

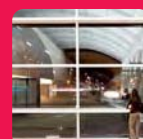
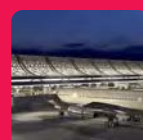


# Comprehensive 2011 Annual Financial Report

Norman Y. Mineta  
San José International Airport

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

Fiscal Year Ended  
June 30, 2011





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San José International Airport



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

Fiscal Year Ended June 30, 2011

Prepared by:  
Finance and Administration

Terri A. Gomes, CPA  
Deputy Director



**Norman Y. Mineta San José International Airport  
(A Department of the City of San José)  
Comprehensive Annual Financial Report  
Fiscal Year Ended June 30, 2011**

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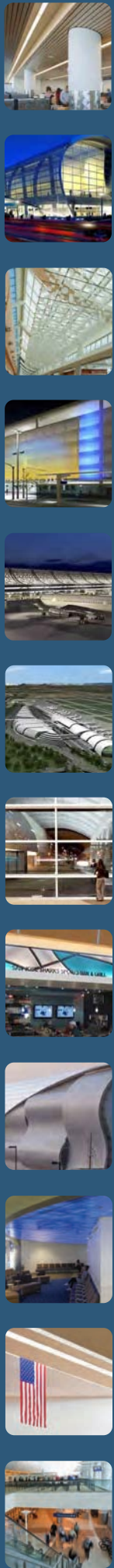
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# INTRODUCTORY



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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2011

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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, 2011**

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# GEOGRAPHIC LOCATOR MAP



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

## Norman Y. Mineta San José International Airport

San José, California  
 A Department of the City of San José  
 Fiscal Year Ended June 30, 2011

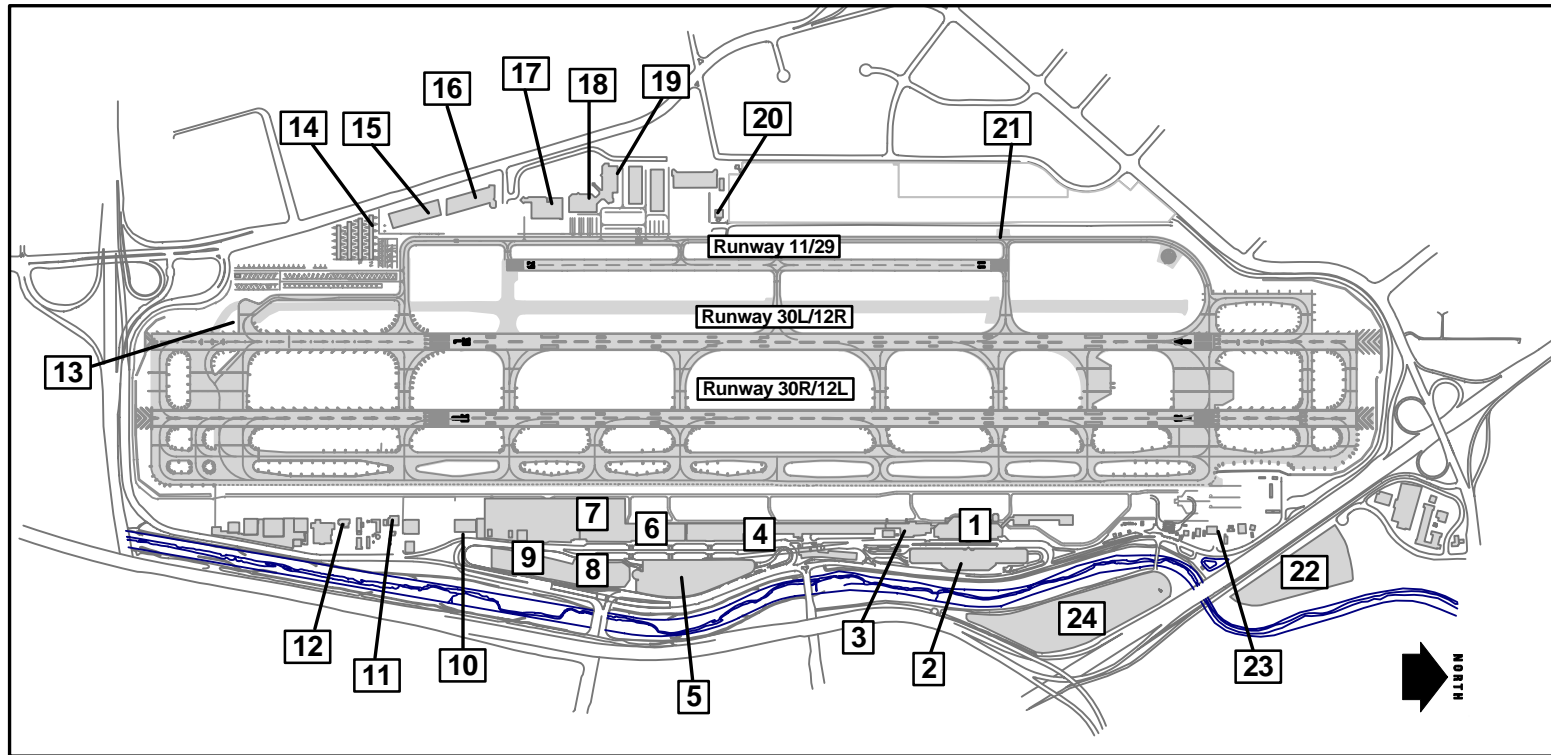


● Reduced View of Service Areas





# Norman Y. Mineta San José International Airport



## Map Legend

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



NORMAN Y. MINETA  
SAN JOSE  
INTERNATIONAL  
AIRPORT



CITY OF  
SAN JOSE  
CAPITAL OF SILICON VALLEY

## LOCATOR MAP

September 2011

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



November 30, 2011

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, 2011, 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

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 21.3% decline in the number of passengers and a 32.6% reduction in the number of flights, which in turn has reduced Airport revenues and resources. This has been largely caused by high fuel costs in mid-2008 that forced the airlines to shrink their system capacity by cutting flights and seats, reducing their fleet of aircraft, 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 10,654,000 passengers arrive and depart at the Airport. In FY 2010, this number had fallen nearly 22.8% to 8,229,000 until FY 2011, when total passengers increased slightly to 8,389,000, an increase of 1.9% from the prior year. From 2007 to 2010, daily departures have fallen from approximately 190 in 2007 to about 128 as of June 30, 2011, a drop of 32.6%. 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 staffing levels from 348 positions in 2009 to 206 as of June 2011. 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. Past participants have included Southwest Airlines and Alaska Airlines, both with service to Austin. Current participants include

jetBlue Airways, with service to Boston, and Alaska Airlines, with service to Cabo San Lucas, Kona, Lihue (Kauai) and Kahului-Maui.

**Population and Income**

The City is the county seat of Santa Clara County. It is the tenth largest city in the United States and the third largest in California behind Los Angeles and San Diego. According to the California Department of Finance estimates, San José has an estimated population of 958,789 as of January 1, 2011, reflecting a growth of 1.3% 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 0.9% from 2010 to 2011, with the population increasing to 1,797,375 as of January 1, 2011. The six counties comprising the primary area for the Airport grew 0.8% from 2010, in line with the State growth rate of 0.8%. In total, the population of the primary area increased by 40,108 from the prior year and accounts for 12.7% of the State’s population.<sup>1</sup>

The per capita income information described below is the most current information available from the Bureau of Economic Analysis. California data was last updated April 21, 2011 while national data was updated September 22, 2011.

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 2009 Santa Clara County had a PCPI of \$55,781 and was 132% of the state average of \$42,395, and 144% of the national average of \$38,846, and it ranked 5<sup>th</sup> in the State of California. Within the Air Service Area, the remaining counties personal income and PCPI were as follows:

<b>Personal Income and Per Capita Personal Income within the Air Service Area</b>							
<b>County Name</b>	<b>Personal Income (Millions of Dollars)</b>			<b>Per Capita Personal Income</b>			
	<b>2008</b>	<b>2009</b>	<b>% Change 2008-2009</b>	<b>(Dollars)</b>		<b>% Change</b>	<b>2009 Rank</b>
Alameda	\$73,820	\$71,596	-3.0%	\$50,206	\$48,004	-4.4%	10
Monterey	17,243	17,127	-0.7%	42,506	41,735	-1.8%	20
San Benito	1,955	1,945	-0.5%	35,674	35,331	-1.0%	31
San Mateo	51,062	50,014	-2.1%	72,112	69,562	-3.5%	2
Santa Cruz	12,962	12,592	-2.9%	51,249	49,145	-4.1%	8
Santa Clara	103,697	99,550	-4.0%	59,058	55,781	-5.5%	5
California	\$1,604,155	\$1,566,999	-2.3%	\$43,853	\$42,395	-3.3%	

<sup>1</sup> California Department of Finance

Per capita income decreased by 5.5% from 2008 in Santa Clara County compared to a decrease of 3.3% and 5.1% for California and the nation, respectively. In 2009, the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) had a total personal income of \$101,495,244 and accounted for 6.5% of the state total.<sup>2</sup>

### **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.<sup>4</sup>

Santa Clara County's unemployment rate at August 31, 2011 was 9.9%, with 87,900 unemployed, a decrease of 10,300 from August 2010.<sup>3</sup> Likewise, as shown below, the San José-Sunnyvale-Santa Clara MSA rose seasonally by 500 jobs or registered an unemployment rate of 10.0% in August 2011, down from a revised 10.4% in July 2011, and below the year-ago estimate of 11.3%. This compares with an unadjusted unemployment rate of 11.9% for California and 9.1% for the nation during the same period.<sup>4</sup>

San José-Sunnyvale-Santa Clara MSA	Jul-2011	Aug-2011	Change	Aug-2010	Aug-2011	Change
	Revised	Prelim			Prelim	
Total, All Industries	883,400	883,900	500	853,900	883,900	30,000
Total Farm	7,300	7,000	(300)	6,200	7,000	800
Total Nonfarm	876,100	876,900	800	847,700	876,900	29,200
Mining and Logging	200	200	-	200	200	-
Construction	35,400	34,700	(700)	33,200	34,700	1,500
Manufacturing	160,500	162,100	1,600	154,800	162,100	7,300
Trade, Transportation & Utilities	128,200	128,800	600	126,200	128,800	2,600
Information	49,000	49,100	100	45,100	49,100	4,000
Financial Activities	30,400	30,400	-	30,900	30,400	(500)
Professional & Business Services	168,300	168,900	600	164,200	168,900	4,700
Educational & Health Services	114,800	114,400	(400)	108,900	114,400	5,500
Leisure & Hospitality	75,500	74,500	(1,000)	75,500	74,500	(1,000)
Other Services	25,400	25,200	(200)	25,400	25,200	(200)
Government	88,400	88,600	200	83,300	88,600	5,300

<sup>2</sup> U.S. Department of Commerce Bureau of Economic Analysis

<sup>3</sup> California EDD

<sup>4</sup> California EDD – Labor Market Information Division

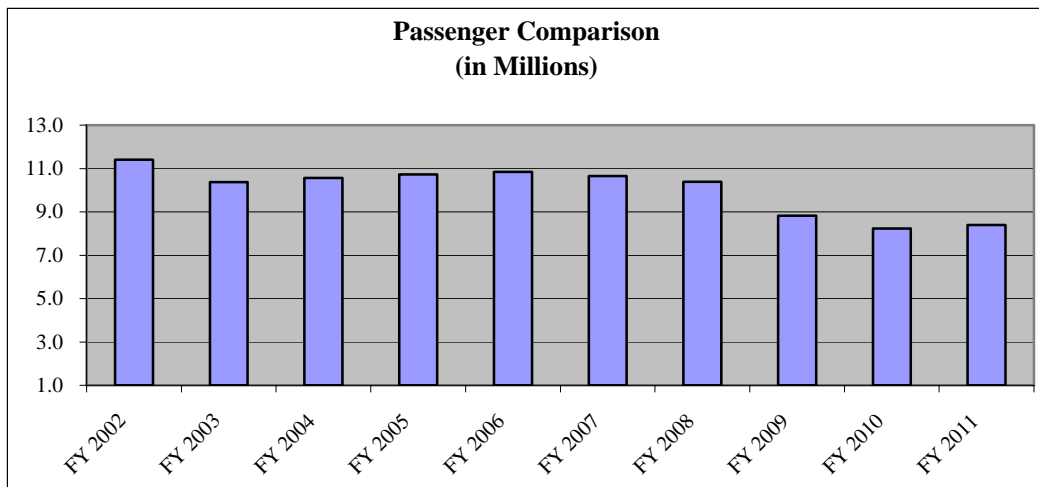
Manufacturing grew by 1,600 jobs, surpassing its usual 400-job increase between July and August over the prior 21 years. This is largely due to the growth in computer and electronic products, which countered its usual seasonal trend and increased by 1,300 jobs. Other seasonal increases include professional and business services and trade, transportation, and utilities, with a gain 600 jobs each. Construction industries, which include building, development and specialty trade contractors, shed 700 jobs in contrast to its average season gain of 700 jobs at this time of year while leisure and hospitality trimmed 1,000 jobs from July.

**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 46<sup>th</sup> busiest airport in the nation in terms of total passengers according to Airports Council International-North America statistics, as of calendar year 2010. As of June 30, 2011, 13 carriers provided scheduled passenger service to 30 destinations, including nine mainline carriers, three regional/commuter carriers, and one international carrier. 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 2011, the Airport has enplaned and deplaned 8.4 million passengers, which represents an increase of 1.9% from the previous fiscal year.

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



For FY 2011, the Airport experienced an overall decrease of 7.2% in traffic operations due to the losses that resulted from the following categories: passenger carrier (a decrease of 2,930 operations or 3.9%), taxi/commuter airlines (a decrease of 3,604 operations or 18.2%), cargo carrier (a decrease of 30 operations or 1.4%) and General Aviation (a decrease of 2,936 or 8.8%).

### **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 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 was completed at the end of FY 2010, with the balance of the projects completed in FY 2011. Construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. In June 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. Development of a Request for Proposal (RFP) for a second full service fixed based operator (FBO) is underway and it is anticipated that a lease may be approved by the City Council in fiscal year 2012. 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.

Construction of the Phase 1 projects was substantially completed in FY 2011. The Phase 1 projects included the following:

- **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 with one exception noted below, construction on all elements is complete. “Notification of Project Completion and Acceptance” has been filed for all the following projects, with the exception of the Roadway Improvements. Hensel Phelps used a design build methodology to deliver projects that included:

- Terminal A Modifications – While remaining in operation, Terminal A was renovated and expanded to address the imbalance that existed 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 in 2010 to allow the final stage of the enhanced and straightened roadway system to be constructed. The demolition of the remainder of Terminal C, which allowed for the construction of the Terminal B parking lot, was completed in the late fall of 2010.

- Terminal A Baggage Screening Improvement – The construction of the baggage screening system at Terminal A was completed in FY 2010. 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. The automated in-line baggage screening system was accepted by the TSA in March of 2010.
- New Terminal B - This project replaced 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. The 1.12-megawatt solar power generating system on the roof of the ConRac was accepted by PG&E in January of 2011, when the Airport began receiving California Solar Initiative payments based on power generated by the system.
- Green Island Parking Lot – This is a new surface, revenue-controlled public parking lot that serves as an economy parking facility. This project provides for approximately 1,700 economy parking spaces services both Terminal A and Terminal B. This project was completed in May of 2011 when it was put into service.
- Roadway Improvements – The existing roadway system increased roadway capacity by adding vehicle lanes; reduced traffic conflicts by constructing two bridges; provides direct access to each terminal; improves the ground transportation system; and enhances motorist way-finding by providing a straight roadway alignment with improved signage. This infrastructure project also modernized and improved water lines, storm drains and sanitary sewers. The project is essentially complete and has been in service since it began being constructed in phases. In the spring of 2011, temporary roadway and parking lot signs were introduced to reflect the new parking lot products being offered. The permanent signs are anticipated to be installed by December of 2011, after which this project will be formally accepted.
- Hourly Parking Lot 3/Daily Parking Lot 4 – A new approximately 650 stall surface component to the existing 350 public parking spaces was constructed immediately south of the existing ConRAC to provide for one of two hourly parking facilities serving Terminal B. Included in this surface parking lot project was an additional approximately 400 daily parking spaces serving Terminal B. These constructed and reconfigured parking areas were opened for service in June of 2011.



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

- Terminal Equity Improvements – This project provided 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 included procurement and installation of new pre-conditioned air passenger boarding bridges, furniture & equipment, and technology upgrades to the facilities. All work was completed in FY 2010.
- Tenant Improvements – This project provided for the rehabilitation and new construction within the terminals for tenants, including the airlines, the TSA, United Service Organization (USO), and the parking operator. All work was completed in FY 2010. Additional work included construction of Airport offices on the first floor of Terminal B to allow for Airport staff to move from the former office complex at 1732 North First Street to the Airport. This move allowed for a consolidation of office space, ongoing savings of rent, and increased efficiency through the co-location of staff at the Airport. This project was completed in November of 2010, after which the new offices were occupied.
- 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. This project is not yet accepted as specific issues with the system are not yet resolved. The system has, however, been in operation since June of 2010.
- Hourly Parking Lot 5/Daily Parking Lot 6 – A new surface parking facility consisting of approximately 550 hourly public parking spaces and approximately 960 daily public parking spaces was constructed on the site of the former Terminal C. These new parking facilities serve Terminal B, and were opened for service to the public in June of 2011.

- Taxiway W

There are currently seven phases in this project. Phase 1 (extension of Taxiway W from Taxiway C to Taxiway D and the reconstruction and extension of Taxiway D from Taxiway V to Runway 30L) and Phase 2 (extension of Taxiway W from Taxiway B to Taxiway C) have both been completed. Phase 3 includes the extension of Taxiway W from Taxiway J to Taxiway L, and reconstruction of Taxiway J from Taxiway W to Taxiway V. Construction of this federally funded project (80%) began in September of 2011 and will be completed in June of 2012. Phases 4 to 7 were designed to the 30% level and can be constructed at a future date subject to receiving FAA grant funding approval. Development of the construction documents for Phase 4 is underway in accordance with the Airport Capital Improvement Program filed with the FAA for the purpose of qualifying it for federal funding.

- Non-Terminal Area Improvement Program

The completion of parking facilities on the east side of the Airport allowed for closure of the Orange public parking lot on the west side of the Airport and development of the vacated

land for general aviation facilities in accordance with the approved Airport Master Plan. Also, the rental car companies completed the removal of their quick turn around facilities in the north east quadrant of the Airport allowing for development of this property for aviation support facilities. The following projects are being developed as a result:

- Taxi Staging Building – Storage, management, and dispatch of taxicabs servicing the Airport was moved to the northeast side of the Airport as part of the TAIP program in order to allow for construction of Hourly Lot 3/Daily Lot 4. Facilities for the drivers as well as management are currently housed in temporary trailers relocated at the time of the move. This project provides for a permanent building for taxicab operations, and is currently under design. It is anticipated that this project will be bid and awarded in FY 2012, with construction during FY 2013.
- Fuel Truck Maintenance Facility – Fuel is delivered to commercial aircraft from the loading rack on the northeast side of the Airport via fuel trucks. These fuel trucks are currently parked and maintained on pavement located at the southeast side of Airport. This project provides for a compliant maintenance facility, office building, and parking area for the fuel trucks. Design is underway, and if funding is identified, construction will take place during FY 2013.
- Shuttle Bus Storage Yard – The storage and management facilities for the Airport’s shuttle bus fleet serving the public parking lots and ConRac is located on the west side of the Airport on the site of the former Orange public parking lot. Now that all public parking has been moved to the east side of the Airport, and now that the process to allow for west side development for general aviation uses is underway, a shuttle bus storage yard and facility is needed on the east side of the Airport. This project provides for a replacement office facility and storage area on the former rental car quick turn around area at the north east quadrant of the Airport. Design of this project is underway, and it is anticipated that construction will take place during FY 2013.
- Northeast Area Parking – Implementation of new facilities on the site of the former quick turn around area at the northeast quadrant of the Airport, as well as the existing adjacent air cargo operation drive the need for employee parking. This project provides for a small parking lot to serve these needs. This project is currently being designed, with construction anticipated in FY 2013.
- West Side Development - In June 2010, the City Council approved an amendment to the Airport Master Plan designating the site of the former Orange Public Parking lot for general aviation. Demand for a second full service FBO and other high end general aviation appears to be high, and staff is in the process of developing updated minimum standards, as well as an RFP and exemplar agreement for a second FBO. It is anticipated that the RFP process will be completed in FY 2012, although it is possible that addressing stakeholder concerns could extend that schedule. In addition, the Airport is evaluating airfield alternatives that bring the west side into compliance with FAA standards. Some of these alternatives involve closing existing Runway 11/29, which is the focus of study in FY 2012.

## 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, 2011, 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 \$140 million.

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.

- Airport Concessions Program

From July 2010 to June 2011, the Airport successfully opened the following concessions: Una Mas, a Mexican quick-serve concept that opened in San José in 1991; Mojo Burger, a San José casual hamburger and chicken restaurant; Santa Cruz Wine Bar, created with the assistance of the Santa Cruz Mountains Wine Growers Association, specializing in local wines with casual dining; Pizza My Heart, a locally based pizza chain; three Starbucks; Sushi Boat featuring a wide variety of Japanese menu items and an extensive sushi list; San José Joe's, a local Italian favorite; Brioche Doré, pastries; Tres Gringos, a Mexican quick-serve concept; and Sound Balance, an electronic retail concession.

- Five New Parking Lots Opened

Shortly after the opening of Terminal B, two additional parking lots successfully opened south of the new ConRac facility. In May 2011, the Airport opened its new Economy Lot to serve long-term parking customers. Located north of Terminal A on the site of the former rental car center, the 1700-space lot allowed the Airport to close its Long Term Parking Lot on the west side of the airfield. In June 2011, the Airport opened two additional lots just south of the new Terminal B. These changes significantly improved customer convenience by bringing all Airport parking to the east side close to the terminals and reduced the Airport's operating costs and vehicle emissions as a result of fewer shuttle bus trips.

