

NORMAN Y. MINETA
SAN JOSÉ INTERNATIONAL
AIRPORT

SAN JOSÉ, CALIFORNIA
A DEPARTMENT OF THE
CITY OF SAN JOSÉ



FISCAL YEARS
ENDED JUNE 30,
2015 AND 2014

COMPREHENSIVE ANNUAL FINANCIAL REPORT



FISCAL YEARS
ENDED JUNE 30,
2015 AND 2014



COMPREHENSIVE ANNUAL FINANCIAL REPORT



NORMAN Y. MINETA SAN JOSÉ
INTERNATIONAL AIRPORT

SAN JOSÉ, CALIFORNIA
A DEPARTMENT OF THE
CITY OF SAN JOSÉ

PREPARED BY:
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**Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2015**

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INTRODUCTORY



With the success of the Power Suite located in Terminal B opposite gate 18, another Power Suite is now open in Terminal A opposite gate 9. The new Power Suite is a 650 square-foot hold room with seating for 44 people. It offers the usual free and fast Wi-Fi, and comfortable seating and work stations with built-in power outlets so travelers can remain productive prior to boarding their flight.



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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

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GEO 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, 2015 and 2014



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



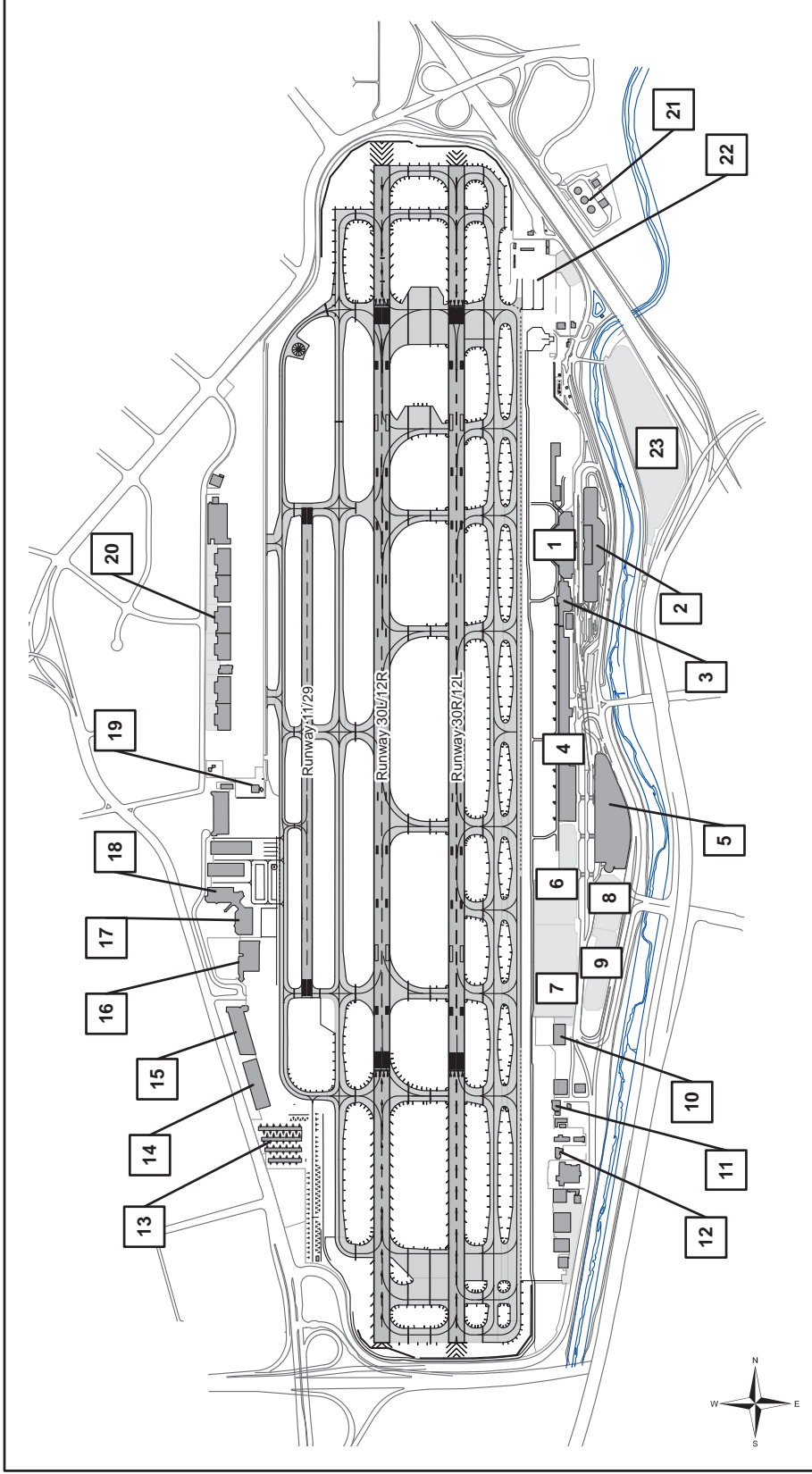
Reduced View of Service Areas



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



Norman Y. Mineta San José International Airport



Map Legend

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

LOCATOR MAP

September 2015

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





November 13, 2015

CITIZENS OF THE CITY OF SAN JOSÉ
HONORABLE MAYOR AND CITY COUNCIL

The Comprehensive Annual Financial Report (CAFR) of the Norman Y. Mineta San José International Airport (Airport), a department of the City of San José (City), for the fiscal years ended June 30, 2015 and 2014, 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 summary of the Airport's background, economic condition and outlook, and major initiatives.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

REPORTING ENTITY

The City Charter created the Airport Department (Department) in 1965 as a department within the City.¹ The City is a charter city that operates under a council-manager form of government. The eleven members of the City Council serve as the governing body that oversees the operation of the Airport. The Director of Aviation is responsible for the operation of the Department and reports directly to the City Manager. The Department operates the Airport, which is currently classified as a medium-hub airport, primarily providing domestic origin-destination (O&D) service with increasing levels of international service. The Department's mission is to meet the air transportation needs of the business and public communities in a safe, efficient, and effective manner.

The Airport serves Santa Clara County, which is also the San José Primary Metropolitan Statistical Area (MSA) 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 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.

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

ECONOMIC CONDITION AND OUTLOOK

Aviation demand nationwide and globally is primarily a function of population and economic growth, developments within the airline industry, and airport and airspace capacity. Airline traffic at airports principally serving origin-destination passengers is most responsive to local economic and population growth. As a predominantly origin-destination, medium-hub airport, the Airport is dependent upon the regional economy, national and international economic conditions, airline service, airfare levels, and population for the passengers who produce its revenue base.

Passenger activity at the Airport increased at a compound annual growth rate of 1.4% between fiscal year (FY) 2003 and 2006. From 2006, the Airport saw a substantial decline in the number of passengers, from 10.9 million in FY 2006 to 8.3 million in FY 2012, which in turn reduced Airport revenues and resources. Several notable events occurred during this period (both locally and nationwide), most notably a nationwide recession from December 2007 to June 2009, as well as a peak in oil prices, and significant airline capacity cuts at most medium-hub airports nationwide. In addition to the reduction in airline traffic, the debt service obligations of the Airport have increased significantly in recent years.

In response, the Airport has taken many steps to reduce its operating budget costs including, among others: (a) elimination of more than 200 positions since 2008, (b) outsourcing of custodial, and parking and traffic control services, (c) relocation of the off-Airport administrative offices, and (d) reductions in police as compared to FY 2011 and fire-related costs as compared to FY 2010. By reducing operating costs, the Airport is able to offer services at competitive prices to attract and retain airlines, flights, and passengers. In addition, the Airport has aggressively sought to increase non-airline revenues for the past several years. Through its concessions program, the Airport has increased the number of shops and restaurants, and its contracts with concessionaires require a minimum annual guarantee that resulted in higher revenues when the new terminal opened. The initiatives to increase non-airline revenues have included re-bidding agreements.

An additional measure taken by the Airport was the establishment of a cost per enplaned passenger (CPE) target of \$12.00. The CPE was \$11.23 for FY 2011, \$12.29 for FY 2012, \$11.94 for FY 2013, \$10.98 in FY 2014, and \$9.60 in FY 2015. The CPE is estimated to be \$10.90 for FY 2016 based on a number of assumptions which may or may not materialize.

Since FY 2013, the Airport has experienced a rebound in passenger activity, resulting in a total of approximately 9.6 million passengers traveling through the Airport and passenger traffic growth of 5.4% for FY 2015.

The City and the Airport continue to work with the Silicon Valley Leadership Group and the San Jose Silicon Valley Chamber of Commerce to help attract new airlines and routes. In an effort to increase service and restore lost flights, the Airport and airports across the nation have been developing and enhancing air service incentive programs. The Airport continues to offer several air service incentive programs to support the development of new passenger air service at the Airport.

In August 2014, a new airline incentive program was approved by the City Council that replaces a prior program effective December 1, 2009. As part of the new airline incentive program, the Director of Aviation has defined specific incentives for airport destinations that are considered short-haul domestic airport destinations, long-haul domestic airport destinations, North America airport destinations outside of the U.S., and international airport destinations. For the domestic airport destinations, a short-haul airport destination is defined as being within a 1,250 mile radius of the Airport. A long-haul airport destination is one that is greater than 1,250 miles from the Airport. The program is a two year incentive that is implemented over a period of between one and two and a half years (the Incentive Period) and provides for the waiver of landing fees for airlines providing service to a new airport destination for a specified period of time, with a minimum frequency of three times weekly nonstop service. The program also provides for matching marketing funds ranging from \$25,000 to \$300,000, depending on the type of new service provided. For a new airline coming to the Airport, landing fees and eligible terminal fees will be waived during the Incentive Period. The terms and conditions of the airline incentive program can be modified at any time by the City Council. Hainan Airlines with service to Beijing and Southwest Airlines with service to Dallas Love Field are current participants under the new incentive program.

Under the prior incentive program, an airline providing new nonstop service between the Airport and an airport in a qualifying short-haul domestic city, medium-range domestic or international city, or long-haul international city will receive credits against landing fees, eligible facility rental charges, and Airport imposed international passenger processing fees (excluding Passenger Facility Charges) that the airline would otherwise have incurred for the new service. The program is a two year incentive that is implemented over a period ranging from one to three years from the commencement of the service. All eligible fees are waived during the one-year promotional period for new nonstop service to qualifying short-haul domestic cities. New nonstop service to qualifying medium-range domestic or international cities is eligible for a two-year promotional period, with all eligible fees waived during the first year and fifty percent (50%) of eligible fees waived during the second year of the promotional period. New nonstop service to qualifying long-haul international cities is eligible for a three-year promotional period, with all eligible fees waived during the first year, sixty-six percent (66%) of eligible fees waived during the second year, and thirty-three (33%) of eligible fees waived during the third year. All Nippon Airways with service to Tokyo-Narita, is the only current participant under the prior incentive program.

In addition, as part of the Airline-Airport Lease and Operating Agreement, the City funds the Municipally-Funded Air Service Incentive Program in any year where the percentage growth in enplaned passengers at the Airport exceeds the growth in enplaned passengers nationwide (as measured by data published in the Federal Aviation Administration (FAA) Aviation Forecast or similar report/forecast if the FAA Aviation Forecast is no longer available). In any year when the program is funded, the Airport's share of indirect overhead expenses allocated to it by the City for support services the City provides to the Airport is reduced, thus reducing the airline CPE by an amount equal to the reduction of the portion of City overhead expenses allocable to airline rates and charges. The airline agreement also provides that in no event will the City's indirect overhead expenses allocated to the Airport operating budget exceed twenty-five percent (25%) or be less than fifteen percent (15%) during the term of the airline agreement. Terms and conditions of the Municipally-Funded Air Service Incentive Program are set forth in the Airline Lease Agreement. The goal of this program is to increase air service at the Airport and to show City support for these efforts.

The current Airline-Airport Lease and Operating Agreement expires on June 30, 2017. Negotiations for a new agreement with the airlines are currently underway.

