



ANNUAL COMPREHENSIVE FINANCIAL REPORT

Norman Y. Mineta
San José International
Airport

San José, California
A Department of the
City of San José
Fiscal Years Ended
June 30, 2021 and 2020



ANNUAL COMPREHENSIVE FINANCIAL REPORT

The Tech Interactive

Inspiring
201 S. Market St., D

Rolling Ball Sculpture
(Wallpiece XXXI)

Norman Y. Mineta San José International Airport

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

Fiscal Years Ended June 30, 2021 and 2020

Prepared by:
Finance and Administration
Kim Hawk, CPA (inactive)
Deputy Director



NORMAN Y. MINETA
SAN JOSE
INTERNATIONAL
AIRPORT

SILICON VALLEY'S AIRPORT

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

**Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Annual Comprehensive Financial Report
Fiscal Years Ended June 30, 2021 and 2020**

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The worldwide COVID-19 pandemic continues to impact the Airport and aviation industry. As of March 2021, vaccinations have dramatically reduced infection rates and led to the start of recovery of passenger traffic, particularly for the domestic destinations. In FY 21, Alaska Airlines began new service to Missoula, Montana and Spokane, Washington, while Volaris began new service to Mexico City. Flights resumed to several domestic and international destinations, increasing the passenger traffic 291.7% in June 2021 compared to June 2020.



INTRODUCTORY



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

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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ANNUAL COMPREHENSIVE FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

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GEOGRAPHIC LOCATOR MAP



Norman Y. Mineta San José International Airport

San José, California

A Department of the
City of San José

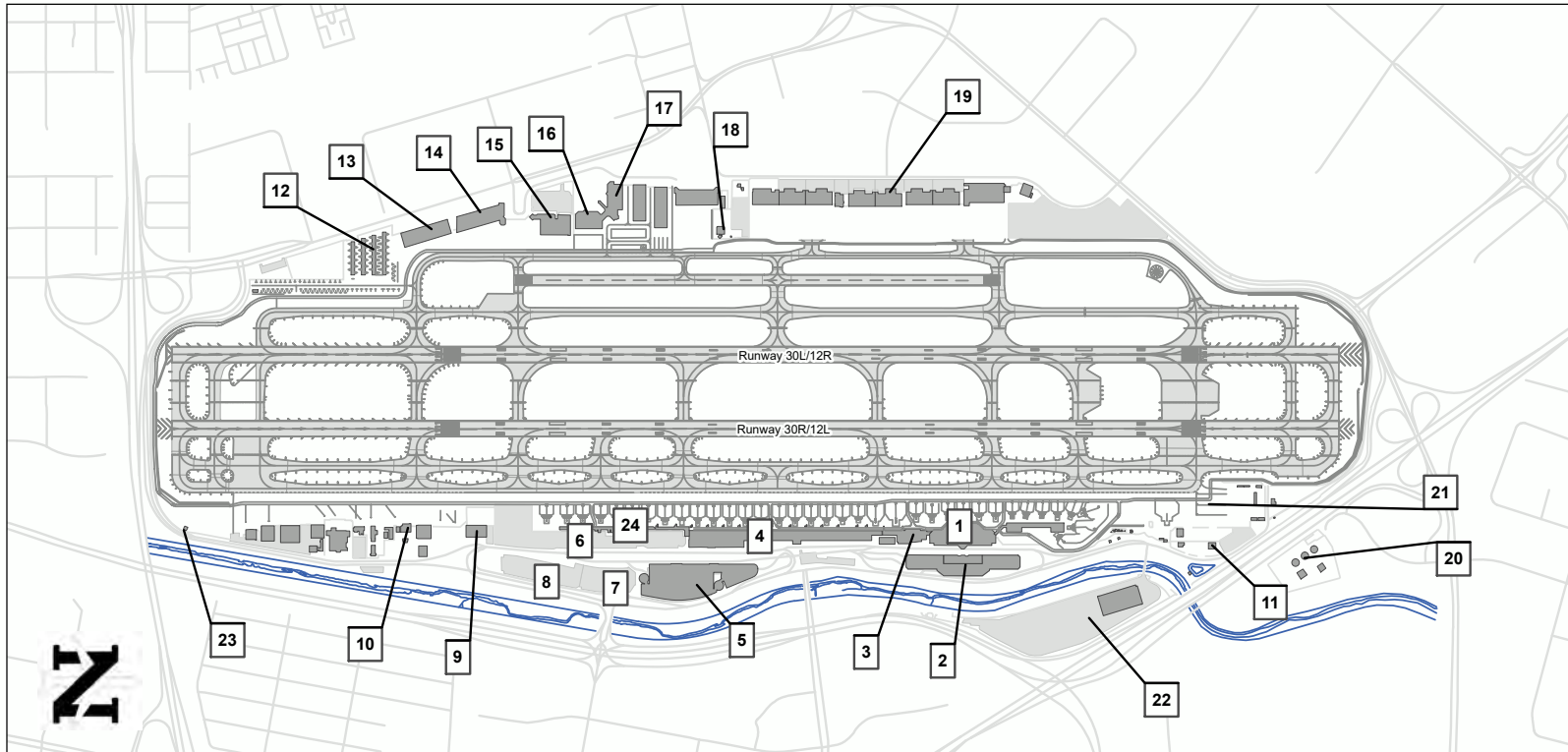
Fiscal Years Ended
June 30, 2021 and 2020

- PRIMARY SERVICE AREA
- SECONDARY SERVICE AREA
- ✈ NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT



● REDUCED
VIEW OF
SERVICE
AREAS

Norman Y. Mineta San José International Airport



Map Legend

- | | |
|-----------------------------------|------------------------------------------------------|
| 1. Terminal A | 13. AvBase Aviation |
| 2. Lot 2 | 14. ACM Aviation |
| 3. Federal Inspection Services | 15. HP Aviation |
| 4. Terminal B | 16. FAA-Flight Standards District Offices |
| 5. Consolidated Rental Car Center | 17. Atlantic San José (Fueling and Transit Services) |
| 6. Lot 5 | 18. FAA Air Traffic Control Tower |
| 7. Lot 3 | 19. Signature Flight Support |
| 8. Lot 4 | 20. Fuel Farm Location |
| 9. Air Freight | 21. North Air Cargo |
| 10. Fire Station 20 | 22. Economy Lot 1 |
| 11. SJPD Airport Division | 23. South Main Point of Entry |
| 12. General Aviation West | 24. Interim Facility Gates 31-36 |

LOCATOR MAP

September 2021

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



November 12, 2021

HONORABLE MAYOR AND CITY COUNCIL

The Annual Comprehensive Financial Report (ACFR) of the Norman Y. Mineta San José International Airport (Airport or SJC), a department of the City of San José (City), for the fiscal years ended June 30, 2021 and 2020, 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, changes in financial position, and cash flows 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 non-technical summary of the Airport's background, economic condition and outlook, and major initiatives. Management's Discussion and Analysis (MD&A) is contained in the Financial Section of the ACFR and provides readers with a more detailed discussion of the Airport's financial results.

The annual audit of Airport funds was completed by the independent firm of Macias Gini & O'Connell LLP, Certified Public Accountants for the fiscal year ended June 30, 2021 and fiscal year ended June 30, 2020. 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 Uniform Guidance for federal awards. The Airport's federal awards programs are included in the Citywide Single Audit Report. The auditor's report on the Airport's financial statements is included in the Financial Section of this report.

REPORTING ENTITY

The City Charter created the Airport Department (Department) in 1965 as a department within the City.¹ The City is a charter city that operates under a council-manager form of government.² 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 airport, primarily providing domestic origin-destination (O&D) service with some levels of international service. The Department's mission is to connect, serve, and inspire.

The Airport serves Santa Clara County, which is also the San José Primary Metropolitan Statistical Area and is commonly referred to as Silicon Valley, as well as adjacent counties of Monterey, San Benito, and Santa Cruz and portions of two adjacent counties, Alameda and San Mateo (collectively, the Air Service

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

² After discussions during June and July, the Council voted on July 28, 2020 to establish a Charter Review Commission to bring forward recommendations to the Council on (1) the City's governance structure, (2) alignment of the Mayoral election with the presidential election and term of office of candidate elected to be Mayor in 2022, serving a two year or six year term. The Council approved the formation of the Charter Review Commission on September 22, 2020.

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.

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 O&D passengers is most responsive to local economic and population growth. As a predominantly O&D, 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.

The worldwide COVID-19 pandemic continues to impact the Airport and aviation industry and has caused significant disruptions to domestic and international air travel, including passenger, cargo, and general aviation operations. The COVID-19 pandemic is ongoing, and its dynamic nature leads to uncertainties, including (i) the geographic spread of the virus; (ii) the severity of the disease; (iii) the duration of the outbreak; (iv) actions that may be taken by governmental authorities to contain or mitigate the outbreak; (v) the development of medical therapeutics and/or vaccinations; (vi) travel restrictions and the demand for air travel, including at the Airport; (vii) the impact of the outbreak on the local and global economies, on the airlines and concessionaires serving the Airport, or on the airline or travel industry generally; (viii) whether and to what extent the City may provide further deferrals, forbearances, adjustments, or other changes to the City's arrangements with airlines, tenants, and concessionaires; and (ix) the impact of the outbreak and actions taken in response to the outbreak on Airport revenues, expenses, and financial condition.

As of March 2021, vaccinations have dramatically reduced infection rates and led to the start of recovery of passenger traffic, particularly for the domestic destinations. International flights to Mexico have resumed at SJC, but other long-range international destinations and the level of business travel are lagging. On January 12, 2021, the Centers for Disease Control and Prevention (CDC) announced an order requiring all air passengers entering the United States to present a negative COVID-19 test taken within three calendar days of departure and to present the negative result or documentation of having recovered from COVID-19 to the airline before boarding the flight. Risks to recovery remain, however, the three rounds of federal funding Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Coronavirus Response and Relief Supplemental Appropriation Act (CRRSA Act), and American Rescue Plan Act (ARP Act) provide partial coverage to revenue losses while effective expenditure reductions and reduced debt service amounts resulting from refunding bonds ease the impact of reduced revenue. All financial ratings were affirmed by Moody's Investor Service, S&P Global Ratings (S&P), and Fitch Ratings, Inc. (Fitch), however, on March 12, 2021 S&P revised SJC's rating outlook to stable from negative as did Fitch on August 3, 2021.

In fiscal year (FY) 21, passenger levels at the Airport were 4.2 million, 62.7% lower than 11.3 million in FY 20 and 71.7% lower than 14.9 million in FY 19. Airport management closely monitors its operating budget costs and continues to look for ways to increase non-airline revenues. In addition, the Airport has an objective of maintaining a competitive cost per enplaned passenger (CPE). The FY 20 and FY 21 adjusted CPE reflects actual net terminal revenues and the Airlines portion of the net revenue sharing. The adjusted CPE was \$11.55 in FY 20 and \$23.83 in FY 21. The FY 22 adjusted CPE is based on the forecasted

net terminal revenues and the Airlines portion of the net revenue sharing, which is estimated to be \$21.98 based on a number of assumptions, which may or may not materialize.

From FY 13 through February of 2020, the Airport had experienced an increase in passenger activity, resulting in a total of approximately 15.8 million passengers traveling through the Airport and passenger traffic growth of 9.1% on a rolling twelve-month basis as of February 2020. However, international enplanements declined 10.7% on a rolling twelve-month basis through February 2020. From FY 13 through FY 19 the compound annual growth rate was 9.9%. As of June 30, 2021, carriers at the Airport served 36 nonstop markets with 129 peak daily departures compared to 21 nonstop markets with 234 peak daily departure as of June 30, 2020. Since the impact of the COVID-19 pandemic in March of 2020, passenger traffic at the Airport declined and the FY 21 passengers decreased by 62.7% from the prior year. It is unknown how long the impact of the COVID-19 pandemic will affect passenger activity and what the recovery timeline will be.

The City and the Airport continue to work with business stakeholders including the Silicon Valley Leadership Group and the Silicon Valley Organization to help attract new airlines and routes. In an effort to attract new service, the Airport and airports across the nation have developed and enhanced air service support programs. These support programs are so common that the Federal Aviation Administration (FAA) has published guidelines that airports should follow to comply with rules and regulations for use of airport revenue. The Airport continues to offer an air service support program to promote the development of new domestic and international passenger air service that qualifies under specific guidelines. The terms and conditions of the airline air service support program can be modified at any time by the City Council. For qualifying flights, there is a waiver of landing fees provided for a period of between twelve and eighteen months. The minimum frequency of the new flight must be three times weekly nonstop service for twelve consecutive months or four consecutive months for international seasonal service. Given the constraints on airport facilities, there are no fee waivers for ticket counters or boarding gates. The program provides for dedicated marketing funds ranging from \$25,000 to \$500,000, depending on the type of new service provided. In cases where an airline introduces multiple low frequency routes within a 12-month period, the Director of Aviation also has the discretion to recognize the contribution of these additional services and extend the program benefits, including landing fee waivers and the award of marketing funds not to exceed \$100,000. The COVID-19 pandemic resulted in international travel restrictions and quarantine conditions including suspension of all international flights at the Airport. On August 4, 2020, the Airport received City Council approval to provide temporary limited-term landing and Federal Inspection Service (FIS) fee waivers ranging from three to six months upon resumption of the international routes. The fee waiver period is effective August 4, 2020 through June 30, 2021 for North American flights and through June 30, 2022 for intercontinental (non-North America) flights. Through June 30, 2021, both Alaska Airlines and Volaris restarted service to multiple destinations in Mexico and utilized the temporary fee waivers, however Air Canada did not restore service to Vancouver prior to the expiration date. As of July 2021, no intercontinental flights have resumed at SJC. On February 2, 2021, the Airport received City Council approval to reduce the minimum weekly flight threshold that is a condition to receive fee waivers and marketing support retroactive from January 1, 2021 through the termination or expiration of the City's Proclamation of the COVID-19 Local Emergency. This is a temporary reduction from the current level of three weekly flights to one weekly flight and is intended to address the impact of COVID-19 on the air travel industry. The weekly flights required to maintain eligibility for fee waivers and marketing support under the City's Airport Service support program will resume upon expiration or termination of the City's Proclamation of COVID-19 Local Emergency.

The Airport entered into an Airline-Airport Lease and Operating Agreement (prior Airline Lease Agreement) that took effect on December 1, 2007 and expired on June 30, 2019. The Airport entered into a new Airline-Airport Lease and Operating Agreement (Airline Lease Agreement) with the various passenger and cargo airlines serving the Airport effective July 1, 2019 with a termination date of June 30,

2029. Additionally, the Airline Lease Agreement may be extended for two consecutive five-year renewal periods, from July 1, 2029 to June 30, 2034 and from July 1, 2034 to June 30, 2039 by mutual written agreement of Airline and the City. For additional information about the Airline Lease Agreement, see the Airline Rates and Charges section of the MD&A as well as Note 6, Airline Lease and Other Agreements, to the financial statements.

Population and Income

The City is the county seat of Santa Clara County. It is the tenth largest city in the United States and the third largest in California behind Los Angeles and San Diego. According to the California Department of Finance estimates, San José has an estimated population of 1,029,782 as of January 1, 2021, reflecting a decline of 1.1% over the prior year. San José is located in the 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 decreased 0.6% from 2020 to 2021, with the population decreasing to 1,934,171 as of January 1, 2021. The six counties comprising the primary service area for the Airport declined 0.7% from 2020, in line with the state decline of 0.5%. In total, the population of the primary service area decreased by 34,627 from the prior year and accounts for 13% of the state’s population.³

The per capita income information described below is the information available from the U.S. Bureau of Economic Analysis. Total personal income and per capita personal income (PCPI) are highly relied upon measures of economic standing. These indicators are a composite measurement of market potential and indicate the general ability to purchase available products or services. As personal income increases, air travel becomes more affordable and can be used more frequently.

According to U.S. Bureau of Economic Analysis’ estimates updated as of November 17, 2020, for 2019 Santa Clara County had a PCPI of \$115,997 and was 174% of the state average of \$66,619, 205% of the national average of \$56,490, and ranked 4th in the State of California. Within the Air Service Area, the remaining counties personal income and PCPI were as follows:

Personal Income and Per Capita Personal Income within the Air Service Area							
County Name	Personal Income			Per Capita Personal Income			
	(in Thousand Dollars)		% Change	(Dollars)		% Change	2019 Rank
	2018	2019	2018-2019	2018	2019	2018-2019	
Santa Clara	\$213,221,976	\$223,624,580	4.9%	\$110,344	\$115,997	5.1%	4
Alameda	128,728,021	135,663,560	5.4%	77,233	81,171	5.1%	6
San Mateo	98,568,258	102,803,127	4.3%	128,230	134,107	4.6%	3
Monterey	24,576,499	25,973,189	5.7%	56,634	59,838	5.7%	21
Santa Cruz	18,697,119	19,559,977	4.6%	68,277	71,592	4.9%	10
San Benito	3,235,448	3,470,822	7.3%	52,637	55,261	5.0%	26
California	\$2,514,503,372	\$2,632,279,775	4.7%	\$63,720	\$66,619	4.5%	
United States	\$17,839,255,000	\$18,542,262,000	3.9%	\$54,606	\$56,490	3.5%	

Per capita income increased by 5.1% from 2018 in Santa Clara County compared to an increase of 4.5% and 3.5% for California and the nation, respectively.⁴

³ California Department of Finance

⁴ U.S. Department of Commerce, Bureau of Economic Analysis

Employment

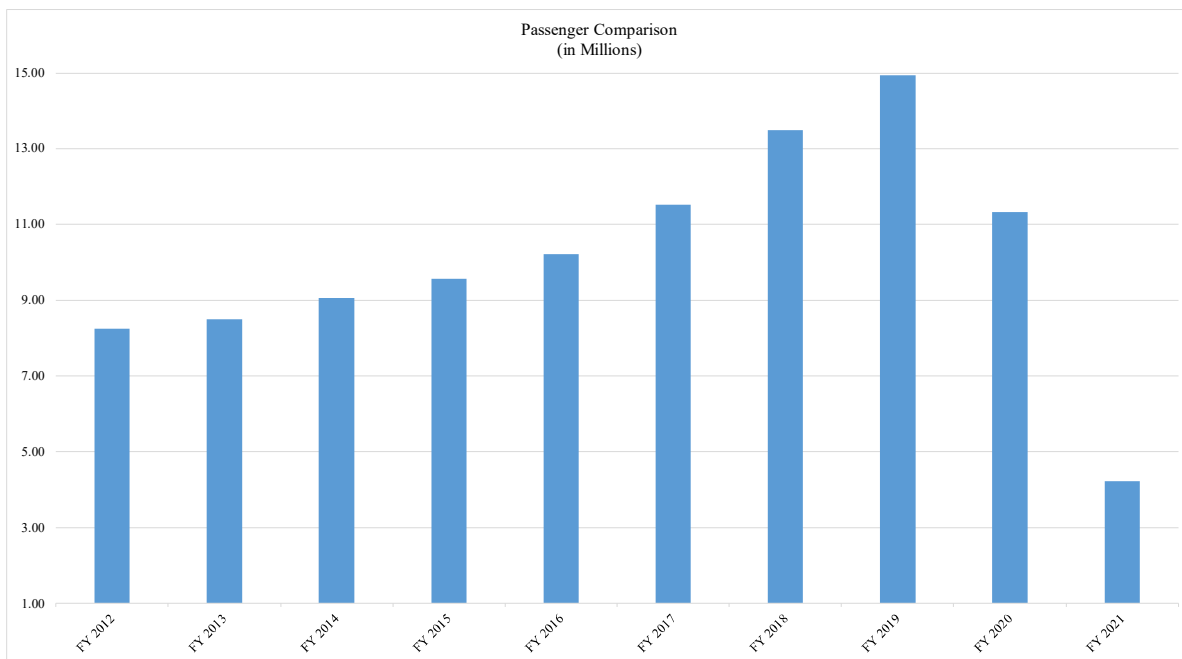
Employment levels in Santa Clara County have decreased by 72,200 from 1,021,600 in 2019 to 949,400 in 2020. As of June 2021, employment levels are reported just under one million. The COVID-19 pandemic has caused an increase in county, state, and national unemployment rates. With 51,600 unemployed, Santa Clara County's unemployment rate of 5.1% as of June 2021 has decreased about 5.2 points, compared to June 2020⁵ and is lower than the 7.7% and 5.9% unemployment rates for California⁵ and the U.S., respectively.⁶

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

The Airport is classified as a medium-hub airport by the FAA and ranked as the 44th busiest airport in the nation in terms of total passengers according to Airports Council International-North America statistics, as of calendar year 2020. As of June 30, 2021, nine carriers provided scheduled passenger service to 36 destinations, including eight mainline carriers and one international carrier. In addition, two all-cargo carriers provided scheduled cargo service at the Airport.

For FY 21, the Airport enplaned and deplaned 4.2 million passengers, which represents a decrease of 62.7% from the previous fiscal year.

The graph below displays total fiscal year passenger comparison for the last ten fiscal years.



For FY 21, the Airport experienced an overall decrease of 33.7% in traffic operations due to losses in the following categories: passenger carrier (a decrease of 57,760 or 48.5%), military (a decrease of 49 or 33.1%), cargo carrier (a decrease of 150 or 10.0%), and general aviation itinerant (a decrease of 2,893 or

⁵ Employment Development Department – State of California

⁶ U.S. Department of Labor, Bureau of Labor Statistics

6.5%). The overall decrease was partially offset by an increase in local general aviation operations of 4,128 or 126.4%.

Airport Master Plan

In 1997, after extensive planning and environmental studies, the San José City Council approved a comprehensive update to the previous 1980 Master Plan. In turn, the FAA in 1999 conditionally approved a new Airport Layout Plan (ALP) displaying the proposed Master Plan projects and unconditionally approved all the near-term projects. Both the Master Plan and the ALP, which identify facility improvements needed to accommodate forecast demand for commercial passenger service, air cargo, and general aviation, have been kept up to date through periodic amendments. Implementation of the Master Plan has been ongoing, and since 1997 has included major runway extensions, new taxiways, new terminal buildings, parking garages, roadways, and environmental mitigation programs.

The most recent amendment to the Master Plan was approved by the City Council in April 2020. This amendment extended the planning horizon year out to 2037, incorporated the airfield reconfiguration improvements recommended in an FAA-funded Runway Incursion Mitigation/Design Standards Analysis Study, modified the passenger, cargo, and general aviation facility improvement program to serve projected 2037 demand, and added a proposed business hotel to the passenger terminal complex. The Master Plan is currently intended to serve a projected 2037 demand of 22.5 million annual passengers and a total of 184,000 annual aircraft operations, and includes up to 42 airline terminal gates in 1.80 million square feet of passenger terminal facilities. The FAA conditionally approved a new ALP in June 2020 displaying the amended Master Plan development program.

Phase I of the Master Plan's Terminal Area Improvement Program (TAIP) was substantially completed in 2010. The Phase I improvements included nine new airline gates and approximately 366,000 square feet of terminal space in a new Terminal B; improvements to existing Terminal A, including new ticketing facilities, in-line baggage system, security checkpoint, and concession space; the demolition of the original Terminal C; design and construction of a Consolidated Rental Car Facility (ConRAC); and realignment and improvement of existing terminal roadways and parking facilities. The Phase I program also included preliminary design of certain TAIP Phase II projects. On the airfield, the build-out of the Airport's two commercial runways (12R/30L and 12L/30R) to 11,000 x 150 feet was completed in 2004, allowing the Airport to regularly serve takeoffs and landings by all domestic and most international commercial airline aircraft. Airfield project construction since 2004 has consisted of improvements to taxiways, aircraft parking aprons, and navigational aids to increase efficiency and compliance with current FAA airfield design standards.

TAIP Phase II projects (also referred to as the "New Terminal Project") will consist primarily of the design and construction of a Terminal C extending from the south end of existing Terminal B, including a total of 14 additional airline gates plus a new parking garage. Eight of those 14 future gates will replace existing interim gates bolted on to the south end of Terminal B in 2018 and 2019 to accommodate increases in airline flights and passenger volume. Pursuant to the terms of the current signatory Airline-Airport Lease and Operating Agreement and subject only to prior consultation with the signatory airlines, the City retains sole discretion to proceed to construct the New Terminal Project upon its determination that an increase in terminal capacity to be achieved by the New Terminal Project is needed. After completing its consultation with the signatory airlines, and having given due consideration to the information provided by the signatory airlines, the City may proceed with the New Terminal Project if the City determines, in its sole discretion, that the New Terminal Project continues to be needed and can be financed on reasonable terms.

The only Master Plan construction project underway at the time of this report is a new larger Aircraft Rescue and Fire Fighting (ARFF) Facility, partially funded by the FAA, on an existing vacant site on the southwest

side of the Airport (to replace the smaller, 1960s-era ARFF Facility located on the southeast side of the Airport). In November of 2018, the City received a voter authorization of up to \$650 million of general obligation bonds for various public improvements (“Measure T”), intended to address some of the City’s most critical infrastructure needs. A landside fire station component was added to the project to meet the needs of the local community. This portion of the project is funded by Measure T.

MAJOR INITIATIVES

The Airport’s mission is to connect, serve, and inspire. The vision of the Airport is to transform how Silicon Valley travels. This vision will be used by the Airport as a guide for making decisions to support the future needs of the traveling public.

Highlights of the Airport’s activities and accomplishments for the fiscal year ended June 30, 2021, include the following:

- Air Service Development

Passenger levels grew 291.7% in June 2021 compared to June 2020, with the return of numerous nonstop domestic and international destinations, bringing the passenger count for FY 21 to over four million. However, overall passenger levels decreased 62.7% in FY 21 and 24.2% in FY 20 due to the COVID-19 pandemic.

International:

Comparing June 2020 to June 2021, international enplanements increased by 1,151.6%. However, international enplaned passengers decreased 54.6% in FY 21 and 35.0% in FY 20. The Airport has one international carrier as of June 30, 2021.

Domestic:

Comparing June 2020 to June 2021, domestic enplaned passengers increased by 275.8%. However, domestic enplaned passengers decreased by 62.9% in FY 21 and 23.4% in FY 20.

- 2021 Bonds Refunding

On April 7, 2021, the Airport issued Airport Revenue Refunding Bonds Series 2021A, 2021B, and 2021C (the 2021 ARBs) in the amount of \$428.1 million. The 2021 ARBs refunded all of the Airport Revenue Bonds Series 2011A-1, 2011A-2, 2011B, and a portion of the Airport Revenue Refunding Bonds (ARBs) Series 2014A, 2017A, and 2017B, in the aggregate principal amount of \$473.6 million. This transaction generated net present value savings of approximately \$148.7 million or 31.4% as a percent of the refunded principal.

- CARES Act Funding

In May 2020, the Airport was awarded \$65.6 million in federal CARES Act funds. The funds are available to the City on a reimbursable basis and will be used to pay for operating expenses that may no longer be covered by revenues. In addition, the CARES Act provided \$1.2 million in matching funds to increase the federal share of federal FY 20 Airport Improvement Program (AIP) grants to 100%, eliminating the requirement for the Airport to provide a percentage of funds. The

Airport received reimbursements totaling \$53.5 million in FY 21. The federal grant is administered by the FAA.

- Funding for the ARFF Facility

In December 2019, the Airport was awarded \$10.0 million in federal funding for the replacement and relocation of the ARFF Facility. Relocation improves airfield safety with direct access to the primary landing runway and provides space for ARFF personnel and vehicles based on current Index D requirements, which require a minimum of three ARFF vehicles. The FAA Index D requirements are based on the length and average daily departures of aircraft serving the Airport. An additional \$7.0 million was awarded in September 2020 and \$1.2 million in June 2021. The total estimated cost of the facility is \$22.4 million. The federal grants are administered by the FAA. In addition to the ARFF Facility, a landside fire station component was added to the project to meet the needs of the local community. The total estimated cost of this portion of the project is \$5.7 million and is funded by Measure T.

- Funding for the Pavement Management Study

In August 2020, the Airport was awarded \$400,000 in federal funding, which covers the full estimated cost to conduct a Pavement Management Study, which the Airport uses for planning, maintenance, condition assessment, and capital budgeting for the airfield pavements. The federal grant is administered by the FAA.

- CRRSA Act Funding

In March 2021, the Airport was awarded \$13.4 million in CRRSA Act funds. The funds are available to the City on a reimbursable basis for up to four years and will be used to pay for operating expenses. An additional \$1.6 million in CRRSA Act funds were awarded to provide relief from rent and minimum annual guarantees (MAG) to on-airport car rental, on-airport parking, and in-terminal airport concessions. The federal grants are administered by the FAA.

- Funding for Airfield Electrical Rehabilitation

In June 2021, the Airport was awarded \$6.1 million in federal funding to complete the rehabilitation of the airfield electrical system. The replacement of the Taxiway Lighting System and Airfield Signage System will improve the circuit reliability and support the ongoing operation of the Airport. The Airport had previously been awarded \$5.3 million for the first phase of the project in August 2018. The federal grants are administered by the FAA.

- ARP Act Funding

In June 2021, the FAA announced that the Airport will be awarded \$48.9 million in ARP Act funds, available to the City on a reimbursable basis for up to four years and will be used to pay for operating expenses. An additional \$6.6 million in ARP Act funds will be awarded to provide relief from rent and MAG to in-terminal airport concessions. In addition, the ARP Act provided \$1.6 million in matching funds to increase the federal share of federal FY 21 AIP grants to 100%, eliminating the requirement for the Airport to provide a percentage of funds.

- Global Star Rating

In September 2020, the Airport installed new and innovative ultraviolet devices on every escalator within the Airport. The devices continuously disinfect the handrails by killing up to 99.9% of bacteria and viruses, and restoring a freshly sanitized surface for each person to grasp. Installation of the devices contributed to the Airport's recognition from the Global Biorisk Advisory Council (GBAC) and the GBAC STAR Facility Accreditation Program. In January 2021, the Airport was the first California airport to earn global accreditation status for having the highest levels of cleanliness and safety in the midst of the COVID-19 pandemic.

- COVID-19 Testing at the Airport

In December 2020, the Airport started offering pre-flight, onsite, drive-thru COVID-19 testing for passengers flying on Alaska Airlines and Hawaiian Airlines. Carbon Health and WorkSite Labs both offer testing. Carbon Health administers fast turnaround testing exclusively to Alaska Airlines passengers. WorkSite Labs offers testing exclusively to Hawaiian Airlines passengers. In February 2021, the Airport added City Health testing for Southwest Airlines passengers.

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 seeks policy direction from the Council Committee for Community and Economic Development to drive economic improvements that benefit the community. In addition, the Airport works in partnership with various City departments, such as the Department of Transportation, Police, Public Works, and seeks policy direction from the Council Committee for Transportation and Environment to improve the transportation systems to benefit the residents of San José. These partnerships allow the Airport to focus coordination efforts on critical business development and to transform how Silicon Valley travels.

The Airport experienced strong passenger growth since FY 13 with increases of more than one million total passengers in FY 17 (+12.7%), FY 18 (+17.2%), and FY 19 (+10.8%). The worldwide outbreak of the COVID-19 pandemic in March 2020 caused significant disruptions to domestic and international air travel. By the end of FY 20, fiscal year-to-date passengers were 11.3 million (-24.2%) and FY 21 year-to-date passengers were 4.2 million (-62.7%). Commercial airlines have continued to modify their flight schedules on a rolling basis in response to changes in passenger demand, stay at home directives, border closures, quarantines, and a number of policy decisions that impact travel. While questions remain about the pace and timing of passenger traffic recovery, Airport passenger levels during the summer months demonstrated improvements despite the limited return of international flights. The FY 22 projection for total passengers is 7.5 million, a 77% increase over FY 21 passengers.

General Airport Revenues depend significantly on the level of aviation activity and passenger traffic at the Airport. The ability of the Airport to derive revenues from operations may additionally be adversely impacted in the event of a severe decline in the financial health of airlines and other tenants serving the Airport and the aviation industry as a whole. Other airport revenues, such as Passenger Facility Charges (PFC) and Customer Facility Charges (CFC) revenues, are also directly impacted by levels of passenger traffic at the Airport. Resources available to contend with the uncertain revenue recovery include an increase to the CFC rate to \$9.00 per day, refinanced bonds resulting in a significant decrease in FY 22 and

subsequent years debt service, and CARES, CRRSA, and ARP Act funds. With the available resources, the Airport will continue to work with the airline and non-airline tenants at the Airport to provide support, as needed, during the ongoing recovery from COVID-19, subject to City Council direction. During FY 21, the Airport offered payment deferrals and financial relief to various tenants. The airlines were given payment deferrals for July through September 2020 with various due dates within the fiscal year. For most non-airline tenants, including food and beverage concessionaires, retail concessionaires, and on-Airport rental car companies, the Airport offered abatement of MAG concession fees for the entire fiscal year, in exchange for these tenants paying the contractual percentage rent plus an additional fee. However, at this time there are no plans or approval to provide additional MAG abatement or payment deferrals to any tenants.

The Airport will continue to actively collaborate with the City's Office of Economic Development as well as local business groups like the Silicon Valley Leadership Group and the Silicon Valley Organization to pursue air service development opportunities and customer service enhancements. The drastically changed economic environment requires the Airport to focus on strategies to endure several years of recovery to FY 19 levels. Measures include cost containment, collaborative partnerships with tenants to foster more stable long-term revenue streams, strategic use of the federal CARES, CRRSA, and ARP Act funding, leveraging technology to increase efficiencies, and keeping the airline CPE at a competitive level. City Council direction to Airport staff is to use its best efforts to maintain a CPE that is competitive with other airports in the region.

The FY 22 Adopted Budget adds one full-time position to the Airport Technology Services team to work on the network, website services, and other applications. There were no additional staffing adjustments in the Airport Department.

There are expenditure increases for cost of living adjustments to existing agreements, water and electric utility cost adjustments, and increases for new service providers such as uninterrupted power supply monitoring, video storage, and electric bus charging unit maintenance. Given the ongoing uncertainty regarding the impacts associated with the COVID-19 pandemic and the timing for a recovery in the general economy and the aviation sector, Airport management is able to implement internal savings targets as needed to provide flexibility for adjusting service levels at the Airport to fit needs.

Conservative budget and fiscal policies have led to a surplus for FY 21. After completion of the year-end closing and annual audit, the FY 21 actual net remaining revenues were \$8.6 million and will be allocated in accordance with the revenue sharing provisions of the Airline Lease Agreement. As noted in the financial statements, the participating airline net revenue sharing portion was \$1.3 million for FY 21.

The Airport completed a Strategic Plan, which defines a common purpose for the organization, establishes a 10-year vision, and creates goals, objectives, action plans, and performance measures to realize the full potential of the Airport, both as a primary economic driver of the Silicon Valley economy and as a community asset representing the best of San José's local culture and lifestyle. The Strategic Goals are:

- Drive Growth
- Innovate
- Fund the Future
- Invest in the Organization

The Airport's FY 22-26 Adopted Capital Improvement Program (CIP) contains projects reflecting all of the Airport's strategic priorities. In response to the COVID-19 pandemic and resulting reduced revenues, the Airport took opportunities to prioritize projects to the rate of recovery of the air travel industry and focus on groundwork and preliminary projects that position the Airport well for future projects. It is important that the Airport continue to support all of the airlines by maintaining reasonable costs, improving

safety and security, leveraging technology, maintaining infrastructure, and providing a favorable environment for recovery.

The FY 22-26 Adopted CIP budget funding of \$376.3 million is primarily for projects and debt service, of which \$83.7 million is allocated to FY 22. Over the five-year CIP, funding allocated to pay debt service on outstanding bonds totals \$104.7 million. However, the current CIP does not reflect debt service payment reductions in FY 23 through FY 26 resulting from the bond refunding completed in April 2021. A total of \$50.3 million is allocated to general non-construction activities and public art projects, leaving \$221.3 million for capital construction over the next five years.

