Comprehensive 2010 Annual Financial Report

Norman Y. Mineta San José International Airport

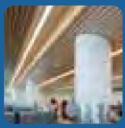
NORMAN Y. MINETA
SAN JOSE
INTERNATIONAL
AIRPORT
SILICON VALLEY'S AIRPORT

Photo by Ken Paul

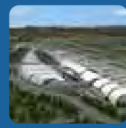
San José, California
A Department of the
City of San José

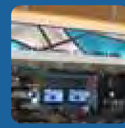
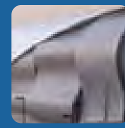
Fiscal Year Ended
June 30, 2010

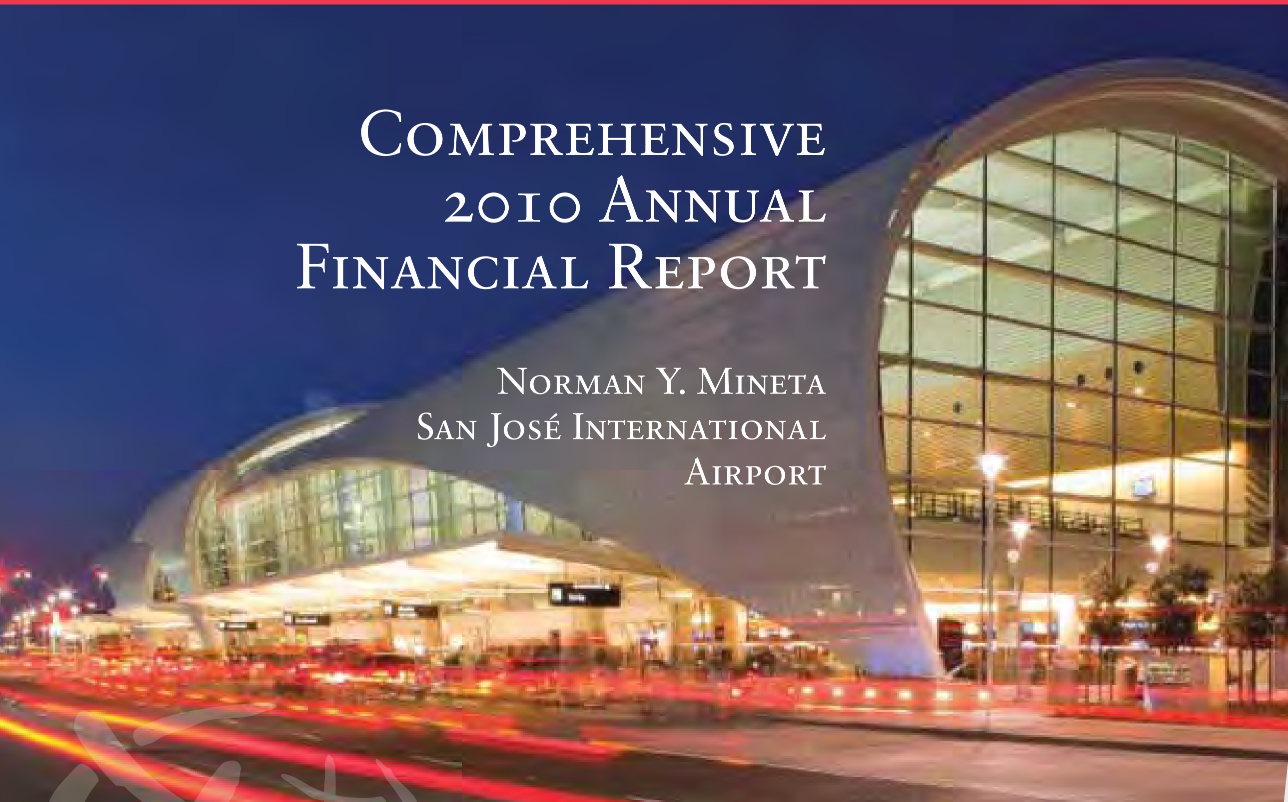
CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY







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San José, California
A Department of the City of San José

Fiscal Year Ended
June 30, 2010

Prepared by:
Finance and Administration

Terri A. Gomes, CPA
Deputy Director

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2010

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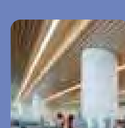
Photo by Ken Paul

INTRODUCTORY

Photo by Jason Knowles

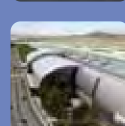
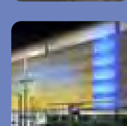
The new Terminal B
Environmentally
Sustainable Design
and Operations

Photo by Ken Paul








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

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2010

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2010

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GEOGRAPHIC LOCATOR MAP

Norman Y. Mineta San José International Airport

San José, California

A Department of the City of San José

Fiscal Year Ended June 30, 2010

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

"The terminal itself is very beautifully designed & very bright. It definitely feels less crowded (since it's so wide open) & the bathrooms are very clean & spacious as well. Overall, I really enjoy being in this airport and doesn't definitely mind going there early to wait for my flight since they really thought about our needs when designing this place!" Cathy C., San Diego, CA

"One of the best airports in America...!"

"The electronic check-in and the numer… security check-in stations made the ent… process of flying very easy and fast. I didn't have to deal with any long lines … I was actually early for my flight! They h… a good selection of restaurants, cafés, an… stores that I visited as I waited for my flight, too. I'll definitely be back!" Lien T., San Jose, CA.

"There are also plenty of windows on all sides, which let in natural light. Hanging from above along the main walkway are decorative glass squares, apparently representing computer chips. I was really mesmerized by this exquisite display." Ken M., Las Vegas, NV.

"Wow has this airport transformed into a beauty or what? It's been a while since I flew in or out of San Jose so imagine my surprise when my flight arrives in Terminal B to find this state of the art, high tech airport. I was amazed and just couldn't believe my eyes." Sharon V., San Diego, CA.

"Clean, new, fast security, perfect for anyone that has a lot of tech toys." Dennis C., Los Angeles, CA.

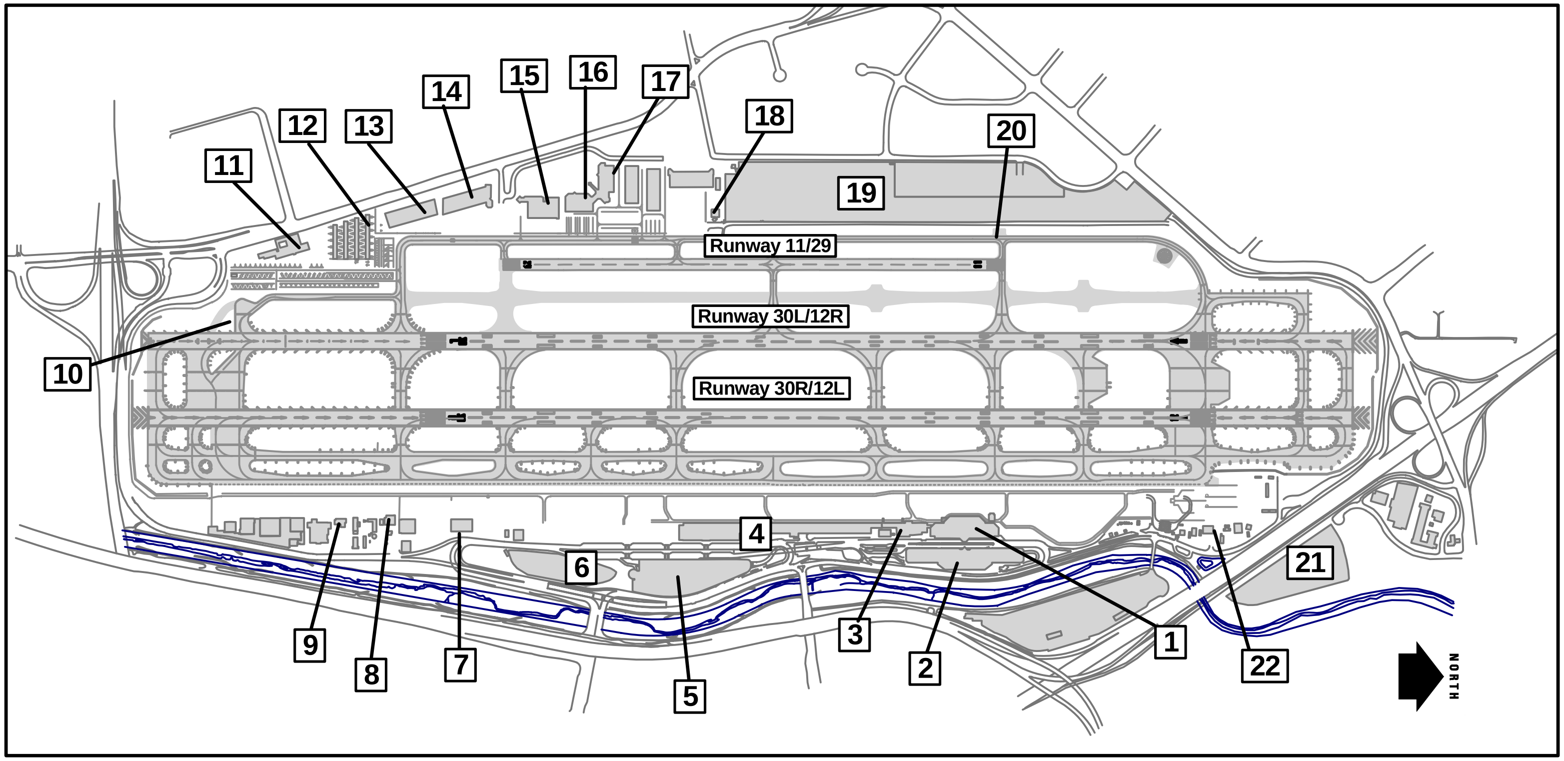
"The food offerings are plentiful, unique, affordable, and muy deliciosa." Scott P., Denver, CO

"I was really blown away with all the new decor and felt much more like a big lounge especially Terminal B." Jorge M., Seattle, WA.

"Beautiful airport!!! Nice blue lights lighting up the outside as you drive in at night." Katie K., Atlanta, GA.

Quotes from www.yelp.com.

Norman Y. Mineta San José International Airport



Map Legend

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

LOCATOR MAP

June 2010

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

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

November 22, 2010

CITIZENS OF THE CITY OF SAN JOSE
HONORABLE MAYOR AND CITY COUNCIL

The Comprehensive Annual Financial Report (CAFR) of the Norman Y. Mineta San José International Airport (Airport), a department of the City of San José (City), for the fiscal year (FY) ended June 30, 2010, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Airport's management. We believe the data, as presented, is accurate in all material aspects and presented in a manner designed to fairly set forth the financial position and changes in financial position of the Airport, and that all disclosures necessary to enable the reader to gain the maximum understanding of the Airport's financial affairs have been included. This transmittal letter provides a summary of the Airport's background, economic condition and outlook, and major initiatives.

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

REPORTING ENTITY

The City Charter created the Airport Department (Department) in 1965 as a department within the City. The City is a charter city that operates under a council-manager form of government. The eleven members of the City Council serve as the governing body that oversees the operation of the Airport. The Director of Aviation is responsible for the operation of the Department and reports directly to the City Manager. The Department operates the Airport, which is currently classified as a medium-hub domestic airport with some international service. The Department's mission is to meet the air transportation needs of the business and public communities in a safe, efficient, and effective manner.

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

1701 Airport Boulevard, Suite B-1130 • San José, CA 95110-1206 • Tel 408.392.3600 • Fax 408.441.4591 • www.flysanjose.com
CITY OF SAN JOSE CAPITAL OF SILICON VALLEY

José/Oakland area: San Francisco International Airport and Oakland International Airport. A separate unit of local government operates each of the three facilities independently.

ECONOMIC CONDITION AND OUTLOOK

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

Since 2007, the Airport had seen a 22.7% decline in the number of passengers and a 28.8% reduction in the number of flights, which in turn has reduced Airport revenues and resources. This has been largely caused by high fuel costs for airlines in mid-2008 that forced carriers to shrink their system capacity by cutting flights and seats, reducing their fleets of airplanes, and laying off tens of thousands of employees. Furthermore, due to the prolonged economic downturn, the demand for business and leisure travel has significantly declined, and therefore has put additional pressure on airline profitability.

In FY 2007, the Airport had 10,653,817 passengers arrive and depart at the Airport. In FY 2009, this number had fallen nearly 17.2% to 8,821,452, and in FY 2010, total passengers had fallen to 8,232,446, a reduction of 6.7% from prior year. From 2007 to 2010, daily departures have fallen from approximately 190 in 2007 to about 125 today, a drop of 34.2%. The last time the Airport had seen this level of activity was in the early 1990s.

In response to the declining activity in recent years, the Airport has taken many steps to reduce its operating budget costs including the reduction of Airport's staffing levels from 400 positions in 2009 to 305 as of June 2010. By reducing operating costs, the Airport is able to offer services at competitive prices to attract and retain airlines, flights, and passengers. In addition, the Airport has aggressively sought to increase revenues for the past several years. Through its new concessions program, the Airport has increased the number of shops and restaurants in the new terminal, and its contracts with concessionaires require a minimum annual guarantee that results in higher revenues when the new terminal opened.

In an effort to increase service and restore lost flights, the Airport and airports across the nation have been developing and enhancing air service incentive programs. Since its original adoption in 2006, the Airport's incentive program has evolved from a basic one-year waiver for any new route to a flexible program that associates the length of a waiver period to the length of a flight. It also includes incentives for underserved markets, as well as unserved markets and short–haul international flights to Canada and Mexico. In addition, on December 1, 2009, the City Council adopted a separate resolution establishing a Focus City Promotional Fee Waiver Incentive Program. This program encourages carriers to increase their overall commitment to the Airport by agreeing to incremental growth in flights for two full consecutive years. A Focus City Airline would agree to add a minimum of four new year-round daily flights to a minimum of at least two unserved cities each year. As a return on investment, these incentive programs will stimulate revenue from parking, concessions, and other Airport services, which will directly offset the short-term loss of revenue from waived airline fees and charges for qualifying new service.

The enhanced incentive programs resulted in additional flights. jetBlue Airways added a daily nonstop service between San José and Boston beginning May 13, 2010. Horizon Air launched twicedaily direct service from San José to Spokane and Sacramento. Alaska Airlines added direct flights to Maui and Kona and a second Austin flight in March 2010. Additionally, Southwest added 2 daily flights to Austin in November 2010 and Alaska Airlines will add new service to Los Cabos and Guadalajara in November and December 2010.

Population and Income

The City is the county seat of Santa Clara County. It is the tenth largest city in the United States and the third largest in California behind Los Angeles and San Diego. According to California Department of Finance estimates, San José has an estimated population of 1,023,083 as of January 1, 2010, reflecting a growth of 1.6% over the prior year. San José is located in Santa Clara Valley, at the southern end of the San Francisco Bay Area, a region referred to as Silicon Valley. Santa Clara County is the sixth largest county in California and the largest in Northern California. The population of Santa Clara County grew 1.3% from 2009 to 2010, with the population increasing to 1,880,876 as of January 1, 2010. The six counties comprising the primary area for the Airport grew 1.1 % from 2009, higher than the State growth rate of 1.0%. In total, the population of the primary area increased by 57,810 from the prior year and accounts for 12.9% of the State's population.[1]

The per capita income information described below is the most current information available from the Bureau of Economic Analysis. Accordingly, it does not reflect the impact of the economic downturn in FY 2010.

Total personal income and per capita personal income (PCPI) are two of our most relied upon measures of economic standing. These indicators are a composite measurement of market potential and indicate the general ability to purchase available products or services. As personal income increases, air travel becomes more affordable and can be used more frequently.

According to the Bureau of Economic Analysis, in 2008 Santa Clara County had a PCPI of $59,227 and was 135% of the state average of $43,852, and 147% of the national average of $40,166, and it ranked 4th in the State of California. Within the Air Service Area, the remaining counties personal income and PCPI were as follows:

Personal Income and Per Capita Personal Income within the Air Service Area

	Personal Income (Millions of Dollars)			Per Capita Personal Income (Dollars)			
County Name	2007	2008	% Change 2007-2008	2007	2008	% Change 2007-2008	2008 Rank
Alameda	$72,328	$73,160	1.2%	$47,781	$49,757	4.1%	10
Monterey	17,019	17,385	2.2%	42,322	42,857	1.3%	18
San Benito	1,972	1,986	0.7%	36,173	36,239	0.2%	29
San Mateo	51,843	52,286	0.9%	74,343	73,839	-0.7%	2
Santa Cruz	12,924	12,935	0.1%	51,669	51,140	-1.0%	8
Santa Clara	103,604	103,993	0.4%	60,098	59,227	-1.4%	4
California	$1,572,271	$1,604,113	2.0%	$43,402	$43,852	1.0%	

[1] *California Department of Finance*

Per capita income decreased by 1.4% from 2007 in Santa Clara County compared to an increase of 1.0% and 2.0% for California and the nation, respectively. In 2008, the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) had a total personal income of $103,992,999 and ranked 4th in the state and accounted for 6.5% of the state total.[2]

Employment

Like most of the nation, the California economy was gripped by a severe recession characterized by deepening job losses and rapidly rising unemployment. In the Santa Clara and San Benito counties, unemployment had risen by more than 7% since early 2007. Employment growth in this region had declined sharply after growing at a solid pace between 2006 and 2007. California's economic problems originated in the housing and financial sectors, spread into the consumer economy, and subsequently into the rest of the economy.[4]

Santa Clara County's unemployment rate at June 30, 2010 was 11.3%, with 103,100 unemployed, a decrease of 2,600 from June 2009.[3] Likewise, as shown below, the San José-Sunnyvale-Santa Clara MSA lost 6,700 jobs or registered an unemployment rate of 11.4% in June 2010, up from a revised 11.2% in May 2010, and below the year-ago estimate of 11.7%. This compares with an unadjusted unemployment rate of 15.7% in San Benito County, 12.2% for California, and 9.6% for the nation during the same period.[4]

Industry	May-2010 Revised	Jun-2010 Prelim	Change	Jun-2009	Jun-2010 Prelim	Change
Total, All Industries	854,500	857,800	3,300	864,500	857,800	(6,700)
Total Farm	4,900	6,100	1,200	6,100	6,100	-
Total Nonfarm	849,600	851,700	2,100	858,400	851,700	(6,700)
Mining and Logging	300	300	-	200	300	100
Construction	30,000	30,500	500	34,100	30,500	(3,600)
Manufacturing	152,900	154,100	1,200	155,500	154,100	(1,400)
Trade, Transportation & Utilities	124,500	125,500	1,000	125,500	125,500	-
Information	41,000	41,200	200	41,000	41,200	200
Financial Activities	30,600	30,600	-	31,800	30,600	(1,200)
Professional & Business Services	160,200	160,700	500	161,100	160,700	(400)
Educational & Health Services	110,400	109,900	(500)	109,300	109,900	600
Leisure & Hospitality	75,300	75,900	600	76,900	75,900	(1,000)
Other Services	24,000	24,200	200	24,800	24,200	(600)
Government	100,400	98,800	(1,600)	98,200	98,800	600

[2] *U.S. Department of Commerce Bureau of Economic Analysis*
[3] *California EDD*
[4] *California EDD – Labor Market Information Division*

The construction industries, which include building, development and specialty trade contractors, took the hardest hit where 3,600 jobs were lost, which accounted for 54% of the total jobs lost. The manufacturing industries experienced a net decrease of 1,400 jobs over the year where the computer and electronic product manufacturing sector experience a gain of 700 jobs while the transportation equipment manufacturing sector saw a decrease of 600 jobs and the machinery manufacturing sector experienced a decrease of 500 jobs.

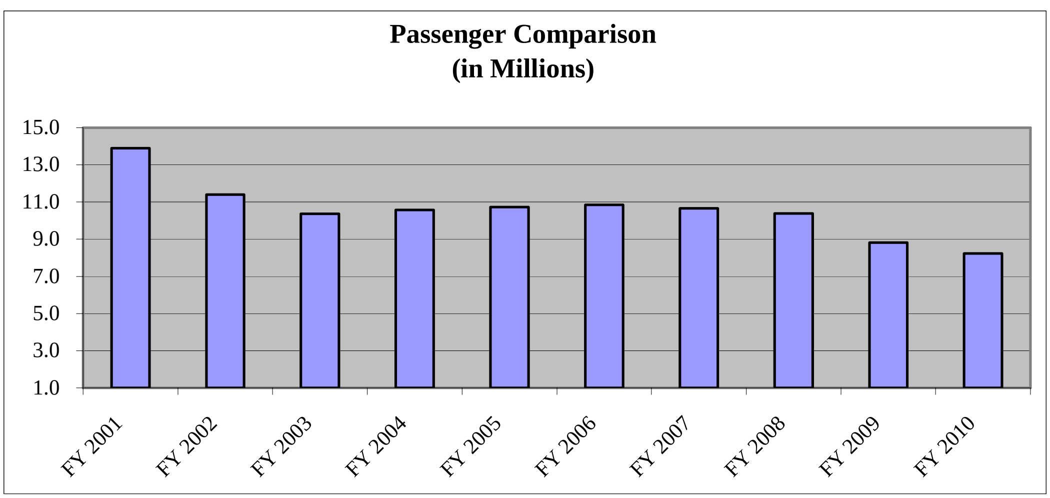
Other industries that have experienced job losses are the financial sector, leisure, and hospitality. The financial sector decreased by 1,200 jobs. Real estate, rental, and leasing cut back 800 jobs, while finance and insurance trimmed 400 jobs. Meanwhile, leisure and hospitality decreased by 1,000 jobs over the year.

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

The Airport is classified as a medium hub airport by the Federal Aviation Administration (FAA) and ranked as the 46th busiest airport in the nation in terms of total passengers according to Airports Council International-North America statistics, as of calendar year 2009. As of June 30, 2010, 15 carriers provided scheduled passenger service to 29 destinations, including eight legacy carriers, three low-cost carriers, three regional/commuter carriers, and two international carriers. In addition, three all-cargo carriers provided scheduled cargo service at the Airport. At its peak level of traffic in FY 2001 during the Silicon Valley "dot.com" boom, the Airport had reached a record annual total of 13,908,799 passengers. The combination of the dot.com bust in 2001 and the subsequent Silicon Valley recession, and the impact of the terrorist attacks on September 11, 2001 reduced Airport passenger traffic over the following years. Activity levels showed signs of leveling off until the combination of the national credit crisis, aviation fuel cost spike, and global recession in FY 2009 caused traffic to fall sharply.

For FY 2010, the Airport has enplaned and deplaned 8.2 million passengers, which represents a decrease of 6.7% from the previous fiscal year.

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



For FY 2010, the Airport experienced an overall decrease of 17.7% in traffic operations due to the losses that resulted from the following categories: passenger carrier (a decrease of 10,644 operations or 12.3%), taxi/commuter airlines (a decrease of 4,054 operations or 17.0%), and cargo carrier (a decrease of 482 operations or 18.8%).

Airport Master Plan

The Airport Master Plan consists of a program of facility improvements designed to fully accommodate commercial aviation demand (passengers and cargo) projected for the future, with development phased as demand warrants and is determined to be financially feasible. The Master Plan was originally adopted by the City of San José in June 1997 and approved by the FAA in December 1999. In June 2006, the City Council approved revisions to the Airport Master Plan regarding implementation of the Terminal Area Improvement Program (TAIP). The current Program consists of two phases that total $1.6 billion. Phase 1 of the Program has a total budget of approximately $1.3 billion and construction of most of the projects were completed at the end of FY 2009-2010, with some projects to be completed in FY 2010-2011. Construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. In May 2010, the City Council approved another major amendment to the Master Plan shifting the plan horizon from 2017 to 2027; reducing airline facilities serving cargo demand from 53 acres to 28 acres; and increasing the 56 acres designated for general aviation development to 102 acres. Funding for Master Plan projects is from several sources, including grants, passenger facility charges (PFC), airline rates and charges, airport revenue bonds and subordinated commercial paper notes.

Since the approval of the Master Plan, the Airport has proceeded with projects approved in Phase 1 of the program. The following Master Plan projects were either completed during FY 2010, or are in progress or initiated as of June 30, 2010:

- Terminal Area Improvement Program (TAIP)

  A contract with Hensel Phelps Construction Company was approved by the City Council in October 2006. Feasibility efforts were completed and design began in FY 2008. Task orders for 100% design were executed for all project elements, and construction on all elements are essentially completed. Hensel Phelps is using a design build methodology to deliver projects that include:

  - Terminal A Modifications – While remaining in operation, Terminal A was renovated and expanded to address the imbalance that currently exists between the number of aircraft gates and the inadequate number of check-in positions/queuing area, security checkpoints and concessions. The new ticket counters and check-in area were completed and increased passenger queuing and check-in counters by 60%; the two security checkpoints were consolidated into one central location with double the number of passenger screening lanes; the size of the airside concessions was doubled; and a new outbound baggage handling system was installed.

  - Temporary Terminal C and Eventual Demolition - The Terminal C “Thumb” was demolished to allow the final stage of the enhanced and straightened roadway system to be constructed. The demolition of the remainder of Terminal C, which will allow for the construction of the Terminal B parking lot, started in August 2010 and will be completed in the fall of 2010.

- Terminal A Baggage Screening Improvement – The construction of the baggage screening system at Terminal A was completed. This project is an integral component of the Terminal A Modifications Project. The Airport received a $20.6 million grant from the Transportation Security Administration (TSA) to partially fund this project.

- New Terminal B - This project replaces the out-of-date and inadequately sized Terminal C. The recently completed Terminal B provides additional passenger queuing at the newly staffed and self-service ticket counters, modern and efficient security screening checkpoints, new baggage claim devices, a new in-line outbound baggage handling system, and increased concession locations. Terminal B also provides for efficient building systems and addresses a full array of sustainable design issues. Phase 1 (the northern portion Terminal B which includes the North Concourse) construction was completed in June 2010. Phase 2 (the southern portion or South Concourse) was designed to the 30% level and can be constructed at a future date—a date triggered by pre-determined passenger demand and flight activity.

- Consolidated Rental Car Garage (ConRAC) - This project includes the design and construction of a multi-level 3,350 space, ConRAC facility, including ready/return parking, a quick turnaround facility for washing, fueling and minor servicing of rental cars. The first floor of the facility includes approximately 350 spaces for public parking. This project is part of the design build contract with Hensel Phelps Construction and was opened in June of 2010.

- Green Island Parking Lot – This is a new surface, revenue-controlled public parking lot that serves as a long term parking facility. This project will allow for closure of the Westside long term parking facilities in the future. Feasibility study began in mid-2009 and construction will occur in late 2010 when the rental car operations are relocated to the newly completed ConRAC facility.

- Roadway Improvements – The existing roadway system is being reworked to increase roadway capacity by adding vehicle lanes; to reduce traffic conflicts by constructing two bridges; to provide direct access to each terminal; to improve the ground transportation system; and to enhance motorist way-finding by straightening the roadway's alignment and introducing better signage. This infrastructure project will also modernize and improve water lines, storm drains and sanitary sewers.

Also, within the TAIP are projects outside of the design build contract. These projects include the following:

- Terminal Equity Improvements – This project provides general improvements at Terminal A, A+, Federal Inspection Services (FIS), and the parking garage at Terminal A such as restroom upgrades, carpet replacement, painting, and upgrade finishes enhancing the appearance of the facilities. The scope of work also includes procurement and installation of new pre-conditioned air passenger boarding bridges, furniture & equipment, and technology upgrades to the facilities. This work is essentially completed.

- Tenant Improvements – This project provides for the rehabilitation and new construction within the terminals for tenants, including the airlines, the TSA, United Service Organization (USO), and the parking operator. This work is completed.

- Parking Access Revenue Control System – This project replaces the current aging parking access control system with an integrated parking access control system and automatic vehicle identification system. The scope consists of the new access control system and hardware such as ticket booths, control arms, and cameras at parking facilities throughout the Airport campus.

- Landscaping, Road Maintenance, and Signage – The TAIP also includes projects for landscaping needs outside of the terminal zone, sealing and striping of roadways, and wayfinding signage needs. This work is completed.

- North Concourse Building

  This project includes the design and construction of the North Concourse Building extending from Terminal A to Terminal C. The building includes nine new gates with holdrooms and passenger boarding bridges, restrooms, utility and service rooms, concessions and other public space, an in-line baggage screening system, and baggage make-up facilities.

  During FY 2010, the majority of all elements and packages were completed. Some of these include: central plant expansion, site utilities, roadway utility infrastructure, and electronic infrastructure for the telecommunications and network data lines, roofing, skylights, roof drainage, and utility lateral connections to the main lines along terminal drive. All nine of the North Concourse gates were opened and in operation in early June 2010.

- New Jet Fuel Farm – Airline Consortium

  The Airport entered into a ground lease in May 2006 for the Airline Consortium to design and construct a new Jet Fuel Farm. During FY 2007, the Consortium procured a firm as a design builder, and another firm for operation and maintenance. The project was split into two distinct sites for permitting purposes; the Fuel Storage Site and the Fuel Dispensing Rack Site. A lease amendment was executed in July 2008 to change the location of the Fuel Dispensing Racks to a location that works more efficiently. A Notice to Proceed (NTP) for construction was issued to the Consortium in July 2008 and construction was completed as of June 2010.

