

COMPREHENSIVE



FISCAL YEARS
ENDED JUNE 30,
2014 AND 2013

ANNUAL FINANCIAL REPORT

NORMAN Y. MINETA SAN JOSÉ
INTERNATIONAL AIRPORT

SAN JOSÉ, CALIFORNIA
A DEPARTMENT OF THE
CITY OF SAN JOSÉ





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PREPARED BY:
FINANCE AND ADMINISTRATION
TERRI A. GOMES, CPA
DEPUTY DIRECTOR



**Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2014**

Kim Becker Aguirre
Director of Aviation

John Aitken
Acting Assistant Director of
Aviation & Deputy Director of
Aviation - Operations

Terri A. Gomes, CPA
Deputy Director of Aviation
Finance & Administration

Kim Hawk
Incoming Deputy Director of Aviation
Finance & Administration

Prepared by:
**Airport Department
Finance & Administration Division - Accounting Section**

Evelyn M. Slotnick
Principal Accountant

Laura Luu
Senior Accountant

Cristina Benninghouse
Senior Accountant

Elsa Jacobo
Senior Accountant

Mary Soo
Senior Accountant

Kristy Tricoli
Accountant II

Corrie Konatsu
Accounting Technician

Peter Romero
Accounting Technician

Jackie Kupitz
Senior Account Clerk

Janet Kuang
Senior Account Clerk

Claudia Molina
Senior Account Clerk

Lanie Prestosa
Senior Account Clerk

Special Assistance

Bonnie Cromartie, Finance & Administration
Division

Stephanie Fong, Finance & Administration
Division

Sylvia Kang, Finance & Administration Division

Meenakshi Singh, Planning &
Development Division

Danielle Kenealey, City Attorney's Office

Shalyce Childers, Planning & Development
Division

Steve McChesney, Public Works Department



INTRODUCTORY



TSA Pre✓

CLEAR has returned to SJC giving travelers another pre-screening option to reach boarding gates faster. CLEAR enrollment kiosks and exclusive lanes are located at the security checkpoints in both Terminals A and B. They're staffed with friendly attendants who guide the enrollment process, and assist passengers holding a biometric CLEAR card through SJC's security screening.

TSA Pre-Check is now available at SJC and Transportation Security Administration (TSA) operates the dedicated lane based on peak travel times. This program allows eligible frequent flyers traveling on participating airlines to voluntarily share personal information with the TSA so that a risk assessment can be completed prior to arrival at the airport checkpoint. With Pre-Check, travelers don't have to remove shoes, belts and jackets, and laptops from carry-on bags.



**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014

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NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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GEO LOCATOR MAP



- Primary Service Area
- Secondary Service Area
- ✈ Norman Y. Mineta San José International Airport

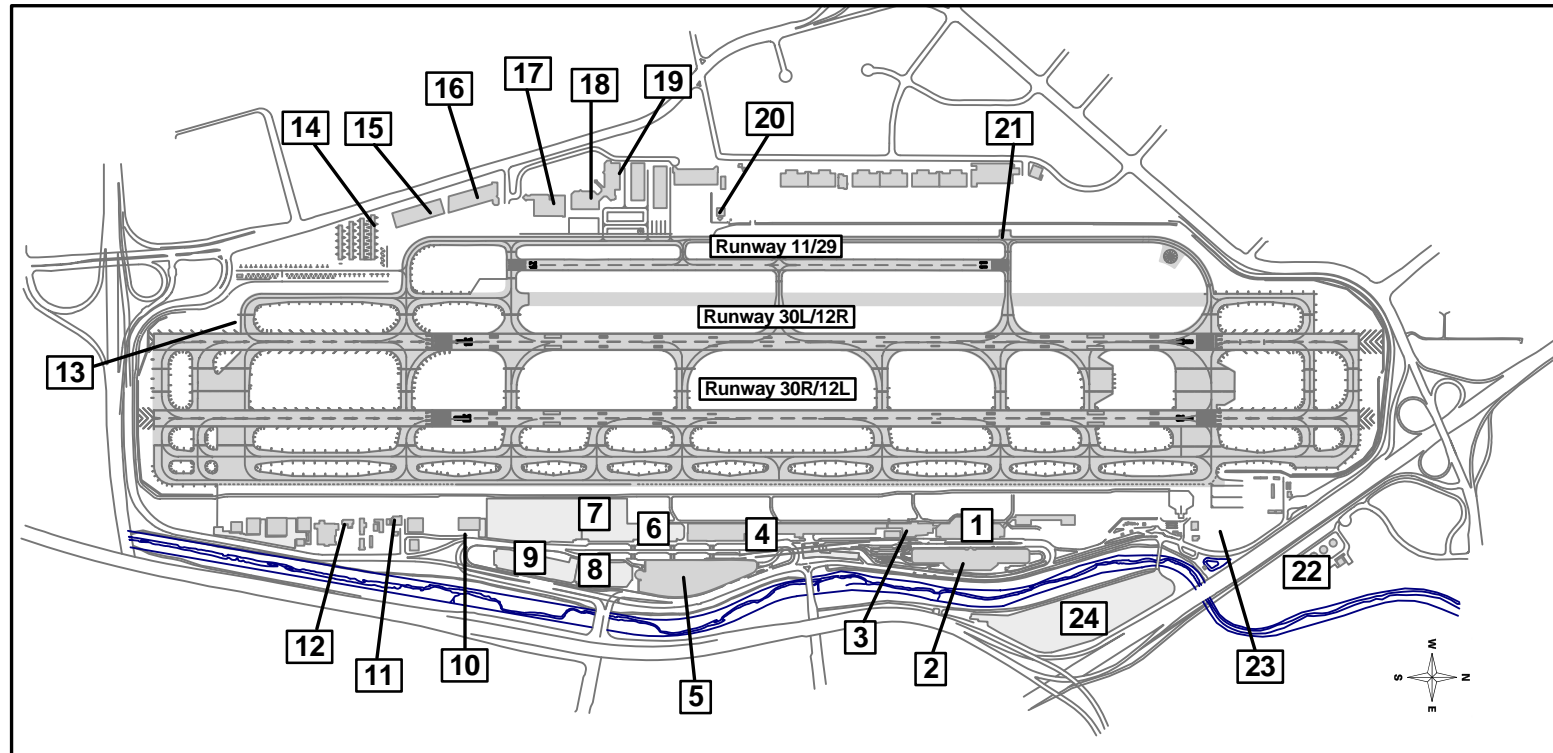
Norman Y. Mineta San José International Airport

San José, California
A Department of the City of San José
Fiscal Years Ended June 30, 2014 and 2013



Reduced View of Service Areas

Norman Y. Mineta San José International Airport



Map Legend

- | | |
|--|--|
| 1. Terminal A | 14. GA West |
| 2. Terminal A Parking Garage | 15. AvBase Aviation |
| 3. Interim Federal Inspection Services | 16. ACM |
| 4. Terminal B | 17. HP Aviation (Corporate) |
| 5. Consolidated Rental Car Center | 18. FAA-FSDO |
| 6. Hourly Lot 5 | 19. Atlantic San Jose (Fueling & Transient Services) |
| 7. Daily Lot 6 | 20. FAA Air Traffic Control Tower |
| 8. Hourly Lot 3 | 21. VOR Checkpoint |
| 9. Daily Lot 4 | 22. Fuel Farm Location |
| 10. Air Freight | 23. North Air Cargo |
| 11. Fire Station 20 | 24. Economy Lot 1 |
| 12. SJPD Airport Division | |
| 13. VOR Checkpoint | |



NORMAN Y. MINETA
SAN JOSE
INTERNATIONAL
AIRPORT



CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

LOCATOR MAP

September 2014

Coordinate System: Airport Grid
Airfield Elevation: 58' MSL
Airfield Lat: N37 21.7
Airfield Long: W121 55.7



November 14, 2014

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 (FY) ended June 30, 2014 and 2013, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Airport's management. We believe the data, as presented, is accurate in all material aspects and presented in a manner designed to fairly set forth the financial position and changes in financial position of the Airport, and that all disclosures necessary to enable the reader to gain the maximum understanding of the Airport's financial affairs have been included. This transmittal letter provides a summary of the Airport's background, economic condition and outlook, and major initiatives.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

REPORTING ENTITY

The City Charter created the Airport Department (Department) in 1965 as a department within the City.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 domestic airport with some international service. The Department's mission is to meet the air transportation needs of the business and public communities in a safe, efficient, and effective manner.

The primary area served by the Airport consists of Santa Clara County, which is also the San José Primary Metropolitan Statistical Area (MSA) and is commonly referred to as Silicon Valley. Furthermore, the primary service area includes the adjacent counties of Monterey, San Benito, and Santa Cruz and portions of two adjacent counties, Alameda and San Mateo (collectively, the "Air Service Area"). The Air Service Area is part of the larger San Francisco/San José/Oakland Area. The nearby counties of Merced, Stanislaus, and San Joaquin comprise a secondary service area. Three of the six Air Service Area counties belong to the Association of Bay Area Governments (ABAG) regional planning agency and rank within the top five most populated counties of the ABAG Region, with Santa Clara and Alameda Counties ranking first and second, and the County of San Mateo

¹ The San José City Charter was put into effect in May of 1965.

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. A separate unit of local government operates each of the three facilities independently.

ECONOMIC CONDITION AND OUTLOOK

Aviation demand nationwide and globally is primarily a function of population and economic growth, developments within the airline industry, and airport and airspace capacity. Airline traffic at airports principally serving origin-destination passengers is most responsive to local economic and population growth. As a predominantly origin-destination, medium-hub airport, the Airport is dependent upon the regional economy, national and international economic conditions, airline service, airfare levels, and population for the passengers who produce its revenue base.

Passenger activity at the Airport increased at a compound annual growth rate of 1.4% between fiscal years 2003 and 2006. Since 2006, the Airport had seen a substantial decline in the number of passengers, from 10.9 million in FY 2006 to 8.3 million in FY 2012, which in turn had reduced Airport revenues and resources. Several notable events occurred during this period (both locally and nationwide), most notably a nationwide recession from December 2007 to June 2009, as well as a peak in oil prices, and significant airline capacity cuts at most medium hub airports nationwide. In addition to the reduction in airline traffic, the debt service obligations of the Airport have increased significantly in recent years.

In response, the Airport has taken many steps to reduce its operating budget costs including, among others, (a) elimination of more than 200 positions since 2008, (b) outsourcing of custodial, and parking and traffic control services, (c) relocation of the off-Airport administrative offices, and (d) reductions in police and fire-related costs. By reducing operating costs, the Airport is able to offer services at competitive prices to attract and retain airlines, flights, and passengers. In addition, the Airport has aggressively sought to increase non-airline revenues for the past several years. Through its new concessions program, the Airport has increased the number of shops and restaurants in the new terminal, and its contracts with concessionaires require a minimum annual guarantee that resulted in higher revenues when the new terminal opened. The initiatives to increase non-airline revenues have included re-bidding agreements and transitioning from agreements that were based on cost-recovery rates to agreements based on market rates.

An additional measure taken by the Airport was the establishment of a cost per enplaned passenger (CPE) target of \$12.00. The CPE was \$11.18 for FY 2010, \$11.23 for FY 2011, \$12.29 for FY 2012, \$11.94 for FY 2013 and \$10.98 in FY 2014. The CPE is estimated to be \$10.50 for FY 2015 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 9.1 million passengers traveling through the Airport and passenger traffic growth of 6.8% for FY 2014.

The City and the Airport continue to work with the Silicon Valley Leadership Group and the San Jose Silicon Valley Chamber of Commerce to help attract new airlines and routes. In an effort to increase service and restore lost flights, the Airport and airports across the nation have been developing and enhancing air service incentive programs. The Airport continues to offer several air service incentive programs to support the development of new passenger air service at the Airport.

In August 2014, a new airline incentive program was approved by the City Council. As part of the new airline incentive 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 program provides for the waiver of landing fees for a period between one and two and a half years (the Incentive Period) for airlines providing service to a new airport destination for a specified period of time with a minimum frequency of three times weekly non-stop service. The program also provides for matching marketing funds ranging from \$25,000 to \$250,000, depending on the type of new service provided. For a new airline coming to the Airport, landing fees and eligible terminal fees will be waived during the Incentive Period. The terms and conditions of the airline incentive program are at the sole discretion of the Director of Aviation and can be modified at any time.

Past participants to the Airport's old incentive program included Southwest Airlines with service to Austin, jetBlue Airways with service to Boston, Hawaiian Airlines with service to Kahului (Maui), Alaska Airlines with service to Austin, Kona, Kahului (Maui), Lihue (Kauai), and Cabo San Lucas, and Virgin America and Delta, both with service to Los Angeles. All-Nippon Airways, with service to Tokyo-Narita, and Delta, with service to Seattle, are current participants under the old incentive program.

In addition, the Airport 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). Terms and conditions of the Municipally-Funded Air Service Incentive Program are set forth in the Airline Lease Agreement.

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 1,000,536 as of January 1, 2014, reflecting a growth of 1.7% over the prior year. San José is located in Santa Clara Valley, at the southern end of the San Francisco Bay Area, a region referred to as Silicon Valley. Santa Clara County is the sixth largest county in California and the largest in Northern California. The population of Santa Clara County grew 1.5% from 2013 to 2014, with the population increasing to 1,868,558 as of January 1, 2014. The six counties comprising the primary service area for the Airport grew 1.4% from 2012, in line with the State growth rate of 0.9%. In total, the population of the primary service area increased by 66,190 from the prior year and accounts for 12.9% of the State's population.²

The per capita income information described below is the information available from the Bureau of Economic Analysis as updated on May 30, 2014. 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 2012 Santa Clara County had a PCPI of \$66,535 and was 143% of the state average of \$46,477, and 152% of the national average of \$43,735, and it ranked 4th in the State of California. Within the Air Service Area, the remaining counties personal income and PCPI were as follows:

Personal Income and Per Capita Personal Income within the Air Service Area							
County Name	Personal Income (Millions of Dollars)			Per Capita Personal Income (Dollars)			
	2011	2012	% Change 2011-2012	2011	2012	% Change 2011-2012	2012 Rank
Alameda	\$78,550	\$85,017	8.2%	\$51,286	\$54,683	6.6%	8
Monterey	17,668	18,365	3.9%	41,906	43,034	2.7%	22
San Benito	2,037	2,163	6.2%	36,273	38,030	4.8%	35
San Mateo	51,932	55,139	6.2%	71,232	74,582	4.7%	3
Santa Cruz	13,285	13,990	5.3%	50,138	52,442	4.6%	11
Santa Clara	113,462	122,259	7.8%	62,623	66,535	6.2%	4
California	\$1,683,204	\$1,768,039	5.0%	\$44,666	\$46,477	4.1%	

Per capita income increased by 6.2% from 2011 in Santa Clara County compared to an increase of 4.1% and 3.4% for California and the nation, respectively.³

Employment

Both the California and U.S. unemployment rates remain high in comparison to pre-recession levels but are on a downward trend. In 2014, the unemployment rate in Santa Clara and San Benito counties declined from the previous year for the fourth time since 2006. Employment growth in this region had declined sharply after growing at a solid pace between 2006 and 2007. California's economic problems originated in the housing and financial sectors, spread into the consumer economy, and subsequently into the rest of the economy.⁴

³ U.S. Department of Commerce, Bureau of Economic Analysis

⁴ Employment Development Department – State of California

Santa Clara County's unemployment rate at June 2014 was 5.4%, with 50,200 unemployed, an increase of 2,100 from May 2014.⁵ Likewise, the unemployment rate in the San José-Sunnyvale-Santa Clara MSA was 5.5% in June 2014, up from a revised 5.3% in May 2013, and below the year-ago estimate of 7.3%. This compares with an unadjusted unemployment rate of 7.8% in San Benito County, 7.3% for California, and 6.3% for the nation during the same period.⁵

San José-Sunnyvale-Santa Clara MSA	May-2014	Jun-2014	Change	Jun-2013	Jun-2014	Change
	Revised	Prelim			Prelim	
Total Employment Numbers, All Industries	996,900	1,003,200	6,300	969,600	1,003,200	33,600
Total Farm	5,300	5,500	200	5,100	5,500	400
Total Nonfarm	991,600	997,700	6,100	964,500	997,700	33,200
Mining and Logging	300	300	-	200	300	100
Construction	38,600	38,700	100	37,400	38,700	1,300
Manufacturing	159,300	161,300	2,000	156,300	161,300	5,000
Trade, Transportation & Utilities	136,400	137,800	1,400	134,300	137,800	3,500
Information	62,700	64,200	1,500	58,900	64,200	5,300
Financial Activities	34,000	34,200	200	33,900	34,200	300
Professional & Business Services	192,300	194,600	2,300	191,300	194,600	3,300
Educational & Health Services	153,400	153,500	100	143,400	153,500	10,100
Leisure & Hospitality	90,700	91,100	400	89,600	91,100	1,500
Other Services	25,600	26,200	600	25,700	26,200	500
Government	98,300	95,800	(2,500)	93,500	95,800	2,300

Educational and health services led the way in posting a monthly increase in jobs on a year-over basis, increasing by 10,100 jobs, while information increased by 5,300 jobs. Other industries with significant year-over-year job additions included: manufacturing by 5,000 jobs; trade, transportation, and utilities increased 3,500 jobs; and professional and business services increased by 3,300 jobs.

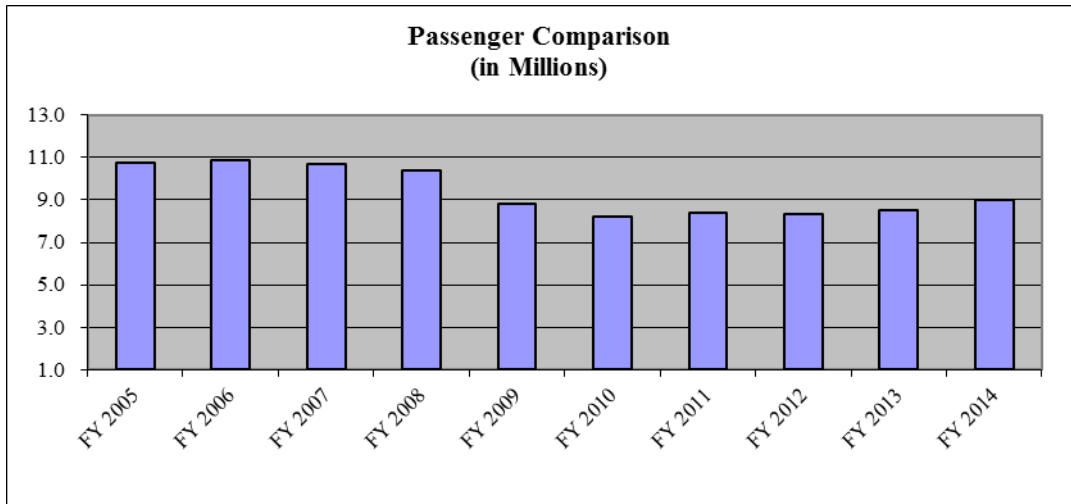
⁵ U.S. Department of Commerce, Bureau of Economic Analysis

Norman Y. Mineta San José International Airport: Passenger and Air Traffic

The Airport is classified as a medium hub airport by the Federal Aviation Administration (FAA) and ranked as the 44th busiest airport in the nation in terms of total passengers according to Airports Council International-North America statistics, as of calendar year 2013. As of June 30, 2014, 13 carriers provided scheduled passenger service to 29 destinations, including eight mainline carriers, three regional/commuter carriers, and two international carriers. In addition, two all-cargo carriers provided scheduled cargo service at the Airport.

For FY 2014, the Airport enplaned and deplaned 9.1 million passengers, which represents an increase of 6.8% from the previous fiscal year.

The graph below displays fiscal year-to-date passenger comparison for the last ten fiscal years.



For FY 2014, the Airport experienced an overall increase of 1.5% in traffic operations due to gains in the following categories: passenger carrier (an increase of 1,998 operations or 2.8%) and taxi/commuter (an increase of 1,550 or 9.7%).

Airport Master Plan

In 1997, after extensive planning and environmental studies and reports, the City Council approved a new master plan for the Airport (the “Master Plan”). In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new Airport Layout Plan (the “ALP”) displaying the Master Plan projects and unconditionally approved all of the near-term projects. Both the Master Plan and the ALP have been amended several times since 1997 and currently are intended to provide facility improvements needed to accommodate forecast demand in the year 2027 for commercial passenger service, air cargo and corporate general aviation demand. The Master Plan includes both the substantially complete Phase 1 and the planned Phase 2 of the Airport Development Program, which collectively comprise improvements to the Airport’s terminal facilities, roadways, parking facilities and airfield facilities and includes 1.075 million square feet of passenger terminal facilities comprised

of up to 49 gates; parking and garage facilities comprised of up to 16,200 public parking spaces, 2,600 employee parking spaces and 10,000 rental-car parking spaces (including 2,000 ready-return spaces); air cargo facilities; ground transportation, roadway and other access improvements; and runway improvements. In the fall of 2005, and in recognition of how current market conditions were impacting passenger growth, the Airport and its airline tenants reexamined the Master Plan and developed the Terminal Area Improvement Program, a program for implementing the Master Plan by aligning ongoing and planned construction activities with available fiscal resources, taking into account revised passenger growth projections. In June 2006, the City Council approved an amendment to the Master Plan to incorporate the Terminal Area Improvement Program and other Airport Development Program revisions. In June 2010, the City Council approved an additional amendment to the Master Plan that updated projected aviation demand and facility requirements, and modified specific components of the Airport Development Program. Pursuant to the amended Master Plan, the former interim long-term public parking and employee parking lots on the northwest side of the Airport (which have been relocated to the east side terminal area) will be gradually converted to new general aviation leasehold facilities.

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 (ConRAC) facility; realignment and improvement of existing terminal roadways; parking improvements; airfield projects, including noise mitigation and the reconstruction of Taxiway Y; and other improvements, including construction of a new belly freight facility and an aircraft rescue and firefighting facility. 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 meet the air transportation needs of the business and public communities in a safe, efficient, and effective manner. In concert with the City's move towards a more customer-focused service delivery government, the Airport embraced the following Vision Statements:

Norman Y. Mineta San José International Airport will be the region's gateway and first choice for air transportation services.

It will be a place where travelers want to come, and people want to work. It will be easy to get into, around, and out of the Airport. Because the Airport will be an innovator in its use of technology and delivery of services, it will create an exciting environment to visit and use.

Travelers will feel the anticipation and sense of adventure that air travel should generate.

Business travelers will have a hassle free experience. Families and leisure travelers will feel their vacation has begun when they arrive at the Airport. People will leave the Airport feeling like guests who have been treated well, and will want to come back.

The Airport will be a partner with businesses working to drive the regional economy.

The airlines and other tenants will feel the Airport provides opportunities for their business to succeed.

The Community will be proud to have the Airport in their midst, seeing it as a good neighbor and understanding its benefits to the region.

The Airport will be a landmark representing San José and the Silicon Valley.

The Airport will be a great place to work for all employees.

The Airport organization will be a place where an individual can enjoy building a career. Each employee will feel they have made a meaningful contribution and their efforts are valued. It will be a place where all employees are recognized for their contributions and where a “can-do” attitude prevails. Norman Y. Mineta San José International Airport will be the employer of choice. Employees will be proud to be a part of the Airport organization and proud to tell their friends and neighbors they are part of this vision.

These Vision Statements are used by the Airport as a guide in making better decisions and sound management practices.

Highlights of the Airport’s activities and accomplishments for the fiscal year ended June 30, 2014, include the following:

- Taxiway W

The Airport completed the last and final phase of the Taxiway W extension project along with the improvements to the existing cross taxiways. The Taxiway W extension provides a full length parallel taxiway to Runway 30L-12R on the west side of the airfield in support of the development of new general aviation facilities and accommodates larger corporate jet aircraft.

- Signature Flight Support Broke Ground on an \$82 Million Corporate Aviation Facility

Signature Flight Support, a global leader in fixed base operations, broke ground and officially began development on the \$82 million Signature San José facility at the Airport on February 28, 2014. Signature San José will serve the general aviation needs of individuals and companies in Silicon Valley. The 29-acre Signature facility will feature 240,000 square feet of hangar space, a passenger terminal and other amenities. Blue City Holdings, the private aviation arm of Google's founders, is one of the anchor tenants. The LEED-designed facility will create 150 to 200 on-Airport and regional construction jobs, 36 permanent on-Airport jobs and generate more than \$3 million in annual revenue for San José.

- Air Service Development

In September 2013, Delta Air Lines expanded service between the Airport and Los Angeles International Airport to five daily nonstop flights on 65-passenger Canadair CR-700 regional jets. The airline's international gateway in Los Angeles offers convenient connections on Delta and its SkyTeam partner carriers to cities in Asia, Europe and Latin America.

Delta Air Lines started service between the Airport and Seattle-Tacoma International Airport (SEA) in May 2014. Delta added four daily nonstop flights using 76-seat, two-class Bombardier CRJ-900 aircraft. The new service provides Delta customers with convenient connections to the airline's growing international network from Seattle.

Southwest Airlines expanded flights from the Airport to four destinations effective April 2014. Responding to strong passenger bookings from Silicon Valley travelers, Southwest Airlines added one daily nonstop flight each to Denver, San Diego, Seattle and Orange County bringing the daily flight schedule to Denver to four, 10 daily flights to San Diego, three to Seattle and nine to Orange County.