- Terminal C Decommissioning and Demolition

With the opening of Terminal B, the Airport proceeded with the decommissioning and demolition of Terminal C. The central part of the terminal was razed starting in mid-August and was completed by mid- September.

- Millard Sheets Mural Successfully Removed from Terminal C

The Millard Sheets mural depicting the history of Santa Clara Valley was successfully removed from the Terminal C wall where it had hung since 1977. The Airport's contractors working with San José Public Art Program and Tony Sheets, the son of the artist, managed to roll the canvas off the wall in two pieces with minimal damage. This was an unexpected success after prior technical assessments suggested that the process of removal would damage the mural beyond repair. The mural was a gift to the people of San José by the San Jose Mercury and San Jose News commemorating the city's bicentennial and the 125th birthday of the newspaper. The mural now hangs in the FIS building.

- Taxiway W Construction

The Airport received a \$7.49 million grant from the FAA to fund the third phase of construction of the Taxiway W extension. The project will enhance safety and reduce the risk of accidents on the airfield. The long-term plan to complete the new taxiway also will help support the future development of the west side of the Airport for general and corporate aviation services.

- Successful Start-up of the New Airport Baggage System Completed

The removal of the interim TSA baggage screening systems began in August 2010 with the completion of the specified period of continuous error-free operation of the new automated in-line baggage screening systems at Terminal A and Terminal B for 30 days. TSA began removing its older explosive detection equipment from its temporary screening facility adjacent to Terminal A near Gate 12 and demolition of the second screening facility near

Gate 6. All demolition work was completed by mid-October, and the installation of the Gate 12 passenger boarding bridge began in early November.

- Airport Administrative Offices Moved

As part of its overall strategy to cut costs and remain competitive, the Airport moved its administrative offices from its former location on North First Street to the new office space in the ground floor of the Terminal B Concourse. The move resulted in an ongoing budget savings of approximately \$2 million per year, and it helped improve staff coordination, Airport tenant relations, and customer service.

- Awards and Recognitions Received by the Airport

The Airport's modernization program received the following awards and recognitions:

- Best of 2010 by California Construction Magazine - A statewide competition sponsored by California Construction Magazine annually recognizes construction and design excellence in Northern and Southern California. An independent jury of industry experts in design and construction judged more than 135 nominated projects and named award winners based on criteria including project management and client service, safety, design, and functionality. The Airport's Terminal Area Improvement Program was selected as the Overall Top Project for Northern California for 2010.
- Leadership in Energy and Environmental Design (LEED) Silver Certification - Terminal B Concourse achieved LEED® Silver certification from the U.S. Green Building Council in recognition of the Airport's significant commitment to environmentally sustainable design and construction. Terminal B is the first new passenger terminal west of the Mississippi River to be awarded LEED Silver.
- One of the Nation's "Best of the Best" - The Airport was selected by McGraw-Hill Construction in its third annual Best of the Best Awards, a national competition that recognizes design and construction excellence based on the winners of the publisher's 10 regional publications' "Best of 2010" awards. An independent jury of design and construction professionals selected 21 national winners from a pool of 255 regional winners in categories ranging from green building to transportation. Projects were judged on safety, innovation, contribution to the industry/community, aesthetic and functional quality of design, and construction craftsmanship.
- Top Award from American Council of Engineering Companies - Magnusson Klemencic Associates (MKA) took top honors at the Annual Engineering Excellence Awards event of the American Council of Engineering Companies of Washington State for its structural engineering contributions to the Airport's Terminal Area Improvement Program. MKA's aviation unit, based in Seattle, earned the ACEC Platinum Award for its flexible truss structural design for Terminal B.
- 2011 Project Achievement Award in the Category of Major Transportation/Transit Project by the Northern California Chapter of the Construction Management Association of America (CMAA). - The CMAA awards program was created to promote excellence and professionalism in construction management and to recognize projects and teams that demonstrate exceptional achievement.

- “2011 Constructor Award” from Associated General Contractors of California (AGC) - The Airport’s modernization program and its design/build contractor Hensel Phelps Construction Co. received the “2011 Constructor Award” from AGC in the category of Excellence in Project Management for projects over \$10 million. The Airport’s \$1.3 billion Terminal Area Improvement Program was delivered ahead of schedule and under budget in partnership with Hensel Phelps and its team of architects and subcontractors. The annual AGC Constructor Awards recognize their members' achievements for professional skill, unique undertakings, and ability to address difficult challenges.
- Recognition from the Design-Build Institute of America/ Western Pacific Region - The Airport’s Terminal Area Improvement Program was selected as a winner in the annual awards program of Design-Build Institute of America/ Western Pacific Region. The Airport’s \$1.3 billion modernization was the City’s first design-build project.
- “Gold Nugget Award of Merit” from California Building Industry Association (CBIA) - The Airport’s modernization program earned a “Gold Nugget Award of Merit” from CBIA in the category of Public/Private Special Use Project.
- National Steel Industry Award from The American Institute of Steel Construction (AISC) – AISC presented its 2011 national award for Innovative Design in Engineering and Architecture with Structural Steel (IDEAS2) to the Airport in recognition of the Terminal B and Terminal B Concourse. The award is the structural steel industry’s highest honor for outstanding achievements in engineering and architecture on steel-framed building projects. The Airport was one of 14 winners from nearly 100 competing projects across the country that were judged on the creative use of structural steel including design, visual impact, and technical or architectural advances.
- Recognition from International Parking Institute (IPI) - The IPI recognized the Airport as having one the parking industry's outstanding new parking facilities with its 2011 Awards of Excellence and Merit. The Airport’s ConRAC facility earned the Award of Merit in the category of “Best Design for facilities with more than 800 spaces,” one of twelve winners this year. According to IPI, the 2011 winners serve as models for innovation, efficiency, eco- and user-friendliness, and collaboration. The Award of Merit for the Airport noted the complex challenges of phasing the relocation of the rental car center and Terminal B parking, integration of the Customer Service Building in the structure, the distinctive “Hands” art façade, and the 1.12-megawatt solar array on the roof. In addition, the award cited the Airport’s successful public/private partnership with the rental car companies, with 94 percent of the project cost funded by the companies and the remainder by the Airport. IPI is the largest and leading association of parking professionals and the parking industry.
- San José Public Art Program Named Best in America - The San José Public Art Program was named America's "Public Art Program of the Year" at the Americans for the Arts Annual Conference held in San Diego. The award citation gave special recognition for the Airport’s public art program that showcases innovative art using technology. This is the first time this recognition has ever been awarded to San José.

- Award for the ConRAC “Hands” Artwork - The ConRAC facility that features the artwork “Hands” by Christian Moeller won an award from the Chain Link Fence Manufacturers Institute for the Airport’s innovative use of chain link products on a commercial or industrial project.
- Airport Living Wage Amendment  
 The City Council approved an amendment to the Airport Living Wage ordinance that brought the application of living wage at the Airport more into parity with other Bay Area airports and thus making it easier for airlines and tenants to operate competitively at San José.
- City Council Approves Airport Commercial Paper Program  
 The City Council approved agreements with four banks providing letters of credit totaling \$383 million to continue the Airport’s commercial paper program (short-term debt). This approval resulted in the issuance of replacement letters of credit for a portion of the Airport’s outstanding commercial paper, and continued to provide borrowing capacity to finance the remaining projects related to Phase I of the Airport’s development program. The commercial paper program was established to provide interim financing for capital improvements in anticipation of issuance of Airport revenue bonds to replace the short-term notes with long-term financing.
- Airport Bonds Successfully Sold  
 The City successfully concluded the sale of the recent issue of Airport revenue bonds with a final overall interest rate of 5.41% on a par amount of \$236.8 million in July 2011. The response from the financial market was quite strong in the longer-term bond maturities, as some of the bond series saw a level of demand as much as four times greater than were available for sale, and the breadth of participation by financial institutions was very good.
- Airport Hosted Airport Industry Conferences on Rental Cars and Parking  
 The American Association of Airport Executives (AAAE) held two industry-wide workshops in San José in October 2010 focusing on innovations, issues, and trends related to airport parking and airport rental car services. Participants in the AAAE workshops represented airports and rental car companies from throughout the United States and took advantage of the opportunity to tour the successful Airport modernization program.



## 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

Over the course of the past ten years, the Airport has focused on keeping operating costs in check, while planning, developing and modernizing the Airport. The need to continue to carefully manage expenditures and reduce ongoing operating costs is especially critical due to the higher debt service costs associated with the new facilities and the lack of significant growth in the number of enplaned passengers. On May 25, 2010, the City Council approved the direction to the City Manager and Director of Aviation to take steps necessary to ensure the ability of the Airport to successfully compete for air service and continue to keep costs to airlines at a nationally competitive level. This direction led to a comprehensive Airport Competitiveness Strategy, as well as the February 2011 development of a standing City Council Committee focused on Airport Competitiveness.

The focus of the direction for the Operating Budget has been on evaluating alternatives for providing Airport services in the most cost-effective manner and implementing those alternative service delivery models that create both efficiencies and ongoing savings. During the past several years, the Airport has aggressively reduced costs, including the elimination of more than 200 positions, outsourcing custodial services, consolidation of Airport Operations staff including the introduction of an Airport Operations Center (AOC), the relocation of Airport offices, and major reductions in public safety staffing. Although full outsourcing of the Airport public safety services was not approved by the City Council, staffing levels and scheduling efficiencies were implemented to significantly reduce public safety costs. All of the significant cost reduction measures included in the 2010 Airport Competitiveness Strategy have been implemented. The Airport continues to analyze and identify other potential cost reduction measures, the most notable of which is the possible outsourcing of parking and traffic control services. However, most cost reductions have been taken and, as a result, the future competitiveness strategy needs to focus on new revenue sources such as those related to the development of new facilities for general aviation on the west side of the Airport, the recently approved increase to the customer facility charge fees and the use of unspent TAIP bond proceeds to help maintain the Airport's cost competitiveness for the short term.

The long-term key to success in the future is increasing the number of passengers and flights, allowing costs to be distributed over a larger enplanement base thus reducing the cost per enplaned passenger. City leadership from the Mayor and Council, with the support from Silicon Valley Group and the San Jose Silicon Valley Chamber of Commerce, is actively engaged in efforts to help attract new air carriers and routes. Enplanement growth is the key, not only to making the Airport more price competitive to the airlines, but also additional passengers help generate non-airline revenues such as parking fees, concession sales and rental car fees.

Conservative budget and fiscal policies in FY 2011 have led to another surplus. For the fiscal year ended June 30, 2011, the Airport's revenues exceeded its expenses and other reserve requirements by \$34.0 million, which was \$11.2 million greater than what was anticipated in the preparation of the adopted FY 2012 Rates and Charges (as computed pursuant to the Airline-Airport Lease and Operating Agreement). The resulting fund balance will assist in balancing the budget and achieving the targeted cost per enplaned passenger for FY 2013. It is important to point out that these savings are, for the most part, one time in nature.

The Airport's 2012-2016 Adopted Capital Improvement Program (CIP) totals \$504.7 million and consists of over 30 capital projects. The Adopted CIP reflects a shift in focus from the many programs comprising the TAIP program to the business needs and opportunities beyond the terminal areas. An amendment to the Airport Master Plan allows for the development of general and corporate aviation facilities of the Airport's west side and the rehabilitation of the areas in the northeast and southeast quadrants. These improvements are expected to generate new Airport and General Fund revenues, provide employment opportunities, and result in corresponding increases in federal, state and local taxes. In addition, the phased improvements to Taxiway W will continue, contingent upon the availability of grant funding.

Highlights of the Airport's 2012-2016 Adopted CIP are as follows:

#### Airport Master Plan

The Airport has and will continue to provide a significant benefit to the local economy through implementation of the Airport Master Plan. With the June 2011 opening of new parking lots next to Terminal B, the major elements of the Terminal Area Improvement Program, Phase I are now complete and the considerable construction spending over the past few years will decline. The focus of the CIP has shifted from development and implementation to the operational needs of the new facilities. A Master Plan amendment adopted in June 2010 allowed for the expansion of general aviation in the northwest portion of the Airport on 40 acres previously used for interim long-term and employee parking. Cargo facilities would remain and be expanded on campus to accommodate estimated demand through 2027. The development of areas outside the terminal zone is contingent upon third-party funding. Airport construction work in the current CIP also includes improvements programmed for Taxiway W that will provide the necessary infrastructure to support future general aviation demand, contingent upon grant funding sources.

#### Airfield Facilities

The Adopted CIP allocates \$50.9 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:

- \$48.1 million for the Taxiway W Improvements project. The allocation in the 2011-2012 Adopted Budget funds Phase III construction of this Taxiway project. Phase III

construction was put out to bid in spring 2011. Revisions to Phases IV - VII and the refinement of expense estimates have resulted in an overall increase in project costs. Phases IV – VII are included in the CIP; however, like Phase III, timing and construction of these phases is contingent upon the receipt of grant and local funding in addition to an amendment of the Airport Master Plan for certain components.

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

#### Aviation Support – Environmental

Over the next five years, a total of \$6.5 million is budgeted for the following environmental projects:

- ❑ \$6.2 million for the continued assessment and clean up of the former fuel farm site; and
- ❑ \$0.3 million to provide for fuel storage tank repairs, as needed.

#### Aviation Support Facilities - General

The Adopted CIP provides \$15.5 million to fund various new infrastructure improvements and to renovate, maintain, or upgrade existing facilities. The CIP includes the following projects:

- ❑ \$9.4 million for Non-Terminal Area Projects. This allocation funds the planning and necessary site preparation work for future improvements outside of the Airport Terminal Zone. Improvements in the northeast and southeast areas of the Airport may include aviation support facilities such as hangars, light maintenance facilities, space for airline provisioning, cargo operations, and other aviation support services developed by third parties. Airport support facilities such as an into-plane fuel truck maintenance facility and other operational support may be developed in the northeast quadrant; and
- ❑ \$2.5 million to fund the Operations’ Systems Support/Maintenance project (formerly Shared Used System Replacement) for as-needed capital renewal and replacement to maintain various systems throughout the Airport including access control, security, noise and curfew, shared use and parking revenue.

Other projects are programmed to fund replacement of operating equipment, land improvements, technology equipment and software, in addition to Airport signage design and production.

#### Aviation Support Facilities – Parking

A total of \$31.4 million is allocated for the following transportation-related projects:

- ❑ \$20.0 million is allocated for the ConRAC facility and public parking garage in 2011-2012. These projects are already in beneficial use, therefore, the remaining allocation represents funding for final close-out items and project savings held in the project’s program reserve; and
- ❑ \$11.4 million for public parking improvements for the new Terminal B and South Loop parking areas in addition to a public parking lot on the Green Island and ground transportation staging center.

### Aviation Support Facilities – Transportation

A total of \$4.1 million is allocated for the following transportation-related maintenance project:

- ❑ \$3.1 million for pavement maintenance, which includes the reconstruction of asphalt and concrete pavement at various locations throughout the Airport to meet airfield and roadway safety requirements; and
- ❑ \$1.0 million for ground transportation island modifications to improve operational efficiency appearance of the ground transportation island at Terminal A.

### Passenger Terminal Facilities

A total of \$73.0 million is allocated for the following Passenger Terminal Facilities related projects:

- ❑ \$70.3 million is allocated for Terminal Area Improvement, Phase I and North Concourse Building projects. These projects are already in beneficial use, therefore, the remaining allocation represents funding for final close-out items and project savings held in the project's program reserve.
- ❑ \$2.4 million is allocated for terminal building modifications to provide for minor alterations, maintenance and upgrades at all Airport buildings and terminals.

## **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, 2011 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 2011, 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, 2011. 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, 2010. This was the fourteenth consecutive year that the Airport has achieved this prestigious award. In order to be awarded a

Certificate of Achievement, the Airport must publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.


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

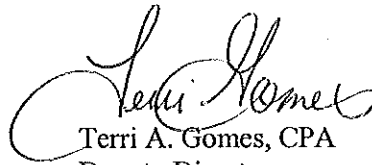
**Acknowledgments**

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

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

Respectfully submitted,

  
Kim Aguirre  
Chief Operating Officer

  
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, 2010

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.



A stylized, handwritten signature in black ink.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

**Norman Y. Mineta San José International Airport  
(A Department of the City of San José)  
Listing of Principal Officials  
June 30, 2011**

**ELECTED OFFICIALS:**

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

**AIRPORT COMMISSION:**

Keith Ian Graham.....	Chairperson
Andres Quintero.....	Vice-Chairperson
George Gange.....	Member
Spence Horowitz .....	Member
Ian Kluff .....	Member
John Salah.....	Member
Frank Sweeney.....	Member
Kansen Chu.....	Airport Liaison

**CITY OFFICIAL**

Debra Figone.....	City Manager
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**AIRPORT DEPARTMENT:**

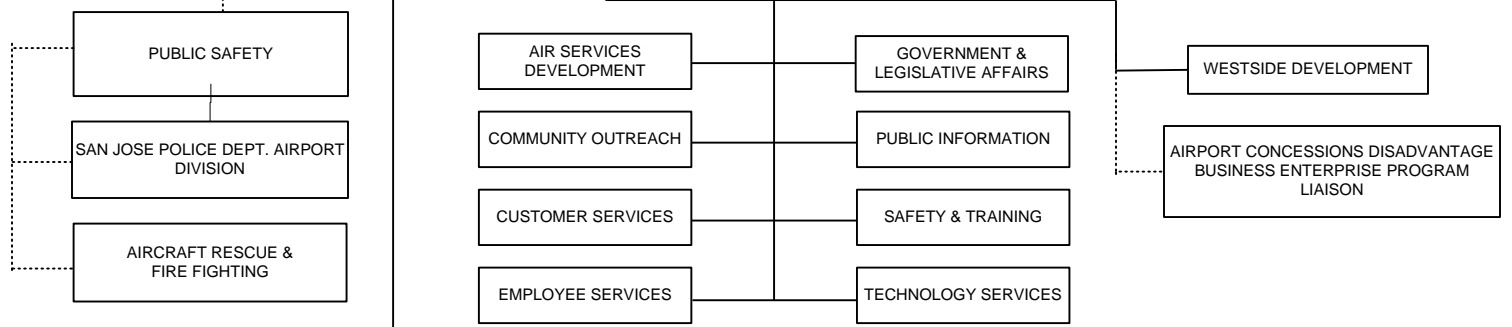
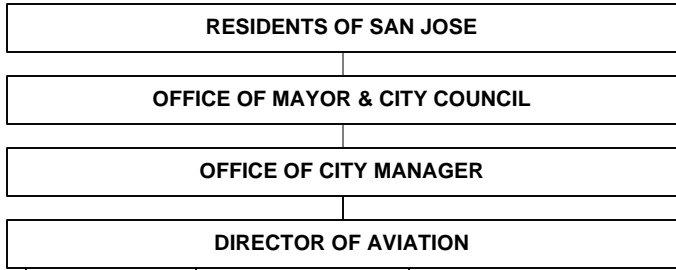
William F. Sherry, AAE .....	Director of Aviation
Kim Aguirre.....	Chief Operating Officer
Terri A. Gomes, CPA .....	Deputy Director, Finance and Administration
Patrick R. Tonna.....	Deputy Director, Facilities & Engineering
David Maas, P.E.....	Deputy Director, Planning and Development
John Aitken.....	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 Marozick.....	San José Police Dept. – Airport Division



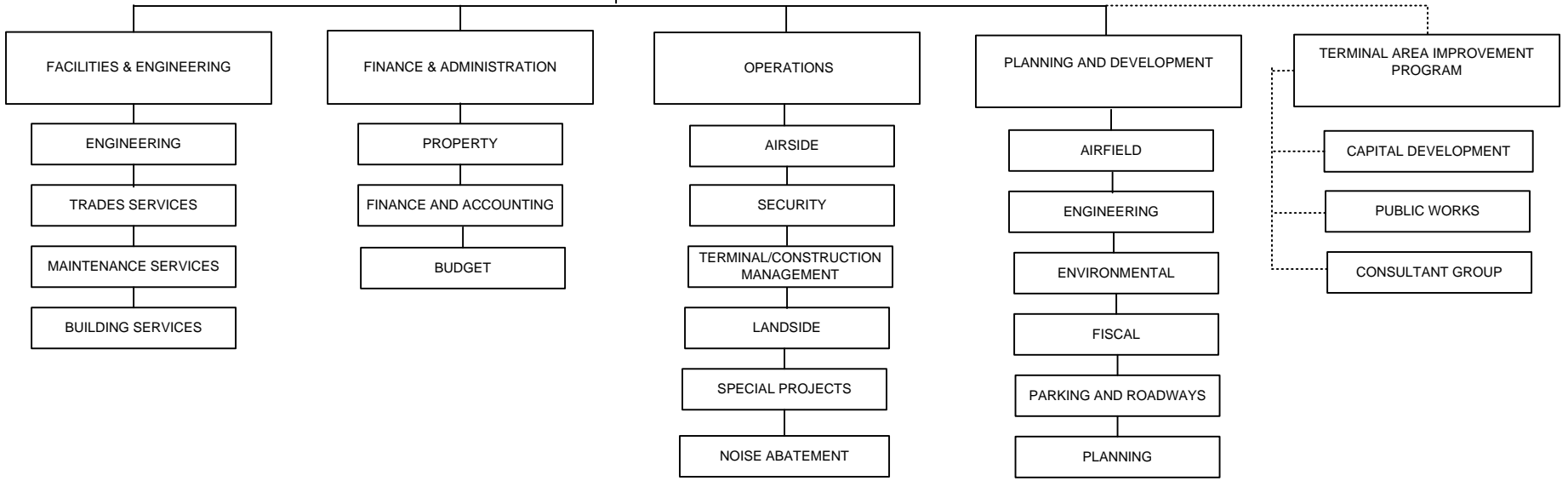
NORMAN Y. MINETA SAN JOSE  
INTERNATIONAL AIRPORT  
(A department of the City of San José)