Program highlights of the Airport's FY 22-26 Adopted CIP are as follows:

- \$52.9 million for Runway Incursion Mitigation (formerly known as Airfield Geometric Implementation) is the second stage of a multi-year project. The goal of the project is to implement changes to airfield geometry to comply with FAA regulations and new design standards identified in the Runway Incursion Mitigation Study project. This project is important to maximize airfield safety through facility design and reconfiguration improvements. This project is partially funded in the term of the current CIP, but continues beyond the five-year CIP.
- \$56.1 million for the Terminal B Ramp Rehabilitation provides for the reconstruction of the apron south of the existing terminal. This project anticipates the potential development of the terminal and extends the apron to accommodate additional gates and/or ground boarding to maximize functionality and efficiency of the terminal. This apron is used to park aircraft for fueling, servicing, loading and unloading both passengers and cargo. The existing pavement is reaching the end of its lifespan and new pavement needs to be constructed to support existing and new aircraft operations. This project has received FAA grant funding for Phase 1, 2, and 3 of the project or \$17.4 million and represents a significant expenditure illustrated in the Airfield Facilities spending category. Future funding is for Phases 4 and 5 of the apron. This project is funded in the term of the current CIP.
- \$14.4 million for the Terminal A Ramp Rehabilitation provides for the reconstruction of the airside parking apron for Terminal A-Plus. The apron area to be replaced includes four contiguous pavement sections with Pavement Condition Index (PCI) values rated as Poor. The four contiguous pavement sections are anticipated to be replaced in two phases and includes approximately 241,000 square feet of apron. This project is funded in the term of the current CIP.
- \$9.8 million for Airfield Electrical Circuit Rehabilitation provides for the replacement of airfield lighting cables and associated improvements to improve electrician access, safety to airfield lighting circuits, and help reduce the impacts of confined space. This project will help ensure the integrity and reliability of the airfield lighting system, further supporting Airfield safety and security. This project received FAA AIP grant funding and work is completed for the first phase of tasks related to improvements to runway lighting and runway guard lights. FAA AIP grant funding was awarded in June 2021 for improvements to signage and taxiway lighting. Funding for this project is within the term of the current CIP.
- \$38.3 million for the Facilities Division Relocation. The Facilities Division is currently housed in several trailers on the east side of the Airport. This project relocates the division to the west side of the Airport, north of the ARFF Facility. The project anticipates construction of a new building to house all administration and field personnel along with storage of materials and equipment required by the division. The building is also expected to be expandable and adaptable to meet future needs.

Relocation of the Facilities Division is a necessary step to enable future terminal expansion. Funding for this project is within the term of the current CIP.

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, PFC, and CFC

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 over federal awards in place, and whether the Airport has complied with all applicable laws and regulations. The City's Single Audit for the fiscal year ended June 30, 2021 is still in progress.

The Airport was authorized to impose PFC effective September 1, 1992. Legislation authorizing the collection of PFC revenues prescribes reporting and control requirements and restricts the use of PFC revenue to the acquisition of specified assets or payment of PFC eligible debt service. As part of the compliance audit of the PFC program, tests are made to determine compliance with the PFC internal control system in place and whether the Airport has complied with all applicable laws and regulations. The PFC program audit for the fiscal year ended June 30, 2021 is still in progress.

Pursuant to California Government Code Sections 50474.1-50474.3 (formerly California Civil Code Section 1936), since May 2000, the City required rental car companies to collect a CFC from their customers renting vehicles at the Airport. CFC revenues may be used to pay the reasonable costs to finance, design, and construct the ConRAC, and to finance, design, construct, and operate the ConRAC Transportation System.

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 operating and capital budgets and the annual appropriation ordinance. 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 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 Lease 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

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 ACFR for the fiscal year ended June 30, 2020. This was the twenty-fourth 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 ACFR. 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 ACFR 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 ACFR 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 contributor to a fine product.

Respectfully submitted,



John Aitken, A.A.E.
Director of Aviation



Kim Hawk, CPA (Inactive)
Deputy Director
Finance and Administration Division



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Norman Y. Mineta San Jose International Airport
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2020

Executive Director/CEO

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

ELECTED OFFICIALS:

Sam Liccardo	Mayor
Charles Jones	Council Member, District 1
Sergio Jimenez	Council Member, District 2
Raul Peralez	Council Member, District 3
David Cohen	Council Member, District 4
Magdalena Carrasco	Council Member, District 5
Devora Davis	Council Member, District 6
Maya Esparza	Council Member, District 7
Sylvia Arenas	Council Member, District 8
Pam Foley	Council Member, District 9
Matt Mahan	Council Member, District 10

AIRPORT COMMISSION:

Ken Pyle	Member
Julie Riera Matsushima	Member
E. Ronald Blake	Member
Robert Hencken	Member
Nick Patel	Member
Prateek Gupta	Member
Catherine Hendrix	Member
Dan Connolly	Member
Joe Head	Member
Surjit Bains	Member
David Cohen	Council Member, Airport Liaison

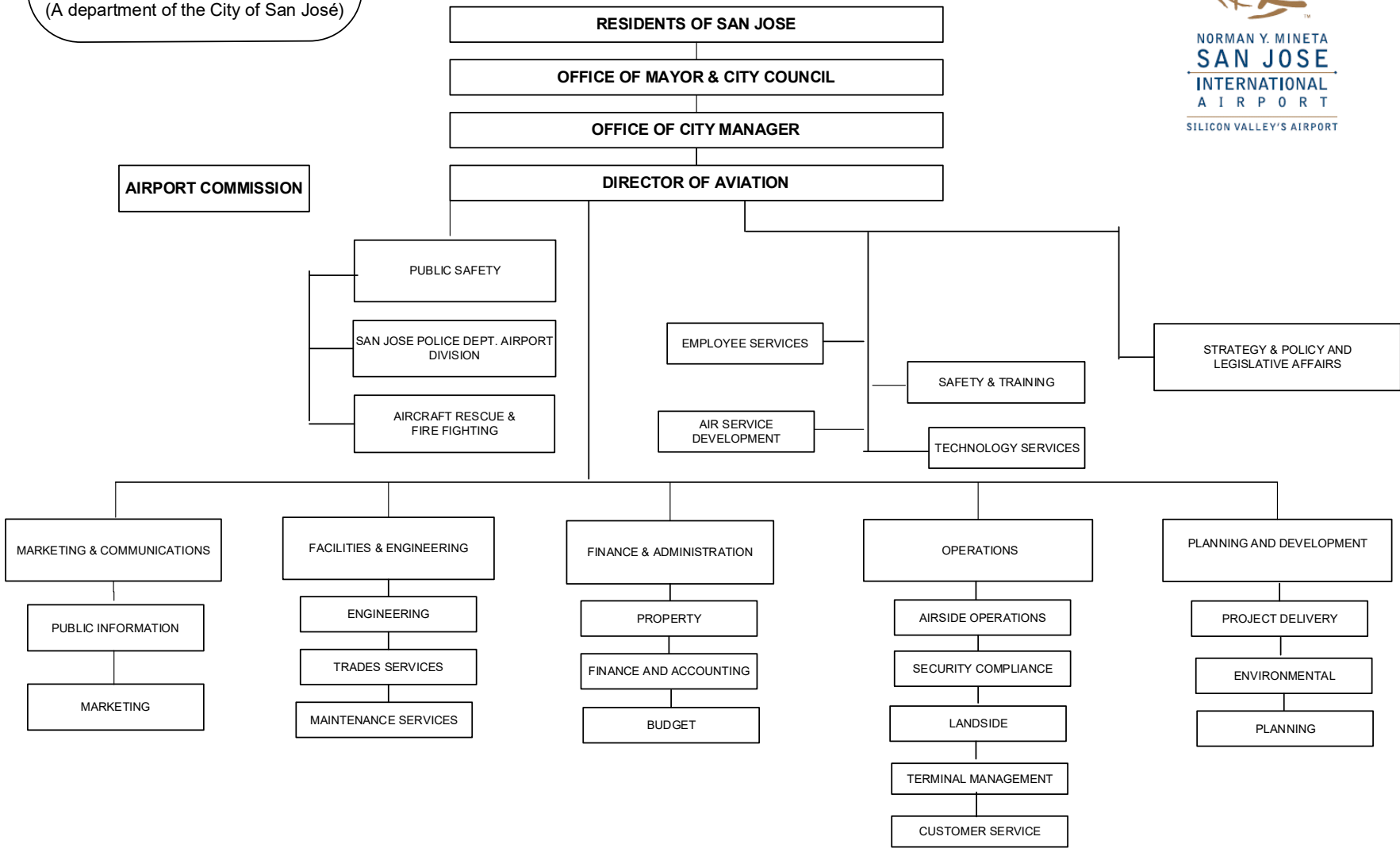
CITY OFFICIAL:

Jennifer A. Maguire	City Manager
Julia H. Cooper	Director of Finance

AIRPORT DEPARTMENT:

John Aitken, A.A.E.	Director of Aviation
Judy M. Ross, A.A.E.	Assistant Director of Aviation
Robert Lockhart, C.M., ACE	Deputy Director, Airport Operations
Kim Hawk, CPA (Inactive)	Deputy Director, Finance & Administration
Gene Frazier, MPA, C.M	Deputy Director, Facilities & Engineering
Andres Niemeyer	Deputy Director, Planning & Development
Scott Wintner	Deputy Director, Marketing & Communications
Lieutenant Jason Pierce	San José Police Dept. – Airport Division

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



GORDON BIERSCH BREWERY RESTAURANT

FINANCIAL

SJC welcomed the first **Trader Vic's restaurant** located in an airport to Terminal B, serving Polynesian-style food and tropical drinks, including the Original Mai Tai. Across from the sit down restaurant and bar, **Trader Vic's Outpost** provides grab and go items including wraps, salads, and their signature poke bowl, as well as merchandise such as the SJC Tiki Mug.

Also new to Terminal B is **Tap & Pour**, a full service bar and restaurant. Terminal A saw the remodel of **Gordon Biersch Brewery and Restaurant** and introduced **Brookstone**, where passengers will find essential items such as travel pillows, chargers, and headphones.



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

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY



Independent Auditor's Report

Honorable City Council
City of San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Norman Y. Mineta San José International Airport (Airport), a department of the City of San José, California (City), as of and for the fiscal years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2021 and 2020, and the changes in its financial position

and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Basis of Presentation

As discussed in Note 1(a) to the financial statements, 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, 2021 and 2020, the changes in its financial position, or, where applicable, its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified in the accompanying table of contents, and the schedule of the proportionate share of the net pension liability, the schedule of contributions (pension), the schedule of the proportionate share of the net OPEB liability, and the schedule of contributions (OPEB), collectively identified as Required Supplementary Information 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 audits 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.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2021 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. The purpose of that report is solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 12, 2021

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Management's Discussion and Analysis
(Unaudited)

This section of the Norman Y. Mineta San José International Airport (Airport) Annual Comprehensive Financial Report (ACFR) presents a narrative overview and analysis of the financial activities of the Airport for the fiscal years ended June 30, 2021 and 2020. The Airport is a department of the City of San José (City).

AIRPORT ACTIVITIES HIGHLIGHTS

The worldwide coronavirus (COVID-19) pandemic continues to impact the Airport and aviation industry and has caused significant disruptions to domestic and international air travel. Various governments, including the U.S. government, continue to restrict access to their borders to nonessential travel and issued other travel restrictions, warnings, or testing/vaccination requirements.

The Airport has continued its operations throughout the pandemic as an essential infrastructure. Non-essential concession operations, including duty free, certain other retail, and food and beverage concessions, were temporarily closed at various times during the year in line with Santa Clara County's Public Health Orders. Due to the large decline in passengers, the City Council approved payment deferrals and financial relief to tenants that have been impacted by the COVID-19 pandemic. Airlines received extended payment terms for the April 2020 to September 2020 rent and air activity. Non-airline tenants, including terminal concessionaires, rental car companies, and an in-flight kitchen company, were granted minimal annual guarantee (MAG) waiver for April 2020 to June 2021. MAG is the annual amount that a concessionaire agrees to pay at a minimum as rent under a concession agreement. Instead of paying the monthly MAG, the concessionaires paid an activity-based percentage rent.

In fiscal year (FY) 20, the Airport was awarded \$65.6 million of funding from the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which became law on March 27, 2020, to assist with the economic crisis created by the COVID-19 pandemic. The aid will reimburse amounts spent for any lawful airport purpose, and must be used within four years. The Airport requested reimbursement of \$53.5 million for costs in FY 21. No reimbursement was requested in FY 20.

In March 2021, the Airport was awarded \$13.4 million in Coronavirus Response and Relief Supplemental Appropriation Act (CRRSA Act) funds. The funds are available to the Airport on a reimbursable basis for up to four years and will be used to pay for operating expenses. An additional \$1.6 million in CRRSA Act funds were awarded to provide relief from rent and MAG to on-airport car rental, on-airport parking, and in-terminal airport concessions.

In March 2021, the American Rescue Plan Act (ARP Act) was signed into law and with it the Federal Aviation Administration (FAA) established the Airport Rescue Grants to distribute funds to be awarded as economic assistance to eligible U.S. airports and eligible concessions at those airports to prevent, prepare for, and respond to the COVID-19 pandemic. The Airport was awarded \$48.9 million in ARP Act funds, available to the Airport on a reimbursable basis for up to four years and will be used to pay for operating expenses. An additional \$6.6 million in ARP Act funds will be awarded to provide relief from rent and minimum annual guarantees to in-terminal airport concessions. In addition, the ARP Act provided \$1.6 million in matching funds to increase the federal share of federal FY 21 AIP grants to 100%, eliminating the requirement for the Airport to provide a percentage of funds.

A total of approximately 4.2 million passengers traveled through the Airport in FY 21 compared to approximately 11.3 million in FY 20, resulting in passenger traffic decline of 62.7%. The Airport experienced a decrease in passenger traffic of 24.2% in FY 20 and an increase of 10.8% in FY 19.

As of February 2020, the Airport was on pace to set another consecutive annual record for passengers. However, that pace of growth dramatically changed by March 2020 as global air travel dropped significantly due to the COVID-19 pandemic and recovery has been slow. As a result, domestic passengers declined 63.2% for FY 21. Vaccination rates have significantly reduced the infection rates

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
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and led to the start of recovery of passenger traffic. In FY 21, Alaska Airlines began new service to Missoula, Montana, and Spokane, Washington.

International passengers declined 54.2% in FY 21. Hainan Airlines suspended passenger service in February 2020 followed by Air Canada, All Nippon Airways, and British Airways in March 2020 due to the COVID-19 pandemic and did not operate at the Airport in FY 21. International flights to Mexico resumed at the Airport during the fiscal year at a reduced frequency. In FY 21, Volaris began new service to Mexico City.

As of June 30, 2021, Airport carriers served 36 nonstop markets. Daily departures ranged from 59 minimum to 129 peak departures in FY 21, compared to 21 nonstop markets with 234 peak daily departures in FY 20, and 50 nonstop markets with 232 peak daily departures in FY 19.

The following shows major air traffic activities at the Airport and year-over-year change during the last three fiscal years:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Flight operations	111,660 <i>(33.7)%</i>	168,384 <i>(12.3)%</i>	192,008 <i>15.8 %</i>
Landed weight by passenger (1,000 lbs)	3,715,202 <i>(51.1)%</i>	7,591,258 <i>(15.5)%</i>	8,984,703 <i>9.0 %</i>
Landed weight by cargo carriers (1,000 lbs)	210,406 <i>(9.9)%</i>	233,630 <i>(4.4)%</i>	244,440 <i>(1.3)%</i>
Total enplaned and deplaned passengers	4,226,239 <i>(62.7)%</i>	11,328,759 <i>(24.2)%</i>	14,949,956 <i>10.8 %</i>
Enplaned passengers	2,125,823 <i>(62.4)%</i>	5,660,067 <i>(24.1)%</i>	7,462,126 <i>11.0 %</i>
Deplaned passengers	2,100,416 <i>(62.9)%</i>	5,668,692 <i>(24.3)%</i>	7,487,830 <i>10.7 %</i>
Domestic passengers	3,944,919 <i>(63.2)%</i>	10,714,124 <i>(23.6)%</i>	14,015,534 <i>11.7 %</i>
International passengers	281,320 <i>(54.2)%</i>	614,635 <i>(34.2)%</i>	934,422 <i>(0.4)%</i>
Cargo tonnage (in tons)	40,359 <i>(17.3)%</i>	48,801 <i>(15.0)%</i>	57,393 <i>(6.1)%</i>
Parking (vehicles) exits	375,846 <i>(51.3)%</i>	771,225 <i>(31.9)%</i>	1,133,242 <i>(4.6)%</i>

FINANCIAL HIGHLIGHTS

The Airport posted an increase in net position for the 2021 fiscal year.

- Operating revenues decreased by 25.2% from \$175.3 million in 2020 to \$131.2 million in 2021.
- Operating expenses before depreciation decreased by 10.0% from \$105.6 million in 2020 to \$95.0 million in 2021.
- Operating income before depreciation decreased by 48.1% from \$69.7 million in 2020 to \$36.1 million in 2021.
- Depreciation decreased by 4.1% from \$55.4 million in 2020 to \$53.1 million in 2021.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Management's Discussion and Analysis
(Unaudited)

- The above resulted in an operating income before nonoperating revenues and expenses of \$14.3 million in 2020 and an operating loss before nonoperating revenues and expenses of \$17.0 million in 2021.
- Nonoperating revenues, net of nonoperating expenses, increased 178.1% from \$22.5 million net operating expenses in 2020 to \$17.6 million net operating revenues in 2021.
- Capital contributions earned in the form of grants from the federal government increased by 290.9% from \$3.1 million in 2020 to \$12.0 million in 2021 mainly due to grants for the Aircraft Rescue and Fire Fighting (ARFF) Facility.
- Change in net position from current year activities showed an increase of \$12.6 million in 2021 compared to a decrease of \$5.1 million in 2020. The one-time use of CARES and CRRSA Act Grants funding, the decrease in net revenue sharing with participating airlines, the increase in capital contributions, and the decrease in operating expenses were sufficient to offset the decrease in operating revenues and investment income, the decrease in Passenger Facility Charges (PFC) and Customer Facility Charges (CFC) revenues, all resulting from the COVID-19 pandemic.

In addition, the Airport showed an increase in net position for the 2020 fiscal year.

- Operating revenues increased by 0.3% from \$174.8 million in 2019 to \$175.3 million in 2020.
- Operating expenses before depreciation increased by 4.8% from \$100.8 million in 2019 to \$105.6 million in 2020.
- Operating income before depreciation decreased by 5.9% from \$74.1 million in 2019 to \$69.7 million in 2020.
- Depreciation increased by 13.0% from \$49.0 million in 2019 to \$55.4 million in 2020.
- The above resulted in an operating income before nonoperating revenues and expenses of \$25.0 million in 2019 and \$14.3 million in 2020.
- Nonoperating expenses, net of nonoperating revenues, increased 55.2% from \$14.5 million in 2019 to \$22.5 million in 2020.
- Capital contributions earned in the form of grants from the federal government decreased from \$18.7 million in 2019 to \$3.1 million in 2020.
- Change in net position showed a decrease of \$5.1 million in 2020 compared to an increase of \$13.0 million in 2019. The combination of an increase in operating expenses, including an increase in depreciation, a decrease in PFC and CFC revenues resulting from the COVID-19 pandemic, and a decrease in capital contributions was greater than the one-time distribution of the rate stabilization fund and ten-year lookback in 2019.

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HIGHLIGHTS IN CHANGES IN NET POSITION

The following table reflects a condensed summary of the changes in net position (in thousands) for fiscal years ended June 30, 2021, 2020, and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 131,162	\$ 175,291	\$ 174,828
Operating expenses before depreciation	<u>(95,019)</u>	<u>(105,601)</u>	<u>(100,766)</u>
Operating income before depreciation	36,143	69,690	74,062
Depreciation	<u>(53,134)</u>	<u>(55,383)</u>	<u>(49,026)</u>
Operating income (loss)	(16,991)	14,307	25,036
Nonoperating revenues and expenses, net	<u>17,577</u>	<u>(22,503)</u>	<u>(14,498)</u>
Income (loss) before capital contributions	586	(8,196)	10,538
Capital contributions	12,023	3,076	18,747
Special item - rate stabilization fund and ten-year lookback distribution	-	-	(16,266)
Change in net position	<u>12,609</u>	<u>(5,120)</u>	<u>13,019</u>
Net position - beginning	<u>212,421</u>	<u>217,541</u>	<u>204,522</u>
Net position - ending	<u>\$ 225,030</u>	<u>\$ 212,421</u>	<u>\$ 217,541</u>

NET POSITION SUMMARY

Net position serves over time as a useful indicator of the Airport's financial position. The Airport's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$225.0 million, \$212.4 million, and \$217.5 million at June 30, 2021, 2020, and 2019, respectively, a \$12.6 million increase from June 30, 2020 to June 30, 2021 and a \$5.1 million decrease from June 30, 2019 to June 30, 2020.

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A condensed summary of the Airport's net position (in thousands) at June 30, 2021, 2020, and 2019 is as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>Assets:</u>			
Unrestricted assets	\$ 174,267	\$ 171,287	\$ 173,870
Restricted assets	113,184	155,979	173,584
Capital assets	1,274,183	1,289,890	1,305,205
Other assets	1,509	3,239	3,401
Total assets	<u>1,563,143</u>	<u>1,620,395</u>	<u>1,656,060</u>
<u>Deferred outflows of resources:</u>			
Deferred outflows of resources related to pension	17,288	18,824	18,111
Deferred outflows of resources related to OPEB	2,908	2,306	2,427
Loss on refunding of debt	11,516	7,639	8,128
Total deferred outflows of resources	<u>31,712</u>	<u>28,769</u>	<u>28,666</u>
<u>Liabilities:</u>			
Current liabilities - unrestricted	70,767	82,642	84,728
Current liabilities - restricted	22,267	57,392	56,668
Noncurrent liabilities	1,273,230	1,293,578	1,322,553
Total liabilities	<u>1,366,264</u>	<u>1,433,612</u>	<u>1,463,949</u>
<u>Deferred inflows of resources:</u>			
Deferred inflows of resources related to pension	1,919	996	61
Deferred inflows of resources related to OPEB	1,642	2,134	3,175
Total deferred inflows of resources	<u>3,561</u>	<u>3,130</u>	<u>3,236</u>
<u>Net position:</u>			
Net investment in capital assets	171,356	139,388	126,419
Restricted	27,539	44,795	61,897
Unrestricted	26,135	28,238	29,225
Net position	<u>\$ 225,030</u>	<u>\$ 212,421</u>	<u>\$ 217,541</u>

2021 versus 2020

Total liabilities declined 4.7%, or \$67.3 million. Restricted current liabilities decreased \$35.1 million due to the issuance of the Airport Revenue Refunding Bonds Series 2021A, 2021B, and 2021C (the 2021 ARBs) in the amount of \$428.1 million. The 2021 ARBs refunded all of the Airport Revenue Bonds Series 2011A-1, 2011A-2, 2011B, and a portion of the Airport Revenue Refunding Bonds (ARBs) Series 2014A, 2017A, and 2017B, in the aggregate principal amount of \$473.6 million, which reduced the bond principal due in FY 22 and accrued interest payable. Additional information about the Airport's revenue bonds can be found in Note 5 to the financial statements. Unrestricted current liabilities declined 14.4%, or \$11.9 million, due to a reduction in accounts payable from unrestricted accounts, partially offset by an increase in unearned revenues. Noncurrent liabilities decreased 1.6%, or \$20.3 million, due to decreases in the bond payable balance and other postemployment benefits liability.

Restricted assets declined 27.4%, or \$42.8 million, from \$156.0 million at June 30, 2020 to \$113.2 million at June 30, 2021, due to a decrease in cash and investments held in City Treasury following the decline in revenues resulting from the COVID-19 pandemic, and a reduction in cash and investments held by fiscal agents due to a decrease in the bond reserve requirements resulting from the bond refunding completed in April 2021.

Loss on refunding of debt increased 50.7%, or \$3.9 million, from \$7.6 million as June 30, 2020 to \$11.5

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million at June 30, 2021, due to the issuance of the 2021 ARBs.

Deferred outflows of resources related to pension decreased 8.2%, or \$1.5 million, from \$18.8 million at June 30, 2020 to \$17.3 million at June 30, 2021, which reflects the decreases in the changes of assumptions, contributions made subsequent to the measurement date, differences between expected and actual experience, and net difference between projected and actual earnings on pension plan investments. Deferred outflows of resources related to other postemployment benefits (OPEB) increased 26.1%, or \$0.6 million, from \$2.3 million at June 30, 2020 to \$2.9 million at June 30, 2021, which reflects the increase in net difference between projected and actual earnings on OPEB plan investments, and the increase in contributions made subsequent to the measurement date, partially offset by decrease in the changes in assumptions. Detailed information about the Federated City Employees' Retirement System, which is a single employer defined benefit retirement system that covers substantially all benefited non-sworn City employees, except for certain unrepresented employees, can be found in Note 7 to the financial statements.

The largest portion of the Airport's net position, 76.1% and 65.6% at June 30, 2021 and 2020, respectively, represents its investment in capital assets (e.g. land, buildings, improvements, and equipment), less the debt outstanding used to acquire those capital assets and related deferred inflows and outflows associated with that debt. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently, these assets are not available for future spending.

A portion of the Airport's net position represents amounts that are subject to restrictions under the Airline Lease Agreement, the Master Trust Agreement, the rental car agreement, and PFC revenues and CFC revenues that are restricted by federal regulations and California Government Code Sections 50474.1-50474.3, respectively.

2020 versus 2019

Restricted assets declined 10.1%, or \$17.6 million, from \$173.6 million at June 30, 2019 to \$156.0 million at June 30, 2020, due to the spending of commercial paper proceeds towards the interim facility and economy lot parking garage, and the decline of PFC revenues and CFC revenues due to the COVID-19 pandemic.

Deferred outflows of resources related to pension increased from \$18.1 million at June 30, 2019 to \$18.8 million at June 30, 2020, which reflects the increase in the changes of assumptions and contributions made subsequent to the measurement date, partially offset by the decreases in differences between expected and actual experience and net difference between projected and actual earnings on pension plan investments. Deferred outflows of resources related to OPEB decreased from \$2.4 million at June 30, 2019 to \$2.3 million at June 30, 2020, which reflects the decreases in contributions made subsequent to the measurement date and differences between expected and actual experience, partially offset by increases in the changes in assumptions and net difference between projected and actual earnings on OPEB plan investments.

Total liabilities declined 2.1%, or \$30.3 million. Noncurrent liabilities decreased 2.2%, or \$29.0 million, due to decreases in the bonds payable balance, partially offset by an increase in net pension liability. Unrestricted current liabilities declined 2.5%, or \$2.1 million, due to reductions of unearned revenues and accounts payable from unrestricted accounts. Restricted current liabilities increased \$0.7 million due to an increase in bond principal due, partially offset by accounts payable due from restricted accounts and accrued interest payable.

The largest portion of the Airport's net position 65.6% and 58.1% at June 30, 2020 and 2019, respectively, represents its investment in capital assets (e.g. land, buildings, improvements, and equipment), less the debt outstanding used to acquire those capital assets and related deferred inflows and

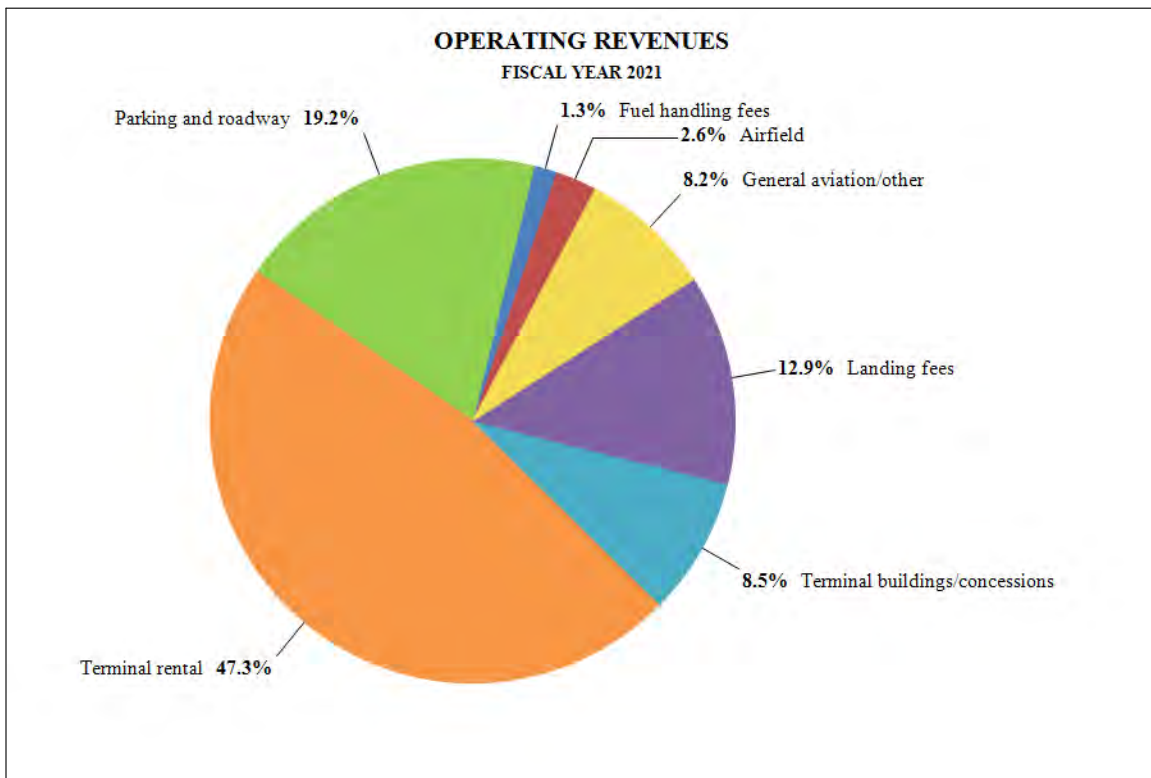
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outflows associated with that debt. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently, these assets are not available for future spending.

A portion of the Airport's net position represents amounts that are subject to restrictions under the Airline Lease Agreement, the Master Trust Agreement, the rental car agreement, and PFC revenues and CFC revenues that are restricted by federal regulations and California Government Code Sections 50474.1-50474.3, respectively.

REVENUES

The following chart reflects the major sources and the percentage of operating revenues for the fiscal year ended June 30, 2021:



As illustrated in the above chart, airline terminal rental revenue, represents 47.3% of the total operating revenues.

The next largest category is parking and roadway revenue, which represents 19.2% of the total operating revenues. Parking and roadway revenues include public parking, utility and concession fees from rental cars, employee parking, Transportation Network Companies (TNCs), 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 for the ConRAC will vary each year as it is calculated under the terms of the rental car agreement: an amount equal to the sum of annual debt service and coverage amounts and reserve fund requirements, less estimated CFC revenues, is allocated to each rental car company based upon that company's percentage occupancy of the ConRAC. In addition, each rental car company's share of operating costs for the transportation system is charged to each of the rental car companies. In the event that CFC revenues exceed the sum of annual debt service plus coverage amounts and reserve fund requirements, each rental car company's share of any such CFC revenues will be deducted from its share of operating costs for the transportation system. In the event that CFC

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revenues remain after CFC revenues are deducted from each company's share of operating costs for the transportation system, the Airport may, in its sole discretion, deduct each rental car company's share of any such CFC revenues from its share of demolition costs, as calculated under the terms of the rental car agreement. The Airport had previously determined that it should identify the specific rental car customers who used the transportation system in order to apply the CFC revenues to cover transportation costs. However, upon further consultation with the rental car companies, the Airport and the rental car companies have agreed that the Airport may apply the CFC revenues to cover transportation costs, which are a component of CFC eligible ConRAC expenses, without first identifying the specific rental car customers who used the transportation system. In FY 21, the Airport did not recognize any CFC revenues for transportation costs.

Landing fees from passenger and cargo carriers represent 12.9% of the total operating revenues.

Revenues from terminal buildings/concessions, which came in at 8.5% of total operating revenues, include food and beverage, news and gift shops, advertising, and telephony fees. Fees for the use of the Federal Inspection Service facility and rental of space, other than airline space, are also included in this category.

General aviation/other revenues are 8.2% of total operating revenues and are comprised of rents for aircraft hangars, aircraft parking spaces, building and land rentals, fingerprinting fees, and fees for tenant plan reviews, which are calculated on a cost recovery basis.

The remaining categories, airfield and fuel handling fees represent 2.6% and 1.3%, respectively, of the total operating revenues. The airfield area category is comprised of air carrier parking fees, fees from the in-flight kitchen services, and fees from ground service providers. Fuel handling fees include sales of diesel, unleaded, and propane, as well as jet flowage fees, a fee charged to operators for engaging in the activity of retail sales of aviation fuel petroleum products.

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A summary of revenues (in thousands) for the fiscal years ended June 30, 2021, 2020, and 2019 is as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>Operating revenues:</u>			
Landing fees	\$ 16,933	\$ 21,682	\$ 18,984
Terminal rental	62,005	62,690	42,815
Terminal buildings/concessions	11,120	20,623	23,717
Airfield	3,454	6,535	8,340
Parking and roadway	25,244	50,973	64,507
Fuel handling fees	1,722	2,289	2,930
General aviation/other	10,684	10,499	10,773
Customer facility charges for transportation costs	-	-	2,762
Total operating revenues	<u>131,162</u>	<u>175,291</u>	<u>174,828</u>
<u>Nonoperating revenues:</u>			
Passenger facility charges	9,378	20,456	29,735
Customer facility charges for debt service	6,539	15,394	18,704
Investment income	1,236	11,266	9,893
Operating grants	619	486	720
CARES Act Airport Grants	53,538	-	-
CRRSA Act Airport Grants	1,647	-	-
Other, net	1,846	913	1,045
Total nonoperating revenues	<u>74,803</u>	<u>48,515</u>	<u>60,097</u>
Capital contributions	12,023	3,076	18,747
Total revenues	<u>\$ 217,988</u>	<u>\$ 226,882</u>	<u>\$ 253,672</u>

2021 versus 2020

Total operating revenues decreased by 25.2% from \$175.3 million in 2020 to \$131.2 million in 2021.

Landing fees decreased 21.9%, or \$4.7 million, due to a decrease in air activity. Although the landing fee rate increased from \$2.87 to \$4.30 per thousand pounds for the first seven months of the year and adjusted to \$4.95 per thousand pounds in February 2021, the increase was not sufficient to offset the large landed weights decrease year-over-year from 7.8 billion pounds to 3.9 billion pounds due to the decrease in passenger activity resulting from the COVID-19 pandemic.

Terminal rental revenues decreased 1.1%, or \$0.7 million, due to a decrease in common use gates and ticket counters, partially offset by an increase in the preferential ticket counter annual rate. Common use revenues are generated primarily by international carriers. The budgeted rate for preferential ticket counters increased from \$251,675 per counter in 2020 to an average rate of \$301,614 per counter in 2021.

Terminal buildings/concessions posted a decrease of 46.1%, or \$9.5 million, primarily due to the decrease in passenger activity and the MAG waiver to non-airline tenants, including food and beverage concessionaires and retail concessionaires. Instead of paying the monthly MAG, the concessionaires paid

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an activity-based percentage rent.

Airfield revenues decreased by 47.2%, or \$3.1 million, mainly due to the decrease in passenger activity and MAG waiver to non-airline tenants, including an in-flight kitchen tenant. Instead of paying the monthly MAG, the in-flight kitchen company paid an activity-based percentage rent.

Parking and roadway revenues were down by 50.5%, or \$25.7 million, mainly due to a decrease in public parking revenues, rental car concessions, and ground transportation revenues, including TNC trip fee revenues, resulting from the decrease in passenger activity and the MAG waiver to rental car companies. Instead of paying the monthly MAG, the rental car concessionaires paid an activity-based percentage rent.

Fuel handling fees fell by 24.7%, or \$0.6 million. The main contributors to the decrease were a decrease in air activity and elimination of CNG fuel sales after June 2020.

PFC revenues are the charges to eligible passengers enplaning at the Airport. The Airport may use these fees to fund certain FAA approved projects and associated debt service. PFC revenues declined by 54.2%, or \$11.1 million, reflective of the decline in passenger activity.

CFC revenues are the charges to customers of rental car companies at the Airport in accordance with California Government Code Sections 50474.1-50474.3 to help pay for capital costs and related debt service associated with the ConRAC and certain operating expenses related to the transportation of rental car customers between the terminals and the ConRAC. Total CFC revenues declined 57.5%, or \$8.9 million, from the 2020 level, reflective of the Airport's 62.7% passenger traffic decline due to the COVID-19 pandemic. The decline in CFC revenues was partially offset by an increase to the CFC rate, effective April 1, 2021, from \$7.50 to \$9.00 per day, up to a maximum of five days per rental car contract.

Investment income in 2021 decreased by 89.0%, or \$10.0 million, to \$1.2 million, mainly due to higher unrealized losses, lower interest rates, and lower average cash and investment balances.

In May 2020, the Airport was awarded \$65.6 million in federal CARES Act funds. The Airport received reimbursements total \$53.5 million in FY 21.

In March 2021, the Airport was awarded \$13.4 million in CRRSA Act funds. An additional \$1.6 million in CRRSA Act funds were awarded to provide relief from rent and MAG to on-airport car rental, on-airport parking, and in-terminal airport concession. The Airport received reimbursements totaling \$1.6 million in FY 21.