Alaska Airlines launched service between the Airport and Salt Lake City effective June 2014. In response to increased demand from Silicon Valley travelers, Alaska offered one daily nonstop flight using Boeing 737 aircraft.

In May 2014, Hawaiian Airlines resumed year-round daily nonstop wide-body service between the Airport and Honolulu, providing passengers easy connections to Beijing, a market the carrier recently launched.

- Airport Was Named Second Fastest Growing Medium Hub Airport in US for 2013

The Airport was recognized as the second fastest growing medium hub airport in the US for passengers served in 2013 by Airline Network News & Analysis (anna.aero), a leading aviation industry web-based publication dedicated to airline network planning intelligence and news coverage of global airline route launches. Anna.aero recognized the Airport for its significant air service growth in 2013 in its 4th US ANNIE Awards program. The Airport competed in the 5 million to 10 million annual passengers served category. Passenger traffic increased from 8.3 million in 2012 to 8.8 million in 2013, for an overall calendar year increase of 5.9%. The Airport was the only California airport recognized among the 630 US airports evaluated by anna.aero. Increased passenger activity in 2013 was due to new and expanded

international and domestic airline service. This included All Nippon Airways' daily nonstop flights to Tokyo on the Boeing 787 Dreamliner, Delta Air Lines and Virgin America each of which launched four daily flights to Los Angeles, and Southwest Airlines with added frequency and strong bookings on existing routes.

- Airlines Received \$941,736 Rent Reward

For the second consecutive year, the airlines received a rent reward from the Airport of \$941,736 in October 2014 in recognition of passenger traffic growth that exceeds the national average. In FY 2013, the Airlines received \$419,833. The incentive rewarded carriers when enplanements at the Airport grew faster than the national average, which was the case during the past two fiscal years. The Airport's enplanements grew by 6.7% in FY 2014, while the FAA projected enplanement growth of 0.8% in FY 2014. The Airport's enplanements grew by 2.7% in FY 2013, while the FAA projected enplanement growth of 0.0% in FY 2013. The City of San José, which owns the Airport, charges indirect costs for support services such as legal, human resources, finance and IT, that are in turn passed along to carriers in their landing fees and terminal rents. Under the Airport's airline agreements, when passenger enplanements increase beyond the FAA's national forecast, San José support service costs charged to airlines are reduced. Each carrier received a check in an amount based upon individual passenger market share the past two fiscal years.

- Silicon Valley's Airport Launches "Fly San Jose" Campaign

The Airport launched its "Fly San Jose" campaign to support its airline partners and to encourage passengers to book business and leisure travel for the year-end holidays and beyond from Silicon Valley via flysanjose.com. Since Los Angeles is the service most used from the Bay Area and is a strength for Silicon Valley's Airport, the initial phase of the campaign is focused on SJC-LAX service. The campaign's key messages included the Airport's stellar on-time record and associated excellent weather, ease of parking on-site, and the convenience that the Airport offers.

- Expedited Passenger Screening is Now Available with the Global Entry Kiosks and CLEAR

Two automated Global Entry Kiosks are now available in the international arrivals facility at the Airport. Existing Global Entry members arriving from international destinations use this technology-driven trusted traveler program that enhances security and expedites passengers through the inspection process at federal customs checkpoints, thereby reducing wait times for all arriving passengers.

Certified by the Department of Homeland Security, CLEAR transforms the travel experience by allowing members to use their biometrics (fingerprint or iris) to speed through security at major US airports. The Airport was the first Bay Area airport to offer CLEAR in 2007, and this service has resumed after a few years hiatus. Exclusive CLEAR lanes are located in Terminal A and Terminal B passenger screening areas, where member travelers are assisted by a CLEAR attendant in bypassing long security waits. With passenger traffic on the rebound, CLEAR gives frequent flyers a more predictable experience once they arrive at the Airport.

- City Council Approved the Issuance of Airport Revenue Refunding Bonds

In August 2014, the City Council approved the issuance of Airport Revenue Refunding Bonds totaling \$125,645,000. The bonds were issued in October 2014. Due to continued improvements in the municipal credit market, the bond issuance allowed the refunding of previously issued bonds that reduces the Airport's annual debt service payment.

- The Airport Lauded for its Efforts to Bring All Nippon Airways' San José - Tokyo Service in 2013

The Director of Aviation accepted an award on behalf of all City and Airport staff at the "Turning Red Tape into Red Carpet" program. Airport staff was acknowledged at this Silicon Valley Leadership Group-sponsored event in the 'Responding to Globalization' category for its efforts to bring All Nippon Airways (ANA) to SJC and for linking Silicon Valley with Tokyo and Asia. After at least five years of discussions with ANA, the airline began SJC-Tokyo service, with easy connections to other Asia destinations. The Mayor's Office, Office of Economic Development and Silicon Valley Leadership Group were instrumental in this success. The economic impact of the daily ANA flight is about \$78 million annually.

- "Power Suite" Now Open

The "Power Suite" is now open in Terminal B opposite gates 17 and 18. The Power Suite is a new hold room with seating for 150 people. It offers the usual free and fast Wi-Fi, and comfortable seating and work stations with built-in power outlets so travelers can remain productive prior to boarding their flight. This extra seating is necessary to accommodate larger, international flights. The Airport is converting gates 17 and 18, which currently serve domestic flights only, to international "swing gates." These gates will accommodate a range of aircraft including wide-bodies such as the Airbus A330 and Boeing 777.

- Silicon Valley Welcomes Airport Industry Trade Association

The Airport successfully hosted the Airports Council International - North America (ACI-NA) 2013 Annual Conference and Exhibition in September 2013. Some 1,800 visitors representing more than 175 North America commercial service airports and industry vendors were registered. This event offered unparalleled education and networking opportunities for the leadership of airports in the US and Canada. ACI-NA was the first conference to be held in the modernized San José McEnery Convention Center.

- Airport Held Annual Emergency Tabletop Exercise

The Airport held its annual emergency tabletop exercise to meet Federal Aviation Administration (FAA) requirements and to evaluate the effectiveness of the Airport Emergency Plan. The scenario involved an air carrier aircraft arriving SJC at nighttime that experienced a fire onboard upon landing, requiring an evacuation of the passengers and crew on the runway. Role players included representatives of the Airport Department, San Jose Fire, San Jose Police, FAA and the Airport's based airline. The audience included evaluators representing the Airport's tenants and other regional air carrier airports. With the completion

of this drill, the Airport reaffirmed its commitment to safety as the first priority through compliance with Federal Aviation Regulation Part 139 and the Airport Operating Certificate.

- Airport Employees Saved Lives

Two Airport travelers are alive due to the quick and heroic actions of San José Police officers, Airport Operations staff and good Samaritans. One traveler experienced sudden cardiac arrest (SCA) while waiting in line at the passenger screening checkpoint. On another occasion, an arriving passenger experienced SCA while waiting for his luggage. A cry for help from the distressed passengers' companions summoned nearby passengers and Airport staff. They used hands-only cardiopulmonary resuscitation and an automated external defibrillator (AED) on the ailing passengers. There are 43 AED units installed throughout the Airport and are credited with saving six lives since 1998.

- Passengers Learn How to Save a Life While Waiting for a Flight at Silicon Valley Airport

Some Southwest Airlines passengers had the unique opportunity to receive lifesaving training as they waited to board flights at the Airport. The "CPR in Motion" training, co-sponsored by the Airport, the City of San José, Santa Clara County Ambulance and Santa Clara County Emergency Medical Services, trained some 100 passengers and other airport users in hands-only cardiopulmonary resuscitation (CPR) in both English and Spanish.

- San José Eagle Scout Candidate's Project Contributed to Improved Safety for Passengers and Aircraft Operations

Caleb Levine, a member of Boy Scout Troop 339 and a junior at Branham High School in San José, built two raptor traps for the Airport as part of his Eagle Scout project. The Airport, in cooperation with United States Department of Agriculture Wildlife Services personnel, is now using the traps to capture, band and relocate raptors, predominantly red-tailed hawks, which are attracted to the airport environment and pose a threat to human health and safety. The traps are an important addition to the Airport's Wildlife Hazard Management Program.

- Airport Partners with Cops Care Cancer Foundation to Offer "Fantasy Flight to the North Pole" for Terminally Ill Children

The Airport opened its hangar doors and partnered with Cops Care Cancer Foundation to hold "Fantasy Flight 2013," a holiday giving event to benefit more than 150 terminally ill children. Children battling cancer or any other life-threatening illness and their families were invited to join this Christmas-themed extravaganza. This annual event was planned by officers of San José Police Department (SJPD) and other neighboring law enforcement agencies. The event began at Juniper Networks in Sunnyvale, CA, and continued to the Airport where guests enjoyed food, entertainment, prizes, and gifts delivered by Santa Claus who arrived at the Airport on SJPD's helicopter. The Airport's portion of the event was held in a vacant hangar which was decorated to resemble the "North Pole," with lights, Christmas trees and other holiday decorations. Sponsoring agency employees volunteered their time and donations for this event.

- Local Non-Profits and Low-Income Residents Benefited from Airport Holiday Event

Airport staff, including San José Fire Department and SJPD representatives, held their annual holiday recognition luncheon on-Airport, to recognize employees and donate needed items for local non-profit clients and low-income residents. Planned by the Airport Recognition Committee and supported with Airport employee recognition funds and personal donations, each Airport division chose a local non-profit or low-income family, solicited their needs, and created holiday displays overflowing with useful items such as gift cards, toys, books, and non-perishable goods

- SJC Hosted Anti-Trafficking Awareness Training for Airport Personnel

The Airport partnered with Congressman Mike Honda, the Bay Area Anti-Trafficking Coalition and Airline Ambassadors International to host an anti-trafficking awareness training for Airport Department employees, and airline gate agents and flight attendants. Human trafficking is the buying and selling of women, girls and boys, and is the fastest growing criminal enterprise in the world. US airports are major hubs of entry and exit for perpetrators and their victims. The US Department of State has determined that transportation professionals are among the best-placed to identify trafficking situations. The training raised situational awareness by teaching both warning signals and approved methods of how to handle a suspected trafficking situation.

- Airport Management Team Trained on Incident Command System

More than two dozen members of the Airport's management team received three days of Incident Command System (ICS) training. The ICS 300 and 400 courses are not offered online and are a mandatory requirement for emergency responders who are required to work in the Airport's Emergency Operations Center should it be activated. Airport managers learned to effectively manage an incident (large or small) within a unified command system in conjunction with the San Jose Police and Fire departments. The courses were taught by Fire Instruction, whose principal officer is a 35-year veteran of the California fire service and has held the rank of firefighter through battalion chief with experience in responding to many large-scale incidents.

- TSA Held "Women of Character, Courage and Commitment" Event at the Airport

March is Women's History Month, an annual worldwide celebration that highlights the contributions of women to events in history and contemporary society. To commemorate this, the Transportation Security Administration (TSA) sponsored a "Women of Character, Courage and Commitment" event during lunch on March 19 with a static display and speakers program. Presenters included Congresswoman Zoe Lofgren (19th Congressional District), FAA-SJC Air Traffic Manager Tonya Patterson and SJC Director of Aviation Kim Becker Aguirre. Of the more than 430 commercial service airports in the US, only 31 have female directors and one of these is the Airport.

- [Airport Director of Aviation Joined Joint Venture Silicon Valley Board of Directors](#)

Director of Aviation Kim Becker Aguirre was recently elected to the Joint Venture Silicon Valley board of directors. The 50-member Joint Venture board of directors includes senior-level representatives from business, local and regional government, academia, labor and workforce organizations and the broader community. Among Joint Venture's current regional initiatives are programs to support economic development, build the smart energy network of the future, strengthen climate protection and broaden the region's wireless network.

- [Airport Employees Received Disaster Service Worker Training by Office of Emergency Services Staff](#)

The City of San José's Office of Emergency Services provided Disaster Service Worker (DSW) training to Airport employees. Airport staff learned that as public service employees they have the responsibility to help during a disaster. Typical DSW duties may be as food preparers, interpreters, drivers, IT work, nursing, Emergency Operations Center staffing and financial document preparers. Employees were instructed to ensure their personal safety and that of their family and pets first before responding to disaster work once called upon by their supervisor.

- [Airport Won A Distinguished State Communications Award](#)

The Airport received the 2014 Excellence in Communications Award of Distinction from the California Association of Public Information for its online newsletter, SJC AirTime. SJC AirTime, recognized for its ongoing and interactive communication with the customers, offers monthly updates to Silicon Valley travelers, business leaders and community members about the Airport's efforts to add and expand airline and customer services.

- [Director of Aviation Honored Among 100 Most Influential Women in Silicon Valley](#)

Kim Becker Aguirre, Director of Aviation, was one of 100 female Silicon Valley leaders honored by the Silicon Valley Business Journal at its 2014 Women of Influence event held on May 1, 2014. This annual event recognized the talents and accomplishments of local females who are leading the way in numerous industries, including travel and tourism, technology, venture capital, healthcare, real estate and nonprofits.

- [SJPD K-9 Team Recognized for Distinguished Service](#)

The Transportation Security Administration (TSA) recognized a SJPD K-9 team with an award for eight years of distinguished service at the Airport. SJPD K-9 teams offer a high-profile layer of security, giving travelers peace of mind during their journey. These teams are primarily dedicated to the Airport, and check for explosives that may be concealed on people or aircraft, and in luggage, garbage cans or cargo. They also respond to reports of unattended or suspicious items.

- The Club Received Prestigious Award

The Club at the Airport was awarded the “Best Staff” recognition at the prestigious Priority Pass Lounge of the Year Awards 2014. The award recognized excellence within the Priority Pass network of over 700 airport lounges worldwide. The Club is open to all travelers. The lounge staff has earned a global reputation among Priority Pass members for their “heart for service” focus which aims to make every guest feel as though they’re in an oasis of peace and quiet, with service that’s warm and friendly.

OUTLOOK FOR THE FUTURE

San José’s economic development strategy identifies the Airport’s role in providing an important infrastructure resource to support the economy. Businesses need Airport infrastructure and services in order to successfully market goods and services. Global economic demands mean that it is critical that Airport infrastructure be developed and services continue to meet emerging needs.

The Airport works in partnership with various City departments, such as the Department of Transportation, Police and Public Works Departments, to improve the transportation systems to benefit the residents of San José as well as support successful business development. These partnerships allow the City to focus coordination efforts on critical transportation projects. The synergy from these efforts is promoted by the Transportation and Aviation City Service Area (CSA), where the Airport Operating Budget is organized and reported.

The mission of the CSA is to provide the community with safe, secure, and efficient surface and air transportation systems that support San José’s livability and economic vitality. The following are the Transportation and Aviation Services CSA desired outcomes:

- ❑ Provide safe and secure transportation systems
- ❑ Provide viable transportation choices that promote a strong economy
- ❑ Travelers have a positive, reliable and efficient experience
- ❑ Preserve and improve transportation assets and facilities
- ❑ Provide a transportation system that enhances community livability

In May 2010, the City Council directed the City Manager and Director of Aviation to take steps necessary to ensure the ability of the Airport to successfully compete for air service and continue to keep costs to airlines at a nationally competitive level. This direction led to a comprehensive Airport Competitiveness Strategy, as well as the development of a standing City Council Committee focused on Airport Competitiveness. The Airport Competitiveness Committee’s purpose is to ensure the success of the Airport by: 1) facilitating the implementation of the Airport Competitiveness Strategic Plan; 2) retaining air carriers; and 3) attracting new air service to the Airport.

The need to carefully manage expenditures and reduce ongoing operating costs continues to be critical due to the higher debt service costs associated with the new facilities and the historical reduction in the number of enplaned passengers. While enplaned passenger numbers are increasing, 2.7% gain in FY2013 and 6.7% gain in FY2014, total enplaned passengers still trail pre-recession levels of FY 2008. The Operating Budget focus of the last several years on creating efficiencies by evaluating and implementing Airport service delivery alternatives continues. However, additional consideration is directed toward increasing revenue generation prospects and programs, growing passengers, and

developing non-aviation revenue opportunities. Creation of an Airport Business Development Division provides the staffing and capacity to actively pursue air service development opportunities, customer service enhancements, collaborate with the City's Economic Development Department as well as local business groups like the Silicon Valley Leadership Group and the San José Silicon Valley Chamber of Commerce. 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 FY 2015 Adopted Budget contains funding for several ongoing programs to increase Bay Area market share of passengers and recruit new air service. Funding, to continue passenger marketing programs started in FY2014, is included and targets passenger retention and growth through radio, print and online advertisements, large scale placement of billboards, digital displays and social media messages. New membership in an Airport Service Quality program will provide survey data about the Airport and performance comparisons to airports worldwide. Results will provide insight into key areas to concentrate resources for improving passengers' experiences at the Airport. Additionally, funding for air service development consultants is increased to provide data analysis, revenue forecasting, presentation preparation and general support at airline conferences and headquarter meetings. Air service development staff works in tandem with the consultant to maximize opportunities in recruiting new airlines and bringing new service to the Airport.

Increases are partially offset by operating savings accomplished by revisions to the commercial paper-letter of credit program and associated fees, renegotiation of the shuttle bus operator and maintenance agreements, and completion of a required Airport Concessions Disadvantaged Business Enterprise plan. Increases in utilities budgets for gas and electricity reflect rate increases and increased public use of the Airport Compressed Natural Gas (CNG) station.

Several capital projects currently under development have also been determined to be key elements to the Airport's competitiveness strategy. To accommodate future international air traffic, extension of the Federal Inspection Facility (FIS) Sterile Corridor at Terminal B Gates 17 and 18 provides flexibility to use the gates for domestic flights or supports the simultaneous arrival of multiple international aircraft. Construction of the final Phase of Taxiway W is complete and results in a full length parallel taxiway to serve large aircraft operating on the west side of the Airport. Construction is underway for Signature Flight Support's 29 acre fixed base operation on the west side of the Airport. The facility will have seven hangar spaces, an executive passenger terminal, aircraft servicing facilities, ramp space and additional amenities.

The Airport continues to analyze and identify other potential cost reduction measures. The long-term key to success is increasing the number of passengers and flights, allowing costs to be distributed over a larger enplanement base thus reducing the cost per enplaned passenger (CPE). City leadership from the Mayor and Council, with the support from Silicon Valley Leadership Group and the San José Silicon Valley Chamber of Commerce, is actively engaged in efforts to help attract new air carriers and routes. Enplanement growth is the key, not only to making the Airport more price competitive to the airlines, but also increased passengers generate non-airline revenues such as parking fees, concession sales and rental car fees. Enplanement growth at the Airport has exceeded the FAA's national enplanement growth projection for FY 2013 and FY 2014 and is projected to grow by 2% in FY 2015.

Conservative budget and fiscal policies have led to a surplus for FY 2014. Computed pursuant to the Airline Lease Agreement, Airport's revenues exceeded its expenses and other reserve requirements for the fiscal year ended June 30, 2014 by \$31.6 million. This was \$1.9 million greater than the \$29.7

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million anticipated and utilized in the preparation of the Adopted FY 2015 Rates and Charges. The additional \$1.9 million surplus will assist in balancing the budget and achieving the targeted CPE of \$12 in future years.

The Airport's FY 2015-2019 Adopted Capital Improvement Program (CIP) totals \$240.8 million and reflects a shift in focus from the many projects comprising the Terminal Area Improvement Program (TAIP) to the maintenance and preservation of the Airport infrastructure. Airport staff has been working with the Finance Department, City Attorney's Office, and bond counsel to evaluate legally allowable uses for unspent bond proceeds associated with the 2007A and 2007B bonds. Uses include completion of projects that were deferred from the original TAIP program due to funding issues during the construction phase of the program. The projects include relocation of electrical equipment in the northeast area, Terminal A bag system ceiling protection, completion of the fuel truck maintenance facility and shuttle bus staging in the northeast area and addition of a second baggage carousel in the international arrivals facility. The remaining funds are anticipated to be used to maintain the CPE at \$12 for the next several years.

The FY 2015-2019 Adopted CIP funding of \$240.8 million provides \$58.1 million allocated to FY 2015. The majority of the five-year total funding (\$142.6 million) is set aside to pay debt service on outstanding bonds. An additional \$1.5 million funds general non-construction activities, leaving \$79.6 million for capital construction over the next 5 years and \$17.1 million in unspent bond proceeds to be transferred to the Airport Revenue Fund to be used for qualified operating expenses.

Highlights of the Airport's FY 2015-2019 Adopted CIP are as follows:

Airfield Facilities

The Adopted CIP allocates \$35.1 million towards projects that will maintain and improve airfield infrastructure to accommodate the demands for air carrier and general aviation operations. The timing and completion of Airfield improvement projects are largely contingent upon the receipt of AIP grants. Below are the highlights of the Airfield Facilities over the next five years:

- \$14.3 million for the Southeast Ramp Reconstruction project, which includes reconstruction of the cargo ramp in the southeast quadrant of the Airport. A study to determine the services and demand to be fulfilled in the southeast area will identify a strategy for implementing a redevelopment program and this project will address the pavement condition issues necessary to support the program. This project is contingent upon the timing and availability of FAA grant funding.
- \$6.4 million for the design and construction of the extension of Taxiway H from Runway 30L to Taxiway V, and Taxiway K from Taxiway W to Taxiway V to accommodate large aircraft (Group IV taxiways).
- \$6.0 million for the initial implementation of projects on the west side of the Airport that may be necessary once studies to evaluate the existing airfield against new FAA design standards are complete. These projects could include removal of Runway 11-29 and relocation of Taxiway V. If modifications are not needed, this funding would be used to rehabilitate the existing Taxiway V and Runway 11-29.

- ❑ \$2.1 million for replacement of two existing Aircraft Rescue and Fire Fighting (ARFF) vehicles over a period of two years. This project is contingent upon the timing and availability of FAA grant funding.
- ❑ \$1.8 million for Runway Pavement Rehabilitation of an intersection on Runway 30R and Taxiway J. Approximately 40 concrete panels will be removed and replaced. This project is contingent upon the timing and availability of FAA grant funding.

Aviation Support Facilities - General

The Adopted CIP provides \$23.6 million to fund various new infrastructure improvements and to renovate, maintain, or upgrade existing facilities. The largest project in this category, the Airport Rescue and Fire Fighting (ARFF) Facility, is programmed in the final year of the CIP and is dependent upon the receipt of FAA grant funding. The Vehicle Replacement program begins to address deferred replacement of the Airport's aging fleet of vehicles and rolling stock. Significant projects in Aviation Support Facilities – General are highlighted below:

- ❑ \$14 million upgrade of the current ARFF Facility, known as Fire Station 20, to correct building deficiencies, address diversity in the workforce, and increase vehicle capacity and training capabilities. The timing and completion of this project are contingent upon the receipt of grant funding from the FAA.
- ❑ \$2.2 million for the Pavement Maintenance that includes repair, replacement, or reconstruction of asphalt and concrete pavement, including striping and markings, at various locations throughout the Airport to meet airfield and roadway safety requirements.
- ❑ \$2.1 million for the Operations System Replacement, which includes as needed capital renewal and replacement to maintain various operations' systems throughout the Airport including access control, security, noise and curfew, shared use and parking, revenue systems.
- ❑ \$1.1 million for Coleman Entrance Landscaping. This project funds approximately 32,000 square feet of landscape at the Coleman Avenue entrance over a period of two years.
- ❑ \$1.0 million for Vehicle Replacement Program. The Airport currently has an aging fleet of 78 street legal vehicles with an average age of about 14 years old. The acquisition of new and replacement vehicles are needed to maintain a reliable and cost-effective fleet.

Passenger Terminal Facilities

A total of \$17.1 million funds various new infrastructure improvements and to maintain, renovate, or upgrade existing facilities. Significant projects in Passenger Terminal Facilities are highlighted below:

- ❑ \$3.0 million for installation of one-way exit doors at Terminal A and Terminal B security exits. This project requires policy guidance from FAA and Transportation Security Administration and is contingent upon the timing and availability of FAA grant funding.
- ❑ \$1.9 million is allocated for terminal building modifications and other minor alterations to accommodate expansions or changes at all Airport buildings and terminals.

- \$1.5 million for the FIS Sterile Corridor Extension to construct a secure interior corridor connecting Terminal B Gates 17 and 18 to accommodate up to three international airport arrivals simultaneously.

Other Support Facilities and General Non-Construction

Additional funding of \$5.2 million is included in the Adopted CIP for various Aviation Support Environmental and Transportation Facilities, as well as Non-Construction projects. To continue the assessment and clean-up of the former fuel farm site, funding of \$0.7 million is included in Aviation Support Environmental Facilities. Funding of \$1.8 million is also included for the design and renovation of the Terminal A Ground Transportation Island to increase operational efficiency and to match the appearance of the Terminal B Ground Transportation Island. Funding of \$1.0 million is included in General Non-Construction to continue the Advanced Planning element which funds preliminary planning, programming, special studies, and surveys for the Airport.

FINANCIAL INFORMATION

The management staff of the Airport is responsible for establishing and maintaining an internal control system designed to safeguard the assets of the Airport from loss, theft, or misuse, and allow the compilation of adequate accounting data for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits, and that the evaluation of costs and benefits is subject to management estimates and judgments.

Single Audit

As a recipient of federal funds, the Airport is also responsible for providing assurance that an adequate internal control system is in place to ensure compliance with applicable laws and regulations relating to federal award programs. This internal control system is subject to periodic evaluation by management, the City Auditor, and the City's outside independent certified public accountants.

