

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2017 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes, except that no opinion is expressed as to the status of interest on any Series 2017A Bond for any period that such Series 2017A Bond is held by a “substantial user” of the facilities refinanced by the Series 2017A Bonds or by a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986. Bond Counsel observes, however, that interest on the Series 2017A Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. In the further opinion of Bond Counsel, interest on the Series 2017B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2017 Bonds. See “TAX MATTERS” herein.

\$624,270,000

**CITY OF SAN JOSE, CALIFORNIA
AIRPORT REVENUE REFUNDING BONDS**



\$473,595,000
Series 2017A
(AMT)

\$150,675,000
Series 2017B
(Non-AMT)

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

The City of San José Airport Revenue Refunding Bonds, Series 2017A (AMT) (the “Series 2017A Bonds”) and the City of San José Airport Revenue Refunding Bonds, Series 2017B (Non-AMT) (the “Series 2017B Bonds” and, together with the Series 2017A Bonds, the “Series 2017 Bonds”) are being issued by the City of San José, California (the “City”). The Series 2017A Bonds are being issued (i) to refund a portion of the outstanding City of San José Airport Revenue Bonds, Series 2007A (AMT), (ii) to make a deposit to the General Account of the Bond Reserve Fund, and (iii) to pay costs of issuing the Series 2017A Bonds. The Series 2017B Bonds are being issued (i) to refund all of the outstanding City of San José Airport Revenue Bonds, Series 2007B (Non-AMT), and (ii) to pay costs of issuing the Series 2017B Bonds.

The Series 2017 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 2017 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 pledge is on a parity with the pledge of General Airport Revenues made to secure Outstanding Bonds and any additional Bonds issued under the Master Trust Agreement. 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 2017 Bonds.

Interest on the Series 2017 Bonds will be payable on March 1 and September 1, commencing September 1, 2017. The Series 2017 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 2017 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 2017 Bonds purchased. So long as the Series 2017 Bonds are held by DTC, the principal of, premium, if any, and interest on the Series 2017 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 2017 Bonds, as more fully described herein.

The Series 2017 Bonds are subject to optional and mandatory redemption prior to maturity as more fully described herein.

The scheduled payment of principal of and interest on the Series 2017A Bonds maturing on March 1, 2042 (the “Insured Series 2017A Bonds”), when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Insured Series 2017A Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY**.



The principal of, premium, if any, and interest on the Series 2017 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 2017 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, and interest on the Series 2017 Bonds. The Series 2017 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 and certain other funds held or made available under the Master Trust Agreement. The owners of the Series 2017 Bonds have no right to compel the exercise of any taxing power of the City.

The cover page is not intended to be a summary of the terms of, or the security for, the Series 2017 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 2017 Bonds are offered when, as and if issued by the City and received by the Underwriters, subject to the approval of validity 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 and Jones Hall, A Professional Law Corporation as pension disclosure counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP. It is expected that the Series 2017 Bonds in book-entry form will be available for delivery through the facilities of DTC on or about April 11, 2017.

**Citigroup
Barclays
Piper Jaffray & Co.**

**Goldman, Sachs & Co.
Morgan Stanley
Siebert Cisneros Shank & Co., L.L.C.**

MATURITY SCHEDULE

\$473,595,000
CITY OF SAN JOSE, CALIFORNIA
AIRPORT REVENUE REFUNDING BONDS
SERIES 2017A (AMT)

<u>Maturity (March 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP 798136*</u>
2018	\$14,145,000	5.000%	1.030%	UW5
2019	11,245,000	5.000	1.280	UX3
2020	12,210,000	5.000	1.500	UY1
2021	12,795,000	5.000	1.690	UZ8
2022	13,435,000	5.000	1.940	VA2
2023	4,415,000	5.000	2.200	VB0
2024	4,970,000	5.000	2.410	VC8
2025	5,725,000	5.000	2.600	VD6
2026	4,655,000	5.000	2.760	VE4
2027	4,005,000	5.000	2.910	VF1
2028	4,420,000	5.000	3.060 [†]	VG9
2029	4,545,000	5.000	3.190 [†]	VH7
2030	4,950,000	5.000	3.310 [†]	VJ3
2031	5,655,000	5.000	3.410 [†]	VK0
2032	5,465,000	5.000	3.490 [†]	VL8
2033	6,045,000	5.000	3.560 [†]	VM6
2034	6,655,000	5.000	3.620 [†]	VN4
2035	19,740,000	5.000	3.650 [†]	VP9
2036	20,730,000	5.000	3.680 [†]	VQ7
2037	21,765,000	5.000	3.700 [†]	VR5
2042 [‡]	27,780,000	4.000	4.050	VT1

\$98,485,000, 5.000% Term Bonds due March 1, 2041, Yield[†] 3.720% CUSIP No. 798136VS3*

\$159,760,000, 5.000% Term Bonds due March 1, 2047, Yield[†] 3.780% CUSIP No. 798136VU8*

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[†] Yield to the par call date of March 1, 2027.

[‡] Insured Series 2017A Bonds.

\$150,675,000
CITY OF SAN JOSE, CALIFORNIA
AIRPORT REVENUE REFUNDING BONDS
SERIES 2017B (Non-AMT)

<u>Maturity (March 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP 798136*</u>
2018	\$4,505,000	2.000%	0.900%	VV6
2019	3,575,000	3.000	1.100	VW4
2020	3,890,000	4.000	1.300	VX2
2021	4,070,000	5.000	1.510	VY0
2022	4,275,000	5.000	1.740	VZ7
2023	1,400,000	5.000	1.940	WA1
2024	1,575,000	5.000	2.150	WB9
2025	1,820,000	5.000	2.320	WC7
2026	1,480,000	5.000	2.450	WD5
2027	1,275,000	5.000	2.590	WE3
2028	1,400,000	5.000	2.740 [†]	WF0
2029	1,450,000	5.000	2.850 [†]	WG8
2030	1,570,000	5.000	2.960 [†]	WH6
2031	1,805,000	5.000	3.070 [†]	WJ2
2032	1,735,000	5.000	3.160 [†]	WK9
2033	1,925,000	5.000	3.240 [†]	WL7
2034	2,115,000	5.000	3.300 [†]	WM5
2035	6,285,000	5.000	3.340 [†]	WN3
2036	6,590,000	5.000	3.380 [†]	WP8
2037	6,920,000	5.000	3.400 [†]	WQ6
2042	5,345,000	4.000	4.000	WS2

\$34,835,000, 5.000% Term Bonds due March 1, 2042, Yield[†] 3.430% CUSIP No. 798136WR4*

\$50,835,000, 5.000% Term Bonds due March 1, 2047, Yield[†] 3.480% CUSIP No. 798136WT0*

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[†] Yield to the par call date of March 1, 2027.

CITY OF SAN JOSE

City Council

Sam Liccardo, Mayor

District 1:	Chappie Jones, Member	District 6:	Dev Davis, Member
District 2:	Sergio Jimenez, Member	District 7:	Tam Nguyen, Member
District 3:	Raul Peralez, Member	District 8:	Sylvia Arenas, Member
District 4:	Lan Diep, Member	District 9:	Donald Rocha, Member
District 5:	Magdalena Carrasco, Vice Mayor	District 10:	Johnny Khamis, Member

Airport Commission

Julie Riera Matsushima, Chair
AJ Borade
Tom Cruz
Catherine Hendrix
Stephen McMinn
Richard Terrill

E. Ronald Blake, Vice Chair
Dan Connolly
Raymond Greenlee
R. William Highlander
Mark Schmidt

City Officials

Norberto Dueñas, City Manager
Toni Taber, City Clerk
Sharon Winslow Erickson, City Auditor
Richard Doyle, City Attorney
Kimberly J. Becker, Director of Aviation*
Julia Harper Cooper, Director of Finance

City Staff

David Sykes, Assistant City Manager
John Aitken, Assistant Director of Aviation
Kim Hawk, Deputy Director of Aviation, Finance & Administration
Derek Hansel, Assistant Director, Department of Finance
Joe Gray, Debt Administrator

Professional Services

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San Francisco, California

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

Pension Disclosure Counsel
Jones Hall, A Professional
Law Corporation
San Francisco, California

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

Financial Advisors
Public Financial Management
San Francisco, California

Public Resources Advisory Group
Oakland, California

* Kimberly J. Becker, the Director of Aviation, announced her resignation on March 27, 2017, effective April 21, 2017, as she has been appointed President and CEO/Executive Director of the San Diego County Regional Airport Authority (which owns and operates San Diego International Airport). The City Manager will appoint the current Assistant Director of Aviation, John Aitken, a 24 year veteran of the Airport, as the Interim Director of Aviation. The City Manager is commencing a nationwide recruitment for the Director of Aviation position.

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 2017 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 2017 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 2017 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.

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; or by e-mail at debt.management@sanjoseca.gov. The City may impose a charge for copying, mailing and handling.

No Registration or Qualification. The issuance and sale of the Series 2017 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 2017 Bonds.

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Series 2017 Bonds or the advisability of investing in the Series 2017 Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading “BOND INSURANCE” and “Appendix I – Specimen Municipal Bond Insurance Policy”.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2017 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2017 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 2017 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.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION	1	Competition.....	31
General	1	Uncertainties of the Airline	
Amendments to Master Trust		Industry.....	32
Agreement; Deemed		Bankruptcy Risks	32
Consent	2	Information Concerning the	
Purpose of the Series 2017 Bonds	2	Airlines	35
The City and the Airport	2	Regulatory Uncertainties.....	35
Security for the Series 2017 Bonds	3	Availability of Funding From PFC	
Continuing Disclosure.....	3	Revenues and CFC	
Miscellaneous.....	4	Revenues	38
PLAN OF REFUNDING.....	4	Seismic Hazards.....	39
ESTIMATED SOURCES AND USES OF		Natural Gas Transmission	
PROCEEDS	6	Pipelines	39
DESCRIPTION OF THE SERIES 2017		Flooding	40
BONDS	6	RATINGS	43
Form and Denomination	6	TAX MATTERS	44
Redemption of the Series 2017		LITIGATION	46
Bonds.....	7	LEGAL MATTERS.....	46
Notice of Redemption	9	CONTINUING DISCLOSURE.....	46
Conditional Notice of Redemption		FINANCIAL ADVISORS	47
and Rescission of Notice		UNDERWRITING	47
of Redemption	9	Series 2017 Bonds.....	47
Effect of Redemption	10	Additional Information	48
Purchase of Series 2017 Bonds	10	FINANCIAL STATEMENTS	48
SECURITY FOR THE BONDS	10	MISCELLANEOUS	49
Pledge of General Airport		APPENDIX A THE NORMAN Y.	
Revenues and Certain		MINETA SAN JOSE	
Other Available Funds.....	10	INTERNATIONAL AIRPORT	A-1
Other Available Funds, CFC		APPENDIX B CITY OF SAN JOSE	
Revenues and Available		RETIREMENT PLANS.....	B-1
PFC Revenues	12	APPENDIX C SUMMARY OF	
Flow of Funds	13	CERTAIN PROVISIONS OF	
Rate Maintenance Covenant.....	18	THE MASTER TRUST	
Bond Reserve Fund	19	AGREEMENT	C-1
Additional Series of Bonds	22	APPENDIX D AUDITED FINANCIAL	
Subordinate Obligations.....	24	STATEMENTS OF THE	
Special Facility Revenues	25	NORMAN Y. MINETA	
Other Security Features of the		SAN JOSE INTERNATIONAL	
Master Trust Agreement.....	26	AIRPORT FOR FISCAL YEAR	
BOND INSURANCE	26	ENDED JUNE 30, 2016	D-1
Bond Insurance Policy	26	APPENDIX E PROPOSED FORM OF	
Build America Mutual Assurance		BOND COUNSEL OPINION.....	E-1
Company.....	26	APPENDIX F FORM OF CONTINUING	
OUTSTANDING OBLIGATIONS AND		DISCLOSURE CERTIFICATE.....	F-1
DEBT SERVICE SCHEDULE.....	28	APPENDIX G SUMMARY OF	
CERTAIN FACTORS AFFECTING THE		CERTAIN PROVISIONS OF	
AIRPORT.....	30	THE AIRLINE LEASE	
General Factors Affecting Airline		AGREEMENT	G-1
and Passenger Activity	30	APPENDIX H DTC AND THE	
Possible Downtown High-Rise		BOOK-ENTRY SYSTEM.....	H-1
Development Impacts on		APPENDIX I SPECIMEN MUNICIPAL	
Air Service.....	30	BOND INSURANCE POLICY	I-1
Uncertainties in the Air Service			
Area	31		



OFFICIAL STATEMENT

RELATING TO

\$624,270,000
CITY OF SAN JOSE, CALIFORNIA
AIRPORT REVENUE REFUNDING BONDS

\$473,595,000
Series 2017A (AMT)

\$150,675,000
Series 2017B (Non-AMT)

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 \$473,595,000 aggregate principal amount of City of San José Airport Revenue Refunding Bonds, Series 2017A (AMT) (the “Series 2017A Bonds”) and \$150,675,000 aggregate principal amount of City of San José Airport Revenue Refunding Bonds, Series 2017B (Non-AMT) (the “Series 2017B Bonds”) and, together with the Series 2017A Bonds, the “Series 2017 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 2017 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 the Seventh Supplemental Trust Agreement, dated as of July 1, 2011 (the “Seventh Supplemental Trust Agreement”), by the Eighth Supplemental Trust Agreement, dated as of December 1, 2011 (the “Eighth Supplemental Trust Agreement”), by the Ninth Supplemental Trust Agreement, dated as of November 1, 2012 (the “Ninth Supplemental Trust Agreement”), by the Tenth Supplemental Trust Agreement, dated as of October 1, 2014 (the “Tenth Supplemental Trust Agreement”), and by the Eleventh Supplemental Trust Agreement, to be dated as of April 1, 2017 (the “Eleventh 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 C.

Amendments to Master Trust Agreement; Deemed Consent

The Eleventh Supplemental Trust Agreement amends and supplements certain provisions of the Master Trust Agreement, including, among other things, a supplemental provision reducing Debt Service by the amount of any federal payments, including subsidy or tax credit payments, the City expects to receive in connection with any series of Bonds which entitles the City to receive such payments. Purchasers of the Series 2017 Bonds will be deemed to have consented to such amendments. Such amendments will become effective upon issuance of the Series 2017 Bonds, except for the amendment relating to federal payments and the reduction of Debt Service, which will become effective upon receipt of the written consent of each required Municipal Bond Insurer, if any, and, as applicable, Barclays Bank, PLC, as credit support provider for the City's Subordinated Commercial Paper Notes (as defined below). See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT—Amendments to the Master Trust Agreement" in Appendix C.

Purpose of the Series 2017 Bonds

The Series 2017 Bonds are being issued to refund a portion of certain outstanding City of San José Airport Revenue Bonds, to make a deposit to the General Account of the Bond Reserve Fund, and to pay costs of issuing the Series 2017 Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF PROCEEDS."

The City and the Airport

The City is the third largest city in California and the tenth largest city in the United States based on its population of 1,042,094 as of January 1, 2016 (as reported by the California Department of Finance). The territory of the City encompasses approximately 178 square miles. Located at the southern end of the San Francisco Bay, the City is the county seat of the County of Santa Clara (the "County").

The Norman Y. Mineta San José International Airport (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 four 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, 2016 ("fiscal year 2015-16"), the Airport served approximately 5.1 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 4.8 million in fiscal year 2014-15, reflecting a 6.8% increase year over year. The City estimates that approximately 98.3% of enplaned passengers at the Airport in fiscal year 2015-16 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 "CERTAIN FACTORS AFFECTING THE AIRPORT" below and "PASSENGER SERVICES AND OPERATIONS" in Appendix A.

Since fiscal year 2012-13, the Airport has experienced a rebound in passenger activity, driving passenger levels above the pre-recession levels of fiscal year 2007-08. Fiscal year-to-date, through December 31, 2016, domestic and international enplaned passengers are up 7.9% and 85.7%, respectively, compared to the same period in the prior fiscal year. The Airport now has seven international carriers and is providing service to the top five international destinations requested by the local business community, according to a survey completed by the Silicon Valley Leadership Group in 2012.

Fourteen passenger airlines and two air cargo carriers provided scheduled service at the Airport as of December 31, 2016. 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 are operating at the Airport as Signatory Airlines (as defined in Appendix A). See “LEASE AND OPERATING AGREEMENTS—Airline Agreements” in Appendix A.

Security for the Series 2017 Bonds

The Series 2017 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 March 2, 2017, the City had outstanding its 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”), 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”), City of San José Airport Revenue Refunding Bonds, Series 2012A (the “Series 2012A Bonds”), and City of San José Airport Revenue Refunding Bonds, Series 2014A (AMT) (the “Series 2014A Bonds”), Series 2014B (Non-AMT) (the “Series 2014B Bonds”) and Series 2014C (Non-AMT) (the “Series 2014C Bonds”) and, together with the Series 2014A Bonds and the Series 2014B Bonds, the “Series 2014 Bonds”) in a total aggregate principal amount of \$1,288,780,000 (including \$690,530,000 aggregate principal amount of the Series 2007A Bonds and the Series 2007B Bonds, all or a portion of which will be refunded with proceeds of the Series 2017 Bonds). See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE.”

On October 2, 1984, the City Council adopted Resolution No. 57794 providing for the issuance of City of San José airport revenue bonds (the “1984 Resolution”). On June 26, 2001, the City Council adopted a resolution amending and restating the 1984 Resolution as the Master Trust Agreement. The Series 2007 Bonds, the Series 2011A Bonds, the Series 2011B Bonds, the Series 2012A Bonds and the Series 2014 Bonds (collectively, the “Outstanding Bonds”) are secured under the Master Trust Agreement on a parity with the Series 2017 Bonds. The Series 2017 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, premium, if any, and interest on the Bonds, including the Series 2017 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, and 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 and certain other funds held or made available under the Master Trust Agreement. The Owners of the Bonds have no right to compel the exercise of any taxing power of the City. See “SECURITY FOR THE BONDS.”

Continuing Disclosure

The City is covenanting for the benefit of the Holders and Beneficial Owners of the Series 2017 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.”

Miscellaneous

The summaries of or references to the Master Trust Agreement, the Series 2017 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.

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 2017 Bonds.

PLAN OF REFUNDING

The Series 2017A Bonds are being issued (i) to refund a portion of the outstanding City of San José Airport Revenue Bonds, Series 2007A, (ii) to make a deposit to the General Account of the Bond Reserve Fund, and (iii) to pay costs of issuing the Series 2017A Bonds. The Series 2017B Bonds are being issued (i) to refund all of the outstanding City of San José Airport Revenue Bonds, Series 2007B, and (ii) to pay costs of issuing the Series 2017B Bonds. The Series 2007A Bonds and Series 2007B Bonds being refunded with proceeds of the Series 2017 Bonds will be redeemed on the date of issuance of the Series 2017 Bonds. See “ESTIMATED SOURCES AND USES OF PROCEEDS.”

The following table identifies the Series 2007A Bonds and Series 2007B Bonds that will be refunded (the “Refunded Bonds”) with the proceeds of the Series 2017 Bonds.

Summary of Bonds to be Refunded

<u>Series</u>	<u>Maturity (March 1)</u>	<u>Principal Refunded (000)</u>	<u>Redemption Date</u>	<u>CUSIP</u>
2007A	2019	\$7,410	April 11, 2017	798136NZ6
	2020	7,820	April 11, 2017	798136PA9
	2021	8,250	April 11, 2017	798136PB7
	2022	8,705	April 11, 2017	798136PC5
	2023	9,185	April 11, 2017	798136PD3
	2024	9,690	April 11, 2017	798136PE1
	2025	10,170	April 11, 2017	798136PF8
	2026	7,680	April 11, 2017	798136PG6
	2026	3,000	April 11, 2017	798136PH4
	2027	11,230	April 11, 2017	798136PJ0
	2032	66,115	April 11, 2017	798136PK7
	2037	289,560	April 11, 2017	798136PL5
	2047	75,000	April 11, 2017	798136PM3
	2007B	2018	2,660	April 11, 2017
2019		2,775	April 11, 2017	798136PT8
2020		2,900	April 11, 2017	798136PU5
2021		3,030	April 11, 2017	798136PV3
2022		3,165	April 11, 2017	798136PW1
2023		3,325	April 11, 2017	798136PX9
2024		3,490	April 11, 2017	798136PY7
2025		3,665	April 11, 2017	798136PZ4
2026		3,850	April 11, 2017	798136QA8
2027		4,040	April 11, 2017	798136QB6
2033		38,635	April 11, 2017	798136QC4
2037		98,155	April 11, 2017	798136QD2

ESTIMATED SOURCES AND USES OF PROCEEDS

The following table sets forth the estimated sources and uses of proceeds of the Series 2017 Bonds.

	Series 2017A	Series 2017B	Total
Sources of Funds:			
Principal Amount	\$473,595,000.00	\$150,675,000.00	\$624,270,000.00
Net Original Issue Premium	47,850,262.45	18,708,496.35	66,558,758.80
Release from 2007 Reserve Account	27,031,693.89	11,313,253.27	38,344,947.16
Total Sources	\$548,476,956.34	\$180,696,749.62	\$729,173,705.96
Uses of Funds:			
Deposit to Redemption Fund	\$513,815,000.00	\$169,690,000.00	\$683,505,000.00
Deposit to General Account of the Bond Reserve Fund	32,692,339.75	10,401,119.71	43,093,459.46
Costs of Issuance ⁽¹⁾	1,969,616.59	605,629.91	2,575,246.50
Total Uses	\$548,476,956.34	\$180,696,749.62	\$729,173,705.96

⁽¹⁾ Includes underwriters' discount, bond insurance premium, rating agency fees, legal and other professional fees and other costs of issuing the Series 2017 Bonds.

DESCRIPTION OF THE SERIES 2017 BONDS

Form and Denomination

The Series 2017 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 2017 Bonds is to be payable on each March 1 and September 1 (each a "Payment Date"), commencing September 1, 2017. The interest on the Series 2017 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 (the "Record 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 2017 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 Record Date).

Each of the Series 2017 Bonds will 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 August 15, 2017, 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 Series 2017 Bond, interest is in default on the Outstanding Series 2017 Bonds, such Series 2017 Bond is to bear interest from the Payment Date to which interest has previously been paid or made available for payment on the Outstanding Series 2017 Bonds.

The Series 2017 Bonds will be issued in denominations of \$5,000 and any integral multiple thereof. The Series 2017 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 2017 Bonds.

Individual purchases may be made in book entry form only. Purchasers will not receive certificates representing their interest in the Series 2017 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 2017 Bonds, as nominee of DTC, references to the Owners or registered owners mean Cede & Co. and not the Beneficial Owners of the Series 2017 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 2017 Bonds, principal of and premium, if any, and interest on the Series 2017 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 H.

Redemption of the Series 2017 Bonds

Optional Redemption of the Series 2017A Bonds. The Series 2017A Bonds maturing on and after March 1, 2028 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 on any date on or after March 1, 2027, at a redemption price equal to 100% of the principal amount of the Series 2017A Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, but without premium.

Optional Redemption of the Series 2017B Bonds. The Series 2017B Bonds maturing on and after March 1, 2028 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 on any date on or after March 1, 2027, at a redemption price equal to 100% of the principal amount of the Series 2017B Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, but without premium.

Mandatory Sinking Fund Redemption of Series 2017A Bonds. The Series 2017A Bonds maturing on March 1, 2041 are subject to redemption prior to maturity from the 2017A Sinking Fund Account, on March 1 in each year, by lot, upon payment of the principal amount set forth below as the amount scheduled to mature in each year, plus accrued interest thereon to the date fixed for redemption, but without premium:

Sinking Fund Payment Date (March 1)	Mandatory Sinking Fund Payment
2038	\$22,850,000
2039	23,990,000
2040	25,190,000
2041 [†]	26,455,000

[†] Final maturity.

The Series 2017A Bonds maturing on March 1, 2047 are subject to redemption prior to maturity from the 2017A Sinking Fund Account, on March 1 in each year, by lot, upon payment of the principal amount set forth below as the amount scheduled to mature in each year, plus accrued interest thereon to the date fixed for redemption, but without premium:

Sinking Fund Payment Date (March 1)	Mandatory Sinking Fund Payment
2043	\$28,910,000
2044	30,360,000
2045	31,875,000
2046	33,470,000
2047 [†]	35,145,000

[†] Final maturity.

The principal amount to be redeemed in each year shown in the tables above will be reduced at the option of the City, by the principal amount of any Series 2017A 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, (2) have been acquired and cancelled by the Trustee, at the direction of the City, or (3) have been optionally redeemed and not previously credited to a scheduled mandatory sinking fund redemption. Upon such purchase or optional redemption of such Series 2017A Bonds, the Trustee will then credit an amount equal to the principal of such Series 2017A Bonds of such maturity in increments of \$5,000 or integral multiples thereof directed as by the City.

Mandatory Sinking Fund Redemption of Series 2017B Bonds. The Series 2017B Bonds maturing on March 1, 2042 and bearing interest at 5.000% are subject to redemption prior to maturity from the 2017B Sinking Fund Account, on March 1 in each year, by lot, upon payment of the principal amount set forth below as the amount scheduled to mature in each year, plus accrued interest thereon to the date fixed for redemption, but without premium:

Sinking Fund Payment Date (March 1)	Mandatory Sinking Fund Payment
2038	\$7,275,000
2039	7,635,000
2040	8,015,000
2041	8,420,000
2042 [†]	3,490,000

[†] Final maturity.

The Series 2017B Bonds maturing on March 1, 2047 are subject to redemption prior to maturity from the 2017B Sinking Fund Account, on March 1 in each year, by lot, upon payment of the principal amount set forth below as the amount scheduled to mature in each year, plus accrued interest thereon to the date fixed for redemption, but without premium:

Sinking Fund Payment Date (March 1)	Mandatory Sinking Fund Payment
2043	\$9,200,000
2044	9,660,000
2045	10,145,000
2046	10,650,000
2047 [†]	11,180,000

[†] Final maturity.

The principal amount to be redeemed in each year shown in the tables above will be reduced at the option of the City, by the principal amount of any Series 2017B 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, (2) have been acquired and cancelled by the Trustee, at the direction of the City, or (3) have been optionally redeemed and not previously credited to a scheduled mandatory sinking fund redemption. Upon such purchase or optional redemption of such Series 2017B Bonds, the Trustee will then credit an amount equal to the principal of such Series 2017B Bonds of such maturity in increments of \$5,000 or integral multiples thereof directed as by the City.

Selection of Series 2017 Bonds for Redemption. Whenever less than all of the Series 2017A Bonds or Series 2017B Bonds, respectively, are called for redemption, the Bonds of such Series and the maturities thereof shall be called as directed by the City, and if less than all of any maturity shall be called for redemption, the portion of such maturity shall be selected by lot. The Trustee is required to notify the City promptly in writing of the numbers of the Series 2017 Bonds so selected for redemption.

Notice of Redemption

A notice of redemption is required to be mailed to the respective registered Owners of any Series 2017 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, provided, however, that such notice may be mailed as late as 15 days prior to the redemption date if the Bonds are no longer Book-Entry Bonds, which notice, in the case of each Series 2017 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 2017 Bonds.

Conditional Notice of Redemption and 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.

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 2017 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 2017 Bonds so called for redemption will cease to accrue, said Series 2017 Bonds will cease to be entitled to any benefit or security under the Master Trust Agreement, and the Owners of said Series 2017 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 2017 Bonds, to pay such Series 2017 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 2017 Bonds redeemed pursuant to the provisions described above be cancelled upon surrender and that no Series 2017 Bonds be issued in place thereof.

Purchase of Series 2017 Bonds

The City may, at its option, direct the Trustee to purchase any Series 2017 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 2017 Bonds) as the Trustee may in its discretion determine, and all Series 2017 Bonds so purchased are to be cancelled by the Trustee.

SECURITY FOR THE BONDS

Pledge of General Airport Revenues and Certain Other Available Funds

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.

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 exclude:

- (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 C 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 C),
 - (l) Qualified Hedge Termination Payments (for a definition of this term, see Appendix C),
- and
- (m) Cargo facility charges or similar fees imposed on any of cargo operators, cargo facilities or cargo parcels.

In addition to the pledge of General Airport Revenues, under the Eleventh Supplemental Trust Agreement the City has pledged to the payment of Debt Service (as defined in Appendix C) on the Bonds: (i) the Rolling Coverage Amount (as defined below), (ii) uncommitted monies from the prior Fiscal Year held in the General Revenue Fund on the first day of each Fiscal Year following all transfers

of moneys to the Subordinated Debt Account within the Surplus Revenue Fund required under the Master Trust Agreement for the prior Fiscal Year, and (iii) all CFC Revenues in an amount not to exceed Annual Debt Service (as defined below) on the Series 2011B Bonds. See “—Other Available Funds, CFC Revenues and Available PFC Revenues.” The only Series of Bonds such pledged CFC Revenues may be applied to repay are the Series 2011B Bonds. The pledge of such additional CFC Revenues and other funds may be released in the future to the extent that Net General Airport Revenues (as defined in Appendix C) and any Other Available Funds not so released from the pledge are sufficient to meet the test specified in either paragraph (c)(i) or (c)(ii) under the heading “—Additional Series of Bonds—Conditions for the Issuance of Additional Bonds,” and the City has obtained confirmation from each Rating Agency (as defined in Appendix C) then rating the Bonds that such release will not adversely affect the ratings on the Bonds. The pledge of such additional CFC Revenues and other funds need not be a first lien on such revenues and funds. See “—Other Available Funds, CFC Revenues and Available PFC Revenues” and “—Additional Series of Bonds—Conditions for the Issuance of Additional Bonds.”

Under certain circumstances additional Other Available Funds and Available PFC Revenues may be pledged to and/or used to pay debt service on the Bonds. Although PFC Revenues generally do not fall within the definition of pledged General Airport Revenues, PFC Revenues may be used at the discretion of the Airport, and PFC Revenues are expected to be used but not pledged, to pay a portion of the Debt Service on the Series 2007A Bonds (to the extent any remain outstanding after the issuance of the Series 2017 Bonds), the Series 2011A Bonds, the Series 2014A Bonds, the Series 2014C Bonds or the Series 2017A Bonds. PFC Revenues are not pledged, and may not be used, to pay debt service on the Series 2011B Bonds, the Series 2007B Bonds (to the extent any remain outstanding after the issuance of the Series 2017 Bonds), the Series 2012A Bonds, the Series 2014B Bonds or the Series 2017B Bonds. See “—Other Available Funds, CFC Revenues and Available PFC Revenues” below and “AIRPORT FINANCIAL MATTERS” in Appendix A.

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 2017 Bonds. See “LEASE AND OPERATING AGREEMENTS” in Appendix A and “SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT” in Appendix G.

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 (excluding PFC Revenues) available to the City but not otherwise a part of General Airport Revenues, including without limitation CFC Revenues, the Rolling Coverage Amount (see definition below under “Rate Maintenance Covenant”) and other fund balances as described below, by filing with the Trustee a written statement designating the amount and source of such Other Available Funds and containing a statement that such Other Available Funds are legally available to be applied to pay Debt Service 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.

As described under the heading “—Pledge of General Airport Revenues and Certain Other Available Funds,” the City has designated the Rolling Coverage Amount, certain uncommitted monies from the prior Fiscal Year held in the General Revenue Fund, and CFC Revenues, in an amount not to

exceed Annual Debt Service on the Series 2011B Bonds, as Other Available Funds and, under the Eleventh Supplemental Trust Agreement it has pledged such amounts to the payment of Debt Service on the Bonds until the final maturity date of the Bonds. The only Series of Bonds such pledged CFC Revenues may be applied to repay are the Series 2011B Bonds. Such pledge is subject to release in the future upon the satisfaction of certain conditions set forth in the Master Trust Agreement. See “—Pledge of General Airport Revenues and Certain Other Available Funds.” See also “AIRPORT FINANCIAL MATTERS—Customer Facility Charges” in Appendix A for a discussion of CFC Revenues.

Additionally, on the first day of each fiscal year, 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. The City has covenanted in the Eleventh Supplemental Trust Agreement not to deliver such a Written Statement of the City provided that, should the Rolling Coverage Amount or any additional beginning uncommitted balance of the General Revenue Fund be released from the pledge as described under the heading “—Pledge of General Airport Revenues and Certain Other Available Funds,” such covenant shall be void and deemed to be of no further effect.

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. Available PFC Revenues are expected to be used, but are not pledged, to pay a portion of the Debt Service on the Series 2007A Bonds (to the extent any remain outstanding after the issuance of the Series 2017 Bonds), the Series 2011A Bonds, the Series 2014A Bonds, the Series 2014C Bonds, and the Series 2017A 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.

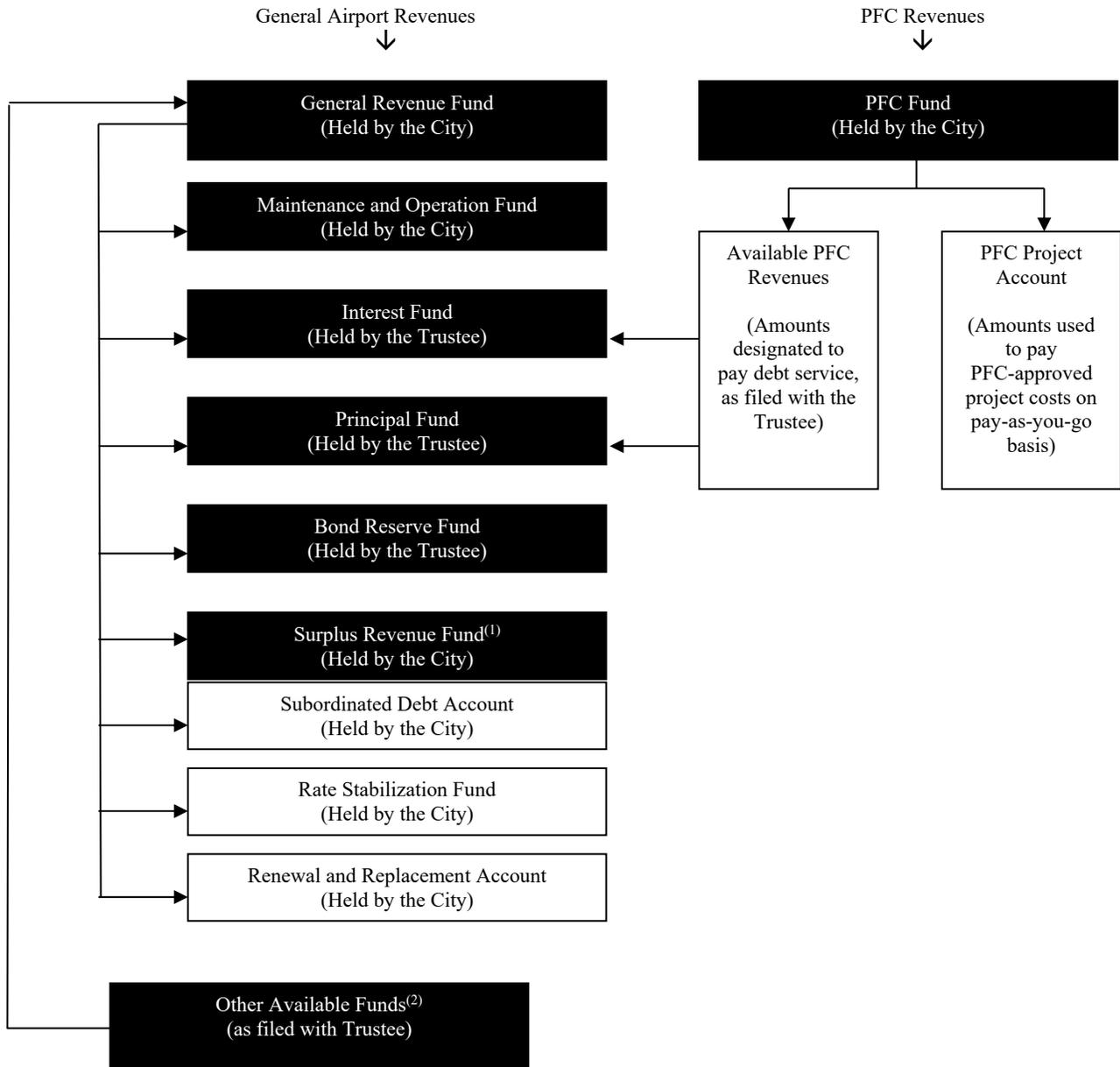
Flow of Funds

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) Other Available Funds includes the Rolling Coverage Amount, uncommitted balances in the General Revenue Fund at the beginning of each Fiscal Year, CFC Revenues that are used to pay debt service, and grant funds that are used to pay debt service. The City has pledged certain Other Available Funds to the payment of Debt Service on the Bonds, subject to release of such pledge in the future upon the satisfaction of certain conditions set forth in the Master Trust Agreement. See “—Pledge of General Airport Revenues and Certain Other Available Funds,” and “—Other Available Funds, CFC Revenues and Available PFC Revenues.”

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 2017 Bonds, Series 2014 Bonds, Series 2012A Bonds, Series 2011A Bonds, Series 2011B Bonds, and Series 2007 Bonds on such Payment Date; and (ii) 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 2017 Bonds, Series 2014 Bonds, Series 2012A Bonds, Series 2011A Bonds, Series 2011B Bonds, and Series 2007 Bonds on such Payment Date; and (ii) 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; 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 principal of and interest on 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 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.

The Airline Lease Agreements currently include specific conditions for depositing and withdrawing funds in the Rate Stabilization Fund. See "APPENDIX G – SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT". No assurance can be given that such conditions will continue through the term of the Series 2017 Bonds.

(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 C 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.

Additionally, 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 C 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 2011A Bonds, the Series 2012A Bonds, the Series 2014 Bonds, and will secure the Series 2017 Bonds (the "General Account Bonds"), and, at the election of the City, may secure Additional Bonds issued in the

future. The Series 2007 Bonds (to the extent any remain outstanding after the issuance of the Series 2017 Bonds) and the Series 2011B Bonds are, respectively, secured by a separate 2007 Reserve Account and a separate 2011B Reserve Account, each described below.

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 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 principal of and interest on the Series 2007 Bonds or the Series 2011B Bonds.

The Required Reserve for the 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 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 (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, as of the date of issuance of the Series 2017 Bonds, will be approximately \$78.0 million. Upon the issuance of the Series 2017 Bonds, approximately \$74.5 million of cash and investments will be held in the General Account of the Bond Reserve Fund. In addition to the cash and investments, there is on deposit in the General Account of the Bond Reserve Fund an approximately \$4.25 million surety bond from Ambac Indemnity Corporation (currently known as Ambac Assurance Corporation, the principal operating subsidiary of Ambac Financial Group Inc., “Ambac”) that expires on March 1, 2018.

Each of Moody’s Investors Service (“Moody’s”), Fitch Ratings (“Fitch”) and S&P Global Ratings (“S&P”) downgraded the claims-paying ability and financial strength of Ambac subsequent to the deposit of the respective surety bonds into the General Account and, in certain cases, withdrew their ratings on Ambac. Starting in March 2010, certain of the policy liabilities of Ambac were allocated to a segregated account, which has been subject to a plan of rehabilitation. Policy obligations not allocated to such segregated account, including obligations in respect of the surety bond provided by Ambac on deposit in the General Account of the Bond Reserve Fund, are not subject to, and therefore will not be directly impacted by, such rehabilitation proceeding. Information concerning Ambac Financial Group, Inc. 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.

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. As of the date of issuance of the Series 2017 Bonds, cash and investments in the General Account, together with the amount of the surety bond from Ambac that expires on March 1, 2018, will be in an amount at least equal to the General Account Required Reserve. On March 1, 2018, due to a decrease in the Maximum Annual Debt Service on the General Account Bonds, amounts on deposit in the General Account will continue to be sufficient to satisfy the General Account Required Reserve at that time. Therefore, when the Ambac 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).

In addition, the City may 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, the Ambac surety bond, including as a result of the liquidation of Ambac. See “—Flow of Funds—Bond Reserve Fund.”

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 “2007 Reserve Account” and an account designated the “2011B Reserve Account” have each been established within the Bond Reserve Fund. 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. A portion of the amounts in the 2007 Reserve Account will be transferred to the General Account upon the issuance of the Series 2017 Bonds and redemption of the Series 2007 Bonds. Amounts in the 2011B Reserve Account are available only to pay the Series 2011B Bonds and any Additional Bonds for which the 2011B Reserve Account is made available pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds. Neither the 2007 Reserve Account, which will remain only to the extent any Series 2007 Bonds remain outstanding after the issuance of the Series 2017 Bonds, nor the 2011B Reserve Account is available to pay or secure the Series 2017 Bonds.

Amounts Held in the Bond Reserve Fund. The approximate amounts held in the accounts within the Bond Reserve Fund as of the date of issuance of the Series 2017 Bonds are shown in the following table.

Table 2
Bond Reserve Requirement Funding Sources
As of Date of Issuance of Series 2017 Bonds

Account	Account Valuation	Surety Policy Limit	Surety Policy Provider
General Account ⁽¹⁾	\$74,487,960	\$4,251,000 ⁽²⁾	Ambac
2007 Reserve Account ⁽³⁾⁽⁴⁾	\$7,411,375		
2011B Reserve Account ⁽⁵⁾	\$26,896,382		

(1) Secures the Series 2011A Bonds, the Series 2012A Bonds, the Series 2014 Bonds and will secure the Series 2017 Bonds. See “PLAN OF REFUNDING.”

(2) Expires on March 1, 2018. On such date, due to a decrease in the Maximum Annual Debt Service, amounts on deposit in the General Account will continue to be sufficient to satisfy the General Account Required Reserve at that time.

(3) On the date of issuance of the Series 2017 Bonds, approximately \$37.4 million on deposit in the 2007 Reserve Account is expected to be transferred to the General Account and approximately \$912,000 on deposit in the 2007 Reserve Account will be used to redeem a portion of the Series 2007B Bonds.

(4) 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 (which account will remain only to the extent any Series 2007 Bonds remain outstanding after the issuance of the Series 2017 Bonds) pursuant to the Supplemental Trust Agreement providing for the issuance of such Additional Bonds.

(5) Amounts in the 2011B Reserve Account are available only to pay the Series 2011B Bonds and any Additional Bonds for which the 2011B 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 2017 Bonds, the City intends to comply with the alternative described in paragraph (c)(i) below.

(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.

Issuance of the Series 2017 Bonds. As described under the heading “—Pledge of General Airport Revenues and Certain Other Available Funds,” the City has designated the Rolling Coverage Amount, certain uncommitted monies from the prior Fiscal Year held in the General Revenue Fund, and CFC Revenues, in an amount not to exceed Annual Debt Service on the Series 2011B Bonds, as Other Available Funds and, under the Eleventh Supplemental Trust Agreement it has pledged such amounts to the payment of Debt Service on the Bonds until the final maturity date of the Bonds. Pursuant to the provisions of the Master Trust Agreement described in paragraphs (c) and (d) under the heading “—Conditions for the Issuance of Additional Bonds,” amounts so pledged are included in the calculations described in paragraph (c)(i) relating to the issuance of Additional Bonds, including the Series 2017 Bonds. See “APPENDIX A—AIRPORT FINANCIAL MATTERS—Management Discussion of Recent Financial Results—Historical Debt Service Coverage.”

Subordinate Obligations

In November 1999, the City authorized the issuance from time to time of its Norman Y. Mineta San Jose International Airport Subordinated Commercial Paper Notes (the “Subordinated Commercial Paper Notes”) that are secured by a lien on Surplus Revenues (which are General Airport Revenues remaining after the payment of Maintenance and Operating Costs of the Enterprise and the payment of debt service on the Bonds and the funding of any reserve funds established for the Bonds). The City Council adopted a resolution on January 11, 2011 authorizing the continued issuance of the Subordinated Commercial Paper Notes in a combined amount of principal of and interest thereon not to exceed \$600 million outstanding at any one time. In February 2014, the City entered into a letter of credit and reimbursement agreement (the “Reimbursement Agreement”) with Barclays Bank PLC (“Barclays”), pursuant to which Barclays issued a letter of credit supporting the Subordinated Commercial Paper Notes

(the “Barclays Letter of Credit”). As of the date of this Official Statement, the City has decided to limit its Subordinated Commercial Paper Note issuances to the total credit support provided by Barclays through the Barclays Letter of Credit. The Subordinated Commercial Paper Notes may be outstanding, from time to time, in a combined amount of principal of and interest thereon not to exceed \$41,373,150.68. The authorized principal component of the Subordinated Commercial Paper Note is \$38 million. The Barclays Letter of Credit is stated to expire on February 9, 2018, unless such letter of credit is extended or terminated earlier pursuant to its terms.

An event of default under the Reimbursement Agreement would entitle Barclays to demand that no additional Subordinated Commercial Paper Notes be issued, that the City reimburse Barclays immediately for draws under the letter of credit and that all other amounts owed by the City to Barclays be accelerated and become due immediately. Events of default under the Reimbursement Agreement 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 of the long-term, unenhanced debt rating assigned to the Bonds (other than where the Bonds shall continue to be rated by any two of Moody’s, Fitch, or S&P), or downgrades by any of Moody’s, Fitch or S&P of its ratings on the Bonds below “Baa2,” “BBB” and “BBB,” respectively for a period of 120 consecutive calendar days. All amounts payable by the City to Barclays under the Reimbursement Agreement are secured by a lien on the Surplus Revenues held in the Subordinated Debt Account of the Surplus Revenue Fund, including the earnings on such Surplus Revenues, which lien is 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 the Reimbursement Agreement, the City agreed that it would not issue any additional indebtedness secured by General Airport Revenues if a term loan under the Reimbursement Agreement is outstanding (except to repay all such term loans) and that it would not issue any additional indebtedness secured by General Airport Revenues unless the City certifies that certain financial metrics are projected to be met.

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 of and interest on the Bonds in the event of a default. See Appendix C for a summary of certain of these provisions.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series 2017 Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Series 2017A Bonds maturing on March 1, 2042 (the “Insured Series 2017A Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Series 2017A 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.

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Insured Series 2017A Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Insured Series 2017A Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Insured Series 2017A Bonds 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 Policy), and BAM does not guarantee the market price or liquidity of the Insured Series 2017A Bonds, nor does it guarantee that the rating on the Insured Series 2017A Bonds will not be revised or withdrawn.

Capitalization of BAM. BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2016 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$496.7 million, \$65.2 million and \$431.5 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Insured Series 2017A Bonds or the advisability of investing in the Insured Series 2017A Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM.

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insight videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of

such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer or the underwriter for the Insured Series 2017A Bonds, and the issuer and the underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Insured Series 2017A Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Insured Series 2017A Bonds, whether at the initial offering or otherwise.

OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

Table 3 provides information as of June 30, 2016 relating to each issue of the Outstanding Bonds and the City's currently outstanding Subordinated Commercial Paper Notes.

Table 3
Norman Y. Mineta San José International Airport
Certain Information Related to the Outstanding Bonds and Subordinated Commercial Paper Notes
As of March 2, 2017

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 2007A ⁽¹⁾	September 13, 2007	\$545,755,000	\$520,840,000	March 1, 2047
Series 2007B ⁽¹⁾	September 13, 2007	179,260,000	169,690,000	March 1, 2037
Series 2011A-1	July 28, 2011	150,405,000	129,305,000	March 1, 2034
Series 2011A-2	July 28, 2011	86,380,000	74,340,000	March 1, 2034
Series 2011B	December 14, 2011	271,820,000	261,635,000	March 1, 2041
Series 2012A	November 8, 2012	49,140,000	8,585,000	March 1, 2018
Series 2014A	October 7, 2014	57,350,000	56,090,000	March 1, 2026
Series 2014B	October 7, 2014	28,010,000	28,010,000	March 1, 2028
Series 2014C	October 7, 2014	40,285,000	40,285,000	March 1, 2031
Total Senior Lien		<u>\$1,408,405,000</u>	<u>\$1,288,780,000</u>	
Subordinate Lien				
City of San José Norman Y. Mineta San José International Airport Subordinated Commercial Paper Notes, Series A-2, Series B, Series C ⁽²⁾				Rolling maturities of 270 days or less
	Varies	-	\$34,672,000	
Total Subordinate Lien			<u>\$34,672,000</u>	

⁽¹⁾ See "PLAN OF REFUNDING."

⁽²⁾ See "SECURITY FOR THE BONDS – Subordinate Obligations."

Source: City of San José.

Senior Lien. Table 4 shows the debt service requirements on the Series 2017 Bonds and the Outstanding Bonds.

Table 4
Norman Y. Mineta San José International Airport
Airport Revenue Bonds Debt Service Requirements

Fiscal Year Ended June 30	Series 2017 Bonds Debt Service Requirements					Airport Revenue Bonds Debt Service Requirements	
	Principal Requirements on Series 2017A Bonds	Interest Requirements on Series 2017A Bonds	Principal Requirements on Series 2017B Bonds	Interest Requirements on Series 2017B Bonds	Total Debt Service on Series 2017 Bonds	Total Debt Service Requirements on Outstanding Bonds*†	Total Debt Service Requirements on All Bonds†
2018	\$14,145,000	\$20,801,733	\$4,505,000	\$6,430,889	\$45,882,622	\$57,882,896	\$103,765,518
2019	11,245,000	22,694,700	3,575,000	7,144,650	44,659,350	47,841,682	92,501,032
2020	12,210,000	22,132,450	3,890,000	7,037,400	45,269,850	47,987,767	93,257,617
2021	12,795,000	21,521,950	4,070,000	6,881,800	45,268,750	48,637,930	93,906,680
2022	13,435,000	20,882,200	4,275,000	6,678,300	45,270,500	48,739,520	94,010,020
2023	4,415,000	20,210,450	1,400,000	6,464,550	32,490,000	49,435,802	81,925,802
2024	4,970,000	19,989,700	1,575,000	6,394,550	32,929,250	49,859,395	82,788,645
2025	5,725,000	19,741,200	1,820,000	6,315,800	33,602,000	50,062,932	83,664,932
2026	4,655,000	19,454,950	1,480,000	6,224,800	31,814,750	48,955,832	80,770,582
2027	4,005,000	19,222,200	1,275,000	6,150,800	30,653,000	50,016,047	80,669,047
2028	4,420,000	19,021,950	1,400,000	6,087,050	30,929,000	50,661,475	81,590,475
2029	4,545,000	18,800,950	1,450,000	6,017,050	30,813,000	56,573,055	87,386,055
2030	4,950,000	18,573,700	1,570,000	5,944,550	31,038,250	57,328,852	88,367,102
2031	5,655,000	18,326,200	1,805,000	5,866,050	31,652,250	57,722,625	89,374,875
2032	5,465,000	18,043,450	1,735,000	5,775,800	31,019,250	59,380,565	90,399,815
2033	6,045,000	17,770,200	1,925,000	5,689,050	31,429,250	60,023,512	91,452,762
2034	6,655,000	17,467,950	2,115,000	5,592,800	31,830,750	60,314,875	92,145,625
2035	19,740,000	17,135,200	6,285,000	5,487,050	48,647,250	25,589,435	74,236,685
2036	20,730,000	16,148,200	6,590,000	5,172,800	48,641,000	26,120,465	74,761,465
2037	21,765,000	15,111,700	6,920,000	4,843,300	48,640,000	26,657,335	75,297,335
2038	22,850,000	14,023,450	7,275,000	4,497,300	48,645,750	27,237,762	75,883,512
2039	23,990,000	12,880,950	7,635,000	4,133,550	48,639,500	27,746,495	76,385,995
2040	25,190,000	11,681,450	8,015,000	3,751,800	48,638,250	28,530,232	77,168,482
2041	26,455,000	10,421,950	8,420,000	3,351,050	48,648,000	29,137,515	77,785,515
2042	27,780,000	9,099,200	8,835,000	2,930,050	48,644,250	-	48,644,250
2043	28,910,000	7,988,000	9,200,000	2,541,750	48,639,750	-	48,639,750
2044	30,360,000	6,542,500	9,660,000	2,081,750	48,644,250	-	48,644,250
2045	31,875,000	5,024,500	10,145,000	1,598,750	48,643,250	-	48,643,250
2046	33,470,000	3,430,750	10,650,000	1,091,500	48,642,250	-	48,642,250
2047	35,145,000	1,757,250	11,180,000	559,000	48,641,250	-	48,641,250
Totals	\$473,595,000	\$465,901,033	\$150,675,000	\$148,735,539	\$1,238,906,572	\$1,092,444,006	\$2,331,350,578

Source: City of San José.

* Debt Service on Outstanding Bonds after giving effect to the refunding and defeasance of the Refunded Bonds.

† The numbers may not total due to rounding.

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. 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.”

Possible Downtown High-Rise Development Impacts on Air Service

Downtown San José is directly under the primary aircraft approach and departure paths for the Airport. Historically, in the review of proposed high-rise building projects, the City has relied upon the FAA’s issuance of a project-specific “No Hazard Determination” as the finding that the development would not adversely impact airspace or Airport operations. However, airlines must satisfy other, often more-restrictive, safety criteria mandated by the FAA (commonly referred to as “one engine inoperative” or “OEI” procedures) that may constrain their ability to economically operate due to high-rise buildings which, in turn, can impact City goals to retain or attract airline service. Because of the proximity of downtown San José to the Airport, further downtown high rise development could impact the Airport’s ability to attract more long-haul domestic and international service. In the event that obstructions in the takeoff path are too high, the airlines have to fly lighter aircraft or carry lighter loads (i.e. less fuel or fewer passengers) to be able to clear the obstructions with one engine inoperative. This, in turn, could adversely impact or preclude the air carriers’ ability to schedule long-haul flights (which typically require larger aircraft and more fuel) at the Airport. The City has been reviewing the potential impacts of OEI procedures for several years, and staff has considered but not yet proposed amendments to the City’s general plan to limit building heights downtown and in other parts of the City that are in the takeoff path. On April 28, 2014, the FAA issued a Notice of Proposed Policy regarding consideration of OEI flight procedures in evaluations of the potential aeronautical impact of obstructions. As indicated in the Notice of Proposed Policy, the FAA proposes to establish a new policy that would enable airport sponsors,

working with their airlines and other aircraft operator partners, to voluntarily define OEI departure surfaces. If defined, the FAA would treat OEI surfaces in the same manner as the FAA No Hazard Determination, making objects under the OEI surface subject to the full scope of FAA No Hazard Determination notification and airspace determination requirements. To date, the FAA has not yet implemented any such final policy. The City currently cannot predict the impact of either further downtown high-rise development or implementation of proposed FAA OEI regulations on future air service at the Airport.

Uncertainties in the Air Service Area

Approximately 98.3% 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, 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. A combination of the national credit crisis, aviation fuel cost spike, and global recession caused traffic to fall between fiscal years 2008-09 and 2009-10. Starting in fiscal year 2010-11, passenger traffic at the Airport began to recover and between fiscal year 2010-11 and fiscal year 2015-16, enplanements increased at a compound annual growth rate of 3.96%. Passenger enplanements at the Airport increased by approximately 11.2% for the first six months of fiscal year 2016-17 compared to the same period in the prior year. No assurance can be given that the passenger traffic at the Airport will continue to grow or that the current enplanement levels will be maintained. Reduced demand for air travel in and out of the Air Service Area could also result in fewer airlines serving the Airport. See "AIRPORT FINANCIAL MATTERS—Historical Operating Results" in Appendix A.

Competition

Other Airports. 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. These three airports serve the entire 12-County Area, ranging from Sonoma County to the north and Monterey County to the south. Both the Airport and OAK serve predominately domestic O&D traffic, while SFO is considered the Bay Area's international gateway, serving as the primary point of departure and arrival for international passengers. However, the Airport and OAK have both recently added direct international flights to key destinations in Europe and Asia, giving the international passenger additional flight options. Given the relatively close proximity of all of the Bay Area airports, passengers are willing to utilize any of the three airports in the region, which spurs competition between the Airport, SFO and OAK to capture passenger activity market share. A smaller commercial service airport that services portions of the Air Service Area, Monterey Peninsula Airport, is approximately 75 driving miles from the Airport.

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. Groundbreaking on the initial construction segment of the project (Merced to Bakersfield) began in 2015. The CHSR Authority has a schedule that would complete all necessary work to operate trains between the Central Valley and Silicon Valley by 2025. 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.

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 terrorist attacks and economic recessions.

From 2001 through 2009, the airline industry sustained significant financial losses. Since 2010, the airline industry has seen record profits. Airline consolidation, the economy, and lower fuel prices have contributed to the profitability of the airlines, allowing them to invest in larger aircraft, driving increases in capacity. 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 airline consolidations, optimization of route structures, low cost carriers, internet travel web sites and carriers reorganizing under the U.S. Bankruptcy Code.

Over the last ten years, the airline industry has seen a significant amount of consolidation. Four examples of this consolidation are the mergers between Delta Air Lines, Inc. and Northwest Airlines (“Delta Air Lines”) in 2008, United Airlines and Continental Airlines (“United Airlines”) in 2010, Southwest Airlines and AirTran Airways (“Southwest Airlines”) in 2011, and American Airlines and US Airways (“American Airlines Group”) in 2013. Most recently, on December 14, 2016, Virgin America Inc. became a wholly-owned subsidiary of Alaska Air Group, Inc. See “—Bankruptcy Risks—Airline or Other Tenant Bankruptcies.”

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 City and, in some cases, the airlines. 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.

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 PFC Revenues.

A number of rental car companies that operate at the Airport have also been the subject of bankruptcy proceedings. As described in Appendix A (see “LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—Rental Car Agreements”), in addition to lease and other payments, the rental car companies operating at the Airport remit CFCs to the Airport. Under the Eleventh Supplemental Trust Agreement, the City has pledged to the payment of Debt Service on the Bonds CFC Revenues in an amount not to exceed Annual Debt Service on the Series 2011B Bonds, subject to release in the future upon the satisfaction of certain conditions set forth in the Master Trust Agreement. See “SECURITY FOR THE BONDS – Pledge of General Airport Revenues and Certain Other Available Funds.” The only Series of Bonds such pledged CFC Revenues may be applied to repay are the Series 2011B Bonds. A rental car company may owe current or future lease payments to the Airport and is likely to be in possession of CFCs 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 CFCs 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 CFCs 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 CFCs that it collects to the City or the Trustee.

There could be delays in payments on the Bonds, including the Series 2017 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 2017 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 2017 Bonds.

City Bankruptcy. The City is authorized under California law to file for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code (the “Bankruptcy Code”). However, third parties cannot bring involuntary bankruptcy proceedings against the City. The Airport, being a department of the City, cannot itself file for bankruptcy protection. Should the City file for bankruptcy, there could be adverse effects on the holders of the Series 2017 Bonds.

If the General Airport Revenues are “special revenues” under the Bankruptcy Code, then General Airport Revenues collected after the date of the bankruptcy filing should be subject to the lien of the Master Trust Agreement. “Special revenues” are defined in the Bankruptcy Code to include receipts derived from the ownership or operation of projects or systems that are primarily used to provide transportation services. While the General Airport Revenues appear to satisfy this definition and thus should be “special revenues,” no assurance can be given that a court would not hold that the General Airport Revenues are not “special revenues.” If the General Airport Revenues are determined to not be “special revenues,” then General Airport Revenues collected after the commencement of the bankruptcy case will likely not be subject to the lien of the Master Trust Agreement. The holders of the Series 2017 Bonds may not be able to assert a claim against any property of the City or the Airport other than the General Airport Revenues, and if these amounts are no longer subject to the lien of the Master Trust Agreement, then there may be no amounts from which the holders of the Series 2017 Bonds are entitled to be paid.

The Bankruptcy Code provides that “special revenues” can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, the City may be able to use General Airport Revenues to pay necessary operating expenses of the Airport, before the remaining General Airport Revenues are turned over to the Trustee to pay amounts owed to the holders of the Series 2017 Bonds. It is not clear precisely which expenses would constitute necessary operating expenses.

If the City is in bankruptcy, parties (including the holders of the Series 2017 Bonds) may be prohibited from taking any action to collect any amount from the City or to enforce any obligation of the City, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the Series 2017 Bonds from funds in the Trustee’s possession. The rate covenant may not be enforceable in bankruptcy by the Trustee or the holders of the Series 2017 Bonds.

The City is permitted to hold General Airport Revenues for up to one year before transferring General Airport Revenues to the Trustee. If the City goes into bankruptcy, the City may not be required to turn over to the Trustee any General Airport Revenues that are in its possession at the time of the bankruptcy filing and have been commingled with other moneys. If the City has possession of General Airport Revenues (whether collected before or after commencement of the bankruptcy) and if the City does not voluntarily turn over such General Airport Revenues to the Trustee, it is not entirely clear what

procedures the Trustee and the holders of the Series 2017 Bonds would have to follow to attempt to obtain possession of such General Airport Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. Under such circumstances, there may be delays or reductions in payments on the Series 2017 Bonds.

Under the Bankruptcy Code, the City may be able to borrow additional money that is secured by a lien on any of its property (including the General Airport Revenues), which lien could have priority over the lien of the Master Trust Agreement, as long as the bankruptcy court determines that the rights of the Trustee and the holders of the Series 2017 Bonds will be adequately protected. The City may be able to cause some of the General Airport Revenues to be released to it, free and clear of lien of the Master Trust Agreement, as long as the bankruptcy court determines that the rights of the Trustee and the holders of the Series 2017 Bonds will be adequately protected.

Under the Bankruptcy Code, the City may be able, without the consent and over the objection of the Trustee and the holders of the Series 2017 Bonds, to alter the principal, 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 and the Series 2017 Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

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 Depositary 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 AND POTENTIAL CLAIMS" 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. In September 2013, the FAA, in conjunction with the U.S. Department of Transportation, held three meetings with aviation industry participants (airports, airlines and consultants) seeking both historical and forward-looking feedback regarding industry developments and practices to assist the FAA in its comprehensive review of its current rates and charges policy and whether revisions or other future actions may be necessary. 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.

The passenger airlines that currently operate at the Airport have a potential unasserted claim against the City for overpayment of terminal rents by the airlines. At this time it is impossible to predict the outcome of this potential unasserted claim, the possible loss or range of loss, or whether the unasserted claim will be made and if made, when it would be resolved. No assurances can be given that additional 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.

Executive Order Regarding Sanctuary Jurisdictions. On January 25, 2017, President Trump issued "Executive Order - Enhancing Public Safety in the Interior of the United States" (the "Executive Order") which aims to address certain immigration policies of the administration, including sanctuary jurisdictions, among other things. The Executive Order states, in part, that the policy of the executive branch will be to "ensure that jurisdictions that fail to comply with applicable Federal law do not receive Federal funds, except as mandated by law." The Executive Order further provides that:

- The Attorney General and the Homeland Security Secretary, in their discretion and to the extent consistent with law, shall ensure that jurisdictions that willfully refuse to comply with 8 U.S.C, 1373 (sanctuary jurisdictions) are not eligible to receive Federal grants, except as deemed necessary for law enforcement purposes by the Attorney General or the Secretary.
- The Homeland Security Secretary has the authority to designate, in his discretion and to the extent consistent with law, a jurisdiction as a sanctuary jurisdiction.
- The Attorney General shall take appropriate enforcement action against any entity that violates 8 U.S.C. 1373, or which has in effect a statute, policy, or practice that prevents or hinders the enforcement of Federal law.

The City believes that its current policies and practices comply with 8 U.S.C. 1373; however, as of March 15, 2017, the City does not know how federal officials will interpret or apply the Executive Order.

The application of the Executive Order to specific grants is also unclear. To the extent that any federal grant mandated by Congress may be found to fall within the order's exception for funds "mandated by law," federal funds under particular statutes may be found to be excluded from the order altogether and therefore not subject to the withholding of funds. As of March 15, 2017, the City does not

have sufficient information on the potential impact, if any, on any federal funding that may be withheld as a result of this order. City staff are also unable to predict what actions, if any, that the City Council may take with respect to the “sanctuary jurisdiction” issue generally or specifically in response to the Executive Order.

Availability of Funding From PFC Revenues and CFC Revenues

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 level of the PFC. No assurance can be given that any level of enplanements will be realized or that the level of PFC the City may impose will not change. 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 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.

CFC Revenues are currently pledged to the payment of Debt Service on the Bonds in an amount not to exceed Annual Debt Service on the Series 2011B Bonds, subject to release in the future upon the satisfaction of certain conditions set forth in the Master Trust Agreement. The only Series of Bonds such pledged CFC Revenues may be applied to repay are the Series 2011B Bonds. See “SECURITY FOR THE BONDS – Pledge of General Airport Revenues and Certain Other Available Funds.” To the extent available, CFC revenues will also be applied to pay transportation costs starting in fiscal year 2017. See “AIRPORT FINANCIAL MATTERS—Customer Facility Charges” in Appendix A for a discussion of CFC Revenues. 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. 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 Consolidated Rental Car Facility (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, including Facility Rent for the rental car companies, at the Airport to meet the debt service requirements on the Bonds.

Seismic Hazards

According to the safety element of the City's "2040 General Plan" (the "General Plan"), the City, including the Airport, is located in a region of very high seismic activity. There are several geological faults in the greater San Francisco Bay Area that have the potential to cause serious earthquakes which could result in damage to buildings, roads, bridges, and property within the City. 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 nine recorded earthquakes with a Richter scale magnitude of 6.0 or greater, and with the epicenter located within the Bay Area. The South Napa earthquake with a Richter scale magnitude of 6.0 according to the U.S. Geological Survey ("USGS"), occurred on August 24, 2014; however little or no damage was reported in the City and no damage occurred at the Airport. Prior to the South Napa earthquake, the City experienced the Loma Prieta earthquake on October 17, 1989 which had a Richter scale magnitude of 6.9 according to the USGS.

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 Geological Survey 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 Geological Survey, the Airport is located within an area subject to a high potential for liquefaction during a major earthquake.

The Airport and its then existing facilities remained open after the Loma Prieta 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 Loma Prieta earthquake. At the time of the Loma Prieta earthquake, Terminal A was nearing completion and was not yet occupied. Terminal B and its concourse, substantially completed in June 2010, were designed and constructed in accordance with the California Building Code, 2007 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, with stringent requirements for earthquake resistant design.

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. According to the NTSB website there has been no other reported explosion since 2010 within the vicinity of the Airport. 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. All pipelines in the area have maximum allowable operating pressure (MAOP) which results in a low operating stress level. 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.

PG&E has instituted a comprehensive inspection and monitoring program with the purpose of ensuring the safety of its natural gas transmission pipeline system. PG&E regularly conducts patrols, leak surveys, and cathodic protection (corrosion protection) system inspections for its natural gas pipelines. PG&E's policy is to address issues identified as a threat to public safety immediately. PG&E conducts quarterly patrols for its gas transmission pipelines to look for indications of construction activity and other factors affecting safety and operation – there were no adverse indicators affecting pipeline safety during the last quarterly patrol done in January 2017. Leaks Surveys are done semi-annually. There were no leaks found in the survey conducted by PG&E in October 2016. PG&E utilizes an active cathodic protection (CP) system on its gas transmission and steel distribution pipelines to protect them against corrosion. PG&E inspects its CP systems at least annually to ensure they are operating correctly.

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 2017 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

General. 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 José 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 a majority of 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 and mid 1990’s (the map for Guadalupe Dam was further updated in 2014, the map for Lenihan Dam was further updated in 2016, and the map for Anderson Dam was further updated in 2016). These inundation maps are on file with the California Office of Emergency Services and with the City.

The District commenced seismic stability studies on nine of the District’s dams in 2007. On July 6, 2011, the District issued a press release announcing the results of a seismic study of the Anderson Dam, an earth and rockfill structure constructed in 1950, which concluded that the dam could be affected by a major earthquake with a magnitude of 7.25 on the Calaveras Fault within two kilometers of the dam. The study further stated that the analysis found loosely compacted layers of liquefiable materials in the foundation of the dam. These materials are susceptible to a reduction in strength when subjected to severe earthquake shaking. If the foundation were damaged, part of the dam could experience 15 to 25 feet of vertical deformation, with an additional 15 feet of potential cracking. The study stated that if the reservoir were full at the time, there could be an uncontrolled release of water. Although the chances are very remote, a complete failure of the Anderson Dam could send a wall of water 35 feet high into downtown Morgan Hill in 14 minutes, and 8 feet deep into San José within three hours.

The Anderson Dam is regulated by the State of California Division of Safety of Dams, which performs yearly reviews and requires maintenance and safety standards to be enforced by the dam owners and operators. Additionally, the Federal Energy Regulatory Commission has dam safety jurisdiction at the Anderson Dam. Currently, according to information provided on the District’s website, these regulatory

agencies have set a reservoir elevation restriction equivalent to 68 percent of capacity, or 61,810 acre-feet of water. Also according to information on the District's website, these agencies set these storage elevation restrictions understanding that reservoirs cannot physically be kept below a restricted level at all times; for example, they understand that storms produce rainfall runoff into reservoirs that will temporarily increase the amount of water in them and that they have not requested the District do anything beyond releasing water from the dam's existing outlet as quickly as possible, to help bring water levels back down.

In response to the seismic study, the District initiated a project to retrofit the Anderson Dam. The planning phase of the Anderson Dam Seismic Retrofit project has been completed and currently the project is in the early part of the engineering design phase, which identified significant new issues with the dam that will require a much more extensive retrofit of the embankment. The modified project is scheduled for completion in 2024 at an estimated cost of \$400 million.

Coyote Reservoir and Dam, also operated by the District, lie immediately upstream of Anderson Reservoir and are located on the Calaveras fault. Coyote Reservoir was constructed in the 1930's and is currently operated under a State of California Division of Safety of Dams storage restriction limit equivalent to fifty percent of capacity. When Coyote Reservoir exceeds 100 percent of storage capacity due to extreme wet weather, spillway flows from Coyote Reservoir enter the south end of Anderson Reservoir. Coyote Reservoir has a total storage capacity of 23,244 acre-feet, which is approximately 25 percent of the storage capacity of Anderson Reservoir, which can store a total of 90,373 acre-feet. In the event of a total failure of Coyote Reservoir Dam, the resulting water that would be released because of such failure would be expected to be contained within the channel that leads to Anderson Reservoir. If Anderson Reservoir lacked the storage capacity to contain the Coyote Reservoir water flows resulting from a dam failure event, the Anderson Reservoir spillway would convey those flows to Coyote Creek below the Anderson Reservoir and ultimately into San José. Depending on the amount of water released along the Anderson Reservoir spillway as a result of a failure of the Coyote Reservoir Dam, ingress and egress to the Airport could be impacted to some extent.