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 1,016,479 as of January 1, 2015, reflecting a growth of 1.4% over the prior year. San José is located in Santa Clara Valley, at the southern end of the San Francisco Bay Area, a region referred to as Silicon Valley. Santa Clara County is the sixth largest county in California and the largest in Northern California. The population of Santa Clara County grew 1.2% from 2014 to 2015, with the population increasing to 1,889,638 as of January 1, 2015. The six counties comprising the primary service area for the Airport grew 1.1% from 2014, in line with the State growth rate of 0.9%. In total, the population of the primary service area increased by 52,558 from the prior year and accounts for 12.9% of the State's population.²

The per capita income information described below is the information available from the Bureau of Economic Analysis as updated on November 20, 2014. 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 the U.S. Bureau of Economic Analysis, in 2013 Santa Clara County had a PCPI of \$70,151 and was 145% of the state average of \$48,434, and 157% of the national average of \$44,765, and it 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	
	2012	2013	2012-2013	2012	2013	2012-2013	2013 Rank
Alameda	\$84,503,175	\$87,373,095	3.4%	\$54,379	\$55,338	1.8%	9
Monterey	18,496,346	19,233,171	4.0%	43,411	44,851	3.3%	24
San Benito	2,153,480	2,224,472	3.3%	37,867	38,619	2.0%	37
San Mateo	58,665,994	59,709,755	1.8%	79,420	79,893	0.6%	3
Santa Cruz	14,251,103	14,809,976	3.9%	53,473	54,970	2.8%	10
Santa Clara	124,801,907	130,624,491	4.7%	67,974	70,151	3.2%	4
California	\$1,805,193,769	\$1,856,614,186	2.8%	\$47,505	\$48,434	2.0%	

Per capita income increased by 3.2% from 2012 in Santa Clara County compared to an increase of 2.0% and 1.3% for California and the nation, respectively.³

Employment

Both the California and U.S. unemployment rates remain high in comparison to pre-recession levels but are on a downward trend. In 2015, the unemployment rate in Santa Clara and San Benito counties

² California Department of Finance

³ U.S. Department of Commerce, Bureau of Economic Analysis

declined from the previous year for the fifth time since 2006. Employment growth in this region had declined sharply after growing at a solid pace between 2006 and 2007. California's economic problems originated in the housing and financial sectors, spread into the consumer economy, and subsequently into the rest of the economy.⁴

Santa Clara County's unemployment rate at June 2015 was 4.0%, with 41,100 unemployed, an increase of 700 from May 2015.⁵ Likewise, the unemployment rate in the San José-Sunnyvale-Santa Clara MSA was 4.1% in June 2015, up from a revised 4.0% in May 2015, and below the year-ago estimate of 5.3%. This compares with an unemployment rate of 6.2% for California, and 5.5% for the nation during the same period.⁵

The table below shows the number of jobs in the San Jose-Sunnyvale-Santa Clara MSA for each industry in June 2015, including the month-over-month and year-over-year changes.⁵

San José-Sunnyvale-Santa Clara MSA	May-2015	Jun-2015	Month-over-Month	Jun-2014	Jun-2015	Year-over-Year
	Revised	Prelim			Prelim	
Total, All Industries	1,060,200	1,066,700	6,500	1,011,400	1,066,700	55,300
Total Farm	4,900	5,200	300	5,600	5,200	(400)
Total Nonfarm	1,055,300	1,061,500	6,200	1,005,800	1,061,500	55,700
Mining and Logging	200	300	100	300	300	-
Construction	43,200	44,700	1,500	39,200	44,700	5,500
Manufacturing	164,100	165,800	1,700	159,400	165,800	6,400
Trade, Transportation & Utilities	137,900	138,800	900	136,500	138,800	2,300
Information	73,500	76,100	2,600	66,300	76,100	9,800
Financial Activities	36,800	36,500	(300)	35,500	36,500	1,000
Professional & Business Services	220,200	221,000	800	201,400	221,000	19,600
Educational & Health Services	157,900	158,700	800	150,900	158,700	7,800
Leisure & Hospitality	95,600	95,900	300	94,000	95,900	1,900
Other Services	26,700	26,800	100	27,000	26,800	(200)
Government	99,200	96,900	(2,300)	95,300	96,900	1,600

Professional and Business services led the way in posting a monthly increase in jobs on a year-over-year basis, increasing by 19,600 jobs, while Information increased by 9,800 jobs. Other industries with significant year-over-year job additions included: Education and Health Services increased by 7,800 jobs; Manufacturing increased by 6,400 jobs; and Construction increased by 5,500 jobs.

⁴ Employment Development Department – State of California

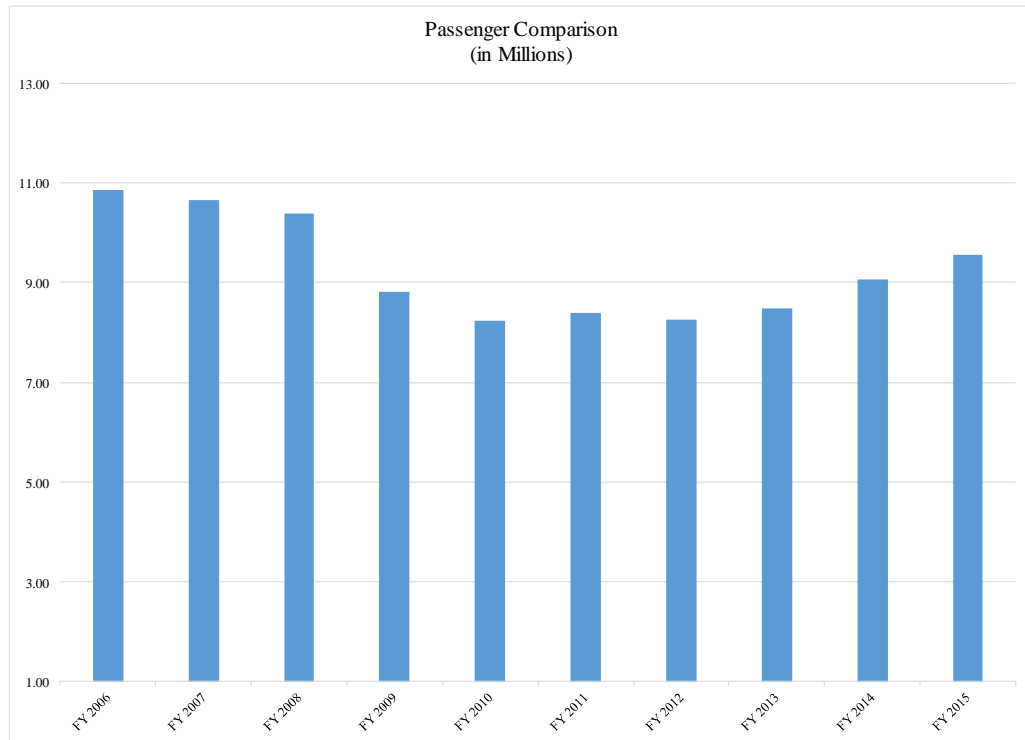
⁵ U.S. Department of Commerce, Bureau of Economic Analysis

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 45th busiest airport in the nation in terms of total passengers according to Airports Council International-North America statistics, as of calendar year 2014. As of June 30, 2015, 15 carriers provided scheduled passenger service to 31 destinations, including eight mainline carriers, four regional/commuter carriers, and three international carriers. In addition, two all-cargo carriers provided scheduled cargo service at the Airport.

For FY 2015, the Airport enplaned and deplaned 9.6 million passengers, which represents an increase of 5.4% from the previous fiscal year.

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



For FY 2015, the Airport experienced an overall increase of 4.1% in traffic operations due to gains in the following categories: general aviation (an increase of 3,627 or 12.2%), taxi/commuter (an increase of 2,308 or 13.2%), cargo carrier (an increase of 32 or 2.2%), and military (an increase of 5 or 2.4%).

Airport Master Plan

In 1997, after extensive planning and environmental studies and reports, the City Council approved a new master plan for the Airport (the Master Plan). In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new Airport Layout Plan (ALP) displaying the Master Plan projects and unconditionally approved all of the near-term projects. Both the Master Plan and the ALP have been amended several times since 1997 and currently are intended to provide facility improvements needed to accommodate forecast demand in the year 2027 for commercial passenger service, air cargo,

and corporate general aviation demand. The Master Plan includes both the substantially complete Phase 1 and the planned Phase 2 of the Airport Development Program, which collectively comprise improvements to the Airport's terminal facilities, roadways, parking facilities, and airfield facilities and includes 1.075 million square feet of passenger terminal facilities comprised of up to 49 gates; parking and garage facilities comprised of up to 16,200 public parking spaces, 2,600 employee parking spaces and 10,000 rental-car parking spaces (including 2,000 ready-return spaces); air cargo facilities; ground transportation, roadway and other access improvements; and runway improvements. In the fall of 2005, and in recognition of how current market conditions were impacting passenger growth, the Airport and its airline tenants reexamined the Master Plan and developed the Terminal Area Improvement Program (TAIP), a program for implementing the Master Plan by aligning ongoing and planned construction activities with available fiscal resources, taking into account revised passenger growth projections. In June 2006, the City Council approved an amendment to the Master Plan to incorporate the Terminal Area Improvement Program and other Airport Development Program revisions. In June 2010, the City Council approved an additional amendment to the Master Plan that updated projected aviation demand and facility requirements, and modified specific components of the Airport Development Program. Pursuant to the amended Master Plan, the former interim long-term public parking and employee parking lots on the northwest side of the Airport (which have been relocated to the east side terminal area) are designated for development of facilities to accommodate projected growth in general aviation demand. The 29-acre Signature fixed based facility development is located in this portion of the Airport, and an additional 15 acres north of the FAA air traffic control tower remains available for future general aviation development opportunities.

Construction of the Phase 1 projects was substantially complete in FY 2011. The Phase 1 projects included nine new gates and approximately 366,000 square feet of new terminal space; design and construction of the new Terminal B; improvements to the existing Terminal A, including new ticketing facilities, a new in-line baggage system that serves both Terminals A and B and security checkpoint, lobby concessions and other improvements; the phased demolition of Terminal C; design and construction of the Consolidated Rental Car Facility (ConRAC); realignment and improvement of existing terminal roadways; parking improvements; and airfield projects, including noise mitigation and the reconstruction of Taxiway Y. An additional program element of Phase 1 that was completed in FY 2014 included the final phase of the Taxiway W extension project. The Phase 1 projects also included design of certain Phase 2 projects, but under the Airline Lease Agreement the commencement of construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers.

Phase 2 projects will consist primarily of the design and construction of the South Concourse of Terminal B and the second phase of Terminal B, including a total of 12 additional gates, and a new central plant facility. Under certain circumstances, the City is required to consult with the Signatory Airlines before proceeding with additional future capital development. Phase 2 projects are preapproved in the Airline Lease Agreement, but construction of the Phase 2 projects is contingent upon satisfying specified activity based triggers. Pursuant to the terms of the Airline Lease Agreement, the Airport must have either 217 scheduled operations on any one day or 12.2 million enplaned and deplaned passengers in any given fiscal year in order to begin the Phase 2 projects.

MAJOR INITIATIVES

The Airport's mission is to meet the air transportation needs of the business and public communities in a safe, efficient, and effective manner. In concert with the City's move towards a more customer-focused service delivery government, the Airport embraced the following Vision Statements:

- ❑ *Norman Y. Mineta San José International Airport will be the region's gateway and first choice for air transportation services.*
- ❑ *Travelers will feel the anticipation and sense of adventure that air travel should generate.*
- ❑ *The Airport will be a partner with businesses working to drive the regional economy.*
- ❑ *The Community will be proud to have the Airport in their midst, seeing it as a good neighbor and understanding its benefits to the region.*
- ❑ *The Airport will be a great place to work for all employees.*

These Vision Statements are used by the Airport as a guide in making better decisions and sound management practices.

Highlights of the Airport's activities and accomplishments for the FY ended June 30, 2015, include the following:

- Air Service Development

Hainan Airlines began their inaugural flight between the Airport and Beijing Capital International Airport (PEK) on June 15, 2015. The flight marked the first-ever nonstop service between the People's Republic of China and the Silicon Valley, and the second addition of new international service to Asia, after All Nippon Airways started direct service to Tokyo in January 2013. Hainan Airlines offers five flights per week on a 213-seat, two-cabin class Boeing 787 Dreamliner aircraft. San José is the fourth U.S. city to be served by Hainan Airlines, which is the largest privately owned air transport company in China. The economic impact of the flight to the San José region is estimated at \$105 million annually.

In August 2015, British Airways announced it will begin new daily nonstop service between the Airport and London Heathrow International Airport (LHR) beginning on May 4, 2016. British Airways will be operating a 216-seat, four-cabin class Boeing 787-900 Dreamliner. London has been the No. 1 requested international destination at the Airport. The flight with British Airways will mark the first nonstop transatlantic service between the United Kingdom and the Silicon Valley.

Subsequent to the end of FY 2015, Lufthansa German Airlines announced that it will launch the first nonstop service between the Airport and its largest hub of Frankfurt, Germany (FRA). The flights are scheduled to begin on April 29, 2016 and will operate five times weekly using the Airbus A340-300 aircraft with 298 seats configured with Business Class, Premium Economy, and Economy cabins.

On April 8, 2015, Southwest Airlines began nonstop flights between the Airport and Dallas Love Field (DAL) Airport. Southwest currently offers one daily nonstop flight to DAL using Boeing 737 aircraft. In response to increased demand from Silicon Valley travelers, Southwest Airlines announced it would add a second daily nonstop flight to DAL beginning November 1, 2015.

Alaska Airlines announced the start of daily nonstop service to Eugene, Oregon on November 5, 2015. The flight will be operated by Alaska's sister carrier Horizon Air, using a 76-seat Bombardier Q400 aircraft.

- SJC Ranks in Top 10 U.S. Airports for Low Fares

The Airport has been ranked No. 8 for affordable airfares among 101 U.S. airports by Cheapflights.com, a popular flight comparison search engine and website, in its 2014 Fifth Annual Airport Affordability Index. SJC marked its first year for ranking in Cheapflight's top 10 most affordable airports and is the only Bay Area airport to make the 2014 top 10 list.

- Airport Perimeter Security Funding

Members of Congress announced that the Airport will receive over \$3.4 million in federal funding to boost perimeter security at the Airport. The federal grant, which follows several incidents of security breaches at the Airport over the past year, is administered by the U.S. Department of Transportation and the FAA, and will fund the installation of higher perimeter fencing around certain parts of the Airport in fiscal year 2016.

- Funding for Improvements to Airfield Safety

Members of Congress announced \$1.5 million in federal funding for the Airport to study possible improvements to airfield safety. The funds, administered by the FAA, will fund a new Runway Incursion Mitigation (RIM) and Airfield Design Standards Analysis. The RIM study is intended to reduce the potential for runway incursions which is the unintended entry onto an active runway by aircraft, vehicles, or pedestrians. As the number of larger commercial and general aviation aircraft operations continue to increase, the study will identify potential operational and facility alternatives to improve airfield safety and compliance with current FAA airfield design standards.