As part of the City's Single Audit procedures, tests are made to determine compliance with the internal control system in place, including those controls relating to Federal award programs, and whether the Airport has complied with all applicable laws and regulations. The City's Single Audit for the year ended June 30, 2014 is still in progress.

The Airport was authorized to impose Passenger Facility Charges (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. At least annually, during the period in which the PFC is collected, held, or used, the Airport must provide for an audit of its PFC accounts. The audit must be conducted by an independent certified public accountant. The scope of the audit must include evaluation of the Airport's internal accounting controls to account for the collection and use of PFCs. The audit is performed separately

for the PFC account and for FY 2014, the audit of the Airport's PFC accounts will be reported as part of the Single Audit report.

Pursuant to California Civil Code 1936, as amended by Senate Bill 1192, the Airport has been authorized to require rental car companies to collect from a renter a Customer Facility Charge (CFC) since May 2000. CFC revenues may be used to pay the reasonable costs to finance, design, and construct the Consolidated Rental Car Facility (ConRAC) and to finance, design, construct and provide the ConRAC Transportation System. For FY 2014, the audit of the Airport's CFC accounts will be reported as part of the Single Audit report.

Budgetary Controls

Each year, the Airport prepares an operating budget and a capital budget. These documents are presented to the City Council and included in the City's annual appropriated budget. The approved budgets serve as an approved plan to facilitate control and operational evaluation.

The Airport and the City maintain budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the San José City Council. The level of budgetary control, at which expenses cannot legally exceed the budgeted amount, is at the appropriation level.

The Airport, as with the City, also uses encumbrance accounting as another technique of accomplishing budgetary control of the Airport funds. Purchase commitments are earmarked for particular purposes and become unavailable for general spending.

Appropriations that are not encumbered lapse at the end of the fiscal year. Year-end encumbrances are carried forward and become part of the following year's budget. For budget purposes, expenses are recognized in the year encumbered. For financial statement purposes, expenses are recognized when incurred.

Certain budgetary and fund provisions are stipulated in the Airline–Airport Lease and Operating Agreement and the Master Trust Agreement. Both operating and capital budgets comply with the provisions or restrictions set forth within these agreements.

The Airport continues to meet its responsibility for sound financial management as demonstrated by the statements included in the financial section of this report.

OTHER INFORMATION

Independent Audit

In accordance with Sections 805(a) and 1215 of the City Charter, the annual audit of Airport funds was completed by Macias Gini & O'Connell LLP, Certified Public Accountants for the fiscal year ended June 30, 2014. In addition to meeting the requirements set forth in the City Charter, the City's audit was also designed to meet the requirements of the Federal Single Audit Act Amendments of 1996 and the related Office of Management and Budget Circular A-133. The Airport's federal awards programs are included in the City-wide Single Audit Report. The auditor's report on the Airport's financial statements is included in the financial section of this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Norman Y. Mineta San José International Airport for its CAFR for the fiscal year ended June 30, 2013. This was the seventeenth consecutive year that the Airport has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Airport must publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of the CAFR was made possible by the dedicated service and efforts of the Airport's Finance and Administration Division. Each member of the division has our sincere appreciation for the contributions made in the preparation of this report.

In addition, staff in all Airport divisions should be recognized for responding quickly and positively to requests for detailed information which accompany each annual audit. The role of Macias Gini & O'Connell LLP should also be acknowledged as a significant contribution to a fine product.

Respectfully submitted,



Kim Becker Aguirre
Director of Aviation



Terri A. Gomes, CPA
Deputy Director
Finance and Administration Division

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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, 2013

Executive Director/CEO

**Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Listing of Principal Officials**

ELECTED OFFICIALS:

Chuck Reed	Mayor
Pete Constant	Council Member, District 1
Ash Kalra.	Council Member, District 2
Sam Liccardo.....	Council Member, District 3
Kansen Chu.	Council Member, District 4
Xavier Campos.....	Council Member, District 5
Pierluigi Oliverio.....	Council Member, District 6
Madison 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:

Andrés Quintero.....	Chairperson
Spencer Horowitz	Vice-Chairperson
E. Ronald Blake.....	Member
AJ Borade.....	Member
Matt Domenici.....	Member
Alain Dussau.....	Member
Isaiah Azadgan.....	Member
Keith Ian Graham	Member
Julie Riera Matsushima.....	Member
Stephen McMinn.....	Member
Robert Varich.....	Member
Donald Rocha.....	Council Member, Airport Liaison

CITY OFFICIAL

Ed Shikada.....	City Manager
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AIRPORT DEPARTMENT:

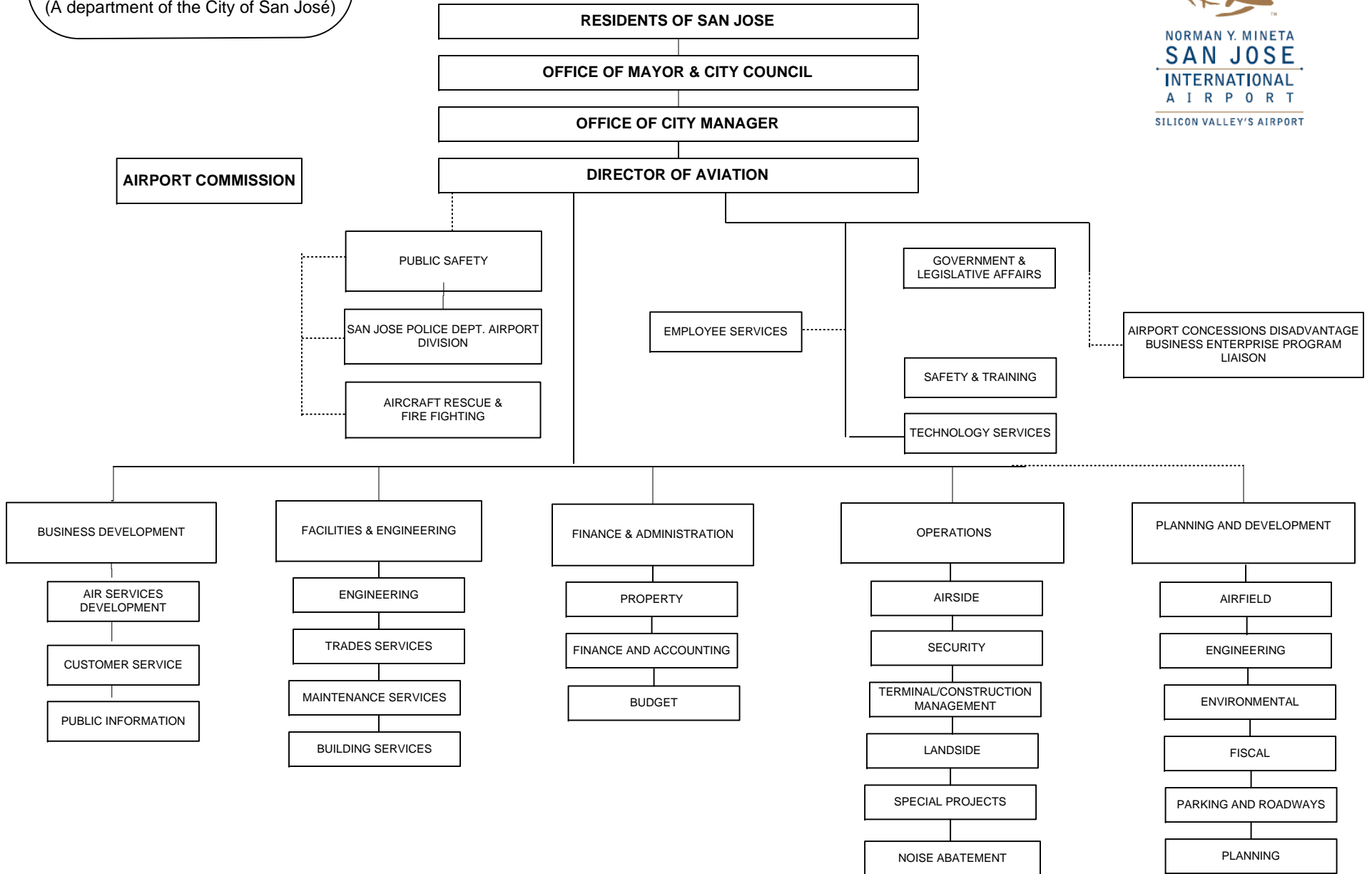
Kim Becker Aguirre.....	Director of Aviation
John Aitken.....	Acting Assistant Director of Aviation & Deputy Director, Operations
Terri A. Gomes, CPA	Deputy Director, Finance & Administration
Kim Hawk.....	Incoming Deputy Director, Finance & Administration
Patrick R. Tonna.....	Deputy Director, Facilities & Engineering
Meenakshi Singh, AAE.....	Deputy Director, Planning & Development
Cheryl Marcell.....	Deputy Director, Air Service Development
Lieutenant Timothy Kuchac.....	San José Police Dept. – Airport Division

NORMAN Y. MINETA SAN JOSE
INTERNATIONAL AIRPORT
(A department of the City of San José)



NORMAN Y. MINETA
SAN JOSE
INTERNATIONAL
AIRPORT
SILICON VALLEY'S AIRPORT

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FINANCIAL



Two automated Global Entry kiosks are now available in the International Arrivals facility at SJC. Existing Global Entry members arriving from international destinations use this technology-driven trusted traveler program that expedites passengers through the inspection process at federal customs checkpoints, thereby reducing wait times for all arriving passengers.



Independent Auditor's Report

Honorable City Council
City of San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Norman Y. Mineta San José International Airport (Airport), a department of the City of San José, California (City), as of and for the fiscal years ended June 30, 2014 and 2013, and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of 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, 2014 and 2013, the changes in its financial position, or, where applicable, 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

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the Airport's financial statements. The introductory, statistical and bond disclosure sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory, statistical and bond disclosure sections have not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2014. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.



Walnut Creek, California
November 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

This section of the Norman Y. Mineta San José International Airport's (Airport) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the Airport for the fiscal years (FY) ended June 30, 2014 and 2013.

AIRPORT ACTIVITIES HIGHLIGHTS

A total of approximately 9.1 million passengers travelled through the Airport in FY 2014 compared to approximately 8.5 million in FY 2013, resulting in a healthy passenger traffic growth of 6.8%. The Airport experienced an increase in passenger traffic of 2.8% in FY 2013 and a slight decline of 1.6% in FY 2012.

As of June 30, 2014, Airport carriers served 29 nonstop markets with 143 peak daily departures compared to 29 nonstop markets with 142 peak daily departures as of June 30, 2013 and 28 nonstop markets with 133 peak daily departures as of June 30, 2012.

The following shows major air traffic activities at the Airport during the last three fiscal years:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Flight operations	122,351	120,575	120,105
	1.5%	0.4%	-1.6%
Landed weight (passenger carriers)	5,536,593	5,213,194	5,125,391
	6.2%	1.7%	-1.8%
Landed weight (cargo carriers)	235,002	248,067	268,748
	-5.3%	-7.7%	-15.8%
Total enplaned and deplaned passengers	9,063,012	8,488,459	8,256,223
	6.8%	2.8%	-1.6%
Enplaned passengers	4,517,021	4,234,753	4,124,885
	6.7%	2.7%	-1.5%
Deplaned passengers	4,545,991	4,253,706	4,131,338
	6.9%	3.0%	-1.6%
Domestic passengers	8,734,157	8,265,327	8,092,059
	5.7%	2.1%	-1.7%
International passengers	328,855	223,132	164,164
	47.4%	35.9%	4.6%
Cargo tonnage (in tons)	51,765	43,184	41,883
	19.9%	3.1%	-11.5%
Parking (vehicles) exits	1,042,142	996,029	956,259
	4.6%	4.2%	-10.9%

The Airport continues to offer several air service incentive programs to support the development of new passenger air service at the Airport. In August 2014, a new airline incentive program was approved by the City Council. As part of the new airline incentive 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 program provides for the waiver of landing fees for a period between one and two and a half

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

years (the "Incentive Period") for airlines providing service to a new airport destination for a specified period of time with a minimum frequency of three times weekly non-stop service. The program also provides for matching marketing funds ranging from \$25,000 to \$250,000, depending on the type of new service provided. For a new airline coming to the Airport, landing fees and eligible terminal fees will be waived during the Incentive Period. The terms and conditions of the airline incentive program are at the sole discretion of the Director of Aviation and can be modified at any time.

Past participants to the Airport's incentive program included Southwest Airlines with service to Austin, jetBlue Airways with service to Boston, Hawaiian Airlines with service to Kahului (Maui), Alaska Airlines with service to Austin, Kona, Kahului (Maui), Lihue (Kauai), and Cabo San Lucas, and Virgin America and Delta, both with service to Los Angeles. All-Nippon Airways, with service to Tokyo-Narita, and Delta, with service to Seattle, are current participants under the old incentive program.

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. Because the operation and management of the Airport are supported by a number of City departments, employees, and resources that are not directly charged to the Airport operating budget, the City allocates a percentage of its total indirect overhead expenses to the Airport operating budget. If in any year during the term of the airline agreement the percentage growth in enplaned passengers at the Airport exceeds the growth in enplaned passengers nationwide (as measured by data published in the FAA Aviation Forecast or similar report/forecast if the FAA Aviation Forecast is no longer available), then the City agrees to reduce the amount of its indirect overhead expenses that would otherwise be allocated to the Airport's operating budget for the next fiscal year by a corresponding percentage. 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.

FINANCIAL HIGHLIGHTS

Despite the healthy growth in passenger traffic activity, the Airport continues to remain cautiously optimistic and vigilant in its efforts to remain at a nationally competitive level and to meet the cost per enplaned passenger of under \$12 as directed by the City Council. The Airport posted a decrease in net position for the 2014 fiscal year.

- Operating revenues increased by 2.1% from \$123.1 million in 2013 to \$125.7 million in 2014.
- Operating expenses before depreciation and amortization increased by 2.2% from \$70.1 million in 2013 to \$71.6 million in 2014.
- Operating income before depreciation and amortization increased from \$53.0 million in 2013 to \$54.1 million in 2014.
- Depreciation and amortization decreased from \$54.4 million in 2013 to \$54.0 million in 2014.

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 loss before nonoperating revenues and expenses of \$1.3 million in 2013.
- Nonoperating expenses, net of nonoperating revenues, decreased from \$43.8 million 2013 to \$37.9 million in 2014.
- Capital contributions received in the form of grants from the federal government decreased from \$7.0 million in 2013 to \$4.8 million in 2014.
- Net position was a decrease of \$33.0 million in 2014 compared to a decrease of \$38.2 million in 2013. This was the result of the increase in operating revenues and decreases in depreciation and amortization and nonoperating expenses, offset by the increase in operating expenses and decrease in capital contributions.

In addition, the Airport posted a decrease in net position at the end of 2013 fiscal year.

- Operating revenues decreased by 3.0% from \$127.0 million in 2012 to \$123.1 million in 2013.
- Operating expenses before depreciation and amortization decreased by 11.1% from \$78.8 million in 2012 to \$70.1 million in 2013.
- Operating income before depreciation and amortization increased from \$48.2 million in 2012 to \$53.0 million in 2013.
- Depreciation and amortization increased from \$51.5 million in 2012 to \$54.4 million in 2013.
- The above resulted in an operating loss before nonoperating revenues and expenses of \$1.3 million in 2013 and \$3.3 million in 2012.
- Nonoperating expenses, net of nonoperating revenues, increased from \$43.7 million 2012 to \$43.8 million in 2013.
- Capital contributions received in the form of grants from the federal government decreased from \$7.4 million in 2012 to \$7.0 million in 2013.
- Net position was a decrease of \$38.2 million in 2013 compared to a decrease of \$39.6 million in 2012. This was the result of the increases in depreciation and amortization and nonoperating expenses and decreases in operating revenues and capital contributions, offset by the decrease in operating expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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, 2014, 2013, and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 125,710	\$ 123,115	\$ 126,975
Operating expenses before depreciation and amortization	<u>(71,643)</u>	<u>(70,074)</u>	<u>(78,802)</u>
Operating income before depreciation and amortization	54,067	53,041	48,173
Depreciation and amortization	<u>(54,027)</u>	<u>(54,353)</u>	<u>(51,520)</u>
Operating income (loss)	40	(1,312)	(3,347)
Nonoperating revenues and expenses, net	<u>(37,873)</u>	<u>(43,816)</u>	<u>(43,650)</u>
Loss before capital contributions	(37,833)	(45,128)	(46,997)
Capital contributions	<u>4,843</u>	<u>6,954</u>	<u>7,399</u>
Decrease in net position	<u>(32,990)</u>	<u>(38,174)</u>	<u>(39,598)</u>
Net position - beginning, as previously reported	332,903	371,077	416,626
Change in accounting principle	<u>-</u>	<u>-</u>	<u>(5,951)</u>
Net position - beginning, as restated	<u>332,903</u>	<u>371,077</u>	<u>410,675</u>
Total net position - ending	<u>\$ 299,913</u>	<u>\$ 332,903</u>	<u>\$ 371,077</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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 \$299.9 million, \$332.9 million, and \$371.1 million at June 30, 2014, 2013 and 2012, respectively, a \$33.0 million decrease from June 30, 2013 to June 30, 2014 and a \$38.2 million decrease from June 30, 2012 to June 30, 2013.

A condensed summary of the Airport's net position (in thousands) at June 30, 2014, 2013 and 2012 is shown below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Unrestricted assets	\$ 102,551	\$ 99,976	\$ 94,842
Restricted assets	252,068	273,238	291,882
Capital assets	1,402,239	1,443,362	1,483,245
Other assets	11,126	13,016	13,831
Total assets	<u>1,767,984</u>	<u>1,829,592</u>	<u>1,883,800</u>
Deferred outflow of resources:			
Loss on refundings of debt	<u>626</u>	<u>698</u>	<u>1,758</u>
Liabilities:			
Current liabilities – unrestricted	48,993	55,600	59,385
Current liabilities payable from restricted assets	49,479	49,924	41,805
Noncurrent liabilities	<u>1,368,851</u>	<u>1,389,759</u>	<u>1,413,291</u>
Total liabilities	<u>1,467,323</u>	<u>1,495,283</u>	<u>1,514,481</u>
Deferred inflows of resources:			
Gain on refundings of debt	<u>1,374</u>	<u>2,104</u>	<u>-</u>
Net position:			
Net investment in capital assets	169,870	209,381	242,916
Restricted	67,848	65,408	69,350
Unrestricted	62,195	58,114	58,811
Net position	<u>\$ 299,913</u>	<u>\$ 332,903</u>	<u>\$ 371,077</u>

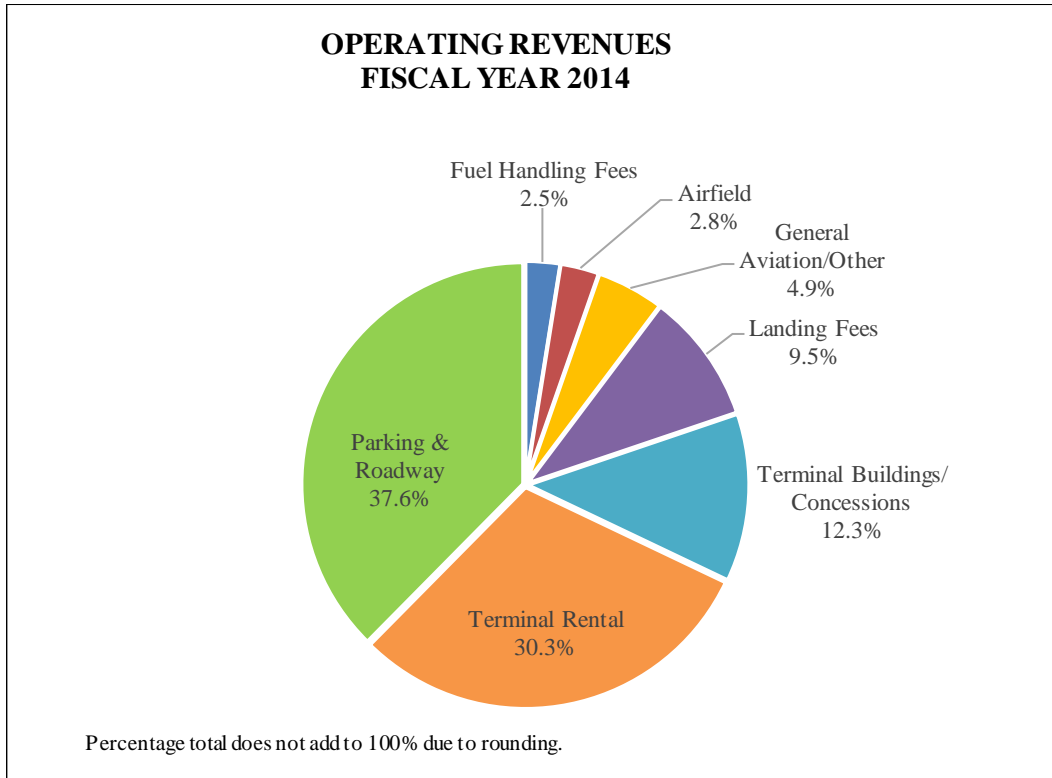
The largest portion, 56.6%, 62.9%, and 65.5% of the Airport's net position at June 30, 2014, 2013, and 2012, respectively, represents its investment in capital assets (e.g. land, buildings, improvements and equipment), less the debt outstanding used to acquire those capital assets. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending.

A portion of the Airport's net position represents amounts that are subject to restrictions under the Airline Lease Agreement, the Master Trust Agreement, and the rental car agreement, and passenger facility charges (PFC) and customer facility charges (CFC) that are restricted by Federal regulations and Civil Code §1936, respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

REVENUES

The following chart reflects the major sources and the percentage of operating revenues for the fiscal year ended June 30, 2014:



As illustrated in the above chart, parking and roadway revenue represents 37.6% 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 Consolidated Rental Car facility (ConRAC) located at the Airport. Facility rent is equal to the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC-related debt service, less revenues from CFCs plus operating costs for any transportation system operated by the Airport to transport passengers between the terminals and the ConRAC facility, plus the City's cost to demolish the previous temporary common use rental car facilities at the Airport, amortized over the initial ten-year term of the agreement. 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 30.3% of the total operating revenues. Revenues from terminal buildings/concessions, which came in at 12.3% of total operating revenues, include food and beverage, news and gift shops, advertising, and telephony fees. Fees for the use of the Federal Inspection Services (FIS) facility and rental of space, other than airline space, are also included in this category.

Landing fees from passenger and cargo carriers represent 9.5% of the total operating revenues. General aviation/other revenues (4.9%) are comprised of rents for aircraft hangars, aircraft parking spaces, building and land rentals, fingerprinting fees, and fees for tenant plan reviews,

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

which are calculated on a cost recovery basis. The remaining categories, airfield and fuel handling fees represent 2.8% and 2.5%, 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.

A summary of revenues (in thousands) for the fiscal years ended June 30, 2014, 2013, and 2012, is as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues:			
Landing fees	\$ 11,973	\$ 12,888	\$ 11,414
Terminal rental	38,130	38,256	39,864
Terminal buildings/concessions	15,423	15,102	15,770
Airfield	3,553	3,038	2,783
Parking and roadway	47,268	46,700	51,023
Fuel handling fees	3,170	2,361	1,690
General aviation/other	6,193	4,770	4,431
Total operating revenues	<u>125,710</u>	<u>123,115</u>	<u>126,975</u>
Nonoperating revenues:			
Passenger facility charges	18,161	17,294	16,787
Customer facility charges	15,493	13,385	10,137
Investment income (loss)	1,571	(257)	2,217
Operating grants	605	565	670
Other, net	614	451	698
Total nonoperating revenues	<u>36,444</u>	<u>31,438</u>	<u>30,509</u>
Capital contributions	<u>4,843</u>	<u>6,954</u>	<u>7,399</u>
Total revenues	<u>\$ 166,997</u>	<u>\$ 161,507</u>	<u>\$ 164,883</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS **(Unaudited)**

2014 versus 2013

The healthy growth in passenger traffic activity has translated into increases in operating revenues. Except for landing fees and terminal rental, all revenue categories reflected increases over 2013. Total operating revenues increased by 2.1% from \$123.1 million in 2013 to \$125.7 million in 2014.

Despite the overall increase in landed weights generated by the airlines, landing fees decreased from \$12.9 million in 2013 to \$12.0 million in 2014 primarily due to the decrease in landing fee rate from \$2.38 to \$2.22 per thousand pounds of the maximum gross landing weight. Terminal rental decreased from \$38.3 million in 2013 to \$38.1 million in 2014 despite the higher terminal rental requirement as a result of higher debt service. The incentive credits issued to airlines which participated in the Airport's incentive program largely contributed to the decreases in landing fees and terminal rental.

Terminal buildings/concessions posted an increase of 2.1% or \$321,000 primarily due to the increase in rental rate for the non-airline space rents from \$240.50 to \$251.90 per square foot. Airfield revenues increased by 17.0% or \$515,000 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 1.2% or \$568,000. Substantial increases were experienced in public parking and rental car concessions reflective of the growth in passenger activity. These increases were largely offset by the significantly lower facility rents from rental car companies for the use of the ConRAC facility which decreased from \$4.9 million in 2013 to \$2.8 million. Lower facility rents were required from the rental car companies as a result of the higher CFC revenues generated.

Fuel handling fees tracked higher by 34.3% or \$809,000 due to higher demand for compressed natural gas fuel and higher jet fuel flowage fees that were a result of the increased rate from \$0.10 to \$0.20 per gallon effective November 2012. General aviation/other revenues rose by 29.8% or \$1.4 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 consumer price index.

