.0%	55.0%
Fixed Income	15.0	20.0	25.0
Alternatives:	26.0	31.0	36.0
Real Estate	0.0	5.0	8.0
Real Assets	0.0	10.0	15.0
Hedge Funds	0.0	5.0	8.0
Private Equity	0.0	6.0	9.0
Opportunistic	0.0	5.0	8.0

[1] Current asset allocation as of March 2010.

Source: Federated City Employees' Retirement System Comprehensive Annual Financial Report 2009-2010.

Table C-5
City of San José
Police and Fire Plan Asset Allocation

Asset Class	Minimum	Target	Maximum
Equity[1]:	30.0%	40.0%	50.0%
Global Mandates		27.0	
US Mandates		5.0	
Foreign Mandates		8.0	
Fixed Income[2]:	15.0	25.0	35.0
Core Fixed Income		5.0	
TIPs		10.0	
Long Bonds		5.0	
Opportunistic Credit		5.0	
Alternative Assets[2]:	10.0	35.0	60.0
Private Equity	0.0	5.0	10.0
Real Estate	5.0	10.0	15.0
Inflation Linked	5.0	10.0	15.0
Absolute Return	0.0	5.0	10.0
Opportunistic	0.0	5.0	10.0

(1) Target allocation investment structure as of August 4, 2011.

(2) Target allocation investment structure since October 2009.

Source: City of San José, Retirement Services Department.

During the past two years, the Boards for both Pension Plans have received projections from their respective investment consultants for the expected net rates of return over a 20 year period based on the respective approved asset allocations. In January 2010, the investment consultant for the Federated Plan provided its projection of the expected net rate of return of 7.00%. In August 2009, the investment consultant for the Police and Fire Plan provided its projection of the expected net rate of return of 6.7%.

In November 2010, the Boards for both Pension Plans received analysis from the Retirement Services Department reflecting staff's projections of the probability for expected net rates of return for a 30 year period. The probability analysis provides the Boards with an additional metric when assessing the appropriate level of the net investment rate of return economic assumption. The methodology used by the Retirement Services Department was a lognormal mean reverting model which incorporated the approved asset allocations for each of the Pension Plans and explicitly accounted for portfolio volatility and asset class correlations. The Retirement Services Department's model resulted in a median net investment rate return assumption of 6.75% for the Police and Fire Plan and 6.70% for the Federated Plan. The median net investment rate of return is the net rate of return on the invested assets expected in at least 50% of future economic scenarios. In other words, 50% of future scenarios will result in returns less than the median net investment rate of return and 50% of future scenarios will result in returns more than the median net investment rate of return.

The aforementioned median net investment rates of return produced by the Retirement Services Department's model are below the net actuarially assumed investment rates of return currently adopted by the Boards. If the projections of net investment rates of returns produced by the Retirement Services Department model were to come to fruition, then the UAAL for both Pension Plans would increase due to

the disparity between actual investment results and actuarially assumed investment rates of return. For a discussion of actions taken by both Boards of each Pension Plan to reduce the actuarially assumed investment rates of return used in the actuarial valuation for the respective Pension Plan, see "—Actuarial Valuations—Actuarially Assumed Investment Rates of Return", below. As shown in Table C-6, in addition to the actuarially assumed investment rate of return the Plans need to generate sufficient returns to cover administrative, investment management, and SRBR costs.

Table C-6
City of San José
Investment Rates of Return

	Actuarially Assumed Investment Rate of Return (Net)	Investment Rate of Return (Gross) [3]
Federated Plan	7.95%[1]	8.85%
Police and Fire Plan	7.75%[2]	8.50%

[1] Report of the Actuarial Valuation of Federated City Employees' Retirement System as of June 30, 2010, dated December 3, 2010. See "—Federated Plan Preliminary June 30, 2011 Valuation Results" for a discussion of the Federated Plan's return assumption moving to 7.50% for the June 30, 2011 valuation.

[2] City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2010, dated December 22, 2010.

[3] The Investment Rate of Return is equal to the Actuarially Assumed Investment Rate of Return added to the investment and administrative cost associated with maintenance of the Federated Plan and the SRBR benefits estimated by Retirement Services Department to be 0.90% and the investment and administrative cost associated with maintenance of the Police and Fire Plan and SRBR benefits estimated by Retirement Services Department to be 0.75%.

Source: City of San José, Retirement Services Department.

In October 2011, the Joint Investment Committee for both Boards met and discussed the 30-year Capital Market Assumptions which are to be used by Retirement Services Department staff when updating probability projections for the expected net investment rates of return over a 30-year projection period. It is anticipated that the Retirement Services Department staff will provide the updated probability projections to both Boards in the first quarter of calendar year 2012. The probability projections will provide the Boards with an additional metric when evaluating the net investment rate of return economic assumption for purposes of the respective valuations for the Pension Plans. In addition to the Capital Market Assumptions review, the Joint Investment Committee discussed the appropriate estimate of investment management expenses associated with investment assets that are actively managed. Retirement Services Department staff estimate that investment management expenses currently are approximately 33 basis points. However, it is anticipated that the investment management expenses for both Pension Plans will increase as more asset classes are actively managed.

Table C-7a below illustrates the historic returns for both Pension Plans for the last ten fiscal years as reported in their respective CAFRs. For the ten fiscal year period shown in Table C-7a, the compounded returns are 4.83% per year for the Federated Plan and 4.76% per year for the Police and Fire Plan.

Table C-7a
City of San José
Historical Investment Returns Since Fiscal Year 2000-01

Fiscal Year	Federated Plan	Police and Fire Plan
2000-01	(0.20%)	0.20%
2001-02	(1.61)	(1.30)
2002-03	7.15	5.40
2003-04	16.77	16.40
2004-05	8.91	10.90
2005-06	10.19	11.50
2006-07	16.21	19.30
2007-08	(3.10)	(5.10)
2008-09	(16.74)	(18.00)
2009-10	15.90	14.30

Source: City of San José, Retirement Services Department.

Both Pension Plans receive quarterly investment reports from their respective investment consultants. These reports provide historic investment data for one year, five year and ten year intervals and from an "inception date" which does not correspond to the inception date of each Pension Plan. Table C-7b below illustrates the investment returns as reported in the quarterly investment report as of June 30, 2011 for both Pension Plans.

Table C-7b
City of San José
Historical Investment Returns At Various Intervals

Time Frame	Federated Plan[1]	Police and Fire Plan[1]
1 Year	19%	Not Reported[3]
5 Year	4.9%	4.6%
10 Year	6.5%	6.5%
Since Inception[2]	7.9%	9.1%

(1) Data reflects investment returns for the periods specified on a rolling basis as of June 30, 2011 for the Police and Fire Plan and June 30, 2011 for the Federated Plan. The investment returns in this table are the gross investment returns for the identified time periods and do not include deductions for investment and administrative expenses and the SRBR costs.
(2) For the Police and Fire Plan the since inception performance data is calculated since February 1971. For the Federated Plan the since inception performance data is calculated since January 1994.
(3) Previous reports provided by the investment consultant for the Police and Fire Plan provided one-year performance data.

Source: City of San José Police and Fire Department Retirement Plan Investment Performance Analysis as of June 30, 2011, San Jose Federated City Employees Retirement System Fund Evaluation Report as of June 30, 2011.

Service Retirement Formulas

The service retirement formulas for both the Police and Fire Plan and the Federated Plan are described below.

Federated Plan. An employee may retire at age 55 with five or more years of service or at any age with 30 years of service. The calculation of the retirement annuity is Final Average Salary (defined below) multiplied by 2.5% per year of service (maximum benefit is 75% of Final Average Salary). For Federated Plan members who retire on or after July 1, 2001, "Final Average Salary" is the average annual

compensation earnable for the highest 12 consecutive months, not to exceed 108% of the second highest 12 consecutive months. For Federated Plan members who retired prior to July 1, 2001, "Final Average Salary" is the highest compensation earnable during any three consecutive years of service. Retirement annuities paid to retirees are increased annually by a fixed 3% cost-of-living adjustment.

Police and Fire Plan. An employee who reaches normal retirement age of 55 with 20 years of service; an employee of age 50 with 25 years of service; an employee of any age with 30 years of service; or an employee of age 70 with no service requirement is entitled to a monthly retirement allowance. For employees who retired prior to February 2, 1996, the allowance is equal to Final Average Salary (defined below) multiplied by 2.5%, multiplied by years of service up to 30 years (maximum benefit is 75% of Final Average Salary). The allowance formula has been modified three (3) times since 1996. The current monthly allowance for members with less than 20 years of service is Final Average Salary multiplied by 2.5% for each year of service. Effective July 1, 2006, the current monthly allowance for police members of the Police and Fire Plan with 20 or more years of service is equal to Final Average Salary multiplied by 2.5% for the first 20 years of service, plus 4% of Final Average Salary for each year of service thereafter (maximum benefit is 90% of Final Average Salary). For fire members of the Police and Fire Plan with 20 or more years of service, the current monthly allowance (effective July 1, 2008) is equal to Final Average Salary multiplied by 3% for each year of service (subject to a maximum of 90% of Final Average Salary). "Final Average Salary" is defined as the highest 12 consecutive months of compensation, not to exceed 108% of compensation paid to the extent that any part of the pension that is based on compensation earned during the last year of service. Final Average Salary excludes overtime pay and expense allowances. Retirement annuities paid to retirees are increased annually by a fixed 3% cost-of-living adjustment.

Actuarial Valuations

Prior to fiscal year 2010-11, actuarial valuations for the retirement benefits of both Pension Plans were prepared on a biennial basis. Commencing with the June 30, 2009 actuarial valuations, the valuations for the retirement and health and dental benefits of both Pension Plans are prepared on an annual basis, and, in each actuarial valuation for each of the Pension Plans, the corresponding actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective Boards of the Pension Plans, these become the City's and the employees' legally required contribution rates for the fiscal year beginning one year after the valuation date. For example, the recommended contributions contained in each of the actuarial reports for the Pension Plans as of June 30, 2010 apply to contributions by the City and the employees for the fiscal year beginning July 1, 2011.

Actuarially Assumed Investment Rates of Return. The net rate of return that is assumed by each Pension Plan's actuary represents the rate of return on the applicable Pension Plan's investments that, together with current assets and future contributions, would generate sufficient funds to pay benefits. The Board for each Pension Plan has approved reducing the net investment rate of return for purposes of the respective Pension Plan's actuarial valuations. For the June 30, 2009 actuarial valuation, the Federated Board adopted a five-year phase-in of the actuarially assumed net investment rate of return from 8.25% to 7.75%. For the June 30, 2010 actuarial valuation, the Police and Fire Board approved reducing the actuarially assumed net investment rate of return from 8% to 7.75% with no phase-in period. Subsequently, in May, 2011, the actuary for the Federated Plan made its recommendations regarding the actuarially assumed rate of return including possibly reducing it to 7.25%. See "Funding Status and Contribution Rates—Federated Experience Study." Both Boards are anticipated to consider and take action on the recommendation of their respective actuaries on reducing the applicable actuarially assumed investment rate of return in the first half of fiscal year 2011-12. In the event that the Board for either Pension Plan adopts a higher rate of investment return than the investment rate of return actually realized,

the UAAL will increase. It should be noted that proposed investment rates of return are higher than those projected by the investment consultants for both Pension Plans and the Retirement Services Department. See discussion above in the section entitled: "Investments."

For the June 30, 2009 actuarial valuation, the Federated Plan valuation report and the ARC were prepared in accordance with GASB standards using an actuarially assumed net investment rate of return of 7.75%. In conjunction with that change, the Federated Plan's actuary provided a contribution schedule for the 2010-11 fiscal year that implemented a five year phase-in of the dollar impact of the change from 8.25% to 7.75% (not an incremental reduction in the Plan's assumed net investment rate of return). The City fully paid the contribution amount for fiscal year 2010-11 as presented in the contribution schedule prepared by the Federated Plan's actuary and approved by the Federated Board.

It is the City's policy to pay the ARC for its Pension Plans, but, due to these changes in actuarial methodology, the amount of the City's initial payment to the Federated Plan for fiscal year 2010-11 was less than the GASB ARC as presented in the actuarial valuation report for the Federated Plan, dated as of June 30, 2009. In order to prevent this deficiency occurring in future years (which would have resulted under the Board's prior phase-in methodology), in November 2010, the Federated Board directed that the phase-in to a 7.75% assumed net investment rate of return be implemented as an incremental change in the assumed net investment rate of return as opposed to the dollar impact methodology previously utilized. Additionally, the Federated Board adopted a faster phase-in of the actuarially assumed net investment rate of return resulting in full implementation of the 7.75% actuarially assumed net investment rate of return for the valuation to be dated as of June 30, 2011. As a result of the actions taken by the Federated Board, the actuarially assumed net investment rate of return for the June 30, 2010 valuation was 7.95%

In October 2011, Cheiron presented the Federated Board with its analysis of the Federated Plan's ARC funding for fiscal year 2010-11. The analysis determined that due to the remaining impact of the aforementioned dollar impact phase-in methodology, which wasn't addressed by the Federated Board's adoption of an incremental change in the assumed net investment rate of return for future valuations, a remaining payment of $8.1 million would be required for full fiscal year 2010-11 ARC funding. This amount incorporated the effects of contribution shifts between employer/employees described below in the section entitled: "Funding Status and Contribution Rates — Federated Plan Contribution Rates." In keeping with the City's policy to fully pay the ARC, in November, 2011, the City transferred the remaining payment of $8.1 million, of which approximately $570,000 was allocable to the Airport, to the Federated Plan to sufficiently fund the fiscal year 2010-11 ARC.

Historically in addition to the net rate of return necessary to provide sufficient funding for benefits, the investment and administrative cost associated with maintenance of the Federated Plan and the SRBR is estimated by the Retirement Services Department to be 0.90%, and the investment and administrative cost associated with maintenance of the Police and Fire Plan and SRBR is estimated by the Retirement Services Department to be 0.75%. Consequently, the Retirement Services Department had estimated that the investment portfolio for the Federated Plan and the Police and Fire Plan would need to earn gross rates of 8.85% and 8.50%, respectively, in order to pay investment manager fees, administrative expenses and benefits not reserved for, such as the SRBRs transfers. In general, if the Pension Plans did not earn the gross rates of return, then the UAAL for each Pension Plan would increase as a result. Cheiron as the actuary for both Pension Plans has recommended for the 2011 valuations that the administrative expenses and expected SRBR transfers for both Pension Plans be included as a component of the Normal Cost. The Federated Board at its October 2011 meeting adopted both methodologies. If adopted by the respective Boards, going forward, the investment portfolio must earn gross rates sufficient to cover investment management fees only.

"Smoothing" Methodology. When measuring assets for determining the UAAL, many pension plans, including each of the Pension Plans, "smooth" gains and losses to reduce the volatility of contribution rates. If in the one-year period prior to the annual actuarial valuation the actual net investment return on the Pension Plan's market value of assets is lower or higher than the actuarial assumed net rate of return (7.95% for the Federated Plan and 7.75% for the Police and Fire Plan as of June 30, 2010), then 20% of the shortfall or excess is recognized each year when determining the recommended contribution rates for that actuarial valuation. This results in the smoothing or spreading of that shortfall or excess over a five-year period. The impact of this will result in "smoothed" assets which are lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss.

For the Police and Fire Plan, past practice has been to limit the smoothed assets to be no greater than 120% and no less than 80% of the market value of assets. The market value range from 80% to 120% is referred to as a "market value corridor" and is currently only applied to the Police and Fire Plan. Under this practice, any investment gains or losses that would cause the smoothed assets to fall outside of this 80-120% market value corridor would be recognized immediately rather than be smoothed over the next five years. As of February 4, 2010, the Police and Fire Board increased the market value corridor to 70-130% only for the June 30, 2009 valuation in order to recognize the market rebound that had occurred as of the date of the Board action and to continue its policy of minimizing volatility of contribution rates.

As of June 30, 2010, as a consequence of smoothing, there were approximately $244.9 million in deferred losses yet to be realized for the Federated Pension Plan. The Federated Health and Dental Plan valuation uses the market value of assets and there is no smoothing of asset gains and losses. Similarly for the Police and Fire Plan, there were approximately $353.8 million in deferred losses ($346.0 million retirement benefits plus $7.8 million health and dental benefits). It is anticipated that future actuarial valuations will incorporate investment portfolio performance and both gains and losses will be "smoothed" as described above. If the $244.9 million in deferred asset losses for the Federated Plan were to be recognized immediately and amortized, the Retirement Services Department estimates it would result in an increase in annual required contributions of $18.6 million for fiscal year 2011-12. If the $346.0 million in deferred asset losses for the Police and Fire Plan were to be recognized immediately and amortized, the Retirement Services Department estimates it would result in an increase in annual required contributions of $28.5 million for fiscal year 2011-12.

Amortization Method and Period. Various plans use different amortization periods for paying off (or "amortizing") a UAAL. Prior to June 30, 2009, the Federated Plan used a 30 year open or rolling amortization period which meant that in each actuarial valuation, the entire UAAL was reamortized over a new 30 year period following each valuation period. Subsequent to June 30, 2009, the UAAL for the Federated Plan as of June 30, 2009 is being amortized over a 30-year closed period. Changes in the UAAL in future years will be amortized over a 20-year closed period, with a separate amortization schedule set up for each change in UAAL in each year for both pension and health and dental benefits.

With respect to all unfunded liabilities attributable to periods on or before June 30, 2003, the Police and Fire Plan uses a closed amortization period which ends on June 30, 2017. With respect to all unfunded liabilities attributable to periods after June 30, 2003, the Police and Fire Plan amortizes such unfunded liabilities through a layered amortization method in which unfunded liabilities experienced between annual valuation dates are amortized over a period ending 16 years following each applicable valuation date. The contribution to the UAAL as of the end of a given year (as reflected in an actuarial valuation report) is amortized as a level percentage of payroll.

Table C-8
City of San José
Summary of Key Actuarial Methods and Assumptions[3]

	Federated Plan (June 30, 2010)	Police and Fire Plan (June 30, 2010)
Actuarial Methods		
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percentage of Payroll	Level Percentage of Payroll
Amortization Period	20-year layered, closed, with the 6/30/2009 UAAL amortized over a closed 30-year period	Varies[1]
Asset Valuation Method	5-year Smoothed Market (without corridor)	5-year Smoothed Market (with an 80%-120% corridor, adjusted to 70%-130% only for the June 30, 2009 valuation)
Actuarial Assumptions		
Investment Annual Net Rate of Return[2]	7.95%	7.75%
Salary Increases	Salary increase rates are based on years of service as described in the Federated Experience Study as follows: The base annual rate of salary increase is comprised of a 3.90% inflation rate. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service.	Salary increase rates are based on years of service as described in the Police and Fire Experience Study as follows: The base annual rate of salary increase is comprised of a 3.50% inflation rate plus 0.75% for wage inflation for a total rate of 4.25%. This is added to a rate increase for merit/promotion set at 5.50% for the first five years of service; 2.50% for years 6 and 7; and 1.75% for year 8 and beyond.
Active Service, Withdrawal, Death, Disability Retirement	Based on June 30, 2009 Experience Study.	Based on the June 30, 2009 Experience Analysis.
Postretirement Mortality (non-disabled retirees)	1994 Group Annuity Mortality Table (sex distinct), set back three years for males and one year for females.	RP-2000 combined healthy mortality table for males with no collar adjustment, projected for 10 years, set back four years. RP-2000 combined healthy mortality table for females with no collar adjustment, projected for 10 years, with no age set-back.
Postretirement Mortality (disabled retirees)	The 1981 Disability Mortality Table.	RP-2000 combined healthy mortality table for males with no collar adjustment, projected 10 years, set back one year.

(1) With respect to all unfunded liabilities attributable to periods on or before June 30, 2003, the Police and Fire Plan uses an amortization period which ends on June 30, 2017. With respect to all unfunded liabilities attributable to periods after June 30, 2003, the Police and Fire Plan amortizes such unfunded liabilities through a layered amortization method in which unfunded liabilities experienced between annual valuation dates are amortized over a period ending 16 years following each applicable valuation date.

(2) The Retirement Services Department has clarified that, for both Pension Plans, the assumed net rate of return is a rate of return net of the amounts necessary to fund the administrative, operating expenses, investment management fees or costs associated with the respective SRBRs for each Pension Plan.

(3) Refer to sections entitled "Federated Plan Preliminary June 30, 2011 Valuation Results" and "Police and Fire Preliminary June 30, 2010 Experience Study" for information regarding proposed changes to actuarial assumptions made by the Boards' actuary.

Sources: Report of the Actuarial Valuation of Federated City Employees' Retirement System as of June 30, 2010, dated December 3, 2010; and City of San José Police and Fire Department Retirement Plan Actuarial Valuation Report as of June 30, 2010, dated December 22, 2010.

Funding Status and Contribution Rates

A description of the current funding status of the retirement benefits provided by both Pension Plans is summarized below. As set forth above, the funded ratio for each Pension Plan does not take into account the assets and liabilities related to health and dental benefits or the SRBR for such Pension Plan. The current funding status of the health and dental benefits provided by both Pension Plans is summarized below in "— Other Postemployment Benefits."

The Schedules of the Funding Progress for both Pension Plans are set forth in the Required Supplementary Information Section of the City's Basic Financial Statements for the Fiscal Year Ended June 30, 2010. However, it is important to note that the Funding Progress schedules referred to in the City's Basic Financial Statements for the Fiscal Year Ended June 30, 2010, reflect actuarial data as of June 30, 2009. The most recent actuarial valuations for the Federated Plan and the Police and Fire Plan, both as of June 30, 2010, represent the current Board adopted data available for the Funding Progress for both Pension Plans.

The Federated Plan Retirement Benefits. The most recent actuarial valuation of the Federated Plan, as of June 30, 2010, was performed by Cheiron (alternatively, "Cheiron" or the "Federated Plan Actuary") and summarized by the Federated Plan Actuary in its report dated December 3, 2010, entitled: "Federated City Employees Retirement System June 30, 2010 Actuarial Valuation" ("2010 Federated Actuarial Report"). In the 2010 Federated Actuarial Report, the Federated Plan Actuary concluded that the funded ratio for the actuarial value of assets for the Federated Plan as of June 30, 2010, was 68.9%, down from 70.7% as of June 30, 2009. The net return on the market value of assets for the period from July 1, 2009 to June 30, 2010 was better-than-expected. However, on an actuarial asset value basis, the smoothing in of the less-than-expected returns for the period from July 1, 2007 to June 30, 2009 was the primary reason for the decrease in the funded ratio. Since June 30, 2001, the funded ratio has ranged from the current low of 68.9% as of June 30, 2010, to a high of 98.9% as of June 30, 2001. As of June 30, 2010, the Federated Plan had a UAAL of approximately $780.9 million as compared to a UAAL of $729.6 million in the Actuarial Report completed as of June 30, 2009. As of June 30, 2010, the Federated Plan had an actuarial value of assets, exclusive of assets in the health and dental reserve and the SRBR reserve, equal to $1,729.4 million and actuarial accrued liabilities of $2,510.4 million. For the period ending June 30, 2010, the funded ratio based on the market value of assets was 60.3%, up from 53.8% as of June 30, 2009. The Federated Plan has deferred losses of $244.9 million (16.2% of market value of assets) as of June 30, 2010. If deferred losses aren't offset by future investment gains or other favorable experience, the recognition of the $244.9 million in deferred market losses is expected to have a significant impact on the Federated Plan's future funded ratio and contribution rate requirements.

Federated Experience Study. On November 3, 2009, Gabriel, Roeder, Smith & Company ("GRS"), the previous actuary for the Federated Plan delivered its Report of an Experience Investigation (the "2009 Federated Experience Study") and reported findings and recommendations from its investigation of the experience of the Federated Plan during the period from July 1, 2003 through June 30, 2009. Based on this investigation, GRS recommended several changes to the actuarial assumptions used to prepare the retirement valuation. The GRS recommended assumptions were approved by the Board of the Federated Plan and implemented in the 2010 Federated Actuarial Report. The actuarial assumption changes approved by the Federated Board included phasing in the impact on contribution rates of the following over a five year period: a reduction in the investment net rate of return assumption from 8.25%, net of expenses, to 7.75%, net of expenses; a reduction in the underlying inflation assumption from 4.0% to 3.67%; a reduction in the payroll growth assumption from 4.00% to 3.83%; and a reduction in the ultimate salary increase assumption from 4.25% to 4.08%. The impact of these economic assumption changes was to increase the actuarial accrued liability by $141.5 million. The Federated Board also approved immediate implementation of demographic assumption changes to include a longer life

expectancy for post-retirement mortality calculations. The impact of these changes was to increase the actuarial accrued liability by $87.3 million. As part of Federated Board's methodology change to phase in the actuarially assumed net rate of return to 7.75% over a revised three-year period (discussed above in Actuarial Valuations), the Federated Plan Actuary revised the payroll growth assumption from 3.83% to 3.90% and the ultimate salary increase assumption from 4.08% to 4.15% for the June 30, 2010 actuarial valuation only. See Federated Plan Preliminary June 30, 2011 Valuation Results for a discussion of updated assumptions**.**

Federated Plan Contribution Rates. Table C-9 below summarizes the contribution rates for both the City and the employee members of the Federated Plan for both retirement benefits and health and dental care benefits. The contribution rates, once adopted by the Federated Board, are effective in the fiscal year one year following the date of the actuarial valuations, i.e. 2010-2011 and 2011-2012. The Federated Board adopted the contribution rates for fiscal years 2010-2011 and 2011-12 set forth in Table C-9.

The contribution rates summarized in Table C-9 reflect the Federated Board's decision to adopt a revised three-year phase in period (ending with the June 30, 2011 actuarial valuation) for the change in actuarially assumed net rate of return to 7.75%. The retirement contribution rates shown for fiscal year 2011-12 reflect the second year of the revised phase in policy.

After the fiscal year 2010-2011 retirement contribution rates were approved by the Federated Board, several of the City's bargaining units agreed to make additional employee contributions in order to reduce the City's required contributions toward the Federated Plan's UAAL. In June 2010, the City reached agreements with the Association of Engineers and Architects (the "AEA"), the City Association of Management Personnel (the "CAMP"), the Operating Engineers, Local #3 (the "OE#3"), the Association of Maintenance Supervisory Personnel (the "AMSP") and the International Brotherhood of Electrical Workers (the "IBEW") to have employees covered under these agreements make additional one-time retirement contributions, equal to 10.83% of pensionable compensation, effective June 27, 2010 through June 25, 2011. These bargaining units also agreed to make a portion of these additional contributions, ranging from 7.30% to 7.75% of pensionable compensation, continue on an on-going basis. These additional employee contributions are being made on a pre-tax basis pursuant to IRS Code Section 414(h)(2) and are subject to withdrawal, return and redeposit in the same manner as any other employee pension contributions. However, as the AEA, CAMP, OE#3, AMSP and IBEW collective bargaining agreements had an expiration date of June 30, 2011, the on-going contributions were subject to renegotiation in connection with the labor agreements for fiscal year 2011-2012. None of these bargaining groups have agreed to continue making the additional contributions in fiscal year 2011-2012.

The required contributions rates determined by the Federated Plan Actuary anticipate that the City will make contributions on a bi-weekly basis throughout the fiscal year. The City has elected since fiscal year 2008-09 to "prefund" all or part of its total annual required contributions to the Plan at the beginning of each fiscal year and the Federated Plan's Actuary applies an interest discount to the required contributions to account for the fact that contributions are made at the beginning of the year instead of throughout the year. The "prefunded" annual contributions are made on the basis of estimated bi-weekly pay for the fiscal year and are trued up at the end of the fiscal year based on actual bi-weekly payroll. The City has elected to prefund its total annual required contributions for fiscal year 2011-12.

In early 2011, the Federated Board took action to address unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The Federated Board adopted a resolution recommending that the City Council amend the Municipal Code to set the ARC for the City to be the greater of the dollar amount reported in the actuarial valuation ("the floor") and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the

actual payroll for the fiscal year. The City Council has not amended the Municipal Code as recommended by the Federated Board. However, in July 2011 the City prepaid the fiscal year 2011-12 amounts estimated to be required to pay the ARC using the "floor" methodology.

Table C-9
City of San José
Federated City Employees' Retirement Plan
Contribution Rates
(As Percentage of Covered Payroll)

	June 30, 2009[(1) (2)]	**June 30, 2010**[(3)]
Employer Cost[(4)]		
Retirement		
Normal Cost Rate	12.35%	12.76%
Rate of Contribution to UAAL	10.83	15.58
Total Retirement	23.18%[(6)]	28.34%
Health and Dental[(5)]	6.41	7.16
	29.59%	35.50%
Employee Cost[(4)]		
Retirement	4.54%	4.68%
Health and Dental[(5)]	5.76	6.52
	10.30%	11.20%
Total Cost	39.89%	46.70%

(1) The contribution rates are the result of actuarial valuation reports but do not reflect subsequent contribution shifts associated with various bargaining groups.

(2) Contribution rates are effective for fiscal year 2010-11. The Employer rates do not reflect contribution prefunding described above in "– Funding Status and Contribution Rates."

(3) Contribution rates are effective for fiscal year 2011-12. The Employer rates do not reflect contribution prefunding described above in "– Funding Status and Contribution Rates." The resolution adopted by the Federated Board setting the contribution rates for fiscal year 2011-12 provides that the City's Budget Office may adjust the employer's contribution rate based on the City's actual payroll in order to achieve the minimum dollar contribution for fiscal year 2011-12 using the "floor" methodology described in "—Funding Status and Contribution Rates."

(4) Represents a percentage of covered payroll. The total covered payroll for employees covered by the Federated Plan, as of June 30, 2009, was $323,020,387 and, as of June 30, 2010, was $300,811,165.

(5) The contribution rates for health and dental benefits only provide partial funding of the liabilities for these benefits. See "– Other Postemployment Benefits – Contribution Rates for Phase-In of ARC for Federated Plan" for a discussion of increased contribution rates for health and dental benefits.

(6) The Employer contribution rate does not include an additional 2.57% reflecting the City funding of an additional $8.1 million described in "—Actuarial Valuations."

Sources: Reports of the Actuarial Valuation of the San José Federated City Employee's Retirement System as of June 30, 2009, dated March 1, 2010 and as of June 30, 2010, dated December 3, 2010. Report of the Actuarial Valuation of the City of San Jose Federated Retiree Healthcare Plan as of June 30, 2009, dated March 8, 2010 and the Report of the Actuarial Valuation of Federated City Employees' Retiree Healthcare Plan as of June 30, 2010, dated January 7, 2011 and Resolution No. 6734 of the Federated Board, dated June 16, 2011.

Police and Fire Department Retirement Plan. The Segal Company ("Segal") served as the actuary for the Police and Fire Plan since August 2006. As the result of a request for proposal process, the Police and Fire Board selected Cheiron to replace Segal and Cheiron will prepare the valuations dated as of June 30, 2011.

The most recent actuarial valuation of the Police and Fire Plan, as of June 30, 2010, was performed by Segal and summarized in its report dated December 22, 2010 (the "2010 Police and Fire Report"). In the 2010 Police and Fire Report, Segal concluded that the funded ratio of the Police and Fire Plan as of June 30, 2010, was 79.8%, down from 86.7% as of June 30, 2009. Since June 30, 2001, the funded ratio has ranged from the current low of 79.8% as of June 30, 2010, to a high of 114.8% as of June 30, 2001, taking into account all benefit improvements that have occurred over this time period. As of June 30, 2010, the Police and Fire Plan had a UAAL of approximately $653.8 million as compared to the UAAL of approximately $393.9 million in the Actuarial Report completed as of June 30, 2009. This decrease in the funded ratio, and increase in UAAL, are primarily attributable to changes in actuarial assumptions and unfavorable investment returns during the two year period ended June 30, 2009. As of June 30, 2010, the Police and Fire Plan had an actuarial value of pension assets equal to approximately $2.577 billion, not including the Police and Fire SRBR, and actuarial accrued liabilities of approximately $3.230 billion. As of June 30, 2010, the Police and Fire Plan had a total unrecognized investment loss of approximately $353.8 million ($346.0 million pension benefits plus $7.8 million health and dental benefits) for both pension and health and dental benefits. For the period ending June 30, 2010, the funded ratio based on the market value of assets was 69.1% for the Pension Plan, up from 66.4% as of June 30, 2009. Segal noted that deferred losses represent 15% of the market value of assets as of June 30, 2010. If deferred losses aren't offset by future investment gains or other favorable experience, the recognition of the $353.8 million in deferred market losses is expected to have a significant impact on the Police and Fire Plan's future funded percentage and contribution rate requirements.

Police and Fire Experience Study. On October 26, 2009, Segal issued its Actuarial Experience Study (the "Police and Fire Actuarial Experience Study") for the period July 1, 2005 through June 30, 2009. The study utilized census data prepared for the four-year period ending June 30, 2009. Based on this investigation, Segal recommended several changes to the actuarial assumptions used to prepare the retirement valuation. The actuarial recommended demographic (non-economic) assumption changes were approved by the Police and Fire Board on February 4, 2010. Approved changes included establishing a higher retirement rate for Police, higher disability rates for Fire, and an increase of one year for life expectancy for mortality rates, among other changes. Combined, the assumption changes accounted for an increase in the actuarial accrued liability of $145.4 million as of June 30, 2009. In addition to increases in the actuarial accrued liability from assumption changes, losses associated with actuarial experience included a net loss from investments of $138.4 million, a loss of $106.5 million for differences in actual experience, and a loss of $7.0 million for data corrections. Recent experience over the last few experience study periods has indicated that demographic assumptions should have been more conservative in many areas, which has resulted in additional unfunded actuarial liabilities and plan costs as the experience has emerged. Effective with the June 30, 2010 actuarial valuation, the Board, based on a recommendation from the Retirement Services Department staff and with concurrence from the actuary, changed the assumed investment net rate of return assumption from 8.00% to 7.75%. Cheiron is scheduled to complete an updated Experience Study as of June 30, 2011.

Police and Fire Contribution Rates. Table C-10 below summarizes the contribution rates for both the City and the employee members of the Police and Fire Plan for both retirement benefits and health and dental care benefits. The contribution rates, once adopted by the Police and Fire Board, are effective in the fiscal year one year following the date of the actuarial valuations, i.e. 2010-2011 and 2011-2012. The Police and Fire Board adopted the contribution rates for fiscal years 2010-2011 and 2011-12 set forth in Table C-10.

In August 2010, the City reached agreement with the POA to require Police members of the Police and Fire Plan to make additional retirement contributions of 5.25% of pensionable compensation, effective June 27, 2010 through June 25, 2011. These additional employee contributions were in addition to the employee retirement contribution rates approved by the Police and Fire Board for fiscal year 2010-

11. The additional employee contributions were applied to reduce the City's required contributions toward the Police and Fire Plan's UAAL. These additional employee contributions are made on a pre-tax basis pursuant to IRS Code Section 414(h)(2) and are subject to withdrawal, return and redeposit in the same manner as any other employee contribution. In June 2011, the City and the POA entered into a new labor agreement with a term expiring on June 30, 2012 or June 30, 2013 as described in "APPENDIX A—OTHER MATTERS—Labor Relations." The POA's agreement with the City does not include any additional contributions from the POA's members toward the Police and Fire Plan's UAAL.

Segal determined that the additional 5.25% employee contributions would offset an equivalent 5.21% City required contribution rate, due to the estimated portion of the additional employee contributions which will be paid as refunds of employee contributions upon employee termination.

The required contributions rates determined by Segal anticipate that the City will make contributions on a bi-weekly basis throughout the fiscal year. The City has elected since fiscal year 2008-09 to "prefund" all or part of its total annual required contributions to the Police and Fire Plan at the beginning of each fiscal year and the Plan's Actuary applies a discount to the required contributions to account for the fact that contributions are made at the beginning of the year instead of throughout the year. The "prefunded" annual contributions are made on the basis of estimated bi-weekly pay for the fiscal year and are trued up at the end of the fiscal year based on actual bi-weekly payroll. The City has elected to prefund its total annual required contributions for fiscal year 2011-12.

In early 2011, the Police and Fire Board addressed unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The Board expressed support that the City Council amend the Municipal Code to set the ARC for the City to be the greater of the dollar amount reported in the actuarial valuation ("the floor") and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. The City Council has not amended the Municipal Code as recommended by the Police and Fire Board. However, in July 2011 the City prepaid the fiscal year 2011-12 amounts estimated to be required to pay the ARC using the "floor" methodology.

Table C-10
City of San José
Police and Fire Department Retirement Plan Contribution Rates
(As Percentage of Covered Payroll)

	June 30, 2009[1][3]	June 30, 2010[2]
Employer Cost[5]		
Retirement		
Normal Cost Rate	26.24%	28.00%
Rate of Contribution to UAAL	13.21	22.44
Total Retirement[4]	39.45%[6]	50.44%[7]
Health and Dental[4]	5.44[8]	6.74[8]
Total City	44.89%	57.18%
Employee Cost[5]		
Retirement[4]	9.91%	10.57%
Health and Dental[4]	5.00[8]	6.21[8]
Total Employee	14.91%	16.78%
Total Cost	59.80%	73.96%

(1) Contribution rates were effective for fiscal year 2010-11. The Employer rates do not reflect contribution prefunding described above in "– Funding Status and Contribution Rates."

(2) Contribution rates are effective for fiscal year 2011-12. The Employer rates do not reflect contribution prefunding described above in "– Funding Status and Contribution Rates." The resolutions adopted by the Police and Fire Board setting the contribution rates for fiscal year 2011-12 provide that the City's Budget Office may adjust the employer's contribution rate based on the City's actual payroll in order to achieve the minimum dollar contribution for fiscal year 2011-12 using the "floor" methodology described in "—Funding Status and Contribution Rates."

(3) The contribution rates are the result of actuarial valuation reports but do not reflect the subsequent contribution shift agreed to by the San José Police Officers' Association for police officer members of the Police and Fire Plan.

(4) For the Police and Fire Plan, the rates for the employer and employee as shown are a blend of the different rates calculated for police officer employees and fire department employees.

(5) Represents a percentage of payroll. Total covered payroll was $255,222,552 as of June 30, 2009 and $251,058,473 as of June 30, 2010.

(6) Was offset by 0.45% on account of a transfer of $1.2 million from the SRBR to the valuation assets which was applied to reduce the City's required contribution, but only for fiscal year 2010-11.

(7) Will be offset by 0.49% on account of a transfer of $1.3 million from the SRBR to the valuation assets which will be applied to reduce the City's required contribution, but only for fiscal year 2011-12.

(8) The contribution rates for health and dental benefits only provide partial funding of the liabilities for these benefits. See " — Other Postemployment Benefits— Agreement with POA Related to Police and Fire Plan's Health and Dental Benefits" and "— Other Postemployment Benefits— Agreement with Local 230 Related to Police and Fire Plan's Health and Dental Benefits" for a discussion of increased contribution rates for health and dental benefits.

Source: City of San José Police and Fire Department Retirement Plan Actuarial Valuation Reports as of June 30, 2009, dated February 23, 2010 and as of June 30, 2010, dated December 22, 2010. City of San José Police and Fire Department Health and Dental Valuation Reports as of June 30, 2009 dated March 1, 2010 and as of June 30, 2010 dated May 31, 2011; Resolution No. 3703 and Resolution No. 3704 of the Police and Fire Board, both dated June 2, 2011.

Federated Plan Preliminary June 30, 2011 Valuation Results

On May 19, 2011, the Federated Plan Actuary delivered its City of San Jose Federated City Employees' Retirement System Experience Analysis (the "2010 Federated Experience Study") and reported findings and recommendations from its investigation of the experience of the Federated Plan during the period July 1, 2005 through June 30, 2010. In presenting the 2010 Federated Experience Study, the Federated Plan Actuary presented proposed changes as recommended ranges for the Federated Board's consideration. The 2010 Federated Experience Study presents recommendations to revise

economic and demographic assumptions as well as two changes to the actuarial methodologies currently used by the Federated Plan Actuary in performing the annual valuations. The recommended economic assumption changes include: (1) A reduction in the long-term wage inflation assumption to a range of 3.25% to 4.00% with a recommendation of 3.50% and (2) a reduction in the investment net rate of return assumption to a range of 6.75% to 7.75% with a recommendation subject to the Federated Board's risk preference of 7.25%, net of investment expenses. The recommended demographic assumption changes include: (1) adjustments to merit salary increases, (2) adjustments to, both the less than and more than, 30 years of service retirement rate tables, (3) an increase in the life expectancy assumption and utilization of the RP 2000 Combined Mortality Table, (4) a reduction in expected disabilities, (5) a change of methodology for termination rates that includes separate termination assumptions for the first few years of service resulting in higher termination rates for the first four years of service and lower termination rates for employees with 5 or more years of service, and (6) a decrease in the expected rate of refunds.

The recommended methodology changes would result in additional components being added to the annual Normal Cost calculation for administrative expenses and the liability for the SRBR. The first recommendation is to explicitly value the administrative expense of the Federated Plan at an estimated rate of 0.70% of annual payroll. The second recommendation is to explicitly recognize the liability of future asset transfers to the SRBR at an estimated rate of 0.35% of assets. Normal Costs are typically shared in the ratio of 8/11 for the City and 3/11 for the employees; however the cost sharing of the change related to the SRBR methodology is currently under review.

At the October 2011 Federated Board meeting, the Federated Plan Actuary presented preliminary June 30, 2011 valuation results and an assessment of the impact of potential assumption changes. Changes attributable to the actual experience of the Federated Plan resulted in an overall decrease in the City's dollar contribution and an increase in the contribution rate as a percent of payroll. The increase in the City's contribution rate, while the overall experience was positive, is primarily attributable to active member payroll declining from $300.8 million as of June 30, 2010 to $228.7 million as of June 30, 2011. The recommended demographic assumption changes outlined above were approved by the Federated Board for inclusion in the June 30, 2011 actuarial valuation. As presented by Cherion the demographic assumption changes, which included the methodology change for administrative expenses, and the Federated Board's adoption of the SRBR methodology change will result in an increase in the City's contribution rate as a percent of payroll. In addition the Federated Board approved lowering the investment net rate of return economic assumption to 7.5% from the previously adopted 7.75% and lowering the wage inflation economic assumption to 3.25% from the previously adopted 3.83%. The result of the economic assumptions adopted by the Federated Board is expected to increase the City's contributions as a percent of payroll. The combined result of the aforementioned experience, demographic, methodology, and economic assumption changes are estimated to increase the City's contribution to 44.5% of payroll and, assuming contributions are made at the beginning of the year, a dollar contribution of $103 million. The Federated Plan Actuary is currently scheduled to provide the Federated Plan with the final June 30, 2011 valuation results at the November 2011 Federated Board meeting.

Police and Fire Plan Preliminary June 30, 2010 Experience Study

On November 3, 2011, Cherion delivered its City of San Jose Police and Fire Department Retirement Plan Experience Analysis (the "2010 Police and Fire Experience Study") and reported findings and recommendations from its investigation of the experience of the Police and Fire Plan during the period July 1, 2006 through June 30, 2010. In presenting the 2010 Police and Fire Experience Study, the Police and Fire Plan Actuary presented proposed changes as recommended ranges for the Police and Fire Board's consideration. The 2010 Police and Fire Experience Study presents recommendations to revise economic and demographic assumptions as well as two changes to the actuarial methodologies

currently used by the Police and Fire Plan Actuary in performing the annual valuations. The recommended economic assumption changes include: (1) A reduction in the long-term wage inflation assumption to a range of 3.25% to 4.00% with a recommendation of 3.50% and (2) a reduction in the investment net rate of return assumption to a range of 7.00% to 7.75% with a recommendation subject to the Police and Fire Board's risk preference of 7.50%, net of investment expenses. The recommended demographic assumption changes include: (1) adjustments to merit salary increases, (2) adjustments to, both the less than and more than, 30 years of service retirement rate tables, (3) a reduction in the life expectancy assumption for health retirees, (4) an increase in the life expectancy assumption for disabled retirees, (4) a reduction in expected disabilities, (5) an increase in the termination rates, and (6) a decrease in the expected rate of refunds.

The recommended methodology changes would result in additional components being added to the annual Normal Cost calculation for administrative expenses and the liability for the SRBR. The first recommendation is to explicitly value the administrative expense of the Police and Fire Plan at an estimated rate of 1.2% of annual payroll. The second recommendation is to explicitly recognize the liability of future asset transfers to the SRBR at an estimated rate of 2.0% of annual payroll. Normal Costs are typically shared in the ratio of 8/11 for the City and 3/11 for the employees; however the cost sharing of the change related to the SRBR methodology is currently under review.

Supplemental Retiree Benefit Reserves

Both Pension Plans include SRBRs. The purpose of each SRBR is to establish a reserve to provide a lump sum supplemental payment to the pension plan's retirees no more frequently than annually. The terms of each SRBR are described below.

Federated SRBR. Within the assets of the Federated Plan, there is a Supplemental Retiree Benefit Reserve (the "Federated SRBR"). As of June 30, 2010, $28.331 million was on deposit in the Federated SRBR. After the end of each fiscal year, an amount equal to the investment earnings attributable to the SRBR balance is transferred to the SRBR, using the lesser of the actuarially assumed net rate or the actual rate of return earned by the retirement fund (but never less than 0%); then the Federated Board determines the amount of excess earnings, if any (i.e., earnings of the retirement fund (excluding the COLA fund) in excess of the net actuarially assumed rate of return). To the extent there are excess earnings, 90% of the excess earnings are transferred to the Federated Plan's General Reserve, and 10% of the excess earnings are transferred to the Federated SRBR. At the end of each fiscal year, to the extent that the amount on deposit in the Federated SRBR satisfies certain thresholds, the Federated Plan pays each retiree and each person receiving survivor benefits a lump-sum payment as a supplemental benefit. For the fiscal year ended June 30, 2010, the total amount of interest credited to the SRBR was $8.545 million and $1.595 million was available for distribution during fiscal year 2010-11. SRBR transfer amounts, if any, are determined after the fiscal year end and except for fiscal year 2010-11 distribution amounts, if any, are made in the following fiscal year. For fiscal year 2010-11, the City Council adopted a resolution suspending distribution of SRBR payments. In May 2011, the City Council adopted a resolution to extend the suspension of the distribution of SRBR payments through December 31, 2011.

Police and Fire SRBR. Within the assets of the Police and Fire Plan, there is a Supplemental Retiree Benefit Reserve (the "Police and Fire SRBR"). As of June 30, 2010, $33.3 million was on deposit in the Police and Fire SRBR. The Police and Fire SRBR was originally funded through a one-time transfer from the valuation assets of the Police and Fire Plan calculated as of the end of the fiscal year ending June 30, 1999, in the amount of $19,110,300. After that transfer, the Police and Fire SRBR is funded from certain earnings (calculated on a smoothed actuarial basis as described previously) of the Police and Fire Plan, as follows: after the end of each fiscal year, an amount equal to the investment

earnings attributable to the SRBR balance (but not less than $0) is transferred to the SRBR; then the Police and Fire Board determines the amount of excess earnings, if any (i.e. five-year smoothed earnings of the retirement fund in excess of the actuarially assumed net rate of return). Ninety percent of excess earnings are allocated and included as valuation assets, and the remaining 10% are transferred to the Police and Fire SRBR. At the end of each calendar year, from the earnings credited to the Police and Fire SRBR, the Police and Fire Plan pays each retiree and each person receiving survivor benefits, a lump sum payment as a supplemental benefit. For the fiscal year ended June 30, 2010, the total amount of interest transferred to the Police and Fire SRBR was $1.0 million. The SRBR excess earning transfer amount, if any, is determined after the fiscal year end and except for fiscal year 2010-11, distribution amounts, if any are made in the following fiscal year. In late 2010, the City Council adopted an ordinance, suspending distribution of SRBR payments for the remainder of the fiscal year. In May 2011, the City Council, by ordinance, extended the suspension of the distribution of SRBR payments through December 31, 2011.

If City contributions are increased due to poor investment returns, 10% of the City's increased contributions for the first 12 months after the increase in rates is transferred (certain restrictions apply to the maximum amount transferable) from the SRBR to the valuation assets and is applied to reduce the City's required contributions. As of June 30, 2009, $1.2 million was transferred from the SRBR to the valuation assets and applied to reduce the City's required contributions for fiscal year 2010-11 only, on account of this provision. As of June 30, 2010, $1.3 million was transferred from the SRBR to the valuation assets and applied to reduce the City's required contributions for fiscal year 2011-12 only, on account of this provision.

Other Postemployment Benefits

Overview. In April 2004, GASB issued Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans ("Statement No. 43"). Statement No. 43 establishes uniform financial reporting standards for postemployment healthcare and other nonpension benefits ("OPEB") plans. The approach followed in Statement No. 43 is generally consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. Statement No. 43 became effective for the City's OPEB Plans for the fiscal year ending June 30, 2007.

Additionally, in June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions ("Statement No. 45"), which addresses how state and local governments should account for and report their costs and obligations related to OPEB. Statement No. 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Statement No. 45's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its net OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial accrued liability is required to be amortized over future periods. Statement No. 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Statement No. 45 became effective for the City's fiscal year ending June 30, 2008.

Both Pension Plans provide eligible retirees with both health and dental benefits. For health benefits, the Pension Plans pay that portion of the premium that is equivalent to the premium for the lowest-priced medical plan with which the City contracts for medical benefits for City employees; if the retiree elects a medical plan that is not the lowest-priced plan, the eligible retiree or survivor pays the

difference between the portion paid by the applicable Pension Plan and that charged by the medical care provider. In the case of dental benefits, both Pension Plans pay the entire premium.

An implicit subsidy for health and dental benefits exists because the medical experience for retirees under age 65 are pooled with the experience for active employees thereby resulting in a lowering of the premium paid for retirees under age 65. While the liabilities for the implicit subsidy have been included in the Statement No. 43 and Statement No. 45 disclosure calculations, they have not been included in the phase-in contribution rate calculations for the Police and Fire Plan but have been included in the phase-in contribution rate calculations for the Federated Plan.

For the Federated Plan, per the Municipal Code, the City and the active employee members of the Federated Plan share the cost of health benefits at a ratio of 50/50, and, with respect to the dental benefits, they share that cost at a ratio of 8/3. For the Police and Fire Plan, per the Municipal Code, the City and the active employee members of the Police and Fire Plan share the cost of health benefits at a ratio of 50/50 and, for dental benefits, they share that cost at a ratio of 75/25.

Funding Policy. Until the City entered into agreements with various bargaining groups as described below, contributions for the health and dental benefits for both the City and the participating employees of both Pension Plans were based upon an actuarially determined percentage of employees' base salary sufficient to provide adequate assets to pay benefits when due, over the next 10 years for the Police and Fire Plan, and over the next 15 years for the Federated Plan.

Increased contribution rates for the retiree health and dental benefits for some, but not all of, the members of both Pension Plans that became effective in fiscal year 2009-10 are discussed below in "— Contribution Rates for Phase-In of ARC for the Federated Plan" and — "Contribution Rates for Phase-In of ARC for POA Members of the Police and Fire Plan." The contribution rates for the fire department employee members of the Police and Fire Plan have continued to be calculated per the methodology discussed above through fiscal year 2010-11. However, an agreement between the City and the International Association of Firefighters, Local 230 ("Local 230") entered into in March, 2011 includes a five-year phase-in of full funding of the ARC as of June 26, 2011. See "— Agreement with Local 230 Related to Police and Fire Plan's Health and Dental Benefits." See also "APPENDIX A—OTHER MATTERS—Labor Relations."

Postemployment Health and Dental Benefits Valuations. The Federated Plan engaged the Federated Plan Actuary to perform an actuarial valuation pursuant to Statement No. 43 and Statement No. 45 ("GASB 43/45 valuation"), as of June 30, 2010, of the Federated Plan's retiree health and dental benefits (the "Federated Healthcare Plan"). The actuarial accrued liability as of June 30, 2010 is $926.4 million with $108.0 million in assets resulting in a UAAL of $818.4 million, with a plan funded ratio of 11.7%. The ARC calculated in accordance with GASB, and based on a 6.71% discount rate is $47.6 million.

The Police and Fire Plan engaged its actuary to perform GASB 43/45 valuation, as of June 30, 2010, of its retiree health and dental benefits (the "Police and Fire Healthcare Plan"), which was presented to the Police and Fire Plan Board at its June 2011 meeting. As of June 30, 2010, the actuarial accrued liability was $946.3 million with $58.6 million in assets resulting in a UAAL of $887.7 million, with a funded ratio of 6.19%. The ARC calculated in accordance with GASB, and based on a 6.3% discount rate was $60.4 million.

Actuarial assumptions used for the GASB 43/45 valuations for both the Federated Healthcare Plan and the Police and Fire Healthcare Plan are generally the same as are used for the applicable Retirement Plan valuations, but also include assumptions with respect to future healthcare utilization and

inflation. Actuarial methods are generally the same, except for the use of a 30-year open (non-decreasing) amortization period for the Police and Fire Healthcare Plan [(together with the Federated Healthcare Plan, the "Healthcare Plans)] ARC calculation and a 28 year declining amortization period for the City and police department employee contributions and a 30 year declining amortization period for the City and fire department employee contributions. For purposes of the GASB 43/45 valuations, the Federated Actuary uses the market value of assets for the Federated Healthcare Plan, without any Smoothing. The Police and Fire Plan Actuary uses the same Smoothing methodology used for the Police and Fire Retirement Plan.

The City implemented Statement No. 45 in fiscal year 2008 and elected to report a zero net OPEB obligation at the beginning of the transition year for both Pension Plans. As reported in the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010, the net OPEB obligation for the Federated Plan was $62.6 million and the net OPEB obligation for the Police and Fire Plan was $107.1 million. The Airport's net OPEB obligation for the Federated Plan was $5,739,584 and $4,167,075 at June 30, 2010 and June 30, 2009, respectively.

Phase-In Funding of the ARC for Both Healthcare Plans. In 2007 and 2008, the City engaged in a process to determine whether to implement a policy to fully pre-fund the ARC as calculated under Statement No. 45 for each of the Healthcare Plans. In connection with this process, the City retained outside counsel to provide advice regarding the legal restrictions on making changes to the health and dental benefits of both retirees and active employees. In a March 2008 memorandum to City employees and retirees, the City Manager announced that because the health and dental benefits can be considered a "vested" benefit, at such time the City Administration would not be recommending a change in these benefits as specified in the Municipal Code. See "— Pension Reform Initiatives", below.

Agreements Related to Federated Plan's Health and Dental Benefits. In April, 2009, the City reached agreements with the bargaining groups with members in the Federated Plan to phase in full pre-funding of the ARC over a five year period. The funding specified in these agreements is also being applied to unrepresented employees. These agreements provide that the initial unfunded retiree healthcare liability will be fully amortized over a thirty year period so that it will be paid by June 30, 2039. From time to time, the actuary for the Federated Plan will update the contributions required to fully fund the ARC by such date. In December 2010, the Federated Board, acting upon advice from its actuary, adopted a 20 year closed amortization period for changes in unfunded actuarial liabilities which develop on or after June 30, 2010.

The agreements also provide that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee contributions and the City cash contribution rate will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year. Notwithstanding these limitations on incremental increases, the agreements further provide that by the end of the five year phase-in the City and the employee members "shall be contributing the full Annual Required Contribution in the ratio currently provided" in the relevant sections of the Municipal Code.

Agreement with POA Related to Police and Fire Plan's Health and Dental Benefits. In February 2009, the City reached an agreement with the Police Officers' Association (the "POA") to fully fund the ARC with respect to the police department employees over a five year period, subject to the limitations described below. The agreement provides that the initial unfunded retiree healthcare liability will be fully amortized over a thirty year closed (decreasing) period starting July 1, 2009 so that it will be paid by June 30, 2039. From time to time, the Police and Fire Plan's actuary will update the contributions required to fully pre-fund the liabilities for retiree healthcare.

The agreement with the POA provides that the five year phase-in of the annual required contributions for police department employees in the Police and Fire Plan will not have an incremental increase of more than 1.25% of pensionable pay in each fiscal year for the employee contributions and City cash contribution will not have an incremental increase of more than 1.35% of pensionable pay in each fiscal year. If at any time the employee's cash contribution rate exceeds 10% of pensionable pay or the City cash contribution rate exceeds 11% of pensionable pay (excluding implicit subsidy as discussed above), the City and the POA will meet and confer on how to address any retiree healthcare contributions above 10% of pensionable pay for employees or 11% of pensionable pay for the City. Such discussions will include alternatives to reduce retiree healthcare costs. These limitations may preclude full funding of the ARC within the five year period.

Agreement with Local 230 Related to Police and Fire Plan's Health and Dental Benefits. The City and Local 230 entered into a labor agreement in March, 2011. See "APPENDIX A—OTHER MATTERS—Labor Relations." The agreement includes provisions to fully fund the ARC with respect to the fire department employees over a five year period commencing on June 26, 2011, subject to the same limitations described above in the discussion of the City's agreement with the POA related to fully funding the ARC for police department employees. These limitations may preclude full funding of the ARC within the five year period.

The agreement provides that the initial unfunded retiree healthcare liability will be fully amortized over a thirty year closed (decreasing) period so that it will be paid by June 30, 2041. From time to time, the Police and Fire Plan's actuary will update the contributions required to fully fund the liabilities for retiree healthcare.

Contribution Rates for Phase-In of ARC for Federated Healthcare Plan. On March 11, 2010, the Federated Board adopted a policy that the contribution rates for the City and the employee members of the Federated Plan will be phased in to meet full funding of the ARC. The contribution rates, expressed as a percentage of payroll that were approved for fiscal years 2010-11 and 2011-12 for the employees and the City are set forth in Table C-9.

Contribution Rates for Health and Dental Benefits for the Police and Fire Plan. Effective July 1, 2009, the Police and Fire Board adopted a policy that the contribution rates for the City and the Police members of the Police and Fire Plan will be phased in to meet full funding of the ARC. The contribution rates, expressed as a percentage of payroll that were approved for fiscal years 2010-11 and 2011-12 for the employees and the City are set forth in Table C-10. The rates applicable to the City and to the employees are shown as blended rates. The rate applicable to the Fire Department employees for fiscal year 2010-11 was determined based on the methodology described above in "— Funding Policy." The rate applicable to the Fire Department employees for fiscal year 2011-12 implements the phase-in of full funding as described above in "— Agreement with Local 230 Related to Police and Fire Plan's Health and Dental Benefits."

Potential Tax Limitation on Phase-In Funding of ARC for Both Healthcare Plans. On February 10, 2011, the Federated Board received a report from the Federated Plan Actuary, indicating that projected contributions to the Federated Plan's medical and dental benefits account were projected to exceed the subordination limits set forth in Internal Revenue Code Section 401(h) during the fiscal year ending June 31, 2012. The Federated Plan Actuary further advised that once the limit is reached, future 401(h) contributions would be limited to one-third of the pension Normal Cost contributions. Although, a subordination limit calculation for the Police and Fire Plan for fiscal year 2011-12 is still pending it is anticipated that a similar concern will arise soon. Section 401(h) of the Internal Revenue Code permits a pension plan to provide retiree health care benefits under certain conditions, one of which is that the retiree healthcare benefits are subordinate to the pension benefits as provided in U.S. Treasury

Regulations. Violation of the U.S. Treasury Regulations' subordination limits could potentially void the plan's tax qualified status.