Capital contributions earned during 2021 pertained to grant reimbursements from the FAA, mainly for the ARFF Facility, which increased 290.9%, or \$8.9 million, from \$3.1 million in 2020 to \$12.0 million in 2021.

2020 versus 2019

Total operating revenues increased by 0.3% from \$174.8 million in 2019 to \$175.3 million in 2020.

Landing fees increased 14.2%, or \$2.7 million, due to an increase in the landing fee rate. Although the landing fee rate increased from \$2.18 to \$2.87 per thousand pounds, landed weights decreased year-over-year from 9.2 billion pounds to 7.8 billion pounds due to the decrease in passenger activity.

Terminal rental revenues increased 46.4%, or \$19.9 million, mainly due to an increase in the average terminal rental rate. The budgeted rate for terminal space increased from an average of \$183.78 per square foot in 2019 to \$268.31 per square foot in 2020. The terminal rate increase was partially due to calculation methodology changes, where the Terminal true-up and Revenue Sharing no longer rolled into

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the subsequent years rates, starting in FY 20.

Terminal buildings/concessions posted a decrease of 13.1%, or \$3.1 million, primarily due to the decrease in passenger activity and the MAG waiver to non-airline tenants, including food and beverage concessionaires and retail concessionaires. Instead of paying the monthly MAG for April through June 2020, the concessionaires paid an activity-based percentage rent.

Airfield revenues decreased by 21.6%, or \$1.8 million, mainly due to the decrease in passenger activity and the MAG waiver to non-airline tenants, including an in-flight kitchen tenant. Instead of paying the monthly MAG for April through June 2020, the concessionaire paid an activity-based percentage rent.

Parking and roadway revenues were down by 21.0%, or \$13.5 million, mainly due to a decrease in public parking revenues and TNC trip fee revenues resulting from the decrease in passenger activity.

PFC revenues declined by 31.2%, or \$9.3 million, reflective of the decline in passenger activity.

Investment income in 2020 increased by 13.9%, or \$1.4 million, to \$11.3 million, mainly due to higher unrealized gains, interest rates and higher cash and investment balances.

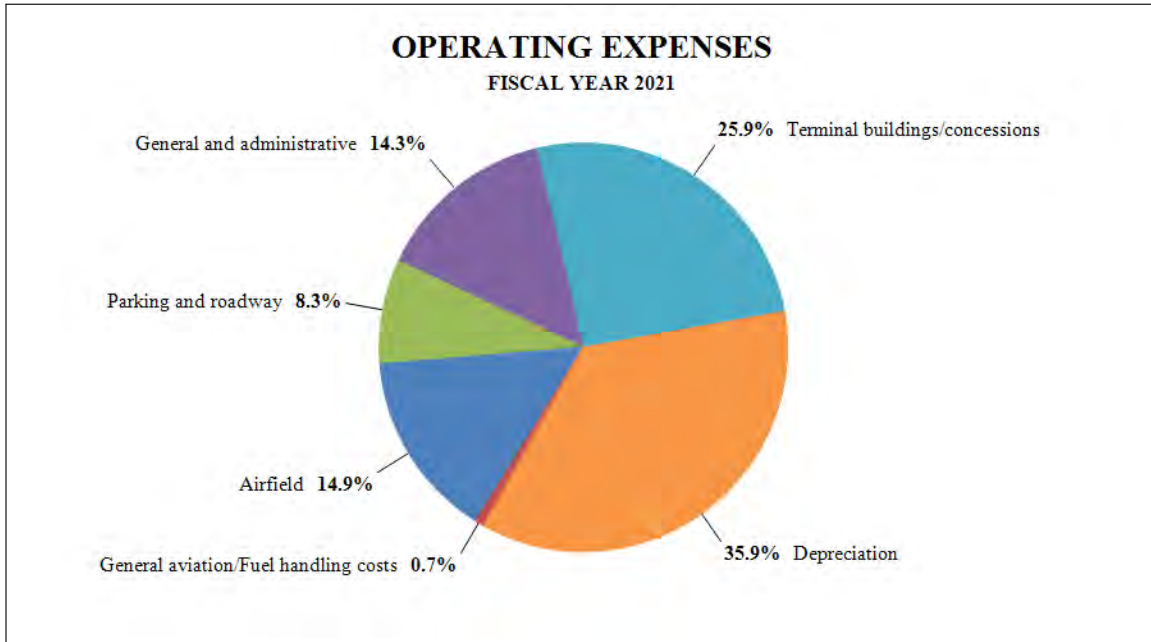
Total CFC revenues declined 28.3% or \$6.1 million, from the 2019 level, reflective of the Airport's 24.2% passenger traffic decline and presence of TNC levels before the COVID-19 pandemic.

Capital contributions earned during 2020 pertained to grant reimbursements from the FAA, mainly for the ARFF Facility and airfield electrical circuit rehabilitation, which decreased 83.6%, or \$15.7 million, from \$18.7 million in 2019 to \$3.1 million in 2020.

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EXPENSES

The following chart reflects the major cost centers as a percentage of operating expenses for the fiscal year ended June 30, 2021:



A summary of expenses (in thousands) for the fiscal years ended June 30, 2021, 2020, and 2019 is as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>Operating expenses:</u>			
Terminal buildings/concessions	\$ 38,346	\$ 41,025	\$ 37,372
Airfield	22,096	21,912	20,062
Parking and roadway	12,321	16,761	15,837
Fuel handling costs	63	27	69
General aviation	962	1,717	2,383
General and administrative	21,231	24,159	25,042
Depreciation	53,134	55,383	49,026
Total operating expenses	<u>148,153</u>	<u>160,984</u>	<u>149,791</u>
<u>Nonoperating expenses:</u>			
Participating airline net revenue sharing	1,325	11,910	13,944
Interest expense	53,649	59,108	60,381
Bond issuance costs	2,239	-	-
Loss on capital assets disposal	13	-	271
Total nonoperating expenses	<u>57,226</u>	<u>71,018</u>	<u>74,596</u>
Special item - rate stabilization fund and ten-year lookback distribution	-	-	16,266
Total expenses	<u>\$ 205,379</u>	<u>\$ 232,002</u>	<u>\$ 240,653</u>

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2021 versus 2020

Operating expenses in 2021 decreased 8.0%, or \$12.8 million, from \$161.0 million in 2020 to \$148.2 million in 2021, due to decreases in non-personnel costs, pension expense, OPEB expense, and depreciation expense, partially offset by an increase in expenses related to noncapitalized projects and increase in public safety expenses.

Depreciation expense decreased \$2.3 million from \$55.4 million in 2020 to \$53.1 million in 2021 due to a correction to the useful live of vehicles.

Nonoperating expenses in 2021 decreased by \$13.8 million due to a decrease in the airline net revenue sharing and interest expense, partially offset by an increase in bond issuance costs resulting from bond refunding completed in April 2021.

2020 versus 2019

Operating expenses in 2020 increased 7.5%, or \$11.2 million, from \$149.8 million in 2019 to \$161.0 million in 2020, due to increases in depreciation expense, OPEB expense, salaries and fringe benefits, higher costs for public safety employees, and pension expense, partially offset by a decrease in expenses related to noncapitalized projects.

Depreciation expense increased \$6.4 million from \$49.0 million in 2019 to \$55.4 million in 2020 due to the \$57.4 million Interim Facility placed in service in June 2019.

OPEB expense increased \$4.4 million due to the actual impact of changes to benefit terms.

Salaries and fringe benefits increased \$2.7 million from \$31.3 million in 2019 to \$34.0 million in 2020 due to additional staff and cost of living allowance adjustments.

Costs of public safety personnel increased \$1.1 million from \$16.1 million in 2019 to \$17.2 million in 2020 due to the higher salaries and benefits.

Nonoperating expenses in 2020 decreased by \$3.6 million due a decrease in the airline net revenue sharing and interest expense.

The Airport recorded \$16.3 million in 2019 as a special item pertaining to the rate stabilization fund and ten-year lookback distribution.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

The Airport expended \$41.8 million on both capitalized and noncapitalizable capital activities in FY 21 and \$41.5 million in 2020. Major capital projects in 2021 included the economy lot parking garage and the ARFF Facility. Major capital projects in 2020 included the economy lot parking garage, Interim Facility, ARFF Facility, airfield electric circuit rehabilitation, network replacement, and parking accessibility upgrade.

As of June 30, 2021, the Airport was obligated for purchase commitments relating to capital projects of approximately \$15.7 million primarily for the ARFF Facility and a planned upgrade to the Airport's Parking Revenue Control System. Detailed information about capital assets can be found in Note 3 to the financial statements.

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OUTSTANDING DEBT

Subordinated Commercial Paper (CP) Notes

The Subordinated CP Notes debt is a form of variable rate debt with a maturity between 1 to 270 days. As of June 30, 2021 and 2020, the total amount of Subordinated CP Notes outstanding totaled \$51.9 million. \$3.0 million of Subordinated CP Notes were issued to the Airport in the fiscal year ended June 30, 2020. The Airport paid principal of \$3.3 million during the fiscal year ended June 30, 2020. There were no new CP issuances or principal payments in FY 21.

As of June 30, 2021, the Subordinated CP Notes were supported by the \$81.7 million letter of credit issued by Bank of America to cover the principal amount of \$75.0 million and interest.

Additional information about the Airport's commercial paper program can be found in Note 4 and Note 11 to the financial statements.

Revenue Bonds

As of June 30, 2021 and 2020, the Airport had total outstanding revenue bonds of \$1,048.9 million and \$1,127.7 million, respectively. In April 2021, the Airport Revenue Bonds Series 2011A-1, 2011A-2, and 2011B bonds and a portion of the ARBs Series 2014A, 2017A, and 2017B were refunded in the amount of \$428.1 million with the issuance of the 2021 ARBs. During the fiscal years ended June 30, 2021 and 2020, the Airport paid principal of \$506.8 million and \$31.0 million, respectively.

Additional information about the Airport's revenue bonds can be found in Note 5 to the financial statements.

Credit Ratings

As of June 30, 2021, the underlying ratings of the outstanding ARBs were "A-", "A2" and "A" by S&P Global Ratings (S&P), Moody's Investors Service (Moody's), and Fitch Ratings, Inc. (Fitch), respectively. S&P and Moody's both had a stable outlook while Fitch had a negative outlook as of June 30, 2021.

On August 3, 2021, Fitch upgraded the ARBs outlook from negative to stable, while the rating remained at "A."

AIRLINE RATES AND CHARGES

The Airport entered into an Airline-Airport Lease and Operating Agreement (Airline Lease Agreement) with the various passenger and cargo airlines serving the Airport, effective July 1, 2019. The Airline Lease Agreement has an initial term of ten years and is set to expire on June 30, 2029. The term of this Airline Lease Agreement may be extended for two consecutive five-year renewal periods by the mutual written agreement of the Passenger Carriers and the Airport.

The key provisions in the current Airline Lease Agreement include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The terminal rate per square foot is calculated based on expenses allocable to the Terminal for each fiscal year divided by the total amount of rentable terminal space. Should there be any remaining net revenues after all other obligations are satisfied, the Passenger Carriers' (as defined in the Airline Lease Agreement) share of the remaining net terminal revenues shall be distributed as a refund once a final accounting of the Airport's operations for the last fiscal year has been completed. Final accounting must be provided by December 31st after the close of each fiscal year, and the Airport shall remit payment within 30 days of the final accounting. After the final accounting is completed, an invoice will be sent to the Passenger Carriers if the actual expenses in the terminal were higher than the revenues. Invoices to Passenger Carriers are due within 30

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days of final accounting and shall be due and payable within 60 days of invoice date. The landing fee rate is calculated by dividing the expenses allocable to the airfield, offset by airfield revenues, other than landing fees, by the projected aggregated maximum gross landed weight (MGLW) for all aircraft at the Airport during the fiscal year. The aggregate credit or debit, if any, resulting from the final accounting after each fiscal year shall be applied to the airfield revenue requirement for the following fiscal year. The current Airline Lease Agreement includes a revenue sharing provision that is divided between the Airport and the Signatory Passenger Carriers based on the terms of the Airline Lease Agreement, in the event there are net remaining revenues generated at the Airport and all requirements of the Master Trust Agreement and any Subordinated Financing Agreements have been satisfied, including the minimum rate covenant requirement. The Signatory Passenger Carriers' portion of the revenue sharing shall be distributed as a refund once the final accounting of the Airport's operations for the last fiscal year has been completed. For additional provisions included in the current Airline Lease Agreement, refer to Note 6 to the financial statements.

One of the provisions of the Airline Lease Agreement requires the airlines to make payments in addition to the landing fees and terminal rents in any fiscal year where the airport is unable to satisfy the debt service and debt service coverage requirements.

The budgeted rates and charges for the signatory (passenger and cargo) airlines for fiscal years 2021 and 2020 were as follows:

	2021	2020
Landing fee (per 1,000 lbs MGLW)	\$ 4.30	\$ 2.87
Terminal average rental rate (per square foot)	240.82	268.31
Adjusted Airline CPE (budgeted)	23.83	11.55

The FY 21 adjusted Airline cost per enplaned (CPE) passenger reflects the actual net terminal revenues and Airlines portion of the net revenue sharing in accordance with the Airline Lease Agreement.

Terminal rental rates and airline landing fees for FY 22 have been developed as part of the annual budget process. The rates and charges for signatory airlines for FY 22, which became effective July 1, 2021, are as follows:

Landing fee (per 1,000 lbs MGLW)	\$ 4.00
Terminal average rental rates (per square foot)	208.98
Adjusted Airline CPE (budgeted)	21.98

The FY 22 adjusted Airline CPE reflects the forecasted net terminal revenues and Airlines portion of the net revenue sharing in accordance with the Airline Lease Agreement.

After completion of the year-end closing and annual audit, the FY 21 actual net remaining revenues were \$8.6 million and will be allocated in accordance with the revenue sharing provisions of the Airline Lease Agreement. As noted in the financial statements, the Signatory Passenger Carriers net revenue sharing portion was \$1.3 million for FY 21.

OUTLOOK

The worldwide COVID-19 pandemic continues to significantly disrupt domestic and international air travel. In FY 21, 4.2 million passengers traveled through the Airport compared to 11.3 million passengers in FY 20. The Airport is estimating 7.5 million passengers for FY 22. (That is a 77.5% increase from FY 21 levels or a 33.8% decrease from FY 20 levels.) In response to the projected declining revenues in FY

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Management's Discussion and Analysis
(Unaudited)

22, Airport management is closely monitoring its operating budget costs and continues to look for ways to increase non-airline revenues. In addition, Airport management looked for opportunities to reduce the near-term costs of its Capital Improvement Plan, defer projects where necessary or appropriate, and scale ongoing and future projects appropriately in response to the rate of recovery of the air travel industry.

The Airport included \$12.1 million of CARES Act funding in its FY 22 budget after submitting \$53.5 million in CARES Act reimbursement in FY 21. Included in the FY 22 budget are also the \$13.4 million in CRRSA Act funds awarded in March 2021 to the Airport. Available for use are also funds from the ARP Act. The Airport plans to use \$24.7 million in ARP Act funds in FY 22, however the actual amount may differ. These funds are available to the Airport on a reimbursable basis for up to four years and will be used to pay for operating expenses. In the event that actual enplanements are lower than projected or operating expenses are higher than projected, under the Airline Lease Agreement the Airport is permitted to make certain adjustments to airline landing fees and rents at mid-year or at such other time during the fiscal year as the need for such an adjustment becomes apparent to the Airport. The Airport continues to monitor the impacts of the COVID-19 pandemic on the operations of the Airport, including factors such as travel restrictions, passenger levels, liquidity, and other governmental financial aid.

FORWARD-LOOKING STATEMENTS

When used in this ACFR, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend,” and similar expressions identify “forward-looking statements,” but are not the exclusive means of identifying forward-looking statements in the ACFR. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this ACFR. The Airport undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of the ACFR.

REQUEST FOR INFORMATION

This financial report is designed to provide readers with a general overview of the Airport’s finances for all those interested. All summaries of documents contained in this ACFR are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. Each reference in this ACFR to a document is qualified in its entirety by reference to such document, which is on file with the Airport or with the City.

Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Norman Y. Mineta San José International Airport, 1701 Airport Blvd., Suite B1130, San José, CA 95110 or to the Director of Finance, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Position
June 30, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Unrestricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	\$ 157,414,353	\$ 155,829,484
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$719,770 in 2021 and \$551,299 in 2020	11,450,152	12,804,325
Accrued interest	560,082	885,527
Grants	4,619,775	1,561,139
Prepaid expenses, advances, and deposits	223,054	206,766
Total unrestricted assets	174,267,416	171,287,241
Restricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	25,734,032	49,994,086
Cash and investments held by the fiscal agents (Note 2)	84,459,514	103,850,552
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$745 in 2021 and \$15,000 in 2020	2,897,386	1,596,346
Accrued interest	61,769	443,077
Prepaid expenses, advances, and deposits	11,385	1,619
Current portion of prepaid bond insurance	19,970	93,124
Total restricted assets	113,184,056	155,978,804
Total current assets	287,451,472	327,266,045
Noncurrent assets:		
Capital assets (Note 3):		
Nondepreciable	113,312,473	126,419,022
Depreciable assets, net of accumulated depreciation	1,160,870,601	1,163,471,139
Total capital assets	1,274,183,074	1,289,890,161
Advances and deposits	1,179,927	1,390,575
Prepaid bond insurance, less current portion	328,798	1,848,179
Total noncurrent assets	1,275,691,799	1,293,128,915
Total assets	1,563,143,271	1,620,394,960
Deferred Outflows of Resources		
Deferred outflows of resources:		
Deferred outflows of resources related to pension (Note 7)	17,287,485	18,823,585
Deferred outflows of resources related to OPEB (Note 7)	2,908,054	2,305,823
Loss on refunding of debt	11,515,987	7,639,155
Total deferred outflows of resources	\$ 31,711,526	\$ 28,768,563

See accompanying notes to the financial statements.

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Position
June 30, 2021 and 2020**

	2021	2020
Liabilities		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	\$ 6,614,117	\$ 22,358,203
Accrued salaries, wages, and payroll taxes	1,650,643	1,532,867
Accrued vacation, sick leave, and compensatory time, current (Note 5)	1,846,999	1,975,000
Advances and deposits payable	1,746,090	1,897,881
Unearned revenues	6,335,516	2,290,885
Estimated liability for self-insurance, current (Notes 5 and 9)	633,500	633,500
Accrued interest payable	10,671	23,340
Commercial paper notes payable (Note 4)	51,930,000	51,930,000
Total payable from unrestricted assets	70,767,536	82,641,676
Payable from restricted assets:		
Accounts payable	112,728	124,227
Unearned revenues	28,201	353,878
Accrued interest payable	14,039,501	20,123,927
Current portion of bonds payable, net of unamortized discount/premium (Note 5)	8,086,082	36,790,324
Total payable from restricted assets	22,266,512	57,392,356
Total current liabilities	93,034,048	140,034,032
Noncurrent liabilities:		
Bonds payable, less current portion and net of unamortized discount/premium (Note 5)	1,138,786,123	1,157,993,309
Estimated liability for self-insurance, noncurrent (Notes 5 and 9)	1,841,267	2,046,853
Accrued vacation, sick leave, and compensatory time, noncurrent (Note 5)	589,704	581,722
Net pension liability (Note 7)	113,362,614	112,614,873
Net OPEB liability (Note 7)	18,650,020	20,341,520
Total noncurrent liabilities	1,273,229,728	1,293,578,277
Total liabilities	1,366,263,776	1,433,612,309
Deferred Inflows of Resources		
Deferred inflows of resources:		
Deferred inflows of resources related to pension (Note 7)	1,919,009	996,311
Deferred inflows of resources related to OPEB (Note 7)	1,642,133	2,133,536
Total deferred inflows of resources	3,561,142	3,129,847
Net position		
Net investment in capital assets	171,356,369	139,387,928
Restricted:		
Per Airline Lease Agreement for Airline revenue sharing	431,339	9,768,008
Per Master Trust Agreement for rolling debt service coverage	16,976,536	16,731,846
California Government Code Sections 50474.1-50474.3 for Customer Facility Charges	1,557,921	4,651,396
Future debt service (Note 1(j))	8,572,329	13,644,028
Unrestricted	26,135,385	28,238,161
Total net position	\$ 225,029,879	\$ 212,421,367

See accompanying notes to the financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Revenues, Expenses, and Changes in Net Position
Fiscal Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Airline rates and charges:		
Landing fees	\$ 16,932,835	\$ 21,682,500
Terminal rental	62,005,014	62,689,544
Total airline rates and charges	<u>78,937,849</u>	<u>84,372,044</u>
Terminal buildings/concessions	11,120,432	20,623,495
Airfield	3,453,548	6,534,655
Parking and roadway	25,244,049	50,972,941
Fuel handling fees	1,722,485	2,288,616
General aviation/other	10,683,863	10,499,275
Total operating revenues	<u>131,162,226</u>	<u>175,291,026</u>
Operating expenses:		
Terminal buildings/concessions	38,346,289	41,025,389
Airfield	22,095,802	21,912,191
Parking and roadway	12,321,022	16,760,739
Fuel handling costs	63,422	26,607
General aviation	962,139	1,716,754
General and administrative	21,230,961	24,159,104
Depreciation	53,133,886	55,382,980
Total operating expenses	<u>148,153,521</u>	<u>160,983,764</u>
Operating income (loss)	<u>(16,991,295)</u>	<u>14,307,262</u>
Nonoperating revenues (expenses):		
Passenger facility charges	9,377,532	20,456,342
Customer facility charges for debt service	6,538,690	15,393,630
Participating airline net revenue sharing (Note 1(i))	(1,324,554)	(11,909,916)
Investment income	1,235,940	11,265,332
Interest expense	(53,649,337)	(59,108,078)
Bond issuance costs	(2,239,414)	-
Operating grants	619,491	486,364
Loss on capital assets disposal	(12,465)	-
CARES Act Airport Grants (Note 10)	53,538,164	-
CRRSA Act Airport Grants (Note 10)	1,646,602	-
Other, net	1,845,883	913,280
Total nonoperating revenues (expenses), net	<u>17,576,532</u>	<u>(22,503,046)</u>
Income (loss) before capital contributions	<u>585,237</u>	<u>(8,195,784)</u>
Capital contributions	<u>12,023,275</u>	<u>3,076,100</u>
Change in net position	<u>12,608,512</u>	<u>(5,119,684)</u>
Net position - beginning	<u>212,421,367</u>	<u>217,541,051</u>
Net position - ending	<u>\$ 225,029,879</u>	<u>\$ 212,421,367</u>

See accompanying notes to the financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Cash Flows
Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Receipts from customers and users	\$ 133,127,920	\$ 170,139,551
Payments to suppliers	(34,895,465)	(39,210,584)
Payments to employees	(35,879,949)	(34,988,219)
Payments for City services	(24,123,734)	(23,566,311)
Payments to airlines	(11,909,916)	(13,943,476)
Claims paid	(156,507)	(110,280)
Other receipts	1,921,968	1,006,399
Net cash provided by operating activities	28,084,317	59,327,080
Cash flows from noncapital financing activities:		
Nonoperating grants	53,538,164	-
Operating grants	690,891	414,964
Net cash provided by noncapital financing activities	54,229,055	414,964
Cash flows from capital and related financing activities:		
Purchases of capital assets	(39,104,627)	(38,140,109)
Principal payments on bonds payable	(33,205,000)	(31,040,000)
Interest paid	(60,814,611)	(62,875,686)
Capital grants	10,539,842	3,912,133
Passenger facility charges received	7,311,694	23,390,470
Customer facility charges received	6,977,811	15,911,639
Bond proceeds (excluding amount placed in escrow)	28,666,228	-
Payment for redemption of bonds (with prior bond reserves)	(44,380,908)	-
Bond issuance costs paid	(2,239,414)	-
Prepaid bond insurance	(283,950)	-
Proceeds from commercial paper	-	3,000,000
Principal payments on commercial paper	-	(3,286,000)
Advances and deposits received	210,648	69,606
Net cash used in capital and related financing activities	(126,322,287)	(89,057,947)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	150,240,544	33,593,517
Purchases of investments	(145,662,936)	(13,259,403)
Investment income received	2,337,354	10,824,608
Net cash provided by investing activities	6,914,962	31,158,722
Net change in cash and cash equivalents	(37,093,953)	1,842,819
Cash and cash equivalents - beginning	289,082,749	287,239,930
Cash and cash equivalents - ending	\$ 251,988,796	\$ 289,082,749

See accompanying notes to the financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Cash Flows
Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (16,991,295)	\$ 14,307,262
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	53,133,886	55,382,980
Participating airline net revenue sharing	(1,324,554)	(11,909,916)
Other revenues	1,921,968	1,006,402
Decrease (increase) in:		
Accounts receivable	1,354,173	(1,716,873)
Prepaid expenses, advances, and deposits	(26,055)	(103,548)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(14,092,465)	(3,089,308)
Advances and deposits payable	(151,791)	51,036
Unearned revenues	4,044,631	(1,535,241)
Estimated liability for self-insurance	(205,586)	146,010
Net pension liability, deferred outflows/inflows of resources related to pension	3,206,539	7,350,716
Net OPEB liability, deferred outflows/inflows of resources related to OPEB	(2,785,134)	(562,440)
Net cash provided by operating activities	\$ 28,084,317	\$ 59,327,080
Noncash noncapital financing activities:		
Decrease (increase) in operating grants receivable	\$ 71,400	\$ (71,400)
Increase in nonoperating grants receivable	(1,646,602)	-
Noncash capital and related financing activities:		
Increase (decrease) in accounts payable related to acquisition of capital assets	\$ (1,665,360)	\$ 1,928,540
Decrease (increase) in capital grants receivables	(1,483,433)	836,033
Decrease (increase) in fair value of investments held by the fiscal agents	394,661	(865,558)
Loss on capital assets disposal	(12,465)	-
Amortization of bond discount/premium/prepaid bond insurance	4,087,370	3,492,199
Amortization of deferred outflows/inflows of resources related to bond refunding	(460,113)	(488,422)
Bond refunding proceeds placed in escrow	434,548,063	-
Bond defeased from escrow	(434,548,063)	-
Reconciliation of cash and cash equivalents to the statements of net position		
Equity in pooled cash and investments held in City Treasury		
Unrestricted	\$ 157,414,353	\$ 155,383,627
Restricted	25,734,032	49,994,086
Investments held by the fiscal agents classified as cash equivalents	68,840,411	83,259,179
Total cash and cash equivalents	\$ 251,988,796	\$ 288,636,892

See accompanying notes to the financial statements.

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

Notes to the Financial Statements
June 30, 2021 and 2020

(1) Summary of Significant Accounting Policies

(a) Description of Reporting Entity

The Norman Y. Mineta San José International Airport (Airport) had its beginning in 1945 with the lease of approximately 16 acres of farmland to Mr. James Nissen. Mr. Nissen and his associates formed an operating company, which undertook the construction of a 1,900-foot runway, a hangar, and an office building. Flight operations were initiated in 1946. In the fall of 1948, the City of San José (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 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. The financial statements of the Airport are intended to present the activity 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, 2021 and 2020, the changes in its financial position, or, where applicable, its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

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

(b) Basis of Presentation - Fund Accounting

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

Document Summaries: All summaries of documents contained in the notes to the financial statements are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. Each reference is qualified in its entirety by reference to such document, which is on file with or may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113.

(c) Basis of Accounting and Estimates

- (i) The Airport prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP), which provide that revenues are recorded when earned and expenses are recorded when incurred. Grants are recorded as revenues when all eligibility requirements have been

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
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Notes to the Financial Statements
June 30, 2021 and 2020

met. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

- (ii) Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Airport's enterprise fund are charges to customers for use of property and for services provided. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.
- (iii) Under the terms of grant agreements, the Airport funds certain programs with specific cost-reimbursement grants. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program.

(d) Cash and Investments

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

The Airport reports its investments in investment agreements at cost and all other investments are reported at fair value in the accompanying financial statements and the corresponding change in fair value of investments is reported in the year in which the change occurred.

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

(e) Capital Assets

Capital assets are defined as assets with an initial individual cost of more than \$5,000 for general capital assets and \$100,000 for major infrastructure assets, and an estimated useful life in excess of one year. Capital assets are carried at cost, with the exception of donated capital assets, donated works of art and similar items, and capital assets received in a service concession agreement, which are reported at acquisition value. 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 the Airport's purposes.

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

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

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Notes to the Financial Statements
June 30, 2021 and 2020

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

	<u>Years</u>
Buildings and improvements	5 - 40
Equipment	4 - 20

(f) Capitalization of Interest

Interest costs related to the acquisition of buildings and improvements acquired with debt are capitalized. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. The Airport did not capitalize interest during fiscal years ended June 30, 2021 and 2020.

(g) Bond Issuance Costs, Bond Discounts/Premiums, and Deferred Outflows/Inflows of Resources on Refunding

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the straight-line method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the straight-line method. Deferred outflows/inflows of resources from refunding of debt are recognized as a component of interest expense using the straight-line method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

(h) Operating Grants and Capital Contributions

Certain expenditures for Airport capital improvements and Airport safety and security operations are significantly funded through the Airport Improvement Program of the FAA, 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 the Transportation Security Administration to reimburse the Airport for safety and security costs are reported in the statements of revenues, expenses and changes in net position as nonoperating revenues. Grants for capital asset acquisition, facility development, and rehabilitation are reported as capital contributions, after nonoperating revenues and expenses.

(i) Airline Rates and Charge

The City and the Passenger Carriers are operating under the Airline-Airport Lease and Operating Agreement (Airline Lease Agreement) effective July 1, 2019. The agreement includes provisions for a true-up of the terminal and airfield cost centers based on the actual results, as well as a revenue sharing provision. The amounts calculated for the airfield true-up are rolled into the following year's airline rates and charges calculations. For the terminal true-up and revenue sharing the City will: (a) pay these amounts to the Passenger Carriers if there is any overpayment; or (b) bill these amounts to the Passenger Carriers if there is an underpayment. The Passenger Carrier portion of the terminal is cost-recovery; therefore the true-up is an adjustment so that the actual terminal rentals paid by the Passenger Carriers match the operating costs incurred by the City in that cost center. As a result, the City records the terminal true-up as operating revenues. The revenue sharing provision relates to the Airport cost centers and provides for a split of any net remaining revenues between the City and the Signatory Passenger Carriers based on the terms provided for in the Airline Lease Agreement. Since the sharing of net revenues is not a

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

Notes to the Financial Statements
June 30, 2021 and 2020

cost of providing airport services, the City records the revenue sharing amount as nonoperating expenses.

(j) Passenger Facility Charges

Passenger Facility Charges (PFC) revenues are recorded as nonoperating revenue in the year they are collected by the air carriers from the sale of air travel tickets and remitted to the Airport in accordance with Airport regulations. At June 30, 2021 and 2020, accumulated PFC funds amounted to \$8,572,329 and \$13,644,028, respectively, and are reported as restricted for future debt service in the restricted net position category of the Airport's statements of net position.

Under the Airport's Master Trust Agreement (MTA), the Airport may for any period elect to designate any PFC funds as "Available PFC Revenues" by filing with the Bank of New York Mellon Trust Company, N.A. (Fiscal Agent) a written statement designating the amount of such Available PFC Revenues and containing a statement that the Available PFC Revenues are legally available to be applied to pay bond debt service during such period. Amounts of \$14,338,705 and \$27,479,274 from accumulated PFC funds had been designated as Available PFC Revenues for payment of eligible bond debt service in fiscal years ended June 30, 2021 and 2020, respectively.

(k) Customer Facility Charges

Customer Facility Charges (CFC) revenues are the charges to customers of rental car companies at the Airport in accordance with California Government Code Sections 50474.1-50474.3 to help pay for capital costs and related debt service associated with the Consolidated Rental Car Facility (ConRAC) and certain operating expenses related to the transportation of rental car customers between terminals and the ConRAC. CFC revenues are recorded as operating and nonoperating revenues. As of April 1, 2021, the rate charged per rental car day was increased from \$7.50 to \$9.00 up to a maximum of five days per rental. CFC revenues are recorded as nonoperating revenues to the extent of the annual debt service on the Airport Revenue Bonds Series 2011B (Series 2011B Bonds), which were fully refunded by Airport Revenue Refunding Bonds Series 2021C (Series 2021C Bonds) in April 2021 as described in Long-Term Obligations, Note 5, to the financial statements. Excess Facility Rent payments if available, (as defined in the On-Airport Rental Car Operations Agreement) may be deposited in a Rent Stabilization Fund, up to \$1.0 million, and available to reduce Facility Rent in future years. Transportation costs due from the rental car companies in FY 20 were partly covered by using the \$1.0 million in the Rent Stabilization Fund. The Airport did not expend CFC revenues on the transportation costs in the fiscal years ended June 30, 2021 and June 30, 2020. The Airport may make additional deposits into the Rate Stabilization Fund once the balance falls below the \$1.0 million limit. There were no deposits made to the Rate Stabilization Fund in the fiscal years ended June 30, 2021 and June 30, 2020.

Under the MTA, the Airport may for any period elect to designate CFC revenues as "Other Available Funds" by filing with the Fiscal Agent a written statement designating the amount of such "Other Available Funds" and containing a statement that the "Other Available Funds" are legally available to be applied to pay debt service on the Series 2011B Bonds, which were fully refunded by the Series 2021C Bonds, during such period. CFC revenues of \$11,141,860 and \$19,057,245 had been designated as "Other Available Funds" for payment of eligible bond debt service in fiscal years ended June 30, 2021 and June 30, 2020, respectively. At June 30, 2021 and 2020, accumulated CFC funds amounted to \$1,557,921 and \$4,651,396, respectively, and are reported as restricted for California Government Code Sections 50474.1-50474.3 for Customer Facility Charges in the restricted net position category of the Airport's statements of net position.

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

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

(m) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Airport's participation in the City Federated City Employees' Retirement System (FCERS) and additions to/deductions from the FCERS' fiduciary net position have been determined on the same basis as they are reported by the FCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. FCERS' investments are reported at fair value. While the City reports its pension plan managed by FCERS as a single employer defined benefit pension plan, the Airport recognizes a proportionate share of its participation in FCERS based on the Airport's pension contributions relative to the total City pension contributions to FCERS. The methodology for the City's pension allocation changed during the fiscal year ended June 30, 2020. For the fiscal year ended June 30, 2019 and previous years, the Airport recognized a proportionate share of its participation in the City's pension plans based on the Airport's contributions to FCERS relative to the total City contributions to both FCERS and the Police and Fire Department Retirement Plan (PFDRP). While the change in methodology for the City's pension allocation had a negligible impact to the Airport's proportionate share reported in the financial statements, it was determined by the City to be a better practice to isolate and allocate each pension plan separately given there are certain City departments with no employees participating in PFDRP, such as the Airport. The Airport does not contribute directly to the PFDRP and, instead, only covers pension costs of Airport related police and fire personnel through the City's interdepartmental charges. For more information regarding the Airport's retirement benefits, please refer to Retirement Systems, Note 7.

(n) Other Postemployment Benefits

For purpose of measuring the net Other Postemployment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Airport's participation in the FCERS and additions to/deductions from the FCERS' fiduciary net position have been determined on the same basis as they are reported by the FCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. FCERS' investments are reported at fair value. While the City reports its OPEB plan managed by FCERS as a single employer defined benefit OPEB plan, the Airport recognizes a proportionate share of its participation in the FCERS OPEB plan based on the Airport's OPEB contributions relative to the total City OPEB contributions to FCERS. For the fiscal year ended June 30, 2019, the Airport was also allocated a pro rata share of the PFDRP OPEB liability covering OPEB costs of Airport related police and fire personnel. During the fiscal year ended June 30, 2020, it was determined that the Airport should not be allocated OPEB costs related to the PFDRP, as those costs should only be recovered through the City's interdepartmental charges. The impact of the pro rata share of the PFDRP OPEB plan allocated to the Airport is insignificant to the financial statements, and the removal of this allocation was reflected in the OPEB expense during the year ended June 30, 2020. The Airport does not make OPEB contributions directly to the PFDRP and, instead, only covers OPEB costs of Airport related police and fire personnel through the City's interdepartmental charges. For more information regarding the Airport's OPEB benefits, please refer to Retirement Systems, Note 7.

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(o) Net Position

The financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation, deferred outflows and inflows of resources associated with the debt, and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2021 and 2020, the Airport's statements of net position report restricted net position of \$27,538,125 and \$44,795,278, respectively, of which \$10,130,250 and \$18,295,424, respectively, is restricted by enabling legislation.
- Unrestricted Net Position – This category represents the net amount that do not meet the criteria for “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the Airport's policy to use restricted resources first, and then use unrestricted resources as needed.