PFC revenues grew by 5.0% or \$867,000 reflective of the growth in passenger activity. Investment income in 2014 increased by approximately \$1.8 million. Investments posted an increase in fair value of approximately \$490,000 as opposed to a decrease in fair value of \$1.0 million in 2013. Interest earnings increased from \$700,000 in 2013 to \$1.1 million due to the change in reporting methodology for banking fees. These fees were no longer deducted from the investment income but rather were considered as part of the costs to be allocated to the different departments in the City's overhead cost allocation plan.

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 Terminal A and the ConRAC. CFC revenues trended 15.7% or \$2.1 million higher than the prior year revenues. The increases were 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 rental car

MANAGEMENT'S DISCUSSION AND ANALYSIS **(Unaudited)**

contract) to a \$7.50 per day (up to a maximum of five days per rental car contract) which went into effect on January 1, 2014.

The operating grants pertained to grant funds awarded by the Transportation Security Administration (TSA) for the costs associated with the law enforcement officers at security checkpoints (\$292,000), canine security grant from TSA (\$242,000), and a grant from the Bay Area Air Quality Management District for the incremental costs of leasing compressed natural gas buses (\$71,000).

Other nonoperating revenues posted an increase of 36.1% or \$163,000 mainly due to the insurance reimbursement of the cleanup and repair costs relating to the damage caused by the Terminal A water main break that occurred in December 2013.

Capital contributions received during the fiscal year pertained to reimbursement from the FAA of \$4.8 million for the reconstruction of the Taxiway W project.

2013 versus 2012

Total operating revenues decreased by 3.0% from \$127.0 million in 2012 to \$123.1 million in 2013. Growth trends of various revenue categories showed mixed results when compared to the prior year. Terminal rental, terminal building/concessions, and parking and roadway revenues trended lower compared to prior year's performance. The decreases were offset by the increases in landing fees, airfield, fuel handling fees, and general aviation/other revenues.

Terminal rental decreased from \$39.9 million in 2012 to \$38.3 million in 2013. The decrease can be attributed to the lower terminal rental requirement as a result of higher surplus and debt service coverage carried over from the prior fiscal year. Terminal buildings/concessions declined by 4.2% or \$668,000 primarily due to the elimination of the Orange Alert surcharge effective July 1, 2012.

Parking and roadway revenues posted a decrease of 8.5% or \$4.3 million principally due to the significantly lower facility rents from rental car companies for the use of the ConRAC facility which decreased from \$6.7 million in 2012 to \$4.9 million in 2013. Lower facility rents were required from the rental car companies as a result of the higher CFC revenues generated. The decrease can also be attributed to the one-time revenue of \$3.4 million recorded in 2012 relating to the purchase/buyout agreement of 14 compressed natural gas (CNG) powered buses. The Airport had an operating lease contract covering the 14 CNG powered buses that was scheduled to expire on July 31, 2015. In May 2012, the contract was amended to allow the early termination of the lease with the Airport's payment of approximately \$4.4 million. Simultaneously, the Airport entered into an agreement relinquishing the use of the 14 CNG powered buses to a third party for a total price of \$3.4 million to relieve the Airport of its lease commitment. The Airport used the proceeds together with the difference of \$1.0 million to make the early termination payment of \$4.4 million.

Lower parking and roadway revenues can also be attributed to the lower ground transportation revenues, which declined from \$2.9 million in 2012 to \$1.9 in 2013. This was primarily due to the new agreement with the contractor providing on-demand ground transportation dispatch services at the Airport. Under the new agreement, which took effect in January 2013, the contractor is responsible for collecting fees and performing administrative functions directly. The

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

decreases in parking and roadway revenues were partially offset by the \$1.9 million increase in public parking revenues over the prior fiscal year.

Landing fees posted a gain of 12.9% or \$1.5 million principally due to the increase in rate from \$2.14 in 2012 to \$2.38 per thousand pounds of the maximum gross landing weight. Higher ground support and in-flight kitchen concession fees accounted for the increase in airfield revenues by 9.2% or \$255,000. Fuel handling fees went up by 39.7% or \$671,000 boosted by the increases in CNG fuel sales and the jet flowage fees as a result of the increase in flowage fee rate from \$0.10 per gallon to \$0.20 per gallon that took effect in November 2012.

General aviation/other revenues tracked higher by 7.7% or \$339,000 due to the land rental rate adjustments based on increases in appraised values and consumer price index and additional land rental revenues derived from the temporary Westside parking lot leases.

PFC revenues grew by 3.0% or \$507,000 reflective of the growth in passenger activity. Investment income in 2013 fell substantially lower compared to 2012. Investments posted a decrease in fair value of \$1.0 million as opposed to an increase in fair value of \$1.2 million in 2012. Interest earnings decreased from \$1.1 million 2012 to \$700,000 in 2013 due to lower interest rates.

CFC revenues trended 32.0% or \$3.2 million higher than the prior year revenues. The increases were mainly attributed to the 6.9% increase in the number of rental car contracts compared to the prior year and the move to a new fee structure from \$10 per contract to a \$6.00 per day (up to a maximum of five days per rental car contract) which went into effect on December 1, 2011.

The operating grants pertained to grant funds awarded by the Transportation Security Administration (TSA) for the costs associated with the law enforcement officers at security checkpoints (\$252,000), canine security grant from TSA (\$242,000), and a grant from the Bay Area Air Quality Management District for the incremental costs of leasing compressed natural gas buses (\$71,000).

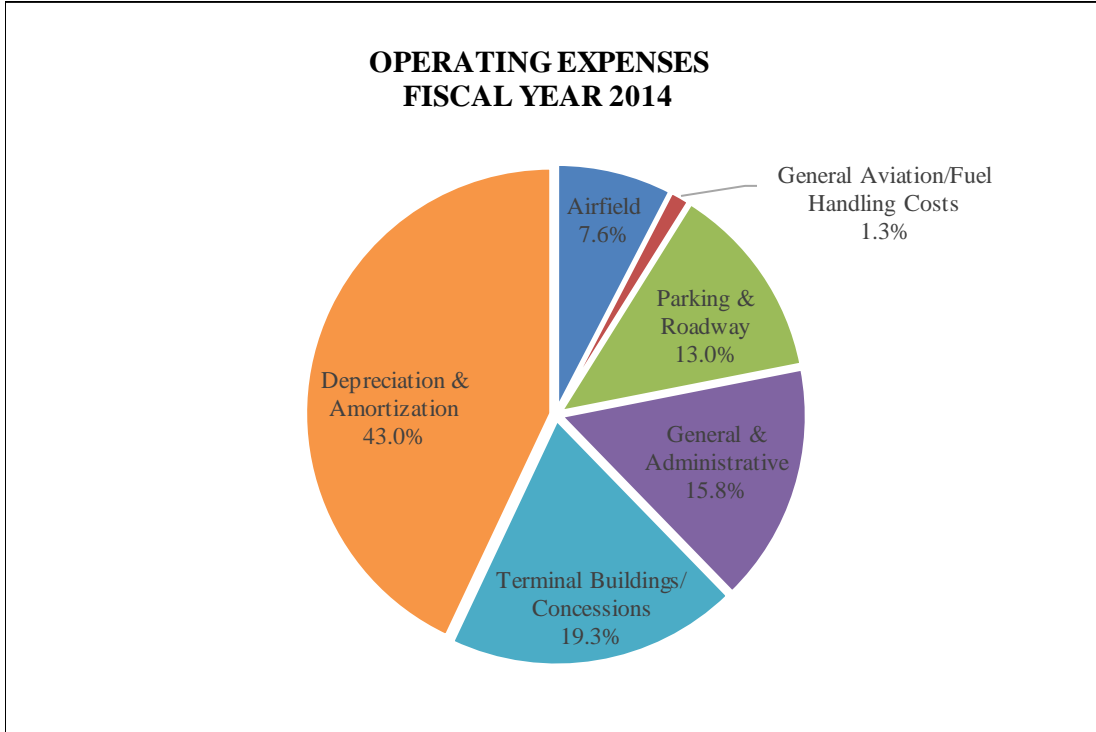
Other nonoperating revenues posted a decrease of 35.4% or \$247,000. The major contributor to this decline was the reversal of the \$296,000 revenue accrued in prior fiscal year related to an audit finding regarding the failure of the advertising concession contractor to expend the minimum capital improvement requirements in certain advertising categories. In October 2012, the City approved an amendment to the agreement which combined the minimum capital investment requirements of the various advertising categories. As a result, the advertising concession contractor is no longer liable for meeting the capital investment threshold for each category.

Capital contributions received during the fiscal year pertained to reimbursement from the FAA of \$7.0 million for the reconstruction of the Taxiway W project.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

EXPENSES

The following chart reflects the major cost centers as a percentage of operating expenses for the fiscal year ended June 30, 2014:



MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

A summary of expenses (in thousands) for the fiscal years ended June 30, 2014, 2013, and 2012 is as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating expenses:			
Terminal buildings/concessions	\$ 24,233	\$ 23,303	\$ 23,659
Airfield area	9,570	8,707	9,069
Parking and roadway	16,343	16,631	25,514
Fuel handling costs	11	1,065	556
General aviation	1,609	1,605	1,676
General and administrative	19,877	18,763	18,328
Depreciation and amortization	<u>54,027</u>	<u>54,353</u>	<u>51,520</u>
Total operating expenses	<u>125,670</u>	<u>124,427</u>	<u>130,322</u>
Nonoperating expenses:			
Interest expense	73,836	75,058	70,009
Bond issuance costs	-	196	4,141
Loss on capital assets disposal	481	-	9
Total nonoperating expenses	<u>74,317</u>	<u>75,254</u>	<u>74,159</u>
Total expenses	<u>\$ 199,987</u>	<u>\$ 199,681</u>	<u>\$ 204,481</u>

2014 versus 2013

Operating expenses in 2014 increased from \$124.4 million in 2013 to \$125.7 million in 2014. Increases were experienced in nonpersonnel, expensed capital costs, fees charged by the City for police and firefighting services, and workers' compensation. These were partially offset by decreases in personnel, overhead, other postemployment benefits (OPEB) costs, and depreciation and amortization.

Nonpersonnel expenses posted an increase of 3.7% or \$1.1 million over that of the prior fiscal year. The increase can be attributed to a variety of factors including advertising placements and media buys for the new "Fly San Jose" campaign that was developed as part of the strategy to target passengers and highlight the benefits of flying out of San Jose versus other Bay Area airports and support the Airport's airline tenants. Another contributor to the increase was the payment to the airlines for the reduction of the Airport's share of indirect overhead expenses due to the fact that enplanement growth at the Airport exceeded that of FAA's national enplanement growth projections in 2012-13 by 2.7%. As mentioned above, if in any year during the term of the airline agreement the percentage growth in enplaned passengers at the Airport exceeds the growth in enplaned passengers, then the City agrees to reduce the amount of its indirect overhead expenses that would otherwise be allocated to the Airport's operating budget for the next fiscal year by a corresponding percentage. Additionally, the Airport incurred expenses relating to the cleanup and repair for the damage caused by the Terminal A water main break, as well as for additional custodial services, shuttle bus services, and private security resulting from the emergency.

Operating expenses included certain costs for capital projects that did not meet the criteria for capitalization into capital assets. These costs increased from \$3.4 million in 2013 to \$4.5 million

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

in 2014. A major portion of these costs in 2014 pertained to the miscellaneous pavement improvements and the terminal modifications and repairs. Fees charged by the City for police and firefighting services went up by 3% or \$212,000 due to increases in salary and associated retirement and overhead costs.

Workers' compensation costs in 2014 posted an increase of \$619,000 when compared to the prior fiscal year. Workers' compensation costs reflect a combination of the actual claim payments during the fiscal year and the adjustment of liability as of the end of the fiscal year. Actual claim payments amounted to \$487,000 in 2014 and \$383,000 in 2013 while adjustment of the liability amounted to an increase of \$563,000 in 2014 and a decrease of \$48,000 in 2013.

Personnel expenses slightly decreased by 0.6% or \$135,000 due to the decrease in retirement contributions, offset by the increase in salary expenses. Retirement contributions decreased due to a higher vacancy rate in 2014 and an increase in the number of employees placed in Tier 2 and Tier 2B of the Federated City Employee Retirement System, which reduced the City's portion of retirement contributions. Salary expenses for full-time employees increased as a result of the increase in compensated absence liability. Sick leave payout balances that were previously eliminated in prior year for employees in certain bargaining units were restored in 2014. In addition, ten employees reached 15 years of service which made them eligible for sick leave payout benefits upon retirement.

Overhead expense decreased by 22.7% or \$711,000 due to the rate change from 21.1% in 2013 to 15.55% in 2014 and the reduction in indirect overhead expenses allocated by the City to the Airport resulting from the municipally-funded incentive service program mentioned above. OPEB costs recorded in 2014, based on the latest actuarial study, posted a decrease of 26.2% or \$553,000 when compared to the prior fiscal year.

Higher depreciation and amortization was recorded in 2013 compared to 2014 due to a one-time adjustment resulting from the cost segregation of systems installed in the terminals from building to equipment, thus accelerating the depreciation life from 40 to 15 years.

Interest expense in 2014 declined by 1.6% or \$1.2 million compared to 2013 due to the declining balance of the outstanding principal amounts.

2013 versus 2012

Operating expenses in 2013 tracked 4.5% or \$5.9 million lower than the prior fiscal year. Decreases were experienced in nonpersonnel, overhead, and fees charged by the City for police and firefighting services. These were partially offset by increases in expensed capital costs, depreciation and amortization and workers' compensation.

Personnel expenses remained relatively flat compared to the prior fiscal year. Overhead reflected a decrease of 4.9% or \$217,000 due to the rate change from 21.97% in 2012 to 21.1% in 2013.

Nonpersonnel expenses in 2013 posted a significant decline of \$8.1 million or 21.2%. The decrease can be attributed to a variety of factors. Nonpersonnel expenses in 2012 included the \$4.4 million buyout payment for the early termination of the lease agreement for the 14 CNG shuttle buses. Due to the early termination of the lease agreement for the 14 CNG buses and the reduced hours for the shuttle bus operator, the Airport saved an additional amount of \$1.1 million. The Airport also issued revenue bonds in December 2011 to refund \$224.7 million of commercial

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

paper (CP) notes thus, resulting in \$2.7 million decline in the letter of credit fees associated with the CP program.

The fees charged by the City for airport rescue and firefighting services were reduced by \$1.4 million as a result of the negotiated matching of costs with outsourced service costs for the full fiscal year versus five months of the prior fiscal year and the capping of overhead at approximately 25% with the balance covered with the Staffing for Adequate Fire and Emergency Response grant.

Workers' compensation costs in 2013 posted an increase of \$551,000 when compared to the prior fiscal year. Actual claim payments amounted to \$383,000 in 2013 and \$554,000 in 2012 while adjustment of the liability amounted to an increase of \$48,000 in 2013 and a decrease of \$674,000 in 2012.

The expensed capital costs increased from \$2.6 million in 2012 to \$3.4 million in 2013. A major portion of these costs in 2013 pertained to the clean-up of the old fuel tank farms and miscellaneous pavement improvements.

Depreciation and amortization increased by \$2.8 mainly due to assets placed in service, particularly the taxiway project, the taxi staging building, and the lounge. The increase can also be attributed to the cost segregation of systems installed in the terminals totaling \$9.3 million from building to equipment, thus accelerating the depreciation life from 40 to 15 years.

Interest expense in 2013 grew by \$5.0 million due to the fact that the Airport issued airport revenue bonds in the prior fiscal year to refund the \$224.7 million CP notes. The fixed rate bonds have higher interest rates compared to the variable rate CP notes. The CP notes were an interim financing vehicle used during the construction period of the Terminal Area Improvement Program. Refunding of CP notes allowed the Airport to mitigate the variable rate exposure and substantially reduce the size of the CP program at a time when market conditions had made it increasingly difficult to obtain credit facilities required to support the CP program.

Bond issuance costs of \$196,000 were paid in 2013 for the issuance of the Series 2012A Airport Revenue Bonds of \$49.1 million. In 2012, the Airport paid \$4.1 million bond issuance costs for the issuance of Series 2011A-1, Series 2011A-2, and Series 2011B Airport Revenue Bonds totaling \$508.6 million.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

The Airport expended \$17.5 million on both capitalized and noncapitalizable capital activities in each of the fiscal years 2014 and 2013. Major capital projects in 2014 included taxiway reconstruction and terminal area development. Major capital projects in 2013 included the reconstruction of Taxiway W, the construction of the common lounge area, and the taxi staging building.

As of June 30, 2014, the Airport was obligated for purchase commitments relating to capital projects of approximately \$4.2 million primarily for the costs of the pavement maintenance, terminal area development, and paint/rubber removal vehicle. Detailed information about capital assets can be found in Note 3 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS **(Unaudited)**

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, 2014 and 2013, the total amount of Subordinated CP outstanding totaled \$41.2 and \$45.4 million, respectively. During the fiscal years ended June 30, 2014 and 2013, the Airport paid principal of \$4.2 million and \$2.6 million, respectively. As of June 30, 2014, the Subordinated CP notes were supported by the \$65 million letter of credit issued by Barclays Bank PLC

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, 2014 and 2013, the Airport had total outstanding revenue bonds of \$1,384.7 million and \$1,407.0 million, respectively. During fiscal year 2013, the Series 2002A Bonds in the amount of \$49,140,000 were refunded by the Series 2012A Bonds. During the fiscal years ended June 30, 2014 and 2013, the Airport paid principal of \$22.3 million and \$13.4 million, respectively.

Credit Ratings

The underlying ratings of the outstanding Airport Revenue Bonds are "A-", "A2" and "BBB+" by Standard & Poor's (S&P), Moody's Investors Service (Moody's) and Fitch Ratings (Fitch), 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 terminal rate methodology contained in the agreement is based on a compensatory rate-making approach. The average rental rate is calculated annually by dividing the Terminal Revenue Requirement sum by the total amount of rentable terminal space and multiplying the resulting quotient by the total square feet of airline premises at the Airport, yielding the Airline Terminal Revenue Requirement. The airlines' share of any net remaining revenues is credited against the Airline Terminal Revenue Requirement, yielding the Net Airline Terminal Revenue Requirement. The Terminal Revenue Requirement is the sum of expenses allocable to the Terminal for each fiscal year, which include (a) annual debt service funded from bonds or subordinated indebtedness net of any PFC revenues used to pay such debt service, plus (b) debt service coverage, plus (c) annual operating expenses, plus (d) amount needed to replenish the bond reserve fund to required levels, plus (e) the share of annual costs for renewal and

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

replacement, less (f) any grant amounts used to pay debt service, less (g) the debt service coverage for the immediately preceding fiscal year.

The landing fee rate methodology in the agreement is based on a cost center residual rate-making approach. The landing fee is calculated by dividing the Airfield Revenue Requirement by the projected aggregate maximum gross landed weight for all aircraft carrying passengers or cargo in commercial service at the Airport during the fiscal year. The landing fee is expressed in dollars and cents per one thousand pounds in landed weight. The Airfield Revenue Requirement is the sum of expenses allocable to the Airfield for each fiscal year, which include (a) annual debt service funded from bonds or subordinated indebtedness net of any PFC revenues used to pay such debt service, plus (b) debt service coverage, plus (c) annual operating expenses, plus (d) amount needed to replenish the bond reserve fund to required levels, plus (e) the share of annual costs for renewal and replacement, less (f) revenues, other than landing fees, that are accrued for the use of the Airfield, including revenue accrued from landing fee premiums paid by non-signatory airlines, and revenues accrued from charges paid for parking aircraft at common use gates, less (g) any grant amounts used to pay debt service, less (h) the debt service coverage for the immediately preceding fiscal year.

The rates and charges for the signatory (passenger and cargo) airlines for fiscal years 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Landing fee (per 1,000 lbs MGLW):	\$2.22	\$2.38
Terminal average rental rate (per square foot)	\$159.72	\$154.65
Airline cost per enplanement (budgeted)	\$11.76	\$11.95

Terminal rental rates and airline landing fees for fiscal year 2015 have been developed as part of the annual budget process. The rates and charges for the signatory airlines for FY 2015, which became effective July 1, 2014, are as follows:

Landing fees (per 1,000 lbs MGLW):	\$2.09
Terminal average rental rates (per square foot)	\$147.68
Airline cost per enplanement (budgeted)	\$10.50

After completion of the year-end closing and annual audit, the Airport achieved savings of approximately \$1.9 million greater than what was anticipated in the preparation of the adopted 2014-15 Airline Rates and Charges. The surplus for 2014 will be allocated in accordance with the revenue sharing provisions of the lease agreement and to meet a cost per enplaned passenger of under \$12 as directed by the City Council.

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

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, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Unrestricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	\$ 96,417,796	91,952,901
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$328,993 in 2014 and 2013	5,641,287	6,710,286
Accrued interest	142,005	140,169
Grants	214,575	995,121
Prepaid expenses, advances, and deposits	135,093	177,834
Total unrestricted assets	102,550,756	99,976,311
Restricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	137,555,319	157,114,165
Investments held by fiscal agent (Note 2)	110,650,916	112,530,817
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$15,000 in 2014 and 2013	3,701,769	3,368,772
Accrued interest	96,762	167,584
Prepaid expenses, advances, and deposits	844	844
Current portion of prepaid bond insurance	62,695	56,262
Total restricted assets	252,068,305	273,238,444
Total current assets	354,619,061	373,214,755
Noncurrent assets:		
Capital assets (Note 3):		
Nondepreciable	97,141,774	99,504,789
Depreciable assets, net of accumulated depreciation	1,305,097,312	1,343,856,912
Total capital assets	1,402,239,086	1,443,361,701
Advances and deposits	3,446,334	4,980,079
Prepaid bond insurance, less current portion	7,680,201	8,036,016
Total noncurrent assets	1,413,365,621	1,456,377,796
Total assets	1,767,984,682	1,829,592,551
Deferred outflows of resources:		
Loss on refundings of debt	\$ 625,618	697,758

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, 2014 and 2013

	2014	2013
Liabilities		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	\$ 1,354,573	3,286,622
Accrued salaries, wages and payroll taxes	544,017	423,087
Accrued vacation, sick leave and compensatory time, current (Note 5)	1,667,000	1,620,000
Advances and deposits payable	1,619,122	1,462,890
Unearned revenue	1,922,478	2,531,852
Estimated liability for self-insurance, current (Notes 5 and 9)	393,009	560,000
Pollution remediation liability (Notes 5 and 10 (c))	330,000	330,000
Accrued interest payable	3,272	5,229
Commercial paper notes payable (Note 4)	41,159,000	45,380,000
	48,992,471	55,599,680
Payable from restricted assets:		
Accounts payable	983,905	1,313,807
Accrued salaries, wages and payroll taxes	10,772	2,800
Pollution remediation liability (Notes 5 and 10 (c))	384,000	1,428,657
Accrued interest payable	24,640,863	24,883,919
Current portion of bonds payable (Note 5)	23,459,714	22,294,734
	49,479,254	49,923,917
Total current liabilities	98,471,725	105,523,597
Noncurrent liabilities:		
Bonds payable, less current portion and net of unamortized discount/premium (Note 5)	1,352,577,786	1,376,037,499
Estimated liability for self-insurance, noncurrent (Notes 5 and 9)	1,849,224	1,118,773
Other postemployment benefits liability (Notes 5 and 7)	13,635,779	12,076,469
Accrued vacation, sick leave and compensatory time, noncurrent (Note 5)	788,423	526,791
	1,368,851,212	1,389,759,532
Total liabilities	1,467,322,937	1,495,283,129
Deferred inflows of resources:		
Gain on refundings of debt	1,373,920	2,103,905
	1,373,920	2,103,905
Net Position		
Net investment in capital assets	169,869,680	209,380,615
Restricted:		
Per Airline Lease Agreement for:		
Airline revenue sharing	18,815,013	11,941,879
Per Master Trust Agreement for:		
Rolling debt service coverage	17,891,764	16,547,214
Per Rental Car Agreement	1,000,000	1,000,000
California Civil Code Section 1936 for Customer Facility Charges	3,881,806	2,293,260
Future debt service (Note 1 (i))	26,259,780	33,625,852
Unrestricted	62,195,400	58,114,455
Total net position	\$ 299,913,443	332,903,275

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Airline rates and charges:		
Landing fees	\$ 11,973,028	12,888,370
Terminal rental	38,129,882	38,255,624
Total airline rates and charges	<u>50,102,910</u>	<u>51,143,994</u>
Terminal buildings/concessions	15,422,975	15,101,644
Airfield area	3,552,819	3,038,241
Parking and roadway	47,267,707	46,700,448
Fuel handling fees	3,170,458	2,360,463
General aviation/other	6,193,266	4,770,213
Total operating revenues	<u>125,710,135</u>	<u>123,115,003</u>
Operating expenses:		
Terminal buildings/concessions	24,232,606	23,303,388
Airfield area	9,570,586	8,706,904
Parking and roadway	16,343,099	16,631,149
Fuel handling costs	11,252	1,064,804
General aviation	1,608,838	1,605,119
General and administrative	19,877,034	18,763,230
Depreciation and amortization	54,026,767	54,352,406
Total operating expenses	<u>125,670,182</u>	<u>124,427,000</u>
Operating income (loss)	<u>39,953</u>	<u>(1,311,997)</u>
Nonoperating revenues (expenses):		
Passenger facility charges	18,161,117	17,294,383
Customer facility charges	15,493,561	13,384,764
Investment income (loss)	1,570,942	(257,014)
Interest expense	(73,836,080)	(75,058,424)
Bond issuance costs	-	(195,581)
Operating grants	605,409	565,035
Loss on capital assets disposal	(481,333)	-
Other, net	613,710	451,375
Total nonoperating revenues (expenses), net	<u>(37,872,674)</u>	<u>(43,815,462)</u>
Loss before capital contributions	<u>(37,832,721)</u>	<u>(45,127,459)</u>
Capital contributions	<u>4,842,889</u>	<u>6,954,298</u>
Change in net position	<u>(32,989,832)</u>	<u>(38,173,161)</u>
Net position - beginning	<u>332,903,275</u>	<u>371,076,436</u>
Net position - ending	<u>\$ 299,913,443</u>	<u>332,903,275</u>

