

CITY OF SAN JOSE, CALIFORNIA

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

For the Year Ended June 30, 2021



Certified
Public
Accountants

CITY OF SAN JOSE, CALIFORNIA
PASSENGER FACILITY CHARGES
For the Year Ended June 30, 2021

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

To the Honorable City Council
City of San José, California

Report on Compliance for the Passenger Facility Charge Program

We have audited the Norman Y. Mineta San José International Airport's (Airport), a department of the City of San José (City), California, compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (PFC Guide), issued by the Federal Aviation Administration (FAA), applicable to the Airport's Passenger Facility Charge (PFC) program for the year ended June 30, 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 PFC 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 PFC Guide. Those standards and the PFC Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a material effect on the PFC program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the Airport's PFC 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 PFC Guide. Accordingly, this report is not suitable for any other purpose.

Schedule of Passenger Facility Charge 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 Passenger Facility Charge Revenues and Expenses (PFC Schedule) is presented for purposes of additional analysis as required by the PFC Guide, issued by the FAA, and is not a required part of the 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 PFC 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 Passenger Facility Charge Revenues and Expenses
For the Year Ended June 30, 2021

	Passenger Facility Charge Revenues	Interest Earned / (Investment Loss)	Total Revenues	Expenses on Approved Projects	Under (over) Expenses on Approved Projects
Fiscal year 2020-21 transactions:					
Quarter ended September 30, 2020	\$ 632,204	\$ 3,939	\$ 636,143	\$ 11,409,012	
Quarter ended December 31, 2020	1,410,324	(170,587)	1,239,737	-	
Quarter ended March 31, 2021	1,669,462	17,032	1,686,494	2,929,693	
Quarter ended June 30, 2021	5,665,542	39,090	5,704,632	-	
	<u>\$ 9,377,532</u>	<u>\$ (110,526)</u>	<u>\$ 9,267,006</u>	<u>\$ 14,338,705</u>	<u>\$ (5,071,699)</u>
			Balance, beginning of year		<u>13,644,028</u>
			Balance, end of year		<u>\$ 8,572,329</u>

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

CITY OF SAN JOSE, CALIFORNIA

Notes to the Schedule of Passenger Facility Charge Revenue and Expenses
For the Year Ended June 30, 2021

(1) GENERAL

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

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

(2) BASIS OF ACCOUNTING

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

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Under the Airport's Master Trust Agreement, the Airport may for any period elect to designate any PFC revenues as "Available PFC Revenues" by filing with the Trustee a written statement designating the amount of such Available PFC Revenues and containing a statement that the Available PFC Revenues are legally available to be applied to pay bond debt service during such period. An amount of \$14,338,705 from accumulated PFC Revenues had been designated as Available PFC Revenues for payment of eligible bond debt service in the year ended June 30, 2021.

(4) RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

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

CITY OF SAN JOSE, CALIFORNIA

Notes to the Schedule of Passenger Facility Charge Revenue and Expenses (Continued)
For the Year Ended June 30, 2021

(5) PFC APPROVED PROJECTS AND EXPENSES

The general description of the approved projects and the expenses for the year ended June 30, 2021, are as follows:

Passenger Facility Charge Project Number/Description	Identifying Number	Passenger Facility Charge	Expenses
		Approved Amount	
#40A	Runway 12R/30L Reconstruction	\$ 72,022,700	\$ 1,095,043
#40B	Runway 12R/30L Extension	38,671,724	495,578
#52	Taxiway Z - Apron Reconstruction (Phase II)	825,000	-
#53	Terminal C Fire Protection	580,000	-
#54	Fiber Optic Cable to ARC & Fire Station 29	87,345	-
#55	Green Island Bridge	825,000	-
#56	Replacement of AACS and CCTV	4,418,645	-
#57	Skyport Grade Separation	18,218,154	-
#58	Terminal Drive Improvements	1,146,165	-
#59	Replacement of PASSUR	221,000	-
#60	Terminal C Restroom	2,485,000	-
#61	Interim Air Cargo Ramp Extension	1,100,000	-
#62	Runway 30R/12L Reconstruction	84,105,103	1,172,928
#63	Noise Attenuation Category II & III	4,500,000	-
#64	Taxiway Y Extension	12,890,000	129,254
#65	Extended Noise Attenuation	61,589,000	-
#67	Terminal B - North Concourse	495,095,000	9,966,902
#68	Terminal B Extension, Phase I	110,159,000	1,479,000
#69	Roadway Improvements: Grade Separations	10,244,000	-
	Total Passenger Facility Charge Projects	<u>\$ 919,182,836</u>	<u>\$ 14,338,705</u>

(6) 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 PFC collections is evident starting with a slowdown in March 2020 through March 2021, resulting from enplaned passenger activity that was 80.2% lower than for the same period in the prior fiscal year. While collections for April 2021 through June 2021 exceeded the fiscal year 2020 collections for the same three months by 9,055.1%, they were still 48.0% lower than for the same period in fiscal year 2019.

PFC 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.