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 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. In 2012, the District initiated a project to retrofit Calero and Guadalupe Dams. The planning phase of the project has been completed. The design phase of the project commenced in 2015. Construction of these two dam retrofit projects is scheduled for completion in fiscal year 2021-22 at an estimated cost of \$140 million.

Reports or studies were completed for the Almaden Dam in October 2012, the Lenihan Dam in December 2012, and the Stevens Creek Dam in December 2013, that concluded that the dams are in suitable condition and that no retrofit work is required. 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.

During periods of extreme rain events the Guadalupe River may rise above the outflows from Airport property, potentially resulting in water ponding on the airfield and water retention in the lower levels of the Terminal A parking structure. Procedures are in place to remove standing water and to maintain the revenue operations of the ground and upper levels of the Terminal A parking structure. 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.

Recent Flooding. Due to significant rainfall in the Santa Clara Valley during fall 2016 and winter 2017, Anderson Dam's water capacity has exceeded the capacity restriction and the District has been releasing water from it. On February 18, 2017, Anderson Dam exceeded 100% of its capacity, and as a result of the uncontrollable but predictable release of water over the spillway the City experienced significant flooding along Coyote Creek.

The uncontrollable spillway release lasted 10 days. The reservoir spillway event began on February 18, 2017 and reached its peak on February 21, 2017 before declining and eventually stopping on February 28, 2017. Beginning February 28, the reservoir levels slowly retreated as the District used the outlet at the base of the dam to draw down water levels at a rate of approximately 425 cubic feet per second (fully opened). As of March 9, 2017 the reservoir capacity had retreated from 100% (full) to 95% (5% available for storage of inflows to the reservoir) and is anticipated to continue to decline with the absence of significant rain.

This flooding required a combination of advisory and mandatory evacuations of approximately 14,000 residents in three areas of San José: Rock Springs; neighborhoods in the William Street area (Olinder, Brookwood Terrace, and Naglee Park); and three mobile home parks in North San Jose. The flood significantly impacted both privately and publicly owned property and facilities in the Rock Springs and William Street neighborhoods. Flooding also occurred on Highway 101, south of San José, causing the closure of the freeway for most of the day in this location on February 21, 2017.

The Coyote Creek flooding did not affect the Airport, but in a separate incident on the same day, the Airport did experience minor flooding in its Terminal A garage associated with its proximity to the Guadalupe River and its elevation.

Although there was no damage to the facilities or effect on the operations of the Airport, the City has proclaimed a state of local emergency with respect to this flooding event and has requested that the Governor of the State of California proclaim a state of emergency for the City and that he request a federal declaration for assistance. On February 27, 2017, the City submitted to the State an initial damage estimate of \$73 million, including \$50 million in damage to private property and \$23 million in damages or unanticipated operating costs to the City. These estimates were preliminary and continue to be revised.

RATINGS

S&P has assigned its municipal bond rating of "AA" to the Insured Series 2017A Bonds with the understanding that, concurrently with the delivery of the Insured Series 2017A Bonds, the Policy will be issued by BAM. The Series 2017 Bonds have been assigned an underlying rating of "A-", "A2" and "A-" by S&P, Moody's and Fitch, respectively. The ratings assigned by Moody's, S&P and Fitch reflect only the views of such organizations. The explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings 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 2017 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

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2017 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes, except that no opinion is expressed as to the status of interest on any Series 2017A Bond for any period that such Series 2017A Bond is held by a “substantial user” of the facilities refinanced by the Series 2017A Bonds or by a “related person” within the meaning of Section 147(a) of the Code. Bond Counsel observes that interest on the Series 2017A Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. In the further opinion of Bond Counsel, interest on the Series 2017B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2017 Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent that the issue price of any maturity of the Series 2017 Bonds is less than the amount to be paid at maturity of such Series 2017 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2017 Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2017 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2017 Bonds is the first price at which a substantial amount of such maturity of the Series 2017 Bonds is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2017 Bonds accrues daily over the term to maturity of such Series 2017 Bonds on the basis of a constant interest rate compounded semiannually (with straight line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2017 Bonds to determine taxable gain or loss upon disposition (including sale, redemption or payment on maturity) of such Series 2017 Bonds. Beneficial Owners of the Series 2017 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the Series 2017 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2017 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2017 Bonds is sold to the public.

The Series 2017 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2017 Bonds. The City has made certain representations and has covenanted to comply with certain restrictions,

conditions and requirements designed to ensure that interest on the Series 2017 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2017 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2017 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2017 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2017 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2017 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2017 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2017 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, presidential budget proposals in previous years have proposed legislation that would limit the exclusion from gross income of interest on the Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect – perhaps significantly, the market price for, or marketability of, the Series 2017 Bonds. Prospective purchasers of the Series 2017 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2017 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax exempt status of the Series 2017 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2017 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2017 Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

LITIGATION

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 2017 Bonds or contesting the validity of the Series 2017 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 2017 Bonds or the use of the Series 2017 Bond proceeds. As described in “APPENDIX A—LITIGATION AND POTENTIAL CLAIMS,” a number of litigation matters relating to the Airport are pending against the City.

The City is not able to predict the outcome of the pending litigation, but does not believe that it will adversely impact the ability of the City to pay debt service on the Series 2017 Bonds.

LEGAL MATTERS

The validity of the Series 2017 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. Orrick Herrington & Sutcliffe LLP, as Bond Counsel, 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, and by Jones Hall, A Professional Law Corporation, as Pension Disclosure Counsel. All of the fees of Bond Counsel, Disclosure Counsel and Underwriters’ Counsel with regard to the issuance of the Series 2017 Bonds are contingent upon the issuance and delivery of the Series 2017 Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners of the Series 2017 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 (resulting in a deadline of March 31 of each year) beginning with the fiscal year ending June 30, 2017 (the “Annual Report”) and to provide notices of the occurrence of certain enumerated events, in some cases only if such events are 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 F. 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.

The City engaged third-party consultants to conduct an analysis of the City’s historical compliance with its continuing disclosure obligations from fiscal year 2010-11 through fiscal year 2015-16, during which the City was responsible for numerous bond issuances, including bond issuances of the City, the City of San José Financing Authority, the San José-Santa Clara Clean Water Financing Authority, and various City of San José special assessment and community facilities districts and a convention center facilities district. During the five year period preceding the date of this Official Statement, the City failed to file, or file on a timely basis, notices of rating changes, or insurer-related rating changes or rating withdrawals with respect to numerous series of bonds. In addition, the assessed

value of taxable property and top ten real property tax assessee information contained in the Annual Reports for each of the past five years reflects information as of the “prior” fiscal year instead of the “current” fiscal year, as may have been required by the terms of its undertakings relating to previous issues of general obligation bonds.

FINANCIAL ADVISORS

The City has retained the services of Public Financial Management, San Francisco, California, and Public Resources Advisory Group, Oakland, California, as Financial Advisors in connection with the sale of the Series 2017 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 2017 Bonds are contingent upon the issuance and delivery of the Series 2017 Bonds.

UNDERWRITING

Series 2017 Bonds

The Series 2017 Bonds are being purchased from the City by Citigroup Global Markets Inc. as representative of the underwriters listed on the front cover of this Official Statement (collectively, the “Underwriters”). The Underwriters have agreed to purchase the Series 2017 Bonds at a purchase price of \$689,611,273.35 (representing the aggregate principal amount of the Series 2017 Bonds of \$624,270,000, less an underwriting discount of \$1,217,485.45, plus a net original issue premium of \$66,558,758.80).

The Bond Purchase Agreement pursuant to which the Series 2017 Bonds are being sold (the “Bond Purchase Agreement”) provides that the Underwriters’ obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Series 2017 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.

The following two paragraphs have been provided by Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC, respectively, for inclusion in this Official Statement and the City cannot and does not assume any responsibility for the accuracy or completeness of such statements or information

Citigroup Global Markets Inc., one of the Underwriters of the Series 2017 Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. (“UBSFS”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for its selling efforts with respect to the Series 2017 Bonds.

Morgan Stanley & Co. LLC, one of the Underwriters of the Series 2017 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2017 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 2017 Bonds.

FINANCIAL STATEMENTS

The audited financial statements of the Airport set forth in Appendix D have been examined by Grant Thornton 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. Grant Thornton 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.

During the year ended June 30, 2015, the Airport implemented the following accounting standards: GASB Statement No. 68, *Accounting and Financial Reporting for Pension – An Amendment of GASB Statement No. 27* (“GASB 68”) establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. GASB 68, among other things, requires governments providing defined benefit pension plans to report the net pension liability, pension expense and deferred outflows/deferred inflows of resources related to pensions in its financial statements as part of its financial position (as opposed to note disclosures), with the effect of reducing a government’s overall net position. GASB 68 also requires use of the entry age actuarial cost method for reporting purposes, and limits the smoothing of differences between actual and expected investment returns on pension assets. In certain cases, a lower discount rate will be required for valuing pension liabilities. Concurrently with its implementation of GASB 68, the Airport also implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* (“GASB 71”), which resolves transition issues in GASB 68. For more information, see “AIRPORT FINANCIAL MATTERS—Historical Operating Results” in Appendix A and Note 7 in Appendix D.

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 2017 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
Director of Finance

By: /s/ Kimberly J. Becker
Director of Aviation



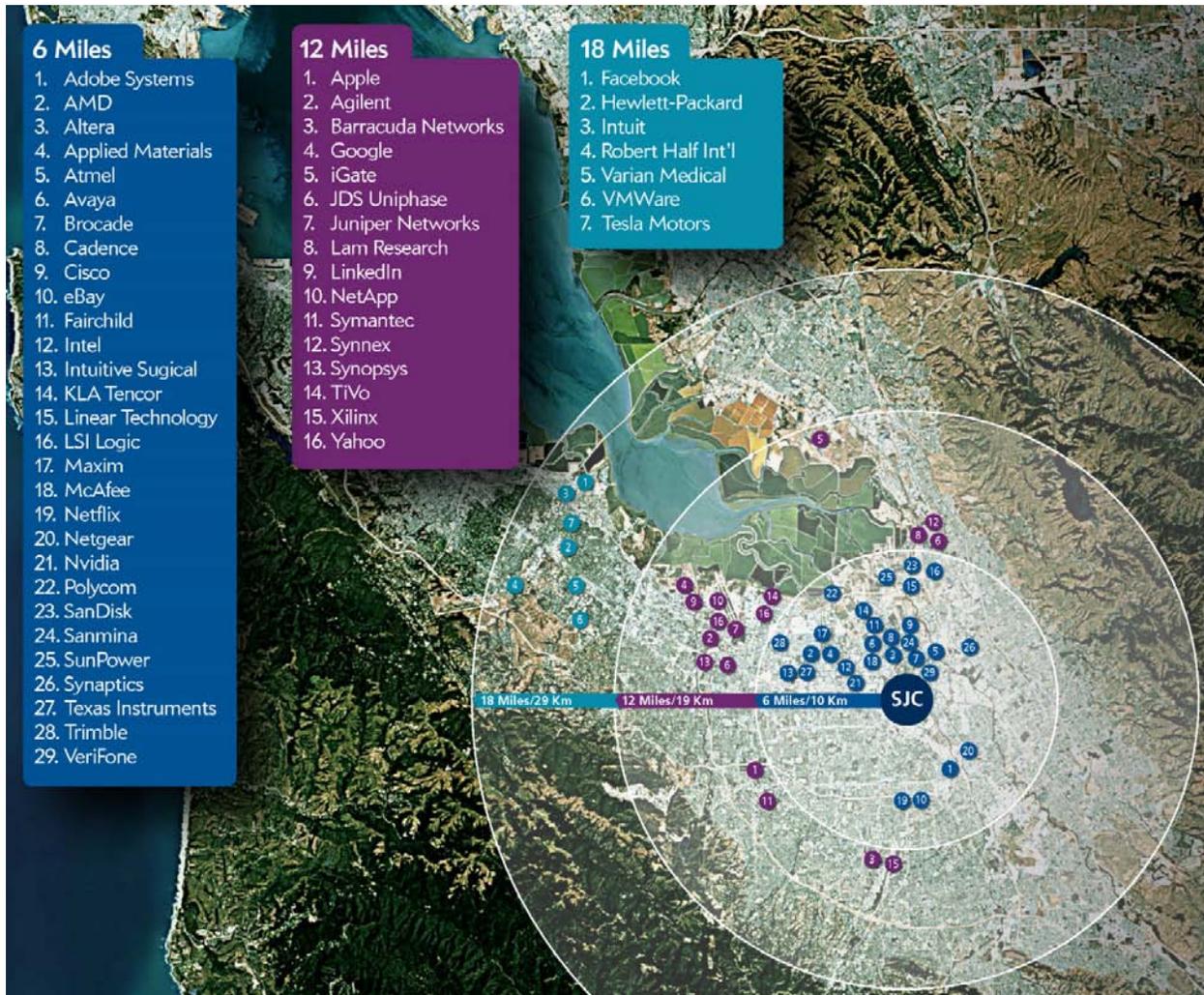
APPENDIX A

THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

TABLE OF CONTENTS

AIR SERVICE AREA.....A-2	Phase 1 of the Airport
GeneralA-2	Development Program..... A-38
Demographic and Economic	Phase 2 of the Airport
ProfileA-4	Development Program..... A-38
THE CITY AND THE AIRPORT	Costs and Funding Sources of
DEPARTMENT.....A-6	the Airport
The CityA-6	Development Program..... A-38
The Airport Department.....A-6	Five Year Capital Improvement
THE AIRPORT.....A-6	Program A-38
GeneralA-6	Environmental Matters A-40
Existing FacilitiesA-7	OTHER MATTERS A-43
PASSENGER SERVICES AND	Security Matters..... A-43
OPERATIONS.....A-11	Investment Policy and Practices
Passenger ServicesA-11	of the City A-43
Enplanements by Airline.....A-14	Investment Portfolio A-43
Historical Air Cargo.....A-16	Labor Relations..... A-44
Landed Weight and Airport	Retirement Plans..... A-50
Operations.....A-16	Insurance and Self-Insurance
LEASE AND OPERATING	Programs..... A-54
AGREEMENTS.....A-18	LITIGATION AND POTENTIAL
Airline Agreements.....A-18	CLAIMS A-60
Parking, Rental Car, Concession	
and Other AgreementsA-19	
AIRPORT FINANCIAL MATTERSA-21	
Airport and City Budget ProcessA-21	
Passenger Facility ChargesA-25	
Customer Facility Charges.....A-26	
Federal Grants.....A-27	
Federal Security Grants.....A-27	
Historical Operating ResultsA-28	
Management Discussion of	
Recent Financial	
Results.....A-32	
CAPITAL DEVELOPMENT AT THE	
AIRPORTA-37	
Airport Master Plan.....A-37	

Silicon Valley is home to many of the world’s largest technology companies, including Hewlett-Packard, Apple, Cisco, Facebook, Intel, Google and Oracle, among others, as depicted below. The mileage between the Airport (SJC) and each of the listed companies is measured as the crow flies.



The primary area served by the Airport consists of Santa Clara County, which is also the San José Primary Metropolitan Statistical Area (MSA). 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 José/Oakland area: San Francisco International Airport and Oakland International Airport.

The region 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. It is home to numerous major sporting and entertainment venues, museums, a world-renowned aquarium, theme parks,

retail centers, and other attractions. Levi’s Stadium, home of the San Francisco 49ers and host of Superbowl 50 in 2016, opened in July 2014 and is located just three miles from the Airport. In February 2015, Avaya Stadium opened across the street from the Airport’s west side and is the home of major league soccer’s San José Earthquakes. The SAP Center has been the home of the San Jose Sharks of the National Hockey League since 1993 and is approximately four miles from the Airport. According to a February, 2017 *U.S. News and World Report* article, San José ranked third among “The Best Places to Live in the US in 2017.”

The Air Service Area’s expanding population base, relatively high per capita income, advanced levels of educational attainment, and high level of economic production provide the primary base for supporting air transportation at the Airport.

Demographic and Economic Profile

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 during fiscal year 2015-16, approximately 98.3% 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 air service area than upon the financial condition and route decisions of individual airlines.

Population. Population growth is a key factor influencing the demand for air travel. California is the most populous state in the nation, and the Air Service Area had a substantial population base with an estimated 5.1 million residents in 2015. The table below shows the growth in population in the Air Service Area experienced between 2010 and 2015. According to California Department of Finance estimates, the population for the six counties comprising the Air Service Area grew from 5,036,570 in 2010 to 5,091,522 in 2015.

County	Census 2010	Census 2015 (Estimate)	Total Increase 2010-2015	% Change
1. Santa Clara	1,781,642	1,918,044	136,402	7.7%
2. Alameda	1,510,271	1,638,215	127,944	8.5
3. San Mateo	718,451	765,135	46,684	6.5
4. Monterey	415,057	433,898	18,841	4.5
5. Santa Cruz	262,382	274,146	11,764	4.5
6. San Benito	55,269	58,792	3,523	6.4
Air Service Area	4,743,072	5,088,230	345,158	7.3%

Source: United States Census Bureau (Census 2010 & 2015 Population Estimates)

Income. According to U.S. Bureau of Economic Analysis’ estimates updated as of November 17, 2016, for 2015 Santa Clara County had a Per Capita Personal Income (PCPI) of \$82,756 which was 154% of the state average of \$53,741 and 172% of the national average of \$48,112. Within the Air Service Area, the remaining counties personal income and PCPI were as follows for 2013 through 2015:

Table 2
Personal Income and Per Capita Personal Income within the Air Service Area
2013 through 2015

County	Personal Income (Thousands of Dollars)			2013-2015 Change	Per Capita Personal Income			2013-2015 Change
	2013	2014	2015		2013	2014	2015	
Alameda	\$86,610,728	\$93,290,149	\$101,370,460	\$14,759,732	\$54,684	\$57,842	\$61,879	\$7,195
Monterey	\$19,184,163	\$20,028,430	\$21,623,627	\$2,439,464	\$44,707	\$46,438	\$49,836	\$5,129
San Benito	\$2,276,876	\$2,364,002	\$2,565,863	\$288,987	\$39,526	\$40,543	\$43,643	\$4,117
San Mateo	\$65,192,835	\$69,717,150	\$74,641,211	\$9,448,376	\$86,911	\$91,935	\$97,553	\$10,642
Santa Cruz	\$14,246,799	\$14,814,476	\$15,696,689	\$1,449,890	\$52,908	\$54,585	\$57,257	\$4,349
Santa Clara	\$135,181,879	\$147,251,454	\$158,728,715	\$23,546,836	\$72,246	\$77,663	\$82,756	\$10,510
Air Service Area⁽¹⁾	\$322,693,280	\$347,465,661	\$374,626,565	\$51,933,285	\$65,029	\$69,093	\$73,626	\$8,597
California	\$1,861,956,514	\$1,977,923,740	\$2,103,669,473	\$241,712,959	\$48,471	\$50,988	\$53,741	\$5,270
National	\$14,068,960,000	\$14,801,624,000	\$15,463,981,000	\$1,395,021,000	\$44,462	\$46,414	\$48,112	\$3,650

⁽¹⁾ Per Capita Personal Income amounts for Air Service Area for years 2013 to 2015 are weighted average using US Census 2015 Population Estimates.

⁽²⁾ Some data reported previously were revised to reflect most recent information as of November 17, 2016.

Source: US Bureau of Economic Analysis

Educational Attainment. The percentage of the Air Service Area’s population with a bachelor’s degree or higher (the category most likely to travel by air) was approximately 39.7%, according to the U.S. Census Bureau, 2011-2015 American Community Survey, substantially higher than that for California and for the nation. The high level of educational attainment is associated with its high labor force productivity and high per capita personal income.

The Air Service Area is also home to numerous public and private institutions of higher education, including Stanford University, San José State University, Santa Clara University, the University of California at Berkeley, 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 region, through corporate, medical, and government research; large student populations; contributions to the high levels of educational attainment in the region; and significant contributions in terms of workforce for the technology industry and other industry sectors.

Regional Economy. The economic base of the Air Service Area is relatively stable and diversified. The Air Service Area has significant competitive advantages in its highly educated labor force, extensive research and development facilities, and high quality of life. These advantages have contributed to the region becoming a leading center of information technology, software, biotechnology, “clean technology,” and digital media.

Employment. California and U.S. unemployment rates have fallen to near pre-recession levels and continue to exhibit a downward trend. According to the U.S. Bureau of Labor Statistics, the Air Service Area’s 2015 unemployment rate was 4.8% with approximately 127,412 unemployed, compared with 6.2% for California and 5.3% for the nation. All six counties comprising the Air Service Area experienced a decrease in unemployment from 2010, during which the Air Service Area recorded a 10.7% unemployment rate. The six counties comprising the Air Service Area experienced an increase in unemployment rates, from 4.1% in December, 2016 to 4.58% in January, 2017, according to the California Employment Development Department.

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 and the Office of Retirement Services. The City Attorney, City Clerk, City Auditor and Independent Police Auditor are appointed by and carry out the policies set forth by the City Council. The City Charter provides that the boards of administration for each of the City's retirement plans, the Federated City Employees' Retirement System (Federated Plan) and the Police and Fire Department Retirement Plan (Police and Fire Plan and together with the Federated Plan, the Retirement Plans) hire and prescribe the duties of the chief executive officer and chief investment officer within the Office of Retirement Services who serve at the pleasure of the retirement boards. For a more detailed discussion of the governance of the City's Retirement Plans, see "CITY OF SAN JOSE: RETIREMENT PLANS" in Appendix B.

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 eleven 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 five divisions: Airport Planning and Development, Airport Facilities and Engineering, Airport Operations, Airport Finance and Administration, and Airport Business Development. At its peak, the Airport Department had 400 authorized positions in fiscal year 2008-09. For fiscal year 2015-16, the Airport Department had 187 authorized positions and has 204 authorized positions in its budget for fiscal year 2016-17. Except for certain unrepresented employees, full-time and part-time employees assigned to the Airport Department are members of the Federated Plan. For further information regarding the City's labor relations, see "OTHER MATTERS—Labor Relations" herein and for further information concerning the City's Retirement Plans, see "OTHER MATTERS—Retirement Plans" herein and "CITY OF SAN JOSE: RETIREMENT PLANS" in Appendix B.

THE AIRPORT

General

The Airport is located on approximately 1,050 acres of land approximately four 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 were initiated in 1946. In the fall of 1948, the City assumed the operation of the 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 again renamed Norman Y. Mineta San José International Airport. According to a March, 2017 American City Business Journals article, the Norman Y. Mineta San José International Airport was ranked as the “best-run airport in the country.”

Passenger levels at the Airport are currently above the pre-recession levels of fiscal year 2008. Since fiscal year 2013, the Airport has experienced a rebound in passenger activity, resulting in a total of approximately 10.8 million passengers traveling through the Airport and passenger traffic growth of 10.2% on a rolling twelve-month basis through December 2016, representing a 6.3% compound annual growth rate from fiscal year 2013 through fiscal year 2016. International enplanements grew 70.0% on a rolling twelve-month basis through December 2016. The Airport grew from 31 to 40 announced nonstop destinations in fiscal year 2016 and, with the announced destinations, has 180 peak daily departures, up from 146 during fiscal year 2015. The Airport now has seven international carriers (See “PASSENGER SERVICES AND OPERATIONS” - Table 3 below) and is providing service to the top five international destinations requested by the local business community (London, Shanghai, Tokyo, Beijing and Frankfurt), based on a survey completed by the Silicon Valley Leadership Group in 2012. Based on the added capacity, according to the Official Airline Guide (OAG) as of January 24, 2017, the Airport is scheduled to add more seat capacity in the second half of fiscal year 2016-17 than any other large or medium hub airport in the nation, reflecting a 16.3% increase in seats over the prior fiscal year.

To accommodate the large increase in air traffic, the Airport is adding two gates at the south end of Terminal B. In addition, the Airport is adding a second baggage carousel for the Federal Inspection Services (FIS) facility. The FIS facility will also be enhanced by enclosing the front of the facility and adding customer friendly amenities for arriving passengers and those waiting to receive the arriving passengers. Both FIS projects are anticipated to be complete in March 2017. The funding for these projects is coming from unspent proceeds from a prior bond issue and will not flow through the airline rates and charges.

Existing Facilities

General. Existing facilities at the Airport include three parallel runways, one of which is currently being used as a taxiway; 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.



Airfield Facilities. The Airport's airfield facilities consist of three parallel runways, including two air carrier runways (Runway 12R/30L and Runway 12L/30R), one general aviation runway (Runway 11/29) and connecting taxiways. Runway 12L/30R is the primary runway for departures, and Runway 12R/30L is the primary runway for arrivals.

Runway 12L/30R is approximately 11,000 feet long, and Runway 12R/30L is 11,000 feet long, 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 that has been converted into a temporary taxiway. No decision by the City has been made as to the ultimate use of the former Runway 11/29.

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. Ground loading does occur on some flights. Air Canada, Air China, American Airlines, Delta Air Lines, JetBlue Airways, Hawaiian Airlines, United Airlines, All Nippon Airways, and Volaris are currently located in Terminal A. Southwest Airlines, British Airways, Hainan Airlines, Lufthansa, and Alaska Airlines are currently located in Terminal B. The terminal facilities include food, beverage and other concessions.

Total capacity in the terminals is estimated to be 14.4 million passengers annually. Terminal A, including the Terminal A+ extension that opened in 1990, is a 16-gate, multi-story building. Terminal A, which was renovated and expanded in 2010, is designed to handle up to approximately 8.3 million passengers annually. 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. Terminal B is designed to handle approximately 6.1 million passengers annually.

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 and U.S. Public Health Service, the International Arrivals Facility houses two of the 16 aircraft gates in Terminal A, two of the 12 aircraft gates in Terminal B, and a waiting area for departing international passengers. These gates can be used for either international or domestic flights, providing the Airport with flexibility to adjust to the changing schedules of the airlines. In 2013, the Airport opened *The Club at SJ*, a lounge located in the International Arrivals Facility that is open to all airline passengers. By purchasing a day pass for \$40, travelers have access to the lounge where they can work quietly, rest between flights, or freshen up during their journey.

Rental Car Facilities. Currently, seven rental car companies, representing a total of twelve rental car brands, operate at the Airport in the seven-story ConRAC located immediately across the street from Terminal B. The ConRAC, which opened in June 2010, includes 3,000 ready/return spaces and approximately 304 hourly public parking spaces located on the first floor. See “LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—Rental Car Agreements”.

Parking. As of December 31, 2016, the Airport had a total of approximately 5,165 available public parking spaces. Terminal A is connected to a parking garage with approximately 1,160 spaces for hourly public parking. The first floor of the ConRAC is dedicated to hourly public parking for Terminal B and includes approximately 304 spaces. Two additional hourly surface parking lots, one adjacent to Terminal B and one adjacent to the ConRAC, provide approximately 670 hourly parking spaces for Terminal B. Two daily surface parking lots provide a total of approximately 1,358 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 1,673 economy parking spaces. See “LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—Parking Agreement” below.

General Aviation Facilities. As of December 31, 2016, there were approximately 140 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 two fixed-base operators (“FBOs”), that provide services such as fuel sales, aircraft sales, rentals and maintenance, charter service, flight instruction and aircraft radio sales and one specialized aviation service operator (SASO) that provides commercial aeronautical services to its sub-lessees only.

The Airport currently has two operating FBOs. 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 Property Services, LLC (ACM) opened a new facility in 2008 and operated as a full service FBO that was acquired by San José Jet Center which later was acquired by Atlantic Aviation. The other FBO, Signature Flight Support Corporation, started operations in October of 2015 and currently has seven hangars that offer full services to based and itinerant aircraft.

AvBase San José, LLC (AvBase), started operations as a SASO in 2005, offering general aviation services to its sub-lessees only. AvBase also offers fueling services to aircraft owned by AvBase and its sub-lessees.

An additional thirteen (13) acres north of the FAA air traffic control tower is currently undeveloped. The City is currently negotiating with Signature Flight Support Corporation to add three acres to the existing Signature FBO leasehold. The remaining 10 undeveloped acres north of the FAA air traffic control tower remains available for future development opportunities, but there are no immediate

plans for development. See “LITIGATION AND POTENTIAL CLAIMS—*SJJC Aviation Services, LLC v. City of San Jose*” in Appendix A.

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. Fuel is distributed to the fuel farm via a two-mile underground pipeline connected to the San José Kinder Morgan Products Terminal. Consistent with the Airport’s Master Plan, in 2013 the City agreed to relocate the jet fueling staging and maintenance activities from the southeast end of the Airport to the northeast side of the Airport. The project was completed in early 2015. See “CAPITAL DEVELOPMENT AT THE AIRPORT—Environmental Matters.”

Other facilities include the City’s Aircraft Rescue and Firefighting Facility (“ARFF”), which is currently located near the southeast corner of the Airport, and ground support, equipment maintenance and belly freight facilities near the southeast corners of the airfield. On the northeast side of the Airport a taxi staging building was completed in March 2013, to help manage multiple taxi companies and drivers, dispatching both taxis and commercial door-to-door shuttles. At the end of 2014, the shuttle bus operations were relocated from the west side of the Airport to the northeast area.

PASSENGER SERVICES AND OPERATIONS

Passenger Services

As of December 31, 2016, fourteen passenger airlines provided nonstop service from the Airport to a total of 28 U.S. cities and eight foreign cities, and two airlines provided scheduled all-cargo service at the Airport.

Table 3
Norman Y. Mineta San José International Airport
Airlines Serving the Airport
as of December 31, 2016

<u>Domestic Airlines</u>	<u>Foreign-Flag Airlines</u>
Alaska Airlines	Volaris
American Airlines	All Nippon Airways
Delta Air Lines	Air Canada
Hawaiian Airlines	British Airways
JetBlue Airways	Hainan Airlines
Southwest Airlines	Air China
United Airlines	Lufthansa German Airlines
<u>All-Cargo Airlines</u>	
FedEx Corporation	
United Parcel Service	

Source: Norman Y. Mineta San José International Airport.

Total enplanements in fiscal year 2015-16 were approximately 5.1 million, which was slightly below the pre-recession enplanement levels achieved in fiscal year 2007-08 as shown in Table 4. From fiscal year 2012-13 to fiscal year 2015-16, total enplanements grew at a compound annual growth rate of 6.3% as the cities served by nonstop flights grew from 29 at the end of fiscal year 2012-13 to 33 at the end of fiscal year 2015-16. An additional five flights have been added or announced that will start service in fiscal year 2016-17, taking the total cities served by nonstop flights to 38. Since 2014, five new international routes began from the Airport (Beijing, Frankfurt, London, Shanghai and Vancouver); five new domestic routes began from the Airport (Baltimore, Dallas-Love, Eugene, Long Beach and Newark); additional airlines began serving eight cities already served by one or more airlines (Burbank, Chicago, Las Vegas, Newark, Orange County, Reno, Salt Lake City and San Diego); and certain airlines added additional capacity to Atlanta, Dallas-Fort Worth, Los Angeles and Salt Lake City.

Passenger enplanement activity from fiscal year 2006-07 through fiscal year 2011-12, decreased at a compound annual rate of 5.0% in conjunction with an aviation fuel cost spike, the national credit crisis, airline mergers, and a global recession.

Table 4
Norman Y. Mineta San José International Airport
Historical Passenger Enplanements
Fiscal Years Ended June 30⁽¹⁾

Fiscal Year	Air Carrier Domestic Enplanements ⁽²⁾	Air Carrier International Enplanements	Total Enplanements	Percent Change in Total Enplanements
2006-07	5,216,491	102,368	5,318,859	(1.8%)
2007-08	5,111,144	67,459	5,178,603	(2.6%)
2008-09	4,339,181	60,381	4,399,562	(15.0%)
2009-10	4,043,416	62,437	4,105,853	(6.7%)
2010-11	4,111,260	77,963	4,189,223	2.0%
2011-12	4,041,624	83,261	4,124,885	(1.5%)
2012-13	4,124,464	110,289	4,234,753	2.7%
2013-14	4,353,383	163,638	4,517,021	6.7%
2014-15	4,592,047	172,954	4,765,001	5.5%
2015-16	4,847,098	240,607	5,087,705	6.8%
Compound Annual Growth Rates				
FY07-FY12	(5.0%)	(4.1%)	(5.0%)	
FY13-FY16	5.5%	29.7%	6.3%	

(1) Some data reported previously have been revised to reflect more recent information.

(2) Includes scheduled and unscheduled regional commuter aircraft.

Source: Norman Y. Mineta San José International Airport

Table 5
Norman Y. Mineta San José International Airport
Historical Passenger Enplanements
Fiscal Year-to-date Ended December 31

Fiscal Year	Air Carrier Domestic Enplanements ⁽¹⁾	Air Carrier International Enplanements	Total Enplanements	Percent Change in Total Enplanements
2015-16	2,471,143	109,833	2,580,976	4.9%
2016-17	2,666,765	203,939	2,870,704	11.2%

(1) Includes scheduled and unscheduled regional commuter aircraft.

Source: Norman Y. Mineta San José International Airport

Table 6 lists the cities served by nonstop flights from the Airport as of December 31, 2016.

Table 6
Norman Y. Mineta San José International Airport
Cities Served by Nonstop Service as of December 31, 2016⁽¹⁾
Domestic Cities
Atlanta, Georgia
Austin, Texas
Baltimore, Maryland
Boise, Idaho
Boston, Massachusetts
Burbank, California
Charlotte, North Carolina (seasonal)
Chicago, Illinois
Dallas, Texas
Denver, Colorado
Eugene, Oregon
Honolulu, Hawaii
Houston, Texas
Kahului, Hawaii
Kona, Hawaii
Las Vegas, Nevada
Lihue, Hawaii
Los Angeles, California
Minneapolis, Minnesota
New York, New York
Ontario, California
Orange County, California
Phoenix, Arizona
Portland, Oregon
Reno, Nevada
Salt Lake City, Utah
San Diego, California
Seattle, Washington
Foreign Cities
Vancouver, Canada
Beijing, China
Shanghai, China
Frankfurt, Germany
Tokyo, Japan
San José Cabo, Mexico
Guadalajara, Mexico
London, United Kingdom

⁽¹⁾ Since December 31, 2016, nonstop service began to Long Beach, California and Newark, New Jersey.

Source: Norman Y. Mineta San José International Airport

The City offers an air service support program to support the development of new passenger air service at the Airport. In addition, the City has 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 Air Service Incentive Program).

As part of the new airline support program, the Director of Aviation has defined specific incentives for airport destinations that are considered short-haul domestic airport destinations, long-haul domestic airport destinations, North America airport destinations outside of the U.S., and international airport destinations. For the domestic airport destinations, a short-haul airport destination is defined as being within a 1,250 mile radius of the Airport. A long-haul airport destination is one that is greater than 1,250 miles from the Airport. The current airline support program provides for the waiver of landing fees for airlines providing service to a new airport destination, with a minimum frequency of three times weekly nonstop service for twelve consecutive months or four consecutive months for international seasonal service. In addition, new carriers are given a waiver of eligible terminal fees for the same duration as the landing fee waiver. The program also provides for marketing funds ranging from \$25,000 to \$600,000, depending on the type of new service provided and whether the airline is a new entrant carrier. The program is a two year incentive that is implemented over a period of between one and two and a half years (the Support Period). The terms and conditions of the airline support program can be modified at any time by the City Council.

The Municipally-Funded Air Service 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 Air Service Incentive Program are set forth in the Airline Lease Agreement.

Enplanements by Airline

As of December 31, 2016, fourteen different carriers served approximately 38 nonstop destinations, offering the business and leisure traveler a range of domestic and international travel options. In addition, the Airport has service to 26 airline hubs that provide access from around the nation and across the globe. The four largest carriers that anchor the Airport's service are Southwest Airlines, Alaska Airlines, American Airlines, and Delta Air Lines, who combine for approximately 88% of passenger enplanements and collectively have nonstop service to 30 destinations. Southwest Airlines is the leading airline at the Airport, with a market share of approximately 49% in fiscal year 2015-16, while Alaska Airlines, American Airlines and Delta Air Lines held market shares of 16%, 13%, and 11%, respectively, in the same time period. During fiscal year 2015-16, capacity increased for destinations throughout the United States, including nonstop flights to the East coast. As shown in Table 7, Delta Air Lines and Alaska Airlines continue to expand service at the Airport, as do Southwest, JetBlue, United and American Airlines. There has also been significant growth in international enplanements. All Nippon Airways started service to Tokyo in 2013 followed by the launch of service to Beijing by Hainan Airlines in 2015. In fiscal year 2016, British Airways started service to London and Air Canada started service to Vancouver. In early fiscal year 2017, Lufthansa German Airlines began service to Frankfurt and Air China began service to Shanghai.

Table 7 sets forth enplanements for airlines (together with their affiliates) serving the Airport for the fiscal years 2011-12 through 2015-16.

Table 7
Norman Y. Mineta San José International Airport
Enplaned Commercial Passengers by Airline
Fiscal Years Ended June 30
(Ranked by Fiscal Year 2016 Results)

Airline ⁽¹⁾	FY 2011-12		FY 2012-13		FY 2013-14		FY 2014-15		FY 2015-16	
	Enplanements	% of Total								
Southwest Airlines	2,192,234	53.1%	2,196,956	51.2%	2,280,346	50.5%	2,420,333	50.8%	2,507,648	49.3%
Alaska Airlines ⁽²⁾	609,315	14.8	727,616	17.2	704,944	15.6	750,673	15.8	795,136	15.6
American Airlines ⁽³⁾	571,167	13.8	587,829	13.9	601,104	13.3	604,952	12.7	642,626	12.6
Delta Air Lines ⁽⁴⁾	218,447	5.3	228,824	5.4	332,544	7.4	463,746	9.7	551,084	10.8
United Airlines ⁽⁵⁾	298,808	7.2	253,837	6.0	231,287	5.1	186,656	3.9	184,570	3.6
Hawaiian Airlines	103,483	2.5	116,928	2.8	113,381	2.5	161,707	3.4	164,088	3.2
JetBlue Airways	76,063	1.8	71,506	1.7	70,860	1.6	71,577	1.5	73,950	1.5
Volaris	49,709	1.2	49,700	1.2	51,056	1.1	51,185	1.1	58,385	1.1
All Nippon Airways			3,273	0.1	42,999	1.0	47,560	1.0	49,717	1.0
Hainan Airlines							1,849	0.0	34,939	0.7
British Airways									9,872	0.2
Air Canada									6,882	0.1
Other ⁽⁶⁾	5,659	0.1	24,774	0.6	88,500	2.0	4,763	0.1	8,808	0.2
Total ⁽⁷⁾	4,124,885	100%	4,234,753	100%	4,517,021	100%	4,765,001	100%	5,087,705	100%

(1) Unlike previous official statements with respect to the Outstanding Bonds, the information presented herein does not separately report flights operated by the affiliate airlines. The enplanement information of flights operated by the affiliate airlines is included in the data of certain other airlines as noted in the footnotes below.

(2) Includes enplaned passengers on flights operated by Horizon and Skywest.

(3) In December 2013 American Airlines and US Airways (“American Airlines Group”) merger was completed. The enplanements include flights operated by US Airways and Skywest.

(4) Includes enplaned passengers on flights operated by Skywest and Compass Airlines.

(5) Includes enplaned passengers on flights operated by Skywest.

(6) Consists of airlines no longer serving the Airport and charter airlines.

(7) 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 June 30, 2016. In fiscal year 2015-16, the total amount of enplaned and deplaned cargo carried by all-cargo carriers at the Airport increased by approximately 11.9% from fiscal year 2014-15 to approximately 116,424,000 pounds.

Landed Weight and Airport Operations

Table 8 sets forth total landed weight of aircraft (other than general aviation and military aircraft) that used the Airport in fiscal years 2006-07 through 2015-16. Landed weights declined in every year from fiscal year 2007-08 to fiscal year 2011-12. Conversely, from fiscal year 2012-13 through fiscal year 2015-16, landed weights have increased every year, with a compound annual growth rate of 5.3% during this period. Landed weights for fiscal year 2016-17 year-to-date through December 31, 2016 have grown 17.24%.

Fiscal Year	Air Carrier ⁽²⁾	All-Cargo ⁽³⁾	Total	Annual Percentage Change
2006-07	6,989,533	511,763	7,501,296	<0.1%
2007-08	6,912,126	492,624	7,404,750	(1.3%)
2008-09	6,130,069	421,088	6,551,157	(11.5%)
2009-10	5,410,517	322,267	5,732,784	(12.5%)
2010-11	5,221,002	319,185	5,540,187	(3.4%)
2011-12	5,125,391	268,748	5,394,139	(2.6%)
2012-13	5,213,194	248,067	5,461,261	1.2%
2013-14	5,536,593	235,002	5,771,595	5.7%
2014-15	5,628,461	236,706	5,865,167	1.6%
2015-16	6,113,904	266,344	6,380,248	8.8%
Compound Annual Growth Rates				
FY07-FY12	(6.0%)	(12.1%)	(6.4%)	
FY13-FY16	5.5%	2.4%	5.3%	

(1) Some data reported previously have been revised to reflect more recent information.

(2) Includes domestic, international, and regional commuter 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 9 lists the number of aircraft operations (take-offs and landings) at the Airport for fiscal years 2006-07 through 2015-16. Total aircraft operations decreased every year from fiscal year 2006-07 to fiscal year 2011-12. In contrast, the total aircraft operations increased every year from fiscal year 2012-13 to fiscal year 2015-16, growing at a compound annual growth rate of 3.0% during this period. The growth in aircraft operations during this period has been slower than the growth in passenger activity, which is partially due to an increase in the load factor on flights during this time period.

Table 9
Norman Y. Mineta San José International Airport
Historical Aircraft Operations⁽¹⁾⁽²⁾
Fiscal Years Ended June 30

Fiscal Year	Air Carrier Operations⁽³⁾	All-Cargo Operations	Total Commercial Operations⁽⁴⁾	Commercial Operations as a % of Total	General Aviation Operations	Military Operations	Total Operations	% Change in Total Operations
2006-07	126,402	3,388	129,790	70.2%	55,021	103	184,914	(4.4)%
2007-08	126,364	3,140	129,504	70.1%	55,146	64	184,714	(0.1)%
2008-09	110,498	2,558	113,056	70.7%	46,674	242	159,972	(13.4)%
2009-10	95,800	2,076	97,876	74.4%	33,439	275	131,590	(17.7)%
2010-11	89,266	2,046	91,312	74.8%	30,503	276	122,091	(7.2)%
2011-12	86,478	1,678	88,156	73.4%	31,664	285	120,105	(1.6)%
2012-13	87,508	1,536	89,044	73.8%	31,321	210	120,575	0.4%
2013-14	91,056	1,468	92,524	75.6%	29,619	208	122,351	1.5%
2014-15	92,458	1,500	93,958	73.7%	33,246	213	127,417	4.1%
2015-16	96,640	1,614	98,254	74.7%	33,048	259	131,561	3.3%
<u>Annual Compound Growth Rate</u>								
FY07-FY12	(7.3%)	(13.1%)	(7.4%)		(10.5%)	22.6%	(8.3%)	
FY13-FY16	3.4%	1.7%	3.3%		1.8%	7.2%	3.0%	

(1) An aircraft operation is defined as the takeoff and landing of an aircraft.

(2) Some data reported previously have been revised to reflect more recent information.

(3) Includes domestic, international, and regional commuter operations.

(4) Represents the sum of Air Carrier 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 expires on June 30, 2017. The agreement was entered into by mutual consent of the City and each Signatory Airline (defined below) and is subject to early termination under certain circumstances. The original five-year agreement became effective in 2007 and was extended in 2012 for an additional five years. In fiscal year 2015-16, approximately 38% of the Airport's operating revenues were derived from payments made pursuant to the Airline Lease Agreement. The City and the Signatory Airlines have commenced discussions with regard to the terms of a further extension of the Airline Lease Agreement. Because the City does not expect to complete the negotiations for any such extension prior to June 30, 2017, the City and the Signatory Airlines have agreed to extend the current Airline Lease Agreement on the same terms from June 30, 2017 to June 30, 2018 to allow time for the completion of negotiations and execution of an amendment to further extend the Airline Lease Agreement. The amendments to extend the Airline Lease Agreement to June 30, 2018 will require City Council approval prior to June 30, 2017. The holdover provisions of the Airline Lease Agreement provide that a Signatory Airline that holds over without the City's written consent after the term of the agreement has expired or been canceled will pay the 25% premium applicable to Non-Signatory Airlines (see below). For a summary of certain provisions of the Airline Lease Agreement, see "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT" in Appendix G. See also "LITIGATION AND POTENTIAL CLAIMS – Potential Claim from Passenger Airlines Regarding Terminal Rents" for information regarding a potential claim relating to the Airline Lease Agreement.

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 2017 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.

Rates and Charges Ordinance. All passenger airlines are operating at the Airport as Signatory Airlines. 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. If the Non-Signatory Airline is an affiliate and has received the

affiliate designation in writing by the mainline carrier, then the affiliate will pay the rates and charges at the same rate as the Signatory Airlines and will not be subject to the 25% premium.

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.

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, seven automobile rental companies (representing a total of twelve rental car brands), three in-flight kitchen operators, several Airport-based retailers, two FBOs, one SASO and one corporate general aviation operator. Approximately 62% of the Airport's gross operating revenues in fiscal year 2015-16 were derived from these and other sources of non-airline revenues, compared to 63% in fiscal year 2014-15. 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 ABM Parking Services (ABM) pursuant to a three year agreement that includes five one year options to extend. The agreement, which became effective on April 1, 2012 and is currently on its second extension option, provides that ABM will be paid an annual fixed management fee plus reimbursable expenses. The City expects to exercise its third option to extend on April 1, 2017.

The City sets rates for parking in the Airport's public parking lots. The parking fee structure for the hourly lot is \$2.00 per 20 minutes, with a maximum first 24 hour charge of \$30.00 followed by \$30.00 per day flat rate per 24 hour period or portions thereof. In the daily parking lot, the parking fee structure is \$2.00 per 20 minutes, with a maximum first 24 hour charge of \$22.00 followed by \$22.00 per day flat rate per 24 hour period or portions thereof. In the economy lot, a \$15.00 flat rate per day is charged. These rates have been in place since 2015. For fiscal year 2015-16, parking fees represented approximately 21% of Airport gross operating revenue. 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 seven rental car companies (representing a total of twelve 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 (Facility Rent) and remit to the City customer facility charges that are collected from the rental car companies' customers (CFCs). Facility Rent is included in General Airport Revenues. For additional information regarding CFCs, see "AIRPORT FINANCIAL MATTERS—Customer Facility Charges."

Facility Rent is calculated by a two-step process under the terms of the rental car agreement. First, an amount equal to the sum of annual debt service on the Series 2011B Bonds and coverage amounts and reserve fund requirements applicable to the Series 2011B Bonds, less estimated CFC

Revenues, is allocated to each rental car company based upon that company's percentage occupancy of the ConRAC. Second, each rental car company's share of: (a) operating costs for the transportation system operated by the City to transport passengers between the terminals and the ConRAC (the ConRAC Transportation System); and (b) 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 agreement are then added to the first amount to determine the Facility Rent due from each rental car company. In the event that CFC Revenues exceed the sum of annual debt service on the Series 2011B Bonds plus coverage amounts and reserve fund requirements, 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. In the event that CFC Revenues remain after CFC Revenues are deducted from each company's share of operating costs for the ConRAC Transportation System, the City may, in its sole discretion, deduct each rental car company's share of any such CFC Revenues from its share of Demolition Costs, as calculated under the terms of the rental car agreement. Through fiscal year 2016, no CFC revenues had been applied toward transportation costs or demolition costs. The City had previously determined that it should identify the specific rental car customers who used the ConRAC Transportation System in order to apply the CFC revenues to cover transportation costs. However, upon further consultation with the rental car companies, the City and the rental car companies have agreed that the City may apply the CFC revenues to cover transportation costs, which are a component of CFC eligible ConRAC expenses, without first identifying the specific rental car customers who used the transportation system. Therefore, to the extent available, the City will apply CFC revenues to transportation costs starting in fiscal year 2017. See "AIRPORT FINANCIAL MATTERS – Customer Facility Charges."

Total Facility Rent for the ConRAC in fiscal year 2015-16 was approximately \$2.5 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.

In addition to Facility Rent and CFC Revenues, 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. Rent was increased in the fiscal year 2015-16 pursuant to the appraisal. In fiscal year 2015-16, rental car concession and facility and ground rental revenue represented approximately 12.2% of Airport gross operating revenue. On a combined basis, the rental car companies exceeded MAG in fiscal year 2015-16.

Terminal Concession, Advertising and Other Agreements. Food and beverage and retail concession services at the Airport are provided by four concessionaires under four separate agreements, three of which expire in June 2020 and one that has an expiration date of June 2024. Host International, Inc. (Host) and Pacific Gateway Concessions, LLC (PGC) each provide food and beverage services at the Airport under a food and beverage concession agreement. AMS-SJC-JV (Hudson) and World Duty Free Group North America, LLC (WDFG) each provide retail services under a retail concession agreement. In June 2015, Dufry AG, the parent company of Hudson acquired 50.1% control of WDFG, therefore both retail companies are now owned by Dufry AG. In October 2013, Areas USA assigned its food and beverage concession agreement to PGC, and Host assigned its retail concession agreement to WDFG. 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 food and beverage and retail providers as sub-concessionaires and food and beverage and retail outlets in both terminals. Airport operating revenue from the food and beverage and retail concession agreements in fiscal year 2015-16

equaled approximately \$8.9 million of Airport gross operating revenue, which was 4% higher than 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, 2020. The agreement guarantees the City the greater of a MAG of \$4,222,324 or a percentage of revenues through June 30, 2017. The MAG adjusts to \$1,800,000 on July 1, 2017, to \$1,900,000 on July 1, 2018, and to \$2,000,000 on July 1, 2019. In 2016, the City entered into a concession agreement with AC Holdings, Inc. to provide news, information and entertainment television programming material produced and provided by CNN in the passenger holdrooms at the Airport, which will provide the Airport with a MAG of \$45,000 per year for five years, beginning in 2017.

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 2018, with a one-year option to extend through 2019. Flying Food Group and Gate Gourmet are operating at the Airport under a permit. The in-flight kitchen services of these companies are produced at an off airport facility, and the permit provides that each company pay a monthly permit fee as well as 10% of gross revenues.

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 and wireless antenna. A new luggage cart contract was signed on August 1, 2014. The new contract requires the luggage cart operator to pay a percentage of gross revenues. In order to do business at the Airport, all other operators pay fixed fees, subject to annual adjustment.

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 G.

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 Five-Year Capital Improvement Program (CIP) 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 late April and 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 and Capital Budgets contain the complete financial plan for the City, including the Airport Department, for the next fiscal year. The Proposed Operating Budget accounts for all revenue received by the City and accounts for the usage of the revenue. It describes activities by City Service Area, department and core service and makes recommended additions or reductions to those activities. The Proposed Capital Budget and Five-Year CIP describes all capital revenues and the planned usage of that revenue. It documents all projects expected to be funded over the next five years, including project descriptions, funding, and timelines. 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 City Council adopted the fiscal year 2016-17 Operating and Capital Budgets on June 14, 2016 and the implemented annual appropriation ordinance and related documents on June 21, 2016.

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. The amount the Airport paid for direct City services, excluding Police and Fire services, was approximately \$1.2 million in fiscal year 2015-16. The City also provides certain general support services to the Airport and charges a pro-rata fee. The amount charged to the Airport for these general support services for fiscal year 2015-16 was approximately \$3.5 million. See “LITIGATION AND POTENTIAL CLAIMS—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.

City Audit and Management Report. 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 the financial statements for fiscal years 1999-00 to 2014-15, the City retained Macias Gini & O’Connell LLP as the Accountant. Starting from fiscal year 2015-16, the City engaged Grant Thornton 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.

In addition to the annual audit of the City’s financial statements, the Accountant issues an annual audit report of the City’s internal controls over financial reporting (Management Report) to the City Council. The significant deficiencies noted by the Accountant in the Management Report described below are incorporated in the Single Audit Reports for federal grant awards, including the federal grants, awarded to the Airport.

The 2015-16 Management Report noted six “significant deficiencies.” A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The Accountant found such deficiencies relating to the City’s staffing reductions and the preparation of its financial statements, as well as the City’s controls over information technology.

Specifically, the Accountant commented in the 2015-16 Management Report that decentralized accounting functions and reduced finance department staffing “contributes to a challenge in maintaining an internal control environment to prepare an accurate CAFR.” The Accountant recommended that the City continue to make strides in centralizing policies, providing employee training, and examining efforts to hire and retain finance personnel and to ensure the maintenance of subsidiary ledgers and the complete reconciliation of those subsidiary ledgers to the general ledger.

The City's management, in its response to this finding in the 2015-16 Management Report, stated that the internal control deficiencies identified during the audit are not significant as all the potential adjustments were deemed immaterial by the Accountant and that no adjustments were required to the 2015-16 financial statements. The City continues to make modest investments to address the challenges noted, such as utilizing additional modules of a new financial reporting software and strategically assign critical areas of the complex accounting and financial areas to more seasoned employees, when available. In recruiting new employees, the Finance department continues to evaluate, align, and provide consistency in the experience of professionals by partnering with Human Resources and different departments.

The Accountant also found significant deficiencies concerning the City's controls over the information security program; City's account management, password configuration, broad privileged access, shared accounts, and audit logging/monitoring; and change management processes. Specifically, the City had not assigned security responsibilities associated with its decentralized control environment; finalized, published, and communicated formal policies and procedures related to information technology control processes; implemented processes for continuous monitoring; implemented policies and procedures for account management requirements; defined City-wide password security configurations; defined requirements for privileged user accounts, shared accounts, logging/monitoring, and segregation of duties in policies and procedures; and maintain a process to consistently document and retain evidence related to change management activities.

The City's management in its response represented that the City is in the process of developing its first dedicated Cybersecurity function to confront emerging risks associated with data exfiltration, malware, social engineering, denial-of-service attacks, and advanced persistent threats. The City recognizes the importance of information and systems security to the organization's fiscal status, insurability, compliance with laws and regulations, and overall wellbeing. The City agreed with the need to develop mature access control processes, information protection processes and procedures, awareness, and training.

In addition, a significant deficiency was found involving the fair value of investments held in the City's two retirement plans and managed by the Office of Retirement Services under the direction of retirement boards. For more information, see "CITY OF SAN JOSE: RETIREMENT PLANS: Retirement Plans: Investment Valuations" in Appendix B. The 2015-16 Management Report also noted a significant deficiency concerning the City's controls over estimating loan loss reserves overseen by the City's Housing Department. Neither deficiency impacts the audited financial statements of the Airport.

In a report accompanying the 2015-16 Management Report addressed to management and the City Council, the Accountant further noted certain "control deficiencies", which may impact the audited financial statements of the Airport. A control deficiency is a deficiency, or a combination of deficiencies, in internal control when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. The Accountant found control deficiencies relating to the City's monitoring of third party service providers relevant to the evaluation of the adequacy of internal controls at the third party service providers, the prompt documentation of the deferral of the implementation of the new Uniform Guidance procurement rules for Federal awards, and the process for preparing financial statements unrelated to the Airport. The City's management responded that it will take steps to remedy these deficiencies.

The audited financial statements of the Airport for fiscal year 2015-16 are included as Appendix D 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, 2016, the City is authorized by the FAA to impose and use PFCs, including investment income thereon (collectively, PFC Revenues), of up to \$1,067,933,000. The City estimates that it had collected and accumulated approximately \$450.0 million in PFC Revenues and interest from the Airport’s passenger airlines through June 30, 2016 and had spent approximately \$430.8 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, including the Series 2017A Bonds, Series 2011A Bonds and Series 2014 Bonds. PFC Revenues may not be used to pay Maintenance and Operation Expenses 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 AND POTENTIAL CLAIMS—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, and further increased the per contract day CFC to \$7.50 per contract day, to a maximum of five days, on each rental, commencing January 1, 2014. Section 1936 permits the City to further increase the per contract day CFC to \$9.00 commencing January 1, 2017, subject to an audit to be commissioned by the City, posted on the Airport website, and submitted to designated State Assembly and Senate Committees. At present, the City is not pursuing an increase to the CFC rate. Revenues from CFCs (referred to as CFC Revenues in the Master Trust Agreement) may be 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). The City currently applies the CFC Revenues toward payment of debt service on debt obligations issued to fund CFC Eligible Costs (the CFC Eligible Obligations) and the City’s actual costs related to CFC Eligible Obligations. CFC Eligible Obligations currently include the Series 2011B Bonds. To the extent available, the City will apply CFC revenues to transportation costs starting in fiscal year 2017. See “LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—Rental Car Agreements”.

Under the Master Trust Agreement, CFC Revenues (approximately \$19.9 million in fiscal year 2015-16) are excluded from the definition of “General Airport Revenues”; however, CFC Revenues may, at the option of the City, be designated as Other Available Funds to pay debt service on CFC Eligible Obligations. See “AIRPORT FINANCIAL MATTERS—Historical Operating Results” below and “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT—Other Available Funds” in APPENDIX C. Under the Eleventh Supplemental Trust Agreement, CFC Revenues are pledged to the payment of Debt Service on the Bonds in an amount not to exceed Annual Debt Service on the Series 2011B Bonds, subject to release in the future upon the satisfaction of certain conditions set forth in the Master Trust Agreement. See “SECURITY FOR THE BONDS—Pledge of General Airport Revenues and Certain Other Available Funds” in the forepart of this Official Statement. The only Series of Bonds such pledged CFC Revenues may be applied to repay are the Series 2011B Bonds. Additionally, 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.

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.

Through fiscal year 2015-16, no CFC revenues had been applied toward transportation costs or demolition costs. The City had previously determined that it should identify the specific rental car customers who used the ConRAC Transportation System in order to apply the CFC revenues to cover transportation costs. However, upon further consultation with the rental car companies, the City and the rental car companies have agreed that the City may apply the CFC revenues to cover transportation costs, which are a component of CFC eligible ConRAC expenses, without first identifying the specific rental car customers who used the transportation system. Therefore, to the extent available, the City will apply CFC revenues to transportation costs starting in fiscal year 2016-17 and has done so for the first half of fiscal year 2016-17.

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 expire on September 30, 2017. See "CERTAIN FACTORS AFFECTING THE AIRPORT — Regulatory Uncertainties—General" and "—Executive Order Regarding Sanctuary Jurisdictions" in the forepart of this Official Statement.

The City currently receives approximately \$2.1 million of AIP entitlement grants per federal fiscal year ending September 30. In July 2016, the City received a FAA grant for the replacement of an Airport Rescue and Fire Fighting (ARFF) vehicle for approximately \$700,000. In September 2016, the City received \$8.1 million of FAA grant funding to install Perimeter Security Technology upgrades in targeted areas inside the perimeter fence line and \$7.2 million in FAA grant funding for the Southeast Ramp Reconstruction to reconstruct the cargo ramp pavement in the southeast quadrant of the Airport. The integrated surveillance technologies will provide for coordinated responses to incidents and further enhance the Airport's security program. 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 currently participates in the TSA law enforcement officer (LEO) reimbursement program over the period from February 1, 2016 through December 31, 2018. This program provides partial funding for the mandated security measure of providing a law enforcement officer presence at each passenger-screening location in the amount of \$202,575 annually. Any federal funding provided through the reimbursement program would partially offset the Airport's total security costs.

The TSA approved the renewal of a five-year cooperative agreement effective January 1, 2016 with an annual funding of \$202,000 for four explosive detection canine teams (\$50,000 per team plus \$500 for training). The TSA has extended the funding agreement to December 31, 2019.

Historical Operating Results

The following tables summarize operating revenues and maintenance and operation expenses at the Airport for fiscal years 2011-12 through 2015-16. The summary presented in Table 10 is derived from the audited financial statements of the Airport Department for fiscal years 2011-12 through 2015-16.

Table 10
Norman Y. Mineta San José International Airport
Summary of Operating Revenues and Maintenance and Operation Expenses
Fiscal Years Ended June 30

	2011-12 ⁽¹⁾	2012-13 ⁽¹⁾	2013-14 ⁽¹⁾	2014-15 ⁽¹⁾	2015-16 ⁽¹⁾
Operating Revenues:					
Airline Rates & Charges:					
Landing Fees	\$11,413,628	\$12,888,370	\$11,973,028	\$11,855,784	\$13,095,546
Terminal Rental	39,864,277	38,255,624	38,129,882	34,371,913	40,800,293
Total Airline Rates and Charges	\$51,277,905	\$51,143,994	\$50,102,910	\$46,227,697	\$53,895,839
Other Operating Revenues:					
Terminal Concessions	\$15,770,190	\$15,101,644	\$15,422,975	\$16,271,413	\$17,575,813
Airfield Area	2,783,446	3,038,241	3,552,819	3,993,032	4,891,452
Parking and Roadway ⁽²⁾	51,023,465	46,700,448	47,267,707	49,048,496	53,703,763
Fuel Handling Fees	1,690,326	2,360,463	3,170,458	3,257,257	3,225,613
General Aviation/Other	4,430,460	4,770,213	6,193,266	7,182,656	8,660,881
Total Other Revenues	75,697,887	71,971,009	75,607,225	79,752,854	88,057,522
Total Operating Revenues ⁽³⁾	\$126,975,792	\$123,115,003	\$125,710,135	\$125,980,551	\$141,953,361
Maintenance and Operation Expenses⁽⁴⁾:					
Terminal Buildings	\$23,659,488	\$23,303,388	\$24,232,606	\$23,832,863	\$27,724,459
Airfield Area	9,068,812	8,706,904	9,570,586	9,891,025	12,767,355
Parking and Roadway	25,513,719	16,631,149	16,343,099	17,169,922	16,683,408
Fuel Handling Costs	556,312	1,064,804	11,252	27,967	(564,646)
General Aviation and Administrative	1,676,382	1,605,119	1,608,838	2,006,379	1,963,490
Depreciation and Amortization	18,327,715	18,763,230	19,877,034	18,208,025	19,334,091
Total Maintenance and Operation Expenses	51,519,769	54,352,406	54,026,767	53,436,817	51,863,642
Total Maintenance and Operation Expenses	\$130,322,197	\$124,427,000	\$125,670,182	\$124,572,998	\$129,771,799
Net Operating Gain/Loss	(\$3,346,405)	(\$1,311,997)	\$39,953	\$1,407,553	\$12,181,562

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

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

(3) 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 non-operating revenues.

(4) 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 12.

Source: Norman Y. Mineta San José International Airport

A "Net Operating Loss" is shown in fiscal years 2011-12 and 2012-13 in Table 10. 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 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 12, 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 10 reflects the Airport's net operating results, and excludes

other non-operating revenues and expenses that contribute to the Airport's changes in "Net Position". In fiscal year 2014-15 to better comprehensively and comparably measure the pension obligations as required by GASB Statement No. 68, the Airport restated the beginning net position in the amount of \$67.9 million to record the beginning deferred pension contributions and its proportionate share of the net pension liability.

Passenger enplanement activity increased between fiscal year 2011-12 and fiscal year 2015-16 and during this period, the Airport converted its net operating loss into a net operating surplus. Revenues were up primarily due to increased volume in airline activity, increased concession fees resulting from the additional airline activity and passenger levels, increases in the ground rental rates, and additional space rentals. While Parking and Roadway revenues increased during this period, they did not increase at the same rate as enplaned passengers. The Airport attributes this to the fact that transportation network companies (TNCs) such as Uber and Lyft were authorized to start operating at the Airport in November 2015. While the revenue from TNCs has grown significantly since late 2015, parking revenue growth has been below the growth in enplaned passengers since February 2016. Maintenance and operation expenses were relatively consistent during these fiscal years. Maintenance and operation expenses incurred in the normal course of business increased slightly and were offset by a decrease in fuel handling costs and parking and roadway expenditures. The fuel handling cost credit in fiscal year 2015-16 was due to the completion of the fuel farm clean-up and reduction of previously booked expenditures. The reduction in parking and roadway expenditures was due to a one time cost in fiscal year 2011-12 related to an early lease termination for shuttle buses and due to reduced costs between fiscal year 2012-13 and 2015-16 for operating the shuttle buses, the on-demand ground transportation program and the new parking operator agreement. See "Management Discussion of Recent Financial Results" herein for additional explanations regarding the changes in operating revenue and maintenance and operation expenses.

Table 11
Norman Y. Mineta San José International Airport
Unaudited Summary of Operating Revenues and Maintenance and Operation Expenses
Six Months Ended December 31, 2015 and 2016⁽¹⁾

	Six Months ended December 31, 2015	Six Months ended December 31, 2016
Operating Revenues:		
Airline Rates & Charges:		
Landing Fees	\$ 5,428,780	\$ 7,781,589
Terminal Rental	19,264,759	18,518,663
Total Airline Rates and Charges	\$24,693,539	\$26,300,252
Other Operating Revenues:		
Terminal Concessions	\$8,416,648	\$9,223,948
Airfield Area	2,093,999	3,293,530
Parking and Roadway ⁽²⁾	24,787,147	25,649,640
Fuel Handling Fees	1,364,923	1,330,417
General Aviation and Other	4,581,275	5,912,934
Total Other Revenues	\$41,243,992	\$45,410,469
Total Operating Revenues ⁽³⁾	\$65,937,531	\$71,710,721
Maintenance and Operation Expenses		
⁽⁴⁾ :		
Terminal Buildings	\$12,453,483	\$12,253,282
Airfield Area	7,868,750	7,729,234
Parking and Roadway	6,347,759	6,128,924
Fuel Handling Costs	2,014	11,536
General Aviation	1,018,769	1,002,227
General and Administrative	8,344,185	8,852,510
Cost of Workers' Compensation Claims	236,931	400,991
Total Maintenance and Operation Expenses Before Depreciation and Amortization	\$36,271,891	\$36,378,704
Net Operating Income	\$29,665,640	\$35,332,017

⁽¹⁾ Unaudited. The information in this table is presented on a modified cash-basis and is derived from unaudited interim financial statements.

⁽²⁾ Includes public parking, employee parking, taxi and other ground transportation fees, and rental car concession fees and space rentals.

⁽³⁾ Includes investment income, but excludes PFC Revenues and CFC Revenues.

⁽⁴⁾ Excludes depreciation and amortization and certain expenditures for projects that are treated in the Airport'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. See "—Management Discussion of Recent Financial Results—Airport Revenues and Expenses."

Source: Norman Y. Mineta San José International Airport

Unrestricted Cash Balance. As of June 30, 2016, the Airport's unrestricted cash balance was approximately \$130.1 million as compared to \$112.4 million as of June 30, 2015. Unrestricted cash balances fluctuate throughout the fiscal year due to timing of cash receipts and disbursements. During fiscal year 2015-16, month-end unrestricted cash balances ranged from a low of approximately \$110.4 million to a high of approximately \$135.6 million. No assurance can be given that the Airport's future unrestricted cash balances will be similar to its unrestricted cash balances in fiscal year 2015-16, and the Master Trust Agreement does not require that the Airport maintain any particular unrestricted cash balance.

Six Months Ended December 31, 2016 (Unaudited). The Airport Department's unaudited interim financial statements for the first six months of fiscal years 2015-16 and 2016-17 are derived from the Airport Department's unaudited, interim financial statements. The unaudited interim financial statements are prepared on a modified cash basis, not on an accrual basis, and do not include items such as depreciation and amortization. In addition, the Airport Department's unaudited interim financial statements do not include costs that are paid from capital funds but are treated as maintenance and operating expenses in the Airport Department's audited financial statements. The unaudited interim financial statements are also subject to year-end and other accounting adjustments and are not comparable to the financial statements summarized in Table 10.

The Airport achieved a net operating surplus of \$35,332,017 during the six months ended December 31, 2016. This reflects an increase of \$5,666,377 over the same period of the prior fiscal year. The net operating surplus increase was the result of an increase in total operating revenues of \$5,773,190 offset by the increase in total maintenance and operation expenses of \$106,813 (before depreciation and amortization) for the six-month period.

Increases have been posted in all operating revenue categories during the six months ended December 31, 2016 except terminal rentals and fuel handling fees. Due to the reduced terminal rental rate as well as a number of airlines qualifying for the airline incentive program, even though passenger activity has increased during this period, terminal rental revenue has decreased by \$746,096. Fuel handling fees were \$34,506 lower than the prior year, which can be partially attributed to lower fuel costs. The largest increases were in general aviation and the airfield, which increased by \$1,331,659 and \$1,199,531, respectively. Increases in general aviation can be attributed to the land and building rent adjustments based on increases in appraised values and the consumer price index as well as increases in interest income. The increases in the airfield revenues were reflective of the growth in passenger activity experienced by the Airport.

Total maintenance and operation expenses (before depreciation and amortization) increased by \$106,813 compared to the same period in the prior fiscal year. The increase is primarily due to the increases in non-personal expenses, workers' compensation claims, personnel expenses, and fees charged by the City for airport police services. The increases were largely offset by decreases in overhead and fees charged by the City for airport fire services.

Management Discussion of Recent Financial Results

Overview. Since fiscal year 2012-13, the Airport has experienced a rebound in passenger activity, resulting in a total of approximately 10.2 million passengers traveling through the Airport and passenger traffic growth of 6.9% for FY 2016. Fiscal year-to-date passenger growth through December 2016 is 11.3%. Due to the strong passenger growth over the past four years, fiscal year-to-date total passengers through December 2016 are above pre-recession levels of FY 2007-08. While the Airport continues to carefully manage expenditures due to the high debt service costs, additional consideration is directed toward increasing revenue generation prospects and programs, growing and retaining passengers, and developing non-aviation revenue opportunities. The Airport is actively collaborating with the City's Office of Economic Development as well as local business groups like the Silicon Valley Leadership Group and the San José Silicon Valley Chamber of Commerce (currently known as the Silicon Valley Organization) to pursue air service development opportunities and customer service enhancements. The wide variety of strategic efforts to increase revenue sources is critical to enhance the Airport's resiliency and adaptability to the ever changing aviation industry environment.

The Airport has an objective of maintaining a competitive cost per enplaned passenger (CPE) with the other bay area airports. The CPE was \$9.60 in FY 2015 and \$10.48 in FY 2016. The CPE is estimated to be \$10.90 for FY 2017 based on a number of assumptions which may or may not materialize.