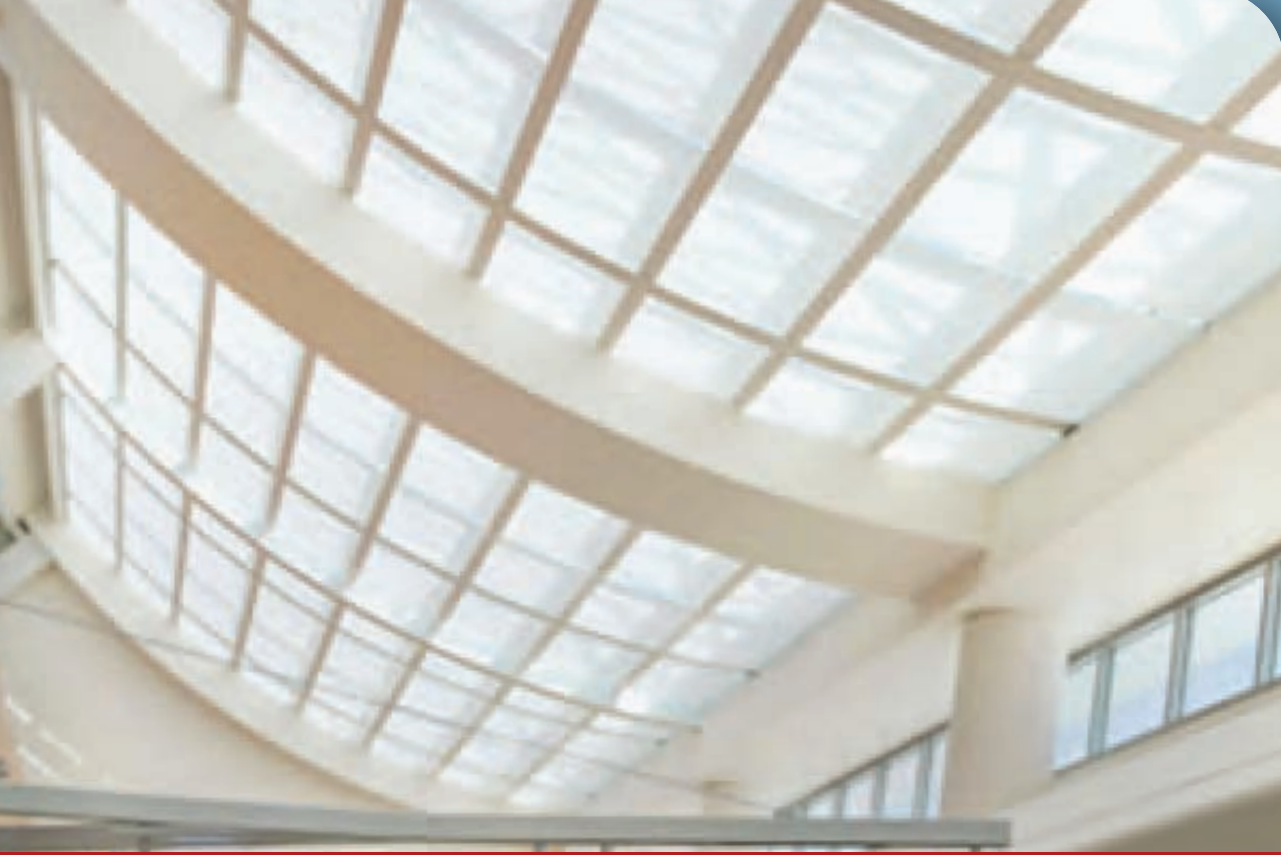


AIRPORT COMMISSION

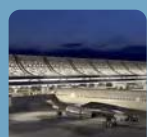


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# FINANCIAL



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, 2011 and 2010, 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, 2011 and 2010 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011 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, 2011. 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.

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

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

*Macias Gini & Connell LLP*

Walnut Creek, California  
November 30, 2011

**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, 2011 and 2010.

**AIRPORT ACTIVITIES HIGHLIGHTS**

For the first time since 2006, the Airport experienced a positive growth in passenger traffic (total enplaned and deplaned passengers) as compared to the prior fiscal year with a slight increase of 1.9% in 2011. Flight operations declined by 7.2% as airlines continued to cut back on the number of flights 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 in passenger traffic of 6.7% in fiscal year 2010 but experienced a slight increase of 1.9% in 2011.

As of June 30, 2011, Airport carriers served 30 nonstop markets with 128 daily departures compared to 30 nonstop markets with 127 daily departures as of June 30, 2010 and 27 nonstop markets with 149 daily departures as of June 30, 2009.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Flight operations	122,091	131,590	159,972
	-7.2%	-17.7%	-13.4%
Landed weight (passenger carriers)	5,221,002	5,410,517	6,130,069
	-3.5%	-11.7%	-11.3%
Landed weight (cargo carriers)	319,185	322,267	421,088
	-1.0%	-23.5%	-14.5%
Total enplaned and deplaned passengers	8,389,050	8,229,442	8,821,452
	1.9%	-6.7%	-15.0%
Enplaned passengers	4,189,223	4,105,853	4,399,562
	2.0%	-6.7%	-15.0%
Deplaned passengers	4,199,827	4,123,589	4,421,890
	1.8%	-6.7%	-15.0%
Domestic passengers	8,232,103	8,100,399	8,697,578
	1.6%	-6.9%	-15.1%
International passengers	156,947	129,043	123,874
	21.6%	4.2%	-10.1%
Cargo tonnage (in metric tons)	47,327	53,183	68,896
	-11.0%	-22.8%	-22.0%
Parking (vehicles) exits	1,073,622	1,002,458	1,154,954
	7.1%	-13.2%	-19.9%

The Airport continues to offer airlines several air service incentive programs to support the development of new passenger air service at the Airport, including a program aimed at increasing service to unserved or underserved cities (the New Service Program), another program aimed at

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **(Unaudited)**

encouraging airlines to add additional service to designated cities (the Focus City Program), and a program that reduces the Airport's share of indirect overhead expenses allocated to it by the City for support services the City provides to the Airport (the Municipally-Funded Cost Incentive Program).

The New Service 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. Past participants have included Southwest Airlines and Alaska Airlines, both with service to Austin. Current participants include jetBlue Airways, with service to Boston, and Alaska Airlines, with services to Cabo San Lucas, Kona, Lihue (Kauai) and Kahului-Maui.

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

The Municipally-Funded Cost Incentive Program reduces the Airport's share of indirect overhead expenses allocated to it by the City for support services the City provides to the Airport. Because the operation and management of the Airport are supported by a number of City departments, employees, and resources that are not directly charged to the Airport operating budget, the City allocates a percentage of its total indirect overhead expenses to the Airport operating budget. If in any year during the term of the airline agreement the percentage growth in enplaned passengers at the Airport exceeds the growth in enplaned passengers nationwide (as measured by data published in the FAA Aviation Forecast or similar report/forecast if the FAA Aviation Forecast is no longer available), then the City shall reduce the amount of its indirect overhead expenses that would otherwise be allocated to the Airport's operating budget for the next fiscal year by a corresponding percentage. The airline agreement also provides that in no event will the City's indirect overhead expenses allocated to the Airport operating budget exceed twenty-five percent (25%) or be less than fifteen percent (15%) during the term of the airline agreement.

### **FINANCIAL HIGHLIGHTS**

The Airport continued its practice of conservative budget management and fiscal policies. During the past several years, the Airport had aggressively reduced its costs, including the elimination more than 200 positions since 2008. Other significant measures include the outsourcing of custodial services, relocation of Airport offices, and major reductions of police and fire staffing at the Airport. The Airport posted a decrease in net assets for 2011 fiscal year.

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

- Operating revenues increased by 13.3% from \$112.8 million in 2010 to \$127.8 million in 2011.
- Operating expenses before depreciation and amortization decreased by 4.6% from \$94.2 million in 2010 to \$89.9 million in 2011.
- The above resulted in operating income before depreciation and amortization of \$37.9 million in 2011 and \$18.6 million in 2010.
- Depreciation and amortization decreased from \$55.3 million in 2010 to \$51.5 million in 2011.
- Operating loss before nonoperating revenues and expenses decreased from \$36.7 million in 2010 to \$13.6 million in 2011.
- Nonoperating expenses, net of nonoperating revenues, increased from \$3.8 million 2010 to \$33.4 million in 2011.
- Capital contributions received in the form of grants from the federal government decreased from \$34.7 million in 2010 to \$10.9 million in 2011.
- Net assets decreased by \$36.1 million in 2011 compared to a decrease of \$5.8 million in 2010. This was the result of the increase in nonoperating expenses and decrease in capital contributions, offset by the increase in operating revenues and decreases in operating expenses and depreciation and amortization.

In addition, the Airport posted a decrease in net assets at the end of 2010 fiscal year.

- Operating revenues decreased by 4.1% from \$117.6 million in 2009 to \$112.8 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 \$18.6 million in 2010 and \$12.9 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 \$7.8 million in 2009 to \$36.7 million in 2010.
- Net nonoperating revenues and expenses decreased from net nonoperating revenues of \$19.4 million in 2009 to net nonoperating expenses of \$3.8 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.

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

- 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.

**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, 2011, 2010, and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 127,803	\$ 112,772	\$ 117,578
Operating expenses before depreciation and amortization	<u>(89,904)</u>	<u>(94,206)</u>	<u>(104,733)</u>
Operating income before depreciation and amortization	37,899	18,566	12,845
Depreciation and amortization	<u>(51,532)</u>	<u>(55,288)</u>	<u>(20,647)</u>
Operating loss	(13,633)	(36,722)	(7,802)
Nonoperating revenues and expenses, net	<u>(33,367)</u>	<u>(3,779)</u>	<u>19,465</u>
Income (loss) before capital contributions	(47,000)	(40,501)	11,663
Capital contributions	<u>10,862</u>	<u>34,722</u>	<u>12,868</u>
Increase (decrease) in net assets	(36,138)	(5,779)	24,531
Total net assets - beginning	<u>452,764</u>	<u>458,543</u>	<u>434,012</u>
Total net assets - ending	<u>\$ 416,626</u>	<u>\$ 452,764</u>	<u>\$ 458,543</u>



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

**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 \$416.6 million, \$452.8 million and \$458.5 million at June 30, 2011, 2010 and 2009, respectively, a \$36.1 million decrease from June 30, 2010 and \$41.9 million from June 30, 2009.

A condensed summary of the Airport's net assets (in thousands) at June 30, 2011, 2010, and 2009 is shown below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Assets:</b>			
Unrestricted assets	\$ 70,452	\$ 78,991	\$ 100,599
Restricted assets	290,294	370,140	547,522
Capital assets	1,517,327	1,501,030	1,255,086
Other assets	18,012	19,153	22,418
Total assets	<u>1,896,085</u>	<u>1,969,314</u>	<u>1,925,625</u>
<b>Liabilities:</b>			
Current liabilities – unrestricted	422,312	431,388	342,371
Current liabilities payable from restricted assets	36,543	52,423	81,113
Noncurrent liabilities	1,020,604	1,032,739	1,043,598
Total liabilities	<u>1,479,459</u>	<u>1,516,550</u>	<u>1,467,082</u>
<b>Net assets:</b>			
Invested in capital assets, net of debt	272,598	314,664	316,935
Restricted	64,128	61,349	45,260
Unrestricted	79,900	76,751	96,348
Total net assets	<u>\$ 416,626</u>	<u>\$ 452,764</u>	<u>\$ 458,543</u>

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.

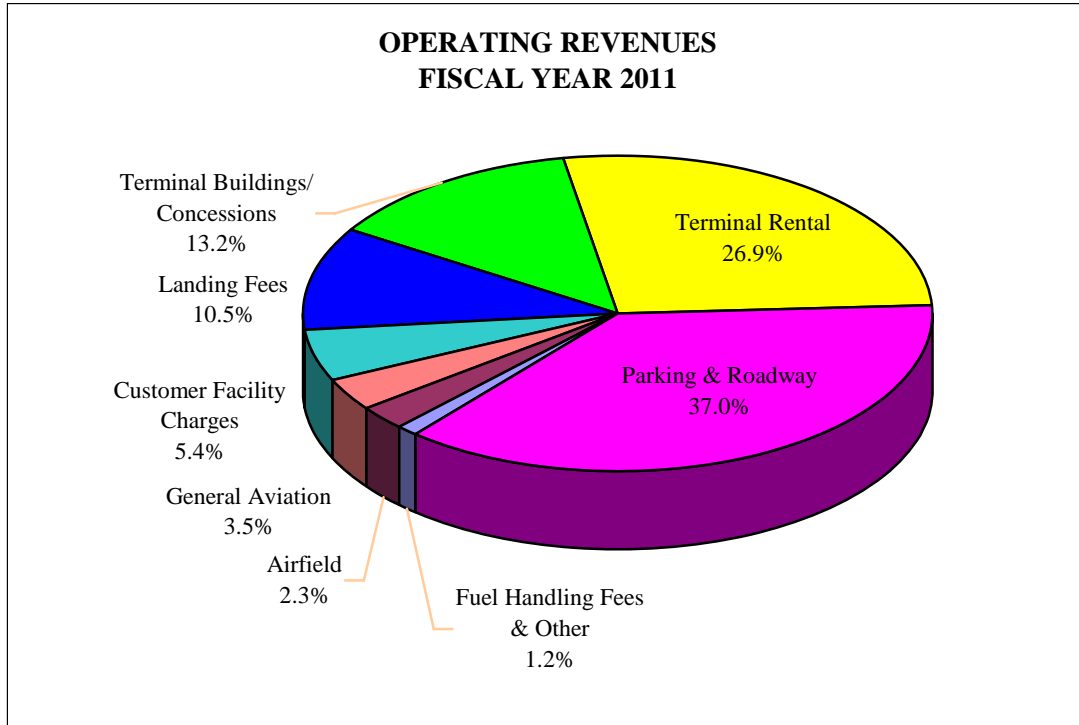
The largest portion, 65.4% and 69.5%, of the Airport's net assets at June 30, 2011 and 2010, respectively, represents its investment in capital assets (e.g. land, buildings, improvements and equipment), less the debt outstanding used to acquire those capital assets. The Airport uses these capital assets 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 facility charges that are restricted by Federal regulations and Civil Code §1936, respectively.

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

**REVENUES**

The following chart reflects the major sources and the percentage of operating revenues for the fiscal year ended June 30, 2011:



As illustrated in the above chart, parking and roadway revenue represents 37.0% of the total operating revenues. Parking and roadway revenues include public parking, concession fees from rental cars, employee parking, and taxicab and other ground transportation fees, and facility and ground rents from rental car companies for use of the Consolidated Rental Car facility (ConRAC) located at the Airport. Facility rent is equal to the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC-related debt service, less revenues from customer facility charges (CFCs) plus operating costs for any transportation system operated by the Airport to transport passengers between the terminals and the ConRAC facility, plus the City's cost to demolish the previous temporary common use rental car facilities at the Airport, amortized over the initial ten-year term of the agreement. Facility rent will vary each year in relation to any change in the total amount of CFC revenues.

The next largest category is airline terminal rental which represents 26.9% of the total operating revenues. Revenues from terminal buildings/concessions, which came in at 13.2% 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. Landing fees from passenger and cargo carriers represent 10.5% of the total operating revenues.

CFCs (5.4%) are the charges to customers of rental car companies at the Airport in accordance with California Civil Code §1936 to help pay for capital costs and related debt service associated

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

with the ConRAC and certain operating expenses related to the transportation of rental car customers between Terminal A and the ConRAC. General aviation revenues (3.5%) 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 2.3% and 1.2%, of the total operating revenues, respectively. The airfield area category 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, 2011, 2010, and 2009 is as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:			
Landing fees	\$ 13,370	\$ 13,190	\$ 14,504
Terminal rental	34,446	33,459	29,716
Terminal buildings/concessions	16,877	11,157	11,947
Airfield	2,925	2,792	3,171
Parking and roadway	47,320	38,934	44,227
Fuel handling fees	1,504	1,310	1,474
General aviation	4,481	4,995	5,127
Customer facility and transportation fees	6,840	6,021	6,713
Other	40	914	699
Total operating revenues	<u>127,803</u>	<u>112,772</u>	<u>117,578</u>
Nonoperating revenues:			
Passenger facility charges	17,311	17,043	17,416
Investment income	1,614	311	8,138
Operating grants	701	1,150	4,625
Other, net	1,438	200	4,227
Total nonoperating revenues	<u>21,064</u>	<u>18,704</u>	<u>34,406</u>
Capital contributions	<u>10,862</u>	<u>34,722</u>	<u>12,868</u>
Total revenues	<u>\$ 159,729</u>	<u>\$ 166,199</u>	<u>\$ 164,852</u>

Total operating revenues increased by 13.3% from \$112.8 million in 2010 to \$127.8 million in 2011. Except for general aviation and other revenue categories, increases have been posted in all revenue categories. The biggest contributors to the increase were the terminal buildings/concessions and the parking and roadway categories.

Terminal buildings/concession revenues in 2011 tracked \$5.7 million or 51.3% above 2010 revenues as a result of the new retail and food and beverage concessions that are set on the basis of the minimum annual guaranteed payments.

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

Parking and roadway revenues in 2011 increased by \$8.4 million or 21.5% compared to 2010 primarily due to facility rents paid by the rental car companies and utility charges allocated based upon relative square footages occupied by the rental car companies at the ConRAC facility. The increase can also be attributed to the higher public parking and rental car concession fees reflective of the increase in passenger activity. The ConRAC facility opened on June 30, 2010.

Terminal rental increased from \$33.5 million in 2010 to \$34.4 million in 2011. Higher terminal rental can be accounted for by the higher terminal rental requirement from the airlines as a result of the increase in debt service. Capitalized interest set aside from bond proceeds were used to pay for a majority portion of debt service during the construction period of Airport's terminal facilities. Capitalized interest can no longer be used to pay for debt service after completion of the Airport's terminal facilities in 2010.

Despite the termination of operations by Mexicana Airlines and Frontier Airlines and the overall decrease in landing weights from 2010's level, landing fees in 2011 increased slightly by \$180,000 or 1.4% due to the increase in rate from \$2.32 to \$2.47 per thousand pounds of the maximum gross landing weight.

Airfield revenues posted an increase of \$133,000 or 4.8% primarily due to the increase in square footage of ramp leased by Federal Express. Fuel handling fees went up by \$194,000 or 14.8%, boosted by the increases in compressed natural gas fuel sales and jet flow fees.

General aviation tracked lower by \$514,000 or 10.3%, principally due to the loss of revenues from the Airport West property. With the substantial completion of the Terminal Area Development Program, the Airport no longer need the property and terminated its sublease agreement with the City of San José Financing Authority effective June 30, 2010.

CFC revenues trended \$819,000 or 13.6% higher than the prior fiscal year. Passenger growth and most likely the convenience of the ConRAC facility, which opened at the beginning of 2011, were the primary drivers for the increase in CFC revenues.

Other operating revenues posted a decline of \$874,000 or 95.6%. In 2010, the Airport collected a significant amount from the food and beverage and retail concessionaires to cover engineering and inspection fees related to their tenant improvements. Passenger facility charges (PFC) increased by \$268,000 or 1.6% reflective of the increase in passenger activity.

Despite the lower interest rates and the decline in investment balances as a result of construction spending, investment income increased by \$1.3 million or 418.6%. Investments posted a much lower decline in fair value as of June 30, 2011 compared to the prior year. Also, majority of the investment income in 2010 was offset against capitalized interest costs related to the construction projects acquired with debt. The construction projects were substantially completed in 2010 and therefore interest was not capitalized in 2011.

The operating grants pertained to grant funds awarded by the Transportation Security Administration for the costs associated with the law enforcement officers at security checkpoints (\$400,700), canine security grant from TSA (\$200,500), and a grant from the Bay Area Air Quality Management District for the incremental costs of leasing compressed natural gas buses (\$100,000).

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

Other net nonoperating revenues increased from \$200,000 in 2010 to \$1.4 million in 2011. Administrative fees totaling \$2.0 million associated with the commercial paper program were recorded in the capital funds and deducted from other nonoperating revenues in 2010. Since the construction projects were substantially completed, these fees associated with the commercial paper program are now recorded as part of operating expenses in the operating funds. The decrease in nonoperating expense was offset by the loss of \$1.5 million revenue from the Airport's capital program for the use of the Airport West property for construction laydown and staging. Also, as provided in the sublease with City of San José Financing Authority, the Airport received reimbursements in 2011 amounting to \$429,000 representing costs incurred in the development of the Airport West property.

Capital contributions received during the fiscal year pertained to reimbursement from Federal Aviation Administration (FAA) of \$8.0 million for the reconstruction of Taxiway W and \$70,000 for use in the South Apron replacement project. The Airport also received \$1.1 million from FAA's Voluntary Low Emissions program for use in retrofitting the gates at the terminals with preconditioned air and 400 Hz ground power to reduce airline engine use while parked at the gate, thereby reducing emissions. \$1.7 million of additional funding was also received from TSA for the baggage screening system for the terminals.

2010 versus 2009

Operating revenues generated in 2010 decreased by approximately \$4.8 million or 4.1% over that in 2009 reflective of the decline in passenger and flight activities at the Airport. Decreases were 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 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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **(Unaudited)**

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 decreased 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 the 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 FAA to the Airport to finance a portion of the cost of implementing the Airport's residential Acoustical Treatment Program (\$480,000), grant from TSA for the costs associated with the law enforcement officers at security checkpoints (\$364,000), canine security grant from the TSA (\$201,000), and a grant from the Bay Area Air Quality Management District for the incremental costs of leasing compressed natural gas buses (\$105,000).