(p) New Pronouncements

During the fiscal year ended June 30, 2021, the Airport implemented the following accounting standards:

- In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments and describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Application of GASB Statement No. 84 did not have any impact on the Airport's financial statements.
- In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*, to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Application of GASB Statement No. 90 did not have any impact on the Airport's financial statements.
- In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a*

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supersession of GASB Statement No. 32. The requirements of this statement will result in more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. Application of GASB Statement No. 97 did not have any impact on the Airport's financial statements.

- In October 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. GASB Statement No. 98 is effective for the Airport's fiscal year ending June 30, 2021. Early application of GASB Statement No. 98 did not have any financial impact for the Airport.

The Airport is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- In June 2017, the GASB issued Statement No. 87, *Leases*. This statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. GASB Statement No. 87 is effective for the Airport's fiscal year ending June 30, 2022.
- In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for business-type activities and enterprise funds. GASB Statement No. 89 is effective for the Airport's fiscal year ending June 30, 2022.
- In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The requirements of this statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. GASB Statement No. 91 is effective for the Airport's fiscal year ending June 30, 2023.
- In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports; Reporting of intra-entity transfers of assets between a primary government employer

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and a component unit defined benefit pension plan or defined benefit OPEB plan; The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; Measurement of liabilities (and assets, if any) related to asset retirement obligations in a government acquisition; Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; Terminology used to refer to derivative instruments. GASB Statement No. 92 is effective for the Airport's fiscal year ending June 30, 2022.

- In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate. GASB Statement No. 93 is effective for the Airport's fiscal year ending June 30, 2022.
- In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The requirements of this statement will improve financial reporting by establishing the definitions of Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. This statement will enhance the decision usefulness of a government's financial statements by requiring governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The required disclosures will allow users to understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPPs. GASB Statement No. 94 is effective for the Airport's fiscal year ending June 30, 2023.
- In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The requirements of this statement will improve financial reporting by establishing a definition for Subscription-Based Information Technology Arrangements and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. GASB Statement No. 96 is effective for the Airport's fiscal year ending June 30, 2023.

(2) Cash and Investments

The City Council adopted an investment policy (Investment Policy) on April 2, 1985 related to the City's cash and investment pool, which is subject to annual review and was reviewed and amended on March 9, 2021. 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

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limitations contained within the Investment Policy.

The Airport invests funds subject to the Investment Policy and provisions of the Airport's MTA for its various bond issues. According to the Investment Policy and the Airport's MTA, 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, 2021 and 2020, the Airport's share of the City's cash and investment pool totaled \$183,148,385 and \$205,823,570, 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, 2021 Annual Comprehensive Financial Report (ACFR). A copy of that report may be obtained by visiting the City's website at www.sanjoseca.gov or by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113.

As of June 30, 2021 and 2020, restricted cash and investments held by the fiscal agents, comprised of the U.S. Bank National Association (US Bank) and Fiscal Agent, totaled \$84,459,514 and \$103,850,552, respectively. US Bank is the issuing and paying agent of the commercial paper notes (discussed in Note 4). The MTA authorizes long-term debt (discussed in Note 5) and requires certain funds held in trust by the 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. The MTA investment provisions govern the permitted investments of Airport funds including funds held by the Fiscal Agent. The investments are subject to certain types of risk, including interest rate risk, credit quality risk, and concentration credit risk. However, the MTA does not specifically address policies for each risk. Instead, it limits the investments of Airport funds to particular types of investments.

Provisions of the Airport's MTA 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 MTA. The MTA 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 Fiscal Agent.

The Airport is a voluntary participant in the LAIF that is governed by the California Government Code under the oversight of the Local Investment Advisory Board (Board). The Board consists of five members as designated by state statute. The fair value of the Airport's investment in the LAIF pool is reported in the accompanying financial statements at amounts based upon the Airport's pro rata share of the fair value provided by LAIF, for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis, which is different from the fair value of the Airport's position in the LAIF pool. LAIF is part of the State's Pooled Money Investment Account (PMIA).

As of June 30, 2021, the Airport's investments in LAIF held by the Fiscal Agent was \$50,683,527. The weighted average maturity of LAIF at June 30, 2021 was 291 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2021 was approximately \$37.1 billion. PMIA is not registered with the Securities and Exchange Commission, but is required to invest according to the

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California Government Code. The total amount recorded by all public agencies in PMIA at June 30, 2021 was approximately \$193.3 billion and, of that amount, 83.38% was invested in U.S. Treasuries and agencies, 10.45% in depository securities, 5.74% in commercial paper, 0.38% in loans, 0.06% in corporate bonds, and 0.01% in mortgages. The percentages may not total 100% due to rounding.

As of June 30, 2020, the Airport's investments in LAIF held by the Fiscal Agent was \$56,868,509. The weighted average maturity of LAIF at June 30, 2020 was 191 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2020 was approximately \$32.1 billion. The total amount recorded by all public agencies in PMIA at June 30, 2020 was approximately \$101.0 billion and of that amount, 73.16% was invested in U.S. Treasuries and agencies, 18.61% in depository securities, 7.64% in commercial paper, 0.57% in loans, and 0.02% in mortgages.

Interest Rate Risk – Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, debt investments with fixed coupons for longer periods are subject to more variability in their value as a result of changing interest rates. The City manages its exposure to interest rate risk by capping the average weighted maturity of the investment portfolio at two years. Also, the City sets the maximum maturity for every investment at the time of purchase by asset class, with the longest not to exceed five years.

In practice, the City purchases a combination of shorter-term and longer-term investments and times the cash flows to meet liquidity needs for operations. The average maturity of the City's pooled cash and investments at June 30, 2021, and June 30, 2020, was approximately 565 days and 672 days, respectively.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. When investing, the City applies the Prudent Investor Standard and acts with care, prudence and diligence to safeguard the principal, maintain liquidity, and seek reasonable yields. The Investment Policy has strict rating requirements. The City manages credit risk by selecting high quality securities, diversifying the portfolio, and 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 Investment Policy sets forth the policies regarding concentration of credit risk.

The following schedule indicates the interest rate risk and credit risk of the investments held by the fiscal agents, by category and maturity, as of June 30, 2021 and 2020. The credit ratings listed are for Moody's Investors Service (Moody's) and S&P Global Ratings (S&P), respectively.

As of June 30, 2021

<u>Type of Investments:</u>	<u>Credit Rating</u>	<u>Maturities</u>				<u>Carrying Value</u>
		<u>Under 30 Days</u>	<u>31-180 Days</u>	<u>181-365 Days</u>	<u>1-5 Years</u>	
<u>Cash and investments held by the fiscal agents</u>						
Federated Treasury Obligations Fund	Aaa-mf/AAAm	\$ 2,793,091	\$ -	\$ -	\$ -	\$ 2,793,091
Federal Farm Credit Bank ⁽¹⁾	Aaa/AA+	-	-	-	10,184,408	10,184,408
Federal Home Loan Mortgage ⁽¹⁾	Aaa/AA+	-	-	-	5,434,695	5,434,695
California Local Agency Investment Fund ⁽¹⁾	Not rated	-	-	50,683,527	-	50,683,527
Money Market Mutual Fund	Aaa-mf/AAAm	120,814	-	-	-	120,814
Total investments held by the fiscal agents		\$ 2,913,905	\$ -	\$ 50,683,527	\$ 15,619,103	69,216,535
Cash						15,242,979
Total cash and investments held by the fiscal agents						\$ 84,459,514

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As of June 30, 2020

<u>Type of Investments:</u>	<u>Credit Rating</u>	<u>Maturities</u>				<u>Carrying Value</u>
		<u>Under 30 Days</u>	<u>31-180 Days</u>	<u>181-365 Days</u>	<u>1-5 Years</u>	
<u>Investments held by the fiscal agents</u>						
Federated Treasury Obligations Fund	Aaa-mf/AAAm	\$ 415,102	\$ -	\$ -	\$ -	\$ 415,102
Federal National Mortgage Association ⁽¹⁾	Aaa/AA+	-	-	5,535,316	-	5,535,316
Federal Farm Credit Bank ⁽¹⁾	Aaa/AA+	-	779,515	-	5,616,637	6,396,152
Federal Home Loan Bank ⁽¹⁾	Aaa/AA+	-	9,207,632	10,241,855	7,505,619	26,955,106
US Treasury ⁽¹⁾	Aaa/N/A	-	-	-	7,469,117	7,469,117
California Local Agency Investment Fund ⁽¹⁾	Not rated	-	-	56,868,509	-	56,868,509
Money Market Mutual Fund	Aaa-mf/AAAm	211,250	-	-	-	211,250
		<u>\$ 626,352</u>	<u>\$ 9,987,147</u>	<u>\$ 72,645,680</u>	<u>\$ 20,591,373</u>	<u>\$ 103,850,552</u>

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

Fair Value Measurement Categorization

The Airport categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Airport has the following recurring fair value measurements as of June 30, 2021 and June 30, 2020:

<u>Investments by Fair Value Level</u>	<u>Carrying Value at June 30, 2021</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Investments held by the fiscal agents:</u>				
<u>Investments by fair value level</u>				
Federated Treasury Obligations Fund	\$ 2,793,091	\$ -	\$ 2,793,091	\$ -
Federal Farm Credit Bank	10,184,408	-	10,184,408	-
Federal Home Loan Mortgage	5,434,695	-	5,434,695	-
Total investments by fair value level	18,412,194	-	18,412,194	-
<u>Investments not subject to the fair value hierarchy:</u>				
California Local Agency Investment Fund	50,683,527	-	-	-
Money Market Mutual Fund	120,814	-	-	-
Total investments	50,804,341	-	-	-
Total investments held by the fiscal agents	<u>\$ 69,216,535</u>	<u>\$ -</u>	<u>\$ 18,412,195</u>	<u>\$ -</u>

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<u>Investments by Fair Value Level</u>	Carrying Value at June 30, 2020	<u>Fair Value Measurements Using</u>		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments held by the fiscal agents:				
Investments by fair value level				
Federated Treasury Obligations Fund	\$ 415,102	\$ -	\$ 415,102	\$ -
Federal National Mortgage Association	5,535,316	-	5,535,316	-
Federal Farm Credit Bank	6,396,152	-	6,396,152	-
Federal Home Loan Bank	26,955,106	-	26,955,106	-
US Treasury	<u>7,469,117</u>	<u>7,469,117</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	46,770,793	7,469,117	39,301,676	-
Investments not subject to the fair value hierarchy:				
California Local Agency Investment Fund	56,868,509	-	-	-
Money Market Mutual Fund	<u>211,250</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>57,079,759</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments held by the fiscal agents	<u>\$ 103,850,552</u>	<u>\$ 7,469,117</u>	<u>\$ 39,301,676</u>	<u>\$ -</u>

Treasury securities classified in Level 1 of the fair value hierarchy are valued using quoted prices. Government agency securities classified in Level 2 of the fair value hierarchy are valued using techniques such as matrix pricing, market corroborated pricing, and inputs such as yield curves and indices.

LAIF Withdrawal Policy – LAIF operating account allows a maximum of 15 transactions per account in a calendar month. The transaction amount shall be no less than \$5,000 and in increments of a thousand dollars. LAIF allocates interest earnings once every quarter. The interest earnings can be withdrawn in exact amount at any time. LAIF bond accounts have no restrictions on the amounts allowed on deposit, but are limited to one withdrawal per every 30 days.

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(3) Capital Assets

Capital asset activities for the fiscal years ended June 30, 2021 and 2020, were as follows:

	Balance at July 1, 2020	Additions	Retirements	Transfers	Balance at June 30, 2021
Capital assets, not depreciated:					
Land	\$ 75,781,265	\$ -	\$ -	\$ -	\$ 75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	37,756,210	36,886,480	-	(49,993,029)	24,649,661
Total capital assets, not depreciated	<u>126,419,022</u>	<u>36,886,480</u>	<u>-</u>	<u>(49,993,029)</u>	<u>113,312,473</u>
Capital assets, depreciated:					
Buildings	1,209,084,960	-	-	43,012,129	1,252,097,089
Other improvements	644,871,679	-	-	6,980,900	651,852,579
Equipment	74,715,947	552,784	(2,707,226)	-	72,561,505
Total capital assets, depreciated	<u>1,928,672,586</u>	<u>552,784</u>	<u>(2,707,226)</u>	<u>49,993,029</u>	<u>1,976,511,173</u>
Less accumulated depreciation:					
Buildings	390,591,064	31,124,068	-	-	421,715,132
Other improvements	327,391,506	19,046,427	-	-	346,437,933
Equipment	47,218,877	2,963,391	(2,694,761)	-	47,487,507
Total accumulated depreciation	<u>765,201,447</u>	<u>53,133,886</u>	<u>(2,694,761)</u>	<u>-</u>	<u>815,640,572</u>
Total capital assets, depreciated, net	<u>1,163,471,139</u>	<u>(52,581,102)</u>	<u>(12,465)</u>	<u>49,993,029</u>	<u>1,160,870,601</u>
Total capital assets, net	<u>\$ 1,289,890,161</u>	<u>\$ (15,694,622)</u>	<u>\$ (12,465)</u>	<u>\$ -</u>	<u>\$ 1,274,183,074</u>

	Balance at July 1, 2019	Additions	Retirements	Transfers	Balance at June 30, 2020
Capital assets, not depreciated:					
Land	\$ 75,781,265	\$ -	\$ -	\$ -	\$ 75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	7,739,890	30,656,950	-	(640,630)	37,756,210
Total capital assets, not depreciated	<u>96,402,702</u>	<u>30,656,950</u>	<u>-</u>	<u>(640,630)</u>	<u>126,419,022</u>
Capital assets, depreciated:					
Buildings	1,208,508,414	-	-	576,546	1,209,084,960
Other improvements	636,194,784	8,676,895	-	-	644,871,679
Equipment	74,114,580	734,805	(197,522)	64,084	74,715,947
Total capital assets, depreciated	<u>1,918,817,778</u>	<u>9,411,700</u>	<u>(197,522)</u>	<u>640,630</u>	<u>1,928,672,586</u>
Less accumulated depreciation:					
Buildings	359,225,828	31,365,236	-	-	390,591,064
Other improvements	308,581,731	18,809,775	-	-	327,391,506
Equipment	42,208,430	5,207,969	(197,522)	-	47,218,877
Total accumulated depreciation	<u>710,015,989</u>	<u>55,382,980</u>	<u>(197,522)</u>	<u>-</u>	<u>765,201,447</u>
Total capital assets, depreciated, net	<u>1,208,801,789</u>	<u>(45,971,280)</u>	<u>-</u>	<u>640,630</u>	<u>1,163,471,139</u>
Total capital assets, net	<u>\$ 1,305,204,491</u>	<u>\$ (15,314,330)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,289,890,161</u>

The Airport's depreciation expense on capital assets was \$53,133,886 and \$55,382,980 for fiscal years ended June 30, 2021 and 2020, respectively.

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(4) Commercial Paper Notes Payable

In November 1999, the City authorized the issuance from time to time of the Airport's Subordinated Commercial Paper Notes, Series A-1, Series A-2, Series B, and Series C (Subordinated CP Notes) that are secured by a lien on Surplus Revenues held in the Subordinated Debt Account of the Surplus Revenue Fund, including the earnings on such Surplus Revenues. Surplus Revenues are General Airport Revenues remaining after the payment of maintenance and operation costs of the Airport and the payment of debt service on the Airport Revenue Bonds and the funding of any reserve funds established for the Airport Revenue Bonds. The Subordinated CP Notes may be issued for periods of maturity not to exceed 270 days. The Series A-1, Series A-2, and Series B Notes may be sold at an interest rate not to exceed 12% per annum. The Series C Notes may be issued and sold either as interest bearing notes or at a discount. If sold as interest bearing notes, then interest will accrue at a rate to be determined upon their issuance calculated on the basis of a 360-day year and actual number of days elapsed.

The Subordinated CP Notes are issued pursuant to a Third Amended and Restated Issuing and Paying Agent Agreement, dated as of February 1, 2014, as subsequently amended, by and between the City and US Bank. Credit support for the timely payment of the principal and interest on the Subordinated CP Notes at maturity is provided through a letter of credit (LOC) as described below. The City Council has authorized the Subordinated CP Notes to be issued in an aggregate principal amount of up to \$600 million outstanding at any one time. However, the City has determined to limit its issuance of Subordinated CP Notes to the total credit support provided by a LOC as described below.

In February 2014, the City and Barclays Bank PLC (Barclays) entered into a LOC and Reimbursement Agreement (Barclays Reimbursement Agreement) and a fee letter to specify the facility fee rate and other charges payable by the Airport. Pursuant to the Barclays Reimbursement Agreement, Barclays issued a \$65.0 million LOC supporting the Subordinated CP Notes, effective on February 11, 2014 with an initial expiration date of February 10, 2017. On September 16, 2015, the City reduced the LOC stated amount from \$65.0 million to approximately \$41.0 million. Subsequently, the expiration date of the LOC provided by Barclays was extended to February 8, 2019.

On September 12, 2018, the City substituted the LOC supporting the Subordinated CP Notes issued by Barclays with a LOC issued by Bank of America, N.A. (BofA) and the Barclays Reimbursement Agreement and associated fee letter and LOC were terminated. Pursuant to a LOC and Reimbursement Agreement between the City and BofA (BofA Reimbursement Agreement), BofA issued its irrevocable transferrable LOC in the initial stated amount of \$81.7 million (to cover principal of \$75.0 million and interest on the Subordinated CP Notes accruing calculated at a rate of 12% for 270 days based on a 365 day year) that was scheduled to expire on September 10, 2021 unless sooner terminated or extended pursuant to its terms. The \$75.0 million principal amount of the LOC was secured in order to provide additional capacity for the issuance of the Subordinated CP Notes to finance proposed terminal area projects. The Interim Facility project with the extension of the six new gates at Terminal B was completed in November 2019. An extension to the LOC and Reimbursement Agreement was executed on August 19, 2021. Additional information can be found in Note 11 to the financial statements.

In connection with BofA's issuance of its LOC, other agreements governing the Subordinated CP Notes were executed, including the First Amendment to the Third Amended and Restated Issuing and Paying Agent Agreement between the City and US Bank and the Fourth Amended and Restated Dealer Agreement between the City and each of the dealers of the Subordinated CP Notes, a fee letter between the City and BofA and a promissory note payable to BofA in the amount of \$81.7 million under which the City promises to pay principal and interest on the unpaid principal amount of all Unreimbursed Drawings (as defined in the BofA Reimbursement Agreement) and Term Loans (as defined in the BofA Reimbursement Agreement) evidenced by the note on the dates and at the rates provided for in the BofA Reimbursement Agreement (Bank Note). The ratings of the outstanding Airport Subordinated CP Notes,

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are “A-1”, “P-1”, and “F1+” by S&P, Moody’s, and Fitch Ratings, Inc. (Fitch), respectively, based on the credit support provided by BofA pursuant to its LOC. Additional information about the Airport's credit ratings can be found in Reporting of Significant Events section of the Bond Disclosure Report.

The terms of the BofA LOC are specified in the BofA Reimbursement Agreement. In general, BofA agrees to advance funds to the issuing and paying agent for the Subordinated CP Notes to pay the principal and interest on maturing Subordinated CP Notes in an amount not to exceed the stated amount of the LOC. In the event that the Commercial Paper (CP) dealer is unable to find investors to purchase Subordinated CP Notes to repay the advance from BofA, the City is obligated to pay interest to BofA based on a formula specified in the BofA Reimbursement Agreement and repay principal in accordance with the schedule and the terms also specified in the BofA Reimbursement Agreement. All amounts payable by the City to BofA under the BofA Reimbursement Agreement are secured by a lien on the Surplus Revenues held in the Subordinated Debt Account of the Surplus Revenue Fund, including the earnings on such Surplus Revenues, which lien is subordinate to the lien of the Airport Revenue Bonds.

Events of default under the BofA Reimbursement Agreement include, among others: (i) a default under the MTA or the issuing and paying agent agreement for the Subordinated CP Notes; (ii) non-payment; (iii) a breach of a various covenants; (iv) bankruptcy; (v) breach of representations and warranties; (vi) default on a Secured Debt (as defined in the BofA Reimbursement Agreement); (vii) final judgment of \$10 million or more against the City payable from General Airport Revenues; (viii) the City contesting validity of obligations related to payment of the Subordinated CP Notes or a determination by a court of competent jurisdiction that the obligations of the City related to payment of the Subordinated CP Notes are not valid or binding; (ix) Surplus Revenues are not subject to a security interest in favor of the City's obligations under the BofA Reimbursement Agreement; (x) ratings events including a suspension or withdrawal of the long-term, unenhanced debt rating assigned to the Airport Revenue Bonds (other than where the Airport Revenue Bonds shall continue to be rated by any two of Moody's, Fitch, or S&P), or downgrades by any of Moody's, Fitch, or S&P of its ratings on the Airport Revenue Bonds below “Baa2”, “BBB”, and “BBB”, respectively, for a period of 120 consecutive calendar days; and (xi) any legislation is enacted, repealed, reenacted, amended or otherwise modified which has, in the sole judgment of the BofA, a material adverse effect on the obligation of the City to make payments under the BofA Reimbursement Agreement or the security granted to secure such payments.

An event of default under the BofA Reimbursement Agreement would entitle BofA to demand that no additional Subordinated CP Notes be issued, that the City reimburse BofA immediately for draws under the LOC and that all other amounts owed by the City to BofA be accelerated and become due immediately. The BofA Reimbursement Agreement includes a subjective acceleration provision in the event that any legislation is enacted, repealed, reenacted, amended or otherwise modified which has, in the sole judgment of the BofA, a material adverse effect on the obligation of the City to make payments under the BofA Reimbursement Agreement or the security granted to secure such payments.

In connection with the LOC issued by Barclays and BofA, the City entered into a fee letter with each bank to specify the facility fee rate and other charges payable by the Airport with respect to the respective LOCs. The facility fee rate under each fee letter was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to the stated amount of the associated LOC. The facility fee rate is subject to increase in the event that the underlying credit rating of the Airport Revenue Bonds is withdrawn, suspended, or downgraded or upon an event of default under the respective Reimbursement Agreements. The facility fee rate in effect under the LOC issued by BofA was 0.35% as of June 30, 2021 and 2020.

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The change in Subordinated CP Notes payable during FY 21 and FY 20 were as shown in the table below. The principal amount available under the LOC issued by BofA as of June 30, 2021 is \$23.07 million.

	2021	2020	
Beginning balance	\$ 51,930,000	\$ 52,216,000	
Additional issuance	-	3,000,000	
Paid	-	(3,286,000)	
Ending balance	\$ 51,930,000	\$ 51,930,000	

Balances of Subordinated CP Notes payable as of June 30, 2021 and 2020 were as follows:

As of June 30, 2021

Series B Subordinated CP Notes that mature on August 10, 2021 were issued with an interest rate of 0.35%	<u>\$ 51,930,000</u>
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As of June 30, 2020

Series B Subordinated CP Notes that mature on August 12, 2020 were issued with an interest rate of 0.35%	<u>\$ 51,930,000</u>
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Although the Subordinated CP Notes have short-term maturities, the Airport's intent was to roll the outstanding balance over a long-term basis. Prior to the impact of the COVID-19 pandemic, the Airport had a goal of paying down the current outstanding Subordinated CP Notes over an 8-year amortization period, with the first principal payment paid in FY 19. This may or may not be achievable given the ongoing recovery from the COVID-19 pandemic, and its impact on the Airport's financial results.

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(5) Long-Term Obligations

Airport Revenue Bonds are issued primarily to finance the construction of capital improvements at the Airport. Pursuant to the MTA, the City has irrevocably pledged the General Airport Revenues (as defined in the MTA) and certain other funds held or made available under the MTA, first to the payment of Maintenance and Operation Costs of the Enterprise (as defined in the MTA), 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 (as defined in the MTA) in fiscal year ended June 30, 2021 totaled \$142,540,952, which is composed of \$101,441,274 of Net General Airport Revenues (as defined in the MTA) and \$41,099,678 of Other Available Funds (as defined in the MTA). Other Available Funds include surplus carryover of \$13,225,972, rolling debt service coverage of \$16,731,846, and CFC Revenues of \$11,141,860. The bond Debt Service paid from the General Airport Revenues and Other Available Funds amounted to \$78,379,679, which is net of \$14,338,705 of bond Debt Service paid from the accumulated PFC funds.

The Airport reported net revenues available to pay Debt Service in fiscal year ended June 30, 2020 of \$137,166,959, which was composed of \$86,078,870 of Net General Airport Revenues and \$51,088,089 of Other Available Funds. Other Available Funds include surplus carryover of \$15,385,348, rolling debt service coverage of \$16,645,496, and CFC Revenues of \$19,057,245. The bond Debt Service paid from the General Airport Revenues and Other Available Funds amounted to \$65,778,343, which is net of \$27,479,274 of bond Debt Service paid from the accumulated PFC funds.

The City has covenanted in the MTA that net revenues available to pay Debt Service for each fiscal year plus certain Other Available Funds held or made available under the MTA will be at least 125% of annual Debt Service for such fiscal year. Under the MTA, 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 MTA, annual Debt Service excludes Available PFC Revenues for such fiscal year. Total principal and interest remaining on the bonds is \$1,759,690,540, with the final payment due on March 1, 2047.

Events of default under the MTA include: (a) non-payment of the principal; (b) non-payment of interest; (c) a breach of a covenant if the default shall have continued for a period of sixty days after written notice specifying such default and requiring the same to be remedied shall have been given to the City by the Fiscal Agent or by a Municipal Bond Insurer (as defined in the MTA), or to the City and the Fiscal Agent by the bond owners who held not less than 25% in aggregate principal amount of the Bonds at the time outstanding; and (d) reorganization or bankruptcy. There is no acceleration remedy in the event of default for any current Airport Revenue Refunding Bonds (ARBs) that are outstanding.

On April 7, 2021, the City issued \$428,080,000 of Airport Revenue Refunding Bonds (the 2021 ARBs) to refund certain outstanding City of San José Airport Revenue Bonds and ARBs, to make a deposit into a reserve account, and to pay the costs of issuing the 2021 ARBs.

The 2021 ARBs were issued under the MTA, as supplemented by a Twelfth Supplemental Trust Agreement, dated as of April 1, 2021, between the City and The Bank of New York Mellon Trust Company, N.A., as trustee, in three series of bonds: (i) \$85,860,000 of the City of San José ARBs Series 2021A (AMT) (Series 2021A Bonds) with a premium of \$21,546,141; (ii) \$48,200,000 of the City of San José ARBs Series 2021B (Non-AMT) (Series 2021B Bonds) with a premium of \$13,588,150; and (iii)

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\$294,020,000 of the City of San José ARBs, Series 2021C Bonds (Taxable).

The Series 2021A Bonds refunded all of the outstanding City of San José Airport Revenue Bonds, Series 2011A-1 Bonds; the Series 2021B Bonds refunded all of the outstanding City of San José Airport Revenue Bonds, Series 2011A-2 Bonds; and the Series 2021C Bonds refunded all of the outstanding Series 2011B Bonds, and a portion of the outstanding City of San José ARBs Series 2014A (AMT) (the 2014A Bonds), City of San José ARBs Series 2017A (AMT) (the 2017A Bonds) and Series 2017B (Non-AMT) (the 2017B Bonds). The City applied a portion of the proceeds of the 2021C Bonds to defease the outstanding March 1, 2022 and March 1, 2023 maturities of each of the 2014A Bonds, 2017A Bonds, and 2017B Bonds. The refunding provided debt service savings to the City of approximately \$48.3 million in FY 22 and approximately \$34.4 million in FY 23, with total net present value savings of approximately \$148.7 million or approximately 31.4% of the refunded bonds.

The scheduled payment of principal of and interest on certain maturities of the 2021 ARBs when due are guaranteed under municipal bond insurance policies that were issued concurrently with the delivery of the 2021 ARBs by Build America Mutual Assurance Company, including the 2034 maturity of the 2021A Bonds, the 2034 maturity of the 2021B Bonds and the 2038 maturity bearing interest at a rate of 3.04% per annum, the 2039 maturity bearing interest at a rate of 3.14% per annum, and the 2040 maturity bearing interest at a rate of 3.17% per annum of the 2021C Bonds (collectively, the Insured 2021 ARBs).

S&P assigned its municipal bond rating of “AA” to the Insured 2021 ARBs, and a rating on the 2021 ARBs (including an underlying rating on the Insured 2021 ARBs) of “A-“ (stable outlook). The 2021 ARBs were rated “A2” (stable outlook) by Moody’s and “A” (negative outlook) by Fitch.

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Balances of Bonds payable as of June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
2021C Series Airport Revenue Refunding Bonds of \$294,020,000 with interest rates of 0.2% to 3.3%; payable in annual installments ranging from \$1,900,000 to \$28,990,000 with the final installment due in March 2041	\$ 294,020,000	\$ -
2021B Series Airport Revenue Refunding Bonds of \$48,200,000 with interest rates of 4.0% to 5.0%; payable in annual installments ranging from \$270,000 to \$10,225,000 with the final installment due in March 2034	48,200,000	-
2021A Series Airport Revenue Refunding Bonds of \$85,860,000 with interest rates of 4.0% to 5.0%; payable in annual installments ranging from \$1,275,000 to \$15,010,000 with the final installment due in March 2034	85,860,000	-
2017B Series Airport Revenue Refunding Bonds of \$150,675,000 were partially refunded in April 2021; the remaining balance of \$128,960,000 with interest rate of 4.0% to 5.0% is due in March 2047	128,960,000	138,705,000
2017A Series Airport Revenue Refunding Bonds of \$473,595,000 were partially refunded in April 2021; the remaining balance of \$405,350,000 with interest rate of 4.0% to 5.0% is due in March 2047	405,350,000	435,995,000
2014C Series Airport Revenue Bonds of \$40,285,000 with interest rates of 3.6% to 5.0%; payable in five annual installments ranging from \$7,295,000 to \$8,860,000 with the first installment in March 2027 and the final installment due in March 2031	40,285,000	40,285,000
2014B Series Airport Revenue Bonds of \$28,010,000 with interest rates of 3.1% to 5.0%; payable in three annual installments of \$7,975,000, \$9,665,000, and \$10,370,000 in March 2026, March 2027, and March 2028, respectively	28,010,000	28,010,000
2014A Series Airport Revenue Refunding Bonds of \$57,350,000 were partially refunded in April 2021; the remaining balance of \$18,240,000 with interest rate of 3.2% to 5.0% is due in March 2026	18,240,000	42,135,000
2011B Series Airport Revenue Bonds of \$271,820,000 were fully refunded in April 2021	-	255,760,000
2011A-2 Series Airport Revenue Bonds of \$86,380,000 were fully refunded in April 2021	-	68,225,000
2011A-1 Series Airport Revenue Bonds of \$150,405,000 were fully refunded in April 2021	-	118,575,000
Total bonds payable	<u>\$ 1,048,925,000</u>	<u>\$ 1,127,690,000</u>

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Bonds outstanding and related activities for the fiscal years ended June 30, 2021 and 2020, were as follows:

Revenue Bonds	Balance at July 1, 2020	Additions	Retirements	Balance at June 30, 2021	Amounts Due Within One Year
2021C Series	\$ -	\$ 294,020,000	\$ -	\$ 294,020,000	\$ 1,900,000
2021B Series	-	48,200,000	-	48,200,000	-
2021A Series	-	85,860,000	-	85,860,000	-
2017B Series	138,705,000	-	9,745,000	128,960,000	-
2017A Series	435,995,000	-	30,645,000	405,350,000	-
2014C Series	40,285,000	-	-	40,285,000	-
2014B Series	28,010,000	-	-	28,010,000	-
2014A Series	42,135,000	-	23,895,000	18,240,000	-
2011B Series	255,760,000	-	255,760,000	-	-
2011A-2 Series	68,225,000	-	68,225,000	-	-
2011A-1 Series	118,575,000	-	118,575,000	-	-
Total long-term debt	<u>1,127,690,000</u>	<u>428,080,000</u>	<u>506,845,000</u>	<u>1,048,925,000</u>	<u>1,900,000</u>
Add unamortized:					
Premium	71,910,945	35,134,291	9,098,031	97,947,205	6,186,082
Less unamortized:					
Discount	<u>4,817,312</u>	<u>-</u>	<u>4,817,312</u>	<u>-</u>	<u>-</u>
Total long-term debt, net	<u>\$ 1,194,783,633</u>	<u>\$ 463,214,291</u>	<u>\$ 511,125,719</u>	<u>\$ 1,146,872,205</u>	<u>\$ 8,086,082</u>

Revenue Bonds	Balance at July 1, 2019	Additions	Retirements	Balance at June 30, 2020	Amounts Due Within One Year
2017B Series	\$ 142,595,000	\$ -	\$ 3,890,000	\$ 138,705,000	\$ 4,070,000
2017A Series	448,205,000	-	12,210,000	435,995,000	12,795,000
2014C Series	40,285,000	-	-	40,285,000	-
2014B Series	28,010,000	-	-	28,010,000	-
2014A Series	49,155,000	-	7,020,000	42,135,000	7,655,000
2011B Series	258,150,000	-	2,390,000	255,760,000	2,865,000
2011A-2 Series	70,230,000	-	2,005,000	68,225,000	2,110,000
2011A-1 Series	122,100,000	-	3,525,000	118,575,000	3,710,000
Total long-term debt	<u>1,158,730,000</u>	<u>-</u>	<u>31,040,000</u>	<u>1,127,690,000</u>	<u>33,205,000</u>
Add unamortized:					
Premium	75,729,365	-	3,818,420	71,910,945	3,818,420
Less unamortized:					
Discount	<u>5,050,408</u>	<u>-</u>	<u>233,096</u>	<u>4,817,312</u>	<u>233,096</u>
Total long-term debt, net	<u>\$ 1,229,408,957</u>	<u>\$ -</u>	<u>\$ 34,625,324</u>	<u>\$ 1,194,783,633</u>	<u>\$ 36,790,324</u>

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Scheduled maturities of outstanding Bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2022	\$ 1,900,000	\$ 43,805,303
2023	2,225,000	45,257,368
2024	24,155,000	45,249,781
2025	27,225,000	44,184,236
2026	29,965,000	43,022,203
2027-2031	176,795,000	194,719,665
2032-2036	244,620,000	151,777,767
2037-2041	294,830,000	98,104,217
2042-2046	200,885,000	42,328,750
2047	46,325,000	2,316,250
	<u>\$ 1,048,925,000</u>	<u>\$ 710,765,540</u>

A number of limitations and restrictions are imposed upon the Airport by covenants relating to certain outstanding Bonds. As of June 30, 2021 and 2020, the Airport believes it is in compliance with all such limitations and restrictions, for which non-compliance would adversely affect its ability to pay debt service.

Other long-term liability activities for the fiscal years ended June 30, 2021 and 2020 were as follows:

	Balance at July 1, 2020	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2021	Amounts Due Within One Year
Self-insurance	\$ 2,680,353	\$ (49,079)	\$ (156,507)	\$ 2,474,767	\$ 633,500
Accrued vacation, sick leave and compensatory time	2,556,722	1,655,882	(1,775,900)	2,436,704	1,846,999
Total	<u>\$ 5,237,075</u>	<u>\$ 1,606,803</u>	<u>\$ (1,932,407)</u>	<u>\$ 4,911,471</u>	<u>\$ 2,480,499</u>

	Balance at July 1, 2019	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2020	Amounts Due Within One Year
Self-insurance	\$ 2,534,343	\$ 256,164	\$ (110,154)	\$ 2,680,353	\$ 633,500
Accrued vacation, sick leave and compensatory time	2,239,425	1,620,154	(1,302,857)	2,556,722	1,975,000
Total	<u>\$ 4,773,768</u>	<u>\$ 1,876,318</u>	<u>\$ (1,413,011)</u>	<u>\$ 5,237,075</u>	<u>\$ 2,608,500</u>

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(6) Airline Lease and Other Agreements

The City entered into an Airline Lease Agreement with the various passenger and cargo airlines serving the Airport, effective July 1, 2019. The Airline Lease Agreement has an initial term of ten years and is set to expire on June 30, 2029. The term of this Airline Lease Agreement may be extended for two consecutive five-year renewal periods by the mutual written agreement of the Signatory Passenger Carriers and the City.