Airport Revenues and Expenses. Total operating revenues in fiscal year 2015-16 posted a substantial increase of approximately 12.7%, or \$16.0 million versus the prior fiscal year, reflective of the increase in passenger and flight activities at the Airport. Increases were posted in all revenue categories with the exception of a slight decrease in fuel handling fees. Total revenue from the airlines increased by approximately 16.6%, or \$7.7 million, from the prior year due to rate increases as well as additional flight activity. Higher passenger levels drove increases of 8.0% in terminal concessions and 22.5% in airfield revenues. Parking and roadway revenues were up \$4.7 million, due to increases in ground transportation, public parking and rental car activity. General aviation/other revenues rose by 20.6%, or \$1.5 million.

The amount of Maintenance and Operation Expenses shown in Table 10 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.

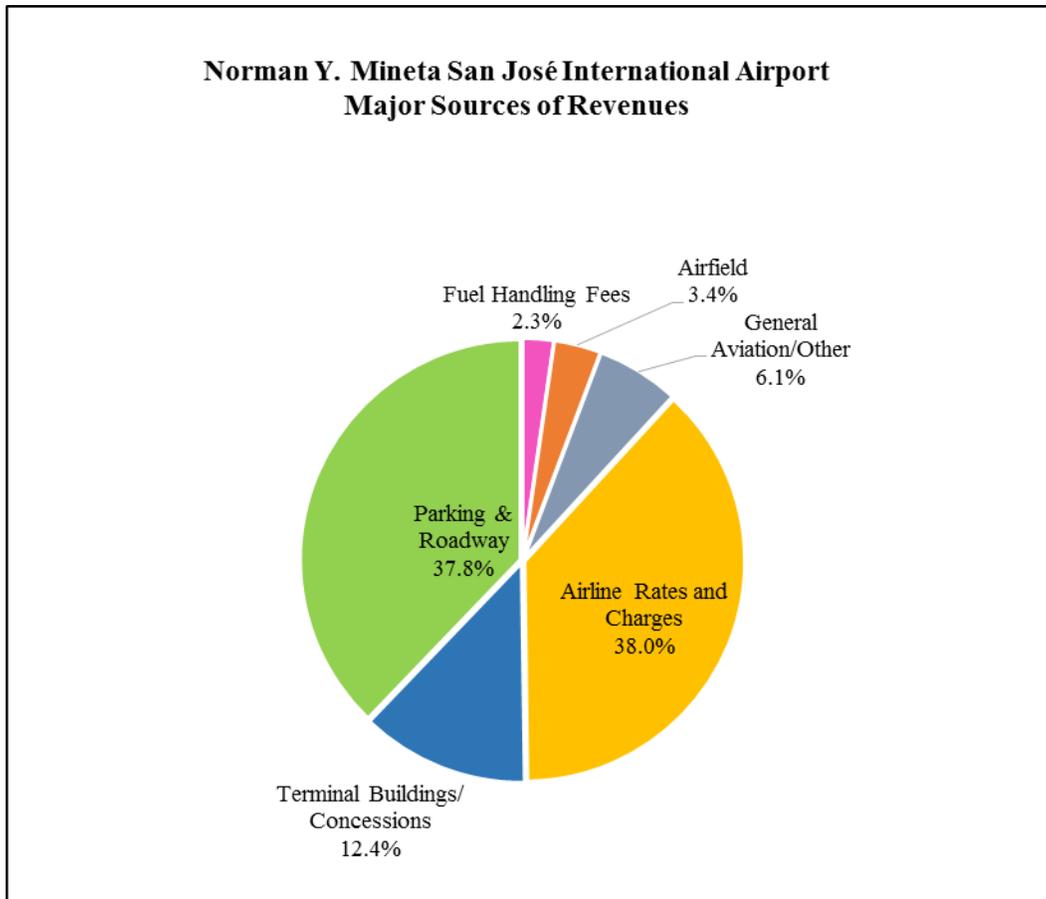
Maintenance and Operation expenses for fiscal year 2015-16, as reflected in Table 12, increased by \$3.0 million compared to the previous fiscal year. Increases were experienced in overhead, fees charged by the City for police and firefighting services, and recognition of additional pension expenses due to the annual actuarial valuation of the Federated Plan's assets. These were partially offset by the decrease in interest expense and bond issuance costs. Overhead expense increased by 23.3%, or \$0.7 million, due to the rate change from 17.9% in FY14-15 to 21.3% in fiscal year 2015-16. Fees charged by the City for police and firefighting services went up by 24.8%, or \$2.3 million, due to the expiration of the Staffing for Adequate Fire and Emergency Response (SAFER) grant in fiscal year 2014-15, increases in salaries and associated benefits, overhead, and the overtime and training costs for Fire Department personnel.

Airline Rates and Charges. The primary charges paid by the airlines are landing fees and terminal rentals for leased space. For fiscal year 2015-16 the average terminal rental rate was \$162.74 per square foot while landing fee rate was \$2.13 per 1,000 pounds of aircraft maximum gross landed weight ("MGLW"). For fiscal year 2016-17, the average terminal rental rate is \$154.63 per square foot while the landing fee rate is \$2.70 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. During fiscal year 2015-16, public parking revenues of approximately \$29.4 million increased by 5.6% and concession fees from rental car companies of approximately \$16.0 million increased by 5.6%, compared to fiscal year 2014-15. The Airport also derived \$5.8 million in revenues in fiscal year 2015-16 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 \$3.6 million in fiscal year 2014-15. ConRAC Facility Rent paid by the rental car companies was \$2.5 million in both fiscal years 2015-16 and 2014-15. See "THE AIRPORT—Existing Facilities—Parking" and "LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements" above.

Revenue Diversity. The chart below summarizes the Airport Department's major sources of revenue for fiscal year 2015-16. As shown in the chart, the Airport Department derived approximately

38.0% of its revenues from the landing fees and terminal rentals paid by the airlines serving the Airport, compared to 36.7% in fiscal year 2014-15, and approximately 62.0% 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) in fiscal year 2015-16, compared to 63.3% in fiscal year 2014-15.



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, 2016, calculated in accordance with the Master Trust Agreement, are presented in Table 12. The prior year’s ending surplus, the amount that the City maintains as “rolling coverage” on the Bonds, unspent bond proceeds, CFC Revenues, and reimbursement for prior capital expenditures 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 separate mechanism by which PFC Revenues can be applied to reduce the amount of Debt Service for purposes of the debt service coverage calculation. In fiscal year 2009-10, the City began applying PFC Revenues toward Debt Service.

Table 12
Norman Y. Mineta San José International Airport
Historical Bond Debt Service Coverage
Fiscal Years Ended June 30

	2011-12	2012-13	2013-14	2014-15	2015-16
Total Operating Revenues ⁽¹⁾	\$126,975,792	123,115,003	\$125,710,135	\$125,980,551	141,953,361
Adjustments to Total Operating Revenues					
Plus: Interest income and non-operating revenues	2,578,186	1,651,672	2,006,597	2,145,718	3,800,600
Less: Other revenues ⁽²⁾	19,279 ⁽⁵⁾	84,323 ⁽⁵⁾	-	(88,184)	55,053 ⁽⁵⁾
Adjusted Revenues	\$129,573,257	\$124,850,998	\$127,716,732	\$128,038,085	\$145,809,014
Maintenance & Operation Expenses	\$130,322,197	\$124,427,000	\$125,670,182	\$124,572,998	\$129,771,799
Adjustments to Maintenance and Operation Expenses					
Less: Maintenance and operation expenses paid from sources other than General Airport Revenues ⁽³⁾	(2,614,029)	(3,391,228)	(4,464,686)	(3,194,137)	(3,901,692)
Less: Unspent 2004 Bond Proceeds used to pay Operating Costs	(3,785,793)	-	-	-	-
Less: Depreciation and Amortization	(51,519,769)	(54,352,406)	(54,026,767)	(53,436,817)	(51,863,642)
Less: Net Pension Liability, Deferred Outflows / Inflows of Resources Related to Pensions	-	-	-	2,393,846 ⁽⁶⁾	(687,479)
Expenses paid from Maintenance & Operation Fund	\$72,402,606	\$66,683,366	\$67,178,729	\$70,335,890	\$73,318,986
Add: Transfer to General Fund	115,010	-	-	-	-
Add: Bond Issuance Costs paid out of Fund 523	-	195,581	-	-	-
Less: LOC Fees ⁽⁴⁾	(4,642,739)	(1,904,932)	(859,491)	(281,491)	(200,540)
Adjusted Maintenance and Operation Expenses	\$67,874,877	\$64,974,015	\$66,319,238	\$70,054,399	\$73,118,446
Net General Airport Revenues	\$61,698,380	\$59,876,983	\$61,397,494	\$57,983,686	\$72,690,568
Plus: Reimbursement for Prior Capital Expenditures	500,000	-	-	-	-
CFC Revenues	10,137,053	13,384,764	15,493,561	18,689,878	19,887,878
Unspent 2004 Bond Proceeds used to pay Debt Service	1,713,056	1,383,389	-	-	-
Unspent 2007B Bond Proceeds	-	4,418,719	11,082,438	11,082,025	11,082,575 ⁽⁷⁾
Prior year's ending surplus	33,987,539	30,642,898	32,033,921	35,521,794	29,243,041
Rolling coverage	12,579,218	16,175,989	16,547,214	17,891,765	18,333,780
Total: Other Available Funds	\$58,916,866	\$66,005,759	\$75,157,134	\$83,185,462	\$78,547,274
Net Revenues Available for Bond Debt Service	\$120,615,246	\$125,882,742	\$136,554,628	\$141,169,148	\$151,237,842
Revenue Bond Debt Service Requirement	\$80,725,630	\$86,324,804	\$95,067,646	\$96,082,690	\$95,451,785
Less: Available PFC Revenues	(21,336,421)	(22,099,631)	(25,747,384)	(25,202,373)	(24,828,669)
Net Revenue Bond Debt Service Payable from Revenues	\$59,389,209	\$64,225,173	\$69,320,262	\$70,880,317	\$70,623,116
Revenue Bond Debt Service Coverage Ratio	2.03	1.96	1.97	1.99	2.14

⁽¹⁾ Does not include CFC Revenues, PFC Revenues or AIP grant proceeds. AIP grant proceeds, CFC Revenues and PFC Revenues are included in the City's audited financial statements as non-operating revenues.

⁽²⁾ 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 and Certain Other Available Funds" in the forepart of this Official Statement.

⁽³⁾ 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 and transportation expenses paid by moneys other than General Airport Revenues.

⁽⁴⁾ Letter of credit fees associated with the Subordinated Commercial Paper Notes, net of capitalized fees. Letter of credit fees are reflected in this Table 12 and in Table 10 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.

⁽⁵⁾ At the end of each of fiscal years 2011-12, 2012-13, and 2015-16, the Airport reimbursed certain tenants the portion of their deposits which exceeded the costs of the tenant improvements.

⁽⁶⁾ At the end of fiscal year 2014-15, the Airport's share of pension contributions exceeded the recognized pension expenses.

⁽⁷⁾ As of March 1, 2017, all remaining unspent 2007B Bond Proceeds have been applied to pay Debt Service on outstanding Series 2007B Bonds.

Source: Norman Y. Mineta San José International Airport

As described under the heading “SECURITY FOR THE BONDS—Pledge of General Airport Revenues and Certain Other Available Funds” in the forepart of this Official Statement, the City has designated the Rolling Coverage Amount, certain uncommitted monies from the prior Fiscal Year held in the General Revenue Fund, and CFC Revenues, in an amount not to exceed Annual Debt Service on the Series 2011B Bonds, as Other Available Funds and, under the Eleventh Supplemental Trust Agreement it has pledged such amounts to the payment of Debt Service on the Bonds until the final maturity date of the Bonds. Pursuant to the Master Trust Agreement, amounts so pledged are included in certain calculations relating to the issuance of Additional Bonds. See “SECURITY FOR THE BONDS—Additional Series of Bonds.” The following table reflects the amounts included in such calculations in connection with the issuance of the Series 2017 Bonds based on the audited financial statements for fiscal year 2015-16:

Table 12A	
Series 2017 Bonds	
Historical Additional Bonds Test Calculations	
Net General Airport Revenues	\$ 72,690,568
Plus Pledged Other Available Funds:	
Rolling Coverage Amount	18,333,780
Uncommitted Monies	29,243,041 ⁽¹⁾
CFC Revenues	17,700,648 ⁽²⁾
Total Net General Airport Revenues and Pledged Other Available Funds Available for Debt Service	\$137,968,037
Bonds Maximum Annual Debt Service	\$103,765,518
Coverage Ratio	1.33 ⁽³⁾
(1)	Uncommitted monies from Fiscal Year 2015-16 held in the General Revenue Fund on July 1, 2016 following all transfers of moneys to the Subordinated Debt Account within the Surplus Revenue Fund required under the Master Trust Agreement for Fiscal Year 2015-16.
(2)	The amount of pledged CFC Revenues does not exceed Annual Debt Service on the Series 2011B Bonds in any year.
(3)	1.25 required.

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 G.

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. This amendment to the Master Plan 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) are designated for development of facilities to accommodate projected growth in general aviation demand. The completed 29-acre Signature FBO development is located in this portion of the Airport, and an additional 13 acres north of the FAA air traffic control tower remains available for future general aviation development opportunities. See "THE AIRPORT—Existing Facilities—General Aviation Facilities."

Phase 1 of the Airport Development Program

Construction of the Phase 1 projects was substantially completed 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 ARFF 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. While the 217 scheduled operations trigger has been met, the passenger trigger of 12.2 million passengers has not been met. The capacity of the terminals is approximately 14 million passengers, so the Airport has sufficient terminal capacity for a period of time. The Airport will only proceed with the development of Phase 2 when the operational need exists and as financial affordability permits. See “SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT—Capital Expenditures” in Appendix G 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, which is substantially completed, was initially budgeted at \$1.3 billion (including, among other costs, design, engineering, construction, reserves, contingency, insurance and escalation for inflation). Phase 1 costs were funded from a combination of federal grants, PFC Revenues, internally generated Airport funds and the proceeds of Bonds and Subordinated Commercial Paper Notes.

Costs of Phase 2 of the Airport Development Program have not been estimated in recent years; 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, PFC Revenues, internally-generated Airport funds, and, if necessary, Airport user fees, the proceeds of additional Bonds or Subordinated Commercial Paper Notes.

Five Year Capital Improvement Program

In June 2016, the City also adopted a five year, 2016-2021 Airport Capital Improvement Program (the CIP) primarily comprised of projects that are necessary for the safe and efficient operation of the Airport and are not part of either Phase 1 or Phase 2 of the Airport Development Program. The CIP is updated annually and reflects the Airport Department’s prioritization of projects that address a variety of

requirements and needs, including public safety, regulatory requirements, accommodation of air carrier and general aviation operations, and the convenience of the travelling public and that are balanced against the maintenance of competitive rates and charges imposed on the airlines. As summarized below, the estimated costs for the projects included in the CIP total approximately \$96.4 million and are subject to change. Approximately 60% of the estimated CIP costs are contingent upon the receipt of grant funding and the future availability of other Airport funds.

Table 13
Norman Y. Mineta San José International Airport
Five Year CIP

CIP Project	Estimated Cost (millions)
Southeast cargo ramp reconstruction	\$14.3
Airfield Geometric Implementation	15.0
Upgrade current ARFF Facility	14.0
Terminal B Gates 29 & 30	10.5
Perimeter Fence and Security Technology	7.8
Airfield Lighting Circuit Replacement	4.4
Pavement maintenance	1.6
Security exit control doors	2.1
Terminal A Parking Garage Resurfacing	2.2
ARFF vehicle replacement	2.1
Operations system replacement	1.5
Terminal building modifications	1.3
Southeast Area Building Demolition	1.4
FIS Curbside Improvement	1.0
Other Airfield Facility Projects	2.0
Other Aviation Support Projects	4.4
Passenger Terminal Facilities	6.5
Other (aviation, environmental, terminal)	4.3
Total 5-Year CIP:	\$96.4

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

Environmental Matters

Master Plan CEQA and NEPA Compliance. 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 Policy Act (NEPA).

An Environmental Impact Report under CEQA was prepared and certified by the City of San José (the Master Plan EIR) for the Master Plan adopted on June 10, 1997. Under the provisions of the San José Municipal Code, the Master Plan has been formally amended over time since the original 1997 adoption of the updated Master Plan. In associated conformance with CEQA, updates to the Master Plan EIR have also been approved through one Supplemental EIR and several EIR addenda. The most recent update to the Master Plan EIR (10th Addendum) was approved by the City on October 25, 2013.

An Environmental Impact Statement under NEPA was prepared by the FAA (the "Master Plan EIS") for the updated Airport Layout Plan (ALP) displaying the proposed Airport Master Plan improvements, with a Record of Decision issued on December 6, 1999, providing unconditional approval of the Master Plan Phase 1 project improvements shown on the updated ALP. Projects scheduled for later phases of implementation received FAA conditional approval, indicating the potential need for subsequent NEPA clearance. As the ALP has been amended over time to reflect the City-adopted amendments to the Master Plan, the FAA has conducted applicable NEPA clearance. The most recent NEPA clearance for an ALP amendment was issued on April 15, 2014.

Airport Noise and Capacity Act of 1990. The Airport Noise and Capacity Act of 1990 (ANCA) provides for a phaseout of Stage II 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 II and Stage III 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 II or Stage III aircraft. Proposed restrictions on the operation of Stage III 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. From 1972 until 2012, the Airport operated 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. Because the City has eliminated incompatible land uses within the Noise Impact Boundary through completion of its ACT Program (described below), in 2011 the City requested that Santa Clara County determine that the Airport is no longer a noise problem airport. On May 24, 2012, the County of Santa Clara verified that the Airport meets the noise standard as required in Section 5012 of the State Noise Standards and no longer requires a variance. The Airport will continue to be monitored with respect to the noise impact, and a variance could be required in the future.

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 AND POTENTIAL CLAIMS—Potential Claim from FAA Regarding Reuse of 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 PFC Revenues. 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 11:00 p.m. and 7:00 a.m. and Stage III aircraft operators (those aircraft not listed on the schedule of authorized aircraft) may only conduct takeoffs and landings at the Airport between the hours of 11:30 p.m. and 6:30 a.m. unless the aircraft was delayed solely because of a force majeure event. All Stage II and Stage III aircraft operations (except those listed on the Schedule of Authorized Aircraft) are investigated by Airport Operations to ensure compliance with these restrictions. 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.

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 was 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. In early 2014, the City applied for closure of the site with Santa Clara County. The City also requested reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (Plume Fund) for the full amount of the costs incurred for these corrective actions. Any reimbursement received from the State will be split 50/50 between the Airport and Chevron.

As of June 30, 2016, the remediation work for the closed City Jet Fuel Tank Farms was completed. In May 2016, the Airport made the final payment to Chevron in an amount of \$0.1 million, bringing the total payments to \$2.2 million, which is 50% of the total remediation costs associated with

the coordinated corrective action at the closed City Jet Fuel Tank Farms. Chevron has received a reimbursement from the Plume Fund amounting to a total of \$3.0 million. In June 2016, the Airport received \$1.5 million from Chevron, which represents 50% of the reimbursement, less a deductible.

OTHER MATTERS

Security Matters

The Airport has increased the height of perimeter fencing above TSA standards to enhance the security measures in place at areas of the airfield that are not subject to additional development due to future construction opportunities. The Airport is also working towards installation and implementation of additional cameras, both thermal and high-definition, to create a ring of camera coverage around the airport perimeter that will detect any unauthorized persons. In addition, an exit lane system will be installed in Terminal B to detect any individuals attempting to enter the boarding gate area by walking into the terminal against the flow of exiting passengers, or any person attempting to throw an object into the holdroom. Both the perimeter system and exit lane are expected to be installed and operational by Summer of 2017.

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 City Council adopted the Investment Policy on April 2, 1985, as amended on June 7, 2016, related to the City's cash and investment pool, which is subject to annual review. The City Council approved the Investment Policy, with no changes on March 7, 2017. The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged 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 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 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 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.

Investment Portfolio

As of December 31, 2016, the book value of the City's pooled investment fund was \$1,449,124,045 while the market value was \$1,446,355,933. 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 monies invested in the fund represented approximately 2.67% of the fund.

In November 2012, the Airport transferred the remaining bond proceeds from the Series 2007A Bonds and Series 2007B Bonds from the Trustee to the City. These proceeds funded a number of capital projects at the Airport, which are completed. The remaining proceeds of the Series 2007A Bonds were transferred to the City to pay ongoing Airport capital project costs, while proceeds of the Series 2007B Bonds were transferred to the City to pay debt service on these Bonds. The moneys are held in separate investment funds, managed and invested by the City staff. As of December 31, 2016, the book value of Series 2007A investment fund and Series 2007B investment fund were \$38,727,479 and \$25,240, respectively.

To prevent potential loss of principal on any of the City's investments, the Investment Policy strictly limits the composition of the holdings within the Investment Portfolio. The Finance Department's investment staff continues to focus investment decisions in accordance with the Investment Policy's primary investment objectives as described above in "Investment Policy and Practices of the City."

Table 14
City of San José Pooled Investment Fund
General Pool Investments
As of December 31, 2016⁽¹⁾

	Book Value	Percent of Portfolio	Market Value	Weighted Average Days to Maturity	Weighted Average Yield
U.S. Treasury Bills and Notes	\$ 10,179,688	0.70%	\$ 10,161,700	1,339	1.723%
Federal Agency Securities ⁽²⁾	511,046,755	35.27	511,475,831	487	1.099
Supranational Securities ⁽³⁾	174,872,568	12.07	173,734,434	575	0.965
Negotiable Certificate of Deposit	170,000,000	11.73	170,078,016	185	1.162
Commercial Paper	84,398,319	5.82	84,747,775	102	1.026
Corporate Notes	351,215,579	24.24	348,755,834	600	1.194
Municipal Bonds	90,287,370	6.23	90,278,577	1,277	1.644
Money Market Mutual Fund	284,927	0.02	284,927	1	0.334
State of California Local Agency Investment Fund ⁽⁴⁾	56,838,839	3.92	56,838,839	1	0.676
Total	\$1,449,124,045	100.00%	\$1,446,355,933	503	1.131%

⁽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 of securities issued by Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), and Federal Agricultural Mortgage Corporation (Farmer Mac).

⁽³⁾ Composed of securities issued by International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

⁽⁴⁾ 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.

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. Two of the bargaining units represent public safety employees who provide services at the Airport for which the Airport Department reimburses the City's General Fund.

The table below shows the representation and agreement dates for the eleven bargaining units. As indicated in the table, the City and three bargaining units entered into agreements with a term expiring June 30, 2017; the City and six bargaining units entered into agreements with a term expiring on June 30, 2018; and the City and the International Union of Operating Engineers (“OE#3”) entered into an agreement with a term expiring on September 30, 2018. The City and the San José Police Officers’ Association (“POA”) entered into an agreement expiring on June 30, 2020. In addition to its represented employees, the City has approximately 290 unrepresented employees budgeted for 2016-2017, approximately twenty (20) of which are assigned to the Airport. The Airport Department has 204 authorized positions in its budget for fiscal year 2016-2017 as of a budget adjustment approved by the City Council in January 2017.

Table 15
City of San José
Summary of Labor Agreements

	Agreement Expiration Date	Full-Time Equivalent Employment⁽¹⁾	Assigned to Airport⁽⁴⁾
Assoc. of Building, Mechanical and Electrical Inspectors (ABMEI) ⁽²⁾	06/30/2018	84	0
Association of Maintenance Supervisory Personnel (AMSP) .	06/30/2018	105	21
Association of Engineers and Architects (AEA) ⁽³⁾	06/30/2018	291	5
Association of Legal Professionals (ALP).....	06/30/2017	38	0
International Union of Operating Engineers, Local No. 3 (OE#3)	09/30/2018	701	36
International Brotherhood of Electrical Workers (IBEW)	06/30/2017	78	5
City Association of Management Personnel (CAMP)	06/30/2018	406	28
San José Police Officers’ Association (POA).....	06/30/2020	1,109	0
International Association of Firefighters (IAFF, Local 230) ...	06/30/2018	697	0
Municipal Employees Federation (MEF).....	06/30/2018	2,140	54
Confidential Employees’ Organization (CEO)	06/30/2017	221	8
Total.....		5,870	157

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 based upon the 2016-2017 Adopted Budget, and have been rounded to the nearest FTE.*

- (1) The total number of employees does not include approximately 290 unrepresented positions budgeted in 2016-2017.
- (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, 2018.
- (4) Based on actual (not budgeted) data per the City’s PeopleSoft payroll records as of February 23, 2017.

Source: City of San José, Office of Employee Relations, City Manager’s Budget Office

State Law Requirements Related to Labor Negotiations. 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 public safety bargaining unit declares that the negotiations are at impasse, and the parties are unable to reach an agreement during the subsequent mediation. A summary of the City Charter's binding interest arbitration provisions is set forth below in "– City Charter Binding Interest Arbitration Provisions." The agreements with the other bargaining units include "no strike" clauses during the terms of their respective agreements.

Also under California law (the Meyers-Milias-Brown Act), the City and the bargaining units have the mutual obligation to meet and confer in good faith 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. Generally, the bargaining units may have limitations in their contracts on whether or not they are required to meet and confer on certain items during the term of a contract. 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 interest arbitration of disputes. Prior to January 2012, if mediation with a non-public safety bargaining group did not result in an agreement, the City Council could choose to implement the City's last, best and final offer. Implementation of terms, however, does not result in a bargaining agreement or contract.

Effective January 2012, State law was amended to provide for an additional step before the City Council may impose a last, best and final offer. State law currently requires a non-binding fact-finding process upon election by a bargaining unit. A three-person fact-finding panel, comprised of representatives selected by the employer, bargaining unit and a chairperson selected by the California Public Employee Relations Board or by mutual agreement of the parties, is charged with making written findings of fact and advisory non-binding recommendations covering unresolved issues during negotiations. The panel is empowered to conduct investigations, hold hearings and issue subpoenas requiring the attendance and testimony of witnesses and the production of evidence. In arriving at their findings and recommendations, the panel is required to consider and apply numerous factors, including without limitation: (a) applicable State and Federal laws; (b) local rules, regulations, or ordinances; (c) stipulations by the parties; (d) the interests and welfare of the public and the financial ability of the public agency; (e) comparison of wages, hours and conditions of employment of employees performing similar services for comparable public agencies; (f) the consumer price index for goods and services; (g) the overall compensation presently received by employees; and (h) any other facts which are "normally or traditionally taken into consideration in making the findings and recommendations." After applicable mediation and fact finding procedures have been exhausted, but no earlier than ten (10) days after the issuance of the panel's written findings of fact and advisory non-binding recommendations, a public agency may implement its last, best and final offer. Prior to doing so, the City must hold a public hearing regarding the impasse. It is expected that the fact finding process could significantly lengthen the negotiation process and increase the City's costs.

City Charter Binding Interest Arbitration Provisions. As previously noted, the Charter's binding interest arbitration provisions apply only to the POA and IAFF, Local 230. In November 2010, the voters approved a Charter amendment to revise the Charter's binding interest 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 Arbitration 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 is consistent with the City Charter, 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. The Charter defines "compensation" as being all costs to the City, whether new or ongoing, for salary and benefits, including but not limited to any wages or other pays, pension, and active and retiree healthcare. 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.

Changes in Labor Costs over Last Decade. The City, including the Airport Department, has engaged in efforts to reduce labor costs. During the period from fiscal year 2006-2007 through fiscal year 2016-2017, the City’s total compensation costs increased significantly although base payroll costs have declined due to both reductions in base pay and number of full-time equivalents (“FTEs”). From fiscal year 2006-2007 through fiscal year 2016-2017, the Airport Department reduced its total compensation costs by approximately 19%, as FTEs were reduced significantly during this period. As noted above, FTEs are the combined total number of budgeted full-time positions. The term “total compensation costs” refers to the City’s cost of pay and benefits, including base pay, retirement contributions paid by the City to the Police and Fire Plan and Federated Plan and to the Tier 3 defined contribution retirement plan available to certain unrepresented employees, health insurance and other benefits.

The table below shows the difference in budgeted costs of total compensation of the City’s FTEs from 2006-2007 through 2016-2017 for all of the City’s funds.

Table 16
City of San José
Citywide Salary and Benefits⁽¹⁾

	2006-2007	2016-2017	Difference
Base Payroll	\$539,857,037	\$542,129,161	0.42%
Retirement Benefits	\$120,382,719	\$331,004,565	174.96%
Federated Retirement/Other ⁽²⁾	\$67,740,017	\$172,221,738	154.24%
Police/Fire Retirement	\$52,642,702	\$158,782,827	201.62%
Health/Dental Benefits⁽³⁾	\$60,011,306	\$64,506,421	7.49%
Other Benefits	\$11,847,573	\$10,710,524	(9.60%)
Total (All Benefits)	\$192,241,598	\$406,221,510	111.31%
Grand Total	\$732,098,635	\$948,350,671	29.54%
Total FTEs	6,843	6,160	(10.00%)
Average Total Cost Per FTE⁽⁴⁾	\$106,981	\$153,975	43.93%

(1) Does not include worker's compensation cost or overtime. The amounts 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) Other retirement benefits include retirement costs associated with part-time employees, retirement contributions to a defined contribution retirement plan available to certain unrepresented employees, and the Mayor and City Council.

(3) Health/Dental Benefits are the costs budgeted for the health and dental benefits provided to FTEs.

(4) Includes total retirement costs, including unfunded liabilities.

Source: City of San José Salary and Fringe Benefit Costs by Bargaining Unit & Fund for 2006-2007 through 2016-2017 Adopted Budget

Modification to Pension and Retiree Healthcare Benefits and other Employment Benefits.

Pension and Retiree Healthcare Benefits:

During fiscal year 2011-12, the City and all eleven bargaining units engaged in negotiations related to retirement issues, including the terms of a ballot measure to amend the retirement provisions set forth in the City Charter. Those negotiations did not result in an agreement with any of the City's bargaining units concerning the terms of the proposed City Charter amendment or other retirement related issues. In March 2012, the City Council voted to place the Charter amendment measure, designated as Measure B, on the June 5, 2012 ballot which the voters approved.

Following its passage, litigation challenging Measure B ensued. In 2015 and 2016, the City Council formally approved separate Alternative Pension Reform Settlement Frameworks agreements (Settlement Frameworks) with its sworn and non-sworn bargaining units which included an agreement that a ballot measure will be placed on the November 8, 2016, election for the voters to replace Measure B by codifying the significant terms of the Settlement Frameworks into the City Charter. This ultimately resulted in the Alternative Pension Reform Act, designated as Measure F, being placed on the November, 2016 ballot, to amend the City Charter's provisions related to retirement benefits. The voters approved Measure F in November 2016, and the City is currently in the process of implementing the terms of the Settlement Frameworks and Measure F. All of the bargaining units that were litigants in the lawsuits challenging Measure B, as well as the three bargaining units that were not litigants in these lawsuits, have agreed to the applicable Settlement Frameworks. Additionally, the provisions of the Settlement Framework applicable to non-sworn employees apply, with certain exceptions, to non-sworn unrepresented employees. For a more detailed discussion of Measures B (2012) and Measure F (2016), and the terms and implementation of the Settlement Frameworks, see "CITY OF SAN JOSE: RETIREMENT PLANS" in Appendix B.

Other Employment Benefits:

To address ten prior consecutive years of General Fund shortfalls up to Fiscal Year 2013-2014, the City and its workforce, had to endure very difficult decisions, including reductions in total compensation, resources and services. During that time, the City reached agreements or imposed terms on bargaining units that contained a total 10% ongoing total compensation reduction for all employees, rolling back general wage increases that were received in Fiscal year 2010-2011, healthcare cost containment, the elimination of the disability leave supplement for non-sworn employees, changes to overtime calculation, the elimination of vacation sellback, and changes to the salary step structure. Since then, due to some recent fiscal improvements, the City was able to start slowly restoring pay and services over the last few years, including pay increases for all City employees.

One of the benefits that was modified during this time period is payout of accrued sick leave to employees upon retirement. The City reached agreements with all of its bargaining units to eliminate this benefit for new employees and to freeze the benefit for other employees. Specifically, sick leave payments upon retirement were eliminated for non-sworn employees, including unrepresented employees, hired on or after September 30, 2012; for police sworn employees hired on or after July 7, 2013; and for fire sworn employees hired on or after September 14, 2014. For employees who remain eligible for this benefit, the rate at which the payout is calculated and the sick leave balance that is payable is frozen at various dates depending on the employee's bargaining unit: July 6, 2013 for represented and unrepresented employees and police officers; and June 21, 2014 for sworn fire employees on the sick leave balance accrued as of June 20, 2015.

Approved Bargaining Unit Agreements for 2016-2017. As of January 2017, the City has agreements with ABMEI, AEA, AMSP, CAMP, MEF, and IAFF Local 230 with a term of June 30, 2015, to June 30, 2018; an agreement with OE#3 with a term of June 30, 2015, to September 30, 2018; and agreements with ALP, CEO and IBEW each with a term of June 30, 2015 to June 30, 2017. All of these agreements include a general wage increase of approximately 3% for each fiscal year.

The City's agreement with the POA expired on December 31, 2016. On January 12, 2017, the City and the POA reached a tentative agreement on a successor agreement that was ratified by the POA membership and approved by the City Council on February 7, 2017. The agreement's wage increases were in recognition of the retention issues in the department. Since 2012, there have been approximately 300 resignations and 217 retirements of sworn officers. As of January 2017, there were approximately 926 filled sworn positions of the 1109 budgeted positions. The terms of the successor agreement include among others, the provisions outlined below.

- A three and half year term, with the successor agreement expiring on June 30, 2020;
- A \$5,000 one-time non-pensionable retention bonus for Fiscal Year 2016-2017, with a claw back for employees who leave City service prior to June 2020 or retire prior to June 2019;
- Wage increase of 10% for Fiscal Year 2017-2018; a wage increase of 3.25% plus a 2.75% non-pensionable Crisis Intervention Training premium pay for Fiscal Year 2018-2019; and a wage increase of 3% plus an increase to the non-pensionable Crisis Intervention Training premium pay for Fiscal Year 2019-2020 from 2.75% to 3.75%;
- A police academy training claw back program for employees who voluntarily separate from City service to take a sworn position with another agency prior to completing five years of service with the City;
- Modifications to movement within the salary step structure with no automatic salary step increase if the employee has a below standard overall rating on a performance appraisal twelve months prior to the salary step increase;
- Multiple modifications to operational issues, including but not limited to adjustments to the overtime staffing plan, increasing from 6 months to 12 months the annual shift change, and civilianization of multiple positions, among others.

Retirement Plans

Overview. With the exception of certain unrepresented employees, all regular full-time and certain part-time City employees, including employees assigned to the Airport, participate in one of two Retirement Plans established pursuant to the City Charter: the Federated Plan and the Police and Fire Plan. Both Retirement Plans consist of a single-employer defined-benefit pension plan ("Pension Plan") and a postemployment healthcare plan ("Healthcare Plan" unless otherwise specified, the Healthcare Plan includes both postemployment medical and dental benefits.). Both Retirement Plans are structured as tax-qualified defined benefit plans. Each Retirement Plan is administered by its own Board of Administration (each a "Board"), and day-to-day operations are carried out by the City's Office of Retirement Services staff under the oversight of the Boards.

The governing terms of each Retirement Plan are set forth in the City's Municipal Code. Each Retirement Plan has different benefit tiers. The Federated Plan has Tier 1, Tier 2, Tier 2B, and Tier 2C.

Tier 2, Tier 2B and Tier 2C have the same reduced pension benefits as compared to Tier 1. Tier 2 is eligible for the same retiree healthcare and dental benefits as Tier 1. Tier 2B is not eligible for retiree healthcare and dental benefits. Tier 2C is eligible for retiree dental benefits but not retiree healthcare benefits. The Police and Fire Plan has Tier 1 and Tier 2 for both police and fire members with reduced pension benefits for the Tier 2 police and fire members as compared to the Tier 1 members. Tier 2 members are eligible for the same retiree healthcare and dental benefits as Tier 1.

Both Pension Plans pay a monthly pension allowance and provide either fixed or index-based cost of living increases, depending upon the tier. The Healthcare Plans pay all, or a portion of, health and dental insurance premiums for qualified retirees and their survivors and dependents. Participation by covered employees in the applicable Retirement Plans is mandatory. Employees contribute a percentage of their salaries to the applicable Retirement Plans, and the City provides funding either through contributions equal to a percentage of its full-time employee covered payroll or an actuarially determined lump-sum determined annually by each Retirement Plan. The City does not participate in the Federal Social Security System.

The Healthcare Plans consist of accounts established under Internal Revenue Code Section 401(h) within the Pension Plans and Internal Revenue Code Section 115 Trusts established by the City to supplement the 401(h) accounts. The 115 Trusts and the 401(h) accounts are collectively referred to as the Healthcare Plans. The Healthcare Plans pay for all, or a portion of, retiree healthcare dental insurance premiums.

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, including costs and liabilities associated with participation in the Police and Fire Plan. 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 \$9,221,534 in the fiscal year ended June 30, 2015 and \$11,507,946 in the fiscal year ended June 30, 2016.

For a more detailed discussion of the City's Retirement Plans, including service retirement formulas, contributions and their calculation, funding status, litigation concerning Measure B and retirement benefits and implementation of Measure F, see "CITY OF SAN JOSE: RETIREMENT PLANS" in Appendix B.

Funding Status and Contribution Rates. Each Board employs the services of an actuary (Cheiron is the actuary for both Retirement Plans (the "Plan Actuary")). 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 and the Healthcare Plans that are used to pay benefits. The Plan Actuary provides annual valuation reports to the Boards and supplements the Retirement Plans Comprehensive Annual Financial Report.

As of June 30, 2016, the funding status on an actuarial basis of the Pension Plan within the Federated Plan and the Police and Fire Plan was 53.7% and 75.7%, respectively, and the funding status of the Healthcare Plan (on a GASB basis) within the Federated Plan and the Police and Fire Plan was 29.6% and 17.4%, respectively. See "CITY OF SAN JOSE: RETIREMENT PLANS: PENSION PLANS: Pension Plan's Funding Status" in Appendix B.

Contribution rates for the Airport and the participating employees for the periods June 22, 2014 through June 20, 2015, June 21, 2015 through June 18, 2016, and June 19, 2016 through June 18, 2017 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2013, June 30, 2014, and June 30, 2015, respectively, for the defined

benefit Pension Plan and postemployment Healthcare Plan. The City's and the participating employees' annual contributions to the Pension Plans are based upon an actuarially determined percentage of each employee's covered payroll to arrive at an Actuarially Determined Contribution (ADC) sufficient to provide adequate assets to pay benefits when due.

In fiscal year ended June 30, 2011, the Federated Plan's Board approved the establishment of a "floor funding method" applicable to the City's payment of ADC for pension benefits and the annual required contribution (ARC) for the Healthcare Plan to address unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The "floor funding method" interprets the ADC and the ARC as the greater of the annual dollar contribution amount established in the valuation, or the amount that would result from applying the employer contribution and rate determined from that same valuation to the actual emerging payroll of Federated Plan members throughout the fiscal year.

In September 2014, the Federated Plan's Board approved the City's request to exclude Tier 2 from the floor methodology, so the ADC for Tier 2 employees is the rate determined by the Federated Plan's actuary multiplied by the actual payroll of Tier 2 employees.

In January 2016, the Federated Plan's Board approved a revised funding methodology to calculate the payment of ADC for Tier 1 pension benefits. The revised funding methodology calculates the unfunded actuarial liability portion of the ADC as a dollar amount as recommended by the actuary in the annual valuation report and approved by the Federated Board, and calculates the Normal Cost (including administrative expense) portion of the ADC as the greater of (1) the dollar amount for Normal Cost as recommended by the actuary in the annual valuation report and approved by the Federated Board, or (2) the employer Normal Cost contribution rate in the annual actuarial valuation report multiplied by the actual pensionable payroll in the applicable fiscal year. The revised funding methodology, referred to as a "split funding method" applies to the ADC for the payroll periods in fiscal year 2016-2017, commencing on June 19, 2016. See "CITY OF SAN JOSE: RETIREMENT PLANS: PENSION PLANS: Pension Plan Contributions" in Appendix B.

For the Healthcare Plans, the City began, as of June 2009, the process of phasing in full payment of the ARC for both the City and the employees as recommended by Cheiron. See "CITY OF SAN JOSE: RETIREMENT PLANS: HEALTHCARE PLANS: Funding Policy: Federated Healthcare Plan Funding Policy" and "Police and Fire Healthcare Plan Funding Policy" in Appendix B. As noted above in – "LABOR RELATIONS – Modification to Pension and Retiree Healthcare Benefits and Other Employment Benefits", part of the agreed upon Settlement Frameworks includes closing the Healthcare Plan to new participants as well as setting the retiree healthcare contribution rates for employees who remain in the defined benefit retiree healthcare plan at a set percentage of pay; and allowing employees to opt out of the defined benefit retiree healthcare plan (subject to legal and IRS approval) and into a defined contribution vehicle which does not include a City contribution. The contribution rates set forth below in Table 17 are the phased in contribution rates that are capped and are not the full annual required contribution rate as calculated pursuant to GASB Statement 43 and GASB Statement 45. For a more detailed discussion of both Healthcare Plans see "CITY OF SAN JOSE: RETIREMENT PLANS: HEALTHCARE PLANS" in Appendix B.

The payroll for Airport employees covered by the Federated Plan for the fiscal years ended June 30, 2016 and 2015 was \$13,162,801 and \$12,902,842, respectively. The Airport's total payroll for the fiscal years ended June 30, 2016 and 2015 was \$15,888,880 and \$15,141,158, respectively. Table 17 below shows the Airport and its employees' contribution rates (which are the same as City employees' contribution rates) to the Federated Plan for fiscal years 2014-2015, 2015-2016, and 2016-2017 and are based on the actuarial valuations performed as of June 30, 2013, June 30, 2014, and June 30, 2015,

respectively, for the Federated Plan. For a discussion of the rates applicable to the Airport for fiscal year 2017-2018, please see “CITY OF SAN JOSE: RETIREMENT PLANS: HEALTHCARE PLANS” in Appendix B.

Table 17
Airport and Airport Employee Contribution Rates
Federated Plan

Pay Period	Airport’s Contribution Rate (% of covered payroll)		Employees’ Contribution Rate (% of payroll)	
	Defined Benefits Pension	Postemployment Healthcare Plan	Defined Benefits Pension	Postemployment Healthcare Plan
06/22/14 through 06/20/15				
Tier 1	60.25%	9.41%	5.64%	8.76%
Tier 2 ⁽¹⁾	5.53%	9.41%	5.53%	8.76%
Tier 2B ⁽²⁾⁽³⁾	5.53%	12.66%	5.53%	0.00%
Tier 2C ⁽⁴⁾	5.53%	12.86%	5.53%	0.39%
06/21/2015 through 06/18/2016				
Tier 1	66.16%	9.41%	6.33%	8.76%
Tier 2	5.70%	9.41%	5.70%	8.76%
Tier 2B	5.70%	12.66%	5.70%	0.00%
Tier 2C	5.70%	12.86%	5.70%	0.39%
06/19/2016 through 06/17/2017				
Tier 1	78.06%	9.41%	6.47%	8.76%
Tier 2	6.04%	9.41%	6.04%	8.76%
Tier 2B	6.04%	12.66%	6.04%	0.00%
Tier 2C	6.04%	12.86%	6.04%	0.39%

⁽¹⁾ Tier 2 became effective for employees hired on or after September 30, 2012.

⁽²⁾ Tier 2B became effective for employees hired on or after September 27, 2013.

⁽³⁾ Per the City’s agreement with the bargaining units for the members in the Federated Plan, the City, including the Airport Department, agreed to pay the portion of the Federated Healthcare Plan’s unfunded liability that the new employee in Tier 2B and the City would have paid if the employee had been eligible for participation in the Federated Healthcare Plan for retirees.

⁽⁴⁾ Tier 2C became effective for employees rehired with more than five (5) years of service but less than fifteen (15) years of service on or after September 27, 2013.

Source: Norman Y. Mineta San José International Airport Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016

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 Annual Required Contribution (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 ARC and Annual OPEB Cost (AOC) for the Federated Plan based upon an actuarial valuation performed in accordance with GASB Statement No. 45, as further described under “HEALTHCARE PLANS” in Appendix B.

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 cumulative AOC (Liability) allocated and the costs contributed by the Airport was \$14,026,167 and \$13,766,573 at June 30, 2016 and 2015, respectively, which is recorded as the Airport’s net OPEB obligation. The Airport has earmarked funds from the unrestricted net position to pay the full amount of the net OPEB obligation. The following table sets forth the three-year trend information for the Airport’s ARC, AOC, and contributions made toward the health and dental components of the Federated Plan:

Table 18				
Airport Contributions and Liability				
Federated Plan – Healthcare Plan				
Postemployment Healthcare Plan				
Fiscal Year ended June 30,	ARC	AOC	Actual Contributions	Unfunded Liability
2014	\$3,220,885	\$3,037,439	\$1,478,129	\$13,635,779
2015	2,107,026	1,968,802	1,838,008	13,766,573
2016	2,446,660	2,259,794	2,000,200	14,026,167

Source: Norman Y. Mineta San José International Airport Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016

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.

Citywide Insurances. The City self-insures for liability (other than for the Airport and the San José-Santa Clara Regional Wastewater Facility), 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. 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.

For the policy period of December 18, 2016 to September 30, 2017, the City purchased government fidelity/crime coverage for City losses arising from employee bad acts. Coverage is for financial or property losses and provides a \$5 million per occurrence limit for losses resulting from employee theft, forgery or alteration and inside the premises- theft of money and securities, and provides for a \$1,000,000 per occurrence limit for computer fraud, funds transfer fraud, money orders and counterfeit money. All claims have a \$100,000 deductible per occurrence.

Table 19
City of San José
Summary of Citywide Property Insurance Coverage
(For Policy Period October 1, 2016 to October 1, 2017)

	Coverage	Deductible
	Per Occurrence	Per Occurrence
Property, including Business Interruption ⁽¹⁾	\$1 billion	\$100,000
Flood:		
Flood Zones SFHA ⁽³⁾	\$25 million per occurrence and annual aggregate	5% of TIV Minimum \$1 Million ⁽²⁾
All Other Flood Zones	\$100 million per occurrence and Annual Aggregate	\$100,000 ⁽²⁾

(1) Acts of terrorism are covered.

(2) TIV: Total Insured Value; Deductible applies per affected location.

(3) SFHA: Special Flood Hazard Area.

Source: City of San José, Finance Department – Risk & Insurance Management

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 San José-Santa Clara Regional Wastewater Facility 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. As part of general support services, the City charges the Airport for the cost of liability and property insurance coverage.

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 G.

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 liabilities are determined using actuarial methods or other estimating techniques. As of June 30, 2016, the Airport's liability for workers' compensation was approximately \$2.9 million.

State Audit of Workers' Compensation Program. During calendar year 2016, the City's Workers' Compensation Program underwent two audits by the State's Department of Industrial Relations (DIR): a routine three-tier Profile Audit Review (PAR) of randomly selected claims conducted every five years and a Target Utilization Review audit triggered by workers' complaints regarding the City's utilization review and procedures for requests for authorization of medical treatment of work-related injuries and illnesses. Since June 2013, a combination of in-house City staff and a Third Party Administrator (TPA) has administered the City's workers' compensation claims. The City's utilization review process is conducted by the TPA.

The PAR audit, consisting of three tiers, proceeded to a more comprehensive Full Compliance Audit with an additional and expanded selection of files, including denied claims. The City failed each of the three tiers of the Full Compliance Audit, resulting in the State DIR assessing the following amounts, which arise from the City's delay in processing claims: (1) a penalty in the amount of \$142,215; (2) additional disability payments in the amount of \$16,089.91 and (3) additional medical and medical legal payments owed to providers in the approximate amount of \$16,000, on which interest at the rate of 7% per annum continues to accrue until the date of payment. The City made the payment of the assessed amounts in December 2016. The DIR will be monitoring the City's claim review process through calendar year 2018.

The City is subject to a re-audit in approximately two years (December 2018) and must pass the re-audit or its ability to retain its status as a self-insured employer may be jeopardized. Additionally, failure to pass two consecutive Full Compliance Audits would expose the City to the risk of assessment of a civil penalty, currently a one-time payment in an amount not to exceed \$100,000. In the event that the City were unable to retain its status as a self-insured employer, the City would be required to procure workers' compensation insurance coverage for its employees, including employees assigned to the Airport Department. The City believes that the purchase of workers' compensation insurance coverage will be significantly more expensive than a self-insured program.

The Target Utilization Review audit reviewed files from the first phase of the routine audit, but with a focus on the City's utilization review process and procedure. This audit commenced in late October 2016 and concluded in January 2017. Only the portion of the City's Workers' Compensation Program administered by the in-house City staff was subject to the Full Compliance Audit. Both the in-house staff and the TPA were subject to the Target Utilization Review. The in-house program was assessed penalties of \$3,000 for three (3) failures to respond to requests for medical treatment. The City received the final Audit report on January 5, 2017 and paid the \$3000 in penalties in January 2017.

In addition to these audits, the State DIR's Administrative Director of the Division of Workers' Compensation issued an Order to Show Cause, assessing \$120,000 in administrative penalties for the City's failure to properly address independent medical review appeals of utilization review non-certifications of medical treatment requests in 24 claims. The penalties have been assessed, primarily, for failure to timely provide responsive documents to the company under contract with the State that performs independent medical review. The penalties are assessed at the rate of \$500 per day for each day the response is untimely, up to a maximum of \$5,000 per claim. The City paid the penalties in November 2016.

On November 29, 2016, the City Council approved the continuation of the hybrid Service Delivery Model for Administration of the City's Workers' Compensation Program through June 2018, which is a combination of in-house City staff and a TPA administering the City's workers' compensation claims. The City Council also approved Intercare Insurance Holdings, as the new TPA in place of Athens Administrators (based on the results of the request for proposal process) and an upgrade of the electronic Workers' Compensation claims management system, which the City believes will significantly enhance compliance features and workflow.

The City believes the failures identified in the Full Compliance Audit are largely attributable to the staffing levels in the City's Workers' Compensation Program. While the adjuster caseloads for the TPA are within an industry standard of 150 cases per adjuster, the adjuster caseloads for the in-house staff are well above this level, with caseloads that have periodically reached close to or in excess of 500 cases per adjuster. To address the in-house staffing needs and compliance with State law requirements, the following adjustments have been made: all four (4) budgeted Workers Compensation Adjuster positions will be filled with permanent staff rather than temporary employees, which the City believes should improve the recruitment and retention of adjusters; and six (6) temporary adjuster and administrative support positions have been added with previously approved one-time funds to address the current workload and backlog issues. In addition, the City has filled a management position within the City's Workers' Compensation Program which the City believes will improve day-to-day management of the program. The City also believes that the addition of adjusters and the management position within the City's Workers' Compensation Program will reduce the current caseload, enable the City's in-house staff to address and correct the State audit findings, and prospectively better manage new claims and ensure compliance with State requirements.

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 (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. 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

<u>Coverages</u>	<u>Limit</u>	<u>Deductible Per Occurrence</u>
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	None

Source: City of San José, Finance Department – Risk & Insurance Management

Due to the 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 fund is available to Chartis to pay claims within the City's deductible, subject to an aggregate maximum loss exposure within the City's coverage limit of \$3.9 million. The full amount of the claims loss reserve was deposited with Chartis and was recorded under advances and deposits in the accompanying statement of net position. Interest earned by the claims reserve fund is remitted to the Airport Department.

The North Concourse Project was completed in the fall of 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 closing out process for the OCIP includes an actuarial review, which examines outstanding claims. 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. Since March 2010, Chartis has returned \$2,599,500 to the Airport. 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.

Activities relating to the North Concourse OCIP claims reserve fund for the fiscal years ended June 30, 2016 and 2015 were as follows:

Table 21
City of San José
Airport Owner-Controlled Insurance Program – North Concourse Project
Summary of Claims Reserve Fund Activity

<u>Coverages</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>
Beginning Balance	\$929,517	\$919,173
Interest Earned	7,368	555
Reserve Returned	(14,468)	(68,313)
Losses Paid	(3,244)	-
Ending Balance	<u>\$919,173</u>	<u>\$851,415</u>

Source: Norman Y. Mineta San José International Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016

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 specific coverages, limits, and deductibles for the TAIP OCIP are outlined in Table 22 below.

Table 22
City of San José
Summary of Airport Owner-Controlled
Insurance Program –
Terminal Area Improvement Program

<u>Coverages</u>	<u>Limit</u>	<u>Deductible Per Occurrence</u>
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	None

Source: City of San José, Finance Department – Risk & Insurance Management

The terms of the TAIP OCIP require the City to fund a claims loss reserve 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. The full amount of \$6.5 million was deposited within Chartis in fiscal year 2009 and was recorded as advances and deposits in the accompanying statement of net position.

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. All work covered under the contract with Hensel

Phelps has been completed and accepted. Chartis will continue to hold the remaining funds in the claims 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.

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.

Activities relating to the TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2016 and 2015 were as follows:

Table 23
City of San José
Airport Owner-Controlled Insurance Program – Terminal Area Improvement Program
Summary of Claims Reserve Fund Activity

Coverages	FY 2014-15	FY 2015-16
Beginning Balance	\$2,516,817	\$2,253,446
Interest Earned	1,040	2,331
Reserve Returned	(180,988)	(49,719)
Losses Paid	(83,423)	(89,798)
Ending Balance	\$2,253,446	\$2,116,260

Source: Norman Y. Mineta San José International Airport Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016.

LITIGATION AND POTENTIAL CLAIMS

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. 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. 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 of its audit findings alleging improper use of Airport revenues by the City in three areas of expenditure. On August 14, 2015, as the result of discussions and correspondence with City staff, the FAA notified the City that it has closed two of the three audit issues. The remaining audit issue is described below.

Cost Allocations - 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, with interest. The City believes the allocation methodology used to allocate costs to the Airport is in compliance with federal cost allocation guidance. In an effort to resolve the issue, the City proposed and implemented a cap on the indirect cost allocations for certain City departments at 10%, which was the approximate rate charged to the Airport in pre-capital intensive years. This resulted in a total credit of \$5.6 million that would be applied equally to the Airport cost allocation plan over a seven year period beginning in fiscal year 2012-13. The City also proposed to adjust its indirect cost allocation methodology commencing with fiscal year 2014-15 in an effort to address FAA concerns, including removal of debt expenditures from the relative expenditures base, continuing with the 10% cap, and monitoring a rolling five-year average of the relative expenditure base to smooth out expenditure fluctuations, which were implemented in fiscal year 2015-16.

On August 14, 2015, the FAA accepted the corrective actions that the City has already taken, however, the FAA, disagrees with the City's inclusion of capital expenditures in the allocation of indirect costs. The City will continue discussions with the FAA, but cannot predict the final outcome of the audit.

Potential Claim from FAA Regarding Reuse of 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.

During discussions regarding proposals to develop certain portions of the Guadalupe Gardens, the FAA has taken the position that the City must dispose of any portion of the Guadalupe Gardens that is no longer needed for noise compatibility purposes. 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 contends 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 any potential claim by the FAA 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 any such potential claim by the FAA.

Potential Claim from Passenger Airlines Regarding Terminal Rents. The passenger airlines that currently operate at the Airport have a potential claim against the City for overpayment of terminal rents by the airlines. The overpayment of terminal rents by the passenger airlines has resulted from the City's annual calculation of terminal rents in a manner that is not consistent with the terms of the current Airline Lease Agreement between the passenger airlines and the City. Specifically, from Fiscal Year 2008 to the current fiscal year, the City has not included the City office and administrative space at the terminals that should be counted as "Rentable Terminal Space" under the terms of the Airline Lease Agreement for the purpose of calculating terminal rents to be charged to the passenger airlines. In addition, the City has not credited to the terminal rents payable by the airlines fees collected by the City for the use of gates and ticket counters that were not assigned as either preferential or common use. The statute of limitations for claims against a government entity such as the City is one (1) year pursuant to California Government Code Section 911.2, and the City will therefore take a position with the passenger airlines that the City is only liable to the passenger airlines for one year's overpayment of terminal rents in the approximate amount of \$3.2 million. Starting July 1, 2017, the City will include the City office and administrative space at the terminals as "Rentable Terminal Space" and the City will also credit to the terminal rents payable by the airlines fees collected by the City for the use of gates and ticket counters that are not assigned as either preferential or common use.

At this time it is impossible to predict the outcome of this potential claim, the possible loss or range of loss, or whether the claim will be made and if made, when it would be resolved.

SJJC Aviation Services, LLC v. City of San Jose. Between May 2013 and January 2014, SJJC Aviation Services, LLC filed three lawsuits seeking to block the Signature fixed base operation project at the Airport. SJJC Aviation Services, LLC is an incumbent tenant at the Airport that conducts fixed base operations under the name "Atlantic Aviation," and the Signature fixed base operation, which commenced operations at the Airport in late 2015, is in competition with Atlantic Aviation at the Airport.

The first lawsuit (RFP lawsuit), filed in May 2013 in the Superior Court of the State of California in Santa Clara County, challenged the City's request for proposal (RFP) process and the resulting award of the lease and operating agreement to Signature. The Superior Court entered judgment dismissing the RFP lawsuit with prejudice on May 2, 2014, and SJJC Aviation Services subsequently filed an appeal to the Sixth District Court of Appeal on May 16, 2014. The parties have fully briefed the appeal, and the hearing on the appeal is set for March 23, 2017.

The remaining two lawsuits filed in May and December 2013 in the Superior Court of the State of California in Santa Clara County, seek to block the Signature project under the California Environmental Quality Act (CEQA). In both CEQA lawsuits, SJJC Aviation Services alleges that the City violated CEQA by approving the Signature project without adequate environmental review. The Superior Court subsequently consolidated the two CEQA lawsuits. The City successfully defended its CEQA environmental review and received a judgment in its favor on December 23, 2014, and SJJC subsequently filed an appeal to the Sixth District Court of Appeal on February 5, 2015. The parties have fully briefed the appeal, and the hearing on the appeal is set for March 23, 2017.

The City believes that the SJJC Aviation Services challenges to the RFP process and the environmental review for the Signature project are without merit. 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 2017 Bonds.

APPENDIX B

CITY OF SAN JOSE RETIREMENT PLANS

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION TO APPENDIX B	3
RETIREMENT PLANS IN GENERAL.....	4
Overview	4
Retirement Plans’ Governance.....	4
Internal Revenue Code Limitations on Pension Payments.....	6
Retirement Plans Investment Valuations	6
Audit of Retirement Plans.....	7
APPENDIX B DEFINITIONS.....	7
RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS.....	9
Overview	9
Litigation and Administrative Proceedings Related to Measure B.....	10
Passage of Measure F; Status of Litigation and Administrative Proceedings	15
Implementation of Measure F and Settlement Frameworks	16
Implementation of Measure F – Tier 2 Service Pension Formulas.....	20
SUMMARY OF RETIREMENT PLANS	21
Retirement Plans Membership	21
Summary of Retirement Plans Historic and Projected Contributions.....	22
PENSION PLANS	25
Pension Plan’s Funding Status	28
Actuarial Funding Progress.....	29
Funding Progress - Net Pension Liability.....	31
Pension Plans’ Actuarial Valuations.....	32
Pension Plan Contributions	36
Investments.....	44
HEALTHCARE PLANS.....	47
General.....	47
Funding Policy	47
Summary of Healthcare Plans UAL and Funded Ratios	50
Healthcare Plans’ Actuarial Valuations	52
Investments.....	58
ESTABLISHMENT OF 115 TRUSTS FOR HEALTHCARE PLANS; TAX LIMITATIONS	59

INTRODUCTION TO APPENDIX B

This Appendix B provides investors with information concerning the Retirement Plans (as defined below) for the City of San José (the “City”). Investors are advised to read the entire Official Statement, including this Appendix B, to obtain information essential to making an informed investment decision.

The Retirement Plans have required that the following statements in this paragraph be included in this Official Statement: The information contained in this Official Statement concerning the Federated City Employees Retirement System (the “Federated Plan”) and Police and Fire Department Retirement Plan (“Police and Fire Plan” and together with the Federated Plan, the “Retirement Plans”) is derived in part from, among other sources, public information provided by the Retirement Plans and its independent accountants, actuaries and investment advisors. The Retirement Plans have not reviewed this Official Statement or approved its issuance, and no inference is intended or should be drawn that the Retirement Plans have reviewed or approved the issuance of this Official Statement or the Series 2017 Bonds. The statements made in this Official Statement are solely the responsibility of the City.

When used in this Appendix B 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 B 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 B summarizes portions of the City’s Basic Financial Statements for the Fiscal Year Ended June 30, 2016 included in the City’s Comprehensive Annual Financial Report (“City of San José 2016 CAFR”), the most recent Actuarial Valuation Reports for the City’s Federated City Employees Retirement System (the “Federated 2016 Pension Plan Actuarial Report”) and the City’s Police and Fire Department Retirement Plan (the “Police and Fire 2016 Pension Plan Actuarial Report”) for the fiscal year ended June 30, 2016, as well as the Federated City Employees’ Retirement System Comprehensive Annual Financial Report (“Federated 2016 CAFR”) for the fiscal year ended June 30, 2016 and the Comprehensive Annual Financial Report for the Police and Fire Department Retirement Plan for the fiscal year ended June 30, 2016 (“Police and Fire 2016 CAFR”). In addition, other documents relevant to the Retirement Plans are referenced or discussed in this Appendix B including the experience studies and investment policies for both Retirement Plans.

Copies of documents referred to in this Appendix B 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; email: debt.management@sanjoseca.gov.

The City maintains a number of websites, including a website for both Retirement Plans. 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 2017 Bonds.

RETIREMENT PLANS IN GENERAL

Overview

All regular full-time employees of the City and certain part-time employees, with the exception of certain unrepresented employees, participate in one of two retirement plans established pursuant to the City Charter: the Federated Plan for non-sworn employees and the Police and Fire Plan for sworn employees. Both Retirement Plans consist of a single-employer tax-qualified defined-benefit pension plan (“Pension Plan”) and a postemployment healthcare plan (“Healthcare Plan”). Each Retirement Plan is administered by its own Board of Administration (“Board”), and day-to-day operations are carried out by the City’s Office of Retirement Services staff under the oversight by the Boards.

Both Retirement Plans are structured as tax-qualified defined benefit plans. The Pension Plans offer a monthly pension benefit based on salary and length of service and, depending on the tier, provide either fixed or index-based cost of living increases. The Healthcare Plans consist of accounts established under Section 401(h) of the Internal Revenue Code within the respective Pension Plan and Internal Revenue Code Section 115 Trusts formed to supplement the Section 401(h) accounts. The Healthcare Plans pay all, or a portion of, health and dental insurance premiums for eligible retirees and their survivors and dependents. Participation by covered employees in the applicable Retirement Plans is mandatory.

To fund such healthcare and retirement benefits, the objective of both Retirement Plans is to meet their respective obligations through investment income and contributions. Both the City and employees make regular contributions to the Retirement Plans. Employees contribute a percentage of their salaries to the applicable Retirement Plans and the City provides funding either through contributions equaling a percentage of its full-time employee covered payroll or an actuarially determined lump sum determined annually by each Retirement Plan. Prior to the change in pension contribution calculations under Governmental Accounting Standards Board (“GASB”) Statement No. 68, the City generally paid the Annual Required Contribution (“ARC,” defined below) for the pension benefit as presented by the actuaries for the Pension Plans. Subsequent to the adoption of the GASB Statement No. 68, the City has contributed the Actuarially Determined Contribution (as defined below). For historical City contributions, please see “SUMMARY OF RETIREMENT PLANS – Summary of Retirement Plans Historic and Projected Contributions” and for historical investment returns, please see “PENSION PLANS – Investments” and “HEALTHCARE PLANS – Investments”. The City does not participate in the Federal Social Security System.

Each Retirement Plan separately retains Cheiron, Inc. as actuary (the “Plan Actuary”) to calculate and value current and future benefits, contribution rates, assets, liabilities, and other necessary information. The Plan Actuary provides annual valuation reports for each Retirement Plan and contributes to each Plan’s Comprehensive Annual Financial Report.

Retirement Plans’ Governance

Each Retirement Plan is governed by its own independent Board. The Retirement Plans are administered as entities separate from the City and for the benefit of the members of the Retirement Plans and their beneficiaries. The City Charter provides that the City Council shall establish by ordinance one or more retirement boards to administer the Retirement Plans in accordance with the fiduciary duties and obligations established by law, the City Charter, and as further prescribed by the City’s Municipal Code. Additionally, the City Charter specifies that the term of membership, qualifications of the members and the size of each retirement board shall be prescribed by ordinance and that the members of each retirement board shall be appointed and removed in a manner prescribed by ordinance with a majority of the members appointed by the City Council.

The current governance structure for each Retirement Plan, as specified in the Municipal Code, is described below. The City Council, at its meeting on January 10, 2017, directed the City staff to bring forward recommendations for the City Council's consideration possible amendments to the Municipal Code's provisions related to the procedures for appointment of the retired member to the Board of Administration for the Federated Plan. The City Council is scheduled to consider recommendations for possible amendments at its March 28, 2017 meeting.

The Police and Fire Plan is governed by a nine-member Board of Administration (the "Police and Fire Board") appointed by the City Council. Members serve 4-year terms and may only be removed for good cause as defined under the Municipal Code. The Police and Fire Board's membership is composed of: two City employees, one employed in the Police Department and one employed in the Fire Department, each recommended through an election of the members of the respective departments; two retired Plan members proposed by the Plan retiree association subject to an interview process, and; five public members, who are not connected with the City and have significant knowledge and experience relevant to the administration of a public pension system. The appointment of one of the five public members is subject to the recommendation of the Police and Fire Board.

The appointment of the retired Plan members includes an interview process. If the appointment is to fill the unexpired term of a retired Plan member, then the Plan retiree association makes a recommendation of three candidates to be interviewed by the Police and Fire Board for the Board's recommendation to the City Council. If the appointment is for a complete term, then the Plan retiree association through an election of its membership, recommends up to three candidates to be interviewed by a panel comprised of the Police bargaining unit representative, the Fire bargaining unit representative and a representative of the City Manager's Office. The interview process is for the purpose of ascertaining whether the recommended candidates are viable in that they will be able to attend meetings of the Board and fulfill the time commitment of Police and Fire Board members. Per the Municipal Code, the City Council may reject a recommended Plan member or retired Plan member for cause, including without limitation, the City Council finding that the recommended candidate will not be able to attend meetings of the Board and fulfill the time commitment of a member of the Board, or to act in accordance with fiduciary duties or carry out the requirements of governing legislation.

The Board of the Federated Plan (the "Federated Board") consists of seven members appointed by the City Council. Like the Police and Fire Board, members serve a 4-year term and may only be removed for good cause as defined under the Municipal Code. The Federated Board's membership is composed of: two City employees recommended through an election of the members; a retired Plan member proposed by the Plan retiree association subject to an interview process; and, four public members, who are not connected with the City and have significant knowledge and experience relevant to the administration of a public pension system. The appointment of one of the four public members is subject to the recommendation of the Federated Board members. The appointment process of retired Federated Plan members to the Federated Board is similar to the appointment process for the retiree members to the Police and Fire Board. The only difference is that the membership of the interview panel for appointment to a complete term includes different bargaining unit representatives. As is the case with the appointment of employee and retired members to the Police and Fire Board, the City Council may only reject the recommended employee and retiree members for cause as described above.

Each Board is authorized to perform the functions necessary to carry out the operation of the Retirement Plans, consistent with their fiduciary duties to the respective Plan. Under the California Constitution and the San José Municipal Code, Plan assets may only be used to provide benefits to plan participants and their beneficiaries and defraying reasonable costs of administration. The Retirement Boards are empowered to make certain decisions regarding investment of funds, management of assets, disbursement of benefits, hiring of legal counsel and financial advisors. Under the City Charter, each Retirement Board

is required to adopt a budget approved by the City Council covering the entire aggregate expense of administration of the respective Retirement Plan.

The Office of Retirement Services is administered by its Chief Executive Officer. Both the Chief Executive Officer and Chief Investment Officer for the Retirement Plans are employees of the City who serve at the pleasure of the Boards of the Retirement Plans.

Internal Revenue Code Limitations on Pension Payments

Both Retirement Plans are tax qualified plans and are subject to Internal Revenue Code (the “Code”) requirements. The Code places limits on the amount of compensation on which a pension may be calculated (\$270,000 for 2017) for employees who are members of the Retirement Plans. Additionally, the Code caps the annual maximum pension payment that is subject to periodic adjustment based on a consumer price index. For 2017, the maximum annual payment is \$215,000; however, the maximum amount is adjusted downward for non-public safety employees who retire before the age of 62, depending on the employee’s age at retirement.

The Office of Retirement Services became aware of pension overpayments to certain retirees in the Federated Plan. The Office of Retirement Services conformed benefit payments to these retirees to the applicable Code limits as of July 1, 2015. The Federated Plan submitted an invoice to the City during fiscal year 2015-2016 for \$882,007, being the total prior pension overpayments plus interest, and subsequently filed a lawsuit against the City for the amounts claimed in the invoice. The City disputes any obligation for these amounts but had determined to pay the overpayments and interest under protest. The City has not paid the disputed amounts, because before it could do so, the Federated Plan filed and served a lawsuit against the City seeking payment. The City subsequently filed a cross-complaint against the Federated Plan. The City cannot predict the outcome of this litigation. The disputed amounts do not have a material impact on financial health of the Federated Plan, the City, or the Airport.

Exceeding the maximum benefit payment limits places a pension plan at risk of receiving unfavorable tax treatment, which in turn, could subject the pension plan’s income to the payment of income taxes that would reduce the amount available for retirement benefits. The Federated Plan took steps to voluntarily correct the overpayment errors under Internal Revenue Service (IRS) guidance and preserve the tax-qualified status of the Plan. However, the City has not independently verified whether the Federated Plan’s corrective actions are sufficient under the Code or current IRS guidance.

On November 30, 2016, certain retired members and beneficiaries of the Federated Plan as well as an association representing a group of Federated Plan members and beneficiaries, which includes current and former employees of the Airport (the “Claimants”) filed a claim against the City relating to pension benefit limitations imposed by the Code on tax-qualified retirement plans. The claim alleges that the City has failed to provide the Claimants with vested retirement pension benefits that exceed the Code's benefit payment limits (“Excess Benefits”). The claim alleges that the City should have established a separate retirement plan or taken other lawful action as appropriate to pay the Excess Benefits. The claim sets forth a number of legal theories on which the Claimants base their claim against the City. The City has denied the claim. The City cannot predict the outcome of this matter, but it does not believe any potential liability from the claim will materially impact the financial health of the Airport.