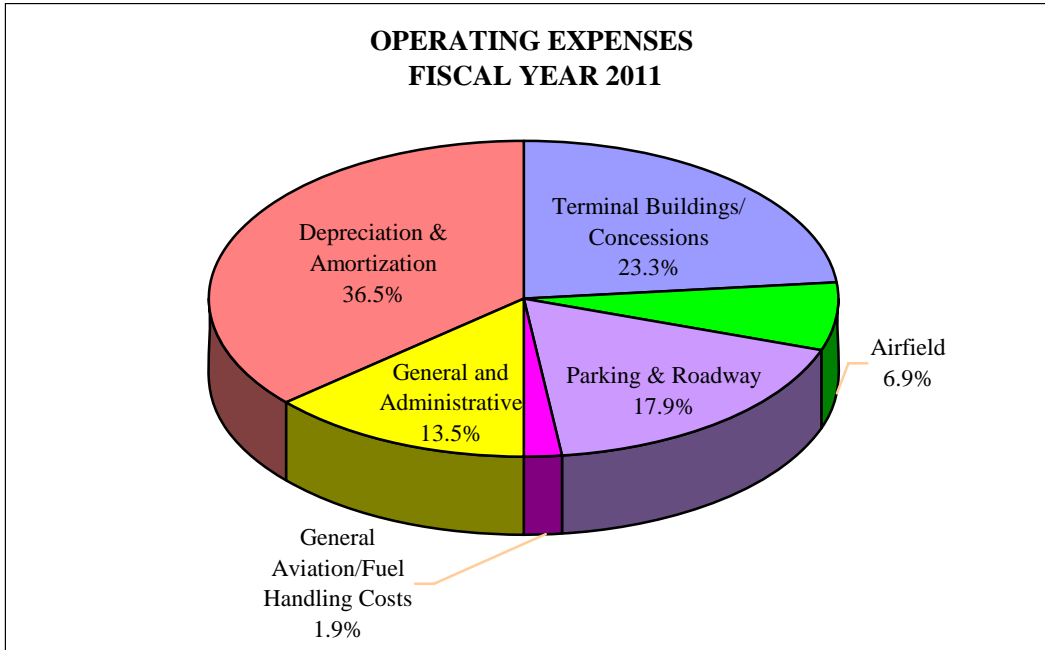
\$19.2 million of the capital contributions represents funding from the United States Transportation Security Administration for the new state-of-the art baggage screening system for Terminals A and B. Other capital contributions received during the fiscal year pertained to reimbursement of significant 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 net nonoperating revenues decreased from \$4.2 million in 2009 to \$200,000 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 General Account and the 2004 Account within the Bond Reserve Fund 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.

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

EXPENSES

The following chart reflects the major cost centers as a percentage of operating expenses for the fiscal year ended June 30, 2011:



A summary of expenses (in thousands) for the fiscal years ended June 30, 2011, 2010, and 2009 is as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating expenses:			
Terminal buildings/concessions	\$ 33,019	\$ 31,701	\$ 28,813
Airfield area	9,749	10,911	16,170
Parking and roadway	25,344	24,032	26,853
Fuel handling costs	288	885	557
General aviation	2,409	3,053	4,072
General and administrative	19,095	23,624	28,268
Depreciation and amortization	51,532	55,288	20,647
Total operating expenses	<u>141,436</u>	<u>149,494</u>	<u>125,380</u>
Nonoperating expenses:			
Interest expense	54,431	10,750	11,404
Loss on capital assets disposal	-	11,733	3,537
Total nonoperating expenses	<u>54,431</u>	<u>22,483</u>	<u>14,941</u>
Total Expenses	<u>\$ 195,867</u>	<u>\$ 171,977</u>	<u>\$ 140,321</u>

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

2011 versus 2010

Operating expenses declined by \$8.1 million from \$149.5 million in 2010 to \$141.4 million in 2011. Decreases were experienced in personnel expenditures, overhead, depreciation and amortization, and fees charged by the City for police and firefighting services. These were largely offset by the increases in the nonpersonnel and expensed capital expenditures.

Personnel expenditures decreased by \$8.4 million or 26.3% as a result of the reduced staffing levels. The most significant cost reduction resulted from the outsourcing of the custodial services and eliminating 54 building maintenance positions. Administrative and outreach positions were also reduced following the completion of the Terminal Area Improvement Program (TAIP). Additional positions were reduced from parking and traffic control functions as well as the warehouse, engineering and planning sections. The reduced staffing levels, as well as the reduction in overhead rate from 18.86% in 2010 to 17.26% in 2011, accounted for the decrease in overhead by \$2.1 million or 40.6%.

Nonpersonnel expenditures increased by \$5.2 million or 15.9% increase in nonpersonnel expenditures was principally due to the costs associated with the outsourcing of custodial services. Additionally, with the opening of Terminal B, new services such as the maintenance of the in-line baggage system and additional elevators also contributed to the increase. Letter of credit fees associated with the commercial paper program also accounted for the significant increase in nonpersonnel expenditures. These fees, which used to be recorded as non-operating expenses in the capital funds, were recorded as operating expenses after the completion of Terminal B and ConRAC facilities. The increase was largely offset by the reduced rental expense due to the termination of leased space for the off-Airport administrative office space and the Airport West property.

In October 2011, the Federated actuary presented the Federated Board with its analysis of the Federated Plan's annual required contribution (ARC) funding for fiscal year 2010-2011. The actuarial analysis of the ARC determined that a remaining payment of \$8,046,000 is due from the City, or 2.57% of covered payroll, would be required to fund the City's fiscal year 2011 ARC of 25.75% of covered payroll. Since this amount was not paid until fiscal year 2012, the Airport recognized its allocation of the liability in the amount of \$571,000.

Operating expenses included certain expenditures for capital projects that did not meet the criteria for capitalization into capital assets (expensed capital items). Expensed capital items increased from \$6.7 million in 2010 to \$8.2 million in 2011. A major portion of these expensed capital items in 2011 pertained to the Terminal C demolition costs of \$6.5 million.

In 2011, the Airport started depreciating the TAIP projects, which were substantially completed by the end of 2010. However, depreciation and amortization in 2011 declined by \$3.8 million or 6.8% compared to 2010. The higher depreciation and amortization in 2010 can be attributed to the fact that the Airport terminated its operations at Terminal C on June 29, 2010 and accelerated its depreciation schedule and wrote off its remaining book value of \$25.9 million. The demolition of Terminal C was completed in 2011.

Operating expenses included fees charged by the City for airport rescue and firefighting services totaling \$14.2 million in 2011 and \$15.6 million in 2010. These costs were reduced by \$1.4



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

million or 9.0% as a result of the alignment of staffing levels with current passenger levels and the overhead rate reduction.

Other postemployment benefits (OPEB) costs and workers' compensation claims recorded in 2011 based on the latest actuarial study and Airport claims activity posted slight increases over 2010 of \$218,000 and \$109,000, respectively.

Majority of the interest expense in 2010 was capitalized as part of the construction projects, which were substantially completed in 2010 while interest expense was not capitalized in 2011. This accounted for the increase in interest expense in 2011 by \$43.7 million

### 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 accelerated depreciation of Terminal C amounting to \$25.9 million.

The other expense category that posted an increase in 2010 was the 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 overhead 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.

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. The amount spent on noise attenuation projects in 2010 amounted to approximately \$788,000.

Fees charged by the City for airport rescue and firefighting services totaled \$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.

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

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

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

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

### **CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES**

The Airport expended \$102.7 million and \$319.1 million on both capitalized and noncapitalizable capital activities in fiscal years 2011 and 2010, respectively. Major capital projects in 2011 included the westside taxiway overlay, punch list work on various Terminal Area Improvement Program projects, the Terminal C demolition and the public parking improvement project. With the exception of certain remaining Airport signage work, and certain punch list work in Terminal B, the City's final acceptance of the Terminal Area Improvement Program occurred in June 2011.

As of June 30, 2011, the Airport was obligated for purchase commitments of approximately \$11.2 million primarily for the costs of the remainder of the costs for Terminal Area Improvement Program 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.

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

**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, 2011 and 2010, the total amount of commercial paper outstanding totaled \$410.1 million and \$417.3 million, respectively. During the fiscal years ended June 30, 2011 and 2010, the Airport paid principal of \$378.6 million and \$5.1 million, respectively. The amount paid during the fiscal year ended June 30, 2011 included the payoff of \$279.0 million commercial paper notes for which the credit support expired and replaced by the same amount of commercial paper notes, which were supported by the replacement letters of credit and reimbursement agreements approved by City Council in January 2011.

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, 2011 and 2010, the Airport had total outstanding revenue bonds of \$1,025.9 million and \$1,038.0 million, respectively. During the fiscal years ended June 30, 2011 and 2010, the Airport paid principal of \$12.1 million and \$11.6 million, respectively.

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

Credit Ratings

The underlying ratings of the outstanding Airport Revenue Bonds are "A-", "A2" and "A-" by Standard & Poor's (S&P), Moody's Investors Service (Moody's) and Fitch Ratings (Fitch), respectively. S&P's rating outlook with respect to the outstanding Airport Revenue Bonds is stable. Moody's and Fitch's rating outlooks with respect to the outstanding Airport Revenue Bonds are "negative." See Note 5 to the financial statements for a list of outstanding Airport Revenue Bonds.

**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

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

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

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

The rates and charges for the signatory (passenger and cargo) airlines for fiscal years 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Landing fee (per 1,000 lbs MGLW):	\$2.47	\$2.32
Terminal average rental rate (per square foot)	\$130.34	\$175.60
Airline cost per enplanement (projected)	\$11.09	\$10.67

Terminal rental rates and airline landing fees for fiscal year 2012 have been developed as part of the annual budget process. The rates and charges for the signatory airlines for fiscal year 2012, which became effective July 1, 2011, are as follows:

Landing fees (per 1,000 lbs MGLW):	\$2.14
Terminal average rental rates (per square foot)	\$153.20
Airline cost per enplanement (projected)	\$11.67

After completion of the year-end closing and annual audit, the Airport achieved savings of approximately \$11.2 million greater than what was anticipated in the preparation of the adopted 2011-2012 Airline Rates and Charges. The surplus for 2011 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 2013.

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

**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.

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT**  
**(A Department of the City of San José)**  
**Statements of Net Assets**  
**June 30, 2011 and 2010**

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Current assets:		
Unrestricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	\$ 62,755,181	65,928,183
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$591,641 in 2011 and \$511,051 in 2010	6,025,686	4,820,165
Accrued interest	55,697	272,438
Grants	1,171,726	7,821,306
Prepaid expenses, advances, and deposits	443,451	149,089
Total unrestricted assets	70,451,741	78,991,181
Restricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	57,113,244	47,596,716
Investments held by fiscal agent (Note 2)	229,989,486	317,509,483
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$30,522 in 2011 and 2010	2,945,930	3,812,505
Accrued interest	44,158	938,637
Grants	-	70,848
Due from the City	-	14,285
Prepaid expenses, advances, and deposits	4,692	10,537
Current portion of bond issuance costs	196,658	186,630
Total restricted assets	290,294,168	370,139,641
Total current assets	360,745,909	449,130,822
Noncurrent assets:		
Capital assets (Notes 1 & 3):		
Nondepreciable	108,433,273	250,276,733
Depreciable assets, net of accumulated depreciation	1,408,893,952	1,250,753,368
Total capital assets	1,517,327,225	1,501,030,101
Loan receivable	250,000	250,000
Advances and deposits	5,925,636	6,870,617
Bond issuance costs, less current portion	11,836,068	12,032,726
Total noncurrent assets	1,535,338,929	1,520,183,444
Total assets	\$ 1,896,084,838	1,969,314,266

See accompanying notes to financial statements.

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT**  
**(A Department of the City of San José)**  
**Statements of Net Assets**  
**June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Liabilities</b>		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	\$ 4,110,262	5,009,655
Accrued salaries, wages and payroll taxes	1,735,301	1,628,386
Accrued vacation, sick leave and compensatory time, current	1,609,000	2,189,000
Advances and deposits payable	1,067,989	951,405
Unearned revenue	2,772,521	3,365,304
Estimated liability for self-insurance, current (Note 9)	560,000	560,000
Other current liabilities	330,000	330,000
Accrued interest payable	48,265	6,748
Commercial paper notes payable (Note 4)	410,079,000	417,348,000
	<b>422,312,338</b>	<b>431,388,498</b>
Total payable from unrestricted assets		
Payable from restricted assets:		
Accounts payable	3,397,518	21,971,510
Accrued salaries, wages and payroll taxes	127,401	196,251
Accrued vacation, sick leave and compensatory time, current	-	39,169
Unearned revenue	1,785,490	-
Other current liabilities	384,000	384,000
Accrued interest payable	18,166,951	17,870,899
Current portion of bonds payable (Note 5)	12,681,060	11,961,236
	<b>36,542,420</b>	<b>52,423,065</b>
Total payable from restricted assets		
Total current liabilities	<b>458,854,758</b>	<b>483,811,563</b>
Noncurrent liabilities:		
Bonds payable, less current portion and net of unamortized discount/premium and deferred amount on refunding (Note 5)	1,010,623,242	1,023,304,302
Estimated liability for self-insurance, noncurrent (Note 9)	1,745,639	2,402,548
Other postemployment benefits liability (Note 7)	7,529,822	5,739,584
Accrued vacation, sick leave and compensatory time, noncurrent	705,251	1,292,127
	<b>1,020,603,954</b>	<b>1,032,738,561</b>
Total noncurrent liabilities		
Total liabilities	<b>1,479,458,712</b>	<b>1,516,550,124</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	272,597,572	314,664,044
Restricted:		
Per Airline Lease Agreement for:		
Airline revenue sharing	11,380,028	7,254,728
Per Master Trust Agreement for:		
Rolling debt service coverage	9,185,059	6,765,662
California Civil Code Section 1936 for Customer Facility Charges	595,166	595,166
Future capital projects	42,967,880	46,733,327
Unrestricted	79,900,421	76,751,215
	<b>272,597,572</b>	<b>314,664,044</b>
Total net assets	<b>\$ 416,626,126</b>	<b>452,764,142</b>

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, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Airline rates and charges:		
Landing fees	\$ 13,370,404	13,190,345
Terminal rental	34,446,216	33,458,906
Total airline rates and charges	<u>47,816,620</u>	<u>46,649,251</u>
Terminal buildings/concessions	16,876,892	11,156,946
Airfield area	2,924,976	2,791,491
Parking and roadway	47,320,098	38,934,351
Fuel handling fees	1,503,834	1,309,532
General aviation	4,481,424	4,995,007
Customer facility charges	6,839,740	6,021,365
Other	39,536	913,626
Total operating revenues	<u>127,803,120</u>	<u>112,771,569</u>
Operating expenses:		
Terminal buildings/concessions	33,019,384	31,701,098
Airfield area	9,748,512	10,911,014
Parking and roadway	25,344,190	24,031,701
Fuel handling costs	287,530	885,303
General aviation	2,409,245	3,052,466
General and administrative	19,095,433	23,623,554
Depreciation and amortization	51,532,165	55,288,220
Total operating expenses	<u>141,436,459</u>	<u>149,493,356</u>
Operating loss	<u>(13,633,339)</u>	<u>(36,721,787)</u>
Nonoperating revenues (expenses):		
Passenger facility charges	17,310,768	17,043,463
Investment income	1,613,489	311,105
Interest expense	(54,430,809)	(10,749,484)
Operating grants	701,183	1,149,465
Loss on capital assets disposal	-	(11,733,174)
Other, net	1,438,228	200,166
Total nonoperating revenues (expenses), net	<u>(33,367,141)</u>	<u>(3,778,459)</u>
Loss before capital contributions	(47,000,480)	(40,500,246)
Capital contributions	10,862,464	34,721,624
Change in net assets	(36,138,016)	(5,778,622)
Total net assets - beginning	<u>452,764,142</u>	<u>458,542,764</u>
Total net assets - ending	<u>\$ 416,626,126</u>	<u>452,764,142</u>

See accompanying notes to financial statements.



**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT  
(A Department of the City of San José)  
Statements of Cash Flows  
For the Fiscal Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
Cash flows from operating activities		
Receipts from customers and users	\$ 128,460,881	112,030,647
Payments to suppliers	(42,373,975)	(37,736,978)
Payments to employees	(26,166,534)	(33,378,756)
Payments for City services	(19,042,476)	(22,614,691)
Claims paid	(865,530)	(429,568)
Other receipts	386,209	593,437
	<u>40,398,575</u>	<u>18,464,091</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Transfers from the City	671,762	-
Transfers to the City	-	(14,645)
Operating grants	286,028	1,275,267
	<u>957,790</u>	<u>1,260,622</u>
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities		
Purchases of capital assets	(88,768,197)	(311,097,318)
Principal payments on bonds payable	(12,120,000)	(11,645,000)
Interest paid	(54,093,240)	(56,257,684)
Capital grants	17,998,047	35,785,514
Passenger facility charges received	18,049,864	17,037,450
Proceeds from commercial paper	371,344,000	98,887,000
Principal payments on commercial paper	(378,613,000)	(5,100,000)
Refund of North Concourse owner-controlled insurance program claims loss reserve	-	2,516,719
Advances and deposits received	944,981	560,702
	<u>(125,257,545)</u>	<u>(229,312,617)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities:		
Proceeds from sale and maturities of investment:	385,686,112	188,524,499
Purchases of investments	(99,065,098)	(46,123,808)
Investment income received	4,095,266	16,932,689
	<u>290,716,280</u>	<u>159,333,380</u>
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	<u>206,815,100</u>	<u>(50,254,524)</u>
Cash and cash equivalents - beginning	<u>121,400,998</u>	<u>171,655,522</u>
Cash and cash equivalents - ending	<u>\$ 328,216,098</u>	<u>121,400,998</u>

See accompanying notes to financial statements

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT  
(A Department of the City of San José)  
Statements of Cash Flows  
For the Fiscal Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (13,633,339)	(36,721,787)
Adjustment to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	51,532,165	55,288,220
Other revenues	795,036	2,225,208
Other expenses	(14,285)	(2,010,397)
Decrease (increase) in:		
Accounts receivable	(1,078,042)	139,365
Prepaid expenses, advances, and deposits	(288,517)	3,129,603
Increase (decrease) in:		
Accounts payable and accrued liabilities	2,433,175	(2,730,302)
Advances and deposits payable	116,584	10,106
Unearned revenue	1,192,707	(532,067)
Estimated liability for self-insurance	(656,909)	(333,858)
Net cash provided by operating activities	\$ 40,398,575	18,464,091
Noncash capital and related financing activities:		
Acquisition of capital assets on accounts payable	\$ 2,541,698	23,826,000
Unrealized gain/(loss) on investments held by fiscal agent	(1,370,557)	(268,136)
Loss on capital assets disposal	-	(11,733,174)
Capitalized interest expense (net of investment income)	-	30,649,254
Amortization of bond discount/premium, issuance costs, and deferred amount on refunding	345,393	482,928
Reconciliation of cash and cash equivalents to the statements of net assets		
Equity in pooled cash and investments held in City Treasury		
Unrestricted	\$ 62,755,181	65,928,183
Restricted	57,113,244	47,596,716
Investments held by fiscal agent classified as cash equivalents	208,347,673	7,876,099
Total cash and cash equivalents	\$ 328,216,098	121,400,998

See accompanying notes to financial statements.

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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**(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

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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.

**(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.

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

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

	<u>Years</u>
Buildings and improvements	5 – 40
Equipment	4 – 10

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**(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 year ended June 30, 2010, the total amount of interest capitalized, net of allowable interest earned on temporary investment proceeds, was \$30,649,254.

**(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, are significantly funded through the Airport Improvement Program (AIP) of the Federal Aviation Administration (FAA) and Transportation Security Administration (TSA), with certain matching funds provided by the Airport. Funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants awarded by TSA to finance airport safety and security are reported in the statement of revenues, expenses and changes in net 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, 2011 and 2010. Thirty-two of these projects had been completed and closed with total costs of \$119,231,647 as of June 30, 2011 and 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.

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***(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, 2011 and 2010, the Airport’s statement of net assets reports restricted net assets of \$64,128,133 and \$61,348,883, respectively, of which \$43,563,046 and \$47,328,493, 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.”

***(l) New Pronouncements***

In June 2010 GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools by providing more complete information, by providing consistency of measurements, and by providing clarifications of existing standards. This standard did not have any effect on the Airport’s financial statements.

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

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. Application of this Statement is effective for the Airport’s fiscal year ending June 30, 2013.

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In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Application of this Statement is effective for the Airport's fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this statement are effective for the Airport's fiscal year ending June 30, 2013.

***(n) Reclassification***

Certain prior year balances were reclassified to conform with the current year presentation. 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 (the "Investment Policy") on April 2, 1985, as amended on September 28, 2010, related to the City's cash and investment pool, which is subject to annual review. The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Investment Policy the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Investment Policy.



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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, 2011 and 2010, the Airport's share of the City's cash and investment pool totaled \$119,868,425 and \$113,524,899, 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, 2011 basic financial statements. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13<sup>th</sup> 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, 2011 and 2010, restricted investments held by fiscal agent totaled \$229,989,486 and \$317,509,483, respectively. The Master Trust Agreement addresses any limitations in Airport investment of moneys. The investments are subject to certain types of risk, including interest rate risk, credit quality risk, and concentration credit risk. However, the Master Trust Agreement does not specifically address policies for each risk.

Provisions of the Airport's Master Trust Agreement limit the Airport's investment of moneys in Bond Reserve funds to time or demand deposits or permitted investments, which mature not more than five years from the date of investment, except for permitted investments, which, by their terms, permit withdrawal of the entire principal amount of such investment at par without penalty and at such times as required by the Master Trust Agreement. The Master Trust Agreement also limits the investments of moneys held by the City to time or demand deposits in any bank or trust authorized to accept public funds, and shall be secured at all times by such obligations, and to the fullest extent, as is required by law, and may at the written direction of the City be invested in permitted investments, maturing not later than the date on which such moneys are required for payment by the Director of Finance or the Trustee.