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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts from customers and users	\$ 126,318,478	120,162,846
Payments to suppliers	(37,858,700)	(27,848,807)
Payments to employees	(23,392,360)	(23,995,913)
Payments for City services	(10,313,456)	(13,934,913)
Claims paid	(486,607)	(351,214)
Other receipts	613,710	451,375
Net cash provided by operating activities	54,881,065	54,483,374
Cash flows from noncapital financing activities:		
Operating grants	575,115	887,753
Net cash provided by noncapital financing activities	575,115	887,753
Cash flows from capital and related financing activities:		
Purchases of capital assets	(13,371,356)	(14,162,715)
Principal payments on bonds payable	(22,275,000)	(13,440,000)
Interest paid	(74,711,760)	(76,363,006)
Capital grants	5,653,729	7,939,898
Passenger facility charges received	18,077,568	17,271,541
Customer facility charges received	15,244,113	13,536,227
Proceeds from bond issuance	-	49,140,000
Payment for redemption of bonds	-	(49,140,000)
Bond issuance costs paid	-	(195,581)
Principal payments on commercial paper	(4,221,000)	(2,557,000)
Advances and deposits received	1,533,745	351,207
Net cash used in capital and related financing activities	(74,069,961)	(67,619,429)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	32,026,704	16,443,775
Purchases of investments	(32,013,793)	(17,435,969)
Investment income received	1,691,941	688,259
Net cash provided by (used in) investing activities	1,704,852	(303,935)
Net change in cash and cash equivalents	(16,908,929)	(12,552,237)
Cash and cash equivalents - beginning	323,705,197	336,257,434
Cash and cash equivalents - ending	\$ 306,796,268	323,705,197

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, 2014 and 2013**

	2014	2013
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 39,953	(1,311,997)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	54,026,767	54,352,406
Other revenues	613,710	451,375
Decrease (increase) in:		
Accounts receivable	1,068,999	(589,668)
Loan receivable	-	250,000
Prepaid expenses, advances, and deposits	15,562	172
Increase (decrease) in:		
Accounts payable and accrued liabilities	(1,161,235)	3,841,732
Advances and deposits payable	156,232	380,112
Unearned revenue	(609,374)	(2,938,286)
Estimated liability for self-insurance	730,451	47,528
Net cash provided by operating activities	\$ 54,881,065	54,483,374
Noncash noncapital financing activities:		
Change in operating grants receivable	\$ (30,294)	322,718
Noncash capital and related financing activities:		
Change in accounts payable related to acquisition of capital assets	\$ 315,520	19,281
Change in capital grants receivables	810,840	985,600
Unrealized gain (loss) on investments held by fiscal agent	(52,013)	36,754
Loss on capital assets disposal	(481,333)	-
Amortization of bond discount/premium/prepaid bond insurance	329,649	325,387
Amortization of deferred outflows/inflows of resources	657,845	582,270
Reconciliation of cash and cash equivalents to the statements of net position		
Equity in pooled cash and investments held in City Treasury		
Unrestricted	\$ 96,417,796	91,952,901
Restricted	137,555,319	157,114,165
Investments held by fiscal agent classified as cash equivalents	72,823,153	74,638,131
Total cash and cash equivalents	\$ 306,796,268	323,705,197

See accompanying notes to financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to Financial Statements
June 30, 2014 and 2013

(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 of San José (the City) assumed responsibility for the operation of San José Municipal Airport, which was renamed San José International Airport in 1984 with the addition of airline service to Canada. In 2001, the San José International Airport was renamed the Norman Y. Mineta San José International Airport (the Airport).

The Airport is operated as a department of the City and is accounted for as a self-supporting enterprise fund in the basic financial statements of the City. The eleven members of the City Council serve as the governing body that oversees the operation of the Airport.

A variety of federal, state and local laws, agreements and regulations govern the operations at the Airport. The Federal Aviation Administration (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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to Financial Statements
June 30, 2014 and 2013

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.

- 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 land, buildings and improvements, equipment, and intangible assets. Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are carried at cost. Certain property acquisition costs incurred in accordance with the California Noise Reduction Act have been

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Notes to Financial Statements
June 30, 2014 and 2013

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.

Maintenance, repairs, and minor replacements are expensed 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 tax-exempt 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, 2014 and 2013.

(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 and

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Transportation Security Administration (TSA), 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.

(i) *Passenger Facility Charges*

Passenger facility charges (PFCs) are recorded as nonoperating revenue in the year they are collected by the air carriers from the sale of air travel tickets and remitted to the Airport in accordance with Airport regulations. At June 30, 2014 and 2013, accumulated PFC revenues amounted to \$26,259,780 and \$33,625,852, 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 revenues 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 \$25,747,384 and \$22,099,631 from accumulated PFC revenues had been designated as Available PFC Revenues for payment of eligible bond debt service in fiscal years ended June 30, 2014 and 2013, respectively.

(j) *Customer Facility Charges*

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 Consolidated Rental Car Facility (ConRAC) and certain operating expenses related to the transportation of rental car customers between Terminal A and the ConRAC. The Airport did not expend CFC revenues on the transportation costs in fiscal years ended June 30, 2014 and 2013.

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 \$15,493,561 and \$13,384,764 had been designated as "Other Available Funds" for payment of eligible bond debt service in fiscal years ended June 30, 2014 and 2013, respectively.

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(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) 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 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, 2014 and 2013, the Airport’s statement of net position reports restricted net position of \$67,848,363 and \$65,408,205, respectively, of which \$30,141,586 and \$35,919,112, 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.”

(m) New Pronouncements

The Airport is analyzing its accounting practices and is evaluating the potential impacts on the financial statements of the following GASB Statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The requirements of this statement are effective for the Airport’s fiscal year ending June 30, 2015.

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(2) Cash and Investments

The City Council adopted an investment policy (the “Investment Policy”) on April 2, 1985, as amended on September 10, 2013, 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 City’s Investment Policy and the Airport’s Master Trust Agreement, the Airport is permitted to invest in the City’s cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. Government Agencies, time deposits, investment agreements, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

The Airport maintains a portion of its investments in the City’s cash and investment pool. As of June 30, 2014 and 2013, the Airport’s share of the City’s cash and investment pool totaled \$233,973,115 and \$249,067,066, 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, 2014 Comprehensive Annual Financial Report (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 or can be found at the City’s Finance Department website at <http://www.csjfinance.org/>.

The Master Trust Agreement authorizes long-term debt (discussed in Note 5) and requires certain amounts of investments to be held in trust by the Airport’s trustee (Fiscal Agent) for the bondholders and to be used for repayment of principal and interest on outstanding debt, or to be spent only on authorized capital projects. As of June 30, 2014 and 2013, restricted investments held by the Fiscal Agent totaled \$110,650,916 and \$112,530,817, 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

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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 California Local Agency Investment Fund (“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, 2014, the Airport’s investments in LAIF held by the Fiscal Agent was \$72,671,124. The weighted average maturity of LAIF at June 30, 2014 was 232 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2014 was approximately \$21.1 billion. The total amount recorded by all public agencies in PMIA at June 30, 2014 was approximately \$64.8 billion and of that amount, 98.14% was invested in non-derivative financial products and 1.86% in structured notes and asset backed securities.

As of June 30, 2013, the Airport’s investments in LAIF held by the Fiscal Agent was \$74,607,188. The weighted average maturity of LAIF at June 30, 2013 was 278 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2013 was approximately \$21.2 billion. The total amount recorded by all public agencies in PMIA at June 30, 2013 was approximately \$58.8 billion and of that amount, 98.04% was invested in non-derivative financial products and 1.96% in structured notes and asset backed securities.

Interest Rate Risk – Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the time of maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing the cash flows from the maturities so that a portion is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations.

The City has the ability and generally has the intention to hold all investments until their respective maturity dates. The weighted average maturity of the City’s pooled cash and investments as of June 30, 2014 and 2013 was approximately 532 days and 560 days, respectively. The Investment Policy does not prohibit the sale of securities prior to maturity. However, any portfolio restructuring requires prior conceptual approval in writing from the Director of Finance. Section 17.2 of the Investment Policy further defines the parameters with respect to restructuring the portfolio.

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. This risk is measured by the assignment of a rating by

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the nationally recognized statistical rating organizations. The City's Investment Policy has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio, and by 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 City's 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, 2014 and 2013. The credit ratings listed are for Moody's Investors Service (Moody's) and Standard & Poor's (S&P), respectively.

As of June 30, 2014

Type of investments:	Credit Rating	Maturities			Carrying Value
		Under 30 Days	31-180 Days	181-365 Days	
Investments held by the Fiscal Agent					
Federated treasury obligations fund	Aaa-mf /AAAm	\$ 152,144	-	-	\$ 152,144
Federal Home Loan Bank ⁽¹⁾	Aaa/AA+	37,827,648	-	-	37,827,648
Local agency investment fund	Not rated	-	-	72,671,124	72,671,124
		<u>\$ 37,979,792</u>	<u>-</u>	<u>72,671,124</u>	<u>\$ 110,650,916</u>

As of June 30, 2013

Type of investments:	Credit Rating	Maturities			Carrying Value
		Under 30 Days	31-180 Days	181-365 Days	
Investments held by the Fiscal Agent					
Federated treasury obligations fund	Aaa-mf /AAAm	\$ 30,943	-	-	\$ 30,943
Federal Farm Credit Bank ⁽¹⁾	Aaa/AA+	-	37,892,686	-	37,892,686
Local agency investment fund	Not rated	-	-	74,607,188	74,607,188
		<u>\$ 30,943</u>	<u>37,892,686</u>	<u>74,607,188</u>	<u>\$ 112,530,817</u>

(1) Investments with these issuers represent more than 5% of the Airport's investments held by the Fiscal Agent.

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(3) Capital Assets

Capital asset activities for the fiscal years ended June 30, 2014 and 2013, were as follows:

	Balance at July 1, 2013	Additions	Retirements	Transfers	Balance at June 30, 2014
Capital assets not depreciated:					
Land	\$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	10,841,977	13,063,141	(429,668)	(14,996,488)	8,478,962
Total capital assets, not depreciated	99,504,789	13,063,141	(429,668)	(14,996,488)	97,141,774
Capital assets, depreciated:					
Buildings	1,142,345,353	-	-	(9,162,147)	1,133,183,206
Other improvements	578,661,330	-	-	14,028,192	592,689,522
Equipment	54,722,134	422,362	(19,915,931)	10,130,443	45,359,008
Total capital assets, depreciated	1,775,728,817	422,362	(19,915,931)	14,996,488	1,771,231,736
Less accumulated depreciation					
Buildings	193,052,975	29,013,925	-	-	222,066,900
Other improvements	200,762,023	17,993,587	-	-	218,755,610
Equipment	38,056,907	6,689,605	(19,434,598)	-	25,311,914
Total accumulated depreciation	431,871,905	53,697,117	(19,434,598)	-	466,134,424
Total capital assets, depreciated, net	1,343,856,912	(53,274,755)	(481,333)	14,996,488	1,305,097,312
Total capital assets, net	\$ 1,443,361,701	(40,211,614)	(911,001)	-	1,402,239,086
	Balance at June 30, 2012	Additions	Retirements	Transfers	Balance at June 30, 2013
Capital assets not depreciated:					
Land	\$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	29,086,305	13,157,460	-	(31,401,788)	10,841,977
Total capital assets, not depreciated	117,749,117	13,157,460	-	(31,401,788)	99,504,789
Capital assets, depreciated:					
Buildings	1,148,507,775	133,361	-	(6,295,783)	1,142,345,353
Other improvements	550,469,657	8,851	-	28,182,822	578,661,330
Equipment	44,579,134	843,763	(215,512)	9,514,749	54,722,134
Total capital assets, depreciated	1,743,556,566	985,975	(215,512)	31,401,788	1,775,728,817
Less accumulated depreciation					
Buildings	163,759,703	29,293,272	-	-	193,052,975
Other improvements	182,265,510	18,496,513	-	-	200,762,023
Equipment	32,035,184	6,237,235	(215,512)	-	38,056,907
Total accumulated depreciation	378,060,397	54,027,020	(215,512)	-	431,871,905
Total capital assets, depreciated, net	1,365,496,169	(53,041,045)	-	31,401,788	1,343,856,912
Total capital assets, net	\$ 1,483,245,286	(39,883,585)	-	-	1,443,361,701

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The Airport's depreciation expense on capital assets was \$53,697,117 and \$54,027,020 for fiscal years ended June 30, 2014 and 2013, respectively.

(4) Commercial Paper Notes Payable

In November 1999, the City authorized the issuance from time to time of Subordinated Commercial Paper Notes (the Subordinated Commercial Paper Notes) that are secured by a lien on 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 and the funding of any reserve funds established for the Airport Revenue Bonds). In 2008, the City authorized the Subordinated Commercial Paper Notes to be issued in an aggregate principal amount of up to \$600 million outstanding at any one time. The Subordinated Commercial Paper Notes may be issued at prevailing interest rates for periods of maturity not to exceed 270 days.

As of June 30, 2013, the Subordinated Commercial Paper Notes was supported by a \$75 million letter of credit (LOC) provided by Wells Fargo Bank, N.A. (WFB). The LOC provided by WFB was scheduled to expire on March 13, 2014.

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 \$65 million LOC supporting the Subordinated Commercial Paper Notes, effective on February 11, 2014. As of February 11, 2014, the LOC provided by WFB terminated. The LOC provided by Barclays is stated to expire on February 10, 2017, unless such letter of credit 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 Commercial Paper Notes to pay the principal and interest on maturing Subordinated Commercial Paper 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 Commercial Paper 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 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

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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 LOCs issued by WFB and Barclays, the City entered into separate fee letters with each bank to specify the facility fee rate and other charges payable by the Airport with respect to the respective LOCs. The facility fee rate under both fee letters was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to the stated amount of the applicable 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. In July 2012, Fitch Ratings downgraded the underlying credit rating of the Airport Revenue Bonds from A- with a negative outlook to BBB+ with a stable outlook. As a result, the facility rate charged by WFB increased to 1.65% effective July 20, 2012. The facility fee rates in effect are 0.0425% and 1.65% as of June 30, 2014 and 2013, respectively.

Commercial paper activities for the fiscal years ended June 30, 2014 and 2013 were as follows:

		<u>2014</u>	<u>2013</u>
Beginning balance	\$	45,380,000	47,937,000
Paid		<u>(4,221,000)</u>	<u>(2,557,000)</u>
Ending balance	\$	<u><u>41,159,000</u></u>	<u><u>45,380,000</u></u>

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Balances of Subordinated Commercial Paper Notes payable as of June 30, 2014 and 2013 were as follows:

As of June 30, 2014

Series A-2 commercial paper notes maturing on September 11, 2014 were issued with an interest rate of 0.09%	\$ 11,992,000
Series B commercial paper notes maturing on September 11, 2014 were issued with an interest rate of 0.10%	13,045,000
Series C commercial paper notes maturing on September 8, 2014 were issued with an interest rate of 0.24%	16,122,000
Total commercial paper notes payable	<u>\$ 41,159,000</u>

As of June 30, 2013

Series A-2 commercial paper notes maturing on December 4, 2013 were issued with an interest rate of 0.17%	\$ 11,992,000
Series B commercial paper notes maturing on December 4, 2013 were issued with an interest rate of 0.18%	13,045,000
Series C commercial paper notes maturing on September 17, 2013 were issued with an interest rate of 0.25%	<u>20,343,000</u>
Total commercial paper notes payable	<u>\$ 45,380,000</u>

Although the Subordinated Commercial Paper 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 Commercial Paper Notes will be paid on a 30-year amortization period with the first principal payments paid in fiscal year 2011.

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(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, 2014 totaled \$136,554,628, which is composed of \$61,397,494 of net general airport revenues and \$75,157,134 of other available funds. Other available funds include surplus carryover of \$32,033,921, rolling debt service coverage of \$16,547,214, CFC revenues of \$15,493,561, and unspent Series 2007B bond proceeds of \$11,082,438. The bond debt service paid from the general airport revenues and other available funds amounted to \$69,320,262, which is net of \$25,747,384 of bond debt service paid from the accumulated PFC revenues.

The net revenues available to pay debt service in fiscal year ended June 30, 2013 totaled \$125,882,742, which is composed of \$59,876,983 of net general airport revenues and \$66,005,759 of other available funds. Other available funds include surplus carryover of \$30,642,898, rolling debt service coverage of \$16,175,989, CFC revenues of \$13,384,764, and unspent Series 2004 and Series 2007B bond proceeds of \$1,383,389 and \$4,418,719, respectively. The bond debt service paid from the general airport revenues and other available funds amounted to \$64,225,173, which is net of \$22,099,631 of bond debt service paid from the accumulated PFC revenues.

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, as defined in the Master Trust Agreement, for such fiscal year. Total principal and interest remaining on the bonds is \$2.7 billion, with the final payment due on March 1, 2047.

As of June 30, 2014 and 2013, the reserve requirement in the general account of the Bond Reserve Fund is satisfied, in part, by approximately (a) \$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"), and (b) approximately \$6.56 million surety bond from National Public Finance Guaranty Corporation ("NFPG"), as successor to MBIA Insurance Corporation. The ratings of Ambac and NFPG were reduced or withdrawn subsequent to the deposit of the respective surety bonds to the general account. The Master Trust Agreement does

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not require that the rating of any surety bond held in the general account be maintained after the date of deposit.

The NFPG surety bond expires on March 1, 2016 and the Ambac surety bond expires on March 1, 2018. If no additional bonds are issued and no additional amounts are deposited in the general account prior to such dates, on each expiration date 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 each of the expiring surety bonds. The City will also be obligated to replenish the general account prior to the expiration dates of the surety bonds in the event of non-payment or cancellation under either surety bond, including upon the liquidation of a surety bond provider.

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.

On November 8, 2012, the City issued Airport Revenue Bonds Series 2012A in the amount of \$49,140,000. The Series 2012A bonds were issued to refund the City of San José Airport Revenue Bonds, Series 2002A in the amount of \$49,140,000. The Series 2012A bonds were purchased as fixed rate direct placement with Bank of America Public Capital Corp with an interest rate of 1.53%. The refunding provides approximately \$6,152,462 in aggregate debt service savings or \$5,905,688 on a present value basis.

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Balances of bonds payable as of June 30, 2014 and 2013 were as follows:

	2014	2013
2012A Series Airport Revenue Bonds of \$49,140,000 at rate of 1.53%; payable in annual installments ranging from \$8,220,000 to \$8,585,000 with the final installment due in March 2018	\$ 33,605,000	41,710,000
2011B Series Airport Revenue Bonds of \$271,820,000 at rates of 3.32% to 6.75%; payable in annual installments ranging from \$495,000 to \$27,330,000 with the final installment due in March 2041	264,085,000	264,085,000
2011A-2 Series Airport Revenue Bonds of \$86,380,000 at rates of 2.5% to 5.25%, payable in annual installments ranging from \$1,930,000 to \$12,220,000 with the final installment due in March 2034	80,390,000	82,255,000
2011A-1 Series Airport Revenue Bonds of \$150,405,000 at rates of 3% to 6.25%; payable in annual installments ranging from \$3,395,000 to \$21,115,000 with the final installment due in March 2034	139,900,000	143,180,000
2007B Series Airport Revenue Bonds of \$179,260,000 at rates 4.25% to 5%; payable in annual installments ranging from \$2,340,000 to \$28,800,000 with the final installment due in March 2037	177,015,000	179,260,000
2007A Series Airport Revenue Bonds of \$545,755,000 at rates of 5% to 6%; payable in annual installments ranging from \$6,070,000 to \$73,500,000 with the final installment due in March 2047	539,975,000	545,755,000
2004D Series Airport Revenue Bonds of \$34,270,000 at a rate of 5%; payable in three annual installments of \$9,955,000, \$11,755,000 and \$12,560,000 in March 2026, March 2027 and March 2028, respectively	34,270,000	34,270,000

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2004C Series Airport Revenue Bonds of \$75,730,000 at rates of 4.625% to 5.25%, payable in annual installments ranging from \$1,000,000 to \$10,590,000 with the final installment due in March 2026	69,730,000	70,730,000
2001A Series Airport Revenue Bonds of \$158,455,000 was partially refunded in July 2011; the remaining balance of \$45,710,000 with interest rate of 5% is payable in annual installments ranging from \$8,275,000 to \$10,055,000 with the final installment due in March 2031	45,710,000	45,710,000
Total bonds payable	<u>\$ 1,384,680,000</u>	<u>1,406,955,000</u>

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Bonds outstanding and related activities for the fiscal years ended June 30, 2014 and 2013, were as follows:

	Balance at July 1, 2013	Additions	Retirements	Balance at June 30, 2014	Amounts Due Within One Year
2012A Series	\$ 41,710,000	-	8,105,000	33,605,000	8,220,000
2011B Series	264,085,000	-	-	264,085,000	495,000
2011A-2 Series	82,255,000	-	1,865,000	80,390,000	1,930,000
2011A-1 Series	143,180,000	-	3,280,000	139,900,000	3,395,000
2007B Series	179,260,000	-	2,245,000	177,015,000	2,340,000
2007A Series	545,755,000	-	5,780,000	539,975,000	6,070,000
2004D Series	34,270,000	-	-	34,270,000	-
2004C Series	70,730,000	-	1,000,000	69,730,000	1,000,000
2001A Series	45,710,000	-	-	45,710,000	-
Total long-term debt	1,406,955,000	-	22,275,000	1,384,680,000	23,450,000
Add unamortized:					
Premium	2,926,845	-	62,907	2,863,938	65,412
Less unamortized:					
Discount	11,549,612	-	43,174	11,506,438	55,698
Total long-term debt, net	\$ 1,398,332,233	-	22,294,733	1,376,037,500	23,459,714

	Balance at July 1, 2012	Additions	Retirements	Balance at June 30, 2013	Amounts Due Within One Year
2012A Series	\$ -	49,140,000	7,430,000	41,710,000	8,105,000
2011B Series	264,085,000	-	-	264,085,000	-
2011A-2 Series	84,075,000	-	1,820,000	82,255,000	1,865,000
2011A-1 Series	146,370,000	-	3,190,000	143,180,000	3,280,000
2007B Series	179,260,000	-	-	179,260,000	2,245,000
2007A Series	545,755,000	-	-	545,755,000	5,780,000
2004D Series	34,270,000	-	-	34,270,000	-
2004C Series	71,730,000	-	1,000,000	70,730,000	1,000,000
2002A Series	49,140,000	-	49,140,000	-	-
2001A Series	45,710,000	-	-	45,710,000	-
Total long-term debt	1,420,395,000	49,140,000	62,580,000	1,406,955,000	22,275,000
Add unamortized:					
Premium	6,730,592	-	3,803,747	2,926,845	62,907
Less unamortized:					
Discount	11,573,888	-	24,276	11,549,612	43,173
Total long-term debt, net	\$ 1,415,551,704	49,140,000	66,359,471	1,398,332,233	22,294,734

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Scheduled maturities of outstanding bonds are as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 23,450,000	73,922,588
2016	24,520,000	73,103,538
2017	25,605,000	72,283,976
2018	26,860,000	71,323,024
2019	25,280,000	70,271,435
2020-2024	153,080,000	330,143,297
2025-2029	213,735,000	284,766,447
2030-2034	376,390,000	214,503,179
2035-2039	400,085,000	89,387,092
2040-2044	88,435,000	20,183,348
2045-2047	27,240,000	3,332,400
Total	<u>\$ 1,384,680,000</u>	<u>1,303,220,324</u>

A number of limitations and restrictions are imposed upon the Airport by covenants relating to certain outstanding revenue bonds. As of June 30, 2014 and 2013, 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.

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Other long-term liability activities for the fiscal years ended June 30, 2014 and 2013 were as follows:

	<u>Balance at July 1, 2013</u>	<u>Adjustments/ Additions</u>	<u>Adjustments/ Retirements</u>	<u>Balance at June 30, 2014</u>	<u>Amounts Due Within One Year</u>
Self-insurance	\$ 1,678,773	1,050,067	486,607	2,242,233	393,009
Accrued vacation, sick leave and compensatory time	2,146,791	1,638,523	1,329,891	2,455,423	1,667,000
Other postemployment benefits	12,076,469	3,037,439	1,478,129	13,635,779	-
Pollution remediation liability	<u>1,758,657</u>	<u>-</u>	<u>1,044,657</u>	<u>714,000</u>	<u>714,000</u>
Total	<u>\$ 17,660,690</u>	<u>5,726,029</u>	<u>4,339,284</u>	<u>19,047,435</u>	<u>2,774,009</u>

	<u>Balance at July 1, 2012</u>	<u>Adjustments/ Additions</u>	<u>Adjustments/ Retirements</u>	<u>Balance at June 30, 2013</u>	<u>Amounts Due Within One Year</u>
Self-insurance	\$ 1,631,245	430,971	383,443	1,678,773	560,000
Accrued vacation, sick leave and compensatory time	2,045,695	1,684,575	1,583,479	2,146,791	1,620,000
Other postemployment benefits	9,964,282	3,677,300	1,565,113	12,076,469	-
Pollution remediation liability	<u>714,000</u>	<u>1,044,657</u>	<u>-</u>	<u>1,758,657</u>	<u>1,758,657</u>
Total	<u>\$ 14,355,222</u>	<u>6,837,503</u>	<u>3,532,035</u>	<u>17,660,690</u>	<u>3,938,657</u>

(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.