Retirement Plans Investment Valuations

As noted in “AIRPORT FINANCIAL MATTERS – Airport and City Budget Process – City Audit” in Appendix A, in the Management Report issued by the City’s Accountant related to the financial statements of the City and the Retirement Plans for fiscal year 2015-2016, the Accountant determined a

significant deficiency existed regarding the “fair value” of investments held in the Retirement Plans and managed by the Office of Retirement Services under the direction of the Retirement Plans’ Boards. GASB 72 requires, as of fiscal year 2015-2016, disclosures in the financial statements regarding the inputs to the valuation techniques applied in determining the fair values of the investments in the Retirement Plans’ investment portfolios. This necessitates analysis of methods used by the custodian of investments and investment managers to measure “fair value” and to undertake periodic validation of the amounts provided by those parties.

The Accountant found that the Office of Retirement Services had not developed a comprehensive analysis of valuation techniques applied to its level 1 investments, level 2 investments, level 3 investments and investments measured using the net asset value and did not have a clearly articulated means of demonstrating how fair values recognized in the financial statements were validated. The Accountant recommended that the Office of Retirement Services develop and implement a comprehensive policy for fair value measurements, including documentation of investment valuation techniques; periodic review of certain reports covering the valuation controls in place at the custodian and third party investment managers; and selected validation of values provided by third parties using independent pricing sources.

In response to the Accountant’s finding and recommendations, the Office of Retirement Services intends, for the fiscal year 2016-2017 Statements, to document how manager valuations and their respective valuation policies are utilized internally and to document how the Retirement Plans’ custodian, and general consultants, obtain and report valuations on behalf of the Retirement Plans. In addition, the valuation procedures are intended to be imbedded into the formal manager due diligence process currently being prepared by an external third party. The formal manager due diligence process will also be included in the Office of Retirement Services research management system, and will incorporate the archiving of manager valuation policies. Further, Schedule K-1 and audited financial statements for each applicable investment will be retrieved, analyzed and compared to the unaudited statements provided by an investment manager.

Audit of Retirement Plans

On February 14, 2017, the City Council approved the Mayor’s recommendation to direct the City Auditor to conduct an audit of the Retirement Plans with respect to the Retirement Plans’ “administrative expenses and investment performance relative to industry and policy benchmarks within the context of the each of the Board’s sound direction to reduce volatility and risk.” The Mayor, in making this recommendation, noted that the Retirement Plans have underperformed their respective investment benchmarks over the past five fiscal years as specified in both the Federated CAFR and the Police and Fire CAFR while their staffing and administrative expenses have increased substantially. No timeline has been set for the City Auditor’s completion of this audit. The City cannot predict the outcome of this audit, however, any recommendations made by the City Auditor with respect to investments will be subject to the approval of the respective Retirement Boards. As discussed above in “– Retirement Plans’ Governance” under the City Charter the management of the Retirement Plans is vested in the respective Retirement Boards although the City Council retains approval authority of their annual budgets. See also “PENSION PLANS – Investments” and “HEALTHCARE PLANS – Investments”.

APPENDIX B DEFINITIONS

The following terms will be used in this Appendix B:

Actuarial Accrued Liability (the “AAL”): That portion of the present value of future benefits not provided for by future Normal Costs (defined below). The AAL can be thought of as the present value of

benefits attributed to employees' past service. It is used in the actuarial valuation as a funding target. This measure is not appropriate for assessing the sufficiency of plan assets to settle the plan's benefit obligations on a risk free basis.

Actuarial Value of Assets: The value of cash, investments, and other property belonging to the applicable plan as used by the actuary for the purpose of an actuarial valuation. The purpose of an actuarial value of assets is to smooth out fluctuations in market values to dampen the impact on contributions fluctuations in the market.

Actuarially Determined Contribution: The payment to a pension plan as determined by the actuary using a contribution allocation procedure. It may or may not be the actual amount contributed to a pension plan. A contribution allocation procedure typically uses an actuarial cost method, an asset valuation method, and an amortization method to develop the Actuarially Determined Contribution. Under the contribution allocation procedure employed by the San Jose pension plans, there are two components to the contribution: the Normal Cost (including administrative expenses) and an amortization payment on the Unfunded Actuarial Liability ("UAL") (defined below).

Amortization Payment: The portion of the pension plan or OPEB (defined below) contribution that is designed to pay interest and principal on the UAL in a given number of years.

Annual Required Contribution: Under GASB Statements 43 and 45, the employer's annual contribution to an OPEB plan that is calculated in accordance with the parameters established by GASB. Typically, the Annual Required Contribution includes the Normal Cost plus an amortization of the UAL where the amortization schedule is over a period no longer than 30 years. Whether or not the Annual Required Contribution is the amount actually contributed by the employer, it serves as the basis for calculating the annual expense reported in the City's financial statements. Prior to the implementation of GASB Statements 67 and 68, the Annual Required Contribution served a similar purpose for pension plans. When GASB Statements 74 and 75 are implemented, the Annual Required Contribution will no longer be applicable to OPEB plans either.

Entry Age Normal ("EAN") Actuarial Cost Method: A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated as a level percentage of pay from the individual's date of entry into the plan to the individual's assumed cessation of employment.

Fiduciary Net Position: The fair or market value of assets in the pension plan trust.

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 of the plan.

Net Pension Liability: The liability reported by the City for the pension plan on its statement of net position. It is calculated as the Total Pension Liability less the Fiduciary Net Position.

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 actuarial cost method adopted by the applicable plan.

Other Postemployment Benefits (“OPEB”): Certain benefits provided after the employees’ services have ended. OPEB includes postemployment healthcare benefits—including medical, dental, vision, hearing, and other health-related benefits—whether provided separately or provided through a defined benefit pension plan. OPEB arises from an exchange of salaries and benefits for employee services, and it is part of the compensation that employers offer for services received.

Smoothing: When measuring assets for determining contributions, many pension plans and OPEB Plans, including each of the Pension Plans and the Police and Fire Healthcare Plan, “smooth” gains and losses to reduce the volatility of contribution rates. Specific smoothing methodologies for the respective plans are discussed below in “PENSION PLANS – Pension Plans’ Actuarial Valuations – Smoothing Methodology” and “HEALTHCARE PLANS – Healthcare Plans’ Actuarial Valuations.”

Total Pension Liability: The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB Statements 67 and 68. The Total Pension Liability is the Actuarial Accrued Liability calculated under the entry age actuarial cost method using the discount rate determined for financial reporting purposes.

Unfunded Actuarial Liability (the “UAL”): The UAL is the excess of the AAL over the actuarial value of assets. The UAL 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 UAL calculation is to determine, as of the date of the calculation, the sufficiency of the assets in the Retirement Plans compared to the funding target (the AAL) and the additional contributions needed to achieve the funding target. The funding status is typically expressed as the ratio of the actuarial valuation of assets to the AAL. If the actuarially calculated funding level of a plan is less than 100%, the plan has a UAL.

For a description of assumptions relating to the actuarial valuations of the Pension Plans and Healthcare Plans, please see “PENSION PLANS – Pension Plans’ Actuarial Valuations” and “HEALTHCARE PLANS – Healthcare Plans’ Actuarial Valuations” below.

RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS

Overview

On June 5, 2012, San José voters adopted Measure B, which enacted the Sustainable Retirement Benefits and Compensation Act (“Measure B”). Measure B amended the City Charter to, among other changes, (1) increase pension contribution requirements for current employees effective June 23, 2013; (2) require the City to establish an alternative voluntary plan with reduced benefits for current employees (the “Voluntary Election Plan” or “VEP”) subject to Internal Revenue Service (IRS) approval; (3) place limitations on disability retirements; (4) authorize the City Council to temporarily suspend the cost of living adjustments if the City Council adopts a resolution declaring a fiscal and service level emergency; (5) require the elimination of the Supplemental Retirement Reserve within each Retirement Plan that had provided supplemental pension benefits to retirees under certain circumstances; (6) codify in the City Charter contribution requirements for current employees for the retiree health and dental benefits and provide for a reservation of rights for the City Council to terminate or modify any retiree healthcare plan; (7) require the establishment of Tier 2 plans for new employees within each Retirement Plan; and (8) reserve to the voters the right to approve future changes to retirement benefits.

As a result of the adoption of Measure B and subsequent events described below, members of each Retirement Plan are currently categorized into membership types based on when the member entered the

respective Retirement Plan. The Police and Fire Plan has four membership categories. Police Tier 1 members are those members who entered Police and Fire Plan prior to August 4, 2013. Fire Tier 1 members are those members who entered Police and Fire Plan prior to January 2, 2015. Police Tier 2 members are those employees, who were hired, rehired or reinstated on or after August 4, 2013. Fire Tier 2 members are those employees who were hired, rehired or reinstated on or after January 2, 2015. All tiers are currently eligible for retiree healthcare benefits.

The Federated Plan also has four membership types. Federated Tier 1 members are those members who entered the Federated Plan prior to September 30, 2012. Federated Tier 2 (also referred to as 2A)¹ members are those employees who were hired, rehired or reinstated on or after September 30, 2012, but before September 27, 2013. Federated Tier 2B members are those employees who were hired, rehired or reinstated on or after September 27, 2013. Federated Tier 2C members are City employees who were Federated Tier 1 members that separated from City employment and who later were rehired on or after September 27, 2013 but qualify for retiree dental benefits provided under Tier 1 as a prior Tier 1 member. Federated Tier 2B members are not eligible for the medical and dental benefits of the Federated Healthcare Plan. Federated Tier 2C members are eligible only for the dental benefits, but not the medical benefits.

Litigation and administrative proceedings challenging Measure B subsequently ensued and are described below. In connection with the litigation related to Measure B, the City agreed to delay implementation of the increased pension contributions from current employees from June 23, 2013, (the date specified in Measure B) to a date no sooner than the resolution of all appeals. In addition to the Measure B litigation and proceedings, individual retirees and a retiree association filed a separate case against the City challenging changes made by the City to the retiree healthcare benefit.

In 2015 and early 2016, the City and the bargaining units representing current employees reached agreements to resolve the Measure B litigation and the administrative proceedings. The settlement terms included placement of a measure on the November 8, 2016, ballot, designated as Measure F, to amend the City Charter's provisions related to retirement benefits. The voters approved Measure F. The consequences of Measure F's approval are outlined below. The City also reached a tentative settlement on the lawsuit brought by the individual retirees and retiree association that is described below.

Litigation and Administrative Proceedings Related to Measure B

The legal proceedings challenging Measure B are summarized below. The status of these proceedings is also discussed below in the section entitled: "Passage of Measure F; Status of Litigation and Administrative Proceedings."

Consolidated Lawsuits

Individual employees, bargaining units representing current employees and retirees filed lawsuits challenging Measure B in the Santa Clara County Superior Court that were consolidated under the caption of *San José Police Officers' Association v. City of San José, Board of Administration for Police and Fire Department* (the "SJPOA Caption"). On April 30, 2014, a consolidated judgment for the cases under the SJPOA Caption was filed ("Consolidated Judgment") and is summarized below.

- The 4% increase in employee pension contributions towards the UAL, up to a maximum of 16% (or 50% of the total liability, whichever is less) was found to be invalid as were the alternative plans (the "VEP) to which existing employees could elect to opt in because they were tied to the 4%

¹¹ The Federated Plan does not employ the term Tier 2A, however, it is used by City staff to distinguish Tier 2 members hired prior to September 30, 2012 from the Tier 2B and Tier 2C Federated Plan members.

increase.² However, Measure B's savings provision specifying a mandatory compensation reduction in lieu of additional employee pension contributions was upheld.

- The modified disability retirement provisions were upheld.
- The elimination of the Supplemental Retirement Benefit Reserve (SRBR) in each Retirement Plan was upheld.
- The minimum contribution toward retiree healthcare was upheld with respect to the inclusion of unfunded liabilities, but the judgment modified Measure B's language to delete the term "minimum of" to reflect that employees are required to only pay 50% of the cost as opposed to a higher percentage.
- The definition of Low Cost Plan as applied to the retiree healthcare benefit was upheld.
- The ability to suspend the retirement cost of living adjustments (COLAs) for up to five years in a fiscal and service level emergency was found to be invalid.
- The provision related to voter approval of retirement benefit increases and the severability provision were upheld.

Both the City and various parties challenging Measure B under the SJPOA Caption appealed the Consolidated Judgment.

Writ and Quo Warranto Actions

The SJPOA also filed a petition for a writ of mandamus alleging that the City violated the Meyers-Milias-Brown Act by failing to meet and confer in good faith with respect to the City's placement of Measure B on the ballot in June 2012. The SJPOA sought an order preventing the City from proceeding with the Charter changes approved in Measure B, but that request was denied by the Court, and Measure B was placed on the June 2012 ballot and approved by the voters. This case remains pending in the Superior Court.

On April 15, 2013, the California Attorney General issued an opinion granting the SJPOA's application to bring a Quo Warranto action on behalf of the People of the State of California alleging that the City violated the Meyers-Milias-Brown Act by failing to meet and confer in good faith with respect to the City's placement of Measure B on the ballot in June 2012. The SJPOA filed its complaint in the Quo Warranto action on April 29, 2013 and the City subsequently filed its answer.

² In response to the City's request for a private letter ruling related to the implementation of the VEP, the IRS, in June 2015, notified the City that it declined to issue the requested ruling.

Administrative Proceedings

Various bargaining units have filed unfair practice charges against the City with California Public Employment Board (“PERB”) related to the placement of Measure B on the June 2012 ballot. These charges were issued pursuant to State regulations governing PERB procedures. Under these provisions, the bargaining unit, an individual, or the employer may file unfair labor practice charges with PERB, and PERB is required to issue a complaint “if the charge...is sufficient to establish a prima facie case.” PERB accepts the allegations of the charging party as true in determining whether to issue the complaint and there is no factual determination by PERB of the accuracy or validity of the allegations prior to the issuance of a complaint. Following the issuance of a complaint, the subject of the complaint files an answer and the matter is assigned to an administrative law judge for a hearing and proposed decision. Both parties have the right to appeal the administrative law judge’s decision to the PERB Board, and the right to seek subsequent appellate review in the Court of Appeals and California Supreme Court.

On November 10, 2014, the City received service of the administrative law judge’s proposed decision in two of these cases brought by the International Association of Firefighters, Local 230 (“Local 230”) and the International Federation of Professional and Technical Engineers, Local 21 (“IFPTE”), on behalf of three of the City’s bargaining units. In both proposed decisions, the administrative law judge ruled that the City had violated the Meyers-Milius-Brown Act by adopting the resolution placing Measure B on the ballot without satisfying its duty to meet and confer in good faith with the applicable bargaining units. The administrative law judge’s proposed decision in each of these cases would, among other remedies, order the City to rescind the resolution that placed Measure B on the June 2012 ballot. Both proposed decisions recognize that PERB does not have the authority to rescind the results of the June 2012 election at which the voters approved Measure B.

On May 6, 2015, a different administrative law judge issued a proposed decision in the PERB cases brought by the International Union of Operating Engineers, Local No. 3 (“OE#3”) and the American Federation of State, County and Municipal Employees, Local No. 101 (“AFSCME”), on behalf of two of the City’s bargaining units, alleging that the City failed to negotiate in good faith the terms of Measure B as well as non-ballot retirement benefits, including retiree healthcare for new employees, mandatory Medicare enrollment for those eligible, and healthcare plan design and cost-sharing. The administrative law judge in the OE#3 and AFSCME cases found that the City had not violated its good faith obligations in negotiating Measure B. The administrative law judge did find that the City failed to negotiate the non-ballot retirement benefit issues in good faith by prematurely declaring impasse.

The administrative law judges’ decisions were in the process of being reviewed by the entire PERB Board. The parties stipulated to a stay of the PERB process pending the efforts to resolve all of the Measure B litigation, including these PERB cases.

Measure B - Settlement Frameworks

In August 2015, the City Council formally approved an Alternative Pension Reform Settlement Framework agreement with the SJPOA and Local 230 (“Public Safety Settlement Framework”). Subsequently, in December 2015 and January 2016, the City and the nine bargaining units with members in the Federated Plan agreed to an Alternative Pension Reform Settlement Framework related to Measure B (“Federated Settlement Framework”). All of the bargaining units that were litigants in the lawsuits under the SJPOA Caption as well as the three bargaining units that were not litigants in these lawsuits agreed to the Federated Settlement Framework.

The terms of both the Public Safety and Federated Settlement Frameworks (“Settlement Frameworks”) contemplated changes to both Retirement Plans, as described below:

- modifies Tier 2 pension benefits for sworn and non-sworn employees to levels similar to other San Francisco Bay Area agencies to attract and retain employees;
- allows Tier 1 employees who terminated employment with the City and either subsequently returned or who return in the future to return as members of Tier 1;
- preserves 50/50 risk sharing with employees in Tier 2 through the cost sharing of a 50/50 split in Normal Costs and any future unfunded liability associated with the Tier 2 benefit subject to a ramp up of 0.33% increments per year for employee contributions towards unfunded liability costs until the costs are shared 50/50;
- closes the defined benefit retiree healthcare plan to new and existing Tier 2 employees, and allows an opt-out for Tier 1 employees and Tier 2 employees in the OE#3 and ABMEI bargaining units who are contributing to the defined benefit retiree healthcare plan into a defined contribution Voluntary Employee Beneficiary Association (“VEBA”) subject to legal and IRS approval;
- new and current Tier 2 employees (except those represented by OE#3 and ABMEI who are making contributions into the defined benefit retiree healthcare plan) will be automatically placed into a defined contribution VEBA;
- implements a new lowest cost healthcare plan in order to reduce retiree healthcare costs;
- continues the elimination of the SRBR, and, in lieu of the SRBR, establishes a “Guaranteed Purchasing Power” provision, to apply prospectively, in order to maintain the monthly allowance for current and future Tier 1 retirees at 75% of the purchasing power in effect as of the date of retirement;
- reinstates the previous definition of disability for both Retirement Plans, which is comparable to other agencies; and creates an Independent Medical Panel to be appointed by each Retirement Board, which will determine disability eligibility instead of the applicable Retirement Board;
- COLAs to pensions allowances to be equal to the Consumer Price Index (San José- San Francisco-Oakland U.S. Bureau of Labor Statistics Index, CPI-Urban Consumers, December to December) or 2% cap, whichever is lower, for the Police and Fire Plan. The COLA is equal to the CPI, or, subject to a graduating cap based on years of service with a maximum of 2%, whichever is lower, for the Federated Plan.

The provisions of the Federated Settlement Framework apply to unrepresented employees except that unrepresented new and current Tier 2 employees will not be mandated or eligible to make contributions into a VEBA.

Both Settlement Frameworks contemplated that there would be a global settlement with all parties involved in Measure B litigation (including retirees) related to seeking a stipulated order from the trial court in the Quo Warranto action declaring that the City Council’s resolution placing Measure B on the June, 2012 ballot is null and void solely on the basis that the City should have engaged in further negotiation of final language with the bargaining units prior to placing the measure on the ballot, thereby invalidating the election result approving Measure B. Additionally, both Settlement Frameworks provide that in the event that trial court in the Quo Warranto action invalidates Measure B, the parties would agree to place a Charter amendment on the November 2016 ballot that includes the following: (1) a requirement for voter approval of defined benefit pension enhancements; (2) a requirement for actuarial soundness; (3)

prohibiting retroactivity of defined benefit pension enhancements; and (4) other provisions within the Settlement Frameworks that the parties mutually agree to include. Further, under both Settlement Frameworks, the parties agreed to seek stays of the appeal of the case under the SJPOA Caption as well as the PERB proceedings.

In the event that a global settlement with all parties did not result, or the invalidation of Measure B through the Quo Warranto action did not occur, then the parties to the Settlement Frameworks agreed to pursue implementation of their terms through a Charter amendment at the November 2016 election.

Under both Settlement Frameworks, the City also agreed to pay the litigants attorneys' fees: \$1,500,000 to SJPOA and Local 230 and \$1,257,000 for the non-sworn litigants. The City has made these payments. Further, the City agreed to binding arbitration to resolve any additional claims for attorneys' fees of the SJPOA and Local 230, and OE#3 and the bargaining units represented by IFPTE (AEA, AMSP and CAMP) related to the Measure B litigation and administrative proceedings. The bargaining units represented by AFSCME (MEF and CEO) do not have this right under the Federated Settlement Framework.

San José Retired Employees Association Litigation

In July 2014, the San José Retired Employees Association (the "Retirees' Association"), along with four individually named retirees, filed, and subsequently served, a verified complaint against the City in the Santa Clara County Superior Court. The complaint alleges that the City changed the basic retiree healthcare benefit to a new plan that "fundamentally alters" the nature and quality of the benefit provided to retirees, because the plan has increased co-pays and deductibles. The complaint further alleges that the affected retirees had a vested right to the plan in existence when they were employed by the City, and to the premium amount paid by the City for their healthcare benefit. The action seeks monetary damages for the increase in co-pays, deductibles and premium payments made by the affected retirees, as well as injunctive and writ relief prohibiting the City from continuing to provide the new health benefit to retirees.

The City filed a demurrer to the complaint, but this litigation is currently stayed, by stipulation of the parties, to allow for ongoing settlement negotiations. In early November, 2016, the parties developed a term sheet outlining the proposed terms for settlement of this litigation and the appeals of the Measure B litigation. The proposed settlement was approved by the membership of the Retirees' Association in February 2017 and will be placed on a future City Council agenda for the City Council's consideration. It is anticipated that the proposed settlement will be approved by all parties.

The settlement term sheet includes provisions that would make the following changes, among others, to the Federated Plan:

- implements a new lowest cost healthcare plan in order to reduce retiree healthcare costs and establishes a minimum threshold for the lowest cost healthcare plans that may be implemented in the future. This is the same lowest cost healthcare plan as in the active employees' Measure B Settlement Frameworks;
- continues the elimination of the SRBR and, in lieu of the SRBR, establishes a "Guaranteed Purchasing Power" provision, to apply prospectively, in order to maintain the monthly allowance for current and future Tier 1 retirees at 75% of the purchasing power in effect as of the date of retirement, similar to what was agreed to with the bargaining units in the Settlement Frameworks;
- creates a health-in-lieu premium credit option so that retirees can choose to receive twenty-five percent of the monthly premium of the lowest priced healthcare and dental plan (that cannot be

taken in cash) in lieu of receiving healthcare coverage, similar to what was agreed to with the bargaining units in the Settlement Frameworks;

- ends both parties' appeals of the Measure B litigation under the SJPOA Caption; and
- reimburses specific retirees (i.e., those earning a pension of \$54,000 or less, and who were enrolled in pre-Medicare health plan between 1/1/13 and 12/31/16) for a portion of their additional contributions towards retiree medical premiums up to a maximum total amount of \$1.25 million.

Under this settlement framework, the City would pay the litigants attorneys' fees and costs, which are estimated to be \$500,000. In the event of litigation against the Retirees' Association by one or more retirees challenging the settlement agreement, the Retirees' Association will have a right to tender the defense of the litigation to the City and the City will accept the defense of the litigation and will defend the Retirees' Association with counsel of City's choice, including the City Attorney's Office. The settlement framework excludes the settlement of claims related to the payment of pensions in excess of limits established under the Code.

Quo Warranto Action Following Approval of Settlement Frameworks

In March 2016, a Santa Clara Superior Court judge signed the stipulated judgment and findings filed by the City and SJPOA in the Quo Warranto action, invalidating the resolution placing Measure B on the ballot and declaring the Measure null and void. A former City councilmember, a taxpayer, and a taxpayer's association ("the Third Parties") filed a motion to intervene in the Quo Warranto action, however the Judge had already signed the stipulated judgment and found that the motion was untimely. The Third Parties appealed that denial to the Sixth District Court of Appeal, and sought a stay of the stipulated judgment, which has been granted by the appellate court. The Third Parties also sought a reconsideration of the trial court's granting of the judgment; however, the judge found that she no longer had jurisdiction to hear the motion for reconsideration because of the pending appeal and stay. It is uncertain when the appellate court will hear this matter. The status of this action following the voters' approval of Measure F is discussed below.

Passage of Measure F; Status of Litigation and Administrative Proceedings

The City and its eleven bargaining units reached agreement on the provisions of Measure F to amend the City Charter to supersede the provisions implemented by Measure B consistent with the provisions agreed to in the Settlement Frameworks. The City Council placed Measure F on the November 2016 ballot and the voters approved it. Measure F became effective on December 19, 2016.

Measure F, in addition to superseding the provisions implemented by Measure B, amends the Charter to, among other things, prohibit any enhancements to defined retirement benefits without voter approval; codify the revised Tier 2 pension benefit contemplated by the Settlement Frameworks; specify the closure of the defined benefit retiree healthcare plan to new employees as had been previously implemented by the City Council; and to prohibit retroactive defined benefit retirement enhancements.

To date, the settlement of the litigation filed by the San José Retirees' Association and the individual plaintiffs has not yet been approved; however, it is anticipated to be approved by all parties. The City anticipates that the appeal of the lawsuits under the SJPOA Caption, the writ action filed by the SJPOA, the PERB proceedings and the litigation filed by the San José Retiree Association and the individual plaintiffs will be dismissed once the settlement is approved by all parties. The City also anticipates that the Quo Warranto Action will likely become moot. In the event that the appeal of the Quo Warranto Action proceeds, the issues will be procedural because Measure F supersedes Measure B.

Implementation of Measure F and Settlement Frameworks

It is anticipated that during the first half of calendar year 2017, City staff will bring forward for the City Council's consideration the ordinances that will be necessary to implement the changes to the Retirement Plans addressed in Measure F and in the Settlement Frameworks. Additionally, the City will pursue IRS approval related to the implementation of the VEBA as outlined in the Settlement Frameworks and discussed more fully below. Certain actions related to VEBA funding will require the Retirement Boards to pursue IRS approval.

Police and Fire Plan Implementation

On February 28, 2017, the City Council adopted an ordinance amending the Municipal Code to implement the provisions of Measure F and the Public Safety Settlement Framework with respect to the Police and Fire Plan ("Police and Fire Implementation Ordinance"). The Police and Fire Implementation Ordinance will, subject to the Charter's referendum provisions, take effect on March 31, 2017.

The Police and Fire Implementation Ordinance codifies the provisions of the Public Safety Settlement Framework and Measure F outlined above in Measure B – Settlement Frameworks. The service pension formula for Police and Fire Plan Tier 2 members, both for new employees and current Tier 2 members who are retroactively moved to the new Tier 2 plan, is set forth below in Table B-1.

The Police and Fire Implementation Ordinance also addresses the allocation of costs, including any UAL, associated with the retroactive inclusion of current Tier 2 members in the new Tier 2 plan and the placement of former Tier 1 plan employees who were rehired after Tier 2 became effective in Tier 1. These costs will be amortized as a separate liability over a 16 year period or such other period as determined by the Police and Fire Board and shared 50/50 between the impacted employees and the City without any ramp-up period.

In addition to the provisions addressed in the Public Safety Framework and in Measure F, at the request of the bargaining units, the Police and Fire Implementation Ordinance authorizes the City Manager at the City Manager's discretion to terminate the Police and Fire Healthcare Plan with respect to Tier 2 members prior to the establishment of a VEBA. This request was made in light of the contribution rates for the Police and Fire Healthcare Plan and that the establishment of the VEBA may take longer than originally anticipated.

Consistent with existing Municipal Code provisions, the Police and Fire Board reviewed the proposed Police and Fire Plan Implementation Ordinance before it was brought forward to the City Council, and through the Board's counsel, submitted a report of its recommendations to the City Council ("Board Report") and a supplemental report specific to the City Manager's discretion to terminate the Police and Fire Healthcare Plan with respect to Tier 2 members prior to the establishment of the VEBA ("Supplemental Board Report").

The Board Report noted that the City and the bargaining units had worked with the Board's counsel in drafting the Police and Fire Plan Implementation Ordinance; however, a number of concerns remain: (1) the increased complexity of the Police and Fire Plan will lead to increased administrative costs; (2) eligibility requirements to serve on the independent medical panel for determining disability retirements will make it difficult for the Police and Fire Plan to find eligible panelists; (3) the increased administrative costs of the independent panel review are, in the Board's view, likely to be greater than any savings; and (4) the requirement that the purchase of service credits be at the actual rate earned by the Police and Fire Plan over the relevant period of time could lead to inequitable results given the volatility of returns

The Supplemental Board Report conveyed three comments: (1) the City Manager's authority to terminate the Police and Fire Healthcare Plan unilaterally should be reviewed by tax counsel for the City and the Police and Fire Plan order to assure continued compliance with the Police and Fire Plan's tax qualified status; (2) the termination of the Healthcare Plan could lead to potential claims by affected Tier 2 members that participation in the Healthcare Plan is a vested right (particularly during the period between the termination of the Healthcare Plan and the establishment of the VEBA) and the law in this area is unsettled; and (3) the Police and Fire Implementation Ordinance should be revised to clarify that employee contributions made to the Healthcare Plan's 401(h) account and credited to the employee's account should remain there until such time as the IRS approves transfer to another plan or the member withdraws the contribution.

The City Council made no revisions to the Police and Fire Plan Implementation Ordinance in response to the Board's recommendations and comments. It is the City's position that the Police and Fire Implementation Ordinance is consistent with Measure F and the terms negotiated with the bargaining units. With respect to the potential for claims of impairment of vested rights by Tier 2 members in the event that their membership in the Healthcare Plan is terminated in advance of the establishment of the VEBA, the City cannot predict whether such claims will be made or their outcome.

VEBA Establishment and Healthcare Plans Following VEBA Establishment

Measure F provides for the closure of the Healthcare Plans to Tier 2 employees. The Settlement Frameworks each contemplate the establishment of a VEBA as a defined contribution healthcare benefit for Tier 2 bargaining unit members mandated to participate in a VEBA and Tier 1 members and those Tier 2A employees in OE#3 and ABMEI who opt out of the applicable Healthcare Plan and into a VEBA. After implementation of the VEBA, deferred vested employees will also have the opportunity to opt into the VEBA if they are rehired as City employees. Both Settlement Frameworks also provide that an amount estimated to be equal to the members' retiree healthcare contributions without interest would be transferred from the applicable 115 Trust to their VEBA accounts. In the case of the Police and Fire Healthcare Plan, since the retiree healthcare contributions of the members have not been deposited into the applicable 115 Trust, the amount estimated to be equal to the members' contributions would need to be paid from the City's contributions that have been deposited into the applicable 115 Trust.

Unrepresented employees who are Tier 2 members will neither be mandated or eligible to participate in a VEBA. Unrepresented Tier 1 members may opt out of the applicable Healthcare Plan, and deposit into the VEBA an amount estimated to be equal to their contribution without interest with no ongoing obligation to contribute to the VEBA.

At the time the Settlement Agreements were executed, the City contemplated seeking IRS approval of the establishment of the VEBA, the opt-in by employees who are members of the Healthcare Plans and the transfer of the 115 Trust funds to the applicable VEBA. The IRS, however, has since informed the City that the issues related to the creation of the VEBA and ability of City employees to opt into the VEBA could be handled through a closing letter process; however, the transfer of 115 Trust funds into a VEBA would need to be handled through the private letter ruling request process and that such request must be made from each Retirement Board.

Each Retirement Board considered the City's request to submit a private letter ruling request as described above to the IRS. Both Retirement Boards approved the City's request. The City cannot predict (1) when the Retirement Boards will submit the private letter ruling request to the IRS; (2) the timing or substance of the IRS response; or (3) the outcome of the closing letter process initiated by the City with respect to VEBA establishment or opt in by employees who are members of the Healthcare Plans.

The Police and Fire Implementation Ordinance provides the framework for a VEBA to be established by the City, SJPOA and Local 230 under IRC 501(c)(9) (“Police and Fire VEBA”), subject to IRS approval as outlined above. An overview of the significant elements of the Police and Fire VEBA is set forth below. It is anticipated that a VEBA for the bargaining units that are parties to the Federated Settlement Framework, once it is established, will have a similar construct but with the differences called out below:

- The VEBA contribution rates will be 4% of base pay for Tier 2 Police and Fire members and 2% of base pay for Tier 2 Federated members.
- The contribution rates for members who opt out of the applicable Healthcare Plan into the VEBA will be: 5% of base pay for Tier 1 Police and Fire members and 4.5% of base pay for Tier 1 members and Tier 2A members represented by OE#3 and ABMEI.
- For members who opt out of the applicable Healthcare Plan into a VEBA, subject to IRS approval, an amount estimated to be equal to the member’s prior contributions to the Healthcare Plan, without interest, will be contributed to the member’s VEBA account from the applicable 115 Trust. In the event that such transfer is not approved by the IRS or there are insufficient funds in the applicable 115 Trust, the Settlement Frameworks contemplate that the parties will meet and confer to address the issue.
- Subject to certain eligibility requirements, a VEBA member who receives a service-connected disability retirement will be eligible to receive 100% of the single premium cost for the lowest cost plan provide through the applicable Healthcare Plan until the member is eligible for Medicare.

Members who remain in the Police and Fire Healthcare Plan will contribute 8% of their pensionable pay and the City will contribute the additional amount as determined by the applicable actuary to be necessary to fund the amount of the annual required contribution each year; provided, however, that if the City's portion of the required contribution is determined to be 11% of covered compensation or greater for a year, the City may, in its discretion, choose to only contribute a maximum of 11% of covered compensation for such year. The corresponding rates applicable to the Federated Healthcare Plan are 7.5% of pensionable pay for the members and 14% of covered compensation for the City.

Cost Projections – Settlement Frameworks

The City retained the service of an actuary, Bartel Associates LLC (“Bartel”), to provide cost projections related to the implementation of the Settlement Frameworks at the time they were approved in 2015 and early 2016. Bartel based its projections on the valuations of the Retirement Plans performed by the Plan Actuary as of June 30, 2014 (“2014 Valuations”). The assumptions used in the 2014 valuations of both Pension Plans have changed in the subsequent valuations resulting in increases in the City’s pension contributions. The revised assumptions used in the Healthcare Plans’ valuations would also have resulted in increases in the City’s retiree healthcare contributions had the City and the members of the Healthcare Plans been contributing the full amount of the ARC. See PENSION PLANS” and “HEALTHCARE PLANS.” Additionally, Bartel’s projections were based in part on assumptions that may not be used by the Plan Actuary; and moreover, actual costs or savings will be determined by the Plan Actuary using assumptions approved by the Retirement Boards and on the actual experience of the Retirement Plans.

As of July 2015, Bartel provided the following projections related to the Public Safety Settlement Framework:

- Over the 30 year period commencing fiscal year 2015-2016, the Normal Cost of the revised Tier 2 pension benefit (\$1,002.3 million) as compared to the Normal Cost of the existing Tier 2 benefit (\$763.6 million) was projected to increase by \$238.7 million.

- Over the 35 year period commencing fiscal year 2015-2016, \$244.2 million in City contribution savings was projected to result from implementing the retiree healthcare provisions of the Public Safety Framework (\$852.5 million) (based on Bartel's assumptions that younger members with fewer years of service would opt into the VEBA), as compared to the cost of the existing retiree healthcare benefit (\$1,096.7 million). This projection used the same amortization period then employed by the Plan Actuary in the 2014 Healthcare valuation.
- For the Guaranteed Purchasing Power provision (guaranteeing Tier 1 retirees 75% of the purchasing power as of the date of their retirement), Bartel observed that this benefit will only be significant if inflation returns to high levels and that only retirees who retired prior to 1981 would have ratios less than 75%. As of May 2015, there were 56 Public Safety retirees with an average age of 80, who fell in this category. Based on this information, Bartel concluded that the estimated liability was approximately \$2.4 million. Depending on the amortization period employed by the Plan Actuary, the annual cost to the City could range from \$180,000 based on a 20 year period to \$550,000 based on a 5 year period.

As of December 2015, Bartel provided the following projections related to the Federated Settlement Framework:

- Over the 30 year period commencing fiscal year 2016-2017, the Normal Cost of the revised Tier 2 pension benefit (\$672.9 million) as compared to the Normal Cost of the existing Tier 2 benefit (\$542.4 million) was projected to increase by \$130.5 million.
- Over the same 30 year period, \$249.9 million in City contribution savings was projected to result from implementing the retiree healthcare provisions of the Federated Settlement Framework (\$765.7 million) (based on Bartel's assumptions that younger members with fewer years of service would opt into the VEBA), as compared to the cost of the existing retiree healthcare benefit (\$1,015.6 million).
- For the Guaranteed Purchasing Power provision, (guaranteeing Tier 1 retirees 75% of the purchasing power as of the date of their retirement), Bartel observed that this benefit will only be significant if inflation returns to high levels and that only retirees who retired prior to 1981 would have ratios less than 75%. As of May 2015, there were approximately 68 Federated retirees with an average age of 88, who fell in this category. Based on this information, Bartel concluded that the estimated liability was approximately \$750,000. Depending on the amortization period employed by the Plan Actuary, the annual cost to the City could range from \$60,000 based on a 20 year period to \$180,000 based on a 5 year period.

In October 2016, Bartel provided projections related to the reinstatement of Tier 2 employees who had previously been employed as Tier 1 employees to Tier 1 status and the placement of existing Tier 2 employees in the revised Tier 2 plan:

- For the Tier 1 analysis, the projection assumed that there would be 7 Police and Fire rehires and 26 Federated rehires as of January 1, 2017 with an estimated increased pension cost to the City of \$32,500 in the first year, taking into account the savings of rehiring these employees initially as Tier 2 employees.
- For the Tier 2 analysis, the projection assumed that there would be 190 Police and Fire members and 1200 Federated members as of January 1, 2017 with an estimated increased pension cost to the City of \$269,000 for the first year.

Implementation of Measure F – Tier 2 Service Pension Formulas

Once the implementing ordinances are enacted, the service pension formulas for Tier 2 members of the Retirement Plans will be as follows:

Table B-1				
Tier 2 Service Pension Formulas Following Implementation of Measure F				
	Normal Retirement Age	Minimum Vesting Service**	Pension Allowance	Final Compensation
Police and Fire	57 years 50 years is minimum age (pension reduced by a factor of 7% for each year below 57 years)	5 years of service	First 20 years of service: 2.4% x years of service x final compensation. 21 st year of service through 25th year: 3% x years of service x final compensation. 26th year: 3.4% x years of service x final compensation. Maximum total benefit is 80% of final compensation.	Average annual earned pay of the highest three consecutive years of service, excluding additional compensation paid but including the premium pays included in the calculation for Tier 1 Police and Fire members
Federated	62 years 55 years is minimum age (pension reduced by a factor of 5% for each year below 62 years)	5 years of service	2% x years of service x final compensation Maximum total benefit is 70% of final compensation.	Average annual earned pay of the highest three consecutive years of service. Final Compensation is base pay only, excluding additional compensation and premium pays

Tier 2 employees in both Pension Plans and the City will continue to share equally in all costs of the applicable Tier 2 Pension Plan, including the Normal Costs and UAL. In the event of UAL in either of the Tier 2 Pension Plans, the Tier 2 members' contributions will "ramp up" to paying 50% of the liability by increments of 0.33% per year until such time that the contribution to amortize the UAL is shared 50/50 between the City and the Tier 2 employees. Until such time that the UAL is shared equally between the City and the Tier 2 employees, the City will be responsible for the balance of the contribution associated with the Tier 2 UAL.

See Tables B-4a and B-4b for current service pension formulas for Tier 2 members. As noted above, the City expects the new service pension formulas for Tier 2 Police and Fire members to become effective on March 31, 2017. The implementing ordinance for Tier 2 Federated members is expected to be brought forward for City Council consideration during the first half of calendar year 2017.

SUMMARY OF RETIREMENT PLANS

Retirement Plans Membership

As shown in Table B-2 below, total membership in the Federated Pension Plan increased by 224 members from 2015 to 2016. For the Police and Fire Plan, total membership increased by 73 members from 2015 to 2016. However, as of June 30, 2016, both Retirement Plans had total active member populations below the combined populations of retirees and terminated vested members. The proportion of active members contributing to the Retirement Plans to retired members or terminated vested members no longer paying into each Plans has decreased since June 30, 2013, potentially causing future contributions to vary more significantly year to year due in part to increased sensitivity to investment gains and losses. For projected City contributions, please see "PENSION PLANS –Pension Plan Contributions".

The Plan Actuary in presenting the June 30, 2016 valuation results to each Board made the following observations related to the membership of the respective plans. From 2007 to 2016, the number of active members in the Police and Fire Plan declined by approximately 26% and the number of members receiving benefits has increased 45% in the same time period. However, in 2016, the Police and Fire Plan saw an increase in active membership for the first time since 2007. Active membership in the Federated Plan decreased by approximately 19% from 2009 to 2014, but the Federated Plan saw an increase of 5.6% in active members from 2014 to 2016. The ratio of retired members to active members is 1.2 to 1 in the Federated Plan and 1.36 to 1 in the Police and Fire Plan.

With respect to distribution of Tier 1 and Tier 2 membership, the Federated Plan CAFR and Police and Fire Plan CAFR indicate that over 80% of the Retirement Plans' membership is in Tier 1. As of June 30, 2016, the division of membership between Tiers 1 and 2 within the Retirement Plans is as follows:

- 84.7% Tier 1 and 15.3% Tier 2 in the Federated Pension Plan;
- 96.2% Tier 1 and 3.8% Tier 2 in the Federated Healthcare Plan;
- 94.4% Tier 1 and 5.6% Tier 2 in the Police and Fire Pension Plan; and
- 94.8% Tier 1 and 5.2% Tier 2 in the Police and Fire Healthcare Plan.

Table B-2
Retirement Plans' Membership

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>% Change</u>
Pension Plan Membership**			
Federated Plan			
Retirees & beneficiaries receiving benefits*	3,901	4,003	2.6%
Terminated vested members not yet receiving benefits	1,145	1,206	5.3%
Active members	<u>3,236</u>	<u>3,297</u>	<u>1.9%</u>
Total	8,282	8,506	2.7%
Police and Fire Plan			
Retirees & beneficiaries receiving benefits*	2,108	2,149	1.9%
Terminated vested members not yet receiving benefits	290	317	8.5%
Active members	<u>1,577</u>	<u>1,582</u>	<u>0.3%</u>
Total	3,975	4,048	1.8%
Healthcare Plan Membership**			
Federated Plan			
Retirees & beneficiaries receiving benefits*	3,391	3,461	2.1%
Terminated vested members not yet receiving benefits	142	151	6.3%
Active members	<u>2,601</u>	<u>2,387</u>	<u>(8.2%)</u>
Total	6,134	5,999	(2.2%)
Police and Fire Plan			
Retirees & beneficiaries receiving benefits*	1,992	2,020	1.4%
Terminated vested members not yet receiving benefits	9	11	22.2%
Active members	<u>1,577</u>	<u>1,582</u>	<u>0.3%</u>
Total	3,578	3,613	1.0%

* The combined domestic relations orders are not included in the count above as their benefit is included in the member count.

** As of February 23, 2017, 176 full time and part-time employees were assigned to the Airport per PeopleSoft payroll records.

Source: Data from Federated 2016 CAFR; Police and Fire 2016 CAFR. For a further discussion of Retirement Plan membership by employees assigned to the Airport Department, see "THE CITY AND THE AIRPORT DEPARTMENT - the Airport Department" in Appendix A.

Summary of Retirement Plans Historic and Projected Contributions

Investors are cautioned that the amount of the UAL, the funded ratio, and the calculations of Normal Cost as reported by the Retirement Plans and the resulting pension and healthcare contributions is "forward looking" information prepared by the Retirement Plans for their own purposes. Such "forward looking" information reflects the judgment of the Boards of the respective Retirement Plans and their Plan Actuary

as to the amount of assets which the Retirement 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 Retirement Plans. The actuarial methods and assumptions could be changed by the Boards of the respective Retirement Plans at any time. Such changes could cause the City’s obligations to the Retirement Plans to be higher or lower in any particular year.

Contributions to the Pension Plans by both the City and the employees are based upon an actuarially determined percentage of each employee’s salary sufficient to provide adequate assets to pay benefits when due. Contributions to the Postemployment Healthcare Plan are made by both the City and employees, at rates established by the City Municipal Code and Memoranda of Agreements with employee bargaining groups, based on an actuarially determined amount. Contribution rates for fiscal years ended June 30, 2016 and June 30, 2015 were based on actuarial valuations performed in prior years. For the Pension Plan and Healthcare Plan contribution information, please see “PENSION PLAN - Pension Plan Contributions” and “HEALTHCARE PLANS – Funding Policy”. As shown in Table B-3a, the City’s annual dollar contribution to the Pension Plans and Healthcare Plans have increased significantly since 2010, primarily due to investment losses, assumption changes and payroll reductions that increased UAL. The Plan Actuary projects that the City’s contributions to the Federated Pension Plan and Police and Fire Pension Plan will continue to increase significantly until 2022 as indicated in Table B-3b and Table B-3c. The City’s contributions to the Pension Plans will continue to increase at a more gradual pace afterwards. City contribution reductions will not begin for the Federated Pension Plan until 2033 and for the Police and Fire Pension Plan until 2029 and is more fully described in “PENSION PLAN - Pension Plan Contributions” below. These projections do not take into account any changes under the Settlement Frameworks.

Table B-3a
Federated and Police and Fire Retirement Plans
Pension and Healthcare Contributions

Fiscal Year	Federated Plan	Police and Fire Plan	Total
2009	\$ 73,388,000	\$ 62,991,000	\$ 136,379,000
2010	71,593,000	63,599,000	135,192,000
2011	66,986,000	89,144,000	156,130,000
2012	112,558,000	143,540,000	256,098,000
2013	121,009,000	120,221,689	241,225,689
2014	126,842,000	140,850,000	267,692,000
2015	141,710,000	150,189,000	291,899,000
2016	159,921,000	153,545,000	313,446,000

Source: Data From City of San José 2016 CAFR.

In January and February 2017, as directed by the Retirement Plans, the Plan Actuary provided five-year budget projections for the City’s contributions for the Pension Plans and Healthcare Plans based on the June 30, 2016 actuarial valuations and do not reflect any changes as a result of Measure F or the Settlement Frameworks. The projections assume that all valuation assumptions were exactly met and are exactly met each and every year for the projection period. In addition, the projections assume that the active population remains level and plan provisions remain unchanged. In reality, actual experience will deviate from the assumptions. The Healthcare rates for the Healthcare Plans are frozen for each Tier of membership; however, the aggregate Healthcare rates in Table B-3b reflect the expected

decrease in the closed Tier 1 membership as these members retire or otherwise cease employment with the City and the growth of Tier 2B membership as new employees are hired to replace Tier 1 members. Since the City contributes a greater percentage of pay for Tier 2B members, the aggregate contribution rate is projected to increase even though the contribution rates for each Tier are frozen. For additional information and discussion regarding the contribution policy of both Pension Plans and both Healthcare Plans, please refer to “PENSION PLAN - Pension Plans’ Actuarial Valuations” and “HEALTHCARE PLANS – Healthcare Plans’ Actuarial Valuations” below. In addition, for both Healthcare Plans, the Plan Actuary’s projections include changes to the healthcare plans offered to active employees as described in “RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS”.

The Plan Actuary has indicated in the 2016 actuarial projections that the projected contribution by the City to each Pension Plan are likely to increase significantly in the next five years due to investment losses and increases in Plan member salaries in excess of assumptions. Such losses and salary increases have been projected to increase the Pension Plans’ UAL and, correspondingly, the City’s projected contributions. The City’s actual contribution will depend on the actual returns of the Pension Plans over the course of this five-year time period covered in Table B-3b and Table B-3c. Note that these projections do not take into account any of the changes made by the Settlement Frameworks.

**Table B-3b
Federated Plan
Projected City Contributions – Pension and Healthcare
(in millions)**

Fiscal Year	Federated Payroll	Amount for Pension	% Pension Rate	Healthcare Amount	% Healthcare Rate	Total Amount	Total Rate
2018	\$274.40	\$160.10	58.33%	\$29.00	10.57%	\$189.10	68.90%
2019	282.20	172.40	61.08	30.40	10.78	202.80	71.85
2020	290.30	179.10	61.70	31.90	10.97	211.00	72.68
2021	298.60	187.90	62.95	33.30	11.16	221.30	74.11
2022	307.10	194.40	63.31	34.80	11.33	229.20	74.63

Source: Data from Cheiron 5-Year Budget Projections for Federated Plan, February 7, 2017.

**Table B-3c
Police and Fire Plan
Projected City Contributions – Pension and Healthcare
(in millions)**

Fiscal Year	Police & Fire Payroll	Amount for Pension	% Pension Rate	Healthcare Amount	Healthcare Rate	Total Amount	Total Rate
2018	\$200.40	\$162.80	81.25%	\$20.90	10.44%	\$183.70	91.69%
2019	207.00	172.80	83.53	21.60	10.44	194.40	93.97
2020	213.60	182.90	85.58	22.30	10.44	205.20	96.02
2021	220.60	196.50	89.08	23.00	10.44	219.50	99.52
2022	227.80	205.00	90.02	23.90	10.44	228.90	100.46

Source: Cheiron 5-Year Budget Projections for Police and Fire Plan, January 30, 2017.

PENSION PLANS

The Federated Pension Plan and the Police and Fire Pension Plan (“Pension Plans”) offer service retirement, disability retirement, survivor, and death benefits for members and their beneficiaries. The benefits available under the Pension Plans accrue throughout the time an employee engages in covered work for the City. Even though the benefits accrue during employment, certain age and service requirements must be attained to generate a retirement or other benefit upon retirement or termination of City employment. If met, an employee may elect to receive a monthly pension benefit, calculated by taking into account years of service, final compensation, and in certain instances, age at retirement. The terms of the final benefit calculation and subsequent costs of living increases, if any, during retirement depends on the employee’s Pension Plan tier. The pension benefits for employees in Tier 2 of each Pension Plan differ substantially from the Tier 1 pension benefits. In addition, the contribution rates for Tier 2 members are calculated based on a 50/50 split of all costs, including UAL. Members in Tier 1 of each Pension Plan share a portion of the Normal Cost, but generally do not contribute towards UAL costs. As more fully explained below, the Plan Actuary expects that as more employees join Tier 2, Pension Plan funding levels will generally increase and the City contribution rates will decrease over time. Table B-4a and Table B-4b below provide a general description of service retirement pension benefit formulas (excluding early retirement) for each Tier in each Pension Plan. For more specific information about the current Pension Plan member tier service retirement and other benefit formulas, please see “CITY OF SAN JOSÉ COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2015-2016 - Notes to Basic Financial Statements, Section IV Other Information”.

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As more fully described in “RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS”, the benefit formulas for Tier 2 described in Table B-4a and Table B-4b are expected to change significantly upon implementation of Measure F and necessary amendments to the Municipal Code. Table B-1 above provides the benefit formulas after the adoption of the implementing ordinances for the Settlement Frameworks.

**Table B-4a
Federated Plan Service Pension Formulas (Pre-Measure F Implementation)**

	Normal Retirement Age	Minimum Vesting Service**	Pension Allowance	Final Compensation
Tier 1	55 with 5 years service 30 years service at any age	5 years of service	2.5% x years of service x final compensation (75% max).	Average monthly base pay in highest one year compensation
Tier 2 (B&C Included)	65 with 5 years of Federated Plan covered service 55 with 5 years of Federated Plan covered service with actuarial equivalent reduction	5 years of Federated Plan covered City service	2.0% x years of service x final compensation (65% max).	Average monthly pay in highest consecutive three year compensation*

**Excludes premium pay or additional compensation.*

*** Terminated employees not employed by a reciprocal agency must withdraw all contributions from plan with less than minimum vesting service.*

Source: Data from City of San José 2016 CAFR; Federated 2016 CAFR.

Table B-4b
Police and Fire Plan Service Pension Formulas (Pre-Measure F Implementation)

	Normal Retirement Age	Minimum Vesting Service**	Pension Allowance	Final Compensation
Police Tier 1	50 with 25 years service 55 with 20 years service 30 years service at any age (with reciprocity must be 50 years of age)	10 years of service	First 20 years of Service: 2.5% x years of service x final compensation (50% max). 21-30 years service: 4% per year of service x final compensation (40% max) Maximum total benefit is 90% of final compensation	Highest one year average compensation
Fire Tier 1	50 with 25 years service 55 with 20 years service 30 years service at any age (with reciprocity must be 50 years of age)	10 years of service	First 20 years of service: 2.5% x years of service (50% max). Beginning 21 st year of service: 3% x years of service x final compensation (90% max). All years convert to 3% after 20 years.	Highest one year average compensation
Police and Fire Tier 2	60 with 10 years of Police and Fire Department Plan covered service 50 with 10 years of Police and Fire Department Plan covered service with actuarial equivalent reduction	10 years of Police and Fire Department Plan covered service	2.0% x years of Police and Fire Department Plan covered service x final compensation (65% max).	Highest three year average compensation*

*Excludes premium pay or additional compensation.

** Terminated employees not employed by a reciprocal agency must withdraw all contributions from plan with less than minimum vesting service.

Source: Data from City of San José 2016 CAFR; Police and Fire 2016 CAFR.

Pension Plan's Funding Status

The funding objective for the Pension Plans is to meet long-term benefit obligations through contributions and investment income. To determine on-going funding requirements for pension benefits, most pension plans utilize an actuarial value of pension assets that differs from the market value of those assets. For a description of each Retirement Plan's methodology for valuing pension plan assets, please see "PENSION PLANS - Pension Plans' Actuarial Valuations". The actuarial value of pension assets is based on smoothing year-to-year market value returns for purposes of reducing the resulting volatility on contributions. The market value represents the value of the pension assets if they were liquidated on the valuation date. Tables B-5a, Table B-5b, and Table B-5c below show the calculation of the market value of the pension assets of each Pension Plan and provide the applicable actuarial value for purposes of comparison. Table B-5a separately compares the market value and actuarial value with the actuarially determined value of all current and future benefits ("Total Actuarial Liability") to be paid by the respective Pension Plan ("Funded Ratio"). Because the market value of assets is smaller than the actuarial value in the Pension Plans, if assumptions are met in the future, the Plan Actuary expects an increase in contribution rates as the deferred asset losses are recognized in the Actuarial Value of Assets.

These measures are intended to be used to assess contribution amounts for an ongoing pension plan. They are not appropriate for the assessment of the sufficiency of plan assets to settle the Pension Plans' obligations on a risk free basis.

Table B-5a
Pension Assets & Liabilities (in millions)

	June 30, 2015	June 30, 2016	% Change
Federated Plan			
Total Actuarial Liability	\$3,570	\$3,787	6.1%
Market Value Assets	1,926	1,859	(3.5%)
Actuarial Value Assets	2,004	2,035	1.6%
Unfunded Actuarial Liability (MV)	1,644	1,928	17.3%
Unfunded Actuarial Liability (AV)	1,565	1,752	11.9%
Funding Ratio – Market Value	53.9%	49.1%	(9.0%)
Funding Ratio – Actuarial Value	56.1%	53.7%	(4.3%)
Police & Fire Plan			
Total Actuarial Liability	\$4,058	\$4,356	7.3%
Market Value Assets	3,110	3,044	(2.1%)
Actuarial Value Assets	3,213	3,297	2.6%
Unfunded Actuarial Liability (MV)	948	1,312	38.4%
Unfunded Actuarial Liability (AV)	846	1,059	25.2%
Funding Ratio – Market Value	76.6%	69.9%	(8.7%)
Funding Ratio – Actuarial Value	79.2%	75.7%	(4.4%)

Source: Data from Federated 2016 Pension Plan Actuarial Report; Police and Fire 2016 Pension Plan Actuarial Report.

Table B-5b
Federated Plan - Market and Actuarial Value of Pension Assets
(in thousands)

	June 30, 2015	June 30, 2016
Market Value, Beginning of Year	\$1,982,504	\$1,925,774
Contributions		
Member	\$13,621	\$15,920
City	114,751	129,456
Total	\$128,372	\$145,376
Net Investment Earnings*	(16,640)	(35,010)
Benefit Payments	(164,563)	(173,318)
Administrative Expenses	(3,899)	(3,941)
Market Value, End of Year	\$1,925,774	\$1,858,880
Actuarial Value of Assets	\$2,004,481	\$2,034,741

* Gross investment earnings less investment expenses.

Source: Data from Federated 2016 CAFR; Federated 2016 Pension Plan Actuarial Report.

Table B-5c
Police and Fire Plan - Market and Actuarial Value of Pension Assets
(in thousands)

	June 30, 2015	June 30, 2016
Market Value, Beginning of Year	\$3,168,171	\$3,110,064
Contributions		
Member	\$20,747	\$21,508
City	129,279	132,480
Total	\$150,025	\$153,988
Net Investment Earnings*	(27,690)	(29,206)
Benefit Payments	176,252	186,939
Administrative Expenses	4,191	4,256
Market Value, End of Year	\$3,110,064	\$3,043,651
Actuarial Value of Assets	\$3,212,776	\$3,297,068

* Gross investment earnings less investment expenses.

Source: Data from Police and Fire 2016 CAFR; Police and Fire 2016 Pension Plan Actuarial Report.

Actuarial Funding Progress

The most recent determinations of funding status on an actuarial basis of both Pension Plans are summarized in Table B-6a and Table B-6b. The funded ratio in the following tables does not take into account the assets and liabilities related to retiree healthcare benefits. The most recent determination of actuarial funding status of the Healthcare Plans is summarized in "HEALTHCARE PLANS." The schedules of the funding progress for both Pension Plans are set forth in Pension Plan Actuarial Reports

provided to the Retirement Plans by the Plan Actuary and are both as of June 30, 2016, representing the current data available for the funding progress for both Pension Plans as shown below in Tables B-6a and B-6b.

Table B-6a and Table B-6b below show for both Pension Plans the historical dollar amount of the UAL and the funded ratio as of the last eight valuation dates calculated using the actuarial (smoothed) value of assets. Over the past several years, both Pension Plans have experienced steady and significant increases in the UAL, primarily attributable to actuarial assumption changes, including lowering of the discount rate, and recognition of prior unfavorable investment returns. The Plan Actuary has indicated that the UAL for fiscal year 2015-2016 increased due to investment losses, assumption changes, and increases in salary growth. For a description of actuarial changes that can affect calculation of UAL, please see “Pension Plans’ Actuarial Valuations”. The Plan Actuary provides the fiscal impact of assumption, rate, and demographic changes on the Federated Pension Plan and Police and Fire Plan valuations in years covered by Table B-6a and B-6b in “Section VI - Actuarial section of the CAFR” of the Pension Plan Actuarial Reports.

The UAL as a percentage of covered payroll is a measure of the relative magnitude of the UAL. As illustrated in Table B-6a below, the Federated Plan’s UAL was 657% of total covered annual payroll in 2016. It would require contributing approximately six and a half times the 2016-covered payroll to fund all of the Federated Plan’s accrued actuarial liability. The Plan Actuary anticipates that future actuarial valuations for the Federated Plan will recognize a larger UAL due to smoothing of recent investment losses over a five year period, as well as negative amortization of UAL related to the phase in of amortization for the 2015 assumption changes and the amortization of the 2009 UAL. Specific smoothing methodologies for the respective plans are discussed below in “Pension Plans’ Actuarial Valuations – Smoothing Methodology.”

Table B-6a
Federated Plan - Schedule of Pension Funding Progress
(in thousands)

Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Liability	UAL	Funded Ratio	Covered Payroll	UAL as % of Covered Payroll
2009	\$ 1,756,558	\$ 2,486,155	\$ 729,597	71%	\$ 323,020	226%
2010	1,729,413	2,510,358	780,945	69	300,811	260
2011	1,788,660	2,770,227	981,567	65	228,936	429
2012	1,762,973	2,841,000	1,078,027	62	225,859	477
2013	1,783,270	3,013,763	1,230,493	59	225,779	545
2014	1,911,773	3,235,065	1,323,292	59	234,677	564
2015	2,004,481	3,569,898	1,565,417	56	251,430	623
2016	2,034,741	3,786,730	1,751,989	54	266,823	657

Source: Data from Federated 2016 Pension Plan Actuarial Report.

As illustrated below for the Police and Fire Plan, the UAL was 545.6% of total covered annual payroll in 2016. It would require contributing approximately five and one-half times the 2016-covered payroll to fund all of the Police and Fire Plan’s accrued actuarial liability. The Plan Actuary anticipates that future actuarial valuations will recognize deferred investment losses from 2015 and 2016 and the smoothing of any new gains or losses over a five year period. Specific smoothing methodologies for the respective plans are discussed below in “Pension Plans’ Actuarial Valuations – Smoothing Methodology.”

Table B-6b
Police and Fire Plan - Schedule of Pension Funding Progress
(in thousands)

Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Liability	UAL	Funded Ratio	Covered Payroll	UAL as % of Covered Payroll
2009	\$ 2,569,569	\$ 2,963,482	\$ 393,913	86.7%	\$255,223	154.3%
2010	2,576,705	3,230,456	653,751	79.8	251,058	260.4
2011	2,685,721	3,196,007	510,286	84.0	190,726	267.5
2012	2,703,539	3,397,792	694,253	79.6	187,959	369.4
2013	2,771,924	3,578,031	806,107	77.5	184,645	436.6
2014	3,025,101	3,813,825	788,724	79.3	188,189	419.1
2015	3,212,776	4,058,410	845,634	79.2	184,733	457.8
2016	3,297,068	4,355,990	1,058,922	75.7	194,072	545.6

Source: Data from Police and Fire 2016 Pension Plan Actuarial Report.

Funding Progress - Net Pension Liability

The recently implemented GASB Statement No. 68 requires calculation and disclosure of a pension plan’s “Net Pension Liability,” which is the difference between the actuarial present value of projected benefit payments that is attributed to past periods of employee service calculated using methods and assumptions known as the “Total Pension Liability” and the fair market value of the pension plan's assets known as the “Fiduciary Net Position”. Please see “FINANCIAL STATEMENTS” in the body of the Official Statement and AIRPORT FINANCIAL MATTERS – Historical Operating Results” in Appendix A for a discussion of changes implemented by GASB Statement No. 68 and Statement No. 71 with respect to the Airport’s financial statements. Table B-7 provides the funding of the Pension Plans calculated according to the assumptions and methodology provided by GASB Statement No. 68 as of the June 30, 2014 and the June 30, 2015 valuation dates. The total pension liability for the Pension Plans as of June 30, 2016 and 2015, is based on results of an actuarial valuation date of June 30, 2015 and 2014, respectively, and rolled-forward to June 30, 2016 and 2015 using standard roll forward procedures.

Table B-7
Components of Net Pension Liability
(in thousands)

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>% Change</u>
Federated Plan			
Total pension liability	\$ 3,341,250	\$ 3,692,147	10.50%
Plan fiduciary net position	(1,930,507)	(1,858,882)	3.71%
Net pension liability	\$ 1,410,743	\$ 1,833,265	29.95%
Plan fiduciary net position as a percentage of the total pension liability	57.8%	50.4%	(12.80%)
Police & Fire Plan			
Total pension liability	\$ 3,976,513	\$ 4,220,098	6.13%
Plan fiduciary net position	(3,110,065)	(3,043,653)	2.14%
Net pension liability	\$ 866,448	\$ 1,176,445	35.78%
Plan fiduciary net position as a percentage of the total pension liability	78.2%	72.1%	(7.80%)

Source: Data from Federated 2016 CAFR; Police and Fire 2016 CAFR.

Pension Plans' Actuarial Valuations

With respect to the Pension Plans, the actuarial valuations measure the financial position of each Pension Plan and determine the amount to be contributed by current employees and the City. The Plan Actuary employs a variety of actuarial methods and assumptions in these calculations, which are discussed in the following section. To produce these actuarial valuations, the Plan Actuary uses demographic data (including employee age, salary and service credits), economic assumptions (including estimated future salary increases and interest rates), and decrement assumptions (including employee turnover, mortality and retirement rates) to produce the necessary information.

To calculate each Pension Plan's actuarial value of assets, the Plan Actuary uses a five-year smoothing method for investment gains and losses. This means that, for actuarial valuation purposes, the annual gains or losses, as calculated at year end, are smoothed (amortized) with the net gains and losses resulting from the prior four years. The Pension Plans utilize an individual Entry Age Normal actuarial cost method, whereby the Normal Cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed termination of employment. The actuarial liability is the difference between the present value of future benefits and the present value of future Normal Costs.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and investment return. Experience studies are performed by the Plan Actuary to determine appropriate revision to each Plan's actuarial assumptions. Actual results are compared with past expectations and new estimates are made about the future. In 2015, the Plan Actuary performed experience studies for each Pension Plan and as a result of these studies the assumptions used by the Plans were revised.

The Federated Board adopted certain demographic changes based on an experience study covering a period from 2010 to 2015 performed by the Plan Actuary. The Board elected to phase in the amortization payments for the newly adopted changes over a three-year period. The Plan Actuary determined that the assumption changes caused a 5.7% increase in actuarial liability of the Plan. Further, the amortization payments for the UAL calculated under the 2015 assumptions are phased in over a three-year period. This structure is projected to cause a short-term increase in the dollar amount of UAL for the Federated Plan. The Police and Fire Board also adopted a number of assumption changes, including discount and wage inflation rates, recommended by the Plan Actuary based on an experience study covering Plan experience from 2009 to 2015, which resulted in an increase in actuarial liability of 2.3%.

Below are highlights of several of the Pension Plans' actuarial methods and assumptions for the June 30, 2016 valuations:

Actuarially Assumed Investment Rates of Return. The net rate of return assumed by each Pension Plan represents the long-term expected 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 Federated Plan Board decided to further reduce the assumed investment rate for the Federated Plan to 6.875% effective for the June 30, 2016 valuation and for future year valuations. The reduction of the assumed investment rate increased the UAL for the June 30, 2016 valuation by \$60 million for the Federated Plan. The Police and Fire Board also decided to reduce the assumed investment return rate for the Police and Fire Plan to 6.875% effective for the June 30, 2016 valuation and for future year valuations. The assumed investment rate of return reduction for the June 30, 2016 valuation resulted in an increase of \$73 million for the Police and Fire Plan. The Boards for the Pension Plans have incrementally reduced their respective assumed rates of return from 8.25% since July 1, 2009 for the Federated Plan and from 8.0% since July 1, 2010 for the Police and Fire Plan

"Smoothing" Methodology. When measuring assets, many pension plans, including each of the Pension Plans, "smooth" gains and losses to reduce the volatility of contribution rates. Both Pension Plans utilize a smoothing or spreading of that shortfall or excess over a five-year period. 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, then 20% of the shortfall or excess is recognized each year when determining the recommended contribution rates for that actuarial valuation. The impact of this will result in smoothed assets that 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. The Police and Fire Plan has, in past practice, limited the smoothing of assets to no greater than 120% and no less than 80% of the market value of assets. Under this practice, any investment gains or losses that would cause smoothed assets to fall outside of this 80%-120% market value corridor would be recognized immediately rather than smoothed over five years.

Amortization Method and Period. Various plans use different amortization periods for paying off or amortizing a UAL. 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 UAL was re-amortized over a new 30-year period following each valuation period. Subsequent to June 30, 2009, the UAL for the Federated Plan as of June 30, 2009 is amortized over a 30-year closed period, and changes in the UAL are amortized over a 20-year closed period, beginning with the valuation period in which they arise, with a separate amortization schedule set up for each change in UAL in each year for pension benefits.

With respect to the UAL attributable to periods on or before June 30, 2003, the Police and Fire Plan uses a closed amortization period that ends on June 30, 2017. With respect to all UAL attributable to periods after June 30, 2003, the Police and Fire Plan amortizes it through a layered amortization method in which the UAL experienced between annual valuation dates are amortized over a period ending 16 years

following each applicable valuation date. Assumption changes as of June 30, 2011 or later are amortized over 20 years, and experience gains or losses as of June 30, 2016 or later are amortized over 15 years. The contribution to the UAL as of the end of a given year (as reflected in an actuarial valuation report) is amortized as a level percentage of payroll. Tables B-8 and B-9 summarize actuarial assumptions including future rates of return used by both Pension Plans for the 2016 valuations:

Table B-8
Federated Plan – Pension Actuarial Assumptions

Valuation Date	June 30, 2016
Actuarial funding method	Entry Age Normal
Amortization method	Level percent of pay, closed, layered
Asset valuation method	5-year smoothing of return
Actuarial Assumptions:	
Investment Rate of Return	6.875%
Projected salary increases due to wage inflation ⁽¹⁾	2.85% compounded annually
Cost-of-Living Adjustments ⁽²⁾	Tier 1-3.0% per year; Tier 2-1.5% per year

⁽¹⁾ Additional merit salary increases of 0.25% to 4.50% based on a participant's years of service are also assumed. These increases are not used in the amortization of the UAL.

⁽²⁾ Cost-of-living adjustments are fixed at 3% by the plan provisions for Tier 1 and do not fluctuate with actual inflation. For Tier 2, adjustments fluctuate with actual inflation and are capped at 1.5%.

Source: Data from Federated 2016 Pension Plan Actuarial Report.

Table B-9
Police and Fire Plan – Pension Actuarial Assumptions

Valuation Date	June 30, 2016
Actuarial funding method	Entry Age Normal
Amortization method	Level percent of pay, closed, layered
Asset valuation method	5 year smoothing of return
	Minimum of 80% and maximum of 120% of market value
Actuarial Assumptions:	
Investment Rate of Return	6.875%
Wage inflation ⁽¹⁾	3.25% for all years
Cost-of-Living Adjustments ⁽²⁾	Tier 1-3.0% per year; Tier 2-1.5% per year

⁽¹⁾ Excludes merit increases.

⁽²⁾ Cost-of-living adjustments are fixed at 3% by the plan provisions for Tier 1 and do not fluctuate with actual inflation. For Tier 2, adjustments fluctuate with actual inflation and are capped at 1.5%.

Source: Data from Police and Fire 2016 Pension Plan Actuarial Report.