- Tax & Duty Free Shopping

An approximately 1,200 square-foot Dufry duty-free store opened in August 2015 between gates 14 and 15 in Terminal A, close to where international flights depart, providing a luxury shopping experience for a wide range of travelers. International passengers showing a boarding pass and passport will enjoy tax and duty-free shopping. Featured items include high-end merchandise, top-selling cosmetics and fragrances, premium-brand wines and spirits, and tobacco products. Domestic passengers can purchase all merchandise, except alcohol and tobacco products, with all duty and taxes payable.

- Terminal B Named One of the Smartest Buildings in the World

Computer Business Review has named the Airport's Terminal B No. 6 in its top 10 of the smartest buildings in the world. The review highlights the Airport's modern system for self-checking and bag screening, comfortable "Air Chairs" with built-in power outlets, digital art collection, and energy saving ventilation system.

- Signature Flight Support Nearing Completion on \$82 Million Corporate Aviation Facility

Signature Flight Support, a global leader in fixed base operations, will complete the \$82 million Signature San José facility at the Airport in time for Super Bowl 50 to be played on February 7, 2016 at Levi's Stadium, located just two miles off the end of the Airport's runways. Construction on six of the complex's hangars are expected to be complete before the end of 2015. Crews are working diligently to complete the executive terminal and seventh hangar, which can accommodate heavy business jets such as the Boeing 767 and Boeing Business Jet 737. Signature San José will serve the general aviation needs of individuals and companies in Silicon Valley. The 29-acre Signature facility will feature 240,000 square feet of hangar space, a passenger terminal, and other amenities. The LEED-designed facility will create 150 to 200 on-Airport and regional construction jobs, 36 permanent on-Airport jobs, and generate more than \$3 million in annual revenue for San José.

- Airport Offers High-Tech Approach to Stay Green

The Airport has taken action in response to Emergency State Regulations Concerning Water Conservation regarding the California drought. The majority of the Airport's irrigation system serving the terminal area already uses 100 percent recycled water, which reduces potable water use for landscaping.

The Airport has further reduced water usage by reducing scheduling waterings, watering overnight only so that water is not lost to evaporation, ensuring that water does not run off to adjacent pavement or facilities, and converting high-pressure washers that clean building exteriors to use recycled water.

Inside the terminals, LEED Silver certified Terminal B contributes to water conservation with the use of recycled water in the low-flow toilets.

OUTLOOK FOR THE FUTURE

San José's economic development strategy identifies the Airport's role in providing an important infrastructure resource to support the economy. Businesses need Airport infrastructure and services in order to successfully market goods and services. Global economic demands mean that it is critical that Airport infrastructure be developed and services continue to meet emerging needs.

The Airport works in partnership with various City departments, such as the Department of Transportation, Police and Public Works Departments, to improve the transportation systems to benefit the residents of San José as well as support successful business development. These partnerships allow the City to focus coordination efforts on critical transportation projects. The synergy from these efforts is promoted by the Transportation and Aviation City Service Area (CSA), where the Airport Operating Budget is organized and reported.

The mission of the CSA is to provide the community with safe, secure, and efficient surface and air transportation systems that support San José's livability and economic vitality. The following are the Transportation and Aviation Services CSA desired outcomes:

- Provide safe and secure transportation systems
- Provide viable transportation choices that promote a strong economy
- Travelers have a positive, reliable, and efficient experience

- ❑ Preserve and improve transportation assets and facilities
- ❑ Provide a transportation system that enhances community livability

In May 2010, the City Council directed the City Manager and Director of Aviation to take steps necessary to ensure the ability of the Airport to successfully compete for air service and continue to keep costs to airlines at a nationally competitive level. This direction led to a comprehensive Airport Competitiveness Strategy, as well as the formation of a City Council Committee that focused on Airport Competitiveness from 2010 through its disbandment at the end of 2014. Since then, Airport issues continue to be raised in front of the Council Committees for Community and Economic Development as well as Transportation and Environment.

The need to carefully manage expenditures and reduce ongoing operating costs continues to be critical due to the higher debt service costs associated with the new facilities and the reduction in the number of enplaned passengers. While enplaned passenger numbers are increasing, 5.5% gain in FY 2015 and 6.7% gain in FY 2014, total enplaned passengers still trail pre-recession levels of FY 2008. The Airport Operating Budget focus for the last several years on creating efficiencies by evaluating and implementing Airport service delivery alternatives continues. However, additional consideration is directed toward increasing revenue generation prospects and programs, growing and retaining passengers, and developing non-aviation revenue opportunities. The Airport is actively pursuing air service development opportunities, customer service enhancements, and collaboration with the City's Office of Economic Development as well as local business groups like the Silicon Valley Leadership Group and the San José Silicon Valley Chamber of Commerce. The wide variety of strategic efforts to increase revenue sources is critical to enhance the Airport's resiliency and adaptability to the ever changing aviation industry environment.

The FY 2016 Adopted Budget contains funding for several programs to increase Bay Area market share of passengers and recruit new air service. Business development efforts will focus on supporting a marketing campaign for the upcoming Super Bowl 50 at Levi's Stadium in February 2016. The Super Bowl is expected to generate national media attention for San José and Silicon Valley, generating over \$300 million in local economic impact, and over 125,000 out-of-state travelers to the Bay Area, and is anticipated to generate major passenger traffic at the Airport during the time period around the Super Bowl. Other funding increases include cost of living adjustments to existing agreements, gas and electric utility adjustments, City overhead increases, as well as salary and benefit changes. Increases are partially offset by operating savings for the parking operator agreement, baggage system supplies, and vehicle maintenance and operation costs.

Funding, to continue passenger marketing programs started in FY 2014, is included and targets passenger retention and growth through radio, print and online advertisements, large scale placement of billboards, digital displays, and social media messages. Airport Service Quality program membership will provide survey data about the Airport and performance comparisons to airports worldwide. Results will provide insight into key areas to concentrate resources for improving passengers' experiences at the Airport. Additionally, funding for air service development consultants provides data analysis, revenue forecasting, presentation preparation and general support at airline conferences and headquarter meetings with airlines. Air service development staff works in tandem with the consultant to maximize opportunities in recruiting new airlines and bringing new service to the Airport.

Several capital projects currently under development have also been determined to be key elements to the Airport's competitiveness strategy. To accommodate future international air traffic, the Airport will be adding a second baggage carousel and extending the existing baggage carousel for the Federal Inspection Services (FIS) facility. The FIS facility will also be enhanced by enclosing the front of the

facility and adding customer friendly amenities for arriving passengers and those waiting to receive the arriving passengers. As described above, construction is wrapping up for Signature Flight Support's 29-acre fixed base operation on the west side of the Airport.

The Airport continues to analyze and identify other potential cost reduction measures. The long-term key to success is increasing the number of passengers and flights, allowing costs to be distributed over a larger enplanement base thus reducing the CPE. Enplanement growth is the key, not only to making the Airport more price competitive to the airlines, but also increased passengers generate non-airline revenues such as parking fees, concession sales, and rental car fees. Enplanement growth at the Airport has exceeded the FAA's national enplanement growth projection for FY 2014 and FY 2015 and is projected to grow by 2.0% in FY 2016.

Conservative budget and fiscal policies have led to a surplus for FY 2015. Computed pursuant to the Airline Lease Agreement, Airport's revenues exceeded its expenses and other reserve requirements for the FY ended June 30, 2015 by \$24.3 million. This was approximately \$6.7 million greater than the \$17.7 million anticipated and utilized in the preparation of the Adopted FY 2016 Rates and Charges. The additional \$6.7 million surplus will assist in balancing the budget and achieving the targeted CPE of \$12 in future years.

The Airport's FY 2016-2020 Adopted Capital Improvement Program (CIP) reflects a shift in focus from the many projects comprising the TAIP to the maintenance and preservation of the Airport infrastructure. Uses include expenditure of unspent 2007 bond proceeds on the completion of projects that were deferred from the original TAIP program due to funding issues during the construction phase of the program. The projects include relocation of electrical equipment in the northeast area, Terminal A bag system ceiling protection, completion of the fuel truck maintenance facility and shuttle bus staging in the northeast area, and addition of a second baggage carousel in the international arrivals facility.

The FY 2016-2020 Adopted CIP provides funding of \$238.8 million primarily for projects and debt service, of which \$85.7 million is allocated to FY 2015-2016. The majority of the five-year total funding (\$131.1 million) is set aside to pay debt service on outstanding bonds. A transfer in the estimated amount of \$8.2 million is programmed in FY 2017-2018, which reflects the transfer of series 2007A bond proceeds projected to be remaining from the Airport Revenue Bond Improvement Fund to the Airport Revenue Fund to be used for eligible operating costs subject to compliance with legal requirements. A total of \$3.5 million funds general non-construction activities, leaving \$96.0 million for capital construction over the next five years.

Highlights of the Airport's FY 2016-2020 Adopted CIP are as follows:

Airfield Facilities

The Adopted CIP allocates \$35.1 million towards projects that will maintain and improve airfield infrastructure to accommodate the demands for air carrier and general aviation operations. The timing and completion of Airfield improvement projects are largely contingent upon the receipt of Airport Improvement Program (AIP) grants. Below are the highlights of the Airfield Facilities over the next five years:

- \$14.4 million for the Airfield Geometric Implementation, which includes improvements to airfield geometry as identified in the RIM Airfield Geometric Study. Projects will maximize safety and compliance with FAA regulations and design standards and are contingent upon the timing and availability of FAA grant funding.

- ❑ \$8.8 million for the Southeast Ramp Reconstruction, Phases I and II, the cargo ramp in the southeast quadrant of the Airport, adjacent to 1277 Airport Boulevard. This project is contingent upon the timing and availability of FAA grant funding.
- ❑ \$3.7 million for Runway Pavement Rehabilitation of an intersection on Runway 30R and Taxiway J. Approximately 40 concrete panels will be removed and replaced. This project is contingent upon the timing and availability of FAA grant funding.

Aviation Support - Security

The Adopted CIP includes \$9.4 million to fund various new infrastructure improvements to maintain and improve security and safety. The Airport continues its commitment to maintain and improve security and safety through projects aimed at upgrading perimeter fencing and enhancing security technology and infrastructure. Projects in Aviation Support for security include the following:

- ❑ \$6.6 million for Perimeter Fence Line Upgrades which include improving fence line around the perimeter of the Airport to enhance security and deter unauthorized access to the facilities. The Airport will receive approximately \$3.4 million in federal funding to boost perimeter security at the Airport.
- ❑ \$2.0 million for Perimeter Security Technology Infrastructure which includes acquisition of technology and analytics to detect and deter unauthorized access to the airfield. This project is contingent upon the timing and availability of FAA grant funding.

Aviation Support - General

The Adopted CIP provides \$24.6 million to fund various new infrastructure improvements and to renovate, maintain, or upgrade existing facilities. The largest project in this category, the Airport Rescue and Fire Fighting (ARFF) Facility, is programmed in the final year of the CIP and is dependent upon the receipt of FAA grant funding. This and other significant projects in Aviation Support - General are highlighted below:

- ❑ \$14.0 million upgrade of the current ARFF Facility, known as Fire Station 20, to correct building deficiencies, address diversity in the workforce, and increase vehicle capacity and training capabilities. The timing and completion of this project is contingent upon the receipt of grant funding from the FAA.
- ❑ \$2.0 million for the Pavement Maintenance that includes repair, replacement, or reconstruction of asphalt and concrete pavement, including striping and markings, at various locations throughout the Airport to meet airfield and roadway safety requirements.

Passenger Terminal Facilities

A total of \$18.4 million funds various new infrastructure improvements to maintain, renovate, or upgrade existing facilities, including jet bridges, elevators, and the Terminal A Baggage Claim escalators.

Significant projects in Passenger Terminal Facilities are highlighted below:

- ❑ \$3.3 million for FIS Baggage System Upgrades include an addition of a second baggage carousel and extension of existing baggage carousel for the FIS Facility.

- ❑ \$3.0 million for the FIS Curbside Improvements to the public side of the FIS facility. Once passengers exit Customs and Border Protection processing, the current facility opens up the passengers directly onto the curb and does not provide customer friendly amenities.

Other Support Facilities, Other Construction Projects and General Non-Construction

Additional funding of \$11.9 million is included in the Adopted CIP for various Aviation Support Environmental and Transportation projects, as well as Non-Construction projects. In Aviation Support – Transportation, funding of \$5.0 million is included for enhancements to improve the customer experience, including funding for the renovation of the Terminal A Ground Transportation Island to increase operational efficiency and to match the appearance of the Terminal B Ground Transportation Island. Funding of \$2.0 million is included in General Non-Construction category to replace two existing ARFF vehicles, contingent upon the timing and availability of FAA grant funding.

FINANCIAL INFORMATION

The management staff of the Airport is responsible for establishing and maintaining an internal control system designed to safeguard the assets of the Airport from loss, theft, or misuse, and allow the compilation of adequate accounting data for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits, and that the evaluation of costs and benefits is subject to management estimates and judgments.

Single Audit

As a recipient of federal funds, the Airport is also responsible for providing assurance that an adequate internal control system is in place to ensure compliance with applicable laws and regulations relating to federal award programs. This internal control system is subject to periodic evaluation by management, the City Auditor, and the City's outside independent certified public accountants.