**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

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maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations.

The City has the ability and generally has the intention to hold all investments until their respective maturity dates. The average maturity of the City's pooled cash and investments as of June 30, 2011, was approximately 376 days. The Investment Policy does not prohibit the sale of securities prior to maturity. However, any portfolio restructuring requires prior conceptual approval in writing from the Director of Finance. Section 17.2 of the Investment Policy further defines the parameters with respect to restructuring the portfolio.

**Credit Quality Risk** – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The City's Investment Policy has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio, and by establishing monitoring procedures.

**Concentration of Credit Risk** – It is not possible to disclose relevant information about the Airport's separate portion of the cash and investment pool, as there are no specific investments in the City's cash and investment pool belonging to the Airport itself. The City's investment policy sets forth the policies regarding concentration of credit risk.

The 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.

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The following table identifies the investment types that are authorized by the City's Investment Policy, as of June 30, 2011:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Dollar of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Bankers' Acceptances	180 days	20% *	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 *	20% *	5% *
Repurchase Agreements	92 days *	50% *	10%
Reverse Repurchase Agreements	30 days *	Lesser of \$25 million or 20% *	None
Corporate Notes	3 years *	20% *	5% *
		State Treasurer	
Local Agency California Investment Fund	None	Limit	None
Money Market Mutual Funds	None	20%	10%
Municipal Bonds - Category 1 (City)	5 years	10% *	5% *
Municipal Bonds - Category 2 (State of CA)	5 years	5% *	5% *
Municipal Bonds - Category 3 (CA Issuers)	5 years	5% *	5% *
Municipal Bonds - Category 4 (Other 49 States)	5 years	5% *	5% *
Investment agreements	None	None	None
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO)	5 years	10% *	None
Asset Based Securities	5 years	5% *	None

\* Represents where the City's investment policy is more restrictive than the California Government Code

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), and the Federal National Mortgage Association (FNMA).

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- Purchases of bankers' acceptances (BAs) are limited to issues by domestic U.S. or foreign banks, which must be rated by Fitch Ratings as follows: an issuer rating of "B" or better for domestic U.S. banks, "C" or better for California banks or "A/B" or better for foreign banks. Additionally, foreign BAs must be in U.S. dollar denominations. BAs eligible for investment must be rated "P1, A1, F1" or better from two of the three nationally recognized rating services; Moody's, S&P or Fitch, respectively.
- Deposits up to the Federal Deposit Insurance Corporation limit may be invested in, but are not limited to, banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. 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.
- Commercial paper eligible for investment must be rated "P1, A1 or F1" or better by two of the three nationally recognized rating services; Moody's, S&P or Fitch, respectively. Issuing corporations must be organized and operating within the United States, have total assets in excess of \$500,000,000 and shall issue debt, other than commercial paper, if any, that is rated "A3, A- or A-" or higher, respectively, by Moody's, S&P or Fitch.
- 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 the 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 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 repurchase 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 "A3, A- or A-" or better by two of the three nationally recognized rating services; Moody's, S&P or Fitch, respectively.
- Funds invested in LAIF, a State of California managed investment pool, may be made up

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to the maximum dollar amount of \$50,000,000 per separate legal entity in conformity with account balance limits authorized by the California State Treasurer. The current maximum amount authorized by the State Treasurer is \$50,000,000.

- 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 \$500,000,000. Investments by the funds are restricted to U.S. Treasury and U.S. Government Agency backed securities permitted under the Policy and must be maintained at no less than \$1.00 per share.
- Municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes four municipal bond categories: (1) bonds issued by the City or its agencies (as defined in the Policy), (2) by the State of California, (3) by other California local agencies, and (4) by any of the other 49 states, respectively. Eligible securities must be rated “A3, A- or A-” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch.
- 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.
- Mortgage backed securities and collateralized mortgage obligations must be issued by a United States government agency and must be AAA-rated or better by a nationally recognized rating service.
- Asset backed securities must be AAA-rated or better by a nationally recognized rating service. The issuer of any asset backed security must have an “A3, A- or A-” rating or better by Moody’s, S&P or Fitch, respectively, of its underlying debt.

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 within 3 business days and to the City Council within 10 days of its discovery.

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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, 2011 and 2010. 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, 2011

Type of investments:	Credit Rating	Maturities				Carrying Value
		Under 30 Days	31-180 Days	181-365 Days	1-5 Years	
Investments held by the Fiscal Agent						
Federated treasury obligations fund	Aaa /AAAm	\$ 161,676,801	-	-	-	\$ 161,676,801
Federal Home Loan Bank <sup>(1)</sup>	Aaa	-	22,597,084	-	-	22,597,084
Local agency investment fund	Not rated	-	-	45,715,601	-	45,715,601
		<u>\$ 161,676,801</u>	<u>22,597,084</u>	<u>45,715,601</u>	<u>-</u>	<u>\$ 229,989,486</u>

As of June 30, 2010

Type of investments:	Credit Rating	Maturities				Carrying Value
		Under 30 Days	31-180 Days	181-365 Days	1-5 Years	
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 <sup>(1)</sup>	Aaa /AAA	-	-	-	23,967,529	23,967,529
Citigroup investment agreements <sup>(1)</sup>	Not rated	6,143,919	233,565,022	-	-	239,708,941
Local agency investment fund <sup>(1)</sup>	Not rated	-	45,684,959	-	-	45,684,959
		<u>\$ 14,020,018</u>	<u>279,521,936</u>	<u>-</u>	<u>23,967,529</u>	<u>\$ 317,509,483</u>

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

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**(3) Capital Assets**

Capital asset activities for the fiscal years ended June 30, 2011 and 2010, were as follows:

	Balance at July 1, 2010	Additions	Transfers	Balance at June 30, 2011
Capital assets not depreciated:				
Land	\$ 75,781,265	-	-	75,781,265
Intangible assets	12,881,547	-	-	12,881,547
Construction in progress	161,613,921	55,090,250	(196,933,710)	19,770,461
Total capital assets, not depreciated	250,276,733	55,090,250	(196,933,710)	108,433,273
Capital assets, depreciated:				
Buildings	1,110,672,053	11,997,874	21,000,192	1,143,670,119
Other improvements	386,112,770	303,205	160,727,218	547,143,193
Equipment	30,215,660	92,565	15,206,300	45,514,525
Total capital assets, depreciated	1,527,000,483	12,393,644	196,933,710	1,736,327,837
Less accumulated depreciation				
Buildings	101,952,930	31,722,492	-	133,675,422
Other improvements	147,096,807	17,590,824	-	164,687,631
Equipment	27,197,378	1,873,454	-	29,070,832
Total accumulated depreciation	276,247,115	51,186,770	-	327,433,885
Total capital assets, depreciated, net	1,250,753,368	(38,793,126)	196,933,710	1,408,893,952
Total capital assets, net	\$ 1,501,030,101	16,297,124	-	1,517,327,225

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	Balance at July 1, 2009	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 depreciation:					
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

In June 2006 the San José City Council approved amendments to the Master Plan that incorporated 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 was planned in two phases. Phase 1 was the \$1.3 billion modernization that was substantially completed in fiscal year 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 years ended June 30, 2011 and 2010, the Airport completed projects totaling \$196.9 million and \$962.0 million, respectively. 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) Facility – The ConRAC project, a 3,350 car full-service facility, provided passengers a convenient access to rental car facilities and reduced traffic on



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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.
- Green Island Parking Lot – This is a new surface, revenue-controlled public parking lot that serves as an economy parking facility. This project provides for approximately 1,700 economy parking spaces services both Terminal A and Terminal B. This project was complete in May of 2011 when it was put into service.
- Hourly Parking Lot 3/Daily Parking Lot 4 – A new approximately 650 stall surface component to the existing 350 public parking spaces was constructed immediately south of the existing ConRac to provide for one of two hourly parking facilities serving Terminal B. Included in this surface parking lot project was an additional approximately 400 daily parking spaces serving Terminal B. These constructed and reconfigured parking areas were opened for service in June of 2011.
- Hourly Parking Lot 5/Daily Parking Lot 6 – A new surface parking facility consisting of approximately 550 hourly public parking spaces and approximately 960 daily public parking spaces was constructed on the site of the former Terminal C. These new parking facilities serve Terminal B, and were opened for service to the public in June of 2011.
- Parking Access Revenue Control System – This project replaced the 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. This project is not yet accepted as specific issues with the system are resolved. The system has, however, been in operation since June of 2010.

The Airport permanently ended airline and concession operations in Temporary Terminal C on June 29, 2010 and the final stage of demolition was completed in fiscal year 2011. As a result, the Airport accelerated its depreciation schedule and wrote off \$25,886,127 related to this facility in fiscal year 2010.

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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 in fiscal year 2010.

The Airport's depreciation expense on capital assets was \$51,186,770 and \$54,805,292 for fiscal years ended June 30, 2011 and 2010, 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 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.

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 credit support, which was scheduled to expire December 2, 2010, for the Series A-1, Series A-2, Series B, and Series C commercial paper notes, was provided severally but not jointly, by JPMorgan Chase Bank, Bank of America, and Dexia Credit Local. On November 9, 2010, the City Council authorized an amendment that extended the term of the agreement for two months from December 2, 2010 to February 2, 2011, removed Dexia Credit Local as a party to the agreement, reduced the amount of available credit from \$450 million to approximately \$283 million, and amended other terms of the agreement.

On January 11, 2011, the City Council approved the letter of credit and reimbursement agreements with each of JPMorgan Chase Bank, N.A.(JP Morgan), Bank of America, N.A. (BANA), Citibank, N.A. (Citibank) , and Well Fargo Bank, N.A. (Wells Fargo). The terms of the agreements range from one year to three years and the replacement letters of credit provide aggregate support of \$383 million to the Series A-C commercial paper notes.

The credit support, which was scheduled to expire May 7, 2011, for the Series D, Series E, and Series F commercial paper notes was provided by Lloyds TSB Bank plc. On April 26, 2011, the City Council authorized an amended and restated letter of credit agreement with Lloyds TSB Bank plc extending the term of the agreement from May 7, 2011 to September 7, 2011.

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As of June 30, 2011, the commercial paper notes program is secured by letters of credit (LOC) summarized below:

Credit Facility Description		
Provider	LOC Description <sup>(1)</sup>	Expiration Date
Bank of America, N.A.	\$ 76,545,294	01/11/13
Citibank, N.A.	100,000,000	01/12/12
JPMorgan Chase Bank, N.A.	100,000,000	01/11/13
Lloyds TSB Bank plc	128,586,000	09/07/11
Wells Fargo, N.A.	75,000,000	01/13/14
Total	\$ 480,131,294	

<sup>(1)</sup> Reflects principal component of the Letter of Credit commitment.

The terms of each bank's credit facility are specified in the respective Letter of Credit and Reimbursement Agreement (the "Reimbursement Agreement"). In general, each bank agrees to advance funds to the issuing and paying agent in an amount sufficient to pay the principal and interest due on maturing commercial paper notes in an amount not to exceed the stated amount of the related letter of credit. In the event that the commercial paper dealer is unable to find investors to purchase commercial paper notes to repay the advance from the bank, the City must pay interest to the bank based on a formula specified in the applicable Reimbursement Agreement and repay principal in accordance with the schedule and terms set forth in the applicable Reimbursement Agreement and Term Loan. Additionally, each bank has a separate fee letter to specify the commitment fee payable by the City and the other fees and charges imposed by the bank related to the issuance of its letter of credit. The initial facility rates were established based on the underlying credit rating on the Airport's bonds. As of June 30, 2011, the facility fee rates are 1.40% for BANA, JPMorgan, Lloyds, and Wells Fargo, and 1.25% for Citibank. These facility fee rates increase at any time any rating is withdrawn, suspended or otherwise unavailable and upon occurrence of an event of default or rating downgrade.

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Balances of commercial paper notes payable as of June 30, 2011 and 2010 were as follows:

As of June 30, 2011

Series A-2 commercial paper notes maturing on July 14, 2011 were issued with an interest rate of 0.25%	\$ 15,205,000
Series B commercial paper notes with \$64,789,000 maturing on July 14, 2011 were issued with an interest rate of 0.25%; \$15,769,000 maturing on August 3, 2011 were issued with an interest rate of 0.20%; \$64,789,000 maturing on August 5, 2011 were issued with an interest rate of 0.22%	145,347,000
Series C commercial paper notes with \$84,166,000 and \$25,000,000 maturing on August 2, 2011 and August 3, 2011, respectively, were issued with an interest rate of 0.22%; \$16,021,000 maturing on August 3, 2011 were issued with an interest rate of 0.21%; \$4,600,000 maturing on August 5, 2011 were issued with an interest rate of 0.24%	129,787,000
Series F commercial paper notes maturing on August 2, 2011 were issued with an interest rate of 0.20%	119,740,000
	\$ 410,079,000
Total commercial paper notes payable	\$ 410,079,000

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
	\$ 417,348,000
Total commercial paper notes payable	\$ 417,348,000

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Commercial paper activities for the fiscal years ended June 30, 2011 and 2010 were as follows:

	<b>2011</b>	<b>2010</b>
Beginning balance	\$ 417,348,000	323,561,000
Additional issuance	371,344,000	98,887,000
Paid	(378,613,000)	(5,100,000)
Ending balance	\$ 410,079,000	417,348,000

The Airport is planning to issue general airport revenue bonds to refund subordinated commercial paper notes issued to help fund the costs of the ConRAC. Although the commercial paper notes have short-term maturities, the Airport's intent is to pay the remaining balance on a long-term basis based on the assumption that commercial paper will be paid on a 30-year amortization period with the first principal payments paid 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 fiscal year ended June 30, 2011 totaled \$99,044,878, which is composed of \$46,597,504 of net general airport revenues and \$52,447,374 of other available funds. Transfers from the general airport revenues to the Trustee for debt service amounted to \$32,501,611, which is net of \$21,388,340 of bond debt service paid from the passenger facility charges. The City has covenanted in the Master Trust Agreement that net revenues available to pay debt service for each fiscal year plus any other available funds (as defined in the Master Trust Agreement) will be at least 125% of annual debt service for such fiscal year. Under the Master Trust Agreement, "debt service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Under the Master Trust Agreement, annual debt service excludes Available PFC Revenues, as defined in the Master Trust Agreement, for such fiscal year. Total principal and interest remaining on the bonds is \$2.0 billion, with the final payment due on March 1, 2047.

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.

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Ambac Indemnity Corporation (Ambac), a subsidiary of Ambac Financial, has issued a reserve fund surety bond of \$4.25 million that expires on March 1, 2018 and 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.

The reserve requirement in the General Account is also satisfied, in part, by a \$6.6 million surety bond from National Public Finance Guaranty Corporation (NFPG), as successor to the MBIA Insurance Corporation. The ratings of Ambac and NFPG were reduced or withdrawn subsequent to the deposit of the respective surety bonds to the General Account. The Master Trust Agreement does not require that the rating of any surety bond held in the General Account be maintained after the date of deposit.

The Ambac surety bond expires on March 1, 2018, and the NFPG surety bond expires on March 1, 2016. If no additional bonds are issued and no additional amounts are deposited in the General Account prior to such dates, on each such date the City would have to make a deposit to the General Account from accumulated Airport surplus funds or provide a Qualified Reserve Surety to replace the amount of each of the expiring surety bonds. The City will also be obligated to replenish the General Account prior to the expiration dates of the surety bonds in the event of a non-payment or cancellation under either surety bond, including upon the liquidation of a surety bond provider.

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Balances of bonds payable as of June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
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 final installment due in March 2026	72,730,000	73,730,000
2002B Series Airport Revenue Bonds of \$37,945,000 at the rate of 5% with the last installment due in March 2012	2,380,000	8,925,000
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 4.30% to 5.239%; payable in annual installments ranging from \$3,985,000 to \$10,055,000 with the final installment due in March 2031	131,335,000	135,160,000
1998A Series Airport Revenue Bonds of \$14,015,000 at rates of 4.60% to 4.75%; payable in annual installments ranging from \$795,000 to \$1,085,000 with the final installment due in March 2018	6,540,000	7,290,000
Total bonds payable	<u>\$ 1,025,870,000</u>	<u>1,037,990,000</u>

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Bonds outstanding and related activities for the years ended June 30, 2011 and 2010, were as follows:

	<b>Balance at July 1, 2010</b>	<b>Retirements</b>	<b>Balance at June 30, 2011</b>	<b>Amounts Due Within One Year</b>
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	73,730,000	1,000,000	72,730,000	1,000,000
2002B Series	8,925,000	6,545,000	2,380,000	2,380,000
2002A Series	53,600,000	-	53,600,000	4,460,000
2001A Series	135,160,000	3,825,000	131,335,000	3,985,000
1998A Series	7,290,000	750,000	6,540,000	795,000
Total long-term debt	<u>1,037,990,000</u>	<u>12,120,000</u>	<u>1,025,870,000</u>	<u>12,620,000</u>
Add unamortized:				
Premium	5,091,393	362,829	4,728,564	504,794
Less unamortized:				
Discount	5,752,127	42,959	5,709,168	44,689
Deferred amount on refunding	2,063,728	478,634	1,585,094	399,045
Total long-term debt, net	<u>\$ 1,035,265,538</u>	<u>11,961,236</u>	<u>1,023,304,302</u>	<u>12,681,060</u>

	<b>Balance at July 1, 2009</b>	<b>Retirements</b>	<b>Balance at June 30, 2010</b>	<b>Amounts Due Within One Year</b>
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	<u>1,049,635,000</u>	<u>11,645,000</u>	<u>1,037,990,000</u>	<u>12,120,000</u>
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	<u>\$ 1,046,606,096</u>	<u>11,340,558</u>	<u>1,035,265,538</u>	<u>11,961,236</u>



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Scheduled maturities of outstanding bonds are as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
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	23,965,000	49,288,498
2017-2021	126,010,000	227,409,914
2022-2026	152,700,000	192,926,619
2027-2031	155,030,000	151,640,675
2032-2036	320,430,000	105,913,625
2037-2041	127,190,000	25,483,500
2042-2046	40,495,000	10,456,200
2047	9,615,000	576,900
Total	<u>\$ 1,025,870,000</u>	<u>970,704,135</u>

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, 2011 and 2010.

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Other long-term liability activities for the years ended June 30, 2011 and 2010 were as follows:

	<b>Balance at July 1, 2010</b>	<b>Adjustments/ Additions</b>	<b>Adjustments/ Retirements</b>	<b>Balance at June 30, 2011</b>	<b>Amounts Due Within One Year</b>
Self-insurance	\$ 2,962,548	201,479	858,388	2,305,639	560,000
Accrued vacation, sick leave and compensatory time	3,520,296	1,069,631	2,275,676	2,314,251	1,609,000
Other postemployment benefits	5,739,584	3,227,182	1,436,944	7,529,822	-
Pollution remediation liability	714,000	210,466	210,466	714,000	714,000
<b>Total</b>	<b>\$ 12,936,428</b>	<b>4,708,758</b>	<b>4,781,474</b>	<b>12,863,712</b>	<b>2,883,000</b>

	<b>Balance at July 1, 2009</b>	<b>Adjustments/ Additions</b>	<b>Adjustments/ Retirements</b>	<b>Balance at June 30, 2010</b>	<b>Amounts Due Within One Year</b>
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
<b>Total</b>	<b>\$ 12,173,286</b>	<b>6,313,560</b>	<b>5,550,418</b>	<b>12,936,428</b>	<b>3,502,169</b>

**(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). In August 2011, the City Council authorized the Director of Aviation to extend the term for five years through June 30, 2017, which will allow the airlines to continue to conduct operations and occupy leased space through the extended term. The existing rates and charges structure, as well as all other terms and conditions, will remain unchanged.

The airline lease agreement provides that any passenger airline that (a) signs an agreement substantially similar to the airline lease agreement, (b) provides passenger service at the Airport, (c) leases from the City an amount of exclusive use premises (not including gates) in the terminal deemed sufficient by the Director of Aviation to support the airline's operation and (d) at the time the airline executes its agreement with the City, operates at least one scheduled flight, scheduled

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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.

For the fiscal years ended June 30, 2011 and 2010, the Airport’s revenues as defined in its lease agreements exceeded its expenditures and reserve requirements by \$33,987,539, and \$35,485,816, respectively. The surplus for fiscal year ended June 30, 2011 will be distributed in accordance with

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the revenue sharing provisions of the lease agreement as described above and/or used in the budget balancing actions for fiscal year 2012-2013. \$10,405,743 of the surplus for the year ended June 30, 2010 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 27 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount.

Rental revenues from the aforementioned operating leases were \$76,043,925 and \$60,964,425 for the fiscal years ended June 30, 2011 and 2010, respectively

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

<u>Fiscal year ending June 30,</u>	
2012	\$ 74,853,875
2013	35,607,926
2014	35,618,481
2015	31,405,057
2016	31,382,287
2017-2021	155,404,475
2022-2026	25,326,355
2027-2031	26,993,360
2032-2036	23,470,592
2037-2041	<u>10,215,032</u>
Total minimum lease rentals	<u>\$ 450,277,440</u>

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 \$1,194,237 from month-to-month rentals in fiscal year 2012.

As of June 30, 2011 and 2010, leased assets had total historical costs of \$1,031,260,042 and \$1,001,525,496, respectively, and accumulated depreciation of \$75,461,141 and \$48,746,530, respectively.

Pursuant to the terms of individual agreements entered into with the City, every airline, operator, tenant or any other entity or person which is party to an agreement with the City authorizing them to conduct business at the Airport, is required to maintain a security deposit on file with the City.