Federated Pension Plan 2016 Valuation Summary

The most recent actuarial valuation of the Federated Pension Plan was performed by the Plan Actuary and summarized in its report entitled: “Federated City Employees’ Retirement System June 30, 2016 Actuarial Valuation” (“Federated 2016 Pension Plan Actuarial Report”) and included both Tier 1 and Tier 2. The Federated Pension Plan’s actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return for the period ending on the valuation date (7.0% for fiscal year 2014-2015 and fiscal year 2015-2016, 7.25% for fiscal year 2013-2014, and 7.5% for fiscal year 2012-2013) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using actual contributions, benefit payments and administrative expenses during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

In the Federated 2016 Pension Plan Actuarial Report, the Plan Actuary concluded that as of June 30, 2016:

- The funded ratio based on the actuarial value of assets for the Federated Plan was 53.7%, down from 56.1% as of June 30, 2015.
- The funded ratio based on the market value of assets for the Federated Plan decreased from 53.9% as of June 30, 2015 to 49.1%.
- The UAL using the actuarial value of assets was approximately \$1.752 billion as compared to a UAL of \$1.565 billion as of June 30, 2015. The UAL using the market value of assets increased from \$1.644 billion as of June 30, 2015 to \$1.928 billion.
- The actuarial value of assets was equal to \$2.035 billion and the actuarial accrued liability was \$3.787 billion. The Federated Pension Plan’s total actuarial liability increased by 6.1% and the market value of assets decreased by 3.5% when compared to the June 30, 2015 valuation, in part due to actuarially assumed investment rate of return changes adopted for the fiscal year 2015-2016 valuation, and investment losses.
- The change in the assumed investment rate of return adopted by the Federated Board for fiscal year 2015-2016 increased actuarial liability by an estimated \$60 million and the investment losses for 2016 increased actuarial liability by an estimated \$82 million both as of June 30, 2016.
- Over 70% of the actuarial liability of the Federated Plan is attributable to members who no longer are employed by the City.

Police and Fire Pension Plan 2016 Valuation Summary

The most recent actuarial valuation of the Police and Fire Pension Plan, was performed by the Plan Actuary and summarized in its report dated entitled: “Police and Fire Retirement System June 30, 2016 Actuarial Valuation” as of February 2, 2017 (the “Police and Fire 2016 Pension Plan Actuarial Report”). The Police and Fire Pension Plan’s actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.0% for fiscal year 2014-2015 and fiscal year 2015-2016, 7.125% for fiscal year 2013-2014, and 7.25% for fiscal year 2012-2013) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or a loss.

In the Police and Fire 2016 Pension Plan Actuarial Report, the Plan Actuary concluded that as of June 30, 2016:

- The funded ratio based on the actuarial value of assets was 75.7%, down from 79.2% as of June 30, 2015.
- The funded ratio based on the market value of assets was 69.9%, decreased from 76.6% as of June 30, 2015 caused by an increase of actuarial liability and investment losses.
- The UAL using the actuarial value of assets was approximately \$1,059 million as compared to the UAL of approximately \$846 million reported as of June 30, 2015.
- The actuarial value of pension assets was equal to approximately \$3.297 billion and actuarial accrued liabilities of approximately \$4.356 billion. For the Police and Fire Pension Plan, the total actuarial liability increased by 7.3% and the market value of assets decreased by 2.1% compared to the prior valuation.
- The assumption changes adopted by the Police and Fire Board in 2016 increased actuarial liability by an estimated \$73 million and investment losses for 2016 increased actuarial liability by an estimated \$107 million.
- Similar to the Federated Plan, almost 70% of the actuarial liability of the Police and Fire Plan is attributable to members who no longer are employed by the City. The actuarial liability for members no longer working for the City is more than 2.2 times the liability for active members.

Pension Plan Contributions

Annual contributions to the Pension Plans for both the City and employees are based upon an actuarially determined percentage of each member's covered payroll sufficient to provide adequate assets to pay benefits when due. When the respective Boards of the Pension Plans approve contribution rates, these become the City's and the employees' legally required contribution rates for the fiscal year beginning one year after the valuation date. Currently, the Plan Actuary employs the Entry Age Normal actuarial cost method. There are two components to the annual City and employee contribution: the Normal Cost and the UAL contribution. The annual contributions are based upon actuarial calculations that take into consideration a number of economic and demographic assumptions, including assumed investment earnings on the assets of the Pension Plans that are used to pay benefits. For a description of assumptions relating to the actuarial valuations to determine Plan contributions, please see "PENSION PLANS – Pension Plans Actuarial Valuations".

The total contribution rate is the sum of the Normal Cost rate (including assumed administrative expenses) and the UAL rate. The Normal Cost rate is determined by dividing the total Normal Cost determined under the actuarial cost method by the payroll expected for members active on the valuation date. The UAL payments are adjusted for interest from the valuation date to the date of expected payment in the following fiscal year. The UAL rate is determined by dividing the UAL payments by the total expected payroll for the year (including members active on the valuation date and new entrants expected to replace active members who are expected to leave employment). Historically, the City has been responsible for funding the cost of amortizing most of the UAL and other miscellaneous costs of the Pension Plans.

The required contribution rates determined by the Plan Actuary anticipate that the City will make contributions on a bi-weekly basis throughout the fiscal year. The City has elected since 2008-2009 to

prefund all or part of its total annual required contributions to the Pension Plans at the beginning of each fiscal year and the Plan 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 payroll in the actuarial valuation for the fiscal year and may be increased at the end of the fiscal year based on actual bi-weekly payroll. For fiscal year 2016, the City prefunded the City Tier 1 contributions but did not elect to prefund City Tier 2 contributions.

For fiscal year 2016-2017 and onwards, the Pension Plans will employ a “split funding method” for payment of contributions for Tier 1, the UAL portion of the City’s contribution to be a dollar amount as recommended by the Plan Actuary in the annual valuation report and approved by the Boards (adjusted for interest based on time of contribution) and the Normal Cost (including administrative expense) portion to be the greater of: the dollar amount recommended by the Plan Actuary in the annual valuation report and approved by the Boards (adjusted for time of contribution); or, the Normal Cost contribution rate from the actuarial valuation multiplied by the actual payroll during the given fiscal year. Between fiscal years 2009-2010 and 2015-2016, for Tier 1, the Pension Plans employed a “floor” methodology for payment of contributions requiring that the City’s contribution be the greater of the dollar amount reported in the actuarial valuations or the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. Since 2014, the Pension Plans excluded Tier 2 from the “floor” methodology. The City’s Federated Tier 2 contribution is based on the contribution rate determined by the Plan Actuary and approved by the Board multiplied by the actual Tier 2 member payroll. The Police Tier 2 and Fire Tier 2 contribution is based on the contribution rate approved by the Board multiplied by the actual Tier 2 member payroll. For City and member contribution rates, please see “Federated Plan Pension Contributions” and “Police and Fire Plan Pension Contributions”.

Table B-10 provides a comparison of the actuarially determined annual contribution to the Pension Plans by the City and the actual contribution to the Pension Plans by the City from fiscal year 2009-2010 to fiscal year 2015-2016.

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Table B-10
Schedule of City Pension Plan Contributions (in thousands)

Federated Plan	2011	2012	2013	2014*	2015	2016*
Actuarially Determined Contribution	\$59,180	\$87,802	\$103,109	\$102,811	\$114,751	\$129,456
Actual Contribution	59,180	87,802	103,109	107,544	114,751	124,723
Difference	\$0	\$0	\$0	\$4,733	\$0	(\$4,733)
Police and Fire Plan						
Actuarially Determined Contribution	\$77,918	\$121,008	\$105,234	\$123,583	\$129,279	\$132,480
Actual Contribution	77,918	121,008	105,234	123,583	129,279	132,480
Difference	\$0	\$0	\$0	\$0	\$0	\$0

* Contributions for Fiscal Year 2014 included \$4.7 million should have been credited to the Healthcare Plan, and such error was corrected in Fiscal Year 2016.

Source: Data from City of San José 2016 CAFR.

Table B-11 provides 20-year projections of contributions calculated by the Plan Actuary for just the Pension Plans. Changes in the provisions of the Pension Plans from the implementation of Federated Settlement Framework and Police and Fire Settlement Framework described in “RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS - Measure B - Settlement Frameworks” are not reflected in the projections.

For the Federated Pension Plan, the 20 year projections show contribution rates increasing for the next several years due to recognition of recent investment losses, and phase in of amortization payments on 2015 assumption changes. The City's contribution rate remains relatively flat through 2032. However, the projections show a substantial reduction in the City's contribution rate in the final 5 years to 37.2% of projected payroll in 2037. The City's contribution amount increases throughout the 20 year projection period. The Plan Actuary's December 15, 2016 presentation to the Federated Board related to preliminary valuation results for the valuation for the fiscal year ended June 30, 2016 indicated that even if all assumptions are met, the Federated Pension Plan UAL will increase due to negative amortization of UAL. The negative amortization is a result of a phase-in over three years of amortization of 2015 assumption changes, amortization of the 2009 UAL over a 30 year period, and recognition of investment losses from prior years in the actuarial value of assets. The dollar amount of the UAL is expected by the Plan Actuary to increase in the short term. The Plan Actuary has indicated that as the recent investment losses are recognized in the actuarial value of assets, the phase-in of the amortization for the 2015 assumption changes is completed and as the remaining period for the amortization of the 2009 UAL shortens, the UAL rate will exceed the interest cost on the 2009 UAL and will be sufficient to pay off the UAL's principal and interest in 23 years if all assumptions are met.

For the Police and Fire Pension Plan, the 20-year projections show contribution rates rising significantly until 2022. Between 2022 and 2026, the City's contribution rates gradually drop, after which the contribution rates drops substantially and continue to decline to 15.2% of total projected payroll in 2037. The Plan Actuary indicates in the 2016 Police and Fire Plan Actuarial Valuation Report that there may be significant volatility in future City contribution rates to the Police and Fire Plan due to investment return volatility, the Plan asset to payroll ratio, and the standard deviation of the current investment portfolio.

The volatility in contribution rates could be limited by extending amortization periods, but such extension would only control short term volatility. However, the Plan Actuary noted the risk of very high contribution rates would need to be addressed through the Police and Fire Pension Plan’s investments.

Table B-11
20-Year Projections of Pension Contributions (in thousands)
(Middle of the Year)

Fiscal Year	Federated Plan		Police and Fire Plan	
	Projected City Contribution Amount	Projected Total Contribution Rate (% of Payroll)	Projected City Contribution Amount	Projected Total Contribution Rate (% of Payroll)
2018	\$160,085	58.3%	\$162,808	81.3%
2019	172,393	61.1	172,814	83.5
2020	179,114	61.7	182,812	85.6
2021	187,941	63.0	196,484	89.1
2022	194,395	63.3	205,006	90.0
2023	198,337	62.8	195,219	83.0
2024	202,506	62.3	198,810	81.9
2025	206,949	61.9	214,474	85.6
2026	211,618	61.6	219,283	84.7
2027	216,493	61.3	165,200	61.8
2028	221,577	61.0	128,861	46.7
2029	226,827	60.7	168,293	59.1
2030	232,246	60.4	157,128	53.4
2031	237,885	60.2	148,632	48.9
2032	244,896	60.2	161,256	51.4
2033	225,667	54.0	133,957	41.4
2034	221,290	51.4	110,713	33.1
2035	208,405	47.1	97,710	28.3
2036	203,346	44.7	75,206	21.1
2037	173,935	37.2	55,829	15.2

Source: Data from Cheiron 5-Year Budget Projections for Federated Plan, February 7, 2017; Cheiron 5-Year Budget Projections for Police and Fire Plan, January 30, 2017.

It is certain that not all assumptions will be exactly met each and every year. The Plan Actuary indicated in the 2016 Pension Plan Actuarial Reports for both Pension Plans that there is a significant level of uncertainty in projections of the future, the largest source of which is the projection of investment returns. Actual investment returns that vary from the assumed rate of investment return can result in significantly different contribution rates.

The next two sections provide, for both Pension Plans, information on the contribution rates and dollar amounts for fiscal year 2016-2017 and the projected contribution rates and dollar amounts for fiscal year 2017-2018. Neither Board has approved the contribution rates and dollar amounts for the City and the members for fiscal year 2017-2018 and the City has not yet determined to prefund its contribution for fiscal year 2017-2018.

Federated Plan Pension Contribution

The employee member pension contribution rate for Federated Plan Tier 1 is a proportion (3/11ths) of the Normal Cost (including administrative expenses) with the remaining 8/11ths of the Normal Cost allocated to the City. In addition to the 8/11ths of the Normal Cost (including administrative expenses), the City is allocated all of the Reciprocity Normal Cost (the cost of funding reciprocity with other California pension plans) plus an amortization payment on the UAL. For Tier 2, the members and the City each pay half of the total contribution rate.

The increase in the City's Tier 1 contribution rate for fiscal year 2017-2018 is primarily due to economic assumption changes, demographic experience, and investment losses offset by the increased payroll over which the UAL is spread. Payroll for Tier 1 is expected to decrease over time as members leave the system and new entrants join Tier 2. The increase in the Tier 2 contribution rates for the City and the members is primarily due to the decrease in the assumed investment rate of return.

Table B-12a below summarizes the pension contribution rates for both the City and the employee members of the Federated Plan for fiscal years 2016-17 and 2017-18.

Table B-12a						
Federated Plan Pension Contribution Rates (% of Payroll)						
	2016-2017			2017-2018		
	Basic	COLA	Total	Basic	COLA	Total
Tier 1						
Member Rate (Normal Only)	4.75%	1.72%	6.47%	4.80%	1.80%	6.60%
City Normal Cost Rate	12.90%	4.80%	17.70%	13.07%	4.93%	18.00%
City UAL Rate	29.45%	30.91%	60.36%	38.26%	37.78%	76.04%
Total City Rate	42.35%	35.71%	78.06%	51.33%	42.71%	94.04%
Tier 2						
Member Normal Cost Rate	5.34%	0.68%	6.02%	5.49%	0.74%	6.23%
Member UAL Rate	0.01%	0.01%	0.02%	0.00%	0.02%	0.02%
Total Member Rate	5.35%	0.69%	6.04%	5.49%	0.76%	6.25%
City Normal Cost Rate	5.34%	0.68%	6.02%	5.49%	0.74%	6.23%
City UAL Rate	0.01%	0.01%	0.02%	0.00%	0.02%	0.02%
Total City Rate	5.35%	0.69%	6.04%	5.49%	0.76%	6.25%

Source: Data from Federated 2016 Pension Plan Actuarial Report.

Table B-12b illustrates the City’s contribution dollar amounts for the Federated Plan’s pension benefit for fiscal years 2016-2017 and 2017-2018 assuming the City contribution is made at the beginning of the year.

Table B-12b						
Federated Plan Employer Annual Required Contribution Amounts For Pension Benefit						
(Beginning of Year)						
(in thousands)						
	July 1, 2016			July 1, 2017		
	Basic	COLA	Total	Basic	COLA	Total
Tier 1						
City Normal Cost ⁽¹⁾	\$21,804	\$8,113	\$29,918	\$20,958	\$7,905	\$28,863
City UAL Cost ⁽²⁾⁽³⁾	\$49,785	\$52,244	\$102,029	\$61,350	\$60,580	\$121,931
Total City Contribution	\$71,589	\$60,357	\$131,946	\$82,308	\$68,485	\$150,794
Tier 2						
City Normal Cost	\$4,640	\$591	\$5,231	\$6,035	\$813	\$6,849
City UAL Cost	8	8	17	0	22	22
Total City Contribution	\$4,649	\$599	\$5,248	\$6,035	\$835	\$6,871

⁽¹⁾ Includes the reciprocity rate for the prefunding of the liability for reciprocal benefits with certain other California public pension plans.

⁽²⁾ Includes the deficiency rate for the amortization of the funding deficiency.

⁽³⁾ Includes the golden handshake rate for the cost for funding additional benefits granted in the past to certain retiring employees.

Source: Data from Federated 2016 Pension Plan Actuarial Report.

Police and Fire Plan Pension Contribution

For Tier 1 members of the Police and Fire Plan, the employee member contribution rate is a proportion (3/11ths) of the Normal Cost (excluding reciprocity) plus the employee member’s historic share of assumed administrative expenses. In addition employee members pay a portion of the UAL attributable to certain benefit improvements. The remaining 8/11ths of the Normal Cost is allocated to the City. In addition to the 8/11ths of the Normal Cost (including administrative expenses), the City is allocated all of the Reciprocity Rate (the cost of funding reciprocity with other California pension plans) and the remaining portion of the UAL rate. For Tier 2 members of the Police and Fire Plan, members and the City share the total contribution rate equally.

Table B-13a and Table B-13b summarizes the pension contribution rates for both the City and the employee members of the Police and Fire Plan for the Police and Fire Plan Tier 1 and Tier 2. Table B-13c summarizes the contribution rates and City contribution amounts for fiscal years 2016-2017 and 2017-2018. Tier 1 rates increase significantly from 2016-2017 to 2017-2018, reflecting the assumption changes and the liability and investment losses. Tier 2 rates increase slightly largely due to the assumption changes.

Table B-13a
2017-2018 Police and Fire Plan Tier 1 Pension Contribution Rates (% of Payroll)

	2016-2017			2017-2018		
	<u>Basic</u>	<u>COLA</u>	<u>Total</u>	<u>Basic</u>	<u>COLA</u>	<u>Total</u>
Fire Tier 1						
Member Normal Cost Rate	7.55%	3.40%	10.95%	7.73%	3.52%	11.25%
Member UAL Rate	(0.23)%	0.35%	0.12%	(0.24)%	0.37%	0.13%
Total Member Rate	7.32%	3.75%	11.07%	7.49%	3.89%	11.38%
City Normal Cost Rate ⁽¹⁾	20.95%	9.38%	30.33%	21.40%	9.71%	31.11%
City UAL Rate ⁽²⁾⁽³⁾	19.71%	31.57%	51.28%	27.55%	37.40%	64.95%
Total City Rate	40.66%	40.95%	81.61%	48.95%	47.11%	96.06%
Police Tier 1						
Member Normal Cost Rate	7.20%	3.23%	10.43%	7.38%	3.34%	10.72%
Member UAL Rate	(0.21)%	0.37%	0.16%	(0.21)%	0.37%	0.16%
Total Member Rate	6.99%	3.60%	10.59%	7.17%	3.71%	10.88%
City Normal Cost Rate ⁽¹⁾	20.42%	9.06%	29.48%	20.87%	9.33%	30.20%
City UAL Rate ⁽²⁾⁽³⁾	19.43%	31.49%	50.92%	27.64%	37.47%	65.11%
Total City Rate	39.85%	40.55%	80.40%	48.51%	46.80%	95.31%

⁽¹⁾ Includes the reciprocity rate for the prefunding of the liability for reciprocal benefits with certain other California public pension plans.

⁽²⁾ Includes the deficiency rate for the amortization of the funding deficiency.

⁽³⁾ Includes the golden handshake rate for the cost for funding additional benefits granted in the past to certain retiring employees.

Source: Data from Police and Fire 2015 Pension Plan Actuarial Report; Police and Fire 2016 Pension Plan Actuarial Report.

Table B-13b
2017-2018 Police and Fire Plan Tier 2 Pension Contribution Rates (% of Payroll)

	2016-2017			2017-2018		
	<u>Basic</u>	<u>COLA</u>	<u>Total</u>	<u>Basic</u>	<u>COLA</u>	<u>Total</u>
Fire Tier 2						
Member Normal						
Cost Rate	9.04%	1.52%	10.56%	10.06%	1.71%	11.77%
Member UAL Rate	0.04%	0.01%	0.05%	0.00%	0.00%	0.00%
Total Member Rate	9.08%	1.53%	10.61%	10.06%	1.71%	11.77%
City Normal Cost						
Rate	9.04%	1.52%	10.56%	10.06%	1.71%	11.77%
City UAL Rate	0.04%	0.01%	0.05%	0.00%	0.00%	0.00%
Total City Rate	9.08%	1.53%	10.61%	10.06%	1.71%	11.77%
Police Tier 2						
Member Normal						
Rate	9.40%	1.58%	10.98%	9.53%	1.80%	11.33%
Member UAL Rate	0.00%	(0.01%)	(0.01%)	(0.01%)	(0.01%)	(0.02%)
Total Member Rate	9.40%	1.57%	10.97%	9.52%	1.79%	11.31%
City Normal Rate	9.40%	1.58%	10.98%	9.53%	1.80%	11.33%
City UAL Rate	0.00%	(0.01%)	(0.01%)	(0.01%)	(0.01%)	(0.02%)
Total City Rate	9.40%	1.57%	10.97%	9.52%	1.79%	11.31%

Source: Data from Police and Fire 2015 Pension Plan Actuarial Report; Police and Fire 2016 Pension Plan Actuarial Report.

Table B-13c below shows the estimated dollar amounts of the City’s contribution amounts for 2016-2017 and 2017-2018 assuming contributions are made at the beginning of the fiscal year.

Table B-13c
Police and Fire Plan City Annual Contribution Amounts for Both Tiers 2016-17 and 2017-18
(in thousands)*
(Beginning of the Year)

	2016-2017**			2017-2018***		
	<u>Pension</u>	<u>COLA</u>	<u>Total</u>	<u>Pension</u>	<u>COLA</u>	<u>Total</u>
Police						
Normal Cost	\$ 20,423	\$ 8,591	\$ 29,014	\$ 20,808	\$ 8,715	\$ 29,522
UAL	17,840	28,914	46,753	24,567	33,301	57,868
Total	\$ 38,263	\$ 37,505	\$ 75,767	\$ 45,375	\$ 42,016	\$ 87,391
Fire						
Normal Cost	\$ 15,093	\$ 6,637	\$ 21,730	\$ 16,876	\$ 7,374	\$ 24,251
UAL	13,785	22,082	35,866	20,433	27,741	48,173
Total	\$ 28,878	\$ 28,718	\$ 57,596	\$ 37,309	\$ 35,115	\$ 72,424
Total						
Normal Cost	\$ 35,516	\$ 15,228	\$ 50,744	\$ 37,684	\$ 16,089	\$ 53,773
UAL	31,625	50,996	82,619	45,000	61,042	106,042
Total	\$ 67,141	\$ 66,224	\$ 133,363	\$ 82,684	\$ 77,131	\$ 159,815

* Numbers presented may not add up precisely to totals provided due to rounding.

** Amount estimated in Police and Fire 2015 Pension Plan Actuarial Report.

*** Amount estimated in Police and Fire 2016 Pension Plan Actuarial Report.

Source: Data from Police and Fire 2015 Pension Plan Actuarial Report; Police and Fire 2016 Pension Plan Actuarial Report.

Investments

The State Constitution and the Municipal Code provide that the Board of each Retirement Plan has exclusive control over the investment of the assets of the respective Pension Plans. As discussed above in “RETIREMENT PLANS IN GENERAL”, assets within the 401(h) account in each Pension Plan is designated for the payment of the applicable Healthcare Plan benefits. 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 Retirement Plans have retained investment consultants to advise them.

Table B-14 below illustrates the historic annual returns for both Pension Plans at the identified interval as reported by the Pension Plans' respective investment consultants in their respective quarterly reports for the period ending June 30, 2016.

Measurement Period	Federated Plan¹	Police and Fire Plan²
Since Inception	6.7%*	8.4%**
10 Years	4.0	4.1
5 Years	3.2	4.1
3 Years	3.9	3.8
1 Year	(0.7)	(0.6)

¹ The returns for certain investments (fixed income, private debt and real assets) are gross of fees through June 2015 and net of fees thereafter.

² Net of fees.

* Measurement Period Beginning January 1994.

** Measurement Period Beginning March 1971.

Source: Data from Meketa Investment Group Federated Pension Plan Quarterly Review June 30, 2016; NEPC LLC Police and Fire Pension Plan Investment Performance Analysis for the period ending June 30, 2016.

Annually, the Boards for both Pension Plans receive projections from their respective investment consultants for the expected net rates of return based on the respective approved target asset allocations. Potential investment returns and the subsequent risk associated with those returns are partially a function of the underlying assets of the respective Pension Plan. Each Board, as part of its fiduciary responsibilities, adopts asset allocation targets commensurate with the applicable Board's diversification goals and risk tolerance.

Tables B-15a and B-15b below illustrate each Pension Plan's most current 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 Investment Policy Statement of the Federated Plan adopted on January 19, 2017, Investment Policy Statement of the Police and Fire Plan adopted on January 5, 2017, the Police and Fire 2016 CAFR, and the Federated 2016 CAFR. In addition, the investment policies of both Pension Plans provide more detailed information on allowable asset classes and constraints.

Table B-15a
Police and Fire Plan Target Asset Allocation

Asset Class	Minimum	Target	Maximum
Global Equity	25%	31%	50%
Private Equity	3%	8%	13%
Global Fixed Income	10%	16%	30%
Private Debt	5%	11%	15%
Absolute Return	2%	6%	12%
Real Assets	12%	17%	25%
GTAA	-	10%	10%
Cash	-	1%	10%

Source: Data from Police and Fire Plan Investment Policy Statement, approved January 5, 2017.

Table B-15b
Federated Plan Target Asset Allocation

Asset Class	Minimum	Target	Maximum
Global Equity	20%	28%	36%
Private Equity	4%	9%	14%
Global Fixed Income	9%	19%	29%
Private Debt	-	5%	10%
Absolute Return	6%	11%	16%
Real Assets	15%	23%	30%
GTAA/Oppportunistic	-	5%	8%
Cash	-	-	10%

Source: Data from Federated Investment Policy Statement, approved January 19, 2017.

HEALTHCARE PLANS

General

As discussed above in “RETIREMENT PLANS IN GENERAL,” each Retirement Plan includes a Healthcare Plan, which provides eligible retirees, their dependents, and survivors with health and dental benefits. For health benefits, both Healthcare 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 active 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 Healthcare Plan and that charged by the medical care provider. In the case of dental benefits, both Healthcare Plans pay the entire premium. As more fully described in “RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS” and upon implementation of Measure F, the Healthcare Plans will be closed to new and current Tier 2 members, with an opt out exception for Tier 2 members in certain bargaining units. Further, Tier 1 members may opt-out of participation in the Healthcare Plans.

The financial reporting, disclosure, and accounting for costs and obligations related to the Healthcare Plans are consistent with the requirement of GASB Statement No. 43 and GASB 45 (“GASB 43 and 45”). Effective for fiscal year 2016-2017, the Healthcare Plans will begin financial reporting according to the requirements of GASB Statement No. 74 (“GASB 74”) which will replace the reporting requirements of GASB 43. Effective for fiscal year 2017-2018, the City will begin financial reporting, disclosure, and accounting for costs and obligations related to the Healthcare Plans according to the requirements of GASB Statement No. 75 (“GASB 75”) which will replace the reporting requirements of GASB 45. The changes implemented by GASB 75 related to healthcare plan reporting will be similar in concept to those requirements imposed by GASB 68 on pension plan reporting. GASB 75 will require disclosure of new measures of total and net healthcare plan assets and liabilities. All such valuations will be recognized on the balance sheets and income statements for the fiscal year 2017-2018 City CAFRs and following years. The Plan Actuary in its most recent valuations of the Healthcare Plans indicated that following the implementation of GASB 75, the annual OPEB expense is very volatile; however the changes required by GASB 75 do not necessarily alter City contribution policy.

Funding Policy

The annual contribution costs for the Healthcare Plans’ benefits are allocated to both the City and the active employee members. For the Federated Healthcare Plan (regardless of pension tier), the annual contributions for health costs are shared 50/50, and the annual contributions for dental costs are shared in a ratio of 8/11 for the City and 3/11 for the employee. For the Police and Fire Healthcare 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.

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 Healthcare 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 the next 15 years for the Federated Plan.

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 based on the outside

counsel's opinion that the retiree health and dental benefits can be considered a "vested" benefit, the City Administration would not recommend a change in these benefits as specified in the Municipal Code at such time. Before the City and its bargaining units entered into the Settlement Frameworks discussed above in "RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS - Implementation of Measure F and Settlement Frameworks", the City had been in the process of phasing in payment of the ARC for the retiree health and dental benefits provided by both Healthcare Plans as calculated pursuant to GASB Statements 43 and 45.

An implicit subsidy for retiree health 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. The liabilities for the implicit subsidy have been included in the GASB 43 and GASB 45 disclosure calculations reported in the financial statements of both Healthcare Plans and the City. The implicit subsidy is shown as both a contribution and payment from the Healthcare Plans. However, the implicit subsidy is not actually contributed to or paid from the Healthcare Plan Trusts (as defined below). Rather, it is just paid directly by the City as a part of active health plan premium. The implicit subsidy is included in the phase-in contribution rates for the Federated Healthcare Plan's members, but not for the Police and Fire Healthcare Plan. The implicit subsidy is included in the GASB valuations of both the Federated Healthcare Plan and the Police and Fire Healthcare Plan.

Federated Healthcare Plan Funding Policy

Effective June 2009, the City and the bargaining units with members in the Federated Plan and unrepresented employees began phasing in full funding of the GASB Statement No. 43 calculated ARC over a period of five years ending as of June 30, 2013. The agreement with the bargaining units 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 employees or for the City. Notwithstanding these limitations on incremental increases, the agreements further provided that by the end of the five-year phase-in the City and the employee members would contribute the ARC in the ratios provide in the relevant sections of the Municipal Code.

Subsequent to entering into the agreements concerning full funding of the ARC for the Federated Healthcare Plan benefits, Tier 2B members (employees who were hired, rehired or reinstated on or after September 27, 2013) were excluded from the Federated Healthcare Plan's health and dental benefits. The City pays an amount equal to what the Tier 2B members and the City would have contributed toward the UAL if the Tier 2B members had been eligible for benefits from the Federated Healthcare Plan. Tier 2C members are excluded from medical benefits but are eligible for dental benefits from the Federated Plan and the City pays for the unfunded liability that the City and the Tier 2C members would have otherwise contributed had the Tier 2C members had been eligible for medical benefits.

The healthcare rates in effect for fiscal year 2012-2013 were initially extended to December 20, 2014, and have not changed subsequently as a result of agreement between the City and its bargaining units. The Federated Board, reflecting the agreement between the City and the bargaining units, approved an extension of the fiscal year 2014-2015 healthcare rates until the implementation of Federated Settlement Framework described in "RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS - Measure B - Settlement Frameworks". Under the Federated Settlement Framework, the City retained the option to require members and the City to contribute the full ARC rates beginning June 19, 2016, if a settlement related to Measure B was not implemented by that date. The City did not implement the full ARC rates on that date and instead opted to extend the fiscal year 2014-2015 retiree health and dental rates until the implementation of the Settlement Framework. This extension postponed the phase in of the contribution of the full ARC. Table B-19a provides a summary of contributions by the City to the Federated Healthcare Plan and percentage of the annual OPEB cost funded, demonstrating the

impact of the phased-in ARC, which postponement is still in effect and corresponding increase in net OPEB obligation.

Table B-16 provides as of June 30, 2016 the amortization of UAL that is a component of the ARC for the current year. For financial reporting purposes, the Federated Plan as of June 30, 2016 adopted a 30 year rolling level dollar amortization of UAL, providing that each year the UAL will be amortized over a new 30 year period. From Fiscal Year 2010 to Fiscal Year 2013, the Federated Board utilized a 30-year closed level percent of pay amortization for the UAL as of June 30, 2009 and 20-year closed level percent of pay amortization periods for each annual change in UAL on or after June 30, 2010. Effective beginning for Fiscal Year 2014, the amortization method was changed from level percentage of pay to level dollar.

**Table B-16
Federated Healthcare Plan Amortization Schedule – GASB Basis**

Date Established	Remaining Period	Outstanding Balance	Amortization Payment		
			Medical	Dental	Total
6/30/2016	30	\$538,415,274	\$35,564,434	\$4,784,113	\$40,348,547

Source: Data from 2016 Federated Postemployment Healthcare Plan Actuarial Valuation Report.

Police and Fire Healthcare Plan Funding Policy

Effective June 28, 2009, the Police members of the Police and Fire Healthcare Plan entered into an agreement with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding of the ARC over the five year period ending at the end of fiscal year 2013-2014. Effective June 26, 2011, the Fire members entered into an agreement with the City to phase-in to fully contribute the ARC over a five year period that expired at the conclusion of fiscal year 2015-2016.

In the agreements, the City and bargaining units agreed that the member and City contribution rate shall not have an incremental increase of more than 1.25% and 1.35%, of pensionable pay in each fiscal year for the members and City, respectively. In February 2015, the City and the Police bargaining unit agreed to roll back the Police employee contributions rates from a total of 10.0% to 9.51% and the employer contribution rates from a total of 11% to 10.31%, effective March 15, 2015 and through fiscal year 2015-2016. The contribution rates applicable to the City and the Police and Fire members for pay periods in fiscal year 2016-2017, effective June 19, 2016, remain unchanged from fiscal year 2015-2016 pending the implementation of the Police and Fire Settlement Framework described in “RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS - Measure B - Settlement Frameworks”. The contribution rates are frozen unless the ARC is less than the contribution rates from those in fiscal year 2014-2015 for Police members and in fiscal year 2015-2016 for Fire members or a new agreement is made.

Table B-19c provides a summary of contributions by the City to the Police and Fire Healthcare Plan and percentage of the annual OPEB cost funded, demonstrating the impact of the phased-in ARC and corresponding increase in net OPEB obligation. For financial reporting purposes, as of June 30, 2016, the Police and Fire Healthcare Plan UAL is amortized as a level percent of payroll over a 30-year rolling period. Each year the UAL is amortized over a new 30-year period. Table B-17 provides the amortization of the UAL for fiscal year 2016-2017.

Table B-17
Police and Fire Healthcare Plan Amortization Schedule – GASB Basis

<u>Date Established</u>	<u>Remaining Period</u>	<u>Outstanding Balance</u>	<u>Amortization Payment</u>
6/30/2016	30	\$643,664,387	\$31,129,640

Source: Data from 2016 Police and Fire Postemployment Healthcare Plan Actuarial Valuation Report.

Summary of Healthcare Plans UAL and Funded Ratios

In 2006, implementation of GASB 43 and GASB 45 as of June 30, 2006 resulted in significantly lower discount rates for both Healthcare Plans. As shown in Table B-18, the Healthcare Plans have shown a steady increase in funded ratio since 2006, but both Healthcare Plans remain substantially underfunded.

Table B-18
Historical Healthcare Plan UAL and Funded Ratio - GASB Basis
(in thousands)

<u>Fiscal Year</u>	<u>Federated Healthcare Plan</u>		<u>Police and Fire Healthcare Plan</u>		<u>Total</u>
	<u>UAL</u>	<u>Funded Ratio</u>	<u>UAL</u>	<u>Funded Ratio</u>	<u>UAL</u>
2006	\$ 621,651	12.0%	\$ 812,837	5.0%	\$ 1,434,488
2007	520,148	16.0	620,834	7.0	1,140,982
2009	710,884	11.0	705,986	7.0	1,416,870
2010	818,360	12.0	887,722	6.0	1,706,082
2011	1,009,906	12.0	943,087	6.0	1,952,993
2012	958,822	13.0	930,936	7.0	1,889,758
2013	713,177	18.0	625,490	11.0	1,338,667
2014	529,630	27.0	613,105	13.0	1,142,735
2015	607,912	26.0	625,188	15.0	1,233,100
2016	538,416	30.0	643,664	17.0	1,182,080

Source: Data from 2016 Federated Postemployment Healthcare Plan Actuarial Valuation Report; Police and Fire Postemployment Healthcare Plan 2016 Actuarial Valuation Report.

As shown in Tables B-19a and B-19b, the City’s contribution amount has increased for both Healthcare Plans as funding policies were adopted to phase-in to the full ARC. Until the Healthcare Plans receive payment of the full Annual OPEB Cost (“AOC”) on a GASB basis, the Net OPEB Obligation will continue to increase as evidenced below. The Net OPEB Obligation is the accumulated difference between the AOC and the amount actually paid. The Plan Actuary has indicated that, with the implementation of GASB 75, the annual OPEB expense will be calculated on a very different basis and the Net OPEB Obligation will no longer be reported. In its place, the Net OPEB Liability will be reported which the Plan Actuary explains is analogous to the UAL.

Table B-19a
Federated Healthcare Plan Schedule of Employer Contributions
(in thousands)

Fiscal Year Ending*	Annual OPEB Cost (AOC)	City Contributions Plus Implicit Subsidy	Percentage of AOC Contributed	Net OPEB Obligation
2009	\$ 33,725	\$ 15,918	47%	\$ 44,760
2010	39,414	21,585	55	62,589
2011	44,834	21,072	47	86,351
2012	68,028	25,833	38	128,546
2013	57,202	20,923	37	164,825
2014	49,664	24,484	49	190,005
2015	33,631	26,959	80	196,677
2016	40,011	30,462	76	206,226
2017	33,755	TBD	TBD	TBD

** Fiscal Year Ending 2008 not included by Plan Actuary in Schedule of Employer Contributions in Federated Postemployment Healthcare Plan 2016 Actuarial Valuation Report.*

Source: Data from Federated Postemployment Healthcare Plan 2016 Actuarial Valuation Report.

Table B-19b
Police and Fire Healthcare Plan Schedule of Employer Contributions
(in thousands)

Fiscal Year Ending	Annual OPEB Cost (AOC)	City Contributions Plus Implicit Subsidy	Percentage of AOC Contributed	Net OPEB Obligation
2008	\$ 48,191	\$ 13,624	28%	\$ 34,138
2009	50,651	13,063	26	71,314
2010	51,734	15,546	30	106,990
2011	64,105	17,001	27	154,566
2012	65,747	21,205	32	198,108
2013	56,712	15,980	28	234,259
2014	35,791	20,131	56	254,748
2015	36,106	22,960	64	269,424
2016	35,667	21,064	59	284,424
2017	36,406	TBD	TBD	TBD

Source: Data from Police and Fire Postemployment Healthcare Plan 2016 Actuarial Valuation Report.

Healthcare Plans’ Actuarial Valuations

Actuarial assumptions used for the valuations for the health and dental benefits provided by the Federated Healthcare Plan and the Police and Fire Healthcare Plan are generally the same as are used for the valuations of the Pension Plans, but also include assumptions with respect to future healthcare utilization and inflation. Tables B-20a and B-20b set forth the significant actuarial valuation methods and assumptions used for the June 30, 2016 valuations of the Federated Healthcare Plan and Police and Fire Healthcare Plan. The valuations do not reflect changes implemented as part of the Settlement Frameworks.

For OPEB plans where the contribution equals the ARC under GASB 43 based on a discount rate equal to the expected return on plan assets, the discount rate for GASB purposes is also the actuarial assumed investment rate. When the contribution equals the pay-as-you-go (annual benefit payments), the discount rate for GASB purposes is equal to the expected return on the City’s unrestricted assets. However, where the contribution amount is between these two amounts, GASB requires the use of a blended discount rate that is prorated between the actuarial assumed investment rate and the expected return on City assets. Since the City currently pays less than the full ARC under GASB but more than the annual benefit payments for the Healthcare Plans, its valuations are subject to the blended discount rate methodology. For the Federated Plan, the discount rate on a GASB basis increased from 6.1% to 6.6% in this valuation period., primarily due to the impact of the changes in the Healthcare Plan offerings and the change to the amortization period from a 20 year closed period to a 30 year open period. For the Police and Fire Plan, the discount rate on a GASB basis decreased in this valuation period to 5.90% from 6.0% in the prior valuation period, primarily due to the change in the expected investment rates of return on the Healthcare Plan assets and the City assets.

Table B-20a	
Federated Plan – Healthcare Actuarial Assumptions	
Valuation Date	June 30, 2016
Actuarial funding method	Individual Entry Age
Amortization method	Level dollar open
Equivalent single amortization period	30 Years
Asset valuation method ⁽¹⁾	Market Value
Actuarial Assumptions:	
Payroll Growth Rate	2.85%
Discount Rate	6.60%
Ultimate Rate of Medical Inflation	4.25%

⁽¹⁾ The market value of assets means the actual value of assets and not the smoothed value is used.
Source: Data from Federated Postemployment Healthcare Plan 2016 Actuarial Valuation Report.

Table B-20b
Police and Fire Plan – Healthcare Actuarial Assumptions

Valuation Date	June 30, 2016
Actuarial funding method	Individual Entry Age
Amortization method	Level percent of pay open
Equivalent single amortization period	30 Years
Asset valuation method	Five-year smoothed value with 80% to 120% market value corridor
Actuarial Assumptions:	
Payroll Growth Rate	3.25%
Discount Rate	5.90%
Ultimate Rate of Medical Inflation	4.25%

Source: Data from Police and Fire Postemployment Healthcare Plan 2016 Actuarial Valuation Report.

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Federated 2016 Healthcare Plan Valuation

As with the Pension Plan, the Plan Actuary performed an actuarial valuation of the Federated Healthcare Plan as of June 30, 2016, which is provided in Table B-21a. The actuarial liability as of June 30, 2016, on a “funding basis” as opposed to a GASB basis, is \$736.7 million with \$225.8 million in assets, resulting in a UAL of \$510.9 million, a decrease of approximately \$1.02 million from the prior year and an increase in the funding ratio from 29.1% to 30.7%. Since 2007, the actuarial liability has grown, reflecting the accumulation of total projected benefits attributed to an employee, rising health care costs, reductions in the discount rate, and changes to other assumptions.

Table B-21a
Federated Healthcare Plan Funding Valuation Basis
(in thousands)

Valuation Date	Funding Valuation Basis	
	6/30/2015	6/30/2016
Discount Rate	7.00%	6.875%
Actuarial Liability	\$721,655	\$736,721
Assets	209,761	225,845
UAL	511,894	510,876
Funding Ratio	29.1%	30.7%

Fiscal Year Ending	Adopted Contribution Rates	
	6/30/2016	6/30/2017
Member Contribution Rate	8.76%	8.76%
Member Contribution Rate (Tier 2C)	0.39%	0.39%
City Contribution Rate	9.41%	9.41%
City Contribution Rate (Tier 2B)	12.66%	12.66%
City Contribution Rate (Tier 2C)	12.86%	12.86%

Source: Data from Office of Employee Relations; Federated Postemployment Healthcare Plan 2016 Actuarial Valuation Report.

The following table provides a summary of the contribution rates for fiscal year 2015-2016 and for fiscal year 2016-2017. As more fully described in “Federated Healthcare Plan Funding Policy”, the City and Federated Plan members do not contribute the full ARC for the Federated Healthcare Plan. Table B-21b describes the difference between the calculated contribution rates on a funding basis and the actual contribution rates for the City and Federated Plan members. If full ARC is not made, the Federated Healthcare plan could see increases in UAL and correspondingly increased annual OPEB funding costs for the City in future years. The City expects the current contribution rates for the Federated Healthcare Plan to be extended to fiscal year 2017-2018.

Table B-21b
Federated Healthcare Plan Funding Contribution Rates
(in thousands)

Fiscal Year Ending	6/30/2016	
	Calculated*	Adopted
Member Contribution Rate	10.47%	8.76%
Member Contribution Rate (Tier 2C)	0.69%	0.39%
City Contribution Rate	11.61%	9.41%
City Contribution Rate (Tier 2B)	16.07%	12.66%
City Contribution Rate (Tier 2C)	16.11%	12.86%

Fiscal Year Ending	6/30/2017	
	Calculated*	Adopted
Member Contribution Rate	10.72%	8.76%
Member Contribution Rate (Tier 2C)	0.69%	0.39%
City Contribution Rate	11.86%	9.41%
City Contribution Rate (Tier 2B)	16.73%	12.66%
City Contribution Rate (Tier 2C)	16.69%	12.86%

* Calculated contribution amount based on methodology specified in contracts negotiated between the City and bargaining units.

Source: Data from Office of Employee Relations; Federated Postemployment Healthcare Plan 2015 Actuarial Valuation Report.

Table B-21c shows the funded ratio of the Federated Healthcare Plan on a GASB basis from fiscal year 2009-2010 through fiscal year 2015-2016. On a GASB basis, the actuarial accrued liability of the Federated Healthcare Plan as of June 30, 2016 is \$764.2 billion, which is a decrease of approximately \$53 million from the previous year. With \$225.8 million in assets, the resulting GASB UAL for the valuation period is \$538.4 million with a plan funded ratio of 29.6%. The decrease in the UAL from the previous valuation is due to change in discount rate and change in current and expected future healthcare claims. With these changes, the funding ratio increased 3.9% from the prior valuation.

Table B-21c
Federated Plan Healthcare Plan - GASB Basis
(UAL in millions)

	2010	2011	2012	2013	2014	2015	2016
Funded Ratio	11.7%	11.8%	12.6%	18.1%	27.4%	25.7%	29.6%
UAL	\$ 818.4	\$ 1,009.9	\$ 958.8	\$ 713.2	\$ 529.6	\$ 607.9	\$ 538.4
Discount Rate	6.7%	6.1%	4.8%	5.3%	6.3%	6.1%	6.6%

Source: Data from Federated Postemployment Healthcare Plan 2016 Actuarial Valuation Report.

The valuations do not take into account any changes provided for in the Federated Settlement Framework described in “RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS - Measure B - Settlement Frameworks”.

Police and Fire 2016 Healthcare Plan Valuations

The Plan Actuary performed an actuarial valuation, as of June 30, 2016, of the Police and Fire Healthcare Plan, which was presented to the Police and Fire Plan Board at its February 2017 meeting.

The actuarial liability on a “funding basis” as of June 30, 2016 was approximately \$624.2 million with approximately \$135.2 million in the actuarial value of assets resulting in a UAL of approximately \$489.0 million, an increase of approximately \$11.6 million from the prior valuation. The increase in the UAL from the previous valuation is due to changes in change in discount rate and asset experience. However, the funding ratio increased to 21.7% from 19.4% in the prior valuation.

Table B-22a		
Police and Fire Healthcare Plan Funding Valuation Basis⁽¹⁾		
<i>(in thousands)</i>		
	6/30/2015	6/30/2016
Discount Rate	7.00%	6.875%
Actuarial Liability	\$ 591,996	\$ 624,228
Actuarial Value of Assets	114,565	135,207
Unfunded Actuarial Liability	477,430	489,021
AVA Funding Ratio	19.4%	21.7%
Market Value of Assets	\$ 109,627	\$ 123,425
Unfunded Liability	482,369	500,803
MVA Funded Ratio	18.5%	19.8%
	6/30/2016	6/30/2017
Fire Member Contribution Rate	9.74%	9.74%
Police Member Contribution Rate	9.51%	9.51%
City Fire Contribution Rate	10.62%	10.62%
City Police Contribution Rate	10.31%	10.31%

⁽¹⁾ Excludes implicit subsidy.

Source Data from Office of Employee Relation; and Police and Fire Postemployment Healthcare Plan 2016 Actuarial Valuation Report.

The Plan Actuary indicated that because Police and Fire Healthcare Plan contribution rates are frozen pending the implementation of Settlement Frameworks, the Plan Actuary did not calculate contribution rates in the Police and Fire Postemployment Healthcare Plan 2016 Actuarial Valuation Report. Table B-22b below provides the dollar amount of expected contributions to the Police and Fire Healthcare Plan and the contribution amounts necessary to make the full ARC on a funding basis and a GASB basis. The expected contributions for fiscal year 2016-2017 are not projected to meet the full ARC.

Table B-22b
Police and Fire Healthcare Plan Funding Contribution Amounts
For Fiscal Year 2016-2017

Expected Contributions*	
Member Contributions	\$18,647,256
City Contributions	20,266,267
Implicit Subsidy	1,598,907
Total	\$40,512,430
Full ARC - Funding Basis	
Discount Rate	6.875%
Normal Cost **	\$16,111,857
UAL Amortization	29,430,057
Total	\$45,541,914
Difference from Expected Contribution	\$5,029,484
Full ARC - GASB Basis	
Discount Rate	5.90%
Normal Cost	\$20,898,459
UAL Amortization	31,129,640
Total	\$52,028,099
Difference from Expected Contribution	\$11,515,669

* Expected contribution amount based on methodology specified in contracts negotiated between the City and bargaining units.

** Normal Cost calculated as of the middle of fiscal year.

Source: Data from Federated Postemployment Healthcare Plan 2016 Actuarial Valuation Report.

Table B-22c shows the funded ratio of the Police and Fire Healthcare Plan on a GASB basis from fiscal year 2009-2010 through fiscal year 2015-2016. On a GASB basis, the Plan Actuary has calculated that the actuarial accrued liability as of June 30, 2016 was approximately \$778.9 million, an increase of approximately \$39.1 million from the previous valuation. With approximately \$135.2 million in assets, the resulting GASB UAL is approximately \$643.7 million, with a funded ratio of 17.4%. The ARC calculated in accordance with GASB, and based on a 5.9% actuarially assumed net rate of return, was \$33.4 million.

Table B-22c
Police and Fire Plan Postemployment Healthcare – GASB Basis
(UAL in millions)

	2010	2011	2012	2013	2014	2015	2016
Funded Ratio	6.2%	6.0%	6.7%	10.7%	13.2%	15.5%	17.4%
UAL	\$887.7	\$943.1	\$930.9	\$625.5	\$613.1	\$625.2	\$643.7
Discount Rate	6.3%	5.7%	4.4%	6.0%	6.0%	6.0%	5.9%

Source: Data from Police and Fire Postemployment Healthcare Plan 2016 Actuarial Valuation Report.

The valuations do not take into account any changes provided for in the Federated Settlement Framework described in “RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS - Measure B - Settlement Frameworks”.

Investments

The Boards of both Healthcare Plans currently utilize the investment policies and asset allocations of the respective Pension Plans for the 401(h) portion of the Healthcare Plans. In addition, the City has established Internal Revenue Code Section 115 Trusts as a supplement to the 401(h) accounts and are funded as described below in “ESTABLISHMENT OF 115 TRUSTS FOR HEALTHCARE PLANS; TAX LIMITATIONS”. Table B-23 below illustrates the historic annual returns net of fees for both Healthcare Plans at the identified interval as reported by the Healthcare Plans' respective investment consultants in their respective quarterly reports for the period ending June 30, 2016.

Table B-23
Historical Investment Performance For Pension Plans
(As of June, 30, 2016)

Measurement Period	Federated Plan	Police and Fire Plan
Since Inception	3.8%*	4.3%**
10 Years	-	-
5 Years	3.8	-
3 Years	3.2	4.1
1 Year	(2.7)	0.3

** Measurement Period Beginning July 2011.*
*** Measurement Period Beginning July 2012.*
Source: Data from Meketa Investment Group Federated Retiree Healthcare 115 Trust Quarterly Review June 30, 2016; NEPC LLC Police and Fire Pension Plan Investment Performance Analysis for the period ending June 30, 2016.

Due to the smaller asset size of the 115 trusts, as compared to the Pension Plans, the Investment Managers of the respective Boards advised the use of different asset allocations than the allocations applicable to the Pension Plans' investments including the 401(h) accounts.

Table B-24
Federated Healthcare Plan 115 Trust Target Asset Allocation

Asset Class	Minimum	Target	Maximum
Global Equity	40%	46.7%	54%
Fixed Income	20%	30.3%	40%
Real Assets	15%	23.0%	30%

Source: Data from Federated 2016 CAFR.

Table B-25
Police and Fire Healthcare Plan 115 Trust Target Asset Allocation

Asset Class	Minimum	Target	Maximum
Equity	25%	43%	50%
Fixed Income	5%	15%	25%
Absolute Return/ Global Tactical Asset Allocation	0%	20%	25%
Inflation-linked	12%	22%	25%
Cash	0%	0%	5%

Source: Data from Police and Fire 2016 CAFR.

ESTABLISHMENT OF 115 TRUSTS FOR HEALTHCARE PLANS; TAX LIMITATIONS

The Internal Revenue Code Section 401(h) permits a pension plan to provide retiree healthcare benefits under certain conditions, including: (1) a separate account (the “401(h) account”) is maintained for the healthcare benefits and (2) the healthcare benefits are subordinate to the pension benefits. Under IRS regulations, subordination means that the contributions for healthcare benefits do not exceed 25% of the aggregate contributions excluding contributions to fund past service credits. Exceeding the subordination limit puts a pension plan at risk of losing its tax exempt status, which in turn, would subject the pension plan’s income to the payment of income tax and reduce the assets available for the payment of benefits.

To avoid exceeding the subordination limit for the 401(h) accounts held in both Pension Plans, the City Council enacted an ordinance to establish a separate trust under Internal Revenue Code Section 115 for the Federated Plan effective June 2011 (the “Federated 115 Trust”). For the Police and Fire Plan, the City Council enacted an ordinance, effective in June 2012 to establish separate trusts under Internal Revenue Code Section 115 for the police members (the “Police 115 Trust”) and the fire members (the “Fire 115 Trust” and together with the Police 115 Trust, the “Police and Fire 115 Trusts”). The Board for each Retirement Plan also serves as the board of trustees for the corresponding 115 Trust. On June 11, 2013, the City Council adopted amendments to the City’s Municipal Code provisions applicable to the Police and Fire 115 Trusts for the Police 115 Trust and the Fire 115 Trust to allow two wholly separate subtrusts of a single trust.

Both the Federated Board and the Police and Fire Board have sought and received private letter rulings from the IRS on the tax exempt status of the respective 115 Trusts. Additionally, on August 6, 2013, in response to the City’s request, the IRS issued a private letter ruling indicating that employee contributions into the Federated 115 Trust and the Police and Fire 115 Trusts may be made as employer contributions and therefore are excludable from the employee’s gross income and are not subject to income or other employment taxes. For the Federated Plan, employee contributions to the Federated 115 Trust commenced on December 22, 2013. For the Police and Fire Plan, it has not been determined if or when employee contributions will begin to be deposited in the Police and Fire 115 Trusts.

Both Boards have been advised that the contributions made to the 115 Trust must be treated as non-refundable in order to maintain the 115 Trust’s tax exempt status. Both Retirement Plans permit return of employee pension and retiree healthcare contributions held in the 401(h) accounts, although the retiree healthcare contributions have been refunded from each Pension’s Plan’s pension fund and not the 401(h) account within each pension fund. The Settlement Frameworks each contemplate the establishment of a VEBA as a defined contribution healthcare benefit for certain Tier 2 and Tier 1 members of the

Healthcare Plans. Both Retirement Boards have approved the City's request to submit a private letter ruling request to the IRS as part of a regulatory approval process for establishing the VEBA. For a discussion of the establishment of the VEBA and participation by certain Tier 1 and Tier 2 members, please see "RECENT CHANGES TO THE RETIREMENT PLANS AND RETIREE BENEFITS - VEBA Establishment and Healthcare Plans Following VEBA Establishment".

APPENDIX C

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 Eleventh 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 Eleventh 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 Sections 50474.1, 50474.21 and 50474.3, collectively, of the California Government 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:

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.

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).

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.

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.

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.

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.

Notes which are issued in anticipation of the receipt of grants shall not be included in calculating Debt Service.

If any of the Bonds are, or upon issuance will be, Bonds for which the City is entitled to receive payments from the federal government (including, without limitation, subsidy or tax credit payments on account of the issuance of Bonds pursuant to federal legislation, including legislation that may amend, reinstate or is otherwise similar to the federal American Recovery and Reinvestment Act of 2009), as evidenced by an Opinion of Counsel delivered at the time of issuance of such Bonds, the Bonds shall be treated as bearing an interest rate equal to the rate of interest borne by the Bonds for the period of determination reduced by the federal payments which the City expects to receive for such period, provided the City irrevocably pledges such amounts to the repayment of the Bonds in a Written Statement of the City and, to the maximum extent allowable by law, directs that such federal payments be deposited directly with the Trustee for the payment of interest on Bonds pursuant to this Master Agreement.

“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 airport enterprise owned and operated by the City, 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 (1), (2), (3), (4) or (11) of the definition of Permitted Investments below.

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, 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, and possesses any legally required registrations or credentials.

Fiscal Year

“Fiscal Year” means the period beginning on July 1 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.

Insured Series 2017A Bonds

“Insured Series 2017A Bonds” means the 2017A Bonds maturing on March 1, 2042, the principal and interest payments on which are insured under the 2017A Bond Insurance Policy.

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 Master 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, the Series 2011A-2 Bonds, and the Series 2017 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 The Bank of New York Mellon Trust Company, N.A., 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.

2017A Bond Insurance Policy

“2017A Bond Insurance Policy” means the financial guaranty insurance policy issued by the 2017A Bonds Insurer insuring the payment when due of the principal of and interest on the Insured 2017A Bonds as provided therein.

2017A Bond Insurer

“2017A Bond Insurer” means Build America Mutual Assurance Company, a New York-domiciled stock insurance company.

THE MASTER TRUST AGREEMENT

The following is a summary of certain provisions of the Master Trust Agreement, as amended by the Eleventh 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.

Amendments to the Master Trust Agreement

Definitions. The Eleventh Supplemental Trust Agreement amends and supplements the following definitions of the Master Trust Agreement:

CFC Law

In accordance with the section of the Master Agreement permitting amendments without consent of the Owners or the Municipal Bond Insurers, the definition of “CFC Law” of the Master Agreement is amended to read as follows: “CFC Law” means Sections 50474.1, 50474.21 and 50474.3, collectively, of the California Government 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.

Enterprise

In accordance with the section of the Master Agreement permitting amendments without consent of the Owners or the Municipal Bond Insurers, the definition of “Enterprise” is amended to read as follows: “Enterprise” means the airport enterprise owned and operated by the City, 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.

Financial Advisor

In accordance with the section of the Master Agreement permitting amendments without consent of the Owners or the Municipal Bond Insurers, the definition of “Financial Advisor” is amended to read as follows: “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, 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, and possesses any legally required registrations or credentials.

Trustee

In accordance with the section of the Master Agreement permitting amendments without consent of the Owners or the Municipal Bond Insurers, the definition of “Trustee” is amended to read as follows: “Trustee” means The Bank of New York Mellon Trust Company, N.A., appointed as Trustee pursuant to Section 9.01 and acting as an independent trustee with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in Section 9.01.

Debt Service; Annual Debt Service; Maximum Annual Debt Service

In accordance with the section of the Master Agreement permitting amendments with consent of the Owners or the Municipal Bond Insurers, the definition of “Debt Service; Annual Debt Service; Maximum Annual Debt Service” is amended to add the following: “If any of the Bonds are, or

upon issuance will be, Bonds for which the City is entitled to receive payments from the federal government (including, without limitation, subsidy or tax credit payments on account of the issuance of Bonds pursuant to federal legislation, including legislation that may amend, reinstate or is otherwise similar to the federal American Recovery and Reinvestment Act of 2009), as evidenced by an Opinion of Counsel delivered at the time of issuance of such Bonds, the Bonds shall be treated as bearing an interest rate equal to the rate of interest borne by the Bonds for the period of determination reduced by the federal payments which the City expects to receive for such period, provided the City irrevocably pledges such amounts to the repayment of the Bonds in a Written Statement of the City and, to the maximum extent allowable by law, directs that such federal payments be deposited directly with the Trustee for the payment of interest on Bonds pursuant to this Master Agreement.”

Effectiveness of Amendments. Purchasers of the Series 2017 Bonds will be deemed to have consented to the amendments set forth in the Eleventh Supplemental Trust Agreement. In accordance with the section of the Master Agreement permitting amendments without consent of the Owners or the Municipal Bond Insurers, the amendments to the definitions of “CFC Law”, “Enterprise”, “Financial Advisor” and “Trustee” set forth in the Eleventh Supplemental Trust Agreement will become effective on April 11, 2017 and will be immediately incorporated into the text of the Master Trust Agreement, and a footnote will be added indicating the Supplemental Agreement which effected the amendment and the nature of the amendment. In accordance with the section of the Master Agreement permitting amendments with consent of the Owners or the Municipal Bond Insurers and the 2014 Reimbursement Agreement, the amendment to the definition of “Debt Service; Annual Debt Service; Maximum Annual Debt Service” set forth in the Eleventh Supplemental Trust Agreement will become effective only upon receipt by the Trustee of the written consent to such amendment of each Municipal Bond Insurer insuring Outstanding Bonds (and which is not in default under the applicable policy of municipal bond insurance), if any, and, Barclays Bank, PLC, as applicable, Barclays Bank, PLC, as credit support provider for certain outstanding subordinated commercial paper notes, and then immediately incorporated into the text of the Master Agreement, and a footnote will be added indicating the Supplemental Agreement which effected the amendment and the nature of the amendment.

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 and certain Other Available Funds 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 a 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 covenanted 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 and certain Other Available Funds pledged to the payment of said Bonds and any additional 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 entirety 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

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 ELEVENTH SUPPLEMENTAL TRUST AGREEMENT

The following is a summary of certain provisions of the Eleventh 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 Eleventh Supplemental Trust Agreement.

Terms of the Series 2017 Bonds

The Eleventh Supplemental Trust Agreement sets forth the terms of the Series 2017A Bonds and the Series 2017B Bonds (together, the “2017 Bonds”), most of which are described earlier in the Official Statement under “DESCRIPTION OF THE SERIES 2017 BONDS.”

Establishment of Funds

The proceeds from the sale of the Series 2017 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.”

Certain funds and accounts relevant to the Series 2017 Bonds are established under the Eleventh Supplemental Trust Agreement as follows:

2017A Costs of Issuance Fund for the deposit of proceeds from the sale of the Series 2017A Bonds to pay the costs of issuing the Series 2017A Bonds.

2017B Costs of Issuance Fund for the deposit of proceeds from the sale of the Series 2017B Bonds to pay the costs of issuing the Series 2017B Bonds.

2017A 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 2017A Bonds on each Payment Date.

2017B 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 2017B Bonds on each Payment Date.

2017A 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 2017A Bonds on each Payment Date.

2017B 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 2017B Bonds on each Payment Date.

2017A Redemption Fund for the deposit of proceeds for the purpose of redeeming the bonds to be refunded by the 2017A Bonds on the date of delivery of the 2017A Bonds, as directed in writing by the City.

2017B Redemption Fund for the deposit of proceeds for the purpose of redeeming the bonds to be refunded by the 2017B Bonds on the date of delivery of the 2017B Bonds, as directed in writing by the City.

2017A Rebate Fund for the deposit of proceeds received from the City for purposes of ultimate rebate to the United States, all as more particularly described in the Tax Certificate related to the 2017A Bonds.

2017B Rebate Fund for the deposit of proceeds received from the City for purposes of ultimate rebate to the United States, all as more particularly described in the Tax Certificate related to the 2017B Bonds.

Provisions Relating to Bond Insurance

As long as the 2017A Bond Insurance Policy for the Insured Series 2017A Bonds is in effect, the City will covenant (1) to provide the 2017A Bond Insurer with all notices and other information it is obligated to provide (i) under the Continuing Disclosure Certificate to be entered into with respect to the Insured Series 2017A Bonds, and (ii) to the holders of the Insured Series 2017A Bonds or the Trustee; (2) to obtain the consent of the 2017A Bond Insurer wherever the Master Trust Agreement requires the consent of holders of the Insured Series 2017A Bonds; (3) to obtain the prior written consent of the 2017A Bond Insurer should any amendment, supplement or modification to the Master Trust Agreement adversely affect the rights or interest of the 2017A Bond Insurer; (4) upon the occurrence and continuance of a default or an event of default under the Master Trust Agreement, the 2017A Bond Insurer will be deemed the sole holder of the Insured Series 2017A Bonds for all purposes and will be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Insured Series 2017A Bonds, if any, provided that if the 2017A Bond Insurer has not made any payment under the 2017A Bond Insurance Policy, the 2017A Bond Insurer will have no further consent rights until such default is remedied; (5) the 2017A Bond Insurer will be deemed to be a third party beneficiary of the Master Trust Agreement; and (6) to the extent the 2017A Bond Insurer makes payments directly or indirectly on account of principal of or interest on the Insured Series 2017A Bonds, the 2017A Bond Insurer will be subrogated to the rights of the holders of the Insured Series 2017A Bonds to receive the amount of such principal and interest from the City, with interest thereon, as provided and solely from the sources stated in the Master Trust Agreement, and such Insured Series 2017A Bonds will remain Outstanding for all purposes and not be deemed to be defeased or otherwise satisfied or paid by the City.



CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY

APPENDIX D

**AUDITED FINANCIAL STATEMENTS OF THE NORMAN Y. MINETA SAN JOSE
INTERNATIONAL AIRPORT FOR FISCAL YEAR ENDED JUNE 30, 2016**



FISCAL YEARS
ENDED JUNE 30,
2016 AND 2015

COMPREHENSIVE ANNUAL FINANCIAL REPORT



NORMAN Y. MINETA
SAN JOSE INTERNATIONAL
AIRPORT

SAN JOSE, CALIFORNIA
A DEPARTMENT OF THE
CITY OF SAN JOSE

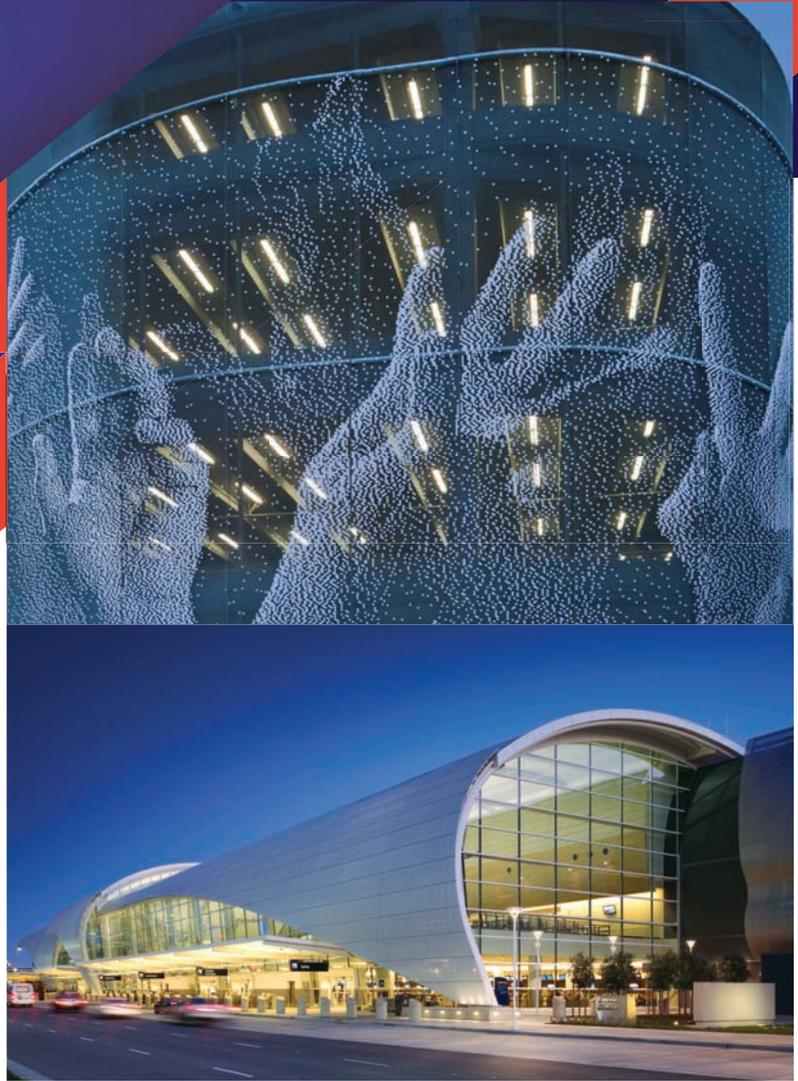




NORMAN Y. MINETA SAN JOSE
INTERNATIONAL AIRPORT

SAN JOSE, CALIFORNIA
A DEPARTMENT OF THE
CITY OF SAN JOSE

PREPARED BY:
FINANCE AND ADMINISTRATION
KIM HAWK, CPA
DEPUTY DIRECTOR



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS
ENDED JUNE 30,
2016 AND 2015



**Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2016**

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Director of Aviation

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Assistant Director of Aviation

Kim Hawk, CPA
Deputy Director of Aviation
Finance & Administration

**Prepared by:
Airport Department
Finance & Administration Division - Accounting Section**

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Accountant II

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Claudia Molina
Senior Account Clerk

Jackie Kupitz
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Kevin Fisher, City Attorney's Office

Cary Greene, Planning & Development
Division

Steve McChesney, Public Works
Department

INTRODUCTORY



INTRODUCTORY SECTION

Super Bowl 50 was held at Levi's® Stadium in Santa Clara, CA, located just 3 miles from the Airport. The Airport hosted the arrival of the Super Bowl 50 participating teams - the AFC Champion Denver Broncos and the NFC Champion Carolina Panthers – and also welcomed their friends, families, and fans.