As part of the City's Single Audit procedures, tests are made to determine compliance with the internal control system in place, including those controls relating to federal award programs, and whether the Airport has complied with all applicable laws and regulations. The City's Single Audit for the year ended June 30, 2015 is still in progress.

The Airport was authorized to impose Passenger Facility Charges (PFCs) effective September 1, 1992. Legislation authorizing the collection of PFCs 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. At least annually, during the period in which the PFC is collected, held, or used, the Airport must provide for an audit of its PFC accounts. The audit must be conducted by an independent certified public accountant. The scope of the audit must include evaluation of the Airport's internal accounting controls to account for the collection and use of PFCs. The audit is performed separately for the PFC account and for FY 2015, the audit of the Airport's PFC accounts will be reported as part of the Single Audit report.

Pursuant to California Civil Code 1936, the Airport has been authorized to require rental car companies to collect from a renter a Customer Facility Charge (CFC) since May 2000. CFC revenues may be used to pay the reasonable costs to finance, design, and construct the ConRAC and to finance, design,

construct and provide the ConRAC Transportation System. For FY 2015, the audit of the Airport's CFC accounts will be reported as part of the Single Audit report.

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 San José City Council. The level of budgetary control, at which expenses cannot legally exceed the budgeted amount, is at the appropriation level.

The Airport, as with the City, also uses encumbrance accounting as another technique of accomplishing budgetary control of the Airport funds. Purchase commitments are earmarked for particular purposes and become unavailable for general spending.

Appropriations that are not encumbered lapse at the end of the fiscal year. Year-end encumbrances are carried forward and become part of the following year's budget. For budget purposes, expenses are recognized in the year encumbered. For financial statement purposes, expenses are recognized when incurred.

Certain budgetary and fund provisions are stipulated in the Airline–Airport Lease and Operating Agreement and the Master Trust Agreement. Both operating and capital budgets comply with the provisions or restrictions set forth within these agreements.

The Airport continues to meet its responsibility for sound financial management as demonstrated by the statements included in the financial section of this report.

OTHER INFORMATION

Independent Audit

In accordance with Sections 805(a) and 1215 of the City Charter, the annual audit of Airport funds was completed by Macias Gini & O'Connell LLP, Certified Public Accountants for the fiscal year ended June 30, 2015. In addition to meeting the requirements set forth in the City Charter, the City's audit was also designed to meet the requirements of the Federal Single Audit Act Amendments of 1996 and the related Office of Management and Budget Circular A-133. The Airport's federal awards programs are included in the City-wide Single Audit Report. The auditor's report on the Airport's financial statements is included in the financial section of this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Norman Y. Mineta San José International Airport for its CAFR for the fiscal year ended June 30, 2014. This was the eighteenth consecutive year that the Airport has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Airport must publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

Acknowledgments

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

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

Respectfully submitted,



Kimberly J. Becker
Director of Aviation



Kim Hawk
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, 2014

Executive Director/CEO

**Norman Y. Mineta San José 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
Ash Kalra.....	Council Member, District 2
Raul Peralez.....	Council Member, District 3
Manh Nguyen.....	Council Member, District 4
Magdalena Carrasco.....	Council Member, District 5
Pierluigi Oliverio.....	Council Member, District 6
Tam Nguyen.....	Council Member, District 7
Rose Herrera.....	Council Member, District 8
Donald Rocha.....	Council Member, District 9
Johnny Khamis.....	Council Member, District 10

AIRPORT COMMISSION:

E. Ronald Blake.....	Chairperson
Julie Riera Matsushima.....	Vice-Chairperson
AJ Borade.....	Member
Dan Connolly.....	Member
Tom Cruz.....	Member
Raymond Greenlee.....	Member
Catherine Hendrix.....	Member
R. William Highlander.....	Member
Stephen McMinn.....	Member
Mark Schmidt.....	Member
Raul Peralez.....	Council Member, Airport Liaison

CITY OFFICIAL

Norberto Dueñas.....	City Manager
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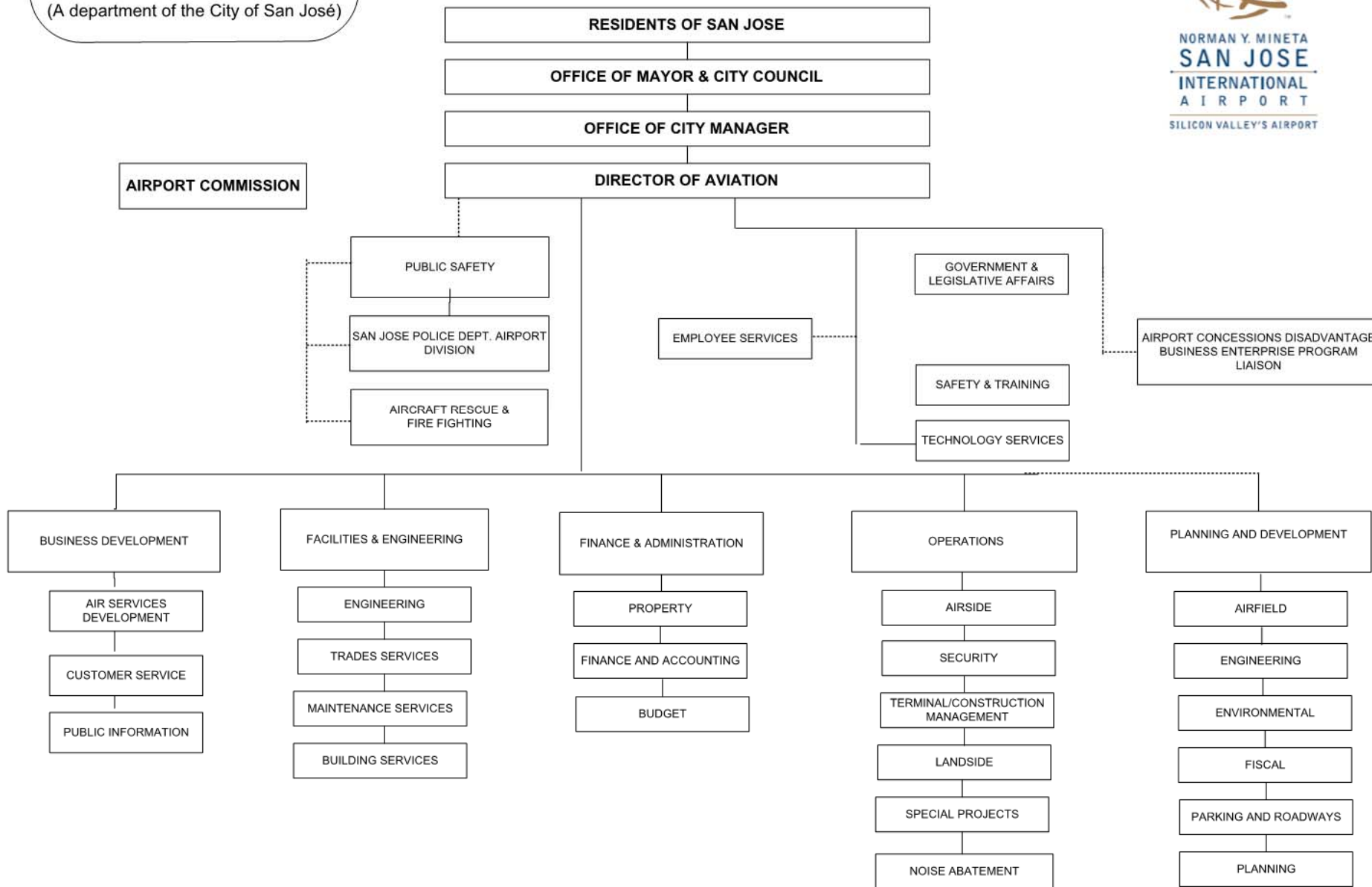
AIRPORT DEPARTMENT:

Kim Becker.....	Director of Aviation
John Aitken.....	Assistant Director of Aviation
Robert Lockhart.....	Deputy Director, Operations
Kim Hawk, CPA.....	Deputy Director, Finance & Administration
Patrick R. Tonna.....	Deputy Director, Facilities & Engineering
Judy Ross.....	Deputy Director, Planning & Development
Vacant.....	Deputy Director, Air Service Development
Lieutenant Randall Schriefer.....	San José Police Dept. – Airport Division

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



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



FINANCIAL



An approximately 1,200 square-foot Dufry duty-free store opened between gates 14 and 15, close to where international flights depart, providing a luxury shopping experience for a wide range of travelers.

International passengers showing a boarding pass and passport will enjoy tax and duty-free shopping. Domestic passengers can purchase all merchandise, except alcohol and tobacco products, with all duty and taxes payable.



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, 2015 and 2014, and the related notes to the 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, 2015 and 2014, and the changes in its financial position and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Basis of Presentation - As discussed in Note 1, the financial statements of the Airport are intended to present the financial position, the changes in financial position and, where applicable, 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, 2015 and 2014, 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.

Change in Accounting Principles - As discussed in Note 1(n) to the financial statements, effective July 1, 2014, the Airport adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The Airport's financial statements as of and for the fiscal year ended June 30, 2014 were not restated because the City's defined benefit plan pension information prepared in accordance with the requirements of GASB Statement No. 68 was not available for periods prior to July 1, 2014. 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, the schedule of the proportionate share of the net pension liability and schedule of contributions identified in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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 audits were conducted for the purpose of forming an opinion on the Airport's financial statements. The introductory, statistical and bond disclosure sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory, statistical and bond disclosure sections have not been subjected to the auditing procedures applied in the audits of the 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 13, 2015 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2015. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.



Walnut Creek, California
November 13, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the Airport CAFR presents a narrative overview and analysis of the financial activities of the Airport for the fiscal years ended June 30, 2015 and 2014.

AIRPORT ACTIVITIES HIGHLIGHTS

A total of approximately 9.6 million passengers traveled through the Airport in FY 2015 compared to approximately 9.1 million in FY 2014, resulting in a passenger traffic growth of 5.4%. The Airport experienced an increase in passenger traffic of 6.8% in FY 2014 and of 2.8% in FY 2013.

Hainan Airlines started offering service to Beijing five times a week in June 2015. Following the close of FY 2015, two airlines announced that they would begin service at the Airport during FY 2016. On August 26, 2015, British Airways announced it would begin daily service to London starting on May 4, 2016. On October 15, 2015, Lufthansa German Airlines announced it would operate five times weekly service to Frankfurt beginning April 29, 2016.

As of June 30, 2015, Airport carriers served 31 nonstop markets with 146 peak daily departures compared to 29 nonstop markets with 143 peak daily departures as of June 30, 2014 and 29 nonstop markets with 142 peak daily departures as of June 30, 2013.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Flight operations	127,417	122,351	120,575
	4.1%	1.5%	0.4%
Landed weight by passenger (in pounds)	5,628,460	5,536,593	5,213,194
	1.7%	6.2%	1.7%
Landed weight by cargo carriers (in pounds)	236,706	235,002	248,067
	0.7%	-5.3%	-7.7%
Total enplaned and deplaned passengers	9,554,866	9,063,012	8,488,459
	5.4%	6.8%	2.8%
Enplaned passengers	4,765,001	4,517,021	4,234,753
	5.5%	6.7%	2.7%
Deplaned passengers	4,789,865	4,545,991	4,253,706
	5.4%	6.9%	3.0%
Domestic passengers	9,205,030	8,734,157	8,265,327
	5.4%	5.7%	2.1%
International passengers	349,836	328,855	223,132
	6.4%	47.4%	35.9%
Cargo tonnage (in tons)	52,003	51,765	43,184
	0.5%	19.9%	3.1%
Parking (vehicles) exits	1,051,971	1,042,142	996,029
	0.9%	4.6%	4.2%

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FINANCIAL HIGHLIGHTS

The Airport posted a decrease in net position for the 2015 fiscal year.

- Operating revenues increased by 0.2% from \$125.7 million in 2014 to \$126.0 million in 2015.
- Operating expenses before depreciation and amortization decreased by 0.7% from \$71.6 million in 2014 to \$71.1 million in 2015.
- Operating income before depreciation and amortization increased by 1.4% from \$54.1 million in 2014 to \$54.8 million in 2015.
- Depreciation and amortization decreased by 1.1% from \$54.0 million in 2014 to \$53.4 million in 2015.
- The above resulted in an operating income before nonoperating revenues and expenses of \$40,000 in 2014 and an operating income before nonoperating revenues and expenses of \$1.4 million in 2015.
- Nonoperating expenses, net of nonoperating revenues, decreased from \$37.9 million 2014 to \$32.6 million in 2015.
- Capital contributions received in the form of grants from the federal government decreased from \$4.8 million in 2014 to \$0.9 million in 2015.
- Net position shows a decrease of \$98.1 million in 2015 compared to a decrease of \$33.0 million in 2014. This was primarily attributed to decreases in net nonoperating expenses, a decrease in capital contributions, and changes in accounting principle resulting from the implementation of GASB Statement Nos. 68 and 71.

In addition, the Airport shows a decrease in net position for the 2014 fiscal year.