- Taxiway W

  There are currently seven phases in this project. Phase I of this project includes the design and construction of the extension of Taxiway W from Taxiway C to Taxiway D and the reconstruction and extension of Taxiway D from Taxiway V to Runway 30L. Design for Phase I was completed in June 2009. Construction of Phase I was partially funded by the American Recovery and Reinvestment Act grant funding and was completed as of June 2010. Phase II of this project includes the design and construction of the extension of Taxiway W from Taxiway B to Taxiway C. Design of Phase II of this project was completed in June 2010. Construction began in August 2010 with the estimated completion date of November 2010. Phases 3 to 7 were designed to the 30% level and can be constructed at a future date subject to receiving FAA grant funding approval. Phase 3 to 7 include additional extensions of Taxiway W, the strengthening and reconstruction of Taxiway C, H, and J.

- Compressed Natural Gas Fueling Station Upgrade

  This project expanded the Airport's Compressed Natural Gas (CNG) fueling station to increase fueling capacity and flow rates, which reduce fueling timeframes for the CNG buses. This provides better operational flexibility to service the CNG buses, the taxi fleet and private sector vehicles. During FY 2009, the City issued a re-scoped Bid Package, and the project was awarded to Pinnacle CNG Company. The project was completed in December 2009.

MAJOR INITIATIVES

The Airport's mission is to meet the air transportation needs of the community in a safe, efficient, and effective manner. In concert with the City's move towards a more customer-focused service delivery government, the Airport embraced the following Vision Statements:

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

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

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

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

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

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

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

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

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

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

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

Highlights of the Airport's activities and accomplishments for the fiscal year ended June 30, 2010, include the following:

- Completion of the $1.3 Billion Modernization Project

  The first flight from the Airport's new Terminal B took off on June 30, 2010. This was the culmination of a $1.3 billion modernization and expansion project, which was completed about one year earlier than originally projected and was under budget by more than approximately $140 million.

  The City of San José selected Hensel Phelps Construction Co. in 2006 to lead the "design/build" program for the Airport, an innovative approach to deliver the best value on a tight timetable. Design/build has meant better coordination, communication, and creativity that have enabled the project team of staff, contractors, architects, and vendors to solve problems quickly. It improved the efficiency of procurement, established effective incentives to stay on track, and streamlined the design and construction approval process.

  The project includes construction of the new Terminal B, renovation and transformation of Terminal A, and demolition of the Airport's oldest facility, Terminal C. Other aspects include construction of a seven-deck consolidated rental car (ConRAC) facility and roadway reconstruction.

  Terminal B, which replaces Terminal C, is a 163,000-square-foot linear building designed to handle up to 8.5 million passengers annually. The look of the new terminal is futuristic and was inspired by a data cable untwisting to welcome the next-generation broadband world. Terminal B's façade features a curved roof made of perforated metal panels, which create a translucent, glowing appearance at night. A glass and steel curtainwall stretches more than 500 feet, allowing for expansive views and dramatic day-lit spaces up to 55 feet high. Each ground connection of the façade's curved metal panels can glide up to 28 inches horizontally to accommodate expansion/contraction and meet seismic requirements for earthquakes.

  The arrivals hall has a 62-foot arched ceiling, built to allow ample natural daylight for passengers checking in at ticket counters and self-service kiosks. Passengers ascend to the second floor, with a 45-foot vaulted ceiling for security checkpoints and the concourse. A 240-foot skylight runs the length of the concourse, again, bringing in natural light and reducing energy consumption. Thirteen-foot-high curtainwalls give passengers a view of activity on the airfield.

  Terminal A's functionality was improved in part by doubling the capacity of security checkpoints on the second floor. Ticket counters were relocated in a new space created on the ground floor, which allows better access to the curbsides and makes more room for the new security checkpoint. Also, the number of counters was nearly doubled, including the addition of six curbside counters and two bag drop counters inside. Terminal A was completely renovated with new terrazzo flooring and carpeting, new ceilings, new bathrooms and new seating throughout.

  Conveniently located right across the street from the new Terminal B, the ConRAC facility has 350 short-term public parking spaces on the street level and six levels of rental car parking above. The ConRAC is the first elevated "quick-turn-around" (QTA) facility to open at an airport in the United States. The QTA allows the rental car companies to wash and fuel all their cars on site in order to return them to service efficiently. The three-level indoor elevated fueling station represents a significant technological and engineering achievement to ensure reliable and safe operations, and it is the largest gas station in San José.

The roadways have been widened, straightened, repaved, and re-marked, and new signs and lighting have vastly improved access and navigation to the Airport.

- Security and Technology Modernization at the Airport

  Security received a complete overhaul in the Airport’s $1.3 billion modernization program. San José is the first airport in the nation to use the new state-of-the-art baggage screening equipment, the continuous-feed CTX-9800. The baggage systems are far faster and efficient, than the manual baggage screening system, allowing both TSA and the carriers to operate with fewer personnel, less manual handling of baggage, and lower costs, which will help enhance the Airport’s competitiveness for airlines.

  Passenger screening also received a major overhaul, with eight “advanced imaging technology” units (full-body scanners) from TSA deployed in Terminals A and B. San José is among the first eleven airports to get the new equipment that was purchased under the federal economic stimulus program in order to strengthen security at airports throughout the country. Advanced imaging technology (AIT) is designed to bolster security by safely screening passengers for metallic and non-metallic threats, including weapons, explosives and other objects concealed under layers of clothing. TSA will ensure passenger privacy through the anonymity of AIT images. A privacy filter is applied to blur all images; images are permanently deleted immediately once viewed and are never stored, transmitted or printed; and the TSA officer viewing the image is stationed in a remote location and does not come into contact with passengers being screened.

  New security checkpoints were designed with airport traffic growth and potential changes to TSA operations in mind. Both checkpoints have eight lanes but are expandable to twelve in each terminal. A new security camera surveillance system was also part of the modernization. It allows officials more flexibility in aiming cameras and retrieving images at a later date.

  Information technology systems at the Airport received similar attention to detail and also played a critical role in the success of the entire modernization project. The Airport held meetings with all of its airlines to understand their requirements and concerns about moving to a shared-use system. Specifically, they wanted to run their own native applications on the Airport's network-centric platform. The Airport hired Air-Transport IT Services, Inc. (AirIT) to provide a range of technologies to manage all operational flight activity, passenger processing and billing in a real-time environment. AirIT deployed its Extended Airline System Environment (EASE), which allows any airline to function in its own operating environment over the Airport's network. Shared-use equipment includes everything at the gates, ticket counters and 90 common-use self-service kiosks throughout the Airport. Other systems deployed include AirIT's Airport Operational Database (AODB), Enterprise Service Bus (ESB), Resource Management System (RMS), Flight Information Display Systems (FIDS), Advertising Display System (ADS), Baggage Information Display System (BIDS), common-use self-service (CUSS) and PROPworks, a property and revenue management system. AirIT also provided a Cisco network which included the campus wide network, voice over IP telephony and UCCX for the airport call center.

- <u>New Food & Beverage and Retail Program</u>

  Airport staff has worked in conjunction with the concessionaires and their construction contactors to complete 41 locations in the new food and beverage and retail concession program. Of the approximately 50,000 square feet of concessions space under the new program, 42,000 square feet has been developed. All pre-security locations are now operational and passengers and meeter/greeters in both Terminals A and B can enjoy gourmet coffee and pastries while waiting for luggage and loved ones to arrive.

  Passenger choices have expanded greatly and include a wide variety of locally based food and beverage options including Le Boulanger, Tres Gringos, Chiaramonte's Deli, Pizza My Heart, Sonoma Chicken, Santa Cruz Wine Bar, Mojo Burger, Sushi Boat, Gordon Biersch, and The Brit. Local retail products are featured in Discover San Jose, CJ Olson, Schurra's Fine Confections, and Sunset News. National favorites that are open to the public include Ruby Tuesday, Starbucks, Peet's Coffee & Tea, and Jamba Juice.

- <u>Art at the Airport</u>

  The art program at the Airport features America's most extensive permanent exhibit of technology and digitally-based artworks in a public setting. As part of the Airport's capital improvement program, art installations showcase the innovation, diversity, and dynamism that define San José and Silicon Valley.

  The art program gives travelers an immediate sense of San José as a place where ideas are born and visions achieved. The art program is built upon an active infrastructure for projection-based, digital, and data-driven works that can be changed over time in keeping with the inevitable technological changes in the future.

  The art program features permanent, architecturally-integrated works and some changing artworks. The permanently-sited artworks consist of the e-Cloud, the Hands, and the Space Observer.

  The "eCloud" consists of approximately 3,000 small squares of switchable glass assembled in arrays and suspended from the concourse ceiling to form a three-dimensional irregular grid over a 90-foot length of the food court. Each square functions as a "pixel" that turns from opaque to transparent with the transmission of an electrical charge. Low-resolution animations will be transmitted through "eCloud" based on real-time weather and conditions at airports around the world that create a sense of a changing electronic glass "cloud' within the Airport.

  The "Hands" of 54 Silicon Valley residents greet the world from the Airport on a new mural that spans 1,200 feet, stands seven stories tall, and is visible miles away. The "Hands" is an innovative façade that wraps the east side of the Airport's new ConRAC facility. The "Hands" reflect the diverse spectrum of Silicon Valley's population, including a tamale maker, surgeons, teachers and students, technologists, construction workers, musicians, poets, parents and children, police officers and firefighters. The ConRAC façade is constructed from two layers of architectural chain link mesh. The outer layer is covered with a "bitwall" consisting of nearly 400,000 two-inch-diameter plastic dots snapped on the mesh to create the image. The inner layer is a denser mesh, providing a background for the image formed by the dots.

The "Space Observer" is a 26-foot tall interactive sculpture that explores the relationship between humans and modern technology. The sculpture stands on an eight-foot high tripod that allows walking underneath. The legs support a propeller-powered rotating body, "wings" for propulsion, and kinetic camera arms that collect live video for display on embedded monitors within the sculpture body. Triggered by motion sensors and custom electronics, "Space Observer" movements depend upon the presence of its audience of travelers.

- <u>Installation of One Megawatt Solar Array on the ConRAC Facility</u>

  More than 4500 solar panels covering 3.4 acres have been installed on the roof of the Airport's new ConRAC facility, and full completion and activation of the solar project was completed in May. The one megawatt array will provide at least 20 percent of the power required by the new parking structure, and it was built as part of the Airport's comprehensive modernization program. The installation became possible because construction of the ConRAC facility was ahead of schedule and under budget, which provided the opportunity to install the system now through the Airport's design/build program. In addition, the Airport was able to take advantage of a one-time solar incentive rebate from the State of California, which makes this specific system economically feasible with a positive payback over the 20-year planning period compared to the cost of purchased power.

- <u>Energy Efficiency and Awards</u>

  Terminal B Concourse at the Airport has achieved the Leadership in Energy and Environmental Designs (LEED®) Silver certification from the US Green Building Council in recognition of the Airport's significant commitment to environmentally sustainable design and construction.

  PG&E presented the Airport in May 2010 with a check for $133,869 for incorporating energy-efficient design concepts and materials at Terminal B Concourse. The Airport earned the "Savings by Design" incentive for its innovative use of energy-saving materials in the building shell and its electrical and mechanical systems. The program is offered by PG&E to encourage high-performance design and construction for new commercial buildings.

  Construction of Terminal B has optimized energy performance and exceeded efficiency standards for a building of its size and use by 16%. Efficiency measures include occupancy sensors for lighting; programmable lighting control system; and high efficiency "smart" heating, cooling and ventilations systems. The ventilation system was designed to exceed the minimum ventilation rates to optimize energy efficiency and indoor air quality.

  Roofing material is white with a high solar reflectance index that reduces the "heat island" effect of a large building and reduces ambient temperature around the terminal area. It also helps to keep the building interior cooler, thus reducing the use of air conditioning on hot days. Terminal B was designed with abundant windows to bring in natural light, which makes the interior both more attractive and comfortable and saves energy by using daylight instead of electric lighting.

  Terminal B's environmental highlights include: glass curtain walls and skylights with a Low-E coating, a reflective white roof, low-flow fixtures, use of recycled materials and certified wood, and more than 90% recycling of construction waste. Innovations and unique features include: water efficiency that's 30% above code, 50% reduction in water consumption via drought-tolerant landscaping, energy-efficient air diffusers, a recycling program with 90%

materials recovery, showers and secure bike storage for employees and an educational kiosk about sustainable design.

The "air chair", a new seating product, merges passenger amenities with environmental efforts. The new seats are designed to diffuse air throughout seating areas more efficiently and effectively than standard air diffusing systems. One out of every four chairs in the Airport's gate areas includes mechanisms that transport fresh, conditioned air from beneath the chairs directly to passengers on the concourse. The seating also features power outlets for charging laptops, cell phones, etc.

- <u>New Feature for "Meeter and Greeter" Opened at Terminal A</u>

  In February 2010, a comfortable and convenient new waiting area for people to meet arriving passengers opened in Terminal A adjacent to the security checkpoint on the second level. Called the "Blue Dot" because of its clearly identifiable blue carpeting and programmable LED lighting feature on the ceiling, this new meeter/greeter area is pre-security right where arriving passengers leave the concourse so that they can be easily met before walking to baggage claim.

- <u>Alternative Fuel Vehicles</u>

  Through policies and economic incentives, the Airport has greatly encouraged the use of alternative fuel vehicles such as electric, compressed natural gas (CNG), and hybrids in partnership with airlines and taxi and shuttle operators servicing the Airport to help reduce emissions. As a result, more than one third of the trips to the Airport are in alternative fuel vehicles.

  The entire Airport shuttle bus fleet was converted to CNG and its CNG fueling station has been in operation since 2002 to serve buses, taxis and the general public with low-emission fuel. The station pumps the equivalent of over 600,000 gallons of gasoline per year and CNG-fueled vehicles emit 70% less carbon monoxide than gasoline-powered vehicles. With the completion of the transition of its shuttle bus fleet from diesel to CNG, the Airport reduced the total exhaust emissions by nearly 100 tons a year in comparison to 2001 levels.

- <u>Acoustical Treatment Program (ACT)</u>

  The Airport is committed to the community and has worked with local residents to improve the quality of life for neighbors. The ACT program, which was primarily funded by grants from the FAA and PFC, offered property owners a no-cost sound insulation for eligible homes within defined areas near the airfield affected by noise. Since 1994 more than 2600 homes and four schools in San José and Santa Clara neighborhoods received acoustical windows and doors, insulation, and air conditioning at a total cost of approximately $160 million. The Airport completed its ACT program during fiscal year ended June 30, 2010.

- <u>San José Airport Passes Annual FAA Safety Inspection with High Scores</u>

  For the fifth consecutive year, the Airport has achieved a nearly perfect passing score from the FAA on its annual airport certification and safety inspection. Every year the FAA reviews all commercial airports to ensure they meet federal standards for safety as part of the process for the annual renewal of an airport's license to operate. The inspection looks at operations, maintenance and facilities, including airfield conditions, personnel qualifications and training, and fire fighting and rescue operations. During its recent inspection in San José, FAA found the Airport in compliance with all essential federal rules and regulations with the exception of a single taxiway sign that needed updating.

- Grants

  In September 2009, TSA awarded the Airport funding of up to $20.9 million for a new state-of-the-art baggage screening system for the new Terminal B. The federal grant represents 90 percent of the potential allowable costs of the automated in-line checked baggage explosive detection system installed in the new terminal. The funding comes through the American Recovery and Reinvestment Act, the federal economic stimulus program.

  The Airport was the first airport in the western U.S. to be awarded a Voluntary Airport Low Emissions (VALE) grant by the FAA in 2009. The $4.6 million grant was used to retrofit all 28 gates at the terminal with preconditioned air and 400 Hz ground power to reduce airline engine use while parked at the gate, thereby reducing emissions.

  During fiscal year 2010, the Airport received $7.2 million from the FAA for the construction of the Taxiway W Extension Project, Phase I. $5.2 of the total amount received was from the American Recovery and Reinvestment Act which reimburses 100% of the project cost while the remaining $2 million came from the annual FAA funding which reimburses 80.59 % of the cost.

  In July 2010, the Airport also received a grant offer from the FAA in the amount of $6.7 million for the design and construction of Taxiway W Extension project, Phase II.

- USO Opened its Permanent Home in Newly-Opened Terminal

  After 18 years operating out of temporary quarters in seven different locations at the Airport, the USO celebrated its final move into a new comfortable and spacious home in the new Terminal B Concourse in November 2009. Its new permanent facilities include a lounge, computers, kitchen, secure bag storage, library, and restrooms in 2,060 square feet of space serving approximately 11,000 military personnel and their families traveling through the airport each year. Staffed entirely by volunteers, the USO has operated at the Airport since July 1991. The new street-level location in the Terminal B Concourse puts the USO conveniently between Terminal A and the new Terminal B.

- "Airport of the Year" Award from Air Line Pilots Association

  In November 2009, the Air Line Pilots Association (ALPA) presented the Airport the "Airport of the Year" award for 2008 in recognition of its efforts to address pilot concerns throughout its multiyear $1.3 billion airport modernization program. ALPA cited the Airport for its efforts to include the perspective of airline pilots in the City's ongoing review of the potential effects of high rise development in downtown San José on the future operations of the Airport.

- New Flights out of San José

  Alaska launched Austin service in early September 2009. They also launched service to Maui and Kona in March as well as added a second Austin flight. Their affiliate, Horizon, also added 2 daily flights to Spokane. The Airport also welcomed the first new airline in over five years with the launch of Volaris, the Mexican low cost carrier, at the end of April 2010. This was followed by the re-launch of jetBlue service to Boston in mid-May after a 20 month absence.

OUTLOOK FOR THE FUTURE

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

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

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

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

Since 2001, the Airport has focused on keeping operating costs in check, while planning, developing and modernizing the Airport. Reduced passenger volumes and the impact of the recession on spending patterns have required that the Airport carefully manage annual operating costs to provide a balanced budget. The Airport's FY 2011 Adopted Operating Budget provides the resources necessary to operate and serve the new terminal facilities, while reducing costs where possible. The FY 2010 passenger activity declined by 6.7%, and as a result it was necessary for the Airport to continue the plan to reduce staffing levels to that of 1995, a year with similar passenger levels. This approach, which began in mid-year of FY 2009, allowed decision makers to focus on core business staffing, as well as review those programs and services that have been added over the course of the last decade. Staffing levels, efficiencies and service priorities were reviewed in light of the passenger levels. At mid-year of FY 2009, City Council approved staff reductions of 52 full-time employees (FTE). During FY 2010 budget process, staffing levels were further reduced by an additional 43 positions, and finally the FY 2011 Adopted Budget eliminated 93 Airport positions, bringing authorized staffing levels down to 212, compared to 400 two years ago, a 47% percent reduction.

All Airport service areas will be impacted by the elimination of these mostly filled positions and the resulting seniority and transition requirements of the Civil Service system. Remaining staff resources will focus on ensuring that safety, security and mandatory regulatory compliance activities are performed; priority maintenance and operation activities continue; required customer and outreach services are provided including those associated with the new facilities; and that critical revenue enhancement actions continue. Remaining activities will be further reduced to minimally acceptable levels and staff will be responsible for broader service matters rather than speciality areas.

Budget changes are included in both the FY 2011 Adopted Operating Budget, as well as the Capital Budget. Reductions to Airport operating services are highlighted below.

- Reduction in Airport capital program staff takes place with the phased elimination of 10 positions, or 25% of current staff. These reductions in the Airport Planning and Development Division are available with the completion of the majority of the construction and activation work associated with the Terminal Area Improvement Program.
- A significant reduction to Airport traffic control curbside support staffing took place with the elimination of 10 of 30 positions. New terminal facilities, newly aligned roadways, reduced curbs, along with reduced passenger levels, enable this reduction without impacting public safety.
- Airport administration, marketing/communications and property management staffing levels were reduced by 10 positions in various Airport administrative units in alignment with available resources.
- Restructured new facility support services allowed the elimination of 5 staff positions. The reductions were possible from efficiencies realized from the just-in-time shipping and receiving warehouse model and reduced general maintenance needs in the short-term because of new facilities, systems and equipment. However, the new terminal facilities are double the size of the previous terminal space, and long-term facilities needs are likely to increase.
- Consolidated Airport Planning and Development permitted elimination of 4 positions. This reduces Airport Planning and Development Division staffing and consolidates work functions in the airfield, utility and environmental work areas.
- A service delivery model change for Airport custodial services also was approved, resulting in the elimination of 54 custodian positions. In accordance with Council Policy, a business case analysis was completed. Based on the analysis, the City Council approved the action to contract out custodial services at the Airport. This action will save approximately $3 million in FY 2011 and almost $3.5 million in annual costs.
- The reductions in Airport staffing and the availability of unused space in the terminal complex provide an opportunity to consolidate the entire department in one location and save money associated with leasing office space. The relocation scheduled for completion in the fall of 2010, will provide ongoing savings of approximately $1.9 million per year.
- Police, fire and interdepartmental changes have also been reviewed for possible reductions. Although not as significant, the budget reduced Police staffing by an additional 1 officer, the Canine Team Training Officer, in the Adopted Budget. Over the course of the past two years Airport Police staffing have been reduced by a total of 9 FTE (17.6%). Fire staffing was reduced in January 2010 by approximately 33.0% and interdepartmental staffing in Public Works Department was reduced by one position.

Conservative budget and fiscal policies have led to another surplus in FY 2010. For the fiscal year ended June 30, 2010, the Airport's revenues exceeded its expenses and other reserve requirements by $35.5 million, which was $10.6 million greater than what was anticipated in the preparation of the adopted FY 2010 Rates and Charges (as computed pursuant to the Airline-Airport Lease and Operating Agreement). The resulting fund balance has helped the Airport to address the downturn in passengers and support airline targeted fees in FY 2011, as well as provide a contingency for the near future. It is important to point out that these savings are, for the most part, one time in nature and costs associated with providing services in the new terminal are not yet certain. These factors, along with activity levels continuing to decline, make it critical that the Airport remain conservative and diligent in looking for ways to cut costs and streamline service delivery.

Looking ahead, the Airport expects to face continuing financial challenges as new expenses associated with debt service for new facilities begin and passenger and airline activity remain low. The Airport's FY 2011 Operating Budget anticipates a modest 2.5% increase in passengers; if this growth does not take place, additional budget reductions may be required. As a result, the Airport has developed and received City Council support for strategic principles to guide its efforts to keep costs competitive with a focus on FY 2012 implementation. The Airport Competitive Plan provides a series of ideas and alternatives on reductions and streamlining activities that would provide efficiencies to the organization and result in cost savings. Portions of the Plan are due to be reported to City Council in the fall 2010 and other recommendations will require further study and stakeholder analysis.

The Airport's 2011-2015 Adopted Capital Improvement Program (CIP) totals $478.8 million and consists of over 30 capital projects. The Adopted CIP reflects the completion of several of the major projects forming part of the Airport's modernization program. Many new and upgraded facilities have been placed into service during FY 2010. As the Airport closes out much of the TAIP in FY 2010 and the first half of FY 2011, improvements to the non-terminal areas will continue.

Three of the major projects in the CIP are Taxiway W Improvements, Public Parking Improvements, and the Non-Terminal Area Projects. The Taxiway W Improvements project addresses concerns identified by the FAA Runway Safety Action Team, and will add taxiway capacity on the Airport's west side to support future general aviation demand. The first phase of this project was completed in 2009-2010. The Public Parking Improvements project includes design and construction of new parking lots as part of a larger effort to move parking operations from the west side to the terminal area of the Airport. Design began on two of these parking areas during 2009-2010 and work will continue through 2011-2012. The Non-Terminal Area Projects appropriation includes the consolidation of the former Northeast and Southeast Redevelopment projects and the ACM Demolition project. This new project provides for planning and site preparation work for future facilities and improvements outside of the terminal zone, including the west side of the Airport.

Phase I construction of the Taxiway W Improvements project was completed in FY 2010 and was largely funded by federal grants, including $5.2 million from the American Recovery and Reinvestment Act of 2009 (ARRA). The timing and completion of work on subsequent phases of the Taxiway W Improvements project budgeted within the CIP is contingent upon receiving additional grant funding requested from the FAA and the availability of resources to fund the required local match. In addition, certain components of this project will require an amendment to the Airport Master Plan.

The new Non-Terminal Area Projects appropriation was approved in this CIP, although timing and completion is also contingent upon available funding resources. The Adopted CIP includes other projects in addition to those already mentioned, such as Clean-up of the Existing Fuel Farm, the LED Light Replacement Program, Shared Use System Replacement, the Renewal and Replacement Projects and numerous terminal and tenant improvements.

Highlights of the Airport's 2011-2015 Adopted CIP are as follows:

<u>Airport Master Plan</u>

The Airport has and will continue to provide a significant benefit to the local economy through implementation of the Airport Master Plan. The considerable construction spending on projects included in the Terminal Area Improvement Program over the past few years has decreased in FY 2011 as several major projects were completed and new facilities opened during FY 2010.

Airport construction work in the current CIP highlights the ongoing efforts to deliver new parking facilities, continue the improvements programmed for Taxiway W, and begin planning and site preparation work in the non-terminal areas of the Airport.

<u>Airfield Facilities</u>

The Adopted CIP allocates $54.9 million towards projects that will improve airfield infrastructure to accommodate the demands for air carrier and general aviation operations and safety. Airfield improvement projects include the following:

- $51.2 million for the Taxiway W Improvements project. A reallocation of funding within the CIP reflects both a reduction in project costs and the rephasing from five to seven phases. Funding in FY 2011 provides for the completion of Phase II design and the funding for the reconstruction of Taxiway W between Taxiways B and C, and Taxiway C from Taxiway V to Taxiway W. Construction includes pavement, grading, drainage improvements, shoulder paving and edge line lighting. Phases III through VI, as well as a portion of Phase VII, are also included in the CIP; however, like Phase II, timing and construction of these subsequent phases is contingent upon the receipt of grant and local funding in addition to an amendment of the Airport Master Plan for certain components.

Additional funding is programmed for airfield projects, which provide for design and construction of various improvements and repairs pursuant to FAA requirements.

<u>Aviation Support – Environmental</u>

The Adopted CIP reflects completion of the Airport's Acoustical Treatment Program (ACT) in FY 2010. A small allocation of funding in FY 2011 is programmed as a contingency should a need arise for future noise attenuation testing. The ACT program began nearly two decades ago and has successfully mitigated noise for nearly 2,700 dwellings and four schools in the neighborhoods near the Airport.

Over the next five years, a total of $6.4 million is budgeted primarily for the following environmental projects:

- $5.7 million for the continued assessment and clean up of the former fuel farm site; and

- $549,000 to provide for fuel storage tank repairs, as needed.

<u>Aviation Support Facilities - General</u>

The Adopted CIP provides $19.6 million to fund various new infrastructure improvements and to renovate, maintain, or upgrade existing facilities. The CIP includes the following projects:

- $13.2 million for Non-Terminal Area Projects. This allocation combines the former Northeast and Southeast Redevelopment projects with the ACM Demolition project to fund the planning and necessary site preparation work for future improvements outside of the Airport Terminal Zone. Future improvements on the southeast area of the Airport may include development of aviation support facilities such as hangars, light maintenance facilities, airline provisioning, cargo operations, and other aviation support services by third parties. Airport support facilities such as shuttle bus storage and other Airport operational support may be developed in the northeast quadrant. Timing and completion of this project is contingent upon availability of future funding;

- $1.7 million to fund a Renewal and Replacement Projects appropriation for as-needed capital renewal and replacement projects on the Airport campus; and

- $1.5 million for Airport Technology Services, which funds the purchase of new and replacement technology equipment and software.

Other projects are programmed to fund replacement of operating equipment, HVAC repairs and monitoring, land improvements, installation of security equipment, Airport signage design and production, and public art (for the first year only of the CIP).

<u>Aviation Support Facilities – Parking</u>

A total of $37.3 million is allocated for the ongoing construction of new parking facilities:

- $18.8 million for Public Parking Improvements. This project provides for the design and construction of public parking areas on the east side of the Airport. These include a surface lot on the Green Island, once vacated by the rental car agencies, and the completion of the South Loop and Terminal B lots under construction south of the new ConRAC and Terminal B facilities, respectively; and

- $17.5 million to complete the rental car projects, such as the demolition of the rental car buildings on the Green Island.

<u>Aviation Support Facilities – Transportation</u>

A total of $2.7 million is allocated for the following transportation-related maintenance project:

- $2.7 million for Pavement which funds the reconstruction of asphalt and concrete pavement at various locations throughout the Airport to meet airfield and roadway safety requirements.