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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, 2011 and 2010 totaled \$23,024,541 and \$28,991,073, 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 (Federated Plan), 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 Federated Plan and is available from the City of San José Office of Retirement Services, 1737 North First Street, Suite 580, San José, California 95112. As a department of the City, the Airport shares in the risks, rewards and costs including benefit costs with the City. The Airport presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City.

The payroll for Airport employees covered by the Federated Plan for the fiscal years ended June 30, 2011 and 2010 was \$16,755,472 and \$22,686,445, respectively. The Airport's total payroll for the fiscal years ended June 30, 2011 and 2010 was \$20,670,123 and \$28,829,122, respectively. The Defined Benefit Pension Plan provides general retirement benefits including pension, death, and disability benefits to members. Benefits are based on average final compensation, years of service, and limited required cost-of-living increases. The contribution and benefit provisions and all other requirements are established by the City Charter and City ordinances.

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

The City entered into a Memorandum of Agreement (MOA) with five bargaining units during fiscal year 2011 to make ongoing and one-time additional retirement contributions. They were applied to reduce the contributions that the City would otherwise be required to make for the pension unfunded liability from June 27, 2010 through June 25, 2011. The City calculated and implemented the additional contribution rate during fiscal year 2011. The contribution rates provided below do not reflect the additional retirement contributions.

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Contribution rates for the Airport and the participating employees for the periods June 28, 2009 through June 26, 2010, June 27, 2010 through June 25, 2011, and June 26, 2011 through June 30, 2011 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2007, June 30, 2009 and June 30, 2010, respectively, for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan.

<u>Pay Period</u>	<u>Airport's Contribution <sup>(1)</sup></u>		<u>Employees' Contribution</u>	
	<u>Defined Benefit Pension</u>	<u>Post-employment Healthcare Plan</u>	<u>Defined Benefit Pension</u>	<u>Post-employment Healthcare Plan</u>
06/28/09 through 06/26/10	18.31%	5.70%	4.28%	5.07%
06/27/10 through 06/25/11 <sup>(2) (3)</sup>	25.75%	6.41%	4.54%	5.76%
06/26/11 through 06/30/11 <sup>(4)</sup>	28.34%	7.16%	4.68%	6.52%

<sup>(1)</sup> Airport's contribution rates do not reflect contribution prefunding described below.

<sup>(2)</sup> In fiscal 2011, the actual contribution rates paid by the Airport differed due to the additional contributions paid by employees.

<sup>(3)</sup> In fiscal year 2011, the Airport initially funded a contribution rate of 23.18% and later funded an additional 2.57% to provide for the actuarial required contribution

<sup>(4)</sup> The resolution adopted by the Federated Plan's Board setting the contribution rates for fiscal year 2012 provides that the City's Budget Office may adjust the employer's contribution rate in order to achieve a minimum dollar contribution for 2012.

The required contributions rates determined by the Federated Plan's actuary anticipate that the City will make contributions on a bi-weekly basis throughout the fiscal year. The City has elected since fiscal year 2008-09 to "prefund" all or part of its total annual required contributions to the Federated Plan at the beginning of each fiscal year and the Federated Plan's actuary applies an interest discount to the required contributions to account for the fact that contributions are made at the beginning of the year instead of throughout the year. The "prefunded" annual contributions are made on the basis of estimated bi-weekly pay for the fiscal year and are trued up at the end of the fiscal year based on actual bi-weekly payroll.

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 Federated Plan 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. 43 annual required contribution over the next 5 years; fiscal year 2011 was the second year of the phase-in. The funding specified in these agreements is also being applied to unrepresented employees. The Memorandums of Agreement between the City and the bargaining

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units representing the members of the Federated Plan 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 Federated Plan members or the City. Notwithstanding these limitations on incremental increases, the agreements with members of the Federated Plan 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. 43.

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
6/30/2009	\$ 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
6/30/2011	4,455,031	4,455,031	-	3,164,961	3,227,182	1,436,944	7,529,822

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. 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 \$7,529,822 and \$5,739,584 at June 30, 2011 and 2010, respectively, which is recorded as the Airport’s net OPEB obligation. The Airport has earmarked funds from the unrestricted net assets to pay the full amount of the 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, 13<sup>th</sup> Floor, San José, CA, 95113 or can be found at the City’s Finance Department website at <http://www.csjfinance.org/>.

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**(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, 2011 and 2010, were \$3,072,753 and \$5,169,075, respectively. The City also charged the Airport fees of \$14,188,328 and \$15,598,269 for the fiscal years ended June 30, 2011 and 2010, respectively, for airport rescue and fire fighting and police services coverage. Additionally, various City departments charge the Airport for services they rendered on its behalf. These fees and service charges, which totaled \$1,029,784 and \$1,119,796 for the fiscal years ended June 30, 2011 and 2010, 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 became effective automatically upon the termination of the operating sublease. During the initial term of the operating sublease, the City used the Airport West property for aviation-related purposes. The base rental for the possession and use of property in each rental payment period was 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 also paid 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;



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- (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 had 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 paid the lease and additional payments from Airport revenues on deposit in the Maintenance and Operations Fund of the Airport. 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 no longer needed 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. Accordingly, no rental expenses for the Airport West Property were paid by the Airport during the fiscal year ended June 30, 2011.

**(9) Risk Management**

**(a) Insurance Policies**

The Airport is covered under the City's annual all-risk property insurance policy with coverage for City property, including coverage for boiler and machinery exposures. The policy also provides coverage for loss due to business interruption and flood. The City does not carry earthquake insurance as it is not reasonably available. A summary of these coverages is provided below for the policy period of October 1, 2010 to October 1, 2011.

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<u>Coverage</u>	<u>Limit per Occurrence</u>	<u>Deductible per Occurrence</u>
Property, including Business Interruption	\$1 billion	\$100,000
Flood Zone, Special Flood Hazard Area	\$15 million per occurrence and annual aggregate	5% of values at risk (\$1 million minimum deductible)
Flood Zone B	\$25 million per occurrence and annual aggregate	2% of values at risk (\$100,000 minimum deductible)
Flood, Other Locations	\$100 million per occurrence and annual aggregate	\$100,000

The City has an airport liability policy for the policy period of October 1, 2010 to October 1, 2011 covering the Airport, including operation of vehicles on premises, which provides a limit of \$200,000,000 combined single limit for bodily injury and property damage a sublimit of \$25,000,000 each occurrence for personal injury, subject to a deductible of \$25,000 each occurrence and annual aggregate. The Airport's \$200,000,000 liability policy 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 fleets with limit of \$1,000,000 per occurrence combined single limit for bodily injury and property damage and no deductible. Physical damage coverage is available for the Airport Shuttle Bus Fleet and is subject to a \$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 workers' compensation. Workers' compensation liabilities are accounted for on a separate contribution basis under which workers' compensation liabilities are recorded in the respective funds (enterprise or governmental) to which they relate.

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

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

	<b>2011</b>	<b>2010</b>
Accrued liability, beginning of fiscal year	\$ 2,962,548	3,296,406
Claims payments and adjustments	(858,388)	(426,063)
Provision for current year claims and changes in prior year estimates	201,479	92,205
Accrued liability, end of fiscal year	\$ 2,305,639	2,962,548

The Airport has established a reserve for self-insurance, in addition to the reserve established by the City. The reserve for self-insurance, included in the unrestricted net assets was \$981,000 and \$1,762,695 as of June 30, 2011 and 2010, respectively.

**(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.

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

The North Concourse OCIP required the City to fund a claims loss reserve fund with Chartis in the amount of \$3.9 million. The full amount of the claims loss reserve had been deposited with Chartis and was recorded as advances and deposits in the accompanying statement of net assets. The claims loss reserve fund is available to Chartis to pay claims within the City's

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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 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 closing out process for OCIP includes an actuarial review, which examines outstanding claims. The City was able to negotiate the return of a large portion of the unused claims reserve in advance of the 10-year coverage term and in March 2010, the amount of \$2,516,719 was returned to the Airport. Chartis will continue to hold the remaining funds in the claims loss reserve fund until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

Activities relating to the North Concourse OCIP claims reserve fund for the fiscal years ended June 30, 2011 and 2010 were as follows:

		<u>2011</u>	<u>2010</u>
Beginning balance	\$	989,663	3,688,246
Additional deposits		161,835	-
Refunded		-	(2,516,719)
Losses paid		(85,834)	(181,864)
Ending balance	\$	<u>1,065,664</u>	<u>989,663</u>

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

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

The liability under the TAIP OCIP is based upon an estimated payroll of \$92.5 million for the covered projects and a construction period of 45 months, commencing on March 15, 2007 through December 31, 2010. The terms of the TAIP OCIP require the City to fund a claims loss reserve fund with Chartis in the amount of \$8.9 million. The claims loss reserve fund is

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available to Chartis to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of \$8.9 million. The City was able to negotiate to fund 74% of the claims loss reserve and interest generated remains in the fund. The full amount of \$6.5 million was deposited with Chartis in fiscal year 2009 and was recorded as advances and deposits in the accompanying statement of net assets.

Activities relating to the TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 5,880,954	6,259,792
Interest earned	5,163	6,033
Losses paid	<u>(1,026,145)</u>	<u>(384,871)</u>
Ending balance	<u>\$ 4,859,972</u>	<u>5,880,954</u>

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

**(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

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six months rent was paid to the landlord in July 2010. Total rental expenses for the office space were \$753,863 and \$2,498,056 for fiscal year ended June 30, 2011 and 2010, 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 \$1,848,083 and \$1,547,699 for fiscal years ended June 30, 2011 and 2010, respectively.

In June 2001, the Airport entered into an operating lease and maintenance agreement for 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 for fiscal year ended June 30, 2010.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 2,233,722
2013	2,241,420
2014	2,249,333
2015	2,257,468
2016	1,066,821
2017	881,394
Total minimum lease payments	<u>\$ 10,930,158</u>

**(b) *Purchase Commitments and Capital Outlay Projections***

As of June 30, 2011, the Airport was obligated for purchase commitments of approximately \$13.3 million primarily for the remainder of the costs for Terminal Area Improvement Program projects. The Airport has projected that it will expend or encumber \$181.4 million on proposed capital projects, of which \$59.1 million represents new 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.

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**(c) Acoustical Treatment Program**

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

A new joint agreement was entered into by the City and Chevron in November 2009. Chevron was designated as the lead in the remediation efforts. The agreement provides for a 50%-50% cost sharing responsibility for actual future costs until successful closure of the site. During fiscal year ended June 30, 2011, the Airport has paid its 50% of the remediation costs totaling \$210,466. 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”). Due to the proximity of the closed City jet fuel farm to the adjacent Chevron jet fuel farm that was still active, and the apparently stable contaminant plume, the regulators approved a waiver to allow the City tanks to be left in place until such time as a completely new fuel farm could be built, thereby allowing the Chevron site to be closed, and investigation/remediation to be done on both sites at once. The new jet fuel farm was 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.

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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. The demolition of the City fuel farm and removal of the USTs is currently underway. 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, 2011 and 2010 to cover for the estimated remaining costs of its portion of the interim remediation system. Latest estimates of costs to further investigate and cleanup this site is between \$1-2 million depending upon method of accomplishment and actual remediation requirements.

**(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. The current program consists of two phases with an estimated total of \$1.6 billion. Phase 1 of the program has a total budget of approximately \$1.3 billion and construction of most of the projects was completed at the end of fiscal year 2010, with the balance of the projects completed in fiscal year 2011 and one remaining project to be completed in fiscal year 2012. Construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. In June 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. Development of request for proposal for a second full service fixed based operator is underway and is anticipated that a lease will be approved by the City in fiscal year 2012. Funding for Master Plan projects is from several sources, including grants, PFCs, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.



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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

*(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 Event**

In July 2011, the City issued Airport Revenue Bonds Series 2011A-1 and Series 2011A-2 in the amount of \$150,405,000 and \$86,380,000, respectively. The Series 2011A-1 Bonds were issued (i) to refund subordinated commercial paper notes originally issued to refund the Airport Revenue Bond Series 2004A and Series 2004B, (ii) to refund all of the outstanding Airport Revenue Refunding Bonds, Series 1998A, (iii) to make a cash deposit to the General Account of the Bond Reserve Fund, and (iv) to pay a portion of the costs of issuing Series 2011A Bonds. The bonds were issued with interest rates ranging from 2.00% to 6.25% and will mature in March 2034.

The Series 2011A-2 Bonds were issued (i) to refund \$85,625,000 aggregate principal amount of the outstanding Series 2001A, and (ii) to pay a portion of the costs of issuing the Series 2011A Bonds. The bonds were issued with interest rates ranging from 2.00% to 5.25% and will mature in March 2034.

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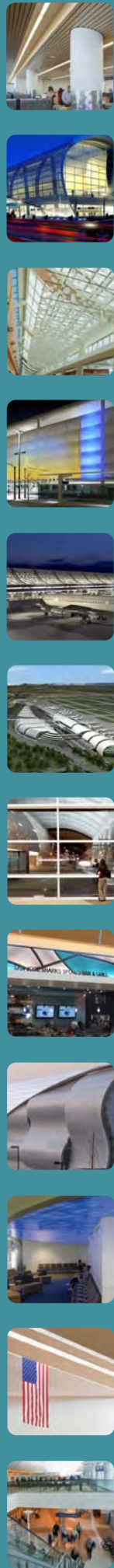
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# STATISTICAL



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

**Statistical Section**  
**June 30, 2011**

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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**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 TEN FISCAL YEARS**  
**(in \$ 000's)**

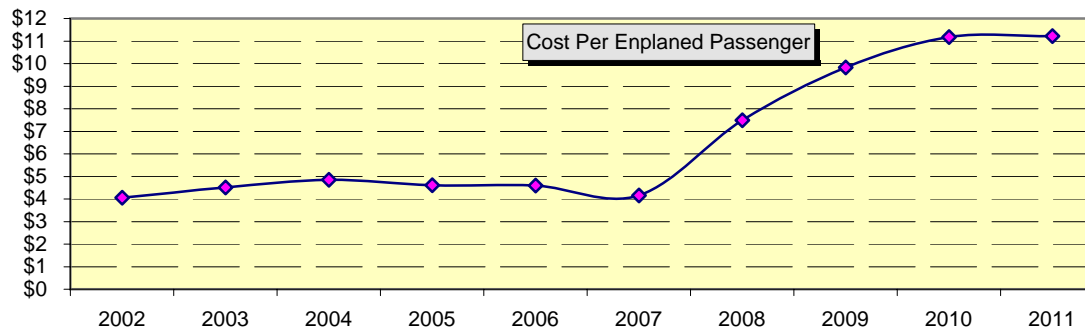
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Operating revenues <sup>(1)</sup>										
Airline rates and charges:										
Landing fees	\$13,150	\$11,630	\$11,122	\$9,751	\$10,768	\$13,504	\$13,084	\$14,504	\$13,190	\$13,370
Terminal rental	11,982	13,725	16,408	16,979	16,575	11,308	26,539	29,716	33,459	34,446
Total airline rates and charges	25,132	25,355	27,530	26,730	27,343	24,812	39,623	44,220	46,649	47,816
Terminal buildings/concessions	7,184	7,071	6,912	8,005	8,672	9,201	11,470	11,947	11,157	16,877
Airfield area	3,473	3,188	3,071	2,976	3,074	2,519	2,833	3,171	2,791	2,925
Parking and roadway	47,482	44,213	43,913	43,858	46,484	48,226	48,369	44,227	38,934	47,320
Fuel handling fees	1,419	1,395	1,333	1,375	1,492	1,592	1,806	1,474	1,310	1,504
General aviation	2,647	2,915	2,883	3,005	3,555	4,420	4,726	5,127	4,995	4,481
Customer facility and transportation fees	4,418	4,192	4,183	4,297	4,491	4,451	6,351	6,713	6,021	6,840
Other	365	128	0	23	303	108	63	699	914	40
Total operating revenues	92,120	88,457	89,825	90,269	95,414	95,329	115,241	117,578	112,771	127,803
Operating expenses:										
Terminal buildings/concessions	20,413	22,368	21,630	24,130	24,685	26,929	31,790	28,813	31,701	33,019
Airfield area	18,568	18,175	22,660	20,980	21,765	19,860	22,692	16,170	10,911	9,749
Parking and roadway	24,790	24,462	24,382	26,486	28,518	28,559	27,936	26,853	24,032	25,344
Fuel handling costs	166	84	51	96	325	171	311	557	885	288
General aviation	3,484	3,436	2,826	2,838	3,152	3,679	3,428	4,072	3,052	2,409
General and administrative	20,619	21,129	21,963	21,741	24,665	28,787	32,879	28,268	23,624	19,095
Depreciation and amortization	14,250	16,238	17,696	19,118	19,153	19,323	22,834	20,647	55,288	51,532
Total operating expenses	102,290	105,892	111,208	115,389	122,263	127,308	141,870	125,380	149,493	141,436
Operating loss	(10,170)	(17,435)	(21,383)	(25,120)	(26,849)	(31,979)	(26,629)	(7,802)	(36,722)	(13,633)
Nonoperating revenues (expenses):										
Passenger facility charges	22,238	21,167	21,842	21,768	22,271	22,169	21,224	17,416	17,043	17,311
Investment income	8,524	5,157	1,060	4,584	5,376	9,294	15,446	8,138	311	1,613
Interest expense	(7,231)	(6,502)	(5,594)	(7,173)	(3,184)	(11,995)	(11,737)	(11,404)	(10,750)	(54,430)
Operating grants	2,404	5,685	5,724	5,570	8,398	8,284	8,444	4,625	1,150	701
Loss on disposal of capital assets	-	-	-	-	(3)	-	-	(3,537)	(11,733)	-
Other, net	1,746	3,423	2,091	747	2,332	2,541	2,767	4,227	200	1,438
Total nonoperating revenues (expenses), net	27,681	28,930	25,123	25,496	35,190	30,293	36,144	19,465	(3,779)	(33,367)
Income before capital contributions	17,511	11,495	3,740	376	8,341	(1,686)	9,515	11,663	(40,501)	(47,000)
Capital contributions	17,263	12,687	11,725	13,791	10,508	9,694	4,970	12,868	34,722	10,862
Change in Net Assets	\$34,774	\$24,182	\$15,465	\$14,167	\$18,849	\$8,008	\$14,485	\$24,531	(\$5,779)	(\$36,138)
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	\$272,598
Restricted	150,714	123,202	121,548	133,413	113,182	118,334	84,491	45,260	61,349	64,128
Unrestricted	2,096	40,524	6,000	7,887	78,827	61,233	82,200	96,348	76,751	79,900
Total Net Assets	\$338,857	\$363,038	\$378,503	\$392,670	\$411,519	\$419,527	\$434,012	\$458,543	\$452,764	\$416,626

(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.

(3) Certain prior year balances were reclassified to conform with the current year presentation. The reclassification has no effect on the financial position or changes in financial position.

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



	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Airline revenues:										
Terminal rental	\$ 11,894	13,441	16,294	16,390 <sup>(1)</sup>	15,886 <sup>(1)</sup>	10,748 <sup>(1)</sup>	26,539	29,716	33,459	34,446
Landing fees (Passenger Carriers)	11,330	10,020	9,384	8,262	9,036	11,390	12,252	13,560	12,443	12,582
<b>Total</b>	<b>23,224</b>	<b>23,461</b>	<b>25,678</b>	<b>24,652</b>	<b>24,922</b>	<b>22,138</b>	<b>38,791</b>	<b>43,276</b>	<b>45,902</b>	<b>47,028</b>
Enplaned passengers	5,719	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107	4,189
Airline cost per enplaned passenger (not in 000's)	\$ 4.06	4.51	4.85	4.61	4.60	4.16	7.49 <sup>(2)</sup>	9.84 <sup>(2)</sup>	11.18 <sup>(2)</sup>	11.23 <sup>(2)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> Increases in airline cost per enplaned passenger during fiscal years 2008 through 2011 were principally due to the decreases in enplaned passengers and the increases in debt service.

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

**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)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross Concession Revenue: <sup>(1)</sup>										
Parking <sup>(2)</sup>	\$ 29,153	29,135	29,693	29,225	29,744	29,702	28,625	23,632	21,260	22,081
Rental Cars	111,218	111,173	110,385	110,111	125,371	142,115	156,227	127,661	114,614	125,730
Food and Beverage	16,434	15,887	16,763	17,841	18,251	20,156	20,041	16,753	16,493	21,141
Advertising	3,562	3,418	2,878	3,705	4,627	3,451	1,892	1,923	1,736	1,903
Gift Shop & Retail	8,789	7,821	8,325	8,325	8,534	8,007	7,957	7,380	8,868	11,290
In-Flight Kitchen	18,838	14,008	12,697	9,883	7,731	7,277	5,819	6,173	8,580	9,823
Total Gross Concession Revenue	<u>\$ 187,994</u>	<u>181,442</u>	<u>180,741</u>	<u>179,090</u>	<u>194,258</u>	<u>210,708</u>	<u>220,561</u>	<u>183,522</u>	<u>171,551</u>	<u>191,968</u>
Enplaned Passengers:	5,719	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107	4,189
Gross Concession Revenue Per Enplaned Passenger (not in 000's)	<u>\$ 32.87</u>	<u>34.86</u>	<u>34.15</u>	<u>33.50</u>	<u>35.87</u>	<u>39.61</u>	<u>42.59</u>	<u>41.71</u>	<u>41.77</u>	<u>45.83</u>

<sup>(1)</sup> Gross revenues of major concessionaires only.