In order to assure that the ramp up to full funding of the ARC can continue, in May, 2011, the City Council adopted an ordinance to establish an IRC 115 trust as an alternative medical and dental benefits funding vehicle for the Federated Healthcare Plan. The City's contributions for the Federated Healthcare Plan were deposited in the IRC 115 trust for fiscal year 2011-12. Employee contributions will continue to be deposited in the medical and dental benefits account until a private letter ruling from the IRS can be obtained.

It is anticipated that during fiscal year 2011-12 the City Council will consider the adoption of a similar ordinance to establish an IRC 115 trust for the Police and Fire Healthcare Plan. The City Council originally was scheduled to consider the proposed ordinance in May, 2011; however, its consideration was deferred to allow for City staff to meet and confer with the POA and Local 230.

Pension Reform Initiatives

Pension reform has been the subject of the City Council discussion since fall 2010 in light of projected increases to the City's contribution for both retirement and retiree health and dental benefits. As described below, the City Council has considered recommendations related to pension reform and taken a number of actions since fall 2010. These are described in chronological order.

September 2010 - City Auditor's Pension Report. The Charter establishes the office and responsibilities of the City Auditor. The City Auditor is an appointee of the City Council whose responsibilities under the Charter include the conducting of City Council-assigned performance audits to determine whether (1) City resources are being used in an economical, effective, and efficient manner; (2) established objectives are being met; and (3) desired results are being achieved.

On September 29, 2010, the City Auditor released a report entitled: "Pension Sustainability: Rising Pension Costs Threaten the City's Ability to Maintain Service Levels – Alternatives for a Sustainable Future" (the "Pension Report"). The City Auditor presented the Pension Report to the full City Council on October 26, 2010, and the Council accepted the Report in its entirety.

The Pension Report outlines its objectives as "to assess the long-term sustainability of the City's pension benefits and the potential impact of increase in pension costs on City operations, and provide background on pension reform alternatives." The Pension Report's focus is on the pensions paid by Pension Plans, rather than the retiree health and dental benefits provided by the Pension Plans. The City Auditor in the Pension Report made a number of recommendations to the City Council and the City Administration as generally discussed below.

The Pension Report provides background information regarding both Pension Plans, including the history of pension benefit increases, the significant growth of the UAAL for both Pension Plans since 1991 in terms of both the dollar amount and percentage of the unfunded liability and the costs associated with various benefits provided by the respective Plans. In this connection, the Pension Report recommends that the City Council explore prohibiting:

1. Pension benefit enhancements without voter approval.

2. Retroactive pension benefit enhancements that create unfunded liabilities.

Further, as a significant portion of the UAAL for both Pension Plans as of June 30, 2009 is attributable to actuarial assumptions not holding true, the City Auditor recommends that the City Council amend the Municipal Code to require an actuarial audit of the Pension Plans' valuations every five years if the actuary retained by the Police and Fire Board or Federated Board, as applicable, has not changed during the five year time period.

The Pension Report also briefly outlines five additional recommendations for the City's Administration to pursue as cost-containment strategies, either alone or in combination. As a number of the recommendations listed below involve changes to the Pension Plans for the City's current employees, the Pension Report recognizes that there are legal constraints on the City's ability to make changes.

1. Additional cost sharing between City and employees.

2. Eliminating the SRBRs in both Pension Plans, or at least prohibiting transfers in and distributions from the SRBRs when the Pension Plans are underfunded.

3. Negotiating with employee bargaining groups for changes to the Pension Plans for existing employees.

4. Establishing a second tier pension benefit for new employees.

5. Considering whether to join the California Public Employees Retirement System in order to reduce administrative costs.

The Pension Report makes the observation that "…there is the risk that even if the previous recommendations are implemented, pension costs may still be unsustainable." The Pension Report does not quantify the potential risk or address at what level pension costs would be unsustainable. In this regard, the Pension Report recommends that the City Council should receive annual updates related to the Pension Plans and that communication with the Pension Plans' members regarding the performance of the Pension Plans and their financial health should be improved.

Consistent with the City's practices related to the City Auditor's issuance of audit reports, the Pension Report includes a response from the City's Administration. The City Administration's response noted that there would be retirement reform efforts undertaken in fiscal year 2010-11, including: (1) the reconvening of a prior task force comprised of residents, employees and other interest groups to consider issues related to retirement reform; and (2) negotiations with City employee bargaining groups related to retirement reform.

November 2010 - Charter Amendment Related to Pensions. The City Council placed Measure W on the November 2, 2010 ballot to amend the pension provisions in the Charter to (1) allow the City Council, by ordinance, to exclude officers and employees hired on or after the ordinance's effective date from any retirement plans or benefits then in existence and to establish a retirement plan or plans for such officers and employees that do not meet current minimum requirements set forth in the Charter for City retirement plans, and (2) require in the Charter that any new or different retirement plan be actuarially sound. Measure W required majority approval and passed with 71% of the electorate voting in favor of passage.

January 2011 - Second Tier Retirement Benefit for New Employees. In January, 2011, the City Council considered and approved recommendations on negotiation of second tier retirement program for new employees. The City Council accepted the staff recommendation that the Normal Cost to the City and employees not exceed 12.4% of pensionable pay. In addition, the Council directed that second tier

retirement plan proposals provide benefits greater than those provided by Social Security and to seek further direction from the City Council as necessary.

March 2011 - Mayor's March Budget Message. In March, 2011, the Mayor released his March Budget Message for fiscal year 2011-12 (the "March Budget Message") which was unanimously approved by the City Council. The March Budget message recommended that the City Council adopt a number of fiscal reform guiding principles. Specifically, with respect to pension issues, the recommendations adopted by the City Council included: (1) maintaining the City's contributions to both Pension Plans at the same amounts paid in fiscal year 2010-11; (2) continuing to make the contributions to both Pension Plans as determined by their respective boards; (3) reducing retirement benefits for current employees in a number of ways; (4) eliminating the automatic 3% cost of living increases paid to retirees; and (5) eliminating supplemental payments to retirees except under limited circumstances.

May 2011/June 2011-Fiscal Reform Plan; Proposal to Declare Fiscal Emergency. On May 24, 2011, the City Council considered and approved a number of proposals related to fiscal reform, including pension reform, for City staff to provide additional analysis and recommendations at the City Council's meeting on June 21, 2011.

The pension reforms under review include: (1) elimination of the SRBRs for both Pension Plans with transfer of the balances as of June 30, 2011 to the respective retirement funds to fund current retirement benefits, (2) pursuit of a new healthcare plan available to active employees that reduces the lowest cost plan for retirees, (3) pursuit of establishment of second tier retirement plans for new employees hired on or after January 1, 2012, that is a hybrid of Social Security benefits and a defined contribution plan, and (4) pursuit of changes to the existing Pension Plans for current employees in order to alter computation of final maximum compensation, change in benefit accrual rate for future years of service, increasing the eligible age for retirement and increased employee cost sharing and the reduction/elimination of cost of living adjustment for existing retirees. The City Council also directed City staff to negotiate the proposed pension reform measures with the City's bargaining groups and to draft various charter amendments in order to implement fiscal reforms, including pension reforms, for City Council consideration on August 2, 2011 for possible submission for voter approval in November, 2011.

Additionally, the City Council approved the recommendation made by the Mayor and three other Councilmembers that City staff be directed to return to the City Council at its meeting of June 21, 2011 with a formal declaration of "fiscal and public safety emergency that describes the necessity of making fiscal reforms to avert a fiscal disaster, prevent substantial degradation of public safety and other vital city services, and maintain the integrity of our retirement system so that earned and accrued benefits can be paid to current and future retirees."

At a special meeting on June 24, 2011, the City Council expanded its direction to City staff regarding negotiation of pension reform measures with the City's bargaining groups to include (1) provide the option for current employees to "opt-in" to the second-tier retirement benefits to be developed for both the Police and Fire Plan and the Federated Plan so that when combined with the other pension reforms, the City's contribution for both pension and retiree healthcare benefits for fiscal year 2012-13 does not exceed $186 million from all City funds; (2) for the employees who choose not to opt-in to the second-tier retirement benefits, negotiate additional employee contributions to pay for benefits and the UAAL or positive employee incentives with the goal that the City's total contribution for pension and retiree healthcare for fiscal year 2012-13 does not exceed $186 million from all City funds; and (3) encourage bargaining groups to offer other alternatives that would result in equivalent savings.

Subsequently, the City Council deferred taking action on the declaration of fiscal emergency and the consideration of Charter amendments first to its meeting of August 2, 2011 and then to an undetermined date after October 31, 2011. As a result, voter approval of any Charter amendments will not occur prior to March, 2012.

Summer/Fall 2011 Negotiations Related to City Charter Amendments and Changes to Pension Plans and Other Employee Benefits.

Overview. During Summer 2011, the City commenced negotiations with its eleven bargaining groups regarding (1) the proposed amendments to the City Charter and (2) changes to pension, retiree healthcare, employee compensation and other employee benefits for both current and new employees. Under California law, the City is required to meet and confer with its bargaining groups on City Charter amendments to be submitted to the voters that relate to the terms and conditions of employment of the bargaining groups' members.

The City and five of the eleven bargaining groups have an agreed upon framework for negotiations related to the City Charter amendment and changes to the Pension Plans with negotiations to conclude by October 31, 2011 in order to meet timing requirements for placing a City Charter amendment on the ballot in March, 2012. Negotiations have also occurred with a number of the other bargaining groups about both the proposed City Charter amendment and other matters related to the Pension Plans, including retiree healthcare and dental benefits.

The City and five of the eleven bargaining groups have proceeded to mediation (pursuant to the impasse procedures set forth in the City's resolution governing employer-employees relations) on both the proposed City Charter amendment and other matters related to the Pension Plans including changes to retiree healthcare and dental benefits. With two bargaining groups, the City has proceeded to mediation or is attempting to schedule mediation related to the proposed City Charter amendment only. Finally, the City has offered to proceed to mediation with the remaining four bargaining groups related to the proposed City Charter amendment, but these bargaining groups did not respond prior to the City's deadline.

Set forth below is a summary of the proposed City Charter amendment, the issues under negotiation and proposals from bargaining groups that were received prior to November 11, 2011. Since November 11, 2011, the City has received an amendment to the Public Safety Proposal (as defined below) and a new proposal from the coalition of non-management bargaining groups. The City has not evaluated the potential cost savings from these recent proposals. It is anticipated that as mediation sessions occur additional proposals and counter-proposals will be made. The City cannot predict the outcome of these negotiations or the cost savings, if any, that may result from reaching agreement with one or more bargaining groups.

Proposed City Charter Amendment. The current draft of the proposed City Charter amendment, dated October 27, 2011 ("Proposed Charter Amendment"), entitled: "The Employee Fair Pay Act for Fiscal Sustainability", has been revised since it was originally presented to the bargaining groups in July, 2011 and it may undergo additional revisions. In general terms, the Proposed Charter Amendment, if approved by a majority of the voters, would amend the City Charter to: (1) set forth findings related to the cost of current pension and retiree healthcare and dental benefits and the impact of the continued funding of these benefits on the City's ability to provide certain essential services and that these facts and circumstances constitute an emergency within the meaning of State law governing public employee labor relations and the City's authority as a Charter city under the State Constitution; (2) reserve to the voters the right to consider any change related to pension and other post-employment matters; (3) prohibit the City Council from approving any increase in pension and/or retiree healthcare benefits; (4) provide for

City Council authority to effectuate the terms of the proposed City Charter amendment subject to the City Charter's limitations; (5) require that the City Council enact a "Voluntary Election Program" to be effective by June 30, 2012 under which current employees who are members of the existing Pension Plans would have the right to enroll and which would provide reduced benefits as described below in "Voluntary Election Program; Reduced Benefits for Current Employees", subject to IRS approval; (6) require current employees who are members of the existing Pension Plans and who do not elect to enroll in the Voluntary Election Program to pay increased contributions towards the UAAL as described below in "Voluntary Election Program; Reduced Benefits for Current Employees"; (7) establish the parameters for new employees who become members of both Pension Plans ("Tier 2") as described below in "Pension Benefits for New Employees"; (8) limit eligibility for a disability retirement and require that the determination of disability be made by an independent panel of medical experts appointed by the City Council; (9) require the City Manager to propose, and the City Council to adopt by ordinance, a suspension of the current automatic annual 3% adjustment to the retirement allowance paid by both Pension Plans until January 2017 with conditions imposed on its restoration following January 2017; (10) prohibit the payment of supplemental benefits to retirees to be paid from the "plan assets"; (11) establish a minimum contribution of 50% of the cost of retiree healthcare benefits for both existing and new employees, with a reservation of the City's rights to amend or terminate any retiree healthcare provision and to define the "low cost plan" for purposes of retiree healthcare benefits; (12) specify requirements related to actuarial soundness for both pension and retiree healthcare plans; (13) specify limitations on employee compensation and benefits without voter approval in the event certain service level or UAAL thresholds are triggered; and (14) provide that if certain of the Charter amendment provisions applicable to current employees are held to be unenforceable then "to the maximum extent permitted by law, an equivalent amount of savings shall be obtained through pay reductions" with the pay reductions implemented in an amount not to exceed 5% of compensation each year, capped at a maximum of 25% of pay or "the equivalent of what would be 50% of the amortized pension unfunded liability."

Voluntary Election Program; Reduced Benefits for Current Employees. Under the Voluntary Election Program ("VEP") outlined in the Proposed Charter Amendment, current employees and their spouses or domestic partners would have the right to make an irrevocable election to enroll in the VEP and thereafter current employees would accrue pension benefits at the rate of 1.5% per year as opposed to the higher accrual rates under the existing Pension Plans. However, current employees would retain the pension benefits that had been earned prior to their enrollment in the VEP and the maximum retirement benefit currently available under the existing Pension Plans would remain the same. The Normal Cost would be shared in the not to exceed ratio of 8/11 for the City and 3/11 for the employee with the City bearing all of the liability for "unfunded liabilities related to past service." The calculation of "final compensation" would be based on the average salary of three highest consecutive years instead of the highest single year as is currently the case with both Pension Plans subject to certain limitations.

Additionally, the VEP would phase in an increase to the eligible retirement age by 6 months per year for current employees regardless of years of service so that at the conclusion of the phase in period the minimum retirement age for the Federated Plan's members and the Police and Fire Plan's members would be 65 and 60, respectively. Earlier retirement (no earlier than age 55 for Federated Plan members and age 50 for Police and Fire Plan members) would be permitted "with reduced payments that do not exceed the actuarial value of full retirement." IRS approval of the VEP would be required in order to maintain the tax qualification of the existing Pension Plans and the ability to classify employee contribution as pre-tax contributions.

Disability retirement and survivorship benefits would also be reduced as compared to the existing Pension Plans.

Current employees who do not elect to enroll in the VEP would be responsible for sharing 50% of the costs to amortize any pension unfunded liabilities, including the unfunded liabilities associated with the employees who elected to enroll in the VEP. The cost of implementing the current employee's share is to be phased in with their share of the cost set at 5% of pensionable pay starting June 24, 2012 (the commencement date of the first pay period of fiscal year 2012-13), which would be increased by 5% annually until the current employee's proportionate share of the cost reaches 50% of the amortized pension unfunded liabilities, with each employee's share capped at 25% of the employee's pensionable pay. Regardless of whether the VEP were implemented, the current employees' obligation to pay the additional contribution to the unfunded liabilities would be required to commence as of June 24, 2012. This provision is to address the likelihood that IRS approval of the VEP would not occur prior to June 24, 2012.

Pension Benefits for New Employees. Under the Proposed Charter Amendment, the amount of the City's contribution would be limited to a minimum of 6.2% and a maximum of 9% of pensionable pay with the City's share of the cost for both the Normal Cost and unfunded liabilities for new employees in Tier 2 of the existing Pension Plans not to exceed 50%. The Proposed Charter Amendment would permit the Tier 2 plan to be a "hybrid plan" consisting of Social Security and a defined benefit and/or defined contribution plan. To the extent the Tier 2 plan were to include a defined benefit component, the accrual rate and minimum retirement age would be the same as for the VEP.

Retiree Healthcare for Current and New Employees. The Proposed Charter Amendment sets forth limitations on the City's provision of retiree healthcare benefits for both new and existing employees. In addition to the negotiations with bargaining groups related to the Proposed Charter Amendment, the City is in negotiations with its bargaining groups on changes to retiree healthcare benefits for current and new employees.

Currently for retirees, the existing Pension Plans pay the premium for the "lowest cost plan" which means a medical plan available to the City's active employees for single or family coverage with the lowest priced premium. The existing Pension Plans also pay the premium of the dental plan. Retirees who select a medical plan with a higher premium pay the differential in the premiums between their selected medical plan and the lowest cost medical plan. The City's proposal for retiree healthcare for current employees including employees enrolled in the VEP would be to include a high deductible medical plan as the lowest cost plan.

For new employees hired on or after April 1, 2012, the City proposes to eliminate dental coverage and to contribute $20 per year for each year of service, up to a maximum of 30 years, towards the premium for a medical plan for eligible employees. For members in the Federated Plan, eligibility is limited to employees who retire from the Federated Plan with at least 15 years of service and who are at least 65 years old. For members in the Police and Fire Plan, eligibility is limited to employees who retire from the Police and Fire Plan with at least 20 years of service and who are at least 55 years old.

The cost of retiree healthcare for both Normal Cost and the UAAL is to be shared between the City and the new employees at a ratio of 50/50 with the cost to be calculated by each Pension Plan's actuary.

As compared to the retiree healthcare benefits currently provided by both Pension Plans, reduced benefits for survivors and disability retirees also would apply.

Bargaining Groups' Proposals/Tentative Agreements. The City has received two proposals regarding pension reform for both current and new employees from five of the eleven bargaining groups. Neither proposal proposes changes to retiree healthcare benefits. The POA and Local 230 have submitted

a proposal applicable to police and fire employees in the Police and Fire Plan (the "Public Safety Proposal"). IFPTE, Local 21 has submitted a proposal on behalf of AEA, CAMP and AMSP related to their members in the Federated Plan (the "IFPTE Proposal").

The Public Safety Proposal proposes no changes to benefits for current employees or retirees and to continue to meet and confer related to the City's proposal to eliminate the SRBR. Instead, new employees would become members of CalPERS and current employees would be provided the opportunity to opt out of the Police and Fire Plan to become members of CalPERS. The maximum benefit available to both new employees and current employees who opt into CalPERS would remain at 90% of final compensation as determined under State law governing CalPERS. Employee contributions and accrual of benefits would also be determined under State law governing CalPERS. Based on preliminary discussions with CalPERS representatives, it is estimated that the process for transitioning employees from the Police and Fire Plan to CalPERS would take at least nine months and would involve a transfer of assets from the Police and Fire Plan to CalPERS.

Subsequent to making the Public Safety Proposal, the POA and Local 230 amended it to: propose the parties engage in negotiations related to workers' compensation reform, to offer to pay for CalPERS'valuation of their proposal to opt into CalPERS; and to state their position that they need to understand the "legal opinion and process which enables the City to move forward on changes to the SRBR." The POA and Local 230 also proposed that new employees would not be eligible for SRBR benefits and current employees who opt into CalPERS would "forfeit SRBR payments" with the assets then "rolled in" to the retiree medical plan.

The IFPTE Proposal proposes no changes for current employees; however, the IFPTE Proposal includes a voluntary opt-in program for current employees with reduced benefits prospectively, a cap on the COLA for retirees at 2%, the elimination of the SRBR and no change to the cost sharing of the Normal Cost and the UAAL. For new employees, the proposal is the same as for current employees except that the Normal Cost is shared between employees and the City at a 50:50 ratio.

The POA and Local 230 estimate that the cumulative cost savings from the Public Safety Proposal for fiscal year 2012-13 through fiscal year 2015-16 would be $76.8, assuming that 66% of current employees opted to become members of CalPERS. IFPTE estimates that the cumulative cost savings from the IFPTE Proposal for the same period would be $44.2 million, assuming that all members of the Federated Plan agree to opt-in to their proposed voluntary opt-in program and assuming that 33% of City employees by fiscal year 2015-16 are new employees. The IFPTE Proposal also assumes that incentives will be made available to current employees to encourage opting into their opt-in program, but the cost of those incentives are not included in the IFPTE cost estimate.

In addition to the two proposals discussed above, the City has received a proposal from a coalition of five non-management bargaining groups (ABMEI, CEO, MEF, IBEW and OE#3) limited to reducing benefits for new employees only under certain specified circumstances. Lastly, the City has reached tentative agreements with these same bargaining groups to eliminate the Federated Plan's SRBR "as soon as practicable", and place the funds within the SRBR "in the Federated City Employees Retirement System Fund."

Side Letter with POA. In June, 2011, the City and the POA entered into a separate side letter related to retirement reform ("POA Side Letter"). The POA Side Letter sets out the parties' agreement to continue to negotiate pension and retiree healthcare benefits for current and future employees and if no agreement is reached, follow the City's impasse procedures, including arbitration under the City's Charter. The parties further agreed that in the event that the parties could not reach agreement on an opt-in program for a lower level of pension benefits for current employees by November 1, 2011, then at the

POA's option, the City, subject to certain conditions being met, would implement an opt-in program that POA previously had proposed effective December 25, 2011. The POA's opt-in proposal included a maximum 80% of final compensation benefit, a fixed 2% annual COLA for retirees and calculation of final compensation based on 3 year final average salary.

The conditions for implementation would be (1) execution of an irrevocable waiver to elect enrollment in the opt-in program by 40% of the POA's members and (2) issuance by the IRS of a qualification letter. However, even if these conditions were met, the POA would retain the option to not proceed with the opt-in program. Further, if less than 40% of the POA's members elect enrollment, but the IRS qualification letter is issued, the parties may mutually agree to implement the opt-in program.

In the POA Side Letter, the POA expressly acknowledges that the POA's proposed opt-in program "is not the solution to the costs of the City's retirement benefits and unfunded liabilities for both pensions and retiree healthcare." The Side Letter then outlines that the City has informed the POA that further changes will be required, which may include increased contributions for those who may elect to enroll in the POA's proposed opt-in program. The POA Side Letter also provides "that neither party waives any legal rights including the Union's nor any member's right to assert that certain rights are vested."

City Estimate of Cost Savings. The City disagrees with the savings estimates provided by the bargaining groups proposing the IFPTE Proposal and the Public Safety Proposal based on the underlying assumptions used and instead estimates that the savings for both proposals are in the range of $4 million to $47 million.

The City currently estimates that the cost savings for fiscal year 2012-13 through fiscal year 2015-16 in all funds from implementing the changes to the Pension Plans for current employees, reducing the cost of living adjustment for retirees, implementing the VEP and requiring additional contributions from current employees who elect to not opt in to the VEP, eliminating the SRBRs and making the changes to retiree healthcare would be in the range of $117.2 million to $161.6 million. The City's estimate is in a range as it is unknown whether the VEP would receive IRS approval or the number and demographics of the current employees who opt into the VEP.

It is important to note that the savings estimates from the bargaining groups and the City are based on the valuations for both Pension Plans dated as of June 30, 2010 and may need to be adjusted to reflect the results of the valuations for both Pension Plans dated as of June 30, 2011 following the completion of those valuations. Also, the estimates made by the City and the bargaining groups do not include the cost of reducing the number of employees in the existing Pension Plans through the VEP offered by the City or the voluntary opt-in programs or CalPERS options proposed by the bargaining groups.

Fiscal Emergency/Legal Risks. The City cannot predict whether a fiscal emergency will be declared or whether any of the proposed pension reform measures will be implemented. There are a number of legal issues raised by the pension reform measures that could impede or prevent their implementation. Some of the more significant legal issues are noted below.

Implementing changes to some of the retirement benefits for current employees is subject to the limitations imposed by the City Charter, the amendment of which will require voter approval. As described above, for current employees represented by bargaining groups, the City is required to meet and confer regarding proposed retirement changes and under the City's Charter, and may be required to proceed to binding arbitration in case of impasse with its public safety bargaining groups. As recognized in the Proposed Charter Amendment, in order to implement the type of opt-in program that is provided

for in the Proposed Charter Amendment and the bargaining groups' proposals, federal tax issues related to retirement plans will need to be addressed prior to implementation. Finally, existing law regarding vested rights and impairment of contracts may limit the City's ability to change retirement benefits for current employees and retirees, which limitations may not be overcome by the City's declaration of a fiscal emergency or by voter approval of the Proposed Charter Amendment.

CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT

DEFINITIONS

The following are definitions of certain terms used in this Official Statement, including in the summaries of the Master Trust Agreement and the Eighth Supplemental Trust Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the full terms of the Master Trust Agreement and the Eighth Supplemental Trust Agreement.

Accreted Value

"Accreted Value" means, with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in a Supplemental Agreement as the amount representing the initial principal amount of such Capital Appreciation Bond plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date (plus, if such calculation is between compounding dates, the amount of interest accumulated at the original offering yield of the Capital Appreciation Bond from the most recent compounding date) as determined in accordance with the provisions of the Supplemental Agreement authorizing the issuance of such Capital Appreciation Bonds.

Act

"Act" means Section 9110 of the Aviation Safety and Capacity Expansion Act of 1990 (codified at 49 U.S.C. App. 1513(e)), as amended or any successor or similar federal statute.

Additional Bonds

"Additional Bonds" means Bonds issued pursuant to the Master Trust Agreement with a parity claim with Bonds previously issued thereunder as to General Airport Revenues.

Allocated General Airport Revenues

"Allocated General Airport Revenues" has the meaning set forth under "SECURITY FOR THE BONDS — Flow of Funds — Surplus Revenue Fund — Rate Stabilization Fund" in the forepart of this Official Statement.

Annual Debt Service

See definition of "Debt Service."

Available PFC Revenues

"Available PFC Revenues" means PFC Revenues made available to pay Debt Service in any period as described under "SECURITY FOR THE BONDS — Other Available Funds, CFC Revenues and Available PFC Revenues" in the forepart of this Official Statement.

Balloon Bond

"Balloon Bond" means any Bond (including commercial paper notes and bond anticipation notes), 25% or more of the principal of which matures or is payable on the same date

and which is not required by the instrument pursuant to which such Bond was incurred, to be amortized by payment or redemption prior to such date.

Beneficial Owner

"Beneficial Owner" means the Person who has an ownership interest in any Bond which is held in custodial deposit by DTC and registered in the name of Cede & Co., the nominee of DTC, or by any other institution designated to act as depository or nominee pursuant to the Master Trust Agreement.

Bond Counsel

"Bond Counsel" means a counsel of recognized national standing in the field of law relating to municipal bonds and the exemption from federal income taxation of interest thereon, appointed and paid by the City.

Bondholder; Bondowner, Owner

"Bondholder," "Bondowner" or "Owner" means any person who shall be the registered owner of any Outstanding Bond.

Bonds

"Bonds" means all of the bonds authorized by, and at any time Outstanding pursuant to, the Master Trust Agreement or any Supplemental Agreement, including any Additional Bonds authorized by, and at any time Outstanding pursuant to, the Master Trust Agreement and any Supplemental Agreement, but not including Subordinate Obligations.

Book-Entry Bonds

"Book-Entry Bonds" means Bonds issued under the book-entry system pursuant to the Master Trust Agreement.

Business Day

"Business Day" means any day other than a Saturday, Sunday or day upon which banks in San Francisco, California, or New York, New York are authorized or required to be closed.

Capital Appreciation Bonds

"Capital Appreciation Bonds" means Bonds all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Agreement and is payable only upon redemption or on the maturity date of such Bonds. Bonds which are issued as Capital Appreciation Bonds, but later convert to Bonds on which interest is paid periodically shall be Capital Appreciation Bonds until the conversion date and from and after such conversion date shall no longer be Capital Appreciation Bonds, but shall be treated as having a principal amount equal to their Accreted Value on the conversion date.

CFC Law

"CFC Law" means Section 1936.5 of the California Civil Code, as amended, and Ordinance No. 26063 adopted by the Council on March 7, 2000 and codified as Part 6 of Chapter 25.08 of the San José Municipal Code, as amended, or any successor legislation.

CFC Revenues

"CFC Revenues" means all amounts received by the City from the payment of any customer facilities fees or charges and customer transportation fees or charges by customers of automobile rental companies, including but not limited to fees or charges pursuant to certain sections of the CFC Law. CFC Revenues also include all interest, profits or other income derived from the deposit or investment of any CFC Revenues.

Code

"Code" means the Internal Revenue Code of 1986, as amended, and any successor to the Code.

Continuing Disclosure Agreement

"Continuing Disclosure Agreement" means, with regard to any Bonds, the agreement signed by the City and acknowledged by the Trustee on the date such Bonds are issued in form and substance satisfactory to the purchaser of such Bonds, pursuant to the requirements of Securities and Exchange Commission Rule 15c2-12.

Current Interest Bonds

"Current Interest Bonds" means Bonds interest on which is payable at least annually pursuant to the Supplemental Agreement under which they are issued.

Debt Service; Annual Debt Service; Maximum Annual Debt Service

"Debt Service" means for any specified period the sum of (1) the interest falling due on any then Outstanding Current Interest Bonds, assuming that all Principal Installments are paid when due, but excluding any interest funded from the proceeds of any series of Bonds and applied toward the payment of interest on such Bonds, and (2) the Principal Installments payable on any then Outstanding Bonds. For the purpose of determining Debt Service on any Bonds, the following shall apply:

(1) To determine the interest payable on Variable Rate Bonds, the interest rate used shall be (except to the extent that either subsection (2) relating to Hedged Bonds or subsection (4) relating to Balloon Bonds applies), at the option of the City either (a) for purposes of the calculations required by the rate maintenance covenant (see "SECURITY FOR THE BONDS — Rate Maintenance Covenant" in the forepart of this Official Statement), the actual interest rates which were in effect for the relevant period of calculation, or (b), for all other purposes, the current average annual fixed rate of interest on securities of similar quality, subject to similar federal and state income tax treatment and having a similar maturity date, all as certified by a financial advisor, plus 25 basis points (0.25%). With respect to any Guaranteed Obligations, Debt Service shall include the Guaranteed Obligation Requirements, if any.

(2) With respect to any Hedged Bonds, the interest on such Hedged Bonds during the term of any Qualified Hedge and for so long as the related Qualified Hedge Provider has not defaulted on its payment obligations thereunder, shall be calculated by adding (a) the amount of interest payable by the City on such Hedged Bonds pursuant to their terms, and (b) the amount of payments payable by the City under the related Qualified Hedge, and subtracting (c) the amount of payments payable to the City under the Qualified Hedge by the Qualified Hedge Provider at the rate specified in the related Qualified Hedge; provided, however, that to the extent that the related Qualified Hedge Provider is in default under the Qualified Hedge, the amount of interest payable by the City on the related Hedged Bonds shall be the interest calculated as if such Qualified Hedge had not been executed. In determining the amount of payments by or receipts of the City under a Qualified Hedge for any future period that are not fixed throughout the term thereof (i.e., which are variable), such payments or receipts for any period of calculation (the "Determination Period") shall be computed by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to the average of the actual variables which were in effect for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period).

(3) For the purpose of calculating the Debt Service on Balloon Bonds which do not constitute Short-Term Obligations excluded from the calculation of Debt Service pursuant to clause (6) below, such Balloon Bonds shall be treated as if the principal amount thereof were amortized from the date originally incurred in substantially equal installments of principal and interest over a term of 25 years (provided, however, that the full principal amount of such Balloon Bonds shall be included in making such calculation if such principal amount is due within one year of the date such calculation is being made); and, if interest accrues under such Balloon Bonds at other than a fixed rate, the interest rate used for such computation shall be the rate at which the City could borrow (as of the time of calculation) for such period, as certified by a certificate of a Financial Advisor delivered to the City. With respect to any Guaranteed Obligations, Debt Service shall include the Guaranteed Obligation Requirements, if any.

(4) The principal of and interest on Bonds, Guaranteed Obligation Requirements and payments under a Qualified Hedge shall be excluded from the determination of Debt Service to the extent that the same were or are expected to be paid with amounts on deposit on the date of calculation (or Bond proceeds to be deposited on the date of issuance of proposed Bonds) in a fund under the Master Trust Agreement or any Supplemental Agreement.

(5) For purposes of computing the Debt Service of Paired Obligation Bonds, the applicable rate of interest payable thereon shall be the net interest rate payable pursuant to the offsetting indices.

(6) For purposes of calculating the Debt Service of Short-Term Obligations which are or will be payable only from General Airport Revenues of the Fiscal Year in which such Short-Term Obligations are incurred, such Short-Term Obligations shall be disregarded and shall not be included in calculating Debt Service.

(7) Notes which are issued in anticipation of the receipt of grants shall not be included in calculating Debt Service.

"Annual Debt Service" means the Debt Service for the Fiscal Year to which reference is made less the Available PFC Revenues for such Fiscal Year.

"Maximum Annual Debt Service" means the largest Annual Debt Service amount for a Fiscal Year ending after the date of calculation.

Designated Debt

"Designated Debt" means a specific indebtedness, designated by the City, in which such debt shall be offset with a Qualified Hedge, such specific indebtedness to include all or any part of a series of Bonds.

Enterprise

"Enterprise" means the San José International Airport, now located partially within and partially without the City, including runways, taxiways, landing pads, navigational and landing aids, control towers, facilities for storage of aircraft and for parking of automobiles, roadways, passenger and freight terminals, land, easements and rights in land for clear zone and approach purposes, maintenance hangars and related facilities and all equipment, buildings, grounds, facilities, utilities and structures owned, leased or operated by the City in connection with or for the promotion or the accommodation of air commerce and air navigation and services in connection therewith, together with all additions, betterments, extensions and improvements thereto, to the fullest extent permitted by the Charter and the Law. The term "Enterprise", unless otherwise specifically limited in any Supplemental Agreement, shall also include all other airports, airfields, landing places, heliports or places for the take-off and landing of aircraft, and all airport facilities appurtenant thereto, wheresoever situated, hereafter owned or operated by the City.

Event of Default

"Event of Default" means an event of that name described under "Events of Default" below.

Federal Securities

"Federal Securities" means any of the investments described in subsections (a), (b), (c), (d) or (k) of the definition of Permitted Investments.

Financial Advisor

"Financial Advisor" means an investment banking or financial advisory firm, commercial bank, or any other Person who or which is retained by the City for the purpose of passing on questions relating to the availability and terms of specified types of Bonds and is actively engaged in and, in the good faith opinion of the City, has a favorable reputation for skill and experience in underwriting or providing financial advisory services in respect of similar types of securities.

Fiscal Year

"Fiscal Year" means the period beginning on July l of each year and ending on the next succeeding June 30, or such other fiscal year as may be adopted by the Council for the City.

General Account

"General Account" means the General Account within the Bond Reserve Fund.

General Airport Revenues

"General Airport Revenues" means all revenues, income, receipts and moneys derived by the City from the operation of the Enterprise, including (i) income derived from landing fees and the sale or use of airplane fuel, (ii) all other rents and charges made to or for the account of airplanes making use of the Enterprise, (iii) receipts from agriculture, automobile service stations and automobile parking on airport land, (iv) proceeds of loss of use or business interruption insurance, and (v) all receipts from leases and concessions, including rents, percentages of income or receipts for business conducted on any property in the Enterprise or from services performed by the City in connection with or incidental to the operation of the Enterprise, but excluding –

(1) any money received by or for the account of the City from the levy or collection of taxes,

(2) moneys received from the State of California and the United States of America to the extent required to be deposited in restricted funds and/or used for purposes inconsistent with their use as General Airport Revenues under the terms of the Master Trust Agreement,

(3) lease deposits and security deposits,

(4) moneys required to be paid to the State of California and the United States of America pursuant to agreements with the City,

(5) moneys received from insurance proceeds or settlements (except as otherwise provided in the Master Trust Agreement) or the sale of or upon the taking by or under the threat of eminent domain of all or any part of the Enterprise,

(6) proceeds from Bonds or Subordinate Obligations issued by the City or proceeds from loans, indebtedness or other obligations entered into by the City,

(7) moneys or securities received by the City as gifts or grants, to the extent the use of such moneys or securities is restricted by the donor or grantor to purposes inconsistent with their use as General Airport Revenues under the terms of the Master Trust Agreement,

(8) CFC Revenues,

(9) PFC Revenues,

(10) Special Facility Revenues,

(11) Unrealized Items,

(12) Qualified Hedge Termination Payments, and

(13) Cargo facility charges or similar fees imposed on any of cargo operators, cargo facilities or cargo parcels.

"General Airport Revenues" also includes all interest, profits or other income derived from the deposit or investment of any moneys in the General Revenue Fund or any account therein except as otherwise provided under the Master Trust Agreement.

Guaranteed Obligation Requirements

"Guaranteed Obligation Requirements" means, with respect to any Guaranteed Obligations pertaining to any series of Bonds, for purposes of any calculation for the Fiscal Year in which such calculation is made and for each subsequent Fiscal Year, the amount required to be paid by the City to the Qualified Bank during such Fiscal Year (whether by reason of scheduled payments, payments required to be made at the option or demand of the Qualified Bank, or otherwise) as compensation (to the extent not taken into account in Maintenance and Operation Costs of the Enterprise) or reimbursement in accordance with the terms of the Letter of Credit Agreement, if on or prior to the date of calculation, the Letter of Credit shall have been drawn upon in whole or in part to pay the principal of and/or interest on the Guaranteed Obligations and such draw shall not have been reimbursed. In such case the repayment obligations under the Letter of Credit Agreement shall be on a parity with all Outstanding Bonds.

Guaranteed Obligations

"Guaranteed Obligations" means Bonds becoming due on one fixed maturity date, the payment of which is additionally secured by a Letter of Credit issued by a Qualified Bank pursuant to a Letter of Credit Agreement. Nothing prevents any series of Bonds from having two or more maturities of Guaranteed Obligations if the Guaranteed Obligations are not stated to mature in consecutive annual installments.

Hedged Bonds

"Hedged Bonds" means Bonds for which the City shall have entered into a Qualified Hedge.

Independent Certified Public Accountant

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants appointed and paid by the City, and who, or each of whom –

(1) is in fact independent and not under domination of the City;

(2) does not have any substantial interest, direct or indirect, with the City; and

(3) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

Investment Agreement

"Investment Agreement" means:

(1) an uncollateralized investment agreement that is provided by (i) a domestic FDIC-insured commercial bank or a US branch of a foreign bank, rated at least

"Aa2" by Moody's and "AA" by Standard & Poor's; (ii) a domestic insurance company rated "Aaa" by Moody's and "AAA" by Standard & Poor's; (iii) a domestic structured investment company approved by each Municipal Bond Insurer and rated "Aaa" by Moody's and "AAA" by Standard & Poor's; or (iv) a guaranteed corporation or a monoline financial guaranty insurance company approved by each Municipal Bond Insurer, provided that the long-term debt or claims-paying ability rating of the company or the guarantor is "Aaa" by Moody's and "AAA" by Standard & Poor's; and

(2) a collateralized investment agreement that is provided by (i) a registered broker/dealer subject to SPIC jurisdiction rated "A1" or better by Moody's and "A+" or better by Standard & Poor's; (ii) a domestic FDIC-insured commercial bank or a US branch of a foreign bank, rated at least "A1" by Moody's and "A+" by Standard & Poor's; (iii) a domestic insurance company rated at least "A1" by Moody's and "A+" by Standard & Poor's; (iv) a domestic structured investment company approved by each Municipal Bond Insurer and rated "Aaa" by Moody's and "AAA" by Standard & Poor's; or (v) a guaranteed corporation or a monoline financial guaranty insurance company approved by each Municipal Bond Insurer, provided that the long-term debt or claims-paying ability rating of the company or the guarantor is "Aaa" by Moody's and "AAA" by Standard & Poor's.

Notwithstanding the foregoing, both that certain Series 2007 Collateralized Investment Agreement , dated as of September 13, 2007, by and between the Trustee and Citigroup Global Markets Inc., and that certain Series 2004 Collateralized Investment Agreement, dated as of September 13, 2007, by and between the Trustee and Citigroup Global Markets Inc., shall be Investment Agreements under the Trust Agreement.

Law

"Law" means the City of San José Airport Revenue Bond Law (Chapter 4.38 of the San José Municipal Code).

Letter of Credit

"Letter of Credit" means an irrevocable and unconditional letter of credit, a standby purchase agreement, a line of credit or other similar credit arrangement issued by a Qualified Bank to secure payment of Guaranteed Obligations or Variable Rate Bonds.

Letter of Credit Agreement

"Letter of Credit Agreement" means an agreement between the City and a Qualified Bank pursuant to which such Qualified Bank agrees to issue a Letter of Credit and which sets forth the repayment obligation of the City to such Qualified Bank on account of any draw under the Letter of Credit, which agreement shall be authorized by the City in a Supplemental Agreement. Said Supplemental Agreement shall also authorize the issuance or remarketing of the Guaranteed Obligations or Variable Rate Bonds secured by such Letter of Credit.

Maintenance and Operation Costs of the Enterprise

"Maintenance and Operation Costs of the Enterprise" means the costs of maintaining and operating the Enterprise, calculated on sound accounting principles, including

(among other things) salaries and wages, benefits, fees for services, costs of materials, supplies and fuel, expenses of management, repairs and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and amounts for administration, overhead, insurance, taxes (if any), letter of credit fees, broker-dealer fees, auction agent fees, trustee fees, bond administration expenses, arbitrage rebate calculation and payment requirements and other similar costs, but excluding in all cases depreciation and obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, costs of capital additions, replacements, betterments, extensions or improvements to the Enterprise, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, Qualified Hedge Termination Payments, Unrealized Items, costs associated with any Special Facility otherwise paid pursuant to a Special Facility Agreement, and charges for the payment of principal and interest on any indebtedness heretofore or hereafter issued for airport purposes.

Maximum Annual Debt Service

See definition of "Debt Service."

Minimum Sinking Fund Account Payments

"Minimum Sinking Fund Account Payments" means the aggregate amounts required by the Master Trust Agreement and any Supplemental Agreement to be deposited in Sinking Fund Accounts for the payment of Term Bonds.

Municipal Bond Insurer

"Municipal Bond Insurer" means any insurance company or companies which has or have issued a policy of municipal bond insurance insuring payment of the principal of and interest on any of the Bonds of any series and are designated as such in a Supplemental Agreement providing for the issuance or sale of the Bonds of such series.

Net General Airport Revenues

"Net General Airport Revenues" means General Airport Revenues less all Maintenance and Operation Costs of the Enterprise, but not including such Maintenance and Operation Costs as may be paid by the City from available moneys other than General Airport Revenues.

Opinion of Counsel

"Opinion of Counsel" means a written opinion of counsel (who may be counsel for the City) retained by the City and who is acceptable to the Trustee.

Other Available Funds

"Other Available Funds" means amounts (other than General Airport Revenues or PFC Revenues) made available to pay Debt Service in any period as described under "SECURITY FOR THE BONDS – Other Available Funds, CFC Revenues and Available PFC Revenues" in the forepart of this Official Statement.

Outstanding

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to certain exceptions) all Bonds theretofore executed, issued and delivered by the City under the Master Trust Agreement except --

(1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) Bonds for the payment or redemption of which funds or securities in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Master Trust Agreement satisfactory to the Trustee shall have been made for the giving of such notice; and

(3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the City pursuant to the Master Trust Agreement.

For purposes of this definition, Bonds the principal of or interest on which has been paid by a Municipal Bond Insurer shall not be deemed paid by or on behalf of the City, shall not be defeased and shall remain Outstanding under the Master Trust Agreement until paid by the City.

For purposes of determining the percentage of consenting Owners of Capital Appreciation Bonds required by the Master Trust Agreement on any date, the Outstanding aggregate principal amount of Capital Appreciation Bonds shall be equal to the Accreted Value of such Capital Appreciation Bonds on such date.

Outstanding Subordinate Notes

"Outstanding Subordinate Notes" means the City's outstanding San José International Airport Subordinated Commercial Paper Notes, Series A, B and C and any other Subordinated Commercial Paper Notes that are issued and Outstanding from time to time.

Paired Obligation Bonds

"Paired Obligation Bonds" means Bonds issued by the City which consist of an arrangement in which two inversely related Variable Rate Bonds are issued with interest based on off-setting indices or other mechanism resulting in a combined payment which is economically equivalent to a fixed rate.

Payment Date

"Payment Date" means any interest, or interest and principal, payment date on which payment of the Principal Installments of or interest on the Bonds is due.

Permitted Investments

"Permitted Investments" means any of the following, unless provided otherwise in a Supplemental Agreement with regard to a series of Additional Bonds, but only to the extent then permitted by the City's Investment Policy, as amended from time to time by the Council:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described under subsection (2) below).

(2) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America:

(i) U.S. Export-Import Bank (Eximbank);

(ii) Farmers Home Administration (FmHA);

(iii) Federal Financing Bank;

(iv) Federal Housing Administration Debentures (FHA);

(v) General Services Administration;

(vi) Government National Mortgage Association (GNMA or "Ginnie Mae");

(vii) U.S. Maritime Administration; and

(viii) U.S. Department of Housing and Urban Development (HUD).

(4) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies:

(i) Federal Home Loan Bank System;

(ii) Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac");

(iii) Federal National Mortgage Association (FNMA or "Fannie Mae");

(iv) Student Loan Marketing Association (SLMA or "Sallie Mae");

(v) Resolution Funding Corp. (REFCORP) obligations; and

(vi) Farm Credit System.

(5) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and rated "AAAm-G," "AAA-m" or better by Standard & Poor's Corporation (and the equivalent by Moody's), and including funds for which the Trustee and its affiliates provide investment advisory or other management services.

(6) Certificates of deposit secured at all times by collateral described in subsections (2) or (3) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Bondholders must have a perfected first security interest in the collateral.

(7) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

(8) Commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by Standard & Poor's.

(9) Bonds or notes issued by any state or municipality which are rated by Moody's and Standard & Poor's in one of the two highest rating categories assigned by such agencies.

(10) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by Standard & Poor's.

(11) Pre-refunded Municipal Obligations;

(12) The Local Agency Investment Fund of the State of California;

(13) Investment Agreements; and

(14) Repurchase Agreements.

Person

"Person" means a corporation, firm, other body corporate (including, without limitation, the United States of America, the State of California, or any other body corporate and politic other than the City), partnership, limited liability company, association, or individual, and also includes an executor, administrator, trustee, receiver, or other representative appointed according to law.

PFC Revenues

"PFC Revenues" means passenger facility charges collected by the City pursuant to the Act and the Regulations, as amended from time to time, and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

Pre-refunded Municipal Obligations

"Pre-refunded Municipal Obligations" means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(1) which are rated, based on an irrevocable escrow account or fund, in the highest rating category by at least two Rating Agencies; or

(2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described under paragraph (2) of the definition of Permitted Investments, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

Principal Installment

"Principal Installment" means, with respect to any Bond, the amount of principal or Accreted Value payable on a Payment Date, whether by reason of the maturity of a Bond or the mandatory redemption thereof from Minimum Sinking Fund Account Payments.

Project

"Project" means any additions, enlargements, betterments, extensions and other improvements or expenditures to or related to, and the equipping of, the Enterprise, including, without limitation, the acquisition of land therefor, passenger terminal facilities and related aircraft aprons, automobile parking, runways, utility plants and systems, terminal roadway systems, other transportation systems, rental car facilities, parking facilities and systems related thereto, landscaping, noise control improvements or expenditures (including such expenditures on private property) and related facilities, all as authorized in and described by the Master Trust Agreement or any Supplemental Agreement.

Qualified Bank

"Qualified Bank" means a state or national bank or trust company or savings and loan association or a foreign bank with a domestic branch or agency which is organized and in good standing under the laws of the United States or any state thereof or any foreign country, which is legally authorized to provide a Letter of Credit with respect to Guaranteed Obligations.

Qualified Hedge

"Qualified Hedge" means any financial arrangement (including any option obtained by the City to enter into such arrangement in the future) between the City and a Qualified Hedge Provider (a) which provides that each of the parties shall pay to the other an

amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or variable rate or measured against some other rate) on a Designated Debt, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement), including a swap, cap, floor or collar; (b) which provides that if such amount is to be paid before it is deemed to have accrued, the amount paid shall reflect the present value of such future amount (i.e., an upfront premium), while an amount to be paid after it is deemed to have accrued shall reflect the time value of such funds; (c) which provides that payment dates and calculated accrual rates need not be the same for each payor, but to the extent payment dates coincide, the arrangement may (but need not) provide that one shall pay to the other any net amount due under such arrangement, (d) which relates to Designated Debt consisting of all or part of a particular series of Bonds; (e) the provider of which is a Qualified Hedge Provider or has been a Qualified Hedge Provider within the 60 day period preceding the date on which the calculation of Annual Debt Service is being made; (f) which has a term not greater than the term of the Designated Debt or to a specified mandatory tender or redemption of such Designated Debt; and (g) which has been designated in writing to the Trustee by the City as a Qualified Hedge with respect to such Bonds.

Qualified Hedge Provider

"Qualified Hedge Provider" means a financial institution whose senior long-term debt obligations, or whose obligations under any Qualified Hedge are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations are rated in either of the two highest rating categories by at least two Rating Agencies, or the equivalent thereto in the case of any successor thereto.

Qualified Hedge Termination Payment

"Qualified Hedge Termination Payment" means an amount payable by the City or a Qualified Hedge Provider, in accordance with a Qualified Hedge, to compensate the other party to the Qualified Hedge for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Qualified Hedge.

Qualified Independent Airport Consultant

"Qualified Independent Airport Consultant" means a person or a firm who or which engages in the business of advising the management of airports concerning the operation and financing of airports, including consultation and advice with respect to leases and agreements with airline companies and concessionaires of all types and character, and also including advice and consultation generally concerning the use and operation of airports, and which person or firm, by reason of his or its knowledge and experience, has acquired a reputation as a recognized airport consultant. Such Qualified Independent Airport Consultant may include a person or firm rendering professional engineering or accounting services in addition to his or its occupation as an airport consultant and may include any person or firm regularly employed by the City as an airport consultant to the City.

Qualified Reserve Facility

"Qualified Reserve Facility" means (i) a surety bond or similar instrument issued by a Municipal Bond Insurer, obligations insured by which have a rating of "AAA" (or the equivalent) by at least two Rating Agencies (one of which must be Moody's) on the date the

Qualified Reserve Facility is issued, or (ii) a Letter of Credit issued by a Qualified Bank which has a rating of "AA" (or the equivalent) by at least two Rating Agencies (one of which must be Moody's) on the date the Qualified Reserve Facility is issued.

Rating Agency

"Rating Agency" or "Rating Agencies" means Moody's Investors Service Inc., Standard & Poor's Rating Service, Fitch, Inc. or any other nationally recognized securities rating agency providing a rating on the Bonds.

Regularly Scheduled Hedge Payments

"Regularly Scheduled Hedge Payments" means the regularly scheduled payments under the terms of a Qualified Hedge which are due absent any termination, default or dispute in connection with such Qualified Hedge.

Regulations

"Regulations" means the regulations promulgated under and pursuant to the Act including 14 CFR Part 158, and also means the terms of any written notification approving the City's use of PFC Revenues given by the Administrator of the Federal Aviation Administration pursuant to said regulations.

Repurchase Agreement

"Repurchase Agreement" means a repurchase agreement with

(1) a primary dealer on the Federal Reserve reporting dealer list which is rated "A" or better by Standard & Poor's and Moody's; or

(2) a bank rated "A" or better by Standard & Poor's and Moody's; or

(3) a domestic structured investment company approved by each Municipal Bond Insurer and rated "Aaa" by Moody's and "AAA" by Standard and Poor's; or

(4) a guaranteed corporation or a monoline financial guaranty insurance company approved by each Municipal Bond Insurer, provided that the long-term debt or claims-paying ability rating of the company or the guarantor is "Aaa" by Moody's and "AAA" by Standard & Poor's,

that require the delivery of investments described in clauses (2), (3), (4)(i), (4)(ii), (4)(iii) or (4)(vi) of the definition of Permitted Investments. Such collateral must be delivered to the City, the Trustee (if the Trustee is not supplying the collateral) or a third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before or simultaneously with payment (perfection by possession of certificated securities). Such collateral must be valued weekly, marked-to-market at current market price plus accrued interest. The value of such collateral must equal 104% of the amount of cash transferred by the City or the Trustee to the counterparty under the repurchase agreement, plus accrued interest. If the value of such collateral is at any time below 104% of the value of the cash transferred by the City or the Trustee, then additional cash and/or acceptable collateral must be provided. Notwithstanding the foregoing, if the securities provided as collateral are investments described in clauses (4)(i), (4)(ii), (4)(iii) or

(4)(vi) of the definition of Permitted Investments, then the value of such collateral must equal 105%.

Required Reserve

"Required Reserve" means, with respect to any series of Bonds, the amount required to be maintained in the reserve fund, if any, for such series of Bonds pursuant to the Supplemental Agreement authorizing the issuance of such series of Bonds. The Required Reserve for the Series 2001A Bonds, the Series 2002 Bonds, the Series 2011A-1 Bonds and the Series 2011A-2 Bonds (the "Existing General Account Bonds"), and any Additional Bonds issued on a parity therewith and secured by the General Account within the Bond Reserve Fund, shall be the lesser of (i) the Maximum Annual Debt Service on all Existing General Account Bonds and such Additional Bonds, or (ii) the amount permitted to be held in the General Account within the Bond Reserve Fund by the arbitrage bond regulations issued by the United States Department of the Treasury under Section 148 of the Code, as such regulations are, at the time, applicable and in effect; provided, however, that any Required Reserve may be provided in whole or in part by one or more Qualified Reserve Facilities.

Rolling Coverage Amount

"Rolling Coverage Amount" means the uncommitted amounts in the Maintenance and Operation Fund or the General Revenue Fund, in an amount not to exceed 25% of Annual Debt Service in any Fiscal Year, that are available to pay Maintenance and Operation Costs of the Enterprise or Debt Service on Bonds and that are designated as the Rolling Coverage Amount by the City.

Serial Bonds

"Serial Bonds" means Bonds designated as Serial Bonds in the Supplemental Agreement providing for the issuance of such series and for which no Minimum Sinking Fund Account Payments are provided.

Short-Term Obligations

"Short-Term Obligations" means bonds, notes or other evidences of indebtedness that have a claim on the General Airport Revenues and a total maturity of not more than 12 months.

Sinking Fund Account

"Sinking Fund Account" means any special account or accounts established by the Master Trust Agreement or any Supplemental Agreement for the payment of Term Bonds.

Special Facility

"Special Facility" means buildings and facilities incident or related to the Enterprise, which are designated as Special Facilities pursuant to a Special Facility Agreement subject to the provisions of the Master Trust Agreement. See "Special Facilities" below.

Special Facility Agreement

"Special Facility Agreement" has the meaning specified under "Special Facilities" below.

Special Facility Revenues

"Special Facility Revenues" means revenues with respect to any Special Facility to the extent they are excluded from General Airport Revenues as provided in a Special Facility Agreement.

Subordinate Obligations

"Subordinate Obligations" means bonds, notes or other evidences of indebtedness which have a claim on the General Airport Revenues that is subordinate to the claim of the Bonds.

Supplemental Agreement

"Supplemental Agreement" means any trust agreement then in full force and effect which has been duly approved, executed and delivered by the City and the Trustee under and in conformity with the Law, and which is amendatory of or supplemental to the Master Trust Agreement; but only if and to the extent that such Supplemental Agreement is specifically authorized thereunder.

Term Bonds

"Term Bonds" means Bonds designated as Term Bonds in the Supplemental Agreement providing for the issuance of such series that are payable at or before their specified maturity date or dates from Minimum Sinking Fund Account Payments established for that purpose and that are calculated to retire such Bonds on or before their specified maturity date or dates.

Trustee

"Trustee" means BNY Western Trust Company, appointed as Trustee pursuant to the Master Trust Agreement, its successors and assigns, and any other corporation or association which may at any time be substituted in its place.

Unrealized Items

"Unrealized Items" mean, with respect to the calculation of Maintenance and Operation Costs of the Enterprise or General Airport Revenues for any period, any revenues or expenses recognized in accordance with generally accepted accounting principles which are due to unrealized gains or losses caused by marking assets or liabilities of the Enterprise to market.

Variable Rate Bonds

"Variable Rate Bonds" means Bonds which bear interest at a variable rate of interest.

Yield

"Yield" shall have the meaning ascribed to such term by the Code.

THE MASTER TRUST AGREEMENT

The following is a summary of certain provisions of the Master Trust Agreement, as amended by the Eighth Supplemental Trust Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the full terms of the Master Trust Agreement.

Pledge of Revenues

All of the General Airport Revenues are irrevocably pledged to the payment of the Maintenance and Operation Costs of the Enterprise and to the principal of and interest on the Bonds, and the General Airport Revenues may not be used for any other purpose while any of the Bonds remain Outstanding; except that the General Airport Revenues may be used for such purposes as are expressly permitted by the Master Trust Agreement. Said pledge shall constitute a lien on the General Airport Revenues for the payment of the Maintenance and Operation Costs of the Enterprise and the Bonds in accordance with the terms of the Master Trust Agreement, which lien shall be prior to any other lien or claim against the General Airport Revenues.

The City covenants and agrees that all General Airport Revenues will be received and held by the City in trust as provided by the Master Trust Agreement and will be accounted for through the General Revenue Fund. All such General Airport Revenues, whether held as trustee by the City or deposited with the Trustee, shall nevertheless be disbursed, allocated and applied solely to the uses and purposes set forth as provided by the Master Trust Agreement, and shall be accounted for separate and apart from all other moneys, funds, accounts or other resources of the City. All General Airport Revenues at any time paid into the General Revenue Fund shall be held by the City in trust for the benefit of the Owners at any time of the Bonds issued under the Master Trust Agreement and entitled to be paid therewith, and the City shall have no beneficial right or interest in any of such moneys, except only as in the Master Trust Agreement provided. All General Airport Revenues deposited with the Trustee shall be held, disbursed, allocated and applied as provided in the Master Trust Agreement by the Trustee.

Liability of City Limited to General Airport Revenues and Other Available Funds

Notwithstanding anything in the Master Trust Agreement to the contrary, the City shall not be required to advance any moneys derived from the proceeds of any taxes collected in the City, or from any source of income other than the General Airport Revenues pledged to the payment of any Bonds under the Master Trust Agreement and the Other Available Funds and Available PFC Revenues made available therefor, for the payment of the principal of or interest on such Bonds, for the maintenance and operation of the Enterprise, for the performance of any covenants or for the payment of any obligations, including indemnification. The City may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the City for such purpose without incurring indebtedness.

The Bonds shall be revenue bonds, payable exclusively from the General Airport Revenues, Other Available Funds and Available PFC Revenues, as in the Master Trust Agreement provided. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Bonds or their interest. The Owners of the Bonds shall never have the right to compel the exercise of the taxing power of the City or the forfeiture of any property of the City. The principal of and interest on the Bonds and any premiums upon the redemption of any thereof shall not be a debt of the City, nor a legal or equitable pledge,

charge, lien or encumbrance upon any property of the City or upon any of its income, receipts or revenues except the amounts pledged to the payment thereof as provided in the Master Trust Agreement.