**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2016

Table of Contents

	Page No.
<hr/> <i>Introductory Section</i> <hr/>	
Geographic Locator Map	III
Airport Layout Map	IV
Letter of Transmittal	V - XVI
Certificate of Achievement for Excellence in Financial Reporting	XVII
Listing of Principal Officials	XVIII
Organization Chart	XIX
<hr/> <i>Financial Section</i> <hr/>	
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-17
Financial Statements	
Statements of Net Position	18-19
Statements of Revenues, Expenses and Changes in Net Position	20
Statements of Cash Flows	21-22
Notes to Financial Statements	23-62
Required Supplementary Information	63

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2016

Table of Contents

	Page No.
<hr/> <i>Statistical Section (Unaudited)</i> <hr/>	
Introduction – Statistical Section	S-1 to S-2
Annual Revenues, Expenses, Changes in Net Position and Net Position	S-3 to S-4
Airline Cost per Enplaned Passenger	S-5
Gross Concession Revenue Per Enplaned Passenger	S-6
Scheduled Airline Rates and Charges	S-7 to S-8
Ratios of Outstanding Debt and Debt Service	S-9
Debt Service Coverage	S-10
Service Area Population in the Air Trade Area	S-11
Service Area Personal Income in the Air Trade Area	S-12
Service Area Per Capita Personal Income in the Air Trade Area	S-13
Principal Employers in the City of San José	S-14
Service Area Annual Average Unemployment Rate in the Trade Area	S-15
Airport Employees	S-16
Airport Information	S-17
Enplaned Commercial Passengers by Airline	S-18 to S-19
Airline Landed Weights	S-20
Airline Flight Operations by Airline and Cargo Carrier	S-21
Scheduled/Commuter/All-Cargo Airline Service	S-22 to S-23
Passengers, Mail, Freight, and Cargo Statistics	S-24
Historical Aircraft Operations	S-25
<hr/> <i>Bond Disclosure Section (Unaudited)</i> <hr/>	
Bond Disclosure Report	B-1 to B-3
Historical Passenger Enplanements	B-4
Historical Connecting/Enplaned Passenger Traffic	B-5
Historical Maximum Gross Landing Weight	B-6

GEO LOCATOR MAP



Norman Y. Mineta San José International Airport

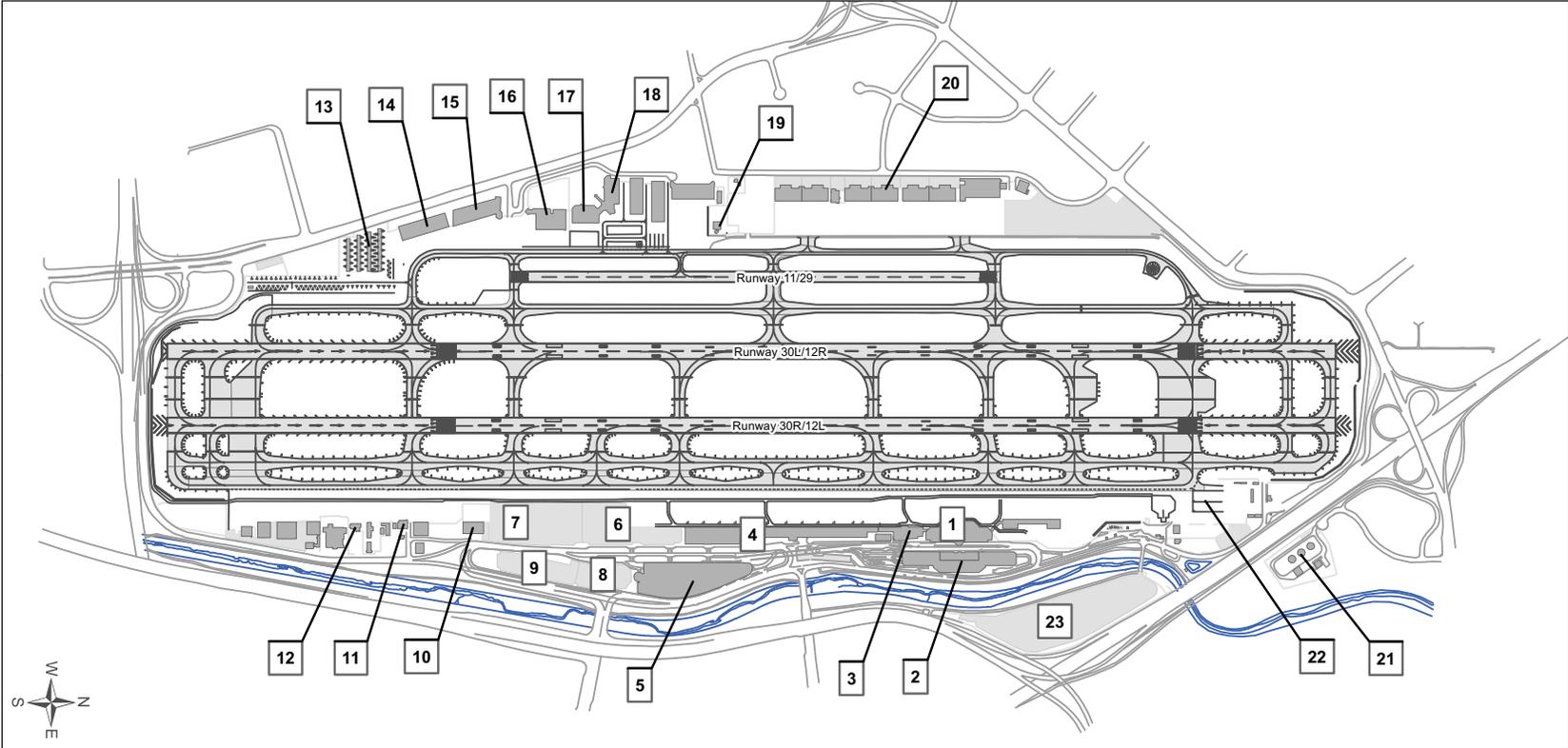
San José, California
A Department of the
City of San José
Fiscal Years Ended
June 30, 2016 and 2015

- Primary Service Area
- Secondary Service Area
- ✈ Norman Y. Mineta San José International Airport



Reduced
View of
Service
Areas

Norman Y. Mineta San José International Airport



Map Legend

- | | |
|--|--|
| 1. Terminal A | 13. GA West |
| 2. Terminal A Parking Garage | 14. AvBase Aviation |
| 3. Interim Federal Inspection Services | 15. ACM |
| 4. Terminal B | 16. HP Aviation |
| 5. Consolidated Rental Car Center | 17. FAA-FSDO |
| 6. Hourly Lot 5 | 18. Atlantic San José (Fueling & Transient Services) |
| 7. Daily Lot 6 | 19. FAA Air Traffic Control Tower |
| 8. Hourly Lot 3 | 20. Signature Flight Support |
| 9. Daily Lot 4 | 21. Fuel Farm Location |
| 10. Air Freight | 22. North Air Cargo |
| 11. Fire Station 20 | 23. Economy Lot 1 |
| 12. SJPD Airport Division | |

LOCATOR MAP

September 2016

Coordinate System: Airport Grid
 Airfield Elevation: 58' AMSL
 Airfield Lat: N37 21.7
 Airfield Long: W121 55.7





November 17, 2016

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 years ended June 30, 2016 and 2015, 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, changes in financial position, and cash flows 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 non-technical summary of the Airport's background, economic condition and outlook, and major initiatives. Management's Discussion & Analysis (MD&A) is contained in the Financial Section of the CAFR and provides readers with a more detailed discussion of the Airport's financial results.

The annual audit of Airport funds was completed by the independent firm of Grant Thornton LLP, Certified Public Accountants for the fiscal year ended June 30, 2016. 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 Uniform Guidance for federal awards. 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.

This CAFR is organized into four sections:

- The Introductory Section is intended to familiarize the reader with the economic condition of the Airport, the Airport's major accomplishments, and the Airport's plans for the future.
- The Financial Section includes MD&A, Basic Financial Statements, Notes to Basic Financial Statements, and Required Supplementary Information. This section also contains the Independent Auditor's Report on the Basic Financial Statements.
- The Statistical Section presents up to ten years of detailed statistical data on the Airport's financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information as a context to the information presented in the financial statements and note disclosures.

- The Bond Disclosure Section provides detailed information in accordance with the requirements of the Continuing Disclosure Agreements (Disclosure Agreements) for specific Airport Revenue Bonds.

REPORTING ENTITY

The City Charter created the Airport Department (Department) in 1965 as a department within the City.¹ 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 airport, primarily providing domestic origin-destination (O&D) service with increasing levels of international service. The Department's mission is to connect, serve, and inspire.

The Airport serves Santa Clara County, which is also the San José Primary Metropolitan Statistical Area (MSA) and is commonly referred to as Silicon Valley, as well as 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 José/Oakland area: San Francisco International Airport and Oakland International Airport.

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 O&D 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.

Passenger levels at the Airport are close to the pre-recession levels of fiscal year (FY) 2008. Airport management closely monitors its operating budget costs and continues to look for ways to increase non-airline revenues. In addition, the Airport has an objective of maintaining a competitive cost per enplaned passenger (CPE). The CPE was \$9.60 in FY 2015 and \$10.48 in FY 2016. The CPE is estimated to be \$10.90 for FY 2017 based on a number of assumptions which may or may not materialize.

Since FY 2013, the Airport has experienced a rebound in passenger activity, resulting in a total of approximately 10.2 million passengers traveling through the Airport and passenger traffic growth of 6.9% for FY 2016.

The City and the Airport continue to work with the Silicon Valley Leadership Group and the San José Silicon Valley Chamber of Commerce to help attract new airlines and routes. In an effort to attract new airlines and routes, the Airport and airports across the nation have been developing and enhancing air service support programs. These support programs are so common among airports that the Federal

¹ The San José City Charter was put into effect in May of 1965.

Aviation Administration (FAA) has published guidelines that airports should follow in order to comply with rules and regulations for use of airport revenue. The Airport continues to offer several air service support programs to promote the development of new passenger air service at the Airport. The current airline support program provides for the waiver of landing fees for airlines providing service to a new airport destination for a specified period of time, with a minimum frequency of three times weekly nonstop service for twelve consecutive months or four consecutive months for international seasonal service. In addition, new carriers are given a waiver of eligible terminal fees for the same duration as the landing fee waiver. The program also provides for marketing funds ranging from \$25,000 to \$600,000, depending on the type of new service provided. The program is a two year incentive that is implemented over a period of between one and two and a half years (the Incentive Period). The terms and conditions of the airline support program can be modified at any time by the City Council.

In addition, as part of the Airline-Airport Lease and Operating Agreement (Airline Lease Agreement), the City funds the Municipally-Funded Air Service Incentive Program in any year where 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). In any year when the program is funded, the Airport's share of indirect overhead expenses allocated to it by the City for support services the City provides to the Airport is reduced, thus reducing the airline CPE by an amount equal to the reduction of the portion of City overhead expenses allocable to airline rates and charges. The airline agreement also 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. Terms and conditions of the Municipally-Funded Air Service Incentive Program are set forth in the Airline Lease Agreement. The goal of this program is to increase air service at the Airport and to show City support for these efforts.

The current Airline Lease Agreement expires on June 30, 2017. Negotiations for a new agreement with the airlines are currently underway.

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 the California Department of Finance estimates, San José has an estimated population of 1,042,094 as of January 1, 2016, reflecting a growth of 1.2% over the prior year. San José is located in the 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 2015 to 2016, with the population increasing to 1,927,888 as of January 1, 2016. The six counties comprising the primary service area for the Airport grew 1.1% from 2015, in line with the State growth rate of 0.9%. In total, the population of the primary service area increased by 54,952 from the prior year and accounts for 13% of the State's population.²

The per capita income information described below is the information available from the U.S. Bureau of Economic Analysis as updated on November 19, 2015. Total personal income and per capita personal income (PCPI) are highly 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.

² California Department of Finance

According to the U.S. Bureau of Economic Analysis, in 2014 Santa Clara County had a PCPI of \$74,883 and was 150% of the state average of \$49,985, 163% of the national average of \$46,049, and 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							
County Name	Personal Income			Per Capita Personal Income			
	(in Thousand Dollars)		% Change	(Dollars)		% Change	
	2013	2014	2013-2014	2013	2014	2013-2014	2014 Rank
Santa Clara	\$133,654,835	\$141,873,705	6.1%	\$71,431	\$74,883	4.8%	4
Alameda	85,173,987	90,631,392	6.4%	53,798	56,261	4.6%	8
San Mateo	64,281,690	68,013,899	5.8%	85,653	89,659	4.7%	3
Monterey	19,184,636	19,889,054	3.7%	44,707	46,109	3.1%	19
Santa Cruz	13,456,565	14,209,814	5.6%	49,942	52,280	4.7%	12
San Benito	2,279,346	2,417,263	6.1%	39,576	41,486	4.8%	30
California	\$1,849,505,496	\$1,939,527,656	4.9%	\$48,125	\$49,985	3.9%	
United States	\$14,064,468,000	\$14,683,147,000	4.4%	\$44,438	\$46,049	3.6%	

Per capita income increased by 4.8% from 2013 in Santa Clara County compared to an increase of 3.9% and 3.6% for California and the nation, respectively.³

Employment

Employment levels in Santa Clara County have increased steadily since 2007 and as of June 2016 are reported at over 1 million. Likewise, the unemployment rate in Santa Clara County is trending downwards since 2009. Santa Clara County's unemployment rate as of June 2016 was 4.0% with 42,000 unemployed, a decrease of about 0.1%, compared to June 2015.⁴ Santa Clara County's unemployment rate of 4.0% was lower than the 5.7% and 5.1% unemployment rates for California and the U.S., respectively.⁵

Norman Y. Mineta San José International Airport: Passenger and Air Traffic

The Airport is classified as a medium-hub airport by the FAA and ranked as the 45th busiest airport in the nation in terms of total passengers according to Airports Council International-North America statistics, as of calendar year 2015. As of June 30, 2016, 12 carriers provided scheduled passenger service to 35 destinations, including seven mainline carriers and five international carriers. In addition, two all-cargo carriers provided scheduled cargo service at the Airport.

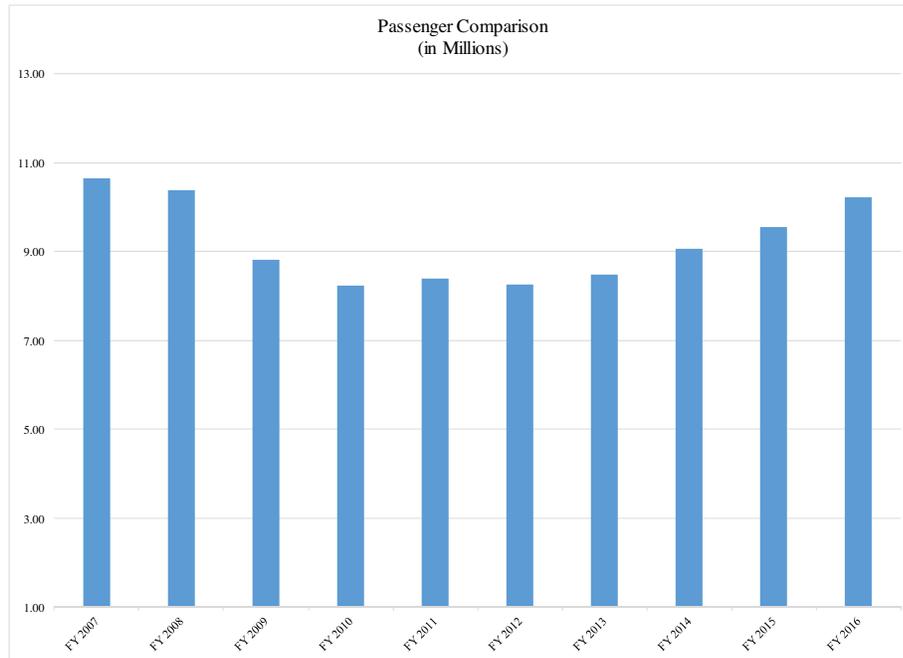
For FY 2016, the Airport enplaned and deplaned 10.2 million passengers, which represents an increase of 6.9% from the previous fiscal year.

³ U.S. Department of Commerce, Bureau of Economic Analysis

⁴ Employment Development Department – State of California

⁵ Employment Development Department – State of California

The graph below displays total fiscal year passenger comparison for the last ten fiscal years.



For FY 2016, the Airport experienced an overall increase of 3.3% in traffic operations due to gains in the following categories: passenger carrier (an increase of 4,182 or 4.5%), cargo carrier (an increase of 114 or 7.6%), and military (an increase of 46 or 21.6%).

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 (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 (TAIP), 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 TAIP 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) are designated for development of facilities to accommodate projected growth in general aviation demand. The 29-acre Signature fixed based facility development is located in this portion of the Airport, and an additional 15 acres north of the FAA air traffic control tower remains available for future general aviation development opportunities.

Construction of the Phase 1 projects was substantially complete in FY 2011. 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 Consolidated Rental Car Facility (ConRAC); realignment and improvement of existing terminal roadways; parking improvements; and airfield projects, including noise mitigation and the reconstruction of Taxiway Y. An additional program element of Phase 1 that was completed in FY 2014 included the final phase of the Taxiway W extension project. The Phase 1 projects also included 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 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 development. Phase 2 projects are preapproved 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.

MAJOR INITIATIVES

The Airport's mission is to connect, serve, and inspire. The vision of the Airport is to transform how Silicon Valley travels. This vision will be used by the Airport as a guide for making decisions to support the future needs of the traveling public.

Highlights of the Airport's activities and accomplishments for the FY ended June 30, 2016, include the following:

- Air Service Development

The Airport grew from 31 to 40 announced nonstop destinations. New flights include both international and domestic routes:

International:

International enplanements grew 39.1% in FY 2016. With the addition of four new international carriers, the Airport now has seven international carriers and is providing service to the top five destinations requested by the local business community.

British Airways started offering new daily nonstop service between the Airport and London Heathrow International Airport beginning on May 4, 2016. London has been the No. 1 requested international destination at the Airport.

Air Canada began twice daily nonstop service to Vancouver, British Columbia on May 9, 2016.

In October 2015, Lufthansa Airlines announced that it will launch the first nonstop service, five times weekly, between the Airport and its largest hub of Frankfurt, Germany. Service between the two cities began on July 1, 2016.

In June 2016, Air China announced it will start offering nonstop service, three times weekly, to Shanghai, China beginning September 1, 2016.

Volaris added a second seasonal nonstop flight to Guadalajara, Mexico in December 2015.

Domestic:

Capacity has increased for destinations throughout the United States, including nonstop flights to the East coast.

Southwest Airlines added a second daily nonstop flight to Dallas Love Field on November 1, 2015 in response to increased demand from Silicon Valley travelers. In addition, Southwest Airlines will start new daily service to Baltimore and twice daily service to Salt Lake City in November 2016.

Delta Airlines began three times daily nonstop service from the Airport to Las Vegas, Nevada in December 2015. Delta added capacity to Los Angeles and Salt Lake City during FY 2016. In June 2016, Delta added a second daily nonstop flight to Atlanta, with a third flight to Atlanta announced for service beginning in April 2017.

Alaska Airlines began daily nonstop service to Eugene, Oregon on November 5, 2015. Alaska started three times daily nonstop service to San Diego and Orange County in June 2016. Alaska also announced nonstop daily service to Newark and three times daily service to Burbank beginning in March 2017.

In August 2016, United announced nonstop daily service to Newark and twice daily service to Chicago starting in March 2017.

American Airlines added seasonal nonstop service to Charlotte on June 3, 2016 and increased capacity to Dallas Fort Worth and Los Angeles in the first quarter of 2016.

Jet Blue announced service to Long Beach, four times daily, starting in January 2017.

- Airport Perimeter Security Technology Funding

In September 2016, the Airport was awarded over \$8.1 million in federal funding to enhance the Airport's security program. The federal grant is administered by the U.S. Department of Transportation and the FAA, and will fund the design, purchase, and installation of surveillance technologies in targeted areas inside the perimeter fence line in FY 2017.

- Funding for Rehabilitation of the Southeast Aircraft Parking Apron

In September 2016, the Airport was awarded \$7.2 million in federal funding for the Airport to rehabilitate 200,000 square feet of an asphalt apron used for parking commercial, charter, and cargo aircraft in the southeast airfield area. The federal grant is administered by the U.S. Department of Transportation and the FAA.

- Customs and Border Protection (CBP) Section 559 Program

Section 559 of the Consolidated Appropriations Act, 2014 granted CBP the authority to conduct a five-year pilot program under which CBP may enter into agreements with private sector and government entities for certain reimbursable services. The program offers airports, seaports, and land crossing the opportunity to increase customs coverage by adding more CBP staff on an overtime basis, the cost of which is reimbursed by the entry point agency. This is the third year of the program, which selects five applicant airports per year to participate. This year, the Airport was one of the five airports selected. The program is expected to begin at the Airport in the fall of 2016 and will be funded by the international airlines.

- SJC – Silicon Valley’s Airport

The Airport is partnering with the airlines on marketing campaigns for the new domestic and international flights. These campaigns have focused on communicating the businesses and tourist destinations that are within close proximity to the Airport. For example, Levi’s Stadium, home of the San Francisco 49ers, opened in July 2014 and is located just three miles from the Airport. Super Bowl 50 was hosted on February 7, 2016 at Levi’s Stadium and continued to drive awareness of the fact that the Airport is in the heart of the Silicon Valley. Signature Flight Support, a global leader in fixed base operations completed the 29-acre Signature San José facility at the Airport in time for the event and generates over \$3 million in annual revenue for the Airport. The opening of Avaya Stadium in February 2015 across the street from the Airport’s west side is home of major league soccer’s San José Earthquakes. Avaya Stadium has also helped increase the awareness of the traveling public that the Airport is in Silicon Valley and is within 18 miles of numerous technology companies, including Apple, Google, Cisco, Facebook, LinkedIn, and Hewlett-Packard.

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 seeks policy direction from the Council Committee for Community and Economic Development to drive economic improvements that benefit the community. In addition, the Airport works in partnership with various City departments, such as the Department of Transportation, Police, Public Works, and seeks policy direction from the Council Committee for Transportation and Environment to improve the transportation systems to benefit the residents of San José. These partnerships allow the Airport to focus coordination efforts on critical business development and to transform how Silicon Valley travels.

Due to the strong passenger growth over the past four years, FY 2016 total enplaned passengers are just below pre-recession levels of FY 2008. While the Airport continues to carefully manage expenditures due to the high debt service costs, additional consideration is directed toward increasing revenue generation prospects and programs, growing and retaining passengers, and developing non-aviation revenue opportunities. The Airport is actively collaborating with the City's Office of Economic Development as well as local business groups like the Silicon Valley Leadership Group and the San José Silicon Valley Chamber of Commerce to pursue air service development opportunities and customer service enhancements. The wide variety of strategic efforts to increase revenue sources is critical to enhance the Airport's resiliency and adaptability to the ever changing aviation industry environment. With increasing passenger levels, careful management of expenditures, and efforts to increase non-airline revenues, the Airport has a goal of keeping the airline cost per enplaned passenger CPE at a competitive level with other airports.

The FY 2017 Adopted Budget contains funding for several programs to increase Bay Area market share of passengers and recruit new air service. As the Airport has elevated its global status with the addition of new international carriers and new transcontinental and expanded flights by long-time airline partners, inbound travelers are a primary target audience. Marketing funds are concentrated on educating those traveling from new destinations, such as Asia, Europe, India, and the eastern part of the United States to the Bay Area about the Airport, and its proximity to Silicon Valley and Northern California's most popular tourist destinations. Funding to continue passenger marketing programs started in FY 2014 is included and targets passenger retention and growth through radio, print and digital advertisements, large scale placement of billboards, digital displays, and social media messages. Airport Service Quality program membership is providing survey data about the Airport and performance comparisons to airports worldwide. Results provide insight into key areas to concentrate resources for improving passengers' experiences at the Airport. Additionally, funding for air service development consultants provides data analysis, revenue forecasting, presentation preparation, and general support at networking conferences and headquarter meetings with airlines. Air service development staff works in tandem with the consultants to maximize opportunities in recruiting new airlines and bringing new service to the Airport.

The FY 2017 Budget also includes funding increases for cost of living adjustments to existing agreements, gas and electric utility adjustments, consultants to develop the three-year Airport Concessions Disadvantaged Business Enterprise (ACDBE) plan and recommend best practices for the future concessions program as well as salary and benefit changes.

Several capital projects currently under development have also been determined to be key elements to the Airport's vision of transforming how Silicon Valley travels. To accommodate the large increase in international air traffic, the Airport is adding a second baggage carousel for the Federal Inspection Services (FIS) facility. The FIS facility will also be enhanced by enclosing the front of the facility and adding customer friendly amenities for arriving passengers and those waiting to receive the arriving passengers.

Conservative budget and fiscal policies have led to a surplus for FY 2016. Computed pursuant to the Airline Lease Agreement, Airport's revenues exceeded its expenses and other reserve requirements for the FY ended June 30, 2016 by \$37.1 million. This was approximately \$12.7 million greater than the \$24.4 million anticipated and utilized in the preparation of the Adopted FY 2017 Rates and Charges. The additional \$12.7 million surplus will assist in balancing the budget and establishing a capital fund for the Phase 2 terminal expansion in future years.

The Airport recently completed a Strategic Plan, which defines a common purpose for the organization, establishes a 10-year vision, and creates goals, objectives, action plans and performance measures to realize the full potential of the Airport, both as a primary economic driver of the Silicon Valley economy and as a community asset representing the best of San José's local culture and lifestyle. The Strategic Goals are as follows:

- Drive Growth
- Innovate
- Fund the Future
- Reinvent the Organization

The Airport's FY 2017-2021 Adopted Capital Improvement Program (CIP) contains projects reflecting all of the Airport's strategic priorities. Recent announcements of direct flights with British Airways, Lufthansa, Air Canada, Air China, and other long-haul domestic flights demonstrate significant achievements. It is important that the Airport continue to support all of the airlines and the success of the flights by improving safety and security, leveraging technology, maintaining infrastructure, and providing a favorable environment for sustained growth.

The FY 2017-2021 Adopted CIP budgets funding of \$218.8 million primarily for projects and debt service, of which \$78.0 million is allocated to FY 2016-2017. The majority of the \$122.4 million five-year total funding is set aside to pay debt service on outstanding bonds. A total of \$4.0 million is allocated to general non-construction activities, leaving \$92.4 million for capital construction over the next five years.

Program highlights of the Airport's FY 2017-2021 Adopted CIP are as follows:

- \$15.0 million for the Airfield Geometric Implementation is the second stage of a multi-year project. The goal of the project is to implement changes to airfield geometry to comply with FAA regulations and new design standards identified in the Airfield Geometric Study project. This project is important to maximize airfield safety through facility design and reconfiguration improvements.
- \$8.9 million for the Southeast Ramp Reconstruction provides for the reconstruction of the cargo ramp pavement in the southeast quadrant of the Airport. The southeast area of the Airport is undergoing a full analysis and evaluation of the best use of space. Current actions to prepare and rehabilitate pavement in the area are expected to allow faster implementation of future uses. This project has received FAA grant funding of \$7.2 million and represents a significant expenditure illustrated in the Airfield Facilities spending category.
- \$10.5 million for Terminal B Gates 29 & 30 provides for the addition of two new jet bridges and gate systems to increase gate capacity, accommodate airline growth, and expanded flight services. This project is important for the growth of the airport and enables airlines to expand their flight services. The Terminal B Gates 29 & 30 project represents a significant expenditure in the Passenger Terminal Facilities expenditure category.
- Airport Rescue and Fire Fighting (ARFF) Facility upgrades provide for renovation of the existing facility to include a larger training area, additional sleeping quarters, and additional vehicle bays. A recent change to comply with federal requirements resulting from up-gauge in aircraft types, and new international flights with wide-body aircraft requires additional staff and

activation of a third apparatus. Additionally, replacement of two ARFF vehicles has received FAA grant funding and further supports safety and security.

- \$10.1 million for the installation of Perimeter Security Technology upgrades has received FAA grant funding of \$8.1 million to install surveillance technologies in targeted areas inside the perimeter fence line. The integrated systems will provide for coordinated responses to incidents and further enhance the Airport's security program.

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 the federal award program for Passenger Facility Charges (PFCs) and the state program for Customer Facility Charges (CFCs), and whether the Airport has complied with all applicable laws and regulations. The City's Single Audit for the year ended June 30, 2016 is still in progress.

The Airport was authorized to impose PFCs effective September 1, 1992. Legislation authorizing the collection of PFCs prescribes reporting and control requirements and restricts the use of PFC revenue to the acquisition of specified assets or payment of PFC eligible debt service.

Pursuant to California Civil Code 1936, the Airport has been authorized to require rental car companies to collect from a renter a CFC since May 2000. CFC revenues may be used to pay the reasonable costs to finance, design, and construct the ConRAC and to finance, design, construct and provide the ConRAC Transportation System.

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 operating and capital budgets and the annual appropriation ordinance. 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 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 Lease 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

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, 2015. This was the nineteenth 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.

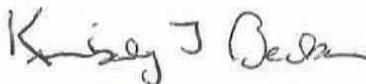
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 Grant Thornton LLP should also be acknowledged as a significant contributor to a fine product.

Respectfully submitted,



Kimberly J. Becker
Director of Aviation



Kim Hawk
Deputy Director
Finance and Administration Division



Government Finance Officers Association

**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, 2015

Executive Director/CEO

**Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Listing of Principal Officials**

ELECTED OFFICIALS:

Sam Liccardo.....	Mayor
Charles Jones.....	Council Member, District 1
Ash Kalra.....	Council Member, District 2
Raul Peralez.....	Council Member, District 3
Manh Nguyen.....	Council Member, District 4
Magdalena Carrasco.....	Council Member, District 5
Pierluigi Oliverio.....	Council Member, District 6
Tam Nguyen.....	Council Member, District 7
Rose Herrera.....	Council Member, District 8
Donald Rocha.....	Council Member, District 9
Johnny Khamis.....	Council Member, District 10

AIRPORT COMMISSION:

Julie Riera Matsushima.....	Member
E. Ronald Blake.....	Member
AJ Borade.....	Member
Dan Connolly.....	Member
Tom Cruz.....	Member
Raymond Greenlee.....	Member
Catherine Hendrix.....	Member
R. William Highlander.....	Member
Stephen McMinn.....	Member
Mark Schmidt.....	Member
Richard Terrill.....	Member
Raul Peralez.....	Council Member, Airport Liaison

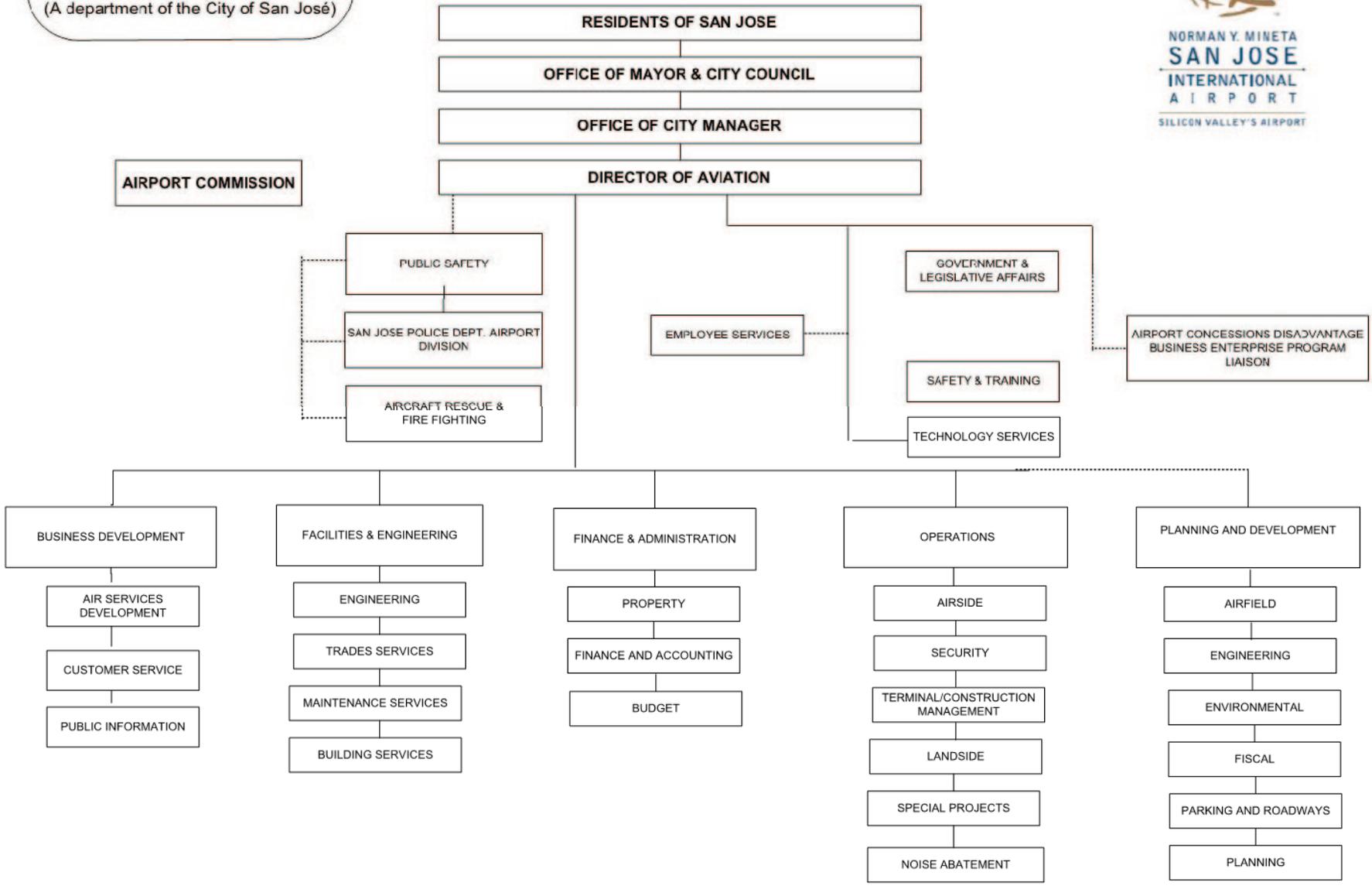
CITY OFFICIAL

Norberto Dueñas.....	City Manager
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AIRPORT DEPARTMENT:

Kimberly J. Becker.....	Director of Aviation
John Aitken.....	Assistant Director of Aviation
Robert Lockhart.....	Deputy Director, Operations
Kim Hawk, CPA.....	Deputy Director, Finance & Administration
Patrick R. Tonna.....	Deputy Director, Facilities & Engineering
Judy Ross.....	Deputy Director, Planning & Development
Vacant.....	Deputy Director, Business Development
Lieutenant Alex T. Nguyen.....	San José Police Dept. – Airport Division

NORMAN Y. MINETA SAN JOSE
INTERNATIONAL AIRPORT
(A department of the City of San José)







THE CLUB AT SJC

OPEN DAILY 5:00 AM - 10:00 PM

Priority Pass	LOUNGE CLUB
Diners Club INTERNATIONAL	ANA
Lounge KEY	海南航空 HAINAN AIRLINES
BRITISH AIRWAYS	Lufthansa

Day Pass Available
NO MEMBERSHIP REQUIRED

FINANCIAL SECTION



FINANCIAL

For the second consecutive year, The Club at SJC received the recognition of "Best Attitude & Service from Lounge Staff" in the Priority Pass Lounge of the Year Awards. The Club welcomes all travelers and is located in Terminal A, across from gate 15, on the 3rd level.





CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable City Council
City of San Jose, California

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Report on the financial statements

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 year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Airport’s basic financial statements as listed in the table of contents.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2016, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a matter

Basis of Presentation

As discussed in Note 1, the financial statements of the Airport are intended to present the financial position, the changes in financial position and, where applicable, 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, 2016, the changes in its financial position, or, its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other matters

The financial statements of the Norman Y. Mineta San José International Airport as of and for the year ended June 30, 2015 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2015 financial statements in their report dated November 13, 2015.

Required supplementary information

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

Other information

The introductory, statistical and bond disclosure sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 17, 2016, 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. 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

Grant Thornton LLP

San Jose, California
November 17, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

This section of the Airport CAFR presents a narrative overview and analysis of the financial activities of the Airport for the fiscal years ended June 30, 2016 and 2015.

AIRPORT ACTIVITIES HIGHLIGHTS

A total of approximately 10.2 million passengers traveled through the Airport in FY 2016 compared to approximately 9.6 million in FY 2015, resulting in passenger traffic growth of 6.9%. The Airport experienced an increase in passenger traffic of 5.4% in FY 2015 and of 6.8% in FY 2014.

British Airways started offering daily service to London starting on May 4, 2016, and Air Canada began two nonstop flights daily to Vancouver, Canada on May 9, 2016. Lufthansa Airlines started five times weekly service to Frankfurt beginning July 1, 2016. Air China began three times per week service to Shanghai, China starting on September 1, 2016.

As of June 30, 2016, Airport carriers served 35 nonstop markets with 162 peak daily departures compared to 31 nonstop markets with 146 peak daily departures as of June 30, 2015 and 29 nonstop markets with 143 peak daily departures as of June 30, 2014.

The following shows major air traffic activities at the Airport and year-over-year growth during the last three fiscal years:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Flight operations	131,561 3.3%	127,417 4.1%	122,351 1.5%
Landed weight by passenger (in pounds)	6,113,904 8.6%	5,628,460 1.7%	5,536,593 6.2%
Landed weight by cargo carriers (in pounds)	266,344 12.5%	236,706 0.7%	235,002 (5.3%)
Total enplaned and deplaned passengers	10,213,261 6.9%	9,554,866 5.4%	9,063,012 6.8%
Enplaned passengers	5,087,705 6.8%	4,765,001 5.5%	4,517,021 6.7%
Deplaned passengers	5,125,556 7.0%	4,789,865 5.4%	4,545,991 6.9%
Domestic passengers	9,728,689 5.7%	9,205,030 5.4%	8,734,157 5.7%
International passengers	484,572 38.5%	349,836 6.4%	328,855 47.4%
Cargo tonnage (in tons)	58,212 11.9%	52,003 0.5%	51,765 19.9%
Parking (vehicles) exits	1,054,534 0.2%	1,051,971 0.9%	1,042,142 4.6%

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FINANCIAL HIGHLIGHTS

The Airport posted a decrease in net position for the 2016 fiscal year.

- Operating revenues increased by 12.7% from \$126.0 million in 2015 to \$142.0 million in 2016.
- Operating expenses before depreciation and amortization increased by 9.5% from \$71.1 million in 2015 to \$77.9 million in 2016.
- Operating income before depreciation and amortization increased by 16.8% from \$54.8 million in 2015 to \$64.0 million in 2016.
- Depreciation and amortization decreased by 2.9% from \$53.4 million in 2015 to \$51.9 million in 2016.
- The above resulted in an operating income before nonoperating revenues and expenses of \$1.4 million in 2015 and \$12.2 million in 2016.
- Nonoperating expenses, net of nonoperating revenues, decreased 20.5% from \$32.6 million in 2015 to \$25.9 million in 2016.
- Capital contributions received in the form of grants from the federal government increased from \$0.9 million in 2015 to \$5.8 million in 2016.
- Net position shows a decrease of \$8.0 million in 2016 compared to a decrease of \$98.1 million in 2015. This was primarily attributed to an increase in operating income, decreases in net nonoperating expenses, increases in capital contributions, and changes in accounting principle resulting from the implementation of Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 71.

In addition, the Airport shows a decrease in net position for the 2015 fiscal year.

- Operating revenues increased by 0.2% from \$125.7 million in 2014 to \$126.0 million in 2015.
- Operating expenses before depreciation and amortization decreased by 0.7% from \$71.6 million in 2014 to \$71.1 million in 2015.
- Operating income before depreciation and amortization increased by 1.4% from \$54.1 million in 2014 to \$54.8 million in 2015.
- Depreciation and amortization decreased by 1.1% from \$54.0 million in 2014 to \$53.4 million in 2015.

MANAGEMENT’S DISCUSSION AND ANALYSIS
(Unaudited)

- The above resulted in an operating income before nonoperating revenues and expenses of \$40,000 in 2014 and an operating income before nonoperating revenues and expenses of \$1.4 million in 2015.
- Nonoperating expenses, net of nonoperating revenues, decreased from \$37.9 million in 2014 to \$32.6 million in 2015.
- Capital contributions received in the form of grants from the federal government decreased from \$4.8 million in 2014 to \$0.9 million in 2015.
- Net position shows a decrease of \$98.1 million in 2015 compared to a decrease of \$33.0 million in 2014. This was primarily attributed to decreases in net nonoperating expenses, a decrease in capital contributions, and changes in accounting principle resulting from the implementation of GASB Statement Nos. 68 and 71.

HIGHLIGHTS IN CHANGES IN NET POSITION

The following table reflects a condensed summary of the changes in net position (in thousands) for fiscal years ended June 30, 2016, 2015 and 2014 (2014 has not been restated for GASB Statement Nos. 68 and 71, because amounts are not available):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 141,953	125,981	125,710
Operating expenses before depreciation and amortization	(77,907)	(71,136)	(71,643)
Operating income before depreciation and amortization	64,046	54,845	54,067
Depreciation and amortization	(51,864)	(53,437)	(54,027)
Operating income (loss)	12,182	1,408	40
Nonoperating revenues and expenses, net	(25,911)	(32,594)	(37,873)
Loss before capital contributions	(13,729)	(31,186)	(37,833)
Capital contributions	5,760	937	4,843
Decrease in net position	(7,969)	(30,249)	(32,990)
Net position - beginning, as previously reported	201,791	299,913	332,903
Restatement due to implementation of GASB Statement Nos. 68 and 71	-	(67,873)	-
Net position - beginning, as restated	201,791	232,040	332,903
Net position - ending	<u>\$ 193,822</u>	<u>201,791</u>	<u>299,913</u>

NET POSITION SUMMARY

Net position serves over time as a useful indicator of the Airport’s financial position. The Airport’s assets plus deferred outflows of resources exceed liabilities plus deferred inflows of resources by \$193.8 million, \$201.8 million, and \$299.9 million at June 30, 2016, 2015 and 2014, respectively,

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

an \$8.0 million decrease from June 30, 2015 to June 30, 2016 and a \$98.1 million decrease from June 2014 to June 30, 2015.

A condensed summary of the Airport's net position (in thousands) at June 30, 2016, 2015, and 2014 is as follows (2014 has not been restated for GASB Statement Nos. 68 and 71, because amounts are not available):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Unrestricted assets	\$ 141,687	120,652	102,551
Restricted assets	208,075	219,686	252,068
Capital assets	1,312,671	1,353,462	1,402,239
Other assets	9,445	9,717	11,126
Total assets	<u>1,671,878</u>	<u>1,703,517</u>	<u>1,767,984</u>
Deferred outflows of resources:			
Deferred pension contributions	15,145	7,103	-
Loss on refundings of debt	3,326	3,385	626
Total deferred outflows of resources	<u>18,471</u>	<u>10,488</u>	<u>626</u>
Liabilities:			
Current liabilities – unrestricted	46,379	47,537	48,993
Current liabilities payable from restricted assets	50,432	48,957	49,479
Noncurrent liabilities	1,399,343	1,406,991	1,368,851
Total liabilities	<u>1,496,154</u>	<u>1,503,485</u>	<u>1,467,323</u>
Deferred inflows of resources:			
Deferred differences related to pension assumptions	-	7,933	-
Gain on refundings of debt	373	796	1,374
Total deferred inflows of resources	<u>373</u>	<u>8,729</u>	<u>1,374</u>
Net position:			
Net investment in capital assets	95,800	126,350	169,870
Restricted	61,308	56,752	67,848
Unrestricted	36,714	18,689	62,195
Net position	<u>\$ 193,822</u>	<u>201,791</u>	<u>299,913</u>

The increase in noncurrent liabilities as of June 30, 2015, was largely attributable to the recognition of a \$64.6 million net pension liability to better comprehensively and comparably measure the pension obligations as required by GASB Statement No. 68. In FY 2016, the net pension liability increased by \$16.7 million, but was offset by a \$23.7 million decrease in bonds payable due to outstanding principal payments.

Detailed information about the employees' retirement system can be found in Note 7 to the financial statements.

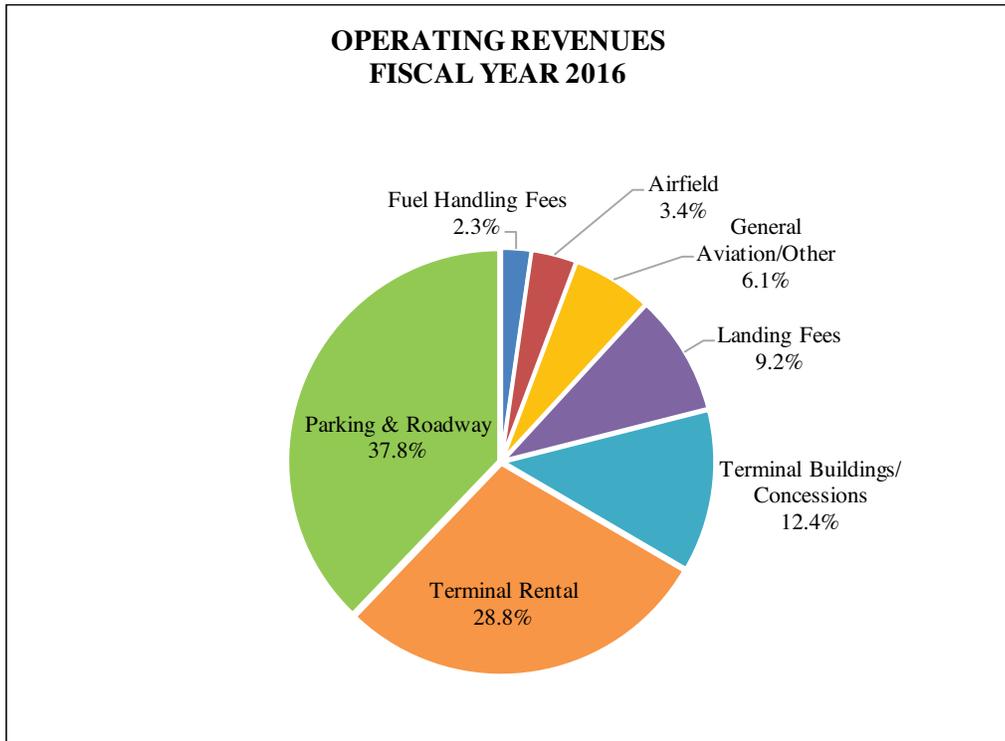
**MANAGEMENT’S DISCUSSION AND ANALYSIS
(Unaudited)**

The largest portion 49.4%, 62.6%, and 56.6% of the Airport’s net position at June 30, 2016, 2015, and 2014, respectively, represents its investment in capital assets (e.g. land, buildings, improvements, and equipment), less the debt outstanding used to acquire those capital assets and related deferred inflows and outflows associated with that debt. 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 position represents amounts that are subject to restrictions under the Airline Lease Agreement, the Master Trust Agreement, the rental car agreement, and PFCs and CFCs that are restricted by Federal regulations and California Civil Code §1936, respectively.

REVENUES

The following chart reflects the major sources and the percentage of operating revenues for the fiscal year ended June 30, 2016:



As illustrated in the above chart, parking and roadway revenue represents 37.8% of the total operating revenues. Parking and roadway revenues include public parking, utility and concession fees from rental cars, employee parking, taxicab and other ground transportation fees, and facility and ground rents from rental car companies for use of the ConRAC located at the Airport. Facility rent for the ConRAC is calculated under the terms of the rental car agreement. An amount equal to the sum of annual debt service and coverage amounts and reserve fund requirements, less estimated CFC revenues, is allocated to each rental car company based upon that company’s percentage occupancy of the ConRAC. In addition, each rental car company’s share of operating costs for the

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

transportation system and the cost to demolish the previous temporary common use rental car facility is charged to each of the rental car companies. In the event that CFC revenues exceed the sum of annual debt service plus coverage amounts and reserve fund requirements, each rental car company's share of any such CFC revenues will be deducted from its share of operating costs for the transportation system. In the event that CFC revenues remain after CFC revenues are deducted from each company's share of operating costs for the transportation system, the City may, in its sole discretion, deduct each rental car company's share of any such CFC revenues from its share of demolition costs, as calculated under the terms of the rental car agreement. As of June 30, 2016, no CFC revenues have been applied toward transportation costs or demolition costs. The City had previously determined that it should identify the specific rental car customers who used the transportation system in order to apply the CFC revenues to cover transportation costs. However, upon further consultation with the rental car companies, the City and the rental car companies have agreed that the City may apply the CFC revenues to cover transportation costs, which are a component of CFC eligible ConRAC expenses, without first identifying the specific rental car customers who used the transportation system. Therefore, to the extent available, the City will apply CFC revenues to transportation costs starting in FY 2017. Facility rent will vary each year in relation to changes in any of these amounts.

The next largest category is airline terminal rental, which represents 28.7% of the total operating revenues. Revenues from terminal buildings/concessions, which came in at 12.4% of total operating revenues, include food and beverage, news and gift shops, advertising, and telephony fees. Fees for the use of the FIS facility and rental of space, other than airline space, are also included in this category.

Landing fees from passenger and cargo carriers represent 9.2% of the total operating revenues. General aviation/other revenues are 6.1% of total operating revenues and are comprised of rents for aircraft hangars, aircraft parking spaces, building and land rentals, fingerprinting fees, and fees for tenant plan reviews, which are calculated on a cost recovery basis. The remaining categories, airfield and fuel handling fees represent 3.4% and 2.3%, of the total operating revenues, respectively. The airfield area category is comprised of air carrier parking fees, fees from the in-flight kitchen services, 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 fees, a fee charged to operators for engaging in the activity of retail sales of aviation fuel petroleum products.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

A summary of revenues (in thousands) for the fiscal years ended June 30, 2016, 2015, and 2014 is as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Operating revenues:</u>			
Landing fees	\$ 13,095	11,856	11,973
Terminal rental	40,800	34,372	38,130
Terminal buildings/concessions	17,576	16,271	15,423
Airfield	4,891	3,993	3,553
Parking and roadway	53,704	49,049	47,268
Fuel handling fees	3,226	3,257	3,170
General aviation/other	8,661	7,183	6,193
Total operating revenues	<u>141,953</u>	<u>125,981</u>	<u>125,710</u>
<u>Nonoperating revenues:</u>			
Passenger facility charges	20,603	19,291	18,161
Customer facility charges	19,888	18,690	15,493
Investment income (loss)	2,444	1,222	1,571
Operating grants	497	610	605
Other, net	1,902	806	614
Total nonoperating revenues	<u>45,334</u>	<u>40,619</u>	<u>36,444</u>
Capital contributions	5,760	937	4,843
Total revenues	<u>\$ 193,047</u>	<u>167,537</u>	<u>166,997</u>

2016 versus 2015

June 2016 marked the 42nd straight month of consecutive passenger growth at the Airport. With the exception of fuel handling fees, all operating revenue categories showed increases over 2015. Total operating revenues increased by 12.7% from \$126.0 million in 2015 to \$142.0 million in 2016.

Landing fees increased 10.5% or \$1.2 million due to the increase in landing fee rate from \$2.09 to \$2.13 per thousand pounds of the maximum gross landing weight and the increase year-over-year in landing weights from 5.9 million pounds to 6.3 million pounds.

Terminal rental revenues increased 18.7% or \$6.4 million mainly due to the rate increase from \$147.68 per square foot in 2015 to \$162.74 per square foot in 2016. The terminal rental revenues also increased as a result of additional flights.

Terminal buildings/concessions posted an increase of 8.0% or \$1.3 million primarily due to the increase in passenger activity. Airfield revenues increased by 22.5% or \$0.9 million mainly due to

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

the higher inflight kitchen revenues and ground support concessions resulting from the increased activity by the airlines in 2016.

Parking and roadway revenues were up by 9.5% or \$4.7 million. Substantial increases were experienced in ground transportation, public parking and rental car concessions reflective of the growth in passenger activity. Transportation network companies (TNCs) were authorized to start operating at the Airport in November 2015.

General aviation/other revenues rose by 20.6% or \$1.5 million. The main contributor to this increase was the ground rent from Signature Flight Support, which completed the full service fixed base facility on the west side of the Airport. The increase can also be attributed to the land rental rate adjustments based on increases in appraised values and the consumer price index.

PFC revenues grew by 6.8% or \$1.3 million reflective of the growth in passenger activity. Investment income in 2016 increased by 100% or \$1.2 million to \$2.4 million from 2015 mainly due to higher investment rates.

CFCs are the charges to customers of rental car companies at the Airport in accordance with California Civil Code §1936 to help pay for capital costs and related debt service associated with the ConRAC and certain operating expenses related to the transportation of rental car customers between the terminals and the ConRAC. CFC revenues trended 6.4% or \$1.2 million higher than the prior year revenues. The increase was mainly attributed to the increase in passenger traffic.

The FY 2016 operating grants of \$0.5 million pertained to grant funds awarded by the Transportation Security Administration (TSA) for the costs associated with the law enforcement officers at security checkpoints (\$0.3 million) and the canine security grant from the TSA (\$0.2 million). The total FY 2016 operating grants decreased \$0.1 million from the prior year due to the expiration of the Bay Area Air Quality Management District grant related to compressed natural gas buses.

Other nonoperating revenues increased 136.1% or \$1.1 million mainly due to the one time reimbursement from the California Plume Fund for clean-up of the old fuel farm underground storage tanks.

Capital contributions received during FY 2016 pertained to grant reimbursements from the FAA of \$5.8 million mainly for the perimeter security fence line upgrades, runway pavement rehabilitation and construction of the taxiway to comply with federal regulations.

2015 versus 2014

June 2015 marked the 30th straight month of consecutive passenger growth at the Airport. With the exception of landing fees and terminal rentals, all operating revenue categories showed increases over 2014. Total operating revenues increased by 0.2% from \$125.7 million in 2014 to \$126.0 million in 2015.

Despite the overall increase in landed weights generated by the airlines, landing fees decreased from \$12.0 million in 2014 to \$11.9 million in 2015 primarily due to the decrease in landing fee rate from \$2.22 to \$2.09 per thousand pounds of the maximum gross landing weight. Terminal

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

rental decreased from \$38.1 million in 2014 to \$34.4 million in 2015 despite a higher terminal rental requirement mainly as a result of surplus revenues carried over from the prior fiscal year. The incentive credits issued to airlines which participated in the Airport's incentive program also contributed to the decreases in landing fees and terminal rental.

Terminal buildings/concessions posted an increase of 5.5% or \$0.8 million primarily due to the increase in rental rate for the non-airline space rents from \$251.90 to \$258.31 per square foot, increase in utilities cost recovery fees, and increase in passenger activity. Airfield revenues increased by 12.4% or \$0.4 million mainly due to the higher inflight kitchen revenues and ground support concessions resulting from the increased activity by the airlines.

Parking and roadway revenues were up by 3.8% or \$1.8 million. Substantial increases were experienced in public parking and rental car concessions reflective of the growth in passenger activity. These increases were partially offset by the lower facility rents from rental car companies transportation costs from \$2.8 million in 2014 to \$2.5 million in 2015. Lower facility rents were required from the rental car companies as a result of reduced transportation costs.

General aviation/other revenues rose by 16.0% or \$1.0 million. The main contributor to this increase was the interim ground rent from Signature Flight Support, which is constructing a full service fixed base facility on the west side of the Airport. The increase can also be attributed to the land rental rate adjustments based on increases in appraised values and the consumer price index.

PFC revenues grew by 6.2% or \$1.1 million reflective of the growth in passenger activity. Investment income in 2015 decreased by about \$0.3 million from 2014. Interest earnings in 2015 stayed level with the prior year at \$1.1 million.

CFC revenues trended 20.6% or \$3.2 million higher than the prior year revenues. The increase was mainly attributed to the increase in passenger traffic and the move to a new fee structure from \$6 per day (up to a maximum of five days per car rental contract) to a \$7.50 per day (up to a maximum of five days per car rental contract), which went into effect January 1, 2014.

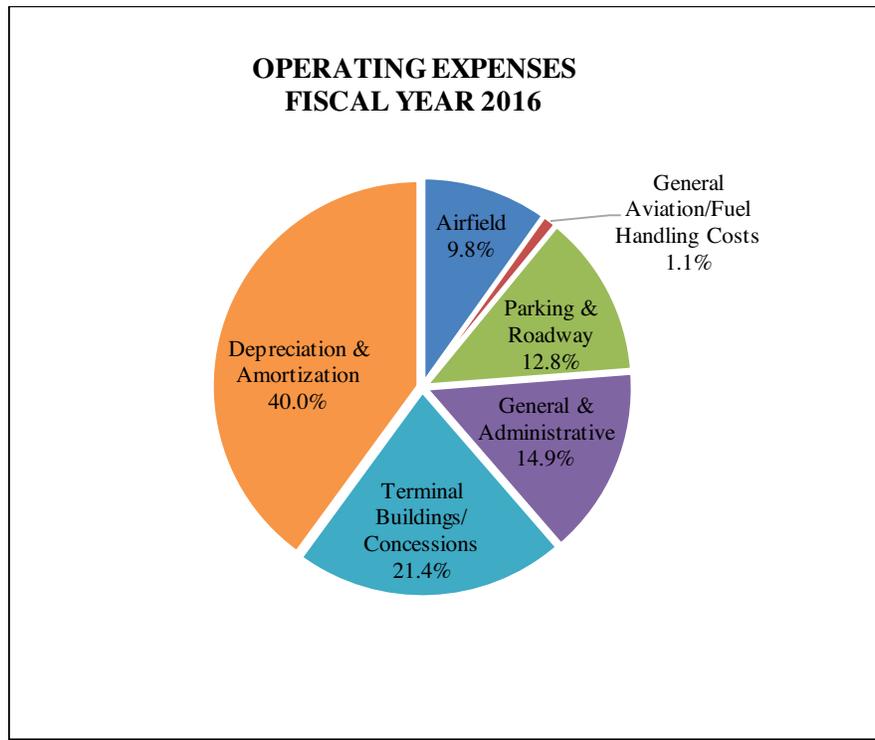
The operating grants pertained to grant funds awarded by the TSA for the costs associated with the law enforcement officers at security checkpoints (\$0.3 million), canine security grant from the TSA (\$0.3 million), and a grant from the Bay Area Air Quality Management District for the incremental costs of leasing compressed natural gas buses (\$0.1 million).

Capital contributions earned during FY 2015 pertained to reimbursement from the FAA of \$1.0 million mainly for the FIS sterile corridor.

EXPENSES

The following chart reflects the major cost centers as a percentage of operating expenses for the fiscal year ended June 30, 2016:

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**



A summary of expenses (in thousands) for the fiscal years ended June 30, 2016, 2015, and 2014 is as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Operating expenses:</u>			
Terminal buildings/concessions	\$ 27,724	23,833	24,233
Airfield area	12,767	9,891	9,570
Parking and roadway	16,684	17,170	16,343
Fuel handling costs	(565)	28	11
General aviation	1,963	2,006	1,609
General and administrative	19,334	18,208	19,877
Depreciation and amortization	51,864	53,437	54,027
Total operating expenses	<u>129,771</u>	<u>124,573</u>	<u>125,670</u>
<u>Nonoperating expenses:</u>			
Interest expense	71,245	72,237	73,836
Bond issuance costs	-	976	-
Loss on capital assets disposal	-	-	481
Total nonoperating expenses	<u>71,245</u>	<u>73,213</u>	<u>74,317</u>
Total expenses	<u>\$ 201,016</u>	<u>197,786</u>	<u>199,987</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

2016 versus 2015

Operating expenses in 2016 increased 4.2% or \$5.2 million from \$124.6 million in 2015 to \$129.8 million in 2016. Increases were experienced in overhead, fees charged by the City for police and firefighting services, and recognition of additional pension expenses due to the annual actuarial valuation of the Plan's assets. These were offset by the decrease in interest expense and bond issuance costs.

Overhead expense increased by 23.3% or \$0.7 million due to the rate change from 17.9% in 2015 to 21.3% in 2016. Fees charged by the City for police and firefighting services went up by 24.8% or \$2.3 million due to the expiration of the Staffing for Adequate Fire and Emergency Response (SAFER) grant in FY 2015, increases in salaries and associated benefits, overhead, and the overtime and training costs for Fire Department personnel.

Pension expense was \$0.7 million in 2016 compared to (\$2.4) million in 2015. The increase of \$3.1 million over the prior year was a result of the annual actuarial valuation of the Plan assets. Interest expense in 2016 declined by 1.4% or \$1.0 million compared to 2015 due to lower interest rates and a declining balance of the outstanding debt.

2015 versus 2014

Operating expenses in 2015 decreased from \$125.7 million in 2014 to \$124.6 million in 2015. Increases were experienced in nonpersonnel, overhead, and fees charged by the City for police and firefighting services. These were offset by reclassification of retirement contributions due to the implementation of GASB Statement Nos. 68 and 71 and a decrease in interest expense.

Nonpersonnel expenses posted an increase of 4.6% or \$1.5 million over that of the prior fiscal year. The increase can be attributed to a variety of factors including increased electric utility costs and installation of a new ground transportation system. Another contributor to the increase was the \$0.5 million increase in the airline incentive payment to the airlines for the reduction of the Airport's share of indirect overhead expenses with enplanement growth at the Airport exceeding that of FAA's national enplanement growth projections in FY 2014 by 5.9%. Overhead expense increased by 18.2% or \$0.4 million due to the rate change from 15.6% in 2014 to 17.9% in 2015. Fees charged by the City for police and firefighting services went up by 28% or \$2.0 million due to the expiration of the SAFER grant and increases in salary and associated benefit and overhead costs.

Personnel expenses decreased by approximately \$2.4 million resulting mainly from the deferral of FY 2015 pension contributions amounting to \$7.1 million and the recognition of pension expense in the current fiscal year of \$4.7 million. Due to the initial implementation of GASB Statement Nos. 68 and 71, pension expense was recognized in the current fiscal year as the net amortization of the prior period's deferred outflows of resources. No such amount was recognized in the prior periods. In comparison, in FY 2014, pension contributions totaled \$6.7 million and were part of personnel expense. In addition, other postemployment benefits (OPEB) costs recorded in FY 2015 based on the latest actuarial study, which included an increase in the discount rate from 5.3% to 6.3%, were \$1.4 million less when compared to FY 2014. The decrease in retirement costs was offset by the higher costs for salaries and retirement contribution benefits. Interest expense in 2015 declined by 2.2% or \$1.6 million compared to 2014 due to refunding of bonds in October 2014 and declining balance of the outstanding debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

The Airport expended \$15.0 million on both capitalized and noncapitalizable capital activities in fiscal year 2016 and \$8.0 million in 2015. Major capital projects in 2016 included the perimeter fence line upgrades, the runway pavement rehabilitation, and the taxiway modifications to comply with federal regulations. Major projects in 2015 included the FIS sterile corridor and the runway pavement rehabilitation.

As of June 30, 2016, the Airport was obligated for purchase commitments relating to capital projects of approximately \$15.4 million primarily for the costs of airfield geometric study and layout, airport rescue and fire fighting vehicles, pavement maintenance, the FIS baggage system upgrades and curbside improvements, and the terminal area development. Detailed information about capital assets can be found in Note 3 to the financial statements.

LONG-TERM DEBT

Subordinated Commercial Paper (CP) Notes

The Subordinated CP debt is a form of variable rate debt with a maturity between 1 to 270 days. As of June 30, 2016 and 2015, the total amount of Subordinated CP Notes outstanding totaled \$34.7 million and \$37.9 million, respectively. The City paid principal of \$3.2 million during each of the fiscal years ended June 30, 2016 and 2015.

As of June 30, 2016, the Subordinated CP Notes were supported by the \$41 million letter of credit issued by Barclays Bank PLC (Barclays). Effective September 16, 2015, the City reduced the stated amount of the letter of credit issued by Barclays to support the Subordinated CP Notes from \$65 million to \$41 million, which covers the principal amount of \$37.9 million and interest.

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, 2016 and 2015, the Airport had total outstanding revenue bonds of \$1,313.5 million and \$1,337.1 million, respectively. In October 2014, the Series 2001A, 2004C, and 2004D Bonds in the amount of \$149.7 million were refunded with the issuance of Series 2014A, 2014B, and 2014C Bonds. During the fiscal years ended June 30, 2016 and 2015, the Airport paid principal of \$23.7 million and \$23.5 million, respectively.

Additional information about the Airport's revenue bonds can be found in Note 5 to the financial statements.

Credit Ratings

The underlying ratings of the outstanding Airport Revenue Bonds are "A-", "A2" and "A-" by Standard & Poor's (S&P), Moody's Investors Service (Moody's), and Fitch Ratings (Fitch),

MANAGEMENT’S DISCUSSION AND ANALYSIS
(Unaudited)

respectively. The rating outlook of all three rating agencies with respect to the outstanding Airport Revenue Bonds is stable. See Note 5 to the financial statements for a list of outstanding Airport Revenue Bonds.

Additional information about the Airport’s credit ratings can be found in the Reporting of Significant Events section of the Bond Disclosure Report.

AIRLINE RATES AND CHARGES

The Airport entered into an Airline-Airport Lease and Operating Agreement that took effect on December 1, 2007 with an expiration date of June 30, 2012. In August 2011, the City Council authorized the Director of Aviation to extend the term for five years through June 30, 2017, which allows the airlines to continue to conduct operations and occupy leased space through the extended term.

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. The Rate Stabilization Fund is fully funded at \$9 million. No additional contributions were made to the fund in the fiscal year ended June 30, 2016. 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 airline’s 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.

One of the provisions of the Airline-Airport Lease and Operating Agreement requires the airlines to make payments in addition to the landing fees and terminal rents in any fiscal year where the airport is unable to satisfy the debt service and debt service coverage requirements.

The rates and charges for the signatory (passenger and cargo) airlines for fiscal years 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Landing fee (per 1,000 lbs MGLW):	\$2.13	\$2.09
Terminal average rental rate (per square foot)	\$162.74	\$147.68
Airline cost per enplanement (budgeted)	\$10.90	\$10.50

**MANAGEMENT’S DISCUSSION AND ANALYSIS
(Unaudited)**

Terminal rental rates and airline landing fees for FY 2017 have been developed as part of the annual budget process. The rates and charges for the signatory airlines for FY 2017, which became effective July 1, 2016, are as follows:

Landing fee (per 1,000 lbs MGLW):	\$2.70
Terminal average rental rates (per square foot)	\$154.63
Airline cost per enplanement (budgeted)	\$10.90

After completion of the year-end closing and annual audit, the Airport achieved savings of approximately \$12.7 million greater than what was anticipated in the preparation of the adopted 2016-17 Airline Rates and Charges. The surplus for 2016 will be allocated in accordance with the revenue sharing provisions of the lease agreement.

FORWARD-LOOKING STATEMENTS

When used in this CAFR, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend,” and similar expressions identify “forward-looking statements,” but are not the exclusive means of identifying forward-looking statements in the CAFR. 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 subject to such 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.

Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this CAFR. The City undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of the CAFR.

REQUEST FOR INFORMATION

This financial report is designed to provide readers with a general overview of the Airport’s finances for all those interested. All summaries of documents contained in this CAFR 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 CAFR to a document is qualified in its entirety by reference to such document, which is on file with the Airport or with the City.

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 or to the Director of Finance, 200 East Santa Clara Street, San José, California 95113.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Unrestricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	\$ 130,090,744	112,428,387
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$328,993 in 2016 and 2015	9,084,775	6,493,978
Accrued interest	373,983	257,029
Grants	1,919,964	1,332,992
Prepaid expenses, advances, and deposits	217,070	139,284
Total unrestricted assets	141,686,536	120,651,670
Restricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	99,398,511	111,669,297
Investments held by fiscal agent (Note 2)	104,080,030	104,036,741
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$15,000 in 2016 and 2015	4,257,036	3,799,283
Accrued interest	272,464	119,191
Prepaid expenses, advances, and deposits	844	844
Current portion of prepaid bond insurance	66,224	60,218
Total restricted assets	208,075,109	219,685,574
Total current assets	349,761,645	340,337,244
Noncurrent assets:		
Capital assets (Note 3):		
Nondepreciable	96,283,188	90,944,057
Depreciable assets, net of accumulated depreciation	1,216,388,032	1,262,518,549
Total capital assets	1,312,671,220	1,353,462,606
Advances and deposits	2,967,675	3,172,619
Prepaid bond insurance, less current portion	6,477,704	6,543,928
Total noncurrent assets	1,322,116,599	1,363,179,153
Total assets	1,671,878,244	1,703,516,397
Deferred Outflows of Resources		
Deferred outflows of resources:		
Deferred pension contributions (Note 7)	15,145,489	7,103,082
Loss on refundings of debt	3,326,397	3,385,305
Total deferred outflows of resources	\$ 18,471,886	10,488,387

See accompanying notes to financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Liabilities		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	\$ 3,724,075	3,397,624
Accrued salaries, wages and payroll taxes	809,014	588,641
Accrued vacation, sick leave and compensatory time, current (Note 5)	1,538,001	1,613,000
Advances and deposits payable	1,459,412	1,718,144
Unearned revenue	3,607,149	1,412,563
Estimated liability for self-insurance, current (Notes 5 and 9)	563,462	563,462
Pollution remediation liability [Notes 5 and 10 (c)]	-	330,000
Accrued interest payable	5,876	1,314
Commercial paper notes payable (Note 4)	34,672,000	37,912,000
Total payable from unrestricted assets	46,378,989	47,536,748
Payable from restricted assets:		
Accounts payable	2,030,946	948,946
Accrued salaries, wages and payroll taxes	16,051	7,527
Pollution remediation liability [Notes 5 and 10 (c)]	-	384,000
Accrued interest payable	23,673,975	23,930,595
Current portion of bonds payable (Note 5)	24,711,115	23,686,309
Total payable from restricted assets	50,432,087	48,957,377
Total current liabilities	96,811,076	96,494,125
Noncurrent liabilities:		
Bonds payable, less current portion and net of unamortized discount/premium (Note 5)	1,300,867,774	1,325,578,889
Estimated liability for self-insurance, noncurrent (Notes 5 and 9)	2,289,207	2,177,939
Accrued vacation, sick leave and compensatory time, noncurrent (Note 5)	847,436	817,356
Net pension liability (Note 7)	81,312,808	64,649,657
Other postemployment benefits liability (Notes 5 and 7)	14,026,167	13,766,573
Total noncurrent liabilities	1,399,343,392	1,406,990,414
Total liabilities	1,496,154,468	1,503,484,539
Deferred Inflows of Resources		
Deferred inflows of resources:		
Deferred differences related to pension assumptions (Note 7)	-	7,933,265
Gain on refundings of debt	373,305	796,325
Total deferred inflows of resources	373,305	8,729,590
Net Position		
Net investment in capital assets	95,800,250	126,349,691
Restricted:		
Per Airline Lease Agreement for Airline revenue sharing	18,319,031	12,082,379
Per Master Trust Agreement for rolling debt service coverage	18,276,737	18,333,780
Per Rental Car Agreement	1,000,000	1,000,000
California Civil Code Section 1936 for Customer Facility Charges	7,380,731	4,894,469
Future debt service [Note 1 (i)]	16,331,641	20,441,220
Unrestricted	36,713,967	18,689,116
Total net position	\$ 193,822,357	201,790,655

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 Position
For the Fiscal Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Airline rates and charges:		
Landing fees	\$ 13,095,546	11,855,784
Terminal rental	40,800,293	34,371,913
Total airline rates and charges	<u>53,895,839</u>	<u>46,227,697</u>
Terminal buildings/concessions	17,575,813	16,271,413
Airfield area	4,891,452	3,993,032
Parking and roadway	53,703,763	49,048,496
Fuel handling fees	3,225,613	3,257,257
General aviation/other	8,660,881	7,182,656
Total operating revenues	<u>141,953,361</u>	<u>125,980,551</u>
Operating expenses:		
Terminal buildings/concessions	27,724,459	23,832,863
Airfield area	12,767,355	9,891,025
Parking and roadway	16,683,408	17,169,922
Fuel handling costs	(564,646)	27,967
General aviation	1,963,490	2,006,379
General and administrative	19,334,091	18,208,025
Depreciation and amortization	51,863,642	53,436,817
Total operating expenses	<u>129,771,799</u>	<u>124,572,998</u>
Operating income	<u>12,181,562</u>	<u>1,407,553</u>
Nonoperating revenues (expenses):		
Passenger facility charges	20,602,999	19,291,495
Customer facility charges	19,887,878	18,689,878
Investment income	2,444,018	1,222,361
Interest expense	(71,244,522)	(72,237,180)
Bond issuance costs	-	(976,228)
Operating grants	497,388	609,609
Other, net	1,902,189	806,244
Total nonoperating revenues (expenses), net	<u>(25,910,050)</u>	<u>(32,593,821)</u>
Loss before capital contributions	(13,728,488)	(31,186,268)
Capital contributions	5,760,190	937,166
Change in net position	<u>(7,968,298)</u>	<u>(30,249,102)</u>
Net position - beginning, as previously reported	201,790,655	299,913,443
Restatement due to implementation of GASB Statement Nos. 68 and 71 [Note 1(n)]	-	(67,873,686)
Net position - beginning, as restated	<u>201,790,655</u>	<u>232,039,757</u>
Net position - ending	<u>\$ 193,822,357</u>	<u>201,790,655</u>

See accompanying notes to financial statements.