<sup>(2)</sup> 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 2002 THROUGH 2007 AND THE PERIOD JULY 1 TO NOVEMBER 30, 2007**

**Schedule D**  
(Continued)

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

(1) MGLW - Maximum Gross Landing Weight

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

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

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

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



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

**Schedule D  
(Concluded)**

**SCHEDULED AIRLINE RATES AND CHARGES <sup>(1)</sup>  
PERIOD DECEMBER 1, 2007 to JUNE 30, 2008 THROUGH FISCAL YEAR 2011**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Unit</u>
Landing Fees	\$ 2.00	\$ 2.24	\$ 2.32	\$ 2.47	per 1,000 lbs. MGLW <sup>(4)</sup>
Terminal Rental Rates					
Group A:					
Ticket counter and queuing, Skycap/Curbside Check-in					
- Preferential	73,729	81,192	145,136	241,041	per counter
- Common	35	63	57	73	per hour
Airline ticket office, Club/VIP	166.07	237.81	204.57	157.18	per sq. ft.
Holdroom (Gate)					
- Preferential	418,598	481,687	726,212	742,245	per gate
- Common	228	330	497	496	per turn
Group B:					
Baggage Claim <sup>(2)</sup>	132.86	190.25	163.66	125.74	per sq. ft.
Other Office	132.86	190.25	163.66	125.74	per sq. ft.
Group C:					
Baggage Make-up <sup>(3)</sup>	83.04	118.91	102.29	78.59	per sq. ft.
Operations Space	83.04	118.91	102.29	78.59	per sq. ft.

- (1) These rates and charges were for the period December 1, 2007 to June 30, 2011 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.

**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)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Outstanding Debt per Enplaned Passenger</b>										
Outstanding debt by type:										
Revenue bonds	282,485	268,770	512,500	503,885	494,910	485,545	1,060,815	1,049,635	1,037,990	1,025,870
Commercial paper notes	3,854	6,658	5,786	7,755	8,089	41,424	186,190	323,561	417,348	410,079
Total outstanding debt	286,339	275,428	518,286	511,640	502,999	526,969	1,247,005	1,373,196	1,455,338	1,435,949
Enplaned Passengers	5,719	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107	4,189
Total outstanding debt per enplaned passenger (not in 000's)	50	53	98	96	93	99	241	312	354	343
<b>Debt Service</b>										
Revenue bonds (2) (3)	14,008	17,646	17,454	17,932	21,423	20,837	21,567	23,037	26,779	32,502
Commercial paper notes (4)	194	313	268	447	573	3,002	66	65	734	12,092
Total debt service	14,202	17,959	17,722	18,379	21,996	23,839	21,633	23,102	27,513	44,594
Net debt service per enplaned passenger (not in 000's)	2.48	3.45	3.35	3.44	4.06	4.48	4.18	5.25	6.70	10.65

(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, and as amended and supplemented to date (Master Trust), "Bond Debt Service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Also, under the Master Trust, the City may designate Passenger Facility Charges as "Available Passenger Facility Charges" for payment of eligible debt service. The amount of Debt Service is reduced by the amount Available Passenger Facility Charges designated by the City and deposited with the Trustee to pay Debt Service.

(3) Per the Master Trust, rates used to calculate the interest payable on variable rate bonds, Series 2004A&B Airport Revenue Bonds, which were outstanding during fiscal years 2005 through 2008, were the actual interest rates that were in effect for the relevant period of calculation.

(4) As required by the Letter of Credit and Reimbursement Agreements related to the Airport's Commercial Paper (CP) Program, the principal amount of the CP is assumed to be amortized on a substantially level debt service for a period of 25 years commencing on the estimated completion date of the respective project to which such obligations relate or the date of issuance if the CP proceeds were not used for a project. As also required, the interest rate on the CP is assumed to be equal to an interest rate calculated by multiplying the average interest rate during the 90-day period prior to the end of the fiscal year by 1.15, as certified by a certificate of a financial advisor. As permitted by the Letter of Credit and Reimbursement Agreements, the outstanding CP as of June 30, 2011 was adjusted to reflect the repayment of certain CP from the proceeds of the Airport Revenue Bond Series 2011A. Under the previous Letter of Credit and Reimbursement Agreements, the calculation of debt service did not include the CP which funded capitalizable projects during the fiscal years 2008 through 2010.

**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)<sup>(1)</sup>**

Year	Adjusted General Airport Revenues <sup>(2)</sup>	Operating Expenses <sup>(3) &amp; (4)</sup>	Net Revenues	Other Available Funds	Net Revenues Available for Debt Service	Total Bond Debt Service <sup>(5)</sup>	Available Passenger Facility Charges <sup>(5)</sup>	Net Bond Debt Service Payable from Revenues	Coverage Ratio - Bonds	Estimated Commercial Paper (CP) Debt Service <sup>(7)</sup>	Coverage Ratio- Bonds & CP
2002	\$ 96,393	71,223	\$ 25,170	\$ 19,053	44,223	14,008		14,008	3.16	194	3.11
2003	97,183	72,960	24,223	30,633	54,856	17,646		17,646	3.11	313	3.05
2004	88,214	71,020	17,194	37,565	54,759	17,454		17,454	3.14	268	3.09
2005	89,806	73,422	16,384	37,666	54,050	17,932 <sup>(6)</sup>		17,932	3.01	447	2.94
2006	100,531	78,156	22,375	37,022	59,397	21,423 <sup>(6)</sup>		21,423	2.77	573	2.70
2007	96,661	86,120	10,541	44,250	54,791	20,837 <sup>(6)</sup>		20,837	2.63	3,002	2.30
2008	115,184	95,615	19,569	44,175	63,744	21,567 <sup>(6)</sup>		21,567	2.96	66	2.95
2009	115,115	90,783	24,332	49,053	73,385	23,037		23,037	3.19	65	3.18
2010	106,503	82,606	23,897	51,610	75,507	31,367	4,588	26,779	2.82	734	2.74
2011	123,447	76,850	46,597	52,447	99,044	53,890	21,388	32,502	3.05	12,092	2.22

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

(2) Does not include Passenger Facility Charges (PFCs) or AIP grant proceeds. PFC revenues and AIP grant proceeds are included in the Statements of Revenues, Expenses, and Changes in Net Assets as nonoperating revenues.

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

(4) Excludes letter of credit fees associated with subordinated commercial paper. Letter of credit fees, net of capitalized fees, are reflected as part of operating expenses for accounting purposes. However, fees imposed pursuant to the reimbursement agreements relating to such letters of credit are Subordinate Obligations and are not incorporated in operating expenses for purposes of calculating debt service coverage.

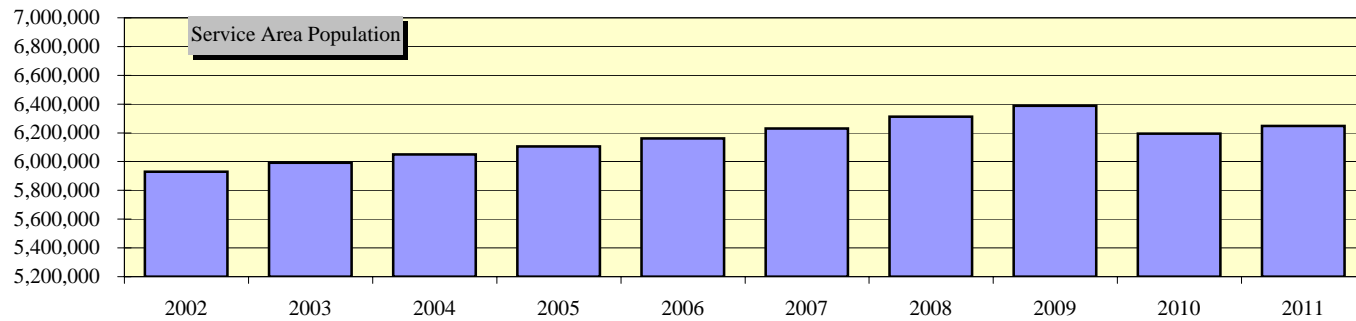
(5) Under the Master Trust Agreement dated July 1, 2001, and as amended and supplemented to date (Master Trust), "Bond Debt Service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Also, under the Master Trust, the City may designate Passenger Facility Charges as "Available Passenger Facility Charges" for payment of eligible debt service. The amount of Debt Service is reduced by the amount Available Passenger Facility Charges designated by the City and deposited with the Trustee to pay Debt Service.

(6) Per the Master Trust, rates used to calculate the interest payable on variable rate bonds, Series 2004A&B Airport Revenue Bonds, which were outstanding during fiscal years 2005 through 2008, were the actual interest rates that were in effect for the relevant period of calculation.

(7) As required by the Letter of Credit and Reimbursement Agreements related to the Airport's Commercial Paper (CP) Program, the principal amount of the CP is assumed to be amortized on a substantially level debt service for a period of 25 years commencing on the estimated completion date of the respective project to which such obligations relate or the date of issuance if the CP proceeds were not used for a project. As also required, the interest rate on the CP is assumed to be equal to an interest rate calculated by multiplying the average interest rate during the 90-day period prior to the end of the fiscal year by 1.15, as certified by a certificate of a financial advisor. As permitted by the Letter of Credit and Reimbursement Agreements, the outstanding CP as of June 30, 2011 was adjusted to reflect the repayment of certain CP from the proceeds of the Airport Revenue Bond Series 2011A. Under the previous Letter of Credit and Reimbursement Agreements, the calculation of debt service did not include the CP which funded capitalizable projects during the fiscal years 2008 through 2010.

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

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



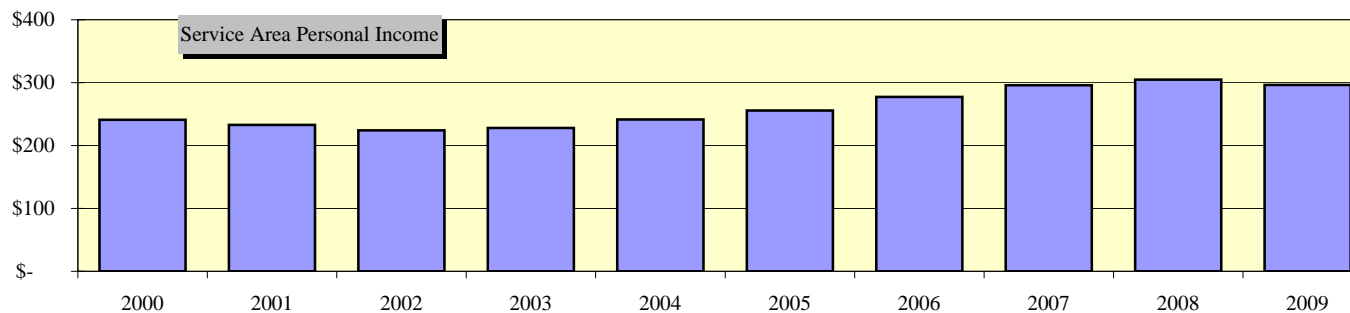
73

Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
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	1,509,240	415,108	55,272	718,614	1,781,427	262,552	255,399	684,057	514,003	6,195,672
2011	1,521,157	419,038	55,619	724,702	1,797,375	264,430	257,984	690,899	517,685	6,248,889

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

Source: California Department of Finance

**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)**



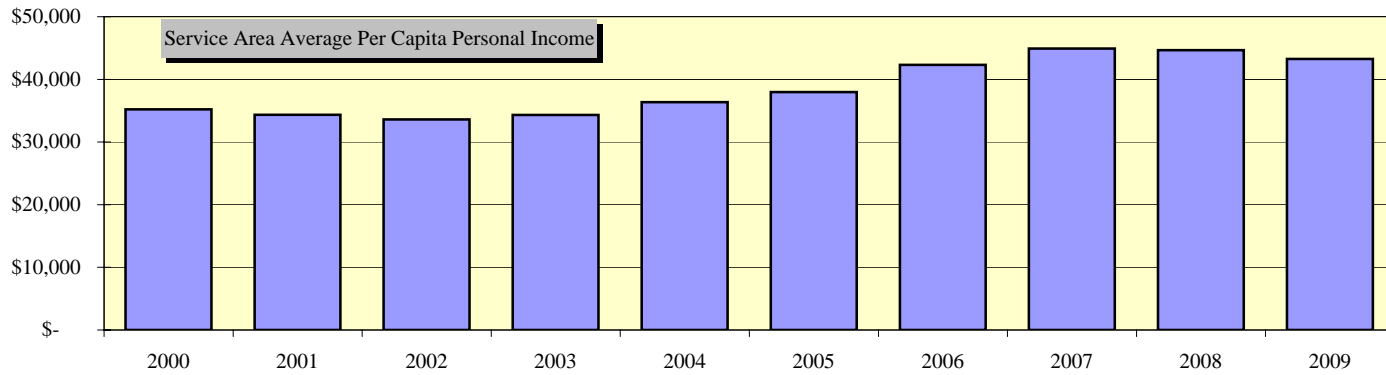
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Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2000	\$ 55,790,773	\$ 12,097,144	\$ 1,561,059	\$ 41,730,460	\$ 91,386,181	\$ 10,014,548	\$ 4,133,861	\$ 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	73,819,703	17,243,092	1,954,831	51,062,495	103,697,458	12,962,445	6,842,821	21,121,955	16,072,573	304,777,373
2009	71,596,468	17,126,664	1,945,249	50,014,142	99,549,995	12,591,938	6,750,415	20,968,710	15,948,738	296,492,319

<sup>(1)</sup> Information for calendar years 2010 and 2011 is not available.

Source: Bureau of Economic Analysis

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT**  
 (A Department of the City of San José)  
**SERVICE AREA PER CAPITA PERSONAL INCOME IN THE AIR TRADE AREA**  
 LAST TEN AVAILABLE CALENDAR YEARS <sup>(1)(2)</sup>



Years	Primary Service Area						Secondary Service Area				Average PCPI
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus		
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	50,206	42,506	35,674	72,112	59,058	51,249	28,003	31,584	31,673	44,674	
2009	48,004	41,735	35,331	69,562	55,781	49,145	27,517	31,071	31,248	43,266	

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

<sup>(2)</sup> Information for calendar years 2010 and 2011 is not available.

Source: Bureau of Economic Analysis

**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 FIVE YEARS AGO**

Company or Organization	2011			2006		
	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
County of Santa Clara	15,420	1	1.78%	14,860	2	1.70%
Cisco Systems	11,600	2	1.34%	16,500	1	1.89%
IBM	6,750	3	0.78%	5,800	4	0.66%
City of San Jose*	5,250	4	0.61%	6,670	3	0.76%
San Jose State University	3,300	5	0.38%	3,100	5	0.35%
eBay Inc.	3,000	6	0.35%	2,200	8	0.25%
Hitachi	2,000	10	0.23%	2,800	6	0.33%
San Jose Unified School District	2,690	7	0.31%	1,820	13	0.21%
Xilinx, Inc.	2,440	8	0.28%	2,300	7	0.26%
Sanmina-SCI	2,310	9	0.27%	2,100	9	0.24%
Adobe Systems, Inc.	2,000	10	0.23%	2,000	10	0.23%
Kaiser Permanente	1,920	11	0.22%	na	na	na
Good Samaritan Hospital	1,850	12	0.21%	1,850	12	0.21%
Cadence Design Systems	1,560	13	0.18%	1,750	14	0.20%
Brocade Communication	1,450	14	0.17%	2,000	na	na

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

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

<b><u>Functional Area</u></b>	<b>Budgeted Full-time-Equivalent <sup>(1)(2)</sup> Employees as of Fiscal Year-End</b>								
	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>
Acoustical Treatment Program (ACT)	11.75	16.25	10.00	9.00	7.00	7.00	4.00	0.00	0.00
Administration	39.35	39.35	35.55	34.55	37.75	39.75	34.65	31.00	26.70
Air Service Development	3.25	3.00	3.25	4.50	4.60	4.60	2.00	2.00	1.00
Airport Technology Services	7.00	8.00	8.00	17.00	21.00	21.00	19.00	16.00	13.00
Airside Operations	61.20	58.00	49.20	46.00	46.50	46.55	47.25	38.45	35.15
Customer Service and Outreach	9.75	9.00	8.75	7.60	11.40	10.40	8.00	6.00	5.00
Capital and Airport Development	30.10	45.75	52.05	46.05	38.05	28.25	27.25	25.50	18.00
Environmental	7.95	4.25	3.20	4.20	3.20	3.00	3.50	3.00	1.00
Facilities (Building Services, Trades and Maintenance)	162.00	161.00	148.00	143.00	143.00	155.00	134.50	127.50	64.00
Landside Operations and Services	60.75	64.50	66.30	64.50	61.50	62.45	55.75	46.55	34.15
Property Management	10.40	10.40	12.20	12.10	12.00	13.00	12.10	9.00	8.00
	<b><u>403.50</u></b>	<b><u>419.50</u></b>	<b><u>396.50</u></b>	<b><u>388.50</u></b>	<b><u>386.00</u></b>	<b><u>391.00</u></b>	<b><u>348.00</u></b>	<b><u>305.00</u></b>	<b><u>206.00</u></b>

<sup>(1)</sup> 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.

<sup>(2)</sup> Information prior to fiscal year 2003 is not available.



**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT**  
**(A Department of the City of San José)**  
**AIRPORT INFORMATION**  
**JUNE 30, 2011**

<b>Location:</b>	Two miles north of downtown San José, Capital of Silicon Valley		
<b>Area:</b>	1,050 acres		
<b>Elevation:</b>	56 ft.		
<b>Airport Code:</b>	SJC		
<b>Runways:</b>	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)
<b>Terminal:</b>	Airlines		249,245 sq. ft.
	Concessions and Other Rentables		56,942 sq. ft.
	Public/common		187,492 sq. ft.
	Airport		299,447 sq. ft.
	Vacant		44,640 sq. ft.
	Other		105,991 sq. ft.
	Total		<u>943,757</u> sq. ft.
	Number of passenger gates - Terminal A and FIS		16
	Number of passenger gates - Terminal B		12
	Number of loading bridges		28
	Number of concessionaires in terminal		44
	Number of rental car agencies		10
<b>Apron:</b>	Commercial Airlines		1,130,408 sq. ft.
	Cargo Airlines		596,436 sq. ft.
	FBO		426,071 sq. ft.
	General Aviation West		436,659 sq. ft.
<b>Parking:</b>	Spaces assigned:	Hourly - Terminal A Garage	1,300
		Hourly - Terminal B Garage & Surface	1,200
		Daily lots	1,360
		Economy lots	1,670
		Rental cars	3,000
		Employees	800
		Total	<u>9,330</u>
<b>Cargo:</b>	Air Freight Building		19,200 sq. ft.
<b>International:</b>	Customs / Federal Inspection Service Facility		
<b>Tower:</b>	Operational hours 0600 - 0000, after hours CTAF 124.0/TRACON 24/7		
<b>FBOs:</b>	Atlantic San Jose		
	ACM Aviation		
	AvBase		

FBO = fixed base operator.

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

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

**Schedule M**  
(Continued)

Airline	2002		2003		2004		2005		2006	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Alaska Airlines <sup>(1)</sup>	454,698	8.0%	426,378	8.2%	422,632	8.0%	397,845	7.4%	412,088	7.6%
Atlantic Southeast Airlines <sup>(2)</sup>	0	0.0%	0	0.0%		0.0%	7,746	0.1%	16,201	0.3%
American Airlines <sup>(3)</sup>	1,865,108	32.6%	1,260,498	24.2%	1,016,404	19.2%	914,967	17.1%	683,846	12.6%
American Eagle	13,474	0.2%	121,645	2.3%	300,098	5.7%	306,464	5.7%	345,308	6.4%
Concesionaria Vuela Compania de Aviacion S.A. DE CV <sup>(4)</sup>		0.0%		0.0%		0.0%	0	0.0%	0	0.0%
Continental Airlines <sup>(5)</sup>	146,284	2.6%	132,270	2.5%	138,500	2.6%	147,045	2.8%	155,324	2.9%
Delta Airlines	232,997	4.1%	191,787	3.7%	181,008	3.4%	183,957	3.4%	215,062	4.0%
ExpressJet Airlines <sup>(6)</sup>	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Frontier Airlines <sup>(7)</sup>	0	0.0%	27,626	0.5%	59,246	1.1%	67,188	1.3%	97,914	1.8%
Hawaiian Airlines <sup>(8)</sup>	0	0.0%	0	0.0%	0	0.0%		0.0%	62,261	1.1%
Horizon Air <sup>(1)</sup>	33,969	0.6%	46,242	0.9%	67,760	1.3%	94,512	1.8%	76,934	1.4%
Independence Airlines <sup>(9)</sup>	0	0.0%	0	0.0%		0.0%	5,892	0.1%	7,184	0.1%
JetBlue Airways	0	0.0%	0	0.0%	2,934	0.1%	64,003	1.2%	136,666	2.5%
Mesa Airlines Inc. <sup>(10)</sup>		0.0%		0.0%		0.0%		0.0%	0	0.0%
Mexicana Airlines <sup>(11)</sup>	55,136	1.0%	60,196	1.2%	70,400	1.3%	73,292	1.4%	74,685	1.4%
Northwest Airlines <sup>(12)</sup>	163,785	2.9%	153,901	3.0%	137,539	2.6%	105,036	2.0%	94,646	1.7%
Republic Airlines Inc. dba <sup>(13)</sup>		0.0%		0.0%		0.0%		0.0%	0	0.0%
Skywest <sup>(14)</sup>	69,096	1.2%	108,171	2.1%	116,235	2.2%	133,875	2.5%	124,565	2.3%
Southwest Airlines	1,895,335	33.1%	1,935,988	37.2%	2,003,802	37.9%	2,140,938	40.1%	2,198,806	40.6%
United Airlines <sup>(5)(15)</sup>	455,072	8.0%	390,932	7.5%	398,245	7.5%	386,361	7.2%	392,199	7.2%
US Airways <sup>(16)</sup>	245,355	4.3%	251,412	4.8%	281,303	5.3%	309,692	5.8%	308,204	5.7%
All Other Airlines	88,904	1.6%	97,941	1.9%	95,743	1.8%	6,820	0.1%	12,938	0.2%
Total <sup>(17)</sup>	5,719,213	100%	5,204,987	100%	5,291,849	100%	5,345,633	100%	5,414,831	100%

<sup>(1)</sup> Alaska Airlines and Horizon Air are separately certificated air carriers and wholly-owned subsidiaries of Alaska Air Group.