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 terminal rate per square foot is calculated based on expenses allocable to the Terminal for each fiscal year divided by the total amount of rentable terminal space. Should there be any remaining net revenues generated at the Airport and all requirements of the MTA and any Subordinated Financing Agreements have been satisfied, including the minimum rate covenant requirement, the Passenger Carriers' share of the remaining net terminal revenues shall be distributed as a refund once a final accounting of the Airport's operations for the last fiscal year has been completed. After the final accounting is completed, an invoice will be sent to the Passenger Carriers if the actual expenses in the terminal were higher than the revenues. The landing fee rate is calculated by dividing the expenses allocable to the airfield, offset by airfield revenues, other than landing fees, by the projected aggregated maximum gross landed weight for all aircraft at the Airport during the fiscal year. The aggregate credit or debit, if any, resulting from the final accounting after each fiscal year shall be applied to the airfield revenue requirement for the following fiscal year.

The Airline Lease Agreement defines a Signatory Airline as either a 1) Passenger Carrier that executes the Airline Lease Agreement, or an agreement with substantially similar terms, and pays at least \$500,000 per year in Terminal Rents and other charges due for its use of the Terminal, excluding PFC payments, or 2) a Cargo Carrier that has executed an Airline-Airport Cargo Operating Agreement. A Passenger Carrier cannot become a Signatory Airline within three years of the expiration of the Airline Lease Agreement, except for new entrants to the Airport that have not operated at the Airport at any other time during the term of the Airline Lease Agreement.

The Airline Lease Agreement includes other provisions to: 1) allocate the cost of the office and administrative space used by the City and the City's contractors at the Airport to all terminal tenants; 2) pre-approves the Terminal Area Improvement Program (TAIP) for the Phase II of Terminal B, which can include New Federal Inspection Station (FIS) Facilities when the Airport reaches an annual rate of 550,000 international deplaning passengers for 18 consecutive months; 3) increases current spending limits for terminal and airfield projects from \$5.0 million to \$10.0 million without consultation or approval from the Signatory Airlines to fund a capital project; 4) requires Non-Signatory Airlines to provide a security deposit in addition to payment of a 25% premium over the rates and charges applicable to Signatory Airlines; 5) establishes revenue sharing in any year when there is remaining revenue generated at the Airport for Signatory Airlines as follows: a) the Airport will receive the first \$4.0 million until the Phase II of Terminal B terminal project is completed and occupied and \$2.0 million thereafter, and b) the rest of the net remaining revenue will be split 40%/60% (Airport/Signatory Airlines) throughout the term; 6) Airlines continue to make extraordinary coverage protection for covering annual debt service and coverage requirements should revenues less operating expenses be insufficient to meet the Airport's debt service obligations; and 7) provides continuation of the City's indirect overhead brackets to no less than 15% and not more than 25% of the Airport's operating budget.

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

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Non-signatory agreements may be terminated by either party on a 30-day notice.

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 Agreement.

For the fiscal years ended June 30, 2021 and 2020, the Airport's net remaining revenues as defined in its lease agreements were \$8.6 million and \$25.1 million, respectively. For the fiscal years ended June 30, 2021 and 2020, the Airport's revenues as defined in its lease agreements exceeded its expenditures and reserve requirements by \$7.7 million and \$23.0 million, respectively. The net remaining revenues for the fiscal years ended June 30, 2020 and 2021 were divided by allocating the first \$4.0 million to the Airport and then splitting the balance 40%/60% between the Airport and the Signatory Passenger Carriers, respectively, in accordance with the revenue sharing provisions of the Airline Lease Agreement.

In December 2013, the City entered into a ground lease and operating agreement with Signature, which constructed a full-service, fixed-based facility on approximately 29 acres of the Airport's west side (Original Master Leasehold Parcel). The term of the agreement is for 50 years from December 12, 2013 to December 11, 2063. On July 2, 2018, the City entered into the First Amendment to the ground lease and operating agreement by adding a new parcel of land containing approximately 4 acres (Additional Premises) bringing the total lease to approximately 33 acres. The base ground rental is subject to a consumer price index adjustment annually and by appraisal every five years. The interim rent on the Additional Premises ended effective January 2, 2020 per the First Amendment. The annual base ground rental rate from May 1, 2020 to June 30, 2021 is \$2.49135 per square foot for the entire site. Rental revenues from the ground lease with Signature were \$3,618,726 and \$3,301,439 for the fiscal years ended June 30, 2021, and 2020, respectively.

The Airport also enters into leases with concessionaires, cargo carriers, and other business entities for building space and/or the privilege of operating a concession at the Airport. As of June 30, 2021, the remaining terms of these operating leases range from one month to 17 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount (MAG). The City provided temporary financial relief to some concessionaires from April 1, 2020 to June 30, 2021 by suspending the MAG and charging only the applicable percentage fee of gross revenue.

Rental revenues from the aforementioned operating leases were \$91,647,279 and \$107,321,824 for the fiscal years ended June 30, 2021 and 2020, respectively. Revenue from these operating leases is spread among the various cost centers depending on the location of the leased space.

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

<u>Fiscal Year Ending June 30,</u>	
2022	\$ 77,087,990
2023	82,690,320
2024	81,587,928
2025	78,627,950
2026	78,530,330
2027-2031	249,544,651
2032-2036	61,332,654
2037-2041	34,856,725
2042-2046	28,430,714
2047-2051	31,390,251
2052-2056	34,657,865
2057-2061	38,265,627
2062-2066	<u>20,425,815</u>
Total minimum lease rentals	<u>\$ 897,428,820</u>

These future minimum rentals are based upon annual rates and charges currently agreed to by the airlines and other tenants.

As of June 30, 2021, and 2020, assets leased to tenants had total historical costs of \$1,095,136,142 and \$1,095,136,142 and accumulated depreciation of \$336,968,224 and \$307,234,919, respectively.

Pursuant to the terms of individual agreements entered into with the City, every Non-Signatory Airline, operator, tenant or any other entity or person, which is party to an agreement with the City authorizing them to conduct business at the Airport, is required to maintain a security deposit on file with the City. The deposit shall be in a form and amount acceptable to the Director of Aviation, often in the form of irrevocable LOC, surety bond, cashier's check or other form acceptable to the Director of Aviation. The Director of Aviation 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 statements of net position. The Airport maintains on file copies of all security deposits, in the form of LOC or surety bond, which are not recorded in the financial statements. The amount on file as of June 30, 2021 and 2020 totaled \$20,182,099 and \$22,074,567, respectively.

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(7) Retirement Systems

(a) General Information

The City sponsors and administers two single employer defined benefit retirement systems, PFDRP and FCERS, and collectively, the Retirement Systems, which with the exception of certain unrepresented employees together cover all full-time and certain part-time employees of the City. The Retirement Systems provide general retirement benefits under a single employer Defined Benefit Pension Plan, as well as the Postemployment Healthcare Plan. The Airport does not contribute directly to the PFDRP and, instead, only covers pension costs of Airport related police and fire personnel through the City's interdepartmental charges. All full-time and certain part-time employees of the Airport participate in the FCERS.

The Retirement Systems are administered by the Chief Executive Officer of the Office of Retirement Services, an employee of the City, who serves at the pleasure of the Boards of Administration for the Retirement Systems. The separately issued annual reports of FCERS and PDFRP, together with various chapters in Title 3 of the City's Municipal Code, provide more detailed information about the Retirement Systems, and may be obtained from the City of San José Office of Retirement Services at <http://www.sjretirement.com>. The Airport presents the related defined benefit disclosures of FCERS as a participant in a cost-sharing arrangement with the City.

(b) Benefits Provided

FCERS benefits are based on average final compensation, years of service, and cost of living increases as specified by the City's Municipal Code. The contribution and benefit provisions and all other requirements are established by the City Charter and the City's Municipal Code. Information regarding disability and death benefits can be found in the annual reports of the Retirement Plans and on the Office of Retirement Services website.

The payroll for Airport employees covered by the FCERS for the fiscal years ended June 30, 2021 and 2020 was \$17,857,080 and \$17,270,097, respectively. The Airport's total payroll for the fiscal years ended June 30, 2021 and 2020 was \$22,232,245 and \$22,288,349, respectively.

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The FCERS has several Tiers as follows:

Tier	Hire Date	Pension	Defined Benefit Retiree Healthcare (Medical/Dental)
Tier 1	- On or before September 29, 2012 - Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions ⁽¹⁾	Tier 1	Medical/Dental ⁽²⁾⁽⁴⁾
Tier 1 Rehire	- Former Tier 1 rehired on or after September 30, 2012 through June 17, 2017	Tier 1 ⁽¹⁾	Medical/Dental ⁽²⁾⁽⁴⁾⁽⁵⁾
Tier 1 Classic	- "Classic" membership with CalPERS/reciprocal agency hired on or after September 30, 2012, but before September 27, 2013 - "Classic" membership with CalPERS/reciprocal agency hired on or after September 27, 2013	Tier 1 ⁽⁶⁾	Medical/Dental ⁽³⁾⁽⁴⁾ Not eligible ⁽³⁾⁽⁴⁾
Tier 2 (or Tier 2A)	- Hired/rehired/reinstated on or after September 30, 2012 but before September 27, 2013	Tier 2	Medical/Dental ⁽²⁾⁽⁴⁾
Tier 2B	- Hired/rehired/reinstated after September 27, 2013 and have not met City's eligibility for retiree healthcare	Tier 2	Not eligible ⁽³⁾⁽⁴⁾

⁽¹⁾ Employees in these Tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.

⁽²⁾ Employees in these Tiers were provided a one-time irrevocable election to remain in the Postemployment Healthcare Plan or opt-in to the defined contribution VEBA. Please note that those who opted in to the VEBA are no longer eligible for the Postemployment Healthcare Plan. The VEBA was implemented on March 25, 2018.

⁽³⁾ Employees in these Tiers were mandatorily placed into the VEBA.

⁽⁴⁾ Unrepresented employees were eligible to opt in to the VEBA, but are not eligible to make ongoing contributions to the VEBA.

⁽⁵⁾ All Tier 1 rehires formerly in Tier 2B and Tier 2C who opted to remain in the Postemployment Healthcare Plan began contributing to retiree healthcare on March 25, 2018.

⁽⁶⁾ Employees in these Tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the "Classic" Tier regardless of start date.

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The FCERS' pension benefits are summarized in the table below. For additional information regarding the FCERS' benefits, please contact the City of San José Office of Retirement Services.

	Tier 1⁽¹⁾	Tier 1 Classic⁽²⁾	Tier 2A⁽³⁾	Tier 2B⁽⁴⁾
Pension				
Service Required to Leave Contributions in System	5 years		5 years Federated City Service Years of Service (Year of Service = 2,080 hours worked in the applicable 12 month period)	
Service Retirement:				
Age/Years of Service	55 with 5 years service 30 years service at any age		62 years with 5 years Federated City Service. May retire on or after 55 years with 5 years Federated City Service. A reduction factor of 5% per year for each year between age 55 and the Tier 2 member's age at retirement before 62, prorated to the closest month.	
Deferred Vested	55 with 5 years service (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.)		May commence on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 55 with reduction factor of 5% per year for each year between age 55 and the Tier 2 member's age at retirement before age 62, prorated to the closest month.	
Allowance	2.5% x Years of Service x Final Compensation (75% max) Final Compensation is the highest average monthly earnable pensionable salary during 12 consecutive months, capped at 108% of the second highest 12 consecutive months. If separation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months.		2.0% x Years of Federated City Service x Final Compensation (70% max) "Final Compensation" is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service. Excludes premium pay or any other forms of additional compensation	
Disability Retirement (Service Connected)				
Minimum Service	None		None	
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation. (Maximum 75% of Final Compensation)		2.0% x Years of Federated City Service x Final Compensation. (Minimum of 40% and maximum of 70% of Final Compensation)	

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	Tier 1 ⁽¹⁾	Tier 1 Classic ⁽²⁾	Tier 2A ⁽³⁾	Tier 2B ⁽⁴⁾
Disability Retirement (Non-Service Connected)				
Minimum Service	5 years		5 Years	
Allowance		20% of Final Compensation for up to 6 years of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of service. (Maximum 75% of Final Compensation.) For those entering the System 8/31/98 or before, the calculation is as follows: 40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation. (Maximum 75% of Final Compensation) If under 55 years old, subtract 0.5% for every year under age 55.	2.0% x Years of Federated City Service x Final Compensation. (Minimum of 20% and maximum of 70% of Final Compensation)	
Cost of Living Adjustments				
Cost of Living Adjustments		Retirees are eligible for a 3% annual cost of living adjustment (COLA). Regular COLAs are compounded and paid each April. There is no prorating of COLA.	Retirees are eligible for annual COLA limited to the lesser of the increase in the Consumer Price Index (San José - San Francisco - Oakland, U.S. Bureau of Labor Statistics index, CPIU, December to December), or a back loaded 2% COLA per fiscal year. The back loaded COLA shall be calculated as follows: i. Service at retirement of 1-10 years: 1.25% per year ii. Service at retirement of 1-10 years and hired before June 16, 2017: 1.5% iii. Service at retirement of 11-20 years: 1.5% per year iv. Service at retirement of 21-25 years: 1.75% per year v. Service at retirement of 26 years and above: 2.0% per year The first COLA will be prorated based on the number of months retired.	

⁽¹⁾ Tier 1 applies to employees hired on or before September 29, 2012.

⁽²⁾ Employees with "Classic" membership from a CalPERS or reciprocal agency hired by the City of San José on or after June 18, 2017. A CalPERS "Classic" member is a member who previously worked for a CalPERS or other reciprocal agency and meets the following criteria: 1. First established CalPERS membership or membership in a CalPERS reciprocal agency prior to January 1, 2013, 2. AND is hired by the City of San José after a break in service of less than six months 3. AND did not have concurrent (overlapping) service with the other agency. City of San José Reciprocity Election Form must be submitted within thirty (30) days of the first day of employment with the City. Employees in Tier 1 "Classic" are not eligible for the defined benefit retiree healthcare plan.

⁽³⁾ Tier 2A applies to employees hired between September 30, 2012 and September 27, 2013.

⁽⁴⁾ Tier 2B are employees who were newly hired after September 27, 2013.

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(c) Contributions

This subsection provides information related to contributions paid by the Airport for pension benefits provided by FCERS.

Under GASB Statement No. 68, the City's and the participating employees' contributions to the Defined Benefit Pension Plan are based upon an actuarially determined percentage of each employee's pensionable and earnable salary to arrive at an actuarially determined contribution (ADC) sufficient to provide adequate assets to pay benefits when due. The contribution requirements are established by City Charter Articles XV and XV-A, and Title 3 of the San José Municipal Code.

FCERS contribution rates for the Airport and the participating employees for the periods July 1, 2019 through June 30, 2020 and July 1, 2020 through June 30, 2021 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2018, and June 30, 2019, respectively, for the Defined Benefit Pension Plan.

Defined Benefit Pension Plan Pay Period	Airport's Contribution⁽¹⁾		Employees' Contribution⁽²⁾	
	Tier 1	Tier 2	Tier 1	Tier 2
July 1, 2019 - June 30, 2020	19.34%	8.33%	7.06%	8.33%
July 1, 2020 - June 26, 2021	19.82%	7.92%	7.22%	7.92%
June 27, 2021 - June 30, 2021	20.25%	8.17%	7.39%	8.17%

⁽¹⁾ For Tier 1 members, the actual contribution rates paid by the City for fiscal year ended June 30, 2021 and June 30, 2020 differed due to the City funding the ADC amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

⁽²⁾ Under Measure F, certain FCERS Tier 2 members who had previous Tier 1 service or prior service with a reciprocal employer were reclassified to Tier 1. Ordinance No. 30183, which became effective January 4, 2019, amended the Municipal Code to reflect these changes. Effective 3/24/19, reclassified Tier 1 members paid an additional 3.00% in contributions. Classic Tier 1 members paid an additional 1.46% effective 8/12/18.

* Contributions are structured as a normal cost, plus a payment on the UAL. City contributions are administered as a contribution rate plus a minimum dollar amount based on actuarial payroll.

The Airport's contributions paid during the fiscal year ended June 30, 2021 were \$10,595,810.

The Airport's contributions paid during the fiscal year ended June 30, 2020 were \$10,634,355.

(d) Net Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension

As of June 30, 2021, the Airport reported \$113,362,614 of net pension liability (NPL) for its proportionate share of the City's NPL. The Airport's portion of the NPL was based on the Airport's share of its contributions to the FCERS relative to the total City's contributions to FCERS. The NPL of the FCERS was measured as of June 30, 2020, and the total pension liability (TPL) for the FCERS used to calculate the NPL was determined by the actuarial valuation for FCERS as of June 30, 2019 and rolled forward to June 30, 2020 using standard update procedures. The Airport's percentage of the City's NPL for the FCERS NPL was 5.9% as of June 30, 2020, the measurement date.

For the fiscal year ended June 30, 2021, the Airport recognized pension expense of \$13,802,528 for FCERS. As of June 30, 2021, the Airport reported deferred outflows and inflows of resources related to pension from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 10,595,810	\$ -
Differences between expected and actual experience	255,993	1,561,367
Changes in assumptions	1,595,133	357,642
Net difference between projected and actual earnings on pension plan investments	4,840,549	-
	<u>\$ 17,287,485</u>	<u>\$ 1,919,009</u>

As of June 30, 2021, \$10,595,810 was reported as deferred outflows of resources related to contributions for FCERS subsequent to the June 30, 2020 measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2022.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

	Deferred Outflows (Inflows) of Resources
2022	\$ 1,530,029
2023	1,728,847
2024	897,847
2025	615,943
	<u>\$ 4,772,666</u>

As of June 30, 2020, the Airport reported \$112,614,873 of NPL for its proportionate share of the City's NPL for the FCERS. The Airport's portion of the NPL was based on the Airport's share of its contributions to the FCERS relative to the total City's contributions to FCERS.

The NPL of the FCERS was measured as of June 30, 2019, and the TPL for the FCERS used to calculate the NPL was determined by actuarial valuation for FCERS as of June 30, 2018 and rolled forward to June 30, 2019 using standard update procedures. The Airport's percentage of the City's NPL of the FCERS NPL was 5.4% as of June 30, 2019, the measurement date. In FY 20, the Airport adjusted its net pension liability to remove its proportionate share of the City's net pension liability for PFDRP as explained in Note 1(m).

For the fiscal year ended June 30, 2020, the Airport recognized pension expense of \$17,985,072 for the FCERS. As of June 30, 2020, the Airport reported deferred outflows and inflows of resources related to pension from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 10,634,355	\$ -
Differences between expected and actual experience	525,939	526,942
Changes in assumptions	2,457,908	469,369
Net difference between projected and actual earnings on pension plan investments	5,205,383	-
	\$ 18,823,585	\$ 996,311

As of June 30, 2020, \$10,634,355 was reported as deferred outflows of resources related to contributions for the FCERS subsequent to the June 30, 2019 measurement date was recognized as a reduction of the NPL in the fiscal year ended June 30, 2021.

(e) Actuarial Methods and Assumptions

This subsection provides information related to the actuarial methods and assumptions specific to the FCERS Defined Benefit Pension Plan.

The significant actuarial methods and assumptions used to compute TPL as of June 30, 2021 and June 30, 2020 are from the FCERS actuarial valuation reports with valuation dates of June 30, 2019 and June 30, 2018, respectively. The valuation reports were rolled forward to June 30, 2020 and June 30, 2019, respectively, using standard update procedures:

	Method/Assumption (June 30, 2021)	Method/Assumption (June 30, 2020)
Measurement date	June 30, 2020	June 30, 2019
Valuation date	June 30, 2019	June 30, 2018
Actuarial Cost Method	Entry Age	Entry Age
Inflation rate	2.50%	2.50%
Discount rate	6.75% per annum	6.75% per annum
Mortality		
(a) Service:	Healthy annuitants: 0.995 for males and 0.960 for females, times the 2010 Public General Mortality Table (PubG-2010). Healthy non-annuitant: 0.992 for males and 1.084 for females, times the 2010 Public General Mortality Table (PubG-2010).	Healthy annuitants: 0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table. Healthy non-annuitants: 0.919 for males and 0.918 for females, times the CalPERS 2009 Employee Mortality Table.
(b) Disability:	Disabled annuitants: 1.051 for males and 0.991 for females, times the CalPERS 2009 Ordinary Disabled Mortality table. Mortality is projected from 2010 on a generational basis using the MP-2019 scale.	Disabled annuitants: 1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disabled Mortality table. Mortality is projected from 2009 on a generational basis using the MP-2018 scale.
Active, withdrawal, death, disability, service retirements	Tables based on current experience.	Tables based on current experience.
Salary increases		
Wage Inflation	The base wage inflation assumption of 3.00% plus a merit / longevity increase based on years of service ranging from 3.75% at hire to 0.10% for members with 15 or more years of service.	The base wage inflation assumption of 3.25% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.
Merit increase	For the amortization schedule, payroll is assumed to grow 3.00% per year.	For the amortization schedule, payroll is assumed to grow 3.25% per year.
Cost of living adjustment	Tier 1 - 3% per year; Tier 2 - 1.25-2% per year depending on years of service.	Tier 1 - 3% per year; Tier 2 - 1.25-2% per year depending on years of service.

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Long-term Expected Rate of Return on Plan Investments - The assumption for the long-term expected rate of return on investments was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the Board, including nominal expected rates of return for each of the asset classes, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the returns. Best estimates of geometric real rates of return for each major asset class included in the FCERS target asset allocation are summarized in the following tables.

As of June 30, 2020 and June 30, 2019 measurement dates, using a long-term expected rate of return on investments of 6.750% and 6.750% with a valuation date of June 30, 2019 and June 30, 2018:

<u>Asset Class</u>	2020	2020	2019	2019
	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	49%	5.4%	30%	6.2%
Short-term investment grade bonds	-	-	20.0	0.8%
Private equity	8%	6.8%	10%	7.3%
Market neutral strategies	3%	2.1%	7%	2.7%
Bonds (immunized cash flows)	5%	(0.9)%	5%	0.8%
Core real estate	5%	3.5%	5%	3.1%
Venture / Growth capital	4%	6.6%	5%	7.2%
Private debt	3%	4.4%	4%	4.6%
Commodities	-	-	3%	2.3%
Emerging market bonds	3%	2.0%	3%	2.6%
Growth real estate	3%	6.1%	3%	5.3%
Private real assets	3%	5.0%	3%	6.7%
Treasury inflation protected securities	2%	(0.1)%	2%	1.0%
Investment grade bonds	8%	(0.1)%	-	-
High yield bonds	2%	2.6%	-	-
Long-term government bonds	2%	0.2%	-	-
Real estate	-	-	-	-
Cash	-	-	-	-
Total	<u>100%</u>		<u>100%</u>	

Discount Rate - The discount rates used to measure the total pension liability as of June 30, 2020 and June 30, 2019 were 6.750% and 6.750%, respectively, for the FCERS plan for valuations dated June 30, 2019 and June 30, 2018. It is assumed that members' contributions and City's contributions will be made based on the actuarially determined rates based on the FCERS' Board funding policies. Based on those assumptions, the FCERS' fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liabilities.

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Sensitivity of the Net Pension Liability to Changes in Discount Rates - The following presents the Airport's proportionate share of the net pension liability for FCERS, as well as what the Airport's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the measurement date rate.

The allocation was based on 5.9% of the City's net pension liability at the measurement date June 30, 2020, and on 5.4% of the City's net pension liability at the measurement date June 30, 2019.

<u>As of June 30, 2021:</u>	<u>1% Decrease</u>	<u>Measurement Date</u> <u>Discount Rate</u>	<u>1% Increase</u>
	<u>5.75%</u>	<u>6.75%</u>	<u>7.75%</u>
Net pension liability	\$ 156,996,855	\$ 113,362,614	\$ 77,785,474

<u>As of June 30, 2020:</u>	<u>1% Decrease</u>	<u>Measurement Date</u> <u>Discount Rate</u>	<u>1% Increase</u>
	<u>5.75%</u>	<u>6.75%</u>	<u>7.75%</u>
Net pension liability	\$ 155,684,492	\$ 112,614,873	\$ 77,500,252

As of June 30, 2019 and June 30, 2018, the actuarial valuation dates, the FCERS' Board was utilizing a discount rate of 6.750% and 6.750%, respectively. For more details on the current discount rate, please refer to the stand-alone reports issued by the FCERS.

Pension Plan Fiduciary Net Position - Detailed information about the FCERS fiduciary net position is available in the separately issued FCERS financial report.

Recognition of Deferred Outflows and Inflows or Resources for FCERS

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

One fifth of the net earnings is recognized in the first year when the gain or loss occurred for the difference between projected and actual earnings on pension plan investments. The other deferred amounts are amortized over the expected average remaining service lifetime. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pension and are to be recognized in future pension expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 Years
All other amounts	Expected average remaining service lifetime (EARSL) (5 Years)

(f) Payable to the Pension Plan

At June 30, 2021 and June 30, 2020, the Airport had no outstanding contribution payable to the pension plan.

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(g) Other Postemployment Benefits Under GASB Statement No. 75

In addition to the FCERS Defined Benefit Pension Plan, the City also sponsors and administers a single employer FCERS (Postemployment Healthcare Plan), which includes an Internal Revenue Code (IRC) 115 Trust. The Postemployment Healthcare Plan covers eligible full-time and certain part-time employees of the City, and are accounted for in the Pension Trust Funds of the City.

Generally, the defined benefit Postemployment Healthcare Plan provides medical and dental benefits to eligible retirees and their beneficiaries. Benefits are 100% of the premium cost for the lowest priced medical insurance plan available to an active City employee, and 100% of the premium cost for a dental insurance plan available to an active City employee.

Per the terms of the Frameworks discussed in Note IV A.1 of the Notes to the Basic Financial Statements in the City's June 30, 2021 ACFR, the City established VEBA for retiree healthcare for the members of the FCERS in FY 18. The City does not make contributions into the VEBAs and the VEBAs are not subject to the jurisdiction of the Retirement Board.

In November 2017, the IRS and City entered into a Closing Agreement whereby FCERS Tier 1 and some FCERS Tier 2 members were eligible for an irrevocable opt-out of the applicable Postemployment Healthcare Plan into a VEBA. The transfer of their retiree healthcare contributions (medical and dental) from the applicable Postemployment Healthcare Plan to their individual VEBA accounts remained subject to IRS approval. The VEBA opt-in election period was October 18, 2017 through December 15, 2017. In February 2018, the IRS issued favorable private letter rulings with respect to the transfer of retiree healthcare contributions from the Postemployment Healthcare Plan for those employees opting into a VEBA and in March 2018, the retiree healthcare contributions of members who opted in to a VEBA were transferred from the applicable Postemployment Healthcare Plan into their individual VEBA accounts. The IRS also approved allowing eligible employees who are rehired by the City during calendar years 2018 through 2022 to opt into the applicable VEBA and transfer the retiree healthcare contributions from the applicable Postemployment Healthcare Plan to their individual VEBA accounts. Additional information can be found in Section IV.A.4 of the Notes to the Basic Financial Statements in the City's June 30, 2021 ACFR.

Contribution amounts to the Postemployment Healthcare Plan for both the City and the participating members are based upon agreements between the City and the bargaining units. With the implementation of Measure F, ADC was calculated beginning with the fiscal year ended June 30, 2019.

On June 24, 2008, the City Council adopted Ordinance No. 28332 amending Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for postemployment healthcare benefits to FCERS.

Subsequently, in October 2014, the Board of Administration of FCERS approved implementing an incremental reduction approach to determining the "actuarial equivalence" for the City's prefunding of its contribution when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach was undertaken to ensure that as business expansions and/or market valuations mature and exceed historic norms, FCERS reduces the City's incentive to prefund its contributions when market valuations and/or economic expansions are beyond historic norms. The incremental reduction is 15% per year, up to a maximum of 45%, which was the reduction to the discount rate that was applied to calculate the actuarially determined prepayment amount for the participating members to be paid by the City at the beginning of fiscal year ended June 30, 2020. However, the City elected to not prefund its actuarially determined contribution for Tier 1 members for the fiscal year ended June 30, 2020.

The FCERS Board on February 15, 2018 approved a contribution policy for the respective

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Postemployment Healthcare Plan that sets the City's contribution as a flat dollar amount.

Historically, member and City contributions to the Postemployment Healthcare Plan were negotiated through collective bargaining and was not actuarially determined. Until the City entered into agreements with various bargaining groups in 2009 and prior to implementation of Measure F, contributions for the health and dental benefits for both the City and the participating employees of the Postemployment Healthcare Plan were based upon an actuarially determined percentage of employees' base salary sufficient to provide adequate assets to pay benefits when due over the next 15 years for FCERS. From 2009 until the implementation of Measure F, the City had been in the process of phasing in payment of the annual required contribution (ARC) for the retiree health and dental benefits provided by Postemployment Healthcare Plan as calculated pursuant to GASB Statement No. 43 and GASB Statement No. 45 then in effect. However, the contribution rates for the City and members of the Postemployment Healthcare Plan were capped before the full ARC was reached.

The annual contribution costs for the Postemployment Healthcare Plan benefits are allocated to both the City and the active employee members. Contributions to the Postemployment Healthcare Plan for both the City and the participating members are based upon agreements between the City and the bargaining units. With the implementation of Measure F, member contributions are fixed as a percentage of pay and the City's contribution toward the explicit subsidy (premium subsidy) is an ADC determined by the Postemployment Healthcare Plan. The ADC for the Postemployment Healthcare Plan is the normal cost plus the amortization payment on the unfunded actuarial liability, less expected member contributions. The City has an option to limit its ADC for the Postemployment Healthcare Plan to a fixed percentage of the payroll of all active members of the pension plan. The ADC for the Postemployment Healthcare Plan is calculated beginning with FY 19.

The City will pay the implicit subsidy on a pay-as-you go basis as part of active health premiums. An implicit subsidy for retiree health benefits exists because the medical experience for retirees under age 65 are pooled with the experience for active employees thereby resulting in a lowering of the premium paid for retirees under age 65. The implicit subsidy is included in the actuarial valuation of the Postemployment Healthcare Plan. The implicit subsidy is shown as both a contribution and payment from the Postemployment Healthcare Plan. However, the implicit subsidy is not actually contributed to or paid from the Postemployment Healthcare Plan. Rather, it is paid directly by the City on a pay-as-you-go basis as a part of active member health plan premiums. The actuary for the Postemployment Healthcare Plan separately calculates the total unfunded actuarial liability being the aggregate unfunded actuarial liability for both implicit and explicit subsidies, and the unfunded actuarial liability for only the explicit subsidy. The unfunded actuarial liability for the explicit subsidy is used to calculate the City's ADC to the Postemployment Healthcare Plan.

As of March 25, 2018, members remaining in the FCERS Postemployment Healthcare Plan contribute 7.5% of pay. The City continued to pay the phased-in contribution rate until the beginning of FY 19 when it commenced paying the ADC as determined by the FCERS Board subject to a cap of 14% of payroll of all active members of FCERS.

The contributions to the FCERS Postemployment Healthcare Plan for the Airport and the participating employees for the periods July 1, 2019 through June 30, 2020 and July 1, 2020 through June 30, 2021 are shown below.

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<u>Postemployment Healthcare Plan</u>	<u>Airport's Contribution</u>		<u>Employee's Contribution</u>	
Pay period	Tier 1	Tier 2	Tier 1	Tier 2
July 1, 2019 - June 30, 2020	**	**	7.50%	7.50%
July 1, 2020 - June 30, 2021	*	*	7.50%	7.50%

In February 2018, the Board approved the contribution policy that sets the City healthcare contributions as a flat dollar amount, beginning with FY 19.

* The City's contribution amount determined as a flat dollar amount of \$20,948,983 for all tiers and not a rate of pay.

** The City's contribution amount determined as a flat dollar amount of \$21,790,130 for all tiers and not a rate of pay.

The Airport's contributions paid during the fiscal years ended June 30, 2021 and June 30, 2020 were \$1,424,615 and \$1,183,200, respectively.

As of June 30, 2021, the Airport reported \$18,650,020 of net OPEB liability for its proportionate share of the City's net OPEB liability. The Airport's portion of net OPEB liability was based on the Airport's share of its OPEB contributions in Airport Funds to FCERS relative to the total City's OPEB contributions to FCERS. The net OPEB liability of FCERS was measured as of June 30, 2020, and the total OPEB liability for FCERS used to calculate the net OPEB liability was determined by an actuarial valuation for the FCERS Postemployment Healthcare Plan as of June 30, 2019 and rolled forward to June 30, 2020 using standard update procedures. The Airport's percentage of the City's net OPEB liability of the FCERS' net OPEB liability was 5.4% as of June 30, 2020, the measurement date.

As of June 30, 2020, the Airport reported \$20,341,520 of net OPEB liability for its proportionate share of the City's net OPEB liability. The Airport's portion of net OPEB liability was based on the Airport's share of its OPEB contributions in Airport Funds to FCERS relative to the total City's OPEB contributions to FCERS. The net OPEB liability of FCERS was measured as of June 30, 2019, and the total OPEB liability for FCERS used to calculate the net OPEB liability was determined by an actuarial valuation for the FCERS Postemployment Healthcare Plan as of June 30, 2018 and rolled forward to June 30, 2019 using standard update procedures. The Airport's proportionate share of the City's net OPEB liability of FCERS was 5.4%, as of June 30, 2019 the measurement date. In FY 20, the Airport adjusted its net OPEB liability to remove its proportionate share of the City's net OPEB liability for PFDRP as explained in Note 1(n). PFDRP amounts were immaterial to the FY 19 financial statements.

The net OPEB liability of FCERS as of June 30, 2021 and June 30, 2020 was measured as of June 30, 2020 and June 30, 2019, respectively, and the total OPEB liability for FCERS used to calculate the net OPEB liability was determined by actuarial valuations as of June 30, 2019 and June 30, 2018 based on the following actuarial methods and assumptions and rolled forward to June 30, 2020 and June 30, 2019, respectively, using standard update procedures.

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	Method/Assumption (June 30, 2021)	Method/Assumption (June 30, 2020)
Measurement date	June 30, 2020	June 30, 2019
Valuation date	June 30, 2019	June 30, 2018
Actuarial cost method	Entry Age Normal, level of percentage of pay	Entry Age Normal, level of percentage of pay
Actuarial assumptions:		
Inflation Rate	2.50%	2.50%
Discount Rate (net)	6.75%	6.75%
Merit Increase	Merit component added based on an individual's years of service ranging from 3.75% at hire to 0.10%.	Merit component added based on an individual's years of service ranging from 4.50% at hire to 0.25%.
Wage Inflation Rate	3.00%	3.25%
Investment Rate of Return	6.75%	6.75%
Mortality Rate*	Mortality is projected from 2010 on a generational basis using the MP-2019 scale.	Mortality is projected from 2009 on a generational basis using the MP-2018 scale
Pre-Retirement Turnover**	Please see below table.	Please see below table.
Healthcare Cost Trend Rate	The valuation assumes that future medical inflation will be at a rate of 7.66% to 3.94% per annum graded down over a 55 year period for medical-pre age 65 and 4.11% to 3.94% per annum fluctuate over a 55 year period for medical-post age of 65. Dental inflation is assumed to be 3.50%	The valuation assumes that future medical inflation will be at a rate of 8.00% to 4.25% per annum graded down over a 15 year period for medical-pre age 65 and 6.00% to 4.25% per annum graded down over a 15 year period for medical-post age of 65. Dental inflation is assumed to be 3.50%

* FCERS Mortality Rates

Category	Male	Female
Healthy Annuitant	0.995 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees.	0.960 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees.
Healthy Non-Annuitant	0.992 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees.	1.084 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees.
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table.	0.991 times the CalPERS 2009 Ordinary Disability Mortality Table.

**Rates of Pre-Retirement Turnover. Sample rates of termination are shown in the following table:

Rates of Termination			
Years of Service	Termination Rate	Years of Service	Termination Rate
0	15.00%	8	5.50%
1	12.75%	9	4.75%
2	11.75%	10	4.25%
3	10.75%	11	4.00%
4	9.75%	12	3.75%
5	8.75%	13	3.50%
6	7.75%	14	3.25%
7	6.50%	15+	3.25%

Note: Termination rates do not apply once a member is eligible for retirement.

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Long-term Expected Rate of Return on Plan Investments - The assumption for the long-term expected rate of return on investments was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by FCERS Board, including nominal expected rates of return for each of the asset classes, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the returns.

For FCERS Postemployment Healthcare Plan, the assets were invested both in a 401(h) account within FCERS pension plan and in a 115 trust account. The table below refers only to the 115 trust account. The 401(h) account was depleted during FY 19. Best estimates of geometric real rates of return for each major asset class included in the FCERS target asset allocation are summarized in the following table.