Exhibit III
(Continued)

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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from customers and users	\$ 141,240,590	124,772,171
Payments to suppliers	(34,983,758)	(32,085,272)
Payments to employees	(25,251,245)	(25,229,616)
Payments for City services	(15,537,185)	(12,778,327)
Claims paid	(365,435)	(403,748)
Other receipts	1,962,406	806,244
Net cash provided by operating activities	67,065,373	55,081,452
Cash flows from noncapital financing activities:		
Operating grants	699,308	428,358
Cash flows from capital and related financing activities:		
Purchases of capital assets	(10,834,053)	(5,226,473)
Principal payments on bonds payable	(23,660,000)	(23,475,000)
Interest paid	(71,978,926)	(73,443,491)
Capital grants	4,971,298	-
Passenger facility charges received	20,140,325	19,324,748
Customer facility charges received	19,892,799	18,559,111
Payment for redemption of bonds	-	(4,873,705)
Bond issuance costs paid	-	(976,228)
Principal payments on commercial paper	(3,240,000)	(3,247,000)
Advances and deposits received	204,944	273,715
Net cash used in capital and related financing activities	(64,503,613)	(73,084,323)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	18,457,885	68,759,997
Purchases of investments	(18,462,552)	(44,890,747)
Investment income received	2,185,737	1,068,140
Net cash provided by investing activities	2,181,070	24,937,390
Net change in cash and cash equivalents	5,442,138	7,362,877
Cash and cash equivalents - beginning	314,159,145	306,796,268
Cash and cash equivalents - ending	\$ 319,601,283	314,159,145

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, 2016 and 2015**

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 12,181,562	1,407,553
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	51,863,642	53,436,817
Other revenues	1,962,406	806,244
Decrease (increase) in:		
Accounts receivable	(2,590,797)	(852,691)
Prepaid expenses, advances, and deposits	14,139	(9,489)
Increase (decrease) in:		
Accounts payable and accrued liabilities	640,226	2,467,795
Advances and deposits payable	(258,732)	99,022
Unearned revenue	2,194,586	(509,915)
Estimated liability for self-insurance	111,268	499,168
Net pension liability, deferred outflows/inflows of resources related to pensions	687,479	(2,393,846)
Other postemployment benefits liabilities	259,594	130,794
	\$ 67,065,373	55,081,452
Noncash noncapital financing activities:		
Change in operating grants receivable	\$ 201,920	(181,251)
Noncash capital and related financing activities:		
Change in accounts payable related to acquisition of capital assets	(238,203)	443,391
Change in capital grants receivables	(788,892)	(937,166)
Unrealized gain (loss) on investments held by fiscal agent	(11,946)	16,768
Bond refunding	-	144,836,295
Amortization of bond discount/premium/prepaid bond insurance	33,908	(122,745)
Amortization of deferred outflows/inflows of resources related to bond refundings	364,112	499,383
Reconciliation of cash and cash equivalents to the statements of net position		
Equity in pooled cash and investments held in City Treasury		
Unrestricted	130,090,744	112,428,387
Restricted	99,398,511	111,669,297
Investments held by fiscal agent classified as cash equivalents	90,112,028	90,061,461
	\$ 319,601,283	314,159,145

See accompanying notes to financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

(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 the 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 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 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 the operations at the Airport. The FAA has general jurisdiction over flying operations, 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 the 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, 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) where 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. 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.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

- ii. 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.
- iii. 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 position available to finance the program.

(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 position 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 intangible assets, land, buildings and improvements, and equipment. 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 the 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.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

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:

	<u>Years</u>
Buildings and improvements	5 – 40
Equipment	4 – 20

(f) Capitalization of Interest

Interest costs related to the acquisition of buildings and improvements 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. The Airport did not capitalize interest during fiscal years ended June 30, 2016 and 2015.

(g) Bond Issuance Costs, Bond Discounts/Premiums, and Deferred Outflows/Inflows of Resources on Refunding

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method. Deferred outflows/inflows of resources from refunding of debt are recognized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

(h) Operating Grants and Capital Contributions

Certain expenditures for airport capital improvements, airport safety and security operations, are significantly funded through the Airport Improvement Program (AIP) of the FAA, with certain matching funds provided by the Airport. Funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants awarded by TSA to finance Airport safety and security are reported in the statement of revenues, expenses and changes in net position as nonoperating revenues. Grants for capital asset acquisition, facility development and rehabilitation are reported as capital contributions, after nonoperating revenues and expenses.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

(i) *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. At June 30, 2016 and 2015, accumulated PFC funds amounted to \$16,331,641 and \$20,441,220, respectively, and are reported as restricted for future debt service in the restricted net position category of the Airport's statements of net position.

Under the Airport's Master Trust Agreement, the Airport may for any period elect to designate any PFC funds as "Available PFC Revenues" by filing with the trustee (Fiscal Agent) 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 bond debt service during such period. Amounts of \$24,828,669 and \$25,202,373 from accumulated PFC funds had been designated as Available PFC Revenues for payment of eligible bond debt service in fiscal years ended June 30, 2016 and 2015, respectively.

(j) *Customer Facility Charges*

CFCs are recorded as nonoperating revenues. CFCs are the charges to customers of rental car companies at the Airport in accordance with California Civil Code §1936 to help pay for capital costs and related debt service associated with the ConRAC and certain operating expenses related to the transportation of rental car customers between terminals and the ConRAC. The Airport did not expend CFC revenues on the transportation costs in fiscal years ended June 30, 2016 and 2015.

Under the Airport's Master Trust Agreement, the Airport may for any period elect to designate CFC revenues as "Other Available Funds" by filing with the Fiscal Agent a written statement designating the amount of such "Other Available Funds" and containing a statement that the "Other Available Funds" are legally available to be applied to pay debt service on the Series 2011B bonds during such period. CFC revenues of \$19,887,878 and \$18,689,878 had been designated as "Other Available Funds" for payment of eligible bond debt service in fiscal years ended June 30, 2016 and 2015, respectively.

(k) *Accrued Vacation, Sick Leave, and Compensatory Time*

Vested vacation, sick leave, compensatory time, and related benefits are accrued when incurred for all Airport employees.

(l) *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Airport's participation in the City of San José Federated City Employees' Retirement System (Federated Plan) and additions to/deductions from the Federated Plan's fiduciary net position have been determined on the same basis as they are reported by the Federated Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Federated Plan's investments are reported at fair value.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

(m) Net Position

The financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation, deferred outflows and inflows associated with the debt, 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 Position – 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, 2016 and 2015, the Airport’s statements of net position report restricted net position of \$61,308,140 and \$56,751,848, respectively, of which \$23,712,372 and \$25,335,689, respectively, is restricted by enabling legislation.
- Unrestricted Net Position – This category represents the net amount that do not meet the criteria for “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the Airport's policy to use restricted resources first, and then use unrestricted resources as needed.

(n) New Pronouncements

During the year ended June 30, 2016, the Airport implemented the following accounting standards:

- In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and acquisition value to certain assets and disclosures related to all fair value measurements.
- In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The application of Statement No. 76 did not have any effect on the Airport’s financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

- In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The application of Statement No. 79 did not have any effect on the Airport's financial statements.

The Airport is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. Application of Statement No. 73 is effective for the Airport's fiscal year ending June 30, 2017.
- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB Statement No. 74), which establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits (OPEB), as well as for certain nonemployer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB Statement No. 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. GASB Statement No. 74 is effective for the Airport's fiscal year ending June 30, 2017.
- In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75), which establishes new accounting and financial reporting requirements for OPEB plans improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB Statement No. 75 is effective for the Airport's fiscal year ending June 30, 2018.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

- In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. Application of Statement No. 78 is effective for the Airport's fiscal year ending June 30, 2017.
- In March 2016, the GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statement No.67, No. 68, and No. 73*. This statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. Application of Statement No. 82 is effective for the Airport's fiscal year ending June 30, 2017.

(2) Cash and Investments

The City Council adopted an investment policy (Investment Policy) on April 2, 1985, as amended on June 7, 2016, related to the City's cash and investment pool, which is subject to annual review. The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged 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 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 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, 2016 and 2015, the Airport's share of the City's cash and investment pool totaled \$229,489,255 and \$224,097,684, 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, 2016 CAFR. 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.

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, 2016 and 2015, restricted investments held by the Fiscal

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

Agent totaled \$104,080,030 and \$104,036,741, 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 permitted investments, which, by their terms, permit withdrawal of the entire principal amount of such investment at par without penalty and at such times as required by the Master Trust Agreement. 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 moneys are required for payment by the Director of Finance or the Fiscal Agent.

The Airport is a voluntary participant in the LAIF that is governed by the California Government Code under the oversight of the Local Investment Advisory Board (Board). The Board consists of five members as designated by state statute. The fair value of the Airport's investment in the LAIF pool is reported in the accompanying financial statements at amounts based upon the Airport's pro rata share of the fair value provided by LAIF, for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis, which is different from the fair value of the Airport's position in the LAIF pool. LAIF is part of the State's Pooled Money Investment Account (PMIA).

As of June 30, 2016, the Airport's investments in LAIF held by the Fiscal Agent was \$90,077,252. The weighted average maturity of LAIF at June 30, 2016 was 167 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2016 was approximately \$22.7 billion. The total amount recorded by all public agencies in PMIA at June 30, 2016 was approximately \$75.4 billion and, of that amount, 58.91% was invested in US Treasuries and agencies, 30.41% in depository securities, 9.93% in commercial paper, 0.67% in loans, and .08% in mortgages.

As of June 30, 2015, the Airport's investments in LAIF held by the Fiscal Agent was \$89,950,337. The weighted average maturity of LAIF at June 30, 2015 was 239 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2015 was approximately \$21.5 billion. The total amount recorded by all public agencies in PMIA at June 30, 2015 was approximately \$69.6 billion and of that amount, 60.86% was invested in US Treasuries and agencies, 29.87% in depository securities, 8.51% in commercial paper, 0.63% in loans, and .13% in mortgages.

Interest Rate Risk – Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, debt investments with fixed coupons for longer periods are subject to more variability in their value as a result of changing interest rates. The City manages its exposure to interest rate risk by capping the average weighted maturity of the investment portfolio at two years. Also, the City sets the maximum maturity for every investment at the time of purchase by asset class, with the longest not to exceed five years.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

In practice, the City purchases a combination of shorter-term and longer-term investments and times the cash flows to meet liquidity needs for operations. The average maturity of the City's pooled cash and investments at June 30, 2016, and June 30, 2015, was approximately 472 days, and 469 days, respectively.

Credit Quality Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. When investing, the City applies the Prudent Investor Standard and acts with care, prudence and diligence to safeguard the principal, maintain liquidity, and seek reasonable yields. The Investment Policy has strict rating requirements. The City manages credit risk by selecting high quality securities, diversifying the portfolio, and establishing monitoring 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 Investment Policy sets forth the policies regarding concentration of credit risk.

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, 2016 and 2015. The credit ratings listed are for Moody's and S&P, respectively.

As of June 30, 2016

<u>Type of investments:</u>	<u>Credit Rating</u>	<u>Maturities</u>			<u>Carrying Value</u>
		<u>Under 30 Days</u>	<u>31-180 Days</u>	<u>181-365 Days</u>	
Investments held by the Fiscal Agent					
Federated treasury obligations fund	Aaa-mf /AAAm	\$ 34,778	-	-	34,778
Federal Home Loan Bank ⁽¹⁾	Aaa/AA+	13,968,000	-	-	13,968,000
Local agency investment fund	Not rated	-	90,077,252	-	90,077,252
		<u>\$14,002,778</u>	<u>90,077,252</u>	<u>-</u>	<u>104,080,030</u>

As of June 30, 2015

<u>Type of investments:</u>	<u>Credit Rating</u>	<u>Maturities</u>			<u>Carrying Value</u>
		<u>Under 30 Days</u>	<u>31-180 Days</u>	<u>181-365 Days</u>	
Investments held by the Fiscal Agent					
Federated treasury obligations fund	Aaa-mf /AAAm	\$ 111,124	-	-	111,124
Federal Home Loan Bank ⁽¹⁾	Aaa/AA+	13,975,280	-	-	13,975,280
Local agency investment fund	Not rated	-	-	89,950,337	89,950,337
		<u>\$14,086,404</u>	<u>-</u>	<u>89,950,337</u>	<u>104,036,741</u>

(1) Investments with these issuers represent more than 5% of the Airport's investments held by the Fiscal Agent.

Fair Value Measurement Categorization. The Airport categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

The Airport has the following recurring fair value measurements as of June 30, 2016 and June 30, 2015:

Investments by Fair Value Level	Carrying Value at June 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments with fiscal agents:				
Investments by fair value level:				
Federated treasury obligations fund	\$ 34,778	34,778	-	-
Federal Home Loan Bank	13,968,000	-	13,968,000	-
Total investments by fair value level	<u>14,002,778</u>	<u>34,778</u>	<u>13,968,000</u>	<u>-</u>
Investments by NAV				
California local agency investment fund	90,077,252	-	-	-
Total investments by NAV	<u>90,077,252</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments with fiscal agents	<u>\$ 104,080,030</u>	<u>34,778</u>	<u>13,968,000</u>	<u>-</u>

Investments by Fair Value Level	Carrying Value at June 30, 2015	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments with fiscal agents:				
Investments by fair value level:				
Federated treasury obligations fund	\$ 111,124	111,124	-	-
Federal Home Loan Bank	13,975,280	-	13,975,280	-
Total investments by fair value level	<u>14,086,404</u>	<u>111,124</u>	<u>13,975,280</u>	<u>-</u>
Investments by NAV				
California local agency investment fund	89,950,337	-	-	-
Total investments by NAV	<u>89,950,337</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments with fiscal agents	<u>\$ 104,036,741</u>	<u>111,124</u>	<u>13,975,280</u>	<u>-</u>

Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Government agency securities classified in Level 2 of the fair value hierarchy are valued using Interactive Data (IDC) institutional bond pricing techniques.

LAIF Withdrawal Policy – LAIF operating account allows a maximum of 15 transactions per account in a calendar month. The transaction amount shall be no less than \$5,000 and in increments of a thousand dollars. LAIF allocates interest earnings once every quarter. The interest earnings can be

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

withdrawn in exact amount at any time. LAIF bond accounts have no restrictions on the amounts allowed on deposit, but are limited to one withdrawal per month.

(3) Capital Assets

Capital asset activities for the fiscal years ended June 30, 2016 and 2015, were as follows:

	Balance at July 1, 2015	Additions	Retirements	Transfers	Balance at June 30, 2016
Capital assets not depreciated:					
Land	\$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	2,281,245	9,843,390	-	(4,504,259)	7,620,376
Total capital assets, not depreciated	90,944,057	9,843,390	-	(4,504,259)	96,283,188
Capital assets, depreciated:					
Buildings	1,137,993,921	204,703	-	1,157,280	1,139,355,904
Other improvements	595,629,574	275,136	-	3,251,182	599,155,892
Equipment	47,790,253	749,027	(680,636)	95,797	47,954,441
Total capital assets, depreciated	1,781,413,748	1,228,866	(680,636)	4,504,259	1,786,466,237
Less accumulated depreciation:					
Buildings	251,787,590	29,461,985	-	-	281,249,575
Other improvements	236,230,536	17,898,593	-	-	254,129,129
Equipment	30,877,073	4,503,064	(680,636)	-	34,699,501
Total accumulated depreciation	518,895,199	51,863,642	(680,636)	-	570,078,205
Total capital assets, depreciated, net	1,262,518,549	(50,634,776)	-	4,504,259	1,216,388,032
Total capital assets, net	\$1,353,462,606	(40,791,386)	-	-	1,312,671,220
	Balance at July 1, 2014	Additions	Retirements	Transfers	Balance at June 30, 2015
Capital assets not depreciated:					
Land	\$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	8,478,962	3,612,053	-	(9,809,770)	2,281,245
Total capital assets, not depreciated	97,141,774	3,612,053	-	(9,809,770)	90,944,057
Capital assets, depreciated:					
Buildings	1,133,183,206	12,705	-	4,798,010	1,137,993,921
Other improvements	592,689,522	-	(650,599)	3,590,651	595,629,574
Equipment	45,359,008	1,158,324	(148,188)	1,421,109	47,790,253
Total capital assets, depreciated	1,771,231,736	1,171,029	(798,787)	9,809,770	1,781,413,748
Less accumulated depreciation:					
Buildings	222,066,900	29,720,690	-	-	251,787,590
Other improvements	218,755,610	18,125,525	(650,599)	-	236,230,536
Equipment	25,311,914	5,713,347	(148,188)	-	30,877,073
Total accumulated depreciation	466,134,424	53,559,562	(798,787)	-	518,895,199
Total capital assets, depreciated, net	1,305,097,312	(52,388,533)	-	9,809,770	1,262,518,549
Total capital assets, net	\$1,402,239,086	(48,776,480)	-	-	1,353,462,606

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

The Airport's depreciation expense on capital assets was \$51,863,642 and \$53,559,562 for fiscal years ended June 30, 2016 and 2015, respectively.

(4) Commercial Paper Notes Payable

In November 1999, the City authorized the issuance from time to time of Subordinated CP Notes that are secured by a lien on Surplus Revenues (which are General Airport Revenues remaining after the payment of maintenance and operation costs of the Airport and the payment of debt service on the Airport Revenue Bonds (Bonds) and the funding of any reserve funds established for the Bonds). In 2008, the City authorized the Subordinated CP Notes to be issued in an aggregate principal amount of up to \$600 million outstanding at any one time. The Subordinated CP Notes may be issued at prevailing interest rates for periods of maturity not to exceed 270 days.

In February 2014, the City entered into a letter of credit and reimbursement agreement (the Reimbursement Agreement) with Barclays. Pursuant to the Reimbursement Agreement, Barclays issued a \$65 million LOC supporting the Subordinated CP Notes, effective on February 11, 2014. On September 16, 2015, the City reduced the stated amount from \$65 million to approximately \$41 million. The LOC provided by Barclays is stated to expire on February 10, 2017, unless such LOC is extended or terminated earlier pursuant to its terms.

The terms of the Barclays LOC are specified in the Reimbursement Agreement. In general, Barclays agrees to advance funds to the issuing and paying agent for the Subordinated CP Notes to pay the principal and interest on maturing Subordinated CP Notes in an amount not to exceed the stated amount of the LOC. In the event that the commercial paper dealer is unable to find investors to purchase Subordinated CP Notes to repay the advance from Barclays, the City is obligated to pay interest to Barclays based on a formula specified in the Reimbursement Agreement and repay principal in accordance with the schedule and the terms also specified in the Reimbursement Agreement.

An event of default under the Reimbursement Agreement would entitle Barclays to demand that no additional Subordinated CP Notes be issued, that the City reimburse Barclays immediately for draws under the LOC and that all other amounts owed by the City to Barclays be accelerated and become due immediately. Events of default under the Reimbursement Agreement include, among others: a default under the Master Trust Agreement or the issuing and paying agent agreement for the Subordinated CP Notes; non-payment; a breach of a covenant; bankruptcy; and ratings events including a suspension or withdrawal of the long-term, unenhanced debt rating assigned to the Bonds (other than where the Bonds shall continue to be rated by any two of Moody's, Fitch, or S&P), or downgrades by any of Moody's, Fitch or S&P of its ratings on the Bonds below "Baa2," "BBB" and "BBB," respectively for a period of 120 consecutive calendar days. All amounts payable by the City to Barclays under the Reimbursement Agreement are secured by a lien on the Surplus Revenues held in the Subordinated Debt Account of the Surplus Revenue Fund, including the earnings on such Surplus Revenues, which lien is subordinate to the lien of the Bonds.

In connection with the LOC issued by Barclays, the City entered into a separate fee letter to specify the facility fee rate and other charges payable by the Airport. The facility fee rate under the fee letter was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

the stated amount of the LOC. The facility fee rate is subject to increase in the event that the underlying credit rating of the Airport Revenue Bonds is withdrawn, suspended, or downgraded or upon an event of default under the Reimbursement Agreement. The facility fee rate in effect is 0.425% as of June 30, 2016 and 2015.

Commercial paper activities for the fiscal years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Beginning balance	\$ 37,912,000	41,159,000
Paid	(3,240,000)	(3,247,000)
Ending balance	\$ 34,672,000	37,912,000

Balances of Subordinated CP Notes payable as of June 30, 2016 and 2015 were as follows:

As of June 30, 2016

Series A-2 commercial paper notes maturing on September 15, 2016 were issued with an interest rate of 0.52%	\$ 11,992,000
Series B commercial paper notes maturing on September 15, 2016 were issued with an interest rate of 0.54%	13,045,000
Series C commercial paper notes maturing on July 5, 2016 were issued with an interest rate of 0.54%	9,635,000
Total commercial paper notes payable	\$ 34,672,000

As of June 30, 2015

Series A-2 commercial paper notes maturing on September 18, 2015 were issued with an interest rate of 0.13%	\$ 11,992,000
Series B commercial paper notes maturing on September 18, 2015 were issued with an interest rate of 0.14%	13,045,000
Series C commercial paper notes maturing on July 2, 2015 were issued with an interest rate of 0.32%	12,875,000
Total commercial paper notes payable	\$ 37,912,000

Although the Subordinated CP Notes have short-term maturities, the Airport's intent is to pay the remaining balance on a long-term basis based on the assumption that the outstanding Subordinated CP Notes will be paid on a 30-year amortization period with the first principal payments paid in fiscal year 2011.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

(5) Long-Term Obligations

Airport Revenue Bonds are issued primarily to finance the construction of capital improvements at the 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 fiscal year ended June 30, 2016 totaled \$151,237,842, which is composed of \$72,690,568 of net general airport revenues and \$78,547,274 of other available funds. Other available funds include surplus carryover of \$29,243,041, rolling debt service coverage of \$18,333,780, CFC revenues of \$19,887,878, and unspent Series 2007B bond proceeds of \$11,082,575. The bond debt service paid from the general airport revenues and other available funds amounted to \$70,623,116, which is net of \$24,828,669 of bond debt service paid from the accumulated PFC funds.

In prior years' Notes to the Financial Statements, the Airport reported net revenues available to pay debt service in fiscal year ended June 30, 2015 of \$143,562,995, which was composed of \$60,377,533 of net general airport revenues and \$83,185,462 of other available funds. The net revenues available to pay debt service and net general airport revenues included \$2,393,845 of decreases in net pension liability and deferred outflows/inflows of resources related to pensions pertaining to entries required by GASB 68. The restatement of net revenues available to pay debt service for fiscal year ended June 30, 2015 is as follows: The net revenues available to pay debt service in fiscal year ended June 30, 2015 totaled \$141,169,148, which is composed of \$57,983,686 of net general airport revenues and \$83,185,462 of other available funds. Other available funds include surplus carryover of \$35,521,794, rolling debt service coverage of \$17,891,765, CFC revenues of \$18,689,878, and unspent Series 2007B bond proceeds of \$11,082,025. The bond debt service paid from the general airport revenues and other available funds amounted to \$70,880,317, which is net of \$25,202,373 of bond debt service paid from the accumulated PFC funds.

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. Under the Master Trust Agreement, annual debt service excludes Available PFC Revenues for such fiscal year. Total principal and interest remaining on the bonds is \$2.5 billion, with the final payment due on March 1, 2047.

As of June 30, 2016, the reserve requirement in the general account of the bond reserve fund is satisfied, in part, by approximately \$4.3 million surety bond from Ambac Indemnity Corporation [currently known as Ambac Assurance Corporation, the principal operating subsidiary of Ambac Financial Group Inc., (Ambac)].

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

As of June 30, 2015, the reserve requirement in the general account of the bond reserve fund is satisfied, in part, by approximately (a) \$4.3 million surety bond from Ambac Indemnity Corporation, and (b) approximately \$6.6 million surety bond from National Public Finance Guaranty Corporation (NPF), as successor to MBIA Insurance Corporation.

The ratings of Ambac and NPF were reduced or withdrawn subsequent to the deposit of the respective surety bonds to the general account. 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 deposit.

The NPF surety bond expired on March 1, 2016. The Ambac surety bond expires on March 1, 2018. In connection with the issuance of the Airport Revenue Bonds Series 2014A, 2014B, and 2014C in October 2014, the City deposited additional cash in the amount of \$6.6 million into the general account held with the trustee to account for the expiration of the NPF surety bond in March 2016. If no additional bonds are issued and no additional amount is deposited in the general account prior to March 1, 2018, the City would have to make a deposit to the general account from the accumulated Airport surplus funds or provide new qualified reserve facility to replace the amount of the expiring Ambac surety bond. The City will also be obligated to replenish the general account prior to the expiration date of the Ambac surety bond in the event of non-payment or cancellation of the Ambac surety bond including upon the liquidation of Ambac.

Qualified reserve facility means (i) a surety bond or similar instrument issued by a municipal bond insurer, for which obligations insured 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 LOC 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.

On May 1, 2013, Ambac emerged from bankruptcy protection which had been filed under Chapter 11 of the Bankruptcy Code. Starting in March 2010, certain of the policy liabilities of Ambac were allocated to a segregated account, which has been subject to a plan of rehabilitation. Policy obligations not allocated to such segregated account, including obligations in respect of the surety bond provided by Ambac on deposit in the general account of the bond reserve fund, are not subject to, and therefore will not be directly impacted by, such rehabilitation proceeding. No assurance can be made regarding the claims paying ability of Ambac on the surety bond described above.

On October 7, 2014, the City issued Airport Revenue Bonds Series 2014A, 2014B and 2014C in the amount of \$57,350,000, \$28,010,000, and \$40,285,000, respectively. The City issued Airport Revenue Bonds Series 2014A, 2014B, and 2014C to refund Airport Revenue Bonds Series 2004C, 2004D, and 2001A, respectively. This refunding resulted in an accounting loss on the refunding of the prior debt issues in the amount of \$2,837,899, which is reported as an increase in the deferred outflows of resources balance.

The Series 2014A Bonds proceeds and a portion of the 2004 Reserve, approximately \$8.9 million, were used (i) to refund all of the outstanding Airport Revenue Bonds Series 2004C, (ii) to make a cash deposit to the general account of the bond reserve fund, (iii) to pay a portion of the costs of issuing Series 2014A Bonds. The bonds were issued with the true interest cost of 2.7%, no changes

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)**

**Notes to the Financial Statements
June 30, 2016 and 2015**

to the final maturity of the bonds, and provided \$17.7 million in aggregate debt service savings or \$14.1 million on a present value basis.

The Series 2014B Bonds proceeds and a portion of the 2004 Reserve, approximately \$4.3 million, were used (i) to refund all of the outstanding Airport Revenue Bonds Series 2004D, (ii) to make a cash deposit to the general account of the bond reserve fund, (iii) and to pay a portion of the costs of issuing Series 2014B Bonds. The 2014B Bonds were issued with the true interest cost of 3.4%, no changes to the final maturity of the bonds, and provided \$10.4 million in aggregate debt service savings or \$7.1 million on a present value basis.

The Series 2014C Bonds proceeds were used to refund the remaining outstanding Airport Revenue Bonds Series 2001A, and to pay a portion of the costs of issuing Series 2014C Bonds. The 2014C Bonds were issued with the true interest rate cost of 3.7%, no changes to the final maturity of the bonds, and provided \$9.7 million in aggregate debt service savings or \$6.3 million on a present value basis.

Balances of Bonds payable as of June 30, 2016 and 2015 were as follows:

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
2014C Series Airport Revenue Bonds of \$40,285,000 with interest rate of 3.6% to 5.0%; payable in five annual installments ranging from \$7,295,000 to \$8,860,000 with the first installment in March 2027 and the final installment due in March 2031	\$ 40,285,000	40,285,000
2014B Series Airport Revenue Bonds of \$28,010,000 at a rate of 3.1% to 5.0%; payable in three annual installments of \$7,975,000, \$9,665,000 and \$10,370,000 in March 2026, March 2027 and March 2028, respectively	28,010,000	28,010,000
2014A Series Airport Revenue Bonds of \$57,350,000 at rates of 2.0% to 5.0%; payable in annual installments ranging from \$50,000 to \$9,175,000 with the final installment due in March 2026	56,185,000	56,325,000
2012A Series Airport Revenue Bonds of \$49,140,000 at rate of 1.5%; payable in annual installments ranging from \$8,460,000 to \$8,585,000 with the final installment due in March 2018	17,045,000	25,385,000
2011B Series Airport Revenue Bonds of \$271,820,000 at rates of 4.1% to 6.8%; payable in annual installments ranging from \$1,155,000 to \$27,330,000 with the final installment due in March 2041	262,790,000	263,590,000
2011A-2 Series Airport Revenue Bonds of \$86,380,000 at rates of 4.0% to 5.3%; payable in annual installments ranging from \$1,910,000 to \$12,220,000 with the final installment due in March 2034	76,430,000	78,460,000
2011A-1 Series Airport Revenue Bonds of \$150,405,000 at rates of 5.0% to 6.3%; payable in annual installments ranging from \$3,355,000 to \$21,115,000 with the final installment due in March 2034	132,970,000	136,505,000
2007B Series Airport Revenue Bonds of \$179,260,000 at rates 4.4% to 5.0%; payable in annual installments ranging from \$2,545,000 to \$28,800,000 with the final installment due in March 2037	172,235,000	174,675,000
2007A Series Airport Revenue Bonds of \$545,755,000 at rates of 5.0% to 6.0%; payable in annual installments ranging from \$5,690,000 to \$73,500,000 with the final installment due in March 2047	527,530,000	533,905,000
Total bonds payable	<u>\$ 1,313,480,000</u>	<u>\$ 1,337,140,000</u>

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

Bonds outstanding and related activities for the fiscal years ended June 30, 2016 and 2015, were as follows:

	Balance at July 1, 2015	Additions	Retirements	Balance at June 30, 2016	Amounts Due Within One Year
2014C Series	\$ 40,285,000	-	-	40,285,000	-
2014B Series	28,010,000	-	-	28,010,000	-
2014A Series	56,325,000	-	140,000	56,185,000	95,000
2012A Series	25,385,000	-	8,340,000	17,045,000	8,460,000
2011B Series	263,590,000	-	800,000	262,790,000	1,155,000
2011A-2 Series	78,460,000	-	2,030,000	76,430,000	2,090,000
2011A-1 Series	136,505,000	-	3,535,000	132,970,000	3,665,000
2007B Series	174,675,000	-	2,440,000	172,235,000	2,545,000
2007A Series	533,905,000	-	6,375,000	527,530,000	6,690,000
Total long-term debt	1,337,140,000	-	23,660,000	1,313,480,000	24,700,000
Add unamortized:					
Premium	21,826,662	-	87,240	21,739,422	83,060
Less unamortized:					
Discount	9,701,464	-	60,931	9,640,533	71,945
Total long-term debt, net	<u>\$ 1,349,265,198</u>	<u>-</u>	<u>23,686,309</u>	<u>1,325,578,889</u>	<u>24,711,115</u>

	Balance at July 1, 2014	Additions	Retirements	Balance at June 30, 2015	Amounts Due Within One Year
2014C Series	\$ -	40,285,000	-	40,285,000	-
2014B Series	-	28,010,000	-	28,010,000	-
2014A Series	-	57,350,000	1,025,000	56,325,000	140,000
2012A Series	33,605,000	-	8,220,000	25,385,000	8,340,000
2011B Series	264,085,000	-	495,000	263,590,000	800,000
2011A-2 Series	80,390,000	-	1,930,000	78,460,000	2,030,000
2011A-1 Series	139,900,000	-	3,395,000	136,505,000	3,535,000
2007B Series	177,015,000	-	2,340,000	174,675,000	2,440,000
2007A Series	539,975,000	-	6,070,000	533,905,000	6,375,000
2004D Series	34,270,000	-	34,270,000	-	-
2004C Series	69,730,000	-	69,730,000	-	-
2001A Series	45,710,000	-	45,710,000	-	-
Total long-term debt	1,384,680,000	125,645,000	173,185,000	1,337,140,000	23,660,000
Add unamortized:					
Premium	2,863,938	19,191,295	228,571	21,826,662	87,240
Less unamortized:					
Discount	11,506,438	-	1,804,974	9,701,464	60,931
Total long-term debt, net	<u>\$ 1,376,037,500</u>	<u>144,836,295</u>	<u>171,608,597</u>	<u>1,349,265,198</u>	<u>23,686,309</u>

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

Scheduled maturities of outstanding Bonds are as follows:

Fiscal year ending June 30,	Principal	Interest
2017	\$ 24,700,000	71,021,924
2018	25,910,000	70,106,571
2019	24,280,000	69,103,982
2020	25,660,000	67,872,643
2021-2025	156,755,000	317,703,630
2026-2030	219,655,000	271,602,488
2031-2035	429,335,000	193,674,062
2036-2040	322,970,000	67,718,941
2041-2045	65,530,000	14,555,715
2046-2047	18,685,000	1,698,000
Total	<u>\$ 1,313,480,000</u>	<u>1,145,057,956</u>

A number of limitations and restrictions are imposed upon the Airport by covenants relating to certain outstanding Bonds. As of June 30, 2016 and 2015, the Airport believes it is in compliance with all such limitations and restrictions, for which non-compliance would adversely affect its ability to pay debt service.

Other long-term liability activities for the fiscal years ended June 30, 2016 and 2015 were as follows:

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

	Balance at July 1, 2015	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2016	Amounts Due Within One Year
Self-insurance	\$ 2,741,401	521,666	410,398	2,852,669	563,462
Accrued vacation, sick leave and compensatory time	2,430,355	1,146,294	1,191,212	2,385,437	1,538,001
Other postemployment benefits	13,766,573	2,259,794	2,000,200	14,026,167	-
Pollution remediation liability	714,000	-	714,000	-	-
Total	\$ 19,652,329	3,927,754	4,315,810	19,264,273	2,101,463

	Balance at July 1, 2014	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2015	Amounts Due Within One Year
Self-insurance	\$ 2,242,233	903,666	404,498	2,741,401	563,462
Accrued vacation, sick leave and compensatory time	2,455,423	1,251,881	1,276,949	2,430,355	1,613,000
Other postemployment benefits	13,635,779	1,968,802	1,838,008	13,766,573	-
Pollution remediation liability	714,000	-	-	714,000	714,000
Total	\$ 19,047,435	4,124,349	3,519,455	19,652,329	2,890,462

(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, was originally set to expire on June 30, 2012. In August 2011, the City Council authorized the Director of Aviation to extend the term for five years through June 30, 2017, which allows the airlines to continue to conduct operations and occupy leased space through the extended term. The existing rates and charges structure, as well as all other terms and conditions, remained unchanged through the extended term. Negotiations for a new agreement with the airlines are currently underway.

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.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

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 do 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 terminal rate per square foot is calculated based on expenses allocable to the Terminal for each fiscal year divided by the total amount of rentable terminal space. Should there be any net remaining revenues after all other obligations are satisfied, the airlines share of the net remaining revenues shall be applied as a credit to the airline terminal rate for the following fiscal year, thus reducing the rates. The landing fee rate is calculated by dividing the expenses allocable to the airfield, offset by airfield revenues, other than landing fees, by the projected aggregated maximum gross landed weight for all aircraft carrying passengers or cargo in commercial service at the Airport during the fiscal year.

For the fiscal years ended June 30, 2016 and 2015, the Airport’s revenues as defined in its lease agreements exceeded its expenditures and reserve requirements by \$37,114,863 and \$24,348,571, respectively. The surplus for fiscal year ended June 30, 2016 will be distributed in accordance with the revenue sharing provisions of the lease agreement as described in the MD&A and/or used in the budget balancing actions for fiscal year 2018. The surplus for the year ended June 30, 2015 was distributed in accordance with the revenue sharing provisions.

In December 2013, the City entered into a ground lease and operating agreement with Signature, which constructed a full-service, fixed based facility on 29-acres of the Airport’s west side. The term of the agreement is for 50 years from December 12, 2013 to December 11, 2063. Signature paid interim ground rental equal to 50% of the base ground rental until November 2015, when the last certificate of occupancy was received issued. From November 2015, and continuing throughout the term of the agreement, Signature will pay base ground rental of \$2.21 per square foot per year based upon the actual square footage of premises occupied. The base ground rental is subject to a consumer price index increase annually and by appraisal every five years. Rental revenues from the ground lease with Signature were \$2,309,840 and \$1,356,206 for the fiscal years ended June 30, 2016 and 2015, respectively.

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. As of June 30, 2016,

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

the remaining terms of these operating leases range from one month to 22 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 \$85,070,975 and \$75,005,966 for the fiscal years ended June 30, 2016 and 2015, respectively.

The future minimum rentals to be received from the existing operating leases are as follows:

<u>Fiscal year ending June 30,</u>	
2017	\$ 99,300,622
2018	38,749,077
2019	37,795,027
2020	37,174,495
2021	10,437,706
2022-2026	51,190,215
2027-2031	47,842,557
2032-2036	49,126,250
2037-2041	35,717,293
2042-2046	29,111,996
2047-2051	33,224,636
2052-2056	37,918,266
2057-2061	43,274,964
2062-2063	23,911,323
Total minimum lease rentals	<u><u>\$ 574,774,427</u></u>

These future minimum rentals are based upon annual rates and charges currently agreed to by the airlines and other tenants.

As of June 30, 2016 and 2015, leased assets had total historical costs of \$1,026,446,811 and \$1,025,338,387 and accumulated depreciation of \$203,222,439 and \$177,695,737, 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, often in the form of irrevocable letter of credit, surety bond, cashier's check or other form acceptable to the Director of Aviation. The Director of Aviation 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 position. The

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

Airport maintains on file copies of all security deposits, in the form of letter of credit or surety bond, which are not recorded in the financial statements. The amount on file as of June 30, 2016 and 2015 totaled \$48,917,874 and \$43,874,590, respectively.

(7) Employees' Retirement System

(a) General Information about the Pension Plan

All full-time and certain part-time employees of the Airport participate in the City of San José Federated City Employees' Retirement System (Federated Plan), which is a single employer defined benefit retirement system that covers substantially all benefitted City employees, except for certain unrepresented employees and employees who are members of the City's Police and Fire Department Retirement Plan. The benefits provided by the Federated Plan 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. Unrepresented executive management and professional employees who are hired directly into a position in the City's unrepresented executive management unit (Unit 99) and who are first hired on or after January 20, 2013, have a one-time irrevocable election to either participate in a defined contribution plan or become a Tier 2 member in the Federated Plan; to be eligible, an employee must not have previously been a member of a City of San José retirement system.

A stand-alone report is issued for the Federated Plan 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 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.

(b) Benefits Provided

Benefits are based on average final compensation, years of service, and cost-of-living increases as specified by the City's Municipal Code. The contribution and benefit provisions and all other requirements are established by the City Charter and the City's Municipal Code. Amendments or changes to contribution requirement and benefits terms are approved by the City Council.

On June 5, 2012, San José voters adopted Measure B which enacted the *Sustainable Retirement Benefits and Compensation Act* (Measure B). Measure B amended the City Charter to, among other changes, (1) increase pension contribution requirements for current employees effective June 23, 2013; (2) require the City to establish an alternative voluntary plan with reduced benefits for current employees (Voluntary Election Plan or VEP) subject to Internal Revenue Service (IRS) approval; (3) place limitations on disability retirements; (4) authorize the City Council to temporarily suspend the cost of living adjustments if the City Council adopts a resolution declaring a fiscal and service level emergency; (5) require the elimination of the Supplemental Retirement Reserve within the Federated Plan; (6) codify in the City Charter contribution requirements for current employees for the retiree health and dental benefits and provide for a reservation of rights for the City Council to terminate or modify any retiree healthcare plan; (7) require the establishment of Tier 2 plans for new employees within the Federated Plan; and (8) reserve to the voters the right to approve future changes to retirement benefits.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

Significant portions of Measure B are currently subject to legal challenge by individual employees, bargaining units representing current employees, and retirees. Additionally, various bargaining units representing current employees have filed unfair labor practice charges with the California Public Employment Relations Board related to Measure B and other lawsuits related to Measure B and changes made to retiree healthcare benefits are pending. The status of the legal challenges to Measure B and the settlement of these challenges is discussed in Section IV.B.8 of the Notes to the Basic Financial Statements in the City's June 30, 2016 CAFR.

The Federated Plan has different tiers of benefits: Tier 1, Tier 2A, Tier 2B, and Tier 2C. Tier 1 members are those who entered the Federated Plan prior to September 30, 2012. Tier 2A became effective for employees hired or rehired on or after September 30, 2012, but before September 27, 2013. The Tier 2 plan (including Tiers 2A, 2B and 2C) includes significant pension benefit changes from the existing Tier 1 plan, including a change in the cost sharing between the City and active Tier 2 members to a 50/50 split of all costs. Currently, Tier 1 members split normal costs with 8/11 paid by the City and 3/11 paid by Tier 1 members. The responsibility for funding the unfunded liability is generally not shared by Tier 1 employees. The members in Tiers 2A, 2B and 2C receive the same pension benefits.

Tier 2B became effective for employees hired or rehired on or after September 27, 2013. Employees in Tier 2B are excluded from retiree medical and dental benefits. The ordinance of the City Council establishing Tier 2B specifies that the City shall bear and pay an amount equal to the additional costs incurred by the Federated Plan for that portion of the unfunded liability as determined by the actuary of the Federated Plan that the City and Tier 2B members would have otherwise paid as contributions had those employees been eligible for retiree healthcare defined benefits.

Tier 2C members are City employees who were Tier 1 members that separated from City employment and who later were rehired as Tier 2A or Tier 2B employees, but during the period that these employees were Tier 1 employees, they vested in the dental benefit provided under Tier 1.

The payroll for Airport employees covered by the Federated Plan for the fiscal years ended June 30, 2016 and 2015 was \$13,162,801 and \$12,902,842, respectively. The Airport's total payroll for the fiscal years ended June 30, 2016 and 2015 was \$15,888,880 and \$15,141,158, respectively.

The Federated Plan's pension benefits in effect at June 30, 2016, are summarized in the table below. For a more detailed information regarding the Federated Plan's benefits, please contact the City of San José Office of Retirement Services.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

	<u>Federated Tier 1</u>	<u>Federated Tier 2</u>	<u>Federated Tier 2B</u>	<u>Federated Tier 2C</u>
Pension				
Hire Date	Prior to September 30, 2012	Hired, rehired or reinstated between September 30, 2012 and September 27, 2013	Hired, rehired or reinstated after September 27, 2013*	Hired, rehired, or reinstated after September 27, 2013**
Minimum Service to Leave Contributions in System	5 years	5 years Federated City Service		
Age/Years of Service	55 with 5 years service. 30 years service at any age.	65 years with 5 years Federated Service. May retire on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction.		
Deferred Vested	55 with 5 years service (this applies to members who separate from City service before retirement and leave their contributions in the retirement system.)	May commence on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction.		
Benefit Formula	<ul style="list-style-type: none"> • 2.5% x Years of Service x Final Compensation (75% max) • Final Compensation is the average monthly (or biweekly) base pay for the highest year of Federated City Service (year of service = 1739 hours worked) 	<ul style="list-style-type: none"> • 2.0% x Years of Federated Service x Final Compensation (65% max) • Final Compensation is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service (year of service = 2080 hours worked) • Excludes premium pay or any other forms of additional compensation 		
Cost of Living Adjustments	3% per year	CPI up to 1.5% per year		
Final Compensation	Highest one-year average	Highest three-year average		

*Members who have not met the City's eligibility for either retiree healthcare or dental benefits prior to September 27, 2013, will not be eligible for retiree healthcare or dental benefits. Spouses, domestic partners and dependents will also be ineligible for retiree healthcare and dental benefits.

**Members who have not meet the City's eligibility for retiree healthcare prior to September 27, 2013, will not be eligible for retiree health care benefits. Spouses, domestic partners, and dependents will also be ineligible for retiree health care benefits. Employees who have met the eligibility requirement for retiree dental benefits will receive the retiree dental benefits.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

(c) Contributions

Under GASB Statement No. 68, the City's and the participating employees' contributions to the Defined Benefit Pension Plans are based upon an actuarially determined percentage of each employee's pensionable and earnable salary to arrive at an actuarially determined contribution (ADC) sufficient to provide adequate assets to pay benefits when due.

Contribution rates for the Airport and the participating employees for the periods July 1, 2014 through June 20, 2015, June 21, 2015 through June 18, 2016, and June 19, 2016 through June 30, 2016 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2013, June 30, 2014, and June 30, 2015, respectively, for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan.

Pay Period	Airport's Contribution ⁽¹⁾		Employees' Contribution	
	Defined Benefit Pension	Postemployment Healthcare Plan	Defined Benefit Pension	Postemployment Healthcare Plan
July 1, 2014 through June 20, 2015				
Tier 1	60.25%	9.41%	5.64%	8.76%
Tier 2	5.53%	9.41%	5.53%	8.76%
Tier 2B	5.53%	12.66%	5.53%	0.00%
Tier 2C	5.53%	12.86%	5.33%	0.39%
June 21, 2015 through June 18, 2016				
Tier 1	66.16%	9.41%	6.33%	8.76%
Tier 2	5.70%	9.41%	5.70%	8.76%
Tier 2B	5.70%	12.66%	5.70%	0.00%
Tier 2C	5.70%	12.86%	5.70%	0.39%
June 19, 2016 through June 30, 2016				
Tier 1	78.06%	9.41%	6.47%	8.76%
Tier 2	6.04%	9.41%	6.04%	8.76%
Tier 2B	6.04%	12.66%	6.04%	0.00%
Tier 2C	6.04%	12.86%	6.04%	0.39%

(1) For Tier 1 members, the actual contribution rates paid by the City for fiscal year ended June 30, 2016 differed due to the City funding the ADC amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

For the year ended June 30, 2016, the contributions paid during the measurement period (contributions made during the fiscal year ended June 30, 2015) were as follows (dollars in thousands):

	Annual Pension Contribution	
	Airport	Participants
Defined Benefit Pension Plan	\$ 7,103	993

In fiscal year ended June 30, 2011, the Federated Plan’s Board approved the establishment of a “floor funding method” for payment of ADC for pension benefits to address unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The “floor funding method” interprets the ADC as the greater of the annual dollar contribution amount established in the valuation, or the ADC that would result from applying the employer contribution rate determined from that same valuation to the actual emerging payroll of Federated Plan members throughout the fiscal year.

The resolutions adopted by the Federated Plan’s Board setting the contribution rates for the fiscal year ended June 30, 2016 provide that the employer's contribution rates may be adjusted in order to achieve a minimum dollar contribution for that fiscal year for Tier 1 members. In September 2014, the Federated Plan’s Board approved the City’s request to exclude Tier 2 from the floor methodology, so the ADC for Tier 2 employees is the rate determined by the Federated Plan’s actuary multiplied by the actual payroll of Tier 2 employees.

In January 2016, the Federated Plan’s Board approved a revised funding methodology to calculate the payment of ADC for Tier 1 pension benefits. The revised funding methodology calculates the unfunded actuarial liability portion of the ADC as a dollar amount as recommended by the actuary in the annual valuation report and approved by the Federated Board, and calculates the Normal Cost (including administrative expense) portion of the ADC as the greater of (1) the dollar amount for Normal Cost as recommended by the actuary in the annual valuation report and approved by the Federated Board or (2) the employer Normal Cost contribution rate in the annual actuarial valuation report multiplied by the actual pensionable payroll in the applicable fiscal year. The revised funding methodology, referred to as a “split funding method” applies to the ADC for the payroll periods in fiscal year 2016-2017, commencing on June 19, 2016.

(d) Net Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the Airport reported \$81,312,808 of net pension liability for its proportionate share of the City’s net pension liability. The net pension liability of the Federated Plan was measured as of June 30, 2015, and the total pension liability (TPL) for the Federated Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and rolled forward to June 30, 2015 using standard update procedures. The Airport’s portion of the net pension liability was based on the Airport’s share of its contributions to the Federated Plan relative to the actual contributions. The Airport’s proportionate share of the Federated Plan’s net pension liability was 3.6% as of June 30, 2015, the measurement date.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

For the year ended June 30, 2016, the Airport recognized pension expenses of \$8,060,987. As of June 30, 2016, \$15,145,489 was reported as deferred outflows of resources, which includes \$7,373,508 related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017, and \$7,771,981 related to the net differences between projected and actual earnings on the Federated Plan's investments as of June 30, 2016.

The amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense as follows (dollars in thousands):

	Deferred Outflows of Resources
2017	\$ 9,038
2018	1,665
2019	1,665
2020	2,777
	<u>\$ 15,145</u>

(e) Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used to compute TPL as of June 30, 2016 and June 30, 2015 are from the actuarial valuation reports with valuation dates of June 30, 2014 and June 30, 2013, respectively:

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

Description	Method/Assumption (TPL as of June 30, 2016)	Method/Assumption (TPL as of June 30, 2015)
Measurement Date	June 30, 2015	June 30, 2014
Valuation Date	June 30, 2014	June 30, 2013
Actuarial Cost Method	Entry age normal cost method	Entry age normal cost method
Actuarial assumptions:		
Inflation rate	2.50%	2.00% for five years and 2.85% thereafter
Discount rate	7.00% per annum	7.25% per annum
Post retirement mortality	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the California Public Employees' Retirement System (CalPERS) ordinary disability table from their 2000-2004 study for miscellaneous employees.	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees.
Rates of service retirement, withdrawal, death, disability retirements	Tables based on current experience.	Tables based on experience study performed in 2011.
Salary increases	The base wage inflation assumption of 2.85% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.	The base annual rate of salary increase is the wage inflation rate plus a rate increase for merit / longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service. The wage inflation rate is assumed to be 2.00% for the next five years and 2.85% thereafter.
Merit increase	For the amortization schedule, payroll is assumed to grow 2.85% per year.	2.0% for five years and 2.85% thereafter. For the amortization schedule, payroll is assumed to grow 2.45% per year.
Cost of Living Adjustment	Tier 1 - 3% per year; Tier 2 - 1.5% per year	Tier 1 - 3% per year; Tier 2 - 1.5% per year

Long-term Expected Rate of Return on Plan Investments - The assumption for the long-term expected rate of return on investments of 7.00% was selected by estimating the median nominal rate of return based on long-term capital market assumptions provided by the investment consultants, including nominal expected rates of return for each of the asset classes, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the returns. Best estimates of arithmetic real rates of return for each major asset class included in the Federated Plan's target asset allocation as of June 30, 2015, are summarized in the following table:

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	28%	7.8%
Private Equity	9%	9.6%
Global Fixed Income	19%	3.0%
Private Debt	5%	7.0%
Real Assets	23%	6.7%
Absolute Return Strategies	11%	6.5%
Global Tactical Asset Allocation	5%	5.1%
Cash	0%	2.2%
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. It is assumed that members' contributions and Airport's contributions will be made based on the actuarially determined rates based on the Federated Plan Board's funding policies. Based on those assumptions, the Federated Plan's net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liabilities.

The June 30, 2014 valuations included changes in the expected rate of return from 7.25% to 7.00%; and changes in the general inflation rate from 2.00% for the next five years and 2.85% thereafter to 2.50% and also to the payroll wage inflation assumption from 2.00% for the next five years and 2.85% thereafter to 2.85% for all years of service.

Sensitivity of the Net Pension Liability to Changes in Discount Rates - The following presents the Airport's proportionate share of the net pension liability, as well as what the Airport's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 - percentage point lower or 1 - percentage point higher than the measurement date discount rate (dollars in thousands):

Sensitivity Analysis	Measurement Date		
	1% Decrease	Discount Rate	1% Increase
Net pension liability	\$ 116,672 (6.00%)	81,313 (7.00%)	52,222 (8.00%)

The allocation was based on 3.6% of the Airport's proportion of the Federated Plan's assets and liabilities at measurement date, June 30, 2015.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

As of June 30, 2015, the actuarial valuation date, the Federated Board is utilizing a discount rate of 7.00%. For more details on the current discount rate, please refer to the stand-alone report issued by the Federated Plan.

Pension Plan Fiduciary Net Position - Detailed information about the Federated Plan's fiduciary net position is available in a separately issued Federated Plan financial report.

(f) Payable to the Pension Plan

At June 30, 2016, the Airport had no outstanding contribution payable to the pension plan. Please see, however, Section IV.B.9 of the Notes to the Basic Financial Statements in the City's June 30, 2016 CAFR related to the dispute between the Federated Plan and the City regarding the overpayment of pension benefits. The Airport believes that its proportional share of the amount in dispute is immaterial.

(g) Other Postemployment Benefits

During the fiscal year ended June 30, 2016, the Federated Plan's GASB Statement No. 43-compliant OPEB valuation study as of June 30, 2014, was prepared by Cheiron, Inc., the Federated Plan's actuary. In 2009, the City entered into agreements (Retiree Healthcare Agreements) with the bargaining units representing the Federated Plan members to increase the contribution rates for retiree health and dental benefits in order to phase-in to full funding of the GASB Statement No. 43 annual required contribution (ARC) over a five period ending in fiscal year 2013. The Retiree Healthcare 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 or City contributions. At the end of the phase-in, the City and active members were to pay the ARC for retiree healthcare benefits. Under the Retiree Healthcare agreements, the ratio of contribution remained unchanged with the contribution for retiree medical benefits split evenly between the City and the employee and retiree dental benefits split in the ratio of 8 to 3 with the City contributing 8/11 of the total contribution.

The fiscal year ended June 30, 2013 was supposed to mark the end of the 0.75% cap and per the Retiree Healthcare Agreements, the employees and the City were required to contribute at the GASB Statement No. 43 ARC for fiscal year ended June 30, 2014. However, the City and the bargaining groups negotiated an extension of the 0.75% cap on increases to medical contributions for 18 months. In October 2014, the City Council approved to extend the cap for an additional six months to June 20, 2015, the last pay period for fiscal year 2014-2015. At the end of fiscal year 2014-2015, the bargaining units and the City jointly agreed to keep the contribution rates the same as fiscal year 2014-2015 until December 20, 2015, at which point the parties would begin to pay the full ARC. However, in December 2015, the Federated Board approved to extend the fiscal year 2014-2015 healthcare rates until the implementation of the settlement of the Measure B litigation, referred to as the "Alternative Pension Reform Framework Settlement Agreement." The Alternative Pension Reform Framework Settlement Agreement provided that, if it had not been implemented by June 19, 2016, that the City may decide that the City and employees would begin to contribute the full ARC on June 19, 2016. As discussed more fully Section IV.B.8 of the Notes to the Basic Financial Statements in the City's June 30, 2016 CAFR, the Alternative Pension Settlement Framework was not implemented on or before June 19, 2016. The City decided that it would not implement the full

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

ARC on June 19, 2016. The Federated Board approved the extension of the phase-in rates in March 2016.

The “floor methodology” described above in Note 7(c) applies to the calculation of the ARC for OPEB for Tier 1, but not Tier 2A, Tier 2B, and Tier 2C employees, for fiscal year 2015-2016.

The June 30, 2014 valuation establishes, for the fiscal year ended June 30, 2016, the City’s ARC rate as a percentage of pay on a GASB valuation basis to be 15.19% compared to 9.41% on a phase-in funded basis for Tier 1 and Tier 2A members and 12.66% for Tier 2B members, and 12.86% for Tier 2C members.

The following is the three-year trend information for the Airport’s annual OPEB cost (AOC), and contributions made:

<u>Fiscal Year</u>	<u>Postemployment Healthcare Plan</u>				
	<u>ARC</u>	<u>AOC</u>	<u>Contributions</u>	<u>% of Contributions</u>	<u>Unfunded Liability</u>
6/30/2014	\$ 3,220,885	3,037,439	1,478,129	49%	13,635,779
6/30/2015	2,107,026	1,968,802	1,838,008	93%	13,766,573
6/30/2016	2,446,660	2,259,794	2,000,200	89%	14,026,167

The City has determined a Citywide OPEB cost based upon an actuarial valuation performed in accordance with GASB Statement No. 45 by the Federated Plan’s actuary. The City allocated to the Airport its proportionate share of the Citywide OPEB cost for Federated Plan employee members. The difference between the cumulative OPEB cost allocated and the costs contributed by the Airport was \$14,026,167 and \$13,766,573 at June 30, 2016 and 2015, respectively, which is recorded as the Airport’s net OPEB obligation. The Airport has earmarked funds from the unrestricted net position to pay the full amount of the net OPEB obligation.

The City issues a publicly available CAFR that includes the complete note disclosures and required supplementary information related to the City’s pension and 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.

(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, 2016 and 2015, were \$3,522,959 and \$2,857,133, respectively. The City also charged the Airport fees of \$11,507,946 and \$9,221,534 for the fiscal years ended June 30, 2016 and 2015, respectively, for airport rescue and firefighting 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 \$1,277,412 and \$1,201,775 for the fiscal years ended June 30, 2016 and 2015, respectively, are included in operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

(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 and flood coverage. The City does not carry earthquake insurance as it is not available at reasonable rates. A summary of these coverages is provided below for the policy period of October 1, 2015 to October 1, 2016.

<u>Coverage</u>	<u>Limit per Occurrence</u>	<u>Deductible per Occurrence</u>
Property, including Business Interruption	\$1 billion	\$100,000
Flood Zone, Special Flood Hazard Area - as defined by the Federal Emergency Management Agency (FEMA)	\$25 million per occurrence and annual aggregate	5% of values at risk (\$1 million minimum deductible)
Flood, Other Locations	\$100 million per occurrence and annual aggregate	\$100,000

The City has airport liability policies covering the Airport for the policy periods of October 1, 2015 to October 1, 2016 and October 1, 2014 to October 1, 2015 including operation of vehicles on premises, which provide a \$200 million combined single limit for bodily injury and property damage subject to a deductible of \$0 each occurrence and annual aggregate, 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 liability. During the past three years, there have not been any instances that the amount of claim settlements exceeded the insurance coverage.

A separate automobile liability policy provides coverage for the off-premises operation of Airport vehicles including shuttle bus fleets with a limit of \$1 million per occurrence, combined single limit for bodily injury and property damage, and no deductible. Physical damage coverage is obtained for the Airport Shuttle Bus Fleet and is subject to a \$10,000 comprehensive and \$25,000 collision deductible. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

For the policy period of December 18, 2015 to December 18, 2016 and December 18, 2014 to December 18, 2015, the City purchased government fidelity/crime coverage for City losses arising from employee bad acts. Coverage is for financial or property losses and provides a \$5,000,000 per occurrence limit for losses resulting from employee theft, forgery or alteration and inside the premises – theft of money and securities, and provides for a \$1,000,000 per occurrence limit for computer fraud, funds transfer fraud, money orders, and counterfeit money. All claims have a \$100,000 deductible per occurrence.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

As part of general support services, the City charges the Airport for the cost of general liability, automobile liability, and property insurance coverage including the Airport's pro rata share of broker fees and taxes. The charges are expensed in the year incurred.

(b) Workers' Compensation

The Airport participates in the City's self-insurance program for workers' compensation. Workers' 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:

	2016	2015
Accrued liability, beginning of fiscal year	\$ 2,741,401	2,242,233
Claims payments and adjustments	(410,397)	(404,498)
Provision for current year claims and changes in prior year estimates	521,665	903,666
Accrued liability, end of fiscal year	\$ 2,852,669	2,741,401

(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.

<u>Coverage</u>	<u>Limits</u>	<u>Deductible Per Occurrence</u>
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 OCIP required the City to fund a 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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

and was recorded as advances and deposits in the accompanying statement of net position. 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.

The North Concourse Project was completed in the fall of 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 closing out process for OCIP includes an actuarial review, which examines outstanding claims. 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. Since March 2010, Chartis has returned \$2,599,500 to the Airport. Chartis will continue to hold the remaining funds in the claims 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.

Activities relating to the North Concourse OCIP claims reserve fund for the fiscal years ended June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 919,173	929,517
Interest earned	555	7,368
Reserve returned	(68,313)	(14,468)
Losses paid	-	(3,244)
Ending balance	\$ 851,415	919,173

On March 15, 2007, the City bought additional insurance coverages through Chartis for major components of the TAIP through another OCIP (the TAIP OCIP). The coverages for this program are as follows:

<u>Coverage</u>	<u>Limits</u>	<u>Deductible Per Occurrence</u>
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. 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. The full amount of \$6.5 million was deposited with Chartis in fiscal

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

year 2009 and was recorded as advances and deposits in the accompanying statement of net position. Since August 2013, as part of the annual loss reserve analysis by Chartis, a total amount of \$1,628,545 has been returned to the Airport.

Activities relating to the TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 2,253,446	2,516,817
Interest earned	2,331	1,040
Reserve returned	(49,719)	(180,988)
Losses paid	<u>(89,798)</u>	<u>(83,423)</u>
Ending balance	<u>\$ 2,116,260</u>	<u>2,253,446</u>

The City was obligated to maintain the TAIP OCIP through final acceptance of the TAIP, pursuant to the terms of its design-build contract with Hensel Phelps (HP). The term of the TAIP OCIP expired on June 30, 2011. All work covered under the contract with HP has been completed and accepted. Chartis will continue to hold the remaining funds in the claims 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.

(10) Commitments and Contingencies

(a) Lease Commitments

In September 2009, the Airport entered into a restated operating lease and maintenance agreement for ten CNG powered buses. The term of the agreement is from December 2007 to May 2017. Rental and maintenance expenses were \$1,322,482 and \$1,295,044 for fiscal years ended June 30, 2016 and 2015, respectively.

The future minimum lease and maintenance payments required under the existing agreement for the ten CNG powered buses are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	<u>\$ 879,237</u>
Total minimum lease payments	<u>\$ 879,237</u>

(b) Purchase Commitments and Capital Outlay Projections

As of June 30, 2016, the Airport was obligated for purchase commitments of approximately \$21 million primarily for terminal area development, airfield geometric study, pavement maintenance, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber approximately \$92 million on capital projects during the next five fiscal years. It is

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

anticipated that funding for such capital projects will be provided primarily by proceeds from federal grants, bond proceeds, and other Airport revenues.

(c) Fuel Tank Farms

As of June 30, 2016, the remediation work for the closed City Jet Fuel Tank Farms was completed. In May 2016, the Airport made the final payment to Chevron U.S.A., Inc. (Chevron) in an amount of \$136,172, bringing the total payments to \$2,160,414, which is 50% of the total remediation costs associated with the coordinated corrective action at the closed City Jet Fuel Tank Farms. Chevron has received a reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (Plume Fund) amounting to a total of \$3 million. In June 2016, the Airport received \$1,490,000 from Chevron, which represents 50% of the reimbursement, less a deductible.

(d) Master Plan

In 1997, after extensive planning and environmental studies and reports, the City Council approved a new master plan for the Airport. In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new 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 general aviation. Implementation of the Master Plan has been ongoing, collectively comprising 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 TAIP, 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 TAIP and other Airport Development Program revisions. Funding for Master Plan projects is from several sources, including grants, PFCs, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

In June 2010, the City Council approved the most recent amendment to the Master Plan that updated projected aviation demand and facility requirements. This amendment to the Master Plan 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) are designated for development of facilities to accommodate projected growth in general aviation demand. The 29-acre Signature fixed based operations facility is located in this portion of the Airport, and an additional 15 acres north of the FAA air traffic control tower remains available for future general aviation development opportunities.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

(e) FAA Audit of Use of Airport Revenue

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 of its audit findings alleging improper use of Airport revenues by the City in three areas of expenditure. On August 14, 2015, as the result of discussions and correspondence with City staff, the FAA notified the City that it has closed two of the three audit issues. The remaining audit issue is described below.

Cost Allocations - 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, with interest. The City believes the allocation methodology used to allocate costs to the Airport is in compliance with federal cost allocation guidance. In an effort to resolve the issue, the City proposed and implemented a cap on the indirect cost allocations for certain City departments at 10%, which was the approximate rate charged to the Airport in pre-capital intensive years. This resulted in a total credit of \$5.6 million that would be applied equally to the Airport cost allocation plan over a seven year period beginning in fiscal year 2012-2013. The City also proposed to adjust its indirect cost allocation methodology commencing with fiscal year 2014-2015 in an effort to address FAA concerns, including removal of debt expenditures from the relative expenditures base, continuing with the 10% cap, and monitoring a rolling five-year average of the relative expenditure base to smooth out expenditure fluctuations, which were implemented in fiscal year 2015-2016.

On August 14, 2015, the FAA accepted the corrective actions that the City has already taken, however, the FAA, disagrees with the City's inclusion of capital expenditures in the allocation of indirect costs. The City will continue discussions with the FAA, but cannot predict the final outcome of the audit.

(f) Litigation

Between May 2013 and January 2014, SJJC Aviation Services, LLC filed three lawsuits seeking to block the Signature fixed base operation project at the Airport. SJJC Aviation Services, LLC is an incumbent tenant at the Airport that conducts fixed base operations under the name "Atlantic Aviation," and the Signature fixed base operation, which commenced operations at the Airport in late 2015, is in competition with Atlantic Aviation at the Airport.

The first lawsuit (RFP lawsuit), filed in May 2013 in the Superior Court of the State of California in Santa Clara County, challenged the City's request for proposal (RFP) process and the resulting award of the lease and operating agreement to Signature. The Superior Court entered judgment dismissing the RFP lawsuit with prejudice on May 2, 2014, and SJJC Aviation Services subsequently filed an appeal to the Sixth District Court of Appeal on May 16, 2014. The parties have fully briefed the appeal, but a hearing date for the appeal has not yet been set.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

The remaining two lawsuits filed in May and December 2013 in the Superior Court of the State of California in Santa Clara County, seek to block the Signature project under the California Environmental Quality Act (CEQA). In both CEQA lawsuits, SJJC Aviation Services alleges that the City violated CEQA by approving the Signature project without adequate environmental review. The Superior Court subsequently consolidated the two CEQA lawsuits. The City successfully defended its CEQA environmental review and received a judgment in its favor on December 23, 2014, and SJJC subsequently filed an appeal to the Sixth District Court of Appeal on February 5, 2015. The parties have fully briefed the appeal, but a hearing date for the appeal has not yet been set.

The City believes that the SJJC Aviation Services challenges to the RFP process and the environmental review for the Signature project are without merit.

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 Event

Airport revenue bond ratings

On September 2, 2016, Fitch Ratings reaffirmed the ratings for the City's Airport revenue bonds at "A-", with a stable rating outlook. Fitch Ratings also reaffirmed the underlying "BBB+" rating on the bank note associated with subordinated commercial paper notes series A-1 (non-AMT), A-2 (non-AMT/Private Acitivity), B (AMT) and C (Taxable) with a stable rating outlook.

On October 27, 2016, Moody's Investors Service reaffirmed the ratings for the City's Airport revenue bonds at "A2", with a stable rating outlook.

Potential Claim

The passenger airlines that currently operate at the Airport have a potential unasserted claim against the City for overpayment of terminal rents by the airlines. The overpayment of terminal rents by the passenger airlines has resulted from the City's annual calculation of terminal rents in a manner that is not consistent with the terms of the current Lease and Operating Agreement between the passenger airlines and the City. Specifically, from Fiscal Year 2008 to the current fiscal year, the City has not included the City office and administrative space at the terminals that should be counted as "Rentable Terminal Space" under the terms of the Airline Lease and Operating Agreement for the purpose of calculating terminal rents to be charged to the passenger airlines. The statute of limitations for claims against a government entity such as the City is one (1) year pursuant to California Government Code Section 911.2, and the City will therefore take a position with the passenger airlines that the City is only liable to the passenger airlines for one year's overpayment of terminal rents in the approximate amount of \$2.5 million.

At this time it is impossible to predict the outcome of this potential unasserted claim, the possible loss or range of loss, or whether the unasserted claim will be made and if made, when it would be resolved.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to the Financial Statements
June 30, 2016 and 2015

Workers' Compensation Program Audit

The City's Workers' Compensation Program is currently undergoing two audits by the State's Department of Industrial Relations ("DIR"): a routine three-tier Profile Audit Review ("PAR") of randomly selected claims conducted every five years and a Target Utilization Review audit triggered by workers' complaints regarding the City's utilization review and procedures for requests for authorization of medical treatment of work-related injuries and illnesses. In addition to these audits, the State DIR's Administrative Director of the Division of Workers' Compensation issued an Order to Show Cause, assessing \$120,000 in administrative penalties for the City's failure to properly address independent medical review appeals of utilization review non-certifications of medical treatment requests in 24 claims, which the City has paid.

The City is subject to a re-audit in two years and must pass the re-audit or its ability to retain its status as a self-insured employer may be jeopardized. Additionally, failure to pass two consecutive Full Compliance Audits would expose the City to the risk of assessment of a civil penalty, currently a one-time payment in an amount not to exceed \$100,000. In the event that the City were unable to retain its status as a self-insured employer, the City would be required to procure workers' compensation insurance coverage which the City's management overseeing the Workers' Compensation Program believes will be significantly more expensive than a self-insured program. The Airport would be responsible for its proportional share of the insurance premiums for workers' compensation insurance coverage.

The Airport believes that its proportional share of any penalties or other amounts assessed pursuant to these audits and proceedings related the City's Workers' Compensation Program is immaterial.