- Operating revenues increased by 2.1% from \$123.1 million in 2013 to \$125.7 million in 2014.
- Operating expenses before depreciation and amortization increased by 2.2% from \$70.1 million in 2013 to \$71.6 million in 2014.
- Operating income before depreciation and amortization increased by 1.9% from \$53.0 million in 2013 to \$54.1 million in 2014.
- Depreciation and amortization decreased by 0.6% from \$54.4 million in 2013 to \$54.0 million in 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

- The above resulted in an operating income before nonoperating revenues and expenses of \$40,000 in 2014 and an operating loss before nonoperating revenues and expenses of \$1.3 million in 2013.
- Nonoperating expenses, net of nonoperating revenues, decreased from \$43.8 million in 2013 to \$37.9 million in 2014.
- Capital contributions received in the form of grants from the federal government decreased from \$7.0 million in 2013 to \$4.8 million in 2014.
- Net position was a decrease of \$33.0 million in 2014 compared to a decrease of \$38.2 million in 2013. This was the result of the increase in operating revenues and decreases in depreciation and amortization and nonoperating expenses, offset by the increase in operating expenses and decrease in capital contributions.

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, 2015, 2014, and 2013 (2014 and 2013 have not been restated for GASB Statement Nos. 68 and 71, because amounts are not available):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 125,981	125,710	123,115
Operating expenses before depreciation and amortization	<u>(71,136)</u>	<u>(71,643)</u>	<u>(70,074)</u>
Operating income before depreciation and amortization	54,845	54,067	53,041
Depreciation and amortization	<u>(53,437)</u>	<u>(54,027)</u>	<u>(54,353)</u>
Operating income (loss)	1,408	40	(1,312)
Nonoperating revenues and expenses, net	<u>(32,594)</u>	<u>(37,873)</u>	<u>(43,816)</u>
Loss before capital contributions	(31,186)	(37,833)	(45,128)
Capital contributions	<u>937</u>	<u>4,843</u>	<u>6,954</u>
Decrease in net position	<u>(30,249)</u>	<u>(32,990)</u>	<u>(38,174)</u>
Net position - beginning, as previously reported	299,913	332,903	371,077
Restatement due to implementation of GASB Statement No. 68 and 71	<u>(67,873)</u>	-	-
Net position - beginning, as restated	<u>232,040</u>	<u>332,903</u>	<u>371,077</u>
Net position - ending	<u>\$ 201,791</u>	<u>299,913</u>	<u>332,903</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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 exceed liabilities plus deferred inflows of resources by \$201.8 million, \$299.9 million, and \$332.9 million at June 30, 2015, 2014, and 2013, respectively, a \$98.1 million decrease from June 30, 2014 to June 30, 2015 and a \$33.0 million decrease from June 30, 2013 to June 30, 2014.

A condensed summary of the Airport's net position (in thousands) at June 30, 2015, 2014, and 2013 is shown below (2014 and 2013 have not been restated for GASB Statement Nos. 68 and 71, because amounts are not available):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Unrestricted assets	\$ 120,652	102,551	99,976
Restricted assets	219,686	252,068	273,238
Capital assets	1,353,462	1,402,239	1,443,362
Other assets	9,717	11,126	13,016
Total assets	<u>1,703,517</u>	<u>1,767,984</u>	<u>1,829,592</u>
Deferred outflows of resources:			
Deferred pension contributions	7,103	-	-
Loss on refundings of debt	3,385	626	698
Total deferred outflows of resources	<u>10,488</u>	<u>626</u>	<u>698</u>
Liabilities:			
Current liabilities – unrestricted	47,537	48,993	55,600
Current liabilities payable from restricted assets	48,957	49,479	49,924
Noncurrent liabilities	1,406,991	1,368,851	1,389,759
Total liabilities	<u>1,503,485</u>	<u>1,467,323</u>	<u>1,495,283</u>
Deferred inflows of resources:			
Deferred differences related to pension assumptions	7,933	-	-
Gain on refundings of debt	796	1,374	2,104
Total deferred inflows of resources	<u>8,729</u>	<u>1,374</u>	<u>2,104</u>
Net position:			
Net investment in capital assets	126,350	169,870	209,381
Restricted	56,752	67,848	65,408
Unrestricted	18,689	62,195	58,114
Net position	<u>\$ 201,791</u>	<u>299,913</u>	<u>332,903</u>

The increase in noncurrent liabilities was largely attributable to the recognition of a \$64.6 million net pension liability at June 30, 2015 to better comprehensively and comparably measure the pension obligations as required by GASB Statement No. 68. As of June 30, 2015, the Airport reported \$7.1 million as deferred outflows of resources related to contributions made subsequent to the measurement date of June 30, 2014 (i.e. FY 2015) and would be recognized as part of pension expense in FY 2016. The \$7.9 million in deferred inflow of resources related to pensions is the net difference between projected and actual earnings on pension plan's investments.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

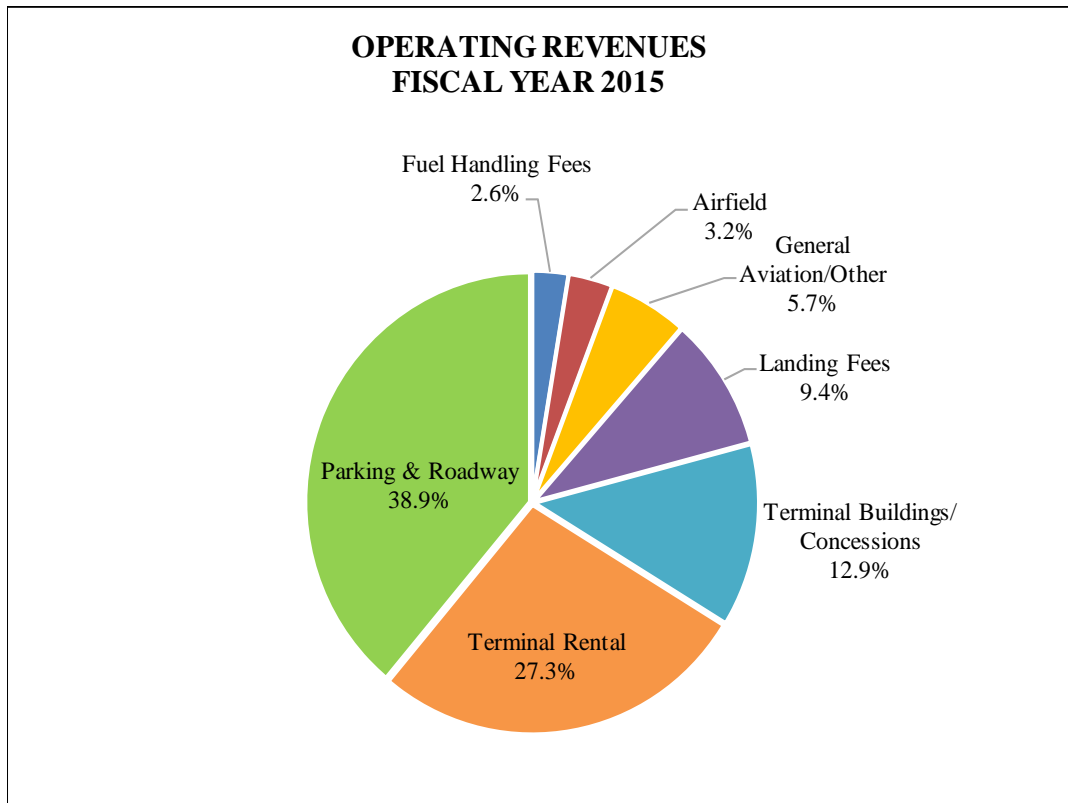
Detailed information about the employees' retirement system can be found in Note 7 to the financial statements.

The largest portion 62.6%, 56.6%, and 62.9% of the Airport's net position at June 30, 2015, 2014, and 2013, 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, and the rental car agreement, and PFCs and CFCs that are restricted by Federal regulations and Civil Code §1936, respectively.

REVENUES

The following chart reflects the major sources and the percentage of operating revenues for the fiscal year ended June 30, 2015:



As illustrated in the above chart, parking and roadway revenue represents 38.9% of the total operating revenues. Parking and roadway revenues include public parking, utility and concession fees from rental cars, employee parking, taxicab and other ground transportation fees, and facility and ground rents from rental car companies for use of the ConRAC located at the Airport.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Facility rent for the ConRAC is calculated by a two-step process under the terms of the rental car agreement. First, an amount equal to the sum of annual debt service on the Series 2011B Bonds and coverage amounts and reserve fund requirements applicable to the Series 2011B Bonds, less estimated CFC revenues, is allocated to each rental car company based upon that company's percentage occupancy of the ConRAC. Second, each rental car company's share of: (a) operating costs for the transportation system operated by the City to transport passengers between the terminals and the ConRAC Transportation System; and (b) the City's cost to demolish the previous temporary common use rental car facilities at the Airport (Demolition Costs), amortized over the initial ten-year term of the agreement are then added to the first amount to determine the facility rent due from each rental car company. In the event that CFC revenues exceed the sum of annual debt service on the Series 2011B Bonds 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 ConRAC Transportation System. In the event that CFC revenues remain after CFC revenues are deducted from each company's share of operating costs for the ConRAC Transportation System, the City 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. In order to apply the CFC revenues to cover transportation costs, the specific rental car customer that used the transportation system must be identified. To date, no CFC revenues have been applied toward transportation costs or Demolition Costs. Facility rent will vary each year in relation to changes in any of these amounts.

The next largest category is airline terminal rental, which represents 27.3% of the total operating revenues. Revenues from terminal buildings/concessions, which came in at 12.9% of total operating revenues, include food and beverage, news and gift shops, advertising, and telephony fees. Fees for the use of the FIS facility and rental of space, other than airline space, are also included in this category.

Landing fees from passenger and cargo carriers represent 9.4% of the total operating revenues. General aviation/other revenues are 5.7% 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 3.2% and 2.6%, of the total operating revenues, respectively. 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, propane, and compressed natural gases (CNG), as well as jet flowage fees, a fee charged to operators for engaging in the activity of retail sales of aviation fuel petroleum products.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

A summary of revenues (in thousands) for the fiscal years ended June 30, 2015, 2014, and 2013, is as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues:			
Landing fees	\$ 11,856	11,973	12,888
Terminal rental	34,372	38,130	38,256
Terminal buildings/concessions	16,271	15,423	15,102
Airfield	3,993	3,553	3,038
Parking and roadway	49,049	47,268	46,700
Fuel handling fees	3,257	3,170	2,361
General aviation/other	7,183	6,193	4,770
Total operating revenues	<u>125,981</u>	<u>125,710</u>	<u>123,115</u>
Nonoperating revenues:			
Passenger facility charges	19,291	18,161	17,294
Customer facility charges	18,690	15,493	13,385
Investment income (loss)	1,222	1,571	(257)
Operating grants	610	605	565
Other, net	806	614	451
Total nonoperating revenues	<u>40,619</u>	<u>36,444</u>	<u>31,438</u>
Capital contributions	<u>937</u>	<u>4,843</u>	<u>6,954</u>
Total revenues	<u>\$ 167,537</u>	<u>166,997</u>	<u>161,507</u>

2015 versus 2014

June 2015 marked the 30th straight month of consecutive passenger growth at the Airport. With the exception of landing fees and terminal rentals, all operating revenue categories showed increases over 2014. Total operating revenues increased by 0.2% from \$125.7 million in 2014 to \$126.0 million in 2015.

Despite the overall increase in landed weights generated by the airlines, landing fees decreased from \$12.0 million in 2014 to \$11.9 million in 2015 primarily due to the decrease in landing fee rate from \$2.22 to \$2.09 per thousand pounds of the maximum gross landing weight. Terminal rental decreased from \$38.1 million in 2014 to \$34.4 million in 2015 despite a higher terminal rental requirement mainly as a result of surplus revenues carried over from the prior fiscal year. The incentive credits issued to airlines which participated in the Airport's incentive program also contributed to the decreases in landing fees and terminal rental.

Terminal buildings/concessions posted an increase of 5.5% or \$0.8 million primarily due to the increase in rental rate for the non-airline space rents from \$251.90 to \$258.31 per square foot, increase in utilities cost recovery fees, and increase in passenger activity. Airfield revenues increased by 12.4% or \$0.4 million mainly due to the higher inflight kitchen revenues and ground support concessions resulting from the increased activity by the airlines.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Parking and roadway revenues were up by 3.8% or \$1.8 million. Substantial increases were experienced in public parking and rental car concessions reflective of the growth in passenger activity. These increases were partially offset by the lower facility rents from rental car companies transportation costs from \$2.8 million in 2014 to \$2.5 million in 2015. Lower facility rents were required from the rental car companies as a result of reduced transportation costs.

General aviation/other revenues rose by 16.0% or \$1.0 million. The main contributor to this increase was the interim ground rent from Signature Flight Support, which is constructing a full service fixed base facility on the west side of the Airport. The increase can also be attributed to the land rental rate adjustments based on increases in appraised values and the consumer price index.

PFC revenues grew by 6.2% or \$1.1 million reflective of the growth in passenger activity. Investment income in 2015 decreased by about \$0.3 million from 2014. Interest earnings in 2015 stayed level with the prior year at \$1.1 million.

CFCs are the charges to customers of rental car companies at the Airport in accordance with California Civil Code §1936 to help pay for capital costs and related debt service associated with the ConRAC and certain operating expenses related to the transportation of rental car customers between Terminal A and the ConRAC. CFC revenues trended 20.6% or \$3.2 million higher than the prior year revenues. The increase was mainly attributed to the increase in passenger traffic and the move to a new fee structure from \$6 per day (up to a maximum of five days per car rental contract) to a \$7.50 per day (up to a maximum of five days per car rental contract), which went into effect January 1, 2014.