As of June 30, 2020 and June 30, 2019 measurement dates, using a long-term expected rate of return on investments of 6.750% and 6.750% with a valuation date of June 30, 2019 and June 30, 2018:

Asset Class	2020	2020	2019	2019
	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public Equity	56%	5.4%	56.0%	6.1%
Short-term investment grade bonds	29%	(0.5)%	29.0%	0.8%
Core real estate	10%	4.7%	10.0%	4.3%
Commodities	5%	1.7%	5.0%	2.3%
Cash	-	(0.9)%	-	0.3%
Total	100%		100%	

Discount Rate - The discount rate used to measure the total OPEB liability as of June 30, 2020 and June 30, 2019 were 6.750% and 6.750%, respectively, based on the long-term expected rate of return on investments, for FCERS plan valuations dated June 30, 2019 and June 30, 2018. It is assumed that FCERS members' contributions and City contributions will continue at the current contribution rates and that the City will contribute the actuarially determined contribution toward the explicit subsidy up to a maximum of 14% of total payroll for FCERS. In addition, the City will pay the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the FCERS fiduciary net positions are expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liabilities.

Sensitivity of the Net OPEB Liability to Changes in Discount Rates - The following presents the Airport's proportionate share of the net OPEB liability for FCERS, as well as what the Airport's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the measurement date rate.

As of June 30, 2021, the Airport's share of the City's net OPEB liability was based on 5.4% of the Airport's proportion of the City's net OPEB liability for FCERS at the measurement date, June 30, 2020.

As of June 30, 2021:	Measurement Date		
	1% Decrease (5.750%)	Discount Rate (6.750%)	1% Increase (7.750%)
Net OPEB liability	\$ 23,635,798	\$ 18,650,020	\$ 14,595,331

As of June 30, 2020, the Airport's share of the City's net OPEB liability was based on 5.4% of the

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Airport's proportion of the City's net OPEB liability for FCERS at the June 30, 2019 measurement date.

As of June 30, 2020:	Measurement Date		
	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
Net OPEB liability	\$ 25,564,903	\$ 20,341,520	\$ 16,092,576

Sensitivity of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates - The following presents the Airport's proportionate share of the City's net OPEB liability for FCERS if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the measurement date rate.

As of June 30, 2021, the Airport's share of the City's net OPEB liability was based on 5.4% of the Airport's proportion of the City's net OPEB liability for FCERS at the measurement date, June 30, 2020.

As of June 30, 2021:	Measurement Date Healthcare Trend		
	1% Decrease	Rate	1% Increase
Net OPEB liability	\$ 14,132,628	\$ 18,650,020	\$ 24,225,518

As of June 30, 2020, the Airport's share of the City's net OPEB liability was based on 5.4% of the Airport's proportion of the City's net OPEB liability for FCERS at the June 30, 2019 measurement date.

As of June 30, 2020:	Measurement Date Healthcare Trend		
	1% Decrease	Rate	1% Increase
Net OPEB liability	\$ 15,648,223	\$ 20,341,520	\$ 26,129,087

OPEB Plan Fiduciary Net Position - Detailed information about FCERS' fiduciary net position is available in the separately issued FCERS' financial report.

Recognition of Deferred Outflows and Inflows of Resources for FCERS

Gains and losses related to changes in total OPEB liability and fiduciary net position for FCERS are recognized in OPEB expense systematically over time.

One fifth of the net earnings is recognized in the first year when the gain or loss occurred for the difference between projected and actual earnings on OPEB plan investments. The other deferred amounts are amortized over the expected average remaining service lifetime. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 Years
All other amounts	Expected average remaining service lifetime (EARSL) (5 Years)

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For fiscal year ended June 30, 2021, the Airport recognized OPEB negative expense of \$1,360,520 for FCERS. As of June 30, 2021, the Airport reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 1,424,615	\$ -
Differences between expected and actual experience	-	1,116,228
Changes in assumptions	319,064	535,898
Differences between projected and actual earnings on OPEB plan investments	1,164,375	(9,993)
Total	\$ 2,908,054	\$ 1,642,133

As of June 30, 2021, \$1,424,615 reported as deferred outflows of resources related to contributions for FCERS subsequent to the June 30, 2020 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2022.

	Deferred Outflows (Inflows) of Resources
2022	\$ (255,402)
2023	(375,479)
2024	287,664
2025	184,523
	\$ (158,694)

For fiscal year ended June 30, 2020, the Airport recognized OPEB expense of \$620,764 for FCERS. As of June 30, 2020, the Airport reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 1,183,200	\$ -
Differences between expected and actual experience	-	398,910
Changes in Assumption	487,591	1,703,731
Differences between projected and actual earnings on OPEB plan investments	635,032	30,895
Total	\$ 2,305,823	\$ 2,133,536

As of June 30, 2020, \$1,183,200 reported as deferred outflows of resources related to contributions for FCERS, subsequent to the June 30, 2019 measurement date was recognized as a reduction of the net OPEB liability during the fiscal year ended June 30, 2021.

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

(8) Related Party Transactions

The City provides certain general support services to the Airport and charges a pro rata fee. The fees charged to the Airport for these services for the fiscal years ended June 30, 2021 and 2020, were \$5,395,977 and \$5,434,741, respectively. The City also charged the Airport fees of \$18,156,591 and \$17,221,192 for the fiscal years ended June 30, 2021 and 2020, respectively, for airport rescue and firefighting 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 \$1,281,258 and \$1,435,346 for the fiscal years ended June 30, 2021 and 2020, respectively. All fees charged by the City are included in the operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

(9) Risk Management

(a) Insurance Policies

The Airport is covered under the City's 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 coverage. The City does not carry earthquake insurance as it is not available at reasonable rates. A summary of the City's all-risk property insurance policy coverages applicable to the Airport is provided below for the policy periods of October 1, 2020 to October 1, 2021 and October 1, 2019 to October 1, 2020.

October 1, 2020 to October 1, 2021

Coverage	Limit Per Occurrence⁽¹⁾	Deductible Per Occurrence⁽²⁾
Property ⁽³⁾	\$1,000,000,000	\$100,000
Business Interruption	\$300,000,000	\$100,000
Flood Locations - Other Than Low Hazard ⁽⁴⁾	\$10,000,000	\$10,000,000
	Annual Aggregate	per Location

⁽¹⁾ Other sub-limits apply.

⁽²⁾ Other deductibles apply.

⁽³⁾ Covers "Certified Acts of Terrorism" under the Termination Risk Insurance Act of 2002, as amended.

⁽⁴⁾ Refers to flood locations as defined in the City's insurance policy.

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October 1, 2019 to October 1, 2020

Coverage	Limit Per Occurrence⁽¹⁾	Deductible Per Occurrence⁽²⁾
Property and Business Interruption ⁽³⁾	\$1,000,000,000	\$100,000
Flood Locations - Moderate and High Hazard Flood Exposed ⁽⁴⁾	\$10,000,000 Annual Aggregate	\$10,000,000 per Location

⁽¹⁾ Other sub-limits apply.

⁽²⁾ Other deductibles apply.

⁽³⁾ Covers "Certified Acts of Terrorism" under the Termination Risk Insurance Act of 2002, as amended.

⁽⁴⁾ Refers to flood locations as defined in the City's insurance policy.

To mitigate the impact of reduction to the base flood coverage from \$25,000,000 to \$10,000,000 as of October 1, 2019, the City has obtained an excess policy for locations in high and moderate low hazard flood zones. The excess policy provides \$15,000,000 in limits excess of the primary property policy on a 50/50 quota share basis, where the City and excess insurers share the financing of losses on a 50/50 basis.

The City has airport liability policies covering the Airport for the policy periods of October 1, 2020 to October 1, 2021 and October 1, 2019 to October 1, 2020 including Control Tower Operators, which provides a \$200 million combined single limit for bodily injury and property damage subject to a deductible of \$0 each occurrence and annual aggregate, with a sublimit of \$50 million each occurrence and in the annual aggregate for personal injury, and a limit of \$200 million each occurrence and in the annual aggregate for war liability. During the past five fiscal years, there have not been any instances that the amount of claim settlements exceeded the insurance coverage.

In addition, the airport liability policy also provides excess automobile liability coverage with a limit of \$5 million in excess of the underlying limit of \$1 million, which is provided by a separate automobile liability policy issued to provide coverage for the off-premises operation of Airport vehicles including shuttle bus fleets with a limit of \$1 million per occurrence, combined single limit for bodily injury and property damage, and a \$250,000 deductible. Physical damage coverage is obtained for the Airport Shuttle Bus Fleets; the Proterra electric buses are subject to a \$10,000 comprehensive and collision deductible, while the Penske Compressed Natural Gas (CNG) buses are subject to a \$5,000 comprehensive and collision deductible. Settled claims have not exceeded the City's commercial insurance coverage in any of the past five fiscal years.

For the policy periods of October 1, 2020 to October 1, 2021 and October 1, 2019 to October 1, 2020, the City purchased government fidelity/crime coverage for City losses arising from employee bad acts. Coverage is for financial or property losses and provides a \$5,000,000 per occurrence limit for losses resulting from employee theft, forgery or alteration, and inside the premises – theft of money and securities, and provides for a \$1,000,000 per occurrence limit for computer fraud, funds transfer fraud, money orders, and counterfeit money. All claims have a \$100,000 deductible per occurrence. For the policy period of October 22, 2020 to October 22, 2021, the City purchased liability insurance covering cyber risks to complement the City's cybersecurity efforts.

As part of general support services, the City charges the Airport for the cost of general liability, automobile liability, and property insurance coverage including the Airport's pro rata share of broker fees and taxes. The charges are expensed in the year incurred.

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(b) Workers' Compensation

The Airport participates in the City's self-insurance program for workers' compensation. Workers' compensation liabilities are accounted for on a separate contribution basis under which workers' compensation liabilities are recorded in the respective funds (enterprise or governmental) to which they relate. Estimated workers' compensation liabilities at year-end are determined using actuarial methods or other estimating techniques. The claims payments and liability include an estimate of allocated loss adjustment expenses and claims that have been incurred but not yet reported.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Accrued liability, beginning of fiscal year	\$ 2,680,353	\$ 2,534,343	\$ 3,021,230
Claims payments and adjustments	(156,507)	(110,154)	(140,975)
Provision for current year claims and changes in prior year estimates	<u>(49,079)</u>	<u>256,164</u>	<u>(345,912)</u>
Accrued liability, end of fiscal year	<u>\$ 2,474,767</u>	<u>\$ 2,680,353</u>	<u>\$ 2,534,343</u>

(c) Airport Owner Controlled Insurance Program

On March 15, 2007, the City obtained liability insurance through American International Group (AIG) for major components of the Airport's Terminal Area Improvement Project (TAIP), through an Owner Controlled Insurance Program (OCIP). The coverage for this program is 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 AIG in the amount of \$8.9 million. The claims loss reserve fund is available to AIG 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 AIG in FY 09 and was recorded as advances and deposits in the accompanying statements of net position. Since August 2013, as part of the annual loss reserve analysis by AIG, a total amount of \$2.9 million has been returned to the Airport. The balance of the TAIP reserve fund as of June 30, 2021 is \$1.2 million.

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Notes to the Financial Statements
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Activities relating to the TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2021, 2020, and 2019 were as follows:

	2021	2020	2019
Beginning balance	\$ 1,390,575	\$ 1,460,181	\$ 1,980,719
Interest earned	497	24,651	36,924
Reserve returned	(652,764)	(57,222)	(543,033)
Losses paid	(1,464)	(37,035)	(14,429)
Adverse Loss Development ⁽¹⁾	443,083	-	-
Ending balance	<u>\$ 1,179,927</u>	<u>\$ 1,390,575</u>	<u>\$ 1,460,181</u>

⁽¹⁾ Adverse Loss Development is a return of collateral resulting from a reduction of estimated losses. AIG holds a collateral based on estimated losses, where estimated losses are the incurred losses times a loss development factor.

The City was obligated to maintain the TAIP OCIP through final acceptance of the TAIP, pursuant to the terms of its design-build contract with Hensel Phelps. The TAIP Project has been completed and the policies expired on June 30, 2011. AIG will continue to hold the remaining funds in the claims loss reserve fund until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

(10) Commitments and Contingencies

(a) Lease Commitments

In September 2009, the Airport entered into a restated operating lease and maintenance agreement for ten CNG powered buses from December 2007 to May 2017. In May 2017, the restated agreement was amended to extend through May 2019, with a one year option to extend. In May 2020, the third amendment to the restated agreement was executed, extending the term for up to three additional one-year option terms. The second option, as amended and restated, reduced the number of CNG buses from ten to six as of August 2020 and to four as of November 2020. The third option was exercised in April 2021, extending the term through May 2022. Rental and maintenance expenses were \$358,945 and \$1,035,401 for fiscal years ended June 30, 2021 and 2020, respectively.

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

Fiscal Year Ending June 30,	Amount
2022	<u>\$ 251,592</u>
Total minimum lease payments	<u>\$ 251,592</u>

(b) Purchase Commitments and Capital Outlay Projections

As of June 30, 2021, the Airport was obligated for purchase commitments of approximately \$23.5 million primarily for the parking revenue control system upgrade, Aircraft Rescue and Fire Fighting (ARFF) Facility, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber approximately \$221.3 million on construction related capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from federal grants, CP proceeds, and other Airport revenues.

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(c) Master Plan

In 1997, after extensive planning and environmental studies, the San José City Council approved a comprehensive update to the previous 1980 Master Plan. In turn, the FAA in 1999 conditionally approved a new Airport Layout Plan (ALP) displaying the proposed Master Plan projects and unconditionally approved all the near-term projects. Both the Master Plan and the ALP, which identify facility improvements needed to accommodate forecast demand for commercial passenger service, air cargo, and general aviation, have been kept up to date through periodic amendments. Implementation of the Master Plan has been ongoing, and since 1997 has included major runway extensions, new taxiways, new terminal buildings, parking garages, roadways, and environmental mitigation programs.

The most recent amendment to the Master Plan was approved by the City Council in April 2020. This amendment extended the planning horizon year out to 2037, incorporated the airfield reconfiguration improvements recommended in an FAA-funded Runway Incursion Mitigation/Design Standards Analysis Study, modified the passenger, cargo, and general aviation facility improvement program to serve projected 2037 demand, and added a proposed business hotel to the passenger terminal complex. The Master Plan is currently intended to serve a projected 2037 demand of 22.5 million annual passengers and a total of 184,000 annual aircraft operations, and includes up to 42 airline terminal gates in 1.8 million square feet of passenger terminal facilities. The FAA conditionally approved a new ALP in June 2020 displaying the amended Master Plan development program.

Phase I of the Master Plan's Terminal Area Improvement Program (TAIP) was substantially completed in 2010. The Phase I improvements included nine new airline gates and approximately 366,000 square feet of terminal space in a new Terminal B; improvements to existing Terminal A, including new ticketing facilities, in-line baggage system, security checkpoint, and concession space; the demolition of the original Terminal C; design and construction of a Consolidated Rental Car Facility (ConRAC); and realignment and improvement of existing terminal roadways and parking facilities. The Phase I program also included preliminary design of certain TAIP Phase II projects. On the airfield, the build-out of the Airport's two commercial runways (12R/30L and 12L/30R) to 11,000 x 150 feet was completed in 2004, allowing the Airport to regularly serve takeoffs and landings by all domestic and most international commercial airline aircraft. Airfield project construction since 2004 has consisted of improvements to taxiways, aircraft parking aprons, and navigational aids to increase efficiency and compliance with current FAA airfield design standards.

TAIP Phase II projects (also referred to as the "New Terminal Project") will consist primarily of the design and construction of a Terminal C extending from the south end of existing Terminal B, including a total of fourteen (14) additional airline gates plus a new parking garage. Eight of those 14 future gates will replace existing interim gates bolted on to the south end of Terminal B in 2018 and 2019 to accommodate increases in airline flights and passenger volume. Pursuant to the terms of the current signatory Airline-Airport Lease and Operating Agreement and subject only to prior consultation with the Signatory Airlines, the City retains sole discretion to proceed to construct the New Terminal Project upon its determination that an increase in terminal capacity to be achieved by the New Terminal Project is needed. After completing its consultation with the Signatory Airlines, and having given due consideration to the information provided by the Signatory Airlines, the City may proceed with the New Terminal Project if the City determines, in its sole discretion, that the New Terminal Project continues to be needed and can be financed on reasonable terms.

The only Master Plan construction project underway at the time of this report is a new larger ARFF Facility, partially funded by the FAA, on an existing vacant site on the southwest side of the Airport (to replace the smaller, 1960s-era ARFF Facility located on the southeast side of the Airport). A landside fire station component was added to the project to meet the needs of the local community. In November of 2018, the City received a voter authorization of up to \$650 million of general obligation bonds for various

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public improvements (“Measure T”), intended to address some of the City’s most critical infrastructure needs. This portion of the project is funded by Measure T.

(d) FAA Audit of Use of Airport Revenue

Federal law requires all airport owners that receive federal assistance, such as the City, to use airport revenues for the capital or operating costs of the Airport. Generally, any use of airport revenues by an airport owner for costs that cannot properly be considered airport capital or operating costs is deemed to be improper revenue diversion. On June 2, 2010, auditors from the FAA provided the City with a draft of its audit findings alleging improper use of Airport revenues by the City in three areas of expenditure. On August 14, 2015, as the result of discussions and correspondence with City staff, the FAA notified the City that it has closed two of the three audit issues. The remaining audit issue is described below.

Cost Allocations - The City uses both direct and indirect methodologies to allocate costs to the Airport. The FAA auditors found the direct cost allocations to be acceptable. The FAA contends that the City’s indirect methodology does not correlate to the cost of services actually provided by the City to the Airport. Consequently, the auditors have recommended that the City re-allocate its costs charged to the Airport for FY 05-10 using an allocation methodology that reflects services actually provided to the Airport and repay any overcharges to the Airport, with interest. The City believes the allocation methodology used to allocate costs to the Airport is in compliance with federal cost allocation guidance. In an effort to resolve the issue, the City proposed and implemented a cap on the indirect cost allocations for certain City departments at 10%, which was the approximate rate charged to the Airport in pre-capital intensive years. This resulted in a total credit of \$5.6 million that would be applied equally to the Airport cost allocation plan over a seven year period beginning in FY 13 and ending in FY 19. The City has adjusted its indirect cost allocation methodology in an effort to address FAA concerns, including removal of debt expenditures from the relative expenditures base started in FY 16, continuing with the 10% cap, and monitoring a rolling five-year average of the relative expenditure base to smooth out expenditure fluctuations.

On August 14, 2015, the FAA accepted the corrective actions that the City has already taken, however, the FAA disagrees with the City’s inclusion of capital expenditures in the allocation of indirect costs.

On May 3, 2018, the City received a letter from the FAA in which the FAA requested a copy of the City’s FY 17 indirect cost allocation plan to substantiate indirect charges to the Airport in order to finalize the FAA’s financial compliance review. The City responded to the FAA on July 20, 2018 with copies of the requested information and clarified actions taken by the City to date to implement the FAA’s recommendations. The City cannot predict the final outcome of the audit.

(e) Potential Claim from FAA Regarding Reuse of Guadalupe Gardens

In early 2002, the City Council approved a Master Plan for Guadalupe Gardens, consisting of approximately 120 acres of mostly vacant, City-owned property located south of the Airport, much of which falls within an FAA-established safety zone. The City acquired the Guadalupe Gardens properties using FAA grants for airport approach protection and noise compatibility, and the FAA grant agreements consequently required FAA approval of any planned City-use of the properties acquired with grant proceeds. By letter dated August 9, 2002, addressed to the City’s Director of Aviation, the FAA San Francisco Airport District Office (ADO) approved the City’s Master Plan for reuse of Guadalupe Gardens for runway and approach protection, and the City finalized the Master Plan in reliance upon the FAA approval.

During discussions regarding proposals to develop certain portions of the Guadalupe Gardens, the FAA has taken the position that the City must dispose of any portion of the Guadalupe Gardens that is no longer needed for noise compatibility purposes. Citing provisions of federal law that require recipients of

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FAA grants for acquisition of land for noise compatibility purposes to dispose of any such acquired land when no longer needed by the airport owner for noise compatibility purposes, the FAA contends that the FAA ADO erred in its 2002 approval of the Guadalupe Gardens Master Plan and that the City is obligated to prepare an inventory of the Guadalupe Gardens to identify those parcels that were acquired by the City with noise compatibility grant proceeds. This inventory would then be used to prepare for FAA review and approval of a disposition plan for those parcels no longer needed by the City for noise compatibility. Proceeds of the sale of the parcels proportionate to the FAA grant share of the original purchase price would be required to be used for other approved noise compatibility projects at the Airport or returned to the FAA.

The City believes that it has viable defenses to any potential claim by the FAA with regard to Guadalupe Gardens. The FAA ADO's 2002 approval of the Guadalupe Gardens Master Plan constituted an official FAA approval of the City's reuse of the parcels acquired with proceeds from FAA noise compatibility grants, and the approval expressly provides that the entire Guadalupe Gardens is necessary for the continuing aeronautical purpose of runway and approach protection. Having received official FAA approval of its reuse of the parcels, the City believes it is under no obligation to take any further action to secure further FAA approval of its continuing use of the Guadalupe Gardens. However, the City cannot predict the final outcome of any such potential claim by the FAA.

(f) FAA Inquiry Regarding Encampments in Guadalupe Gardens

On February 1, 2021, the Director of Aviation received a letter from the FAA Western-Pacific Region Office of Airports regarding encampments of homeless persons in the Guadalupe Gardens. Guadalupe Gardens is approximately 120 acres of mostly vacant, City-owned property located south of the Airport, much of which falls within an FAA-established safety zone. The City acquired the Guadalupe Gardens properties using FAA grants for airport approach protection and noise compatibility, and these FAA grants include certain restrictions ("Grant Assurances") on the City's use of the Guadalupe Gardens properties.

In its letter, the FAA asserts that the presence of encampments of homeless persons in the Guadalupe Gardens is: (a) inconsistent with the Grant Assurances that were a condition of the FAA grants that the City received to acquire the Guadalupe Gardens properties; and (b) contrary to the City's Airport Noise Compatibility Plan (ANCP), both of which prohibit transient and permanent residential uses in the Guadalupe Gardens.

The City does not dispute that encampments of homeless persons in the Guadalupe Gardens is a use of the Guadalupe Gardens properties that is incompatible with the FAA Grant Assurances and with the City's ANCP. The FAA requested and the City provided a Corrective Action Plan to remove and relocate the encampments of homeless persons from the Guadalupe Gardens on March 11, 2021. Additional information can be found in Note 11 to the financial statements.

(g) Federal Aviation Administration Inquiry Regarding Chick-fil-A

The City Council approved a Chick-fil-A subconcession at the Airport on March 6, 2018, as part of its approval of the Fourth Amendment to the Host Food and Beverage Agreement. Chick-fil-A does not have a direct contractual relationship with the City. Rather, Host operates the Chick-fil-A concept at the Airport as a licensee. On April 9, 2019, the City Council approved an amendment to the Host Food and Beverage Agreement that extended the termination date from June 30, 2026 to June 30, 2028. However, the City Council limited the additional two-year extension term only to those Airport concession locations operated by Host that are open 7-days each week. All owned and licensed Chick-fil-A locations, including the Airport location, are closed on Sundays. The City Council approved this limitation after hearing concerns from community members that the owners of Chick-fil-A have made donations to and

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supported certain organizations that oppose equal rights and protections for the LGBTQ+ communities. The City Council also directed Airport staff to display the Rainbow and Transgender flags at the Airport terminals to show the City's support for those communities.

On January 22, 2020, the Director of Aviation received a Notice of Investigation from the FAA Office of Civil Rights. The FAA is investigating a complaint received by the FAA that alleges discrimination against Chick-fil-A, "because of the expression of religious beliefs by the owner of the company." The complainant, whose identity has been withheld by the FAA, contends that the City has discriminated against Chick-fil-A for its "perceived religious and ideological convictions" and that this "discrimination" is in violation of federal law. The complainant is requesting that the FAA withhold further grant funding to the City pending its investigation.

The City responded to the FAA Notice of Investigation by letter dated May 21, 2020. In addition to responding to specific questions from the FAA regarding this matter, the City requested the FAA to find that there is no basis for the complaint and to close its investigation. The City believes that it has viable defenses to any potential enforcement action by the FAA regarding this complaint. Additional information can be found in Note 11 to the financial statements.

(h) Workers' Compensation Program

The City is self-insured for workers' compensation, with all claims administered by third party administrator Intercare Holdings Services, Inc. (Intercare). Every year, the City reviews a five-year forecast for worker's compensation expenditures based on the prior year payout. Based on this review, the City's budget for FY 21 is \$21.0 million and the budget for FY 22 is \$21.2 million.

The City entered a three-year agreement with Intercare beginning July 1, 2019, to provide comprehensive workers' compensation services including claims administration services, bill review, utilization review, medical case management, and other ancillary services at a total compensation not to exceed \$16.0 million based on an estimated caseload of 2,330 to 2,850 claims. As of June 30, 2021, the open claims inventory handled by Intercare was 2,489.

As of June 30, 2021, open claims data for Intercare were at 2,489. The total number of open claims has been reduced (by approximately 1%) since June 30, 2020 when the open claim inventory was 2,508.

The City is required to submit to the State a Public Annual Report. The Public Annual Report completed jointly with Intercare describes: (1) claims paid in indemnity and medical, (2) future liability on open claims, and (3) a list of all open indemnity claims. The annual report for FY 21 was submitted by the September 30, 2021 deadline.

(i) Litigation

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.

(j) Uncertainties Related to the COVID-19 Pandemic

The COVID-19 pandemic has caused significant disruptions to domestic and international air travel, including passenger, cargo, and general aviation operations. The COVID-19 pandemic is ongoing, and its dynamic nature leads to uncertainties, including (i) the geographic spread of the virus; (ii) the severity of the disease; (iii) the duration of the outbreak; (iv) actions that may be taken by governmental authorities to contain or mitigate the outbreak; (v) the development of medical therapeutics and/or vaccinations; (vi) travel restrictions and the demand for air travel, including at the Airport; (vii) the impact of the outbreak on the local and global economies, on the airlines and concessionaires serving the Airport, or on the

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airline or travel industry generally; (viii) whether and to what extent the City may provide further deferrals, forbearances, adjustments, or other changes to the City's arrangements with airlines, tenants, and concessionaires; and (ix) the impact of the outbreak and actions taken in response to the outbreak on Airport revenues, expenses, and financial condition.

In March 2020, the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law to provide relief to eligible airports in the United States that were affected by the COVID-19 pandemic. The Airport was awarded \$65.6 million in CARES Act funds in May 2020. The funds are available to the Airport on a reimbursable basis for up to four years and will be used to pay for operating expenses that may no longer be covered by revenues. In addition, the CARES Act provided \$1.2 million in matching funds to increase the federal share of federal FY 20 Airport Improvement Program (AIP) grants to 100%, eliminating the requirement for the Airport to provide a percentage of funds. The Airport did not request reimbursement for any CARES Act funding during FY 20, however, \$53.5 million was reimbursed in FY 21.

As part of the Coronavirus Response and Relief Supplemental Appropriation Act (CRRSA Act) signed into law on December 27, 2020, the FAA established the Airport Coronavirus Response Grant Program (ACRGP) to distribute funds to be awarded as economic relief to eligible U.S. airports and eligible concessions at those airports to prevent, prepare for, and respond to the COVID-19 pandemic. The Airport was awarded \$13.4 million in CRRSA Act funds in March 2021, available to the Airport on a reimbursable basis for up to four years and will be used to pay for operating expenses. An additional \$1.6 million in CRRSA Act funding was awarded to provide relief from rent and minimum annual guarantees to on-airport car rental and in-terminal airport concessions. The Airport received reimbursement for the full \$1.6 million in concession relief in FY 21 and has budgeted to use the remaining CRRSA Act funds in FY 22.

As part of the American Rescue Plan Act (ARP Act) signed into law on March 11, 2021, the FAA established the Airport Rescue Grants to distribute funds to be awarded as economic assistance to eligible U.S. airports and eligible concessions at those airports to prevent, prepare for, and respond to the COVID-19 pandemic. It was announced that the Airport will be awarded \$48.9 million in ARP Act funds, available to the Airport on a reimbursable basis for up to four years and will be used to pay for operating expenses. An additional \$6.6 million in ARP Act funds will be awarded to provide relief from rent and minimum annual guarantees to in-terminal airport concessions. In addition, the ARP Act provided \$1.6 million in matching funds to increase the federal share of federal FY 21 AIP grants to 100%, eliminating the requirement for the Airport to provide a percentage of funds. The Airport plans to use \$24.7 million in ARP Act funding in FY 22, however the actual amount may differ.

The Airport continues to monitor the impacts of the COVID-19 pandemic on the operations of the Airport, including factors such as travel restrictions, passenger levels, liquidity, and governmental financial aid.

(11) Subsequent Events

On July 1, 2021, the Airport opened the Economy Lot 1 parking garage. It added 2,524 available parking spaces, which nearly doubled the spaces available to the public.

On July 28, 2021, the FAA requested and the City provided a revised Corrective Action Plan to remove and relocate encampments of homeless persons from the Guadalupe Gardens, with a schedule for incremental relocation of the encampment inhabitants to alternative sites. The FAA accepted the revised Corrective Action Plan. However, the City cannot predict the actual timing of the encampment's relocation or the final resolution of this matter with the FAA.

On July 28, 2021, the Director of Aviation met with the FAA to further discuss the issues related to the

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FAA's investigation of a complaint that alleges discrimination against Chick-fil-A. The City cannot predict the outcome of any potential enforcement action by the FAA.

On August 3, 2021, Fitch upgraded the ARBs outlook from negative to stable while the rating remained at "A".

On August 19, 2021, the City extended the BofA Reimbursement Agreement through September 10, 2024. BofA extended the issuance of its irrevocable transferable LOC in the stated amount of \$81.7 million (to cover principal of \$75 million and interest on the Subordinated CP Notes accruing calculated at a rate of 12% for 270 days based on a 365 day year) that was scheduled to expire on September 10, 2021, unless sooner terminated or extended pursuant to its terms. The facility fee rate in effect changed from 0.35% to 0.40%.

On August 31, 2021, the City conducted a Tax Equity and Fiscal Responsibility Act (TEFRA) hearing with respect to the proposed issuance by the City of one or more issues of tax-exempt Series B subordinated CP notes (Series B Notes) in an aggregate principal amount not to exceed \$600,000,000 pursuant to a plan of finance in order to provide proceeds to pay or reimburse all or a portion of the costs of acquisition, construction, equipping, financing, reconstruction, development, and modification of airport terminal and ancillary facilities that are included in or are consistent with the Airport Master Plan for the Airport. The City Council adopted Resolution No. 80201 approving, for purposes of Section 147(f) of the Internal Revenue Code of 1986, the issuance of Series B Notes, in an aggregate principal amount together with certain other commercial paper notes not to exceed \$600,000,000 to be issued from time to time, to finance and refinance the facilities at the Airport.

The City received an Information Document Request from the IRS dated September 3, 2021 regarding the Airport Subordinated CP Notes, Series A-2 (Non-AMT/Private Activity). The outstanding notes were defeased in October 2018, and the City submitted documentation on October 21, 2021 requesting the IRS close out the inquiry.

On September 14, 2021, the City approved an amendment for All Nippon Airways Co., LTD. (ANA) to terminate their Signatory Airline-Airport Lease and Operating Agreement, effective March 31, 2021. ANA will pay the Airport \$458,197, which represents all rents, fees and charges owed by ANA, calculated as though ANA had been operating as a Non-Signatory carrier with the 25% premium from July 1, 2019 through March 31, 2021. A new Airline-Airport Non-Signatory Operating Agreement with ANA will be executed retroactive to April 1, 2021. If ANA resumes service at the Airport under the new Airline-Airport Non-Signatory Operating Agreement prior to July 1, 2022, the City will refund to ANA \$241,131 of the settlement amount paid to the City.

On September 30, 2021, Frontier Airlines discontinued service from the Airport. The passengers that took flights on Frontier Airlines represented 0.7% of the total passengers that traveled through the Airport during FY 21. The Airport does not believe that the departure of this carrier will have a material impact on the operations or financial results of the Airport.

Effective October 1, 2021, the Airport obtained a new airport liability policy that enhanced coverage to increase the excess auto liability limits from \$5 million to \$25 million.

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**(A Department of the City of San José)
Required Supplementary Information (Unaudited)
Last 10 Fiscal Years
(dollars in thousands)**

Schedule of the Proportionate Share of the Net Pension Liability

	2021	2020	2019	2018	2017
Proportion of the collective net pension liability	5.9 %	5.4 %	5.3 %	3.4 %	3.4 %
Proportionate share of the collective net pension liability	\$ 113,363	\$ 112,615	\$ 105,487	\$ 108,167	\$ 102,069
Covered payroll	\$ 17,270	\$ 16,190	\$ 15,335	\$ 13,694	\$ 13,163
Proportionate share of the collective net pension liability as percentage of covered payroll	656.4 %	695.6 %	687.9 %	789.9 %	775.4 %
Plan fiduciary net position as a percentage of the total pension liability	64.2 %	63.9 %	65.0 %	63.3 %	63.4 %

Schedule of Contributions

	2021	2020	2019	2018	2017
Actuarially determined contribution	\$ 10,596	\$ 10,634	\$ 9,989	\$ 8,814	\$ 8,134
Contributions in relation to the actuarially determined contributions	\$ 10,596	\$ 10,634	\$ 9,989	\$ 8,814	\$ 8,134
Covered payroll	\$ 17,857	\$ 17,270	\$ 16,190	\$ 15,335	\$ 13,694
Contributions as a percentage of covered payroll	59.3 %	61.6 %	61.7 %	57.5 %	59.4 %

Note to Schedules

The Norman Y. Mineta San José Airport (Airport) as a cost-sharing department of the City of San José (City) is required to recognize a liability for its proportionate share of the City's collective net pension liability. The Airport recognizes pension expense and reports deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

The schedules present information to illustrate changes in the Airport's proportionate share of the net pension liability and contributions over a 10-year period when the information is available. However, until a 10-year trend is compiled, governments should present information for those years for which information is available.

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**(A Department of the City of San José)
Required Supplementary Information (Unaudited)
Last 10 Fiscal Years
(dollars in thousands)**

Schedule of the Proportionate Share of the Net Pension Liability

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the collective net pension liability	3.6 %	3.8 %	3.7 %
Proportionate share of the collective net pension liability	\$ 81,313	\$ 64,650	\$ 74,527
Covered payroll	\$ 12,903	\$ 12,532	\$ 12,932
Proportionate share of the collective net pension liability as percentage of covered payroll	630.2 %	515.9 %	576.3 %
Plan fiduciary net position as a percentage of the total pension liability	68.9 %	74.0 %	69.0 %

Schedule of Contributions

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 7,374	\$ 7,103	\$ 6,654
Contributions in relation to the actuarially determined contributions	\$ 7,374	\$ 7,103	\$ 6,654
Covered payroll	\$ 13,163	\$ 12,903	\$ 12,532
Contributions as a percentage of covered payroll	56.0 %	55.0 %	53.1 %

Note to Schedules

The Norman Y. Mineta San José Airport (Airport) as a cost-sharing department of the City of San José (City) is required to recognize a liability for its proportionate share of the City's collective net pension liability. The Airport recognizes pension expense and reports deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

The schedules present information to illustrate changes in the Airport's proportionate share of the net pension liability and contributions over a 10-year period when the information is available. However, until a 10-year trend is compiled, governments should present information for those years for which information is available.

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Required Supplementary Information (Unaudited)
Last 10 Fiscal Years
(dollars in thousands)**

Schedule of the Proportionate Share of the Net OPEB Liability

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the collective net OPEB liability	5.4 %	5.4 %	5.4 %	5.5 %
Proportionate share of the collective net OPEB liability	\$ 18,650	\$ 20,342	\$ 19,983	\$ 28,086
Covered payroll	\$ 17,270	\$ 16,190	\$ 15,335	\$ 13,694
Proportionate share of the collective net OPEB liability as percentage of covered payroll	108.0 %	125.6 %	130.3 %	205.1 %
Plan fiduciary net position as a percentage of the total OPEB liability	47.5 %	44.6 %	43.8 %	34.0 %

Schedule of Contributions

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 1,425	\$ 1,183	\$ 1,872	\$ 1,754
Contributions in relation to the actuarially determined contributions	\$ 1,425	\$ 1,183	\$ 1,872	\$ 1,754
Covered payroll	\$ 17,857	\$ 17,270	\$ 16,190	\$ 15,335
Contributions as a percentage of covered payroll	8.0 %	6.9 %	11.6 %	11.4 %

Note to Schedules

The Airport as a cost-sharing department of the City is required to recognize a liability for its proportionate share of the City's collective net Other Postemployment Benefits (OPEB) liability. The Airport recognizes OPEB expense and reports deferred outflows of resources and deferred inflows of resources related to OPEB for its proportionate shares of collective OPEB expense and collective deferred outflows of resources and deferred inflows of resources related to OPEB.

