

CITY OF SAN JOSÉ, CALIFORNIA

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

For the Year Ended June 30, 2018



Certified
Public
Accountants

CITY OF SAN JOSÉ, CALIFORNIA
PASSENGER FACILITY CHARGES
For the Year Ended June 30, 2018

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**Independent Auditor's Report on Compliance for the
Passenger Facility Charge Program; Report on Internal Control Over Compliance; and
Report on Schedule of Passenger Facility Charge Revenues and Expenditures**

To the Honorable City Council
City of San José, California

Report on Compliance for the Passenger Facility Charge Program

We have audited the Norman Y. Mineta San José International Airport (Airport), a department of the City of San José (City), California, compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (PFC Guide), issued by the Federal Aviation Administration (FAA), applicable to the Airport's Passenger Facility Charge (PFC) program for the year ended June 30, 2018.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the Airport's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the PFC Guide. Those standards and the PFC Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the PFC program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

Opinion

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that are applicable to the Airport's PFC program for the year ended June 30, 2018.

Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the PFC Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Schedule of Passenger Facility Charge Revenues and Expenditures

We have audited the financial statements of the Airport, a department of the City, as of and for the year ended June 30, 2018, and have issued our report thereon dated November 13, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements of the Airport as a whole. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures (PFC Schedule) is presented for purposes of additional analysis as required by the PFC Guide, issued by the FAA, and is not a required part of the Airport's financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the PFC Schedule is fairly stated in all material respects in relation to the financial statements as a whole.



Walnut Creek, California
January 30, 2019

CITY OF SAN JOSE, CALIFORNIA
Schedule of Passenger Facility Charge Revenues and Expenditures
Year Ended June 30, 2018

	Passenger Facility Charge Revenues	Interest Earned	Total Revenues	Expenditures on Approved Projects	Under (over) Expenditures on Approved Projects
Fiscal year 2017-18 transactions:					
Quarter ended September 30, 2017	\$ 3,180,987	\$ 48,946	\$ 3,229,933	\$ 11,561,943	
Quarter ended December 31, 2017	5,362,144	25,907	5,388,051	-	
Quarter ended March 31, 2018	7,352,615	781	7,353,396	13,229,683	
Quarter ended June 30, 2018	11,151,922		11,151,922	-	
	<u>\$ 27,047,668</u>	<u>\$ 75,634</u>	<u>\$ 27,123,302</u>	<u>\$ 24,791,626</u>	2,331,676
			Balance, beginning of year		<u>14,683,571</u>
			Balance, end of year		<u>\$ 17,015,247</u>

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

CITY OF SAN JOSÉ, CALIFORNIA
Notes to the Schedule of Passenger Facility Charge Revenue and Expenditures
Year Ended June 30, 2018

(1) GENERAL

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

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

(2) BASIS OF ACCOUNTING

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

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Under the Airport's Master Trust Agreement, the Airport may for any period elect to designate any PFC revenues as "Available PFC Revenues" by filing with the Trustee a written statement designating the amount of such Available PFC Revenues and containing a statement that the Available PFC Revenues are legally available to be applied to pay bond debt service during such period. An amount of \$24,791,626 from accumulated PFC Revenues had been designated as Available PFC Revenues for payment of eligible bond debt service in the year ended June 30, 2018.

(4) RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

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

CITY OF SAN JOSÉ, CALIFORNIA
Notes to the Schedule of Passenger Facility Charge Revenue and Expenditures (Continued)
Year Ended June 30, 2018

(5) PFC APPROVED PROJECTS AND EXPENDITURES

The general description of the approved projects and the expenditures for the year ended June 30, 2018, are as follows:

<u>Passenger Facility Charge Project Number/Description</u>	<u>Identifying Number</u>	<u>Passenger Facility Charge Approved Amount</u>	<u>Expenditures</u>
#40A Runway 12R/30L Reconstruction	01-12-C-00-SJC	\$ 72,022,700	\$ 3,655,980
#40B Runway 12R/30L Extension	01-12-C-00-SJC	38,671,724	1,654,567
#52 Taxiway Z - Apron Reconstruction (Phase II)	01-11-C-00-SJC	825,000	-
#53 Terminal C Fire Protection	01-11-C-00-SJC	580,000	-
#54 Fiber Optic Cable to ARC & Fire Station 29	01-11-C-00-SJC	87,345	-
#55 Green Island Bridge	01-11-C-00-SJC	825,000	-
#56 Replacement of AACS and CCTV	01-11-C-00-SJC	4,418,645	-
#57 Skyport Grade Separation	01-11-C-00-SJC	18,218,154	-
#58 Terminal Drive Improvements	01-11-C-00-SJC	1,146,165	-
#59 Replacement of PASSUR	01-11-C-00-SJC	221,000	-
#60 Terminal C Restroom	01-11-C-00-SJC	2,485,000	-
#61 Interim Air Cargo Ramp Extension	01-11-C-00-SJC	1,100,000	-
#62 Runway 30R/12L Reconstruction	01-11-C-00-SJC	84,105,103	3,916,012
#63 Noise Attenuation Category II & III	01-11-C-00-SJC	4,500,000	-
#64 Taxiway Y Extension	01-11-C-00-SJC	12,890,000	431,538
#65 Extended Noise Attenuation	02-13-C-00-SJC	61,589,000	-
#67 Terminal B - North Concourse	06-15-C-00-SJC	495,095,000	13,654,529
#68 Terminal B Extension, Phase I	08-16-C-00-SJC	110,159,000	1,479,000
#69 Roadway Improvements: Grade Separations	08-16-C-00-SJC	10,244,000	-
		<u>\$ 919,182,836</u>	<u>\$ 24,791,626</u>
Total Passenger Facility Charge Projects		<u>\$ 919,182,836</u>	<u>\$ 24,791,626</u>