The operating grants pertained to grant funds awarded by the Transportation Security Administration (TSA) for the costs associated with the law enforcement officers at security checkpoints (\$0.3 million), canine security grant from TSA (\$0.3 million), and a grant from the Bay Area Air Quality Management District for the incremental costs of leasing compressed natural gas buses (\$0.1 million).

Capital contributions earned during FY 2015 pertained to reimbursement from the FAA of \$1.0 million mainly for the federal inspection services sterile corridor.

2014 versus 2013

The growth in passenger traffic activity translated into increases in operating revenues. Except for landing fees and terminal rentals, all revenue categories reflected increases over 2013. Total operating revenues increased by 2.1% from \$123.1 million in 2013 to \$125.7 million in 2014.

Despite the overall increase in landed weights generated by the airlines, landing fees decreased from \$12.9 million in 2013 to \$12.0 million in 2014 primarily due to the decrease in landing fee rate from \$2.38 to \$2.22 per thousand pounds of the maximum gross landing weight. Terminal rental decreased from \$38.3 million in 2013 to \$38.1 million in 2014 despite the higher terminal rental requirement as a result of higher debt service. The incentive credits issued to airlines which participated in the Airport's incentive program largely contributed to the decreases in landing fees and terminal rental.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Terminal buildings/concessions posted an increase of 2.1% or \$0.3 million primarily due to the increase in rental rate for the non-airline space rents from \$240.50 to \$251.90 per square foot. Airfield revenues increased by 17.0% or \$0.5 million mainly due to the higher inflight kitchen revenues and ground support concessions resulting from the increased activity by the airlines.

Parking and roadway revenues were up by 1.2% or \$0.6 million. Substantial increases were experienced in public parking and rental car concessions reflective of the growth in passenger activity. These increases were largely offset by the significantly lower facility rents from rental car companies for the use of the ConRAC facility, which decreased from \$4.9 million in 2013 to \$2.8 million. Lower facility rents were required from the rental car companies as a result of the higher CFC revenues generated.

Fuel handling fees tracked higher by 34.3% or \$0.8 million due to higher demand for compressed natural gas fuel and higher jet fuel flowage fees that were a result of the increased rate from \$0.10 to \$0.20 per gallon effective November 2012. General aviation/other revenues rose by 29.8% or \$1.4 million. The main contributor to this increase was the interim ground rent from Signature Flight Support, which is constructing a full service fixed base facility on the west side of the Airport. The increase can also be attributed to the land rental rate adjustments based on increases in appraised values and the consumer price index.

PFC revenues grew by 5.0% or \$0.9 million reflective of the growth in passenger activity. Investment income in 2014 increased by approximately \$1.8 million. Investments posted an increase in fair value of approximately \$0.5 million as opposed to a decrease in fair value of \$1.0 million in 2013. Interest earnings increased from \$0.7 million in 2013 to \$1.1 million due to the fact that banking fees were no longer deducted from the investment income but rather were considered as part of the costs to be allocated to the different departments in the City's overhead cost allocation plan.

CFC revenues trended 15.7% or \$2.1 million higher than the prior year revenues. The increases were mainly attributed to the increase in passenger traffic and the move to a new fee structure from \$6 per day (up to a maximum of five days per rental car contract) to a \$7.50 per day (up to a maximum of five days per rental car contract), which went into effect on January 1, 2014.

The operating grants pertained to grant funds awarded by the TSA for the costs associated with the law enforcement officers at security checkpoints (\$0.3 million), canine security grant from TSA (\$0.2 million), and a grant from the Bay Area Air Quality Management District for the incremental costs of leasing compressed natural gas buses (\$0.1 million).

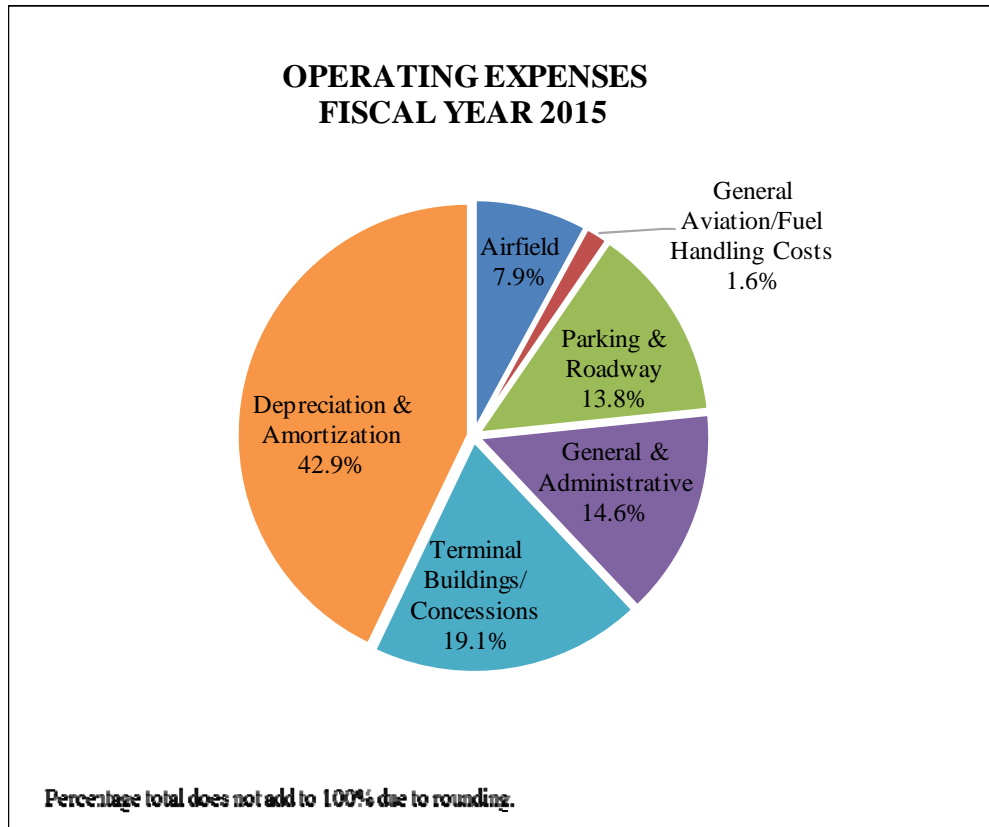
Other nonoperating revenues posted an increase of 36.1% or \$0.2 million mainly due to the insurance reimbursement of the cleanup and repair costs relating to the damage caused by the Terminal A water main break that occurred in December 2013.

Capital contributions received during the fiscal year pertained to reimbursement from the FAA of \$4.8 million for the reconstruction of the Taxiway W project.

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

EXPENSES

The following chart reflects the major cost centers as a percentage of operating expenses for the fiscal year ended June 30, 2015:



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

A summary of expenses (in thousands) for the fiscal years ended June 30, 2015, 2014, and 2013 is as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating expenses:			
Terminal buildings/concessions	\$ 23,833	24,233	23,303
Airfield area	9,891	9,570	8,707
Parking and roadway	17,170	16,343	16,631
Fuel handling costs	28	11	1,065
General aviation	2,006	1,609	1,605
General and administrative	18,208	19,877	18,763
Depreciation and amortization	53,437	54,027	54,353
Total operating expenses	<u>124,573</u>	<u>125,670</u>	<u>124,427</u>
Nonoperating expenses:			
Interest expense	72,237	73,836	75,058
Bond issuance costs	976	-	196
Loss on capital assets disposal	-	481	-
Total nonoperating expenses	<u>73,213</u>	<u>74,317</u>	<u>75,254</u>
Total expenses	<u>\$ 197,786</u>	<u>199,987</u>	<u>199,681</u>

2015 versus 2014

Operating expenses in 2015 decreased from \$125.7 million in 2014 to \$124.6 million in 2015. Increases were experienced in nonpersonnel, overhead, and fees charged by the City for police and firefighting services. These were offset by reclassification of retirement contributions due to the implementation of GASB Statement Nos. 68 and 71 and a decrease in interest expense.

Nonpersonnel expenses posted an increase of 4.6% or \$1.5 million over that of the prior fiscal year. The increase can be attributed to a variety of factors including increased electric utility costs and installation of a new ground transportation system. Another contributor to the increase was the \$0.5 million increase in the airline incentive payment to the airlines for the reduction of the Airport's share of indirect overhead expenses with enplanement growth at the Airport exceeding that of FAA's national enplanement growth projections in FY 2014 by 5.9%. Overhead expense increased by 18.2% or \$0.4 million due to the rate change from 15.6% in 2014 to 17.9% in 2015. Fees charged by the City for police and firefighting services went up by 28% or \$2.0 million due to the expiration of the Staffing for Adequate Fire and Emergency Response (SAFER) grant and increases in salary and associated benefit and overhead costs.

Personnel expenses decreased by approximately \$2.4 million resulting mainly from the deferral of FY 2015 pension contributions amounting to \$7.1 million and the recognition of pension expense in the current fiscal year of \$4.7 million. Due to the initial implementation of GASB Statement Nos. 68 and 71, pension expense was recognized in the current fiscal year as the net amortization of the prior period's deferred outflows of resources. No such amount was recognized in the prior periods. In comparison, in FY 2014, pension contributions totaled \$6.7 million and were part of personnel expense. In addition, other postemployment benefits (OPEB)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

costs recorded in FY 2015 based on the latest actuarial study, which included an increase in the discount rate from 5.3% to 6.3%, were \$1.4 million less when compared to FY 2014. The decrease in retirement costs was offset by the higher costs for salaries and retirement contribution benefits. Interest expense in 2015 declined by 2.2% or \$1.6 million compared to 2014 due to refunding of bonds in October 2014 and declining balance of the outstanding debt.

2014 versus 2013

Operating expenses increased from \$124.4 million in 2013 to \$125.7 million in 2014. Increases were experienced in nonpersonnel, expensed capital costs, fees charged by the City for police and firefighting services, and workers' compensation. These were partially offset by decreases in personnel, overhead, OPEB costs, and depreciation and amortization.

Nonpersonnel expenses posted an increase of 3.7% or \$1.1 million over that of the prior fiscal year. The increase can be attributed to a variety of factors including advertising placements and media buys for the new "Fly San Jose" campaign that was developed as part of the strategy to target passengers and highlight the benefits of flying out of San Jose versus other Bay Area airports and support the Airport's airline tenants. Another contributor to the increase was the payment to the airlines for the reduction of the Airport's share of indirect overhead expenses due to the fact that enplanement growth at the Airport exceeded that of FAA's national enplanement growth projections in FY 2013 by 2.7%. As mentioned above, if in any year during the term of the airline agreement the percentage growth in enplaned passengers at the Airport exceeds the FAA forecasted growth in enplaned passengers, then the City agrees to reduce the amount of its indirect overhead expenses that would otherwise be allocated to the Airport's operating budget for the next fiscal year by a corresponding percentage. Additionally, the Airport incurred expenses relating to the cleanup and repair for the damage caused by the Terminal A water main break, as well as for additional custodial services, shuttle bus services, and private security resulting from the emergency.

Operating expenses included certain costs for capital projects that did not meet the criteria for capitalization into capital assets. These costs increased from \$3.4 million in 2013 to \$4.5 million in 2014. A major portion of these costs in 2014 pertained to the miscellaneous pavement improvements and the terminal modifications and repairs. Fees charged by the City for police and firefighting services went up by 3.0% or \$0.2 million due to increases in salary and associated retirement and overhead costs.

Personnel expenses slightly decreased by 0.6% or \$0.1 million due to the decrease in retirement contributions, offset by the increase in salary expenses. Retirement contributions decreased due to a higher vacancy rate in 2014 and an increase in the number of employees placed in Tier 2 and Tier 2B of the Federated City Employees' Retirement System (Federated Plan), which reduced the City's portion of retirement contributions. Salary expenses for full-time employees increased as a result of the increase in compensated absence liability. Sick leave payout balances that were previously eliminated in prior years for employees in certain bargaining units were restored in 2014 (with hourly rates and sick leave balances eligible for payout being frozen for eligible employees, and sick leave payout eliminated for non-sworn employees hired on or after September 30, 2012). In addition, ten employees reached 15 years of service which made them eligible for sick leave payout benefits upon retirement.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Overhead expense decreased by 22.7% or \$0.7 million due to the rate change from 21.1% in 2013 to 15.6% in 2014 and the reduction in indirect overhead expenses allocated by the City to the Airport resulting from the municipally-funded incentive service program mentioned above. OPEB costs recorded in 2014, based on the latest actuarial study, posted a decrease of 26.2% or \$0.6 million when compared to the prior fiscal year.

Higher depreciation and amortization was recorded in 2013 compared to 2014 due to a one-time adjustment resulting from the cost segregation of systems installed in the terminals from building to equipment, thus accelerating the depreciation life from 40 to 15 years.

Interest expense in 2014 declined by 1.6% or \$1.2 million compared to 2013 due to the declining balance of the outstanding principal debt.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

The Airport expended \$8.0 million on both capitalized and noncapitalizable capital activities in fiscal year 2015 and \$17.5 million in 2014. Major capital projects in 2015 included the federal inspection services sterile corridor and the runway payment rehabilitation. Major capital projects in 2014 included taxiway reconstruction and terminal area development.

As of June 30, 2015, the Airport was obligated for purchase commitments relating to capital projects of approximately \$4.8 million primarily for the costs of the pavement maintenance and terminal area development. Detailed information about capital assets can be found in Note 3 to the financial statements.