The schedules present information to illustrate changes in the Airport's proportionate share of the net OPEB liability and contributions over a 10-year period when the information is available. However, until a 10-year trend is compiled, governments should present information for those years for which information is available.

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SJC was the first California airport to earn global accreditation status for having the highest levels of cleanliness and safety. In the midst of the COVID-19 pandemic, SJC achieved the distinction according to new recognition from the Global Biorisk Advisory Council (GBAC) and the GBAC STAR™ Facility Accreditation Program. Contributing to the accreditation is the installation of innovative ultraviolet light (UVC) devices installed to disinfect escalator handrail surfaces, killing up to 99.9% of bacteria and viruses, and restoring a freshly sanitized surface for each person to grasp.

STATISTICAL



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

Statistical Section
June 30, 2021

This part of the annual comprehensive financial report for the 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.

Contents	Schedule
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Financial Trends

This schedule presents trend information to help the reader understand the Airport's financial performance and condition.

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Revenue Capacity

These schedules contain information regarding the Airport's cost per enplaned passenger, gross concession revenue, and airline rates and charges.

<i>Airline Cost Per Enplaned Passenger</i>	<i>B</i>
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These schedules illustrate demographic and economic indicators to provide a context for understanding and assessing the Airport's financial activities.

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

Statistical Section
June 30, 2021

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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 POSITION, AND NET POSITION
LAST TEN FISCAL YEARS
(in \$ 000's)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015⁽²⁾</u>	<u>2016</u>
Operating revenues:					
Airline rates and charges:					
Landing fees	\$ 11,414	\$ 12,888	\$ 11,973	\$ 11,856	\$ 13,095
Terminal rental	39,864	38,256	38,130	34,372	40,800
Total airline rates and charges	<u>51,278</u>	<u>51,144</u>	<u>50,103</u>	<u>46,228</u>	<u>53,895</u>
Terminal buildings/concessions	15,770	15,102	15,423	16,271	17,576
Airfield	2,783	3,038	3,553	3,993	4,891
Parking and roadway	51,023	46,700	47,268	49,049	53,704
Fuel handling fees	1,690	2,361	3,170	3,257	3,226
General aviation/other	4,431	4,770	6,193	7,183	8,661
Customer facility charges ⁽¹⁾	-	-	-	-	-
Total operating revenues	<u>126,975</u>	<u>123,115</u>	<u>125,710</u>	<u>125,981</u>	<u>141,953</u>
Operating expenses:					
Terminal buildings/concessions	23,659	23,303	24,233	23,833	27,724
Airfield	9,069	8,707	9,570	9,891	12,767
Parking and roadway	25,514	16,631	16,343	17,170	16,684
Fuel handling costs	556	1,065	11	28	(565)
General aviation	1,676	1,605	1,609	2,006	1,963
General and administrative	18,328	18,763	19,877	18,208	19,334
Depreciation	51,520	54,353	54,027	53,437	51,864
Total operating expenses	<u>130,322</u>	<u>124,427</u>	<u>125,670</u>	<u>124,573</u>	<u>129,771</u>
Operating income (loss)	<u>(3,347)</u>	<u>(1,312)</u>	<u>40</u>	<u>1,408</u>	<u>12,182</u>
Nonoperating revenues (expenses):					
Passenger facility charges	16,787	17,294	18,161	19,291	20,603
Customer facility charges for debt service ⁽¹⁾	10,137	13,385	15,493	18,690	19,888
Participating airline net revenue sharing	-	-	-	-	-
Investment income	2,217	(257)	1,571	1,222	2,444
Interest expense	(70,009)	(75,058)	(73,836)	(72,237)	(71,245)
Bond issuance costs	(4,141)	(196)	-	(976)	-
Operating grants	670	565	605	610	497
Loss on capital assets disposal	(9)	-	(481)	-	-
CARES Act Airport Grants	-	-	-	-	-
CRRSA Act Airport Grants	-	-	-	-	-
Other, net	698	451	614	806	1,902
Total nonoperating revenues (expenses), net	<u>(43,650)</u>	<u>(43,816)</u>	<u>(37,873)</u>	<u>(32,594)</u>	<u>(25,911)</u>
Income (loss) before capital contributions	<u>(46,997)</u>	<u>(45,127)</u>	<u>(37,833)</u>	<u>(31,186)</u>	<u>(13,729)</u>
Capital contributions	<u>7,399</u>	<u>6,954</u>	<u>4,843</u>	<u>937</u>	<u>5,760</u>
Special item - rate stabilization fund and ten-year lookback distribution	-	-	-	-	-
Change in net position	<u>\$ (39,598)</u>	<u>\$ (38,173)</u>	<u>\$ (32,990)</u>	<u>\$ (30,249)</u>	<u>\$ (7,969)</u>
Net position at year-end					
Net investment in capital assets	\$ 242,916	\$ 209,381	\$ 169,870	\$ 126,350	\$ 95,800
Restricted	69,350	65,408	67,848	56,752	61,308
Unrestricted	<u>58,811</u>	<u>58,114</u>	<u>62,195</u>	<u>18,689</u>	<u>36,714</u>
Net position at year-end ⁽²⁾⁽³⁾	<u>\$ 371,077</u>	<u>\$ 332,903</u>	<u>\$ 299,913</u>	<u>\$ 201,791</u>	<u>\$ 193,822</u>

⁽¹⁾ Customer facility charges (CFC) revenues are used to pay for capital costs and related debt service associated with the consolidated rental car facility (ConRAC) and certain operating expenses related to the transportation of rental car customers. CFC revenues used to pay debt service associated with the ConRAC are classified as nonoperating revenues. If CFC revenues exceed debt service for the fiscal year, then the excess may be used to pay for transportation costs and classified as operating income.

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

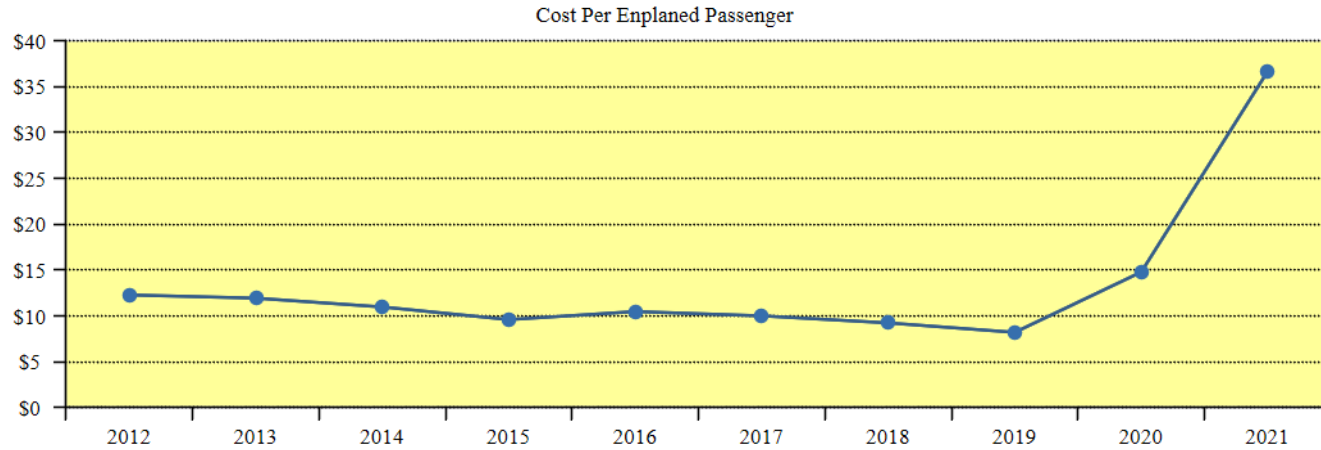
	<u>2017</u>	<u>2018⁽³⁾</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Operating revenues:					
Airline rates and charges:					
Landing fees	\$ 18,370	\$ 19,297	\$ 18,984	\$ 21,682	\$ 16,933
Terminal rental	39,778	43,476	42,815	62,690	62,005
Total airline rates and charges	<u>58,148</u>	<u>62,773</u>	<u>61,799</u>	<u>84,372</u>	<u>78,938</u>
Terminal buildings/concessions	20,207	22,375	23,717	20,623	11,120
Airfield	7,307	8,027	8,340	6,535	3,454
Parking and roadway	52,514	59,715	64,507	50,973	25,244
Fuel handling fees	3,080	3,078	2,930	2,289	1,722
General aviation/other	9,748	10,096	10,773	10,499	10,684
Customer facility charges ⁽¹⁾	1,931	2,518	2,762	-	-
Total operating revenues	<u>152,935</u>	<u>168,582</u>	<u>174,828</u>	<u>175,291</u>	<u>131,162</u>
Operating expenses:					
Terminal buildings/concessions	31,115	34,922	37,372	41,025	38,346
Airfield	16,776	20,116	20,062	21,912	22,096
Parking and roadway	16,046	16,283	15,837	16,761	12,321
Fuel handling costs	16	59	69	27	63
General aviation	1,383	2,438	2,383	1,717	962
General and administrative	23,057	25,118	25,042	24,159	21,231
Depreciation	46,449	47,486	49,026	55,383	53,134
Total operating expenses	<u>134,842</u>	<u>146,422</u>	<u>149,791</u>	<u>160,984</u>	<u>148,153</u>
Operating income (loss)	<u>18,093</u>	<u>22,160</u>	<u>25,037</u>	<u>14,307</u>	<u>(16,991)</u>
Nonoperating revenues (expenses):					
Passenger facility charges	23,097	27,048	29,735	20,456	9,378
Customer facility charges for debt service ⁽¹⁾	18,026	18,364	18,704	15,394	6,539
Participating airline net revenue sharing	-	-	(13,944)	(11,910)	(1,325)
Investment income	1,591	2,842	9,893	11,265	1,236
Interest expense	(67,440)	(61,305)	(60,381)	(59,107)	(53,649)
Bond issuance costs	(2,492)	50	-	-	(2,239)
Operating grants	1,169	809	720	486	619
Loss on capital assets disposal	-	-	(271)	-	(13)
CARES Act Airport Grants	-	-	-	-	53,538
CRRSA Act Airport Grants	-	-	-	-	1,647
Other, net	603	1,214	1,045	913	1,846
Total nonoperating revenues (expenses), net	<u>(25,446)</u>	<u>(10,978)</u>	<u>(14,499)</u>	<u>(22,503)</u>	<u>17,577</u>
Income (loss) before capital contributions	<u>(7,353)</u>	<u>11,182</u>	<u>10,538</u>	<u>(8,196)</u>	<u>586</u>
Capital contributions	<u>10,120</u>	<u>9,287</u>	<u>18,747</u>	<u>3,076</u>	<u>12,023</u>
Special item - rate stabilization fund and ten-year lookback distribution	<u>-</u>	<u>-</u>	<u>(16,266)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>\$ 2,767</u>	<u>\$ 20,469</u>	<u>\$ 13,019</u>	<u>\$ (5,120)</u>	<u>\$ 12,609</u>
Net position at year-end					
Net investment in capital assets	\$ 82,801	\$ 100,587	\$ 126,419	\$ 139,388	\$ 171,356
Restricted	64,907	62,014	61,897	44,795	27,539
Unrestricted	<u>48,881</u>	<u>41,921</u>	<u>29,225</u>	<u>28,238</u>	<u>26,135</u>
Net position at year-end ⁽²⁾⁽³⁾	<u>\$ 196,589</u>	<u>\$ 204,522</u>	<u>\$ 217,541</u>	<u>\$ 212,421</u>	<u>\$ 225,030</u>

(2) As of July 1, 2014, the Airport restated the beginning net position in the amount of \$67,874 due to the implementation of Government Accounting Standards Board (GASB) Statements Nos. 68 and 71. The Airport did not restate beginning net position for fiscal years (FY) prior to FY 14-15, because amounts were not available.

(3) As of July 1, 2017, the Airport restated the beginning net position in the amount of \$12,537 due to the implementation of GASB Statement No. 75. The Airport did not restate beginning net position for fiscal years prior to FY 17-18 because amounts were not available.

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

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



	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Airline revenues:										
Terminal rental	\$ 39,864	\$ 38,256	\$ 38,130	\$ 34,372	\$ 40,800	\$ 39,778	\$ 43,477	\$ 42,815	\$ 62,690	\$ 62,005
Landing fees (passenger carriers)	<u>10,838</u>	<u>12,298</u>	<u>11,451</u>	<u>11,361</u>	<u>12,528</u>	<u>17,697</u>	<u>18,690</u>	<u>18,453</u>	<u>21,012</u>	<u>15,977</u>
Total	<u>50,702</u>	<u>50,554</u>	<u>49,581</u>	<u>45,733</u>	<u>53,328</u>	<u>57,475</u>	<u>62,167</u>	<u>61,268</u>	<u>83,702</u>	<u>77,982</u>
Enplaned passengers	4,125	4,235	4,517	4,765	5,088	5,740	6,725	7,462	5,660	2,126
Unadjusted cost per enplaned passenger (not in 000's)	<u>\$ 12.29</u>	<u>\$ 11.94</u>	<u>\$ 10.98</u>	<u>\$ 9.60</u>	<u>\$ 10.48</u>	<u>\$ 10.01</u>	<u>\$ 9.24</u>	<u>\$ 8.21</u>	<u>\$ 14.79</u>	<u>\$ 36.68</u>

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

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

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Gross concession revenue ⁽¹⁾										
Public parking ⁽²⁾	\$ 22,943	\$ 24,814	\$ 26,759	\$ 27,845	\$ 29,392	\$ 28,635	\$ 31,053	\$ 32,330	\$ 24,141	\$ 9,590
Rental cars	126,333	129,643	142,439	149,384	157,857	162,142	166,291	173,631	129,609	69,030
Food and beverage	22,280	24,216	27,350	30,078	32,870	39,060	45,024	50,588	35,529	9,534
Advertising	1,873	2,355	2,506	2,245	2,368	3,550	4,525	5,022	6,591	7,222
Gift shop & retail	11,983	12,668	13,475	14,130	15,742	17,636	19,739	21,243	16,526	7,736
In-flight kitchen ⁽³⁾	8,920	10,680	13,114	15,904	22,893	40,790	39,559	29,203	17,578	4,529
Total gross concession revenue	\$ 194,332	\$ 204,376	\$ 225,643	\$ 239,586	\$ 261,122	\$ 291,813	\$ 306,191	\$ 312,017	\$ 229,974	\$ 107,641
Enplaned passengers	4,125	4,235	4,517	4,765	5,088	5,740	6,725	7,462	5,660	2,126
Gross concession revenue per enplaned passenger (not in 000's)	<u>\$ 47.11</u>	<u>\$ 48.26</u>	<u>\$ 49.95</u>	<u>\$ 50.28</u>	<u>\$ 51.32</u>	<u>\$ 50.84</u>	<u>\$ 45.53</u>	<u>\$ 41.81</u>	<u>\$ 40.63</u>	<u>\$ 50.63</u>

⁽¹⁾ Gross revenues of major concessionaires only.

⁽²⁾ Public parking revenues is net of credit card fees and refunds.

⁽³⁾ Includes on-field and off-field sales.

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
LAST TEN FISCAL YEARS

	2012	2013	2014	2015	2016	Unit
Landing fees:	\$ 2.14	\$ 2.38	\$ 2.22	\$ 2.09	\$ 2.13	per 1,000 lbs. MGLW ⁽³⁾
Terminal rental rates:						
<u>Group A</u>						
Ticket counter and queuing, skycap/curbside check-in						
Preferential	319,205	296,954	293,680	235,177	287,230	per counter
Common	97	90	98	94	88	per hour
Airline ticket office, Club/VIP	184.19	186.55	192.73	178.08	195.75	per sq. ft.
Holdroom (gate)						
Preferential	872,527	886,424	915,350	775,820	883,722	per gate
Common	598	607	591	470	552	per turn
<u>Group B</u>						
Baggage claim ⁽¹⁾	147.35	149.24	154.19	142.47	156.60	per sq. ft.
<u>Group C</u>						
Baggage make-up ⁽²⁾ /Operations space	92.09	93.28	96.37	89.04	97.87	per sq. ft.

⁽¹⁾ The baggage claim requirement is allocated among the airlines using the 20/80 formula. 20% of the revenue requirement is divided equally among the domestic airlines. The remaining 80% of the revenue requirement is distributed among the airlines based on the number of domestic deplaned passengers.

⁽²⁾ The baggage make-up requirement is allocated among the airlines using the 20/80 formula. 20% of the revenue requirement is divided equally among all airlines. The remaining 80% of the revenue requirement is distributed among the airlines based on the number of all enplaned passengers.

⁽³⁾ 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)
SCHEDULED AIRLINE RATES AND CHARGES
LAST TEN FISCAL YEARS**

	2017	2018	2019	2020	2021 ⁽⁴⁾	Unit
Landing fees:	\$ 2.70	\$ 2.45	\$ 2.18	\$ 2.87	\$ 4.30	per 1,000 lbs. MGLW ⁽³⁾
Terminal rental rates:						
<u>Group A</u>						
Ticket counter and queuing, skycap/curbside check-in						
Preferential	273,042	255,345	233,439	251,675	283,872	per counter
Common	54	73	78	131	149	per hour
Airline ticket office, Club/VIP	186.08	206.25	218.88	316.71	283.68	per sq. ft.
Holdroom (gate)						
Preferential	763,701	632,610	720,993	963,503	967,624	per gate
Common	521	633	492	660	663	per turn
<u>Group B</u>						
Baggage claim ⁽¹⁾	148.86	165.00	175.11	253.37	226.95	per sq. ft.
<u>Group C</u>						
Baggage make-up ⁽²⁾ /Operations space	93.04	103.12	109.44	158.36	141.84	per sq. ft.

⁽¹⁾ The baggage claim requirement is allocated among the airlines using the 20/80 formula. 20% of the revenue requirement is divided equally among the domestic airlines. The remaining 80% of the revenue requirement is distributed among the airlines based on the number of domestic deplaned passengers.

⁽²⁾ The baggage make-up requirement is allocated among the airlines using the 20/80 formula. 20% of the revenue requirement is divided equally among all airlines. The remaining 80% of the revenue requirement is distributed among the airlines based on the number of all enplaned passengers.

⁽³⁾ MGLW - Maximum Gross Landing Weight

⁽⁴⁾ The landing fees and airline terminal rates were increased by 15% effective February 1, 2021

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)
OUTSTANDING DEBT AND DEBT SERVICE⁽¹⁾
LAST TEN FISCAL YEARS
(\$ and Passengers in 000's)

	2012	2013	2014	2015 ⁽⁶⁾	2016 ⁽⁶⁾
Outstanding debt per enplaned passenger					
Outstanding debt by type:					
Revenue bonds	\$ 1,415,552	\$ 1,398,332	\$ 1,376,038	\$ 1,349,265	\$ 1,325,579
Commercial paper notes	47,937	45,380	41,159	37,912	34,672
Total outstanding debt	<u>1,463,489</u>	<u>1,443,712</u>	<u>1,417,197</u>	<u>1,387,177</u>	<u>1,360,251</u>
Enplaned passengers	<u>4,125</u>	<u>4,235</u>	<u>4,517</u>	<u>4,765</u>	<u>5,088</u>
Total outstanding debt per enplaned passenger (not in 000's)	<u>\$ 355</u>	<u>\$ 341</u>	<u>\$ 314</u>	<u>\$ 291</u>	<u>\$ 267</u>
Debt service					
Revenue bonds ⁽²⁾	\$ 80,725	\$ 86,325	\$ 95,068	\$ 96,083	\$ 95,452
Commercial paper notes ⁽³⁾⁽⁴⁾	6,818	4,043	2,859	2,213	2,116
Total debt service	<u>87,543</u>	<u>90,368</u>	<u>97,927</u>	<u>98,296</u>	<u>97,568</u>
Less: Funds available for debt service					
Passenger facility charges	21,336	22,100	25,747	25,202	24,829
Customer facility charges ⁽⁵⁾⁽⁶⁾	10,137	13,385	15,494	17,412	17,701
Unspent bond proceeds ⁽⁵⁾⁽⁸⁾	1,713	5,802	11,082	11,082	11,083
Series 2007 Bond Reserve Fund ⁽⁷⁾	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net debt service	<u>\$ 54,357</u>	<u>\$ 49,081</u>	<u>\$ 45,604</u>	<u>\$ 44,600</u>	<u>\$ 43,955</u>
Net debt service per enplaned passenger (not in 000's)	<u>\$ 13.18</u>	<u>\$ 11.59</u>	<u>\$ 10.10</u>	<u>\$ 9.36</u>	<u>\$ 8.64</u>

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

⁽²⁾ Under the Master Trust Agreement (MTA) dated July 1, 2001, and as amended and supplemented to date (Master Trust), "Bond Debt Service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Also, under the MTA, the City may designate Passenger Facility Charges (PFC) as "Available PFC" for payment of eligible debt service. The amount of Debt Service is reduced by the amount of Available PFC designated by the City and deposited with the Trustee to pay Bond Debt Service.

⁽³⁾ 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.

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)
OUTSTANDING DEBT AND DEBT SERVICE⁽¹⁾
LAST TEN FISCAL YEARS
(\$ and Passengers in 000's)

	2017	2018	2019	2020	2021
Outstanding debt per enplaned passenger					
Outstanding debt by type:					
Revenue bonds	\$ 1,310,333	\$ 1,261,909	\$ 1,229,409	\$ 1,194,784	\$ 1,146,872
Commercial paper notes	25,461	7,509	52,216	51,930	51,930
Total outstanding debt	<u>1,335,794</u>	<u>1,269,418</u>	<u>1,281,625</u>	<u>1,246,714</u>	<u>1,198,802</u>
Enplaned passengers	<u>5,740</u>	<u>6,725</u>	<u>7,462</u>	<u>5,660</u>	<u>2,126</u>
Total outstanding debt per enplaned passenger (not in 000's)	<u>\$ 233</u>	<u>\$ 189</u>	<u>\$ 172</u>	<u>\$ 220</u>	<u>\$ 564</u>
Debt service					
Revenue bonds ⁽²⁾	\$ 95,660	\$ 103,766	\$ 92,501	\$ 93,258	\$ 93,907
Commercial paper notes ^{(3) (4)}	1,728	686	317	593	586
Total debt service	<u>97,388</u>	<u>104,452</u>	<u>92,818</u>	<u>93,851</u>	<u>94,493</u>
Less: Funds available for debt service					
Passenger facility charges	24,789	24,792	27,026	27,479	14,339
Customer facility charges ^{(5) (6)}	18,026	18,364	18,704	19,057	11,142
Unspent bond proceeds ^{(5) (8)}	4,295	-	-	-	23
Series 2007 Bond Reserve Fund ⁽⁷⁾	-	7,411	-	-	-
Net debt service	<u>\$ 50,278</u>	<u>\$ 53,885</u>	<u>\$ 47,088</u>	<u>\$ 47,315</u>	<u>\$ 68,989</u>
Net debt service per enplaned passenger (not in 000's)	<u>\$ 8.76</u>	<u>\$ 8.01</u>	<u>\$ 6.31</u>	<u>\$ 8.36</u>	<u>\$ 32.45</u>

⁽⁴⁾ Includes letter of credit fees associated with subordinated commercial paper.

⁽⁵⁾ Fiscal year 2012 was revised to reflect "Other Available Funds for Debt Service." Under the MTA, the Airport may for any period elect to designate Customer Facility Charges and Unspent Bond Proceeds as "Other Available Funds" eligible for payment of debt service.

⁽⁶⁾ CFC revenues available for debt service were restated in fiscal years 2015 and 2016 to be limited to the amount of CFC eligible debt service.

⁽⁷⁾ In April 2017, the City refunded all of the outstanding bonds in the Series 2007A, except for \$7,025,000, which was to mature in March 2018. The principal amount of \$7,025,000 together with the interest amount of \$386,375 was paid from the amount remaining in the Series 2007 Reserve Account.

⁽⁸⁾ In April 2021, the City issued Airport Revenue Refunding Bonds 2021A, 2021B, and 2021C to refund all of the City's outstanding bonds Series 2011A-1, 2011A-2, and 2011B and a portion of the City's outstanding bonds Series 2014A, 2017A, and 2017B. The unspent bond proceeds in the amount of \$22,729 from the cost of issuance accounts will be used toward FY 22 debt service payment.

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

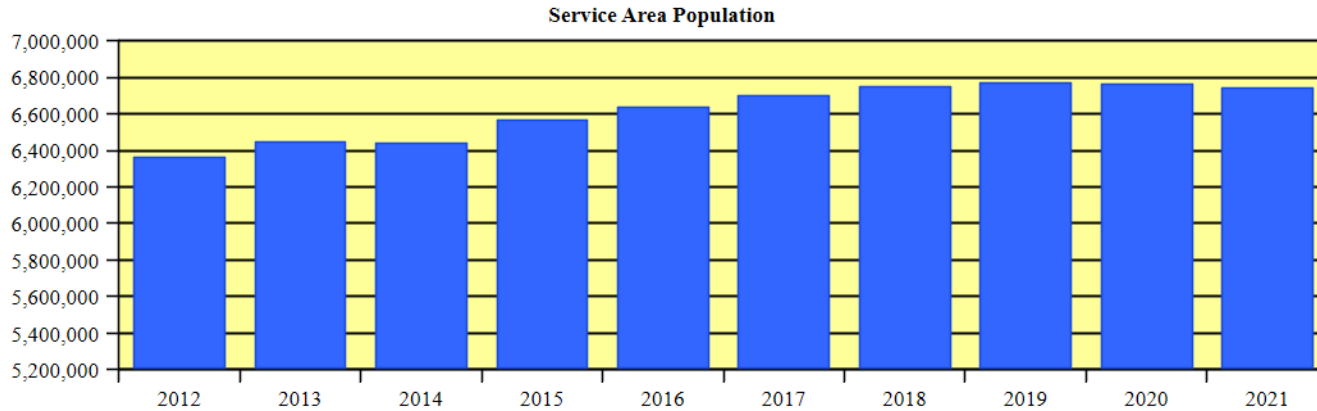
NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
DEBT SERVICE COVERAGE
LAST TEN FISCAL YEARS
(in \$ 000's)

Years	Adjusted General Airport Revenues ⁽¹⁾	Operating Expenses ^{(2) (3)}	Net Revenues	Other Available Funds ⁽⁸⁾	Net Revenues Available for Debt Service	Total Bond Debt Service ⁽⁴⁾	Available PFC Revenues ⁽⁴⁾	Net Bond Debt Service Payable from Revenues	Coverage Ratio - Bonds	Estimated CP Debt Service ^{(5) (6)}	Coverage Ratio - Bonds & CP
2012	\$ 129,573	\$ 67,875	\$ 61,698	\$ 58,917	\$ 120,615	\$ 80,725	\$ 21,336	\$ 59,389	2.03	\$ 6,818	1.82
2013	124,851	64,974	59,877	66,006	125,883	86,325	22,100	64,225	1.96	4,043	1.84
2014	127,717	66,319	61,398	75,157	136,555	95,068	25,747	69,321	1.97	2,859	1.89
2015	128,038	70,054 ⁽⁷⁾	57,984	78,026 ⁽⁹⁾	136,010	96,083	25,202	70,881	1.92	2,213	1.86
2016	145,809	73,118	72,691	71,466 ⁽⁹⁾	144,157	95,452	24,829	70,623	2.04	2,116	1.98
2017	156,278	77,577	78,701	77,876	156,577	95,660	24,789	70,871	2.21	1,728	2.16
2018	173,862	85,584	88,278	78,157	166,435	103,766	24,792	78,974	2.11	686	2.09
2019	181,195	92,572	88,623	62,746	151,369	92,501	27,026	65,475	2.31	317	2.30
2020	183,201	97,122	86,079	51,088	137,167	93,258	27,479	65,779	2.09	593	2.07
2021	191,368	89,927	101,441	41,100	142,541	92,718	14,339	78,379	1.82	586	1.81

- (1) Does not include Passenger Facility Charges (PFC) revenues, Airport Improvement Program (AIP) grant proceeds, or Customer Facility Charges (CFC) revenues classified as nonoperating revenues. PFC revenues and AIP grant proceeds are included in the Statements of Revenues, Expenses, and Changes in Net Position as nonoperating revenues. CFC revenues are recorded as operating and nonoperating revenues. Between July 1, 2016 and June 30, 2019, the Airport used a portion of CFC revenues to pay for the transportation costs, which is recorded as operating revenue. CFC revenues are recorded as nonoperating revenues to the extent of the annual debt service on the Airport Revenue Bond Series 2011B. The Airport did not expend CFC revenues on the transportation costs in the fiscal years (FY) ended June 30, 2021 and June 30, 2020. The Airport was awarded \$65.6 million of funding from the federal Coronavirus Aid, Relief, and Economic Security Act (CARES), which became law on March 27, 2020, to assist with the economic crisis caused by the COVID-19 pandemic. The Airport was also awarded \$13.4 million in the Coronavirus Response and Relief Supplemental Appropriation Act (CRRSA) funds on March 22, 2021, which will be used to pay for operating expenses. In August 2021, the Airport was notified that the CRRSA agreement would be amended to increase the award by \$11,095. An additional \$1.6 million in CRRSA funding was awarded to provide relief from rent and minimum annual guarantees to on-airport car rental and in-terminal airport concessions. In FY 21, the Airport used \$53.5 million of CARES funding toward debt service payments and payroll expenses and received reimbursement for the full \$1.6 million in concession relief. Both CARES and CRRSA funding are classified as non-operating revenue in the Statements of Revenues, Expenses, and Changes in Net Position in accordance with Government Accounting Standard Board (GASB) Technical Bulletin 2020-1. Grants funding is available for any purpose for which the Airport revenues may lawfully be used per the Master Trust Agreement (MTA). Therefore, they are classified as General Airport Revenue and included in operating revenue for the purpose of debt service coverage.
- (2) Includes operating expenses less depreciation and expenses paid from sources other than General Airport Revenues.
- (3) Excludes letter of credit (LOC) fees associated with Subordinated Commercial Paper Notes (Subordinated CP Notes). LOC 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.
- (4) Under the MTA dated July 1, 2001, and as amended and supplemented to date (Master Trust), "Bond Debt Service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Also, under the Master Trust, the City may designate PFC as "Available PFC" for payment of eligible debt service. The amount of Debt Service is reduced by the amount of Available PFC designated by the City and deposited with the Trustee to pay Bond Debt Service.
- (5) As required by the LOC and Reimbursement Agreements related to the Airport's Subordinated CP Notes, the principal amount of the Subordinated CP Notes 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 Subordinated CP Notes proceeds were not used for a project. As also required, the interest rate on the Subordinated CP Notes 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 FY by 1.15, as certified by a certificate of a financial advisor.
- (6) Includes LOC fees associated with Subordinated CP Notes.
- (7) FY 2015 operating expenses were revised to exclude expenses related to GASB Statement No. 68.
- (8) Other Available Funds include the Rolling Coverage Amount, uncommitted monies in the General Revenue Fund from the prior FY, unspent bond proceeds in FY 12 through FY 17, and CFC Revenues, in an amount not to exceed the amount of eligible debt service and transportation costs.
- (9) Other Available Funds was restated to include CFC revenues available for debt services not to exceed the amount of CFC eligible debt service and transportation costs.

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 AS OF JANUARY 1**

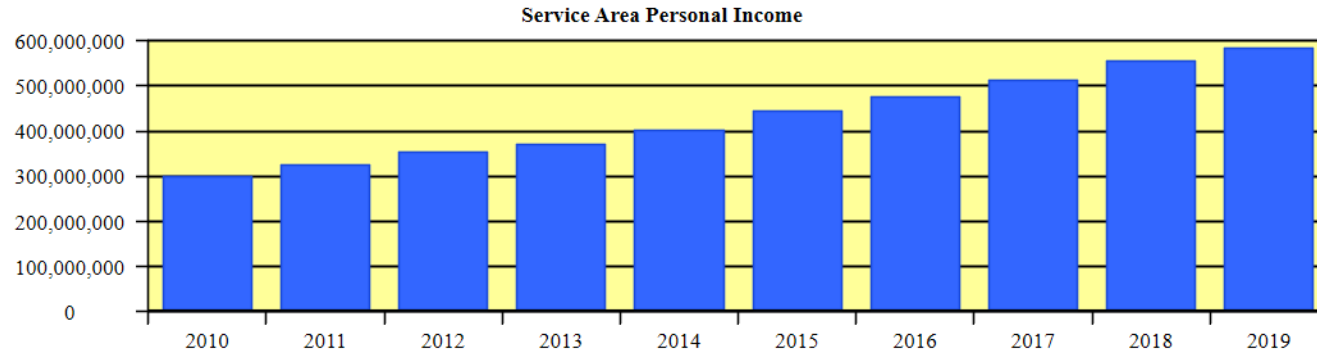


Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2012	1,550,119	422,754	57,079	736,647	1,840,895	268,189	262,390	701,745	523,038	6,362,856
2013	1,573,254	425,756	57,517	745,193	1,868,558	271,595	264,922	710,731	526,042	6,443,568
2014	1,574,497	424,774	57,909	745,635	1,868,038	269,322	264,567	708,678	528,157	6,441,577
2015	1,610,765	432,637	56,445	759,155	1,903,974	273,594	269,280	723,761	534,902	6,564,513
2016	1,629,233	438,171	56,621	765,895	1,922,619	275,557	271,547	735,677	541,466	6,636,786
2017	1,646,405	442,149	56,879	770,256	1,937,473	276,504	275,104	747,263	549,976	6,702,009
2018	1,656,884	442,940	60,841	772,372	1,947,798	276,071	279,424	757,279	554,108	6,747,717
2019	1,664,783	441,304	61,513	774,231	1,954,833	272,501	280,735	765,556	554,018	6,769,474
2020 ⁽¹⁾	1,663,114	440,393	62,486	771,061	1,945,166	270,373	283,352	773,505	554,931	6,764,381
2021	1,656,591	437,318	63,526	765,245	1,934,171	261,115	284,836	783,534	555,968	6,742,304

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

Source: California Department of Finance, Demographic Research Unit

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SERVICE AREA PERSONAL INCOME IN THE AIR TRADE AREA
LAST TEN AVAILABLE CALENDAR YEARS⁽¹⁾
(in \$ 000's)



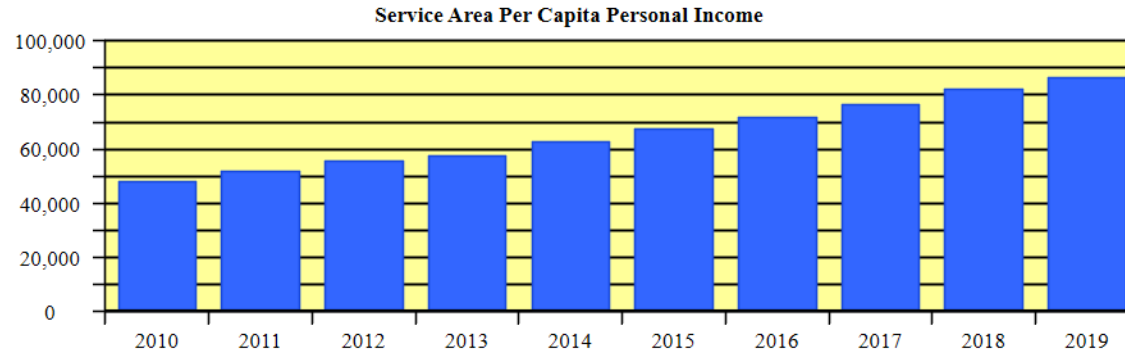
Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2010	\$ 72,870,527	\$ 16,958,117	\$ 1,920,847	\$ 47,787,433	\$ 102,432,990	\$ 12,361,716	\$ 7,117,031	\$ 21,214,529	\$ 16,232,916	\$ 298,896,106
2011	78,550,471	17,668,188	2,037,248	51,931,876	113,461,610	13,284,573	7,797,651	22,369,055	17,095,084	324,195,756
2012	84,503,175	18,496,346	2,153,480	58,665,994	124,801,907	14,251,103	8,038,978	23,682,855	17,957,396	352,551,234
2013	85,173,987	19,184,636	2,279,346	64,281,690	133,654,835	13,456,565	8,635,380	24,470,917	18,399,577	369,536,933
2014	93,290,149	20,028,430	2,364,002	69,717,150	147,251,454	14,814,476	9,197,957	26,089,638	19,869,327	402,622,583
2015	102,742,614	22,142,878	2,622,190	77,283,538	163,034,586	15,911,723	9,683,705	28,279,556	21,578,734	443,279,524
2016	111,354,955	22,828,552	2,870,816	82,046,470	178,029,092	16,766,106	9,913,086	30,102,917	22,360,836	476,272,830
2017	118,655,307	23,511,124	3,067,422	90,249,278	193,680,090	17,854,678	10,320,877	31,475,861	23,094,445	511,909,082
2018 ⁽²⁾	128,728,021	24,576,499	3,235,448	98,568,258	213,221,976	18,697,119	10,696,798	33,634,157	23,915,119	555,273,395
2019	135,663,560	25,973,189	3,470,822	102,803,127	223,624,580	19,559,977	11,406,396	35,926,949	25,188,224	583,616,824

⁽¹⁾ Information for calendar years 2020 and 2021 is not available.