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

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also provides that any air cargo carrier will also be a Signatory Airline if the air cargo carrier (a) signs an agreement with the City substantially similar to the airline lease agreement (other than in connection with terminal facilities), (b) leases from the City cargo support space at the Airport for a term at least equal to the term of the airline lease agreement, (c) guarantees a minimum of 142,000 pounds of maximum gross certificated landed weight per scheduled flight and (d) at the time it executes its agreement with the City, operates at least five scheduled flights per week.

Any passenger or air cargo carrier that does not meet the minimum requirements to be a Signatory Airline is given the opportunity to become a “Non-Signatory Airline” by executing a non-signatory agreement in a form similar to that of the airline lease agreement. Non-Signatory Airlines 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 airline lease agreement also includes a revenue sharing provision to evenly divide net unobligated Airport revenues between the Airport and the airlines currently operating at the Airport after each fiscal year. In any fiscal year in which there are net unobligated Airport revenues and all requirements of the City’s Airport financing documents have been satisfied, the remaining net unobligated Airport revenues are to be evenly divided between the City and the airlines. If net revenues exceed the projected levels outlined in the Airport Forecast identified in the airline lease agreement, then the airlines share of the difference will be deposited into the Rate Stabilization Fund up to a cap of \$9 million. Once the Rate Stabilization Fund has been fully funded or in the event that the actual net revenues do not exceed the projected net revenues, the airlines share of net revenues shall be applied as a credit to the airline terminal revenue requirement for the following fiscal year, thus reducing terminal rental rates for the following fiscal year. The first \$1 million of City’s share of any net revenues shall be retained by the Airport in a discretionary fund to be used for any lawful Airport purpose.

For the fiscal years ended June 30, 2014 and 2013, the Airport’s revenues as defined in its lease agreements exceeded its expenditures and reserve requirements by \$31,639,988 and \$29,740,661, respectively. The surplus for fiscal year ended June 30, 2014 will be distributed in accordance with the revenue sharing provisions of the lease agreement as described above and/or used in the budget

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balancing actions for fiscal year 2016. The surplus for the year ended June 30, 2013 was distributed in accordance with the revenue sharing provisions.

In December 2013, the City entered into a ground lease and operating agreement with Signature Flight Support Corporation (Signature), which will construct 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 11, 2013 to December 11, 2063. Signature will pay interim ground rental equal to 50% of the base ground rental until the earlier of (i) the first day of the twenty-fifth full calendar month from the effective date or (ii) the date a certificate of occupancy is issued for the use and occupancy of the leasehold improvements, whichever is earlier. At such date the certificate of occupancy is issued, or commencing with the twenty-fifth month after effective date, whichever is earlier, and continuing throughout the term, Signature shall pay base ground rental of \$2.06 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 was \$736,423 for the fiscal year ended June 30, 2014.

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, 2014, the remaining terms of these operating leases range from one month to 24 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 \$76,594,275 and \$74,629,917 for the fiscal years ended June 30, 2014 and 2013, respectively.

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The future minimum rentals to be received from the existing operating leases are as follows:

<u>Fiscal year ending June 30,</u>	
2015	\$ 89,564,288
2016	96,226,522
2017	97,020,134
2018	35,806,773
2019	35,971,015
2020-2024	67,944,607
2025-2029	43,500,986
2030-2034	42,973,911
2035-2039	39,824,770
2039-2044	25,261,273
2044-2049	28,445,404
2049-2054	32,030,888
2054-2059	36,068,315
2059-2063	<u>36,358,073</u>
Total minimum lease rentals	<u>\$ 706,996,959</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, 2014 and 2013, leased assets had total historical costs of \$1,019,399,661 and \$1,028,621,495 and accumulated depreciation of \$151,928,437 and \$126,869,054, respectively.

Pursuant to the terms of individual agreements entered into with the City, every airline, operator, tenant or any other entity or person, which is party to an agreement with the City authorizing them to conduct business at the Airport, is required to maintain a security deposit on file with the City. The deposit shall be in a form and amount acceptable to the Director of Aviation (Director), often in the form of irrevocable letter of credit, surety bond, cashier's check or other form acceptable to the Director. The Director has the authority to revise the amount of security deposit at any time to protect the interests of the City. Each deposit must be maintained in full force and effect during the entire term of the agreement to ensure faithful performance by the other party of all the covenants, terms and conditions of the agreement. Security deposits in the form of cashier's checks are recorded as advances and deposits payable on the accompanying statement of net position. The 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, 2014 and 2013 totaled \$28,272,486 and \$23,692,207, respectively.

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(7) Employees' Retirement System

All full-time and certain part-time employees of the Airport participate in the City of San José Federated City Employees' Retirement System (Federated Plan), which is a single employer defined benefit retirement system that covers substantially all City employees, except for certain unrepresented employees and employees who are members of the City's Police and Fire Department Retirement Plan, by providing retirement and certain other postemployment benefits. These benefits include pension, death, and disability, which are under the Defined Benefit Pension Plan, as well as medical and dental benefits, which are under the Postemployment Healthcare Plan. A stand-alone report is issued for the 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 in the risks, rewards and costs including benefit costs with the City. The Airport presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City.

On June 5, 2012, San José voters adopted Measure B which enacted the Sustainable Retirement Benefits and Compensation Act (the Pension Act). The Pension Act 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 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.

Significant portions of Measure B are currently subject to legal challenge by 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. In connection with the litigation related to Measure B, the City entered into a stipulation to delay implementation of the increased pension contributions from current employees to a date no sooner than July 1, 2015. As of June 30, 2014, the IRS has not approved the VEP. A complete copy of Measure B is available from the San José City Clerk, 200 East Santa Clara Street, San José, California 95113. For more information regarding the pending litigation and other proceedings, please refer to the City's CAFR which is available from the City's Finance Department as described at the end of this note.

On August 28, 2012, the City Council adopted an ordinance amending the Federated Plan to provide for different retirement benefits for individuals hired or rehired by the City on or after September 30, 2012. Members subject to these new benefit provisions are referred to as Tier 2 members. On December 18, 2012, the City Council adopted an ordinance that provides

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unclassified executive management and professional employees in Unit 99 who are first hired on or after January 20, 2013, with a one-time irrevocable election to either participate in a newly created Defined Contribution Plan or become a Tier 2 member in the Federated Plan.

The new tier includes significant benefit changes from the existing Tier 1 plan. In addition, the contribution rate for Tier 2 members includes a change in the cost sharing between the City and active Tier 2 members which is 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.

On August 27, 2013, the City Council adopted an ordinance to exclude Tier 2 members hired on or after September 27, 2013 from retiree medical and dental benefits (Tier 2B) but the City agrees to 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. With respect to pension benefits and liabilities, references in this note to Tier 2 in the Federated Plan include Tier 2B.

The payroll for Airport employees covered by the Federated Plan for the fiscal years ended June 30, 2014 and 2013 \$12,532,010 was \$12,931,622, respectively. The Airport's total payroll for the fiscal years ended June 30, 2014 and 2013 was \$15,100,522 and \$15,092,920, respectively. The Defined Benefit Pension Plan provides general retirement benefits including pension, death, and disability benefits to members. Benefits are based on average final compensation, years of service, and limited required cost-of-living increases. The contribution and benefit provisions and all other requirements are established by the City Charter and City ordinances.

Contributions to the Defined Benefit Pension Plan are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. As discussed below, contributions to the Postemployment Healthcare Plan are not currently sufficient to provide adequate assets to pay benefits when due.

Contribution rates for the Airport and the participating employees for the periods July 1, 2012 through June 22, 2013, June 23, 2013 through June 21, 2014 and June 22 through June 30, 2014 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2011, June 30, 2012, and June 30, 2013, respectively, for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan.

In fiscal year ended June 30, 2011, the Board of Administration for the Federated Plan approved an establishment of a "floor funding method" for payment of annual required contributions ("ARC") for pension and postemployment healthcare 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 ARC as the greater of the annual dollar contribution amount established in the valuation, or the ARC that would result from applying the employer contribution rate determined from that same valuation to the actual emerging payroll of Retirement Systems members throughout the fiscal year. Therefore, the resolutions adopted by the Board of Administration for the Federated Plan setting the contribution rates for the fiscal year ended June 30, 2013 provide that the employer's contribution rates may be adjusted in order to achieve a

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minimum dollar contribution for that fiscal year. The Board of Administration for the Federated Plan approved to eliminate the floor for Tier 2/2B members at its September 2014 meeting.

<u>Pay Period</u>	<u>Airport's Contribution (1)</u>		<u>Employees' Contribution</u>	
	<u>Defined Benefit Pension</u>	<u>Post-employment Healthcare Plan</u>	<u>Defined Benefit Pension</u>	<u>Post-employment Healthcare Plan</u>
07/01/2012 through 06/22/2013	44.45%	7.91%	5.74%	7.26%
09/30/2012 through 06/22/2013				
Tier 2	6.68%		6.68%	
06/23/2013 through 06/21/2014				
Tier 1	50.85%	8.66%	5.97%	8.01%
Tier 2	6.68%	8.66%	6.68%	8.01%
Tier 2B	6.68%	10.59%	6.68%	0.00%
06/22/2014 through 06/30/2014				
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%

(1) The actual contribution rates paid by the Airport for fiscal years ended June 30, 2014 and June 30, 2013 differed due to the Airport funding the annual required contribution 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.

During the fiscal year ended June 30, 2014, the System's GASB Statement No. 43-compliant Other Postemployment Benefits (OPEB) valuation study as of June 30, 2013, was prepared by Cheiron, Inc., the System's actuary. The year ended June 30, 2014 was the fifth year of the Memorandum of Agreement (MOA) entered into by the bargaining units representing the System members and the City 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 ARC over a five period. The MOA also provides 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, in the first four years of the agreement. In the fifth year of the phase-in, the City and active members' contributions for retiree medical benefits will be split evenly and the retiree dental benefits will be split in a ratio of 8 to 3 with the City contributing 8/11 of the total contribution. The year ended June 30, 2013 was supposed to mark the end of the 0.75% cap and per the MOA, the employees and the City are 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. The June 30, 2013 valuation establishes, for the fiscal year ended June 30, 2015, the City's annual required contribution rate as a percentage of pay on a GASB valuation basis to be 23.16%

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compared to 9.41% on a phase-in funded basis for Tier 1 and Tier 2 members and 12.66% for Tier 2B members.

Actuarially required contributions were equal to the contributions made for the Defined Benefit Pension Plan. The following is the three-year trend information for the Airport's ARC, Annual OPEB Cost (AOC), and contributions made:

Fiscal Year	Defined Benefit Pension				Postemployment Healthcare Plan				
	ARC	Contributions	% of Contributions	Unfunded Liability	ARC	AOC	Contributions	% of Contributions	Unfunded Liability
6/30/2012	\$ 3,834,609	\$ 3,834,609	100%	-	\$ 4,385,496	\$ 4,412,508	\$ 1,978,048	45%	\$ 9,964,282
6/30/2013	5,748,106	5,748,106	100%	-	3,691,308	3,677,300	1,565,113	43%	12,076,469
6/30/2014	6,372,527	6,372,527	100%	-	3,220,885	3,037,439	1,478,129	49%	13,635,779

The City has determined a Citywide ARC and 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 ARC and OPEB cost for Federated Plan employee members. The difference between the cumulative OPEB cost allocated and the costs contributed by the Airport was \$13,635,799 and \$12,076,469 at June 30, 2014 and 2013, 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, 2014 and 2013, were \$2,417,925 and \$3,128,883, respectively. The City also charged the Airport fees of \$7,230,895 and \$7,018,607 for the fiscal years ended June 30, 2014 and 2013, respectively, for airport rescue and fire fighting and police services coverage. Additionally, various City departments charge the Airport for services they rendered on its behalf. These fees and service charges, which totaled \$1,029,385 and \$1,090,265 for the fiscal years ended June 30, 2014 and 2013, respectively, are included in operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

The FAA auditors reviewed the City's allocation of its costs to the Airport for services provided by the City to the Airport in fiscal year 2010. 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

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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 that its cost allocation methodologies reflect the cost of City services actually provided to the Airport and that the methodologies used by the City are consistent with applicable federal cost allocation guidance. In an effort to resolve the issue, the City capped 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 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. The City' proposal is yet to be accepted by the FAA and as such, the Airport has not recorded this contingency.

(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. The City does not carry earthquake insurance as it is not reasonably available. A summary of these coverages is provided below for the policy period of October 1, 2013 to October 1, 2014.

<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	\$15 million per occurrence and annual aggregate	5% of values at risk (\$1 million minimum deductible)
Flood Zone B	\$25 million per occurrence and annual aggregate	2% of values at risk (\$100,000 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, 2013 to October 1, 2014 and October 1, 2012 to October 1, 2013 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 \$150 million each occurrence and in the annual aggregate for war

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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 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 available 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.

As part of general support services, the City charges the Airport for the cost of general liability and property insurance coverage. 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:

	2014	2013
Accrued liability, beginning of fiscal year	\$ 1,678,773	1,631,245
Claims payments and adjustments	(486,607)	(383,443)
Provision for current year claims and changes in prior year estimates	1,050,067	430,971
Accrued liability, end of fiscal year	\$ 2,242,233	1,678,773

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(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 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 and in March 2010, the amount of \$2,516,719 was returned 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.

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Activities relating to the North Concourse OCIP claims reserve fund for the fiscal years ended June 30, 2014 and 2013 were as follows:

		<u>2014</u>	<u>2013</u>
Beginning balance	\$	947,687	1,028,172
Adjustment		279	-
Losses paid		<u>(18,449)</u>	<u>(80,485)</u>
Ending balance	\$	<u>929,517</u>	<u>947,687</u>

On March 15, 2007, the City bought additional insurance coverages through Chartis for major components of the Terminal Area Improvement Program (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 year 2009 and was recorded as advances and deposits in the accompanying statement of net position. In August 2013, as part of the annual loss reserve analysis by Chartis, an amount of \$1,397,838 was returned to the Airport.

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Activities relating to the TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 4,032,392	4,303,114
Interest earned	1,714	3,167
Reserve returned	(1,397,838)	-
Losses paid	<u>(119,451)</u>	<u>(273,889)</u>
Ending balance	<u>\$ 2,516,817</u>	<u>4,032,392</u>

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 (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 December 2007, the Airport entered into an operating lease and maintenance agreement of 14 compressed natural gas (CNG) powered buses. The lease and maintenance term of the agreement is from August 1, 2008 to July 31, 2015. In September 2009, the agreement was restated to add 10 CNG powered buses for the period June 30, 2010 to May 31, 2017. Rental and maintenance expenses were \$1,319,724 and \$1,263,991 for fiscal years ended June 30, 2014 and 2013, respectively.

The future minimum lease and maintenance payments required under the existing agreement for the 10 remaining CNG powered buses are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 952,816
2016	956,267
2017	<u>879,806</u>
Total minimum lease payments	<u>\$ 2,788,889</u>

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(b) *Purchase Commitments and Capital Outlay Projections*

As of June 30, 2014, the Airport was obligated for purchase commitments of approximately \$6.8 million primarily for pavement maintenance, terminal area development, paint/rubber removal vehicle, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber approximately \$67.0 million on proposed capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from federal grants, bond proceeds, and other Airport revenues.

(c) *Fuel Tank Farms*

Until December 22, 1998, the City and Chevron U.S.A., Inc. (“Chevron”), operated adjacent fuel storage facilities at the Airport. The City’s facilities have not been in operation since December 22, 1998, when the facilities were closed in response to the federal deadline for upgrade or closure of underground storage tanks. Since the discovery in fiscal year 1985-86 that petroleum products had been released into the soil and groundwater from either or both the City and Chevron fuel storage facilities, the City and Chevron have operated a groundwater extraction system to control migration (spread) of the contamination and to remediate (clean up) contaminated groundwater. This interim remediation system consists of an extraction and treatment system to remove floating jet fuel product from groundwater and to prevent its offsite migration. Chevron operates and maintains the system. Through June 1998, the City and Chevron shared in the cost of operating this system. The agreement expired but Chevron continued the work.

A new joint agreement was entered into by the City and Chevron in November 2009. Chevron was designated as the lead in the remediation efforts. The agreement provides for a 50%-50% cost sharing responsibility for actual future costs until successful closure of the site. As of June 30, 2014, the Airport has paid its 50% of the remediation costs totaling \$2,024,242. The agreement also required the City to pay its 50% share of the past costs that Chevron has incurred during the period after expiration of the prior agreement and before the new agreement was in place. During the fiscal year ended June 30, 2010, the Airport paid its share of the past costs amounting to \$660,434.

Chevron is responsible for administering the new agreement, including retaining a corrective action contractor. The agreement is also structured to facilitate reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (the “Plume Fund”). Chevron has received a reimbursement from the Plume Fund amounting to \$2,948,039 and is requesting the remaining \$51,961 of the eligible \$3 million reimbursement.

Due to the proximity of the closed City jet fuel farm to the adjacent Chevron jet fuel farm that was still active, and the apparently stable contaminant plume, the regulators approved a waiver to allow the City tanks to be left in place until such time as a completely new fuel farm could be built, thereby allowing the Chevron site to be closed, and investigation/remediation to be done on both sites at once. The new jet fuel farm was

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constructed off-Airport across Highway 101 and was placed in service in December 2009. The Chevron fuel farm was subsequently closed upon commencement of the operation of the new fuel farm.

Chevron demolished its fuel farm during fiscal year 2010 and removed its USTs. The City removed its USTs in September 2011. Chevron completed the site's interim remedial action in November 2012 pursuant to the plan, which was approved by the County of Santa Clara (County) in February 2012. The approved plan is a fixed area remedial excavation to remove the secondary source materials beneath and adjacent to the former USTs. In March 2013, four groundwater monitoring wells were installed within the area of excavation to monitor and evaluate the effectiveness of the remedial excavation on water quality. Quarterly monitoring and sampling was done through the fourth quarter of 2013. Following four quarters of monitoring and sampling, the site conditions were evaluated for closure using the framework of the State Water Resources Control Board Low-Threat Underground Storage Tank Closure Policy, which became effective August 17, 2012. In June 2014, Chevron and the City received a letter from the County granting no further action to the fuel leak investigation and requesting destruction of the monitoring wells.

The Airport accrued \$714,000 and \$1,758,657 as of June 30, 2014 and 2013, respectively, to cover the costs of its portion of the interim remediation system. Chevron will deduct the Airport's share in the remaining remediation costs from the Airport's half of the Plume Fund reimbursement.

(d) 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

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amendment to the Master Plan to incorporate the Terminal Area Improvement Program 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 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 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.

(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 as described below.

Airport Lease Obligation - In 2005, the City purchased certain real property (referred to as the Airport West Property). The purchase was financed with lease revenue bonds issued by the City of José Financing Authority (Authority). Upon acquisition, the City leased the property from the Authority and used a portion for construction laydown needs to support the Terminal Airport Improvement Program (TAIP). The City agreed to make lease payments from Airport operating revenues. At the time of the acquisition, the City contemplated other potential Airport uses for the property, such as rental car storage, public or employee parking, flight kitchen operations, airport/airline warehouses and compatible non-aviation leaseholds. The City subsequently determined not to use the property for these other potential Airport uses. The City's use of the property for construction laydown needs ceased with the completion of the TAIP on June 30, 2010. The FAA determined that the City could use Airport operating revenues to pay rent only for those portions that the City actually used for Airport construction laydown but not for the remainder of the property not actually used for Airport purposes. The City believes there is no basis under applicable federal law for the distinction made by the FAA auditors between rent payments for actual as opposed to planned Airport uses.

Guadalupe Gardens – In 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.

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The City acquired the Guadalupe Gardens properties using FAA grants for airport approach protection and noise compatibility. The FAA grant agreements required FAA approval of any planned City-use of the properties acquired with grant proceeds. By letter dated August 9, 2002, addressed to the City's Director of Aviation, the FAA San Francisco Airport District Office ("ADO") approved the City's Master Plan for reuse of Guadalupe Gardens for runway and approach protection, and the City finalized the Master Plan in reliance upon the FAA approval. Citing provisions of federal law that require recipients of FAA grants for acquisition of land for noise compatibility purposes to dispose of any such acquired land when no longer needed by the airport owner for noise compatibility purposes, the FAA auditors determined that the FAA ADO erred in its 2002 approval of the Guadalupe Gardens Master Plan and that the City is obligated to prepare an inventory of the Guadalupe Gardens to identify those parcels that were acquired by the City with noise compatibility grant proceeds. This inventory would then be used to prepare for FAA review and approval of a disposition plan for those parcels no longer needed by the City for noise compatibility. Proceeds of the sale of the parcels proportionate to the FAA grant share of the original purchase price would be required to be used for other approved noise compatibility projects at the Airport or returned to the FAA. 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.

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 to cap 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.

The City continues discussions with the FAA, but cannot predict the final outcome of the audit.

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(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 will be in competition with Atlantic Aviation at the Airport.

The first lawsuit (the “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. Briefings and a hearing date for the appeal have not yet been set.

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, and the Superior Court issued a decision in the City’s favor on October 29, 2014. The Court’s judgment implementing the decision is forthcoming, and the plaintiff will have sixty (60) days after the Court’s judgment is served to file an appeal.

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

In October 2014, the City issued Airport Revenue Refunding Bonds Series 2014A in the amount of \$57,350,000, Series 2014B in the amount of \$28,010,000, and Series 2014C in the amount of \$40,285,000 to current refund certain outstanding Airport revenue tax-exempt bonds previously issued in 2001 and 2004. The Series 2014A Bonds, Series 2014B Bonds, and Series 2014C were issued with interest rates ranging from 1% to 5% and will mature in March 2026, March 2028, and March 2031, respectively.



Signature Flight Support, a global leader in fixed base operations, broke ground and officially began development on the \$82 million Signature San José facility on February 28, 2014. Signature San José will serve the general aviation needs of individuals and companies in Silicon Valley.



The 29-acre Signature facility will feature 240,000 square feet of hangar space, a passenger terminal and other amenities. Blue City Holdings, the private aviation arm of Google's founders, is one of the anchor tenants. The LEED-designed facility will create 150 to 200 on-Airport and regional construction jobs, 36 permanent on-Airport jobs and will generate more than \$3 million in annual revenue for San José.

STATISTICAL



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Statistical Section
June 30, 2014

This part of the comprehensive annual financial report for Norman Y. Mineta San José International Airport (Airport) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Airport's overall financial health.