<sup>(2)</sup> Atlantic Southeast Airlines, which operated as Delta Connection, started operations at the Airport in February 2005 and ceased operations in October 2006.

<sup>(3)</sup> In October 2006, American discontinued its service to Japan.

<sup>(4)</sup> Concesionaria Vuela Compania de Aviacion S.A DE CV (aka Volaris) started operations at the Airport in April 2010.

<sup>(5)</sup> Continental and United merged in October 2010. The combined airlines (named United) received FAA approval to operate under a single certificate in December 2011.

<sup>(6)</sup> ExpressJet operated as Delta Connection from July 2007 - September 2008.

<sup>(7)</sup> Frontier ceased operations at the Airport in May 2010.

<sup>(8)</sup> Hawaiian Airlines started operations at the Airport in September 2005.

<sup>(9)</sup> Independence Airlines ceased operations at the Airport in October 2005.

<sup>(10)</sup> Mesa Airlines operates as US Airways Express.

<sup>(11)</sup> Mexicana Airlines discontinued service in September 2010.

<sup>(12)</sup> Northwest Airlines merged with Delta Airlines effective December 31, 2009.

<sup>(13)</sup> Republic Airlines operated as Frontier Express from August 2007 to May 2008 and from December 2009 to May 2010.

<sup>(14)</sup> Skywest operates as United Express and Delta Connection.

<sup>(15)</sup> United Airlines discontinued service to Chicago in November 2008.

<sup>(16)</sup> America West merged with US Airway in 2005.

<sup>(17)</sup> Percentage totals may not add due to rounding.

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

**Schedule M**  
(Concluded)

Airline	2007		2008		2009		2010		2011	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Alaska Airlines <sup>(1)</sup>	393,843	7.4%	357,705	6.9%	267,998	6.1%	294,357	7.2%	412,305	9.8%
Atlantic Southeast Airlines <sup>(2)</sup>	4,232	0.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
American Airlines <sup>(3)</sup>	624,487	11.7%	511,414	9.9%	428,383	9.7%	362,778	8.8%	352,055	8.4%
American Eagle	298,565	5.6%	260,015	5.0%	204,340	4.6%	117,624	2.9%	83,760	2.0%
Concesionaria Vuela Compania de Aviacion S.A. DE CV <sup>(4)</sup>	0	0.0%	0	0.0%	0	0.0%	8,072	0.2%	48,325	1.2%
Continental Airlines <sup>(5)</sup>	169,220	3.2%	171,189	3.3%	136,153	3.1%	132,942	3.2%	134,449	3.2%
Delta Airlines	182,524	3.4%	156,339	3.0%	94,241	2.1%	100,539	2.4%	155,885	3.7%
ExpressJet Airlines <sup>(6)</sup>	0	0.0%	44,106	0.9%	6,635	0.2%	27	0.0%	0	0.0%
Frontier Airlines <sup>(7)</sup>	95,876	1.8%	110,912	2.1%	113,083	2.6%	52,672	1.3%	0	0.0%
Hawaiian Airlines <sup>(8)</sup>	82,561	1.6%	84,259	1.6%	81,397	1.9%	72,266	1.8%	85,571	2.0%
Horizon Air <sup>(1)</sup>	73,481	1.4%	87,984	1.7%	77,421	1.8%	99,625	2.4%	149,095	3.6%
Independence Airlines <sup>(9)</sup>	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
JetBlue Airways	109,351	2.1%	116,776	2.3%	148,643	3.4%	95,118	2.3%	80,797	1.9%
Mesa Airlines Inc. <sup>(10)</sup>	13,720	0.3%	16,547	0.3%	3,931	0.1%	3,082	0.1%	0	0.0%
Mexicana Airlines <sup>(11)</sup>	77,352	1.5%	62,692	1.2%	60,029	1.4%	54,016	1.3%	9,752	0.2%
Northwest Airlines <sup>(12)</sup>	91,041	1.7%	92,102	1.8%	90,515	2.1%	47,143	1.1%	0	0.0%
Republic Airlines Inc. dba <sup>(13)</sup>	0	0.0%	4,923	0.1%	0	0.0%	11,198	0.3%	0	0.0%
Skywest <sup>(14)</sup>	139,956	2.6%	115,184	2.2%	139,478	3.2%	180,337	4.4%	149,912	3.6%
Southwest Airlines	2,266,766	42.6%	2,333,432	45.1%	2,082,271	47.3%	2,121,917	51.7%	2,187,033	52.2%
United Airlines <sup>(5)(15)</sup>	380,109	7.1%	349,962	6.8%	208,184	4.7%	138,836	3.4%	133,794	3.2%
US Airways <sup>(16)</sup>	308,522	5.8%	298,193	5.8%	250,458	5.7%	208,809	5.1%	184,380	4.4%
All Other Airlines	7,253	0.1%	4,869	0.1%	6,402	0.1%	6,036	0.1%	22,110	0.5%
Total <sup>(17)</sup>	5,318,859	100%	5,178,603	100%	4,399,562	100%	4,107,394	100%	4,189,223	100%

<sup>(1)</sup> Alaska Airlines and Horizon Air are separately certificated air carriers and wholly-owned subsidiaries of Alaska Air Group.

<sup>(2)</sup> Atlantic Southeast Airlines, which operated as Delta Connection, started operations at the Airport in February 2005 and ceased operations in October 2006.

<sup>(3)</sup> In October 2006, American discontinued its service to Japan.

<sup>(4)</sup> Concesionaria Vuela Compania de Aviacion S.A DE CV (aka Volaris) started operations at the Airport in April 2010.

<sup>(5)</sup> Continental and United merged in October 2010. The combined airlines (named United) received FAA approval to operate under a single certificate in December 2011.

<sup>(6)</sup> ExpressJet operated as Delta Connection from July 2007 - September 2008.

<sup>(7)</sup> Frontier ceased operations at the Airport in May 2010.

<sup>(8)</sup> Hawaiian Airlines started operations at the Airport in September 2005.

<sup>(9)</sup> Independence Airlines ceased operations at the Airport in October 2005.

<sup>(10)</sup> Mesa Airlines operates as US Airways Express.

<sup>(11)</sup> Mexicana Airlines discontinued service in September 2010.

<sup>(12)</sup> Northwest Airlines merged with Delta Airlines effective December 31, 2009.

<sup>(13)</sup> Republic Airlines operated as Frontier Express from August 2007 to May 2008 and from December 2009 to May 2010.

<sup>(14)</sup> Skywest operates as United Express and Delta Connection.

<sup>(15)</sup> United Airlines discontinued service to Chicago in November 2008.

<sup>(16)</sup> America West merged with US Airways in 2005.

<sup>(17)</sup> Percentage totals may not add due to rounding.

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

<u>Airline</u> <sup>(1)(2)</sup>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Air Canada	15,378					1,612	2,207	1,469	284	3,159
Air Wisconsin	21,432	21,197								
Alaska Airlines	719,309	630,248	600,898	508,275	490,114	472,515	441,300	337,540	363,017	503,725
Atlantic Southeast Airlines				8,643	17,554	5,025				
American Airlines	2,952,139	2,157,755	1,563,878	1,279,122	850,139	733,523	572,925	480,870	366,797	359,335
American Eagle	19,707	145,119	380,940	351,441	391,471	346,514	305,779	254,983	131,181	87,935
ATA		100,188	105,132	396	224	550	566			
Concesionaria Vuela compania De Aviacion S.A DE CV (aka Volaris)									8,320	54,663
Continental Airlines	189,508	165,682	159,142	164,344	164,858	178,500	181,657	142,465	133,055	135,858
Delta Airlines	346,396	302,804	244,109	226,950	259,322	233,734	194,892	119,454	116,624	165,760
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	672
Hawaiian Airlines					87,360	128,960	115,545	109,970	94,075	110,895
Horizon Air	59,877	86,362	114,176	130,792	104,759	98,525	115,790	111,530	144,240	189,443
Independence Airlines				8,405	9,231					
JetBlue Airways		142	2,986	68,682	155,706	124,565	147,688	188,439	115,710	91,292
Mesa Airlines	17,831	24,581	26,273	5,338	12,640	21,664	22,399	4,168		168
Mexicana Airlines	72,152	75,024	83,270	78,780	116,903	113,125	100,668	86,527	76,916	10,890
Northwest Airlines	223,849	192,684	172,244	118,242	107,918	100,756	101,591	101,284	51,691	
Skywest	107,601	147,918	155,754	164,480	151,419	166,716	146,500	174,983	217,883	163,478
Southwest Airlines	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	2,877,878
Trans World Airlines	48,360									
United Airlines	737,077	550,644	535,528	499,892	515,943	490,735	474,724	277,027	182,268	178,965
US Airways	343,388	320,763	351,611	401,640	377,223	415,366	387,348	316,454	262,199	245,557
All Other Airlines	31,444	13,555	16,985	6,046	13,670	16,145	22,137	19,387	34,324	41,329
<b>Subtotal</b>	<b>8,799,165</b>	<b>7,901,922</b>	<b>7,472,734</b>	<b>7,129,207</b>	<b>7,020,696</b>	<b>6,989,533</b>	<b>6,912,126</b>	<b>6,130,069</b>	<b>5,410,517</b>	<b>5,221,002</b>
<b>Cargo Carriers</b>										
Air Transport Int'l.	64,738	51,606	55,798	61,414	55,733	57,941	59,379	56,042	57,159	71,055
Airborne Express	74,174	70,652	71,094	70,720	68,816	70,176	57,392	1,088		
Burlington Air Express										
DHL Worldwide Express	997									
Emery Worldwide Express	82,621	54,020								
Fedex	315,970	287,143	289,284	268,055	223,154	252,539	241,953	231,594	168,403	164,642
Kitty Hawk	38,656	35,005	638			155				
United Parcel Service	133,293	127,819	127,399	128,470	126,660	129,090	133,653	132,055	96,505	83,136
All Other Cargo Airlines	24,329	22,160	2,844	3,184	4,013	1,862	247	309	200	352
<b>Subtotal</b>	<b>734,778</b>	<b>648,405</b>	<b>547,057</b>	<b>531,843</b>	<b>478,376</b>	<b>511,763</b>	<b>492,624</b>	<b>421,088</b>	<b>322,267</b>	<b>319,185</b>
<b>Total</b>	<b>9,533,943</b>	<b>8,550,327</b>	<b>8,019,791</b>	<b>7,661,050</b>	<b>7,499,072</b>	<b>7,501,296</b>	<b>7,404,750</b>	<b>6,551,157</b>	<b>5,732,784</b>	<b>5,540,187</b>

(1) See Notes on Schedule M.

(2) Some data reported previously were revised to reflect the more recent information.

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

<u>Airline</u> <sup>(1)</sup>	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Air Canada	230	4	18			2	4	22		46
Air Wisconsin	912	902								
Alaska Airlines	11,438	9,862	9,464	7,926	7,592	7,264	6,760	5,176	5,444	7,308
Atlantic Southeast Airlines				258	524	150				
American Airlines	38,062	27,294	19,136	16,214	11,678	10,734	9,012	7,704	5,800	5,552
American Eagle	956	7,042	18,554	17,094	19,018	16,816	14,838	12,370	6,364	4,266
ATA		1,012	1,160	4	2	4	6	378		
Concessionaria Vuela Compania De Aviacion S.A DE CV									124	812
Continental Airlines	3,174	2,672	2,342	2,404	2,490	2,730	2,770	2,060	1,898	1,862
Delta Airlines	4,330	3,904	3,326	3,122	3,524	2,852	2,526	1,504	1,570	2,264
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	10
Hawaiian Airlines					546	806	732	732	620	732
Horizon Air	1,796	2,578	3,424	3,960	3,200	3,086	3,602	3,428	4,484	6,062
Independence Airlines				122	134					
JetBlue Airways		2	42	966	2,190	1,752	2,102	2,986	1,876	1,284
Mesa Airlines	758	1,046	1,118	226	434	592	614	126	14	6
Mexicana Airlines	986	978	1,090	1,044	1,588	1,600	1,430	1,250	1,126	160
Northwest Airlines	3,282	2,988	2,474	1,670	1,540	1,434	1,446	1,410	746	
Reno Air										
Skywest	5,705	7,464	7,742	8,134	7,580	8,158	7,518	7,526	8,636	5,838
Southwest Airlines	50,176	50,290	49,254	50,402	50,936	52,872	54,974	52,414	48,942	46,584
Trans World Airlines	744									
United Airlines	11,134	8,442	8,222	7,386	7,076	6,932	6,420	3,572	2,224	2,124
US Airways	5,276	5,328	5,342	6,076	5,748	6,168	6,070	5,110	4,130	3,624
All Other Airlines	575	208	268	80	212	260	442	304	598	732
<b>Subtotal</b>	<b>139,704</b>	<b>133,004</b>	<b>134,364</b>	<b>128,564</b>	<b>127,954</b>	<b>126,402</b>	<b>126,364</b>	<b>110,498</b>	<b>95,800</b>	<b>89,266</b>
<b><u>Cargo Carriers</u></b>										
Air Transport Int'l.	498	464	422	468	424	442	452	426	434	538
Airborne Express	548	522	524	520	506	516	422	8		
Burlington Air Express										
DHL Worldwide Express	14									
Emery Worldwide Express	532	360								
FedEx	1,724	1,420	1,430	1,400	1,270	1,326	1,324	1,264	958	926
Kitty Hawk	477	440	8			2				
United Parcel Service	1,000	914	910	924	908	926	916	854	672	566
All Other Cargo Airlines	1,022	516	292	282	356	176	26	6	12	16
<b>Subtotal</b>	<b>5,815</b>	<b>4,636</b>	<b>3,586</b>	<b>3,594</b>	<b>3,464</b>	<b>3,388</b>	<b>3,140</b>	<b>2,558</b>	<b>2,076</b>	<b>2,046</b>
<b>Total</b>	<b>145,519</b>	<b>137,640</b>	<b>137,950</b>	<b>132,158</b>	<b>131,418</b>	<b>129,790</b>	<b>129,504</b>	<b>113,056</b>	<b>97,876</b>	<b>91,312</b>

<sup>(1)</sup> See notes on Schedule M.

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

**Schedule P**  
**(Continued)**

**CARRIER**

**NONSTOP SERVICE**

**SCHEDULED DOMESTIC AIRLINE SERVICE**

Alaska Airlines	Cabo San Lucas Guadalajara Kahului, Maui (OGG) Kona, Hawaii (KOA) Lihue 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) Los Angeles (LAX) Sacramento (SMF)
JetBlue Airlines	Boston (BOS) New York (JFK)
Southwest Airlines	Austin (AUS) Burbank (BUR) Chicago/Midway (MDW) Denver (DEN) Las Vegas (LAS) Los Angeles (LAX) Ontario (ONT) Orange County (SNA) Phoenix (PHX) Portland (PDX) Reno (RNO) San Diego (SAN) Seattle (SEA)
United Airlines	Denver (DEN) Los Angeles (LAX)
US Airways	Phoenix (PHX)

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

**Schedule P**  
**(Concluded)**

**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

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Passengers (1,000's):										
Enplanements	5,719	5,205	5,292	5,346	5,415	5,319	5,179	4,400	4,107	4,189
Deplanements	<u>5,722</u>	<u>5,200</u>	<u>5,276</u>	<u>5,382</u>	<u>5,437</u>	<u>5,335</u>	<u>5,202</u>	<u>4,422</u>	<u>4,125</u>	<u>4,200</u>
Total Passengers	<u><u>11,441</u></u>	<u><u>10,405</u></u>	<u><u>10,568</u></u>	<u><u>10,728</u></u>	<u><u>10,852</u></u>	<u><u>10,654</u></u>	<u><u>10,381</u></u>	<u><u>8,822</u></u>	<u><u>8,232</u></u>	<u><u>8,389</u></u>
Mail/Freight/Cargo (1,000 lbs):										
Mail	11,236	8,939	8,988	9,213	7,593	4,342	3,044	1,987	3,357	2,264
Freight/Express	34,307	29,843	26,462	25,449	22,577	12,228	7,101	5,995	5,432	5,060
Cargo	<u>265,438</u>	<u>234,328</u>	<u>203,444</u>	<u>190,871</u>	<u>179,612</u>	<u>171,754</u>	<u>166,509</u>	<u>129,809</u>	<u>97,578</u>	<u>87,329</u>
Total mail/freight/cargo	<u><u>310,981</u></u>	<u><u>273,110</u></u>	<u><u>238,894</u></u>	<u><u>225,533</u></u>	<u><u>209,782</u></u>	<u><u>188,324</u></u>	<u><u>176,654</u></u>	<u><u>137,791</u></u>	<u><u>106,367</u></u>	<u><u>94,653</u></u>

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



**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT**  
**(A Department of the City of San José)**  
**HISTORICAL AIRCRAFT OPERATIONS <sup>(1) (2)</sup>**  
**LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Air Carrier Operations</u>	<u>Commuter Operations <sup>(2)</sup></u>	<u>Cargo Operations</u>	<u>Total Commercial Operations <sup>(3)</sup></u>	<u>Percent Commercial Operations</u>	<u>General Aviation Operations</u>	<u>Military Operations</u>	<u>Total Operations</u>
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
2010-11	73,094	16,172	2,046	91,312	74.8%	30,503	276	122,091

**Annual Compound Growth Rate**

FY 2001-02 through FY 2010-11	-5.5%	4.5%	-9.9%	-4.6%	1.4%	-9.0%	2.7%	-5.9%
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<sup>(1)</sup> An aircraft operation is defined as the takeoff or landing of an aircraft.

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

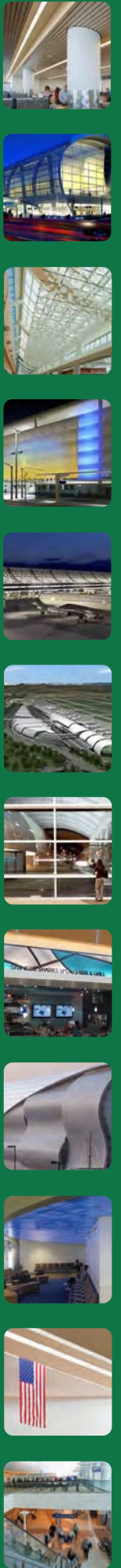
<sup>(3)</sup> Includes domestic and international airlines.

<sup>(4)</sup> Represents the sum of Mainline Air Carrier Operations, Regional Commuter Operations and All-Cargo Operations.

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



# BOND DISCLOSURE



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

**Bond Disclosure Report**

**June 30, 2011**

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 1-63 of this report.**

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

**Since there are no changes to the debt service requirements as of June 30, 2011, 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 89 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 90 of this report.**

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

**Bond Disclosure Report**

**June 30, 2011**

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

**Refer to Statistical Section, Schedule R, page 86 of this report.**

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

**Refer to Table 3, page 91 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 83-84 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, pages 79-80 of this report.**

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

**Refer to Financial Section, Exhibit II, page 22 of this report.**

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

**Refer to Statistical Section, Schedule F, page 72 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 92 of this report.**

**REPORTING OF SIGNIFICANT EVENTS**

On November 2, 2010, the City filed a significant event notice related to a bond insurer downgrade and the corresponding impact on the City's Airport Revenue Bonds, Series 2002AB. On November 21, 2011, the City filed a significant event notice relating to the Standard & Poor's Rating Services downgrade of the Airport's financial strength rating from "A" to "A-."

**Table 1**

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

<u>Fiscal Year</u>	<u>Air Carrier Domestic Enplanements</u>	<u>Air Carrier International Enplanements</u>	<u>Total Air Carrier Enplanements</u>	<u>Commuter Enplanements</u>	<u>Total Enplanements</u>	<u>Total Percent Change %</u>
2001-02	5,421,403	150,874	5,572,277	146,936	5,719,213	
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%
2010-11	3,728,493	77,963	3,806,456	382,767	4,189,223	1.99%
<b>Annual Compound Growth Rate</b>						
FY 01-02 through FY2010-11	-4.1%	-7.1%	-4.1%	11.2%	-3.4%	

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**

<u>Fiscal Year</u>	<u>Total Enplanements</u>	<u>Total O&amp;D Enplanements</u>	<u>Total Connecting Enplanements</u>	<u>Connecting Enplanements as a Percentage of Total Enplanements</u>
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%
2010-11	4,189,223	4,083,459	105,764	2.5%
<b>Annual Compound Growth Rate</b>				
FY 2001-02 through				
FY 2010-11	-3.4%	-3.0%	-12.9%	

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)**

<u>Fiscal</u> <u>Year</u>	<u>Air Carrier</u> <sup>(1)</sup>	<u>Commuter</u> <sup>(2)</sup>	<u>Cargo</u> <sup>(3)</sup>	<u>Total</u>
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	638,449	511,763	7,501,296
2007-08	6,255,828	656,298	492,624	7,404,750
2008-09	5,576,343	553,726	421,088	6,551,157
2009-10	4,903,780	506,737	322,267	5,732,784
2010-11	4,779,979	441,023	319,185	5,540,187
<b>Annual Compound Growth Rate</b>				
FY 2001-02 through FY 2010-11	-6.3%	7.4%	-8.8%	-5.9%

<sup>(1)</sup> Includes domestic and international air carriers.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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, 2011**

<u>Category</u>	<u>Amount</u>
Airline Terminal Rentals	\$ 34,446,216
Public Parking Fees	22,081,458
Rental Cars	12,883,406
Landing Fees (Passenger and Cargo)	13,370,404
Food and Beverage	4,884,760
Advertising	4,222,324
Land and Building Rentals	4,134,102
Gift Shop & Retail	3,620,000
Ground Transportation	2,463,384
Fuel Handling Fees	1,503,834

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