Issuance of Bonds under the Master Trust Agreement

Bonds may be issued from time to time under the Master Trust Agreement, the Charter and the Law for any airport purpose, including for the purpose of financing and refinancing the acquisition, construction, expansion, improvement of one or more Projects and the Enterprise. The aggregate principal amount of Bonds which may be issued is not limited (subject, however, to the right of the City to limit or restrict the aggregate principal amount of Bonds which may at any time be issued and Outstanding) and may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, all issued and to be issued pursuant to the Master Trust Agreement and the Law, subject to certain limitations (see "SECURITY FOR THE BONDS — Additional Series of Bonds" in the forepart of this Official Statement). The Master Trust Agreement constitutes a continuing agreement with the Owners of all of the Bonds issued or to be issued and Outstanding thereunder to secure the full and final payment of the principal of and the premiums, if any, and the interest on all Bonds, subject to the covenants, agreements, provisions and conditions therein contained.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the Master Trust Agreement, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the same series and maturity, for a like aggregate principal amount. The Trustee shall require the payment by any Bondowner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. No transfer of Bonds shall be required to be made by the Trustee after the fifteenth day of the month next preceding each Payment Date.

Exchange of Bonds. Bonds may be exchanged at the principal corporate trust office of the Trustee in San Francisco, California, for a like aggregate principal amount of Bonds of other authorized denominations of the same series and maturity. The Trustee shall require the payment by the Bondowner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. No exchange of Bonds shall be required to be made by the Trustee after the fifteenth day of the month next preceding each Payment Date.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the City, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver a new Bond of like tenor and number in exchange and substitution for the Bond so mutilated (except that such number may be preceded by a distinguishing prefix), but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, the City. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Trustee and, if such evidence be satisfactory to both and indemnity satisfactory to them shall be given, the City, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver a new Bond in lieu of and in substitution for the Bond so lost, destroyed or stolen (except that such number may be preceded by a distinguishing prefix). The City may require payment of a sum not exceeding

the actual cost of preparing each new Bond and of the expenses which may be incurred by the City and the Trustee in the premises. Neither the City nor the Trustee shall be required to treat both the original Bond and any duplicate Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued or for the purpose of determining any percentage of Bonds Outstanding, but both the original and duplicate Bond shall be treated as one and the same.

Proceedings for the Issuance of Series of Additional Bonds

Whenever the City shall determine to issue an series of Additional Bonds, the City shall authorize, and cause to be executed and delivered a Supplemental Agreement providing for the issuance of such series of Additional Bonds, setting forth the terms of such Additional Bonds in a new appendix to the Master Trust Agreement. Such Supplemental Agreement may also provide that the proceeds, funds and accounts relating to such Additional Bonds may be invested in investments other than those set forth in the definition of Permitted Investments.

None of the limitations or restrictions on the issuance of Additional Bonds set forth in the Master Trust Agreement are applicable to any series of Additional Bonds which are to be issued solely for the purpose of refunding and retiring all of the Bonds issued and then Outstanding, and nothing in the Master Trust Agreement limits the issuance of any Additional Bonds if, after the issuance and delivery of such Additional Bonds, none of the Bonds theretofore authorized will be Outstanding or the City shall have discharged the entire indebtedness on all such Bonds Outstanding in one of the ways authorized by the Master Trust Agreement.

Qualified Hedges

The obligation of the City to make Regularly Scheduled Hedge Payments under a Qualified Hedge with respect to a series of Bonds may be on a parity with the obligation of the City to make payments with respect to such series of Bonds and other Bonds issued on a parity with such Bonds, except as otherwise provided by a Supplemental Agreement and in the Master Trust Agreement with respect to any Qualified Hedge Termination Payments. The City may provide in any Supplemental Agreement that Regularly Scheduled Hedge Payments under a Qualified Hedge shall be secured by a pledge of or lien on the General Airport Revenues on a parity with the Bonds of such series and all other Bonds on a parity therewith, regardless of the principal amount, if any, of the Bonds of such series remaining Outstanding. In the event that a Qualified Hedge Termination Payment or any other amounts other than as described in the preceding two sentences are due and payable by the City under a Qualified Hedge, the obligation of the City to pay such Qualified Hedge Termination Payment and any such other amounts shall be subordinate to all other obligations payable from the General Airport Revenues, unless otherwise specified in a Supplemental Agreement.

Special Facilities

Anything in the Master Trust Agreement to the contrary notwithstanding, the City may enter into contracts, leases, subleases or other agreements pursuant to which the City or the other parties to such agreements will agree to construct or cause to be constructed a Special Facility on land constituting part of the Enterprise or will agree to acquire or construct a Special Facility on land not then constituting part of the Enterprise (which land if not then owned or leased by the City may be acquired for such purpose), or to acquire and remodel, renovate or rehabilitate a building, structure or other facility (including the site thereof) for a Special Facility (a "Special Facility Agreement") under the following conditions:

(1) No Special Facility may be constructed or acquired and subject to a Special Facility Agreement under the provisions of the Master Trust Agreement summarized under this heading if the result of the use or occupation of such Special Facility under the Special Facility Agreement would result in a reduction of Net General Airport Revenues and Other Available Funds below the minimum amount of Net General Airport Revenues and Other Available Funds convenanted to be produced and maintained in accordance with the Master Trust Agreement as determined by a certificate of the Director of Finance; and

(2) Any financing for the Special Facility shall be secured as provided in the Special Facility Agreement and shall not be secured by or payable from the General Airport Revenues or any of the funds or accounts held under the Master Trust Agreement. The Special Facility Agreement may provide the terms and conditions under which any revenues of the Special Facility will become General Airport Revenues.

Certain Covenants of the City

Payment of Principal and Interest. The City will punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of every Bond, in strict conformity with the terms of the Bonds and of the Master Trust Agreement, but solely from the General Airport Revenues pledged to the payment of said Bonds and any Other Available Funds made available for the payment of Debt Service.

Against Encumbrances. Subject to any rights of the United States of America or the State of California, except as expressly authorized under the Master Trust Agreement, the City will not mortgage or otherwise encumber, pledge or place any charge upon the Enterprise or any part thereof, or upon any General Airport Revenues, or issue any bonds or obligations payable from such revenues, prior to or on a parity with the Bonds (except as provided under the Master Trust Agreement), provided that Letter of Credit Agreements entered into in connection with Guaranteed Obligations or Variable Rate Bonds and any Regularly Scheduled Hedge Payments may be payable on a parity with the Bonds.

Nothing in the Master Trust Agreement shall prevent the City from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness which as to principal or interest, or both, (1) are payable from General Airport Revenues after and subordinate to the payment of the principal of and interest on the Bonds, or (2) are payable from moneys which are not General Airport Revenues.

Sale or Other Disposition of Property. The City will not sell or otherwise dispose of the Enterprise or any part thereof essential to the proper operation of the Enterprise or to the maintenance of any General Airport Revenues except as expressly permitted under the Master Trust Agreement. The City will not enter into any lease or agreement which impairs the operation of the Enterprise or impedes the rights of the Owners of the Bonds with respect to the General Airport Revenues or the operation of the Enterprise, but the City may enter into any lease or agreement concerning all or any part of the Enterprise for airport or non-airport uses if such lease or agreement will not impair the operation of the Enterprise or impede the rights of the Owners of the Bonds with respect to the General Airport Revenues or the operation of the Enterprise.

Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Enterprise, or any material or equipment which has worn out, may be sold if such sale (together with all other sales theretofore made in the calendar year in which such sale is described in this paragraph) will not reduce annual General Airport Revenues in an amount which would cause the City to be unable to comply with the provisions described earlier in the Official Statement under "SECURITY FOR THE BONDS – Rate Maintenance Covenant" and if all of the net proceeds of such sale (less any amounts payable to the United States of America or the State of California or required by the United States of America or the State of California to be deposited in a restricted fund) are deposited in the General Revenue Fund.

The City has reserved the right to sell all or a portion of the Enterprise, and to enter into and execute agreements for and to complete such sale, but subject to the following specific conditions, which are conditions precedent to such sale:

(1) The City shall be in compliance with all covenants set forth in the Master Trust Agreement, and in all Supplemental Agreements theretofore executed and delivered by the City.

(2) The Council shall have determined by resolution that the net proceeds of the sale (less any amounts payable to the United States of America or the State of California or required to be deposited in a restricted fund) are to be used (i) for the redemption of Bonds, or (ii) for the making of additions or improvements to or extensions of the Enterprise.

(3) If the City shall have determined that the net proceeds of the sale (less any amounts payable to the United States of America or the State of California or required to be deposited in a restricted fund) are to be used for the redemption of Bonds, such proceeds of the sale shall be deposited with the Trustee, and the following conditions shall have been satisfied:

(i) The Council shall have authorized and caused to be executed and delivered a Supplemental Agreement providing for the redemption of the maximum principal amount of Bonds which can be redeemed from such proceeds of such sale, or, in the event that no Bonds are subject to redemption on the next succeeding interest payment date, directing the Trustee (A) to hold such proceeds in trust, (B) to invest such proceeds in the investments permitted in the Master Trust Agreement until any such Bonds shall become redeemable, subject to any restrictions imposed by the Master Trust Agreement, (C) to deposit the interest and income on such proceeds in the General Revenue Fund as such interest and income is received, and (D) to use such proceeds to redeem Bonds in the amount and manner specified in the Master Trust Agreement and any Supplemental Agreement on the first interest payment date on which the Bonds can be redeemed; and a certified copy of such Supplemental Agreement shall have been filed with the Trustee.

(ii) If such proceeds are not to be immediately used for the redemption of Bonds but instead are to be held by the Trustee until such Bonds become redeemable, the City shall have filed with the Trustee a written report of an independent certified public accountant stating (A) the amount of proceeds to be deposited with the Trustee from such sale, (B) an estimate of the total amount of Bonds and the amount of such Bonds of each maturity which could be redeemed from such proceeds on the first interest payment date on which such Bonds are redeemable, and (C) the estimated annual interest and income

to be earned on such proceeds while held and invested by the Trustee. Such interest and income on such proceeds upon receipt by the Trustee shall be deposited in the General Revenue Fund and shall be treated as General Airport Revenues for all purposes of the Master Trust Agreement, including determining whether the City is in compliance with the covenant described earlier in the Official Statement under "SECURITY FOR THE BONDS — Rate Maintenance Covenant."

(iii) If such proceeds of such sale are to be immediately used to redeem Bonds, the Net General Airport Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of the adoption by the Council of the resolution authorizing such sale, less a deduction for the portion of such Net General Airport Revenues attributable to the portion of the Enterprise to be sold, all as shown by a certificate or opinion of an independent certified public accountant or a written report of a Qualified Independent Airport Consultant, shall be at least equal to 125% of Maximum Annual Debt Service for Bonds to be Outstanding following the redemption of Bonds from the proceeds of such sale.

(iv) If such proceeds are not to be immediately used for the redemption of Bonds but instead are to be held by the Trustee until such Bonds become redeemable, the Net General Airport Revenues for the last Fiscal Year or last recorded twelve-month period preceding the date of adoption by the Council of the resolution authorizing such sale, less a deduction for the portion of such Net General Airport Revenues attributable to the portion of the Enterprise to be sold, plus an allowance for the estimated annual interest or income to be earned on the invested proceeds of such sale while held and invested by the Trustee, all as shown by a certificate or opinion of an independent certified public accountant or a written report of a Qualified Independent Airport Consultant, shall be at least equal to 125% of Maximum Annual Debt Service on Bonds Outstanding at the time of such sale.

If the City shall have determined that the net proceeds of the sale (less any amounts payable to the United States of America or the State of California or required to be deposited in a restricted fund) are to be used for the making of additions or improvements to or extensions of the Enterprise, such proceeds of the sale shall be deposited by the Director of Finance in a special fund in trust to be used for the making of additions or improvements to or extensions of the Enterprise, and there shall have been filed with the Trustee a certificate of the City to the effect that, after such sale and application of funds, the General Airport Revenues will be sufficient to allow the City to continue to be in compliance with the covenant described earlier in the Official Statement under "SECURITY FOR THE BONDS — Rate Maintenance Covenant."

Notwithstanding any other provision of the Master Trust Agreement, the City shall be permitted to sell or transfer the Enterprise in its entirely to another public agency with (i) the consent of each Municipal Bond Insurer which insures the Outstanding Bonds, (ii) the consent of a majority in aggregate principal amount of Outstanding Bonds not insured by a Municipal Bond Insurer, (iii) the delivery to the Trustee of an opinion of Bond Counsel to the effect that such sale or transfer will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds, (iv) the delivery to the Trustee of a confirmation from each Rating Agency then rating the Bonds that such sale or transfer will not adversely affect the rating on the Bonds, and (v) the full and complete assumption by such public agency of the obligations of the City under the Master Trust Agreement and under the Bonds.

Maintenance and Operation of Enterprise. The City will maintain and preserve the Enterprise in good repair and working order at all times from the General Airport Revenues available for such purposes, in conformity with standards customarily followed in the aviation industry for airports of like size and character. The City will not take any action or omit to take any action that would cause the Federal Aviation Administration, the Department of Transportation or any other state or federal agency to suspend or to revoke the City's operating certificates for the Enterprise. The City will at all times use reasonable efforts to keep the Enterprise open for take-offs and landings.

Liens and Claims. Subject to any rights of the United States of America or the State of California, the City shall keep the Enterprise and all parts thereof free from judgments, from mechanics' and materialmen's liens and from all liens and claims of whatsoever nature or character, to the end that the security provided pursuant to the Master Trust Agreement may at all times be maintained and preserved, and the City shall keep the Enterprise and the General Airport Revenues free from any liability which, in the judgment of the Trustee (and its determination thereof shall be final), might hamper the City in conducting its business or operating the Enterprise.

Insurance. The City shall procure or cause to be procured, and maintain or cause to be maintained, at all times while any of the Bonds are Outstanding, insurance on the Enterprise against such risks (including accident to or destruction of the Enterprise) as are usually insured against in connection with similar enterprises. Any proceeds of any such insurance shall be used as set forth in the Master Trust Agreement.

The City may adopt alternative risk-management programs to insure against any of the risks required to be insured against under the Master Trust Agreement, including a program of self-insurance, in whole or in part. Any such alternative risk management program must be approved as reasonable and appropriate by a risk management consultant designated by the City, who may be an employee of the City. The approval of the risk management consultant shall be in the form of a report on the nature of the program and the adequacy of its funding which shall be prepared and filed with the Trustee within 90 days of implementation of such program and thereafter annually no later than 90 days following the renewal of the City's insurance policies in each year in which such program is in effect.

The City will deliver to the Trustee no later than 90 days following the date of renewal of the City's insurance policies in each year a schedule, in such detail as the Trustee in its discretion may request, setting forth specified information on the insurance policies then in force. Each such insurance policy shall require that the Trustee be given thirty (30) days' notice of any intended cancellation thereof or reduction of the coverage provided thereby.

Books and Accounts; Financial Statements; Reporting and Notice Requirements. The City will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee or of any Owner of Bonds then Outstanding or their representatives authorized in writing, at reasonable hours and under reasonable conditions.

The City will prepare and file with the Trustee annually within six months after the close of each Fiscal Year so long as any of the Bonds are Outstanding:

(1) financial statements of the Enterprise for the preceding Fiscal Year, prepared in accordance with generally accepted accounting principles applied on a consistent basis from year to year, including a balance sheet (which shall include a statement showing the balances in each fund required to be established under the provisions of the Master Trust Agreement), statement of income, statement of retained earnings, and statement of changes in financial position, including separate accounts as required pursuant to generally accepted accounting principles for CFC Revenues, PFC Revenues, Other Available Funds and Available PFC Revenues, which financial statements shall be examined by and include the certificate or opinion of an independent certified public accountant, such certificate or opinion to include a statement as to the manner and extent to which the City has complied with the provisions of the Master Trust Agreement as it relates to said financial statements;

(2) a general statement of the physical condition of the Enterprise; and

(3) a statement as to all insurance carried by the City on the Enterprise as of the end of such Fiscal Year, including a brief description of the amount and coverage of each insurance policy and the name of the insuring company.

The City will furnish a copy of the aforesaid statements to any Bondowner upon request, and will furnish to the Trustee such reasonable number of copies thereof (not exceeding 100 copies) as may be required by the Trustee for distribution to investment bankers, security dealers and others interested in the Bonds and to the Owners of Bonds requesting copies thereof. The Trustee shall not be required to incur any nonreimbursable expenses in making such distribution.

City Budgets. The City shall prepare and adopt an annual budget for the Enterprise for each Fiscal Year setting forth in reasonable detail the General Airport Revenues and Other Available Funds anticipated to be derived in such Fiscal Year and the expenditures anticipated to be paid or provided for therefrom in such Fiscal Year. The City shall supply to the Trustee and to any Bondowners who shall so request in writing a copy of the annual budget for the Fiscal Year covered by such budget. Such budget shall be open for inspection by any Owner during normal business hours. If the City shall at any time adopt a revised annual budget for the Enterprise, the City shall supply a copy to the Trustee and to any Bondowner who shall so request in writing.

Maintenance of General Airport Revenues. The City will promptly collect all rents and charges due for the occupancy or use of the Enterprise, if any, as the same become due, and will promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due. The City will at all times maintain and vigorously enforce all of its rights under any leases or other contracts relating to any part of the Enterprise, if any.

Payment of Taxes, Etc. The City will pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the City on account of the Enterprise, if any, or any portion thereof or upon any General Airport Revenues and which, if unpaid, might impair the security of any Bonds, when the same shall become due, but nothing contained in the Master Trust Agreement shall require the City to pay any such tax, assessment or charge so long as it shall in good faith contest the validity thereof.

Eminent Domain Proceeds. If all or any part of the Enterprise shall be taken by or under threat of eminent domain proceedings, the net proceeds realized by the City therefrom (excluding any portion thereof payable to the United States of America or the State of California or required by the United States of America or the State of California to be deposited in a restricted fund) shall be deposited by the Director of Finance in a special fund in trust and applied and disbursed by the Director of Finance subject to the following conditions:

(1) If such proceeds are sufficient to provide for the payment of the entire amount of principal due or to become due upon all of the Bonds, together with all of the interest due or to become due thereon and any redemption premiums, so as to enable the City to retire all of the Bonds then Outstanding, either by redemption at the then-current redemption prices or by payment at maturity or partly by redemption prior to maturity and partly by payment at maturity, the Director of Finance shall transfer such moneys to the Trustee who shall apply such moneys to such retirement and to the payment of such interest. The balance of such moneys, if any shall be transferred back to the City and shall be available for use by the City for any lawful purpose.

(2) If such proceeds are insufficient to provide the moneys required for the purposes set forth in the foregoing subsection (1), the Council shall by resolution determine to apply such proceeds for one of the following purposes, subject to the conditions hereinafter in this subsection (2) set forth:

(a) The City may determine to apply such proceeds to the purchase or redemption of Bonds then Outstanding on the dates and at the prices the Bond are subject to redemption. In that event, the Director of Finance shall transfer such proceeds to the Trustee who shall apply such proceeds to the redemption or purchase of Bonds of each series then Outstanding as set forth in a Written Request of the City.

(b) The City may determine to apply such proceeds to the cost of additions or improvements to or extensions of the Enterprise, if (A) the City first secures and files with the Trustee a written certificate of a Qualified Independent Airport Consultant showing (i) the annual losses, if any, in General Airport Revenues, suffered, or to be suffered, by the City by reason of such eminent domain proceedings, (ii) a general description of the additions, improvements or extensions then proposed to be acquired by the City from such proceeds, and (iii) an estimate of the additional amount of General Airport Revenues to be derived from such additions, improvements or extensions; and (B) such written report concludes that such additional amounts of General Airport Revenues will sufficiently offset the loss of General Airport Revenues resulting from such eminent domain proceedings so that the ability of the City to meet its obligations under the Master Trust Agreement will not be substantially impaired. The conclusion of the Qualified Airport Consultant accepted by the City shall be final and conclusive. The City shall then promptly proceed with the construction of the additions, improvements or extensions substantially in accordance with such written certificate. Payments for such construction shall be made by the City from such proceeds. Any balance of such proceeds not required by the City for the purposes aforesaid shall be deposited in the General Revenue Fund.

(3) If such eminent domain proceedings have had no material effect upon the General Airport Revenues and the security of the Bonds, and a Qualified Independent Airport Consultant so concludes in a written certificate filed with the Trustee, and the Municipal Bond Insurers concur in writing, the Trustee may so determine. Such

determination by the Trustee shall be final and conclusive, and, upon notice thereof, the City may determine to apply such proceeds to the costs of additions or improvements to or extensions of the Enterprise, or may deposit such proceeds in the General Revenue Fund as deemed appropriate by the Director of Finance.

Observance of Laws and Regulations. The City shall comply promptly, fully and faithfully with and abide by any statute, law, ordinance, order, rule or regulation, judgment, decree, direction or requirement now in force or hereafter enacted, adopted or entered by any competent governmental authority or agency applicable or with respect to or affecting the Enterprise; subject to the City's right to contest the applicability or validity thereof as further described in the Master Trust Agreement.

Prosecution and Defense of Suits. The City shall promptly from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Enterprise hereafter developing, and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purposes and, to the extent permitted by law, shall indemnify and save the Trustee and every Bondowner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The City shall defend against every suit, action or proceeding at any time brought against the Trustee or any Bondowner upon any claim arising out of the receipt, application or disbursement of any General Airport Revenues or involving the rights and duties of the Trustee or the rights of any Bondowner under the Master Trust Agreement; provided, that the Trustee or any Bondowner at its or his election may appear in and defend any such suit, action or proceeding. The City shall, to the extent permitted by law, indemnify and hold harmless the Trustee and the Bondowners against any and all liability claimed or asserted by any person arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the Bondowners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation to which any of them may become a defendant by reason of his ownership of Bonds. The City, to the extent permitted by law, shall promptly reimburse any Bondowner in the full amount of any attorneys' fees or other expenses which he may incur in litigation or otherwise in order to enforce his rights under the Master Trust Agreement or the Bonds, provided that such litigation shall be concluded favorably to such Bondowner's contentions therein. Notwithstanding any contrary provision in the Master Trust Agreement, this covenant shall remain in full force and effect, even though all indebtedness and obligations issued under the Master Trust Agreement may have been fully paid and satisfied, until the City shall have been dissolved.

Tax Covenants. The City will take no action that would cause the interest on the Tax-Exempt Bonds to be included in federal gross income and the non-preference status of such interest for federal alternative minimum income tax purposes with respect to Tax-Exempt Bonds that are not "qualified private activity bonds" under the Code. To that end, and without limiting the scope of the foregoing, the City will comply with any tax certificates or agreements entered into in connection with the issuance of any Tax-Exempt Bonds. To the extent necessary or desirable to maintain the exclusion of interest on the Tax-Exempt Bonds from federal gross income, the City may direct the Trustee to invest any funds held under the Master Trust Agreement or any Supplemental Agreement in yield-restricted investments.

Governmental Approvals. The City will perform (or cause to be performed) any construction, reconstructions and restorations of, improvements, betterments and extensions to,

and equippings and furnishings of, and will operate and maintain (or cause to be operated and maintained) the Enterprise at standards required in order that the same may continue to be approved by the proper and competent authority or authorities of the United States of America for the landing and taking off of aircraft operating in scheduled service, and as a terminal point for the receipt and dispatch of passengers, property and mail by aircraft.

Compliance With Terms of Grants-in-Aid. The City shall comply with the requirements of any grants-in-aid received by the City.

Investment of Moneys

All moneys held by the City or the Trustee in the Funds and accounts established or continued under the Master Trust Agreement shall be held in time or demand deposits (including certificates of deposit) in any bank or trust company (including the Trustee) authorized to accept deposits of public funds, and shall be secured at all times by such obligations, and to the fullest extent, as is required by law, and may at the written direction of the City be invested in Permitted Investments, maturing not later than the date on which such moneys are required for payment by the Director of Finance or the Trustee, as the case may be. Moneys in the Bond Reserve Fund may be deposited or invested in time or demand deposits or Permitted Investments which mature not more than five years from the date of investment; provided, however, that any Permitted Investment with a nominal term greater than five years but which permits withdrawal of the entire principal amount of such investment at par, without penalty and at such times as shall be required under the Master Trust Agreement, shall be deemed to have a maturity for purposes of this sentence of the first such permitted withdrawal date. For the purpose of determining the amount of money in the Bond Reserve Fund, all investments of moneys therein shall be valued annually, or more frequently upon Written Request of the City, not to exceed semiannually (or any other frequency agreed upon by the City and the Trustee), at face value if such investments mature within twelve months from the date of valuation, and if such investments mature more than twelve months after the date of valuation, at the price at which such investments are redeemable by the holder at the holder's option, if so redeemable, or, if not so redeemable, at the lesser of (i) the cost of such investments minus the amortization of any premium or plus the amortization of any discount, or (ii) market value of such investments; provided that, prior to making any transfers to the Interest Fund, pursuant to the Master Trust Agreement, or to the General Revenue Fund of amounts on deposit in an account within the Bond Reserve Fund in excess of the Required Reserve, the Trustee shall (i) submit the calculations it used to determine the value of investments held in the Bond Reserve Fund to the City and (ii) obtain written approval of such calculations from the City.

The Trustee may sell or present for redemption any obligations so purchased by it whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss resulting from such investment. The Trustee may act as principal or agent in the acquisition or disposition of any investment. The Trustee may commingle any of the moneys held by it pursuant to the Master Trust Agreement for investment purposes only; provided, however, that the Trustee shall account separately for the moneys belonging to each fund or account established pursuant to the Master Trust Agreement and held by it.

Unless otherwise provided in a Supplemental Agreement, (i) investment earnings on amounts in each of the accounts within each Improvement Fund shall be retained in said accounts and funds, and (ii) investment earnings on amounts in the General Revenue Fund and all accounts therein shall be deposited in the General Revenue Fund.

Events of Default; Acceleration; Waiver of Default

If one or more of the following events (each an "Event of Default") shall happen, that is to say--

(1) if default shall be made in the due and punctual payment of the principal of, or the premium (if any) on, any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or if default shall be made in the redemption or payment at maturity from any Sinking Fund Account of any Term Bonds in the amounts and at the times provided therefor;

(2) if default shall be made in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(3) if default shall be made by the City in the observance of any of the other covenants, agreements or conditions on its part in the Master Trust Agreement or in the Bonds contained, and such default shall have continued for a period of sixty days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City by the Trustee or by a Municipal Bond Insurer, or to the City and the Trustee by the Owners of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(4) if the City shall file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the City, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property;

then, and in every such case, the Owner of any Bond at the time Outstanding shall be entitled to proceed to protect and enforce the rights vested in such Owner by the Master Trust Agreement by such appropriate judicial proceeding as such Owner shall deem most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in the Master Trust Agreement, or in aid of the exercise of any power granted in the Master Trust Agreement, or to enforce any other legal or equitable right vested in the Owners of Bonds by the Master Trust Agreement or by law; provided, however, that no such Bondowner shall have the right to institute any such judicial proceeding unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of at least ten per cent (10%) in aggregate principal amount of the Bonds then Outstanding shall have made written request to the Trustee to exercise the powers granted in the Master Trust Agreement or to institute such action, suit or proceeding in its own name; (c) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate principal amount of the Bonds Outstanding. The provisions of the Master Trust Agreement shall constitute a contract with the Owners of the Bonds, and, subject to the foregoing sentence, such contract and duties of the City and of the Council members, officers and employees thereof shall be enforceable by any

Bondowner by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Bondowners, the City and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Notwithstanding any other provision of the Master Trust Agreement, an Event of Default with respect to the payment of or the performance of a covenant or the satisfaction of any other condition or requirement with respect to any Subordinate Obligation shall not be deemed, in and of itself, an Event of Default with respect to the Bonds unless such Event of Default is also an Event of Default with respect to such Bonds.

Nothing in the Master Trust Agreement or in the Bonds shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal of and the interest (and premium, if any) on the Bonds to the respective Owners of the Bonds at the respective dates of maturity, or upon call for redemption, as provided in the Master Trust Agreement, but only out of the General Airport Revenues and other funds and accounts pledged in the Master Trust Agreement for such payments and any Other Available Funds, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default or breach of duty or contract by any Bondowner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on the subsequent default or breach. No delay or omission of the Trustee or of any Owner of any of the Bonds to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by applicable law or the Master Trust Agreement to the Trustee or to the Owners of Bonds may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners of Bonds.

Actions by Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy under the Master Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated (notwithstanding any conditions upon the bringing of any such action, suit or proceeding set forth above) and the Trustee is appointed (and the successive respective Owners of the Bonds issued under the Master Trust Agreement, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action, or proceeding and to do and perform any and all acts and things for and in behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Remedies Not Exclusive. No remedy conferred in the Master Trust Agreement upon or reserved to the Trustee or to the Owners of Bonds is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Trust Agreement or now or hereafter existing, at law or in equity or by

statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

The Trustee

So long as there is no Event of Default, the City may remove the Trustee by giving written notice to such Trustee and by giving Bondowners notice by mail, and any successor thereto, and may appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company which singly or together with its corporate parent, shall have a combined capital and surplus of at least fifty million dollars ($50,000,000), and shall be subject to supervision or examination by federal or state authority.

The Trustee may at any time resign by giving written notice of resignation to the City and the Bondholders as provided in the Master Trust Agreement. Upon receiving such notice of resignation or upon removal of the Trustee, the City is required to appoint a successor trustee within 60 days in accordance with the Master Trust Agreement.

The Trustee may be removed at any time, at the request of the Municipal Bond Insurers insuring a majority in principal amount, including any Accreted Value, of Bonds Outstanding under the Master Trust Agreement, for any breach of the trust by the Trustee set forth in the Master Trust Agreement. No removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the Municipal Bond Insurers insuring a majority in principal amount, including any Accreted Value, of the Bonds Outstanding under the Master Trust Agreement, shall be appointed.

The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Master Trust Agreement and no implied covenants or duties shall be read into the Master Trust Agreement against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Master Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Trustee shall not be required to inquire into or take notice, or be deemed to have notice, or any Event of Default under the Master Trust Agreement or any other event which, with the passage of time, the giving of notice or both, would constitute an Event of Default unless the Trustee shall have actual knowledge or be specifically notified in writing of such Event of Default or event by the City or by the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the City, or any other party to the transaction contemplated in the Master Trust Agreement, of any of the terms, conditions, covenants or agreements herein or any of the documents executed in connection with the Bonds.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of a majority in aggregate principal amount of the Bonds Outstanding relating to the time, method and place of conducting any proceeding or any remedy available to the Trustee, or the exercise of any trust or power conferred upon the Trustee, under the Master Trust Agreement. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Master Trust Agreement at

the request, order or direction of any of the Owners or the City unless such Owners or the City shall have offered to the Trustee security or indemnity reasonably satisfactory to it against the fees, costs, expenses and liabilities (including reasonable attorneys' fees) which may be incurred by the Trustee.

No provision of the Master Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

Modification of Trust Agreement and Payment Agreement

Modification without Consent of Bondholders. The Master Trust Agreement, any Supplemental Agreement and the rights and obligations of the City and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Agreement which shall become binding upon execution and delivery by the parties thereto, without the consent of any Bondowners or any Municipal Bond Insurer, but only to the extent permitted by law and only for any one or more of the following purposes –

(1) to add to the covenants and agreements of the City in the Master Trust Agreement contained other covenants and agreements thereafter to be observed or to surrender any right or power reserved to or conferred upon the City;

(2) to cure, correct or supplement any ambiguous or defective provision contained in the Master Trust Agreement or in regard to questions arising under the Master Trust Agreement, as the City may deem necessary or desirable and not inconsistent with the Master Trust Agreement, and which shall not materially adversely affect the interests of the Owners of the Bonds;

(3) to provide for the issuance of Additional Bonds, and to provide the terms and conditions under which such Additional Bonds may be issued, subject to and in accordance with the provisions of the Master Trust Agreement and any applicable Supplemental Agreement; and

(4) to amend provisions of the Master Trust Agreement relating to the Surplus Revenue Fund.

Modification with Consent of Bondholders. Subject to the limitations imposed under any Supplemental Agreement providing for the issuance of Subordinate Obligations, the Master Trust Agreement, any Supplemental Agreement, and the rights and obligations of the City and of the Owners of the Bonds and of the Trustee may be modified or amended at any time by a Supplemental Agreement which shall become binding when the written consents of (i) a majority, of the Owners in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Master Trust Agreement, and (ii) each Municipal Bond Insurer insuring such Bonds (so long as such Municipal Bond Insurer is not in default under the policy of municipal bond insurance issued by it in connection with any series of Bonds) shall have been filed with the Trustee (provided, that no such Municipal Bond Insurer shall unreasonably withhold consent to such modification or amendment).

Subject to the limitations imposed under any Supplemental Agreement providing for the issuance of Subordinate Obligations, the Master Trust Agreement and the rights and obligations of the City and of the Owners of the Bonds and of the Trustee may also be modified

or amended at any time by a Supplemental Agreement which shall become binding when the written consents of each Municipal Bond Insurer insuring such Bonds shall have been filed with the Trustee, following prior written notification thereof to Rating Agencies, provided that at such time the payment of the principal of and interest on all Bonds Outstanding shall be insured by a policy or policies of municipal bond insurance issued by a Municipal Bond Insurer or Insurers.

No such modification or amendment shall (A) extend the fixed maturities of the Bonds, or extend the time for making any Minimum Sinking Fund Account Payments, or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Owner of each Bond so affected, or (B) reduce the aforesaid percentage of Owners of such Bonds whose consent is required for the execution of any amendment or modification of the Master Trust Agreement, or (C) modify any of the rights or obligations of the Trustee without its written consent thereto.

The Council may at any time authorize and cause to be executed and delivered a Supplemental Agreement amending the provisions of the Bonds, the Master Trust Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by the Master Trust Agreement. A copy of such Supplemental Agreement, together with a request to Bondowners and to each Municipal Bond Insurer for their consent thereto, shall be mailed by the City to each Owner of Bonds and to each Municipal Bond Insurer, but failure to mail copies of such Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as described below. Notice of the authorization, execution and delivery of such Supplemental Agreement (stating that a copy thereof is available for inspection at the principal office of the Trustee) shall be mailed to each Bondowner.

Such Supplemental Agreement shall not become effective unless there shall be filed with the Trustee the required written consents of the Owners of the Bonds and of each Municipal Bond Insurer, as described above, and a notice shall have been mailed. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by the Master Trust Agreement. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice described below has been given.

After the Owners of the required percentage of Bonds and each Municipal Bond Insurer shall have filed their consents to the Supplemental Agreement, the City shall mail a notice to the Bondowners in the manner provided and the notice of authorization, execution and delivery thereof, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and each Municipal Bond Insurer and will be effective as described above (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). The Supplemental Agreement shall become effective upon the execution and delivery thereof.

In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bondowners upon such notice and in accordance with such rules and regulations as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

Any proceedings whereby the consent of the Owners is to be obtained at a time when all Outstanding Bonds are Book-Entry Bonds, the Trustee shall establish a record date upon which any action shall become effective pursuant to such consent under the Master Trust Agreement. The Trustee shall give notice of such record date to all Owners not less than 15 calendar days in advance of such record date, to the extent possible.

Discharge of the Master Trust Agreement

If the City shall pay and discharge the entire indebtedness on all Bonds Outstanding in any one or more of the following ways--

(1) by well and truly paying or causing to be paid the principal of (including redemption premiums, if any) and interest on all such Bonds Outstanding, as and when the same become due and payable (but this clause shall not include Bonds the principal of or interest on which has been paid by a Municipal Bond Insurer until said principal and interest shall have been paid by the City); or

(2) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit with the Trustee for the payment of Debt Service on such Bonds, including any reserve funds, is fully sufficient to pay or redeem all such Bonds Outstanding, including all principal, interest and redemption premiums, if any; or

(3) by delivering to the Trustee, for cancellation by it, all such Bonds Outstanding; or

(4) by depositing with the Trustee, in trust, Federal Securities in such amount which, in the determination of an independent certified public accountant, who shall certify such determination to the Trustee, shall, together with the income or increment to accrue thereon and any other moneys of the City made available for such purpose, be fully sufficient to pay and discharge the indebtedness on all such Bonds (including all principal, interest and redemption premiums, if any) at or before their respective maturity dates;

and if the City shall also pay or cause to be paid all other sums payable by the City, then and in that case, at the election of the City (evidenced by a certificate of the City signifying its intention to pay and discharge all such indebtedness and that the Master Trust Agreement and all other obligations of the City under the Master Trust Agreement with respect to such Bonds shall cease and terminate, which shall be filed with the Trustee), and notwithstanding that any such Bonds shall not have been surrendered for payment, the pledge of the General Airport Revenues and other funds provided for in the Master Trust Agreement and all other obligations of the City under the Master Trust Agreement with respect to such Bonds shall cease, terminate and be completely discharged, and the Owners of such Bonds not so surrendered and paid shall thereafter be entitled to payment only out of the money or Federal Securities deposited with the Trustee as aforesaid for their payment; subject, however, to the provisions of the Master Trust Agreement. The discharge of the obligations of the City under the Master Trust Agreement shall be without prejudice to the rights of the Trustee to charge for and be reimbursed by the City for any expenditures which it may thereafter incur in connection herewith.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or Federal Securities in the necessary amount to pay or redeem any Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Master Trust Agreement provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the City in respect of such Bonds shall cease, determine and be completely discharged and the Owners thereof shall thereafter be entitled only to payment out of the money or Federal Securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Master Trust Agreement.

Payment of Bonds after Discharge of Master Trust Agreement. Any moneys deposited with the Trustee in trust for the payment of the principal of, or interest or premium on, any Bonds and remaining unclaimed for two years after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Master Trust Agreement) shall then be repaid to the City, and the Owners of such Bonds shall thereafter be entitled to look only to the City for payment thereof, and all liability of the Trustee with respect to such moneys shall thereupon cease. In such event, the Owners of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be general creditors of the City for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the City (without interest thereon).

THE EIGHTH SUPPLEMENTAL TRUST AGREEMENT

The following is a summary of certain provisions of the Eighth Supplemental Trust Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the full terms of the Eighth Supplemental Trust Agreement.

Terms of the Series 2011B Bonds

The Eighth Supplemental Trust Agreement sets forth the terms of the Series 2011B Bonds, most of which are described earlier in the Official Statement under "DESCRIPTION OF THE SERIES 2011B BONDS."

Establishment of Funds

Certain funds and accounts relevant to the Series 2011B Bonds are established under the Eighth Supplemental Trust Agreement as follows:

2011B Capitalized Interest Account within the Interest Fund, for the deposit of such amounts as are necessary to pay a portion of the required payments of interest on the Series 2011B Bonds through March 1, 2014.

2011B Costs of Issuance Fund for the deposit of proceeds from the sale of the Series 2011B Bonds to pay the costs of issuing the Series 2011B Bonds.

2011B Interest Account within the Interest Fund, for the deposit of such amounts as are necessary to make the required payments of interest on the Series 2011B Bonds on each Payment Date.

2011B Note Payment Fund for the deposit of proceeds from the sale of the Series 2011B Bonds to provide for the refunding of a portion of the Refunded Notes.

2011B Principal Account within the Principal Fund, for the deposit of such amounts as are necessary to make the required payments of principal, if any, of the Series 2011B Bonds on each Payment Date.

2011B Reserve Account within the Bond Reserve Fund, for the deposit of proceeds from the sale of the Series 2011B Bonds to secure the repayment of such Bonds and any Additional Bonds designated in a Certificate of the City as 2011B Refunding Bonds as set forth in the front of this Official Statement under "SECURITY FOR THE BONDS—Bond Reserve Fund."

The proceeds from the sale of the Series 2011B Bonds are to be deposited into certain of the funds and accounts as set forth in the front of this Official Statement under "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF PROCEEDS."

Provisions Applicable with Respect to the 2011B Bond Insurance Policy and the 2011B Bond Insurer.

As long as the 2011B Bond Insurance Policy shall be in full force and effect, the Trustee and the City agree to comply with the following provisions:

(a) The prior written consent of the 2011B Bond Insurer shall be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the 2011B Reserve Account in the Bond Reserve Fund; provided, however, that amounts on deposit in the 2011B Reserve Account in the Bond Reserve Fund in excess of the 2011B Required Reserve may be withdrawn as provided in the Master Agreement. Notwithstanding anything to the contrary set forth in the Master Agreement, amounts on deposit in the 2011B Reserve Account in the Bond Reserve Fund shall be applied solely to the payment of debt service on the 2011B Bonds.

(b) The 2011B Bond Insurer shall be deemed to be the sole holder of the 2011B Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the 2011B Insured Bonds insured by it are entitled to take pursuant to the article of the Master Agreement pertaining to defaults and remedies and the article of the Master Agreement pertaining to the duties and obligations of the Trustee, if any. Remedies of the 2011B Bondowners to include mandamus whenever the source of payment includes municipal revenues or tax receipts.

(c) No grace period for a covenant default shall exceed 30 days, nor be extended for more than 60 days except as provided in the Master Agreement, without the prior written consent of the 2011B Bond Insurer. No grace period shall be permitted for payment defaults.

(d) The 2011B Bond Insurer shall be included as a third party beneficiary to the Master Agreement.

(e) No modification or amendment to the Master Agreement (except pursuant to the provisions of the Master Agreement) may become effective except upon obtaining the prior written consent of the 2011B Bond Insurer. Copies of any modification or amendment to the Master Agreement shall be sent to Standard & Poor's Credit Market Services and Moody's Investors Service, Inc. at least 10 days prior to the effective date thereof.

(f) The rights granted to the 2011B Bond Insurer under the Master Agreement to request, consent to or direct any action are rights granted to the 2011B Bond Insurer in consideration of its issuance of the 2011B Bond Insurance Policy. Any exercise by the 2011B Bond Insurer of such rights is merely an exercise of the 2011B Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the 2011B Bondowners nor does such action evidence any position of the 2011B Bond Insurer, positive or negative, as to whether Bondowner consent is required in addition to consent of the 2011B Bond Insurer.

(g) To accomplish defeasance the City shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the 2011B Bond Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the 2011B Insured Bonds in full on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the 2011B Bond Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the 2011B Insured Bonds are no longer "Outstanding" under the Master Agreement and (iv) if there is a Trustee for the 2011B Insured Bonds a certificate of discharge of the Trustee with respect to the 2011B Insured Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the City, the Trustee and the 2011B Bond Insurer. The 2011B Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow. Bonds shall be deemed "Outstanding" under the Master Agreement unless and until they are in fact paid and retired or the above criteria are met.

(h) Amounts paid by the 2011B Bond Insurer under the 2011B Bond Insurance Policy shall not be deemed paid for purposes of the Master Agreement and shall remain Outstanding and continue to be due and owing until paid by the City in accordance with the Master Agreement. The Master Agreement shall not be discharged unless all amounts due or to become due to the 2011B Bond Insurer have been paid in full or duly provided for.

(i) If, on the third Business Day prior to the related Payment Date there is not on deposit with the Trustee, after making all transfers and deposits required under the Master Agreement, moneys sufficient to pay the principal of and interest on the 2011B Insured Bonds due on such Payment Date, the Trustee shall give notice to the 2011B Bond Insurer and to its designated agent (if any) (the "2011B Bond Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day.

If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the 2011B Insured Bonds due on such Payment Date, the Trustee shall make a claim under the 2011B Bond Insurance Policy and give notice to the 2011B Bond Insurer and the 2011B Bond Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the 2011B Insured Bonds and the amount required to pay principal of the 2011B Insured Bonds, confirmed in writing to the 2011B Bond Insurer and the 2011B Bond Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the 2011B Bond Insurance Policy.

In the event the claim to be made is for a mandatory sinking fund redemption installment, upon receipt of the moneys due, the Trustee shall authenticate and deliver to affected 2011B Bondowners who surrender their 2011B Insured Bonds a new 2011B Insured Bond or 2011B

Insured Bonds in an aggregate principal amount equal to the unredeemed portion of the 2011B Insured Bond surrendered. The Trustee shall designate any portion of payment of principal on 2011B Insured Bonds paid by the 2011B Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of 2011B Insured Bonds registered to the then current 2011B Bondowner, whether DTC or its nominee or otherwise, and shall issue a replacement 2011B Insured Bond to the 2011B Bond Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement 2011B Insured Bond shall have no effect on the amount of principal or interest payable by the City on any 2011B Insured Bond or the subrogation rights of the 2011B Bond Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the 2011B Bond Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal paid in respect of any 2011B Insured Bond. The 2011B Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the 2011B Bond Insurance Policy the Trustee shall establish a separate special purpose trust account for the benefit of the Owners of 2011B Insured Bonds referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the 2011B Bond Insurance Policy in trust on behalf of Owners of 2011B Insured Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Owners of 2011B Insured Bonds in the same manner as principal and interest payments are to be made with respect to the 2011B Insured Bonds under the sections hereof regarding payment of 2011B Insured Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

Notwithstanding anything to the contrary otherwise set forth in the Master Agreement, and to the extent permitted by law, in the event amounts paid under the 2011B Bond Insurance Policy are applied to claims for payment of principal of or interest on the 2011B Insured Bonds, interest on such principal of and interest on such 2011B Insured Bonds shall accrue and be payable from the date of such payment at the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank or its successor at its principal office in the City of New York, as its prime or base lending rate plus 3%, and (ii) the then applicable rate of interest on the 2011B Insured Bonds provided that in no event shall such rate exceed the maximum rate permissible under applicable usury or similar laws limiting interest rates. Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Bond payment date shall promptly be remitted to the 2011B Bond Insurer.

(j) The 2011B Bond Insurer shall, to the extent it makes any payment of principal of or interest on the 2011B Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the 2011B Bond Insurance Policy.

(k) Upon the occurrence of an Event of Default under the Master Agreement

affecting the 2011B Insured Bonds, the City shall pay or reimburse the 2011B Bond Insurer, but only from General Airport Revenues, any and all charges, fees, costs and expenses which the 2011B Bond Insurer may reasonably pay or incur, in connection with such Event of Default, for the pursuit of any remedies under the Master Agreement or otherwise afforded by law or equity. The 2011B Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Master Agreement relating to the 2011B Insured Bonds.

(i) The 2011B Bond Insurer shall be entitled to pay principal or interest on the 2011B Insured Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the City (as such terms are defined in the 2011B Bond Insurance Policy) and any amounts due on the 2011B Insured Bonds as a result of acceleration of the maturity thereof in accordance with the Master Agreement, whether or not the 2011B Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the 2011B Bond Insurance Policy) or a claim upon the 2011B Bond Insurance Policy.

(m) The notice address of the 2011B Bond Insurer is: Assured Guaranty Municipal Corp., 31 West 52nd Street, New York, New York 10019, Attention: Managing Director – Surveillance, Re: Policy No. ___, Telephone: (212) 826-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

(n) The 2011B Bond Insurer shall be provided with the following information:

(i) Annual audited financial statements as provided pursuant to Section 7.07 of the Master Agreement within 180 days after the end of the City's Fiscal Year (together with a certification of the City that it is not aware of any default or Event of Default under the Master Agreement), and the City's annual budget within 180 days after the approval thereof together with such other information, data or reports as the 2011B Bond Insurer shall reasonably request from time to time;

(ii) Notice of any draw upon the 2011B Reserve Account in the Bond Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the 2011B Required Reserve and (ii) withdrawals in connection with a refunding of Bonds;

(iii) Notice of any default known to the Trustee or the City within five Business Days after knowledge thereof;

(iv) Prior notice of the advance refunding or redemption of any of the 2011B Insured Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(v) Notice of the resignation or removal of the Trustee, Paying Agent and bond registrar and the appointment of, and acceptance of duties by, any successor thereto;

(vi) Notice of the commencement of any proceeding by or against the City or the Obligor commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(vii) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the 2011B Insured Bonds;

(viii) A full original transcript of all proceedings relating to the execution of any amendment or supplement to the Master Agreement relating to the 2011B Insured Bonds; and

(ix) All reports, notices and correspondence to be delivered pursuant to the terms of the Continuing Disclosure Certificate executed by the City pursuant to Section A-15.12.

(o) In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Master Agreement would adversely affect the security for the 2011B Insured Bonds or the rights of the 2011B Bondowners, the Trustee shall consider the effect of any such amendment, consent, action or inaction as if there were no 2011B Bond Insurance Policy.

CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY

APPENDIX E

AUDITED FINANCIAL STATEMENTS OF THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT FOR FISCAL YEAR ENDED JUNE 30, 2010

CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY

Comprehensive 2010 Annual Financial Report

Norman Y. Mineta San José International Airport

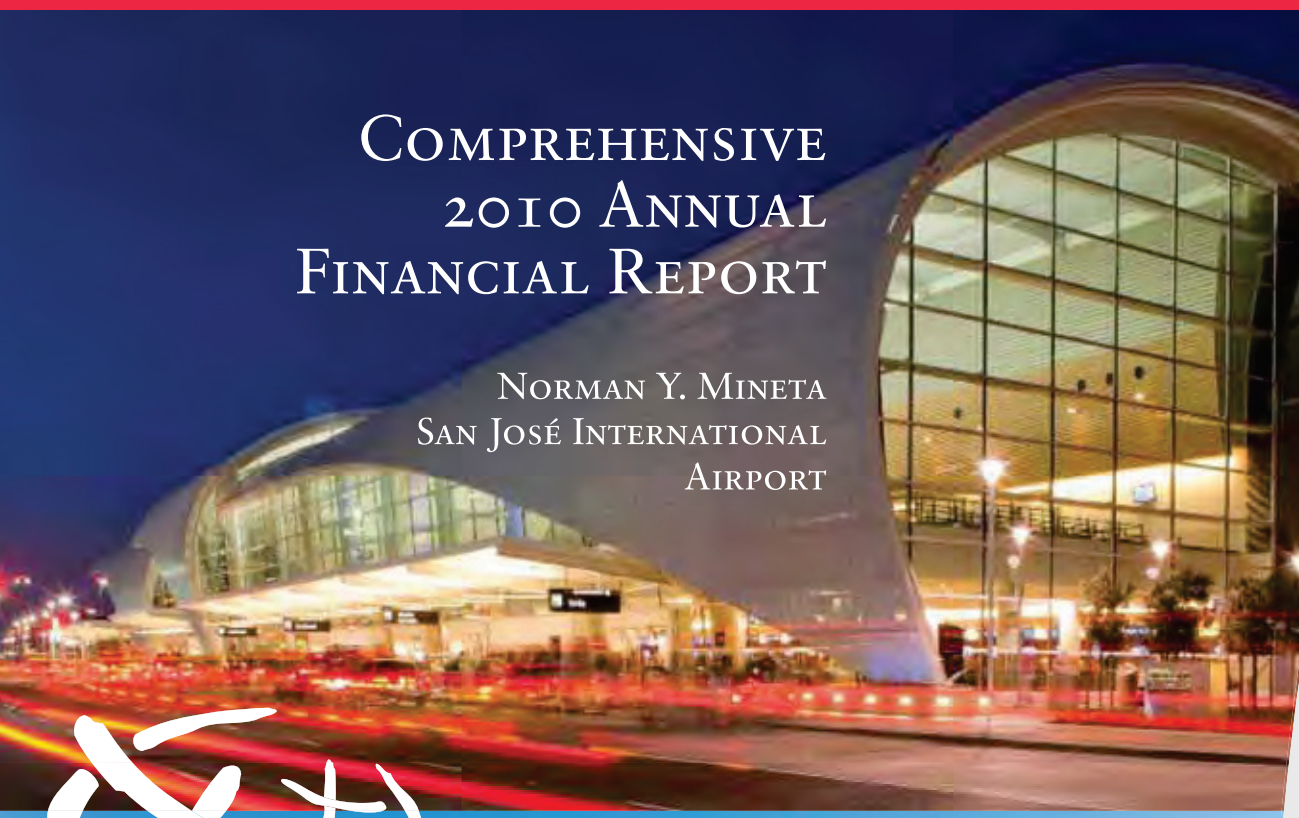
Photo by Ken Paul

San José, California
A Department of the City of San José

Fiscal Year Ended
June 30, 2010

Comprehensive 2010 Annual Financial Report

Norman Y. Mineta San José International Airport



San José, California
A Department of the City of San José

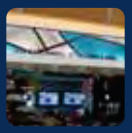
Fiscal Year Ended
June 30, 2010

Prepared by:
Finance and Administration

Terri A. Gomes, CPA
Deputy Director








Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2010

William F. Sherry, AAE Director of Aviation	Kim Aguirre Assistant Director of Aviation	Terri A. Gomes, CPA Deputy Director of Aviation

Prepared by:

Airport Department
Finance and Administration Division - Accounting Section

Evelyn M. Slotnick Principal Accountant	Gil Ong Senior Accountant	Steven Lam Senior Accountant
Laura Luu Senior Accountant	Rita Lam Senior Accountant	Manjusha Beher Senior Accountant
Leticia Ochoa Accounting Technician	Kristy Tricoli Accounting Technician	Lanie Prestosa Senior Account Clerk
Nancy Schuster Senior Account Clerk	Kim Lingenfelter Senior Account Clerk	Rosemary Lara Senior Account Clerk
Maria Ochoa Senior Account Clerk		

Special Assistance

Katherine Pool, Finance Division	Bonnie Cromartie, Finance Division
Sandra Gates, Finance Division	David Zolezzi, Finance Division
Pak Hung, Planning & Development Division	Tom Merrill, Finance Division
Steve McChesney, Public Works Department	Tim Tung, Finance Department
Danielle Kenealey – City Attorney's Office	

Photo by Ken Paul

NORMAN Y. MINETA
SAN JOSE
INTERNATIONAL
AIRPORT
SILICON VALLEY'S AIRPORT

INTRODUCTORY

Photo by Jason Knowles

The new Terminal B
Environmentally
Sustainable Design
and Operations

Photo by Ken Paul

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2010

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NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2010

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Geographic Locator Map

Norman Y. Mineta San José International Airport

San José, California

A Department of the City of San José

Fiscal Year Ended June 30, 2010

- Primary Service Area
- Secondary Service Area
- Norman Y. Mineta San José International Airport

Reduced View of Service Areas

"The terminal itself is very beautifully designed & very bright. It definitely feels less crowded (since it's so wide open) & the bathrooms are very clean & spacious as well. Overall, I really enjoy being in this airport and doesn't definitely mind going there early to wait for my flight since they really thought about our needs when designing this place!" Cathy C., San Diego, CA

"The electronic check-in and the numer security check-in stations made the ent process of flying very easy and fast. I didn't have to deal with any long lines I was actually early for my flight! They h a good selection of restaurants, cafés, an stores that I visited as I waited for my flight, too. I'll definitely be back!" Lien T., San Jose, CA.

"There are also plenty of windows on all sides, which let in natural light. Hanging from above along the main walkway are decorative glass squares, apparently representing computer chips. I was really mesmerized by this exquisite display." Ken M., Las Vegas, NV.

"Wow has this airport transformed into a beauty or what? It's been a while since I flew in or out of San Jose so imagine my surprise when my flight arrives in Terminal B to find this state of the art, high tech airport. I was amazed and just couldn't believe my eyes." Sharon V., San Diego, CA.

"Clean, new, fast security, perfect for anyone that has a lot of tech toys." Dennis C., Los Angeles, CA.

"The food offerings are plentiful, unique, affordable, and muy deliciosa." Scott P., Denver, CO

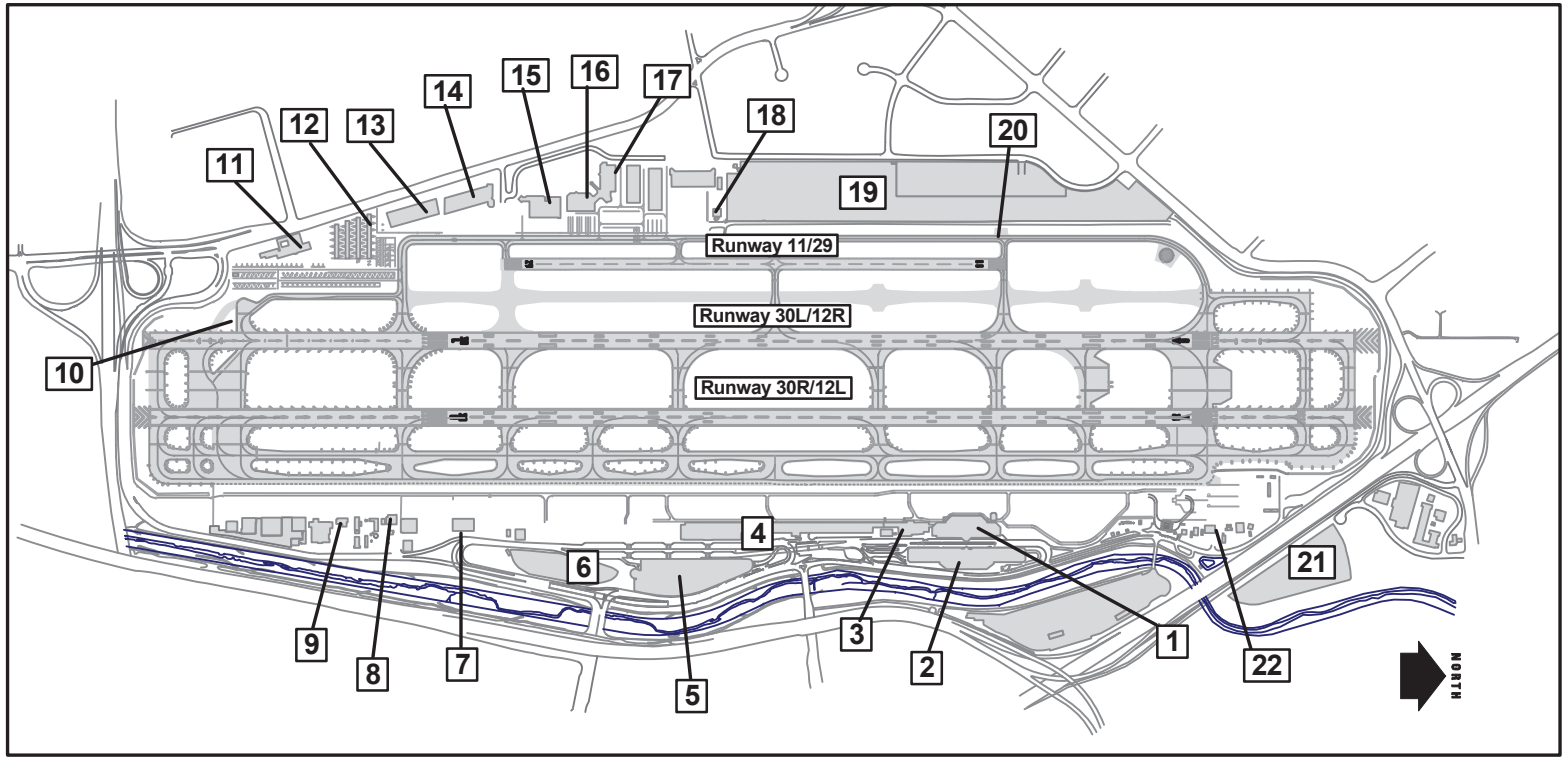
"I was really blown away with all the new decor and felt much more like a big lounge especially Terminal B." Jorge M., Seattle, WA.

"Beautiful airport!!! Nice blue lights lighting up the outside as you drive in at night." Katie K., Atlanta, GA.

"One of the best airports in America..!"

Quotes from www.yelp.com.