LONG-TERM DEBT

Subordinated Commercial Paper (CP) Notes

The Subordinated CP debt is a form of variable rate debt with a maturity between 1 to 270 days. As of June 30, 2015 and 2014, the total amount of Subordinated CP Notes outstanding totaled \$37.9 and \$41.2 million, respectively. During the fiscal years ended June 30, 2015 and 2014, the Airport paid principal of \$3.2 million and \$4.2 million, respectively.

As of June 30, 2015, the Subordinated CP Notes were supported by the \$65 million letter of credit issued by Barclays Bank PLC (Barclays). Effective September 16, 2015, the City reduced the stated amount of the letter of credit issued by Barclays to support the Subordinated CP Notes from \$65 million to approximately \$41 million, which covers the outstanding principal amount of \$37.9 million and interest.

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

Revenue Bonds

As of June 30, 2015 and 2014, the Airport had total outstanding revenue bonds of \$1,337.1 million and \$1,384.7 million, respectively. In October 2014, the Series 2001A, 2004C, and 2004D Bonds in the amount of \$149.7 million were refunded with the issuance of Series 2014A,

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

2014B, and 2014C Bonds. During the fiscal years ended June 30, 2015 and 2014, the Airport paid principal of \$23.5 million and \$22.3 million, respectively.

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

Credit Ratings

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

Additional information about the Airport's credit ratings can be found in the Reporting of Significant Events section of the Bond Disclosure Report.

AIRLINE RATES AND CHARGES

The Airport entered into an Airline-Airport Lease and Operating Agreement that took effect on December 1, 2007 with an expiration date of June 30, 2012. In August 2011, the City Council authorized the Director of Aviation to extend the term for five years through June 30, 2017, which allows the airlines to continue to conduct operations and occupy leased space through the extended term. The terminal rate methodology contained in the agreement is based on a compensatory rate-making approach. The average rental rate is calculated annually by dividing the Terminal Revenue Requirement sum by the total amount of rentable terminal space and multiplying the resulting quotient by the total square feet of airline premises at the Airport, yielding the Airline Terminal Revenue Requirement. The airlines' share of any net remaining revenues is credited against the Airline Terminal Revenue Requirement, yielding the Net Airline Terminal Revenue Requirement. The Terminal Revenue Requirement is the sum of expenses allocable to the Terminal for each fiscal year, which include (a) annual debt service funded from bonds or subordinated indebtedness net of any PFC revenues used to pay such debt service, plus (b) debt service coverage, plus (c) annual operating expenses, plus (d) amount needed to replenish the bond reserve fund to required levels, plus (e) the share of annual costs for renewal and replacement, less (f) any grant amounts used to pay debt service, less (g) the debt service coverage for the immediately preceding fiscal year.

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

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

signatory airlines, and revenues accrued from charges paid for parking aircraft at common use gates, less (g) any grant amounts used to pay debt service, less (h) the debt service coverage for the immediately preceding fiscal year.

One of the provisions of the Airline-Airport Lease and Operating 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 rates and charges for the signatory (passenger and cargo) airlines for fiscal years 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Landing fee (per 1,000 lbs MGLW):	\$2.09	\$2.22
Terminal average rental rate (per square foot)	\$147.68	\$159.72
Airline cost per enplanement (budgeted)	\$10.50	\$11.76

Terminal rental rates and airline landing fees for FY 2016 have been developed as part of the annual budget process. The rates and charges for the signatory airlines for FY 2016, which became effective July 1, 2015, are as follows:

Landing fees (per 1,000 lbs MGLW):	\$2.13
Terminal average rental rates (per square foot)	\$162.74
Airline cost per enplanement (budgeted)	\$10.90

After completion of the year-end closing and annual audit, the Airport achieved savings of approximately \$6.7 million greater than what was anticipated in the preparation of the adopted 2015-16 Airline Rates and Charges. The surplus for 2015 will be allocated in accordance with the revenue sharing provisions of the lease agreement and to meet a cost per enplaned passenger of under \$12 as directed by the City Council.

FORWARD-LOOKING STATEMENTS

When used in this CAFR, 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 CAFR. 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 CAFR. The City undertakes no obligation to revise or update any

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

forward-looking statements in order to reflect any event or circumstance that may arise after the date of the CAFR.

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 CAFR 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 CAFR 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, San José, California 95113.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Position
June 30, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Unrestricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	\$ 112,428,387	96,417,796
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$328,993 in 2015 and 2014	6,493,978	5,641,287
Accrued interest	257,029	142,005
Grants	1,332,992	214,575
Prepaid expenses, advances, and deposits	139,284	135,093
Total unrestricted assets	120,651,670	102,550,756
Restricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	111,669,297	137,555,319
Investments held by fiscal agent (Note 2)	104,036,741	110,650,916
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$15,000 in 2015 and 2014	3,799,283	3,701,769
Accrued interest	119,191	96,762
Prepaid expenses, advances, and deposits	844	844
Current portion of prepaid bond insurance	60,218	62,695
Total restricted assets	219,685,574	252,068,305
Total current assets	340,337,244	354,619,061
Noncurrent assets:		
Capital assets (Note 3):		
Nondepreciable	90,944,057	97,141,774
Depreciable assets, net of accumulated depreciation	1,262,518,549	1,305,097,312
Total capital assets	1,353,462,606	1,402,239,086
Advances and deposits	3,172,619	3,446,334
Prepaid bond insurance, less current portion	6,543,928	7,680,201
Total noncurrent assets	1,363,179,153	1,413,365,621
Total assets	1,703,516,397	1,767,984,682
Deferred Outflows of Resources		
Deferred outflows of resources:		
Deferred pension contributions (Note 7)	7,103,082	-
Loss on refundings of debt	3,385,305	625,618
Total deferred outflows of resources	\$ 10,488,387	625,618

See accompanying notes to financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Net Position
June 30, 2015 and 2014

	2015	2014
Liabilities		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	\$ 3,397,624	1,354,573
Accrued salaries, wages and payroll taxes	588,641	544,017
Accrued vacation, sick leave and compensatory time, current (Note 5)	1,613,000	1,667,000
Advances and deposits payable	1,718,144	1,619,122
Unearned revenue	1,412,563	1,922,478
Estimated liability for self-insurance, current (Notes 5 and 9)	563,462	393,009
Pollution remediation liability (Notes 5 and 10 (c))	330,000	330,000
Accrued interest payable	1,314	3,272
Commercial paper notes payable (Note 4)	37,912,000	41,159,000
Total payable from unrestricted assets	47,536,748	48,992,471
Payable from restricted assets:		
Accounts payable	948,946	983,905
Accrued salaries, wages and payroll taxes	7,527	10,772
Pollution remediation liability (Notes 5 and 10 (c))	384,000	384,000
Accrued interest payable	23,930,595	24,640,863
Current portion of bonds payable (Note 5)	23,686,309	23,459,714
Total payable from restricted assets	48,957,377	49,479,254
Total current liabilities	96,494,125	98,471,725
Noncurrent liabilities:		
Bonds payable, less current portion and net of unamortized discount/premium (Note 5)	1,325,578,889	1,352,577,786
Estimated liability for self-insurance, noncurrent (Notes 5 and 9)	2,177,939	1,849,224
Accrued vacation, sick leave and compensatory time, noncurrent (Note 5)	817,356	788,423
Net pension liability (Note 7)	64,649,657	-
Other postemployment benefits liability (Notes 5 and 7)	13,766,573	13,635,779
Total noncurrent liabilities	1,406,990,414	1,368,851,212
Total liabilities	1,503,484,539	1,467,322,937
Deferred Inflows of Resources		
Deferred inflows of resources:		
Deferred differences related to pension assumptions (Note 7)	7,933,265	-
Gain on refundings of debt	796,325	1,373,920
Total deferred inflows of resources	8,729,590	1,373,920
Net Position		
Net investment in capital assets	126,349,691	169,869,680
Restricted:		
Per Airline Lease Agreement for Airline revenue sharing	12,082,379	18,815,013
Per Master Trust Agreement for rolling debt service coverage	18,333,780	17,891,764
Per Rental Car Agreement	1,000,000	1,000,000
California Civil Code Section 1936 for Customer Facility Charges	4,894,469	3,881,806
Future debt service (Note 1 (i))	20,441,220	26,259,780
Unrestricted	18,689,116	62,195,400
Total net position	\$ 201,790,655	299,913,443

See accompanying notes to financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Airline rates and charges:		
Landing fees	\$ 11,855,784	11,973,028
Terminal rental	34,371,913	38,129,882
Total airline rates and charges	<u>46,227,697</u>	<u>50,102,910</u>
Terminal buildings/concessions	16,271,413	15,422,975
Airfield area	3,993,032	3,552,819
Parking and roadway	49,048,496	47,267,707
Fuel handling fees	3,257,257	3,170,458
General aviation/other	7,182,656	6,193,266
Total operating revenues	<u>125,980,551</u>	<u>125,710,135</u>
Operating expenses:		
Terminal buildings/concessions	23,832,863	24,232,606
Airfield area	9,891,025	9,570,586
Parking and roadway	17,169,922	16,343,099
Fuel handling costs	27,967	11,252
General aviation	2,006,379	1,608,838
General and administrative	18,208,025	19,877,034
Depreciation and amortization	53,436,817	54,026,767
Total operating expenses	<u>124,572,998</u>	<u>125,670,182</u>
Operating income	<u>1,407,553</u>	<u>39,953</u>
Nonoperating revenues (expenses):		
Passenger facility charges	19,291,495	18,161,117
Customer facility charges	18,689,878	15,493,561
Investment income	1,222,361	1,570,942
Interest expense	(72,237,180)	(73,836,080)
Bond issuance costs	(976,228)	-
Operating grants	609,609	605,409
Loss on capital assets disposal	-	(481,333)
Other, net	806,244	613,710
Total nonoperating revenues (expenses), net	<u>(32,593,821)</u>	<u>(37,872,674)</u>
Loss before capital contributions	(31,186,268)	(37,832,721)
Capital contributions	937,166	4,842,889
Change in net position	<u>(30,249,102)</u>	<u>(32,989,832)</u>
Net position - beginning, as previously reported	299,913,443	332,903,275
Restatement due to implementation of GASB Statement Nos. 68 and 71 (Note 1(n))	(67,873,686)	-
Net position - beginning, as restated	<u>232,039,757</u>	<u>332,903,275</u>
Net position - ending	<u>\$ 201,790,655</u>	<u>299,913,443</u>

See accompanying notes to financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from customers and users	\$ 124,772,171	126,318,478
Payments to suppliers	(32,085,272)	(37,858,700)
Payments to employees	(25,229,616)	(23,392,360)
Payments for City services	(12,778,327)	(10,313,456)
Claims paid	(403,748)	(486,607)
Other receipts	806,244	613,710
Net cash provided by operating activities	55,081,452	54,881,065
Cash flows from noncapital financing activities:		
Operating grants	428,358	575,115
Cash flows from capital and related financing activities:		
Purchases of capital assets	(5,226,473)	(13,371,356)
Principal payments on bonds payable	(23,475,000)	(22,275,000)
Interest paid	(73,443,491)	(74,711,760)
Capital grants	-	5,653,729
Passenger facility charges received	19,324,748	18,077,568
Customer facility charges received	18,559,111	15,244,113
Payment for redemption of bonds	(4,873,705)	-
Bond issuance costs paid	(976,228)	-
Principal payments on commercial paper	(3,247,000)	(4,221,000)
Advances and deposits received	273,715	1,533,745
Net cash used in capital and related financing activities	(73,084,323)	(74,069,961)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	68,759,997	32,026,704
Purchases of investments	(44,890,747)	(32,013,793)
Investment income received	1,068,140	1,691,941
Net cash provided by investing activities	24,937,390	1,704,852
Net change in cash and cash equivalents	7,362,877	(16,908,929)
Cash and cash equivalents - beginning	306,796,268	323,705,197
Cash and cash equivalents - ending	\$ 314,159,145	306,796,268

See accompanying notes to financial statements.

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2015 and 2014**

	2015	2014
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,407,553	39,953
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	53,436,817	54,026,767
Other revenues	806,244	613,710
Decrease (increase) in:		
Accounts receivable	(852,691)	1,068,999
Prepaid expenses, advances, and deposits	(9,489)	15,562
Increase (decrease) in:		
Accounts payable and accrued liabilities	2,467,795	(2,553,554)
Advances and deposits payable	99,022	156,232
Unearned revenue	(509,915)	(609,374)
Estimated liability for self-insurance	499,168	563,460
Net pension liability, deferred outflows/inflows of resources related to pensions	(2,393,846)	-
Other postemployment benefits liabilities	130,794	1,559,310
Net cash provided by operating activities	\$ 55,081,452	54,881,065
Noncash noncapital financing activities:		
Change in operating grants receivable	\$ (181,251)	(30,294)
Noncash capital and related financing activities:		
Change in accounts payable related to acquisition of capital assets	443,391	315,520
Change in capital grants receivables	(937,166)	810,840
Unrealized gain (loss) on investments held by fiscal agent	16,768	(52,013)
Loss on capital assets disposal	-	(481,333)
Bond refunding	144,836,295	-
Amortization of bond discount/premium/prepaid bond insurance	(122,745)	329,649
Amortization of deferred outflows/inflows of resources related to bond refundings	499,383	657,845
Reconciliation of cash and cash equivalents to the statements of net position		
Equity in pooled cash and investments held in City Treasury		
Unrestricted	112,428,387	96,417,796
Restricted	111,669,297	137,555,319
Investments held by fiscal agent classified as cash equivalents	90,061,461	72,823,153
Total cash and cash equivalents	\$ 314,159,145	306,796,268

See accompanying notes to financial statements.