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ANNUAL REVENUES, EXPENSES, CHANGES IN NET POSITION AND NET POSITION
LAST TEN FISCAL YEARS
(in \$ 000's)⁽²⁾

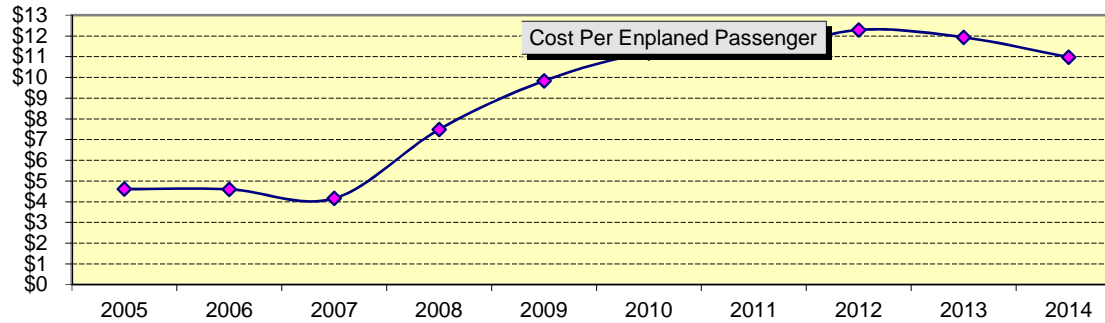
	2005	2006	2007	2008	2009	2010	2011 ⁽¹⁾	2012	2013	2014
Operating revenues										
Airline rates and charges:										
Landing fees	\$9,751	\$10,768	\$13,504	\$13,084	\$14,504	\$13,190	\$13,370	\$11,414	\$12,888	\$11,973
Terminal rental	16,979	16,575	11,308	26,539	29,716	33,459	34,446	39,864	38,256	38,130
Total airline rates and charges	26,730	27,343	24,812	39,623	44,220	46,649	47,816	51,278	51,144	50,103
Terminal buildings/concessions	8,005	8,672	9,201	11,470	11,947	11,157	16,877	15,770	15,102	15,423
Airfield area	2,976	3,074	2,519	2,833	3,171	2,791	2,925	2,783	3,038	3,553
Parking and roadway	43,858	46,484	48,226	48,369	44,227	38,934	47,320	51,023	46,700	47,268
Fuel handling fees	1,375	1,492	1,592	1,806	1,474	1,310	1,504	1,690	2,361	3,170
Customer facility charges ⁽¹⁾	4,297	4,491	4,451	6,351	6,713	6,021	-	-	-	-
General aviation/other	3,028	3,858	4,528	4,789	5,826	5,909	4,521	4,431	4,770	6,193
Total operating revenues	90,269	95,414	95,329	115,241	117,578	112,771	120,963	126,975	123,115	125,710
Operating expenses:										
Terminal buildings/concessions	24,130	24,685	26,929	31,790	28,813	31,701	33,019	23,659	23,303	24,233
Airfield area	20,980	21,765	19,860	22,692	16,170	10,911	9,749	9,069	8,707	9,570
Parking and roadway	26,486	28,518	28,559	27,936	26,853	24,032	25,344	25,514	16,631	16,343
Fuel handling costs	96	325	171	311	557	885	288	556	1,065	11
General aviation	2,838	3,152	3,679	3,428	4,072	3,052	2,409	1,676	1,605	1,609
General and administrative	21,741	24,665	28,787	32,879	28,268	23,624	19,095	18,328	18,763	19,877
Depreciation and amortization	19,118	19,153	19,323	22,834	20,647	55,288	51,532	51,520	54,353	54,027
Total operating expenses	115,389	122,263	127,308	141,870	125,380	149,493	141,436	130,322	124,427	125,670
Operating income (loss)	(25,120)	(26,849)	(31,979)	(26,629)	(7,802)	(36,722)	(20,473)	(3,347)	(1,312)	40
Nonoperating revenues (expenses):										
Passenger facility charges	21,768	22,271	22,169	21,224	17,416	17,043	17,311	16,787	17,294	18,161
Customer facility charges ⁽¹⁾	-	-	-	-	-	-	6,840	10,137	13,385	15,493
Investment income	4,584	5,376	9,294	15,446	8,138	311	1,613	2,217	(257)	1,571
Interest expense	(7,173)	(3,184)	(11,995)	(11,737)	(11,404)	(10,750)	(54,430)	(70,009)	(75,058)	(73,836)
Bond issuance costs	-	-	-	-	-	-	-	(4,141)	(196)	-
Operating grants	5,570	8,398	8,284	8,444	4,625	1,150	701	670	565	605
Loss on disposal of capital assets	-	(3)	-	-	(3,537)	(11,733)	-	(9)	-	(481)
Other, net	747	2,332	2,541	2,767	4,227	200	1,438	698	451	614
Total nonoperating revenues (expenses), net	25,496	35,190	30,293	36,144	19,465	(3,779)	(26,527)	(43,650)	(43,816)	(37,873)
Income (loss) before capital contributions	376	8,341	(1,686)	9,515	11,663	(40,501)	(47,000)	(46,997)	(45,127)	(37,833)
Capital contributions	13,791	10,508	9,694	4,970	12,868	34,722	10,862	7,399	6,954	4,843
Change in Net Position	\$14,167	\$18,849	\$8,008	\$14,485	\$24,531	(\$5,779)	(\$36,138)	(\$39,598)	(\$38,173)	(\$32,990)
Net Position at Year-End										
Net investment in capital assets	\$251,370	\$219,510	\$239,960	\$267,321	\$316,935	\$314,664	\$272,598	\$242,916	\$209,381	\$169,870
Restricted	133,413	113,182	118,334	84,491	45,260	61,349	64,128	69,350	65,408	67,848
Unrestricted	7,887	78,827	61,233	82,200	96,348	76,751	79,900	58,811	58,114	62,195
Net Position at Year-End	\$392,670	\$411,519	\$419,527	\$434,012	\$458,543	\$452,764	\$416,626	\$371,077	\$332,903	\$299,913

(1) Customer facility charges (CFCs) are used to pay for capital costs and related debt service associated with the consolidated rental car facility (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 them for the debt service associated with the ConRAC facility.

(2) Totals may not add due to rounding.

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)
AIRLINE COST PER ENPLANED PASSENGER
LAST TEN FISCAL YEARS
 (\$ and Passengers in 000's)



	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Airline revenues:										
Terminal rental	\$ (1) 16,390	(1) 15,886	(1) 10,748	26,539	29,716	33,459	34,446	39,864	38,256	38,130
Landing fees (Passenger Carriers)	8,262	9,036	11,390	12,252	13,560	12,443	12,582	10,838	12,298	11,451
Total	24,652	24,922	22,138	38,791	43,276	45,902	47,028	50,702	50,554	49,581
Enplaned passengers	5,346	5,415	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517
Airline cost per enplaned passenger (not in 000's)	\$ 4.61	4.60	4.16	(2) 7.49	(2) 9.84	(2) 11.18	(2) 11.23	(2) 12.29	(3) 11.94	(3) 10.98

(1) Terminal Rental for fiscal years 2005 through 2007 do not agree with Schedule A where revenue categories have been presented in accordance with the provisions of the current Airline-Airport Lease and Operating Agreement. Secondary and shared holdroom revenues, previously included in the Terminal Buildings/Concessions category, were reclassified to Terminal Rental in Schedule A.

(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 and 2014 were principally due to the increases in enplaned passengers.

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)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gross Concession Revenue: ⁽¹⁾										
Parking ⁽²⁾	\$ 29,225	29,744	29,702	28,625	23,632	21,260	22,081	22,943	24,814	26,759
Rental Cars	110,111	125,371	142,115	156,227	127,661	114,614	125,730	126,333	129,643	142,439
Food and Beverage	17,841	18,251	20,156	20,041	16,753	16,493	21,141	22,280	24,216	27,350
Advertising	3,705	4,627	3,451	1,892	1,923	1,736	1,903	1,873	2,355	2,506
Gift Shop & Retail	8,325	8,534	8,007	7,957	7,380	8,868	11,290	11,983	12,668	13,475
In-Flight Kitchen	9,883	7,731	7,277	5,819	6,173	8,580	9,823	8,920	10,680	13,114
Total Gross Concession Revenue	<u>\$ 179,090</u>	<u>194,258</u>	<u>210,708</u>	<u>220,561</u>	<u>183,522</u>	<u>171,551</u>	<u>191,968</u>	<u>194,332</u>	<u>204,376</u>	<u>225,643</u>
Enplaned Passengers:	5,346	5,415	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517
Gross Concession Revenue Per Enplaned Passenger (not in 000's)	<u>\$ 33.50</u>	<u>35.87</u>	<u>39.61</u>	<u>42.59</u>	<u>41.71</u>	<u>41.77</u>	<u>45.83</u>	<u>47.11</u>	<u>48.26</u>	<u>49.95</u>

⁽¹⁾ Gross revenues of major concessionaires only.

⁽²⁾ Gross public parking revenues only.

Source: Norman Y. Mineta San José International Airport activity reports and concession records

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED AIRLINE RATES AND CHARGES
FISCAL YEARS 2004 THROUGH 2007 AND THE PERIOD JULY 1 TO NOVEMBER 30, 2007

Schedule D

	<u>2005</u>	<u>2006</u>	<u>2007</u> ⁽²⁾	<u>2008</u> ⁽³⁾
Landing Fees (per 1,000 lbs. MGLW) ⁽¹⁾	\$ 1.28	\$ 1.43	\$ 1.80	\$ 1.44
Terminal Rental Rates (per square foot)				
Terminal A :				
Ticket counter	240	224	133	
Operations	180	168	100	
Holdroom	216	202	120	
Baggage claim	120	112	67	
Baggage makeup/storage	84	79	47	
Terminal C :				
Ticket counter	103	111	110	
Operations	77	84	83	
Holdroom	93	100	99	
Baggage Claim ⁽⁴⁾	52	56	55	
Baggage makeup/storage	36	39	39	
Blended:				
Ticket counter				351
Operations				316
Holdroom				263
Baggage Claim ⁽⁴⁾				175
Baggage makeup/storage				123

(1) MGLW - Maximum Gross Landing Weight

(2) The Airport was able to reduce the terminal rental rates in fiscal year 2006-07 by utilizing \$4.0 million of the Safety Net Reserve Account. The account was established in 1993 to reserve funds for unusual or exceptional circumstances such as a significant imbalance of rates and charges for various facilities, projected extraordinary vacancy rates, and unusual discrepancies in activity levels.

(3) These rates and charges were only for the period July 1 to November 30, 2007. A new Airline-Aiport Lease and Operating Agreement took effect on December 1, 2007. The rates for the period December 1, 2007 to June 30, 2008 (shown on the next page) were calculated in accordance with the provisions of the current agreement. Blended rental rates for Terminals A and C were calculated with the concurrence of the airlines.

(4) The baggage claim requirement is allocated among the airlines using the 20/80 formula. The revenue requirement applicable to the baggage claim areas is calculated by multiplying the square footage of all baggage claim areas by the square foot rate for those areas. 20% of the revenue requirement is divided equally among all airlines. The remaining 80% is distributed among all airlines based on the number of enplaned passengers.

Source: Norman Y. Mineta San José International Airport annual rates and charges analysis.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED AIRLINE RATES AND CHARGES ⁽¹⁾
PERIOD DECEMBER 1, 2007 to JUNE 30, 2008 THROUGH FISCAL YEAR 2014

Schedule D
(Concluded)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Unit</u>
Landing Fees	\$ 2.00	\$ 2.24	\$ 2.32	\$ 2.47	\$ 2.14	\$ 2.38	\$ 2.22	per 1,000 lbs. MGLW ⁽⁴⁾
Terminal Rental Rates								
Group A:								
Ticket counter and queuing, Skycap/Curbside Check-in								
- Preferential	73,729	81,192	145,136	241,041	319,205	296,954	293,680	per counter
- Common	35	63	57	73	97	90	98	per hour
Airline ticket office, Club/VIP	166.07	237.81	204.57	157.18	184.19	186.55	192.73	per sq. ft.
Holdroom (Gate)								
- Preferential	418,598	481,687	726,212	742,245	872,527	886,424	915,350	per gate
- Common	228	330	497	496	598	607	591	per turn
Group B:								
Baggage Claim ⁽²⁾	132.86	190.25	163.66	125.74	147.35	149.24	154.19	per sq. ft.
Other Office	132.86	190.25	163.66	125.74	147.35	149.24	154.19	per sq. ft.
Group C:								
Baggage Make-up ⁽³⁾	83.04	118.91	102.29	78.59	92.09	93.28	96.37	per sq. ft.
Operations Space	83.04	118.91	102.29	78.59	92.09	93.28	96.37	per sq. ft.

- (1) These rates and charges were for the period December 1, 2007 to June 30, 2014 and were calculated based on the provisions of the current Airline-Aiport Lease and Operating Agreement which took effect on December 1, 2007.
- (2) The baggage claim requirement is allocated among the airlines using the 20/80 formula. The revenue requirements applicable to the baggage claim areas is calculated by multiplying the square footage of all baggage claim areas by the per-square foot rate for those areas. 20% of the revenue requirement is divided equally among all airlines. The remaining 80% of the revenue requirement is distributed among all airlines based on the number of deplaned passengers.
- (3) The baggage make-up requirement is allocated among the airlines using the 20/80 formula. The revenue requirements applicable to the baggage make-up areas is calculated by multiplying the square footage of all baggage make-up areas by the per-square foot rate for those areas. 20% of the revenue requirement is divided equally among the airlines. The remaining 80% of the revenue requirement is distributed among the airlines based on the number of enplaned passengers.
- (4) MGLW - Maximum Gross Landing Weight

Source: Norman Y. Mineta San José International Airport annual rates and charges analysis.

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)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Outstanding Debt per Enplaned Passenger										
Outstanding debt by type:										
Revenue bonds	\$ 501,378	493,100	484,347	1,057,386	1,046,606	1,035,266	1,023,304	1,415,552	1,398,332	1,376,038
Commercial paper notes	7,755	8,089	41,424	186,190	323,561	417,348	410,079	47,937	45,380	41,159
Total outstanding debt	\$ 509,133	501,189	525,771	1,243,576	1,370,167	1,452,614	1,433,383	1,463,489	1,443,712	1,417,197
Enplaned Passengers	5,346	5,415	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517
Total outstanding debt per enplaned passenger (not in 000's)	\$ 95	93	99	240	311	354	342	355	341	314
Debt Service										
Revenue bonds (2) (3)	\$ 17,932	21,423	20,837	21,567	23,037	31,367	53,890	80,725	86,325	95,068
Commercial paper notes (4) (5)	679	737	3,391	710	292	734	16,605	6,818	4,043	2,859
Total debt service	18,611	22,160	24,228	22,277	23,329	32,101	70,495	87,543	90,368	97,927
Less: Funds available for debt service										
Passenger facility charges	-	-	-	-	-	4,588	21,388	21,336	22,100	25,747
Customer facility charges ⁽⁶⁾	-	-	-	-	-	-	6,840	10,137	13,385	15,494
Unspent bond proceeds ⁽⁶⁾	-	-	-	-	-	-	-	1,713	5,802	11,082
Net debt service	\$ 18,611	22,160	24,228	22,277	23,329	27,513	42,267	54,357	49,081	45,604
Net debt service per enplaned passenger (not in 000's)	\$ 3.48	4.09	4.55	4.30	5.30	6.70	10.09	13.18	11.59	10.10

(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 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 2005 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.

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)
DEBT SERVICE COVERAGE
LAST TEN FISCAL YEARS
(in \$ 000's)⁽¹⁾

Year	Adjusted General Airport Revenues ⁽²⁾	Operating Expenses ^{(3) & (4)}	Net Revenues	Other Available Funds	Net Revenues Available for Debt Service	Total Bond Debt Service ⁽⁵⁾	Available Passenger Facility Charges ⁽⁵⁾	Net Bond Debt Service Payable from Revenues	Coverage Ratio - Bonds	Estimated Commercial Paper (CP) Debt Service ^{(7) (8)}	Coverage Ratio- Bonds & CP
2005	\$ 91,860	\$ 73,656	\$ 18,204	\$ 37,666	\$ 55,870	\$ 17,932 ⁽⁵⁾		\$ 17,932	3.12	\$ 679	3.00
2006	102,615	78,374	24,241	37,022	61,263	21,423 ⁽⁵⁾		21,423	2.86	737	2.76
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

(1) Some data reported previously were revised to reflect the most recent information.

(2) 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 A).

(3) Includes operating expenses less depreciation and expenses paid from sources other than General Airport Revenues.

(4) 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.

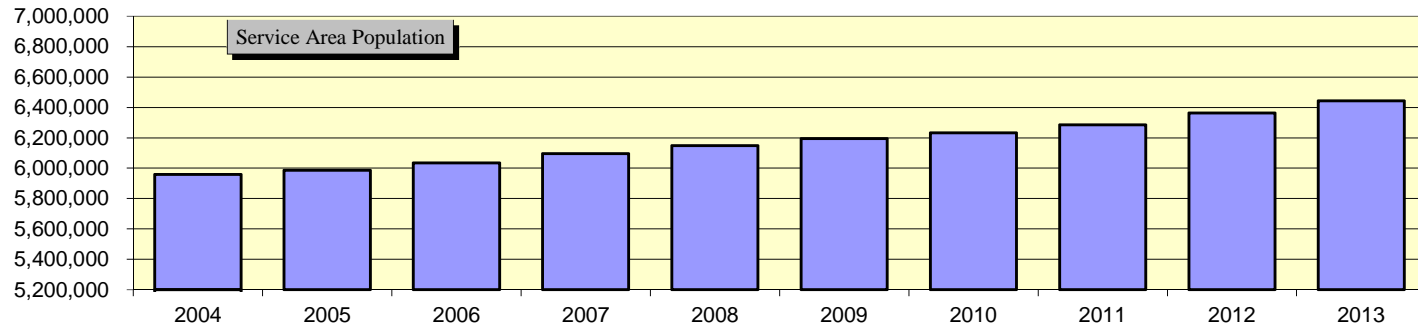
(5) Under the Master Trust Agreement (MTA) dated July 1, 2001, and as amended and supplemented to date (Master Trust), "Bond Debt Service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are 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 Available Passenger Facility Charges designated by the City and deposited with the Trustee to pay Bond Debt Service.

(6) 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 2005 through 2008, were the actual interest rates that were in effect for the relevant period of calculation.

(7) 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.

(8) Includes letter of credit fees associated with subordinated commercial paper.

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 AVAILABLE CALENDAR YEARS (1) (2)



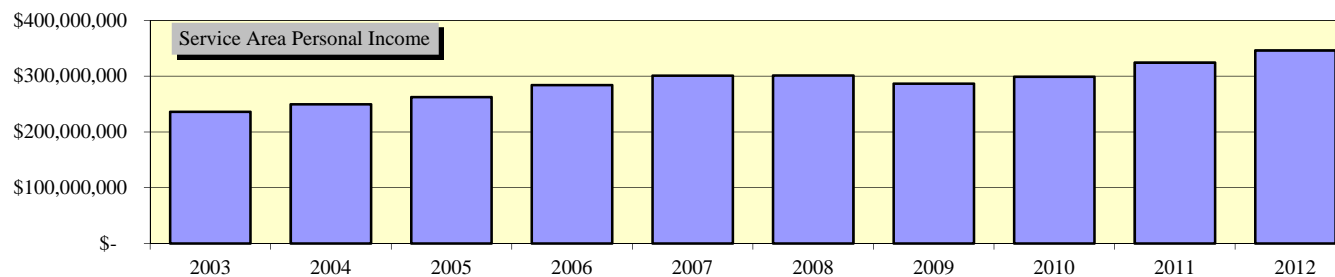
6-5

Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2004	1,462,736	409,557	55,221	700,350	1,698,234	254,783	238,069	645,059	494,144	5,958,153
2005	1,462,371	406,935	55,025	699,347	1,706,676	255,107	243,072	656,247	500,780	5,985,560
2006	1,470,622	406,890	54,948	701,838	1,725,066	256,543	247,542	665,304	505,959	6,034,712
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

(1) Information for calendar year 2014 is not available.
 (2) Some data reported previously were revised to reflect the most recent information.

Source: California Department of Finance, Demographic Research Unit

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)



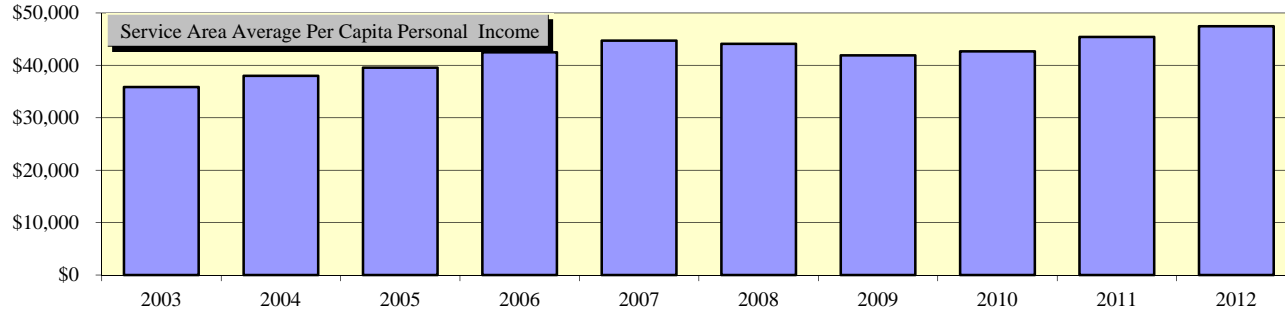
Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2003	\$59,180,286	\$14,077,896	\$1,659,565	\$37,680,025	\$78,486,785	\$10,168,863	\$5,305,300	\$16,763,601	\$12,835,138	\$236,157,459
2004	61,913,092	14,757,411	1,735,630	40,321,583	82,491,972	10,858,843	5,813,489	17,836,603	13,781,360	249,509,983
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	85,017,099	18,365,298	2,163,294	55,139,354	122,259,021	13,990,306	8,034,363	23,203,279	17,810,902	345,982,916

(1) Information for calendar years 2013 and 2014 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-11

Years	Primary Service Area						Secondary Service Area			Average PCPI
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2003	\$40,697	\$34,359	\$30,066	\$54,368	\$47,179	\$40,190	\$22,894	\$26,746	\$26,336	\$35,871
2004	42,825	36,105	31,644	58,423	49,599	43,030	24,511	27,744	27,976	37,984
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	54,683	43,034	38,030	74,582	66,535	52,442	30,630	33,024	34,138	47,455

(1) Information for calendar years 2013 and 2014 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 EIGHT YEARS AGO

Company or Organization	2014			2006		
	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
County of Santa Clara	15,766	1	3.46%	14,860	1	3.66%
Cisco Systems	15,520	2	3.41%	16,500	2	4.06%
City of San Jose*	5,655	3	1.24%	6,670	3	1.64%
eBay Inc.	5,580	4	1.23%	2,200	4	0.54%
IBM	3,920	5	0.86%	5,800	5	1.43%
U.S. Postal Service	3,900	6	0.86%	na (**)	na (**)	na (**)
San Jose State University	2,483	7	0.55%	3,100	7	0.76%
San Jose Unified School District	2,320	8	0.51%	1,820	8	0.45%
Kaiser Permanente	2,300	9	0.51%	na (**)	na (**)	na (**)
Target Corporation	2,100	10	0.46%	na (**)	na (**)	na (**)
Brocade Communication	2,060	11	0.45%	na (**)	na (**)	na (**)
Adobe Systems, Inc.	2,020	12	0.44%	2,000	10	0.49%
Hitachi	2,000	13	0.44%	2,880	6	0.71%
Good Samaritan Hospital	1,900	14	0.42%	1,850	12	0.46%
Cadence Design Systems	1,800	15	0.40%	1,750	14	0.43%

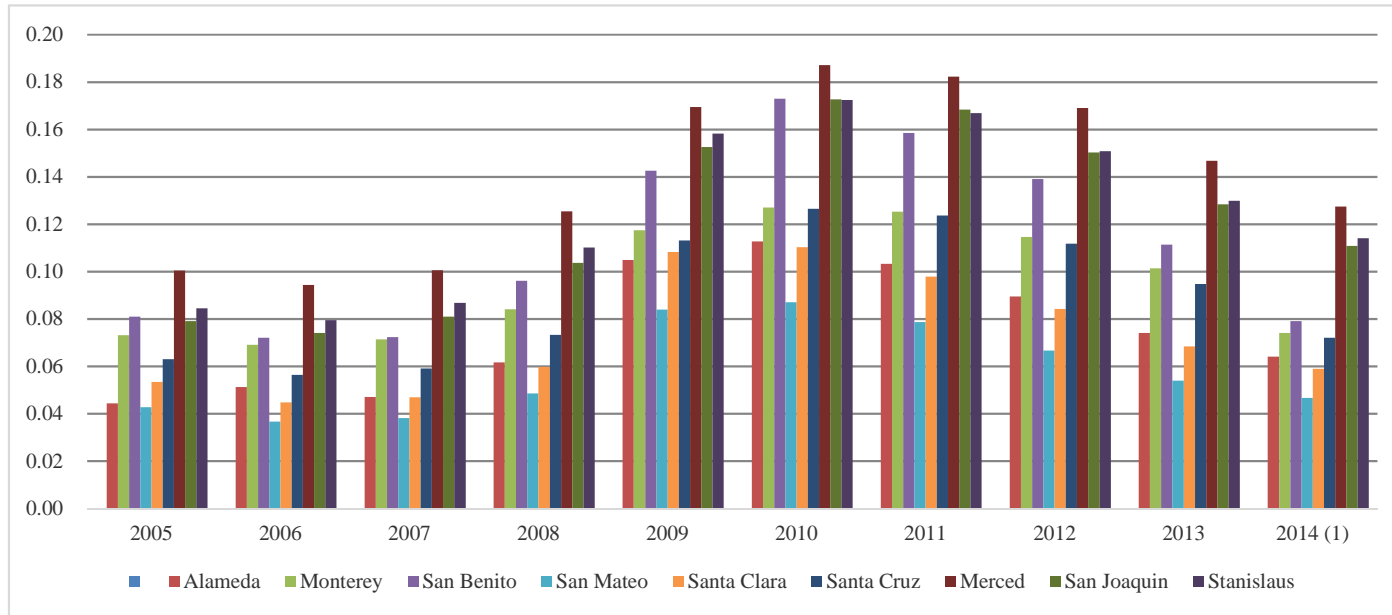
Note: Data pertaining to principal employers for nine years ago is not readily available. As such, we used 2006 information which was the earliest available.

(*) Full-time employees

(**) Companies or organizations not included in top 15 principal employers in 2006

Sources: Office of Economic Development, City of San Jose
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 ⁽¹⁾



S-13

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014(1)</u>
Alameda	4.4%	5.1%	4.7%	6.2%	10.5%	11.3%	10.3%	9.0%	7.4%	6.4%
Monterey	7.3%	6.9%	7.1%	8.4%	11.7%	12.7%	12.5%	11.5%	10.1%	7.4%
San Benito	8.1%	7.2%	7.2%	9.6%	14.3%	17.3%	15.9%	13.9%	11.1%	7.9%
San Mateo	4.3%	3.7%	3.8%	4.9%	8.4%	8.7%	7.9%	6.7%	5.4%	4.7%
Santa Clara	5.3%	4.5%	4.7%	6.0%	10.8%	11.0%	9.8%	8.4%	6.8%	5.9%
Santa Cruz	6.3%	5.6%	5.9%	7.3%	11.3%	12.7%	12.4%	11.2%	9.5%	7.2%
Merced	10.0%	9.4%	10.1%	12.5%	16.9%	18.7%	18.2%	16.9%	14.7%	12.7%
San Joaquin	7.9%	7.4%	8.1%	10.4%	15.3%	17.3%	16.8%	15.0%	12.8%	11.1%
Stanislaus	8.5%	8.0%	8.7%	11.0%	15.8%	17.2%	16.7%	15.1%	13.0%	11.4%

(1) Information for 2014 is the average of January to July 2014.