Norman Y. Mineta San José International Airport



Map Legend

1. Terminal A
2. Terminal A Parking Garage
3. Interim Federal Inspection Services
4. Terminal B
5. Consolidated Rental Car Center
6. Short Term Parking Lot
7. Air Freight
8. Fire Station 20
9. SJPD Airport Division
10. VOR Checkpoint
11. San Jose State University Aviation Department
12. GA West
13. AvBase Aviation
14. ACM
15. HP Aviation (Corporate)
16. FAA-FSDO
17. Atlantic San Jose (Fueling & Transient Services)
18. FAA Air Traffic Control Tower
19. Long Term Parking Lot
20. VOR Checkpoint
21. Fuel Farm Location
22. North Air Cargo

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

CITY OF SAN JOSE CAPITAL OF SILICON VALLEY

LOCATOR MAP

June 2010

Coordinate System:	Airport Grid
Airfield Elevation:	58' MSL
Airfield Lat:	N37 21.7
Airfield Long:	W121 55.7

November 22, 2010

CITIZENS OF THE CITY OF SAN JOSE
HONORABLE MAYOR AND CITY COUNCIL

The Comprehensive Annual Financial Report (CAFR) of the Norman Y. Mineta San José International Airport (Airport), a department of the City of San José (City), for the fiscal year (FY) ended June 30, 2010, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Airport's management. We believe the data, as presented, is accurate in all material aspects and presented in a manner designed to fairly set forth the financial position and changes in financial position of the Airport, and that all disclosures necessary to enable the reader to gain the maximum understanding of the Airport's financial affairs have been included. This transmittal letter provides a summary of the Airport's background, economic condition and outlook, and major initiatives.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

REPORTING ENTITY

The City Charter created the Airport Department (Department) in 1965 as a department within the City. The City is a charter city that operates under a council-manager form of government. The eleven members of the City Council serve as the governing body that oversees the operation of the Airport. The Director of Aviation is responsible for the operation of the Department and reports directly to the City Manager. The Department operates the Airport, which is currently classified as a medium-hub domestic airport with some international service. The Department's mission is to meet the air transportation needs of the business and public communities in a safe, efficient, and effective manner.

The primary area served by the Airport consists of Santa Clara County, which is also the San José Primary Metropolitan Statistical Area and is commonly referred to as Silicon Valley. Furthermore, the primary service area includes the adjacent counties of Monterey, San Benito, and Santa Cruz and portions of two adjacent counties, Alameda and San Mateo (collectively, the "Air Service Area"). The Air Service Area is part of the larger San Francisco/San José/Oakland Area. The nearby counties of Merced, Stanislaus, and San Joaquin comprise a secondary service area. Three of the six Air Service Area counties belong to the Association of Bay Area Governments (ABAG) regional planning agency and rank within the top five most populated counties of the ABAG Region, with Santa Clara and Alameda Counties ranking first and second, and the County of San Mateo ranking fifth. In addition to the Airport, two other commercial airports serve the San Francisco/San

1701 Airport Boulevard, Suite B-1130 • San José, CA 95110-1206 • Tel 408.392.3600 • Fax 408.441.4591 • www.flysanjose.com

José/Oakland area: San Francisco International Airport and Oakland International Airport. A separate unit of local government operates each of the three facilities independently.

ECONOMIC CONDITION AND OUTLOOK

Aviation demand nationwide and globally is primarily a function of population and economic growth, developments within the airline industry, and airport and airspace capacity. Airline traffic at airports principally serving origin-destination passengers is most responsive to local economic and population growth. As a predominantly origin-destination, medium-hub airport, the Airport is dependent upon the regional economy, national and international economic conditions, airline service, airfare levels, and population for the passengers who produce its revenue base.

Since 2007, the Airport had seen a 22.7% decline in the number of passengers and a 28.8% reduction in the number of flights, which in turn has reduced Airport revenues and resources. This has been largely caused by high fuel costs for airlines in mid-2008 that forced carriers to shrink their system capacity by cutting flights and seats, reducing their fleets of airplanes, and laying off tens of thousands of employees. Furthermore, due to the prolonged economic downturn, the demand for business and leisure travel has significantly declined, and therefore has put additional pressure on airline profitability.

In FY 2007, the Airport had 10,653,817 passengers arrive and depart at the Airport. In FY 2009, this number had fallen nearly 17.2% to 8,821,452, and in FY 2010, total passengers had fallen to 8,232,446, a reduction of 6.7% from prior year. From 2007 to 2010, daily departures have fallen from approximately 190 in 2007 to about 125 today, a drop of 34.2%. The last time the Airport had seen this level of activity was in the early 1990s.

In response to the declining activity in recent years, the Airport has taken many steps to reduce its operating budget costs including the reduction of Airport's staffing levels from 400 positions in 2009 to 305 as of June 2010. By reducing operating costs, the Airport is able to offer services at competitive prices to attract and retain airlines, flights, and passengers. In addition, the Airport has aggressively sought to increase revenues for the past several years. Through its new concessions program, the Airport has increased the number of shops and restaurants in the new terminal, and its contracts with concessionaires require a minimum annual guarantee that results in higher revenues when the new terminal opened.

In an effort to increase service and restore lost flights, the Airport and airports across the nation have been developing and enhancing air service incentive programs. Since its original adoption in 2006, the Airport's incentive program has evolved from a basic one-year waiver for any new route to a flexible program that associates the length of a waiver period to the length of a flight. It also includes incentives for underserved markets, as well as unserved markets and short–haul international flights to Canada and Mexico. In addition, on December 1, 2009, the City Council adopted a separate resolution establishing a Focus City Promotional Fee Waiver Incentive Program. This program encourages carriers to increase their overall commitment to the Airport by agreeing to incremental growth in flights for two full consecutive years. A Focus City Airline would agree to add a minimum of four new year-round daily flights to a minimum of at least two unserved cities each year. As a return on investment, these incentive programs will stimulate revenue from parking, concessions, and other Airport services, which will directly offset the short-term loss of revenue from waived airline fees and charges for qualifying new service.

The enhanced incentive programs resulted in additional flights. jetBlue Airways added a daily nonstop service between San José and Boston beginning May 13, 2010. Horizon Air launched twice-

daily direct service from San José to Spokane and Sacramento. Alaska Airlines added direct flights to Maui and Kona and a second Austin flight in March 2010. Additionally, Southwest added 2 daily flights to Austin in November 2010 and Alaska Airlines will add new service to Los Cabos and Guadalajara in November and December 2010.

Population and Income

The City is the county seat of Santa Clara County. It is the tenth largest city in the United States and the third largest in California behind Los Angeles and San Diego. According to California Department of Finance estimates, San José has an estimated population of 1,023,083 as of January 1, 2010, reflecting a growth of 1.6% over the prior year. San José is located in Santa Clara Valley, at the southern end of the San Francisco Bay Area, a region referred to as Silicon Valley. Santa Clara County is the sixth largest county in California and the largest in Northern California. The population of Santa Clara County grew 1.3% from 2009 to 2010, with the population increasing to 1,880,876 as of January 1, 2010. The six counties comprising the primary area for the Airport grew 1.1 % from 2009, higher than the State growth rate of 1.0%. In total, the population of the primary area increased by 57,810 from the prior year and accounts for 12.9% of the State's population.[1]

The per capita income information described below is the most current information available from the Bureau of Economic Analysis. Accordingly, it does not reflect the impact of the economic downturn in FY 2010.

Total personal income and per capita personal income (PCPI) are two of our most relied upon measures of economic standing. These indicators are a composite measurement of market potential and indicate the general ability to purchase available products or services. As personal income increases, air travel becomes more affordable and can be used more frequently.

According to the Bureau of Economic Analysis, in 2008 Santa Clara County had a PCPI of $59,227 and was 135% of the state average of $43,852, and 147% of the national average of $40,166, and it ranked 4th in the State of California. Within the Air Service Area, the remaining counties personal income and PCPI were as follows:

Personal Income and Per Capita Personal Income within the Air Service Area

	Personal Income (Millions of Dollars)			Per Capita Personal Income (Dollars)			
County Name	2007	2008	% Change 2007-2008	2007	2008	% Change 2007-2008	2008 Rank
Alameda	$72,328	$73,160	1.2%	$47,781	$49,757	4.1%	10
Monterey	17,019	17,385	2.2%	42,322	42,857	1.3%	18
San Benito	1,972	1,986	0.7%	36,173	36,239	0.2%	29
San Mateo	51,843	52,286	0.9%	74,343	73,839	-0.7%	2
Santa Cruz	12,924	12,935	0.1%	51,669	51,140	-1.0%	8
Santa Clara	103,604	103,993	0.4%	60,098	59,227	-1.4%	4
California	$1,572,271	$1,604,113	2.0%	$43,402	$43,852	1.0%	

[1] *California Department of Finance*

Per capita income decreased by 1.4% from 2007 in Santa Clara County compared to an increase of 1.0% and 2.0% for California and the nation, respectively. In 2008, the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) had a total personal income of $103,992,999 and ranked 4th in the state and accounted for 6.5% of the state total.[2]

Employment

Like most of the nation, the California economy was gripped by a severe recession characterized by deepening job losses and rapidly rising unemployment. In the Santa Clara and San Benito counties, unemployment had risen by more than 7% since early 2007. Employment growth in this region had declined sharply after growing at a solid pace between 2006 and 2007. California's economic problems originated in the housing and financial sectors, spread into the consumer economy, and subsequently into the rest of the economy.[4]

Santa Clara County's unemployment rate at June 30, 2010 was 11.3%, with 103,100 unemployed, a decrease of 2,600 from June 2009.[3] Likewise, as shown below, the San José-Sunnyvale-Santa Clara MSA lost 6,700 jobs or registered an unemployment rate of 11.4% in June 2010, up from a revised 11.2% in May 2010, and below the year-ago estimate of 11.7%. This compares with an unadjusted unemployment rate of 15.7% in San Benito County, 12.2% for California, and 9.6% for the nation during the same period.[4]

Industry	May-2010 Revised	Jun-2010 Prelim	Change	Jun-2009	Jun-2010 Prelim	Change
Total, All Industries	854,500	857,800	3,300	864,500	857,800	(6,700)
Total Farm	4,900	6,100	1,200	6,100	6,100	-
Total Nonfarm	849,600	851,700	2,100	858,400	851,700	(6,700)
Mining and Logging	300	300	-	200	300	100
Construction	30,000	30,500	500	34,100	30,500	(3,600)
Manufacturing	152,900	154,100	1,200	155,500	154,100	(1,400)
Trade, Transportation & Utilities	124,500	125,500	1,000	125,500	125,500	-
Information	41,000	41,200	200	41,000	41,200	200
Financial Activities	30,600	30,600	-	31,800	30,600	(1,200)
Professional & Business Services	160,200	160,700	500	161,100	160,700	(400)
Educational & Health Services	110,400	109,900	(500)	109,300	109,900	600
Leisure & Hospitality	75,300	75,900	600	76,900	75,900	(1,000)
Other Services	24,000	24,200	200	24,800	24,200	(600)
Government	100,400	98,800	(1,600)	98,200	98,800	600

[2] *U.S. Department of Commerce Bureau of Economic Analysis*
[3] *California EDD*
[4] *California EDD – Labor Market Information Division*

The construction industries, which include building, development and specialty trade contractors, took the hardest hit where 3,600 jobs were lost, which accounted for 54% of the total jobs lost. The manufacturing industries experienced a net decrease of 1,400 jobs over the year where the computer and electronic product manufacturing sector experience a gain of 700 jobs while the transportation equipment manufacturing sector saw a decrease of 600 jobs and the machinery manufacturing sector experienced a decrease of 500 jobs.

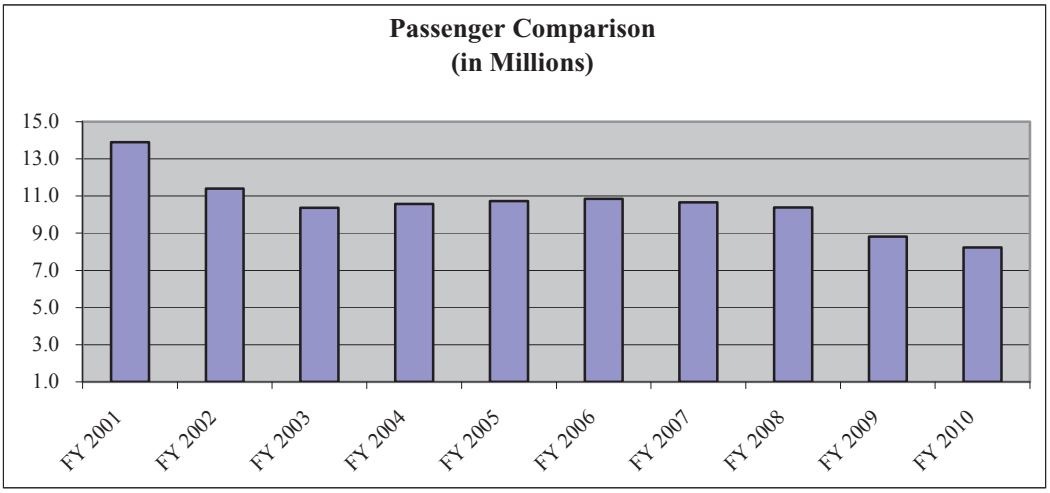
Other industries that have experienced job losses are the financial sector, leisure, and hospitality. The financial sector decreased by 1,200 jobs. Real estate, rental, and leasing cut back 800 jobs, while finance and insurance trimmed 400 jobs. Meanwhile, leisure and hospitality decreased by 1,000 jobs over the year.

Norman Y. Mineta San José International Airport: Passenger and Air Traffic

The Airport is classified as a medium hub airport by the Federal Aviation Administration (FAA) and ranked as the 46th busiest airport in the nation in terms of total passengers according to Airports Council International-North America statistics, as of calendar year 2009. As of June 30, 2010, 15 carriers provided scheduled passenger service to 29 destinations, including eight legacy carriers, three low-cost carriers, three regional/commuter carriers, and two international carriers. In addition, three all-cargo carriers provided scheduled cargo service at the Airport. At its peak level of traffic in FY 2001 during the Silicon Valley "dot.com" boom, the Airport had reached a record annual total of 13,908,799 passengers. The combination of the dot.com bust in 2001 and the subsequent Silicon Valley recession, and the impact of the terrorist attacks on September 11, 2001 reduced Airport passenger traffic over the following years. Activity levels showed signs of leveling off until the combination of the national credit crisis, aviation fuel cost spike, and global recession in FY 2009 caused traffic to fall sharply.

For FY 2010, the Airport has enplaned and deplaned 8.2 million passengers, which represents a decrease of 6.7% from the previous fiscal year.

The graph below displays fiscal year-to-date passenger comparison for the last ten fiscal years.



For FY 2010, the Airport experienced an overall decrease of 17.7% in traffic operations due to the losses that resulted from the following categories: passenger carrier (a decrease of 10,644 operations or 12.3%), taxi/commuter airlines (a decrease of 4,054 operations or 17.0%), and cargo carrier (a decrease of 482 operations or 18.8%).

Airport Master Plan

The Airport Master Plan consists of a program of facility improvements designed to fully accommodate commercial aviation demand (passengers and cargo) projected for the future, with development phased as demand warrants and is determined to be financially feasible. The Master Plan was originally adopted by the City of San José in June 1997 and approved by the FAA in December 1999. In June 2006, the City Council approved revisions to the Airport Master Plan regarding implementation of the Terminal Area Improvement Program (TAIP). The current Program consists of two phases that total $1.6 billion. Phase 1 of the Program has a total budget of approximately $1.3 billion and construction of most of the projects were completed at the end of FY 2009-2010, with some projects to be completed in FY 2010-2011. Construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. In May 2010, the City Council approved another major amendment to the Master Plan shifting the plan horizon from 2017 to 2027; reducing airline facilities serving cargo demand from 53 acres to 28 acres; and increasing the 56 acres designated for general aviation development to 102 acres. Funding for Master Plan projects is from several sources, including grants, passenger facility charges (PFC), airline rates and charges, airport revenue bonds and subordinated commercial paper notes.

Since the approval of the Master Plan, the Airport has proceeded with projects approved in Phase 1 of the program. The following Master Plan projects were either completed during FY 2010, or are in progress or initiated as of June 30, 2010:

- Terminal Area Improvement Program (TAIP)

  A contract with Hensel Phelps Construction Company was approved by the City Council in October 2006. Feasibility efforts were completed and design began in FY 2008. Task orders for 100% design were executed for all project elements, and construction on all elements are essentially completed. Hensel Phelps is using a design build methodology to deliver projects that include:

  - Terminal A Modifications – While remaining in operation, Terminal A was renovated and expanded to address the imbalance that currently exists between the number of aircraft gates and the inadequate number of check-in positions/queuing area, security checkpoints and concessions. The new ticket counters and check-in area were completed and increased passenger queuing and check-in counters by 60%; the two security checkpoints were consolidated into one central location with double the number of passenger screening lanes; the size of the airside concessions was doubled; and a new outbound baggage handling system was installed.

  - Temporary Terminal C and Eventual Demolition - The Terminal C "Thumb" was demolished to allow the final stage of the enhanced and straightened roadway system to be constructed. The demolition of the remainder of Terminal C, which will allow for the construction of the Terminal B parking lot, started in August 2010 and will be completed in the fall of 2010.

- Terminal A Baggage Screening Improvement – The construction of the baggage screening system at Terminal A was completed. This project is an integral component of the Terminal A Modifications Project. The Airport received a $20.6 million grant from the Transportation Security Administration (TSA) to partially fund this project.

- New Terminal B - This project replaces the out-of-date and inadequately sized Terminal C. The recently completed Terminal B provides additional passenger queuing at the newly staffed and self-service ticket counters, modern and efficient security screening checkpoints, new baggage claim devices, a new in-line outbound baggage handling system, and increased concession locations. Terminal B also provides for efficient building systems and addresses a full array of sustainable design issues. Phase 1 (the northern portion Terminal B which includes the North Concourse) construction was completed in June 2010. Phase 2 (the southern portion or South Concourse) was designed to the 30% level and can be constructed at a future date—a date triggered by pre-determined passenger demand and flight activity.

- Consolidated Rental Car Garage (ConRAC) - This project includes the design and construction of a multi-level 3,350 space, ConRAC facility, including ready/return parking, a quick turnaround facility for washing, fueling and minor servicing of rental cars. The first floor of the facility includes approximately 350 spaces for public parking. This project is part of the design build contract with Hensel Phelps Construction and was opened in June of 2010.

- Green Island Parking Lot – This is a new surface, revenue-controlled public parking lot that serves as a long term parking facility. This project will allow for closure of the Westside long term parking facilities in the future. Feasibility study began in mid-2009 and construction will occur in late 2010 when the rental car operations are relocated to the newly completed ConRAC facility.

- Roadway Improvements – The existing roadway system is being reworked to increase roadway capacity by adding vehicle lanes; to reduce traffic conflicts by constructing two bridges; to provide direct access to each terminal; to improve the ground transportation system; and to enhance motorist way-finding by straightening the roadway's alignment and introducing better signage. This infrastructure project will also modernize and improve water lines, storm drains and sanitary sewers.

Also, within the TAIP are projects outside of the design build contract. These projects include the following:

- Terminal Equity Improvements – This project provides general improvements at Terminal A, A+, Federal Inspection Services (FIS), and the parking garage at Terminal A such as restroom upgrades, carpet replacement, painting, and upgrade finishes enhancing the appearance of the facilities. The scope of work also includes procurement and installation of new pre-conditioned air passenger boarding bridges, furniture & equipment, and technology upgrades to the facilities. This work is essentially completed.

- Tenant Improvements – This project provides for the rehabilitation and new construction within the terminals for tenants, including the airlines, the TSA, United Service Organization (USO), and the parking operator. This work is completed.

- Parking Access Revenue Control System – This project replaces the current aging parking access control system with an integrated parking access control system and automatic vehicle identification system. The scope consists of the new access control system and hardware such as ticket booths, control arms, and cameras at parking facilities throughout the Airport campus.

- Landscaping, Road Maintenance, and Signage – The TAIP also includes projects for landscaping needs outside of the terminal zone, sealing and striping of roadways, and wayfinding signage needs. This work is completed.

- North Concourse Building

  This project includes the design and construction of the North Concourse Building extending from Terminal A to Terminal C. The building includes nine new gates with holdrooms and passenger boarding bridges, restrooms, utility and service rooms, concessions and other public space, an in-line baggage screening system, and baggage make-up facilities.

  During FY 2010, the majority of all elements and packages were completed. Some of these include: central plant expansion, site utilities, roadway utility infrastructure, and electronic infrastructure for the telecommunications and network data lines, roofing, skylights, roof drainage, and utility lateral connections to the main lines along terminal drive. All nine of the North Concourse gates were opened and in operation in early June 2010.

- New Jet Fuel Farm – Airline Consortium

  The Airport entered into a ground lease in May 2006 for the Airline Consortium to design and construct a new Jet Fuel Farm. During FY 2007, the Consortium procured a firm as a design builder, and another firm for operation and maintenance. The project was split into two distinct sites for permitting purposes; the Fuel Storage Site and the Fuel Dispensing Rack Site. A lease amendment was executed in July 2008 to change the location of the Fuel Dispensing Racks to a location that works more efficiently. A Notice to Proceed (NTP) for construction was issued to the Consortium in July 2008 and construction was completed as of June 2010.

- Taxiway W

  There are currently seven phases in this project. Phase I of this project includes the design and construction of the extension of Taxiway W from Taxiway C to Taxiway D and the reconstruction and extension of Taxiway D from Taxiway V to Runway 30L. Design for Phase I was completed in June 2009. Construction of Phase I was partially funded by the American Recovery and Reinvestment Act grant funding and was completed as of June 2010. Phase II of this project includes the design and construction of the extension of Taxiway W from Taxiway B to Taxiway C. Design of Phase II of this project was completed in June 2010. Construction began in August 2010 with the estimated completion date of November 2010. Phases 3 to 7 were designed to the 30% level and can be constructed at a future date subject to receiving FAA grant funding approval. Phase 3 to 7 include additional extensions of Taxiway W, the strengthening and reconstruction of Taxiway C, H, and J.

- Compressed Natural Gas Fueling Station Upgrade

  This project expanded the Airport's Compressed Natural Gas (CNG) fueling station to increase fueling capacity and flow rates, which reduce fueling timeframes for the CNG buses. This provides better operational flexibility to service the CNG buses, the taxi fleet and private sector vehicles. During FY 2009, the City issued a re-scoped Bid Package, and the project was awarded to Pinnacle CNG Company. The project was completed in December 2009.

MAJOR INITIATIVES

The Airport's mission is to meet the air transportation needs of the community in a safe, efficient, and effective manner. In concert with the City's move towards a more customer-focused service delivery government, the Airport embraced the following Vision Statements:

Norman Y. Mineta San José International Airport will be the region's gateway and first choice for air transportation services.

It will be a place where travelers want to come, and people want to work. It will be easy to get into, around, and out of the Airport. Because the Airport will be an innovator in its use of technology and delivery of services, it will create an exciting environment to visit and use.

Travelers will feel the anticipation and sense of adventure that air travel should generate.

Business travelers will have a hassle free experience. Families and leisure travelers will feel their vacation has begun when they arrive at the Airport. People will leave the Airport feeling like guests who have been treated well, and will want to come back.

The Airport will be a partner with businesses working to drive the regional economy.

The airlines and other tenants will feel the Airport provides opportunities for their business to succeed.

The Community will be proud to have the Airport in their midst, seeing it as a good neighbor and understanding its benefits to the region.

The Airport will be a landmark representing San José and the Silicon Valley.

The Airport will be a great place to work for all employees.

The Airport organization will be a place where an individual can enjoy building a career. Each employee will feel they have made a meaningful contribution and their efforts are valued. It will be a place where all employees are recognized for their contributions and where a "can-do" attitude prevails. Norman Y. Mineta San José International Airport will be the employer of choice. Employees will be proud to be a part of the Airport organization and proud to tell their friends and neighbors they are part of this vision.

These Vision Statements are used by the Airport as a guide in improving employee morale and making better decisions and sound management practices.

Highlights of the Airport's activities and accomplishments for the fiscal year ended June 30, 2010, include the following:

- Completion of the $1.3 Billion Modernization Project

  The first flight from the Airport's new Terminal B took off on June 30, 2010. This was the culmination of a $1.3 billion modernization and expansion project, which was completed about one year earlier than originally projected and was under budget by more than approximately $140 million.

  The City of San José selected Hensel Phelps Construction Co. in 2006 to lead the "design/build" program for the Airport, an innovative approach to deliver the best value on a tight timetable. Design/build has meant better coordination, communication, and creativity that have enabled the project team of staff, contractors, architects, and vendors to solve problems quickly. It improved the efficiency of procurement, established effective incentives to stay on track, and streamlined the design and construction approval process.

  The project includes construction of the new Terminal B, renovation and transformation of Terminal A, and demolition of the Airport's oldest facility, Terminal C. Other aspects include construction of a seven-deck consolidated rental car (ConRAC) facility and roadway reconstruction.

  Terminal B, which replaces Terminal C, is a 163,000-square-foot linear building designed to handle up to 8.5 million passengers annually. The look of the new terminal is futuristic and was inspired by a data cable untwisting to welcome the next-generation broadband world. Terminal B's façade features a curved roof made of perforated metal panels, which create a translucent, glowing appearance at night. A glass and steel curtainwall stretches more than 500 feet, allowing for expansive views and dramatic day-lit spaces up to 55 feet high. Each ground connection of the façade's curved metal panels can glide up to 28 inches horizontally to accommodate expansion/contraction and meet seismic requirements for earthquakes.

  The arrivals hall has a 62-foot arched ceiling, built to allow ample natural daylight for passengers checking in at ticket counters and self-service kiosks. Passengers ascend to the second floor, with a 45-foot vaulted ceiling for security checkpoints and the concourse. A 240-foot skylight runs the length of the concourse, again, bringing in natural light and reducing energy consumption. Thirteen-foot-high curtainwalls give passengers a view of activity on the airfield.

  Terminal A's functionality was improved in part by doubling the capacity of security checkpoints on the second floor. Ticket counters were relocated in a new space created on the ground floor, which allows better access to the curbsides and makes more room for the new security checkpoint. Also, the number of counters was nearly doubled, including the addition of six curbside counters and two bag drop counters inside. Terminal A was completely renovated with new terrazzo flooring and carpeting, new ceilings, new bathrooms and new seating throughout.

  Conveniently located right across the street from the new Terminal B, the ConRAC facility has 350 short-term public parking spaces on the street level and six levels of rental car parking above. The ConRAC is the first elevated "quick-turn-around" (QTA) facility to open at an airport in the United States. The QTA allows the rental car companies to wash and fuel all their cars on site in order to return them to service efficiently. The three-level indoor

elevated fueling station represents a significant technological and engineering achievement to ensure reliable and safe operations, and it is the largest gas station in San José.

The roadways have been widened, straightened, repaved, and re-marked, and new signs and lighting have vastly improved access and navigation to the Airport.

- Security and Technology Modernization at the Airport

  Security received a complete overhaul in the Airport's $1.3 billion modernization program. San José is the first airport in the nation to use the new state-of-the-art baggage screening equipment, the continuous-feed CTX-9800. The baggage systems are far faster and efficient, than the manual baggage screening system, allowing both TSA and the carriers to operate with fewer personnel, less manual handling of baggage, and lower costs, which will help enhance the Airport's competitiveness for airlines.

  Passenger screening also received a major overhaul, with eight "advanced imaging technology" units (full-body scanners) from TSA deployed in Terminals A and B. San José is among the first eleven airports to get the new equipment that was purchased under the federal economic stimulus program in order to strengthen security at airports throughout the country. Advanced imaging technology (AIT) is designed to bolster security by safely screening passengers for metallic and non-metallic threats, including weapons, explosives and other objects concealed under layers of clothing. TSA will ensure passenger privacy through the anonymity of AIT images. A privacy filter is applied to blur all images; images are permanently deleted immediately once viewed and are never stored, transmitted or printed; and the TSA officer viewing the image is stationed in a remote location and does not come into contact with passengers being screened.

  New security checkpoints were designed with airport traffic growth and potential changes to TSA operations in mind. Both checkpoints have eight lanes but are expandable to twelve in each terminal. A new security camera surveillance system was also part of the modernization. It allows officials more flexibility in aiming cameras and retrieving images at a later date.

  Information technology systems at the Airport received similar attention to detail and also played a critical role in the success of the entire modernization project. The Airport held meetings with all of its airlines to understand their requirements and concerns about moving to a shared-use system. Specifically, they wanted to run their own native applications on the Airport's network-centric platform. The Airport hired Air-Transport IT Services, Inc. (AirIT) to provide a range of technologies to manage all operational flight activity, passenger processing and billing in a real-time environment. AirIT deployed its Extended Airline System Environment (EASE), which allows any airline to function in its own operating environment over the Airport's network. Shared-use equipment includes everything at the gates, ticket counters and 90 common-use self-service kiosks throughout the Airport. Other systems deployed include AirIT's Airport Operational Database (AODB), Enterprise Service Bus (ESB), Resource Management System (RMS), Flight Information Display Systems (FIDS), Advertising Display System (ADS), Baggage Information Display System (BIDS), common-use self-service (CUSS) and PROPworks, a property and revenue management system. AirIT also provided a Cisco network which included the campus wide network, voice over IP telephony and UCCX for the airport call center.

- New Food & Beverage and Retail Program

  Airport staff has worked in conjunction with the concessionaires and their construction contactors to complete 41 locations in the new food and beverage and retail concession program. Of the approximately 50,000 square feet of concessions space under the new program, 42,000 square feet has been developed. All pre-security locations are now operational and passengers and meeter/greeters in both Terminals A and B can enjoy gourmet coffee and pastries while waiting for luggage and loved ones to arrive.

  Passenger choices have expanded greatly and include a wide variety of locally based food and beverage options including Le Boulanger, Tres Gringos, Chiaramonte's Deli, Pizza My Heart, Sonoma Chicken, Santa Cruz Wine Bar, Mojo Burger, Sushi Boat, Gordon Biersch, and The Brit. Local retail products are featured in Discover San Jose, CJ Olson, Schurra's Fine Confections, and Sunset News. National favorites that are open to the public include Ruby Tuesday, Starbucks, Peet's Coffee & Tea, and Jamba Juice.

- Art at the Airport

  The art program at the Airport features America's most extensive permanent exhibit of technology and digitally-based artworks in a public setting. As part of the Airport's capital improvement program, art installations showcase the innovation, diversity, and dynamism that define San José and Silicon Valley.

  The art program gives travelers an immediate sense of San José as a place where ideas are born and visions achieved. The art program is built upon an active infrastructure for projection-based, digital, and data-driven works that can be changed over time in keeping with the inevitable technological changes in the future.

  The art program features permanent, architecturally-integrated works and some changing artworks. The permanently-sited artworks consist of the e-Cloud, the Hands, and the Space Observer.

  The "eCloud" consists of approximately 3,000 small squares of switchable glass assembled in arrays and suspended from the concourse ceiling to form a three-dimensional irregular grid over a 90-foot length of the food court. Each square functions as a "pixel" that turns from opaque to transparent with the transmission of an electrical charge. Low-resolution animations will be transmitted through "eCloud" based on real-time weather and conditions at airports around the world that create a sense of a changing electronic glass "cloud' within the Airport.

  The "Hands" of 54 Silicon Valley residents greet the world from the Airport on a new mural that spans 1,200 feet, stands seven stories tall, and is visible miles away. The "Hands" is an innovative façade that wraps the east side of the Airport's new ConRAC facility. The "Hands" reflect the diverse spectrum of Silicon Valley's population, including a tamale maker, surgeons, teachers and students, technologists, construction workers, musicians, poets, parents and children, police officers and firefighters. The ConRAC façade is constructed from two layers of architectural chain link mesh. The outer layer is covered with a "bitwall" consisting of nearly 400,000 two-inch-diameter plastic dots snapped on the mesh to create the image. The inner layer is a denser mesh, providing a background for the image formed by the dots.

The "Space Observer" is a 26-foot tall interactive sculpture that explores the relationship between humans and modern technology. The sculpture stands on an eight-foot high tripod that allows walking underneath. The legs support a propeller-powered rotating body, "wings" for propulsion, and kinetic camera arms that collect live video for display on embedded monitors within the sculpture body. Triggered by motion sensors and custom electronics, "Space Observer" movements depend upon the presence of its audience of travelers.

- Installation of One Megawatt Solar Array on the ConRAC Facility

  More than 4500 solar panels covering 3.4 acres have been installed on the roof of the Airport's new ConRAC facility, and full completion and activation of the solar project was completed in May. The one megawatt array will provide at least 20 percent of the power required by the new parking structure, and it was built as part of the Airport's comprehensive modernization program. The installation became possible because construction of the ConRAC facility was ahead of schedule and under budget, which provided the opportunity to install the system now through the Airport's design/build program. In addition, the Airport was able to take advantage of a one-time solar incentive rebate from the State of California, which makes this specific system economically feasible with a positive payback over the 20-year planning period compared to the cost of purchased power.

- Energy Efficiency and Awards

  Terminal B Concourse at the Airport has achieved the Leadership in Energy and Environmental Designs (LEED®) Silver certification from the US Green Building Council in recognition of the Airport's significant commitment to environmentally sustainable design and construction.

  PG&E presented the Airport in May 2010 with a check for $133,869 for incorporating energy-efficient design concepts and materials at Terminal B Concourse. The Airport earned the "Savings by Design" incentive for its innovative use of energy-saving materials in the building shell and its electrical and mechanical systems. The program is offered by PG&E to encourage high-performance design and construction for new commercial buildings.

  Construction of Terminal B has optimized energy performance and exceeded efficiency standards for a building of its size and use by 16%. Efficiency measures include occupancy sensors for lighting; programmable lighting control system; and high efficiency "smart" heating, cooling and ventilations systems. The ventilation system was designed to exceed the minimum ventilation rates to optimize energy efficiency and indoor air quality.

  Roofing material is white with a high solar reflectance index that reduces the "heat island" effect of a large building and reduces ambient temperature around the terminal area. It also helps to keep the building interior cooler, thus reducing the use of air conditioning on hot days. Terminal B was designed with abundant windows to bring in natural light, which makes the interior both more attractive and comfortable and saves energy by using daylight instead of electric lighting.

  Terminal B's environmental highlights include: glass curtain walls and skylights with a Low-E coating, a reflective white roof, low-flow fixtures, use of recycled materials and certified wood, and more than 90% recycling of construction waste. Innovations and unique features include: water efficiency that's 30% above code, 50% reduction in water consumption via drought-tolerant landscaping, energy-efficient air diffusers, a recycling program with 90%

materials recovery, showers and secure bike storage for employees and an educational kiosk about sustainable design.

The "air chair", a new seating product, merges passenger amenities with environmental efforts. The new seats are designed to diffuse air throughout seating areas more efficiently and effectively than standard air diffusing systems. One out of every four chairs in the Airport's gate areas includes mechanisms that transport fresh, conditioned air from beneath the chairs directly to passengers on the concourse. The seating also features power outlets for charging laptops, cell phones, etc.

- New Feature for "Meeter and Greeter" Opened at Terminal A

  In February 2010, a comfortable and convenient new waiting area for people to meet arriving passengers opened in Terminal A adjacent to the security checkpoint on the second level. Called the "Blue Dot" because of its clearly identifiable blue carpeting and programmable LED lighting feature on the ceiling, this new meeter/greeter area is pre-security right where arriving passengers leave the concourse so that they can be easily met before walking to baggage claim.

- Alternative Fuel Vehicles

  Through policies and economic incentives, the Airport has greatly encouraged the use of alternative fuel vehicles such as electric, compressed natural gas (CNG), and hybrids in partnership with airlines and taxi and shuttle operators servicing the Airport to help reduce emissions. As a result, more than one third of the trips to the Airport are in alternative fuel vehicles.

  The entire Airport shuttle bus fleet was converted to CNG and its CNG fueling station has been in operation since 2002 to serve buses, taxis and the general public with low-emission fuel. The station pumps the equivalent of over 600,000 gallons of gasoline per year and CNG-fueled vehicles emit 70% less carbon monoxide than gasoline-powered vehicles. With the completion of the transition of its shuttle bus fleet from diesel to CNG, the Airport reduced the total exhaust emissions by nearly 100 tons a year in comparison to 2001 levels.

- Acoustical Treatment Program (ACT)

  The Airport is committed to the community and has worked with local residents to improve the quality of life for neighbors. The ACT program, which was primarily funded by grants from the FAA and PFC, offered property owners a no-cost sound insulation for eligible homes within defined areas near the airfield affected by noise. Since 1994 more than 2600 homes and four schools in San José and Santa Clara neighborhoods received acoustical windows and doors, insulation, and air conditioning at a total cost of approximately $160 million. The Airport completed its ACT program during fiscal year ended June 30, 2010.

- San José Airport Passes Annual FAA Safety Inspection with High Scores

  For the fifth consecutive year, the Airport has achieved a nearly perfect passing score from the FAA on its annual airport certification and safety inspection. Every year the FAA reviews all commercial airports to ensure they meet federal standards for safety as part of the process for the annual renewal of an airport's license to operate. The inspection looks at operations, maintenance and facilities, including airfield conditions, personnel qualifications and training, and fire fighting and rescue operations. During its recent inspection in San José, FAA found the Airport in compliance with all essential federal rules and regulations with the exception of a single taxiway sign that needed updating.

- Grants

  In September 2009, TSA awarded the Airport funding of up to $20.9 million for a new state-of-the-art baggage screening system for the new Terminal B. The federal grant represents 90 percent of the potential allowable costs of the automated in-line checked baggage explosive detection system installed in the new terminal. The funding comes through the American Recovery and Reinvestment Act, the federal economic stimulus program.

  The Airport was the first airport in the western U.S. to be awarded a Voluntary Airport Low Emissions (VALE) grant by the FAA in 2009. The $4.6 million grant was used to retrofit all 28 gates at the terminal with preconditioned air and 400 Hz ground power to reduce airline engine use while parked at the gate, thereby reducing emissions.

  During fiscal year 2010, the Airport received $7.2 million from the FAA for the construction of the Taxiway W Extension Project, Phase I. $5.2 of the total amount received was from the American Recovery and Reinvestment Act which reimburses 100% of the project cost while the remaining $2 million came from the annual FAA funding which reimburses 80.59 % of the cost.

  In July 2010, the Airport also received a grant offer from the FAA in the amount of $6.7 million for the design and construction of Taxiway W Extension project, Phase II.

- USO Opened its Permanent Home in Newly-Opened Terminal

  After 18 years operating out of temporary quarters in seven different locations at the Airport, the USO celebrated its final move into a new comfortable and spacious home in the new Terminal B Concourse in November 2009. Its new permanent facilities include a lounge, computers, kitchen, secure bag storage, library, and restrooms in 2,060 square feet of space serving approximately 11,000 military personnel and their families traveling through the airport each year. Staffed entirely by volunteers, the USO has operated at the Airport since July 1991. The new street-level location in the Terminal B Concourse puts the USO conveniently between Terminal A and the new Terminal B.

- "Airport of the Year" Award from Air Line Pilots Association

  In November 2009, the Air Line Pilots Association (ALPA) presented the Airport the "Airport of the Year" award for 2008 in recognition of its efforts to address pilot concerns throughout its multiyear $1.3 billion airport modernization program. ALPA cited the Airport for its efforts to include the perspective of airline pilots in the City's ongoing review of the potential effects of high rise development in downtown San José on the future operations of the Airport.

- New Flights out of San José

  Alaska launched Austin service in early September 2009. They also launched service to Maui and Kona in March as well as added a second Austin flight. Their affiliate, Horizon, also added 2 daily flights to Spokane. The Airport also welcomed the first new airline in over five years with the launch of Volaris, the Mexican low cost carrier, at the end of April 2010. This was followed by the re-launch of jetBlue service to Boston in mid-May after a 20 month absence.

OUTLOOK FOR THE FUTURE

San José's economic development strategy identifies the Airport's role in providing an important infrastructure resource to support the economy. Businesses need Airport infrastructure and services in order to successfully market goods and services. Global economic demands mean that it is critical that Airport infrastructure be developed and services continue to meet emerging needs.

The Airport works in partnership with various City departments, such as the Department of Transportation, Police and Public Works Departments, to improve the transportation systems to benefit the residents of San José as well as support successful business development. These partnerships allow the City to focus coordination efforts on critical transportation projects. The synergy from these efforts is promoted by the Transportation and Aviation City Service Area (CSA), where the Airport Operating Budget is organized and reported.

The mission of the CSA is to provide the community with safe, secure, and efficient surface and air transportation systems that support San José's livability and economic vitality. The following are the Transportation and Aviation Services CSA desired outcomes:

- Provide safe and secure transportation systems
- Provide viable transportation choices that promote a strong economy
- Travelers have a positive, reliable and efficient experience
- Preserve and improve transportation assets and facilities
- Provide a transportation system that enhances community livability

Since 2001, the Airport has focused on keeping operating costs in check, while planning, developing and modernizing the Airport. Reduced passenger volumes and the impact of the recession on spending patterns have required that the Airport carefully manage annual operating costs to provide a balanced budget. The Airport's FY 2011 Adopted Operating Budget provides the resources necessary to operate and serve the new terminal facilities, while reducing costs where possible. The FY 2010 passenger activity declined by 6.7%, and as a result it was necessary for the Airport to continue the plan to reduce staffing levels to that of 1995, a year with similar passenger levels. This approach, which began in mid-year of FY 2009, allowed decision makers to focus on core business staffing, as well as review those programs and services that have been added over the course of the last decade. Staffing levels, efficiencies and service priorities were reviewed in light of the passenger levels. At mid-year of FY 2009, City Council approved staff reductions of 52 full-time employees (FTE). During FY 2010 budget process, staffing levels were further reduced by an additional 43 positions, and finally the FY 2011 Adopted Budget eliminated 93 Airport positions, bringing authorized staffing levels down to 212, compared to 400 two years ago, a 47% percent reduction.

All Airport service areas will be impacted by the elimination of these mostly filled positions and the resulting seniority and transition requirements of the Civil Service system. Remaining staff resources will focus on ensuring that safety, security and mandatory regulatory compliance activities are performed; priority maintenance and operation activities continue; required customer and outreach services are provided including those associated with the new facilities; and that critical revenue enhancement actions continue. Remaining activities will be further reduced to minimally acceptable levels and staff will be responsible for broader service matters rather than speciality areas.

Budget changes are included in both the FY 2011 Adopted Operating Budget, as well as the Capital Budget. Reductions to Airport operating services are highlighted below.

- Reduction in Airport capital program staff takes place with the phased elimination of 10 positions, or 25% of current staff. These reductions in the Airport Planning and Development Division are available with the completion of the majority of the construction and activation work associated with the Terminal Area Improvement Program.
- A significant reduction to Airport traffic control curbside support staffing took place with the elimination of 10 of 30 positions. New terminal facilities, newly aligned roadways, reduced curbs, along with reduced passenger levels, enable this reduction without impacting public safety.
- Airport administration, marketing/communications and property management staffing levels were reduced by 10 positions in various Airport administrative units in alignment with available resources.
- Restructured new facility support services allowed the elimination of 5 staff positions. The reductions were possible from efficiencies realized from the just-in-time shipping and receiving warehouse model and reduced general maintenance needs in the short-term because of new facilities, systems and equipment. However, the new terminal facilities are double the size of the previous terminal space, and long-term facilities needs are likely to increase.
- Consolidated Airport Planning and Development permitted elimination of 4 positions. This reduces Airport Planning and Development Division staffing and consolidates work functions in the airfield, utility and environmental work areas.
- A service delivery model change for Airport custodial services also was approved, resulting in the elimination of 54 custodian positions. In accordance with Council Policy, a business case analysis was completed. Based on the analysis, the City Council approved the action to contract out custodial services at the Airport. This action will save approximately $3 million in FY 2011 and almost $3.5 million in annual costs.
- The reductions in Airport staffing and the availability of unused space in the terminal complex provide an opportunity to consolidate the entire department in one location and save money associated with leasing office space. The relocation scheduled for completion in the fall of 2010, will provide ongoing savings of approximately $1.9 million per year.
- Police, fire and interdepartmental changes have also been reviewed for possible reductions. Although not as significant, the budget reduced Police staffing by an additional 1 officer, the Canine Team Training Officer, in the Adopted Budget. Over the course of the past two years Airport Police staffing have been reduced by a total of 9 FTE (17.6%). Fire staffing was reduced in January 2010 by approximately 33.0% and interdepartmental staffing in Public Works Department was reduced by one position.

Conservative budget and fiscal policies have led to another surplus in FY 2010. For the fiscal year ended June 30, 2010, the Airport's revenues exceeded its expenses and other reserve requirements by $35.5 million, which was $10.6 million greater than what was anticipated in the preparation of the adopted FY 2010 Rates and Charges (as computed pursuant to the Airline-Airport Lease and Operating Agreement). The resulting fund balance has helped the Airport to address the downturn in passengers and support airline targeted fees in FY 2011, as well as provide a contingency for the near future. It is important to point out that these savings are, for the most part, one time in nature and costs associated with providing services in the new terminal are not yet certain. These factors, along with activity levels continuing to decline, make it critical that the Airport remain conservative and diligent in looking for ways to cut costs and streamline service delivery.

Looking ahead, the Airport expects to face continuing financial challenges as new expenses associated with debt service for new facilities begin and passenger and airline activity remain low. The Airport's FY 2011 Operating Budget anticipates a modest 2.5% increase in passengers; if this growth does not take place, additional budget reductions may be required. As a result, the Airport has developed and received City Council support for strategic principles to guide its efforts to keep costs competitive with a focus on FY 2012 implementation. The Airport Competitive Plan provides a series of ideas and alternatives on reductions and streamlining activities that would provide efficiencies to the organization and result in cost savings. Portions of the Plan are due to be reported to City Council in the fall 2010 and other recommendations will require further study and stakeholder analysis.

The Airport's 2011-2015 Adopted Capital Improvement Program (CIP) totals $478.8 million and consists of over 30 capital projects. The Adopted CIP reflects the completion of several of the major projects forming part of the Airport's modernization program. Many new and upgraded facilities have been placed into service during FY 2010. As the Airport closes out much of the TAIP in FY 2010 and the first half of FY 2011, improvements to the non-terminal areas will continue.

Three of the major projects in the CIP are Taxiway W Improvements, Public Parking Improvements, and the Non-Terminal Area Projects. The Taxiway W Improvements project addresses concerns identified by the FAA Runway Safety Action Team, and will add taxiway capacity on the Airport's west side to support future general aviation demand. The first phase of this project was completed in 2009-2010. The Public Parking Improvements project includes design and construction of new parking lots as part of a larger effort to move parking operations from the west side to the terminal area of the Airport. Design began on two of these parking areas during 2009-2010 and work will continue through 2011-2012. The Non-Terminal Area Projects appropriation includes the consolidation of the former Northeast and Southeast Redevelopment projects and the ACM Demolition project. This new project provides for planning and site preparation work for future facilities and improvements outside of the terminal zone, including the west side of the Airport.

Phase I construction of the Taxiway W Improvements project was completed in FY 2010 and was largely funded by federal grants, including $5.2 million from the American Recovery and Reinvestment Act of 2009 (ARRA). The timing and completion of work on subsequent phases of the Taxiway W Improvements project budgeted within the CIP is contingent upon receiving additional grant funding requested from the FAA and the availability of resources to fund the required local match. In addition, certain components of this project will require an amendment to the Airport Master Plan.

The new Non-Terminal Area Projects appropriation was approved in this CIP, although timing and completion is also contingent upon available funding resources. The Adopted CIP includes other projects in addition to those already mentioned, such as Clean-up of the Existing Fuel Farm, the LED Light Replacement Program, Shared Use System Replacement, the Renewal and Replacement Projects and numerous terminal and tenant improvements.

Highlights of the Airport's 2011-2015 Adopted CIP are as follows:

<u>Airport Master Plan</u>

The Airport has and will continue to provide a significant benefit to the local economy through implementation of the Airport Master Plan. The considerable construction spending on projects included in the Terminal Area Improvement Program over the past few years has decreased in FY 2011 as several major projects were completed and new facilities opened during FY 2010.

Airport construction work in the current CIP highlights the ongoing efforts to deliver new parking facilities, continue the improvements programmed for Taxiway W, and begin planning and site preparation work in the non-terminal areas of the Airport.

Airfield Facilities

The Adopted CIP allocates $54.9 million towards projects that will improve airfield infrastructure to accommodate the demands for air carrier and general aviation operations and safety. Airfield improvement projects include the following:

- $51.2 million for the Taxiway W Improvements project. A reallocation of funding within the CIP reflects both a reduction in project costs and the rephasing from five to seven phases. Funding in FY 2011 provides for the completion of Phase II design and the funding for the reconstruction of Taxiway W between Taxiways B and C, and Taxiway C from Taxiway V to Taxiway W. Construction includes pavement, grading, drainage improvements, shoulder paving and edge line lighting. Phases III through VI, as well as a portion of Phase VII, are also included in the CIP; however, like Phase II, timing and construction of these subsequent phases is contingent upon the receipt of grant and local funding in addition to an amendment of the Airport Master Plan for certain components.

Additional funding is programmed for airfield projects, which provide for design and construction of various improvements and repairs pursuant to FAA requirements.

Aviation Support – Environmental

The Adopted CIP reflects completion of the Airport's Acoustical Treatment Program (ACT) in FY 2010. A small allocation of funding in FY 2011 is programmed as a contingency should a need arise for future noise attenuation testing. The ACT program began nearly two decades ago and has successfully mitigated noise for nearly 2,700 dwellings and four schools in the neighborhoods near the Airport.

Over the next five years, a total of $6.4 million is budgeted primarily for the following environmental projects:

- $5.7 million for the continued assessment and clean up of the former fuel farm site; and

- $549,000 to provide for fuel storage tank repairs, as needed.

Aviation Support Facilities - General

The Adopted CIP provides $19.6 million to fund various new infrastructure improvements and to renovate, maintain, or upgrade existing facilities. The CIP includes the following projects:

- $13.2 million for Non-Terminal Area Projects. This allocation combines the former Northeast and Southeast Redevelopment projects with the ACM Demolition project to fund the planning and necessary site preparation work for future improvements outside of the Airport Terminal Zone. Future improvements on the southeast area of the Airport may include development of aviation support facilities such as hangars, light maintenance facilities, airline provisioning, cargo operations, and other aviation support services by third parties. Airport support facilities such as shuttle bus storage and other Airport operational support may be developed in the northeast quadrant. Timing and completion of this project is contingent upon availability of future funding;

- $1.7 million to fund a Renewal and Replacement Projects appropriation for as-needed capital renewal and replacement projects on the Airport campus; and

- $1.5 million for Airport Technology Services, which funds the purchase of new and replacement technology equipment and software.

Other projects are programmed to fund replacement of operating equipment, HVAC repairs and monitoring, land improvements, installation of security equipment, Airport signage design and production, and public art (for the first year only of the CIP).

Aviation Support Facilities – Parking

A total of $37.3 million is allocated for the ongoing construction of new parking facilities:

- $18.8 million for Public Parking Improvements. This project provides for the design and construction of public parking areas on the east side of the Airport. These include a surface lot on the Green Island, once vacated by the rental car agencies, and the completion of the South Loop and Terminal B lots under construction south of the new ConRAC and Terminal B facilities, respectively; and

- $17.5 million to complete the rental car projects, such as the demolition of the rental car buildings on the Green Island.

Aviation Support Facilities – Transportation

A total of $2.7 million is allocated for the following transportation-related maintenance project:

- $2.7 million for Pavement which funds the reconstruction of asphalt and concrete pavement at various locations throughout the Airport to meet airfield and roadway safety requirements.

Passenger Terminal Facilities

A total of $70.8 million is allocated for Passenger Terminal Facilities, including the following:

- $59.0 million for the completion of the Terminal Area Improvement, Phase I project that includes several terminal area zone projects; and

- $2.2 million for Shared Use System Replacement. This allocation funds the replacement of equipment to maintain the Airport's Shared Use system. As the current equipment ages and reaches the end of its useful life, replacement equipment will be required to ensure airline and customer service is not interrupted. This equipment includes, but is not limited to, common use self-service kiosks, miscellaneous video monitors, computers, peripherals, and printers.

Other terminal-related projects are programmed in the CIP to provide for maintenance and upgrades as well as tenant improvements.

FINANCIAL INFORMATION

The management staff of the Airport is responsible for establishing and maintaining an internal control system designed to safeguard the assets of the Airport from loss, theft, or misuse, and allow the compilation of adequate accounting data for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits, and that the evaluation of costs and benefits is subject to management estimates and judgments.

Single Audit

As a recipient of federal funds, the Airport is also responsible for providing assurance that an adequate internal control system is in place to ensure compliance with applicable laws and regulations relating to federal award programs. This internal control system is subject to periodic evaluation by management, the City Auditor, and the City's outside independent certified public accountants.

As part of the City's Single Audit procedures, tests are made to determine compliance with the internal control system in place, including those controls relating to Federal award programs, and whether the Airport has complied with all applicable laws and regulations. The result of the City's Single Audit for the year ended June 30, 2010 indicated that there were no material weaknesses in the City's instituted internal control system.

The Airport was authorized to impose Passenger Facility Charges (PFCs) effective September 1, 1992. Legislation authorizing the collection of PFCs restricts the use of PFC revenue to the acquisition of specified assets and prescribes reporting and control requirements. At least annually, during the period in which the PFC is collected, held, or used, the Airport must provide for an audit of its PFC accounts. The audit must be conducted by an independent certified public accountant. The scope of the audit must include evaluation of the Airport's internal accounting controls to account for the collection and use of PFCs. The audit can be performed separately for the PFC account or as part of the Single Audit. For FY 2010, the audit of the Airport's PFC accounts was performed as part of the Single Audit. The audit is complete and there were no noted material weaknesses in the Airport's internal accounting controls or instances of noncompliance with applicable PFC regulations.

Budgetary Controls

Each year, the Airport prepares an operating budget and a capital budget. These documents are presented to the City Council and included in the City's annual appropriated budget. The approved budgets serve as an approved plan to facilitate control and operational evaluation.

The Airport and the City maintain budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the San José City Council. The level of budgetary control, at which expenses cannot legally exceed the budgeted amount, is at the appropriation level.

The Airport, as with the City, also uses encumbrance accounting as another technique of accomplishing budgetary control of the Airport funds. Purchase commitments are earmarked for particular purposes and become unavailable for general spending.

Appropriations that are not encumbered lapse at the end of the fiscal year. Year-end encumbrances are carried forward and become part of the following year's budget. For budget purposes, expenses are recognized in the year encumbered. For financial statement purposes, expenses are recognized when incurred.

Certain budgetary and fund provisions are stipulated in the Airline–Airport Lease and Operating Agreement and the Master Trust Agreement. Both operating and capital budgets comply with the provisions or restrictions set forth within these agreements.

The Airport continues to meet its responsibility for sound financial management as demonstrated by the statements included in the financial section of this report.

OTHER INFORMATION

Independent Audit

In accordance with Sections 805(a) and 1215 of the City Charter, the annual audit of Airport funds was completed by Macias Gini & O'Connell LLP, Certified Public Accountants for the year ended June 30, 2010. In addition to meeting the requirements set forth in the City Charter, the City's audit was also designed to meet the requirements of the Federal Single Audit Act Amendments of 1996 and the related Office of Management and Budget Circular A-133. The Airport's federal awards programs are included in the City-wide Single Audit Report. The auditor's report on the Airport's financial statements is included in the financial section of this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Norman Y. Mineta San José International Airport for its CAFR for the FY ended June 30, 2009. This was the thirteenth consecutive year that the Airport has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Airport must publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

Acknowledgments

The preparation of the CAFR was made possible by the dedicated service and efforts of the Airport's Finance and Administration Division. Each member of the division has our sincere appreciation for the contributions made in the preparation of this report.

In addition, staff in all Airport divisions should be recognized for responding quickly and positively to requests for detailed information which accompany each annual audit. The role of Macias Gini & O'Connell LLP should also be acknowledged as a significant contribution to a fine product.

Respectfully submitted,

William F. Sherry, A.A.E
Director of Aviation

Terri A. Gomes, CPA
Deputy Director
Finance and Administration Division

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Norman Y. Mineta San Jose International Airport, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

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

President

Executive Director

Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Listing of Principal Officials
June 30, 2010

ELECTED OFFICIALS:

Chuck Reed	Mayor
Pete Constant	Council Member, District 1
Ash Kalra	Council Member, District 2
Sam Liccardo	Council Member, District 3
Kansen Chu	Council Member, District 4
Nora Campos	Council Member, District 5
Pierluigi Oliverio	Council Member, District 6
Madison Nguyen	Council Member, District 7
Rose Herrera	Council Member, District 8
Judy Chirco	Council Member, District 9
Nancy Pyle	Council Member, District 10

AIRPORT COMMISSION:

Frank Sweeney	Chairperson
John Salah	Vice-Chairperson
George Gange	Member
Keith Ian Graham	Member
Spencer Horowitz	Member
Ian Kluft	Member
Andrés Quintero	Member
Kansen Chu	Airport Liaison

CITY OFFICIAL

Debra Figone	City Manager

AIRPORT DEPARTMENT:

William F. Sherry, AAE	Director of Aviation
Kim Aguirre	Assistant Director of Aviation
Terri A. Gomes, CPA	Deputy Director, Finance and Administration
Patrick R. Tonna	Deputy Director, Facilities & Engineering
David Maas, P.E.	Deputy Director, Planning and Development
John Aitken	Deputy Director, Operations
Diane Mack-Williams	Director of Information Technology
Jim Webb	Director of Government Relations
Ed Nelson	Director of Air Service Development
David Vossbrink	Communications Director
Vicki L. Day	Director of Customer Services
Captain Jeff Smith	San José Police Dept. – Airport Division

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A department of the City of San José)

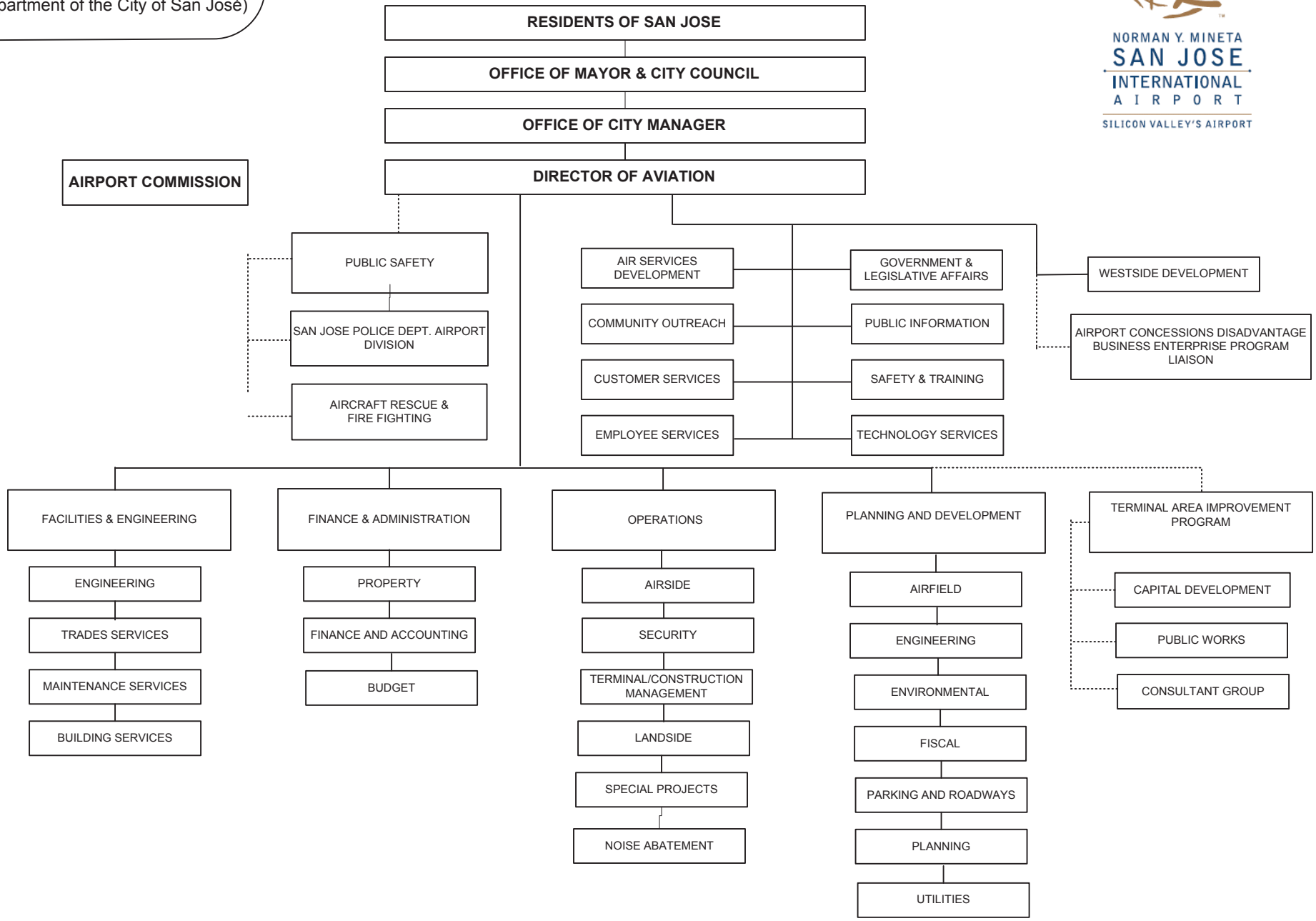


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Photo by Ken Paul

NORMAN Y. MINETA
SAN JOSE
INTERNATIONAL
AIRPORT
SILICON VALLEY'S AIRPORT

FINANCIAL

The extremely convenient Consolidated Rental Car Facility.