<u>Passenger Terminal Facilities</u>

A total of $70.8 million is allocated for Passenger Terminal Facilities, including the following:

- $59.0 million for the completion of the Terminal Area Improvement, Phase I project that includes several terminal area zone projects; and

- $2.2 million for Shared Use System Replacement. This allocation funds the replacement of equipment to maintain the Airport's Shared Use system. As the current equipment ages and reaches the end of its useful life, replacement equipment will be required to ensure airline and customer service is not interrupted. This equipment includes, but is not limited to, common use self-service kiosks, miscellaneous video monitors, computers, peripherals, and printers.

Other terminal-related projects are programmed in the CIP to provide for maintenance and upgrades as well as tenant improvements.

FINANCIAL INFORMATION

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

Single Audit

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

As part of the City's Single Audit procedures, tests are made to determine compliance with the internal control system in place, including those controls relating to Federal award programs, and whether the Airport has complied with all applicable laws and regulations. The result of the City's Single Audit for the year ended June 30, 2010 indicated that there were no material weaknesses in the City's instituted internal control system.

The Airport was authorized to impose Passenger Facility Charges (PFCs) effective September 1, 1992. Legislation authorizing the collection of PFCs restricts the use of PFC revenue to the acquisition of specified assets and prescribes reporting and control requirements. At least annually, during the period in which the PFC is collected, held, or used, the Airport must provide for an audit of its PFC accounts. The audit must be conducted by an independent certified public accountant. The scope of the audit must include evaluation of the Airport's internal accounting controls to account for the collection and use of PFCs. The audit can be performed separately for the PFC account or as part of the Single Audit. For FY 2010, the audit of the Airport's PFC accounts was performed as part of the Single Audit. The audit is complete and there were no noted material weaknesses in the Airport's internal accounting controls or instances of noncompliance with applicable PFC regulations.

Budgetary Controls

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

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

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

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

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

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

OTHER INFORMATION

Independent Audit

In accordance with Sections 805(a) and 1215 of the City Charter, the annual audit of Airport funds was completed by Macias Gini & O'Connell LLP, Certified Public Accountants for the year ended June 30, 2010. In addition to meeting the requirements set forth in the City Charter, the City's audit was also designed to meet the requirements of the Federal Single Audit Act Amendments of 1996 and the related Office of Management and Budget Circular A-133. The Airport's federal awards programs are included in the City-wide Single Audit Report. The auditor's report on the Airport's financial statements is included in the financial section of this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Norman Y. Mineta San José International Airport for its CAFR for the FY ended June 30, 2009. This was the thirteenth consecutive year that the Airport has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Airport must publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

Acknowledgments

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

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

Respectfully submitted,

William F. Sherry, A.A.E
Director of Aviation

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Norman Y. Mineta San Jose International Airport, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Listing of Principal Officials
June 30, 2010

ELECTED OFFICIALS:

Chuck Reed	Mayor
Pete Constant	Council Member, District 1
Ash Kalra	Council Member, District 2
Sam Liccardo	Council Member, District 3
Kansen Chu	Council Member, District 4
Nora Campos	Council Member, District 5
Pierluigi Oliverio	Council Member, District 6
Madison Nguyen	Council Member, District 7
Rose Herrera	Council Member, District 8
Judy Chirco	Council Member, District 9
Nancy Pyle	Council Member, District 10

AIRPORT COMMISSION:

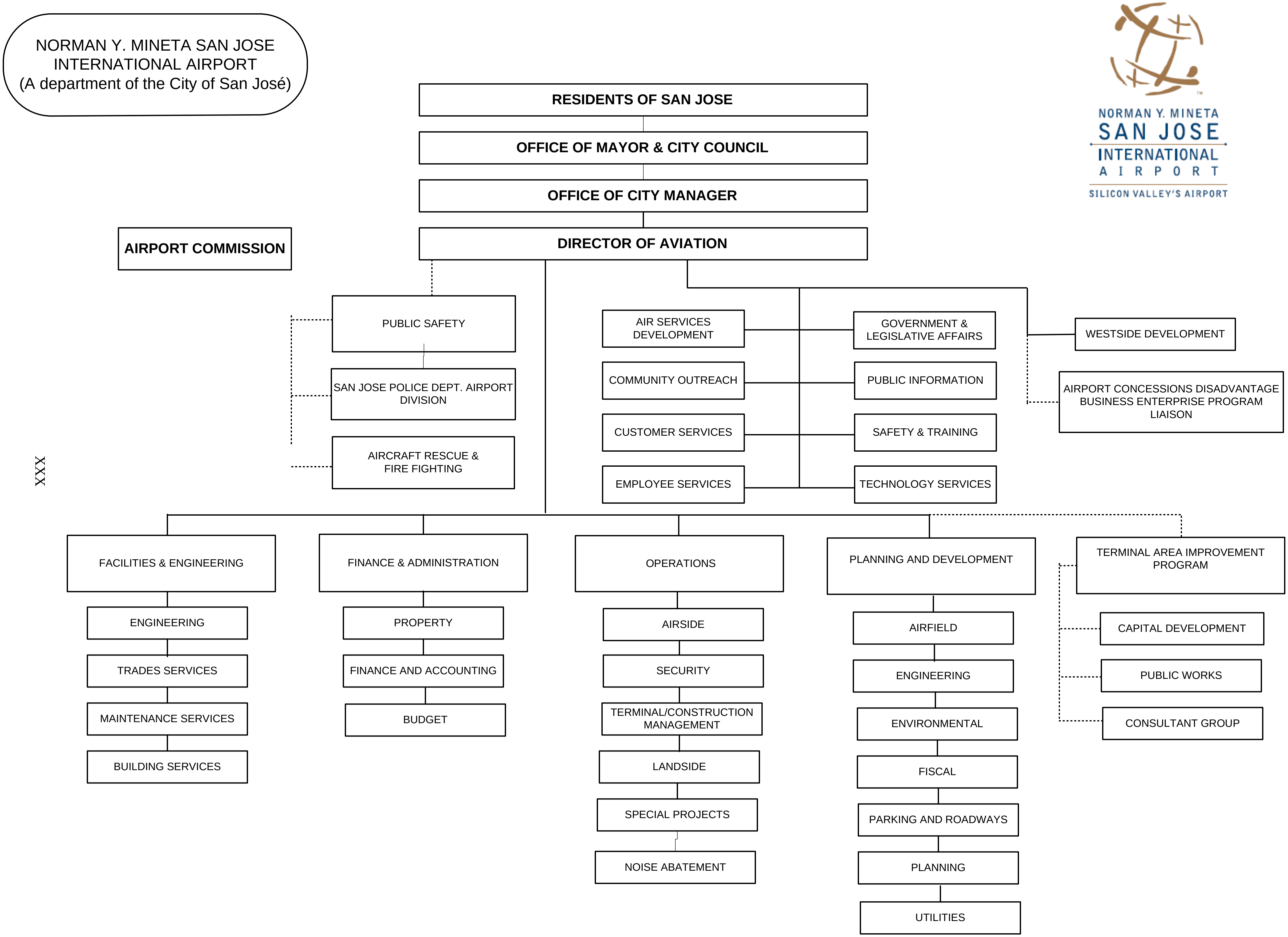
Frank Sweeney	Chairperson
John Salah	Vice-Chairperson
George Gange	Member
Keith Ian Graham	Member
Spencer Horowitz	Member
Ian Kluft	Member
Andrés Quintero	Member
Kansen Chu	Airport Liaison

CITY OFFICIAL

Debra Figone	City Manager

AIRPORT DEPARTMENT:

William F. Sherry, AAE	Director of Aviation
Kim Aguirre	Assistant Director of Aviation
Terri A. Gomes, CPA	Deputy Director, Finance and Administration
Patrick R. Tonna	Deputy Director, Facilities & Engineering
David Maas, P.E	Deputy Director, Planning and Development
John Aitken	Deputy Director, Operations
Diane Mack-Williams	Director of Information Technology
Jim Webb	Director of Government Relations
Ed Nelson	Director of Air Service Development
David Vossbrink	Communications Director
Vicki L. Day	Director of Customer Services
Captain Jeff Smith	San José Police Dept. – Airport Division



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

Photo by Ken Paul

FINANCIAL

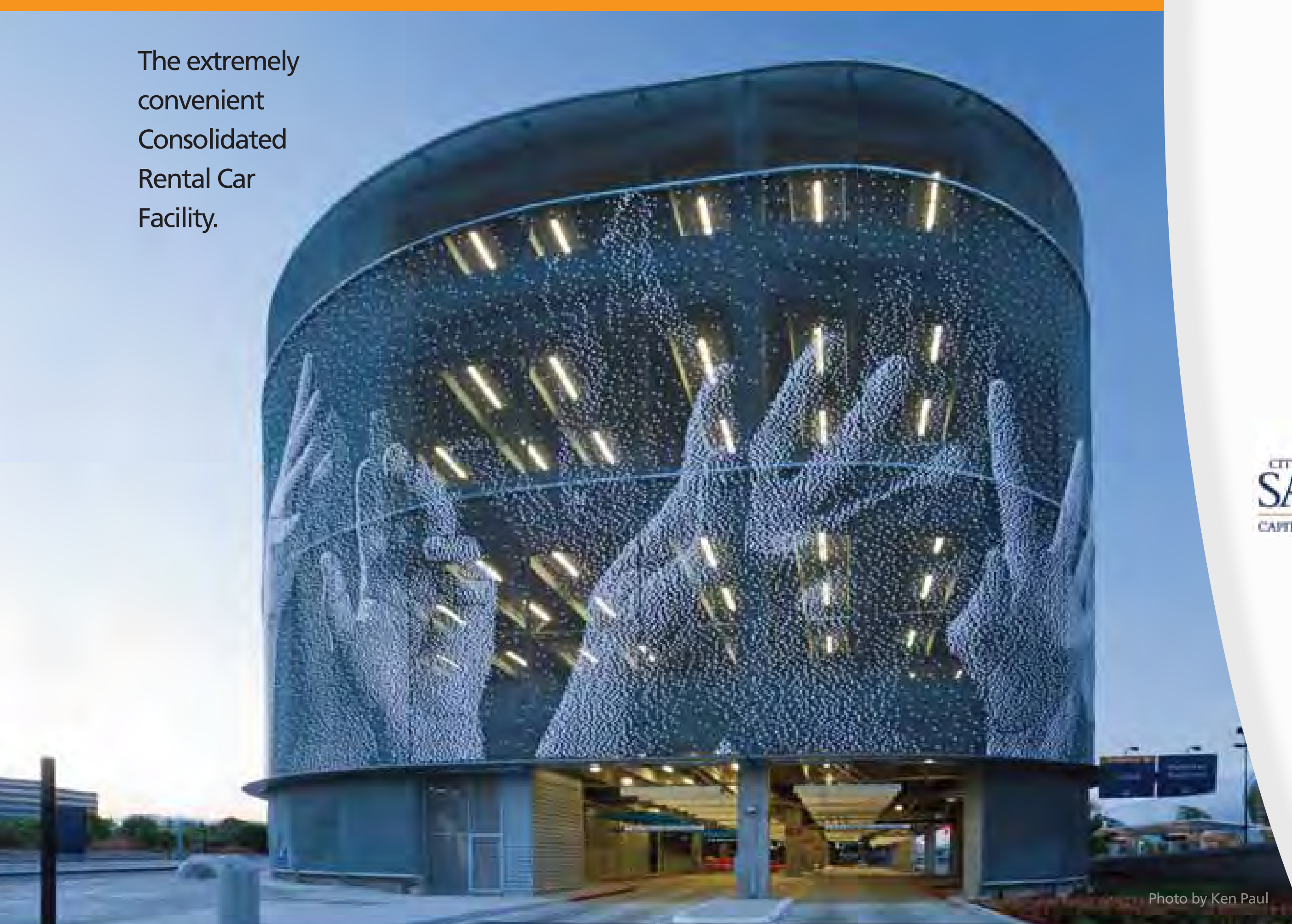

The extremely convenient Consolidated Rental Car Facility.

Photo by Ken Paul

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

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

MGO Certified Public Accountants.

Sacramento • Walnut Creek • Oakland • Los Angeles • Century City • Newport Beach • San Diego

mgocpa.com

Honorable City Council
City of San José, California

Independent Auditor's Report

We have audited the accompanying financial statements of the Norman Y. Mineta San José International Airport (the Airport), a Department of the City of San José, California (the City), as of and for the fiscal years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the management of the Airport. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Airport are intended to present the financial position, the changes in financial position, and cash flows, of only that portion of the business-type activities and major fund of the City that is attributable to the transactions of the Airport. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2010 and 2009 and the changes in its financial position and its cash flows, where applicable, for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(c) to the financial statements, the Airport adopted the provisions of Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective July 1, 2008.

3000 S Street, Suite 300, Sacramento, CA 95816
2121 N. California Blvd., Suite 750, Walnut Creek, CA 95496
505 14th Street, 5th Floor, Oakland, CA 94612
515 S. Figueroa Street, Suite 325, Los Angeles, CA 90071
2029 Century Park East, Suite 500, Los Angeles, CA 90067
1201 Dove Street, Suite 680, Newport Beach, CA 92660
225 Broadway, Suite 1750, San Diego, CA 92101

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2010 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory, statistical and bond disclosure sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

November 22, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

This section of the Norman Y. Mineta San José International Airport's (Airport) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the Airport for the fiscal years ended June 30, 2010 and 2009.

AIRPORT ACTIVITIES HIGHLIGHTS

Passenger traffic and number of flights declined in 2010 as the airline industry in general continues to shrink capacity throughout the aviation system brought about by the prolonged recovery from the financial crisis and economic recession. Passenger traffic suffered steep declines after 2001 but grew slightly during fiscal years 2004 through 2006. Passenger traffic declined slightly during fiscal years 2007 and 2008 but again significantly declined by 15.0% in 2009. The Airport faced another decline of 6.7% in passenger traffic in fiscal year 2010.

As of June 30, 2010, Airport carriers served 29 nonstop markets with 127 daily departures compared to 27 nonstop markets with 149 daily departures as of June 30, 2009 and 28 nonstop markets with 170 daily departures as of June 30, 2008.

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

	2010	2009	2008
Flight operations	131,590	159,972	184,714
	-17.7%	-13.4%	-0.1%
Landed weight (passenger carriers)	5,410,517	6,129,871	6,912,044
	-11.7%	-11.3%	-1.1%
Landed weight (cargo carriers)	322,267	421,286	492,706
	-23.5%	-14.5%	-3.7%
Total enplaned and deplaned passengers	8,232,446	8,821,452	10,380,825
	-6.7%	-15.0%	-2.6%
Enplaned passengers	4,107,394	4,399,562	5,178,603
	-6.6%	-15.0%	-2.6%
Deplaned passengers	4,125,052	4,421,890	5,202,222
	-6.7%	-15.0%	-2.5%
Domestic passengers	8,103,361	8,697,578	10,242,985
	-6.8%	-15.1%	-2.0%
International passengers	129,085	123,874	137,840
	4.2%	-10.1%	-31.2%
Cargo tonnage (in metric tons)	53,183	68,896	88,327
	-22.8%	-22.0%	-6.2%
Parking (vehicles) exits	1,002,458	1,154,954	1,441,695
	-13.2%	-19.9%	-9.4%

The Airport continues to offer airlines an incentive program which waives Airport fees during the introduction of new service to particular destinations. The program is intended to help reduce an airline's financial risk during the important start up period and supports the development of new air service at the Airport. Under the airline service incentive program, airlines providing new non-stop service between San José and a qualifying domestic or international city will receive incentive credits against all variable airport fees and charges. The amount of the incentives varies: one year for short range routes, two year declining incentives for medium range year-round domestic flights including Canada and Mexico, and three year declining incentives for long haul (trans-oceanic) routes. The incentive flight needs to be an incremental increase in service and not replace another San José flight being cancelled by the airline.

Alaska Airlines was the first to receive the incentive in September 2009 as they responded to the departure of American Airlines from the very important business market-Austin,Texas. Additionally, they added a second Austin flight in March 2010. They also launched service to Maui and Kona, Hawaii that month and their affiliate Horizon launched 2 flights to Spokane, Washington. Lastly in May, jetBlue also took advantage of the incentive program by resuming service to Boston, Massachusetts after a 20-month absence.

FINANCIAL HIGHLIGHTS

The Airport continued its practice of conservative budget management and fiscal policies, eliminating 43 positions, significantly reducing expenses, deferring capital projects, and using past savings in an effort to preserve the fiscal position of the Airport. For the first time in nine years, the Airport posted a decrease in net assets for 2010 fiscal year.

- Operating revenues decreased by 4.1% from $115.9 million in 2009 to $111.2 million in 2010.

- Operating expenses before depreciation and amortization decreased by 10.1% from $104.7 million in 2009 to $94.2 million in 2010.

- The above resulted in operating income before depreciation and amortization of $17.0 million in 2010 and $11.2 million in 2009.

- Depreciation and amortization increased from $20.6 million in 2009 to $55.3 million in 2010.

- Operating loss before nonoperating revenues and expenses increased from $9.4 million in 2009 to $38.3 million in 2010.

- Net nonoperating revenues and expenses decreased from net nonoperating revenues of $21.1 million in 2009 to net nonoperating loss of $2.2 million 2010.

- Capital contributions received in the form of grants from the federal government increased from $12.9 million in 2009 to $34.7 million in 2010.

- Net assets decreased by $5.8 million in 2010 compared to an increase of $24.5 million in 2009. This was the result of the decrease in operating and nonoperating revenues, increase in depreciation and nonoperating expenses, offset by the decrease in operating expenses and increase in capital contributions.

In addition, the Airport posted an increase in net assets at the end of 2009 fiscal year.

- Operating revenues increased by 0.9% from $114.9 million in 2008 to $115.9 million in 2009.

- Operating expenses before depreciation and amortization decreased by 12.0% from $119.0 million in 2008 to $104.7 million in 2009.

- The above resulted in operating loss before depreciation and amortization of $4.1 million in 2008 and operating income before depreciation and amortization of $11.2 million in 2009. Operating loss before nonoperating revenues and expenses decreased from a loss of $27.0 million in 2008 to a loss of $9.4 million in 2009.

- Net nonoperating revenues and expenses decreased from net nonoperating revenues of $36.5 million in 2008 to $21.1 million 2009.

- Capital contributions received in the form of grants from the federal government increased from $5.0 million in 2008 to $12.9 million in 2009.

- The increase in net assets was $24.5 million in 2009 compared to $14.5 million in 2008. This was the result of the increases in operating revenues and capital contributions and decrease in operating expenses, offset by the decrease in net nonoperating revenues and expenses.

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HIGHLIGHTS IN CHANGES IN NET ASSETS

The following table reflects a condensed summary of the changes in net assets (in thousands) for fiscal years ended June 30, 2010, 2009, and 2008:

	2010	2009	2008
Operating revenues	$ 111,208	$ 115,947	$ 114,886
Operating expenses before depreciation and amortization	(94,206)	(104,733)	(119,035)
Operating income (loss) before depreciation and amortization	17,002	11,214	(4,149)
Depreciation and amortization	(55,288)	(20,647)	(22,834)
Operating loss	(38,286)	(9,433)	(26,983)
Nonoperating revenues and expenses, net	(2,215)	21,096	36,499
Income (loss) before capital contributions	(40,501)	11,663	9,516
Capital contributions	34,722	12,868	4,970
Increase (decrease) in net assets	(5,779)	24,531	14,486
Total net assets - beginning, as restated	458,543	434,012	419,526
Total net assets - ending	$ 452,764	$ 458,543	$ 434,012

NET ASSETS SUMMARY

Total net assets serve over time as a useful indicator of the Airport's financial position. The Airport's assets exceed liabilities by $452.8, $458.5 million and $434.0 million at June 30, 2010, 2009 and 2008, respectively, a $6.4 million decrease from June 30, 2009 and $18.1 million from June 30, 2008.

A condensed summary of the Airport's net assets (in thousands) at June 30, 2010, 2009, and 2008 is shown below:

	2010	2009	2008
Assets:			
Unrestricted assets	$ 78,991	$ 100,599	$ 97,941
Restricted assets	370,140	547,522	701,415
Capital assets	1,501,030	1,255,086	934,094
Other assets	19,153	22,418	22,268
Total assets	1,969,314	1,925,625	1,755,718
Liabilities:			
Current liabilities – unrestricted	431,388	342,371	202,226
Current liabilities payable from restricted assets	52,423	81,113	63,705
Noncurrent liabilities	1,032,739	1,043,598	1,055,775
Total liabilities	1,516,550	1,467,082	1,321,706
Net assets:			
Invested in capital assets, net of debt	314,664	316,935	267,321
Restricted	61,349	45,260	84,491
Unrestricted	76,751	96,348	82,200
Total net assets	$ 452,764	$ 458,543	$ 434,012

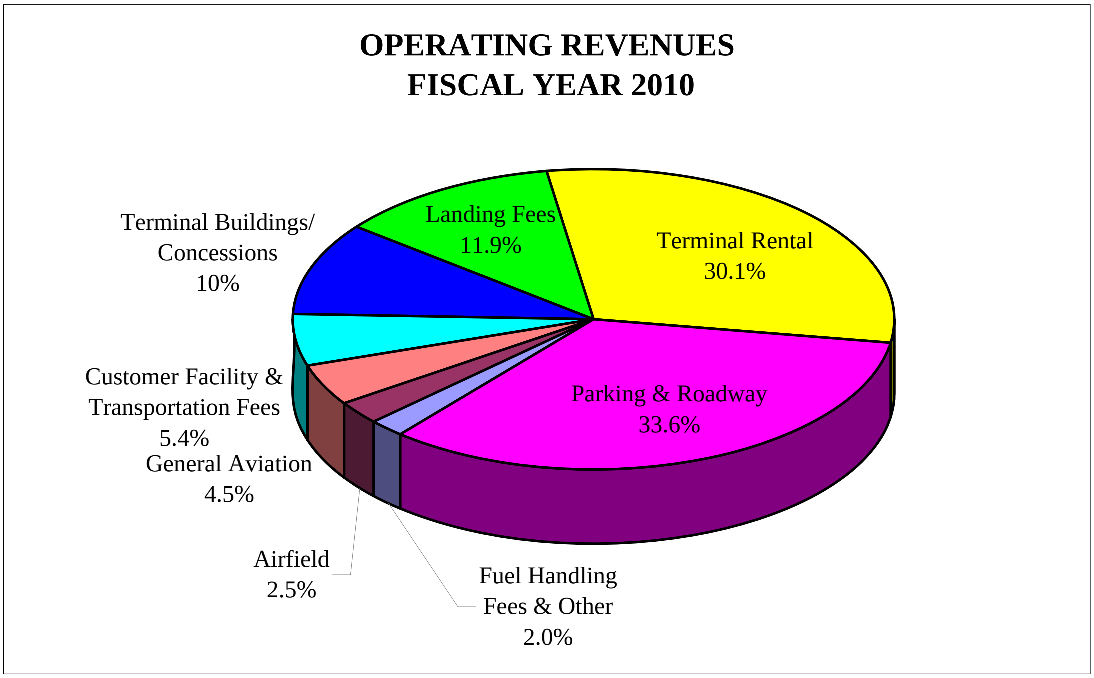
Substantial declines in the balances of restricted and unrestricted assets can be attributed to the construction spending for various Master Plan projects. This directly relates to the increase in capital assets, which is further detailed in the "Capital Acquisitions and Construction Activities" section below.

The largest portion, 69.5% and 69.1%, of the Airport's net assets at June 30, 2010 and 2009, respectively, represents its investment in capital assets (e.g. land, buildings, improvements and equipment), less the debt outstanding used to acquire those capital assets. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending.

A portion of the Airport's net assets represents amounts that are subject to restrictions under the Airline Lease Agreement and the Master Trust Agreement, and passenger facility charges (PFC) and customer transportation fees that are restricted by Federal regulations and Civil Code Section 1936, respectively.

REVENUES

The following chart reflects the major sources and the percentage of operating revenues for the fiscal year ended June 30, 2010:



As illustrated in the above graph, parking and roadway revenue represents 33.6% of the total operating revenues. Parking includes public parking, concession fees from rental cars, employee parking, rental car ready and return stalls, lease of rental car lots, and taxicab and other ground transportation fees. Public parking is the largest source of the Airport's revenues. The next largest category is airline terminal rental which represents 30.1% of the total operating revenues. Landing fees from passenger and cargo carriers represent 11.9% of the total operating revenues. Revenues from terminal buildings/concessions, which came in at 10.0% of total operating revenues, includes food and beverage, news and gift shops, advertising, and telephony. Orange alert surcharge on enplaned passengers, fees for the use of the Federal Inspection Services (FIS) facility and rental of space, other than airline space, are also included in this category.

The customer facility and transportation fees category (5.4%) is the charge to customers of rental car companies at the Airport for the purpose of (i) providing a common use busing system between the terminals and the interim rental car facility, and (ii) pay for the greater portion (but not all) of the costs of the consolidated rental car garage. The collection of this fee is currently authorized by the California Civil Code Section 1936. General aviation revenues (4.5%) are comprised of rents for aircraft hangars, aircraft parking spaces, building and land rentals, and fingerprinting fees.

The remaining categories, airfield, and fuel handling fees and other represent 2.5% and 2.0%, of the total operating revenues, respectively. The airfield area category (2.5%) is comprised of air carrier parking, fees from the in-flight kitchen services, rental of the air freight building, and fees from ground service providers. Fuel handling fees include sales of diesel, unleaded, propane, and compressed natural gases (CNG), as well as jet flowage fee, a fee charged to operators for engaging in the activity of retail sales of aviation fuel petroleum products. Other revenues represent fees for tenant plan reviews, which are calculated on a cost recovery basis.

A summary of revenues (in thousands) for the fiscal years ended June 30, 2010, 2009, and 2008 is as follows:

	2010	2009	2008
Operating revenues:			
Landing fees	$ 13,190	$ 14,504	$ 13,084
Terminal rental	33,459	29,716	26,539
Terminal buildings/concessions	11,157	11,947	11,470
Airfield	2,791	3,171	2,833
Parking and roadway	37,371	42,596	48,014
Fuel handling fees	1,310	1,474	1,806
General aviation	4,995	5,127	4,726
Customer facility and transportation fees	6,021	6,713	6,351
Other	914	699	63
Total operating revenues	111,208	115,947	114,886
Nonoperating revenues:			
Passenger facility charges	17,043	17,416	21,224
Investment income	311	8,138	15,446
Operating grants	1,150	4,625	8,444
Other, net	1,764	5,858	3,122
Total nonoperating revenues	20,268	36,037	48,236
Capital contributions	34,722	12,868	4,970
Total revenues	$ 166,198	$ 164,852	$ 168,092

2010 versus 2009

Operating revenues generated in 2010 decreased by approximately $4.7 million or 4.1% over that in 2009 reflective of the decline in passenger and flight activities at the Airport. Decreases have been posted in all revenue categories except terminal rental and other revenues.

Terminal rental increased from $29.7 million in 2009 to $33.5 million in 2010 due to increases in rental rates. Despite the increase in landing fee rate from $2.24 to $2.32 per thousand pounds of the maximum gross landing weights, landing fees in 2010 decreased by $1.3 million primarily due to the decrease in the number of flights.

The loss of passenger traffic and flights has directly reduced non-airlines revenues, such as the food and beverage concessions in the terminal buildings/concession revenues category, the public parking and rental car concession revenues in the parking and roadway category, and the inflight kitchen and ground support concession revenues in the airfield category. Other contributors to the decrease in terminal buildings/concession revenues were the retroactive reduction in minimum annual guarantee granted to the advertising concessionaire, the termination of operations by Verified Identity Pass, which administered the Airport's registered traveler program, as well as the reduction of rate for terminal space rent for non-airline tenants. The parking and roadway revenues were also negatively impacted by the "true-up" refunds to the rental car companies.

General aviation tracked lower than the prior fiscal year principally due to the fact that Hensel Phelps gave up the office space they subleased from the Airport upon expiration of its lease contract in December 2009.

Other operating revenues posted a significant increase due to higher amounts collected from the new food and beverage and retail concessionaires to cover engineering and inspection fees related to their tenant improvements. An amount of $150,000 was also collected to cover engineering and inspection fees for the construction of the Southwest podium.

Passenger facility charges posted a decrease of 2.1% reflective of the decline in passenger activity. Interest rates were at a historic low during the fiscal year and investment balances have gone down as a result of construction spending. Also, there was an unrealized loss of approximately $2.3 million on fair value of investments compared to an unrealized gain of approximately $516,000 in prior year. These factors contributed to the decline in investment income from approximately $8.1 million in 2009 to approximately $311,000 in 2010.

The operating grants pertained to grant funds awarded by the Federal Aviation Administration (FAA) to the Airport to finance a portion of the cost of implementing the Airport's residential Acoustical Treatment Program ($480,000), grant from the Transportation Security Administration for the costs associated with the law enforcement officers at security checkpoints ($364,000), canine security grant from the Transportation Security Administration ($200,000), and a grant from the Bay Area Air Quality Management District for the incremental costs of leasing compressed natural gas buses ($105,000).