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

Source: U.S. Department of Commerce, Bureau of Economic Analysis

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



Primary Service Area

Secondary Service Area

Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Average PCPI ⁽³⁾
2010	\$ 48,144	\$ 40,732	\$ 34,558	\$ 66,362	\$ 57,336	\$ 46,925	\$ 27,706	\$ 30,857	\$ 31,500	\$ 47,951
2011	51,286	41,906	36,273	71,232	62,623	50,138	29,995	32,157	33,005	51,581
2012	54,379	43,411	37,867	79,420	67,974	53,473	30,726	33,777	34,437	55,408
2013	53,798	44,707	39,576	85,653	71,431	49,942	32,774	34,709	34,961	57,350
2014	57,842	46,438	40,543	91,935	77,663	54,585	34,567	36,483	37,352	62,504
2015	62,926	51,256	44,844	101,264	85,354	58,151	36,255	39,087	40,305	67,527
2016	67,356	52,316	48,383	106,615	92,168	60,924	36,868	40,996	41,305	71,763
2017	71,560	53,989	50,955	117,389	100,177	64,901	38,037	42,391	42,354	76,381
2018 ⁽²⁾	77,233	56,634	52,637	128,230	110,344	68,277	39,018	44,697	43,631	82,291
2019	81,171	59,838	55,261	134,107	115,997	71,592	41,077	47,139	45,742	86,213

⁽¹⁾ Information for calendar years 2020 and 2021 is not available.

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

⁽³⁾ Some data reported previously were revised to reflect a change in methodology for calculating the Average PCPI.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
PRINCIPAL EMPLOYERS IN THE CITY OF SAN JOSE
CURRENT AND NINE YEARS AGO

Company or Organization	2021			2012		
	Number of Employees	Rank	Percentage of Total Employment ⁽³⁾	Number of Employees	Rank	Percentage of Total Employment ⁽³⁾
County of Santa Clara	18,873	1	1.9%	14,950	1	1.7%
Cisco Systems	9,393	2	0.9%	13,600	2	1.5%
City of San José ⁽¹⁾	6,592	3	0.7%	5,400	3	0.6%
IBM	3,872	4	0.4%	4,100	6	0.5%
San José State University	3,607	5	0.4%	4,780	4	0.5%
Paypal, Inc.	3,600	6	0.4%	n/a ⁽²⁾	n/a ⁽²⁾	-
eBay	3,500	7	0.4%	4,700	5	0.5%
Adobe Systems Inc.	3,400	8	0.3%	2,020	10	0.2%
Kaiser Permanente	3,035	9	0.3%	1,940	11	0.2%
Western Digital	2,712	10	0.3%	n/a ⁽²⁾	n/a ⁽²⁾	-
Good Samaritan Health System	2,241	11	0.2%	1,924	12	0.2%
Super Micro Computer	2,219	12	0.2%	n/a ⁽²⁾	n/a ⁽²⁾	-
Cadence Design Systems	1,900	13	0.2%	1,810	13	0.2%
Intel	1,800	14	0.2%	n/a ⁽²⁾	n/a ⁽²⁾	-
Regional Medical Center	1,625	15	0.2%	n/a ⁽²⁾	n/a ⁽²⁾	-

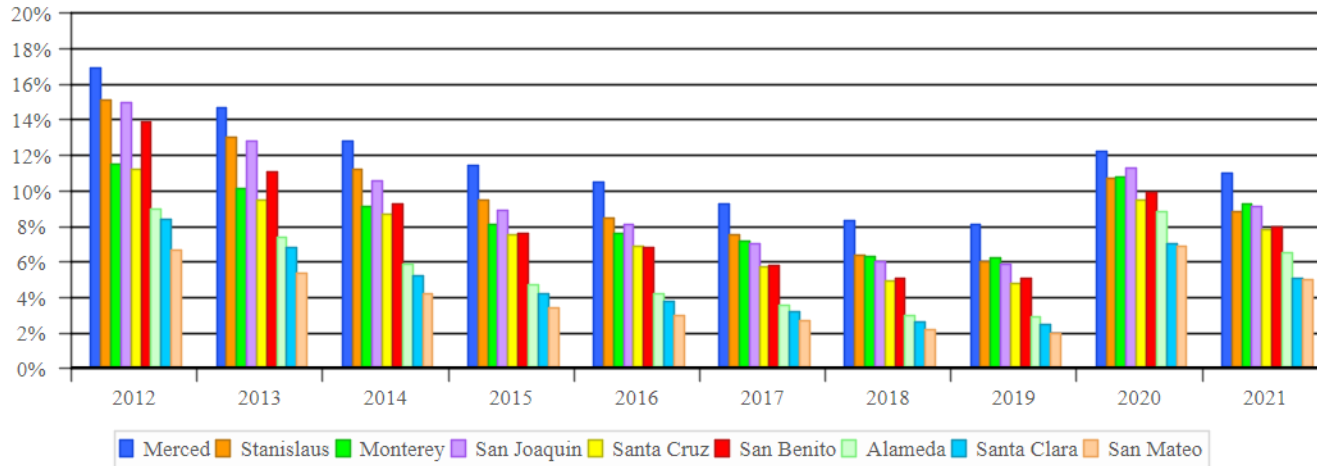
⁽¹⁾ Full-time employees

⁽²⁾ Companies or organizations not included in top 15 principal employers in 2012

⁽³⁾ Percentage of total employment is calculated based on San José -Sunnyvale-Santa Clara MSA employment data.

Source: California Employment Development Department, Labor Market Information Division
City of San José, Office of Economic Development

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



	2012	2013	2014	2015	2016	2017	2018	2019	2020 ⁽¹⁾	2021 ⁽²⁾
Merced	16.9 %	14.7 %	12.8 %	11.4 %	10.5 %	9.3 %	8.3 %	8.1 %	12.2 %	11.0 %
Monterey	11.5 %	10.1 %	9.1 %	8.1 %	7.6 %	7.2 %	6.3 %	6.2 %	10.8 %	9.3 %
Stanislaus	15.1 %	13.0 %	11.2 %	9.5 %	8.5 %	7.5 %	6.4 %	6.0 %	10.7 %	8.8 %
San Joaquin	15.0 %	12.8 %	10.6 %	8.9 %	8.1 %	7.0 %	6.0 %	5.9 %	11.3 %	9.1 %
San Benito	13.9 %	11.1 %	9.3 %	7.6 %	6.8 %	5.8 %	5.1 %	5.1 %	9.9 %	8.0 %
Santa Cruz	11.2 %	9.5 %	8.7 %	7.5 %	6.9 %	5.7 %	4.9 %	4.8 %	9.5 %	7.8 %
Alameda	9.0 %	7.4 %	5.9 %	4.7 %	4.2 %	3.6 %	3.0 %	2.9 %	8.8 %	6.5 %
Santa Clara	8.4 %	6.8 %	5.2 %	4.2 %	3.8 %	3.2 %	2.6 %	2.5 %	7.0 %	5.1 %
San Mateo	6.7 %	5.4 %	4.2 %	3.4 %	3.0 %	2.7 %	2.2 %	2.0 %	6.9 %	5.0 %

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

⁽²⁾ Information for 2021 is the average of January through June 2021.

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 TEN FISCAL YEARS

<u>Functional Area</u>	Budgeted Full-time-Equivalent ⁽¹⁾ Employees as of Fiscal Year-End									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Administration	27	27	27	28	28	30	30	31	32	30
Air service development	1	1	1	1	1	1	1	1	1	1
Airport technology services	13	13	13	13	11	11	11	11	11	11
Airside operations	40	42	43	43	43	51	51	50	52	53
Customer service and outreach	6	7	7	6	8	10	10	11	13	11
Capital and airport development	14	15	15	15	18	19	19	20	21	20
Environmental	1	1	1	1	1	2	2	2	2	2
Facilities (building services, trades, and maintenance)	66	64	64	64	61	68	68	70	73	66
Landside operations and services	29	9	8	8	8	9	9	10	10	10
Property management	8	8	8	8	8	10	10	10	11	10
	<u>205</u>	<u>187</u>	<u>187</u>	<u>187</u>	<u>187</u>	<u>211</u>	<u>211</u>	<u>216</u>	<u>226</u>	<u>214</u>

⁽¹⁾ A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave).
 Full-time equivalent employment is calculated by dividing total labor hours by 2,080.
 Totals may not add due to rounding.

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRPORT INFORMATION
June 30, 2021

Location:	Four miles north of downtown San José, "Capital of Silicon Valley"		
Area:	1,000 acres		
Elevation:	62.2 ft.		
Airport code:	SJC		
Runways:	12R/30L	North/South	11,000 x 150 ft. ILS/VOR/GPS
	12L/30R	North/South	11,000 x 150 ft. GPS (VOR 30R only)
Terminal:	Airlines		278,226 sq. ft.
	Concessions and other rentables		83,081 sq. ft.
	Public/common		535,496 sq. ft.
	Vacant		22,853 sq. ft.
	Other		99,153 sq. ft.
	Total		<u><u>1,018,809</u></u> sq. ft.
	Number of passenger gates - Terminal A and FIS		17
	Number of passenger gates - Terminal B		20
	Number of loading bridges		36
	Number of open concessionaires in terminal		31
	10 food & beverage concessions		
	21 retail concessions		
	Number of rental car brands		11
Apron:	Commercial airlines		1,330,140 sq. ft.
	Cargo airlines		596,482 sq. ft.
	Fixed based operators (FBOs) and		
	Specialized aviation service operator (SASO)		1,362,771 sq. ft.
	General aviation west		308,218 sq. ft.
	Total		<u><u>3,597,611</u></u> sq. ft.
Public parking spaces:	Lot 1 (Economy Lot 1) ⁽¹⁾		2,524
	Lot 2 (Terminal A Garage)		1,370
	Lot 3 (Terminal B Garage & Surface)		308
	Lot 4		740
	Lot 5		887
	Total		<u><u>5,829</u></u>
Cargo:	Air freight building		18,977 sq. ft.
International:	Customs / Federal Inspection Service Facility		
Tower:	Operational hours 0600 - 0000, after hours CTAF 124.0/TRACON 24/7		
FBOs:	Atlantic Aviation Signature Flight Support		
SASO:	AvBase		

⁽¹⁾ Parking spaces as of July 1, 2021.

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
ENPLANED COMMERCIAL PASSENGERS BY AIRLINE
FISCAL YEARS 2012 THROUGH 2016
(Ranked by Fiscal Year 2021 Results)

Airline	2012		2013 ⁽¹⁾		2014		2015		2016	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,192,234	53.1 %	2,169,956	51.2 %	2,280,346	50.5 %	2,420,333	50.8 %	2,507,648	49.3 %
Alaska Airlines ⁽²⁾	609,315	14.8 %	727,616	17.2 %	704,944	15.6 %	750,673	15.8 %	795,136	15.6 %
American Airlines ⁽³⁾	571,167	13.8 %	587,829	13.9 %	601,104	13.3 %	604,952	12.7 %	642,626	12.6 %
Delta Airlines ⁽⁴⁾	218,447	5.3 %	228,824	5.4 %	332,544	7.4 %	463,746	9.7 %	551,084	10.8 %
Volaris	49,709	1.2 %	49,700	1.2 %	51,056	1.1 %	51,185	1.1 %	58,385	1.1 %
United Airlines ⁽⁵⁾	298,808	7.2 %	253,837	6.0 %	231,287	5.1 %	186,656	3.9 %	184,570	3.6 %
Hawaiian Airlines	103,483	2.5 %	116,928	2.8 %	113,381	2.5 %	161,707	3.4 %	164,088	3.2 %
Frontier Airlines	-	-	-	-	-	-	-	-	-	-
JetBlue Airways	76,063	1.8 %	71,506	1.7 %	70,860	1.6 %	71,577	1.5 %	73,950	1.5 %
British Airways	-	-	-	-	-	-	-	-	9,872	0.2 %
Air Canada	-	-	-	-	-	-	-	-	6,882	0.1 %
All Nippon Airways	-	-	3,273	0.1 %	42,999	1.0 %	47,560	1.0 %	49,717	1.0 %
Hainan Airlines	-	-	-	-	-	-	1,849	-	34,939	0.7 %
Aeromexico	-	-	-	-	-	-	-	-	-	-
Lufthansa	-	-	-	-	-	-	-	-	-	-
Air China	-	-	-	-	-	-	-	-	-	-
All other airlines ⁽⁶⁾	5,659	0.1 %	25,284	0.6 %	88,500	2.0 %	4,763	0.1 %	8,808	0.2 %
Total⁽⁷⁾	4,124,885	100.0 %	4,234,753	100.0 %	4,517,021	100.0 %	4,765,001	100.0 %	5,087,705	100.0 %

⁽¹⁾ 2013 enplanements for "All other airlines" has been revised to show corrected information.

⁽²⁾ Includes enplaned passengers on flights operated by Horizon and Skywest.

⁽³⁾ In December 2013, the American Airlines and US Airways ("American Airlines Group") merger was completed. Passengers previously reported under US Airways are now grouped with American Airlines. The enplanements include flights operated by Skywest, Mesa Airlines, and Compass Airlines.

⁽⁴⁾ Includes enplaned passengers on flights operated by Skywest and Compass Airlines.

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

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
ENPLANED COMMERCIAL PASSENGERS BY AIRLINE
FISCAL YEARS 2017 THROUGH 2021
(Ranked by Fiscal Year 2021 Results)**

Airline	2017		2018		2019		2020		2021	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,607,667	45.4 %	3,050,314	45.4 %	3,569,213	47.8 %	2,893,513	51.1 %	1,151,709	54.2 %
Alaska Airlines ⁽²⁾	988,852	17.2 %	1,183,145	17.6 %	1,416,446	19.0 %	1,004,249	17.7 %	394,867	18.6 %
American Airlines ⁽³⁾	634,827	11.1 %	628,683	9.3 %	606,477	8.1 %	443,899	7.8 %	195,189	9.2 %
Delta Airlines ⁽⁴⁾	648,825	11.3 %	701,037	10.4 %	783,809	10.5 %	640,408	11.3 %	159,862	7.5 %
Volaris	61,585	1.1 %	60,602	0.9 %	91,784	1.2 %	89,250	1.6 %	90,049	4.2 %
United Airlines ⁽⁵⁾	237,281	4.1 %	314,024	4.7 %	323,965	4.3 %	215,104	3.8 %	69,106	3.3 %
Hawaiian Airlines	153,379	2.7 %	169,044	2.5 %	143,314	1.9 %	88,139	1.6 %	42,474	2.0 %
Frontier Airlines	-	-	80,943	1.2 %	99,539	1.3 %	52,646	0.9 %	15,010	0.7 %
JetBlue Airways	151,587	2.6 %	222,987	3.3 %	155,313	2.1 %	92,699	1.6 %	3,726	0.2 %
British Airways	54,145	0.9 %	54,092	0.8 %	59,099	0.8 %	37,503	0.7 %	-	-
Air Canada	46,701	0.8 %	57,145	0.8 %	56,389	0.8 %	37,232	0.7 %	-	-
All Nippon Airways	49,160	0.9 %	49,735	0.7 %	48,901	0.7 %	31,735	0.6 %	-	-
Hainan Airlines	44,123	0.8 %	38,995	0.6 %	42,025	0.6 %	23,111	0.4 %	-	-
Aeromexico	-	-	51,326	0.8 %	34,761	0.5 %	5,670	0.1 %	-	-
Lufthansa	40,490	0.7 %	30,057	0.4 %	17,756	0.2 %	-	-	-	-
Air China	15,511	0.3 %	25,829	0.4 %	4,436	0.1 %	-	-	-	-
All other airlines ⁽⁶⁾	5,636	0.1 %	7,169	0.1 %	8,899	0.1 %	4,909	0.1 %	3,831	0.2 %
Total⁽⁷⁾	5,739,769	100.0 %	6,725,127	100.0 %	7,462,126	100.0 %	5,660,067	100.0 %	2,125,823	100.0 %

⁽⁵⁾ Continental and United merged in October 2010. The combined airlines ("United Airlines") received FAA approval to operate under a single certificate in December 2011. The enplanements include flights operated by Skywest and GoJet.

⁽⁶⁾ Consists of charter airlines and airlines no longer serving the Airport, including Virgin America. Virgin America operated at the Airport from May 2013 to May 2014.

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

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

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

<u>Airline</u> ⁽¹⁾	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
AeroMexico	-	-	-	-	-	-	51,936	37,427	4,608	-
Air Canada	-	-	-	-	8,103	57,831	70,950	73,271	52,420	-
Air China	-	-	-	-	-	51,359	61,390	9,630	-	-
Alaska Airlines	680,586	806,403	790,691	825,699	864,768	1,127,836	1,359,717	1,682,496	1,334,216	726,375
All Nippon Airways	-	9,880	138,114	138,700	140,925	138,790	141,175	139,285	100,995	-
American Airlines	643,199	664,570	669,391	653,971	726,312	730,283	735,296	688,165	528,987	272,518
British Airways	-	-	-	-	24,650	152,150	138,460	146,625	98,175	-
Delta Airlines	233,473	252,297	386,609	537,959	677,209	829,238	849,208	894,266	810,877	328,342
Frontier Airlines	-	672	499	269	-	-	80,893	94,850	53,660	26,802
Hainan Airlines	-	-	-	4,180	80,559	97,695	82,815	85,785	56,534	12,368
Hawaiian Airlines	133,520	161,560	154,290	230,520	230,052	206,901	229,459	184,495	95,472	69,248
JetBlue Airways	82,903	79,348	77,215	75,508	82,039	199,784	302,960	216,553	135,081	4,379
Lufthansa	-	-	-	-	-	99,364	62,646	35,556	-	-
Southwest Airlines	2,917,030	2,838,160	2,819,208	2,884,182	2,976,117	3,161,461	3,635,596	4,223,415	3,944,466	2,052,349
United Airlines	355,121	293,930	269,572	206,682	214,585	268,074	353,304	347,168	259,896	103,010
Volaris	59,451	52,014	51,472	55,653	59,565	61,549	61,549	96,214	98,045	101,256
All other airlines	20,108	54,361	179,532	15,137	29,020	19,857	27,580	29,505	17,826	18,555
Subtotal	5,125,391	5,213,194	5,536,593	5,628,460	6,113,904	7,202,172	8,244,933	8,984,703	7,591,258	3,715,202
<u>Cargo Carriers</u>										
Air Transport Int'l.	12,015	250	-	-	-	-	-	-	-	-
FedEx	163,213	158,845	152,417	150,160	164,527	149,908	146,996	147,188	143,939	122,582
United Parcel Service	93,250	88,940	82,584	86,546	101,377	98,944	100,450	97,171	89,692	87,193
All other cargo airlines	270	33	-	-	440	168	161	82	-	630
Subtotal	268,748	248,067	235,002	236,706	266,344	249,020	247,607	244,440	233,630	210,406
Total	5,394,139	5,461,261	5,771,595	5,865,167	6,380,248	7,451,193	8,492,540	9,229,143	7,824,888	3,925,608

⁽¹⁾ See notes on Schedule N.
Totals may not add due to rounding.

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

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

<u>Airline</u> ⁽¹⁾	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
AeroMexico	-	-	-	-	-	-	722	526	64	-
Air Canada	-	-	-	-	214	1,538	1,920	1,952	1,396	-
Air China	-	-	-	-	-	256	306	48	-	-
Alaska Airlines	12,948	15,172	13,960	13,936	14,314	20,330	25,400	30,784	23,948	14,764
All Nippon Airways	-	52	726	730	732	730	730	730	528	-
American Airlines	12,452	12,672	12,374	12,172	12,356	12,042	12,256	11,452	8,614	3,844
British Airways	-	-	-	-	116	716	652	690	462	-
Delta Airlines	4,784	4,810	8,596	12,702	14,300	15,958	16,496	17,338	14,872	7,848
Frontier Airlines	-	10	8	4	-	-	1,132	1,294	682	358
Hainan Airlines	-	-	-	22	424	504	420	420	268	60
Hawaiian Airlines	882	1,036	1,014	1,462	1,462	1,324	1,466	1,454	1,078	788
JetBlue Airways	1,166	1,116	1,086	1,062	1,146	2,740	4,126	2,924	1,856	58
Lufthansa	-	-	-	-	-	476	296	168	-	-
Southwest Airlines	47,002	45,486	44,942	45,654	46,918	48,538	55,466	64,484	59,594	29,792
United Airlines	6,072	5,600	5,052	3,714	3,444	4,042	5,624	5,434	4,052	2,102
Volaris	886	770	752	774	820	846	846	1,328	1,352	1,392
All other airlines	286	784	2,546	226	394	296	384	428	252	252
Subtotal	86,478	87,508	91,056	92,458	96,640	110,336	128,242	141,454	119,018	61,258
<u>Cargo Carriers</u>										
Air Transport Int'l.	88	2	-	-	-	-	-	-	-	-
FedEx	928	918	918	920	936	928	918	916	922	802
United Parcel Service	652	610	550	580	670	664	676	644	572	540
All other cargo airlines	10	6	-	-	8	4	2	2	-	2
Subtotal	1,678	1,536	1,468	1,500	1,614	1,596	1,596	1,562	1,494	1,344
Total	88,156	89,044	92,524	93,958	98,254	111,932	129,838	143,016	120,512	62,602

(1) See notes on Schedule N.

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

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

CARRIER	NONSTOP SERVICE
SCHEDULED DOMESTIC AIRLINE SERVICE	
Alaska Airlines	Austin (AUS) Boise (BOI) Honolulu (HNL) Kahului (OGG) Kalaoa (KOA) Lihue (LIH) Los Angeles (LAX) Missoula (MSO) Portland (PDX) San Diego (SAN) Seattle (SEA) Spokane (GEG)
American Airlines	Dallas (DFW) Los Angeles (LAX) Phoenix (PHX)
Delta Air Lines	Los Angeles (LAX) Salt Lake City (SLC) Seattle (SEA)
Frontier Airlines	Las Vegas (LAS)
Hawaiian Airlines	Honolulu (HNL) Kahului (OGG)
JetBlue Airways	Boston (BOS) New York (JFK)
Southwest Airlines	Austin (AUS) Boise (BOI) Burbank (BUR) Chicago (MDW) Dallas (DAL) Denver (DEN) Honolulu (HNL) Houston (HOU) Kahului (OGG) Kalaoa (KOA) Las Vegas (LAS) Lihue (LIH) Long Beach (LGB) Los Angeles (LAX) Nashville (BNA) Ontario (ONT) Santa Ana (SNA) Phoenix (PHX) Portland (PDX) Salt Lake City (SLC) San Diego (SAN) Seattle (SEA)

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

CARRIER

NONSTOP SERVICE

SCHEDULED DOMESTIC AIRLINE SERVICE

Southwest Airlines

Spokane (GEG)
St. Louis (STL)

United Airlines

Denver (DEN)
Houston (IAH)

SCHEDULED FOREIGN AIRLINE SERVICE

Alaska Airlines

Guadalajara (GDL)
Los Cabos (SJD)
Puerto Vallarta (PVR)

Volaris

Guadalajara (GDL)
León (BJX)
Mexico City (MEX)
Morelia (MLM)
Zacatecas (ZCL)

ALL-CARGO AIRLINES

Federal Express Corporation

United Parcel Service

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

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

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Passengers (1,000's):										
Enplanements	4,125	4,235	4,517	4,765	5,088	5,740	6,725	7,462	5,660	2,126
Deplanements	4,131	4,254	4,546	4,790	5,125	5,775	6,765	7,488	5,669	2,100
Total passengers	<u>8,256</u>	<u>8,489</u>	<u>9,063</u>	<u>9,555</u>	<u>10,213</u>	<u>11,515</u>	<u>13,490</u>	<u>14,950</u>	<u>11,329</u>	<u>4,226</u>
Mail/freight/cargo (1,000 lbs):										
Mail	1,160	1,431	1,135	1,546	1,786	1,856	4,132	3,497	760	1,474
Freight/express	5,303	6,172	16,156	18,257	22,344	42,126	43,228	42,402	27,287	10,321
Cargo	77,303	78,766	86,239	84,203	92,294	78,013	74,868	68,887	69,556	68,924
Total mail/freight/cargo	<u>83,766</u>	<u>86,369</u>	<u>103,530</u>	<u>104,006</u>	<u>116,424</u>	<u>121,995</u>	<u>122,228</u>	<u>114,786</u>	<u>97,603</u>	<u>80,719</u>

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

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

Fiscal Year	Air Carrier Operations ⁽²⁾	Cargo Operations	Total Commercial Operations	Percent Commercial Operations	General Aviation Operations ⁽³⁾	Military Operations	Total Operations
2012	86,478	1,678	88,156	73.4 %	31,664	285	120,105
2013	87,508	1,536	89,044	73.8 %	31,321	210	120,575
2014	91,056	1,468	92,524	75.6 %	29,619	208	122,351
2015	92,458	1,500	93,958	73.7 %	33,246	213	127,417
2016	96,640	1,614	98,254	74.7 %	33,048	259	131,561
2017	110,336	1,596	111,932	76.3 %	34,551	239	146,722
2018	128,242	1,596	129,838	78.3 %	35,664	249	165,751
2019	141,454	1,562	143,016	74.5 %	48,762	230	192,008
2020	119,018	1,494	120,512	71.6 %	47,724	148	168,384
2021	61,258	1,344	62,602	56.1 %	48,959	99	111,660

Annual compound growth rate

FY 2012 through FY 2021	(3.4)%	(2.2)%	(3.4)%	4.5 %	(10.0)%	(0.7)%
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- (1) An aircraft operation is defined as the takeoff or landing of an aircraft.
- (2) Includes domestic, including regional commuter operations, and international airlines.
- (3) Includes local and itinerant general aviation.

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

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Construction of the new Fire Station 20 is ongoing. The new station will provide the Airport's Aircraft Rescue and Fire Fighting (ARFF) operations and will also include a dedicated bay to access and serve the Airport's neighboring community, including residents and businesses.

This state-of-the-art facility replaces the existing ARFF Facility, which has served the Airport for nearly 60 years. The new Economy Lot 1 Garage opened to passengers in July 2021. The new multi-level garage, located in the northeast area of the Airport provides more on-site parking options for travelers. Hundreds of new long-term parking spaces were added, including 1,120 covered spaces, bringing the total spaces in Economy Lot 1 to 2,524.

BOND DISCLOSURE



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

Bond Disclosure Report

June 30, 2021

In accordance with the requirements of the Disclosure Agreements for the City of San José Airport Revenue Refunding Bonds (the ARBs) Series 2014A, 2014B, 2014C, 2017A, 2017B, 2021A, 2021B, and 2021C, the Airport is including this section to meet the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the Rule).

In April 2021, the City issued Airport Revenue Refunding Bonds Series 2021A, 2021B, and 2021C (the 2021 ARBs), to current refund all of the City's outstanding Airport Revenue Bonds Series 2011A-1, 2011A-2, and 2011B and to advance refund a portion of the City's outstanding ARBs Series 2014A, 2017A, and 2017B. The Airport Revenue Bonds Series 2011A-1, 2011A-2, and 2011B and the ARBs Series 2014A, 2017A, and 2017B in the aggregate amount of \$473.6 million were refunded with the issuance of ARBs Series 2021A, 2021B, and 2021C Bonds. Additional information about the ARBs can be found in Note 5 to the financial statements.

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 nine 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. This Bond Disclosure Report 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 - 77 of this report.

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

Refer to Table 1, page 106 of the Bond Disclosure Section of this report.

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

Refer to Table 2, page 107 of the Bond Disclosure Section of this report.

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

Refer to Schedule S, page 103 of the Statistical Section of this report.

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

Refer to Table 3, page 108 of the Bond Disclosure Section of this report.

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

Refer to Schedule Q, pages 100 - 101 of the Statistical Section of this report.

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

Refer to Schedule N, pages 96 - 97 of the Statistical Section of this report.

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

Bond Disclosure Report

June 30, 2021

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

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

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

Refer to Schedule F, page 88 of the Statistical Section of this report.

REPORTING OF SIGNIFICANT EVENTS

Airport revenue refunding bond ratings

The underlying ratings of the outstanding ARBs were "A-", "A2", and "A" by S&P Global Ratings (S&P), Moody's Investors Service (Moody's), and Fitch Ratings, Inc. (Fitch), respectively. On March 12, 2021, S&P affirmed an "A-" rating with a revised outlook from negative to stable, and Moody's maintained an "A2" rating with a stable outlook on the ARBs. On March 15, 2021, Fitch affirmed an "A" rating on the ARBs and an "A-" rating on the bank note associated with the Airport's Subordinated Commercial Paper Notes with a negative outlook.

Table 1

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

Fiscal Years Ended June 30	Total Debt Service on Outstanding Bonds ⁽¹⁾	Principal Requirements on Series 2021A Bonds	Interest Requirements on Series 2021A Bonds	Total Debt Service on Series 2021A Bonds	Principal Requirements on Series 2021B Bonds	Interest Requirements on Series 2021B Bonds	Total Debt Service on Series 2021B Bonds	Principal Requirements on Series 2021C Bonds	Interest Requirements on Series 2021C Bonds	Total Debt Service on Series 2021C Bonds	Total Debt Service on Series 2021 Bonds	Total Debt Service
2022	\$ 30,695,510	\$ -	\$ 3,728,610	\$ 3,728,610	\$ -	\$ 2,076,975	\$ 2,076,975	\$ 1,900,000	\$ 7,304,208	\$ 9,204,208	\$ 15,009,793	\$ 45,705,303
2023	30,695,510	-	4,142,900	4,142,900	-	2,307,750	2,307,750	2,225,000	8,111,208	10,336,208	16,786,858	47,482,368
2024	46,165,510	4,380,000	4,142,900	8,522,900	1,075,000	2,307,750	3,382,750	3,230,000	8,103,621	11,333,621	23,239,271	69,404,781
2025	46,643,710	4,125,000	3,923,900	8,048,900	1,125,000	2,254,000	3,379,000	5,255,000	8,082,626	13,337,626	24,765,526	71,409,236
2026	43,337,710	6,110,000	3,717,650	9,827,650	2,290,000	2,197,750	4,487,750	7,315,000	8,019,093	15,334,093	29,649,493	72,987,203
2027	50,624,325	1,430,000	3,412,150	4,842,150	270,000	2,083,250	2,353,250	8,415,000	7,919,682	16,334,682	23,530,082	74,154,407
2028	51,117,325	1,275,000	3,340,650	4,615,650	-	2,069,750	2,069,750	8,560,000	7,773,934	16,333,934	23,019,334	74,136,659
2029	40,110,075	8,195,000	3,276,900	11,471,900	4,420,000	2,069,750	6,489,750	8,725,000	7,612,835	16,337,835	34,299,485	74,409,560
2030	40,338,575	8,230,000	2,867,150	11,097,150	4,790,000	1,848,750	6,638,750	8,915,000	7,420,013	16,335,013	34,070,913	74,409,488
2031	40,950,575	7,995,000	2,455,650	10,450,650	5,060,000	1,609,250	6,669,250	9,120,000	7,214,076	16,334,076	33,453,976	74,404,551
2032	31,019,250	14,450,000	2,055,900	16,505,900	9,190,000	1,356,250	10,546,250	9,345,000	6,989,724	16,334,724	43,386,874	74,406,124
2033	31,429,250	14,660,000	1,333,400	15,993,400	9,755,000	896,750	10,651,750	17,585,000	6,750,492	24,335,492	50,980,642	82,409,892
2034	31,830,750	15,010,000	600,400	15,610,400	10,225,000	409,000	10,634,000	18,060,000	6,273,939	24,333,939	50,578,339	82,409,089
2035	48,647,250	-	-	-	-	-	-	24,175,000	5,766,453	29,941,453	29,941,453	78,588,703
2036	48,641,000	-	-	-	-	-	-	24,880,000	5,062,960	29,942,960	29,942,960	78,583,960
2037	48,640,000	-	-	-	-	-	-	25,620,000	4,326,512	29,946,512	29,946,512	78,586,512
2038	48,645,750	-	-	-	-	-	-	26,400,000	3,542,540	29,942,540	29,942,540	78,588,290
2039	48,639,500	-	-	-	-	-	-	27,215,000	2,726,580	29,941,580	29,941,580	78,581,080
2040	48,638,250	-	-	-	-	-	-	28,090,000	1,858,314	29,948,314	29,948,314	78,586,564
2041	48,648,000	-	-	-	-	-	-	28,990,000	953,771	29,943,771	29,943,771	78,591,771
2042	48,644,250	-	-	-	-	-	-	-	-	-	-	48,644,250
2043	48,639,750	-	-	-	-	-	-	-	-	-	-	48,639,750
2044	48,644,250	-	-	-	-	-	-	-	-	-	-	48,644,250
2045	48,643,250	-	-	-	-	-	-	-	-	-	-	48,643,250
2046	48,642,250	-	-	-	-	-	-	-	-	-	-	48,642,250
2047	48,641,250	-	-	-	-	-	-	-	-	-	-	48,641,250
Totals⁽²⁾	\$ 1,147,312,825	\$ 85,860,000	\$ 38,998,160	\$ 124,858,160	\$ 48,200,000	\$ 23,486,975	\$ 71,686,975	\$ 294,020,000	\$ 121,812,580	\$ 415,832,580	\$ 612,377,715	\$ 1,759,690,540

⁽¹⁾ These amounts pertain to total debt service requirements on outstanding Airport Revenue Refunding Bonds Series 2014A, 2014B, 2014C, 2017A, and 2017B.

⁽²⁾ Totals may not add due to rounding.

Source: City of San José

Table 2

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

Fiscal Year	Air Carrier Domestic Enplanements ⁽¹⁾	Air Carrier International Enplanements	Total Enplanements	Total Percent Change
2012	4,041,624	83,261	4,124,885	(1.5)%
2013	4,124,464	110,289	4,234,753	2.7 %
2014	4,353,383	163,638	4,517,021	6.7 %
2015	4,592,047	172,954	4,765,001	5.5 %
2016	4,847,098	240,607	5,087,705	6.8 %
2017	5,334,312	405,457	5,739,769	12.8 %
2018	6,258,431	466,696	6,725,127	17.2 %
2019	6,997,766	464,360	7,462,126	11.0 %
2020	5,358,074	301,993	5,660,067	(24.1)%
2021	1,988,654	137,169	2,125,823	(62.4)%
Annual compound growth rate				
FY 2012 through				
FY 2021	(6.8)%	5.1 %	(6.4)%	

⁽¹⁾ Includes commuter enplanements previously reported separately.

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 MAXIMUM GROSS LANDING WEIGHT
 LAST TEN FISCAL YEARS
 (In 1,000 lbs)**

<u>Fiscal Year</u>	<u>Air Carrier⁽¹⁾</u>	<u>Cargo⁽²⁾</u>	<u>Total⁽³⁾</u>
2012	5,125,391	268,748	5,394,139
2013 ⁽⁴⁾	5,213,194	248,067	5,461,261
2014 ⁽⁴⁾	5,536,593	235,002	5,771,595
2015	5,628,460	236,706	5,865,167
2016	6,113,904	266,344	6,380,248
2017	7,202,172	249,020	7,451,193
2018	8,244,933	247,607	8,492,540
2019	8,984,703	244,440	9,229,143
2020	7,591,258	233,630	7,824,888
2021	3,715,202	210,406	3,925,608
 Annual compound growth rate			
FY 2012 through			
FY 2021	(3.2)%	(2.4)%	(3.1)%

⁽¹⁾ Includes domestic, international air carriers. Also includes commuter carriers which were previously reported separately.

⁽²⁾ Includes all-cargo airlines.

⁽³⁾ Totals may not add due to rounding.

⁽⁴⁾ 2013 and 2014 amounts have been revised to show corrected information.

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