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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Acoustical Treatment Program (ACT)	10.00	9.00	7.00	7.00	4.00	0.00	0.00	0.00	0.00	0.00
Administration	35.55	34.55	37.75	39.75	34.65	31.00	26.70	27.00	27.00	27.00
Air Service Development	3.25	4.50	4.60	4.60	2.00	2.00	1.00	1.00	1.00	1.00
Airport Technology Services	8.00	17.00	21.00	21.00	19.00	16.00	13.00	13.00	13.00	13.00
Airside Operations	49.20	46.00	46.50	46.55	47.25	38.45	35.15	39.53	41.97	42.97
Customer Service and Outreach	8.75	7.60	11.40	10.40	8.00	6.00	5.00	6.00	7.00	7.00
Capital and Airport Development	52.05	46.05	38.05	28.25	27.25	25.50	18.00	14.00	15.00	15.00
Environmental	3.20	4.20	3.20	3.00	3.50	3.00	1.00	1.00	1.00	1.00
Facilities (Building Services, Trades and Maintenance)	148.00	143.00	143.00	155.00	134.50	127.50	64.00	66.00	64.00	64.00
Landside Operations and Services	66.30	64.50	61.50	62.45	55.75	46.55	34.15	29.47	9.03	8.03
Property Management	12.20	12.10	12.00	13.00	12.10	9.00	8.00	8.00	8.00	8.00
	<u>396.50</u>	<u>388.50</u>	<u>386.00</u>	<u>391.00</u>	<u>348.00</u>	<u>305.00</u>	<u>206.00</u>	<u>205.00</u>	<u>187.00</u>	<u>187.00</u>

⁽¹⁾ A full-time employee is scheduled to work 2,088 hours per year (including vacation and sick leave).
Full-time-equivalent employment is calculated by dividing total labor hours by 2,088.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRPORT INFORMATION
JUNE 30, 2014

Location:	Two miles north of downtown San José, "Capital of Silicon Valley"		
Area:	1,050 acres		
Elevation:	62 ft.		
Airport Code:	SJC		
Runways:	11/29 (temporarily closed)	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		224,308 sq. ft.
	Concessions and Other Rentables		60,994 sq. ft.
	Public/common		195,640 sq. ft.
	Airport		368,258 sq. ft.
	Vacant		31,840 sq. ft.
	Other		104,148 sq. ft.
	Total		985,188 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		44
		26 Food & Beverage Concessions	
		18 Retail Concessions	
	Number of rental car brands		11
Apron:	Commercial Airlines		1,130,408 sq. ft.
	Cargo Airlines		596,436 sq. ft.
	Fixed Base Operator (FBO)		426,071 sq. ft.
	General Aviation West		436,659 sq. ft.
Public parking spaces:	Hourly - Terminal A Garage		1,349
	Hourly - Terminal B Garage & Surface		1,153
	Daily lots		1,358
	Economy lot		1,673
	Total public spaces		<u>5,533</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 Jose		
	AvBase		
	Signature Flight Support (under construction)		

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 ⁽¹⁾
FISCAL YEARS 2005 THROUGH 2009
(Ranked by Fiscal Year 2014 Results)

Schedule N

Airline	2005		2006		2007		2008		2009	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,140,938	40.1%	2,198,806	40.6%	2,266,766	42.6%	2,333,432	45.1%	2,082,271	47.3%
Alaska Airlines	492,357	9.2%	489,022	9.0%	467,324	8.8%	445,689	8.6%	345,419	7.9%
American Airlines ⁽²⁾	1,221,431	22.8%	1,029,154	19.0%	923,052	17.4%	771,429	14.9%	632,723	14.4%
Delta Airlines ⁽³⁾	183,957	3.4%	235,304	4.3%	217,018	4.1%	197,465	3.8%	157,739	3.6%
United Airlines ⁽⁴⁾	533,406	10.0%	651,846	12.0%	654,791	12.3%	595,209	11.5%	420,317	9.6%
US Airways ⁽²⁾	309,692	5.8%	308,204	5.7%	308,522	5.8%	298,193	5.8%	250,458	5.7%
SkyWest ⁽⁵⁾	133,875	2.5%								
Hawaiian Airlines			62,261	1.1%	82,561	1.6%	84,259	1.6%	81,397	1.9%
JetBlue Airways	64,003	1.2%	136,666	2.5%	109,351	2.1%	116,776	2.3%	148,643	3.4%
All Other Airlines ⁽⁶⁾	265,974	5.0%	303,568	5.6%	289,474	5.4%	336,151	6.5%	280,595	6.4%
Total ⁽⁷⁾	5,345,633	100%	5,414,831	100%	5,318,859	100%	5,178,603	100%	4,399,562	100%

⁽¹⁾ Unlike previous Comprehensive Annual Financial Reports, except for FY2005 (see footnote 5 below), the information presented herein does not separately report flights operated by Skywest. The enplanement information of flights operated by Skywest is included in the data of certain other airlines as noted below.

⁽²⁾ In December 2013, the American Airlines and US Airways ("American Airlines Group") merger was completed. They will continue to operate as separate airlines until their operations have been fully integrated. The enplanements include flights operated by Skywest.

⁽³⁾ Includes enplaned passengers on flights operated by Skywest as Delta Connection.

⁽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 but continued to operate as separate airlines until June 30, 2012. The enplanements include flights operated by Skywest as United Express.

⁽⁵⁾ Skywest operated as United Express and Delta Connection in fiscal year 2005.

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

⁽⁷⁾ Percentage totals may not add due to rounding.

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)
ENPLANED COMMERCIAL PASSENGERS BY AIRLINE ⁽¹⁾
FISCAL YEARS 2010 THROUGH 2014
(Ranked by Fiscal Year 2014 Results)

Schedule N
(Concluded)

<u>Airline</u>	<u>2010</u>		<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014</u>	
	<u>Enplanements</u>	<u>% of Total</u>	<u>Enplanements</u>	<u>% of Total</u>	<u>Enplanements</u>	<u>% of Total</u>	<u>Enplanements</u>	<u>% of Total</u>	<u>Enplanements</u>	<u>% of Total</u>
Southwest Airlines	2,121,917	51.7%	2,187,033	52.2%	2,192,234	53.1%	2,169,956	51.2%	2,280,346	50.5%
Alaska Airlines	393,982	9.6%	561,400	13.4%	609,315	14.8%	727,616	17.2%	704,944	15.6%
American Airlines ⁽²⁾	480,402	11.7%	435,815	10.4%	386,997	9.4%	400,246	9.5%	407,331	9.0%
Delta Airlines ⁽³⁾	175,775	4.3%	216,757	5.2%	218,447	5.3%	228,824	5.4%	332,544	7.4%
United Airlines ⁽⁴⁾	376,879	9.2%	357,283	8.5%	298,808	7.2%	253,837	6.0%	231,287	5.1%
US Airways ⁽²⁾	208,809	5.1%	184,380	4.4%	184,084	4.5%	187,583	4.4%	192,733	4.3%
Hawaiian Airlines	72,266	1.8%	85,571	2.0%	103,483	2.5%	116,928	2.8%	113,381	2.5%
Virgin America ⁽⁶⁾							18,265	0.4%	85,859	1.9%
JetBlue Airways	95,118	2.3%	80,797	1.9%	76,063	1.8%	71,506	1.7%	70,860	1.6%
Concesionaria Vuela Compania de Aviacion S.A. DE CV ⁽⁵⁾	8,072	0.2%	48,325	1.2%	49,709	1.2%	49,700	1.2%	51,056	1.1%
All Nippon Airways Co., LTD ⁽⁶⁾							3,273	0.1%	42,999	1.0%
All Other Airlines ⁽⁷⁾	172,633	4.2%	31,862	0.8%	5,745	0.1%	7,019	0.2%	3,681	0.1%
Total ⁽⁸⁾	<u>4,105,853</u>	<u>100%</u>	<u>4,189,223</u>	<u>100%</u>	<u>4,124,885</u>	<u>100%</u>	<u>4,234,753</u>	<u>100%</u>	<u>4,517,021</u>	<u>100%</u>

⁽¹⁾ Unlike previous Comprehensive Annual Financial Reports, the information presented herein does not separately report flights operated by Skywest. The enplanement information of flights operated by Skywest is included in the data of certain other airlines as noted below.

⁽²⁾ In December 2013, the American Airlines and US Airways ("American Airlines Group") merger was completed. They will continue to operate as separate airlines until their operations have been fully integrated. The enplanements include flights operated by Skywest.

⁽³⁾ Includes enplaned passengers on flights operated by Skywest as Delta Connection.

⁽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 but continued to operate as separate airlines until June 30, 2012. Continental Airlines passengers are grouped with United Airlines starting July 1, 2012. The enplanements include flights operated by Skywest as United Express.

⁽⁵⁾ Concesionaria Vuela Compania de Aviacion S.A DE CV (aka Volaris) started operations in April 2010.

⁽⁶⁾ Virgin America and All Nippon Airways started operations at the Airport in May 2013 and June 2013, respectively. Virgin America stopped operations at the Airport in May 2014.

⁽⁷⁾ Consists of airlines no longer serving the Airport and charter airlines.

⁽⁸⁾ Percentage totals may not add due to rounding.

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 LANDED WEIGHTS (1,000's lb)
LAST TEN FISCAL YEARS

<u>Airline</u> ⁽¹⁾	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Air Canada			1,612	2,207	1,469	284	3,159	2,654	2,381	2,286
Alaska Airlines	508,275	490,114	472,515	441,300	337,540	363,017	503,725	505,340	606,086	644,035
All Nippon Airways Co., LTD									9,880	138,114
Atlantic Southeast Airlines	8,643	17,554	5,025							
American Airlines	1,279,122	850,139	733,523	572,925	480,870	366,797	359,335	305,694	315,986	316,940
American Eagle	351,441	391,471	346,514	305,779	254,983	131,181	87,935	86,967	103,046	108,097
ATA	396	224	550	566						
Concesionaria Vuela compania De Aviacion S.A DE CV (aka Volaris)						8,320	54,663	59,451	52,014	51,472
Delta Airlines	226,950	281,319	270,186	240,802	190,950	196,914	230,537	233,473	252,297	386,609
Expressjet Airlines Inc. dba Delta Airlines			44	58,816	8,047	41				
Frontier Airlines	97,781	128,282	143,487	153,166	158,644	78,484	672		672	499
Hawaiian Airlines		87,360	128,960	115,545	109,970	94,075	110,895	133,520	161,560	154,290
Horizon Air	130,792	104,759	98,525	115,790	111,530	144,240	189,443	175,246	200,317	146,656
Independence Airlines	8,405	9,231								
JetBlue Airways	68,682	155,706	124,565	147,688	188,439	115,710	91,292	82,903	79,348	77,215
Mesa Airlines	5,338	12,640	21,664	22,399	4,168		168	167		1,266
Mexicana Airlines	78,780	116,903	113,125	100,668	86,527	76,916	10,890			
Northwest Airlines	118,242	107,918	100,756	101,591	101,284	51,691				
Skywest	164,480									
Southwest Airlines	3,009,958	3,065,960	3,197,472	3,366,428	3,236,828	3,033,408	2,877,878	2,917,030	2,838,160	2,819,208
United Airlines	664,236	810,223	799,499	756,971	522,979	452,916	413,524	355,121	293,930	269,572
US Airways	401,640	377,223	415,366	387,348	316,454	262,199	245,557	250,371	245,538	243,088
Virgin America									32,515	167,315
All Other Airlines	6,046	13,670	16,145	22,137	19,387	34,324	41,329	17,454	19,466	9,932
Subtotal	7,129,207	7,020,696	6,989,533	6,912,126	6,130,069	5,410,517	5,221,002	5,125,391	5,213,194	5,536,593
Cargo Carriers										
Air Transport Int'l.	61,414	55,733	57,941	59,379	56,042	57,159	71,055	12,015	250	
Airborne Express	70,720	68,816	70,176	57,392	1,088					
Emery Worldwide Express										
Fedex	268,055	223,154	252,539	241,953	231,594	168,403	164,642	163,213	158,845	152,417
Kitty Hawk			155							
United Parcel Service	128,470	126,660	129,090	133,653	132,055	96,505	83,136	93,250	88,940	82,584
All Other Cargo Airlines	3,184	4,013	1,862	247	309	200	352	270	33	
Subtotal	531,843	478,376	511,763	492,624	421,088	322,267	319,185	268,748	248,067	235,002
Total	7,661,050	7,499,072	7,501,296	7,404,750	6,551,157	5,732,784	5,540,187	5,394,139	5,461,261	5,771,595

⁽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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Air Canada			2	4	22		46	38	36	34
Alaska Airlines	7,926	7,592	7,264	6,760	5,176	5,444	7,308	7,272	8,684	9,210
All Nippon Airways Co., LTD									52	726
Atlantic Southeast Airlines	258	524	150							
American Airlines	16,214	11,678	10,734	9,012	7,704	5,800	5,552	4,728	4,878	4,854
American Eagle	17,094	19,018	16,816	14,838	12,370	6,364	4,266	4,098	4,236	3,982
ATA	4	2	4	6	378					
Concessionaria Vuela Compania De Aviacion S.A DE CV						124	812	886	770	752
Delta Airlines	3,122	4,460	4,348	4,274	4,008	4,342	4,656	4,784	4,810	8,596
ExpressJet Airlines Inc dba Delta Airlines				2,738		2				
Frontier Airlines	1,476	1,942	2,190	2,360	2,426	1,202	10		10	8
Hawaiian Airlines		546	806	732	732	620	732	882	1,036	1,014
Horizon Air	3,960	3,200	3,086	3,602	3,428	4,484	6,062	5,676	6,488	4,750
Independence Airlines	122	134								
JetBlue Airways	966	2,190	1,752	2,102	2,986	1,876	1,284	1,166	1,116	1,086
Mesa Airlines	226	434	592	614	126	14	6	6		34
Mexicana Airlines	1,044	1,588	1,600	1,430	1,250	1,126	160			
Northwest Airlines	1,670	1,540	1,434	1,446	1,410	746				
Skywest	8,134									
Southwest Airlines	50,402	50,936	52,872	54,974	52,414	48,942	46,584	47,002	45,486	44,942
United Airlines	9,790	16,210	16,324	14,960	10,654	9,986	7,432	6,072	5,600	5,052
US Airways	6,076	5,748	6,168	6,070	5,110	4,130	3,624	3,620	3,558	3,504
Virgin America									458	2,366
All Other Airlines	80	212	260	442	304	598	732	248	290	146
Subtotal	128,564	127,954	126,402	126,364	110,498	95,800	89,266	86,478	87,508	91,056
Cargo Carriers										
Air Transport Int'l.	468	424	442	452	426	434	538	88	2	
Airborne Express	520	506	516	422	8					
FedEx	1,400	1,270	1,326	1,324	1,264	958	926	928	918	918
Kitty Hawk			2							
United Parcel Service	924	908	926	916	854	672	566	652	610	550
All Other Cargo Airlines	282	356	176	26	6	12	16	10	6	
Subtotal	3,594	3,464	3,388	3,140	2,558	2,076	2,046	1,678	1,536	1,468
Total	132,158	131,418	129,790	129,504	113,056	97,876	91,312	88,156	89,044	92,524

⁽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/COMMUTER/ALL-CARGO AIRLINE SERVICE

Schedule Q

CARRIER

NONSTOP SERVICE

SCHEDULED DOMESTIC AIRLINE SERVICE

Alaska Airlines	Honolulu, Oahu (HNL) Kahului, Maui (OGG) Kona, Hawaii (KOA) Lihue, Kauai (LIH) Portland (PDX) Salt Lake City (SLC) Seattle (SEA)
American Airlines	Chicago/O'Hare (ORD) Dallas/Ft. Worth (DFW)
Delta Air Lines	Atlanta (ATL) Minneapolis/St. Paul (MSP) Salt Lake City (SLC)
Hawaiian Airlines	Honolulu, Oahu (HNL) Kahului, Maui (OGG)
JetBlue Airways	Boston (BOS) New York (JFK)
Southwest Airlines	Austin (AUS) Burbank (BUR) Chicago/Midway (MDW) Denver (DEN) 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)
US Airways	Phoenix (PHX)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED/COMMUTER/ALL-CARGO AIRLINE SERVICE

Schedule Q
(Concluded)

CARRIER

NONSTOP SERVICE

COMMUTER AIRLINE SERVICE

American Eagle (regional carrier for American Airlines)

Los Angeles (LAX)

Horizon Air (regional carrier for Alaska Airlines)

Boise (BOI)

Portland (PDX)

Reno (RNO)

Skywest (on behalf of American, Delta and United)

Denver (DEN)

Los Angeles (LAX)

Salt Lake City (SLC)

Seattle (SEA)

SCHEDULED FOREIGN AIRLINE SERVICE

Alaska Airlines

Cabo San Lucas (SJD)

Guadalajara (GDL)

ANA

Tokyo-Narita (NRT)

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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Passengers (1,000's):										
Enplanements	5,346	5,415	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517
Deplanements	<u>5,382</u>	<u>5,437</u>	<u>5,335</u>	<u>5,202</u>	<u>4,422</u>	<u>4,125</u>	<u>4,200</u>	<u>4,131</u>	<u>4,254</u>	<u>4,546</u>
Total Passengers	<u><u>10,728</u></u>	<u><u>10,852</u></u>	<u><u>10,654</u></u>	<u><u>10,381</u></u>	<u><u>8,822</u></u>	<u><u>8,232</u></u>	<u><u>8,389</u></u>	<u><u>8,256</u></u>	<u><u>8,489</u></u>	<u><u>9,063</u></u>
Mail/Freight/Cargo (1,000 lbs):										
Mail	9,213	7,593	4,342	3,044	1,987	3,357	2,264	1,160	1,431	1,135
Freight/Express	25,449	22,577	12,228	7,101	5,995	5,432	5,060	5,303	6,172	16,156
Cargo	<u>190,871</u>	<u>179,612</u>	<u>171,754</u>	<u>166,509</u>	<u>129,809</u>	<u>97,578</u>	<u>87,329</u>	<u>77,303</u>	<u>78,766</u>	<u>86,239</u>
Total mail/freight/cargo	<u><u>225,533</u></u>	<u><u>209,782</u></u>	<u><u>188,324</u></u>	<u><u>176,654</u></u>	<u><u>137,791</u></u>	<u><u>106,367</u></u>	<u><u>94,653</u></u>	<u><u>83,766</u></u>	<u><u>86,369</u></u>	<u><u>103,530</u></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) (4)}
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Air Carrier Operations ⁽²⁾</u>	<u>Regional Commuter Operations</u>	<u>Cargo Operations</u>	<u>Total Commercial Operations ⁽³⁾</u>	<u>Percent Commercial Operations</u>	<u>General Aviation Operations</u>	<u>Military Operations</u>	<u>Total Operations</u>
2005	98,892	29,672	3,594	132,158	67.4%	63,708	99	195,965
2006	97,198	30,756	3,464	131,418	67.9%	61,907	83	193,408
2007	97,596	28,806	3,388	129,790	70.2%	55,021	103	184,914
2008	96,860	29,504	3,140	129,504	70.1%	55,146	64	184,714
2009	86,668	23,830	2,558	113,056	70.7%	46,674	242	159,972
2010	76,024	19,776	2,076	97,876	74.4%	33,439	275	131,590
2011	73,094	16,172	2,046	91,312	74.8%	30,503	276	122,091
2012	71,672	14,806	1,678	88,156	73.4%	31,664	285	120,105
2013	71,598	15,910	1,536	89,044	73.8%	31,321	210	120,575
2014	73,596	17,460	1,468	92,524	75.6%	29,619	208	122,351

Annual Compound Growth Rate

FY 2005 through FY 2014	-2.9%	-5.2%	-8.6%	-3.5%	1.2%	-7.4%	7.7%	-4.6%
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⁽¹⁾ An aircraft operation is defined as the takeoff or landing of an aircraft.

⁽²⁾ Includes domestic and international airlines.

⁽³⁾ Represents the sum of Mainline Air Carrier Operations, Regional Commuter Operations and All-Cargo Operations.

⁽⁴⁾ Some data reported previously have been revised to reflect more recent information.

Source: Norman Y. Mineta San José International Airport activity reports

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The Power Suite is a new hold room in Terminal B opposite gates 17 and 18 with seats for 150 people. The extra seating is necessary to accommodate larger, international flights. The Power suite offers free and fast Wi-Fi, and comfortable seating and work stations with built-in power outlets so travelers can remain productive prior to boarding their flight.



Two new concessions in Terminal A serve its growing passenger activity. Einstein Bros. Bagels offers fresh-baked goods, made-to-order sandwiches, crisp salads, Free Trade brand gourmet coffee, espresso drinks, hot chocolate, hot and cold chai, other teas and bottled juices. Red Mango offers smoothies and frozen yogurt.

BOND DISCLOSURE



NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Bond Disclosure Report

June 30, 2014

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 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).

In October 2014, the City issued Airport Revenue Refunding Bonds Series 2014A, 2014B, and 2014C to current refund the Series 2001A, 2004C, and 2004D Series Bond which terminated the reporting obligation of the refunded bonds.

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, 2014, 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-3 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-4 of the Bond Disclosure Section of this report.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)

Bond Disclosure Report

June 30, 2014

- ◆ A schedule showing, for the Airport's most recently completed fiscal year, historical aircraft operations.

Refer to Schedule S, page S-23 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-5 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-20 and S-21 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, pages S-16 and S-17 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 22 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-8 of the Statistical Section of this report.

REPORTING OF SIGNIFICANT EVENTS

On March 28, 2014, the City filed two material event notices relating to bond insurer upgrade by Standard & Poor's Rating Service and the corresponding insured rating impact on the City's Airport Revenue Bonds, Series 2001A, Series 2004C, Series 2004D, and Series 2011B. On August 22, 2014, the City filed a material event notice relating to bond insurer upgrade by Moody's Investors Service and the corresponding insured rating impact on the City's Airport Revenue Bonds, Series 2001A, Series 2004C, and Series 2004D.

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</u>	<u>Air Carrier International Enplanements</u>	<u>Total Air Carrier Enplanements</u>	<u>Commuter Enplanements</u>	<u>Total Enplanements</u>	<u>Total Percent Change %</u>
2005	4,660,730	138,142	4,798,872	546,761	5,345,633	1.02%
2006	4,706,038	137,054	4,843,092	571,739	5,414,831	1.29%
2007	4,686,496	102,368	4,788,864	529,995	5,318,859	-1.77%
2008	4,584,448	67,459	4,651,907	526,696	5,178,603	-2.64%
2009	3,907,376	60,381	3,967,757	431,805	4,399,562	-15.04%
2010	3,636,146	62,437	3,698,583	408,811	4,107,394	-6.64%
2011	3,728,493	77,963	3,806,456	382,767	4,189,223	1.99%
2012	3,672,704	83,261	3,755,965	368,920	4,124,885	-1.54%
2013	3,720,640	110,289	3,830,929	403,824	4,234,753	2.66%
2014	3,891,911	163,638	4,055,549	461,472	4,517,021	6.67%
Annual Compound Growth Rate						
FY 2005 through FY 2014	-2.0%	1.9%	-1.9%	-1.9%	-1.9%	

B-3

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

<u>Fiscal Year</u>	<u>Total Enplanements</u>	<u>Total Origin and Destination Enplanements</u>	<u>Total Connecting Enplanements</u>	<u>Connecting Enplanements as a Percentage of Total Enplanements</u>
2005	5,345,633	5,075,122	270,511	5.1%
2006	5,414,831	5,192,594	222,237	4.1%
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	4,107,394	3,997,764	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%
Annual Compound Growth Rate				
FY 2005 through FY 2014	-1.9%	-1.5%	-11.5%	

Source: Norman Y. Mineta San José International Airport activity reports

Table 3

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
HISTORICAL MAXIMUM GROSS LANDING WEIGHT
LAST TEN FISCAL YEARS
(In thousand pounds)

Fiscal Year	<u>Air Carrier</u> ⁽¹⁾	<u>Commuter</u>	<u>Cargo</u> ⁽²⁾	<u>Total</u>
2005	6,468,513	660,694	531,843	7,661,050
2006	6,342,853	677,843	478,376	7,499,072
2007	6,351,084	638,449	511,763	7,501,296
2008	6,255,828	656,298	492,624	7,404,750
2009	5,576,343	553,726	421,088	6,551,157
2010	4,903,780	506,737	322,267	5,732,784
2011	4,779,979	441,023	319,185	5,540,187
2012	4,719,484	405,907	268,748	5,394,139
2013	4,759,393	453,801	248,067	5,461,261
2014	4,999,691	536,903	235,002	5,771,595
Annual Compound Growth Rate				
FY 2005 through FY 2014	-3%	-2%	-9%	-3%

⁽¹⁾ Includes domestic and international air carriers.

⁽²⁾ Includes all-cargo airlines.

⁽³⁾ Some data reported previously have been revised to reflect more recent information.

Source: Norman Y. Mineta San José International Airport activity reports