$19.2 million of the capital contributions represents funding from the United States Transportation Security Administration for the new state-of-the art baggage screening system for Terminals A and B. Other capital contributions received during the fiscal year pertained to reimbursement of significant expenditures in the amount of $4.8 million for use in the South Apron replacement project, $7.1 million for the reconstruction of Taxiway W, and $16,000 for the runway guardlight. The Airport also received $3.1 million from FAA's Voluntary Low Emissions program for the incremental costs of ground service vehicles that will help improve local air quality and $489,000 from VTA for the upgrade of the compressed natural gas fuel station.

Other nonoperating revenues decreased from $5.9 million in 2009 to $1.8 million in 2010. Higher net other nonoperating revenues in 2009 can be attributed to two factors. The first factor was the receipt in 2009 of $2.7 million "make whole" amount resulting from the termination of two collateralized investment agreements held in the 2001 and 2004 bond reserve funds that were terminated when the investment agreement provider's ratings were downgraded below levels permitted under the Master Trust Agreement. The other contributory factor was the higher administrative costs, which are deducted from the other nonoperating revenues, associated with the commercial paper program incurred during fiscal year 2010.

<u>2009 versus 2008</u>

Operating revenues generated in 2009 increased by approximately $1.1 million or 0.9% over that in 2008 despite the significant decline in passenger and air traffic activities. Increases were posted in all revenue categories except for parking and roadway and the fuel handling fees. The biggest increase was in the terminal rental from airlines.

Terminal rental increased from $26.5 million in 2008 to $29.7 million in 2009 due to increases in rental rates. Despite the overall decrease in landing weights from 2008's level, landing fees in 2009 increased by $1.4 million primarily due to the increase in rate from $2.00 to $2.24 per thousand pounds of the maximum gross landing weight.

Terminal buildings/concession revenues in 2009 tracked 4.2% above 2008 revenues due to increases in other space rents and advertising revenues, largely offset by the decrease in the Orange alert surcharge. Other space rents in 2009 increased over 2008 due to the increased rental rates for non-airline tenants at the terminal from $232.21 to $248.52 per square foot. The advertising concessionaire commenced paying the minimum annual guarantee (MAG) in February 2008. Thus, advertising revenues increased due to the fact that the full amount the MAG was collected in fiscal year 2009 versus a proportionate amount equivalent to five months in fiscal year 2008. The increase was offset by the $1.5 million signing bonus collected in fiscal year 2008. Orange alert surcharge decreased due to the decline in the enplaned passenger count.

Airfield revenues posted an increase of $338,000 or 11.9% primarily due to higher concession fees from ground support concessions. With the declining trend in passenger traffic, revenues in the parking and roadway category significantly decreased, most notably the public parking fees and rental car concessions. Public parking was negatively impacted by the ongoing construction activities.

Fuel handling fees posted a decrease of $332,000 or 18.4% due to the decline in fuel flowage fees and lower sales of ground fuel and compressed natural gas. General aviation in 2009 tracked higher than the prior fiscal year principally due to the land lease rental derived from SJC Fuel Company. The increase can also be attributed to adjustments to land and building rental rates based on increases in consumer price index.

Despite the decline in the number of rental car contracts, customer facility and transportation fees increased due to the passage of legislation allowing the Airport to increase the rate from $5 to $10 per rental car agreement effective January 1, 2008. Other operating revenues posted a significant increase due to amounts collected from the new food and beverage and retail concessionaires to cover engineering and inspection fees related to their tenant improvements. An amount of $447,000 was also collected from Hertz to cover engineering and inspection fees for the construction of its elevator at the consolidated rental car garage facility.

Passenger facility charges posted a significant decrease of 17.9% reflective of the decline in passenger activity. Interest rates were at a historic low during fiscal year 2009 and investment balances decreased as a result of construction spending. Also, unrealized gain on fair value of investments amounted to approximately $516,000 compared to $3.4 million in 2008. These factors contributed to the decline in investment income from $15.4 million in 2008 to $8.1 million in 2009.

The majority of the operating grants pertained to grant funds awarded by the Federal Aviation Administration (FAA) to the Airport to finance a portion of the cost of implementing the Airport's residential Acoustical Treatment Program ($3.9 million). Other operating grants received pertained to law enforcement officers at security checkpoints grant from the Transportation Security Administration ($362,000), canine security grant from the Transportation Security Administration ($201,000), and a grant from the Bay Area Air Quality Management District through the Valley Transportation Authority (VTA) for the conversion of the Airport's buses and ground transportation operators conventionally fueled vehicles to alternative fuels ($130,000).

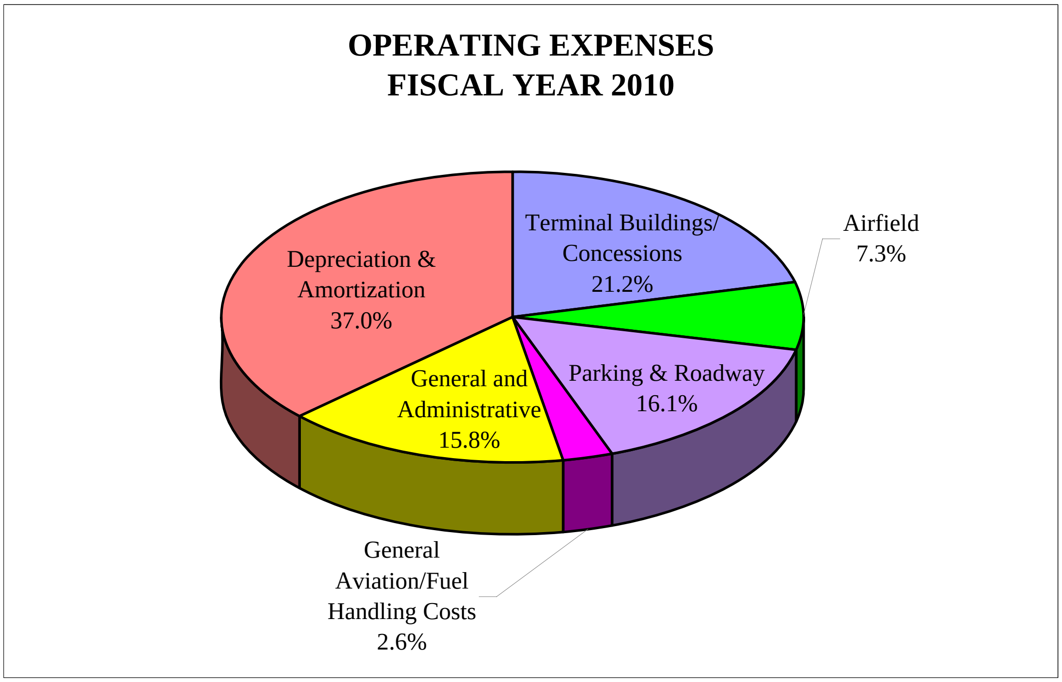
$9.5 million of the capital contributions represents funding from the United States Transportation Security Administration for the new state-of-the art baggage screening system for Terminal A. Other capital contributions received in fiscal year 2009 pertained to a significant expenditures of $1.8 million from the Airport Improvement Letter of Intent Program (LOI) for the Runway 30L and 30R reconstruction and extension, $829,000 for use in the South Apron replacement project, $475,000 for the reconstruction of Taxiway W, $83,000 for the runway guardlight and centerline, and $30,000 for the upgrade of noise monitoring equipment. The Airport also received $132,000 from FAA's Voluntary Low Emissions program for the installation of ground service equipment that will help improve local air quality and $19,000 from VTA for the upgrade of the compressed natural gas fuel station.

Net other nonoperating revenues increased from $3.1 million in 2008 to $5.9 million in 2009. The increase can be attributed to the receipt of $2.7 million "make whole" amount resulting from the termination of two collateralized investment agreements held in the 2001 and 2004 bond reserve funds that were terminated when the investment agreement provider's ratings were downgraded below levels permitted under the Master Trust Agreement. Contributions from the rental car companies also increased significantly. In accordance with their contract, rental car companies are required to pay for the amount of common use busing system expenses in excess of the customer facility and transportation fees collected from rental car customers.

(Continued)

EXPENSES

The following chart reflects the major cost centers as a percentage of operating expenses for the fiscal year ended June 30, 2010:



A summary of expenses (in thousands) for the fiscal years ended June 30, 2010, 2009, and 2008 is as follows:

	2010	2009	2008
Operating expenses:			
Terminal buildings/concessions	$ 31,701	$ 28,813	$ 31,790
Airfield area	10,911	16,170	22,692
Parking and roadway	24,032	26,853	27,936
Fuel handling costs	885	557	311
General aviation	3,052	4,072	3,428
General and administrative	23,624	28,268	32,879
Depreciation and amortization	55,288	20,647	22,834
Total operating expenses	149,493	125,380	141,870
Nonoperating expenses:			
Interest expense	10,750	11,404	11,737
Loss on fixed assets write-off	11,733	3,537	-
Total nonoperating expenses	22,483	14,941	11,737
Total Expenses	$ 171,976	$ 140,321	$ 153,607

2010 versus 2009

Operating expenses increased by $24.1 million from $125.4 million in 2009 to $149.5 million in 2010 primarily due to the increase in depreciation and amortization. The Airport permanently ended airline and concession operations in Temporary Terminal C on June 29, 2010 and the final stage of demolition of this facility will begin in late July. As a result, the Airport accelerated its depreciation schedule and wrote off $25.9 million related to this temporary facility.

The other expense category that posted an increase in 2010 is the other post employment benefits (OPEB) costs. OPEB costs and obligations of $1.6 million were recorded for the fiscal year ended June 30, 2010 based on the latest actuarial study. Adjustment of the OPEB costs and obligations in prior year resulted in a downward adjustment of $500,000.

Net decreases were experienced in all other expense items. Personnel expenditures substantially decreased by $4.3 million or 12.0% as a result of the reduced staffing levels. A total of 95 positions were eliminated during the fiscal years 2009 and 2010.

Nonpersonnel expenditures decreased by $4.2 million or 9.8%. Significant savings were achieved in overhead, contractual services, and building rent. Overhead decreased by $2.0 million or 27.5% due to reduced staffing levels as well the reduction in rate from 22.52% in 2009 to 18.86% in 2010. Contractual services costs were lower primarily due to decreased amounts paid to the VTA bus service, parking, and shuttle bus operators as a result of reduced passenger activity. Building rent also substantially decreased due to a reduction in leased space in the administration spaces on First Street effective January 2010. Higher nonpersonnel expenditures in 2009 can also be attributed to the approximately $967,000 payment of legal expenses associated with the settlement of a curfew related lawsuit. The decreases were partially offset by the payment of approximately $682,000 rental expenses for the Airport West property. No such rental expenses were paid in 2009 because the option payments received from the prospective buyers were used to pay the debt service obligations on the property.

Operating expenses included certain expenditures for capital projects that did not meet the criteria for capitalization into capital assets (expensed capital items). Overall expensed capital items decreased by $2.4 million. The majority of these expensed capital items in 2009 pertained to noise attenuation projects which amounted to $5.4 million. Amount spent on noise attenuation projects in 2010 amounted to approximately $788,000.

Operating expenses included fees charged by the City for airport rescue and firefighting services totaling $15.6 million in 2010 and $16.9 million in 2009, a decrease of $1.3 million. The lower amount in 2010 can be attributed to the lower staffing requirements allowed by reduced passenger levels and reduced overhead rate.

The Airport's estimated workers' compensation liability decreased by $334,000 as of June 30, 2010 based on the Airport's current claims activity compared with a decrease of $65,000 as of June 30, 2009.

Interest expense decreased in 2010 in comparison with 2009 because of the lower interest rates on commercial paper. Most of the interest expense was capitalized as part of the costs of projects funded by the bond proceeds and commercial paper.

(Continued)

During fiscal year 2010, the Airport stopped construction and wrote off $11.2 million accumulated costs of certain capital projects related to a maintenance building, traffic mitigation and other projects due to its decision to scale down its Terminal Area Improvement Project. For the same reason, the Airport wrote off in 2009 accumulated costs of $3.5 million related to the Airport People Mover. Additional depreciation recorded in fiscal year 2010 pertained to the remaining book value of the old Terminal C building, demolition of which began in late July and will be completed by October 2010.

2009 versus 2008

Operating expenses decreased by $16.5 million from $141.9 million in 2008 to $125.4 million in 2009. Decreases were experienced in nonpersonnel expenditures, OPEB costs, depreciation and amortization, and expensed capital items, while increases were experienced in personnel expenditures, fees charged by the City for airport rescue and firefighting and police services, and workers' compensation.

Nonpersonnel expenditures decreased by $4.1 million or 8.8% compared to the prior fiscal year. In fiscal year 2008, the Airport paid rentals to the City of San José Financing Authority (the Authority) for the lease of the Airport West property in the amount of $5.9 million. The Airport did not have to pay for this lease in fiscal year 2009. This accounted for the significant savings in the nonpersonnel expenditures offset by the increase in overhead charges from the City. Overhead rate increased from 18.86% in 2008 to 22.52% in 2009.

Depreciation and amortization was substantially higher in fiscal year 2008 due to the write-off of deferred bond issuance costs relating to the series 2004A and Series 2004B Airport Revenue bonds that were redeemed in April 2008.

The OPEB costs and obligations were adjusted as of June 30, 2009 to reflect the latest actuarial study and the Citywide allocation resulted in a downward adjustment to the Airport's OPEB liability and a reduction in its OPEB costs of $500,000.

Overall expensed capital items decreased by $8.3 million. The majority of these expensed capital items pertained to noise attenuation projects which decreased by $6.4 million from $11.8 million in 2008 to $5.4 million in 2009.

Personnel expenditures increased by $1.2 million principally due to negotiated salary increases of approximately 3.75% for all bargaining units as well as annual step increases. The City retirement contribution rate also increased from 22.0% in 2008 to 23.6% in 2009 while new health care rates took effect in January 2009 with an average increase of 7.8%. These increases were mitigated by the elimination of 6 filled and 46 vacant positions at mid-year.

Operating expenses included fees charged by the City for airport rescue and firefighting services totaling $16.9 million in 2009 and $15.5 million in 2008, an increase of $1.5 million. The lower amount in 2008 can be attributed to the $1.1 million savings credit to the Airport after an adjustment related to the completion of an analysis of the police and fire overhead for 1998 through 2006.

The Airport's estimated workers' compensation liability decreased by $65,000 as of June 30, 2009 compared with a decrease of $509,000 as of June 30, 2008 based on the Airport's current claims activity.

(Continued)

Interest expense increased in 2009 in comparison with 2008 because of the debt service relating to the Series 2007A and Series 2007B Airport Revenue Bonds. However, most of the interest expense was capitalized as part of the costs of projects funded by the bond proceeds.

Loss on capital asset disposal pertained to the write-off of $3.5 million accumulated costs of the Airport People Mover project. This project was eliminated due to the Airport's economic constraints.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

The Airport expended $319.1 million and $354.3 million on both capitalized and noncapitalizable capital activities in fiscal years 2010 and 2009, respectively. Major capital projects included the various Master Plan projects. Major projects completed during fiscal year 2010 pertained to the Consolidated Rental Car Facility and Terminal B. The Airport completed several noise attenuation in 2009 and facility and maintenance projects during both fiscal years that did not meet the criteria for capitalization.

As of June 30, 2010, the Airport was obligated for purchase commitments of approximately $68.9 million on capital projects primarily for the Terminal Area Improvement Program projects, the public parking improvement project, and the remainder of the costs of the rental car facility and the North Concourse building projects.

Detailed information about the Airport's Master Plan projects can be found in Note 10 (e) to the financial statements and information about capital assets can be found in Note 3 to the financial statements.

LONG-TERM DEBT

Commercial Paper Program

The commercial paper debt is a form of variable rate debt with a maturity between 1 to 270 days. As of June 30, 2010 and 2009, the total amount of commercial paper outstanding totaled $417.3 million and $323.6 million, respectively. During fiscal years ended June 30, 2010 and 2009, the Airport paid principal of $11.6 million and $11.2 million, respectively.

Additional information about the Airport's commercial paper program can be found in Note 4 to the financial statements.

Revenue Bonds

As of June 30, 2010 and 2009, the Airport had total outstanding revenue bonds of $1,038.0 million and $1,049.6 million, respectively.

During the fiscal year ended June 30, 2010 and 2009, the Airport paid principal of $11.6 million and $11.2 million, respectively.

Additional information about the Airport's long-term debt can be found in Note 5 to the financial statements.

Credit Ratings

On September 14, 2009, Fitch Ratings downgraded its rating on the Airport's Revenue Bonds from 'A+' to 'A-', a drop of two rating notches.

On July 16, 2009, Moody's Investors Service reaffirmed the A2 rating on the City's Airport revenue bonds, but revised the outlook from stable to negative.

Standard and Poor's has not taken any action with respect to its rating of 'A' which was assigned on July 16, 2007.

AIRLINE RATES AND CHARGES

The Airport entered into an Airline-Airport Lease and Operating Agreement that took effect on December 1, 2007. The terminal rate methodology contained in the agreement is based on a compensatory rate-making approach. The average rental rate is calculated annually by dividing the Terminal Revenue Requirement sum by the total amount of rentable terminal space and multiplying the resulting quotient by the total square feet of airline premises at the Airport, yielding the Airline Terminal Revenue Requirement. The airlines' share of any net remaining revenues is credited against the Airline Terminal Revenue Requirement, yielding the Net Airline Terminal Revenue Requirement. The Terminal Revenue Requirement is the sum of expenses allocable to the Terminal for each fiscal year, which include (a) annual debt service funded from bonds or subordinated indebtedness net of any PFC revenues used to pay such debt service, plus (b) debt service coverage, plus (c) annual operating expenses, plus (d) amount needed to replenish the bond reserve fund to required levels, plus (e) the share of annual costs for renewal and replacement, less (f) any grant amounts used to pay debt service, less (g) the debt service coverage for the immediately preceding fiscal year.

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

(Continued)

The rates and charges for the signatory (passenger and cargo) airlines for fiscal years 2010 and 2009 and the period December 1, 2007 through June 30, 2008 were as follows:

	2010	2009	12/1/2007 through 6/30/2008
Landing fee (per 1,000 lbs MGLW):	$2.32	$2.24	$2.00
Terminal average rental rate (per square foot)	$175.60	$193.14	$131.12
Airline cost per enplanement (projected)	$10.67	$8.61	$6.89

Terminal rental rates and airline landing fees for fiscal year 2011 have been developed as part of the annual budget process. The rates and charges for the signatory airlines for fiscal year 2011, which became effective July 1, 2010, are as follows:

Landing fees (per 1,000 lbs MGLW):	$2.47
Terminal average rental rates (per square foot)	$130.34
Airline cost per enplanement (projected)	$11.09

After completion of the year-end closing and annual audit, the Airport achieved savings of approximately $10.6 million greater than what was anticipated in the preparation of the adopted 2009-2010 Airline Rates and Charges. The surplus for 2010 will be allocated in accordance with the revenue sharing provisions of the lease agreement and/or used in the budget balancing actions for fiscal year 2012.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Airport's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Norman Y. Mineta San José International Airport, 1701 Airport Blvd., Suite B1130, San José, CA 95110.

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NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Assets
June 30, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Unrestricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	$ 65,928,183	85,812,304
Receivables:		
Accounts, net of allowance for uncollectible accounts of $511,051 in 2010 and $368,477 in 2009	4,820,165	5,063,056
Accrued interest	272,438	588,571
Grants	7,821,306	8,997,509
Prepaid expenses, advances, and deposits	149,089	137,211
Total unrestricted assets	78,991,181	100,598,651
Restricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	47,596,716	75,336,403
Investments held by fiscal agent (Note 2)	317,509,483	462,809,025
Receivables:		
Accounts, net of allowance for uncollectible accounts of $30,522 in 2010 and $14,844 in 2009	3,812,505	3,702,966
Accrued interest	938,637	2,244,288
Grants	70,848	84,337
Due from the City	14,285	14,286
Prepaid expenses, advances, and deposits	10,537	3,152,018
Current portion of bond issuance costs	186,630	178,487
Total restricted assets	370,139,641	547,521,810
Total current assets	449,130,822	648,120,461
Noncurrent assets:		
Capital assets (Notes 1 & 3):		
Nondepreciable	250,276,733	922,227,232
Depreciable assets, net of accumulated depreciation	1,250,753,368	332,858,956
Total capital assets	1,501,030,101	1,255,086,188
Loan receivable	250,000	250,000
Advances and deposits	6,870,617	9,948,038
Bond issuance costs, less current portion	12,032,726	12,219,356
Total noncurrent assets	1,520,183,444	1,277,503,582
Total assets	$ 1,969,314,266	1,925,624,043

See accompanying notes to financial statements.

Exhibit I
(Concluded)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Assets
June 30, 2010 and 2009

	2010	2009
Liabilities		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	$ 5,009,655	8,873,200
Accrued salaries, wages and payroll taxes	1,628,386	1,759,980
Accrued vacation, sick leave and compensatory time, current	2,189,000	2,409,000
Advances and deposits payable	951,405	941,299
Unearned revenue	3,365,304	3,897,371
Estimated liability for self-insurance, current (Note 9)	560,000	560,000
Other current liabilities	330,000	330,000
Accrued interest payable	6,748	39,014
Commercial paper notes payable (Note 4)	417,348,000	323,561,000
Total payable from unrestricted assets	431,388,498	342,370,864
Payable from restricted assets:		
Accounts payable	21,971,510	50,978,831
Accrued salaries, wages and payroll taxes	196,251	285,287
Accrued vacation, sick leave and compensatory time, current	39,169	158,102
Other current liabilities	384,000	384,000
Accrued interest payable	17,870,899	17,965,915
Current portion of bonds payable (Note 5)	11,961,236	11,340,559
Total payable from restricted assets	52,423,065	81,112,694
Total current liabilities	483,811,563	423,483,558
Noncurrent liabilities:		
Bonds payable, less current portion and net of unamortized discount/premium and deferred amount on refunding (Note 5)	1,023,304,302	1,035,265,537
Estimated liability for self-insurance, noncurrent (Note 9)	2,402,548	2,736,406
Other postemployment benefits liability (Note 7)	5,739,584	4,167,075
Accrued vacation, sick leave and compensatory time, noncurrent	1,292,127	1,428,703
Total noncurrent liabilities	1,032,738,561	1,043,597,721
Total liabilities	1,516,550,124	1,467,081,279
Net Assets		
Invested in capital assets, net of related debt	314,664,044	316,935,302
Restricted:		
Per Airline Lease Agreement for:		
Airline revenue sharing	7,254,728	3,628,000
Per Master Trust Agreement for:		
Rolling debt service coverage	6,765,662	5,764,467
California Civil Code Section 1936 for Customer Facility Charges	595,166	615,174
Future capital projects	46,733,327	35,252,385
Unrestricted	76,751,215	96,347,436
Total net assets	$ 452,764,142	458,542,764

See accompanying notes to financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Airline rates and charges:		
Landing fees	$ 13,190,345	14,503,816
Terminal rental	33,458,906	29,715,996
Total airline rates and charges	46,649,251	44,219,812
Terminal buildings/concessions	11,156,946	11,947,163
Airfield area	2,791,491	3,170,562
Parking and roadway	37,370,612	42,596,075
Fuel handling fees	1,309,532	1,473,647
General aviation	4,995,007	5,127,335
Customer facility and transportation fees	6,021,365	6,713,160
Other	913,626	699,398
Total operating revenues	111,207,830	115,947,152
Operating expenses:		
Terminal buildings/concessions	31,701,098	28,813,366
Airfield area	10,911,014	16,170,121
Parking and roadway	24,031,701	26,852,623
Fuel handling costs	885,303	557,036
General aviation	3,052,466	4,072,008
General and administrative	23,623,554	28,268,277
Depreciation and amortization	55,288,220	20,646,758
Total operating expenses	149,493,356	125,380,189
Operating loss	(38,285,526)	(9,433,037)
Nonoperating revenues (expenses):		
Passenger facility charges	17,043,463	17,415,668
Investment income	311,105	8,138,167
Interest expense	(10,749,484)	(11,404,312)
Operating grants	1,149,465	4,625,432
Loss on capital assets disposal	(11,733,174)	(3,536,718)
Other, net	1,763,905	5,857,555
Total nonoperating revenues (expenses), net	(2,214,720)	21,095,792
Income (loss) before capital contributions	(40,500,246)	11,662,755
Capital contributions	34,721,624	12,868,382
Change in net assets	(5,778,622)	24,531,137
Total net assets - beginning, as restated (Note1 (l))	458,542,764	434,011,627
Total net assets - ending	$ 452,764,142	458,542,764

See accompanying notes to financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Receipts from customers and users	$ 110,466,908	115,474,091
Payments to suppliers	(37,736,978)	(41,409,117)
Payments to employees	(33,378,756)	(37,053,573)
Payments for City services	(22,614,691)	(23,858,756)
Claims paid	(429,568)	(454,656)
Other receipts	2,157,176	7,119,039
Net cash provided by operating activities	18,464,091	19,817,028
Cash flows from noncapital financing activities:		
Transfers from the City	-	324,873
Transfers to the City	(14,645)	(103,934)
Operating grants	1,275,267	4,556,811
Advances and deposits received (paid)	-	18,991
Net cash provided by noncapital financing activities	1,260,622	4,796,741
Cash flows from capital and related financing activities:		
Purchases of capital assets	(311,097,318)	(298,156,103)
Principal payments on bonds payable	(11,645,000)	(11,180,000)
Interest paid	(56,257,684)	(60,209,583)
Capital grants	35,785,514	6,318,716
Passenger facility charges received	17,037,450	16,788,543
Bond issuance costs paid	-	(19,299)
Proceeds from commercial paper	98,887,000	143,171,000
Principal payments on commercial paper	(5,100,000)	(5,800,000)
Refund of North Concourse owner-controlled insurance program claims loss reserve	2,516,719	-
Advances and deposits received (paid)	560,702	(1,865,752)
Net cash used in capital and related financing activities	(229,312,617)	(210,952,478)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	188,524,499	288,268,904
Purchases of investments	(46,123,808)	(155,025,176)
Investment income received	16,932,689	29,819,504
Net cash provided by investing activities	159,333,380	163,063,232
Net decrease in cash and cash equivalents	(50,254,524)	(23,275,477)
Cash and cash equivalents - beginning	171,655,522	194,930,999
Cash and cash equivalents - ending	$ 121,400,998	171,655,522

See accompanying notes to financial statements.

Exhibit III
(Concluded)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (38,285,526)	(9,433,037)
Adjustment to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	55,288,220	20,646,758
Other revenues	3,788,947	6,695,293
Other expenses	(2,010,397)	(1,059,052)
Decrease in:		
Accounts receivable	139,365	766,689
Prepaid expenses, advances, and deposits	3,129,603	1,540,778
Increase (decrease) in:		
Accounts payable and accrued liabilities	(2,730,302)	109,602
Advances and deposits payable	10,106	68,654
Unearned revenue	(532,067)	545,903
Estimated liability for self-insurance	(333,858)	(64,560)
Net cash provided by operating activities	$ 18,464,091	19,817,028
Noncash capital and related financing activities:		
Acquisition of capital assets on accounts payable	$ 23,826,000	53,090,194
Unrealized gain/(loss) on investments held by fiscal agent	(268,136)	683,595
Loss on capital assets disposal	(11,733,174)	(3,536,718)
Capitalized interest expense (net of investment income)	30,649,254	33,991,493
Amortization of bond discount/premium, issuance costs, and deferred amount on refunding	482,928	571,032
Reconciliation of cash and cash equivalents to the statements of net assets		
Equity in pooled cash and investments held in City Treasury		
Unrestricted	$ 65,928,183	85,812,304
Restricted	47,596,716	75,336,403
Investments held by fiscal agent classified as cash equivalents	7,876,099	10,506,815
Total cash and cash equivalents	$ 121,400,998	171,655,522

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of Reporting Entity

The Norman Y. Mineta San José International Airport had its beginning in 1945 with lease of approximately 16 acres of farmland to Mr. James Nissen. Mr. Nissen and his associates formed an operating company which undertook the construction of a 1,900-foot runway, a hangar and an office building. Flight operations were initiated in 1946. In the fall of 1948, the City of San José (the City) assumed responsibility for the operation of San José Municipal Airport, which was renamed San José International Airport in 1984 with the addition of airline service to Canada. In 2001, the San José International Airport was renamed the Norman Y. Mineta San José International Airport (the Airport).

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

A variety of federal, state and local laws, agreements and regulations govern operations at the Airport. The Federal Aviation Administration has jurisdiction over flying operations generally, including personnel, aircraft, ground facilities and other technical matters, as well as certain environmental matters. Pursuant to the Airport and Airway Improvement Act of 1982 and other statutes, the City is constrained from transferring Airport revenues to its General Fund. This restriction is embodied in the federal grant agreements entered into by the City. Additionally, federal laws govern the reasonableness of fees that may be charged for use of Airport facilities, Airport noise limits, and impose certain other restrictions on the City and Airport operations.