For additional information, please see Note IV. B. 11 in the Notes to the Basic Financial Statements in the City's June 30, 2016 CAFR.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Required Supplementary Information (Unaudited)
June 30, 2015 and 2014

Schedule of the Proportionate Share of the Net Pension Liability (dollars in thousands)

	2016
Proportion of the collective net pension liability	3.6%
Proportionate share of the collective net pension liability	\$ 81,313
Proportionate share of the plan fiduciary net position	\$ 180,366
Covered - employee payroll	\$ 13,163
Proportionate share of the collective net pension liability as percentage of covered-employee payroll	617.7%
Plan fiduciary net position as a percentage of the total pension liability	68.9%

Schedule of Contributions (dollars in thousands)

	2016	2015
Contractually required contribution (actuarially determined)	\$ 7,374	7,103
Contributions in relation to the actuarially determined contributions	7,374	7,103
Contribution deficiency (excess)	\$ -	-
Covered-employee payroll	\$ 13,163	12,903
Contributions as a percentage of covered-employee payroll	56.0%	55.0%

Note to Schedules

The Airport as a cost-sharing department of the City is required to recognize a liability for its proportionate share of the City's net pension liability. The Airport recognizes pension expense and reports deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

The schedules present information to illustrate changes in the Airport's proportionate share of the net pension liability and contributions over a ten-year period when the information is available.



CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY

STATISTICAL



STATISTICAL SECTION

To accommodate passengers' food and beverage cravings, the Airport welcomed the grand opening of Smashburger in Terminal B near gate 22 and the opening of Flames across from gate 27.

Hudson opened a 2,500 square foot news and gift shop in Terminal B between gates 21 and 22.

The supersized store offers just about everything passengers need during their travels.





NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Statistical Section
June 30, 2016

This part of the comprehensive annual financial report for the 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

Financial Trends

This schedule presents trend information to help the reader understand the Airport's financial performance and condition.

Annual Revenues, Expenses, Changes in Net Position, and Net Position **A**

Revenue Capacity

These schedules contain information regarding the Airport's cost per enplaned passenger, gross concession revenue, and airline rates and charges.

Airline Cost per Enplaned Passenger **B**
Gross Concession Revenue per Enplaned Passenger **C**
Scheduled Airline Rates and Charges **D**

Debt Capacity

These schedules present information regarding the Airport's current levels of outstanding debt.

Ratios of Outstanding Debt and Debt Service **E**
Debt Service Coverage **F**

Demographic and Economic Information

These schedules illustrate demographic and economic indicators to provide a context for understanding and assessing the Airport's financial activities.

Service Area Population in the Air Trade Area **G**
Service Area Personal Income in the Air Trade Area **H**
Service Area Per Capita Personal Income in the Air Trade Area **I**
Principal Employers in the City of San José **J**
Service Area Annual Average Unemployment Rate in the Air Trade Area **K**

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)**

**Statistical Section
June 30, 2016**

Contents

Schedule

Operating Information

These schedules contain service and infrastructure data related to services the Airport provides and the activities it performs.

<i>Airport Employees</i>	<i>L</i>
<i>Airport Information</i>	<i>M</i>
<i>Enplaned Commercial Passengers by Airline</i>	<i>N</i>
<i>Airline Landed Weights</i>	<i>O</i>
<i>Airline Flight Operations by Airline and Cargo Carrier</i>	<i>P</i>
<i>Scheduled Cargo Airline Service</i>	<i>Q</i>
<i>Passengers, Mail, Freight, and Cargo Statistics</i>	<i>R</i>
<i>Historical Aircraft Operations</i>	<i>S</i>

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
ANNUAL REVENUES, EXPENSES, CHANGES IN NET POSITION, AND NET POSITION
LAST TEN FISCAL YEARS
(in \$ 000's)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011⁽¹⁾</u>
Operating revenues					
Airline rates and charges:					
Landing fees	\$13,504	\$13,084	\$14,504	\$13,190	\$13,370
Terminal rental	11,308	26,539	29,716	33,459	34,446
Total airline rates and charges	24,812	39,623	44,220	46,649	47,816
Terminal buildings/concessions	9,201	11,470	11,947	11,157	16,877
Airfield area	2,519	2,833	3,171	2,791	2,925
Parking and roadway	48,226	48,369	44,227	38,934	47,320
Fuel handling fees	1,592	1,806	1,474	1,310	1,504
Customer facility charges ⁽¹⁾	4,451	6,351	6,713	6,021	-
General aviation/other	4,528	4,789	5,826	5,909	4,521
Total operating revenues	<u>95,329</u>	<u>115,241</u>	<u>117,578</u>	<u>112,771</u>	<u>120,963</u>
Operating expenses:					
Terminal buildings/concessions	26,929	31,790	28,813	31,701	33,019
Airfield area	19,860	22,692	16,170	10,911	9,749
Parking and roadway	28,559	27,936	26,853	24,032	25,344
Fuel handling costs	171	311	557	885	288
General aviation	3,679	3,428	4,072	3,052	2,409
General and administrative	28,787	32,879	28,268	23,624	19,095
Depreciation and amortization	19,323	22,834	20,647	55,288	51,532
Total operating expenses	<u>127,308</u>	<u>141,870</u>	<u>125,380</u>	<u>149,493</u>	<u>141,436</u>
Operating income (loss)	<u>(31,979)</u>	<u>(26,629)</u>	<u>(7,802)</u>	<u>(36,722)</u>	<u>(20,473)</u>
Nonoperating revenues (expenses):					
Passenger facility charges	22,169	21,224	17,416	17,043	17,311
Customer facility charges ⁽¹⁾	-	-	-	-	6,840
Investment income	9,294	15,446	8,138	311	1,613
Interest expense	(11,995)	(11,737)	(11,404)	(10,750)	(54,430)
Bond issuance costs	-	-	-	-	-
Operating grants	8,284	8,444	4,625	1,150	701
Loss on disposal of capital assets	-	-	(3,537)	(11,733)	-
Other, net	2,541	2,767	4,227	200	1,438
Total nonoperating revenues (expenses), net	<u>30,293</u>	<u>36,144</u>	<u>19,465</u>	<u>(3,779)</u>	<u>(26,527)</u>
Income (loss) before capital contributions	(1,686)	9,515	11,663	(40,501)	(47,000)
Capital contributions	9,694	4,970	12,868	34,722	10,862
Change in Net Position	<u>\$8,008</u>	<u>\$14,485</u>	<u>\$24,531</u>	<u>(\$5,779)</u>	<u>(\$36,138)</u>
Net Position at Year-End					
Net investment in capital assets	\$239,960	\$267,321	\$316,935	\$314,664	\$272,598
Restricted	118,334	84,491	45,260	61,349	64,128
Unrestricted	61,233	82,200	96,348	76,751	79,900
Net Position at Year-End ⁽²⁾	<u>\$419,527</u>	<u>\$434,012</u>	<u>\$458,543</u>	<u>\$452,764</u>	<u>\$416,626</u>

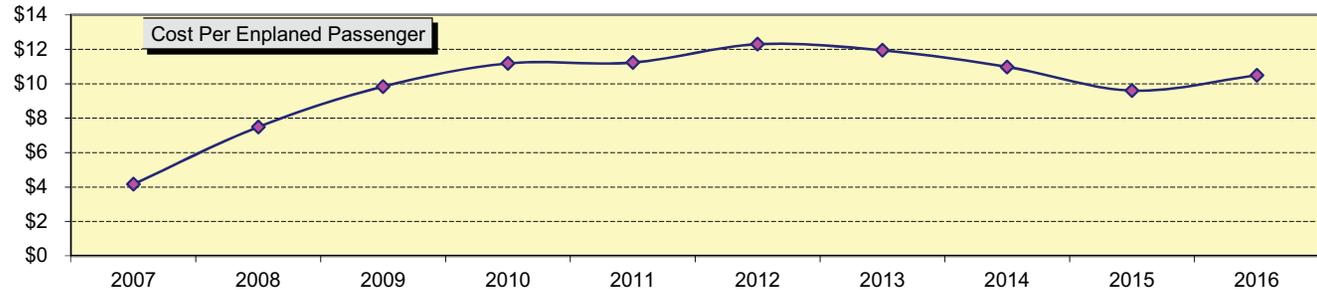
⁽¹⁾ CFCs are used to pay for capital costs and related debt service associated with the ConRAC and certain operating expenses related to the transportation of rental car customers. CFCs were reclassified from operating to nonoperating revenue beginning in fiscal year 2011 when the Airport started using CFCs for the debt service associated with the ConRAC.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
ANNUAL REVENUES, EXPENSES, CHANGES IN NET POSITION, AND NET POSITION
LAST TEN FISCAL YEARS
(in \$ 000's)

	2012	2013	2014	2015 ⁽²⁾	2016
Operating revenues					
Airline rates and charges:					
Landing fees	\$11,414	\$12,888	\$11,973	\$11,856	\$13,095
Terminal rental	39,864	38,256	38,130	34,372	40,800
Total airline rates and charges	51,278	51,144	50,103	46,228	53,895
Terminal buildings/concessions	15,770	15,102	15,423	16,271	17,576
Airfield area	2,783	3,038	3,553	3,993	4,891
Parking and roadway	51,023	46,700	47,268	49,049	53,704
Fuel handling fees	1,690	2,361	3,170	3,257	3,226
Customer facility charges	-	-	-	-	-
General aviation/other	4,431	4,770	6,193	7,183	8,661
Total operating revenues	126,975	123,115	125,710	125,981	141,953
Operating expenses:					
Terminal buildings/concessions	23,659	23,303	24,233	23,833	27,724
Airfield area	9,069	8,707	9,570	9,891	12,767
Parking and roadway	25,514	16,631	16,343	17,170	16,684
Fuel handling costs	556	1,065	11	28	(565)
General aviation	1,676	1,605	1,609	2,006	1,963
General and administrative	18,328	18,763	19,877	18,208	19,334
Depreciation and amortization	51,520	54,353	54,027	53,437	51,864
Total operating expenses	130,322	124,427	125,670	124,573	129,771
Operating income (loss)	(3,347)	(1,312)	40	1,408	12,182
Nonoperating revenues (expenses):					
Passenger facility charges	16,787	17,294	18,161	19,291	20,603
Customer facility charges	10,137	13,385	15,493	18,690	19,888
Investment income	2,217	(257)	1,571	1,222	2,444
Interest expense	(70,009)	(75,058)	(73,836)	(72,237)	(71,245)
Bond issuance costs	(4,141)	(196)	-	(976)	-
Operating grants	670	565	605	610	497
Loss on disposal of capital assets	(9)	-	(481)	-	-
Other, net	698	451	614	806	1,902
Total nonoperating revenues (expenses), net	(43,650)	(43,816)	(37,873)	(32,594)	(25,911)
Income (loss) before capital contributions	(46,997)	(45,127)	(37,833)	(31,186)	(13,729)
Capital contributions	7,399	6,954	4,843	937	5,760
Change in Net Position	(\$39,598)	(\$38,173)	(\$32,990)	(\$30,249)	(\$7,969)
Net Position at Year-End					
Net investment in capital assets	\$242,916	\$209,381	\$169,870	\$126,350	\$95,800
Restricted	69,350	65,408	67,848	56,752	61,308
Unrestricted	58,811	58,114	62,195	18,689	36,714
Net Position at Year-End ⁽²⁾	\$371,077	\$332,903	\$299,913	\$201,791	\$193,822

⁽²⁾ As of July 1, 2014, the Airport restated the beginning net position in the amount of \$67,874 due to the implementation of GASB Statement Nos. 68 and 71. The Airport did not restate beginning net position for fiscal years prior to FY 14-15, because amounts were not available.

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)



S-5

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Airline Revenues:										
Terminal Rental	\$ 10,748 ⁽¹⁾	26,539	29,716	33,459	34,446	39,864	38,256	38,130	34,372	40,800
Landing Fees (Passenger Carriers)	11,390	12,252	13,560	12,443	12,582	10,838	12,298	11,451	11,361	12,528
Total	22,138	38,791	43,276	45,902	47,028	50,702	50,554	49,581	45,733	53,328
Enplaned Passengers	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517	4,765	5,088
Airline Cost Per Enplaned Passenger (not in 000's)	\$ 4.16	7.49 ⁽²⁾	9.84 ⁽²⁾	11.18 ⁽²⁾	11.23 ⁽²⁾	12.29 ⁽²⁾	11.94 ⁽³⁾	10.98 ⁽³⁾	9.60 ⁽³⁾	10.48

⁽¹⁾ Terminal Rental for fiscal year 2007 does not agree with Schedule B, 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 B.

⁽²⁾ Increases in airline cost per enplaned passenger during fiscal years 2008 through 2012 were principally due to the decreases in enplaned passengers and the increases in debt service.

⁽³⁾ Decreases in airline cost per enplaned passenger during fiscal years 2013 through 2015 were principally due to the increases in enplaned passengers and decreases in revenues.

Source: Norman Y. Mineta San José International Airport audited financial statements and activity reports

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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gross Concession Revenue: ⁽¹⁾										
Parking ⁽²⁾	\$ 29,702	28,625	23,632	21,260	22,081	22,943	24,814	26,759	27,845	29,392
Rental Cars	142,115	156,227	127,661	114,614	125,730	126,333	129,643	142,439	149,384	157,857
Food and Beverage	20,156	20,041	16,753	16,493	21,141	22,280	24,216	27,350	30,078	32,870
Advertising	3,451	1,892	1,923	1,736	1,903	1,873	2,355	2,506	2,245	2,368
Gift Shop & Retail	8,007	7,957	7,380	8,868	11,290	11,983	12,668	13,475	14,130	15,742
In-Flight Kitchen	7,277	5,819	6,173	8,580	9,823	8,920	10,680	13,114	15,904	22,893
Total Gross Concession Revenue	\$ 210,708	220,561	183,522	171,551	191,968	194,332	204,376	225,643	239,586	261,122
Enplaned Passengers:	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517	4,765	5,088
Gross Concession Revenue Per Enplaned Passenger (not in 000's)	\$ 39.61	42.59	41.71	41.77	45.83	47.11	48.26	49.95	50.28	51.32

S-6

⁽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 YEAR 2007 AND THE PERIOD JULY 1 TO NOVEMBER 30, 2007

	<u>2007</u> ⁽¹⁾	<u>2008</u> ⁽²⁾
Landing Fees (per 1,000 lbs. Maximum Gross Landing Weight)	\$ 1.80	\$ 1.44
Terminal Rental Rates (per square foot)		
Terminal A :		
Ticket Counter	133	
Operations	100	
Holdroom	120	
Baggage Claim	67	
Baggage Makeup/Storage	47	
Terminal C :		
Ticket Counter	110	
Operations	83	
Holdroom	99	
Baggage Claim ⁽³⁾	55	
Baggage Makeup/Storage	39	
Blended:		
Ticket Counter		351
Operations		316
Holdroom		263
Baggage Claim ⁽³⁾		175
Baggage Makeup/Storage		123

⁽¹⁾ 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.

⁽²⁾ These rates and charges were only for the period July 1 to November 30, 2007. A new Airline-Airport 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.

⁽³⁾ The baggage claim requirement is allocated among the airlines using the 20/80 formula. The revenue requirement applicable to the baggage claim areas are 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)
SCHEDULED AIRLINE RATES AND CHARGES ⁽⁴⁾
PERIOD DECEMBER 1, 2007 to JUNE 30, 2008 THROUGH FISCAL YEAR 2016

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Unit</u>
Landing Fees:	\$ 2.00	\$ 2.24	\$ 2.32	\$ 2.47	\$ 2.14	\$ 2.38	\$ 2.22	\$ 2.09	\$ 2.13	per 1,000 lbs. MGLW ⁽⁷⁾
Terminal Rental Rates:										
<u>Group A:</u>										
Ticket Counter and Queuing, Skycap/Curbside Check-in										
- Preferential	73,729	81,192	145,136	241,041	319,205	296,954	293,680	235,177	287,230	per counter
- Common	35	63	57	73	97	90	98	94	88	per hour
Airline Ticket Office, Club/VIP Holdroom (Gate)	166.07	237.81	204.57	157.18	184.19	186.55	192.73	178.08	195.75	per sq. ft.
- Preferential	418,598	481,687	726,212	742,245	872,527	886,424	915,350	775,820	883,722	per gate
- Common	228	330	497	496	598	607	591	470	552	per turn
<u>Group B:</u>										
Baggage Claim ⁽⁵⁾ /Other Office	132.86	190.25	163.66	125.74	147.35	149.24	154.19	142.47	156.60	per sq. ft.
<u>Group C:</u>										
Baggage Make-up ⁽⁶⁾ /Operations Space	83.04	118.91	102.29	78.59	92.09	93.28	96.37	89.04	97.87	per sq. ft.

⁽⁴⁾ These rates and charges were for the period December 1, 2007 to June 30, 2016 and were calculated based on the provisions of the current Airline-Airport Lease and Operating Agreement which took effect on December 1, 2007.

⁽⁵⁾ The baggage claim requirement is allocated among the airlines using the 20/80 formula. The revenue requirements applicable to the baggage claim areas are 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 the airlines based on the number of deplaned passengers.

⁽⁶⁾ 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 airlines. The remaining 80% of the revenue requirement is distributed among the airlines based on the number of enplaned passengers.

⁽⁷⁾ MGLW - Maximum Gross Landing Weight

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)
RATIOS OF OUTSTANDING DEBT AND DEBT SERVICE
LAST TEN FISCAL YEARS
(\$ and Passengers in 000's)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Outstanding Debt per Enplaned Passenger										
Outstanding Debt by Type:										
Revenue Bonds	\$ 484,347	1,057,386	1,046,606	1,035,266	1,023,304	1,415,552	1,398,332	1,376,038	1,349,265	\$ 1,325,579
Commercial Paper Notes	41,424	186,190	323,561	417,348	410,079	47,937	45,380	41,159	37,912	34,672
Total Outstanding Debt	525,771	1,243,576	1,370,167	1,452,614	1,433,383	1,463,489	1,443,712	1,417,197	1,387,177	1,360,251
Enplaned Passengers	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517	4,765	5,088
Total Outstanding Debt per Enplaned Passenger	\$ 99	240	311	354	342	355	341	314	291	\$ 267
(not in 000's)										
Debt Service										
Revenue Bonds ^{(2) (3)}	\$ 20,837	21,567	23,037	31,367	53,890	80,725	86,325	95,068	96,083	\$ 95,452
Commercial Paper Notes ^{(4) (5)}	3,391	710	292	734	16,605	6,818	4,043	2,859	2,213	2,116
Total Debt Service	24,228	22,277	23,329	32,101	70,495	87,543	90,368	97,927	98,296	97,568
Less: Funds Available for Debt Service										
Passenger Facility Charges	-	-	-	4,588	21,388	21,336	22,100	25,747	25,202	24,829
Customer Facility Charges ⁽⁶⁾	-	-	-	-	6,840	10,137	13,385	15,494	18,690	19,888
Unspent Bond Proceeds ⁽⁶⁾	-	-	-	-	-	1,713	5,802	11,082	11,082	11,083
Net Debt Service	\$ 24,228	22,277	23,329	27,513	42,267	54,357	49,081	45,604	43,322	\$ 41,768
Net Debt Service per Enplaned Passenger (not in 000's)	\$ 4.55	4.30	5.30	6.70	10.09	13.18	11.59	10.10	9.09	\$ 8.21

⁽¹⁾ Debt Limit information is not shown because the City does not establish or impose a debt limit.

⁽²⁾ Under the Master Trust Agreement (MTA) dated July 1, 2001, and as amended and supplemented to date (Master Trust), "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. Also, under the Master Trust, the City may designate Passenger Facility Charges as "Available Passenger Facility Charges" for payment of eligible debt service. The amount of Debt Service is reduced by the amount of Available Passenger Facility Charges designated by the City and deposited with the Trustee to pay Bond Debt Service.

⁽³⁾ Per the Master Trust, rates used to calculate the interest payable on variable rate bonds, Series 2004A&B Airport Revenue Bonds, which were outstanding during fiscal years 2007 through 2008, were the actual interest rates that were in effect for the relevant period of calculation.

⁽⁴⁾ As required by the Letter of Credit and Reimbursement Agreements related to the Airport's Commercial Paper (CP) Program, the principal amount of the CP is assumed to be amortized on a substantially level debt service for a period of 25 years commencing on the estimated completion date of the respective project to which such obligations relate or the date of issuance if the CP proceeds were not used for a project. As also required, the interest rate on the CP is assumed to be equal to an interest rate calculated by multiplying the average interest rate during the 90-day period prior to the end of the fiscal year by 1.15, as certified by a certificate of a financial advisor. As permitted by the Letter of Credit and Reimbursement Agreements, the outstanding CP as of June 30, 2011 was adjusted to reflect the repayment of certain CP from the proceeds of the Airport Revenue Bond Series 2011A. Under the Letter of Credit and Reimbursement Agreements in effect for fiscal years 2008 through 2010, the calculation of debt service did not include the CP, which funded capitalizable projects during those fiscal years.

⁽⁵⁾ Includes letter of credit fees associated with subordinated commercial paper.

⁽⁶⁾ Fiscal years 2010 through 2012 were revised to reflect "Other Available Funds for Debt Service." Under the MTA, the Airport may for any period elect to designate Customer Facility Charges and Unspent Bond Proceeds as "Other Available Funds" eligible for payment of debt service.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
DEBT SERVICE COVERAGE FOR LAST TEN FISCAL YEARS
(in \$ 000's)

Year	Adjusted General Airport Revenues ⁽¹⁾	Operating Expenses ^{(2) & (3)}	Net Revenues	Other Available Funds	Net Revenues Available for Debt Service	Total Bond Debt Service ⁽⁴⁾	Available Passenger Facility Charges ⁽⁴⁾	Net Bond Debt Service Payable from Revenues	Coverage Ratio - Bonds	Estimated Commercial Paper (CP) Debt Service ^{(6) (7)}	Coverage Ratio - Bonds & CP
2007	\$ 99,111	\$ 86,404	\$ 12,707	\$ 44,250	\$ 56,957	\$ 20,837 ⁽⁵⁾		\$ 20,837	2.73	\$ 3,391	2.35
2008	119,651	95,615	24,036	44,175	68,211	21,567 ⁽⁵⁾		21,567	3.16	710	3.06
2009	120,041	91,051	28,990	49,053	78,043	23,037		23,037	3.39	292	3.35
2010	110,226	82,711	27,515	51,610	79,125	31,367	\$ 4,588	26,779	2.95	734	2.88
2011	123,538	76,850	46,688	52,447	99,135	53,890	21,388	32,502	3.05	16,605	2.02
2012	129,573	67,875	61,698	58,917	120,615	80,725	21,336	59,389	2.03	6,818	1.82
2013	124,851	64,974	59,877	66,006	125,883	86,325	22,100	64,225	1.96	4,043	1.84
2014	127,717	66,319	61,398	75,157	136,555	95,068	25,747	69,321	1.97	2,859	1.89
2015	128,038	70,054 ⁽⁸⁾	57,984	83,186	141,170	96,083	25,202	70,881	1.99	2,213	1.93
2016	145,809	73,118	72,691	78,547	151,238	95,452	24,829	70,623	2.14	2,116	2.08

⁽¹⁾ Does not include Customer Facility Charges (CFCs), Passenger Facility Charges (PFCs), or AIP grant proceeds. PFC revenues and AIP grant proceeds are included in the Statements of Revenues, Expenses, and Changes in Net Position as nonoperating revenues. Beginning in fiscal year 2011, CFC revenues were reclassified from operating to nonoperating revenue (see Note 1 in Schedule B).

⁽²⁾ Includes operating expenses less depreciation and expenses paid from sources other than General Airport Revenues.

⁽³⁾ Excludes letter of credit fees associated with subordinated commercial paper. Letter of credit fees, net of capitalized fees, are reflected as part of operating expenses 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 operating expenses for purposes of calculating debt service coverage.

⁽⁴⁾ Under the Master Trust Agreement (MTA) dated July 1, 2001, and as amended and supplemented to date (Master Trust), "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. Also, under the Master Trust, the City may designate Passenger Facility Charges as "Available Passenger Facility Charges" for payment of eligible debt service. The amount of Debt Service is reduced by the amount of Available Passenger Facility Charges designated by the City and deposited with the Trustee to pay Bond Debt Service.

⁽⁵⁾ Per the Master Trust, rates used to calculate the interest payable on variable rate bonds, Series 2004A&B Airport Revenue Bonds, which were outstanding during fiscal years 2007 through 2008, were the actual interest rates that were in effect for the relevant period of calculation.

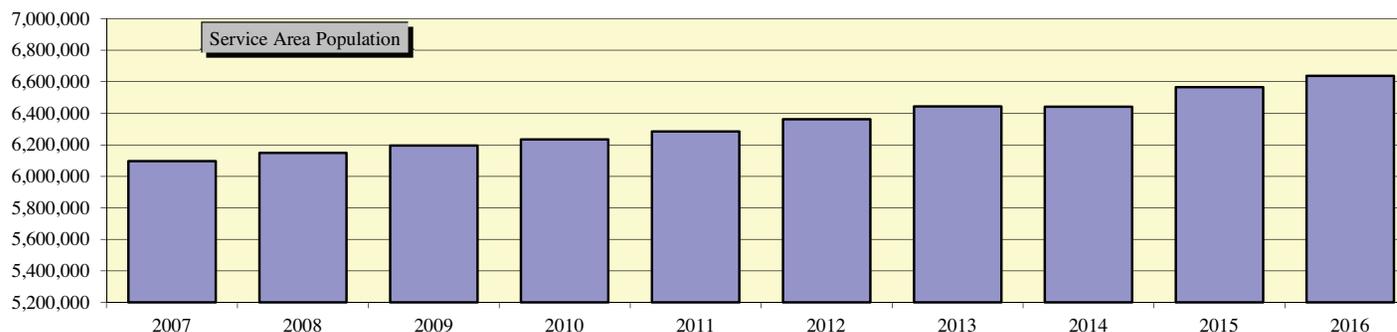
⁽⁶⁾ As required by the Letter of Credit and Reimbursement Agreements related to the Airport's Commercial Paper (CP) Program, the principal amount of the CP is assumed to be amortized on a substantially level debt service for a period of 25 years commencing on the estimated completion date of the respective project to which such obligations relate or the date of issuance if the CP proceeds were not used for a project. As also required, the interest rate on the CP is assumed to be equal to an interest rate calculated by multiplying the average interest rate during the 90-day period prior to the end of the fiscal year by 1.15, as certified by a certificate of a financial advisor. As permitted by the Letter of Credit and Reimbursement Agreements, the outstanding CP as of June 30, 2011 was adjusted to reflect the repayment of certain CP from the proceeds of the Airport Revenue Bond Series 2011A. Under the Letter of Credit and Reimbursement Agreements in effect for fiscal years 2008 through 2010, the calculation of debt service did not include the CP, which funded capitalizable projects during those fiscal years.

⁽⁷⁾ Includes letter of credit fees associated with subordinated commercial paper.

⁽⁸⁾ FY2015 Operating Expenses were revised to exclude expenses related to GASB Statement No. 68.

Source: Finance and Administration, Norman Y. Mineta San José International Airport, City of San José

**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 AS OF JANUARY 1**

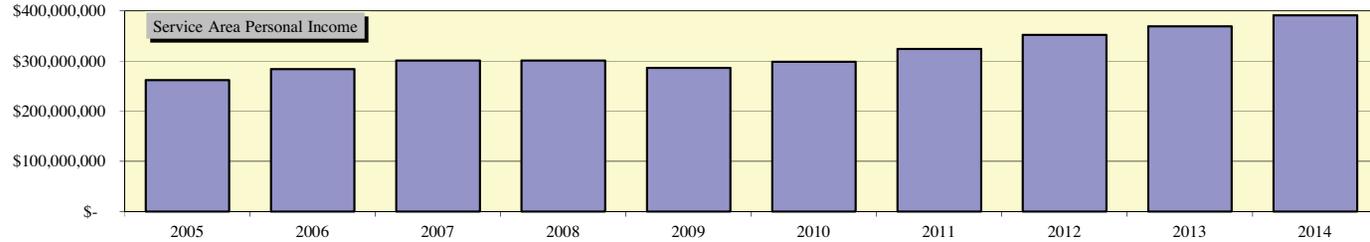


S-11

Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2007	1,484,085	409,387	55,022	707,820	1,747,912	258,737	250,734	672,492	509,389	6,095,578
2008	1,497,799	412,233	55,068	713,818	1,767,204	260,892	253,026	677,833	511,226	6,149,099
2009	1,509,240	415,108	55,272	718,614	1,781,427	262,552	255,399	684,057	514,003	6,195,672
2010	1,517,756	416,968	55,474	722,372	1,794,337	263,954	257,098	689,160	516,244	6,233,363
2011	1,530,206	419,586	56,137	727,793	1,813,702	265,348	260,039	693,013	519,350	6,285,174
2012	1,550,119	422,754	57,079	736,647	1,840,895	268,189	262,390	701,745	523,038	6,362,856
2013	1,573,254	425,756	57,517	745,193	1,868,558	271,595	264,922	710,731	526,042	6,443,568
2014	1,574,497	424,774	57,909	745,635	1,868,038	269,322	264,567	708,678	528,157	6,441,577
2015 ⁽¹⁾	1,610,765	432,637	56,445	759,155	1,903,974	273,594	269,280	723,761	534,902	6,564,513
2016	1,627,865	437,178	56,648	766,041	1,927,888	275,902	271,579	733,383	540,214	6,636,698

⁽¹⁾ Some data reported previously were revised to reflect the most recent information.

**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)**



Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2005	\$64,547,920	\$15,363,221	\$1,776,831	\$43,264,212	\$87,276,312	\$11,127,128	\$5,935,128	\$18,578,286	\$14,426,308	\$262,295,346
2006	69,413,342	16,593,766	1,888,615	47,439,966	95,739,260	12,093,124	6,153,715	19,676,512	15,050,420	284,048,720
2007	72,269,758	17,079,370	1,996,555	50,186,023	102,922,133	12,881,411	6,918,424	20,817,871	15,801,138	300,872,683
2008	73,944,674	16,931,392	1,967,929	49,148,183	102,433,735	12,940,365	6,826,882	21,029,219	15,857,505	301,079,884
2009	70,463,233	16,732,911	1,904,402	46,631,310	95,588,054	12,112,253	6,771,237	20,747,584	15,697,151	286,648,135
2010	72,870,527	16,958,117	1,920,847	47,787,433	102,432,990	12,361,716	7,117,031	21,214,529	16,232,916	298,896,106
2011	78,550,471	17,668,188	2,037,248	51,931,876	113,461,610	13,284,573	7,797,651	22,369,055	17,095,084	324,195,756
2012	84,503,175	18,496,346	2,153,480	58,665,994	124,801,907	14,251,103	8,038,978	23,682,855	17,957,396	352,551,234
2013 ⁽²⁾	85,173,987	19,184,636	2,279,346	64,281,690	133,654,835	13,456,565	8,635,380	24,470,917	18,399,577	369,536,933
2014	90,631,392	19,889,054	2,417,263	68,013,899	141,873,705	14,209,814	9,020,129	25,859,136	19,341,120	391,255,512

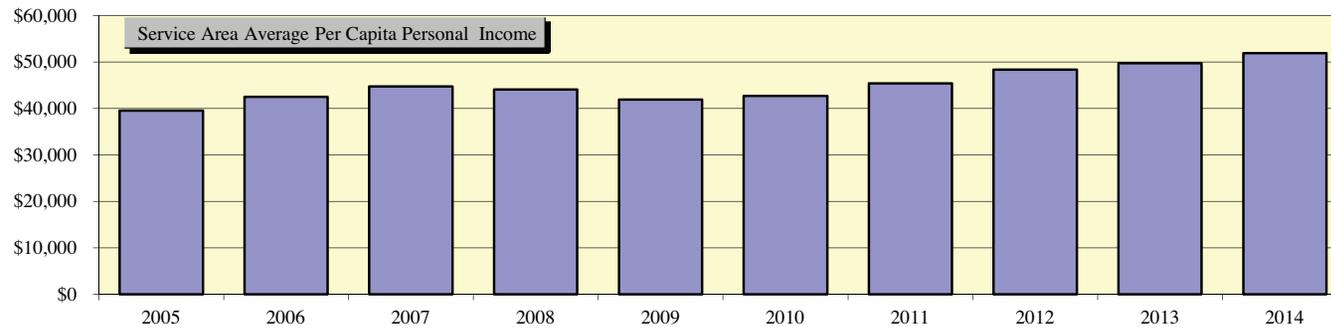
S-12

⁽¹⁾ Information for calendar years 2015 and 2016 is not available.

⁽²⁾ Some data reported previously were revised to reflect the most recent information.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

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⁾



S-13

Years	Primary Service Area						Secondary Service Area			Average PCPI
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2005	\$44,777	\$37,921	\$32,515	\$62,695	\$52,096	\$44,265	\$24,469	\$28,278	\$28,851	\$39,541
2006	48,054	41,295	34,894	68,736	56,612	48,062	25,083	29,686	29,823	42,472
2007	49,646	42,446	36,924	72,330	60,117	50,854	27,836	31,161	31,115	44,714
2008	50,057	41,701	36,264	69,830	58,837	50,446	27,249	31,308	31,152	44,094
2009	47,021	40,786	34,984	65,345	54,153	46,584	26,838	30,613	30,686	41,890
2010	48,144	40,732	34,558	66,362	57,336	46,925	27,706	30,857	31,500	42,680
2011	51,286	41,906	36,273	71,232	62,623	50,138	29,995	32,157	33,005	45,402
2012	54,379	43,411	37,867	79,420	67,974	53,473	30,726	33,777	34,437	48,385
2013 ⁽²⁾	53,798	44,707	39,576	85,653	71,431	49,942	32,774	34,709	34,961	49,728
2014	56,261	46,109	41,486	89,659	74,883	52,280	33,865	36,136	36,356	51,893

⁽¹⁾ Information for calendar years 2015 and 2016 is not available.

⁽²⁾ Some data reported previously were revised to reflect the most recent information.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
PRINCIPAL EMPLOYERS IN THE CITY OF SAN JOSE
CURRENT YEAR AND NINE YEARS AGO

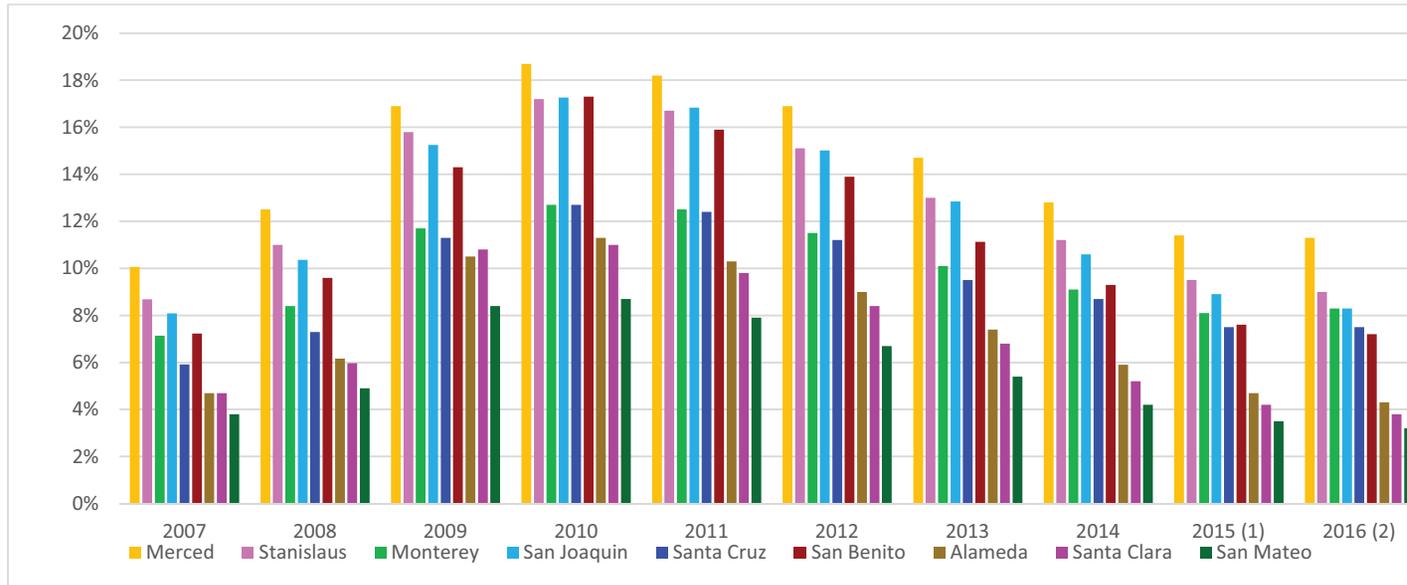
Company or Organization	2016			2007		
	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
County of Santa Clara	17,800	1	1.8%	15,360	2	1.7%
Cisco Systems	14,000	2	1.4%	17,200	1	1.9%
City of San José*	5,945	3	0.6%	6,034	3	0.7%
San José State University	4,300	4	0.4%	3,030	5	0.3%
Western Digital/HGST	3,000	5	0.3%	2,800	7	0.3%
eBay	2,800	6	0.3%	3,010	6	0.3%
Paypal, Inc.	2,800	7	0.3%	n/a ^(**)	n/a ^(**)	n/a ^(**)
IBM Corporation	2,800	8	0.3%	6,650	4	0.7%
Adobe Systems, Inc.	2,100	9	0.2%	2,000	11	0.2%
Kaiser Permanente	2,100	10	0.2%	2,120	10	0.2%
Good Samaritan Hospital	2,000	11	0.2%	1,850	12	0.2%
Target Corporation	1,900	12	0.2%	n/a ^(**)	na ^(**)	na ^(**)
Brocade Communication	1,700	13	0.2%	n/a ^(**)	na ^(**)	na ^(**)
Cadence Design Systems	1,600	14	0.2%	1,800	14	0.2%
Maxim Integrated Products	1,600	15	0.2%	n/a ^(**)	na ^(**)	na ^(**)

(*) Full-time employees

(**) Companies or organizations not included in top 15 principal employers in 2007

Source: California Employment Development Department, Labor Market Information Division

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SERVICE AREA ANNUAL AVERAGE UNEMPLOYMENT RATE IN THE AIR TRADE AREA
LAST TEN CALENDAR YEARS**



	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u> ⁽¹⁾	<u>2016</u> ⁽²⁾
Merced	10.1%	12.5%	16.9%	18.7%	18.2%	16.9%	14.7%	12.8%	11.4%	11.3%
Stanislaus	8.7%	11.0%	15.8%	17.2%	16.7%	15.1%	13.0%	11.2%	9.5%	9.0%
Monterey	7.1%	8.4%	11.7%	12.7%	12.5%	11.5%	10.1%	9.1%	8.1%	8.3%
San Joaquin	8.1%	10.4%	15.3%	17.3%	16.8%	15.0%	12.8%	10.6%	8.9%	8.3%
Santa Cruz	5.9%	7.3%	11.3%	12.7%	12.4%	11.2%	9.5%	8.7%	7.5%	7.5%
San Benito	7.2%	9.6%	14.3%	17.3%	15.9%	13.9%	11.1%	9.3%	7.6%	7.2%
Alameda	4.7%	6.2%	10.5%	11.3%	10.3%	9.0%	7.4%	5.9%	4.7%	4.3%
Santa Clara	4.7%	6.0%	10.8%	11.0%	9.8%	8.4%	6.8%	5.2%	4.2%	3.8%
San Mateo	3.8%	4.9%	8.4%	8.7%	7.9%	6.7%	5.4%	4.2%	3.5%	3.2%

⁽¹⁾ Some data reported previously were revised to reflect the most recent information.

⁽²⁾ Information for 2016 is the average of January to July 2016.

Source: California Employment Development Department, Labor Market Information Division

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRPORT EMPLOYEES
LAST TEN FISCAL YEARS

<u>Functional Area</u>	Budgeted Full-time-Equivalent ⁽¹⁾ Employees as of Fiscal Year-End									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Acoustical Treatment Program (ACT)	7	7	4	0	0	0	0	0	0	0
Administration	38	40	35	31	27	27	27	27	28	28
Air Service Development	5	5	2	2	1	1	1	1	1	1
Airport Technology Services	21	21	19	16	13	13	13	13	13	11
Airside Operations	47	47	47	38	35	40	42	43	43	43
Customer Service and Outreach	11	10	8	6	5	6	7	7	6	8
Capital and Airport Development	38	28	27	26	18	14	15	15	15	18
Environmental	3	3	4	3	1	1	1	1	1	1
Facilities (Building Services, Trades and Maintenance)	143	155	135	128	64	66	64	64	64	61
Landside Operations and Services	62	62	56	47	34	29	9	8	8	8
Property Management	12	13	12	9	8	8	8	8	8	8
	<u>386</u>	<u>391</u>	<u>348</u>	<u>305</u>	<u>206</u>	<u>205</u>	<u>187</u>	<u>187</u>	<u>187</u>	<u>187</u>

⁽¹⁾ A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave).
Full-time-equivalent employment is calculated by dividing total labor hours by 2,080.

Source: Norman Y. Mineta San José International Airport, Budget & Administration Section

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRPORT INFORMATION
JUNE 30, 2016

Location:	Two miles north of downtown San José, "Capital of Silicon Valley"		
Area:	1,050 acres		
Elevation:	62.2 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		252,815 sq. ft.
	Concessions and Other Rentables		65,674 sq. ft.
	Public/Common		193,963 sq. ft.
	Airport		311,646 sq. ft.
	Vacant		43,688 sq. ft.
	Other		117,402 sq. ft.
	Total		<u>985,188</u> sq. ft.
	Number of passenger gates - Terminal A and FIS		16
	Number of passenger gates - Terminal B		12
	Number of loading bridges		28
	Number of concessionaires in terminal		47
	30 Food & Beverage Concessions		
	17 Retail Concessions		
	Number of rental car brands		11
Apron:	Commercial Airlines		1,130,894 sq. ft.
	Cargo Airlines		596,482 sq. ft.
	Fixed Base Operator (FBO)		1,362,771 sq. ft.
	General Aviation West		436,659 sq. ft.
	Total		<u>3,526,806</u> sq. ft.
Public Parking			
Spaces:	Hourly - Terminal A Garage		1,160
	Hourly - Terminal B Garage & Surface		1,209
	Daily Lots		1,358
	Economy Lot		1,673
	Total		<u>5,400</u>
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 José		
	AvBase		
	Signature Flight Support		

Source: Norman Y. Mineta San José International Airport, City of San José

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
ENPLANED COMMERCIAL PASSENGERS BY AIRLINE
FISCAL YEARS 2007 THROUGH 2011
(Ranked by Fiscal Year 2016 Results)

S-18

<u>Airline</u>	<u>2007</u>		<u>2008</u>		<u>2009</u>		<u>2010</u>		<u>2011</u>	
	<u>Enplanements</u>	<u>% of Total</u>								
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 Airlines ⁽¹⁾	467,324	8.8%	445,689	8.6%	345,419	7.9%	393,982	9.6%	561,400	13.4%
American Airlines ⁽²⁾	1,245,294	23.4%	1,086,169	21.0%	887,112	20.2%	692,293	16.9%	620,195	14.8%
Delta Air Lines ⁽³⁾	217,018	4.1%	197,465	3.8%	157,739	3.6%	175,775	4.3%	216,757	5.2%
United Airlines ⁽⁴⁾	654,791	12.3%	595,209	11.5%	420,317	9.6%	376,879	9.2%	357,283	8.5%
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							8,072	0.2%	48,325	1.2%
All Other Airlines ⁽⁵⁾	275,754	5.2%	319,604	6.2%	276,664	6.3%	169,551	4.1%	31,862	0.8%
Total ⁽⁶⁾	5,318,859	100%	5,178,603	100%	4,399,562	100%	4,105,853	100%	4,189,223	100%

⁽¹⁾ Includes enplaned passengers on flights operated by Horizon.

⁽²⁾ In December 2013, the American Airlines and US Airways ("American Airlines Group") merger was completed. Passengers previously reported under US Airways are now grouped with American Airlines. The enplanements include flights operated by Skywest, Mesa Airlines, and Compass Airlines.

⁽³⁾ Includes enplaned passengers on flights operated by Skywest and Compass Airlines.

⁽⁴⁾ Continental and United merged in October 2010. The combined airlines (named "United Airlines") received FAA approval to operate under a single certificate in December 2011. The enplanements include flights operated by Skywest.

⁽⁵⁾ Consists of airlines no longer serving the Airport and charter airlines.

⁽⁶⁾ Percentage totals may not add due to rounding.

NORMAN Y. MINETA SAN JOSÉ INTERNATIONAL AIRPORT
(A Department of the City of San José)
ENPLANED COMMERCIAL PASSENGERS BY AIRLINE
FISCAL YEARS 2012 THROUGH 2016
(Ranked by Fiscal Year 2016 Results)

<u>Airline</u>	<u>2012</u>		<u>2013</u>		<u>2014</u>		<u>2015</u>		<u>2016</u>	
	<u>Enplanements</u>	<u>% of Total</u>								
Southwest Airlines	2,192,234	53.1%	2,169,956	51.2%	2,280,346	50.5%	2,420,333	50.8%	2,507,648	49.3%
Alaska Airlines ⁽¹⁾	609,315	14.8%	727,616	17.2%	704,944	15.6%	750,673	15.8%	795,136	15.6%
American Airlines ⁽²⁾	571,167	13.8%	587,829	13.9%	601,104	13.3%	604,952	12.7%	642,626	12.6%
Delta Air Lines ⁽³⁾	218,447	5.3%	228,824	5.4%	332,544	7.4%	463,746	9.7%	551,084	10.8%
United Airlines ⁽⁴⁾	298,808	7.2%	253,837	6.0%	231,287	5.1%	186,656	3.9%	184,570	3.6%
Hawaiian Airlines	103,483	2.5%	116,928	2.8%	113,381	2.5%	161,707	3.4%	164,088	3.2%
JetBlue Airways	76,063	1.8%	71,506	1.7%	70,860	1.6%	71,577	1.5%	73,950	1.5%
Volaris	49,709	1.2%	49,700	1.2%	51,056	1.1%	51,185	1.1%	58,385	1.1%
All Nippon Airways			3,273	0.1%	42,999	1.0%	47,560	1.0%	49,717	1.0%
Hainan Airlines							1,849	0.0%	34,939	0.7%
British Airways									9,872	0.2%
Air Canada									6,882	0.1%
All Other Airlines ⁽⁵⁾	5,659	0.1%	24,774	0.6%	88,500	2.0%	4,763	0.1%	8,808	0.2%
Total ⁽⁶⁾	4,124,885	100%	4,234,753	100%	4,517,021	100%	4,765,001	100%	5,087,705	100%

⁽¹⁾ Includes enplaned passengers on flights operated by Horizon and Skywest.

⁽²⁾ In December 2013, the American Airlines and US Airways ("American Airlines Group") merger was completed. Passengers previously reported under US Airways are now grouped with American Airlines. The enplanements include flights operated by Skywest, Mesa Airlines, and Compass Airlines.

⁽³⁾ Includes enplaned passengers on flights operated by Skywest and Compass Airlines.

⁽⁴⁾ Continental and United merged in October 2010. The combined airlines (named "United Airlines") received FAA approval to operate under a single certificate in December 2011. The enplanements include flights operated by Skywest.

⁽⁵⁾ Consists of airlines no longer serving the Airport, including Virgin America, and charter airlines. Virgin America operated at the Airport from May 2013 to May 2014.

⁽⁶⁾ Percentage totals may not add due to rounding.

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

<u>Airline</u> ⁽¹⁾	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Air Canada										8,103
Alaska Airlines	571,040	557,090	449,070	507,257	693,168	680,586	806,403	790,691	825,699	864,768
All Nippon Airways							9,880	138,114	138,700	140,925
American Airlines	1,517,067	1,288,451	1,056,475	760,177	692,995	643,199	664,570	669,391	653,971	726,312
British Airways										24,650
Volaris				8,320	54,663	59,451	52,014	51,472	55,653	59,565
Delta Airlines	270,186	240,802	190,950	196,914	230,537	233,473	252,297	386,609	537,959	677,209
Frontier Airlines	143,487	153,166	158,644	78,484	672		672	499	269	
Hainan Airlines									4,180	80,559
Hawaiian Airlines	128,960	115,545	109,970	94,075	110,895	133,520	161,560	154,290	230,520	230,052
JetBlue Airways	124,565	147,688	188,439	115,710	91,292	82,903	79,348	77,215	75,508	82,039
Mexicana Airlines	113,125	100,668	86,527	76,916	10,890					
Northwest Airlines	100,756	101,591	101,284	51,691						
Southwest Airlines	3,197,472	3,366,428	3,236,828	3,033,408	2,877,878	2,917,030	2,838,160	2,819,208	2,884,182	2,976,117
United Airlines	799,499	756,971	522,979	452,916	413,524	355,121	293,930	269,572	206,682	214,585
All Other Airlines	23,376	83,726	28,902	34,649	44,488	20,108	54,361	179,532	15,137	29,020
Subtotal	<u>6,989,533</u>	<u>6,912,126</u>	<u>6,130,069</u>	<u>5,410,517</u>	<u>5,221,002</u>	<u>5,125,391</u>	<u>5,213,194</u>	<u>5,536,593</u>	<u>5,628,460</u>	<u>6,113,904</u>
<u>Cargo Carriers</u>										
Air Transport Int'l.	57,941	59,379	56,042	57,159	71,055	12,015	250			
Airborne Express	70,176	57,392	1,088							
Fedex	252,539	241,953	231,594	168,403	164,642	163,213	158,845	152,417	150,160	164,527
United Parcel Service	129,090	133,653	132,055	96,505	83,136	93,250	88,940	82,584	86,546	101,377
All Other Cargo Airlines	2,017	247	309	200	352	270	33			440
Subtotal	<u>511,763</u>	<u>492,624</u>	<u>421,088</u>	<u>322,267</u>	<u>319,185</u>	<u>268,748</u>	<u>248,067</u>	<u>235,002</u>	<u>236,706</u>	<u>266,344</u>
Total	<u>7,501,296</u>	<u>7,404,750</u>	<u>6,551,157</u>	<u>5,732,784</u>	<u>5,540,187</u>	<u>5,394,139</u>	<u>5,461,261</u>	<u>5,771,595</u>	<u>5,865,167</u>	<u>6,380,248</u>

⁽¹⁾ See Notes on Schedule N.

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

<u>Airline</u> ⁽¹⁾	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Air Canada										214
Alaska Airlines	10,350	10,362	8,604	9,928	13,370	12,948	15,172	13,960	13,936	14,314
All Nippon Airways							52	726	730	732
American Airlines	34,310	30,534	25,310	16,308	13,448	12,452	12,672	12,374	12,172	12,356
British Airways										116
Volaris				124	812	886	770	752	774	820
Delta Airlines	4,348	7,012	4,008	4,344	4,656	4,784	4,810	8,596	12,702	14,300
Frontier Airlines	2,190	2,360	2,426	1,202	10		10	8	4	
Hainan Airlines									22	424
Hawaiian Airlines	806	732	732	620	732	882	1,036	1,014	1,462	1,462
JetBlue Airways	1,752	2,102	2,986	1,876	1,284	1,166	1,116	1,086	1,062	1,146
Mexicana Airlines	1,600	1,430	1,250	1,126	160					
Northwest Airlines	1,434	1,446	1,410	746						
Southwest Airlines	52,872	54,974	52,414	48,942	46,584	47,002	45,486	44,942	45,654	46,918
United Airlines	16,324	14,960	10,654	9,986	7,432	6,072	5,600	5,052	3,714	3,444
All Other Airlines	416	452	704	598	778	286	784	2,546	226	394
Subtotal	<u>126,402</u>	<u>126,364</u>	<u>110,498</u>	<u>95,800</u>	<u>89,266</u>	<u>86,478</u>	<u>87,508</u>	<u>91,056</u>	<u>92,458</u>	<u>96,640</u>
Cargo Carriers										
Air Transport Int'l.	442	452	426	434	538	88	2			
Airborne Express	516	422	8							
FedEx	1,326	1,324	1,264	958	926	928	918	918	920	936
United Parcel Service	926	916	854	672	566	652	610	550	580	670
All Other Cargo Airlines	178	26	6	12	16	10	6			8
Subtotal	<u>3,388</u>	<u>3,140</u>	<u>2,558</u>	<u>2,076</u>	<u>2,046</u>	<u>1,678</u>	<u>1,536</u>	<u>1,468</u>	<u>1,500</u>	<u>1,614</u>
Total	<u>129,790</u>	<u>129,504</u>	<u>113,056</u>	<u>97,876</u>	<u>91,312</u>	<u>88,156</u>	<u>89,044</u>	<u>92,524</u>	<u>93,958</u>	<u>98,254</u>

⁽¹⁾ See notes on Schedule N.

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)
SCHEDULED/CARGO AIRLINE SERVICE

CARRIER

NONSTOP SERVICE

SCHEDULED DOMESTIC AIRLINE SERVICE

Alaska Airlines

Boise (BOI)
Eugene (EUG)
Honolulu, Oahu (HNL)
Kahului, Maui (OGG)
Kona, Hawaii (KOA)
Lihue, Kauai (LIH)
Orange County (SNA)
Portland (PDX)
Reno (RNO)
Salt Lake City (SLC)
San Diego (SAN)
Seattle (SEA)

American Airlines

Charlotte (CLT)
Chicago/O'Hare (ORD)
Dallas/Ft. Worth (DFW)
Los Angeles (LAX)
Phoenix (PHX)

Delta Air Lines

Atlanta (ATL)
Las Vegas (LAS)
Los Angeles (LAX)
Minneapolis/St. Paul (MSP)
Salt Lake City (SLC)
Seattle (SEA)

Hawaiian Airlines

Honolulu, Oahu (HNL)
Kahului, Maui (OGG)

JetBlue Airways

Boston (BOS)
New York (JFK)

Southwest Airlines

Austin (AUS)
Burbank (BUR)
Chicago/Midway (MDW)
Dallas Love Field (DAL)
Denver (DEN)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED/CARGO AIRLINE SERVICE

CARRIER	NONSTOP SERVICE
Southwest Airlines (continued)	Las Vegas (LAS) Los Angeles (LAX) Ontario (ONT) Orange County (SNA) Phoenix (PHX) Portland (PDX) San Diego (SAN) Seattle (SEA)
United Airlines	Denver (DEN) Houston (IAH)

SCHEDULED FOREIGN AIRLINE SERVICE

Alaska Airlines	Cabo San Lucas (SJD) Guadalajara (GDL)
Air Canada	Vancouver (YVR)
All Nippon Airways	Tokyo-Narita (NRT)
British Airways	London (LHR)
Hainan Airlines	Beijing (PEK)
Volaris	Guadalajara (GDL)

ALL-CARGO AIRLINES

Federal Express Corporation
United Parcel Service

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)
PASSENGERS, MAIL, FREIGHT, AND CARGO STATISTICS
LAST TEN FISCAL YEARS

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Passengers (1,000's):										
Enplanements	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517	4,765	5,088
Deplanements	5,335	5,202	4,422	4,125	4,200	4,131	4,254	4,546	4,790	5,125
Total Passengers	<u>10,654</u>	<u>10,381</u>	<u>8,822</u>	<u>8,232</u>	<u>8,389</u>	<u>8,256</u>	<u>8,489</u>	<u>9,063</u>	<u>9,555</u>	<u>10,213</u>
Mail/Freight/Cargo (1,000 lbs):										
Mail	4,342	3,044	1,987	3,357	2,264	1,160	1,431	1,135	1,546	1,786
Freight/Express	12,228	7,101	5,995	5,432	5,060	5,303	6,172	16,156	18,257	22,344
Cargo	171,754	166,509	129,809	97,578	87,329	77,303	78,766	86,239	84,203	92,294
Total mail/freight/cargo	<u>188,324</u>	<u>176,654</u>	<u>137,791</u>	<u>106,367</u>	<u>94,653</u>	<u>83,766</u>	<u>86,369</u>	<u>103,530</u>	<u>104,006</u>	<u>116,424</u>

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)
HISTORICAL AIRCRAFT OPERATIONS ⁽¹⁾
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Air Carrier Operations ⁽²⁾</u>	<u>Cargo Operations</u>	<u>Total Commercial Operations</u>	<u>Percent Commercial Operations</u>	<u>General Aviation Operations</u>	<u>Military Operations</u>	<u>Total Operations</u>
2007	126,402	3,388	129,790	70.2%	55,021	103	184,914
2008	126,364	3,140	129,504	70.1%	55,146	64	184,714
2009	110,498	2,558	113,056	70.7%	46,674	242	159,972
2010	95,800	2,076	97,876	74.4%	33,439	275	131,590
2011	89,266	2,046	91,312	74.8%	30,503	276	122,091
2012	86,478	1,678	88,156	73.4%	31,664	285	120,105
2013	87,508	1,536	89,044	73.8%	31,321	210	120,575
2014	91,056	1,468	92,524	75.6%	29,619	208	122,351
2015	92,458	1,500	93,958	73.7%	33,246	213	127,417
2016	96,640	1,614	98,254	74.7%	33,048	259	131,561

S-25

Annual Compound Growth Rate

FY 2007 through FY 2016	(2.6%)	(7.1%)	(2.7%)	(5.0%)	9.7%	(3.3%)
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⁽¹⁾ An aircraft operation is defined as the takeoff or landing of an aircraft.

⁽²⁾ Includes domestic, including regional commuter operations, and international airlines.

Source: Norman Y. Mineta San José International Airport activity reports



CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY



BOND DISCLOSURE

Airport passengers have access to the ultimate luxury shopping experience from a world-class airport. Located between gates 14 and 15, an approximately 1,200square-foot Dufry store offers tax-and duty-free shopping to international passengers. Domestic passengers can purchase all merchandise, except alcohol and tobacco products, with all duty and taxes payable.





NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Bond Disclosure Report

June 30, 2016

In accordance with the requirements of the Continuing Disclosure Agreements (Disclosure Agreements) for the City of San José Airport Revenue Bonds Series 2007A, 2007B, 2011A-1, 2011A-2, 2011B, and Airport Revenue Refunding Bonds Series 2012A, 2014A, 2014B, and 2014C, 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 1-63 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, 2016, 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 B-4 of the Bond Disclosure Section 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 B-5 of the Bond Disclosure Section of this report.

- ◆ A schedule showing, for the Airport's most recently completed fiscal year, historical aircraft operations.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Bond Disclosure Report

June 30, 2016

Refer to Schedule S, page S-25 of the Statistical Section of this report.

- ◆ A schedule showing, for the Airport's most recently completed fiscal year, historical landing weight.

Refer to Table 3, page B-6 of the Bond Disclosure Section of this report.

- ◆ A list showing, for the Airport's most recently completed fiscal year, air carriers serving the Airport.

Refer to Schedule Q, pages S-22 and S-23 of the Statistical Section of this report.

- ◆ A schedule showing, for the Airport's most recently completed fiscal year, airline activity shares of enplaned commercial passengers.

Refer to Schedule N, page S-18 and S-19 of the Statistical Section 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 20 of this report.

- ◆ A table showing, for the Airport's most recently completed fiscal year, historical debt service coverage.

Refer to Schedule F, page S-10 of the Statistical Section of this report.

REPORTING OF SIGNIFICANT EVENTS

Airport revenue bond ratings

On September 2, 2016, Fitch Ratings reaffirmed the ratings for the City's Airport revenue bonds at "A-", with a stable rating outlook. Fitch Ratings also reaffirmed the underlying "BBB+" rating on the bank note associated with subordinated commercial paper notes series A-1 (non-AMT), A-2 (non-AMT/Private Acitivity), B (AMT) and C (Taxable) with a stable rating outlook.

On October 27, 2016, Moody's Investors Service reaffirmed the ratings for the City's Airport revenue bonds at "A2", with a stable rating outlook.

Potential Claim

The passenger airlines that currently operate at the Airport have a potential unasserted claim against the City for overpayment of terminal rents by the airlines. The overpayment of terminal rents by the passenger airlines has resulted from the City's annual calculation of terminal rents in a manner that

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Bond Disclosure Report

June 30, 2016

is not consistent with the terms of the current Lease and Operating Agreement between the passenger airlines and the City. Specifically, from Fiscal Year 2008 to the current fiscal year, the City has not included the City office and administrative space at the terminals that should be counted as “Rentable Terminal Space” under the terms of the Airline Lease and Operating Agreement for the purpose of calculating terminal rents to be charged to the passenger airlines. The statute of limitations for claims against a government entity such as the City is one (1) year pursuant to California Government Code Section 911.2, and the City will therefore take a position with the passenger airlines that the City is only liable to the passenger airlines for one year’s overpayment of terminal rents in the approximate amount of \$2.5 million.

At this time it is impossible to predict the outcome of this potential unasserted claim, the possible loss or range of loss, or whether the unasserted claim will be made and if made, when it would be resolved.

Workers’ Compensation Program Audit

The City’s Workers’ Compensation Program is currently undergoing two audits by the State’s Department of Industrial Relations (“DIR”): a routine three-tier Profile Audit Review (“PAR”) of randomly selected claims conducted every five years and a Target Utilization Review audit triggered by workers’ complaints regarding the City’s utilization review and procedures for requests for authorization of medical treatment of work-related injuries and illnesses. In addition to these audits, the State DIR’s Administrative Director of the Division of Workers’ Compensation issued an Order to Show Cause, assessing \$120,000 in administrative penalties for the City’s failure to properly address independent medical review appeals of utilization review non-certifications of medical treatment requests in 24 claims, which the City has paid.

The City is subject to a re-audit in two years and must pass the re-audit or its ability to retain its status as a self-insured employer may be jeopardized. Additionally, failure to pass two consecutive Full Compliance Audits would expose the City to the risk of assessment of a civil penalty, currently a one-time payment in an amount not to exceed \$100,000. In the event that the City were unable to retain its status as a self-insured employer, the City would be required to procure workers’ compensation insurance coverage which the City’s management overseeing the Workers’ Compensation Program believes will be significantly more expensive than a self-insured program. The Airport would be responsible for its proportional share of the insurance premiums for workers’ compensation insurance coverage.

The Airport believes that its proportional share of any penalties or other amounts assessed pursuant to these audits and proceedings related the City’s Workers’ Compensation Program is immaterial.

For additional information, please see Note IV. B. 11 in the Notes to the Basic Financial Statements in the City’s June 30, 2016 CAFR.

Table 1

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
HISTORICAL PASSENGER ENPLANEMENTS
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Air Carrier Domestic Enplanements ⁽¹⁾</u>	<u>Air Carrier International Enplanements</u>	<u>Total Enplanements</u>	<u>Total Percent Change</u>
2007	5,216,491	102,368	5,318,859	(1.8%)
2008	5,111,144	67,459	5,178,603	(2.6%)
2009	4,339,181	60,381	4,399,562	(15.0%)
2010	4,043,416	62,437	4,105,853	(6.7%)
2011	4,111,260	77,963	4,189,223	2.0%
2012	4,041,624	83,261	4,124,885	(1.5%)
2013	4,124,464	110,289	4,234,753	2.7%
2014	4,353,383	163,638	4,517,021	6.7%
2015	4,592,047	172,954	4,765,001	5.5%
2016	4,847,098	240,607	5,087,705	6.8%
Annual Compound Growth Rate				
FY 2007 through FY 2016	(0.7%)	8.9%	(0.4%)	

⁽¹⁾ Includes commuter enplanements previously reported separately.

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 <u>Enplanements</u>	Total Origin and Destination <u>Enplanements</u>	Total Connecting <u>Enplanements</u>	Connecting Enplanements as a Percentage of Total <u>Enplanements</u>
2007	5,318,859	5,145,726	173,133	3.3%
2008	5,178,603	5,044,473	134,130	2.6%
2009	4,399,562	4,281,747	117,815	2.7%
2010	4,105,853	3,996,223	109,630	2.7%
2011	4,189,223	4,083,459	105,764	2.5%
2012	4,124,885	4,013,758	111,127	2.7%
2013	4,234,753	4,146,393	88,360	2.1%
2014	4,517,021	4,426,965	90,056	2.0%
2015	4,765,001	4,665,281	99,720	2.1%
2016	5,087,705	5,001,106	86,599	1.7%
Annual Compound Growth Rate				
FY 2007 through FY 2016	(0.4%)	(0.3%)	(6.7%)	

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)

<u>Fiscal Year</u>	<u>Air Carrier</u> ⁽¹⁾	<u>Cargo</u> ⁽²⁾	<u>Total</u> ⁽³⁾
2007	6,989,533	511,763	7,501,296
2008	6,912,126	492,624	7,404,750
2009	6,130,069	421,088	6,551,157
2010	5,410,517	322,267	5,732,784
2011	5,221,002	319,185	5,540,187
2012	5,125,391	268,748	5,394,139
2013	5,213,194	248,067	5,461,261
2014	5,536,594	235,002	5,771,595
2015	5,628,460	236,706	5,865,167
2016	6,113,903	266,344	6,380,248
Annual Compound Growth Rate			
FY 2007 through FY 2016	(1.3%)	(6.3%)	(1.6%)

⁽¹⁾ Includes domestic, international air carriers. Also includes commuter carriers which were previously reported separately.

⁽²⁾ Includes all-cargo airlines.

⁽³⁾ Totals may not add due to rounding.

Source: Norman Y. Mineta San José International Airport activity reports

APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

City Council
City of San José
San José, California

City of San José
Airport Revenue Refunding Bonds
Series 2017A (AMT) and Series 2017B (Non-AMT)
(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 \$473,595,000 aggregate principal amount of City of San José Airport Revenue Refunding Bonds, Series 2017A (AMT) (the “Series 2017A Bonds”) and \$150,675,000 aggregate principal amount of City of San José Airport Revenue Refunding Bonds, Series 2017B (Non-AMT) (the “Series 2017B Bonds” and, together with the Series 2017A Bonds, 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 Twentieth Supplemental Resolution No. 78103 adopted by the Council on March 14, 2017 (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 Eleventh Supplemental Trust Agreement, dated as of April 1, 2017 (the “Eleventh Supplemental Trust Agreement”), between the Issuer and the Trustee (collectively, the “Trust Agreement”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Law, the Resolution, the Trust Agreement, the Tax Certificate, dated the date hereof (the “Tax Certificate”), opinions of counsel to the Issuer, the Trustee and the purchasers of the Bonds (the “Underwriters”), certificates of the Issuer, the Trustee, 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 letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. 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 and the Tax Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Trust Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, 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, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, 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. Our services did not include financial or other non-legal advice. 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, certain Other Available Funds and certain other amounts 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 excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "1986 Code") and is exempt from State of California personal income taxes, except that no opinion is expressed as to the status of interest on any Series 2017A Bond for any period that such Series 2017A Bond is held by a "substantial user" of the facilities refinanced by the proceeds of the Series 2017A Bonds, or by a "related person" within the meaning of Section 147(a) of the Code. We observe, however, that interest on the Series 2017A Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. We are further of the opinion that interest on the Series 2017B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP



APPENDIX F

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 \$473,595,000 City of San José Airport Revenue Refunding Bonds, Series 2017A (the “Series 2017A Bonds”) and \$150,675,000 City of San José Airport Revenue Refunding Bonds, Series 2017B (the “Series 2017B Bonds” and, together with the Series 2017A Bonds, the “Series 2017 Bonds”). The Series 2017 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, by an Eighth Supplemental Trust Agreement, dated as of December 1, 2011, by a Ninth Supplemental Trust Agreement, dated as of November 1, 2012, by a Tenth Supplemental Trust Agreement, dated as of October 1, 2014 (the “Tenth Supplemental Trust Agreement”), and by an Eleventh Supplemental Trust Agreement, dated as of April 1, 2017 (the “Eleventh Supplemental Trust Agreement” and, collectively, the “Master Trust Agreement”), each by and between the City and the Trustee. 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 Series 2017 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 Series 2017 Bonds (including persons holding Series 2017 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 Series 2017 Bonds 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 Series 2017 Bonds required to comply with the Rule in connection with the offering of the Series 2017 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 2016-17 fiscal year (which is due not later than March 1, 2018), 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 Series 2017 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 4 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 3 of Appendix A of the Official Statement, entitled “Norman Y. Mineta San José International Airport Airlines Serving the Airport as of December 31, 2016” for the prior fiscal year;
- (iii) Historical operating information of the type shown in Table 4 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 7 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 8 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 9 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 10 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 12 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 Series 2017 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 tax status of the Series 2017 Bonds or the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (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 Series 2017 Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

- (i) Unless described in paragraph 5(a)(v), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2017 Bonds or other material events affecting the tax status of the Series 2017 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 Series 2017 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 Series 2017 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 Series 2017 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 Series 2017 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 Series 2017 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2017 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Series 2017 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 Series 2017 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 Series 2017 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.

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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 Series 2017 Bonds, and shall create no rights in any other person or entity.

Date: April 11, 2017

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: \$473,595,000 City of San José Airport Revenue Refunding Bonds, Series 2017A and \$150,675,000 City of San José Airport Revenue Refunding Bonds, Series 2017B

Date of Issuance: April 11, 2017

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 Series 2017A Bonds and Series 2017B Bonds as required by Section 3 of the Continuing Disclosure Certificate dated April 11, 2017. 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
debt.management@sanjoseca.gov

APPENDIX G

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 on June 30, 2017.

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 or 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

“PFC Revenues”) 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 PFC Revenues, 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 untenable 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 PFC Revenues 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 H

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 H 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 2017 Bonds. The Series 2017 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 2017 Bond certificate will be issued for each maturity of the Series 2017 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 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2017 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 2017 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 2017 Bonds, except in the event that use of the book-entry system for the Series 2017 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017 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 2017 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 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017 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 2017 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Series 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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, 2017 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 2017 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 2017 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 2017 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 2017 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 2017 Bond is registered on the Bond Register, as the holder and absolute owner of such Series 2017 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 2017 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 2017 Bonds in certificated form, to issue Series 2017 Bonds in any authorized denomination. Thereafter, the principal of the Series 2017 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 2017 Bonds will be payable by check mailed to the persons in whose names such Series 2017 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 2017 Bonds will be transferable as provided in the Master Trust Agreement.



APPENDIX I

SPECIMEN MUNICIPAL BOND INSURANCE POLICY





MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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 (as defined herein) 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 BAM 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 made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or teletype as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or 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, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer 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, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN



**CALIFORNIA
ENDORSEMENT TO
MUNICIPAL BOND
INSURANCE POLICY
NO.**

This Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 15.2 of Chapter 1 of Part 2 of Division 1 of the California Law.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language

IN WITNESS WHEREOF, BUILDAMERICA MUTUAL ASSURANCE COMPANY has caused this policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By

Authorized Officer