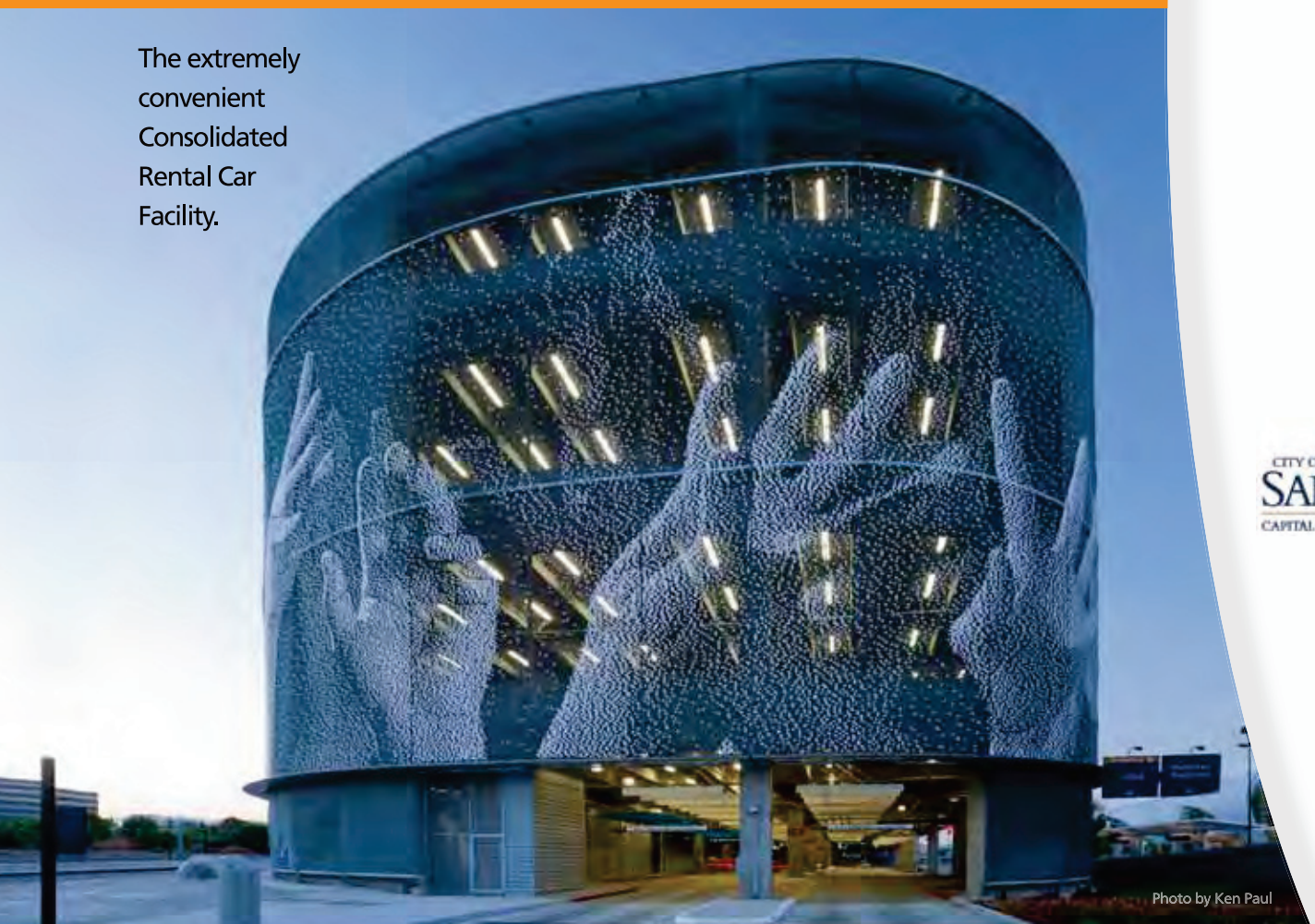

Photo by Ken Paul

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Honorable City Council
City of San José, California

Independent Auditor's Report

We have audited the accompanying financial statements of the Norman Y. Mineta San José International Airport (the Airport), a Department of the City of San José, California (the City), as of and for the fiscal years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the management of the Airport. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Airport are intended to present the financial position, the changes in financial position, and cash flows, of only that portion of the business-type activities and major fund of the City that is attributable to the transactions of the Airport. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2010 and 2009 and the changes in its financial position and its cash flows, where applicable, for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(c) to the financial statements, the Airport adopted the provisions of Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective July 1, 2008.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 22, 2010 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2010. 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory, statistical and bond disclosure sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

November 22, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

This section of the Norman Y. Mineta San José International Airport's (Airport) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the Airport for the fiscal years ended June 30, 2010 and 2009.

AIRPORT ACTIVITIES HIGHLIGHTS

Passenger traffic and number of flights declined in 2010 as the airline industry in general continues to shrink capacity throughout the aviation system brought about by the prolonged recovery from the financial crisis and economic recession. Passenger traffic suffered steep declines after 2001 but grew slightly during fiscal years 2004 through 2006. Passenger traffic declined slightly during fiscal years 2007 and 2008 but again significantly declined by 15.0% in 2009. The Airport faced another decline of 6.7% in passenger traffic in fiscal year 2010.

As of June 30, 2010, Airport carriers served 29 nonstop markets with 127 daily departures compared to 27 nonstop markets with 149 daily departures as of June 30, 2009 and 28 nonstop markets with 170 daily departures as of June 30, 2008.

The following shows major air traffic activities at the Airport during the last three fiscal years:

	2010	2009	2008
Flight operations	131,590	159,972	184,714
	-17.7%	-13.4%	-0.1%
Landed weight (passenger carriers)	5,410,517	6,129,871	6,912,044
	-11.7%	-11.3%	-1.1%
Landed weight (cargo carriers)	322,267	421,286	492,706
	-23.5%	-14.5%	-3.7%
Total enplaned and deplaned passengers	8,232,446	8,821,452	10,380,825
	-6.7%	-15.0%	-2.6%
Enplaned passengers	4,107,394	4,399,562	5,178,603
	-6.6%	-15.0%	-2.6%
Deplaned passengers	4,125,052	4,421,890	5,202,222
	-6.7%	-15.0%	-2.5%
Domestic passengers	8,103,361	8,697,578	10,242,985
	-6.8%	-15.1%	-2.0%
International passengers	129,085	123,874	137,840
	4.2%	-10.1%	-31.2%
Cargo tonnage (in metric tons)	53,183	68,896	88,327
	-22.8%	-22.0%	-6.2%
Parking (vehicles) exits	1,002,458	1,154,954	1,441,695
	-13.2%	-19.9%	-9.4%

The Airport continues to offer airlines an incentive program which waives Airport fees during the introduction of new service to particular destinations. The program is intended to help reduce an airline's financial risk during the important start up period and supports the development of new air service at the Airport. Under the airline service incentive program, airlines providing new non-stop service between San José and a qualifying domestic or international city will receive incentive credits against all variable airport fees and charges. The amount of the incentives

(Continued)

varies: one year for short range routes, two year declining incentives for medium range year-round domestic flights including Canada and Mexico, and three year declining incentives for long haul (trans-oceanic) routes. The incentive flight needs to be an incremental increase in service and not replace another San José flight being cancelled by the airline.

Alaska Airlines was the first to receive the incentive in September 2009 as they responded to the departure of American Airlines from the very important business market-Austin,Texas. Additionally, they added a second Austin flight in March 2010. They also launched service to Maui and Kona, Hawaii that month and their affiliate Horizon launched 2 flights to Spokane, Washington. Lastly in May, jetBlue also took advantage of the incentive program by resuming service to Boston, Massachusetts after a 20-month absence.

FINANCIAL HIGHLIGHTS

The Airport continued its practice of conservative budget management and fiscal policies, eliminating 43 positions, significantly reducing expenses, deferring capital projects, and using past savings in an effort to preserve the fiscal position of the Airport. For the first time in nine years, the Airport posted a decrease in net assets for 2010 fiscal year.

- Operating revenues decreased by 4.1% from $115.9 million in 2009 to $111.2 million in 2010.

- Operating expenses before depreciation and amortization decreased by 10.1% from $104.7 million in 2009 to $94.2 million in 2010.

- The above resulted in operating income before depreciation and amortization of $17.0 million in 2010 and $11.2 million in 2009.

- Depreciation and amortization increased from $20.6 million in 2009 to $55.3 million in 2010.

- Operating loss before nonoperating revenues and expenses increased from $9.4 million in 2009 to $38.3 million in 2010.

- Net nonoperating revenues and expenses decreased from net nonoperating revenues of $21.1 million in 2009 to net nonoperating loss of $2.2 million 2010.

- Capital contributions received in the form of grants from the federal government increased from $12.9 million in 2009 to $34.7 million in 2010.

- Net assets decreased by $5.8 million in 2010 compared to an increase of $24.5 million in 2009. This was the result of the decrease in operating and nonoperating revenues, increase in depreciation and nonoperating expenses, offset by the decrease in operating expenses and increase in capital contributions.

In addition, the Airport posted an increase in net assets at the end of 2009 fiscal year.

- Operating revenues increased by 0.9% from $114.9 million in 2008 to $115.9 million in 2009.

- Operating expenses before depreciation and amortization decreased by 12.0% from $119.0 million in 2008 to $104.7 million in 2009.

- The above resulted in operating loss before depreciation and amortization of $4.1 million in 2008 and operating income before depreciation and amortization of $11.2 million in 2009. Operating loss before nonoperating revenues and expenses decreased from a loss of $27.0 million in 2008 to a loss of $9.4 million in 2009.

- Net nonoperating revenues and expenses decreased from net nonoperating revenues of $36.5 million in 2008 to $21.1 million 2009.

- Capital contributions received in the form of grants from the federal government increased from $5.0 million in 2008 to $12.9 million in 2009.

- The increase in net assets was $24.5 million in 2009 compared to $14.5 million in 2008. This was the result of the increases in operating revenues and capital contributions and decrease in operating expenses, offset by the decrease in net nonoperating revenues and expenses.

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HIGHLIGHTS IN CHANGES IN NET ASSETS

The following table reflects a condensed summary of the changes in net assets (in thousands) for fiscal years ended June 30, 2010, 2009, and 2008:

	2010	2009	2008
Operating revenues	$ 111,208	$ 115,947	$ 114,886
Operating expenses before depreciation and amortization	(94,206)	(104,733)	(119,035)
Operating income (loss) before depreciation and amortization	17,002	11,214	(4,149)
Depreciation and amortization	(55,288)	(20,647)	(22,834)
Operating loss	(38,286)	(9,433)	(26,983)
Nonoperating revenues and expenses, net	(2,215)	21,096	36,499
Income (loss) before capital contributions	(40,501)	11,663	9,516
Capital contributions	34,722	12,868	4,970
Increase (decrease) in net assets	(5,779)	24,531	14,486
Total net assets - beginning, as restated	458,543	434,012	419,526
Total net assets - ending	$ 452,764	$ 458,543	$ 434,012

NET ASSETS SUMMARY

Total net assets serve over time as a useful indicator of the Airport's financial position. The Airport's assets exceed liabilities by $452.8, $458.5 million and $434.0 million at June 30, 2010, 2009 and 2008, respectively, a $6.4 million decrease from June 30, 2009 and $18.1 million from June 30, 2008.

A condensed summary of the Airport's net assets (in thousands) at June 30, 2010, 2009, and 2008 is shown below:

	2010	2009	2008
Assets:			
Unrestricted assets	$ 78,991	$ 100,599	$ 97,941
Restricted assets	370,140	547,522	701,415
Capital assets	1,501,030	1,255,086	934,094
Other assets	19,153	22,418	22,268
Total assets	1,969,314	1,925,625	1,755,718
Liabilities:			
Current liabilities – unrestricted	431,388	342,371	202,226
Current liabilities payable from restricted assets	52,423	81,113	63,705
Noncurrent liabilities	1,032,739	1,043,598	1,055,775
Total liabilities	1,516,550	1,467,082	1,321,706
Net assets:			
Invested in capital assets, net of debt	314,664	316,935	267,321
Restricted	61,349	45,260	84,491
Unrestricted	76,751	96,348	82,200
Total net assets	$ 452,764	$ 458,543	$ 434,012

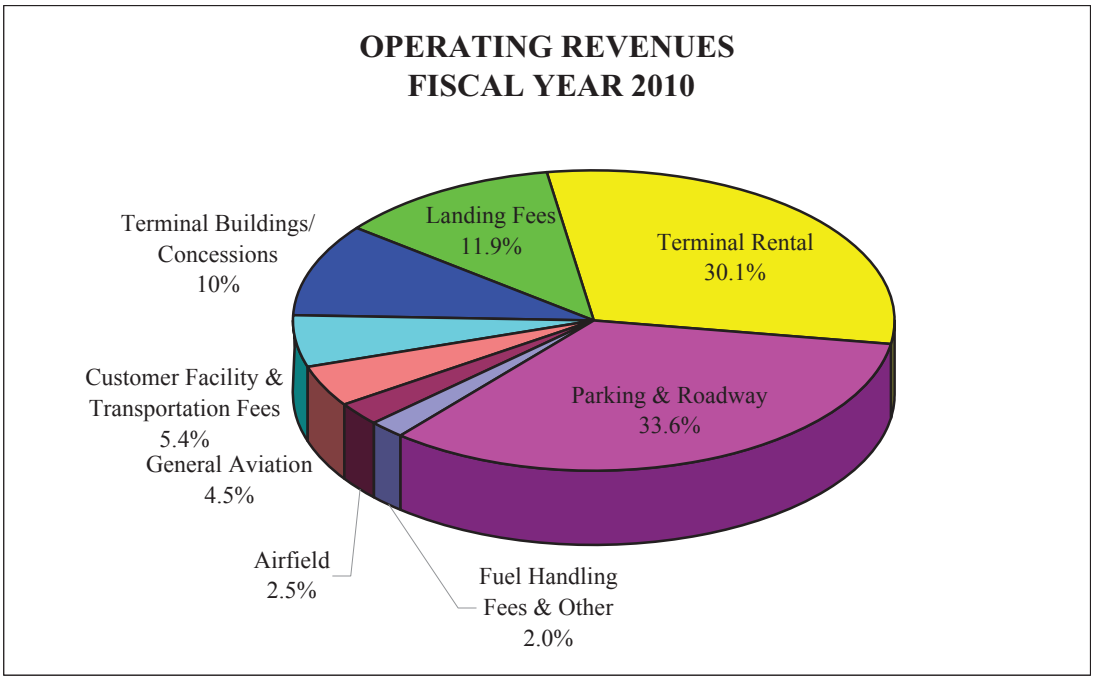
Substantial declines in the balances of restricted and unrestricted assets can be attributed to the construction spending for various Master Plan projects. This directly relates to the increase in capital assets, which is further detailed in the "Capital Acquisitions and Construction Activities" section below.

The largest portion, 69.5% and 69.1%, of the Airport's net assets at June 30, 2010 and 2009, respectively, represents its investment in capital assets (e.g. land, buildings, improvements and equipment), less the debt outstanding used to acquire those capital assets. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending.

A portion of the Airport's net assets represents amounts that are subject to restrictions under the Airline Lease Agreement and the Master Trust Agreement, and passenger facility charges (PFC) and customer transportation fees that are restricted by Federal regulations and Civil Code Section 1936, respectively.

REVENUES

The following chart reflects the major sources and the percentage of operating revenues for the fiscal year ended June 30, 2010:



As illustrated in the above graph, parking and roadway revenue represents 33.6% of the total operating revenues. Parking includes public parking, concession fees from rental cars, employee parking, rental car ready and return stalls, lease of rental car lots, and taxicab and other ground transportation fees. Public parking is the largest source of the Airport's revenues. The next largest category is airline terminal rental which represents 30.1% of the total operating revenues. Landing fees from passenger and cargo carriers represent 11.9% of the total operating revenues. Revenues from terminal buildings/concessions, which came in at 10.0% of total operating revenues, includes food and beverage, news and gift shops, advertising, and telephony. Orange alert surcharge on enplaned passengers, fees for the use of the Federal Inspection Services (FIS) facility and rental of space, other than airline space, are also included in this category.

The customer facility and transportation fees category (5.4%) is the charge to customers of rental car companies at the Airport for the purpose of (i) providing a common use busing system between the terminals and the interim rental car facility, and (ii) pay for the greater portion (but not all) of the costs of the consolidated rental car garage. The collection of this fee is currently authorized by the California Civil Code Section 1936. General aviation revenues (4.5%) are comprised of rents for aircraft hangars, aircraft parking spaces, building and land rentals, and fingerprinting fees.

The remaining categories, airfield, and fuel handling fees and other represent 2.5% and 2.0%, of the total operating revenues, respectively. The airfield area category (2.5%) is comprised of air carrier parking, fees from the in-flight kitchen services, rental of the air freight building, and fees from ground service providers. Fuel handling fees include sales of diesel, unleaded, propane, and compressed natural gases (CNG), as well as jet flowage fee, a fee charged to operators for engaging in the activity of retail sales of aviation fuel petroleum products. Other revenues represent fees for tenant plan reviews, which are calculated on a cost recovery basis.

A summary of revenues (in thousands) for the fiscal years ended June 30, 2010, 2009, and 2008 is as follows:

	2010	2009	2008
Operating revenues:			
Landing fees	$ 13,190	$ 14,504	$ 13,084
Terminal rental	33,459	29,716	26,539
Terminal buildings/concessions	11,157	11,947	11,470
Airfield	2,791	3,171	2,833
Parking and roadway	37,371	42,596	48,014
Fuel handling fees	1,310	1,474	1,806
General aviation	4,995	5,127	4,726
Customer facility and transportation fees	6,021	6,713	6,351
Other	914	699	63
Total operating revenues	111,208	115,947	114,886
Nonoperating revenues:			
Passenger facility charges	17,043	17,416	21,224
Investment income	311	8,138	15,446
Operating grants	1,150	4,625	8,444
Other, net	1,764	5,858	3,122
Total nonoperating revenues	20,268	36,037	48,236
Capital contributions	34,722	12,868	4,970
Total revenues	$ 166,198	$ 164,852	$ 168,092

2010 versus 2009

Operating revenues generated in 2010 decreased by approximately $4.7 million or 4.1% over that in 2009 reflective of the decline in passenger and flight activities at the Airport. Decreases have been posted in all revenue categories except terminal rental and other revenues.

Terminal rental increased from $29.7 million in 2009 to $33.5 million in 2010 due to increases in rental rates. Despite the increase in landing fee rate from $2.24 to $2.32 per thousand pounds of the maximum gross landing weights, landing fees in 2010 decreased by $1.3 million primarily due to the decrease in the number of flights.

The loss of passenger traffic and flights has directly reduced non-airlines revenues, such as the food and beverage concessions in the terminal buildings/concession revenues category, the public parking and rental car concession revenues in the parking and roadway category, and the inflight kitchen and ground support concession revenues in the airfield category. Other contributors to the decrease in terminal buildings/concession revenues were the retroactive reduction in minimum annual guarantee granted to the advertising concessionaire, the termination of operations by Verified Identity Pass, which administered the Airport's registered traveler program, as well as the reduction of rate for terminal space rent for non-airline tenants. The parking and roadway revenues were also negatively impacted by the "true-up" refunds to the rental car companies.

General aviation tracked lower than the prior fiscal year principally due to the fact that Hensel Phelps gave up the office space they subleased from the Airport upon expiration of its lease contract in December 2009.

Other operating revenues posted a significant increase due to higher amounts collected from the new food and beverage and retail concessionaires to cover engineering and inspection fees related to their tenant improvements. An amount of $150,000 was also collected to cover engineering and inspection fees for the construction of the Southwest podium.

Passenger facility charges posted a decrease of 2.1% reflective of the decline in passenger activity. Interest rates were at a historic low during the fiscal year and investment balances have gone down as a result of construction spending. Also, there was an unrealized loss of approximately $2.3 million on fair value of investments compared to an unrealized gain of approximately $516,000 in prior year. These factors contributed to the decline in investment income from approximately $8.1 million in 2009 to approximately $311,000 in 2010.

The operating grants pertained to grant funds awarded by the Federal Aviation Administration (FAA) to the Airport to finance a portion of the cost of implementing the Airport's residential Acoustical Treatment Program ($480,000), grant from the Transportation Security Administration for the costs associated with the law enforcement officers at security checkpoints ($364,000), canine security grant from the Transportation Security Administration ($200,000), and a grant from the Bay Area Air Quality Management District for the incremental costs of leasing compressed natural gas buses ($105,000).

$19.2 million of the capital contributions represents funding from the United States Transportation Security Administration for the new state-of-the art baggage screening system for Terminals A and B. Other capital contributions received during the fiscal year pertained to reimbursement of significant expenditures in the amount of $4.8 million for use in the South Apron replacement project, $7.1 million for the reconstruction of Taxiway W, and $16,000 for the runway guardlight. The Airport also received $3.1 million from FAA's Voluntary Low Emissions program for the incremental costs of ground service vehicles that will help improve local air quality and $489,000 from VTA for the upgrade of the compressed natural gas fuel station.

Other nonoperating revenues decreased from $5.9 million in 2009 to $1.8 million in 2010. Higher net other nonoperating revenues in 2009 can be attributed to two factors. The first factor was the receipt in 2009 of $2.7 million "make whole" amount resulting from the termination of two collateralized investment agreements held in the 2001 and 2004 bond reserve funds that were

terminated when the investment agreement provider's ratings were downgraded below levels permitted under the Master Trust Agreement. The other contributory factor was the higher administrative costs, which are deducted from the other nonoperating revenues, associated with the commercial paper program incurred during fiscal year 2010.

2009 versus 2008

Operating revenues generated in 2009 increased by approximately $1.1 million or 0.9% over that in 2008 despite the significant decline in passenger and air traffic activities. Increases were posted in all revenue categories except for parking and roadway and the fuel handling fees. The biggest increase was in the terminal rental from airlines.

Terminal rental increased from $26.5 million in 2008 to $29.7 million in 2009 due to increases in rental rates. Despite the overall decrease in landing weights from 2008's level, landing fees in 2009 increased by $1.4 million primarily due to the increase in rate from $2.00 to $2.24 per thousand pounds of the maximum gross landing weight.

Terminal buildings/concession revenues in 2009 tracked 4.2% above 2008 revenues due to increases in other space rents and advertising revenues, largely offset by the decrease in the Orange alert surcharge. Other space rents in 2009 increased over 2008 due to the increased rental rates for non-airline tenants at the terminal from $232.21 to $248.52 per square foot. The advertising concessionaire commenced paying the minimum annual guarantee (MAG) in February 2008. Thus, advertising revenues increased due to the fact that the full amount the MAG was collected in fiscal year 2009 versus a proportionate amount equivalent to five months in fiscal year 2008. The increase was offset by the $1.5 million signing bonus collected in fiscal year 2008. Orange alert surcharge decreased due to the decline in the enplaned passenger count.

Airfield revenues posted an increase of $338,000 or 11.9% primarily due to higher concession fees from ground support concessions. With the declining trend in passenger traffic, revenues in the parking and roadway category significantly decreased, most notably the public parking fees and rental car concessions. Public parking was negatively impacted by the ongoing construction activities.

Fuel handling fees posted a decrease of $332,000 or 18.4% due to the decline in fuel flowage fees and lower sales of ground fuel and compressed natural gas. General aviation in 2009 tracked higher than the prior fiscal year principally due to the land lease rental derived from SJC Fuel Company. The increase can also be attributed to adjustments to land and building rental rates based on increases in consumer price index.

Despite the decline in the number of rental car contracts, customer facility and transportation fees increased due to the passage of legislation allowing the Airport to increase the rate from $5 to $10 per rental car agreement effective January 1, 2008. Other operating revenues posted a significant increase due to amounts collected from the new food and beverage and retail concessionaires to cover engineering and inspection fees related to their tenant improvements. An amount of $447,000 was also collected from Hertz to cover engineering and inspection fees for the construction of its elevator at the consolidated rental car garage facility.

Passenger facility charges posted a significant decrease of 17.9% reflective of the decline in passenger activity. Interest rates were at a historic low during fiscal year 2009 and investment balances decreased as a result of construction spending. Also, unrealized gain on fair value of investments amounted to approximately $516,000 compared to $3.4 million in 2008. These factors contributed to the decline in investment income from $15.4 million in 2008 to $8.1 million in 2009.

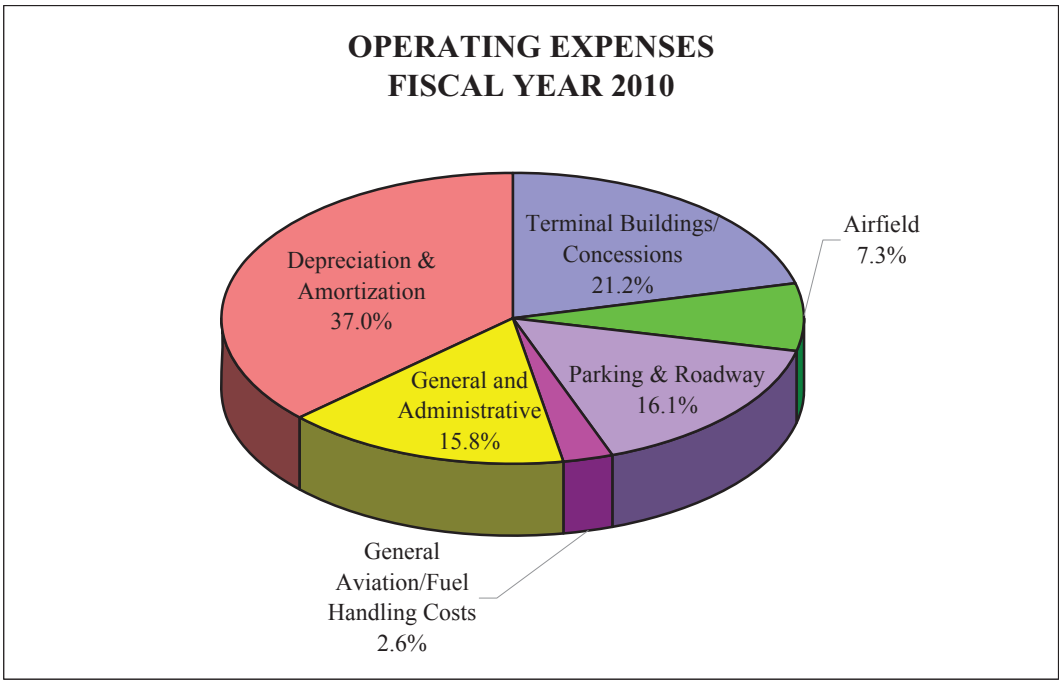
The majority of the operating grants pertained to grant funds awarded by the Federal Aviation Administration (FAA) to the Airport to finance a portion of the cost of implementing the Airport's residential Acoustical Treatment Program ($3.9 million). Other operating grants received pertained to law enforcement officers at security checkpoints grant from the Transportation Security Administration ($362,000), canine security grant from the Transportation Security Administration ($201,000), and a grant from the Bay Area Air Quality Management District through the Valley Transportation Authority (VTA) for the conversion of the Airport's buses and ground transportation operators conventionally fueled vehicles to alternative fuels ($130,000).

$9.5 million of the capital contributions represents funding from the United States Transportation Security Administration for the new state-of-the art baggage screening system for Terminal A. Other capital contributions received in fiscal year 2009 pertained to a significant expenditures of $1.8 million from the Airport Improvement Letter of Intent Program (LOI) for the Runway 30L and 30R reconstruction and extension, $829,000 for use in the South Apron replacement project, $475,000 for the reconstruction of Taxiway W, $83,000 for the runway guardlight and centerline, and $30,000 for the upgrade of noise monitoring equipment. The Airport also received $132,000 from FAA's Voluntary Low Emissions program for the installation of ground service equipment that will help improve local air quality and $19,000 from VTA for the upgrade of the compressed natural gas fuel station.

Net other nonoperating revenues increased from $3.1 million in 2008 to $5.9 million in 2009. The increase can be attributed to the receipt of $2.7 million "make whole" amount resulting from the termination of two collateralized investment agreements held in the 2001 and 2004 bond reserve funds that were terminated when the investment agreement provider's ratings were downgraded below levels permitted under the Master Trust Agreement. Contributions from the rental car companies also increased significantly. In accordance with their contract, rental car companies are required to pay for the amount of common use busing system expenses in excess of the customer facility and transportation fees collected from rental car customers.

EXPENSES

The following chart reflects the major cost centers as a percentage of operating expenses for the fiscal year ended June 30, 2010:



A summary of expenses (in thousands) for the fiscal years ended June 30, 2010, 2009, and 2008 is as follows:

	2010	2009	2008
Operating expenses:			
Terminal buildings/concessions	$ 31,701	$ 28,813	$ 31,790
Airfield area	10,911	16,170	22,692
Parking and roadway	24,032	26,853	27,936
Fuel handling costs	885	557	311
General aviation	3,052	4,072	3,428
General and administrative	23,624	28,268	32,879
Depreciation and amortization	55,288	20,647	22,834
Total operating expenses	149,493	125,380	141,870
Nonoperating expenses:			
Interest expense	10,750	11,404	11,737
Loss on fixed assets write-off	11,733	3,537	-
Total nonoperating expenses	22,483	14,941	11,737
Total Expenses	$ 171,976	$ 140,321	$ 153,607

(Continued)

2010 versus 2009

Operating expenses increased by $24.1 million from $125.4 million in 2009 to $149.5 million in 2010 primarily due to the increase in depreciation and amortization. The Airport permanently ended airline and concession operations in Temporary Terminal C on June 29, 2010 and the final stage of demolition of this facility will begin in late July. As a result, the Airport accelerated its depreciation schedule and wrote off $25.9 million related to this temporary facility.

The other expense category that posted an increase in 2010 is the other post employment benefits (OPEB) costs. OPEB costs and obligations of $1.6 million were recorded for the fiscal year ended June 30, 2010 based on the latest actuarial study. Adjustment of the OPEB costs and obligations in prior year resulted in a downward adjustment of $500,000.

Net decreases were experienced in all other expense items. Personnel expenditures substantially decreased by $4.3 million or 12.0% as a result of the reduced staffing levels. A total of 95 positions were eliminated during the fiscal years 2009 and 2010.

Nonpersonnel expenditures decreased by $4.2 million or 9.8%. Significant savings were achieved in overhead, contractual services, and building rent. Overhead decreased by $2.0 million or 27.5% due to reduced staffing levels as well the reduction in rate from 22.52% in 2009 to 18.86% in 2010. Contractual services costs were lower primarily due to decreased amounts paid to the VTA bus service, parking, and shuttle bus operators as a result of reduced passenger activity. Building rent also substantially decreased due to a reduction in leased space in the administration spaces on First Street effective January 2010. Higher nonpersonnel expenditures in 2009 can also be attributed to the approximately $967,000 payment of legal expenses associated with the settlement of a curfew related lawsuit. The decreases were partially offset by the payment of approximately $682,000 rental expenses for the Airport West property. No such rental expenses were paid in 2009 because the option payments received from the prospective buyers were used to pay the debt service obligations on the property.

Operating expenses included certain expenditures for capital projects that did not meet the criteria for capitalization into capital assets (expensed capital items). Overall expensed capital items decreased by $2.4 million. The majority of these expensed capital items in 2009 pertained to noise attenuation projects which amounted to $5.4 million. Amount spent on noise attenuation projects in 2010 amounted to approximately $788,000.

Operating expenses included fees charged by the City for airport rescue and firefighting services totaling $15.6 million in 2010 and $16.9 million in 2009, a decrease of $1.3 million. The lower amount in 2010 can be attributed to the lower staffing requirements allowed by reduced passenger levels and reduced overhead rate.

The Airport's estimated workers' compensation liability decreased by $334,000 as of June 30, 2010 based on the Airport's current claims activity compared with a decrease of $65,000 as of June 30, 2009.

Interest expense decreased in 2010 in comparison with 2009 because of the lower interest rates on commercial paper. Most of the interest expense was capitalized as part of the costs of projects funded by the bond proceeds and commercial paper.

During fiscal year 2010, the Airport stopped construction and wrote off $11.2 million accumulated costs of certain capital projects related to a maintenance building, traffic mitigation and other projects due to its decision to scale down its Terminal Area Improvement Project. For the same reason, the Airport wrote off in 2009 accumulated costs of $3.5 million related to the Airport People Mover. Additional depreciation recorded in fiscal year 2010 pertained to the remaining book value of the old Terminal C building, demolition of which began in late July and will be completed by October 2010.

2009 versus 2008

Operating expenses decreased by $16.5 million from $141.9 million in 2008 to $125.4 million in 2009. Decreases were experienced in nonpersonnel expenditures, OPEB costs, depreciation and amortization, and expensed capital items, while increases were experienced in personnel expenditures, fees charged by the City for airport rescue and firefighting and police services, and workers' compensation.

Nonpersonnel expenditures decreased by $4.1 million or 8.8% compared to the prior fiscal year. In fiscal year 2008, the Airport paid rentals to the City of San José Financing Authority (the Authority) for the lease of the Airport West property in the amount of $5.9 million. The Airport did not have to pay for this lease in fiscal year 2009. This accounted for the significant savings in the nonpersonnel expenditures offset by the increase in overhead charges from the City. Overhead rate increased from 18.86% in 2008 to 22.52% in 2009.

Depreciation and amortization was substantially higher in fiscal year 2008 due to the write-off of deferred bond issuance costs relating to the series 2004A and Series 2004B Airport Revenue bonds that were redeemed in April 2008.

The OPEB costs and obligations were adjusted as of June 30, 2009 to reflect the latest actuarial study and the Citywide allocation resulted in a downward adjustment to the Airport's OPEB liability and a reduction in its OPEB costs of $500,000.

Overall expensed capital items decreased by $8.3 million. The majority of these expensed capital items pertained to noise attenuation projects which decreased by $6.4 million from $11.8 million in 2008 to $5.4 million in 2009.

Personnel expenditures increased by $1.2 million principally due to negotiated salary increases of approximately 3.75% for all bargaining units as well as annual step increases. The City retirement contribution rate also increased from 22.0% in 2008 to 23.6% in 2009 while new health care rates took effect in January 2009 with an average increase of 7.8%. These increases were mitigated by the elimination of 6 filled and 46 vacant positions at mid-year.

Operating expenses included fees charged by the City for airport rescue and firefighting services totaling $16.9 million in 2009 and $15.5 million in 2008, an increase of $1.5 million. The lower amount in 2008 can be attributed to the $1.1 million savings credit to the Airport after an adjustment related to the completion of an analysis of the police and fire overhead for 1998 through 2006.

The Airport's estimated workers' compensation liability decreased by $65,000 as of June 30, 2009 compared with a decrease of $509,000 as of June 30, 2008 based on the Airport's current claims activity.

Interest expense increased in 2009 in comparison with 2008 because of the debt service relating to the Series 2007A and Series 2007B Airport Revenue Bonds. However, most of the interest expense was capitalized as part of the costs of projects funded by the bond proceeds.

Loss on capital asset disposal pertained to the write-off of $3.5 million accumulated costs of the Airport People Mover project. This project was eliminated due to the Airport's economic constraints.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

The Airport expended $319.1 million and $354.3 million on both capitalized and noncapitalizable capital activities in fiscal years 2010 and 2009, respectively. Major capital projects included the various Master Plan projects. Major projects completed during fiscal year 2010 pertained to the Consolidated Rental Car Facility and Terminal B. The Airport completed several noise attenuation in 2009 and facility and maintenance projects during both fiscal years that did not meet the criteria for capitalization.

As of June 30, 2010, the Airport was obligated for purchase commitments of approximately $68.9 million on capital projects primarily for the Terminal Area Improvement Program projects, the public parking improvement project, and the remainder of the costs of the rental car facility and the North Concourse building projects.

Detailed information about the Airport's Master Plan projects can be found in Note 10 (e) to the financial statements and information about capital assets can be found in Note 3 to the financial statements.

LONG-TERM DEBT

Commercial Paper Program

The commercial paper debt is a form of variable rate debt with a maturity between 1 to 270 days. As of June 30, 2010 and 2009, the total amount of commercial paper outstanding totaled $417.3 million and $323.6 million, respectively. During fiscal years ended June 30, 2010 and 2009, the Airport paid principal of $11.6 million and $11.2 million, respectively.

Additional information about the Airport's commercial paper program can be found in Note 4 to the financial statements.

Revenue Bonds

As of June 30, 2010 and 2009, the Airport had total outstanding revenue bonds of $1,038.0 million and $1,049.6 million, respectively.

During the fiscal year ended June 30, 2010 and 2009, the Airport paid principal of $11.6 million and $11.2 million, respectively.

Additional information about the Airport's long-term debt can be found in Note 5 to the financial statements.

Credit Ratings

On September 14, 2009, Fitch Ratings downgraded its rating on the Airport's Revenue Bonds from 'A+' to 'A-', a drop of two rating notches.

On July 16, 2009, Moody's Investors Service reaffirmed the A2 rating on the City's Airport revenue bonds, but revised the outlook from stable to negative.

Standard and Poor's has not taken any action with respect to its rating of 'A' which was assigned on July 16, 2007.

AIRLINE RATES AND CHARGES

The Airport entered into an Airline-Airport Lease and Operating Agreement that took effect on December 1, 2007. The terminal rate methodology contained in the agreement is based on a compensatory rate-making approach. The average rental rate is calculated annually by dividing the Terminal Revenue Requirement sum by the total amount of rentable terminal space and multiplying the resulting quotient by the total square feet of airline premises at the Airport, yielding the Airline Terminal Revenue Requirement. The airlines' share of any net remaining revenues is credited against the Airline Terminal Revenue Requirement, yielding the Net Airline Terminal Revenue Requirement. The Terminal Revenue Requirement is the sum of expenses allocable to the Terminal for each fiscal year, which include (a) annual debt service funded from bonds or subordinated indebtedness net of any PFC revenues used to pay such debt service, plus (b) debt service coverage, plus (c) annual operating expenses, plus (d) amount needed to replenish the bond reserve fund to required levels, plus (e) the share of annual costs for renewal and replacement, less (f) any grant amounts used to pay debt service, less (g) the debt service coverage for the immediately preceding fiscal year.

The landing fee rate methodology in the agreement is based on a cost center residual rate-making approach. The landing fee is calculated by dividing the Airfield Revenue Requirement by the projected aggregate maximum gross landed weight for all aircraft carrying passengers or cargo in commercial service at the Airport during the fiscal year. The landing fee is expressed in dollars and cents per one thousand pounds in landed weight. The Airfield Revenue Requirement is the sum of expenses allocable to the Airfield for each fiscal year, which include (a) annual debt service funded from bonds or subordinated indebtedness net of any PFC revenues used to pay such debt service, plus (b) debt service coverage, plus (c) annual operating expenses, plus (d) amount needed to replenish the bond reserve fund to required levels, plus (e) the share of annual costs for renewal and replacement, less (f) revenues, other than landing fees, that are accrued for the use of the Airfield, including revenue accrued from landing fee premiums paid by non-signatory airlines, and revenues accrued from charges paid for parking aircraft at common use gates, less (g) any grant amounts used to pay debt service, less (h) the debt service coverage for the immediately preceding fiscal year.

The rates and charges for the signatory (passenger and cargo) airlines for fiscal years 2010 and 2009 and the period December 1, 2007 through June 30, 2008 were as follows:

	2010	2009	12/1/2007 through 6/30/2008
Landing fee (per 1,000 lbs MGLW):	$2.32	$2.24	$2.00
Terminal average rental rate (per square foot)	$175.60	$193.14	$131.12
Airline cost per enplanement (projected)	$10.67	$8.61	$6.89

Terminal rental rates and airline landing fees for fiscal year 2011 have been developed as part of the annual budget process. The rates and charges for the signatory airlines for fiscal year 2011, which became effective July 1, 2010, are as follows:

Landing fees (per 1,000 lbs MGLW):	$2.47
Terminal average rental rates (per square foot)	$130.34
Airline cost per enplanement (projected)	$11.09

After completion of the year-end closing and annual audit, the Airport achieved savings of approximately $10.6 million greater than what was anticipated in the preparation of the adopted 2009-2010 Airline Rates and Charges. The surplus for 2010 will be allocated in accordance with the revenue sharing provisions of the lease agreement and/or used in the budget balancing actions for fiscal year 2012.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Airport's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Norman Y. Mineta San José International Airport, 1701 Airport Blvd., Suite B1130, San José, CA 95110.

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Exhibit I
(Continued)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Assets
June 30, 2010 and 2009

		2010	2009
Assets			
Current assets:			
Unrestricted assets:			
Equity in pooled cash and investments held in City Treasury (Note 2)	$	65,928,183	85,812,304
Receivables:			
Accounts, net of allowance for uncollectible accounts of $511,051 in 2010 and $368,477 in 2009		4,820,165	5,063,056
Accrued interest		272,438	588,571
Grants		7,821,306	8,997,509
Prepaid expenses, advances, and deposits		149,089	137,211
Total unrestricted assets		78,991,181	100,598,651
Restricted assets:			
Equity in pooled cash and investments held in City Treasury (Note 2)		47,596,716	75,336,403
Investments held by fiscal agent (Note 2)		317,509,483	462,809,025
Receivables:			
Accounts, net of allowance for uncollectible accounts of $30,522 in 2010 and $14,844 in 2009		3,812,505	3,702,966
Accrued interest		938,637	2,244,288
Grants		70,848	84,337
Due from the City		14,285	14,286
Prepaid expenses, advances, and deposits		10,537	3,152,018
Current portion of bond issuance costs		186,630	178,487
Total restricted assets		370,139,641	547,521,810
Total current assets		449,130,822	648,120,461
Noncurrent assets:			
Capital assets (Notes 1 & 3):			
Nondepreciable		250,276,733	922,227,232
Depreciable assets, net of accumulated depreciation		1,250,753,368	332,858,956
Total capital assets		1,501,030,101	1,255,086,188
Loan receivable		250,000	250,000
Advances and deposits		6,870,617	9,948,038
Bond issuance costs, less current portion		12,032,726	12,219,356
Total noncurrent assets		1,520,183,444	1,277,503,582
Total assets	$	1,969,314,266	1,925,624,043

See accompanying notes to financial statements.

Exhibit I
(Concluded)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Assets
June 30, 2010 and 2009

		2010	2009
Liabilities			
Current liabilities:			
Payable from unrestricted assets:			
Accounts payable	$	5,009,655	8,873,200
Accrued salaries, wages and payroll taxes		1,628,386	1,759,980
Accrued vacation, sick leave and compensatory time, current		2,189,000	2,409,000
Advances and deposits payable		951,405	941,299
Unearned revenue		3,365,304	3,897,371
Estimated liability for self-insurance, current (Note 9)		560,000	560,000
Other current liabilities		330,000	330,000
Accrued interest payable		6,748	39,014
Commercial paper notes payable (Note 4)		417,348,000	323,561,000
Total payable from unrestricted assets		431,388,498	342,370,864
Payable from restricted assets:			
Accounts payable		21,971,510	50,978,831
Accrued salaries, wages and payroll taxes		196,251	285,287
Accrued vacation, sick leave and compensatory time, current		39,169	158,102
Other current liabilities		384,000	384,000
Accrued interest payable		17,870,899	17,965,915
Current portion of bonds payable (Note 5)		11,961,236	11,340,559
Total payable from restricted assets		52,423,065	81,112,694
Total current liabilities		483,811,563	423,483,558
Noncurrent liabilities:			
Bonds payable, less current portion and net of unamortized discount/premium and deferred amount on refunding (Note 5)		1,023,304,302	1,035,265,537
Estimated liability for self-insurance, noncurrent (Note 9)		2,402,548	2,736,406
Other postemployment benefits liability (Note 7)		5,739,584	4,167,075
Accrued vacation, sick leave and compensatory time, noncurrent		1,292,127	1,428,703
Total noncurrent liabilities		1,032,738,561	1,043,597,721
Total liabilities		1,516,550,124	1,467,081,279
Net Assets			
Invested in capital assets, net of related debt		314,664,044	316,935,302
Restricted:			
Per Airline Lease Agreement for:			
Airline revenue sharing		7,254,728	3,628,000
Per Master Trust Agreement for:			
Rolling debt service coverage		6,765,662	5,764,467
California Civil Code Section 1936 for Customer Facility Charges		595,166	615,174
Future capital projects		46,733,327	35,252,385
Unrestricted		76,751,215	96,347,436
Total net assets	$	452,764,142	458,542,764

See accompanying notes to financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009

		2010	2009
Operating revenues:			
Airline rates and charges:			
Landing fees	$	13,190,345	14,503,816
Terminal rental		33,458,906	29,715,996
Total airline rates and charges		46,649,251	44,219,812
Terminal buildings/concessions		11,156,946	11,947,163
Airfield area		2,791,491	3,170,562
Parking and roadway		37,370,612	42,596,075
Fuel handling fees		1,309,532	1,473,647
General aviation		4,995,007	5,127,335
Customer facility and transportation fees		6,021,365	6,713,160
Other		913,626	699,398
Total operating revenues		111,207,830	115,947,152
Operating expenses:			
Terminal buildings/concessions		31,701,098	28,813,366
Airfield area		10,911,014	16,170,121
Parking and roadway		24,031,701	26,852,623
Fuel handling costs		885,303	557,036
General aviation		3,052,466	4,072,008
General and administrative		23,623,554	28,268,277
Depreciation and amortization		55,288,220	20,646,758
Total operating expenses		149,493,356	125,380,189
Operating loss		(38,285,526)	(9,433,037)
Nonoperating revenues (expenses):			
Passenger facility charges		17,043,463	17,415,668
Investment income		311,105	8,138,167
Interest expense		(10,749,484)	(11,404,312)
Operating grants		1,149,465	4,625,432
Loss on capital assets disposal		(11,733,174)	(3,536,718)
Other, net		1,763,905	5,857,555
Total nonoperating revenues (expenses), net		(2,214,720)	21,095,792
Income (loss) before capital contributions		(40,500,246)	11,662,755
Capital contributions		34,721,624	12,868,382
Change in net assets		(5,778,622)	24,531,137
Total net assets - beginning, as restated (Note1 (l))		458,542,764	434,011,627
Total net assets - ending	$	452,764,142	458,542,764

See accompanying notes to financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Receipts from customers and users	$ 110,466,908	115,474,091
Payments to suppliers	(37,736,978)	(41,409,117)
Payments to employees	(33,378,756)	(37,053,573)
Payments for City services	(22,614,691)	(23,858,756)
Claims paid	(429,568)	(454,656)
Other receipts	2,157,176	7,119,039
Net cash provided by operating activities	18,464,091	19,817,028
Cash flows from noncapital financing activities:		
Transfers from the City	-	324,873
Transfers to the City	(14,645)	(103,934)
Operating grants	1,275,267	4,556,811
Advances and deposits received (paid)	-	18,991
Net cash provided by noncapital financing activities	1,260,622	4,796,741
Cash flows from capital and related financing activities:		
Purchases of capital assets	(311,097,318)	(298,156,103)
Principal payments on bonds payable	(11,645,000)	(11,180,000)
Interest paid	(56,257,684)	(60,209,583)
Capital grants	35,785,514	6,318,716
Passenger facility charges received	17,037,450	16,788,543
Bond issuance costs paid	-	(19,299)
Proceeds from commercial paper	98,887,000	143,171,000
Principal payments on commercial paper	(5,100,000)	(5,800,000)
Refund of North Concourse owner-controlled insurance program claims loss reserve	2,516,719	-
Advances and deposits received (paid)	560,702	(1,865,752)
Net cash used in capital and related financing activities	(229,312,617)	(210,952,478)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	188,524,499	288,268,904
Purchases of investments	(46,123,808)	(155,025,176)
Investment income received	16,932,689	29,819,504
Net cash provided by investing activities	159,333,380	163,063,232
Net decrease in cash and cash equivalents	(50,254,524)	(23,275,477)
Cash and cash equivalents - beginning	171,655,522	194,930,999
Cash and cash equivalents - ending	$ 121,400,998	171,655,522

See accompanying notes to financial statements.

Exhibit III
(Concluded)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2010 and 2009

		2010	2009
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(38,285,526)	(9,433,037)
Adjustment to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization		55,288,220	20,646,758
Other revenues		3,788,947	6,695,293
Other expenses		(2,010,397)	(1,059,052)
Decrease in:			
Accounts receivable		139,365	766,689
Prepaid expenses, advances, and deposits		3,129,603	1,540,778
Increase (decrease) in:			
Accounts payable and accrued liabilities		(2,730,302)	109,602
Advances and deposits payable		10,106	68,654
Unearned revenue		(532,067)	545,903
Estimated liability for self-insurance		(333,858)	(64,560)
Net cash provided by operating activities	$	18,464,091	19,817,028
Noncash capital and related financing activities:			
Acquisition of capital assets on accounts payable	$	23,826,000	53,090,194
Unrealized gain/(loss) on investments held by fiscal agent		(268,136)	683,595
Loss on capital assets disposal		(11,733,174)	(3,536,718)
Capitalized interest expense (net of investment income)		30,649,254	33,991,493
Amortization of bond discount/premium, issuance costs, and deferred amount on refunding		482,928	571,032
Reconciliation of cash and cash equivalents to the statements of net assets			
Equity in pooled cash and investments held in City Treasury			
Unrestricted	$	65,928,183	85,812,304
Restricted		47,596,716	75,336,403
Investments held by fiscal agent classified as cash equivalents		7,876,099	10,506,815
Total cash and cash equivalents	$	121,400,998	171,655,522

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of Reporting Entity

The Norman Y. Mineta San José International Airport had its beginning in 1945 with lease of approximately 16 acres of farmland to Mr. James Nissen. Mr. Nissen and his associates formed an operating company which undertook the construction of a 1,900-foot runway, a hangar and an office building. Flight operations were initiated in 1946. In the fall of 1948, the City of San José (the City) assumed responsibility for the operation of San José Municipal Airport, which was renamed San José International Airport in 1984 with the addition of airline service to Canada. In 2001, the San José International Airport was renamed the Norman Y. Mineta San José International Airport (the Airport).

The Airport is operated as a department of the City and is accounted for as a self-supporting enterprise fund in the basic financial statements of the City. The eleven members of the City Council serve as the governing body that oversees the operation of the Airport.

A variety of federal, state and local laws, agreements and regulations govern operations at the Airport. The Federal Aviation Administration has jurisdiction over flying operations generally, including personnel, aircraft, ground facilities and other technical matters, as well as certain environmental matters. Pursuant to the Airport and Airway Improvement Act of 1982 and other statutes, the City is constrained from transferring Airport revenues to its General Fund. This restriction is embodied in the federal grant agreements entered into by the City. Additionally, federal laws govern the reasonableness of fees that may be charged for use of Airport facilities, Airport noise limits, and impose certain other restrictions on the City and Airport operations.

(b) Basis of Presentation – Fund Accounting

The accounts of the Airport are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a set of self-balancing accounts that comprise the Airport's assets, liabilities, net assets, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's cost of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

(c) Basis of Accounting and Estimates

i. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Airport applies all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before

November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Airport has elected not to follow subsequent private-sector guidance.

ii. The Airport prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP), which provide that revenues are recorded when earned and expenses are recorded when incurred. Grants are recorded as revenues when all eligibility requirements have been met. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

iii. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Airport's enterprise fund are charges to customers for use of property and for services provided. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

iv. Under the terms of grant agreements, the Airport funds certain programs with specific cost-reimbursement grants. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Airport's policy to first apply restricted cost-reimbursement grant resources to such programs.

v. On July 1, 2009, the Airport adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* which requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement also provides guidance in determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the statement provides that the intangible asset be considered to have an indefinite useful life. The changes related to this statement can be found in Notes 1(l) and 3.

vi. On July 1, 2008, the Airport adopted the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. Additional information about the Airport's pollution remediation obligations can be found in Note 10 (d).

(d) Cash and Investments

Cash balances of the Airport, as well as other related entities, are pooled and invested by the City. The Airport's portion of this pool is displayed on the statement of net assets as "equity in pooled cash and investments held in City Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis by the City Treasury to the Airport based on the average weekly cash balances.

The Airport reports its investments in investment agreements at cost and all other investments are reported at fair value in the accompanying financial statements and the corresponding change in fair value of investments is reported in the year in which the change occurred. The Airport has reported its investments at fair value based on quoted market information obtained from fiscal agents or other sources.

Pooled cash and investments in the City Treasury are considered to be cash and cash equivalents for purposes of the accompanying statements of cash flows. Pooled cash and investments represent deposits and investments held in the City's cash management pool. This cash management pool possesses the characteristics of a demand deposit account, therefore, investments in this pool are considered to be cash equivalents. The Airport also considers all highly liquid restricted investments with a maturity of three months or less when purchased to be cash equivalents.

(e) Capital Assets

Capital assets include land, buildings and improvements, equipment, and intangible assets. Capital assets are defined as assets with an initial cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets are carried at cost. Certain property acquisition costs incurred in accordance with the California Noise Reduction Act have been capitalized in the land account in prior years. The purchase of land included movable structures that had to be removed for the land to be usable for Airport's purposes.

Intangible assets, which are identifiable, are recorded as capital assets. The Airport has identified certain habitational rights and aviation/relocation easements acquired in connection with the California Noise Reduction Act as intangible assets with indefinite useful lives. Intangible assets not having indefinite useful lives will be amortized over the estimated service capacity of the asset.

Maintenance, repairs, and minor replacements are expended as incurred. 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.

Depreciation of capital assets is computed using the straight-line method at various rates considered adequate to allocate costs over the estimated useful lives of such assets. The estimated lives by general classification are as follows:

	Years
Buildings and improvements	5 – 40
Equipment	4 – 10

(f) Capitalization of Interest

Interest costs related to the acquisition of buildings and improvements, intangible assets, and equipment acquired with debt are capitalized. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. For the years ended June 30, 2010 and 2009, the total amounts of interest capitalized, net of allowable interest earned on temporary investment proceeds, were $30,649,254 and $33,991,493, respectively.

(g) Bond Issuance Costs, Bond Discounts/Premiums, and Deferred Amount on Refunding

Bond issuance costs are capitalized and amortized in a manner that approximates the effective interest method. Original issue bond discount or premium and deferred amount on refunding are offset against the related debt and are also amortized in a manner that approximates the effective interest method.

(h) Operating Grants and Capital Contributions

Certain expenditures for airport capital improvements, airport safety and security operations, and the implementation of the Airport's Acoustical Treatment Program (ACT) are significantly funded through the Airport Improvement Program (AIP) of the Federal Aviation Administration (FAA), with certain matching funds provided by the Airport, or from various grant programs. Funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants awarded by the FAA to finance airport safety and security and a portion of the cost of implementing the ACT Program are reported in the statement of revenues, expenses and changes in net assets as nonoperating revenues. Grants for capital asset acquisition, facility development and rehabilitation are reported as capital contributions, after nonoperating revenues and expenses.

(i) Passenger Facility Charges

Passenger facility charges (PFCs) are recorded as nonoperating revenue in the year they are collected by the air carriers from the sale of air travel tickets and remitted to the Airport in accordance with Airport regulations.

The Airport is using PFC moneys to fund approved projects. There were 58 approved projects totaling $1,093,787,121 under this category as of June 30, 2010 and 2009. Thirty-two of these projects had been completed and closed with total costs of $119,231,647 as of June 30, 2010.

(j) Accrued Vacation, Sick Leave, and Compensatory Time

Vested vacation, sick leave, compensatory time, and related benefits are accrued when incurred for all the Airport's employees.

(k) Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

- Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2010 and 2009, the Airport's statement of net assets reports restricted net assets of $61,348,883 and $45,260,026, respectively, of which $47,328,493 and $35,867,559, respectively, is restricted by enabling legislation.

- Unrestricted Net Assets – This category represents net assets of the Airport that do not meet the criteria for "restricted" or "invested in capital assets, net of related debt." The Airport has designated $25,993,357 and $22,015,657 of its unrestricted net assets as of June 30, 2010 and 2009, respectively for payment of future projects.

(l) Restatement of Net Assets

In prior years, the Airport recorded amortization of its intangible assets following the guidance of Accounting Principles Board (APB) Opinion No. 17, *Intangible Assets,* and computed annual amortization on its intangible assets over a 40-year estimated useful life. Upon adoption of GASB Statement No. 51, the Airport identified its intangible assets as having indefinite useful lives. As a result, beginning net assets have been restated

retroactively and the accumulated amortization related to these assets reported prior to the implementation of GASB Statement No. 51 was restated to reflect the fact that these assets are not to be amortized (See Note 3). The Airport's beginning net assets for the fiscal year ended June 30, 2009 were restated as follows:

Total net assets, beginning, as previously reported	$ 428,689,047
Retroactive impact of the implementation of GASB Statement No. 51	5,322,580
Total net assets, beginning, as restated	$ 434,011,627

(m) New Pronouncement

The Airport is analyzing its accounting practices and is evaluating the potential impact on the financial statements of the following GASB Statement.

In June 2010 GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010, with earlier application encouraged.

(n) Reclassification

Certain prior year "unrestricted net assets" related to unspent proceeds from the commercial paper notes in the amount of $24,264,227 were reclassified to "invested in capital assets, net of related debt" to conform with the current year presentation. In addition, commercial paper notes payable was reclassified from payable from restricted assets to payable from unrestricted assets. The reclassification has no effect on the financial position or changes in financial position.