(b) Basis of Presentation – Fund Accounting

The accounts of the Airport are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a set of self-balancing accounts that comprise the Airport's assets, liabilities, net assets, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's cost of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

(c) Basis of Accounting and Estimates

i. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Airport applies all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before

November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Airport has elected not to follow subsequent private-sector guidance.

ii. The Airport prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP), which provide that revenues are recorded when earned and expenses are recorded when incurred. Grants are recorded as revenues when all eligibility requirements have been met. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

iii. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Airport's enterprise fund are charges to customers for use of property and for services provided. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

iv. Under the terms of grant agreements, the Airport funds certain programs with specific cost-reimbursement grants. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Airport's policy to first apply restricted cost-reimbursement grant resources to such programs.

v. On July 1, 2009, the Airport adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement also provides guidance in determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the statement provides that the intangible asset be considered to have an indefinite useful life. The changes related to this statement can be found in Notes 1(l) and 3.

vi. On July 1, 2008, the Airport adopted the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. Additional information about the Airport's pollution remediation obligations can be found in Note 10 (d).

(d) Cash and Investments

Cash balances of the Airport, as well as other related entities, are pooled and invested by the City. The Airport's portion of this pool is displayed on the statement of net assets as "equity in pooled cash and investments held in City Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis by the City Treasury to the Airport based on the average weekly cash balances.

The Airport reports its investments in investment agreements at cost and all other investments are reported at fair value in the accompanying financial statements and the corresponding change in fair value of investments is reported in the year in which the change occurred. The Airport has reported its investments at fair value based on quoted market information obtained from fiscal agents or other sources.

Pooled cash and investments in the City Treasury are considered to be cash and cash equivalents for purposes of the accompanying statements of cash flows. Pooled cash and investments represent deposits and investments held in the City's cash management pool. This cash management pool possesses the characteristics of a demand deposit account, therefore, investments in this pool are considered to be cash equivalents. The Airport also considers all highly liquid restricted investments with a maturity of three months or less when purchased to be cash equivalents.

(e) Capital Assets

Capital assets include land, buildings and improvements, equipment, and intangible assets. Capital assets are defined as assets with an initial cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets are carried at cost. Certain property acquisition costs incurred in accordance with the California Noise Reduction Act have been capitalized in the land account in prior years. The purchase of land included movable structures that had to be removed for the land to be usable for Airport's purposes.

Intangible assets, which are identifiable, are recorded as capital assets. The Airport has identified certain habitational rights and aviation/relocation easements acquired in connection with the California Noise Reduction Act as intangible assets with indefinite useful lives. Intangible assets not having indefinite useful lives will be amortized over the estimated service capacity of the asset.

Maintenance, repairs, and minor replacements are expended as incurred. Major replacements that extend the useful life of the related assets are capitalized. No depreciation is provided on construction in progress until construction is substantially complete and the asset is placed in service.

Depreciation of capital assets is computed using the straight-line method at various rates considered adequate to allocate costs over the estimated useful lives of such assets. The estimated lives by general classification are as follows:

	Years
Buildings and improvements	5 – 40
Equipment	4 – 10

(f) Capitalization of Interest

Interest costs related to the acquisition of buildings and improvements, intangible assets, and equipment acquired with debt are capitalized. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. For the years ended June 30, 2010 and 2009, the total amounts of interest capitalized, net of allowable interest earned on temporary investment proceeds, were $30,649,254 and $33,991,493, respectively.

(g) Bond Issuance Costs, Bond Discounts/Premiums, and Deferred Amount on Refunding

Bond issuance costs are capitalized and amortized in a manner that approximates the effective interest method. Original issue bond discount or premium and deferred amount on refunding are offset against the related debt and are also amortized in a manner that approximates the effective interest method.

(h) Operating Grants and Capital Contributions

Certain expenditures for airport capital improvements, airport safety and security operations, and the implementation of the Airport's Acoustical Treatment Program (ACT) are significantly funded through the Airport Improvement Program (AIP) of the Federal Aviation Administration (FAA), with certain matching funds provided by the Airport, or from various grant programs. Funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants awarded by the FAA to finance airport safety and security and a portion of the cost of implementing the ACT Program are reported in the statement of revenues, expenses and changes in net assets as nonoperating revenues. Grants for capital asset acquisition, facility development and rehabilitation are reported as capital contributions, after nonoperating revenues and expenses.

(i) Passenger Facility Charges

Passenger facility charges (PFCs) are recorded as nonoperating revenue in the year they are collected by the air carriers from the sale of air travel tickets and remitted to the Airport in accordance with Airport regulations.

The Airport is using PFC moneys to fund approved projects. There were 58 approved projects totaling $1,093,787,121 under this category as of June 30, 2010 and 2009. Thirty-two of these projects had been completed and closed with total costs of $119,231,647 as of June 30, 2010.

(j) Accrued Vacation, Sick Leave, and Compensatory Time

Vested vacation, sick leave, compensatory time, and related benefits are accrued when incurred for all the Airport's employees.

(k) Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

- Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2010 and 2009, the Airport's statement of net assets reports restricted net assets of $61,348,883 and $45,260,026, respectively, of which $47,328,493 and $35,867,559, respectively, is restricted by enabling legislation.

- Unrestricted Net Assets – This category represents net assets of the Airport that do not meet the criteria for "restricted" or "invested in capital assets, net of related debt." The Airport has designated $25,993,357 and $22,015,657 of its unrestricted net assets as of June 30, 2010 and 2009, respectively for payment of future projects.

(l) Restatement of Net Assets

In prior years, the Airport recorded amortization of its intangible assets following the guidance of Accounting Principles Board (APB) Opinion No. 17, *Intangible Assets*, and computed annual amortization on its intangible assets over a 40-year estimated useful life. Upon adoption of GASB Statement No. 51, the Airport identified its intangible assets as having indefinite useful lives. As a result, beginning net assets have been restated

(Continued)

retroactively and the accumulated amortization related to these assets reported prior to the implementation of GASB Statement No. 51 was restated to reflect the fact that these assets are not to be amortized (See Note 3). The Airport's beginning net assets for the fiscal year ended June 30, 2009 were restated as follows:

Total net assets, beginning, as previously reported	$ 428,689,047
Retroactive impact of the implementation of GASB Statement No. 51	5,322,580
Total net assets, beginning, as restated	$ 434,011,627

(m) New Pronouncement

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

In June 2010 GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010, with earlier application encouraged.

(n) Reclassification

Certain prior year "unrestricted net assets" related to unspent proceeds from the commercial paper notes in the amount of $24,264,227 were reclassified to "invested in capital assets, net of related debt" to conform with the current year presentation. In addition, commercial paper notes payable was reclassified from payable from restricted assets to payable from unrestricted assets. The reclassification has no effect on the financial position or changes in financial position.

(2) Cash and Investments

The City Council adopted an investment policy on April 2, 1985, as amended on December 8, 2009, related to the City's cash and investment pool, which is subject to annual review (the "Investment Policy").

It is the policy of the City to invest public funds in a manner to meet the City's objectives, in order of priority – safety, liquidity, and yield, while conforming to the provisions of Sections 53600 et seq. of the California Government Code, the City's Charter, and the City's Municipal Code.

The Airport invests funds subject to the Investment Policy and provisions of the Airport's Master Trust Agreement for its various bond issues. According to the City's Investment Policy and the Airport's Master Trust Agreement, the Airport is permitted to invest in the City's cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. Government Agencies, time deposits, investment agreements, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

The Airport maintains a portion of its investments in the City's cash and investment pool. As of June 30, 2010 and 2009, the Airport's share of the City's cash and investment pool totaled $113,524,899 and $161,148,707, respectively. It is not possible to disclose relevant information about the Airport's separate portion of the cash and investment pool, as there are no specific investments belonging to the Airport itself. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2010 basic financial statements. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113 or can be found at the City's Finance Department website at http://www.csjfinance.org/.

The Master Trust Agreement authorizes long-term debt (discussed in Note 5) and requires certain amounts of investments to be held in trust by the Airport's trustee (fiscal agent) for the bondholders and to be used for repayment of principal and interest on outstanding debt, or to be spent only on authorized capital projects. As of June 30, 2010 and 2009, restricted investments held by fiscal agent totaled $317,509,483 and $462,809,025, respectively. The Master Trust Agreement addresses any limitations in Airport investment of moneys. The investments are subject to certain types of risk, including interest rate risk, credit quality risk, and concentration credit risk. However, the Master Trust Agreement does not specifically address policies for each risk.

Provisions of the Airport's Master Trust Agreement limit the Airport's investment of moneys in Bond Reserve funds to time or demand deposits or permitted investments which mature not more than five years from the date of investment, except for investment agreements which, by their terms, may expire later than five years from the date of receipt of funds for investment. The Master Trust Agreement also limits the investments of moneys held by the City to time or demand deposits in any bank or trust authorized to accept public funds, and shall be secured at all times by such obligations, and to the fullest extent, as is required by law, and may at the written direction of the City be invested in permitted investments, maturing not later than the date on which such money are required for payment by the Director of Finance or the Fiscal Agent.

In May 2009, a Sixth Supplemental Trust Agreement to the Master Trust Agreement by and between the City and the trustee was executed to permit the continuance of two collateralized agreements related to Series 2007A and Series 2007B Airport Revenue Bonds. At the time the agreements were entered into, the agreements conformed to permitted investments provisions of the Master Trust Agreement. However, subsequent downgrades of the investment agreement provider's ratings caused the agreements to no longer meet the requirements of the Master Trust Agreement. As a result of the rating downgrades, the investment agreement provider posted additional collateral as required under the agreements and the collateral levels are currently in excess of the levels required by the City's Investment Policy.

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

In general, the City intends to hold all investments until their respective maturity dates. The weighted average maturity of the City's pooled cash and investments as of June 30, 2010, was approximately 122 days. The Investment Policy does not prohibit the sale of securities prior to maturity. However, per the provisions of the Investment Policy in effect as of June 30, 2010, any portfolio restructuring requires prior conceptual approval in writing from the City Manager and the Director of Finance. Section 14.2 of the Investment Policy further defines the parameters with respect to restructuring the portfolio.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The City's investment policy has mitigated credit risk by limiting investments to high quality securities, by prequalifying financial institutions, with which the City will do business by diversifying the portfolio, and by establishing monitoring and investment procedures.

Concentration of Credit Risk – It is not possible to disclose relevant information about the Airport's separate portion of the cash and investment pool, as there are no specific investments in the City's cash and investment pool belonging to the Airport itself. The City's investment policy stipulates that no more than 5% of the City's total portfolio at date of purchase can be invested in investments of a single institution other than securities issued by the U.S. Treasury, U.S. Government Agencies (as defined in the policy) and LAIF.

The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates. Per the Investment Policy the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Investment Policy.

The following table identifies the investment types that are authorized by the City's Investment Policy, as of June 30, 2010:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Dollar of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
U.S. government agency issues	5 years	None	None
Bankers' acceptances	180 days	25%	5%
Insured time deposits	3 years	$10 million	5%
Uninsured time deposits	18 months	$10 million	5%
Commercial paper	270 days	20%	5%
Negotiable certificates of deposit	180 days	25%	5%
Repurchase agreements	10 days	None	None
Reverse repurchase agreements	30 days	$25 million or 20%, (whichever is less)	None
Corporate notes	3 years	15%	5%
California Local Agency Investment Fund	None	None	None
Money market mutual funds	None	15%	5%
California municipal bonds - category 1	5 years	15%	5%
California municipal bonds - category 2	5 years	5%	5%
California municipal bonds - category 3	5 years	10%	5%
Investment agreements	None	None	None

Other restrictions on investments are summarized as follows:

- Purchases of United States government agency securities are limited to issues of Federal Farm Credit Banks (FFCB), the Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and Student Loan Marketing Association (SLMA).

- The purchase of bankers' acceptances (BAs) are limited to issues by domestic U.S. or foreign banks and which must be rated by Fitch Ratings as follows: an issuer rating of "B" or better for domestic U.S., "C" or better for California banks or "A/B" or better for foreign banks. Additionally, foreign BAs must be in U.S. dollar denominations.

- Insured and uninsured time deposits are limited to issuances from banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. Additionally, concerning uninsured time deposits, depositories must have an issuer rating of "B" or better by Fitch Ratings and be collateralized in a manner prescribed by state law for depositories.

- Investments in commercial paper are limited to investments in domestic corporations with the highest ranking or with the highest letter and number rating as provided for by the three nationally recognized rating services. Issuing corporations must be organized and operating within the U.S. and have total assets in excess of $500,000,000.

- Negotiable certificates of deposit are limited to banks and savings and loans with an issuer rating of "A/B" or better by Fitch Ratings and may not exceed the net worth of issuing institution.

- Repurchase agreements are to be executed only with primary dealers of the Federal Reserve Bank of New York and financial institutions, which have entered into the City's Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement. Securities accepted as collateral for the repurchase agreement are limited to U.S. Treasury or U.S. Federal Government Agencies permitted under the Policy. The market value of the securities that have been accepted as collateral shall, at the time of transfer, equal at least 102 percent of face value of the repurchase agreement. For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value to at least 102 percent of purchase agreement's face value.

- Reverse repurchase agreements under the Policy are limited to the lesser of $25,000,000 or 20% of the portfolio value and to those occasions where unanticipated short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to maturity.

- Corporate notes eligible for investment must be rated "A" or better by two of the three nationally recognized rating services.

- Funds invested in Local Agency Investment Fund, a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer.

- Investments in money market mutual funds are limited to those funds registered with the Securities and Exchange Commission (SEC) and for which either one of the credit criteria are met: (1) obtained the highest ranking or highest letter and numerical rating provided by no less than two nationally recognized rating services or (2) retained an investment advisor registered with the SEC or exempt from the SEC registration requirements with no less than five years experience investing in securities and obligations authorized by California Government Code Section 53601 and managing money market mutual funds with assets under management in excess of $500 million. Investments by the funds are restricted to U.S. Treasury and U.S. Government Agency backed securities permitted under the Policy and be maintained at no less than $1.00 per share.

- California municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes three California municipal bond categories (1 through 3): bonds issued by the City or its agencies (as defined in the Policy), by the State of California, and by other California local agencies, respectively. Eligible securities must be rated AA or better by two nationally recognized rating services. For category 3, a rating of AAA through credit enhancements is also permitted.

- Investment agreements may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures and in accordance with other safeguards outlined in the Policy to reduce the risk associated with a Provider's inability to meet its contractual obligations.

The Policy permits the Director of Finance to authorize investments that depart from the Policy's numerical limits if such an action is in the best interest of the City and is otherwise consistent with the Policy and applicable City, State and federal laws. Whenever a deviation from the Policy occurs, it must be reported to the City Manager and the City Council within one business day.

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The following schedule indicates the interest rate risk and credit risk of the investments held by the fiscal agent, by category and maturity, as of June 30, 2010 and 2009. The credit ratings listed are for Moody's Investors Service and Standard and Poor's, respectively. Certain investments, such as obligations which are backed by the full faith and credit of the United States government, are not subject to credit ratings.

As of June 30, 2010

		Maturities					
Type of investments:	Credit Rating	Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Over 5 Years	Carrying Value
Investments held by the Fiscal Agent							
Federated treasury obligations fund	Aaa /AAAm	$ 7,876,099	-	-	-	-	$ 7,876,099
Federal Home Loan Mortgage Corp							
Discount Notes	Not rated	-	89,991	-	-	-	89,991
Federal National Mortgage							
Association Discount Notes	Not rated	-	181,964	-	-	-	181,964
Federal Home Loan Bank(1)	Aaa /AAA	-	-	-	23,967,525	-	23,967,525
Citigroup investment agreements(1)	Not rated	6,143,919	233,565,022	-		-	239,708,941
MBIA agreements	Not rated	-	-	-	-	4	4
Local agency investment fund(1)	Not rated	-	45,684,959	-	-	-	45,684,959
		$ 14,020,018	279,521,936	-	23,967,525	4	$ 317,509,483

As of June 30, 2009

		Maturities					
Type of investments:	Credit Rating	Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Over 5 Years	Carrying Value
Investments held by the Fiscal Agent							
Federated treasury obligations fund	Aaa /AAAm	$ 10,415,828	-	-	-	-	$ 10,415,828
Federal Home Loan Mortgage Corp							
Discount Notes	Not rated	-	181,945	-	-	-	181,945
Federal National Mortgage							
Association Discount Notes	Not rated	-	904,728	-	-	-	904,728
Federal Home Loan Bank(1)	Aaa /AAA	-	-	-	24,235,200	-	24,235,200
Citigroup investment agreements(1)	Not rated	-	-	-	379,143,361	-	379,143,361
MBIA agreements	Not rated	-	-	-	-	4	4
Local agency investment fund(1)	Not rated	-	47,927,959	-	-	-	47,927,959
		$ 10,415,828	49,014,632	-	403,378,561	4	$ 462,809,025

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

(3) Capital Assets

Capital asset activities for the fiscal years ended June 30, 2010 and 2009, were as follows:

	Balance at July 1, 2009, as restated	Additions	Retirements	Transfers	Balance at June 30, 2010
Capital assets not depreciated:					
Land	$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	833,564,420	301,187,795	(11,164,412)	(961,973,882)	161,613,921
Total capital assets, not depreciated	922,227,232	301,187,795	(11,164,412)	(961,973,882)	250,276,733
Capital assets, depreciated:					
Buildings	175,695,160	10,835,731	(36,558,756)	960,699,918	1,110,672,053
Other improvements	385,734,207	188	(895,589)	1,273,964	386,112,770
Equipment	30,124,247	458,665	(367,252)	-	30,215,660
Total capital assets, depreciated	591,553,614	11,294,584	(37,821,597)	961,973,882	1,527,000,483
Less accumulated deprecitaion					
Buildings	97,145,152	40,798,502	(35,990,724)	-	101,952,930
Other improvements	135,247,734	12,743,932	(894,859)	-	147,096,807
Equipment	26,301,772	1,262,858	(367,252)	-	27,197,378
Total accumulated depreciation	258,694,658	54,805,292	(37,252,835)	-	276,247,115
Total capital assets, depreciated, net	332,858,956	(43,510,708)	(568,762)	961,973,882	1,250,753,368
Total capital assets, net	$ 1,255,086,188	257,677,087	(11,733,174)	-	1,501,030,101

(Continued)

	Balance at July 1, 2008, as restated	Additions	Retirements	Transfers	Balance at June 30, 2009, as restated
Capital assets not depreciated:					
Land	$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	509,347,781	344,230,081	(3,536,246)	(16,477,196)	833,564,420
Total capital assets, not depreciated	598,010,593	344,230,081	(3,536,246)	(16,477,196)	922,227,232
Capital assets, depreciated:					
Buildings	175,635,040	60,120	-	-	175,695,160
Other improvements	369,256,083	928		16,477,196	385,734,207
Equipment	29,971,826	313,659	(161,238)	-	30,124,247
Total capital assets, depreciated	574,862,949	374,707	(161,238)	16,477,196	591,553,614
Less accumulated depreciation:					
Buildings	91,242,501	5,902,651	-	-	97,145,152
Other improvements	122,388,588	12,859,146	-	-	135,247,734
Equipment	25,148,609	1,313,929	(160,766)	-	26,301,772
Total accumulated depreciation	238,779,698	20,075,726	(160,766)	-	258,694,658
Total capital assets, depreciated, net	336,083,251	(19,701,019)	(472)	16,477,196	332,858,956
Total capital assets, net	$ 934,093,844	324,529,062	(3,536,718)	-	1,255,086,188

Upon adoption of GASB Statement No. 51, the Airport determined that its intangible assets have indefinite useful lives. As a result, the Airport reclassified intangible assets in the amount of $12,881,547 from depreciable capital assets to nondepreciable capital assets and removed the related accumulated amortization in the amount of $5,322,579 at July 1, 2008 and from the Airport's capital assets to reflect that these assets have indefinite useful lives.

In November 2005 the San José City Council approved a comprehensive plan for replacing and upgrading the Airport's terminal facilities to realize the community's long-term vision in the Airport Master Plan originally adopted in 1997 (See Note 10 (e)). The program is planned in two phases. Phase 1 is the current $1.3 billion modernization that is on schedule for substantial completion in 2010. Phase 2, expansion to add twelve more aircraft gates, will begin when the Airport reaches specific levels of passenger activity or flights in the future.

During the fiscal year ended June 30, 2010, the Airport completed projects totaling $962.0 million. Significant completed projects included the following:

- Terminal A Modifications – This project included the renovation and expansion of Terminal A which addressed the imbalance that existed between the number of aircraft gates and the inadequate number of check-in positions/queuing area, security checkpoints and concessions.

- Terminal B and North Concourse Program (Phase 1) – This project replaced the out-of-date and inadequately sized Terminal C. This project includes a 380,000-square foot, three level concourse building which opened for passengers on June 30, 2010.

- Consolidated Rental Car (ConRAC) Garage – The ConRAC project, a 3,350 car full-service facility, provided passengers a convenient access to rental car facilities and reduced traffic on airport roadways. The garage also includes 350 public parking spaces on the ground floor providing direct access to Terminal B Concourse. On June 30, 2010, the Airport opened ConRAC coinciding with the opening of the first phase of Terminal B.

- Roadways - The roadway system was redesigned to increase roadway capacity by adding vehicle lanes; to reduce traffic conflicts by constructing two overcrossing bypasses to provide direct access to each terminal; to improve the ground transportation system; and to enhance motorist way-finding by straightening the roadway alignment and introducing better signage.

The Airport permanently ended airline and concession operations in Temporary Terminal C on June 29, 2010 and the final stage of demolition of this facility will begin in late July. As a result, the Airport accelerated its depreciation schedule and wrote off $25,886,127 related to this facility.

In 2010, the Airport stopped construction on certain improvements related to a maintenance building, traffic mitigation and other projects due to its decision to scale down its Terminal Area Improvement Project and wrote off accumulated costs of $11,164,412.

The Airport's depreciation expense on capital assets was $54,805,292 and $20,075,726 for fiscal years ended June 30, 2010 and 2009, respectively.

(4) Commercial Paper Notes Payable

On November 2, 1999, the City Council adopted a resolution authorizing the issuance of City of San José, Norman Y. Mineta San José International Airport subordinated commercial paper notes in three series (Series A – Tax Exempt, Series B – Subject to AMT, and Series C – Taxable) in an amount not to exceed $100 million. The City Council approved an expansion of the commercial paper program to $200 million on June 20, 2006. Additional expansions were approved by City Council to $450 million on January 9, 2007 and to $600 million on March 25, 2008. This latest expansion also established three additional series of commercial paper (Series D – Tax Exempt, Series E – Subject to AMT, and Series F – Taxable). On September 1, 2009, the City Council adopted a resolution authorizing the issuance of tax-exempt private activity non-AMT commercial paper notes as provided for in the American Recovery and Reinvestment Act of 2009. At that time, the Series A Notes were redesignated as Series A-1 (Non-AMT) and Series A-2 (Non-AMT/Private Activity) and the Series D Notes were redesignated as Series D-1 (Non-AMT) and Series D-2 (Non-AMT/Private Activity).

Under the commercial paper program, the Airport is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper is secured by a subordinate pledge of the Airport's revenues and additionally secured by letters of credit.

The terms of the current agreement providing credit support for the Series A-1, Series A-2, Series B and Series C Notes call for unreimbursed draws to convert to a term loan if certain conditions are met on the Drawing Maturity Date (defined as the earlier of the termination date of the applicable letter of credit or 60 days following the unreimbursed draw) with principal repaid in ten equal semi-annual installments with payments occurring on the first business day of each March and September of each year. For the period from the date of the unreimbursed draw to the 60^{th} day following the date of the unreimbursed draw, the interest rate is the Base Rate. Unless the unreimbursed draw is converted to a term loan, the interest rate from the 61^{st} day until the date the unreimbursed draw is paid in full is the Default Rate (defined as the Base Rate from time to time in effect plus 2.00%). The term loan will bear interest at an interest rate equal to the Base Rate plus 0.50% from the conversion date through the 30th day, Base Rate plus 0.75% from the 31st day through the 60th day, and Base Rate plus 1.00% from the 61st day onward. For the purposes of this agreement, Base Rate is defined as the higher of (i) the Federal Funds rate plus 0.50% per annum and (ii) the bank's prime rate; provided, however, that the rate increases by 0.50% for each full rating category reduction on the Airport's bonds and an additional 1.00% if the rating on the Airport's bonds is withdrawn or suspended.

The terms of the current agreement providing credit support for the Series D-1, Series D-2, Series E and Series F Notes provide that unreimbursed draws be paid at the following interest rates: (i) Base Rate plus 1.00% from the Drawing Date through the 30^{th} day; (ii) the greater of the Base Rate plus 1.50% and 12% from the 31^{st} day through the 90^{th} day; and (iii) the greater of the Base Rate plus 2.5% and 12% from the 91^{st} day until the unreimbursed drawing is paid in full. However, if certain conditions specified in the agreement are met, then on the Drawing Maturity Date (defined as the earlier of the Letter of Credit's termination date or 90 days following the date of the unreimbursed draw), the unreimbursed draw will convert to a term loan. The principal of the term loan is required to be repaid in 20 equal quarterly installments on the first business day of each calendar quarter and the interest rate is the greater of the Base Rate plus 2.5% and 12%. For purposes of this agreement, Base Rate is defined as the higher of the Federal Funds rate plus 1.00% and the bank's prime rate.

The credit support, which expires December 2, 2010 as discussed in Note (11), for the Series A-1, Series A-2, Series B, and Series C commercial paper notes is provided severally but not jointly, by JPMorgan Chase Bank, Bank of America, and Dexia Credit Local. The credit support, which expires May 7, 2011, for the Series D-1, Series D-2, Series E, and Series F commercial paper notes is provided by Lloyds TSB Bank plc.

Balances of commercial paper notes payable as of June 30, 2010 and 2009 were as follows:

As of June 30, 2010	
Series A-2 commercial paper notes with $11,000,000 maturing on July 2, 2010 were issued with an interest of 0.32%; and $4,205,000 maturing on July 8, 2010 were issued with an interest rate of 0.34%	$ 15,205,000
Series B commercial paper notes with $20,096,000 maturing on July 2, 2010 were issued with an interest rate of 0.36%; $62,193,000 maturing on July 6, 2010 were issued with an interest rate of 0.38%; $44,693,000 maturing on July 8, 2010 were issued with an interest rate of 0.37%; and $21,789,000 maturing on July 14, 2010 were issued with an interest rate of 0.37%.	148,771,000
Series C commercial paper notes with $90,491,000 maturing on July 1, 2010 and $25,000,000 maturing on September 9, 2010, $53,091,000 were issued with an interest rate of 0.40%, $37,400,000 were issued with an interest rate of 0.43%, and $25,000,000 were issued with an interest rate of 0.60%	115,491,000
Series F commercial paper notes maturing on July 1, 2010 were issued with an interest rate of 0.39%	137,881,000
Total commercial paper notes payable	$ 417,348,000
As of June 30, 2009	
Series B commercial paper notes maturing on July 2, 2009, $21,789,000 were issued with an interest rate of 1.80%, $43,000,000 were issued with an interest rate of 1.85%, $64,789,000 were issued with an interest rate of 1.83%, and $20,753,000 were issued with an interest rate of 1.90%	$ 150,331,000
Series C commercial paper notes maturing on August 6, 2009 were issued with an interest rate of 1.80%	93,300,000
Series F commercial paper notes maturing on July 2, 2009 were issued with an interest rate of 0.60%	79,930,000
	$ 323,561,000

Commercial paper activities for the fiscal years ended June 30, 2010 and 2009 were as follows:

		2010	2009
Beginning balance	$	323,561,000	186,190,000
Additional issuance		98,887,000	143,171,000
Paid		(5,100,000)	(5,800,000)
Ending balance	$	417,348,000	323,561,000

Although the commercial paper notes have short-term maturities, the Airport's intent is to pay them on a long-term basis based on the assumption that taxable commercial paper will be paid on a 25-year amortization period and tax-exempt commercial paper will be paid on a 30-year amortization period with the first principal payments due in fiscal year 2011.

(5) Long-Term Obligations

Airport Revenue Bonds are issued primarily to finance the construction of capital improvements at the Norman Y. Mineta San José International Airport. Pursuant to the Master Trust Agreement, the City has irrevocably pledged the general airport revenues and certain other funds held or made available under the Master Trust Agreement, first to the payment of maintenance and operation costs of the Airport, and second to the payment of principal of and premium, if any, and interest on the bonds. General airport revenues generally include all revenues, income, receipts and moneys derived by the City from the operation of the Airport with the exception of certain expressly excluded revenues. The net revenues available to pay debt service in the current fiscal year totaled $75,535,767, which is composed of $30,602,681 of net general airport revenues and $44,933,086 of other available funds. Transfers from the general airport revenues amounted to $26,779,070, which is net of $4,588,000 of bond debt service paid from the passenger facility charges and $33,430,672 of bond debt service paid from the capitalized interest accounts established in conjunction with the issuance of the 2007 Airport Revenue Bonds. The City has covenanted in the Master Trust Agreement that net revenues available to pay debt service for each fiscal year plus any other available funds (as defined in the Master Trust Agreement) will be at least 125% of annual debt service for such fiscal year. Under the Master Trust Agreement, "debt service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Total principal and interest remaining on the bonds is $2.06 billion, with the final payment due on March 1, 2047.

