

**CITY OF SAN JOSE, CALIFORNIA
PASSENGER FACILITY CHARGES**

Independent Auditor's Report and
Schedule of Passenger Facility Charge
Revenues and Expenses

For the Year Ended June 30, 2023

CITY OF SAN JOSE, CALIFORNIA
PASSENGER FACILITY CHARGES
For the Year Ended June 30, 2023

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**Independent Auditor’s Report on Compliance for the Passenger Facility Charge Program;
Report on Internal Control Over Compliance; and Report on Schedule of Passenger
Facility Charge Revenues and Expenses Required by the PFC Guide**

To the Honorable City Council
City of San José, California

Report on Compliance for the Passenger Facility Charge Program

Opinion

We have audited the San José Mineta International Airport’s (Airport), a department of the City of San José (City), California, compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (PFC Guide), issued by the Federal Aviation Administration (FAA), applicable to the Airport’s Passenger Facility Charge (PFC) program for the year ended June 30, 2023.

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that are applicable to the Airport’s PFC program for the year ended June 30, 2023.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and the PFC Guide issued by the FAA. Our responsibilities under those standards and the PFC Guide are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Airport and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Airport’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

The Airport’s management is responsible for compliance with the requirements referred to above, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Airport’s PFC program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Airport's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the PFC Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Airport's compliance with requirements of the government program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the PFC Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Airport's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the Airport's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the PFC Guide, but not for the purpose of expressing an opinion of the effectiveness of the Airport's internal control. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identify during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

Our consideration of internal control was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the PFC Guide issued by the FAA. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Passenger Facility Charge Revenues and Expenses Required by the PFC Guide

We have audited the basic financial statements of the Airport, as of and for the year ended June 30, 2023, and have issued our report thereon dated November 15, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Schedule of Passenger Facility Charge Revenues and Expenses (PFC Schedule) is presented for purposes of additional analysis as required by the PFC Guide and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the PFC Schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 15, 2023

CITY OF SAN JOSE, CALIFORNIA
PASSENGER FACILITY CHARGES
Schedule of Passenger Facility Charge Revenues and Expenses
For the Year Ended June 30, 2023

	Passenger Facility Charge Revenues	Interest Earned / (Investment Loss)	Total Revenues	Expenses on Approved Projects	Under (over) Expenses on Approved Projects
Fiscal year 2022-23 transactions:					
Quarter ended September 30, 2022	\$ 3,900,743	\$ 325,546	\$ 4,226,289	\$ 7,892,482	
Quarter ended December 31, 2022	5,225,696	60,965	5,286,661	-	
Quarter ended March 31, 2023	5,657,321	102,485	5,759,806	5,747,521	
Quarter ended June 30, 2023	8,428,841	(486,461)	7,942,380	-	
	<u>\$ 23,212,601</u>	<u>\$ 2,535</u>	<u>\$ 23,215,136</u>	<u>\$ 13,640,003</u>	<u>\$ 9,575,133</u>
			Balance, beginning of year		<u>15,578,863</u>
			Balance, end of year		<u>\$ 25,153,996</u>

See accompanying notes to the Schedule of Passenger Facility Charge Revenues and Expenses.

**CITY OF SAN JOSE, CALIFORNIA
PASSENGER FACILITY CHARGES**

Notes to the Schedule of Passenger Facility Charge Revenues and Expenses
For the Year Ended June 30, 2023

(1) GENERAL

The Schedule of Passenger Facility Charge Revenues and Expenses presents only the activity of the Passenger Facility Charge (PFC) program of the San José Mineta International Airport (Airport), a department of the City.

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the imposition of PFCs and use of the resulting revenues on Federal Aviation Administration (FAA) approved projects. PFCs are fees imposed on enplaned passengers by the Airport for the purpose of generating revenue for Airport projects that increase capacity, increase safety, mitigate noise impact, and enhance competition between and among air carriers in accordance with FAA approvals.

(2) BASIS OF ACCOUNTING

The accompanying schedule is presented using the accrual basis of accounting as described in Note I to the Airport's basic financial statements.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Under the Airport's Master Trust Agreement, the Airport 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 bond debt service during such period. An amount of \$13,640,003 from accumulated PFC Revenues had been designated as Available PFC Revenues for payment of eligible bond debt service in the year ended June 30, 2023.

(4) RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the Schedule of Passenger Facility Charge Revenues and Expenses agree to or can be reconciled with the amounts reported to the FAA on the Passenger Facility Charge Quarterly Status Reports.

**CITY OF SAN JOSE, CALIFORNIA
PASSENGER FACILITY CHARGES**

Notes to the Schedule of Passenger Facility Charge Revenues and Expenses (Continued)
For the Year Ended June 30, 2023

(5) PFC APPROVED PROJECTS AND EXPENSES

The general description of the approved projects and the expenses for the year ended June 30, 2023, are as follows:

<u>Passenger Facility Charge Project Number/Description</u>	<u>Identifying Number</u>	<u>Passenger Facility Charge Approved Amount</u>	<u>Expenses</u>
#40A Runway 12R/30L Reconstruction	01-12-C-00-SJC	\$ 72,022,700	\$ 1,926,200
#40B Runway 12R/30L Extension	01-12-C-00-SJC	38,671,724	871,730
#52 Taxiway Z - Apron Reconstruction (Phase II)	01-11-C-00-SJC	825,000	-
#53 Terminal C Fire Protection	01-11-C-00-SJC	580,000	-
#54 Fiber Optic Cable to ARC & Fire Station 29	01-11-C-00-SJC	87,345	-
#55 Green Island Bridge	01-11-C-00-SJC	825,000	-
#56 Replacement of AACS and CCTV	01-11-C-00-SJC	4,418,645	-
#57 Skyport Grade Separation	01-11-C-00-SJC	18,218,154	-
#58 Terminal Drive Improvements	01-11-C-00-SJC	1,146,165	-
#59 Replacement of PASSUR	01-11-C-00-SJC	221,000	-
#60 Terminal C Restroom	01-11-C-00-SJC	2,485,000	-
#61 Interim Air Cargo Ramp Extension	01-11-C-00-SJC	1,100,000	-
#62 Runway 30R/12L Reconstruction	01-11-C-00-SJC	84,105,103	2,063,200
#63 Noise Attenuation Category II & III	01-11-C-00-SJC	4,500,000	-
#64 Taxiway Y Extension	01-11-C-00-SJC	12,890,000	227,361
#67 Terminal B - North Concourse	06-15-C-00-SJC	520,529,164	7,573,164
#68 Terminal B Extension, Phase I	08-16-C-00-SJC	110,159,000	978,348
#69 Roadway Improvements: Grade Separations	08-16-C-00-SJC	10,244,000	-
Total Passenger Facility Charge Projects		<u>\$ 883,028,000</u>	<u>\$ 13,640,003</u>