(2) Cash and Investments

The City Council adopted an investment policy on April 2, 1985, as amended on December 8, 2009, related to the City's cash and investment pool, which is subject to annual review (the "Investment Policy").

It is the policy of the City to invest public funds in a manner to meet the City's objectives, in order of priority – safety, liquidity, and yield, while conforming to the provisions of Sections 53600 et seq. of the California Government Code, the City's Charter, and the City's Municipal Code.

The Airport invests funds subject to the Investment Policy and provisions of the Airport's Master Trust Agreement for its various bond issues. According to the City's Investment Policy and the Airport's Master Trust Agreement, the Airport is permitted to invest in the City's cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. Government Agencies, time deposits, investment agreements, money market

mutual funds invested in U.S. Government securities, along with various other permitted investments.

The Airport maintains a portion of its investments in the City's cash and investment pool. As of June 30, 2010 and 2009, the Airport's share of the City's cash and investment pool totaled $113,524,899 and $161,148,707, respectively. It is not possible to disclose relevant information about the Airport's separate portion of the cash and investment pool, as there are no specific investments belonging to the Airport itself. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2010 basic financial statements. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113 or can be found at the City's Finance Department website at http://www.csjfinance.org/.

The Master Trust Agreement authorizes long-term debt (discussed in Note 5) and requires certain amounts of investments to be held in trust by the Airport's trustee (fiscal agent) for the bondholders and to be used for repayment of principal and interest on outstanding debt, or to be spent only on authorized capital projects. As of June 30, 2010 and 2009, restricted investments held by fiscal agent totaled $317,509,483 and $462,809,025, respectively. The Master Trust Agreement addresses any limitations in Airport investment of moneys. The investments are subject to certain types of risk, including interest rate risk, credit quality risk, and concentration credit risk. However, the Master Trust Agreement does not specifically address policies for each risk.

Provisions of the Airport's Master Trust Agreement limit the Airport's investment of moneys in Bond Reserve funds to time or demand deposits or permitted investments which mature not more than five years from the date of investment, except for investment agreements which, by their terms, may expire later than five years from the date of receipt of funds for investment. The Master Trust Agreement also limits the investments of moneys held by the City to time or demand deposits in any bank or trust authorized to accept public funds, and shall be secured at all times by such obligations, and to the fullest extent, as is required by law, and may at the written direction of the City be invested in permitted investments, maturing not later than the date on which such money are required for payment by the Director of Finance or the Fiscal Agent.

In May 2009, a Sixth Supplemental Trust Agreement to the Master Trust Agreement by and between the City and the trustee was executed to permit the continuance of two collateralized agreements related to Series 2007A and Series 2007B Airport Revenue Bonds. At the time the agreements were entered into, the agreements conformed to permitted investments provisions of the Master Trust Agreement. However, subsequent downgrades of the investment agreement provider's ratings caused the agreements to no longer meet the requirements of the Master Trust Agreement. As a result of the rating downgrades, the investment agreement provider posted additional collateral as required under the agreements and the collateral levels are currently in excess of the levels required by the City's Investment Policy.

Interest Rate Risk – Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the time of maturity of an investment, the

greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing the cash flows from the maturities so that a portion is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations.

In general, the City intends to hold all investments until their respective maturity dates. The weighted average maturity of the City's pooled cash and investments as of June 30, 2010, was approximately 122 days. The Investment Policy does not prohibit the sale of securities prior to maturity. However, per the provisions of the Investment Policy in effect as of June 30, 2010, any portfolio restructuring requires prior conceptual approval in writing from the City Manager and the Director of Finance. Section 14.2 of the Investment Policy further defines the parameters with respect to restructuring the portfolio.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The City's investment policy has mitigated credit risk by limiting investments to high quality securities, by prequalifying financial institutions, with which the City will do business by diversifying the portfolio, and by establishing monitoring and investment procedures.

Concentration of Credit Risk – It is not possible to disclose relevant information about the Airport's separate portion of the cash and investment pool, as there are no specific investments in the City's cash and investment pool belonging to the Airport itself. The City's investment policy stipulates that no more than 5% of the City's total portfolio at date of purchase can be invested in investments of a single institution other than securities issued by the U.S. Treasury, U.S. Government Agencies (as defined in the policy) and LAIF.

The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates. Per the Investment Policy the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Investment Policy.

The following table identifies the investment types that are authorized by the City's Investment Policy, as of June 30, 2010:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Dollar of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
U.S. government agency issues	5 years	None	None
Bankers' acceptances	180 days	25%	5%
Insured time deposits	3 years	$10 million	5%
Uninsured time deposits	18 months	$10 million	5%
Commercial paper	270 days	20%	5%
Negotiable certificates of deposit	180 days	25%	5%
Repurchase agreements	10 days	None	None
Reverse repurchase agreements	30 days	$25 million or 20%, (whichever is less)	None
Corporate notes	3 years	15%	5%
California Local Agency Investment Fund	None	None	None
Money market mutual funds	None	15%	5%
California municipal bonds - category 1	5 years	15%	5%
California municipal bonds - category 2	5 years	5%	5%
California municipal bonds - category 3	5 years	10%	5%
Investment agreements	None	None	None

Other restrictions on investments are summarized as follows:

- Purchases of United States government agency securities are limited to issues of Federal Farm Credit Banks (FFCB), the Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and Student Loan Marketing Association (SLMA).
- The purchase of bankers' acceptances (BAs) are limited to issues by domestic U.S. or foreign banks and which must be rated by Fitch Ratings as follows: an issuer rating of "B" or better for domestic U.S., "C" or better for California banks or "A/B" or better for foreign banks. Additionally, foreign BAs must be in U.S. dollar denominations.
- Insured and uninsured time deposits are limited to issuances from banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. Additionally, concerning uninsured time deposits, depositories must

have an issuer rating of "B" or better by Fitch Ratings and be collateralized in a manner prescribed by state law for depositories.

- Investments in commercial paper are limited to investments in domestic corporations with the highest ranking or with the highest letter and number rating as provided for by the three nationally recognized rating services. Issuing corporations must be organized and operating within the U.S. and have total assets in excess of $500,000,000.

- Negotiable certificates of deposit are limited to banks and savings and loans with an issuer rating of "A/B" or better by Fitch Ratings and may not exceed the net worth of issuing institution.

- Repurchase agreements are to be executed only with primary dealers of the Federal Reserve Bank of New York and financial institutions, which have entered into the City's Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement. Securities accepted as collateral for the repurchase agreement are limited to U.S. Treasury or U.S. Federal Government Agencies permitted under the Policy. The market value of the securities that have been accepted as collateral shall, at the time of transfer, equal at least 102 percent of face value of the repurchase agreement. For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value to at least 102 percent of purchase agreement's face value.

- Reverse repurchase agreements under the Policy are limited to the lesser of $25,000,000 or 20% of the portfolio value and to those occasions where unanticipated short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to maturity.

- Corporate notes eligible for investment must be rated "A" or better by two of the three nationally recognized rating services.

- Funds invested in Local Agency Investment Fund, a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer.

- Investments in money market mutual funds are limited to those funds registered with the Securities and Exchange Commission (SEC) and for which either one of the credit criteria are met: (1) obtained the highest ranking or highest letter and numerical rating provided by no less than two nationally recognized rating services or (2) retained an investment advisor registered with the SEC or exempt from the SEC registration requirements with no less than five years experience investing in securities and obligations authorized by California Government Code Section 53601 and managing money market mutual funds with assets under management in excess of $500 million. Investments by the funds are restricted to U.S. Treasury and U.S. Government Agency backed securities permitted under the Policy and be maintained at no less than $1.00 per share.

- California municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes three California municipal bond categories (1 through 3): bonds issued by the City or its agencies (as defined in the Policy), by the State of California, and by other California local agencies, respectively. Eligible securities must be rated AA or better by two nationally recognized rating services. For category 3, a rating of AAA through credit enhancements is also permitted.

- Investment agreements may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures and in accordance with other safeguards outlined in the Policy to reduce the risk associated with a Provider's inability to meet its contractual obligations.

The Policy permits the Director of Finance to authorize investments that depart from the Policy's numerical limits if such an action is in the best interest of the City and is otherwise consistent with the Policy and applicable City, State and federal laws. Whenever a deviation from the Policy occurs, it must be reported to the City Manager and the City Council within one business day.

The following schedule indicates the interest rate risk and credit risk of the investments held by the fiscal agent, by category and maturity, as of June 30, 2010 and 2009. The credit ratings listed are for Moody's Investors Service and Standard and Poor's, respectively. Certain investments, such as obligations which are backed by the full faith and credit of the United States government, are not subject to credit ratings.

As of June 30, 2010

		Maturities					
Type of investments:	Credit Rating	Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Over 5 Years	Carrying Value
Investments held by the Fiscal Agent							
Federated treasury obligations fund	Aaa /AAAm	$ 7,876,099	-	-	-	-	$ 7,876,099
Federal Home Loan Mortgage Corp Discount Notes	Not rated	-	89,991	-	-	-	89,991
Federal National Mortgage Association Discount Notes	Not rated	-	181,964	-	-	-	181,964
Federal Home Loan Bank(1)	Aaa /AAA	-	-	-	23,967,525	-	23,967,525
Citigroup investment agreements(1)	Not rated	6,143,919	233,565,022	-		-	239,708,941
MBIA agreements	Not rated	-	-	-	-	4	4
Local agency investment fund(1)	Not rated	-	45,684,959	-	-	-	45,684,959
		$ 14,020,018	279,521,936	-	23,967,525	4	$ 317,509,483

As of June 30, 2009

		Maturities					
Type of investments:	Credit Rating	Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Over 5 Years	Carrying Value
Investments held by the Fiscal Agent							
Federated treasury obligations fund	Aaa /AAAm	$ 10,415,828	-	-	-	-	$ 10,415,828
Federal Home Loan Mortgage Corp Discount Notes	Not rated	-	181,945	-	-	-	181,945
Federal National Mortgage Association Discount Notes	Not rated	-	904,728	-	-	-	904,728
Federal Home Loan Bank(1)	Aaa /AAA	-	-	-	24,235,200	-	24,235,200
Citigroup investment agreements(1)	Not rated	-	-	-	379,143,361	-	379,143,361
MBIA agreements	Not rated	-	-	-	-	4	4
Local agency investment fund(1)	Not rated	-	47,927,959	-	-	-	47,927,959
		$ 10,415,828	49,014,632	-	403,378,561	4	$ 462,809,025

(1) Investments with these issuers represent more than 5% of the Airport's investments held by the fiscal agent.

(3) Capital Assets

Capital asset activities for the fiscal years ended June 30, 2010 and 2009, were as follows:

	Balance at July 1, 2009, as restated	Additions	Retirements	Transfers	Balance at June 30, 2010
Capital assets not depreciated:					
Land	$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	833,564,420	301,187,795	(11,164,412)	(961,973,882)	161,613,921
Total capital assets, not depreciated	922,227,232	301,187,795	(11,164,412)	(961,973,882)	250,276,733
Capital assets, depreciated:					
Buildings	175,695,160	10,835,731	(36,558,756)	960,699,918	1,110,672,053
Other improvements	385,734,207	188	(895,589)	1,273,964	386,112,770
Equipment	30,124,247	458,665	(367,252)	-	30,215,660
Total capital assets, depreciated	591,553,614	11,294,584	(37,821,597)	961,973,882	1,527,000,483
Less accumulated deprecitaion					
Buildings	97,145,152	40,798,502	(35,990,724)	-	101,952,930
Other improvements	135,247,734	12,743,932	(894,859)	-	147,096,807
Equipment	26,301,772	1,262,858	(367,252)	-	27,197,378
Total accumulated depreciation	258,694,658	54,805,292	(37,252,835)	-	276,247,115
Total capital assets, depreciated, net	332,858,956	(43,510,708)	(568,762)	961,973,882	1,250,753,368
Total capital assets, net	$ 1,255,086,188	257,677,087	(11,733,174)	-	1,501,030,101

	Balance at July 1, 2008, as restated	Additions	Retirements	Transfers	Balance at June 30, 2009, as restated
Capital assets not depreciated:					
Land	$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	509,347,781	344,230,081	(3,536,246)	(16,477,196)	833,564,420
Total capital assets, not depreciated	598,010,593	344,230,081	(3,536,246)	(16,477,196)	922,227,232
Capital assets, depreciated:					
Buildings	175,635,040	60,120	-	-	175,695,160
Other improvements	369,256,083	928		16,477,196	385,734,207
Equipment	29,971,826	313,659	(161,238)	-	30,124,247
Total capital assets, depreciated	574,862,949	374,707	(161,238)	16,477,196	591,553,614
Less accumulated depreciation:					
Buildings	91,242,501	5,902,651	-	-	97,145,152
Other improvements	122,388,588	12,859,146	-	-	135,247,734
Equipment	25,148,609	1,313,929	(160,766)	-	26,301,772
Total accumulated depreciation	238,779,698	20,075,726	(160,766)	-	258,694,658
Total capital assets, depreciated, net	336,083,251	(19,701,019)	(472)	16,477,196	332,858,956
Total capital assets, net	$ 934,093,844	324,529,062	(3,536,718)	-	1,255,086,188

Upon adoption of GASB Statement No. 51, the Airport determined that its intangible assets have indefinite useful lives. As a result, the Airport reclassified intangible assets in the amount of $12,881,547 from depreciable capital assets to nondepreciable capital assets and removed the related accumulated amortization in the amount of $5,322,579 at July 1, 2008 and from the Airport's capital assets to reflect that these assets have indefinite useful lives.

In November 2005 the San José City Council approved a comprehensive plan for replacing and upgrading the Airport's terminal facilities to realize the community's long-term vision in the Airport Master Plan originally adopted in 1997 (See Note 10 (e)). The program is planned in two phases. Phase 1 is the current $1.3 billion modernization that is on schedule for substantial completion in 2010. Phase 2, expansion to add twelve more aircraft gates, will begin when the Airport reaches specific levels of passenger activity or flights in the future.

During the fiscal year ended June 30, 2010, the Airport completed projects totaling $962.0 million. Significant completed projects included the following:

- Terminal A Modifications – This project included the renovation and expansion of Terminal A which addressed the imbalance that existed between the number of aircraft gates and the inadequate number of check-in positions/queuing area, security checkpoints and concessions.

- Terminal B and North Concourse Program (Phase 1) – This project replaced the out-of-date and inadequately sized Terminal C. This project includes a 380,000-square foot, three level concourse building which opened for passengers on June 30, 2010.

- Consolidated Rental Car (ConRAC) Garage – The ConRAC project, a 3,350 car full-service facility, provided passengers a convenient access to rental car facilities and reduced traffic on airport roadways. The garage also includes 350 public parking spaces on the ground floor providing direct access to Terminal B Concourse. On June 30, 2010, the Airport opened ConRAC coinciding with the opening of the first phase of Terminal B.

- Roadways - The roadway system was redesigned to increase roadway capacity by adding vehicle lanes; to reduce traffic conflicts by constructing two overcrossing bypasses to provide direct access to each terminal; to improve the ground transportation system; and to enhance motorist way-finding by straightening the roadway alignment and introducing better signage.

The Airport permanently ended airline and concession operations in Temporary Terminal C on June 29, 2010 and the final stage of demolition of this facility will begin in late July. As a result, the Airport accelerated its depreciation schedule and wrote off $25,886,127 related to this facility.

In 2010, the Airport stopped construction on certain improvements related to a maintenance building, traffic mitigation and other projects due to its decision to scale down its Terminal Area Improvement Project and wrote off accumulated costs of $11,164,412.

The Airport's depreciation expense on capital assets was $54,805,292 and $20,075,726 for fiscal years ended June 30, 2010 and 2009, respectively.

(4) Commercial Paper Notes Payable

On November 2, 1999, the City Council adopted a resolution authorizing the issuance of City of San José, Norman Y. Mineta San José International Airport subordinated commercial paper notes in three series (Series A – Tax Exempt, Series B – Subject to AMT, and Series C – Taxable) in an amount not to exceed $100 million. The City Council approved an expansion of the commercial paper program to $200 million on June 20, 2006. Additional expansions were approved by City Council to $450 million on January 9, 2007 and to $600 million on March 25, 2008. This latest expansion also established three additional series of commercial paper (Series D – Tax Exempt, Series E – Subject to AMT, and Series F – Taxable). On September 1, 2009, the City Council adopted a resolution authorizing the issuance of tax-exempt private activity non-AMT commercial paper notes as provided for in the American Recovery and Reinvestment Act of 2009. At that time, the Series A Notes were redesignated as Series A-1 (Non-AMT) and Series A-2 (Non-AMT/Private Activity) and the Series D Notes were redesignated as Series D-1 (Non-AMT) and Series D-2 (Non-AMT/Private Activity).

Under the commercial paper program, the Airport is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper is secured by a subordinate pledge of the Airport's revenues and additionally secured by letters of credit.

The terms of the current agreement providing credit support for the Series A-1, Series A-2, Series B and Series C Notes call for unreimbursed draws to convert to a term loan if certain conditions are met on the Drawing Maturity Date (defined as the earlier of the termination date of the applicable letter of credit or 60 days following the unreimbursed draw) with principal repaid in ten equal semi-annual installments with payments occurring on the first business day of each March and September of each year. For the period from the date of the unreimbursed draw to the 60th day following the date of the unreimbursed draw, the interest rate is the Base Rate. Unless the unreimbursed draw is converted to a term loan, the interest rate from the 61st day until the date the unreimbursed draw is paid in full is the Default Rate (defined as the Base Rate from time to time in effect plus 2.00%). The term loan will bear interest at an interest rate equal to the Base Rate plus 0.50% from the conversion date through the 30th day, Base Rate plus 0.75% from the 31st day through the 60th day, and Base Rate plus 1.00% from the 61st day onward. For the purposes of this agreement, Base Rate is defined as the higher of (i) the Federal Funds rate plus 0.50% per annum and (ii) the bank's prime rate; provided, however, that the rate increases by 0.50% for each full rating category reduction on the Airport's bonds and an additional 1.00% if the rating on the Airport's bonds is withdrawn or suspended.

The terms of the current agreement providing credit support for the Series D-1, Series D-2, Series E and Series F Notes provide that unreimbursed draws be paid at the following interest rates: (i) Base Rate plus 1.00% from the Drawing Date through the 30th day; (ii) the greater of the Base Rate plus 1.50% and 12% from the 31st day through the 90th day; and (iii) the greater of the Base Rate plus 2.5% and 12% from the 91st day until the unreimbursed drawing is paid in full. However, if certain conditions specified in the agreement are met, then on the Drawing Maturity Date (defined as the earlier of the Letter of Credit's termination date or 90 days following the date of the unreimbursed draw), the unreimbursed draw will convert to a term loan. The principal of the term loan is required to be repaid in 20 equal quarterly installments on the first business day of each calendar quarter and the interest rate is the greater of the Base Rate plus 2.5% and 12%. For purposes of this agreement, Base Rate is defined as the higher of the Federal Funds rate plus 1.00% and the bank's prime rate.

The credit support, which expires December 2, 2010 as discussed in Note (11), for the Series A-1, Series A-2, Series B, and Series C commercial paper notes is provided severally but not jointly, by JPMorgan Chase Bank, Bank of America, and Dexia Credit Local. The credit support, which expires May 7, 2011, for the Series D-1, Series D-2, Series E, and Series F commercial paper notes is provided by Lloyds TSB Bank plc.

Balances of commercial paper notes payable as of June 30, 2010 and 2009 were as follows:

As of June 30, 2010	
Series A-2 commercial paper notes with $11,000,000 maturing on July 2, 2010 were issued with an interest of 0.32%; and $4,205,000 maturing on July 8, 2010 were issued with an interest rate of 0.34%	$ 15,205,000
Series B commercial paper notes with $20,096,000 maturing on July 2, 2010 were issued with an interest rate of 0.36%; $62,193,000 maturing on July 6, 2010 were issued with an interest rate of 0.38%; $44,693,000 maturing on July 8, 2010 were issued with an interest rate of 0.37%; and $21,789,000 maturing on July 14, 2010 were issued with an interest rate of 0.37%.	148,771,000
Series C commercial paper notes with $90,491,000 maturing on July 1, 2010 and $25,000,000 maturing on September 9, 2010, $53,091,000 were issued with an interest rate of 0.40%, $37,400,000 were issued with an interest rate of 0.43%, and $25,000,000 were issued with an interest rate of 0.60%	115,491,000
Series F commercial paper notes maturing on July 1, 2010 were issued with an interest rate of 0.39%	137,881,000
Total commercial paper notes payable	$ 417,348,000
As of June 30, 2009	
Series B commercial paper notes maturing on July 2, 2009, $21,789,000 were issued with an interest rate of 1.80%, $43,000,000 were issued with an interest rate of 1.85%, $64,789,000 were issued with an interest rate of 1.83%, and $20,753,000 were issued with an interest rate of 1.90%	$ 150,331,000
Series C commercial paper notes maturing on August 6, 2009 were issued with an interest rate of 1.80%	93,300,000
Series F commercial paper notes maturing on July 2, 2009 were issued with an interest rate of 0.60%	79,930,000
	$ 323,561,000

Commercial paper activities for the fiscal years ended June 30, 2010 and 2009 were as follows:

	2010	2009
Beginning balance	$ 323,561,000	186,190,000
Additional issuance	98,887,000	143,171,000
Paid	(5,100,000)	(5,800,000)
Ending balance	$ 417,348,000	323,561,000

Although the commercial paper notes have short-term maturities, the Airport's intent is to pay them on a long-term basis based on the assumption that taxable commercial paper will be paid on a 25-year amortization period and tax-exempt commercial paper will be paid on a 30-year amortization period with the first principal payments due in fiscal year 2011.

(5) Long-Term Obligations

Airport Revenue Bonds are issued primarily to finance the construction of capital improvements at the Norman Y. Mineta San José International Airport. Pursuant to the Master Trust Agreement, the City has irrevocably pledged the general airport revenues and certain other funds held or made available under the Master Trust Agreement, first to the payment of maintenance and operation costs of the Airport, and second to the payment of principal of and premium, if any, and interest on the bonds. General airport revenues generally include all revenues, income, receipts and moneys derived by the City from the operation of the Airport with the exception of certain expressly excluded revenues. The net revenues available to pay debt service in the current fiscal year totaled $75,535,767, which is composed of $30,602,681 of net general airport revenues and $44,933,086 of other available funds. Transfers from the general airport revenues amounted to $26,779,070, which is net of $4,588,000 of bond debt service paid from the passenger facility charges and $33,430,672 of bond debt service paid from the capitalized interest accounts established in conjunction with the issuance of the 2007 Airport Revenue Bonds. The City has covenanted in the Master Trust Agreement that net revenues available to pay debt service for each fiscal year plus any other available funds (as defined in the Master Trust Agreement) will be at least 125% of annual debt service for such fiscal year. Under the Master Trust Agreement, "debt service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Total principal and interest remaining on the bonds is $2.06 billion, with the final payment due on March 1, 2047.

Balances of bonds payable as of June 30, 2010 and 2009 were as follows:

	2010	2009
2007B Series Airport Revenue Bonds of $179,260,000 at rates of 4.25% to 5%; payable in annual installments ranging from $2,245,000 to $28,800,000 with the first installment due in March 2014 and the final installment due in March 2037	$ 179,260,000	179,260,000
2007A Series Airport Revenue Bonds of $545,755,000 at rates of 5% to 6%; payable in annual installments ranging from $5,690,000 to $73,500,000 with the first installment due in March 2014 and the final installment due in March 2047	545,755,000	545,755,000
2004D Series Airport Revenue Bonds of $34,270,000 at a rate of 5%; payable in three annual installments of $9,955,000, $11,755,000 and $12,560,000 in March 2026, March 2027 and March 2028, respectively	34,270,000	34,270,000
2004C Series Airport Revenue Bonds of $75,730,000 at rates of 4.625% to 5.25%, payable in annual installments ranging from $1,000,000 to $10,590,000 with the first installment due in March 2009 and the final installment due in March 2026	73,730,000	74,730,000
2002B Series Airport Revenue Bonds of $37,945,000 at rates of 4% to 5%; payable in annual installments ranging from $2,380,000 to $6,545,000 with the final installment due in March 2012	8,925,000	15,165,000
2002A Series Airport Revenue Bonds of $53,600,000 at rates of 4% to 5.375%; payable in annual installments ranging from $4,460,000 to $9,285,000 with the first installment due in March 2012 and the final installment in March 2018	53,600,000	53,600,000
2001A Series Airport Revenue Bonds of $158,455,000 at rates of 4.00% to 5.239%; payable in annual installments ranging from $3,680,000 to $10,055,000 with the final installment due in March 2031	135,160,000	138,840,000
1998A Series Airport Revenue Bonds of $14,015,000 at rates of 4.50% to 4.75%; payable in annual installments ranging from $725,000 to $1,085,000 with the final installment due in March 2018	7,290,000	8,015,000
Total bonds payable	$ 1,037,990,000	1,049,635,000

Bonds outstanding and related activities for the years ended June 30, 2010 and 2009, were as follows:

	Balance at July 1, 2009	Retirements	Balance at June 30, 2010	Amounts Due Within One Year
2007B Series	$ 179,260,000	-	179,260,000	-
2007A Series	545,755,000	-	545,755,000	-
2004D Series	34,270,000	-	34,270,000	-
2004C Series	74,730,000	1,000,000	73,730,000	1,000,000
2002B Series	15,165,000	6,240,000	8,925,000	6,545,000
2002A Series	53,600,000	-	53,600,000	-
2001A Series	138,840,000	3,680,000	135,160,000	3,825,000
1998A Series	8,015,000	725,000	7,290,000	750,000
Total long-term debt	1,049,635,000	11,645,000	1,037,990,000	12,120,000
Add unamortized:				
Premium	5,391,081	299,688	5,091,393	362,829
Less unamortized:				
Discount	5,793,584	41,457	5,752,127	42,959
Deferred amount on refunding	2,626,401	562,673	2,063,728	478,634
Total long-term debt, net	$ 1,046,606,096	11,340,558	1,035,265,538	11,961,236

	Balance at July 1, 2008	Retirements	Balance at June 30, 2009	Amounts Due Within One Year
2007B Series	$ 179,260,000	-	179,260,000	-
2007A Series	545,755,000	-	545,755,000	-
2004D Series	34,270,000	-	34,270,000	-
2004C Series	75,730,000	1,000,000	74,730,000	1,000,000
2002B Series	21,115,000	5,950,000	15,165,000	6,240,000
2002A Series	53,600,000	-	53,600,000	-
2001A Series	142,390,000	3,550,000	138,840,000	3,680,000
1998A Series	8,695,000	680,000	8,015,000	725,000
Total long-term debt	1,060,815,000	11,180,000	1,049,635,000	11,645,000
Add unamortized:				
Premium	5,676,829	285,748	5,391,081	299,689
Less unamortized:				
Discount	5,833,602	40,018	5,793,584	41,457
Deferred amount on refunding	3,271,837	645,436	2,626,401	562,673
Total long-term debt, net	$ 1,057,386,390	10,780,294	1,046,606,096	11,340,559

Scheduled maturities of outstanding bonds are as follows:

Fiscal year ending June 30,	Principal	Interest
2011	$ 12,120,000	53,356,473
2012	12,620,000	52,801,148
2013	13,165,000	52,211,223
2014	21,795,000	51,550,010
2015	22,855,000	50,445,823
2016-2020	123,765,000	233,765,354
2021-2025	145,080,000	200,376,620
2026-2030	159,980,000	159,900,306
2031-2035	251,885,000	118,650,800
2036-2040	217,840,000	36,556,650
2041-2045	38,200,000	12,748,200
2046-2047	18,685,000	1,698,000
Total	$ 1,037,990,000	1,024,060,607

A number of limitations and restrictions are imposed upon the Airport by covenants relating to certain of its outstanding revenue bonds. The Airport believes it is in compliance with all such limitations and restrictions as of June 30, 2010 and 2009.

Other long-term liability activities for the years ended June 30, 2010 and 2009 were as follows:

	Balance at July 1, 2009	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2010	Amounts Due Within One Year
Self-insurance	$ 3,296,406	92,205	426,063	2,962,548	560,000
Accrued vacation, sick leave and compensatory time	3,995,805	2,084,639	2,560,148	3,520,296	2,228,169
Other postemployment benefits	4,167,075	3,476,282	1,903,773	5,739,584	-
Pollution remediation liability	714,000	660,434	660,434	714,000	714,000
Total	$ 12,173,286	6,313,560	5,550,418	12,936,428	3,502,169

	Balance at July 1, 2008	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2009	Amounts Due Within One Year
Self-insurance	$ 3,360,966	390,096	454,656	3,296,406	560,000
Accrued vacation, sick leave and compensatory time	3,936,134	2,199,985	2,140,314	3,995,805	2,567,102
Other postemployment benefits	4,667,428	981,682	1,482,035	4,167,075	-
Pollution remediation liability	330,000	384,000	-	714,000	714,000
Total	$ 12,294,528	3,955,763	4,077,005	12,173,286	3,841,102

(6) Leases and Agreements

The City has entered into an Airline-Airport Lease and Operating Agreement with the various passenger and cargo airlines serving the Airport. The airline lease agreement, which took effect on December 1, 2007, is scheduled to expire on June 30, 2012 and may be extended for one additional five-year term by mutual consent of the City and the Signatory Airlines (as defined below).

The airline lease agreement provides that any passenger airline that (a) signs an agreement substantially similar to the airline lease agreement, (b) provides passenger service at the Airport, (c) leases from the City an amount of exclusive use premises (not including gates) in the terminal deemed sufficient by the Director of Aviation to support the airline's operation and (d) at the time the airline executes its agreement with the City, operates at least one scheduled flight, scheduled year-round, at least three days per week shall be a Signatory Airline. The airline lease agreement also provides that any air cargo carrier will also be a Signatory Airline if the air cargo carrier (a) signs an agreement with the City substantially similar to the airline lease agreement (other than in

connection with terminal facilities), (b) leases from the City cargo support space at the Airport for a term at least equal to the term of the airline lease agreement, (c) guarantees a minimum of 142,000 pounds of maximum gross certificated landed weight per scheduled flight and (d) at the time it executes its agreement with the City, operates at least five scheduled flights per week.

Any passenger or air cargo carrier that does not meet the minimum requirements to be a Signatory Airline is given the opportunity to become a "Non-Signatory Airline" by executing a non-signatory agreement in a form similar to that of the airline lease agreement. Non-Signatory Airlines will be charged a premium of 25% over the rates and charges applicable to Signatory Airlines and will not participate in the review by a "Majority of Interest" of capital projects proposed for the Airport.

Any passenger or air cargo carrier operating at the Airport that is neither a Signatory Airline nor a Non-Signatory Airline will be subject to the Airline Rates and Charges Ordinance, which requires such air carriers to comply with all applicable rules and regulations as established by the Director of Aviation regarding the proper use and occupancy of the Airport or any portion thereof. In addition, the Airline Rates and Charges Ordinance establishes all rates and charges applicable to such airline's operations at and use of the Airport or any portion thereof, including airfield and terminal rates and charges, at a 30% premium over the rates and charges as determined pursuant to the terms of the City's then current airline lease and operating agreement.

The key provisions in the airline lease agreement include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The airline lease agreement also includes a revenue sharing provision to evenly divide net unobligated Airport revenues between the Airport and the airlines currently operating at the Airport after each fiscal year. In any fiscal year in which there are net unobligated Airport revenues and all requirements of the City's Airport financing documents have been satisfied, the remaining net unobligated Airport revenues are to be evenly divided between the City and the airlines. If net revenues exceed the projected levels outlined in the Airport Forecast identified in the airline lease agreement, then the airlines share of the difference will be deposited into the Rate Stabilization Fund up to a cap of $9 million. Once the Rate Stabilization Fund has been fully funded or in the event that the actual net revenues do not exceed the projected net revenues, the airlines share of net revenues shall be applied as a credit to the airline terminal revenue requirement for the following fiscal year, thus reducing terminal rental rates for the following fiscal year. The first $1 million of City's share of any net revenues shall be retained by the Airport in a discretionary fund to be used for any lawful Airport purpose. The remaining balance of City's share shall be applied to the capital costs of the Airport's Master Plan Program.

In August 2008, the City Council approved an amendment to the lease agreement to use a portion of the Rate Stabilization Fund in an amount not to exceed $2,172,000 to reduce projected 2008-2009 terminal rents below the projected terminal rental rates included in the adopted 2008-2009 Airport budget, retroactive to July 1, 2008.

For the fiscal years ended June 30, 2010 and 2009, the Airport's revenues as defined in its lease agreements exceeded its expenditures and reserve requirements by $35,485,816, and $29,336,101, respectively. The surplus for fiscal year ended June 30, 2010 will be distributed in accordance with the revenue sharing provisions of the lease agreement as described above and/or used in the budget balancing actions for fiscal year 2011-2012. $22,081,101 of the surplus for the year ended June 30, 2009 was set aside as a reserve for future deficit and the remaining balance was distributed in accordance with the revenue sharing provisions.

The Airport also enters into leases with concessionaires, cargo carriers, and other business entities for building space and/or the privilege of operating a concession at the Airport. The remaining terms of these operating leases range from one month to 29 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount.

Rental revenues from the aforementioned operating leases were $60,964,425 and $60,885,438 for the fiscal years ended June 30, 2010 and 2009, respectively

The future minimum rentals to be received from the existing operating leases are as follows:

Fiscal year ending June 30,	
2011	$ 77,987,539
2012	104,829,426
2013	42,158,951
2014	41,961,428
2015	37,695,472
2016-2020	185,892,222
2021-2025	16,534,390
2026-2030	15,544,048
2031-2035	12,697,556
2036-2040	7,041,257
Total minimum lease rentals	$ 542,342,289

These future minimum rentals are based upon annual rates and charges currently agreed to by the airlines and other tenants. In addition to the future minimum rentals disclosed above, the Airport expects to receive $1,201,885 from month-to-month rentals in fiscal year 2011.

As of June 30, 2010 and 2009, leased assets had total historical costs of $1,001,525,496 and $94,235,383, respectively, and accumulated depreciation of $48,746,530 and $45,455,142, respectively.

Pursuant to the terms of individual agreements entered into with the City, every airline, operator, tenant or any other entity or person which is party to an agreement with the City authorizing them to conduct business at the Airport, is required to maintain a security deposit on file with the City. The deposit shall be in a form and amount acceptable to the Director of Aviation (Director), often in the form of irrevocable letter of credit, surety bond, cashier's check or other form acceptable to the Director. The Director has the authority to revise the amount of security deposit at any time to protect the interests of the City. Each deposit must be maintained in full force and effect during the entire term of the agreement to ensure faithful performance by the other party of all the covenants, terms and conditions of the agreement. Security deposits in the form of cashier's checks are recorded as advances and deposits payable on the accompanying statement of net assets. The Airport maintains on file copies of all security deposits, in the form other than cashier's checks, which as of June 30, 2010 and 2009 totaled $28,991,073 and $22,791,681, respectively.

(7) Employees' Retirement System

All full-time and certain part-time employees of the Airport participate in the City of San José Federated City Employees' Retirement System (System), which is a single employer defined benefit retirement system that covers substantially all City employees, except for employees who are members of the City's Police and Fire Department Retirement Plan, by providing retirement and certain other postemployment benefits. These benefits include pension, death, and disability, which are under the Defined Benefit Pension Plan, as well as medical and dental benefits, which are under the Postemployment Healthcare Plan. A stand-alone report is issued for the System and is available from the City of San José Office of Retirement Services, 1737 North First Street, Suite 580, San José, California 95112. As a department of the City, the Airport shares in the risks, rewards and costs including benefit costs with the City. The Airport presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City.

The payroll for Airport employees covered by the System for the fiscal years ended June 30, 2010 and 2009 was $22,686,445 and $26,514,642, respectively. The Airport's total payroll for the fiscal years ended June 30, 2010 and 2009 was $28,829,122 and $32,951,096, respectively. Pension and other postemployment benefits are established pursuant to City ordinance. Pension benefits are based on members' years of service and compensation. Upon reaching five years of service, members have earned the right to receive a pension benefit. An employee with five or more years of service who reaches the normal retirement age of 55, or an employee of any age with 30 years of service, is entitled to annual pension benefits.

Contributions to the Defined Benefit Pension Plan are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. As discussed below, contributions to the Postemployment Healthcare Plan are not currently sufficient to provide adequate assets to pay benefits when due.

Contribution rates for the Airport and the participating employees for 2010 and 2009 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2007, respectively, for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan.

	Airport's Contribution		Employees' Contribution	
Pay Period	Defined Benefit Pension	Post-employment Heathcare Plan	Defined Benefit Pension	Post-employment Heathcare Plan
06/28/09 through 06/26/10	18.31%	5.70% (1)	4.28%	5.07%
06/29/08 through 06/27/09	18.31%	5.25% (1)	4.28%	4.65%

(1) The actual contribution rates paid by the City were 5.49% and 5.05% for fiscal years 2010 and 2009, respectively, as a result of the City exercising its option to make lump sum prepayments for 26 periods of fiscal year 2010 and 24 periods of fiscal year 2009.

Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. Effective June 28, 2009, the bargaining units representing the System members entered into Memorandums of Agreement (MOAs) with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding the GASB Statement No. 45 annual required contribution over the next 5 years; fiscal year 2009-2010 was the first year of the phase-in. The MOA between the City and the bargaining units representing the members of the System provided that the five year phase-in of the Annual Required Contributions will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the System members or the City. Notwithstanding these limitations on incremental increases, the agreements with members of the System further provide that by the end of the five year phase-in, the City and the members "shall be contributing the full Annual Required Contribution in the ratio currently provided" in the relevant sections of the San Jose Municipal Code. The contributions are not currently sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASB Statement No. 45.

Actuarially required contributions were equal to the contributions made for the Defined Benefit Pension Plan. The following is the three-year trend information for the Airport's ARC, Annual OPEB Cost (AOC), and contributions made:

Fiscal Year	Defined Benefit Pension			Postemployment Healthcare Plan			
	ARC	Contributions	Unfunded Liability	ARC	AOC	Contributions	Unfunded Liability
6/30/2008	$ 4,634,810	$ 4,634,810	$ -	$ 5,696,697	$ 5,696,697	$ 1,029,269	$ 4,667,428
6/30/2009	4,854,831	4,854,831	-	3,107,769	981,682	1,482,035	4,167,075
6/30/2010	4,153,888	4,153,888	-	3,404,451	3,476,282	1,903,773	5,739,584

The City has determined a Citywide Annual Required Contribution (ARC) and OPEB cost based upon an actuarial valuation performed in accordance with GASB No. 45 by the City's actuaries. For the fiscal year ended June 30, 2010, the City allocated to the Airport its proportionate share of the Citywide ARC and OPEB cost based upon its percentage of retirement benefit costs for Federated employee members. The difference between the cumulative OPEB cost allocated and the costs contributed by the Airport was $5,739,584 and $4,167,075 at June 30, 2010 and 2009, respectively, which is recorded as the Airport's net OPEB obligation.

The City issues a publicly available financial report that includes the complete note disclosures and required supplementary information related to the City's other postemployment benefit obligations. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113 or can be found at the City's Finance Department website at http://www.csjfinance.org/.

(8) Related Party Transactions

The City provides certain general support services to the Airport and charges a pro rata fee. The fees charged to the Airport for these services for the fiscal years ended June 30, 2010 and 2009, were $5,169,075 and $7,126,225, respectively. The City also charged the Airport fees of $15,598,269 and $16,945,384 for the fiscal years ended June 30, 2010 and 2009, respectively, for airport rescue and fire fighting and police services coverage. Additionally, various City departments charge the Airport for services they rendered on its behalf. These fees and service charges, which totaled $1,119,796 and $1,229,875 for the fiscal years ended June 30, 2010 and 2009, respectively, are included in operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

In February 2005, the City of San José Financing Authority (Authority) assisted the City in financing the acquisition and improvement of certain real property situated in the City of San José and the City of Santa Clara (now known as the Airport West property) by issuing lease revenue bonds pursuant to a trust agreement with a trustee. In order to secure and provide for the repayment of the bonds, the City, as lessor, leased the property to the Authority, as lessee, and leased back such property from the Authority under an operating sublease agreement for aviation related purposes and a general sublease for general City purposes. In June 2008, the Authority issued Series 2008F variable rate taxable lease revenue bonds in the amount of $67,195,000 to refund the 2005 bonds. Simultaneously, an operating sublease agreement, that is substantially the same as the original operating sublease agreement was entered into with an initial term expiring on

May 31, 2014, unless such term is extended or sooner terminated. The City and the Authority also entered into a general sublease. The term of the general sublease becomes effective automatically upon the termination of the operating sublease. During the initial term of the operating sublease, the City will use the Airport West property for aviation-related purposes. The base rental for the possession and use of property in each rental payment period is equal to the aggregate amount of debt service coming due and payable on the outstanding bonds on each interest payment date. In addition to the base rental payments, the City shall also pay when due the following additional payments:

(a) amounts required to replenish the amounts on deposit in the Reserve Fund to the Reserve Requirement or to pay any amounts owed with respect to a Reserve Fund Credit Facility, but only to the extent that the payment of such amount shall not cause the amount of lease payments and additional payments paid in any rental period to exceed the fair rental value of the project;

(b) all fees and expenses incurred by the Authority in connection with or by reason of its leasehold interest of the project as and when the same become due and payable;

(c) all reasonable compensation to the trustee for all services rendered under the indenture, and also all reasonable expenses, charges, legal fees and other disbursements incurred in and about the performance of its powers and duties under the indenture, including, but not limited to, costs resulting from indemnification of the trustee;

(d) the administrative fees and expenses of the Authority relating to the bonds, including administrative fees and expenses;

(e) the reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the City, the Authority or the trustee to prepare audits, financial statements, reports, opinions or provide such other services under the operating sublease agreement or the indenture;

(f) all fees and other amounts owed from time to time by the Authority or the City with respect to the letter of credit that supports the 2008 bonds, which are not payable from the lease payments; and

(g) the reasonable out-of-pocket expenses of the Authority in connection with the execution of and delivery of the operating sublease agreement or the indenture, or in connection with the issuance and future administration of the bonds, including any and all expenses incurred in connection with the authorization, issuance, sale, and delivery of the bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving the operating sublease agreement, the bonds, the indenture or any other documents contemplated or otherwise incurred in connection with administration of the operating sublease agreement.

The parties have agreed and determined that such total rental payable for each rental payment period represents no more than the fair rental value of the property for each such period. The City

will pay the lease and additional payments from (a) Airport revenues on deposit in the Maintenance and Operations Fund of the Airport, and (b) to the extent such revenues are unavailable, from the general funds of the City.

In August 2008, the City entered into an agreement with two developers, whereby the latter agreed to make four option payments of $3 million within the next two years in exchange for the option to purchase the Airport West property. The option payments totaling $12 million will be credited towards the sales price. If for whatever reason, the developers do not acquire the site, the City retains the option payments. The proposed option payments are intended to offset the City's debt obligations on the property during the time of the option period and thus, the Airport did not have to pay for rental expenses during the fiscal year ended June 30, 2009.

In April 2009, the City Council adopted a resolution authorizing the City Manager to negotiate and execute an amended and restated option agreement and a purchase and sale agreement revising the business terms with the developers for the Airport West Property. Under the terms of the new agreements, the developers agreed to pay up to $7 million in option payments over the four-year option period through July 2013. The option payments are to be used to pay the debt service or pay principal of the Series 2008F bonds. Rental expenses paid by the Airport during the fiscal year ended June 30, 2010 amounted to $681,543.

With the completion of the Terminal Area Improvement Program in June 2010, the Airport will no longer need the Airport West property for construction laydown and other interim uses. Thus, the City terminated its operating sublease agreement with the Authority effective June 30, 2010, with the term of the general sublease becoming effective automatically.

(9) Risk Management

(a) Insurance Policies

The Airport is covered under the City's annual all-risk property insurance policy with coverage for City property, including coverage for boiler and machinery exposures. The policy also provides coverage for loss due to business interruption or flood. The City does not carry earthquake insurance as it is not reasonably available. A summary of these coverages is provided below for the policy period of October 1, 2009 to October 1, 2010.

Coverage	Coverage per Occurrence	Deductible per Occurrence
Property, including Business Interruption (1)	$1 billion	$100,000
Flood, Specialized Locations	$25 million	$500,000 (2)
Flood, Other Locations	$100 million	$100,000 (2)

(1) The policy limit for property damage caused by terrorism is $5 million per occurrence and in aggregate.
(2) Deductible applies per location affected.

The City has an airport liability policy for the policy period of October 1, 2009 to October 1, 2010 covering the Airport, which provides a limit of $200,000,000 combined single limit for bodily injury and property damage with a $25,000,000 each occurrence limit for personal injury subject to a per occurrence deductible of $100,000 and an aggregate deductible of $100,000. The Airport's $200,000,000 liability policy includes vehicles on premises but specifically excludes war and terrorism from its coverage. During the past three years, there have been not been any instances that the amount of claim settlements exceeded the insurance coverage.

A separate automobile policy provides coverage for the off-premises operation of Airport vehicles including shuttle bus fleet. Coverage includes $1 million single combined limit per occurrence. Physical damage coverage is available for the Airport Shuttle Bus Fleet and is subject to a $25,000 comprehensive and collision deductible. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. As part of general support services, the City charges the Airport for the cost of general liability coverage. The charges are expensed in the year incurred.

(b) Workers' Compensation

The Airport participates in the City's self-insurance program for worker's compensation. Worker's compensation liabilities are accounted for on a separate contribution basis under which workers' compensation liabilities are recorded in the respective funds (enterprise or governmental) to which they relate.

Estimated workers' compensation liabilities at year-end are determined using actuarial methods or other estimating techniques. The claims payments and liability include an estimate of allocated loss adjustment expenses and claims that have been incurred but not yet reported.

The Airport recorded the following with respect to its self-insured workers' compensation liability:

		2010	2009
Accrued liability, beginning of fiscal year	$	3,296,406	3,360,966
Claims payments and adjustments		(426,063)	(454,656)
Provision for current year claims and changes in prior year estimates		92,205	390,096
Accrued liability, end of fiscal year	$	2,962,548	3,296,406

The Airport established an additional reserve for self-insurance. The reserve for self-insurance, included in the unrestricted net assets was $1,762,695 as of June 30, 2010 and 2009.

(c) Airport Owner Controlled Insurance Program

On March 31, 2004, the City bound certain liability insurance coverage (see chart below) for major components of the "2004 Security Projects" (currently referred to as the North Concourse Project) through an Owner Controlled Insurance Program (OCIP) from Chartis, formerly American International Group, AIU Holdings, Inc. and AIU LLC (AIU). The OCIP is a single insurance program that provides commercial general liability, excess liability and workers' compensation insurance coverage for construction job site risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site.

Coverage	Limits	Deductible Per Occurrence
General Liability	$2 million per occurrence/ $4 million aggregate	$250,000
Workers' Compensation	Statutory	$250,000
Employers' Liability	$2 million per accident	$250,000
Excess Liability	$150,000,000	None

The North Concourse Project was completed in the fall 2008. Chartis is currently in the process of closing out the North Concourse OCIP and is auditing the project payroll and cost factors associated with the premium. The North Concourse OCIP required the City to fund claims loss reserve fund with Chartis in the amount of $3.9 million. The full amount of the claims loss reserve had been deposited with Chartis and was recorded as advances and deposits in the accompanying statement of net assets. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible, subject to an aggregate maximum loss exposure within coverage limits to the City of $3.9 million. Interest earned by the claims reserve fund is remitted to the Airport. The closing out process for OCIP includes an actuarial review, which examines outstanding claims. Due to the outstanding performance

of this OCIP, the City was able to negotiate the return of a large portion of the unused claims reserve in advance of the 10-year coverage term and in March 2010, the amount of $2,516,719 was returned to the Airport.

Activities relating to the North Concourse OCIP claims reserve fund for the fiscal years ended June 30, 2010 and 2009 were as follows:

		2010	2009
Beginning balance	$	3,688,246	3,831,535
Refunded		(2,516,719)	-
Losses paid		(181,864)	(143,289)
Ending balance	$	989,663	3,688,246

On March 15, 2007, the City bought additional insurance coverages for major components of the Terminal Area Improvement Program (TAIP) through another OCIP (the TAIP OCIP). The coverages for this program are as follows:

Coverage	Limits	Deductible Per Occurrence
General Liability	$2 million per occurrence/ $4 million aggregate	$250,000
Workers Compensation	Statutory	$250,000
Employers' Liability	$1 million per accident	$250,000
Excess Liability	$200,000,000	None

The liability under the TAIP OCIP is based upon an estimated payroll of $92.5 million for the covered projects and a construction period of 45 months, commencing on March 15, 2007 through December 31, 2010. In the event that the actual payroll for the covered TAIP projects exceeds the estimated $92.5 million payroll or in the event the construction period extends beyond 45 months, the City will be obligated to pay increased premiums for the TAIP OCIP and, in addition, may be required to augment the claims loss reserve fund. The terms of the TAIP OCIP require the City to fund a claims loss reserve fund with Chartis in the amount of $8.9 million. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of $8.9 million. The City was able to negotiate to fund 74% of the claims loss reserve and interest generated remains in the fund. As of June 30, 2009, the full amount of $6.5 million was deposited with Chartis and was recorded as advances and deposits in the accompanying statement of net assets.

Activities relating to the TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2010 and 2009 were as follows:

		2010	2009
Beginning balance	$	6,259,792	4,250,751
Additional deposits		-	2,177,349
Interest earned		6,033	36,808
Losses paid		(384,871)	(205,116)
Ending balance	$	5,880,954	6,259,792

(10) Commitments and Contingencies

(a) Lease Commitments

In June 1998, the Airport entered into an operating lease for the rental of off-Airport administrative office space. The lease, which commenced on December 1, 1998, was for a period of seven years, with an option to extend for one additional period of three years. In November 2000, the operating lease agreement was amended to include additional office space. The amendment to the lease commenced on November 15, 2000 with the same terms as the original lease. It also decreased the rate for the current space and increased the leased space effective December 1, 2003. In June 2003, the operating agreement was again amended to extend the term through December 2009. In February 2009, the operating lease agreement was again amended to extend the term through December 31, 2014. The City decided to terminate the operating lease agreement effective November 30, 2010. In accordance with the provisions of the agreement, a termination payment of $904,636 equal to six months rent was paid to the landlord in July 2010. Rental expenses for the office space were $2,498,056 and $3,061,792 for fiscal years ended June 30, 2010 and 2009, respectively.

In December 2007, the Airport entered into an operating lease and maintenance agreement of 14 compressed natural gas (CNG) powered buses. The lease and maintenance term of the agreement is from August 1, 2008 to July 31, 2015. In September 2009, the agreement was restated to add 10 CNG powered buses for the period June 30, 2010 to May 31, 2017. In the sole event of non-appropriation relating to the equipment lease payments, the Airport has the sole right to terminate the agreement by giving the contractor 60 days prior written notice. Rental and maintenance expenses were $1,547,699 and $1,419,815 for fiscal years ended June 30, 2010 and 2009, respectively.

In June 2001, the Airport entered into an operating lease and maintenance agreement of 20 compressed natural gas powered buses. The term of the agreement was from March 1, 2003 to February 28, 2010. The contract was extended to July 31, 2010 and eleven buses were returned on March 1, 2010. The contract was eventually terminated as of June 30, 2010 and

the remaining nine buses were returned. Rental and maintenance expenses were $1,540,973 and $2,081,840 and for fiscal years ended June 30, 2010 and 2009, respectively.

The future minimum lease and maintenance payments required under the existing agreement for CNG powered buses are as follows:

Fiscal Year Ending June 30,	Amount
2011	$ 2,223,724
2012	2,226,824
2013	2,229,960
2014	2,233,132
2015	2,236,342
2016 - 2017	1,831,923
Total minimum lease payments	$ 12,981,905

(b) Purchase Commitments and Capital Outlay Projections

As of June 30, 2010, the Airport was obligated for purchase commitments of approximately $71.6 million primarily for the Terminal Area Improvement Program projects, the public parking improvement project, and the remainder of the costs of the rental car facility and the North Concourse building projects. The Airport has projected that it will expend or encumber $197.9 million on proposed capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from PFCs, federal grants, bond proceeds, and other Airport revenues.

(c) Acoustical Treatment Program

The Airport has an Acoustical Treatment Program (ACT) to comply with the requirements of Title 21 of the California Code of Regulations. The program provides acoustical treatment to residences in the noise impact areas surrounding the Airport, at no cost to the property owners. The program is primarily funded by grants from the FAA and PFC revenues. The Airport expended $788,345 and $5,433,279 on noise attenuation projects during the fiscal years ended June 30, 2010 and 2009, respectively. The Airport completed its ACT program during fiscal year ended June 30, 2010.

(d) Fuel Tank Farms

Until December 22, 1998, the City and Chevron U.S.A., Inc. ("Chevron"), operated adjacent fuel storage facilities at the Airport. The City's facilities have not been in operation since December 22, 1998, when the facilities were closed in response to the federal deadline for upgrade or closure of underground storage tanks. Since the discovery in fiscal year 1985-86 that petroleum products had been released into the soil and groundwater from either or both the City and Chevron fuel storage facilities, the City and Chevron have operated a

groundwater extraction system to control migration (spread) of the contamination and to remediate (clean up) contaminated groundwater. This interim remediation system consists of an extraction and treatment system to remove floating jet fuel product from groundwater and to prevent its offsite migration. Chevron operates and maintains the system. Through June 1998, the City and Chevron shared in the cost of operating this system. The agreement expired but Chevron continued the work.

In November 2009, the City entered into an agreement with Chevron for coordinated corrective actions at the existing fuel tank farms at a cost to the City not to exceed $1.0 million and authorizing the Director of Aviation to approve additional expenditures in excess of $1.0 million, subject to appropriation of funds by City Council. The agreement provides for a 50%-50% cost sharing responsibility for actual future costs until successful closure of the site. The agreement also required the City to pay its 50% share of the past costs that Chevron has incurred during the period after expiration of the prior agreement and before the new agreement was in place. During the fiscal year ended June 30, 2010, the Airport paid its share of the past costs amounting to $660,434.

Chevron is responsible for administering the new agreement including retaining a corrective action contractor. The agreement is also structured to facilitate potential reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (the "Fund"). Reimbursement from the Fund is potentially available up to $1.5 million for each party.

Due to the proximity of the closed City jet fuel farm to the adjacent Chevron jet fuel farm that was still active, and the apparently stable contaminant plume, the regulators approved a waiver to allow the City tanks to be left in place until such time as a completely new fuel farm could be built, thereby allowing the Chevron site to be closed, and investigation/remediation to be done on both sites at once. The latest waiver request was approved through May 31, 2011. The new jet fuel farm was constructed off-Airport across Highway 101 and was placed in service in December 2009. The Chevron fuel farm was subsequently closed upon commencement of the operation of the new fuel farm.

Chevron is currently conducting investigation of the combined site in preparation of the site's final remediation plan. One component of the investigation is the subsurface condition underneath the aboveground storage tanks (ASTs) and underground storage tanks (USTs) at both the Chevron and the City fuel farms. Chevron demolished its fuel farm during fiscal year 2010 and removed its USTs, and is sampling the soil underneath its site. However, the demolition of the City fuel farm and removal of the USTs will not take place until the first quarter of 2011 calendar year. The completion of the remediation plan is contingent upon sampling and testing of the subsurface soil condition of the City fuel farm site. Once the plan is completed, it will be submitted to the County for its review and approval. The implementation of the remediation plan will commence after its approval by the County.

With the adoption of GASB 49, the Airport accrued $714,000 as of June 30, 2010 and 2009 to cover for the estimated remaining costs of its portion of the interim remediation system. In the absence of a remediation plan by the corrective action contractor, the Airport has insufficient information to reasonably estimate the actual future remediation costs. Based on presently available information, the Airport's management does not anticipate that the full costs of remediation of the fuel storage facility will have a significant impact on the Airport's financial position or changes in financial position.

(e) Master Plan

The Airport Master Plan consists of a program of facility improvements designed to fully accommodate commercial aviation demand (passengers and cargo) projected for the future, with development phased as demand warrants and is determined to be financially feasible. The Master Plan was originally adopted by the City of San José in June 1997 and approved by the FAA in December 1999. In June 2006, the City Council approved revisions to the Airport Master Plan regarding implementation of the TAIP. In May 2010, the City Council approved another major amendment to the Master Plan shifting the plan horizon from 2017 to 2027; reducing airline facilities serving cargo demand from 53 acres to 28 acres; and increasing the 56 acres designated for general aviation development to 102 acres. The current TAIP consists of two phases that total $1.6 billion. Phase 1 of the TAIP has a total budget of approximately $1.3 billion and construction of most of the projects was completed near the end of 2009-2010, with some projects to be completed in 2010-2011. Construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. Fundingfor Master Plan projects is from several sources, including grants, PFCs, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

(f) Litigation

The City is potentially liable to private citizens for property damage and personal injuries caused by noise from the Airport's operations or for other damages if a property owner can prove that the City's operations of the Airport has deprived them of the benefits of property ownership. There are several pending lawsuits in which the Airport is involved in the normal course of its operation. The Airport's and the City's management believe that any potential exposure will not have a material effect on the Airport's financial position or changes in financial position.