(Continued)

Balances of bonds payable as of June 30, 2010 and 2009 were as follows:

	2010	2009
2007B Series Airport Revenue Bonds of $179,260,000 at rates of 4.25% to 5%; payable in annual installments ranging from $2,245,000 to $28,800,000 with the first installment due in March 2014 and the final installment due in March 2037	$ 179,260,000	179,260,000
2007A Series Airport Revenue Bonds of $545,755,000 at rates of 5% to 6%; payable in annual installments ranging from $5,690,000 to $73,500,000 with the first installment due in March 2014 and the final installment due in March 2047	545,755,000	545,755,000
2004D Series Airport Revenue Bonds of $34,270,000 at a rate of 5%; payable in three annual installments of $9,955,000, $11,755,000 and $12,560,000 in March 2026, March 2027 and March 2028, respectively	34,270,000	34,270,000
2004C Series Airport Revenue Bonds of $75,730,000 at rates of 4.625% to 5.25%, payable in annual installments ranging from $1,000,000 to $10,590,000 with the first installment due in March 2009 and the final installment due in March 2026	73,730,000	74,730,000
2002B Series Airport Revenue Bonds of $37,945,000 at rates of 4% to 5%; payable in annual installments ranging from $2,380,000 to $6,545,000 with the final installment due in March 2012	8,925,000	15,165,000
2002A Series Airport Revenue Bonds of $53,600,000 at rates of 4% to 5.375%; payable in annual installments ranging from $4,460,000 to $9,285,000 with the first installment due in March 2012 and the final installment in March 2018	53,600,000	53,600,000
2001A Series Airport Revenue Bonds of $158,455,000 at rates of 4.00% to 5.239%; payable in annual installments ranging from $3,680,000 to $10,055,000 with the final installment due in March 2031	135,160,000	138,840,000
1998A Series Airport Revenue Bonds of $14,015,000 at rates of 4.50% to 4.75%; payable in annual installments ranging from $725,000 to $1,085,000 with the final installment due in March 2018	7,290,000	8,015,000
Total bonds payable	$ 1,037,990,000	1,049,635,000

(Continued)

Bonds outstanding and related activities for the years ended June 30, 2010 and 2009, were as follows:

	Balance at July 1, 2009	Retirements	Balance at June 30, 2010	Amounts Due Within One Year
2007B Series	$ 179,260,000	-	179,260,000	-
2007A Series	545,755,000	-	545,755,000	-
2004D Series	34,270,000	-	34,270,000	-
2004C Series	74,730,000	1,000,000	73,730,000	1,000,000
2002B Series	15,165,000	6,240,000	8,925,000	6,545,000
2002A Series	53,600,000	-	53,600,000	-
2001A Series	138,840,000	3,680,000	135,160,000	3,825,000
1998A Series	8,015,000	725,000	7,290,000	750,000
Total long-term debt	1,049,635,000	11,645,000	1,037,990,000	12,120,000
Add unamortized:				
Premium	5,391,081	299,688	5,091,393	362,829
Less unamortized:				
Discount	5,793,584	41,457	5,752,127	42,959
Deferred amount on refunding	2,626,401	562,673	2,063,728	478,634
Total long-term debt, net	$ 1,046,606,096	11,340,558	1,035,265,538	11,961,236

	Balance at July 1, 2008	Retirements	Balance at June 30, 2009	Amounts Due Within One Year
2007B Series	$ 179,260,000	-	179,260,000	-
2007A Series	545,755,000	-	545,755,000	-
2004D Series	34,270,000	-	34,270,000	-
2004C Series	75,730,000	1,000,000	74,730,000	1,000,000
2002B Series	21,115,000	5,950,000	15,165,000	6,240,000
2002A Series	53,600,000	-	53,600,000	-
2001A Series	142,390,000	3,550,000	138,840,000	3,680,000
1998A Series	8,695,000	680,000	8,015,000	725,000
Total long-term debt	1,060,815,000	11,180,000	1,049,635,000	11,645,000
Add unamortized:				
Premium	5,676,829	285,748	5,391,081	299,689
Less unamortized:				
Discount	5,833,602	40,018	5,793,584	41,457
Deferred amount on refunding	3,271,837	645,436	2,626,401	562,673
Total long-term debt, net	$ 1,057,386,390	10,780,294	1,046,606,096	11,340,559

(Continued)

Scheduled maturities of outstanding bonds are as follows:

Fiscal year ending June 30,		Principal	Interest
2011	$	12,120,000	53,356,473
2012		12,620,000	52,801,148
2013		13,165,000	52,211,223
2014		21,795,000	51,550,010
2015		22,855,000	50,445,823
2016-2020		123,765,000	233,765,354
2021-2025		145,080,000	200,376,620
2026-2030		159,980,000	159,900,306
2031-2035		251,885,000	118,650,800
2036-2040		217,840,000	36,556,650
2041-2045		38,200,000	12,748,200
2046-2047		18,685,000	1,698,000
Total	$	1,037,990,000	1,024,060,607

A number of limitations and restrictions are imposed upon the Airport by covenants relating to certain of its outstanding revenue bonds. The Airport believes it is in compliance with all such limitations and restrictions as of June 30, 2010 and 2009.

Other long-term liability activities for the years ended June 30, 2010 and 2009 were as follows:

	Balance at July 1, 2009	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2010	Amounts Due Within One Year
Self-insurance	$ 3,296,406	92,205	426,063	2,962,548	560,000
Accrued vacation, sick leave and compensatory time	3,995,805	2,084,639	2,560,148	3,520,296	2,228,169
Other postemployment benefits	4,167,075	3,476,282	1,903,773	5,739,584	-
Pollution remediation liability	714,000	660,434	660,434	714,000	714,000
Total	$ 12,173,286	6,313,560	5,550,418	12,936,428	3,502,169

	Balance at July 1, 2008	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2009	Amounts Due Within One Year
Self-insurance	$ 3,360,966	390,096	454,656	3,296,406	560,000
Accrued vacation, sick leave and compensatory time	3,936,134	2,199,985	2,140,314	3,995,805	2,567,102
Other postemployment benefits	4,667,428	981,682	1,482,035	4,167,075	-
Pollution remediation liability	330,000	384,000	-	714,000	714,000
Total	$ 12,294,528	3,955,763	4,077,005	12,173,286	3,841,102

(6) Leases and Agreements

The City has entered into an Airline-Airport Lease and Operating Agreement with the various passenger and cargo airlines serving the Airport. The airline lease agreement, which took effect on December 1, 2007, is scheduled to expire on June 30, 2012 and may be extended for one additional five-year term by mutual consent of the City and the Signatory Airlines (as defined below).

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

Any passenger or air cargo carrier that does not meet the minimum requirements to be a Signatory Airline is given the opportunity to become a "Non-Signatory Airline" by executing a non-signatory agreement in a form similar to that of the airline lease agreement. Non-Signatory Airlines will be charged a premium of 25% over the rates and charges applicable to Signatory Airlines and will not participate in the review by a "Majority of Interest" of capital projects proposed for the Airport.

Any passenger or air cargo carrier operating at the Airport that is neither a Signatory Airline nor a Non-Signatory Airline will be subject to the Airline Rates and Charges Ordinance, which requires such air carriers to comply with all applicable rules and regulations as established by the Director of Aviation regarding the proper use and occupancy of the Airport or any portion thereof. In addition, the Airline Rates and Charges Ordinance establishes all rates and charges applicable to such airline's operations at and use of the Airport or any portion thereof, including airfield and terminal rates and charges, at a 30% premium over the rates and charges as determined pursuant to the terms of the City's then current airline lease and operating agreement.

The key provisions in the airline lease agreement include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The airline lease agreement also includes a revenue sharing provision to evenly divide net unobligated Airport revenues between the Airport and the airlines currently operating at the Airport after each fiscal year. In any fiscal year in which there are net unobligated Airport revenues and all requirements of the City's Airport financing documents have been satisfied, the remaining net unobligated Airport revenues are to be evenly divided between the City and the airlines. If net revenues exceed the projected levels outlined in the Airport Forecast identified in the airline lease agreement, then the airlines share of the difference will be deposited into the Rate Stabilization Fund up to a cap of $9 million. Once the Rate Stabilization Fund has been fully funded or in the event that the actual net revenues do not exceed the projected net revenues, the airlines share of net revenues shall be applied as a credit to the airline terminal revenue requirement for the following fiscal year, thus reducing terminal rental rates for the following fiscal year. The first $1 million of City's share of any net revenues shall be retained by the Airport in a discretionary fund to be used for any lawful Airport purpose. The remaining balance of City's share shall be applied to the capital costs of the Airport's Master Plan Program.

In August 2008, the City Council approved an amendment to the lease agreement to use a portion of the Rate Stabilization Fund in an amount not to exceed $2,172,000 to reduce projected 2008-2009 terminal rents below the projected terminal rental rates included in the adopted 2008-2009 Airport budget, retroactive to July 1, 2008.

For the fiscal years ended June 30, 2010 and 2009, the Airport's revenues as defined in its lease agreements exceeded its expenditures and reserve requirements by $35,485,816, and $29,336,101, respectively. The surplus for fiscal year ended June 30, 2010 will be distributed in accordance with the revenue sharing provisions of the lease agreement as described above and/or used in the budget balancing actions for fiscal year 2011-2012. $22,081,101 of the surplus for the year ended June 30, 2009 was set aside as a reserve for future deficit and the remaining balance was distributed in accordance with the revenue sharing provisions.

The Airport also enters into leases with concessionaires, cargo carriers, and other business entities for building space and/or the privilege of operating a concession at the Airport. The remaining terms of these operating leases range from one month to 29 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount.

Rental revenues from the aforementioned operating leases were $60,964,425 and $60,885,438 for the fiscal years ended June 30, 2010 and 2009, respectively

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

Fiscal year ending June 30,		
2011	$	77,987,539
2012		104,829,426
2013		42,158,951
2014		41,961,428
2015		37,695,472
2016-2020		185,892,222
2021-2025		16,534,390
2026-2030		15,544,048
2031-2035		12,697,556
2036-2040		7,041,257
Total minimum lease rentals	$	542,342,289

These future minimum rentals are based upon annual rates and charges currently agreed to by the airlines and other tenants. In addition to the future minimum rentals disclosed above, the Airport expects to receive $1,201,885 from month-to-month rentals in fiscal year 2011.

As of June 30, 2010 and 2009, leased assets had total historical costs of $1,001,525,496 and $94,235,383, respectively, and accumulated depreciation of $48,746,530 and $45,455,142, respectively.

(Continued)

Pursuant to the terms of individual agreements entered into with the City, every airline, operator, tenant or any other entity or person which is party to an agreement with the City authorizing them to conduct business at the Airport, is required to maintain a security deposit on file with the City. The deposit shall be in a form and amount acceptable to the Director of Aviation (Director), often in the form of irrevocable letter of credit, surety bond, cashier's check or other form acceptable to the Director. The Director has the authority to revise the amount of security deposit at any time to protect the interests of the City. Each deposit must be maintained in full force and effect during the entire term of the agreement to ensure faithful performance by the other party of all the covenants, terms and conditions of the agreement. Security deposits in the form of cashier's checks are recorded as advances and deposits payable on the accompanying statement of net assets. The Airport maintains on file copies of all security deposits, in the form other than cashier's checks, which as of June 30, 2010 and 2009 totaled $28,991,073 and $22,791,681, respectively.

(7) Employees' Retirement System

All full-time and certain part-time employees of the Airport participate in the City of San José Federated City Employees' Retirement System (System), which is a single employer defined benefit retirement system that covers substantially all City employees, except for employees who are members of the City's Police and Fire Department Retirement Plan, by providing retirement and certain other postemployment benefits. These benefits include pension, death, and disability, which are under the Defined Benefit Pension Plan, as well as medical and dental benefits, which are under the Postemployment Healthcare Plan. A stand-alone report is issued for the System and is available from the City of San José Office of Retirement Services, 1737 North First Street, Suite 580, San José, California 95112. As a department of the City, the Airport shares in the risks, rewards and costs including benefit costs with the City. The Airport presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City.

The payroll for Airport employees covered by the System for the fiscal years ended June 30, 2010 and 2009 was $22,686,445 and $26,514,642, respectively. The Airport's total payroll for the fiscal years ended June 30, 2010 and 2009 was $28,829,122 and $32,951,096, respectively. Pension and other postemployment benefits are established pursuant to City ordinance. Pension benefits are based on members' years of service and compensation. Upon reaching five years of service, members have earned the right to receive a pension benefit. An employee with five or more years of service who reaches the normal retirement age of 55, or an employee of any age with 30 years of service, is entitled to annual pension benefits.

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

Contribution rates for the Airport and the participating employees for 2010 and 2009 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2007, respectively, for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan.

	Airport's Contribution		Employees' Contribution	
Pay Period	**Defined Benefit Pension**	**Post-employment Heathcare Plan**	**Defined Benefit Pension**	**Post-employment Heathcare Plan**
06/28/09 through 06/26/10	18.31%	5.70% (1)	4.28%	5.07%
06/29/08 through 06/27/09	18.31%	5.25% (1)	4.28%	4.65%

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

Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. Effective June 28, 2009, the bargaining units representing the System members entered into Memorandums of Agreement (MOAs) with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding the GASB Statement No. 45 annual required contribution over the next 5 years; fiscal year 2009-2010 was the first year of the phase-in. The MOA between the City and the bargaining units representing the members of the System provided that the five year phase-in of the Annual Required Contributions will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the System members or the City. Notwithstanding these limitations on incremental increases, the agreements with members of the System further provide that by the end of the five year phase-in, the City and the members "shall be contributing the full Annual Required Contribution in the ratio currently provided" in the relevant sections of the San Jose Municipal Code. The contributions are not currently sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASB Statement No. 45.

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

Fiscal Year	Defined Benefit Pension			Postemployment Healthcare Plan			
	ARC	Contributions	Unfunded Liability	ARC	AOC	Contributions	Unfunded Liability
6/30/2008	$ 4,634,810	$ 4,634,810	$ -	$ 5,696,697	$ 5,696,697	$ 1,029,269	$ 4,667,428
6/30/2009	4,854,831	4,854,831	-	3,107,769	981,682	1,482,035	4,167,075
6/30/2010	4,153,888	4,153,888	-	3,404,451	3,476,282	1,903,773	5,739,584

The City has determined a Citywide Annual Required Contribution (ARC) and OPEB cost based upon an actuarial valuation performed in accordance with GASB No. 45 by the City's actuaries. For the fiscal year ended June 30, 2010, the City allocated to the Airport its proportionate share of the Citywide ARC and OPEB cost based upon its percentage of retirement benefit costs for Federated employee members. The difference between the cumulative OPEB cost allocated and the costs contributed by the Airport was $5,739,584 and $4,167,075 at June 30, 2010 and 2009, respectively, which is recorded as the Airport's net OPEB obligation.

The City issues a publicly available financial report that includes the complete note disclosures and required supplementary information related to the City's other postemployment benefit obligations. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113 or can be found at the City's Finance Department website at http://www.csjfinance.org/.

(8) Related Party Transactions

The City provides certain general support services to the Airport and charges a pro rata fee. The fees charged to the Airport for these services for the fiscal years ended June 30, 2010 and 2009, were $5,169,075 and $7,126,225, respectively. The City also charged the Airport fees of $15,598,269 and $16,945,384 for the fiscal years ended June 30, 2010 and 2009, respectively, for airport rescue and fire fighting and police services coverage. Additionally, various City departments charge the Airport for services they rendered on its behalf. These fees and service charges, which totaled $1,119,796 and $1,229,875 for the fiscal years ended June 30, 2010 and 2009, respectively, are included in operating expenses in the accompanying statements of revenues, expenses, and changes in net assets.

In February 2005, the City of San José Financing Authority (Authority) assisted the City in financing the acquisition and improvement of certain real property situated in the City of San José and the City of Santa Clara (now known as the Airport West property) by issuing lease revenue bonds pursuant to a trust agreement with a trustee. In order to secure and provide for the repayment of the bonds, the City, as lessor, leased the property to the Authority, as lessee, and leased back such property from the Authority under an operating sublease agreement for aviation related purposes and a general sublease for general City purposes. In June 2008, the Authority issued Series 2008F variable rate taxable lease revenue bonds in the amount of $67,195,000 to refund the 2005 bonds. Simultaneously, an operating sublease agreement, that is substantially the same as the original operating sublease agreement was entered into with an initial term expiring on

May 31, 2014, unless such term is extended or sooner terminated. The City and the Authority also entered into a general sublease. The term of the general sublease becomes effective automatically upon the termination of the operating sublease. During the initial term of the operating sublease, the City will use the Airport West property for aviation-related purposes. The base rental for the possession and use of property in each rental payment period is equal to the aggregate amount of debt service coming due and payable on the outstanding bonds on each interest payment date. In addition to the base rental payments, the City shall also pay when due the following additional payments:

(a) amounts required to replenish the amounts on deposit in the Reserve Fund to the Reserve Requirement or to pay any amounts owed with respect to a Reserve Fund Credit Facility, but only to the extent that the payment of such amount shall not cause the amount of lease payments and additional payments paid in any rental period to exceed the fair rental value of the project;

(b) all fees and expenses incurred by the Authority in connection with or by reason of its leasehold interest of the project as and when the same become due and payable;

(c) all reasonable compensation to the trustee for all services rendered under the indenture, and also all reasonable expenses, charges, legal fees and other disbursements incurred in and about the performance of its powers and duties under the indenture, including, but not limited to, costs resulting from indemnification of the trustee;

(d) the administrative fees and expenses of the Authority relating to the bonds, including administrative fees and expenses;

(e) the reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the City, the Authority or the trustee to prepare audits, financial statements, reports, opinions or provide such other services under the operating sublease agreement or the indenture;

(f) all fees and other amounts owed from time to time by the Authority or the City with respect to the letter of credit that supports the 2008 bonds, which are not payable from the lease payments; and

(g) the reasonable out-of-pocket expenses of the Authority in connection with the execution of and delivery of the operating sublease agreement or the indenture, or in connection with the issuance and future administration of the bonds, including any and all expenses incurred in connection with the authorization, issuance, sale, and delivery of the bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving the operating sublease agreement, the bonds, the indenture or any other documents contemplated or otherwise incurred in connection with administration of the operating sublease agreement.

The parties have agreed and determined that such total rental payable for each rental payment period represents no more than the fair rental value of the property for each such period. The City

(Continued)

will pay the lease and additional payments from (a) Airport revenues on deposit in the Maintenance and Operations Fund of the Airport, and (b) to the extent such revenues are unavailable, from the general funds of the City.

In August 2008, the City entered into an agreement with two developers, whereby the latter agreed to make four option payments of $3 million within the next two years in exchange for the option to purchase the Airport West property. The option payments totaling $12 million will be credited towards the sales price. If for whatever reason, the developers do not acquire the site, the City retains the option payments. The proposed option payments are intended to offset the City's debt obligations on the property during the time of the option period and thus, the Airport did not have to pay for rental expenses during the fiscal year ended June 30, 2009.

In April 2009, the City Council adopted a resolution authorizing the City Manager to negotiate and execute an amended and restated option agreement and a purchase and sale agreement revising the business terms with the developers for the Airport West Property. Under the terms of the new agreements, the developers agreed to pay up to $7 million in option payments over the four-year option period through July 2013. The option payments are to be used to pay the debt service or pay principal of the Series 2008F bonds. Rental expenses paid by the Airport during the fiscal year ended June 30, 2010 amounted to $681,543.

With the completion of the Terminal Area Improvement Program in June 2010, the Airport will no longer need the Airport West property for construction laydown and other interim uses. Thus, the City terminated its operating sublease agreement with the Authority effective June 30, 2010, with the term of the general sublease becoming effective automatically.

(9) Risk Management

(a) Insurance Policies

The Airport is covered under the City's annual all-risk property insurance policy with coverage for City property, including coverage for boiler and machinery exposures. The policy also provides coverage for loss due to business interruption or flood. The City does not carry earthquake insurance as it is not reasonably available. A summary of these coverages is provided below for the policy period of October 1, 2009 to October 1, 2010.

Coverage	Coverage per Occurrence	Deductible per Occurrence
Property, including Business Interruption (1)	$1 billion	$100,000
Flood, Specialized Locations	$25 million	$500,000 (2)
Flood, Other Locations	$100 million	$100,000 (2)

(1) The policy limit for property damage caused by terrorism is $5 million per occurrence and in aggregate.

(2) Deductible applies per location affected.

The City has an airport liability policy for the policy period of October 1, 2009 to October 1, 2010 covering the Airport, which provides a limit of $200,000,000 combined single limit for bodily injury and property damage with a $25,000,000 each occurrence limit for personal injury subject to a per occurrence deductible of $100,000 and an aggregate deductible of $100,000. The Airport's $200,000,000 liability policy includes vehicles on premises but specifically excludes war and terrorism from its coverage. During the past three years, there have been not been any instances that the amount of claim settlements exceeded the insurance coverage.

A separate automobile policy provides coverage for the off-premises operation of Airport vehicles including shuttle bus fleet. Coverage includes $1 million single combined limit per occurrence. Physical damage coverage is available for the Airport Shuttle Bus Fleet and is subject to a $25,000 comprehensive and collision deductible. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. As part of general support services, the City charges the Airport for the cost of general liability coverage. The charges are expensed in the year incurred.

(b) Workers' Compensation

The Airport participates in the City's self-insurance program for worker's compensation. Worker's compensation liabilities are accounted for on a separate contribution basis under which workers' compensation liabilities are recorded in the respective funds (enterprise or governmental) to which they relate.

Estimated workers' compensation liabilities at year-end are determined using actuarial methods or other estimating techniques. The claims payments and liability include an estimate of allocated loss adjustment expenses and claims that have been incurred but not yet reported.

The Airport recorded the following with respect to its self-insured workers' compensation liability:

		2010	2009
Accrued liability, beginning of fiscal year	$	3,296,406	3,360,966
Claims payments and adjustments		(426,063)	(454,656)
Provision for current year claims and changes in prior year estimates		92,205	390,096
Accrued liability, end of fiscal year	$	2,962,548	3,296,406

The Airport established an additional reserve for self-insurance. The reserve for self-insurance, included in the unrestricted net assets was $1,762,695 as of June 30, 2010 and 2009.

(c) Airport Owner Controlled Insurance Program

On March 31, 2004, the City bound certain liability insurance coverage (see chart below) for major components of the "2004 Security Projects" (currently referred to as the North Concourse Project) through an Owner Controlled Insurance Program (OCIP) from Chartis, formerly American International Group, AIU Holdings, Inc. and AIU LLC (AIU). The OCIP is a single insurance program that provides commercial general liability, excess liability and workers' compensation insurance coverage for construction job site risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site.

Coverage	Limits	Deductible Per Occurrence
General Liability	$2 million per occurrence/ $4 million aggregate	$250,000
Workers' Compensation	Statutory	$250,000
Employers' Liability	$2 million per accident	$250,000
Excess Liability	$150,000,000	None

The North Concourse Project was completed in the fall 2008. Chartis is currently in the process of closing out the North Concourse OCIP and is auditing the project payroll and cost factors associated with the premium. The North Concourse OCIP required the City to fund claims loss reserve fund with Chartis in the amount of $3.9 million. The full amount of the claims loss reserve had been deposited with Chartis and was recorded as advances and deposits in the accompanying statement of net assets. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible, subject to an aggregate maximum loss exposure within coverage limits to the City of $3.9 million. Interest earned by the claims reserve fund is remitted to the Airport. The closing out process for OCIP includes an actuarial review, which examines outstanding claims. Due to the outstanding performance of this OCIP, the City was able to negotiate the return of a large portion of the unused claims reserve in advance of the 10-year coverage term and in March 2010, the amount of $2,516,719 was returned to the Airport.

Activities relating to the North Concourse OCIP claims reserve fund for the fiscal years ended June 30, 2010 and 2009 were as follows:

		2010	2009
Beginning balance	$	3,688,246	3,831,535
Refunded		(2,516,719)	-
Losses paid		(181,864)	(143,289)
Ending balance	$	989,663	3,688,246

On March 15, 2007, the City bought additional insurance coverages for major components of the Terminal Area Improvement Program (TAIP) through another OCIP (the TAIP OCIP). The coverages for this program are as follows:

Coverage	Limits	Deductible Per Occurrence
General Liability	$2 million per occurrence/ $4 million aggregate	$250,000
Workers Compensation	Statutory	$250,000
Employers' Liability	$1 million per accident	$250,000
Excess Liability	$200,000,000	None

The liability under the TAIP OCIP is based upon an estimated payroll of $92.5 million for the covered projects and a construction period of 45 months, commencing on March 15, 2007 through December 31, 2010. In the event that the actual payroll for the covered TAIP projects exceeds the estimated $92.5 million payroll or in the event the construction period extends beyond 45 months, the City will be obligated to pay increased premiums for the TAIP OCIP and, in addition, may be required to augment the claims loss reserve fund. The terms of the TAIP OCIP require the City to fund a claims loss reserve fund with Chartis in the amount of $8.9 million. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of $8.9 million. The City was able to negotiate to fund 74% of the claims loss reserve and interest generated remains in the fund. As of June 30, 2009, the full amount of $6.5 million was deposited with Chartis and was recorded as advances and deposits in the accompanying statement of net assets.

Activities relating to the TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2010 and 2009 were as follows:

		2010	2009
Beginning balance	$	6,259,792	4,250,751
Additional deposits		-	2,177,349
Interest earned		6,033	36,808
Losses paid		(384,871)	(205,116)
Ending balance	$	5,880,954	6,259,792

(10) Commitments and Contingencies

(a) Lease Commitments

In June 1998, the Airport entered into an operating lease for the rental of off-Airport administrative office space. The lease, which commenced on December 1, 1998, was for a period of seven years, with an option to extend for one additional period of three years. In November 2000, the operating lease agreement was amended to include additional office space. The amendment to the lease commenced on November 15, 2000 with the same terms as the original lease. It also decreased the rate for the current space and increased the leased space effective December 1, 2003. In June 2003, the operating agreement was again amended to extend the term through December 2009. In February 2009, the operating lease agreement was again amended to extend the term through December 31, 2014. The City decided to terminate the operating lease agreement effective November 30, 2010. In accordance with the provisions of the agreement, a termination payment of $904,636 equal to six months rent was paid to the landlord in July 2010. Rental expenses for the office space were $2,498,056 and $3,061,792 for fiscal years ended June 30, 2010 and 2009, respectively.

In December 2007, the Airport entered into an operating lease and maintenance agreement of 14 compressed natural gas (CNG) powered buses. The lease and maintenance term of the agreement is from August 1, 2008 to July 31, 2015. In September 2009, the agreement was restated to add 10 CNG powered buses for the period June 30, 2010 to May 31, 2017. In the sole event of non-appropriation relating to the equipment lease payments, the Airport has the sole right to terminate the agreement by giving the contractor 60 days prior written notice. Rental and maintenance expenses were $1,547,699 and $1,419,815 for fiscal years ended June 30, 2010 and 2009, respectively.

In June 2001, the Airport entered into an operating lease and maintenance agreement of 20 compressed natural gas powered buses. The term of the agreement was from March 1, 2003 to February 28, 2010. The contract was extended to July 31, 2010 and eleven buses were returned on March 1, 2010. The contract was eventually terminated as of June 30, 2010 and the remaining nine buses were returned. Rental and maintenance expenses were $1,540,973 and $2,081,840 and for fiscal years ended June 30, 2010 and 2009, respectively.

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

Fiscal Year Ending June 30,	Amount
2011	$ 2,223,724
2012	2,226,824
2013	2,229,960
2014	2,233,132
2015	2,236,342
2016 - 2017	1,831,923
Total minimum lease payments	$ 12,981,905

(b) Purchase Commitments and Capital Outlay Projections

As of June 30, 2010, the Airport was obligated for purchase commitments of approximately $71.6 million primarily for the Terminal Area Improvement Program projects, the public parking improvement project, and the remainder of the costs of the rental car facility and the North Concourse building projects. The Airport has projected that it will expend or encumber $197.9 million on proposed capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from PFCs, federal grants, bond proceeds, and other Airport revenues.

(c) Acoustical Treatment Program

The Airport has an Acoustical Treatment Program (ACT) to comply with the requirements of Title 21 of the California Code of Regulations. The program provides acoustical treatment to residences in the noise impact areas surrounding the Airport, at no cost to the property owners. The program is primarily funded by grants from the FAA and PFC revenues. The Airport expended $788,345 and $5,433,279 on noise attenuation projects during the fiscal years ended June 30, 2010 and 2009, respectively. The Airport completed its ACT program during fiscal year ended June 30, 2010.

(d) Fuel Tank Farms

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

In November 2009, the City entered into an agreement with Chevron for coordinated corrective actions at the existing fuel tank farms at a cost to the City not to exceed $1.0 million and authorizing the Director of Aviation to approve additional expenditures in excess of $1.0 million, subject to appropriation of funds by City Council. The agreement provides for a 50%-50% cost sharing responsibility for actual future costs until successful closure of the site. The agreement also required the City to pay its 50% share of the past costs that Chevron has incurred during the period after expiration of the prior agreement and before the new agreement was in place. During the fiscal year ended June 30, 2010, the Airport paid its share of the past costs amounting to $660,434.

