

CITY OF SAN JOSE, CALIFORNIA

Independent Auditor's Report and
Schedule of Customer Facility Charge
Program Revenues and Expenses

For the Year Ended June 30, 2021



Certified
Public
Accountants

CITY OF SAN JOSE, CALIFORNIA
CUSTOMER FACILITY CHARGE PROGRAM
For the Year Ended June 30, 2021

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

To the Honorable City Council
City of San José, California

Report on Compliance for the Customer Facility Charge Program

We have audited the Norman Y. Mineta San José International Airport's (Airport), a department of the City of San José (City), California, compliance with the compliance requirements described in the California Civil Code Chapter 1.5 (commencing with Section 1939.01) to Title 5 of Part 4 of Division 3, and California Government Code Section 50474.1 through Section 50474.3 (CFC Code), applicable to the Airport's Customer Facility Charge (CFC) program for the year ended June 30, 2021.

Management's Responsibility

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

Auditor's Responsibility

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the requirements described in the CFC Code. Those standards and the CFC Code require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a material effect on the CFC program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

Opinion

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the Airport's CFC program for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

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

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

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

Schedule of Customer Facility Charge Program Revenues and Expenses

We have audited the financial statements of the Airport, a department of the City, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements. We issued our report thereon dated November 12, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Customer Facility Charge Program Revenues and Expenses (CFC Schedule) is presented for purposes of additional analysis as required by the CFC Code and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the CFC Schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.



Walnut Creek, California
November 19, 2021

CITY OF SAN JOSE, CALIFORNIA
Schedule of Customer Facility Charge Program Revenues and Expenses
For the Year Ended June 30, 2021

Revenues	
Customer facility charges	\$ 6,538,690
Facility rent	3,052,273
Investment income	125,217
CARES Act Airport Grant	8,276,860
Total revenues	<u>17,993,040</u>
Expenses	
Transportation expenses	1,474,943
Debt service expenses	19,418,721
Total expenses	<u>20,893,664</u>
Expenses over revenues	<u>\$ (2,900,624)</u>

See accompanying notes to the Schedule of Customer Facility Charge Program Revenues and Expenses.

CITY OF SAN JOSE, CALIFORNIA

Notes to the Schedule of Customer Facility Charge Program Revenues and Expenses For the Year Ended June 30, 2021

(1) GENERAL

California Civil Code Chapter 1.5 (commencing with Section 1939.01) to Title 5 of Part 4 of Division 3, and California Government Code Section 50474.1 through Section 50474.3 (CFC Code), permits an airport sponsor to require rental car companies to collect from a renter a Customer Facility Charge (CFC) to finance, design and construct a consolidated airport rental car facility; to finance, design, construct, and operate common-use transportation systems that move passengers between airport terminals and those consolidated car rental facilities, and acquire vehicles for use in that system; and to finance, design, and construct terminal modifications solely to accommodate and provide customer access to common-use transportation systems.

From January 1, 2008 through November 30, 2011, the Airport imposed a CFC of \$10.00 per rental contract. Pursuant to the CFC Code, the City increased the CFC to \$6.00 per contract day, to a maximum of five days, on each rental effective December 1, 2011; increased the per contract day CFC to \$7.50 per contract day, to a maximum of five days, on each rental, commencing January 1, 2014; and further increased the per contract day CFC to \$9.00 per contract day, to a maximum of five days, on each rental, commencing April 1, 2021.

(2) BASIS OF ACCOUNTING

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

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Expenses of CFCs are reported in the Airport's basic financial statements as operating expenses or debt service payments. CFC expenses agree or can be reconciled with the amounts reported in the Airport's basic financial statements.

(4) IMPACTS OF THE COVID-19 PANDEMIC

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. 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 fiscal year 2021, passenger levels at the Airport were 62.7% lower than in fiscal year 2020. The impact on CFC collections is evident starting with a slowdown in March 2020 through March 2021, resulting from origin and destination deplaned passenger activity that was 80.6% lower than for the same period in the prior fiscal year. 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. In fiscal year 2021, the Airport used \$8.3 million in CARES Act funds to pay for CFC debt service. While collections for April 2021 through June 2021 exceeded the fiscal year 2020 collections for the same three months by 282.2%, they were still 56.6% lower than for the same period in fiscal year 2019.

CITY OF SAN JOSE, CALIFORNIA

Notes to the Schedule of Customer Facility Charge Program Revenues and Expenses
For the Year Ended June 30, 2021

(4) IMPACTS OF THE COVID-19 PANDEMIC (CONTINUED)

CFC collection levels are anticipated to recover as the demand for air travel recovers. The leisure travel sector is leading the recovery; however, the speed of the recovery is unknown. This sector of the traveling public is approximately half of the Airport's demographic and is showing signs of quicker recovery than business travel demand.