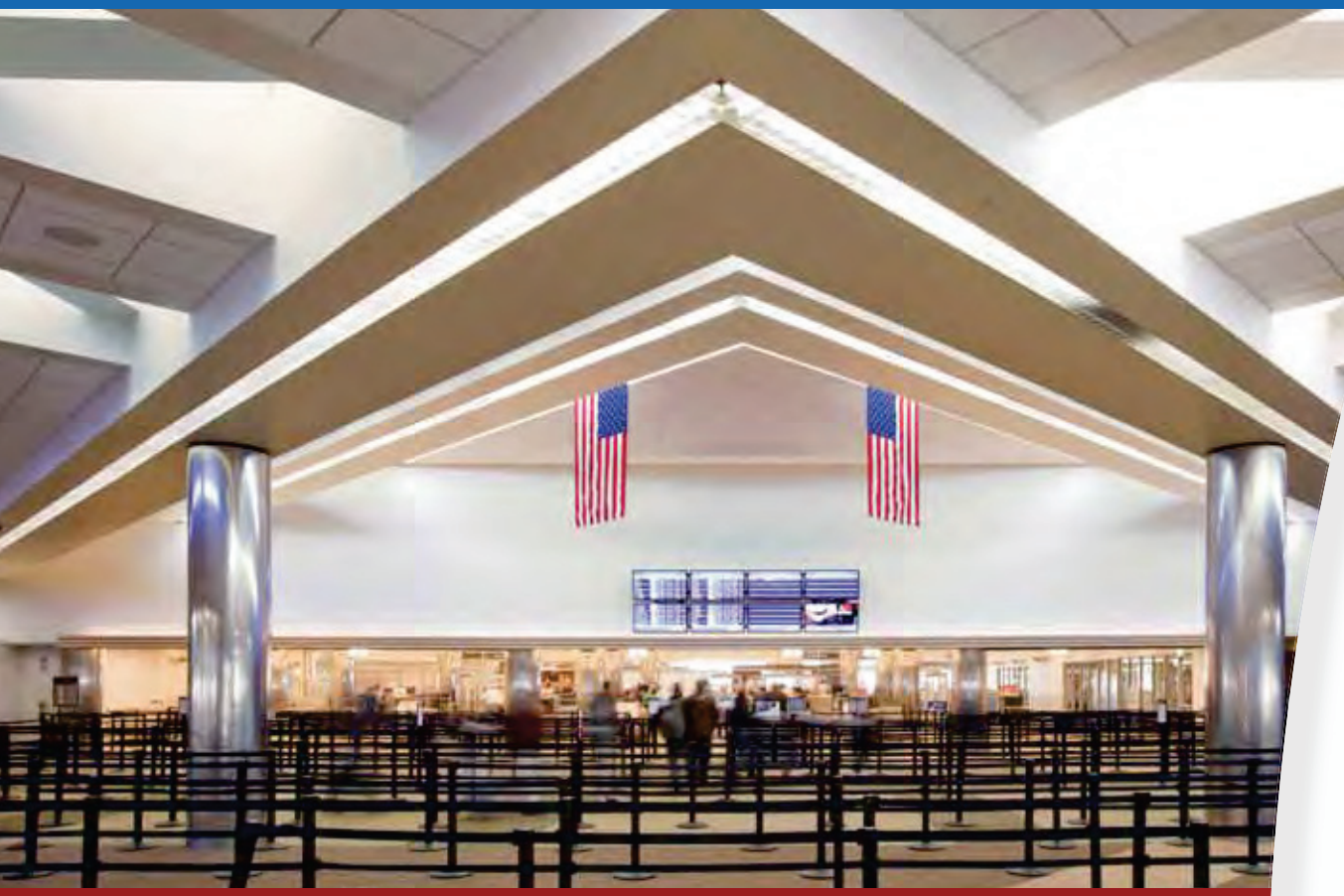
(11) Subsequent Events

The City has negotiated a 2-month extension of the Airport's Commercial Paper Notes Payable credit facilities and the extension terms were approved by the City Council at its November 9, 2010 meeting. The amendment to the agreement and letters of credit discussed include extension of the expiration date from December 2, 2010 to February 2, 2011, removal of Dexia Credit Local as a party to the agreement, reduction of the amount of available credit from $450,000,000 to $283,000,000, and amendments on other agreement terms. Management anticipates bringing forward a recommendation related to two-year and three-year replacement credit facilities for the City Council's consideration in December 2010 or January 2011.

On November 9, 2010, Ambac Financial Group Inc. (Ambac Financial) filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Ambac Financial is a holding company whose affiliates provide financial guarantees and financial services to its customers.

Ambac Assurance Corporation, a subsidiary of Ambac Financial, has issued a reserve fund surety bond that is on deposit in the General Account of the Bond Reserve Fund, securing the Airport's Series 1998A, 2001A, 2002A, and 2002B revenue bonds. According to the Master Trust Agreement for these bonds, in the event that such surety bond for any reason terminates or expires, and the remaining amount on deposit in the General Account is less than the Required Reserve, the Airport is to address such shortfall by delivering to the trustee a surety bond or a letter of credit meeting the criteria of a Qualified Reserve Facility under the Master Trust Agreement, or depositing cash to the General Account in up to twelve equal monthly installments.

It is uncertain at this time whether the Ambac Financial bankruptcy will cause the reserve fund surety bonds to lapse or expire. If such an event does occur, it is uncertain whether and when the Airport would be required to take one of the actions described above in order to maintain compliance with the Master Trust Agreement.



NORMAN Y. MINETA
SAN JOSE
INTERNATIONAL
AIRPORT
SILICON VALLEY'S AIRPORT

STATISTICAL

Complete renovation and transformation of Terminal A.

Photos by Jason Knowles

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Statistical Section
June 30, 2010

This part of the comprehensive annual financial report for Norman Y. Mineta San José International Airport (Airport) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Airport's overall financial health.

Contents **Schedule**

Schedule A

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
ANNUAL REVENUES, EXPENSES, CHANGES IN NET ASSETS AND NET ASSETS
LAST NINE FISCAL YEARS
(in $ 000's)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating revenues[1]									
Airline rates and charges:									
Landing fees	$13,150	$11,630	$11,122	$9,751	$10,768	$13,504	$13,084	$14,504	$13,190
Terminal rental	11,982	13,725	16,408	16,979	16,575	11,308	26,539	29,716	33,459
Total airline rates and charges	25,132	25,355	27,530	26,730	27,343	24,812	39,623	44,220	46,649
Terminal buildings/concessions	7,184	7,071	6,912	8,005	8,672	9,201	11,470	11,947	11,157
Airfield area	3,473	3,188	3,071	2,976	3,074	2,519	2,833	3,171	2,791
Parking and roadway	47,482	44,213	43,913	43,779	46,333	48,093	48,014	42,596	37,371
Fuel handling fees	1,419	1,395	1,333	1,375	1,492	1,592	1,806	1,474	1,310
General aviation	2,647	2,915	2,883	3,005	3,555	4,420	4,726	5,127	4,995
Customer facility and transportation fees	4,418	4,192	4,183	4,297	4,491	4,451	6,351	6,713	6,021
Other	365	128	0	23	303	108	63	699	914
Total operating revenues	92,120	88,457	89,825	90,190	95,263	95,196	114,886	115,947	111,208
Operating expenses:									
Terminal buildings/concessions	20,413	22,368	21,630	24,130	24,685	26,929	31,790	28,813	31,701
Airfield area	18,568	18,175	22,660	20,980	21,765	19,860	22,692	16,170	10,911
Parking and roadway	24,790	24,462	24,382	26,486	28,518	28,559	27,936	26,853	24,032
Fuel handling costs	166	84	51	96	325	171	311	557	885
General aviation	3,484	3,436	2,826	2,838	3,152	3,679	3,428	4,072	3,052
General and administrative	20,619	21,129	21,963	21,741	24,665	28,787	32,879	28,268	23,624
Depreciation and amortization	14,250	16,238	17,696	19,118	19,153	19,323	22,834	20,647	55,288
Total operating expenses	102,290	105,892	111,208	115,389	122,263	127,308	141,870	125,380	149,493
Operating loss	(10,170)	(17,435)	(21,383)	(25,199)	(27,000)	(32,112)	(26,984)	(9,433)	(38,285)
Nonoperating revenues (expenses):									
Passenger facility charges	22,238	21,167	21,842	21,768	22,271	22,169	21,224	17,416	17,043
Investment income	8,524	5,157	1,060	4,584	5,376	9,294	15,446	8,138	311
Interest expense	(7,231)	(6,502)	(5,594)	(7,173)	(3,184)	(11,995)	(11,737)	(11,404)	(10,750)
Operating grants	2,404	5,685	5,724	5,570	8,398	8,284	8,444	4,625	1,149
Loss on disposal of capital assets	-	-	-	-	(3)	-	-	(3,537)	(11,733)
Other, net	1,746	3,423	2,091	826	2,483	2,674	3,122	5,858	1,764
Total nonoperating revenues (expenses), net	27,681	28,930	25,123	25,575	35,341	30,426	36,499	21,096	(2,216)
Income before capital contributions	17,511	11,495	3,740	376	8,341	(1,686)	9,515	11,663	(40,501)
Capital contributions	17,263	12,687	11,725	13,791	10,508	9,694	4,970	12,868	34,722
Change in Net Assets	$34,774	$24,182	$15,465	$14,167	$18,849	$8,008	$14,485	$24,531	($5,779)
Net Assets at Year-End									
Invested in capital assets, net of related debt	$186,047	$199,312	$250,955	$251,370	$219,510	$239,960	$267,321	$316,935	$314,664
Restricted	150,714	123,202	121,548	133,413	113,182	118,334	84,491	45,260	61,349
Unrestricted	2,096	40,524	6,000	7,887	78,827	61,233	82,200	96,348	76,751
Total Net Assets	$338,857	$363,038	$378,503	$392,670	$411,519	$419,527	$434,012	$458,543	$452,764

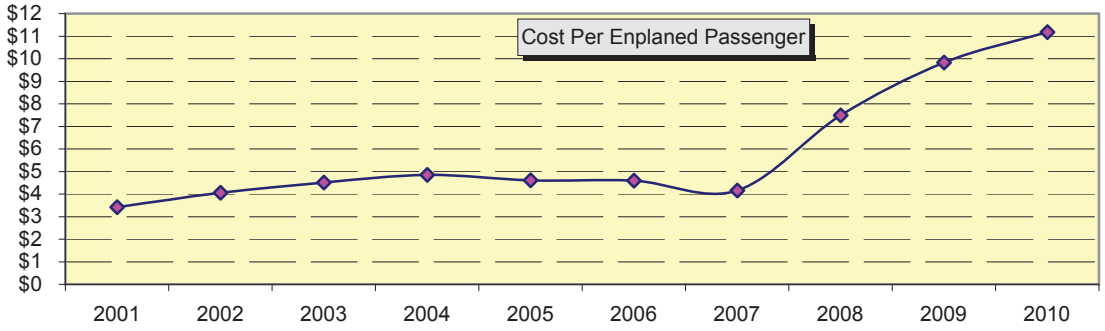
(1) The Airport began to report Net Assets information when it implemented GASB Statement 34 in fiscal year 2002.

(2) Net Assets have been restated retroactively to reflect the fact that intangible assets have indefinite useful lives and are not to be amortized. See additional information in Note 1 (l) to the financial statements.

(3) Certain prior years "Unrestricted Net Assets" related to unspent proceeds from commercial paper notes were reclassified to "Invested in Capital Assets, Net of Related Debt" to conform with the fiscal year 2010 presentation.

Schedule B

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRLINE COST PER ENPLANED PASSENGER
LAST TEN FISCAL YEARS
($ and Passengers in 000's)



		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Airline revenues:											
Terminal rental	$	11,377	11,894	13,441	16,294	16,390 [1]	15,886 [1]	10,748 [1]	26,539	29,716	33,459
Landing fees (Passenger Carriers)		12,325	11,330	10,020	9,384	8,262	9,036	11,390	12,252	13,560	12,443
Total		23,702	23,224	23,461	25,678	24,652	24,922	22,138	38,791	43,276	45,902
Enplaned passengers		6,937	5,719	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107
Airline cost per enplaned passenger (not in 000's)	$	3.42	4.06	4.51	4.85	4.61	4.60	4.16	7.49	9.84	11.18

[1] Terminal Rental for fiscal years 2005 through 2007 do not agree with Schedule A where revenue categories have been presented in accordance with the provisions of the current Airline-Airport Lease and Operating Agreement. Secondary and shared holdroom revenues, previously included in the Terminal Buildings/Concessions category were reclassified to Terminal Rental in Schedule A to conform with current year presentation.

Source: Norman Y. Mineta San José International Airport audited financial statements

Schedule C

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
GROSS CONCESSION REVENUE PER ENPLANED PASSENGER
LAST TEN FISCAL YEARS
($ and passengers in $ 000's)

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross Concession Revenue:[1]											
Parking [2]	$	38,677	29,153	29,135	29,693	29,225	29,744	29,702	28,625	23,632	21,260
Rental Cars		161,133	111,218	111,173	110,385	110,111	125,371	142,115	156,227	127,661	114,614
Food and Beverage		16,212	16,434	15,887	16,763	17,841	18,251	20,156	20,041	16,753	16,493
Advertising		3,554	3,562	3,418	2,878	3,705	4,627	3,451	1,892	1,923	1,736
Gift Shop & Retail		10,977	8,789	7,821	8,325	8,325	8,534	8,007	7,957	7,380	8,868
In-Flight Kitchen		24,961	18,838	14,008	12,697	9,883	7,731	7,277	5,819	6,173	8,580
Total Gross Concession Revenue	$	255,514	187,994	181,442	180,741	179,090	194,258	210,708	220,561	183,522	171,551
Enplaned Passengers:		6,937	5,719	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107
Gross Concession Revenue Per Enplaned Passenger (not in 000's)	$	36.83	32.87	34.86	34.15	33.50	35.87	39.61	42.59	41.71	41.77

(1) Gross revenues of major concessionaires only.
(2) Gross public parking revenues only.

Source: Norman Y. Mineta San José International Airport activity reports and concession records

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED AIRLINE RATES AND CHARGES
FISCAL YEARS 2001 THROUGH 2007 AND THE PERIOD JULY 1 TO NOVEMBER 30, 2007

Schedule D
(Continued)

	2001	2002	2003	2004	2005	2006	2007 (2)	2008 (3)
Landing Fees (per 1,000 lbs. MGLW) (1)	$ 1.25	$ 1.33	$ 1.34	$ 1.34	$ 1.28	$ 1.43	$ 1.80	$ 1.44
Terminal Rental Rates (per square foot)								
Terminal A :								
Ticket counter	149	157	192	232	240	224	133	
Operations	112	118	144	174	180	168	100	
Holdroom	134	142	173	208	216	202	120	
Baggage claim	75	79	96	116	120	112	67	
Baggage makeup/storage	52	55	67	81	84	79	47	
Terminal C :								
Ticket counter	83	87	88	100	103	111	110	
Operations	62	65	66	75	77	84	83	
Holdroom	75	78	80	90	93	100	99	
Baggage Claim (4)	42	43	44	50	52	56	55	
Baggage makeup/storage	29	30	31	35	36	39	39	
Blended:								
Ticket counter								351
Operations								316
Holdroom								263
Baggage Claim (4)								175
Baggage makeup/storage								123

(1) MGLW - Maximum Gross Landing Weight

(2) The Airport was able to reduce the terminal rental rates in fiscal year 2006-07 by utilizing $4.0 million of the Safety Net Reserve Account. The account was established in 1993 to reserve funds for unusual or exceptional circumstances such as a significant imbalance of rates and charges for various facilities, projected extraordinary vacancy rates, and unusual discrepancies in activity levels.

(3) These rates and charges were only for the period July 1 to November 30, 2007. A new Airline-Aiport Lease and Operating Agreement took effect on December 1, 2007. The rates for the period December 1, 2007 to June 30, 2008 (shown on the next page) were calculated in accordance with the provisions of the current agreement. Blended rental rates for Terminals A and C were calculated with the concurrence of the airlines.

(4) The baggage claim requirement is allocated among the airlines using the 20/80 formula. The revenue requirement applicable to the baggage claim areas is calculated by multiplying the square footage of all baggage claim areas by the square foot rate for those areas. 20% of the revenue requirement is divided equally among all airlines. The remaining 80% is distributed among all airlines based on the number of enplaned passengers.

Source: Norman Y. Mineta San José International Airport annual rates and charges analysis.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Schedule D
(Concluded)

SCHEDULED AIRLINE RATES AND CHARGES [1]
PERIOD DECEMBER 1, 2007 to JUNE 30, 2008 THROUGH FISCAL YEAR 2010

	2008	2009	2010	Unit
Landing Fees	$ 2.00	$ 2.24	$ 2.32	per 1,000 lbs. MGLW [4]
Terminal Rental Rates				
Group A:				
Ticket counter and queuing, Skycap/Curbside Check-in				
- Preferential	73,729	81,192	145,136	per counter
- Common	35	63	57	per hour
Airline ticket office, Club/VIP	166.07	237.81	204.57	per sq. ft.
Holdroom (Gate)				
- Preferential	418,598	481,687	726,212	per gate
- Common	228	330	497	per turn
Group B:				
Baggage Claim [2]	132.86	190.25	163.66	per sq. ft.
Other Office	132.86	190.25	163.66	per sq. ft.
Group C:				
Baggage Make-up [3]	83.04	118.91	102.29	per sq. ft.
Operations Space	83.04	118.91	102.29	per sq. ft.

(1) These rates and charges were for the period December 1, 2007 to June 30, 2010 and were calculated based on the provisions of the current Airline-Aiport Lease and Operating Agreement which took effect on December 1, 2007.

(2) The baggage claim requirement is allocated among the airlines using the 20/80 formula. The revenue requirements applicable to the baggage claim areas is calculated by multiplying the square footage of all baggage claim areas by the per-square foot rate for those areas. 20% of the revenue requirement is divided equally among all airlines. The remaining 80% of the revenue requirement is distributed among all airlines based on the number of deplaned passengers.

(3) The baggage make-up requirement is allocated among the airlines using the 20/80 formula. The revenue requirements applicable to the baggage make-up areas is calculated by multiplying the square footage of all baggage make-up areas by the per-square foot rate for those areas. 20% of the revenue requirement is divided equally among the Terminal A airlines. The remaining 80% of the revenue requirement is distributed among the Terminal A airlines based on the number of enplaned passengers.

(4) MGLW - Maximum Gross Landing Weight

Source: Norman Y. Mineta San José International Airport annual rates and charges analysis.

Schedule E

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
RATIOS OF OUTSTANDING DEBT AND DEBT SERVICE
LAST TEN FISCAL YEARS
(in $ 000's)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Outstanding Debt per Enplaned Passenger										
Outstanding debt by type:										
Revenue bonds	$ 130,470	282,485	268,770	512,500	503,885	494,910	485,545	1,060,815	1,049,635	1,037,990
Commercial paper notes	59,643	3,854	6,658	5,786	7,755	8,089	41,424	186,190	323,561	417,348
Total outstanding debt	190,113	286,339	275,428	518,286	511,640	502,999	526,969	1,247,005	1,373,196	1,455,338
Enplaned Passengers	6,937	5,719	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107
Total outstanding debt per enplaned passenger (not in 000's)	$ 27	50	53	98	96	93	99	241	312	354
Debt Service										
Revenue bonds (2)	$ 13,423	14,008	17,646	17,454	17,932	21,423	20,837	21,567	23,037	26,779
Commercial paper notes	3,417	194	313	268	447	573	3,002	66	65	734
Total debt service	$ 16,840	14,202	17,959	17,722	18,379	21,996	23,839	21,633	23,102	27,513
Net debt service per enplaned passenger (not in 000's)	$ 2.43	2.48	3.45	3.35	3.44	4.06	4.48	4.18	5.25	6.70

(1) Debt Limit information is not shown because the City does not establish or impose a debt limit.

(2) Under the Master Trust Agreement dated July 1, 2001, "revenue bond debt service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward the payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds.

Schedule F

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
DEBT SERVICE COVERAGE
LAST TEN FISCAL YEARS
(in $ 000's)

Year	Gross Revenues (1) & (3)	Operating Expenses (2)	Net Revenues	Other Available Funds (3)	Net Revenues Available for Debt Service	Total Bond Debt Service (4)	Coverage Ratio - Bonds	Estimated Commercial Paper (CP) Debt Service (5)	Coverage Ratio- Bonds & CP (5)
2001	$ 125,037	$ 61,246			$ 63,791	$ 13,423	4.75	$ 3,417	3.79
2002	96,393	71,564	$ 24,829	$ 19,053	43,882	14,008	3.13	194	3.09
2003	97,183	73,300	23,883	30,633	54,516	17,646	3.09	313	3.04
2004	88,099	71,313	16,786	37,565	54,351	17,454	3.11	268	3.07
2005	89,759	73,654	16,105	37,666	53,771	17,932	3.00	447	2.93
2006	100,390	78,320	22,070	37,022	59,092	21,423	2.76	573	2.69
2007	96,650	86,509	10,141	44,250	54,391	20,837	2.61	3,002	2.28
2008	115,143	96,126	19,017	44,175	63,192	21,567	2.93	66	2.92
2009	115,033	90,927	24,106	49,053	73,159	23,037	3.18	65	3.17
2010	106,500	82,574	23,926	51,610	75,536	26,779	2.82	734	2.75

(1) Includes operating and other revenues but excludes Passenger Facility Charges and other items excluded from the definition of General Airport Revenues in the Master Trust Agreement. Gross Revenues for fiscal year 2001 also included prior year's surplus.

(2) Includes operating expenses less depreciation and expenses paid from sources other than General Airport Revenues. The rolling debt service coverage from prior year was deducted from Operating Expenses in fiscal year 2001.

(3) In compliance with the Master Trust Agreement dated July 1, 2001, prior fiscal year's surplus and rolling debt service coverage from prior year are presented as part of Other Available Funds effective fiscal year 2002.

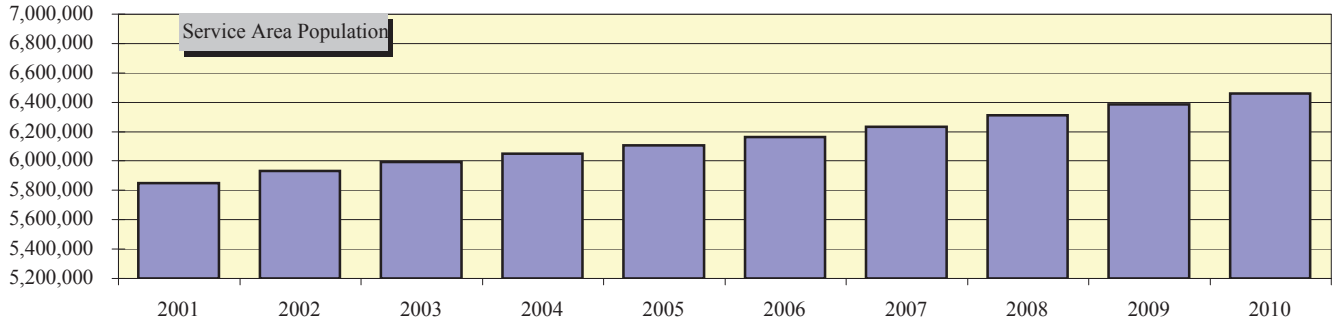
(4) Under the Master Trust Agreement dated July 1, 2001, "Revenue Bond Debt Service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds.

(5) Estimated Debt Service on CP and coverage calculation including debt service on CP demonstrate compliance with the City's two agreements related to the letters of credit for the Airport CP Program: The Second Amended and Restated Letter of Credit and Reimbursement Agreement by and among the City, JP Morgan Chase Bank, National Association, individually and as agent, Bank of America, N.A., and Dexia Credit Local, acting through its New York Branch, dated as of December 1, 2007 (the "Second Amended Agreement") and The Letter of Credit and Reimbursement Agreement Between the City and Lloyds TSB Bank, plc, acting through its New York Branch, dated as of May 1, 2008 (the "Lloyds Agreement"). Beginning in 2007-08, the definition of debt service in the Second Amended Agreement was revised to exclude a portion of the total CP outstanding from the coverage calculation. Specifically, under both the Second Amended Agreement and the Lloyds Agreement, CP which funds capitalizable projects are not included for coverage calculation purposes.

Source: Finance and Administration, Norman Y. Mineta San José International Airport, City of San José

Schedule G

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SERVICE AREA POPULATION IN THE AIR TRADE AREA
LAST TEN CALENDAR YEARS (1)



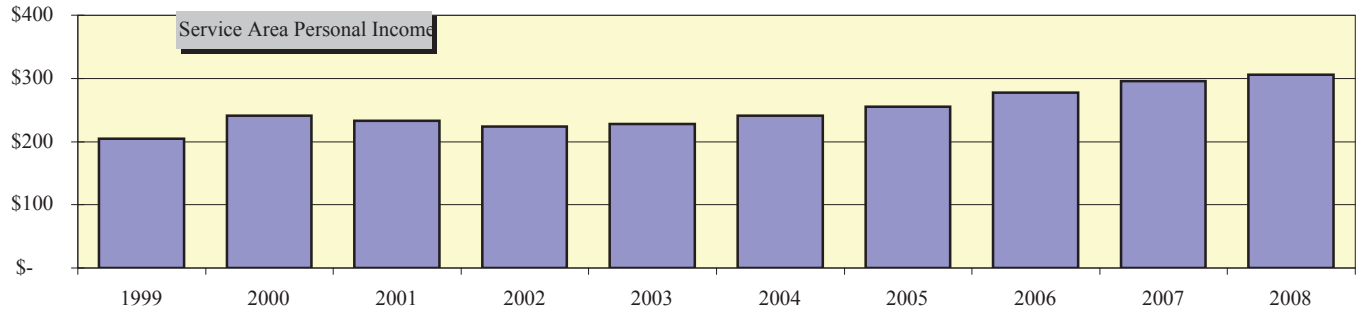
	Primary Service Area						Secondary Service Area			
Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Total
2001	1,465,144	406,762	54,487	712,289	1,701,385	257,134	214,521	580,057	458,557	5,850,336
2002	1,482,473	412,041	55,616	714,453	1,715,329	258,054	220,742	599,317	472,260	5,930,285
2003	1,490,072	417,152	56,323	715,898	1,726,183	258,463	227,010	616,737	483,824	5,991,662
2004	1,494,675	420,612	56,736	717,653	1,738,654	259,020	233,404	635,252	493,646	6,049,652
2005	1,498,967	421,235	56,946	720,042	1,753,041	259,960	239,659	652,248	503,157	6,105,255
2006	1,506,176	420,967	57,014	722,994	1,771,610	261,183	245,436	664,889	511,617	6,161,886
2007	1,519,326	422,586	57,162	728,314	1,798,242	263,105	250,022	674,331	517,837	6,230,925
2008	1,537,719	426,670	57,517	736,951	1,829,480	265,782	253,471	682,316	522,313	6,312,219
2009	1,557,749	431,041	57,920	745,654	1,857,516	268,795	255,591	687,854	525,090	6,387,210
2010	1,574,857	435,878	58,388	754,285	1,880,876	272,201	258,495	694,293	530,584	6,459,857

(1) Some data reported previously were revised to reflect the most recent information.

Source: California Department of Finance

Schedule H

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SERVICE AREA PERSONAL INCOME IN THE AIR TRADE AREA
LAST TEN AVAILABLE CALENDAR YEARS (1)
(in $ 000"s)



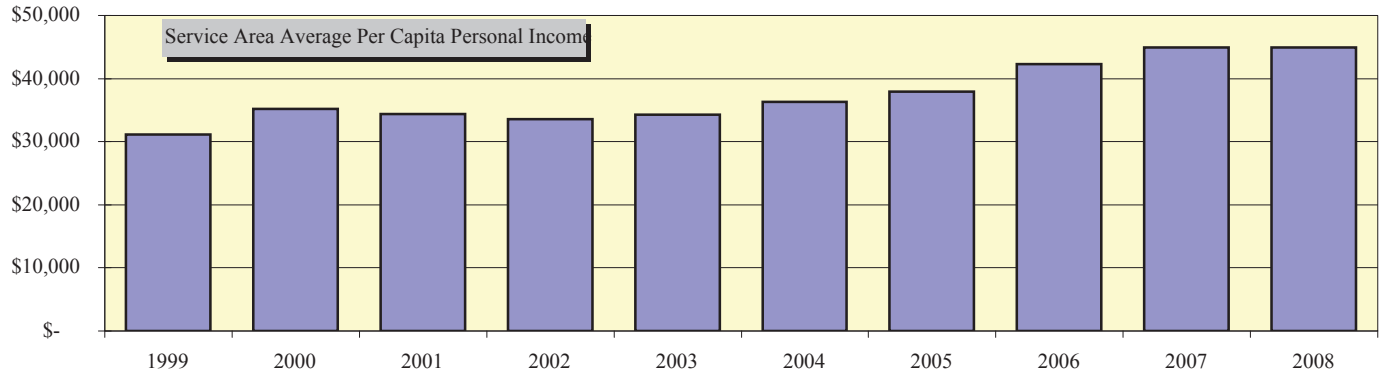
	Primary Service Area						Secondary Service Area			
Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Total
1999	$48,316,845	$11,169,200	$1,373,611	$35,485,821	$73,045,821	$8,557,538	$3,934,032	$12,632,069	$9,756,560	$204,271,497
2000	55,790,773	12,097,144	1,561,059	41,730,460	91,386,181	10,014,548	4,133,861	13,757,148	10,572,639	241,043,813
2001	56,121,667	12,540,815	1,579,602	39,395,344	83,838,707	9,714,123	4,433,382	14,281,186	10,916,779	232,821,605
2002	55,316,772	12,676,027	1,575,049	36,736,603	77,548,912	9,495,857	4,644,678	14,788,895	11,460,836	224,243,629
2003	56,424,129	13,380,948	1,623,818	36,466,977	78,152,243	9,498,586	4,989,214	15,576,802	11,959,040	228,071,757
2004	59,339,211	14,096,150	1,681,863	39,408,618	81,920,659	10,194,797	5,359,381	16,555,526	12,868,305	241,424,510
2005	62,015,782	14,653,598	1,704,973	42,846,390	87,909,716	10,462,655	5,409,165	17,189,529	13,472,415	255,664,223
2006	66,998,496	15,774,227	1,809,212	46,881,900	96,443,117	11,464,854	5,613,205	18,292,157	14,076,261	277,353,429
2007	70,761,435	16,694,108	1,897,021	50,347,246	104,102,421	12,116,023	6,108,301	19,194,503	14,755,527	295,976,585
2008	73,159,586	17,385,273	1,985,792	52,285,539	103,992,999	12,934,896	6,810,372	21,097,089	15,977,182	305,628,728

(1) Information for calendar years 2009 and 2010 is not available.

Source: Bureau of Economic Analysis

Schedule I

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SERVICE AREA PER CAPITA PERSONAL INCOME IN THE AIR TRADE AREA
LAST TEN AVAILABLE CALENDAR YEARS [1][2]



	Primary Service Area						Secondary Service Area			
Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Average PCPI
1999	$33,856	$28,186	$26,689	$50,368	$43,701	$33,735	$19,029	$22,867	$22,244	$31,186
2000	38,466	30,011	29,004	58,905	54,198	39,142	19,541	24,219	23,510	35,222
2001	38,187	30,786	28,856	55,707	49,561	37,982	20,387	24,154	23,531	34,350
2002	37,839	30,931	28,531	52,480	46,292	37,397	20,801	24,290	24,000	33,618
2003	38,835	32,527	29,327	52,405	46,769	37,708	21,810	24,883	24,551	34,313
2004	41,083	34,362	30,534	56,788	48,958	40,632	22,955	25,785	26,132	36,359
2005	43,074	36,014	31,041	61,678	52,081	41,917	22,724	26,209	26,954	37,966
2006	47,781	40,908	34,139	68,843	56,521	48,206	25,205	29,513	29,654	42,308
2007	49,915	42,322	36,173	74,343	60,098	51,669	27,981	31,018	30,816	44,926
2008	49,757	42,857	36,239	73,839	59,227	51,140	27,871	31,547	31,485	44,885

[1] Some data reported previously were revsied to reflect the msot recent information.
[2] Information for calendar years 2009 and 2010 is not available.
Source: Bureau of Economic Analysis

Schedule J

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
PRINCIPAL EMPLOYERS IN THE CITY SAN JOSE
CURRENT YEAR AND FOUR YEARS AGO

	2010			2006		
Company or Organization	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
County of Santa Clara	15,360	1	2%	14,860	2	2%
Cisco Systems	11,600	2	1%	16,500	1	2%
IBM	7,460	3	1%	5,800	4	0.66%
City of San Jose*	6,620	4	1%	6,670	3	1%
San Jose State University	3,100	5	0%	3,100	5	0%
eBay Inc.	3,000	6	0%	2,200	8	0%
Hitatchi	2,900	7	0%	2,800	6	0%
San Jose Unified School District	2,690	8	0%	1,820	13	0%
Xilinx, Inc.	2,340	9	0%	2,300	7	0%
Sanmina-SCI	2,170	10	0%	2,100	9	0%
Kaiser Permanente	2,120	11	0%	na	na	na
Adobe Systems, Inc.	2,000	12	0%	2,000	10	0%
Good Samaritan Hospital	1,850	13	0%	1,850	12	0%
KLA-Tencor	1,770	14	0%	1,850	11	0%
Cadence Design Systems	1,560	15	0%	1,750	14	0%

Note: Data pertaining to principal employers for nine years ago is not readily available. As such, we used 2006 information which was the earliest available.

(*) Full-time employees

Source: California Employment Development Department, Labor Market Information Division

Schedule K

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRPORT EMPLOYEES
LAST EIGHT FISCAL YEARS

	Budgeted Full-time-Equivalent [1][2] Employees as of Fiscal Year-End							
Functional Area	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Acoustical Treatment Program (ACT)	11.75	16.25	10.00	9.00	7.00	7.00	4.00	0.00
Administration	39.35	39.35	35.55	34.55	37.75	39.75	34.65	31.00
Air Service Development	3.25	3.00	3.25	4.50	4.60	4.60	2.00	2.00
Airport Technology Services	7.00	8.00	8.00	17.00	21.00	21.00	19.00	16.00
Airside Operations	61.20	58.00	49.20	46.00	46.50	46.55	47.25	38.45
Customer Service and Outreach	9.75	9.00	8.75	7.60	11.40	10.40	8.00	6.00
Capital and Airport Development	30.10	45.75	52.05	46.05	38.05	28.25	27.25	25.50
Environmental	7.95	4.25	3.20	4.20	3.20	3.00	3.50	3.00
Facilities (Building Services, Trades and Maintenance)	162.00	161.00	148.00	143.00	143.00	155.00	134.50	127.50
Landside Operations and Services	60.75	64.50	66.30	64.50	61.50	62.45	55.75	46.55
Property Management	10.40	10.40	12.20	12.10	12.00	13.00	12.10	9.00
	403.50	419.50	396.50	388.50	386.00	391.00	348.00	305.00

[1] A full-time employee is scheduled to work 2,088 hours per year (including vacation and sick leave). Full-time-equivalent employment is calculated by dividing total labor hours by 2,088.

[2] Information prior to fiscal year 2003 is not available.

Source: Norman Y. Mineta San José International Airport, Budget & Adminstration Section

Schedule L

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRPORT INFORMATION
JUNE 30, 2010

Location:	Two miles north of downtown San José, Capital of Silicon Valley			
Area:	1,050 acres			
Elevation:	56 ft.			
Airport Code:	SJC			
Runways:	11/29	North/South	4,599 × 100	ft.
	12R/30L	North/South	11,000 × 150	ft. ILS/ VOR / GPS
	12L/30R	North/South	11,000 × 150	ft. GPS (VOR 30R only)
Terminal:	Airlines		250,693	sq. ft.
	Concessions and Other Rentables		57,573	sq. ft.
	Public/common		186,579	sq. ft.
	Airport		304,310	sq. ft.
	Vacant		46,789	sq. ft.
	Other		105,569	sq. ft.
	Total		951,513	sq. ft.
	Number of passenger gates - Terminal A and FIS		13	
	Number of passenger gates - Terminal B		11	
	Number of loading bridges		14	
	Number of concessionaires in terminal		37	
	Number of rental car agencies		8	
Apron:	Commercial Airlines		2,275,000	sq. ft.
	Cargo Airlines		710,000	sq. ft.
	FBO		555,000	sq. ft.
	General Aviation West		690,000	sq. ft.
Parking:	Spaces assigned:	Shot-term Termina A Garage	2,009	
		Short-term Terminal B Garage & Surface	656	
		Long-term	3,591	
		Rental cars	3,000	
		Employees	950	
		Total	10,206	
Cargo:	Air Freight Building		19,200	sq. ft.
International:	Customs / Federal Inspection Service Facility			
Tower:	Operational hours 0600 - 0000, after hours CTAF 124.0/TRACON 24/7			
FBOs:	Atlantic San Jose			
	ACM Aviation			
	AvBase			

FBO = fixed base operator.

Note: The terminal square footages changed from last year because of the ongoing construction activity.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRLINE ACTIVITY SHARES/ENPLANED COMMERCIAL PASSENGERS
LAST FIVE FISCAL YEARS

Schedule M

	2006		2007		2008		2009		2010	
Airline	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Alaska Airlines [1]	412,088	7.6%	393,843	7.4%	357,705	6.9%	267,998	6.1%	294,357	7.2%
Atlantic Southeast Airlines [2]	16,201	0.3%	4,232	0.1%	0	0.0%	0	0.0%	0	0.0%
American Airlines [3]	683,846	12.6%	624,487	11.7%	511,414	9.9%	428,383	9.7%	362,778	8.8%
American Eagle	345,308	6.4%	298,565	5.6%	260,015	5.0%	204,340	4.6%	117,624	2.9%
Concesionaria Vuela Compania de Aviacion S.A. DE CV [4]	0	0.0%	0	0.0%	0	0.0%	0	0.0%	8,072	0.2%
Continental Airlines	155,324	2.9%	169,220	3.2%	171,189	3.3%	136,153	3.1%	132,942	3.2%
Delta Airlines	215,062	4.0%	182,524	3.4%	156,339	3.0%	94,241	2.1%	100,539	2.4%
ExpressJet Airlines [5]		0.0%	0	0.0%	44,106	0.9%	6,635	0.2%	27	0.0%
Frontier Airlines [6]	97,914	1.8%	95,876	1.8%	110,912	2.1%	113,083	2.6%	52,672	1.3%
Hawaiian Airlines [7]	62,261	1.1%	82,561	1.6%	84,259	1.6%	81,397	1.9%	72,266	1.8%
Horizon Air [1]	76,934	1.4%	73,481	1.4%	87,984	1.7%	77,421	1.8%	99,625	2.4%
Independence Airlines [8]	7,184	0.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
JetBlue Airways [9]	136,666	2.5%	109,351	2.1%	116,776	2.3%	148,643	3.4%	95,118	2.3%
Mesa Airlines Inc. [9]	0	0.0%	13,720	0.3%	16,547	0.3%	3,931	0.1%	3,082	0.1%
Mexicana Airlines	74,685	1.4%	77,352	1.5%	62,692	1.2%	60,029	1.4%	54,016	1.3%
Northwest Airlines	94,646	1.7%	91,041	1.7%	92,102	1.8%	90,515	2.1%	47,143	1.1%
Republic Airlines Inc. dba [10]	0	0.0%	0	0.0%	4,923	0.1%	0	0.0%	11,198	0.3%
Skywest[11]	124,565	2.3%	139,956	2.6%	115,184	2.2%	139,478	3.2%	180,337	4.4%
Southwest Airlines	2,198,806	40.6%	2,266,766	42.6%	2,333,432	45.1%	2,082,271	47.3%	2,121,917	51.7%
United Airlines [12]	392,199	7.2%	380,109	7.1%	349,962	6.8%	208,184	4.7%	138,836	3.4%
US Airways	308,204	5.7%	308,522	5.8%	298,193	5.8%	250,458	5.7%	208,809	5.1%
All Other Airlines	12,938	0.2%	7,253	0.1%	4,869	0.1%	6,402	0.1%	6,036	0.1%
Total [13]	5,414,831	100%	5,318,859	100%	5,178,603	100%	4,399,562	100%	4,107,394	100%

[1] Alaska Airlines and Horizon Air are separately certificated air carriers and wholly-owned subsidiaries of Alaska Air Group.
[2] Atlantic Southeast Airlines, which operated as Delta Connection, started operations at the Airport in February 2005 and ceased operations in October 2006.
[3] In October 2006, American discontinued its service to Japan.
[4] Concesionaria Vuela Compania de Aviacion S.A DE CV (aka Volaris) started operations at the Airport in April 2010.
[5] ExpressJet operated as Delta Connection from July 2007 - September 2008.
[6] Frontier ceased operations at the Airport in May 2010.
[7] Hawaiian Airlines started operations at the Airport in September 2005.
[8] Independence Airlines ceased operations at the Airport in October 2005.
[9] Mesa Airlines operates as US Airways Express.
[10] Republic Airlines operated as Frontier Express from August 2007 to May 2008 and from December 2009 to May 2010.
[11] Skywest operates as United Express and Delta Connection.
[12] United Airlines discontinued service to Chicago in November 2008.
[13] Percentage totals may not add due to rounding.

Source: Norman Y. Mineta San José International Airport activity reports

Schedule N

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRLINE LANDED WEIGHTS (1,000's lb)
LAST TEN FISCAL YEARS

Airline [1]	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Air Canada	55,081	15,378					1,612	2,207	1,469	284
Air Wisconsin		21,432	21,197							
Alaska Airlines	764,461	719,309	630,248	600,898	508,275	490,114	472,515	441,300	337,540	363,017
Atlantic Southeast Airlines					8,643	17,554	5,025			
American Airlines	3,620,900	2,952,139	2,157,755	1,563,878	1,279,122	850,139	733,523	572,925	480,870	366,797
American Eagle		19,707	145,119	380,940	351,441	391,471	346,514	305,779	254,983	131,181
ATA			100,188	105,132	396	224	550	566		
Concesionaria Vuela compania De Aviacion S.A DE CV (aka Volaris)										8,320
Continental Airlines	270,050	189,508	165,682	159,142	164,344	164,858	178,500	181,657	142,465	133,055
Delta Airlines	430,007	346,396	302,804	244,109	226,950	259,322	233,734	194,892	119,454	116,624
Expressjet Airlines Inc. dba Delta Airlines							44	58,816	8,047	41
Frontier Airlines		4,272	70,909	92,045	97,781	128,282	143,487	153,166	158,644	78,484
Hawaiian Airlines						87,360	128,960	115,545	109,970	94,075
Horizon Air	65,184	59,877	86,362	114,176	130,792	104,759	98,525	115,790	111,530	144,240
Independence Airlines					8,405	9,231				
JetBlue Airways			142	2,986	68,682	155,706	124,565	147,688	188,439	115,710
Mesa Airlines		17,831	24,581	26,273	5,338	12,640	21,664	22,399	4,168	
Mexicana Airlines	90,925	72,152	75,024	83,270	78,780	116,903	113,125	100,668	86,527	76,916
Northwest Airlines	164,339	223,849	192,684	172,244	118,242	107,918	100,756	101,591	101,284	51,691
Skywest	40,205	107,601	147,918	155,754	164,480	151,419	166,716	146,500	174,983	217,883
Southwest Airlines	2,837,256	2,889,445	2,896,347	2,867,763	3,009,958	3,065,960	3,197,472	3,366,428	3,236,828	3,033,408
Trans World Airlines	139,688	48,360								
United Airlines	1,061,417	737,077	550,644	535,528	499,892	515,943	490,735	474,724	277,027	182,268
US Airways	378,708	343,388	320,763	351,611	401,640	377,223	415,366	387,348	316,454	262,199
All Other Airlines	65,332	31,444	13,555	16,985	6,046	13,670	16,145	22,055	19,189	34,324
Subtotal	9,983,553	8,799,165	7,901,922	7,472,734	7,129,207	7,020,696	6,989,533	6,912,044	6,129,871	5,410,517
Cargo Carriers										
Air Transport Int'l.	27,651	64,738	51,606	55,798	61,414	55,733	57,941	59,379	56,042	57,159
Airborne Express	73,030	74,174	70,652	71,094	70,720	68,816	70,176	57,392	1,088	
Burlington Air Express	39,072									
DHL Worldwide Express	35,890	997								
Emery Worldwide Express	106,575	82,621	54,020							
Fedex	306,976	315,970	287,143	289,284	268,055	223,154	252,539	241,953	231,594	168,403
Kitty Hawk		38,656	35,005	638			155			
United Parcel Service	106,896	133,293	127,819	127,399	128,470	126,660	129,090	133,653	132,055	96,505
All Other Cargo Airlines	51,839	24,329	22,160	2,844	3,184	4,013	1,862	329	507	200
Subtotal	747,929	734,778	648,405	547,057	531,843	478,376	511,763	492,706	421,286	322,267
Total	10,731,482	9,533,943	8,550,327	8,019,791	7,661,050	7,499,072	7,501,296	7,404,750	6,551,157	5,732,784

[1] See Notes on Schedule M.

Source: Norman Y. Mineta San José International Airport activity reports

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRLINE FLIGHT OPERATIONS BY AIRLINE AND CARGO CARRIER
LAST TEN FISCAL YEARS

Schedule O

Airline [1]	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Air Canada	820	230	4	18			2	4	22	
Air Wisconsin		912	902							
Alaska Airlines	12,172	11,438	9,862	9,464	7,926	7,592	7,264	6,760	5,176	5,444
Atlantic Southeast Airlines					258	524	150			
American Airlines	47,642	38,062	27,294	19,136	16,214	11,678	10,734	9,012	7,704	5,800
American Eagle		956	7,042	18,554	17,094	19,018	16,816	14,838	12,370	6,364
ATA			1,012	1,160	4	2	4	6	378	
Concessionaria Vuela Compania De Aviacion S.A DE CV										124
Continental Airlines	4,462	3,174	2,672	2,342	2,404	2,490	2,730	2,770	2,060	1,898
Delta Airlines	5,152	4,330	3,904	3,326	3,122	3,524	2,852	2,526	1,504	1,570
ExpressJet Airlines Inc dba								2,738	-	2
Frontier Airlines		170	988	1,388	1,476	1,942	2,190	2,360	2,426	1,202
Hawaiian Airlines						546	806	732	732	620
Horizon Air	1,970	1,796	2,578	3,424	3,960	3,200	3,086	3,602	3,428	4,484
Independence Airlines					122	134				
JetBlue Airways			2	42	966	2,190	1,752	2,102	2,986	1,876
Mesa Airlines		758	1,046	1,118	226	434	592	614	126	14
Mexicana Airlines	1,246	986	978	1,090	1,044	1,588	1,600	1,430	1,250	1,126
Northwest Airlines	2,342	3,282	2,988	2,474	1,670	1,540	1,434	1,446	1,410	746
Reno Air										
Skywest	3,124	5,705	7,464	7,742	8,134	7,580	8,158	7,518	7,526	8,636
Southwest Airlines	49,392	50,176	50,290	49,254	50,402	50,936	52,872	54,974	52,414	48,942
Trans World Airlines	2,148	744								
United Airlines	16,350	11,134	8,442	8,222	7,386	7,076	6,932	6,420	3,572	2,224
US Airways	5,946	5,276	5,328	5,342	6,076	5,748	6,168	6,070	5,110	4,130
All Other Airlines	1,288	575	208	268	80	212	260	442	304	598
Subtotal	154,054	139,704	133,004	134,364	128,564	127,954	126,402	126,364	110,498	95,800
Cargo Carriers										
Air Transport Int'l.	214	498	464	422	468	424	442	452	426	434
Airborne Express	542	548	522	524	520	506	516	422	8	
Burlington Air Express	302									
DHL Worldwide Express	502	14								
Emery Worldwide Express	548	532	360							
FedEx	1,794	1,724	1,420	1,430	1,400	1,270	1,326	1,324	1,264	958
Kitty Hawk		477	440	8			2			
United Parcel Service	954	1,000	914	910	924	908	926	916	854	672
All Other Cargo Airlines	1,352	1,022	516	292	282	356	176	26	6	12
Subtotal	6,208	5,815	4,636	3,586	3,594	3,464	3,388	3,140	2,558	2,076
Total	160,262	145,519	137,640	137,950	132,158	131,418	129,790	129,504	113,056	97,876

[1] See notes on Schedule M.

Source: Norman Y. Mineta San José International Airport activity reports

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT **Schedule P**
(A Department of the City of San José) **(Continued)**
SCHEDULED/COMMUTER/ALL-CARGO AIRLINE SERVICE

CARRIER	NONSTOP SERVICE
SCHEDULED DOMESTIC AIRLINE SERVICE	
Alaska Airlines	Austin (AUS) Kahului, Maui (OGG) Kona, Hawaii (KOA) Portland (PDX) Seattle (SEA)
American Airlines	Chicago/O'Hare (ORD) Dallas/Ft. Worth (DFW) Los Angeles (LAX)
Continental Airlines	Houston/Intercontinental (HOU)
Delta Airlines	Atlanta (ATL) Minneapolis/St. Paul (MSP) Salt Lake City SLC)
Hawaiian Airlines	Honolulu (HNL)
Horizon Air	Boise (BOI) Sacramento (SMF) Spokane
JetBlue Airlines	Boston (BOS)
Southwest Airlines	Burbank (BUR) Chicago/Midway (MDW) Denver (DEN) Las Vegas (LAS) Los Angeles (LAX) Ontario (ONT) Orange County (SNA) Phoenix (PHX) Portland (PDX) Reno (RNO) San Diego (SAN) Seattle (SEA)
United Airlines	Denver (DEN) Los Angeles (LAX)
US Airways	Phoenix (PHX)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT **Schedule P**
(A Department of the City of San José) **(Concluded)**
SCHEDULED/COMMUTER/ALL-CARGO AIRLINE SERVICE

CARRIER	NONSTOP SERVICE
SCHEDULED FOREIGN FLAG AIRLINE SERVICE	
Volaris	Guadalajara (GDL)
COMMUTER AIRLINE SERVICE	
American Eagle (regional carrier for American Airlines)	Los Angeles (LAX)
Horizon Air	Boise (BOI) Sacramento (SMF) Spokane (GEG)
Skywest (on behalf on Delta and United)	Denver (DEN) Los Angeles (LAX) Salt Lake City (SLC) Santa Barbara (SBA)
ALL-CARGO AIRLINES	
Air Transport International	
Federal Express Corporation	
United Parcel Service	

Schedule Q

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
PASSENGERS, MAIL, FREIGHT, AND CARGO STATISTICS
LAST TEN FISCAL YEARS

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Passengers (1,000's):										
Enplanements	6,937	5,719	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107
Deplanements	6,971	5,722	5,200	5,276	5,382	5,437	5,335	5,202	4,422	4,125
Total Passengers	13,908	11,441	10,405	10,568	10,728	10,852	10,654	10,381	8,822	8,232
Mail/Freight/Cargo (1,000 lbs):										
Mail	23,052	11,236	8,939	8,988	9,213	7,593	4,342	3,044	1,987	3,357
Freight/Express	39,261	34,307	29,843	26,462	25,449	22,577	12,228	7,101	5,995	5,432
Cargo	272,201	265,438	234,328	203,444	190,871	179,612	171,754	166,509	129,809	97,578
Total mail/freight/cargo	334,514	310,981	273,110	238,894	225,533	209,782	188,324	176,654	137,791	106,367

Source: Norman Y. Mineta San José International Airport activity reports

Schedule R

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
HISTORICAL AIRCRAFT OPERATIONS [1]
LAST TEN FISCAL YEARS

Fiscal Year	Air Carrier Operations	Commuter Operations [2]	Cargo Operations	Total Commercial Operations [3]	Percent Commercial Operations [3]	General Aviation Operations	Military Operations	Total Operations
2000-01	148,960	5,094	6,208	160,262	56.6%	122,435	238	282,935
2001-02	129,319	10,385	5,815	145,519	64.9%	78,618	211	224,348
2002-03	113,972	19,032	4,636	137,640	68.7%	62,510	125	200,275
2003-04	103,526	30,838	3,586	137,950	69.8%	59,521	113	197,584
2004-05	98,892	29,672	3,594	132,158	67.4%	63,708	99	195,965
2005-06	97,198	30,756	3,464	131,418	67.9%	61,907	83	193,408
2006-07	97,596	28,806	3,388	129,790	70.2%	55,021	103	184,914
2007-08	96,860	29,504	3,140	129,504	70.1%	55,146	64	184,714
2008-09	86,668	23,830	2,558	113,056	70.7%	46,674	242	159,972
2009-10	76,024	19,776	2,076	97,876	74.4%	33,439	275	131,590
Annual Compound Growth Rate								
FY 2000-01 through FY 2009-10	-6.5%	14.5%	-10.4%	-4.8%	2.8%	-12.2%	1.5%	-7.4%

[1] An aircraft operation is defined as the takeoff or landing of an aircraft.

[2] After the September 11, 2001 attacks, more airlines switched to commuter planes to lower their costs and to continue to serve decreased level of passengers without having to drop destinations.

[3] Commercial Operations equal Air Carrier Operations, Commuter Operations and Cargo Operations.

Source: Norman Y. Mineta San José International Airport activity reports

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Public Art and Technology at the Airport.

1. eCloud
Artists: Nik Hafermaas, Dan Goods and Aaron Koblin. In this dynamic artwork, thousands of switchable glass squares suspended from the ceiling continuously change from opaque to transparent with the transmission of real-time weather data.
Photo: Ken Paul

2. CTX-9800 - Baggage Screening
San José is the first Airport in the nation to use the new state-of-the-art baggage screening equipment, the continuous-feed CTX-9800.
Photo: Ken Paul

3. Space Observer
Artist: Bjorn Schülke. Reminiscent of a space craft, this glossy white 26' tall sculpture standing on eight-foot tripod legs, explores the interactivity between humans and modern technology.

4. Air Chairs
One out of every four chairs in the Airport's gate areas includes mechanisms that transport fresh, conditioned air from beneath the chairs directly to passengers on the concourse. The seating also features power outlets for charging laptops, cell phones, etc.
Photo: Jason Knowles.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
SILICON VALLEY'S AIRPORT

BOND DISCLOSURE

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Bond Disclosure Report

June 30, 2010

In accordance with the requirements of the Continuing Disclosure Agreements (Disclosure Agreements) for the City of San José Airport Revenue Bonds Series 1998A, 2001A, 2004C, 2004D, 2007A and 2007B and Airport Revenue Refunding Bonds Series 2002A and 2002B, the Airport is including this section to meet the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the Rule).

Section 4 of the Disclosure Agreements requires the City to provide an Annual Report, which is consistent with the requirements of Section 4 of the Disclosure Agreements, no later than six months after the end of the City's fiscal year. The Annual Report may be submitted to the Municipal Securities Rulemaking Board's EMMA system as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of the Disclosure Agreements. The Bond Disclosure Report included in this CAFR meets the requirements of Section 4 of the Disclosure Agreements.

Annual Report

The following items are required by the Disclosure Agreements to be included in the Annual Report:

- Audited financial statements of the Airport, updated to incorporate information for the most recent fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board and further modified according to applicable State law.

  Refer to the Financial Section, pages 1-60 of this report.

- A schedule showing the debt service requirements (required only to the extent there are changes).

  Since there are no changes to the debt service requirements as of June 30, 2010, update of this table is not required.

- A schedule showing, for the Airport's most recently completed fiscal year, historical passenger enplanements.

  Refer to Table 1, page 85 of this report.

- A table showing, for the Airport's most recently completed fiscal year, historical connecting enplaned passenger traffic.

  Refer to Table 2, page 86 of this report.

- A schedule showing, for the Airport's most recently completed fiscal year, historical aircraft operations.

  Refer to Statistical Section, Schedule R, page 81 of this report.

- A schedule showing, for the Airport's most recently completed fiscal year, historical landing weight.

  Refer to Table 3, page 87 of this report.

- A list showing, for the Airport's most recently completed fiscal year, air carriers serving the Airport.

  Refer to Statistical Section, Schedule P, pages 78-79 of this report.

- A schedule showing, for the Airport's most recently completed fiscal year, airline activity shares of enplaned commercial passengers.

  Refer to Statistical Section, Schedule M, page 75 of this report.

- A table showing, for the Airport's most recently completed fiscal year, summary of revenues and maintenance and operation expenses.

  Refer to Financial Section, Exhibit II, page 21 of this report.

- A table showing, for the Airport's most recently completed fiscal year, historical debt service coverage.

  Refer to Statistical Section, Schedule F, page 68 of this report.

- A list showing, for the Airport's most recently completed fiscal year, ten largest sources of revenue.

  Refer to Table 4, page 86 of this report.

REPORTING OF SIGNIFICANT EVENTS

In fiscal year 2009-10, the City filed significant event notices related to two rating changes that impacted the City's Airport Revenue Bonds. One rating change was a downgrade by Fitch Ratings of the unenhanced rating on the City's Airport Revenue Bonds to 'A-' from 'A+'. The other rating change was related to a bond insurer rating downgrade that impacted the ratings of Airport Revenue Bonds insured by that bond insurer.

Table 1

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
HISTORICAL PASSENGER ENPLANEMENTS
LAST TEN FISCAL YEARS

Fiscal Year	Air Carrier Domestic Enplanements	Air Carrier International Enplanements	Total Air Carrier Enplanements	Commuter Enplanements[1]	Total Enplanements	Total Percent Change %
2000-01	6,664,821	214,115	6,878,936	58,441	6,937,377	
2001-02	5,421,403	150,874	5,572,277	146,936	5,719,213	-17.56%
2002-03	4,772,654	122,110	4,894,764	310,223	5,204,987	-8.99%
2003-04	4,651,137	134,176	4,785,313	506,536	5,291,849	1.67%
2004-05	4,660,730	138,142	4,798,872	546,761	5,345,633	1.02%
2005-06	4,706,038	137,054	4,843,092	571,739	5,414,831	1.29%
2006-07	4,686,496	102,368	4,788,864	529,995	5,318,859	-1.77%
2007-08	4,584,448	67,459	4,651,907	526,696	5,178,603	-2.64%
2008-09	3,907,376	60,381	3,967,757	431,805	4,399,562	-15.04%
2009-10	3,636,146	62,437	3,698,583	408,811	4,107,394	-6.64%
Annual Compound Growth Rate						
FY 00-01 through FY2009-10	-6.5%	-12.8%	-6.7%	24.1%	-5.7%	

Source: Norman Y. Mineta San José International Airport activity reports

Table 2

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
A Department of the City of San José)
HISTORICAL CONNECTING/ENPLANED PASSENGER TRAFFIC
LAST TEN FISCAL YEARS

Fiscal Year	Total Enplanements	Total O&D Enplanements	Total Connecting Enplanements	Connecting Enplanements as a Percentage of Total Enplanements
2000-01	6,937,377	6,485,537	451,840	6.5%
2001-02	5,719,213	5,353,010	366,203	6.4%
2002-03	5,204,987	4,946,819	258,168	5.0%
2003-04	5,291,849	5,018,790	273,059	5.2%
2004-05	5,345,633	5,075,122	270,511	5.1%
2005-06	5,414,831	5,192,594	222,237	4.1%
2006-07	5,318,859	5,145,726	173,133	3.3%
2007-08	5,178,603	5,044,473	134,130	2.6%
2008-09	4,399,562	4,281,747	117,815	2.7%
2009-10	4,107,394	3,997,764	109,630	2.7%
Annual Compound Growth Rate				
FY 2000-01 through FY 2009-10	-5.7%	-5.2%	-14.6%	

Source: Norman Y. Mineta San José International Airport activity reports

Table 3

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
HISTORICAL MAXIMUM GROSS LANDING WEIGHT
LAST TEN FISCAL YEARS
(In thousand pounds)

Fiscal Year	Air Carrier [1]	Commuter [2]	Cargo [3]	Total
2000-01	9,878,167	105,389	747,929	10,731,485
2001-02	8,566,942	232,223	734,778	9,533,943
2002-03	7,476,745	425,177	648,405	8,550,327
2003-04	6,795,591	677,143	547,057	8,019,791
2004-05	6,468,513	660,694	531,843	7,661,050
2005-06	6,342,853	677,843	478,376	7,499,072
2006-07	6,351,084	638,531	511,681	7,501,296
2007-08	6,255,817	656,298	492,624	7,404,739
2008-09	5,576,343	553,726	421,088	6,551,157
2009-10	4,903,780	506,737	322,267	5,732,784
Annual Compound Growth Rate				
FY 2000-01 through FY 2009-10	-7.5%	19.1%	-8.9%	-6.7%

[1] Includes domestic and international air carriers.

[2] After the September 11, 2001 attacks, more airlines switched to commuter planes to lower their costs and to continue to serve decreased level of passengers without having to drop destinations.

[3] Includes all-cargo airlines.

Source: Norman Y. Mineta San José International Airport activity reports

Table 4

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
TEN LARGEST SOURCES OF REVENUES
Fiscal Year Ended June 30, 2010

Category		Amount
Airline Terminal Rentals	$	33,458,906
Public Parking Fees		21,259,644
Landing Fees (Passenger and Cargo)		13,190,345
Rental Cars		13,133,717
Land and Building Rentals		4,442,452
Advertising		3,776,183
Food and Beverage		2,163,738
Gift Shop & Retail		1,604,766
Other Terminal Space Rents		1,419,179
Fuel Handling Fees		1,309,532

Source: Norman Y. Mineta San José International Airport management records.

CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY

APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

City Council
City of San José
San José, California

City of San José
Airport Revenue Bonds
Series 2011B (Taxable)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of San José, California (the "Issuer"), in connection with the issuance by the Issuer of $271,820,000 aggregate principal amount of City of San José Airport Revenue Bonds, Series 2011B (Taxable) (the "Bonds"), issued pursuant to Sections 200 and 1220 of the Charter and Chapter 4.38 of the San José Municipal Code (collectively, "the Law"), the Seventeenth Supplemental Resolution No. 76063 adopted by the Council on November 15, 2011 (the "Resolution"), and a Master Trust Agreement, dated as of July 1, 2001, between the Issuer and The Bank of New York Mellon Trust Company, N.A., formerly known as BNY Western Trust Company (the "Trustee"), as previously supplemented and amended, and as supplemented and amended by the Eighth Supplemental Trust Agreement with respect to the 2011B Bonds (the "Eighth Supplemental Trust Agreement"), dated as of December 1, 2011, between the Issuer and the Trustee (collectively, the "Trust Agreement"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Trust Agreement.

In such connection, we have reviewed the Law, the Resolution, the Trust Agreement, opinions of counsel to the Issuer, the 2011 Bond Insurer, the Trustee and the purchasers of the Bonds (the "Underwriters"), certificates of the Issuer, the Trustee, the 2011 Bond Insurer, the Underwriters and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

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 any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. We disclaim any obligation to update this opinion. 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 validity against, any parties other than the Issuer. 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 the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement. We call attention to the fact that the rights and obligations under the Bonds and the Trust Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against cities 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 foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect 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 Bonds constitute the valid and binding limited obligations of the Issuer.

2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the General Airport Revenues and certain other amounts (including certain proceeds of the sale of the Bonds) held by

the Trustee in any fund or account established pursuant to the Trust Agreement, except the Rebate Fund, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.

3. The Bonds are not a lien or charge upon the funds or property of the Issuer except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the Issuer or the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

4. Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "1986 Code").

5. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of San José, California (the "City") in connection with the issuance of $271,820,000 City of San José Airport Revenue Bonds, Series 2011B (the "Bonds"). The Bonds are being issued pursuant to a Master Trust Agreement, dated as of July 1, 2001, between the City and The Bank of New York Mellon Trust Company, N.A., as successor to BNY Western Trust Company, as trustee (the "Trustee"), as supplemented by a First Supplemental Trust Agreement, dated as of July 1, 2001, by a Second Supplemental Trust Agreement, dated as of December 1, 2002, by a Third Supplemental Trust Agreement, dated as of June 1, 2004, by a Fourth Supplemental Trust Agreement, dated as of June 1, 2004, by a Fifth Supplemental Trust Agreement, dated as of September 1, 2007, by a Sixth Supplemental Trust Agreement, dated as of May 1, 2009, by a Seventh Supplemental Trust Agreement, dated as of July 1, 2011, and by an Eighth Supplemental Trust Agreement, dated as of December 1, 2011 (collectively, the "Master Trust Agreement"). The City covenants and agrees as follows:

Section 1. ***Purpose of the Disclosure Certificate.*** This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the "SEC") Rule 15c2-12(b)(5).

Section 2. ***Definitions.*** In addition to the definitions set forth in the Master Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding the Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" means the City of San José, California, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"*Holder*" shall mean the person in whose name any Bond shall be registered.

"Listed Events" means any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC 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 Underwriters" means any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" means the State of California.

Section 3. ***Provision of Annual Reports.***

(a) The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's fiscal year (which shall be March 1 of each year, so long as the City's fiscal year ends on June 30), commencing with the report for the 2010-11 fiscal year (which is due not later than March 1, 2012), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City's fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the City) file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. ***Content of Annual Reports.*** The Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the Airport for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board, and as further modified according to applicable State law. If the Airport's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the usual format utilized by the City for the Airport, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available;

(b) To the extent not included in the audited financial statement of the Airport, the Annual Report shall also include the following:

(i) Historical financial information of the type shown in Table 5-2 of the Official Statement, entitled "Airport Revenue Bonds Debt Service Requirements" (required only to the extent there are changes);

(ii) Historical operating information of the type shown in Table 6 of Appendix A of the Official Statement, entitled "Norman Y. Mineta San José International Airport Airlines Serving the Airport as of October 1, 2011";

(iii) Historical operating information of the type shown in Table 7 of Appendix A of the Official Statement, entitled "Norman Y. Mineta San José International Airport Historical Passenger Enplanements Fiscal Years ended June 30";

(iv) Historical operating information of the type shown in Table 9 of Appendix A of the Official Statement, entitled "Norman Y. Mineta San José International Airport Enplaned Commercial Passengers by Airline Fiscal Years Ended June 30";

(v) Historical operating information of the type shown in Table 10 of Appendix A of the Official Statement, entitled "Norman Y. Mineta San José International Airport Historical Gross Landed Weight (in thousand pounds) Fiscal Years Ended June 30";

(vi) Historical operating information of the type shown in Table 11 of Appendix A of the Official Statement, entitled "Norman Y. Mineta San José International Airport Historical Aircraft Operations Fiscal Years Ended June 30";

(vii) Historical financial information of the type shown in Table 12 of Appendix A of the Official Statement, entitled "Norman Y. Mineta San José International Airport Summary of Operating Revenues and Maintenance and Operation Expenses Fiscal Years Ended June 30"; and

(viii) Historical financial information of the type shown in Table 13 of Appendix A of the Official Statement, entitled "Norman Y. Mineta San José International Airport Historical Bond Debt Service Coverage Fiscal Years Ended June 30".

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been made available to the public on the MSRB's website. The City shall clearly identify each such other document so included by reference.

(c) Information contained in an Annual Report for any fiscal year containing any modified operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Report being provided for such fiscal year. If a change in accounting principles is included in any such modification, such Annual Report shall present a comparison between the financial statements or information prepared on the basis of modified accounting principles and those prepared on the basis of former accounting principles.

Section 5. ***Reporting of Significant Events.***

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

(i) Principal and interest payment delinquencies;

(ii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iii) Unscheduled draws on credit enhancements reflecting financial difficulties;

(iv) Substitution of credit or liquidity providers, or their failure to perform;

(v) Adverse tax opinions with respect to the Bonds;

(vi) Tender offers;

(vii) Defeasances;

(viii) Rating changes; or

(ix) Bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (ix), 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 City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

(i) Other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(ii) Modifications to rights of Holders;

(iii) Optional, unscheduled or contingent Bond calls;

(iv) Release, substitution, or sale of property securing repayment of the Bonds;

(v) Non-payment related defaults;

(vi) 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

(vii) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the City shall determine if such event would be material under applicable federal securities laws.

(d) If the City learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall within ten business days of such occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in

subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Master Trust Agreement.

Section 6. ***Format for Filings with MSRB.*** Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 7. ***Termination of Reporting Obligation.*** The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds, or upon delivery to the City or the Dissemination Agent (if other than the City) of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in a filing with the MSRB.

Section 8. ***Dissemination Agent.*** From time to time, the City may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent. The initial Dissemination Agent shall be the City. The sole remedy of any party against the Dissemination Agent shall be nonmonetary and specific performance. The Dissemination Agent shall not be responsible in any manner for the form or content of any notice, report or other document prepared by the City pursuant to this Disclosure Certificate. The Dissemination Agent shall receive reasonable compensation for its services provided hereunder. The Dissemination Agent may resign at any time by providing at least 60 days' notice to the City.

Section 9. ***Amendment Waiver.*** Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) of (b), 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 of an obligated person with respect to the 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 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 Bonds in the same manner as provided in the Master Trust Agreement for amendments to the Master Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual 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 of accounting principles, on the presentation) of financial information or operating data being presented by the City. 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 a filing with the MSRB, and (ii) the Annual 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.

Section 10. ***Additional Information.*** Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

Section 11. ***Default.*** In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent (if other than the City), as the case may be, to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in the Superior Court of the State of California in and for the County of Santa Clara or in the U.S. District Court in or nearest to such County. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Master Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. ***Beneficiaries.*** This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: December 14, 2011

CITY OF SAN JOSE, CALIFORNIA

By: _____
Authorized Representative

APPROVED AS TO FORM:

RICHARD DOYLE, CITY ATTORNEY

By: _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of San José

Name of Bond Issue: $271,820,000 City of San José Airport Revenue Bonds, Series 2011B

Date of Issuance: December 14, 2011

Name of Obligated Person: City of San José

NOTICE IS HEREBY GIVEN that the City of San José (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate dated December 14, 2011. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF SAN JOSE

By: _____[to be signed only if filed]_____
Authorized Representative

cc: City of San José
200 E. Santa Clara St., 13th Floor Tower
San José, CA 95113-1905
Attn: Debt Management

APPENDIX H

SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT

The following is a summary of certain provisions of the Airline-Airport Lease and Operating Agreement (the "Airline Lease Agreement") for the Norman Y. Mineta San José International Airport (the "Airport"). The following summary is qualified in its entirety by reference to the Airline Lease Agreement, a copy of which can be obtained from the City of San José.

Term of Lease

The Airline Lease Agreement became effective on December 1, 2007 and will terminate at midnight on June 30, 2012. The term of the Airline Lease Agreement with each Signatory Airline may be extended for one five-year renewal period, from July 1, 2012 to June 30, 2017, with the mutual written agreement of such airline and the City.

Any airline that holds over beyond the specified expiration date of the Airline Lease Agreement is deemed a month to month tenant, and each holdover airline is to be required to pay a 25% premium on all rates and charges established by the Airline Lease Agreement.

Signatory Airlines, Non-Signatory Airlines and Affiliates

Any passenger airline that (a) signs an agreement with the City substantially similar to the Airline Lease Agreement, (b) provides passenger service at the Airport, (c) leases from the City an amount of Exclusive Use Premises in the terminal deemed sufficient by the Director of Aviation of the City (the "Director") to support its operation, and (d) at the time it executes its agreement with the City, operates at least one scheduled flight, scheduled year round, at least three days per week is defined as a "Signatory Airline" under the Airline Lease Agreement.

In addition, any all-cargo airline that (a) signs an agreement with the City substantially similar to the Airline Lease Agreement, (b) leases from the City cargo support space at the Airport for a term at least equal to the term of the Airline Lease Agreement, (c) guarantees a minimum of 142,000 pounds of maximum gross certificated landing weight per scheduled flight, and (d) at the time it executes its agreement with the City, operates at least five scheduled flights per week is also considered a "Signatory Airline" under the Airline Lease Agreement.

Any airline that does not qualify as a Signatory Airline but does execute an agreement with the City pertaining to the Non-Signatory Airline's operations and use of certain facilities at the Airport (a "Non-Signatory Operating Agreement") is defined as a "Non-Signatory Airline" under the Airline Lease Agreement. Non-Signatory Airlines are required to pay a 25% premium on all rates and charges established by the Airline Lease Agreement.

A Signatory Airline may designate another airline as an "Affiliate" provided that each such designated airline is a wholly-owned subsidiary or code-share partner of the Signatory Airline and each such designated airline is a party to a Non-Signatory Operating Agreement. For so long as the designating airline is a Signatory Airline and for so long as the conditions of the Airline Lease Agreement are satisfied, an Affiliate will be treated as if it were the Signatory Airline for the purposes of the assignment and use of gates and ticket counters, the assessment of rates and charges and the approval of Capital Expenditures (as defined below) by the City.

Each Signatory Airline is to be responsible for the actions and obligations of each of its Affiliates. Each Signatory Airline also is to be responsible for ensuring that each of its Affiliates complies with all terms and conditions of the Airline Lease Agreement to the same extent that the Signatory Airline is responsible for compliance, and the Signatory Airline is to be the financial guarantor of all amounts owed to the City by each of the Signatory Airline's Affiliates.

The designation of an Affiliate is to be effective for so long as the conditions for designating the Affiliate continue to be satisfied and until a Signatory Airline withdraws its designation of the Affiliate by submitting a withdrawal of designation form to the City.

Lease of Premises

The City leases terminal space under the Airline Lease Agreement on various bases, including on an exclusive use basis, a preferential use basis and a common use basis.

Each Signatory Airline is to have preferential use of certain Preferential Use Premises, including gates, ticket counters and skycap positions, during the term of the Airline Lease Agreement. Signatory Airlines also are to be entitled to the exclusive use of certain Exclusive Use Premises, such as office spaces, storage areas and VIP lounges. Finally, Signatory Airlines are to be entitled to use Common Use Premises, which consist of certain areas of the Airport (excluding public spaces) that are to be used in common by the airlines and that are not assigned on a preferential use basis or an exclusive use basis.

Assignment and Use of Gates

The Airline Lease Agreement provides that all Gates (defined in the Airline Lease Agreement to include a passenger loading bridge, if any, a hold room, and a gate ramp) within the Terminal shall be for either Common Use or Preferential Use and that no Gates will be for Exclusive Use.

Effective July 1 each year, the Director is to have sole discretion to determine the total number of gates to be reserved for use as Common Use Gates during a fiscal year (after taking into consideration any recommendations by the Resource Management Advisory Committee ("RMAC"), which committee is to consist of representatives designated by the City and representatives of the Signatory Airlines designated by the Airport-Airline Affairs Committee for the Airport). All remaining gates will be offered by the City to the Signatory Airlines for use as Preferential Use Gates.

The Airline Lease Agreement provides that, effective July 1 each year, the City is to apply the following methodology to determine the total number of gates that will be offered to each Signatory Airline for preferential use during a fiscal year:

(a) The City shall first divide the average daily number of outbound seats on the Signatory Airline's scheduled flights for the most recent month of August by the average daily number of outbound seats in August for all Signatory Airlines to determine the Signatory Airline's percentage share of all scheduled seats (the "Scheduled Seats Percentage").

(b) The City shall then calculate the number of Preferential Use Gates to be offered to the 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, however, that a product less than 0.5 shall not be eligible for rounding.

(c) If as a result of rounding, the total number of Preferential Use Gates to be offered to all Signatory Airlines is less than the total number of gates available for preferential use, the City shall offer

additional Preferential Use Gates to Signatory Airlines based on the unrounded results of the computations described above. The unallocated Preferential Use Gates shall be offered 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 City is reached.

(d) If as a result of rounding, the total number of Preferential Use Gates to be offered to all Signatory Airlines exceeds the total number of gates available for preferential use, the City shall reduce the number of calculated Preferential Use Gates to be offered to Signatory Airlines based on the unrounded results of the computations described above. The number of over-allocated Preferential Use Gates shall be reduced in priority order by first reducing by one the number of allocated Preferential Use Gates to the Signatory Airline whose unrounded product 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 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 City is reached.

(e) If any Signatory Airline does not accept assignment of a Preferential Use Gate, that Preferential Use Gate shall be designated as a Common Use Gate. In such a situation, the City may elect to reassign the Preferential Use Gate to another Signatory Airline if the City determines the number of Common Use Gates is adequate to accommodate all airline operations at the Airport. The City may reallocate such Preferential Use Gates using the methodology described above until all gates available for assignment as Preferential Use Gates are allocated to Signatory Airlines or rejected for assignment as Preferential Use Gates. Any gate rejected for assignment as a Preferential Use Gate by all eligible Signatory Airlines will become a Common Use Gate.

(f) If a Preferential Use Gate is designated as a Common Use Gate and is not reassigned to a Signatory Airline for preferential use, the costs that would otherwise have been assigned to such gate for rate-setting purposes shall be evenly redistributed among all of the other rented Group A gate space (as defined below); provided, however, that any Common Use Gate charges paid to the City for the use of such a gate shall be credited against such redistributed costs.

(g) The City shall in its sole discretion determine the locations of any Preferential Use Gates to be offered to the Signatory Airlines, after taking into consideration the desirability of assigning contiguous gates 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.

(h) No later than October 1st of each fiscal year during the term of the Airline Lease Agreement, the City shall provide written notice to all Signatory Airlines of its annual determination with respect to Preferential Use Gates and shall offer each Signatory Airline the opportunity to be assigned the number of Preferential Use Gates indicated by the calculations described above. Each Signatory Airline shall provide written notice to the City no later than 45 days after October 1st of each fiscal year during the term if it wishes to reject any or all of that number of gates offered by the City for preferential use.

(i) If the numbers or locations of Preferential Use Gates offered to the Signatory Airlines are changed during the term of the Airline Lease Agreement for any reason other than a year-to-year decrease in the number of a Signatory Airline's scheduled seats, the Signatory Airline may, upon 30 days' written notice to the City, terminate its rights to those portions of the Exclusive Use Premises that are no longer proximate to the Preferential Use Gates offered to the Signatory Airline. Upon the Signatory Airline's

request, the City shall use reasonable efforts to provide the Signatory Airline with substitute Exclusive Use Premises more proximate to newly assigned Preferential Use Gates assigned to the Signatory Airline for the remaining term. In such a situation, the reasonable costs of relocating the Preferential Use Gates assigned to any Signatory Airline plus the reasonable costs of any Signatory Airline's tenant improvements at the substitute Exclusive Use Premises when constructed with the City's consent shall be paid by the City and included in the rate base.

(j) If the number of Preferential Use Gates offered to the Signatory Airline is reduced during the term of the Airline Lease Agreement as the result of a year-to-year decrease in the Signatory Airline's Scheduled Seats Percentage, the City may, upon 30 days' written notice to the Signatory Airline, terminate the Signatory Airline's rights to use those portions of the Exclusive Use Premises that are no longer proximate to the Preferential Use Gates offered to the Signatory Airline and that are no longer necessary, in the Director's reasonable discretion, to support the Signatory Airline's operations at the Signatory Airline's remaining Preferential Use Gates.

Assignment and Use of Ticket Counters

The Airline Lease Agreement provides that all ticket counters within the Terminal will be for either common use or preferential use and that no ticket counters will be for exclusive use. The Director shall have sole discretion to determine the total number of ticket counters to be reserved for use as Common Use Ticket Counters during a fiscal year (after taking into consideration any recommendations by the RMAC). All remaining ticket counters will be offered by the City to the Signatory Airlines for use as Preferential Use Ticket Counters.

The Airline Lease Agreement provides that, effective July 1 each year, the City will apply the following methodology to determine the total number of ticket counters that will be offered to each Signatory Airline for preferential use during a fiscal year:

(a) The City shall allocate two ticket counters for a Signatory Airline's first Preferential Use Gate, and the City shall allocate one additional ticket counter for each additional Preferential Use Gate granted to a Signatory Airline under the Airline Lease Agreement. This same method shall be applied to all Signatory Airlines.

(b) If additional Preferential Use Ticket Counters remain available after the allocation for all Signatory Airlines that is detailed above, a Signatory Airline shall be entitled to one additional Preferential Use Ticket Counter for each unallocated Preferential Use Gate that the Signatory Airline is entitled to accept, regardless of whether the Signatory Airline accepts the allocation of any such Preferential Use Gate under the Airline Lease Agreement.

(c) If the total number of Preferential Use Ticket Counters to be offered to all Signatory Airlines exceeds the total number of ticket counters available for preferential use, the City shall reduce the number of calculated Preferential Use Ticket Counters to match the available Preferential Use Ticket Counters. The allocation of the over-allocated Preferential Use Ticket Counters shall be reduced accordingly based on the over-allocation process for Preferential Use Gates until the total number of Preferential Use Ticket Counters offered to all Signatory Airlines by the City matches the total number of Preferential Use Ticket Counters that are available.

(d) If any Signatory Airline does not accept assignment of a Preferential Use Ticket Counter, such Preferential Use Ticket Counter shall be designated as a Common Use Ticket Counter. In such a situation, the City may elect to reassign a Preferential Use Ticket Counter not accepted by a Signatory Airline to another Signatory Airline if the City determines the number of Common Use Ticket Counters is

adequate to accommodate all airline operations at the Airport. The City may reallocate such ticket counters using the methodology described above until all ticket counters available for assignment as Preferential Use Ticket Counters are allocated to Signatory Airlines or rejected for assignment as a Preferential Use Ticket Counter. Any ticket counter rejected for assignment as a Preferential Use Ticket Counter by all eligible Signatory Airlines will become a Common Use Ticket Counter.

(e) If a Preferential Use Ticket Counter is designated as a Common Use Ticket Counter and is not reassigned to a Signatory Airline for preferential use, the costs that would otherwise have been assigned to such ticket counter for rate-setting purposes will be evenly redistributed among all of the other rented Group A ticket counter space; provided, however, that any Common Use Ticket Counter charges paid to the City for use of such ticket counter shall be credited against such redistributed costs.

(f) The City shall in its sole discretion determine the locations of any Preferential Use Ticket Counters to be offered to the Signatory Airlines, after taking into consideration the desirability of assigning contiguous ticket counters for preferential use by any given Signatory Airline and minimizing the frequency of changes in the locations of Preferential Use Ticket Counters as well as any recommendations by the RMAC.

(g) No later than October 1st of each fiscal year during the term of the Airline Lease Agreement, the City shall provide written notice to all Signatory Airlines of its annual determination with respect to Preferential Use Ticket Counters and shall offer each Signatory Airline the opportunity to be assigned the number of Preferential Use Ticket Counters indicated by the calculations described above. Airline shall provide written notice to the City no later than 45 days after October 1st of each fiscal year during the term if it wishes to reject any or all of that number of ticket counters offered by the City for preferential use.

Assignment and Use of Skycap Positions

Each fiscal year during the term of the Airline Lease Agreement, the Director is to assign skycap positions (areas designated for curbside check in) to each Signatory Airline in approximately the same proportions as ticket counters have been assigned, and Preferential Use Skycap Positions and Common Use Skycap Positions shall be assigned by the Director in approximately the same proportions as Preferential Use and Common Use Ticket Counters have been assigned. Before assigning skycap positions, the Director is to ask the RMAC for a recommendation with respect to the assignments, but the final determination with respect to the assignment of skycap positions is to be made by the Director in the Director's sole discretion.

Use of Preferential Use Premises by Other Airlines

The Airline Lease Agreement provides that the Director may authorize the use of Preferential Use Premises by airlines other than the Signatory Airlines to which they are assigned, and each Signatory Airline is required, in the event another scheduled airline is unable to obtain necessary facilities to operate at the Airport, to accommodate the scheduled airline at the Signatory Airline's Preferential Use Gate or Preferential Use Ticket Counter so long as the Preferential Use Gate or Preferential Use Ticket Counter is not being used by the Signatory Airline during the period of accommodation for a scheduled flight.

In the event of any such accommodation, the accommodated airline is to pay the City the same charges for the use of the gate or ticket counter that it would have paid for a Common Use Gate or Common Use Ticket Counter, and the City is to provide a credit to the accommodating Signatory Airline for one-half of the amount of any such payment. In addition, the accommodated airline is to pay all reasonable towing, Remain Overnight ("RON") fees and other charges related to the accommodation that

may be assessed to the accommodating Signatory Airline. If an arrival or departure of a Signatory Airline that would have utilized one of the Signatory Airline's Preferential Use Gates is early or late and the Signatory Airline is prevented from utilizing any of its Preferential Use Gates because they are already being utilized by Requesting Airlines, the City shall, whenever possible, accommodate the Signatory Airline's arrival or departure on a Common Use Gate at no additional charge to the Signatory Airline for its use of the Common Use Gate. In addition, the Signatory Airline shall continue to be entitled to the credit with regard to the accommodated operation at its Preferential Use Gate and Ticket Counter as described above.

As a condition of accommodation on a Signatory Airline's Preferential Use Gate or Preferential Use Ticket Counter, the Airline Lease Agreement provides that the accommodated airline must execute the Airline Lease Agreement or a Non-Signatory Operating Agreement through which the accommodated airline is bound by insurance and indemnification obligations that are substantially similar to the insurance and indemnification obligations in the Airline Lease Agreement. Those obligations shall inure to the benefit of the accommodating Signatory Airline as a third-party beneficiary during any period of accommodation.

Reallocation of Leased Premises

From time to time, part or all of a Signatory Airline's premises may be required (a) for implementation of improvements at the Airport, (b) for accommodation of the traveling public, or (c) in order to maximize the use of the terminal and related facilities by airlines and other tenants, lessees, permittees and users thereof. In such an event, the City may reallocate the Signatory Airline's premises upon 30 days' advance written notice to the Signatory Airline, and the Signatory Airline is required to comply with any reallocation requirements. In any such reallocation, the actual, reasonable requirements of the Signatory Airline for terminal space to accommodate its operations at the Airport are to be given consideration.

All moving costs resulting from the relocation of a Signatory Airline in a City-imposed reallocation are to be funded by the City, subject to recovery in the rate base under the Airline Lease Agreement. Notwithstanding the foregoing, a Signatory Airline is not entitled to reimbursement for any relocation of or within the Common Use Premises at the Airport, and a Signatory Airline is not entitled to new trade fixtures or new movable property to the extent that the removal of those items from the existing premises and the reinstallation of those items at the Signatory Airline's new premises is possible and not unreasonable.

Rentals, Fees and Charges

Under the Airline Lease Agreement, Signatory Airlines pay monthly landing fees ("Landing Fees") as well as rentals on the premises in the terminal ("Terminal Rents").

Landing Fees. Landing Fees are determined by calculating the Airfield Revenue Requirement for the Airport (as described below) and dividing this requirement by the projected maximum gross certificated landed weight for all aircraft carrying passengers or cargo in commercial service that are expected to land at the Airport during the year. This calculation yields a Landing Fee that will be expressed in dollars and cents per one thousand pounds of landed weight. Landing Fees will be levied upon airlines based on the aggregate gross landed weight of all chargeable landings during the year.

The Airfield Revenue Requirement that is used to determine Landing Fees is computed by taking the sum of the following budgetary items: (a) debt service allocable to airfield capital projects funded from bonds or subordinated indebtedness; (b) the coverage amount applicable to the debt service allocable

to airfield capital projects funded from bonds or subordinated indebtedness; (c) annual operating expenses allocable to the airfield; (d) the portion of the total deposits needed to replenish the bond reserve fund required by the Master Trust Agreement for the Airport to required levels allocable to the airfield; and (e) the share of annual costs for renewal and replacement allocable to the airfield. The following items are then subtracted from this sum to arrive at the Airfield Revenue Requirement: (a) the Revenues (as described below) that are accrued by the City for the use of the airfield (excluding Landing Fees charged to airlines at the Airport but including landing fee premiums payable by Non-Signatory Airlines and Revenues accrued from parking fees at common-use gates), and (b) the coverage amount applicable to the debt service allocable to airfield capital projects funded from bonds or subordinated indebtedness for the immediately preceding fiscal year.

Under the Airline Lease Agreement, "Revenues" are defined as income, revenues, receipts and moneys accrued by City in accordance with generally accepted accounting principles, including investment earnings, from or in connection with the ownership or operation of the Airport or any part thereof or the leasing or use thereof. This general definition is subject to certain specific exclusions as detailed in the Airline Lease Agreement.

Terminal Rents. Terminal Rents are calculated by determining the Airline Terminal Revenue Requirement (as described below), crediting any Net Remaining Revenues (as described below) pursuant to the Revenue-Sharing provision of the Airline Lease Agreement, and then distributing the resulting Net Airline Terminal Revenue Requirement into three cost assignment groups for (a) ticket counters, gates, skycap positions, VIP rooms and airline ticket offices (collectively, "Group A"), (b) baggage claim and other offices (collectively "Group B"), and (c) baggage make-up and operations (collectively, "Group C") to determine the square foot costs for each of these areas. The Airline Lease Agreement provides that differential rates shall apply to these different types of space provided that the sums of the amounts applicable to the different cost centers equal the total Airline Terminal Revenue Requirement; the costs assigned to the rented space within each of these groups shall bear the following relativities to each other on a square foot basis: (a) 1.00 for Group A, (b) 0.80 for Group B and (c) 0.50 for Group C.

The Airline Terminal Revenue Requirement that is used to determine Terminal Rents is computed by taking the sum of the following budgetary items: (a) debt service allocable to terminal capital projects funded from bonds or subordinated Indebtedness; (b) the coverage amount applicable to the debt service amount allocable to terminal capital projects funded from bonds or subordinated indebtedness; (c) the annual operating expenses allocable to the terminal; (d) the portion of the total deposits needed to replenish the bond reserve fund required by the Master Trust Agreement for the Airport to required levels allocable to the terminal; and (e) the share of annual costs for renewal and replacement allocable to the terminal. The coverage amount applicable to the debt service allocable to terminal capital projects funded from bonds or subordinated indebtedness for the immediately preceding fiscal year is then subtracted from this sum. The City will then divide that sum by the total amount of rentable terminal space and multiply the resulting quotient by the total square feet of airline premises at the Airport, yielding the Airline Terminal Revenue Requirement to be met by all Airlines.

The Airline Lease Agreement defines "Net Remaining Revenues" used to calculate the Net Airline Terminal Revenue Requirement as, for each fiscal year, the amount equal to Revenues plus Other Available Funds (as described below) less Operating Expenses less Debt Service less the Coverage Amount (for the current Fiscal Year) less other required fund deposits or payments pursuant to the Master Trust Agreement (including required renewal and replacement expenditures and subordinated indebtedness, if any).

The Airline Lease Agreement defines "Other Available Funds" used to calculate Net Remaining Revenues as amounts (other than Revenues or passenger facility charge Revenues, otherwise known as

"PFCs") made available to pay debt service in any period pursuant to the Master Trust Agreement and restrictions contained therein. Other Available Funds includes, but is not limited to, rolling debt service coverage amounts, revenue sharing amounts credited to the terminal cost and revenue center, and grant funds used to pay debt service.

Charges for Use of Gates. The Airline Lease Agreement provides that the City will calculate the revenue requirement for each gate by multiplying the total square footage of all gates at the Airport by the per-square foot cost for gates that is calculated as provided above for Group A space and then dividing that product by the total number of gates. Charges for Preferential Use Gates will be levied on a per-gate basis based on the revenue requirement for each gate, and charges for Common Use Gates will be levied on a per-turn basis where the charge for each turn will be calculated by dividing the revenue requirement for all Common Use Gates by the number of turns expected on all Common Use Gates during a fiscal year. The Airline Lease Agreement also provides for the City to levy aircraft parking charges in an amount determined by City Council resolution for parking at a common use gate for longer than the minimum time established by the City Council.

Charges for Use of Ticket Counters. The Airline Lease Agreement provides that the City will calculate the revenue requirement for each ticket counter by multiplying the total square footage of all ticket counters at the Airport by the per-square foot cost for ticket counters that is calculated as provided above for Group A space and then dividing that product by the total number of active ticket counters. Charges for Preferential Use Ticket Counters will be levied on a per-ticket counter basis based on the revenue requirement for each active ticket counter, while charges for Common Use Ticket Counters will be levied on an hourly basis where the charges for each hour will be calculated by dividing the revenue requirement for all Common Use Ticket Counters by the number of hours that the City expects all Common Use Ticket Counters to be used during the fiscal year.

Charges for Use of Baggage Areas.

Baggage Make-up Charges. The Airline Lease Agreement provides that the City will calculate the revenue requirement applicable to baggage make-up areas by multiplying the total square footage of all baggage make-up areas by the per-square foot cost for the Group C space that is calculated as provided above. The City will allocate 20% of that revenue requirement equally among all of the airlines, and the City will divide the remaining 80% by the total number of passengers enplaned during the fiscal year to determine the baggage make-up charge per enplaned passenger. Each airline will pay for the use of baggage make-up areas by paying (a) its share of the 20% revenue requirement plus (b) the product of the total number of passengers it enplanes during the fiscal year times the per-passenger baggage make-up charge.

Domestic Baggage Claim Charges. The Airline Lease Agreement provides that the City will calculate the revenue requirement applicable to baggage claim areas serving domestic flights by multiplying the total square footage of these baggage claim areas by the per-square foot cost for the Group B space that is calculated as provided above. The City will allocate 20% of this revenue requirement equally among all of the airlines with scheduled domestic service at the Airport, and the City will divide the remaining 80% by the total number of passengers deplaning from domestic flights arriving during the fiscal year to determine the domestic baggage claim charge per deplaned passenger. Each airline will pay for the use of baggage claim areas serving domestic flights by paying (a) its share of the 20% revenue requirement plus (b) the product of the total number of passengers it deplanes from domestic flights times the per-passenger domestic baggage claim charge.

Charges for Use of Exclusive Use Premises. The City is to calculate the annual rental rate for the use of airline ticket offices, VIP lounges and other Exclusive Use Premises by multiplying the square

footage of all Exclusive Use Premises at the Airport by the per-square foot cost for the Group A, Group B or Group C space, as applicable. Charges for the use of such Exclusive Use Premises are to be levied upon each airline on a fee per square foot basis.

Charges for Use of the FIS Facility and International Baggage Claim Area. The City is to levy charges for the FIS Facility and the International Baggage Claim Area as determined by the City Council from time to time.

Charges for Use of Storage Space. The annual rental rate for the use of storage space is to equal the per-square foot cost for Group C space. Charges are to be levied on the basis of the total square footage of such space assigned to each airline.

Adjustments. The Airline Lease Agreement provides that the Terminal Rents and the Landing Fees identified above will be established and may be adjusted annually after consultation with the Signatory Airlines. The City has the right to make more frequent adjustments if it appears to the City, on the basis of information it is able to accumulate during the course of a fiscal year, that the budgeted airfield or terminal costs or projected landed aircraft weight or rented terminal space the City used in calculating the Landing Fees or Terminal Rents will likely vary by more than 10% from actual results or if changes in Landing Fees or Terminal Rents are required by the terms and conditions of the Master Trust Agreement or any subordinated financing agreement. Adjustments also may be made if necessary to satisfy coverage requirements as described below under "Extraordinary Coverage Protection."

Non-Signatory Premium. The Airline Lease Agreement requires the City to charge Non-Signatory Airlines a 25% premium on all rates and charges set forth in the Airline Lease Agreement. Pursuant to a City ordinance, airlines that do not sign either a Signatory or a Non-Signatory Agreement will pay a 30% premium on all rates and charges set forth in the Airline Lease Agreement.

Handling Agreements. In the event that a Signatory Airline agrees to ground handle any portion of the operations of another airline, the Airline Lease Agreement provides that the Signatory Airline shall provide advance written notice of such proposed activities to the City, and the Signatory Airline shall pay 10% of its gross revenue from any ground handling agreement (other than a ground handling agreement with an Affiliate of the Signatory Airline) to the City. Notwithstanding the foregoing, a Signatory Airline shall not ground handle any airline which does not have the consent of the City for the operation of its business at the Airport.

Revenue-Sharing. In any fiscal year in which there are Net Remaining Revenues generated at the Airport and all requirements (including the minimum rate covenant requirement) of the Master Trust Agreement and any subordinated financing agreement have been satisfied, the Airline Lease Agreement provides that the Net Remaining Revenues will be divided 50/50 between the City and the airlines. If the actual Net Remaining Revenues exceed the Net Remaining Revenues that were forecast at the time of the execution of the Airline Lease Agreement, the airlines' share of the Net Remaining Revenues will be deposited into a rate stabilization fund for the Airport up to a cap of $9 million. Once the rate stabilization fund has been fully funded or in the event that the actual Net Remaining Revenues do not exceed the projected Net Remaining Revenues, the airlines' share of the balance will be applied as a credit to the Airline Terminal Revenue Requirement for the following year. The first $1 million of the City's share of any Net Remaining Revenues shall be retained by the Airport in a discretionary fund to be used for any lawful Airport purpose. The remaining balance of the City's share (at least during the term of the Airline Lease Agreement) shall be applied to the capital costs of Phase 1 projects or Phase 2 projects (as those terms are defined in Appendix A).

Rate Stabilization Fund. The Airline Lease Agreement provides that the rate stabilization fund will be maintained by the City up to a cap of $9 million. Once that cap is reached, the City shall not deposit any additional sums into this fund until the balance falls below $9 million. Interest earned on the fund will be credited to the fund until the fund reaches the $9 million cap. So long as the rate stabilization fund contains $9 million, any additional interest earned on the rate stabilization fund is to be deposited into the "Revenue Fund" established pursuant to the Master Trust Agreement.

As part of City's rate-setting process, the budgeted cost per enplaned passenger ("CPE") for each fiscal year will be compared to the applicable CPE in the airport forecast. The Airline Lease Agreement provides that in any year in which the budgeted CPE is higher than the projected CPE, the amount needed to lower the budgeted CPE to the projected CPE will be deducted from the rate stabilization fund and credited against Landing Fees or Terminal Rents as part of the rate-setting process to the extent that funds are available in the rate stabilization fund for this purpose. In any year in which the budgeted CPE is lower than the projected CPE and the rate stabilization fund contains less than $9 million, the City may increase the budgeted CPE up to the projected CPE to fully fund the rate stabilization fund by raising the otherwise-determined Airline Terminal Revenue Requirement or Airfield Revenue Requirement.

Extraordinary Coverage Protection. The airlines acknowledge in the Airline Lease Agreement that in order to satisfy the applicable coverage amount for debt service on bonds and subordinated indebtedness, each airline will be required to make extraordinary coverage protection payments in addition to Landing Fees and Terminal Rents otherwise established by the Airline Lease Agreement in any fiscal year in which the amount of Revenues (less any credits for Landing Fees and Terminal Rents as provided in the Airline Lease Agreement) less operating expenses is projected to be less than the sum of the debt service plus the coverage amount applicable thereto. Any amounts that must be collected for any such extraordinary coverage protection payments shall be allocated to the Airfield Revenue Requirement or the Airline Terminal Revenue Requirement.

Security for Performance

Each airline must provide the City with an irrevocable letter of credit, or other security acceptable to the City in the City's sole discretion, in an amount equal to the estimate of two months' rentals, fees and charges payable by each airline (excluding PFCs) to guarantee the faithful performance of each airline's obligations under the Airline Lease Agreement and the payment of all rentals, fees and charges due thereunder. The Director may adjust the amount of the security from time to time upon a determination that an additional amount is warranted to protect the City and the Airport. If the City adjusts the amount of the security or deducts any delinquent or unpaid fees, costs or charges (including late payments) from the security, the affected airline must promptly replenish the deposit to the full amount required by the Director within 10 business days of a written demand. The failure to replenish the security within 30 days after written notice to the airline shall constitute a default under the Airline Lease Agreement.

Municipally-Funded Air Service Incentive Program

The Airline Lease Agreement provides that if in any year during the term of the Airline Lease Agreement the percentage growth in annual enplanements at the Airport exceeds the growth in annual enplanements nationwide, the City will reduce the amount of its indirect overhead expenses that would otherwise be allocated to the Airport's operating budget for the next succeeding fiscal year by a corresponding percentage, thereby reducing the otherwise-indicated Landing Fees and Terminal Rents. For example, if in a given year the rate of growth in annual enplanements at the Airport (for purposes of illustration, 6%) exceeds the national growth rate (4%) by two percentage points, the City shall reduce the percentage share of the City's indirect overhead expenses allocated to the Airport for the next year (for

purposes of illustration, 22%) by two percentage points (to 20%). Notwithstanding the foregoing, in no event will the indirect overhead expenses of the City allocated to the Airport's operating budget exceed twenty-five percent (25%) of those expenses or be less than fifteen percent (15%) of those expenses during the term of the Airline Lease Agreement. In addition, the City reserves the sole right to reassess, amend or terminate the incentive program that is described above after any increase in the number of gates at the Airport (including without limitation the completion of Phase II of the City's Master Plan Program (referred to as Phase 2 projects in Appendix A), which Master Plan Program is detailed in Exhibit K to the Airline Lease Agreement).

Capital Expenditures

"Capital Expenditure" is defined in the Airline Lease Agreement as "an expenditure made to acquire, purchase or construct a single capital item or project for the purpose(s) of improving, maintaining or developing the Airport and shall include expenses incurred for acquisition, development, study, analysis, review, design, or capital planning efforts."

In general, the Airline Lease Agreement provides that the Capital Expenditures to be paid for or financed with Revenues are subject to review by the Signatory Airlines. Unless a Capital Expenditure is excluded from Signatory Airline review as provided below, the City shall notify each Signatory Airline in writing of its intent to undertake a Capital Expenditure. Within 20 days after the delivery of such notification, a Signatory Airline may request in writing a meeting with the City and all Signatory Airlines for the purpose of discussing the proposed Capital Expenditure(s). Should such a request be made, the City shall meet collectively with the Signatory Airlines within 60 days of the City's original notice, and the City will consider the comments and recommendations of the Signatory Airlines with respect to proposed Capital Expenditure(s). Unless Signatory Airlines that constitute a Majority in Interest or "MII" (as defined below) for the airfield cost and revenue center or the terminal cost and revenue center shall issue written disapprovals for a particular Capital Expenditure in the applicable cost and revenue center within 30 days of the date of the City's meeting with the Signatory Airlines, the City may proceed with that Capital Expenditure. If Signatory Airlines that constitute an MII disapprove of a proposed Capital Expenditure subject to MII consideration, the City shall defer the project for one year. The City will be entitled, however, to move forward with any disapproved Capital Expenditure after the one-year waiting period (or earlier if the disapproval is reversed by an MII at any time).

"MII" (or "Majority In Interest") is defined in the Airline Lease Agreement to mean: (a) for the airfield cost and revenue center, such group of Signatory Airlines representing at least 50% of the Signatory Airlines and who together have paid at least 50% of the total Landing Fees paid by Signatory Airlines during the immediately preceding fiscal year, and (b) for the terminal cost and revenue center, such group of Signatory Airlines representing at least 50% of the Signatory Airlines and who together have (i) paid at least 50% of the total Signatory Airline Terminal Rents for the immediately preceding fiscal year and (ii) carried at least 50% of the enplaned passengers in the immediately preceding fiscal year.

The City is entitled to proceed with certain Capital Expenditure that are to be paid for or financed with Revenues under the Airline Lease Agreement without consideration by the Signatory Airlines. These Capital Expenditures are:

(a) New development, planning or expansion projects in the airfield or terminal cost and revenue centers, other than projects identified in the Airport Master Plan Program, that have a gross project cost of less than $5 million (the City shall not unreasonably segment these development, planning or expansion projects for the purpose of avoiding the $5 million threshold);

(b) Phase I of the Airport Master Plan Program (referred to as Phase 1 projects in Appendix A) as identified in the Airline Lease Agreement;

(c) Phase II of the Airport Master Plan Program (referred to as Phase 2 projects in Appendix A), so long as one of the following activity triggers is met: (i) 217 scheduled flights at the Airport on any one day or (ii) 12.2 million total enplaned passengers and deplaned passengers at the Airport in any given fiscal year. In the event that either of these triggers is met and, subsequently, the number of scheduled flights per day falls below 163 for a period of at least 180 days or the total number of enplaned and deplaned passengers at the Airport falls below 9.15 million for any fiscal year, Phase II will be subject to Signatory Airline consideration until either activity trigger is reattained; provided, however, that this reconsideration provision will not be applicable to a Phase II project, or portion thereof, for which the City has issued bonds, commercial paper or subordinated indebtedness or for which the City has awarded a construction contract after the attainment of either of the triggers identified above;

(d) Projects required by the FAA, U.S. Department of Transportation, Transportation Security Administration or a similar government authority, other than the City;

(e) Projects to repair casualty damage to Airport property that must be rebuilt or replaced in order for the City to meet its obligations under the Airline Lease Agreement or any other agreements with lessees at the Airport;

(f) Projects undertaken in cost and revenue centers other than the airfield cost and revenue center and the terminal cost and revenue center;

(g) Reasonable repairs, rebuilding, improvements or additions, including associated costs, necessary to comply with the Airline Lease Agreement or applicable law or to settle lawful claims, satisfy judgments or comply with judicial orders against the City by reason of its ownership, operation, maintenance or use of the Airport;

(h) Expenditures of an emergency nature which, if not made within 48 hours, would result in the closing of any portion of the Airport;

(i) Projects funded directly or indirectly by PFCs, customer facility charges or grants;

(j) Projects that are undertaken to satisfy the increased requirements of any Signatory Airline so long as such Signatory Airline agrees to pay all increased rentals, fees, charges and operating and maintenance costs that are sufficient to cover the annual debt service or operating and maintenance costs associated with the projects; and

(k) Projects related to special purpose facilities for which the user agrees to pay or reimburse the Airport.

The Airline Lease Agreement provides that notwithstanding the foregoing, in the event that the CPE for a fiscal year is projected to exceed $9 (in 2005 dollars) after the application of available funds from the rate stabilization fund, the City shall consult with the Signatory Airlines before commencing with design or construction for Phase II of the Airport Master Plan Program unless the City has already proceeded to issue applicable bonds, commercial paper or subordinated indebtedness or the City has awarded any applicable construction contract(s). The City shall not, however, be obligated to consult with the Signatory Airlines before commencing with design or construction for Phase II of the Airport Master Plan Program if the CPE for a fiscal year is projected to exceed $9 (in 2005 dollars) after the application of available funds from the rate stabilization fund, solely as the result of the inclusion of costs

for certain additional approved improvement projects listed in the airport forecast that was prepared in conjunction with the execution of the Airline Lease Agreement in the calculation of the CPE.

Damage and Destruction and Force Majeure

If an airline's premises are partially damaged by fire, flood, windstorm, earthquake, or other casualty, the Airline Lease Agreement provides for no abatement or reduction in the rates and charges otherwise payable by the airline, so long as debt service payments are required; and (1) the portion of the airline's premises so damaged are promptly repaired, rebuilt, or restored by the City with such changes, alterations, and modifications as may be agreed upon by the City and the airline; and (2) the City has applied any net proceeds received by City under insurance policies as necessary to cover such losses, after payment by the City of any expenses of obtaining or recovering such net proceeds. In the event that such net insurance proceeds are insufficient to pay in full the costs of such repair, rebuilding, or restoration, the City will endeavor to arrange financing through the issuance of financing or other means and complete such repair, rebuilding, or restoration.

If an airline's premises are substantially or completely damaged or destroyed by fire, flood, windstorm, earthquake, or other casualty, the Airline Lease Agreement provides that the City shall make an equitable and proportional abatement or reduction in the rates and charges payable by the airline, based on the degree to which the portion of the airline's premises rendered untenantable is related to the airline's total premises, until such time as the affected premises is restored for Airline's use; and (1) the portion of the airline's premises so damaged are promptly repaired, rebuilt, or restored by the City with such changes, alterations, and modifications as may be agreed upon by the City and the airline; and (2) the City has applied any net proceeds received by City under insurance policies as necessary to cover such losses, after payment by the City of any expenses of obtaining or recovering such net proceeds. In the event that such net insurance proceeds are insufficient to pay in full the costs of such repair, rebuilding, or restoration, the City will endeavor to arrange financing through the issuance of financing or other means and complete such repair, rebuilding, or restoration.

In the event that an airline's premises are damaged or destroyed as the result of the negligence or willful act or omission of an airline, its employees, its agents, or licensees, the Airline Lease Agreement provides that there shall be no abatement of rent during the repair or replacement of said airline's premises. To the extent that the costs of repairs exceed the amount of any insurance proceeds payable to the City by reason of such damage or destruction, the responsible airline shall pay the amount of such additional costs to the City.

The Airline Lease Agreement provides that, except as otherwise expressly provided in the Airline Lease Agreement, neither the City nor the airlines shall be deemed to be in default if either party is prevented from performing any of the obligations, other than the payment of rentals, fees, and charges, by reason of strikes, boycotts, labor disputes, epidemics, embargoes, shortages of energy or materials, acts of God, acts of the public enemy, weather conditions, riots, rebellion, or sabotage, or any other circumstances for which it is not responsible or which are not within its control.

Indemnification, Insurance and Public Liability

The Airline Lease Agreement provides that the Signatory Airlines will indemnify the City for all claims and causes of action of every kind and character arising out of or incident to or in connection with the performance of the Signatory Airlines under the Airline Lease Agreement, a Signatory Airline's use and occupancy of the airline premises under the Airline Lease Agreement, a Signatory Airline's negligent acts, omissions or operations under the Airline Lease Agreement or the performance, non-performance or purported performance of a Signatory Airline or any breach of the terms of the Airline Lease Agreement.

The Airline Lease Agreement provides, however, that this indemnification will not apply when the applicable claim, liability, expense, loss, cost, fine, damage or cause of action is caused by the negligence of the agents, employees, contractors, officers or boards of the City (but only to the extent of the portion of the claim, liability, expense, loss, cost, fine, damage or cause of action caused by such negligence).

The Airline Lease Agreement requires each of the Signatory Airlines to maintain insurance in full force and effect as specified below: (a) aircraft liability insurance with coverage of $100,000,000 combined single limit for bodily injury and property damage; (b) $50,000,000 war and named perils coverage for bodily injury and property damage, each occurrence and annual aggregate (or the U.S. government equivalent); (c) worker's compensation and employers' liability insurance written in accordance with the laws of the State of California with $1,000,000 in employer's liability coverage; (d) commercial business auto insurance with a minimum limit of not less than $1,000,000 combined single limit for bodily injury and property damage; and (e) property insurance in an amount equal to "Value of Airline Improvements and Betterments" during the course of construction and after completion, which coverage shall include replacement value, covering airline improvements and betterments, for fire and extended coverage, including sprinkler leakage, vandalism and malicious mischief, and debris removal.

Each insurance policy shall state that coverage shall not be suspended, voided, canceled or reduced in limits except after 30 days' prior written notice has been given to the City; provided, however, that the notice period for war and named perils insurance may be seven days or such lesser period as may be customarily available.

The City has retained the right at any time to review the coverage, form and amount of the insurance required under the Airline Lease Agreement and to require each airline to obtain insurance sufficient in coverage, form and amount to provide adequate protection for the City and/or for members of the public.

Under the terms of the Airline Lease Agreement, the City and the airlines agree to have all property insurance carried with respect to the Airport endorsed with a clause that waives all rights of subrogation that the insurer of one party may have against the other party, and the City and the airlines will employ diligent efforts to cause their insurance companies to endorse the affected property insurance policies with a waiver of subrogation clause.

Relation to Master Trust Agreement

The Airline Lease Agreement provides that it is expressly subject and subordinate to (a) the Master Trust Agreement (defined elsewhere in this Official Statement) and (b) any bond resolution, trust agreement, indenture or other financing agreement providing for or authorizing the issuance by the City of subordinated indebtedness, including an agreement related to the security or credit enhancement for the subordinated indebtedness, as each may be supplemented or amended from time to time (a "Subordinated Financing Agreement").

In the event that the City intends to amend or supplement the Master Trust Agreement or any Subordinated Financing Agreement in a manner that would materially alter the terms and provisions of the Airline Lease Agreement or materially impact the levels of rentals, fees and charges paid by a Signatory Airline, City shall notify each Signatory Airline in advance.

Default and Termination

Upon the occurrence of any of the following events, subject to applicable notice and cure periods, the Airline Lease Agreement provides that the City may terminate the Airline Lease Agreement, may

reenter the airline premises and remove all Signatory Airline persons and property and may relet the airline premises:

(a) The conduct of any business or performance by the Signatory Airline of any acts at the Airport not specifically authorized under the Airline Lease Agreement or by any other agreements between the City and the Signatory Airline, and said business or acts do not cease within 30 days of receipt of the City's written notice to cease said business or acts.

(b) The failure by the Signatory Airline to cure a default in the performance of any of the terms, covenants, and conditions required in the Airline Lease Agreement (except insurance requirements and payment of rentals, fees, and charges) within 30 days of receipt of written notice by the City to do so; or if by reason of the nature of such default, the same cannot be remedied within 30 days following receipt by a Signatory Airline of written demand from the City to do so, the Signatory Airline fails to commence the remedying of such default within said 30 days following such written notice, or having so commenced, shall fail thereafter to continue with diligence the curing thereof. The Airline Lease Agreement provides that the Signatory Airline shall have the burden of proof to demonstrate (i) that the default cannot be cured within 30 days, and (ii) that it is proceeding with diligence to cure said default and that such default will be cured within a reasonable period of time.

(c) The failure by the Signatory Airline to pay any part of the rentals, fees, and charges due under the Airline Lease Agreement and the continued failure to pay said amounts in full within 30 days of the City's written notice of payments past due; provided, however, if a dispute arises between the City and the Signatory Airline with respect to any obligation or alleged obligation of the Signatory Airline to make payments to the City, payments under protest by the Signatory Airline of the amount due shall not waive any of the Signatory Airline's rights to contest the validity or amount of such payment.

(d) The failure by the Signatory Airline to provide and keep in force insurance coverage in accordance with the Airline Lease Agreement.

(e) The appointment of a trustee, custodian, or receiver of all or a substantial portion of a Signatory Airline's assets.

(f) The divestiture of a Signatory Airline's estate in the Airline Lease Agreement by operation of law, by dissolution or by liquidation (not including a merger or sale of assets).

(g) The abandonment by the Signatory Airline of the airline premises, or its conduct of business at the Airport; and, in this connection, suspension of operations for a period of 60 days will be considered abandonment in the absence of a labor dispute or other governmental action in which the Signatory Airline is directly involved.

(h) The failure by the Signatory Airline to remit PFCs in accordance with the Airline Lease Agreement.

In the event that the City relets the airline premises, rentals, fees, and charges received by the City from such reletting shall be applied: (i) to the payment of any indebtedness, other than rentals, fees, and charges due under the Airline Lease Agreement, from the Signatory Airline to City; (ii) to the payment of any cost of such reletting; and (iii) to the payment of rentals, fees, and charges due and unpaid under the Airline Lease Agreement. The residue, if any, shall be held by the City and applied in payment of future rentals, fees, and charges as the same may become due and payable the Airline Lease Agreement. If that portion of such rentals, fees, and charges received from such reletting and applied to the payment of rentals, fees, and charges under the Airline Lease Agreement is less than the rentals, fees, and charges as

would have been payable during applicable periods by the Signatory Airline under the Airline Lease Agreement, then the Signatory Airline shall pay such deficiency to the City whenever rentals, fees or charges are due to the City under the Airline Lease Agreement. The Signatory Airline shall also pay to the City, as soon as ascertained, any reasonable costs and expenses incurred by the City in such reletting not covered by the rentals, fees, and charges received from such reletting.

Remedies Following Bankruptcy

Notwithstanding any other default provisions in the Airline Lease Agreement, upon the filing by or against a Signatory Airline of any proceeding under Federal bankruptcy laws, the Airline Lease Agreement provides that it shall automatically terminate (unless such termination is affirmatively waived at the time of the filing or subsequently by the City) in addition to other remedies provided under provisions of the Federal Bankruptcy Rules and Regulations and Federal Judgeship Act of 1984, as such may be subsequently amended, supplemented, or replaced. Notwithstanding the foregoing, the City shall be entitled to waive the automatic termination provision mentioned above in writing. In the event that the City waives the automatic termination requirement, the City shall not be obligated to perform under the terms of the Airline Lease Agreement so long as any proceeding under Federal bankruptcy laws remains outstanding. Any waiver by City of the automatic termination provision is not to be construed to be a waiver of any subsequent automatic termination.

Customer Service

The Airline Lease Agreement provides that each Signatory Airline shall appoint a customer service representative who will work with representatives from the Airport's Customer Service and Operations Division and representatives from the other passenger airlines at the Airport to voluntarily and collectively set minimum performance standards to provide passengers at the Airport with the highest and best customer service possible. These standards are to be self-imposed and self-policed by the Airport and the passenger airlines. The Airport reserves the right to disclose the success of the passenger airlines in meeting these standards.

Assignment and Subletting by Signatory Airline

No Signatory Airline may assign or transfer the Airline Lease Agreement or any interest therein nor sublet the whole or any portion of the Signatory Airline's premises without first obtaining the City's written consent. The Airline Lease Agreement also provides that neither the Airline Lease Agreement nor any interest thereunder shall be assignable or transferable by operation of law or by any process or proceeding of any court or otherwise without the consent of the City, which consent shall not be unreasonably withheld.

Notwithstanding the foregoing, a Signatory Airline shall have the right, without first obtaining the City's written consent, to assign or transfer the Airline Lease Agreement to an entity controlling, controlled by or under common control with the Signatory Airline or a successor by merger, consolidation or acquisition to all or substantially all of the assets of the Signatory Airline.

The City in its sole discretion may terminate the Airline Lease Agreement upon 30 days' written notice in the event the Signatory Airline, directly or indirectly, assigns, sells, hypothecates or otherwise transfers the Airline Lease Agreement or any portion of the Signatory Airline's premises in contravention of the Agreement, without the prior written consent of the City.

APPENDIX I

DTC AND THE BOOK-ENTRY SYSTEM

The following information regarding DTC and DTC's book-entry system has been extracted from information provided by DTC. The City makes no representation as to the accuracy or the completeness of such information or as to the absence of material adverse changes in such information. Additionally, the City undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of any material contained on DTC's website as described in this Appendix I including, but not limited to, updates of such information or links to other Internet sites accessed through such website.

DTC will act as the securities depository for the Series 2011B Bonds. The Series 2011B Bonds will be issued as fully-registered bonds 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 2011B Bond certificate will be issued for each maturity of the Series 2011B Bonds in the 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 and www.dtc.org; nothing contained in such websites is incorporated into this Official Statement.

Purchases of the Series 2011B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2011B 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 2011B 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 2011B Bonds, except in the event that use of the book-entry system for the Series 2011B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011B 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 the Series 2011B 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 2011B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011B 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 2011B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2011B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Series 2011B Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the 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 2011B Bonds 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 the Series 2011B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer 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 2011B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Series 2011B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the 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 (nor its nominee), the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Series 2011B Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or 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.

THE CITY, THE UNDERWRITERS OR THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

None of the City, the Airport, the Underwriters or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Series 2011B Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Series 2011B Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2011B Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2011B Bond certificates will be printed and delivered to DTC.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Neither the City nor the Trustee will have any responsibility or obligation to Participants or the persons for whom they act as nominees with respect to the Series 2011B Bonds for the accuracy of any records maintained by DTC or any Participant, the payment by DTC or any Participant of any amount in respect of principal or interest on the Series 2011B Bonds, any notice that is permitted or required to be given to Registered Owners under the Master Trust Agreement (except such notices as shall be required to be given by the City to the Trustee or to DTC), the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Series 2011B Bonds, or any consent given or other action taken by DTC as the Registered Owner (through its partnership nominee). The City and the Trustee may treat and consider Cede & Co., in whose name each Series 2011B Bond is registered on the Bond Register, as the holder and absolute owner of such Series 2011B Bond for all purposes, except as provided in the Master Trust Agreement. For the purposes of this Official Statement, the term "Beneficial Owner" includes the person for whom the Participant acquires an interest in the Series 2011B Bonds.

If the City is unable to retain a qualified successor to DTC or the City has determined that DTC or its successor is no longer able to carry out its functions as a depository or that it is no longer desirable to use a depository, the City will be required to deliver a written request to the Trustee, together with a supply of definitive Series 2011B Bonds in certificated form, to issue Series 2011B Bonds in any authorized denomination. Thereafter, the principal of the Series 2011B Bonds shall be in lawful money of the United States upon due presentment and surrender thereof at the principal office of the Trustee, interest on the Series 2011B Bonds will be payable by check mailed to the persons in whose names such Series 2011B Bonds are registered, at the address appearing upon the registration books on the 15th day of the month next preceding an interest payment date, and the Series 2011B Bonds will be transferable as provided in the Master Trust Agreement.

CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY

APPENDIX J

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: $ in aggregate principal amount of

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

Form 500NY (5/90)