Chevron is responsible for administering the new agreement including retaining a corrective action contractor. The agreement is also structured to facilitate potential reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (the "Fund"). Reimbursement from the Fund is potentially available up to $1.5 million for each party.

Due to the proximity of the closed City jet fuel farm to the adjacent Chevron jet fuel farm that was still active, and the apparently stable contaminant plume, the regulators approved a waiver to allow the City tanks to be left in place until such time as a completely new fuel farm could be built, thereby allowing the Chevron site to be closed, and investigation/remediation to be done on both sites at once. The latest waiver request was approved through May 31, 2011. The new jet fuel farm was constructed off-Airport across Highway 101 and was placed in service in December 2009. The Chevron fuel farm was subsequently closed upon commencement of the operation of the new fuel farm.

Chevron is currently conducting investigation of the combined site in preparation of the site's final remediation plan. One component of the investigation is the subsurface condition underneath the aboveground storage tanks (ASTs) and underground storage tanks (USTs) at both the Chevron and the City fuel farms. Chevron demolished its fuel farm during fiscal year 2010 and removed its USTs, and is sampling the soil underneath its site. However, the demolition of the City fuel farm and removal of the USTs will not take place until the first quarter of 2011 calendar year. The completion of the remediation plan is contingent upon sampling and testing of the subsurface soil condition of the City fuel farm site. Once the plan is completed, it will be submitted to the County for its review and approval. The implementation of the remediation plan will commence after its approval by the County.

With the adoption of GASB 49, the Airport accrued $714,000 as of June 30, 2010 and 2009 to cover for the estimated remaining costs of its portion of the interim remediation system. In the absence of a remediation plan by the corrective action contractor, the Airport has insufficient information to reasonably estimate the actual future remediation costs. Based on presently available information, the Airport's management does not anticipate that the full costs of remediation of the fuel storage facility will have a significant impact on the Airport's financial position or changes in financial position.

(e) Master Plan

The Airport Master Plan consists of a program of facility improvements designed to fully accommodate commercial aviation demand (passengers and cargo) projected for the future, with development phased as demand warrants and is determined to be financially feasible. The Master Plan was originally adopted by the City of San José in June 1997 and approved by the FAA in December 1999. In June 2006, the City Council approved revisions to the Airport Master Plan regarding implementation of the TAIP. In May 2010, the City Council approved another major amendment to the Master Plan shifting the plan horizon from 2017 to 2027; reducing airline facilities serving cargo demand from 53 acres to 28 acres; and increasing the 56 acres designated for general aviation development to 102 acres. The current TAIP consists of two phases that total $1.6 billion. Phase 1 of the TAIP has a total budget of approximately $1.3 billion and construction of most of the projects was completed near the end of 2009-2010, with some projects to be completed in 2010-2011. Construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. Fundingfor Master Plan projects is from several sources, including grants, PFCs, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

(f) Litigation

The City is potentially liable to private citizens for property damage and personal injuries caused by noise from the Airport's operations or for other damages if a property owner can prove that the City's operations of the Airport has deprived them of the benefits of property ownership. There are several pending lawsuits in which the Airport is involved in the normal course of its operation. The Airport's and the City's management believe that any potential exposure will not have a material effect on the Airport's financial position or changes in financial position.

(11) Subsequent Events

The City has negotiated a 2-month extension of the Airport's Commercial Paper Notes Payable credit facilities and the extension terms were approved by the City Council at its November 9, 2010 meeting. The amendment to the agreement and letters of credit discussed include extension of the expiration date from December 2, 2010 to February 2, 2011, removal of Dexia Credit Local as a party to the agreement, reduction of the amount of available credit from $450,000,000 to $283,000,000, and amendments on other agreement terms. Management anticipates bringing forward a recommendation related to two-year and three-year replacement credit facilities for the City Council's consideration in December 2010 or January 2011.

On November 9, 2010, Ambac Financial Group Inc. (Ambac Financial) filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Ambac Financial is a holding company whose affiliates provide financial guarantees and financial services to its customers.

Ambac Assurance Corporation, a subsidiary of Ambac Financial, has issued a reserve fund surety bond that is on deposit in the General Account of the Bond Reserve Fund, securing the Airport's Series 1998A, 2001A, 2002A, and 2002B revenue bonds. According to the Master Trust Agreement for these bonds, in the event that such surety bond for any reason terminates or expires, and the remaining amount on deposit in the General Account is less than the Required Reserve, the Airport is to address such shortfall by delivering to the trustee a surety bond or a letter of credit meeting the criteria of a Qualified Reserve Facility under the Master Trust Agreement, or depositing cash to the General Account in up to twelve equal monthly installments.

It is uncertain at this time whether the Ambac Financial bankruptcy will cause the reserve fund surety bonds to lapse or expire. If such an event does occur, it is uncertain whether and when the Airport would be required to take one of the actions described above in order to maintain compliance with the Master Trust Agreement.

S T A T I S T I C A L

Photos by Jason Knowles

Complete renovation and transformation of Terminal A.






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

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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

Statistical Section
June 30, 2010

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

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Schedule A

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
ANNUAL REVENUES, EXPENSES, CHANGES IN NET ASSETS AND NET ASSETS
LAST NINE FISCAL YEARS
(in $ 000's)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating revenues[1]									
Airline rates and charges:									
Landing fees	$13,150	$11,630	$11,122	$9,751	$10,768	$13,504	$13,084	$14,504	$13,190
Terminal rental	11,982	13,725	16,408	16,979	16,575	11,308	26,539	29,716	33,459
Total airline rates and charges	25,132	25,355	27,530	26,730	27,343	24,812	39,623	44,220	46,649
Terminal buildings/concessions	7,184	7,071	6,912	8,005	8,672	9,201	11,470	11,947	11,157
Airfield area	3,473	3,188	3,071	2,976	3,074	2,519	2,833	3,171	2,791
Parking and roadway	47,482	44,213	43,913	43,779	46,333	48,093	48,014	42,596	37,371
Fuel handling fees	1,419	1,395	1,333	1,375	1,492	1,592	1,806	1,474	1,310
General aviation	2,647	2,915	2,883	3,005	3,555	4,420	4,726	5,127	4,995
Customer facility and transportation fees	4,418	4,192	4,183	4,297	4,491	4,451	6,351	6,713	6,021
Other	365	128	0	23	303	108	63	699	914
Total operating revenues	92,120	88,457	89,825	90,190	95,263	95,196	114,886	115,947	111,208
Operating expenses:									
Terminal buildings/concessions	20,413	22,368	21,630	24,130	24,685	26,929	31,790	28,813	31,701
Airfield area	18,568	18,175	22,660	20,980	21,765	19,860	22,692	16,170	10,911
Parking and roadway	24,790	24,462	24,382	26,486	28,518	28,559	27,936	26,853	24,032
Fuel handling costs	166	84	51	96	325	171	311	557	885
General aviation	3,484	3,436	2,826	2,838	3,152	3,679	3,428	4,072	3,052
General and administrative	20,619	21,129	21,963	21,741	24,665	28,787	32,879	28,268	23,624
Depreciation and amortization	14,250	16,238	17,696	19,118	19,153	19,323	22,834	20,647	55,288
Total operating expenses	102,290	105,892	111,208	115,389	122,263	127,308	141,870	125,380	149,493
Operating loss	(10,170)	(17,435)	(21,383)	(25,199)	(27,000)	(32,112)	(26,984)	(9,433)	(38,285)
Nonoperating revenues (expenses):									
Passenger facility charges	22,238	21,167	21,842	21,768	22,271	22,169	21,224	17,416	17,043
Investment income	8,524	5,157	1,060	4,584	5,376	9,294	15,446	8,138	311
Interest expense	(7,231)	(6,502)	(5,594)	(7,173)	(3,184)	(11,995)	(11,737)	(11,404)	(10,750)
Operating grants	2,404	5,685	5,724	5,570	8,398	8,284	8,444	4,625	1,149
Loss on disposal of capital assets	-	-	-	-	(3)	-	-	(3,537)	(11,733)
Other, net	1,746	3,423	2,091	826	2,483	2,674	3,122	5,858	1,764
Total nonoperating revenues (expenses), net	27,681	28,930	25,123	25,575	35,341	30,426	36,499	21,096	(2,216)
Income before capital contributions	17,511	11,495	3,740	376	8,341	(1,686)	9,515	11,663	(40,501)
Capital contributions	17,263	12,687	11,725	13,791	10,508	9,694	4,970	12,868	34,722
Change in Net Assets	$34,774	$24,182	$15,465	$14,167	$18,849	$8,008	$14,485	$24,531	($5,779)
Net Assets at Year-End									
Invested in capital assets, net of related debt	$186,047	$199,312	$250,955	$251,370	$219,510	$239,960	$267,321	$316,935	$314,664
Restricted	150,714	123,202	121,548	133,413	113,182	118,334	84,491	45,260	61,349
Unrestricted	2,096	40,524	6,000	7,887	78,827	61,233	82,200	96,348	76,751
Total Net Assets	$338,857	$363,038	$378,503	$392,670	$411,519	$419,527	$434,012	$458,543	$452,764

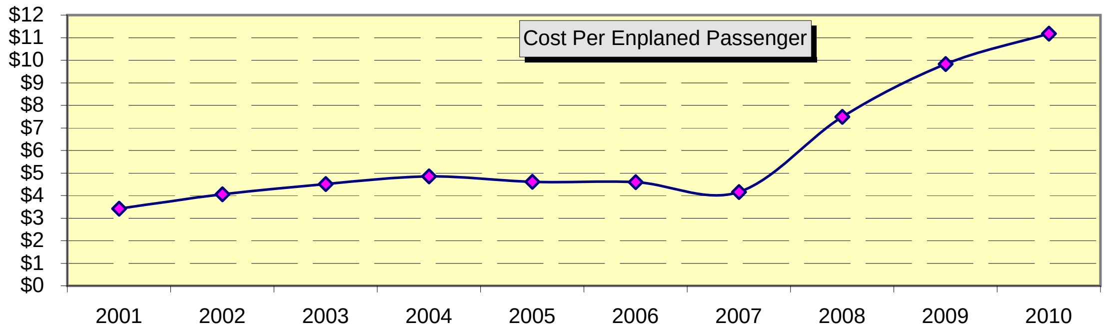
(1) The Airport began to report Net Assets information when it implemented GASB Statement 34 in fiscal year 2002.

(2) Net Assets have been restated retroactively to reflect the fact that intangible assets have indefinite useful lives and are not to be amortized.
See additional information in Note 1 (l) to the financial statements.

(3) Certain prior years "Unrestricted Net Assets" related to unspent proceeds from commercial paper notes were reclassified to "Invested in Capital Assets, Net of Related Debt" to conform with the fiscal year 2010 presentation.

Schedule B

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRLINE COST PER ENPLANED PASSENGER
LAST TEN FISCAL YEARS
($ and Passengers in 000's)



		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Airline revenues:											
Terminal rental	$	11,377	11,894	13,441	16,294	16,390 [1]	15,886 [1]	10,748 [1]	26,539	29,716	33,459
Landing fees (Passenger Carriers)		12,325	11,330	10,020	9,384	8,262	9,036	11,390	12,252	13,560	12,443
Total		23,702	23,224	23,461	25,678	24,652	24,922	22,138	38,791	43,276	45,902
Enplaned passengers		6,937	5,719	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107
Airline cost per enplaned passenger (not in 000's)	$	3.42	4.06	4.51	4.85	4.61	4.60	4.16	7.49	9.84	11.18

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

Source: Norman Y. Mineta San José International Airport audited financial statements

Schedule C

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
GROSS CONCESSION REVENUE PER ENPLANED PASSENGER
LAST TEN FISCAL YEARS
($ and passengers in $ 000's)

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross Concession Revenue:[1]											
Parking [2]	$	38,677	29,153	29,135	29,693	29,225	29,744	29,702	28,625	23,632	21,260
Rental Cars		161,133	111,218	111,173	110,385	110,111	125,371	142,115	156,227	127,661	114,614
Food and Beverage		16,212	16,434	15,887	16,763	17,841	18,251	20,156	20,041	16,753	16,493
Advertising		3,554	3,562	3,418	2,878	3,705	4,627	3,451	1,892	1,923	1,736
Gift Shop & Retail		10,977	8,789	7,821	8,325	8,325	8,534	8,007	7,957	7,380	8,868
In-Flight Kitchen		24,961	18,838	14,008	12,697	9,883	7,731	7,277	5,819	6,173	8,580
Total Gross Concession Revenue	$	255,514	187,994	181,442	180,741	179,090	194,258	210,708	220,561	183,522	171,551
Enplaned Passengers:		6,937	5,719	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107
Gross Concession Revenue Per Enplaned Passenger (not in 000's)	$	36.83	32.87	34.86	34.15	33.50	35.87	39.61	42.59	41.71	41.77

[1] Gross revenues of major concessionaires only.
[2] Gross public parking revenues only.

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED AIRLINE RATES AND CHARGES
FISCAL YEARS 2001 THROUGH 2007 AND THE PERIOD JULY 1 TO NOVEMBER 30, 2007

Schedule D
(Continued)

	2001	2002	2003	2004	2005	2006	2007 (2)	2008 (3)
Landing Fees (per 1,000 lbs. MGLW) (1)	$ 1.25	$ 1.33	$ 1.34	$ 1.34	$ 1.28	$ 1.43	$ 1.80	$ 1.44
Terminal Rental Rates (per square foot)								
Terminal A :								
Ticket counter	149	157	192	232	240	224	133	
Operations	112	118	144	174	180	168	100	
Holdroom	134	142	173	208	216	202	120	
Baggage claim	75	79	96	116	120	112	67	
Baggage makeup/storage	52	55	67	81	84	79	47	
Terminal C :								
Ticket counter	83	87	88	100	103	111	110	
Operations	62	65	66	75	77	84	83	
Holdroom	75	78	80	90	93	100	99	
Baggage Claim (4)	42	43	44	50	52	56	55	
Baggage makeup/storage	29	30	31	35	36	39	39	
Blended:								
Ticket counter								351
Operations								316
Holdroom								263
Baggage Claim (4)								175
Baggage makeup/storage								123

(1) MGLW - Maximum Gross Landing Weight

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

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

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

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED AIRLINE RATES AND CHARGES [1]
PERIOD DECEMBER 1, 2007 to JUNE 30, 2008 THROUGH FISCAL YEAR 2010

Schedule D
(Concluded)

	2008	2009	2010	Unit
Landing Fees	$ 2.00	$ 2.24	$ 2.32	per 1,000 lbs. MGLW [4]
Terminal Rental Rates				
Group A:				
Ticket counter and queuing, Skycap/Curbside Check-in				
- Preferential	73,729	81,192	145,136	per counter
- Common	35	63	57	per hour
Airline ticket office, Club/VIP	166.07	237.81	204.57	per sq. ft.
Holdroom (Gate)				
- Preferential	418,598	481,687	726,212	per gate
- Common	228	330	497	per turn
Group B:				
Baggage Claim [2]	132.86	190.25	163.66	per sq. ft.
Other Office	132.86	190.25	163.66	per sq. ft.
Group C:				
Baggage Make-up [3]	83.04	118.91	102.29	per sq. ft.
Operations Space	83.04	118.91	102.29	per sq. ft.

(1) These rates and charges were for the period December 1, 2007 to June 30, 2010 and were calculated based on the provisions of the current Airline-Aiport Lease and Operating Agreement which took effect on December 1, 2007.

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

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

(4) MGLW - Maximum Gross Landing Weight

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

Schedule E

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
RATIOS OF OUTSTANDING DEBT AND DEBT SERVICE
LAST TEN FISCAL YEARS
(in $ 000's)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Outstanding Debt per Enplaned Passenger										
Outstanding debt by type:										
Revenue bonds	$ 130,470	282,485	268,770	512,500	503,885	494,910	485,545	1,060,815	1,049,635	1,037,990
Commercial paper notes	59,643	3,854	6,658	5,786	7,755	8,089	41,424	186,190	323,561	417,348
Total outstanding debt	190,113	286,339	275,428	518,286	511,640	502,999	526,969	1,247,005	1,373,196	1,455,338
Enplaned Passengers	6,937	5,719	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107
Total outstanding debt per enplaned passenger (not in 000's)	$ 27	50	53	98	96	93	99	241	312	354
Debt Service										
Revenue bonds (2)	$ 13,423	14,008	17,646	17,454	17,932	21,423	20,837	21,567	23,037	26,779
Commercial paper notes	3,417	194	313	268	447	573	3,002	66	65	734
Total debt service	$ 16,840	14,202	17,959	17,722	18,379	21,996	23,839	21,633	23,102	27,513
Net debt service per enplaned passenger (not in 000's)	$ 2.43	2.48	3.45	3.35	3.44	4.06	4.48	4.18	5.25	6.70

(1) Debt Limit information is not shown because the City does not establish or impose a debt limit.

(2) Under the Master Trust Agreement dated July 1, 2001, "revenue bond debt service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward the payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds.

Schedule F

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
DEBT SERVICE COVERAGE
LAST TEN FISCAL YEARS
(in $ 000's)

Year	Gross Revenues (1) & (3)	Operating Expenses (2)	Net Revenues	Other Available Funds (3)	Net Revenues Available for Debt Service	Total Bond Debt Service (4)	Coverage Ratio - Bonds	Estimated Commercial Paper (CP) Debt Service (5)	Coverage Ratio- Bonds & CP (5)
2001	$ 125,037	$ 61,246			$ 63,791	$ 13,423	4.75	$ 3,417	3.79
2002	96,393	71,564	$ 24,829	$ 19,053	43,882	14,008	3.13	194	3.09
2003	97,183	73,300	23,883	30,633	54,516	17,646	3.09	313	3.04
2004	88,099	71,313	16,786	37,565	54,351	17,454	3.11	268	3.07
2005	89,759	73,654	16,105	37,666	53,771	17,932	3.00	447	2.93
2006	100,390	78,320	22,070	37,022	59,092	21,423	2.76	573	2.69
2007	96,650	86,509	10,141	44,250	54,391	20,837	2.61	3,002	2.28
2008	115,143	96,126	19,017	44,175	63,192	21,567	2.93	66	2.92
2009	115,033	90,927	24,106	49,053	73,159	23,037	3.18	65	3.17
2010	106,500	82,574	23,926	51,610	75,536	26,779	2.82	734	2.75

(1) Includes operating and other revenues but excludes Passenger Facility Charges and other items excluded from the definition of General Airport Revenues in the Master Trust Agreement. Gross Revenues for fiscal year 2001 also included prior year's surplus.

(2) Includes operating expenses less depreciation and expenses paid from sources other than General Airport Revenues. The rolling debt service coverage from prior year was deducted from Operating Expenses in fiscal year 2001.

(3) In compliance with the Master Trust Agreement dated July 1, 2001, prior fiscal year's surplus and rolling debt service coverage from prior year are presented as part of Other Available Funds effective fiscal year 2002.

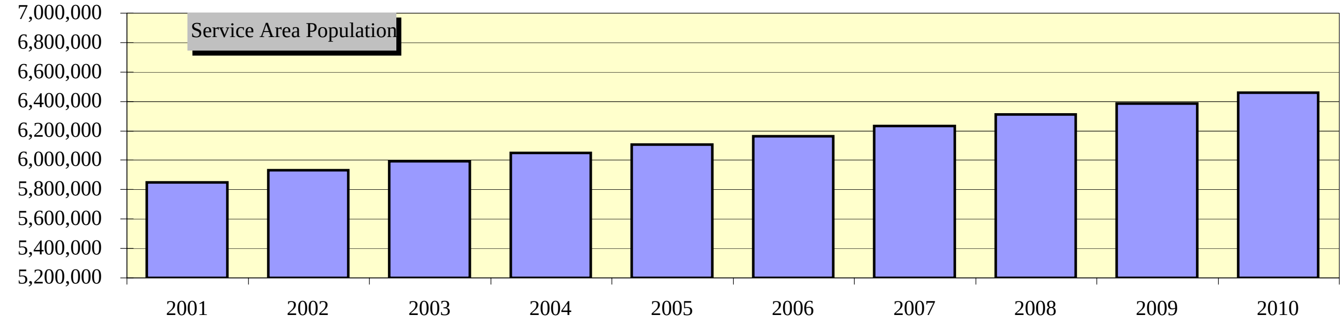
(4) Under the Master Trust Agreement dated July 1, 2001, "Revenue Bond Debt Service” means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds.

(5) Estimated Debt Service on CP and coverage calculation including debt service on CP demonstrate compliance with the City's two agreements related to the letters of credit for the Airport CP Program: The Second Amended and Restated Letter of Credit and Reimbursement Agreement by and among the City, JP Morgan Chase Bank, National Association, individually and as agent, Bank of America, N.A., and Dexia Credit Local, acting through its New York Branch, dated as of December 1, 2007 (the "Second Amended Agreement") and The Letter of Credit and Reimbursement Agreement Between the City and Lloyds TSB Bank, plc, acting through its New York Branch, dated as of May 1, 2008 (the "Lloyds Agreement"). Beginning in 2007-08, the definition of debt service in the Second Amended Agreement was revised to exclude a portion of the total CP outstanding from the coverage calculation. Specifically, under both the Second Amended Agreement and the Lloyds Agreement, CP which funds capitalizable projects are not included for coverage calculation purposes.

Source: Finance and Administration, Norman Y. Mineta San José International Airport, City of San José

Schedule G

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SERVICE AREA POPULATION IN THE AIR TRADE AREA
LAST TEN CALENDAR YEARS (1)



	Primary Service Area						Secondary Service Area			
Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Total
2001	1,465,144	406,762	54,487	712,289	1,701,385	257,134	214,521	580,057	458,557	5,850,336
2002	1,482,473	412,041	55,616	714,453	1,715,329	258,054	220,742	599,317	472,260	5,930,285
2003	1,490,072	417,152	56,323	715,898	1,726,183	258,463	227,010	616,737	483,824	5,991,662
2004	1,494,675	420,612	56,736	717,653	1,738,654	259,020	233,404	635,252	493,646	6,049,652
2005	1,498,967	421,235	56,946	720,042	1,753,041	259,960	239,659	652,248	503,157	6,105,255
2006	1,506,176	420,967	57,014	722,994	1,771,610	261,183	245,436	664,889	511,617	6,161,886
2007	1,519,326	422,586	57,162	728,314	1,798,242	263,105	250,022	674,331	517,837	6,230,925
2008	1,537,719	426,670	57,517	736,951	1,829,480	265,782	253,471	682,316	522,313	6,312,219
2009	1,557,749	431,041	57,920	745,654	1,857,516	268,795	255,591	687,854	525,090	6,387,210
2010	1,574,857	435,878	58,388	754,285	1,880,876	272,201	258,495	694,293	530,584	6,459,857

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

Source: California Department of Finance

Schedule H

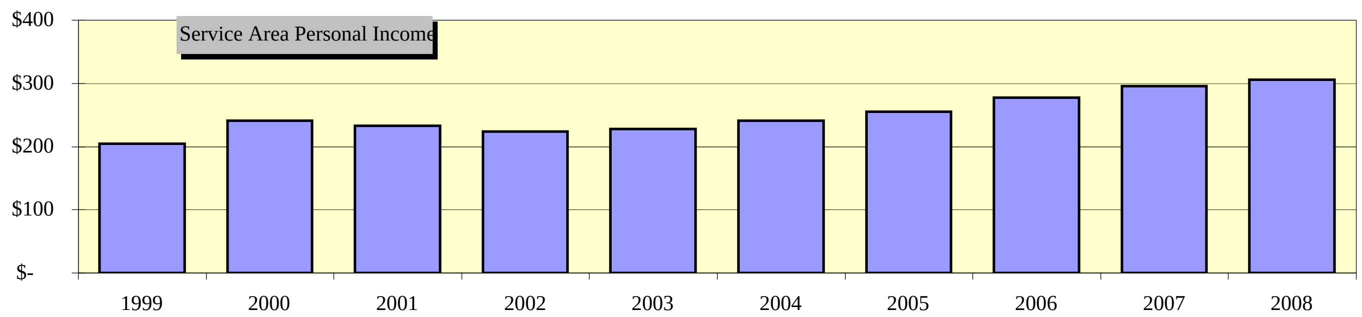
NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

(A Department of the City of San José)

SERVICE AREA PERSONAL INCOME IN THE AIR TRADE AREA

LAST TEN AVAILABLE CALENDAR YEARS (1)

(in $ 000"s)



	Primary Service Area						Secondary Service Area			
Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Total
1999	$48,316,845	$11,169,200	$1,373,611	$35,485,821	$73,045,821	$8,557,538	$3,934,032	$12,632,069	$9,756,560	$204,271,497
2000	55,790,773	12,097,144	1,561,059	41,730,460	91,386,181	10,014,548	4,133,861	13,757,148	10,572,639	241,043,813
2001	56,121,667	12,540,815	1,579,602	39,395,344	83,838,707	9,714,123	4,433,382	14,281,186	10,916,779	232,821,605
2002	55,316,772	12,676,027	1,575,049	36,736,603	77,548,912	9,495,857	4,644,678	14,788,895	11,460,836	224,243,629
2003	56,424,129	13,380,948	1,623,818	36,466,977	78,152,243	9,498,586	4,989,214	15,576,802	11,959,040	228,071,757
2004	59,339,211	14,096,150	1,681,863	39,408,618	81,920,659	10,194,797	5,359,381	16,555,526	12,868,305	241,424,510
2005	62,015,782	14,653,598	1,704,973	42,846,390	87,909,716	10,462,655	5,409,165	17,189,529	13,472,415	255,664,223
2006	66,998,496	15,774,227	1,809,212	46,881,900	96,443,117	11,464,854	5,613,205	18,292,157	14,076,261	277,353,429
2007	70,761,435	16,694,108	1,897,021	50,347,246	104,102,421	12,116,023	6,108,301	19,194,503	14,755,527	295,976,585
2008	73,159,586	17,385,273	1,985,792	52,285,539	103,992,999	12,934,896	6,810,372	21,097,089	15,977,182	305,628,728

(1) Information for calendar years 2009 and 2010 is not available.

Source: Bureau of Economic Analysis

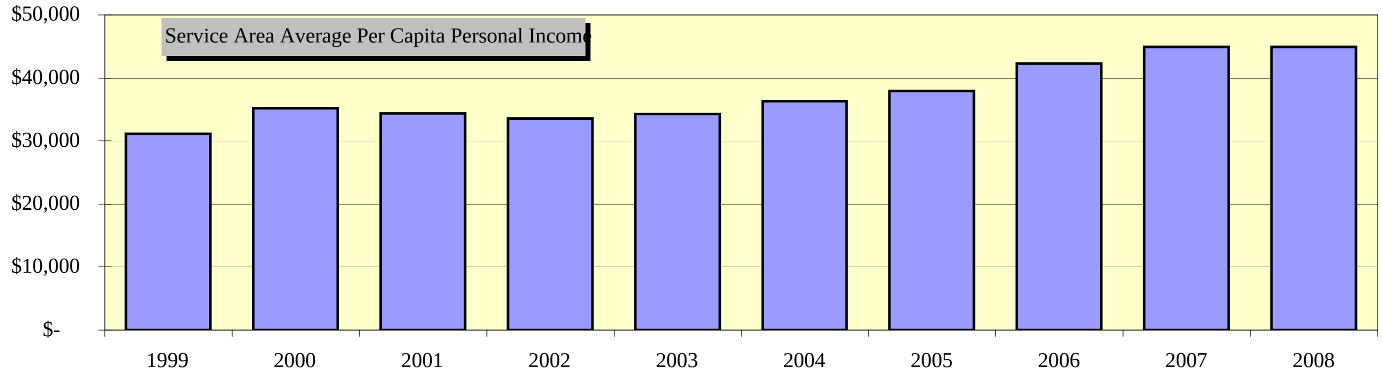
Schedule I

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

(A Department of the City of San José)

SERVICE AREA PER CAPITA PERSONAL INCOME IN THE AIR TRADE AREA

LAST TEN AVAILABLE CALENDAR YEARS [(1)(2)]



	Primary Service Area						Secondary Service Area			
Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Average PCPI
1999	$33,856	$28,186	$26,689	$50,368	$43,701	$33,735	$19,029	$22,867	$22,244	$31,186
2000	38,466	30,011	29,004	58,905	54,198	39,142	19,541	24,219	23,510	35,222
2001	38,187	30,786	28,856	55,707	49,561	37,982	20,387	24,154	23,531	34,350
2002	37,839	30,931	28,531	52,480	46,292	37,397	20,801	24,290	24,000	33,618
2003	38,835	32,527	29,327	52,405	46,769	37,708	21,810	24,883	24,551	34,313
2004	41,083	34,362	30,534	56,788	48,958	40,632	22,955	25,785	26,132	36,359
2005	43,074	36,014	31,041	61,678	52,081	41,917	22,724	26,209	26,954	37,966
2006	47,781	40,908	34,139	68,843	56,521	48,206	25,205	29,513	29,654	42,308
2007	49,915	42,322	36,173	74,343	60,098	51,669	27,981	31,018	30,816	44,926
2008	49,757	42,857	36,239	73,839	59,227	51,140	27,871	31,547	31,485	44,885

[(1)] Some data reported previously were revsied to reflect the msot recent information.

[(2)] Information for calendar years 2009 and 2010 is not available.

Source: Bureau of Economic Analysis

Schedule J

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

(A Department of the City of San José)

PRINCIPAL EMPLOYERS IN THE CITY SAN JOSE

CURRENT YEAR AND FOUR YEARS AGO

	2010			2006		
Company or Organization	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
County of Santa Clara	15,360	1	2%	14,860	2	2%
Cisco Systems	11,600	2	1%	16,500	1	2%
IBM	7,460	3	1%	5,800	4	0.66%
City of San Jose*	6,620	4	1%	6,670	3	1%
San Jose State University	3,100	5	0%	3,100	5	0%
eBay Inc.	3,000	6	0%	2,200	8	0%
Hitatchi	2,900	7	0%	2,800	6	0%
San Jose Unified School District	2,690	8	0%	1,820	13	0%
Xilinx, Inc.	2,340	9	0%	2,300	7	0%
Sanmina-SCI	2,170	10	0%	2,100	9	0%
Kaiser Permanente	2,120	11	0%	na	na	na
Adobe Systems, Inc.	2,000	12	0%	2,000	10	0%
Good Samaritan Hospital	1,850	13	0%	1,850	12	0%
KLA-Tencor	1,770	14	0%	1,850	11	0%
Cadence Design Systems	1,560	15	0%	1,750	14	0%

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

(*) Full-time employees

Source: California Employment Development Department, Labor Market Information Division

Schedule K

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRPORT EMPLOYEES
LAST EIGHT FISCAL YEARS

Functional Area	Budgeted Full-time-Equivalent (1)(2) Employees as of Fiscal Year-End							
	2003	2004	2005	2006	2007	2008	2009	2010
Acoustical Treatment Program (ACT)	11.75	16.25	10.00	9.00	7.00	7.00	4.00	0.00
Administration	39.35	39.35	35.55	34.55	37.75	39.75	34.65	31.00
Air Service Development	3.25	3.00	3.25	4.50	4.60	4.60	2.00	2.00
Airport Technology Services	7.00	8.00	8.00	17.00	21.00	21.00	19.00	16.00
Airside Operations	61.20	58.00	49.20	46.00	46.50	46.55	47.25	38.45
Customer Service and Outreach	9.75	9.00	8.75	7.60	11.40	10.40	8.00	6.00
Capital and Airport Development	30.10	45.75	52.05	46.05	38.05	28.25	27.25	25.50
Environmental	7.95	4.25	3.20	4.20	3.20	3.00	3.50	3.00
Facilities (Building Services, Trades and Maintenance)	162.00	161.00	148.00	143.00	143.00	155.00	134.50	127.50
Landside Operations and Services	60.75	64.50	66.30	64.50	61.50	62.45	55.75	46.55
Property Management	10.40	10.40	12.20	12.10	12.00	13.00	12.10	9.00
	403.50	419.50	396.50	388.50	386.00	391.00	348.00	305.00

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

(2) Information prior to fiscal year 2003 is not available.

Source: Norman Y. Mineta San José International Airport, Budget & Adminstration Section

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRPORT INFORMATION
JUNE 30, 2010

Location:	Two miles north of downtown San José, Capital of Silicon Valley			
Area:	1,050 acres			
Elevation:	56 ft.			
Airport Code:	SJC			
Runways:	11/29	North/South	4,599 × 100	ft.
	12R/30L	North/South	11,000 × 150	ft. ILS/ VOR / GPS
	12L/30R	North/South	11,000 × 150	ft. GPS (VOR 30R only)
Terminal:	Airlines		250,693	sq. ft.
	Concessions and Other Rentables		57,573	sq. ft.
	Public/common		186,579	sq. ft.
	Airport		304,310	sq. ft.
	Vacant		46,789	sq. ft.
	Other		105,569	sq. ft.
	Total		951,513	sq. ft.
	Number of passenger gates - Terminal A and FIS		13	
	Number of passenger gates - Terminal B		11	
	Number of loading bridges		14	
	Number of concessionaires in terminal		37	
	Number of rental car agencies		8	
Apron:	Commercial Airlines		2,275,000	sq. ft.
	Cargo Airlines		710,000	sq. ft.
	FBO		555,000	sq. ft.
	General Aviation West		690,000	sq. ft.
Parking:	Spaces assigned:	Shot-term Termina A Garage	2,009	
		Short-term Terminal B Garage & Surface	656	
		Long-term	3,591	
		Rental cars	3,000	
		Employees	950	
		Total	10,206	
Cargo:	Air Freight Building		19,200	sq. ft.
International:	Customs / Federal Inspection Service Facility			
Tower:	Operational hours 0600 - 0000, after hours CTAF 124.0/TRACON 24/7			
FBOs:	Atlantic San Jose			
	ACM Aviation			
	AvBase			

FBO = fixed base operator.

Note: The terminal square footages changed from last year because of the ongoing construction activity.

Schedule M

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRLINE ACTIVITY SHARES/ENPLANED COMMERCIAL PASSENGERS
LAST FIVE FISCAL YEARS

	2006		2007		2008		2009		2010	
Airline	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Alaska Airlines [1]	412,088	7.6%	393,843	7.4%	357,705	6.9%	267,998	6.1%	294,357	7.2%
Atlantic Southeast Airlines [2]	16,201	0.3%	4,232	0.1%	0	0.0%	0	0.0%	0	0.0%
American Airlines [3]	683,846	12.6%	624,487	11.7%	511,414	9.9%	428,383	9.7%	362,778	8.8%
American Eagle	345,308	6.4%	298,565	5.6%	260,015	5.0%	204,340	4.6%	117,624	2.9%
Concesionaria Vuela Compania de Aviacion S.A. DE CV [4]	0	0.0%	0	0.0%	0	0.0%	0	0.0%	8,072	0.2%
Continental Airlines	155,324	2.9%	169,220	3.2%	171,189	3.3%	136,153	3.1%	132,942	3.2%
Delta Airlines	215,062	4.0%	182,524	3.4%	156,339	3.0%	94,241	2.1%	100,539	2.4%
ExpressJet Airlines [5]		0.0%	0	0.0%	44,106	0.9%	6,635	0.2%	27	0.0%
Frontier Airlines [6]	97,914	1.8%	95,876	1.8%	110,912	2.1%	113,083	2.6%	52,672	1.3%
Hawaiian Airlines [7]	62,261	1.1%	82,561	1.6%	84,259	1.6%	81,397	1.9%	72,266	1.8%
Horizon Air [1]	76,934	1.4%	73,481	1.4%	87,984	1.7%	77,421	1.8%	99,625	2.4%
Independence Airlines [8]	7,184	0.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
JetBlue Airways [9]	136,666	2.5%	109,351	2.1%	116,776	2.3%	148,643	3.4%	95,118	2.3%
Mesa Airlines Inc. [9]	0	0.0%	13,720	0.3%	16,547	0.3%	3,931	0.1%	3,082	0.1%
Mexicana Airlines	74,685	1.4%	77,352	1.5%	62,692	1.2%	60,029	1.4%	54,016	1.3%
Northwest Airlines	94,646	1.7%	91,041	1.7%	92,102	1.8%	90,515	2.1%	47,143	1.1%
Republic Airlines Inc. dba [10]	0	0.0%	0	0.0%	4,923	0.1%	0	0.0%	11,198	0.3%
Skywest[11]	124,565	2.3%	139,956	2.6%	115,184	2.2%	139,478	3.2%	180,337	4.4%
Southwest Airlines	2,198,806	40.6%	2,266,766	42.6%	2,333,432	45.1%	2,082,271	47.3%	2,121,917	51.7%
United Airlines [12]	392,199	7.2%	380,109	7.1%	349,962	6.8%	208,184	4.7%	138,836	3.4%
US Airways	308,204	5.7%	308,522	5.8%	298,193	5.8%	250,458	5.7%	208,809	5.1%
All Other Airlines	12,938	0.2%	7,253	0.1%	4,869	0.1%	6,402	0.1%	6,036	0.1%
Total [13]	5,414,831	100%	5,318,859	100%	5,178,603	100%	4,399,562	100%	4,107,394	100%

(1) Alaska Airlines and Horizon Air are separately certificated air carriers and wholly-owned subsidiaries of Alaska Air Group.
(2) Atlantic Southeast Airlines, which operated as Delta Connection, started operations at the Airport in February 2005 and ceased operations in October 2006.
(3) In October 2006, American discontinued its service to Japan.
(4) Concesionaria Vuela Compania de Aviacion S.A DE CV (aka Volaris) started operations at the Airport in April 2010.
(5) ExpressJet operated as Delta Connection from July 2007 - September 2008.
(6) Frontier ceased operations at the Airport in May 2010.
(7) Hawaiian Airlines started operations at the Airport in September 2005.
(8) Independence Airlines ceased operations at the Airport in October 2005.
(9) Mesa Airlines operates as US Airways Express.
(10) Republic Airlines operated as Frontier Express from August 2007 to May 2008 and from December 2009 to May 2010.
(11) Skywest operates as United Express and Delta Connection.
(12) United Airlines discontinued service to Chicago in November 2008.
(13) Percentage totals may not add due to rounding.

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

Schedule N

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRLINE LANDED WEIGHTS (1,000's lb)
LAST TEN FISCAL YEARS

Airline [(1)]	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Air Canada	55,081	15,378					1,612	2,207	1,469	284
Air Wisconsin		21,432	21,197							
Alaska Airlines	764,461	719,309	630,248	600,898	508,275	490,114	472,515	441,300	337,540	363,017
Atlantic Southeast Airlines					8,643	17,554	5,025			
American Airlines	3,620,900	2,952,139	2,157,755	1,563,878	1,279,122	850,139	733,523	572,925	480,870	366,797
American Eagle		19,707	145,119	380,940	351,441	391,471	346,514	305,779	254,983	131,181
ATA			100,188	105,132	396	224	550	566		
Concesionaria Vuela compania De Aviacion S.A DE CV (aka Volaris)										8,320
Continental Airlines	270,050	189,508	165,682	159,142	164,344	164,858	178,500	181,657	142,465	133,055
Delta Airlines	430,007	346,396	302,804	244,109	226,950	259,322	233,734	194,892	119,454	116,624
Expressjet Airlines Inc. dba Delta Airlines							44	58,816	8,047	41
Frontier Airlines		4,272	70,909	92,045	97,781	128,282	143,487	153,166	158,644	78,484
Hawaiian Airlines						87,360	128,960	115,545	109,970	94,075
Horizon Air	65,184	59,877	86,362	114,176	130,792	104,759	98,525	115,790	111,530	144,240
Independence Airlines					8,405	9,231				
JetBlue Airways			142	2,986	68,682	155,706	124,565	147,688	188,439	115,710
Mesa Airlines		17,831	24,581	26,273	5,338	12,640	21,664	22,399	4,168	
Mexicana Airlines	90,925	72,152	75,024	83,270	78,780	116,903	113,125	100,668	86,527	76,916
Northwest Airlines	164,339	223,849	192,684	172,244	118,242	107,918	100,756	101,591	101,284	51,691
Skywest	40,205	107,601	147,918	155,754	164,480	151,419	166,716	146,500	174,983	217,883
Southwest Airlines	2,837,256	2,889,445	2,896,347	2,867,763	3,009,958	3,065,960	3,197,472	3,366,428	3,236,828	3,033,408
Trans World Airlines	139,688	48,360								
United Airlines	1,061,417	737,077	550,644	535,528	499,892	515,943	490,735	474,724	277,027	182,268
US Airways	378,708	343,388	320,763	351,611	401,640	377,223	415,366	387,348	316,454	262,199
All Other Airlines	65,332	31,444	13,555	16,985	6,046	13,670	16,145	22,055	19,189	34,324
Subtotal	9,983,553	8,799,165	7,901,922	7,472,734	7,129,207	7,020,696	6,989,533	6,912,044	6,129,871	5,410,517
Cargo Carriers										
Air Transport Int'l.	27,651	64,738	51,606	55,798	61,414	55,733	57,941	59,379	56,042	57,159
Airborne Express	73,030	74,174	70,652	71,094	70,720	68,816	70,176	57,392	1,088	
Burlington Air Express	39,072									
DHL Worldwide Express	35,890	997								
Emery Worldwide Express	106,575	82,621	54,020							
Fedex	306,976	315,970	287,143	289,284	268,055	223,154	252,539	241,953	231,594	168,403
Kitty Hawk		38,656	35,005	638			155			
United Parcel Service	106,896	133,293	127,819	127,399	128,470	126,660	129,090	133,653	132,055	96,505
All Other Cargo Airlines	51,839	24,329	22,160	2,844	3,184	4,013	1,862	329	507	200
Subtotal	747,929	734,778	648,405	547,057	531,843	478,376	511,763	492,706	421,286	322,267
Total	10,731,482	9,533,943	8,550,327	8,019,791	7,661,050	7,499,072	7,501,296	7,404,750	6,551,157	5,732,784

[(1)] See Notes on Schedule M.

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRLINE FLIGHT OPERATIONS BY AIRLINE AND CARGO CARRIER
LAST TEN FISCAL YEARS

Schedule O

Airline [1]	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Air Canada	820	230	4	18			2	4	22	
Air Wisconsin		912	902							
Alaska Airlines	12,172	11,438	9,862	9,464	7,926	7,592	7,264	6,760	5,176	5,444
Atlantic Southeast Airlines					258	524	150			
American Airlines	47,642	38,062	27,294	19,136	16,214	11,678	10,734	9,012	7,704	5,800
American Eagle		956	7,042	18,554	17,094	19,018	16,816	14,838	12,370	6,364
ATA			1,012	1,160	4	2	4	6	378	
Concessionaria Vuela Compania De Aviacion S.A DE CV										124
Continental Airlines	4,462	3,174	2,672	2,342	2,404	2,490	2,730	2,770	2,060	1,898
Delta Airlines	5,152	4,330	3,904	3,326	3,122	3,524	2,852	2,526	1,504	1,570
ExpressJet Airlines Inc dba								2,738	-	2
Frontier Airlines		170	988	1,388	1,476	1,942	2,190	2,360	2,426	1,202
Hawaiian Airlines						546	806	732	732	620
Horizon Air	1,970	1,796	2,578	3,424	3,960	3,200	3,086	3,602	3,428	4,484
Independence Airlines					122	134				
JetBlue Airways			2	42	966	2,190	1,752	2,102	2,986	1,876
Mesa Airlines		758	1,046	1,118	226	434	592	614	126	14
Mexicana Airlines	1,246	986	978	1,090	1,044	1,588	1,600	1,430	1,250	1,126
Northwest Airlines	2,342	3,282	2,988	2,474	1,670	1,540	1,434	1,446	1,410	746
Reno Air										
Skywest	3,124	5,705	7,464	7,742	8,134	7,580	8,158	7,518	7,526	8,636
Southwest Airlines	49,392	50,176	50,290	49,254	50,402	50,936	52,872	54,974	52,414	48,942
Trans World Airlines	2,148	744								
United Airlines	16,350	11,134	8,442	8,222	7,386	7,076	6,932	6,420	3,572	2,224
US Airways	5,946	5,276	5,328	5,342	6,076	5,748	6,168	6,070	5,110	4,130
All Other Airlines	1,288	575	208	268	80	212	260	442	304	598
Subtotal	154,054	139,704	133,004	134,364	128,564	127,954	126,402	126,364	110,498	95,800
Cargo Carriers										
Air Transport Int'l.	214	498	464	422	468	424	442	452	426	434
Airborne Express	542	548	522	524	520	506	516	422	8	
Burlington Air Express	302									
DHL Worldwide Express	502	14								
Emery Worldwide Express	548	532	360							
FedEx	1,794	1,724	1,420	1,430	1,400	1,270	1,326	1,324	1,264	958
Kitty Hawk		477	440	8			2			
United Parcel Service	954	1,000	914	910	924	908	926	916	854	672
All Other Cargo Airlines	1,352	1,022	516	292	282	356	176	26	6	12
Subtotal	6,208	5,815	4,636	3,586	3,594	3,464	3,388	3,140	2,558	2,076
Total	160,262	145,519	137,640	137,950	132,158	131,418	129,790	129,504	113,056	97,876

[1] See notes on Schedule M.

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

SCHEDULED/COMMUTER/ALL-CARGO AIRLINE SERVICE

CARRIER	NONSTOP SERVICE
SCHEDULED DOMESTIC AIRLINE SERVICE	
Alaska Airlines	Austin (AUS) Kahului, Maui (OGG) Kona, Hawaii (KOA) Portland (PDX) Seattle (SEA)
American Airlines	Chicago/O'Hare (ORD) Dallas/Ft. Worth (DFW) Los Angeles (LAX)
Continental Airlines	Houston/Intercontinental (HOU)
Delta Airlines	Atlanta (ATL) Minneapolis/St. Paul (MSP) Salt Lake City SLC)
Hawaiian Airlines	Honolulu (HNL)
Horizon Air	Boise (BOI) Sacramento (SMF) Spokane
JetBlue Airlines	Boston (BOS)
Southwest Airlines	Burbank (BUR) Chicago/Midway (MDW) Denver (DEN) Las Vegas (LAS) Los Angeles (LAX) Ontario (ONT) Orange County (SNA) Phoenix (PHX) Portland (PDX) Reno (RNO) San Diego (SAN) Seattle (SEA)
United Airlines	Denver (DEN) Los Angeles (LAX)
US Airways	Phoenix (PHX)

SCHEDULED/COMMUTER/ALL-CARGO AIRLINE SERVICE

CARRIER	NONSTOP SERVICE
SCHEDULED FOREIGN FLAG AIRLINE SERVICE	
Volaris	Guadalajara (GDL)
COMMUTER AIRLINE SERVICE	
American Eagle (regional carrier for American Airlines)	Los Angeles (LAX)
Horizon Air	Boise (BOI) Sacramento (SMF) Spokane (GEG)
Skywest (on behalf on Delta and United)	Denver (DEN) Los Angeles (LAX) Salt Lake City (SLC) Santa Barbara (SBA)
ALL-CARGO AIRLINES	
Air Transport International	
Federal Express Corporation	
United Parcel Service	

Schedule Q

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
PASSENGERS, MAIL, FREIGHT, AND CARGO STATISTICS
LAST TEN FISCAL YEARS

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Passengers (1,000's):										
Enplanements	6,937	5,719	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107
Deplanements	6,971	5,722	5,200	5,276	5,382	5,437	5,335	5,202	4,422	4,125
Total Passengers	13,908	11,441	10,405	10,568	10,728	10,852	10,654	10,381	8,822	8,232
Mail/Freight/Cargo (1,000 lbs):										
Mail	23,052	11,236	8,939	8,988	9,213	7,593	4,342	3,044	1,987	3,357
Freight/Express	39,261	34,307	29,843	26,462	25,449	22,577	12,228	7,101	5,995	5,432
Cargo	272,201	265,438	234,328	203,444	190,871	179,612	171,754	166,509	129,809	97,578
Total mail/freight/cargo	334,514	310,981	273,110	238,894	225,533	209,782	188,324	176,654	137,791	106,367

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

Schedule R

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
HISTORICAL AIRCRAFT OPERATIONS [(1)]
LAST TEN FISCAL YEARS

Fiscal Year	Air Carrier Operations	Commuter Operations [(2)]	Cargo Operations	Total Commercial Operations [(3)]	Percent Commercial Operations [(3)]	General Aviation Operations	Military Operations	Total Operations
2000-01	148,960	5,094	6,208	160,262	56.6%	122,435	238	282,935
2001-02	129,319	10,385	5,815	145,519	64.9%	78,618	211	224,348
2002-03	113,972	19,032	4,636	137,640	68.7%	62,510	125	200,275
2003-04	103,526	30,838	3,586	137,950	69.8%	59,521	113	197,584
2004-05	98,892	29,672	3,594	132,158	67.4%	63,708	99	195,965
2005-06	97,198	30,756	3,464	131,418	67.9%	61,907	83	193,408
2006-07	97,596	28,806	3,388	129,790	70.2%	55,021	103	184,914
2007-08	96,860	29,504	3,140	129,504	70.1%	55,146	64	184,714
2008-09	86,668	23,830	2,558	113,056	70.7%	46,674	242	159,972
2009-10	76,024	19,776	2,076	97,876	74.4%	33,439	275	131,590
Annual Compound Growth Rate								
FY 2000-01 through FY 2009-10	-6.5%	14.5%	-10.4%	-4.8%	2.8%	-12.2%	1.5%	-7.4%

[(1)] An aircraft operation is defined as the takeoff or landing of an aircraft.

[(2)] After the September 11, 2001 attacks, more airlines switched to commuter planes to lower their costs and to continue to serve decreased level of passengers without having to drop destinations.

[(3)] Commercial Operations equal Air Carrier Operations, Commuter Operations and Cargo Operations.

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

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1

2

Public Art and Technology at the Airport.

1. eCloud
Artists: Nik Hafermaas, Dan Goods and Aaron Koblin. In this dynamic artwork, thousands of switchable glass squares suspended from the ceiling continuously change from opaque to transparent with the transmission of real-time weather data.
Photo: Ken Paul

2. CTX-9800 - Baggage Screening
San José is the first Airport in the nation to use the new state-of-the-art baggage screening equipment, the continuous-feed CTX-9800.
Photo: Ken Paul

3. Space Observer
Artist: Bjorn Schülke. Reminiscent of a space craft, this glossy white 26′ tall sculpture standing on eight-foot tripod legs, explores the interactivity between humans and modern technology.

4. Air Chairs
One out of every four chairs in the Airport's gate areas includes mechanisms that transport fresh, conditioned air from beneath the chairs directly to passengers on the concourse. The seating also features power outlets for charging laptops, cell phones, etc.
Photo: Jason Knowles.

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

BOND DISCLOSURE

3 4

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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

Bond Disclosure Report

June 30, 2010

In accordance with the requirements of the Continuing Disclosure Agreements (Disclosure Agreements) for the City of San José Airport Revenue Bonds Series 1998A, 2001A, 2004C, 2004D, 2007A and 2007B and Airport Revenue Refunding Bonds Series 2002A and 2002B, the Airport is including this section to meet the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the Rule).

Section 4 of the Disclosure Agreements requires the City to provide an Annual Report, which is consistent with the requirements of Section 4 of the Disclosure Agreements, no later than six months after the end of the City's fiscal year. The Annual Report may be submitted to the Municipal Securities Rulemaking Board's EMMA system as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of the Disclosure Agreements. The Bond Disclosure Report included in this CAFR meets the requirements of Section 4 of the Disclosure Agreements.

Annual Report

The following items are required by the Disclosure Agreements to be included in the Annual Report:

- Audited financial statements of the Airport, updated to incorporate information for the most recent fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board and further modified according to applicable State law.

  Refer to the Financial Section, pages 1-60 of this report.

- A schedule showing the debt service requirements (required only to the extent there are changes).

  Since there are no changes to the debt service requirements as of June 30, 2010, update of this table is not required.

- A schedule showing, for the Airport's most recently completed fiscal year, historical passenger enplanements.

  Refer to Table 1, page 85 of this report.

- A table showing, for the Airport's most recently completed fiscal year, historical connecting enplaned passenger traffic.

  Refer to Table 2, page 86 of this report.

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

  Refer to Statistical Section, Schedule R, page 81 of this report.

- A schedule showing, for the Airport's most recently completed fiscal year, historical landing weight.

  Refer to Table 3, page 87 of this report.

- A list showing, for the Airport's most recently completed fiscal year, air carriers serving the Airport.

  Refer to Statistical Section, Schedule P, pages 78-79 of this report.

- A schedule showing, for the Airport's most recently completed fiscal year, airline activity shares of enplaned commercial passengers.

  Refer to Statistical Section, Schedule M, page 75 of this report.

- A table showing, for the Airport's most recently completed fiscal year, summary of revenues and maintenance and operation expenses.

  Refer to Financial Section, Exhibit II, page 21 of this report.

- A table showing, for the Airport's most recently completed fiscal year, historical debt service coverage.

  Refer to Statistical Section, Schedule F, page 68 of this report.

- A list showing, for the Airport's most recently completed fiscal year, ten largest sources of revenue.

  Refer to Table 4, page 86 of this report.

REPORTING OF SIGNIFICANT EVENTS

In fiscal year 2009-10, the City filed significant event notices related to two rating changes that impacted the City's Airport Revenue Bonds. One rating change was a downgrade by Fitch Ratings of the unenhanced rating on the City's Airport Revenue Bonds to 'A-' from 'A+'. The other rating change was related to a bond insurer rating downgrade that impacted the ratings of Airport Revenue Bonds insured by that bond insurer.

Table 1

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
HISTORICAL PASSENGER ENPLANEMENTS
LAST TEN FISCAL YEARS

Fiscal Year	Air Carrier Domestic Enplanements	Air Carrier International Enplanements	Total Air Carrier Enplanements	Commuter Enplanements[1]	Total Enplanements	Total Percent Change %
2000-01	6,664,821	214,115	6,878,936	58,441	6,937,377	
2001-02	5,421,403	150,874	5,572,277	146,936	5,719,213	-17.56%
2002-03	4,772,654	122,110	4,894,764	310,223	5,204,987	-8.99%
2003-04	4,651,137	134,176	4,785,313	506,536	5,291,849	1.67%
2004-05	4,660,730	138,142	4,798,872	546,761	5,345,633	1.02%
2005-06	4,706,038	137,054	4,843,092	571,739	5,414,831	1.29%
2006-07	4,686,496	102,368	4,788,864	529,995	5,318,859	-1.77%
2007-08	4,584,448	67,459	4,651,907	526,696	5,178,603	-2.64%
2008-09	3,907,376	60,381	3,967,757	431,805	4,399,562	-15.04%
2009-10	3,636,146	62,437	3,698,583	408,811	4,107,394	-6.64%
Annual Compound Growth Rate						
FY 00-01 through FY2009-10	-6.5%	-12.8%	-6.7%	24.1%	-5.7%	

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

Table 2

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
A Department of the City of San José)
HISTORICAL CONNECTING/ENPLANED PASSENGER TRAFFIC
LAST TEN FISCAL YEARS

Fiscal Year	Total Enplanements	Total O&D Enplanements	Total Connecting Enplanements	Connecting Enplanements as a Percentage of Total Enplanements
2000-01	6,937,377	6,485,537	451,840	6.5%
2001-02	5,719,213	5,353,010	366,203	6.4%
2002-03	5,204,987	4,946,819	258,168	5.0%
2003-04	5,291,849	5,018,790	273,059	5.2%
2004-05	5,345,633	5,075,122	270,511	5.1%
2005-06	5,414,831	5,192,594	222,237	4.1%
2006-07	5,318,859	5,145,726	173,133	3.3%
2007-08	5,178,603	5,044,473	134,130	2.6%
2008-09	4,399,562	4,281,747	117,815	2.7%
2009-10	4,107,394	3,997,764	109,630	2.7%
Annual Compound Growth Rate				
FY 2000-01 through FY 2009-10	-5.7%	-5.2%	-14.6%	

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

Table 3

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

Fiscal Year	Air Carrier [1]	Commuter [2]	Cargo [3]	Total
2000-01	9,878,167	105,389	747,929	10,731,485
2001-02	8,566,942	232,223	734,778	9,533,943
2002-03	7,476,745	425,177	648,405	8,550,327
2003-04	6,795,591	677,143	547,057	8,019,791
2004-05	6,468,513	660,694	531,843	7,661,050
2005-06	6,342,853	677,843	478,376	7,499,072
2006-07	6,351,084	638,531	511,681	7,501,296
2007-08	6,255,817	656,298	492,624	7,404,739
2008-09	5,576,343	553,726	421,088	6,551,157
2009-10	4,903,780	506,737	322,267	5,732,784
Annual Compound Growth Rate				
FY 2000-01 through FY 2009-10	-7.5%	19.1%	-8.9%	-6.7%

(1) Includes domestic and international air carriers.

(2) After the September 11, 2001 attacks, more airlines switched to commuter planes to lower their costs and to continue to serve decreased level of passengers without having to drop destinations.

(3) Includes all-cargo airlines.

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

Table 4

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
TEN LARGEST SOURCES OF REVENUES
Fiscal Year Ended June 30, 2010

Category		Amount
Airline Terminal Rentals	$	33,458,906
Public Parking Fees		21,259,644
Landing Fees (Passenger and Cargo)		13,190,345
Rental Cars		13,133,717
Land and Building Rentals		4,442,452
Advertising		3,776,183
Food and Beverage		2,163,738
Gift Shop & Retail		1,604,766
Other Terminal Space Rents		1,419,179
Fuel Handling Fees		1,309,532

Source: Norman Y. Mineta San José International Airport management records.