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

Notes to the Financial Statements
June 30, 2015 and 2014

(1) Summary of Significant Accounting Policies

(a) Description of Reporting Entity

The Norman Y. Mineta San José International Airport had its beginning in 1945 with 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 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.

A variety of federal, state and local laws, agreements, and regulations govern the operations at the Airport. The 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).

(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 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.

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

Notes to the Financial Statements
June 30, 2015 and 2014

- 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. The Airport has reported its investments at fair value based on quoted market information obtained from fiscal agents or other sources.

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

(e) Capital Assets

Capital assets include land, buildings and improvements, equipment, and intangible assets. Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are carried at cost. Certain property acquisition costs incurred in accordance with the California Noise Reduction Act have been capitalized in the land account in prior years. The purchase of land included movable structures that had to be removed for the land to be usable for 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.

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Notes to the Financial Statements
June 30, 2015 and 2014

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

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

	<u>Years</u>
Buildings and improvements	5 – 40
Equipment	4 – 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, 2015 and 2014.

(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 effective interest 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 effective interest method. Deferred outflows/inflows of resources from refunding of debt are recognized as a component of interest expense using the effective interest 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, airport safety and security operations, are significantly funded through the AIP of the FAA and TSA, with certain matching funds provided by the Airport. Funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants awarded by TSA to finance Airport safety and security are reported in the statement of revenues, expenses and changes in net position as nonoperating revenues. Grants for capital asset acquisition, facility development and rehabilitation are reported as capital contributions, after nonoperating revenues and expenses.

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Notes to the Financial Statements
June 30, 2015 and 2014

(i) Passenger Facility Charges

PFCs are recorded as nonoperating revenue in the year they are collected by the air carriers from the sale of air travel tickets and remitted to the Airport in accordance with Airport regulations. At June 30, 2015 and 2014, accumulated PFC funds amounted to \$20,441,220 and \$26,259,780, 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, the Airport may for any period elect to designate any PFC funds as "Available PFC Revenues" by filing with the trustee (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 \$25,202,373 and \$25,747,384 from accumulated PFC funds had been designated as Available PFC Revenues for payment of eligible bond debt service in fiscal years ended June 30, 2015 and 2014, respectively.

(j) Customer Facility Charges

CFCs are recorded as nonoperating revenues. CFCs are the charges to customers of rental car companies at the Airport in accordance with California Civil Code §1936 to help pay for capital costs and related debt service associated with the ConRAC and certain operating expenses related to the transportation of rental car customers between Terminal A and the ConRAC. The Airport did not expend CFC revenues on the transportation costs in fiscal years ended June 30, 2015 and 2014.

Under the Airport's Master Trust Agreement, 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 during such period. CFC revenues of \$18,689,878 and \$15,493,561 had been designated as "Other Available Funds" for payment of eligible bond debt service in fiscal years ended June 30, 2015 and 2014, respectively.

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

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

(l) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Airport's participation in the City of San José Federated City Employees' Retirement System (Federated Plan) and additions to/deductions from the Federated Plan's fiduciary net position have been determined on the same basis as they are reported by the Federated Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Federated Plan's investments are reported at fair value.

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Notes to the Financial Statements
June 30, 2015 and 2014

(m) 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 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, 2015 and 2014, the Airport’s statement of net position reports restricted net position of \$56,751,848 and \$67,848,363, respectively, of which \$25,335,689 and \$30,141,586, 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.”

(n) New Pronouncements

During the year ended June 30, 2015, the Airport implemented the following accounting standards:

GASB Statement No. 68, *Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27* (GASB Statement No. 68), addresses the accounting and financial reporting requirements for pensions. The provisions of GASB Statement No. 68 separate accounting and financial reporting from how pensions are funded and require changes in the notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of the total pension liability (TPL). It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and pension expense and related deferred outflows/inflows of resources disclosures (see Note 7).

When the Airport implemented this statement in fiscal year 2015, the Airport also implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB Statement No. 71), which resolves transition issues in GASB Statement No. 68.

The Airport did not restate the financial statements for the year ended June 30, 2014, because the actuarial information from the City did not provide the required information for the prior year. As such, the Airport included the pension disclosures under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2014. As of July 1, 2014, the Airport restated the beginning net position in the amount of \$67,873,686 to record the beginning deferred pension contributions, and its proportionate share of the net pension liability.

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

- In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which intended to improve accounting and financial reporting for state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The requirements of this Statement are effective for the Airport's fiscal year ending June 30, 2016.
- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB Statement No. 74), which establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB Statement No. 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. GASB Statement No. 74 is effective for the Airport's fiscal year ending June 30, 2017.
- In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75), which establishes new accounting and financial reporting requirements for OPEB plans improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB Statement No. 75 is effective for the Airport's fiscal year ending June 30, 2018.
- In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB Statement No. 76), which clarifies the hierarchy of GAAP, and reduces the GAAP hierarchy to two catalogues of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the scope of authoritative GAAP. GASB Statement No. 76 is effective for the Airport's fiscal year ending June 30, 2016.

(2) Cash and Investments

The City Council adopted an investment policy (Investment Policy) on April 2, 1985, as amended on June 9, 2015, related to the City's cash and investment pool, which is subject to annual review. The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Investment Policy, the

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Notes to the Financial Statements
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investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Investment Policy.

The Airport invests funds subject to the Investment Policy and provisions of the Airport's Master Trust Agreement for its various bond issues. According to the City's Investment Policy and the Airport's Master Trust Agreement, the Airport is permitted to invest in the City's cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. Government Agencies, time deposits, investment agreements, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

The Airport maintains a portion of its investments in the City's cash and investment pool. As of June 30, 2015 and 2014, the Airport's share of the City's cash and investment pool totaled \$224,097,684 and \$233,973,115, 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, 2015 CAFR. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113.

The Master Trust Agreement authorizes long-term debt (discussed in Note 5) and requires certain amounts of investments to be held in trust by the Airport's trustee (Fiscal Agent) for the bondholders and to be used for repayment of principal and interest on outstanding debt, or to be spent only on authorized capital projects. As of June 30, 2015 and 2014, restricted investments held by the Fiscal Agent totaled \$104,036,741 and \$110,650,916, respectively. The Master Trust Agreement addresses any limitations in Airport investment of moneys. The investments are subject to certain types of risk, including interest rate risk, credit quality risk, and concentration credit risk. However, the Master Trust Agreement does not specifically address policies for each risk.

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

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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, 2015, the Airport's investments in LAIF held by the Fiscal Agent was \$89,950,337. The weighted average maturity of LAIF at June 30, 2015 was 239 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2015 was approximately \$21.5 billion. The total amount recorded by all public agencies in PMIA at June 30, 2015 was approximately \$69.6 billion and of that amount, 97.92% was invested in non-derivative financial products, and 2.08% in structured notes and asset backed securities.

As of June 30, 2014, the Airport's investments in LAIF held by the Fiscal Agent was \$72,671,124. The weighted average maturity of LAIF at June 30, 2014 was 232 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2014 was approximately \$21.1 billion. The total amount recorded by all public agencies in PMIA at June 30, 2014 was approximately \$64.8 billion and of that amount, 98.14% was invested in non-derivative financial products, and 1.86% in structured notes and asset backed securities.

Interest Rate Risk – Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the time of maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing the cash flows from the maturities so that a portion is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations.

The City has the ability and generally has the intention to hold all investments until their respective maturity dates. The weighted average maturity of the City's pooled cash and investments as of June 30, 2015 and 2014 was approximately 469 days and 532 days, respectively. The Investment Policy does not prohibit the sale of securities prior to maturity. However, any portfolio restructuring requires prior conceptual approval in writing from the Director of Finance. Section 17.2 of the Investment Policy further defines the parameters with respect to restructuring the portfolio.

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

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

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The following schedule indicates the interest rate risk and credit risk of the investments held by the Fiscal Agent, by category and maturity, as of June 30, 2015 and 2014. The credit ratings listed are for Moody's and S&P, respectively.

As of June 30, 2015

<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>	
Investments held by the Fiscal Agent					
Federated treasury obligations fund	Aaa-mf /AAA	\$ 111,124	-	-	111,124
Federal Home Loan Bank ⁽¹⁾	Aaa/AA+	13,975,280	-	-	13,975,280
Local agency investment fund	Not rated	-	-	89,950,337	89,950,337
		<u>\$ 14,086,404</u>	<u>-</u>	<u>89,950,337</u>	<u>104,036,741</u>

As of June 30, 2014

<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>	
Investments held by the Fiscal Agent					
Federated treasury obligations fund	Aaa-mf /AAA	\$ 152,144	-	-	152,144
Federal Home Loan Bank ⁽¹⁾	Aaa/AA+	37,827,648	-	-	37,827,648
Local agency investment fund	Not rated	-	-	72,671,124	72,671,124
		<u>\$ 37,979,792</u>	<u>-</u>	<u>72,671,124</u>	<u>110,650,916</u>

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

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(3) Capital Assets

Capital asset activities for the fiscal years ended June 30, 2015 and 2014, were as follows:

	Balance at July 1, 2014	Additions	Retirements	Transfers	Balance at June 30, 2015
Capital assets not depreciated:					
Land	\$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	8,478,962	3,612,053	-	(9,809,770)	2,281,245
Total capital assets, not depreciated	97,141,774	3,612,053	-	(9,809,770)	90,944,057
Capital assets, depreciated:					
Buildings	1,133,183,206	12,705	-	4,798,010	1,137,993,921
Other improvements	592,689,522	-	(650,599)	3,590,651	595,629,574
Equipment	45,359,008	1,158,324	(148,188)	1,421,109	47,790,253
Total capital assets, depreciated	1,771,231,736	1,171,029	(798,787)	9,809,770	1,781,413,748
Less accumulated depreciation:					
Buildings	222,066,900	29,720,690	-	-	251,787,590
Other improvements	218,755,610	18,125,525	(650,599)	-	236,230,536
Equipment	25,311,914	5,713,347	(148,188)	-	30,877,073
Total accumulated depreciation	466,134,424	53,559,562	(798,787)	-	518,895,199
Total capital assets, depreciated, net	1,305,097,312	(52,388,533)	-	9,809,770	1,262,518,549
Total capital assets, net	\$ 1,402,239,086	(48,776,480)	-	-	1,353,462,606
	Balance at July 1, 2013	Additions	Retirements	Transfers	Balance at June 30, 2014
Capital assets not depreciated:					
Land	\$ 75,781,265	-	-	-	75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	10,841,977	13,063,141	(429,668)	(14,996,488)	8,478,962
Total capital assets, not depreciated	99,504,789	13,063,141	(429,668)	(14,996,488)	97,141,774
Capital assets, depreciated:					
Buildings	1,142,345,353	-	-	(9,162,147)	1,133,183,206
Other improvements	578,661,330	-	-	14,028,192	592,689,522
Equipment	54,722,134	422,362	(19,915,931)	10,130,443	45,359,008
Total capital assets, depreciated	1,775,728,817	422,362	(19,915,931)	14,996,488	1,771,231,736
Less accumulated depreciation:					
Buildings	193,052,975	29,013,925	-	-	222,066,900
Other improvements	200,762,023	17,993,587	-	-	218,755,610
Equipment	38,056,907	6,689,605	(19,434,598)	-	25,311,914
Total accumulated depreciation	431,871,905	53,697,117	(19,434,598)	-	466,134,424
Total capital assets, depreciated, net	1,343,856,912	(53,274,755)	(481,333)	14,996,488	1,305,097,312
Total capital assets, net	\$ 1,443,361,701	(40,211,614)	(911,001)	-	1,402,239,086

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The Airport's depreciation expense on capital assets was \$53,559,562 and \$53,697,117 for fiscal years ended June 30, 2015 and 2014, respectively.

(4) Commercial Paper Notes Payable

In November 1999, the City authorized the issuance from time to time of Subordinated CP Notes that are secured by a lien on Surplus Revenues (which 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 (Bonds) and the funding of any reserve funds established for the Bonds). In 2008, the City authorized the Subordinated CP Notes to be issued in an aggregate principal amount of up to \$600 million outstanding at any one time. The Subordinated CP Notes may be issued at prevailing interest rates for periods of maturity not to exceed 270 days.

As of July 1, 2013, the Subordinated CP Notes were supported by a \$75 million letter of credit (LOC) provided by Wells Fargo Bank, N.A. (WFB). The LOC provided by WFB was scheduled to expire in March 2014.

In February 2014, the City entered into a letter of credit and reimbursement agreement (the Reimbursement Agreement) with Barclays to replace the LOC provided by WFB. Pursuant to the Reimbursement Agreement, Barclays issued a \$65 million LOC supporting the Subordinated CP Notes, effective on February 11, 2014. The LOC provided by Barclays is stated to expire on February 10, 2017, unless such LOC is extended or terminated earlier pursuant to its terms.

The terms of the Barclays LOC are specified in the Reimbursement Agreement. In general, Barclays 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 dealer is unable to find investors to purchase Subordinated CP Notes to repay the advance from Barclays, the City is obligated to pay interest to Barclays based on a formula specified in the Reimbursement Agreement and repay principal in accordance with the schedule and the terms also specified in the Reimbursement Agreement.

An event of default under the Reimbursement Agreement would entitle Barclays to demand that no additional Subordinated CP Notes be issued, that the City reimburse Barclays immediately for draws under the LOC and that all other amounts owed by the City to Barclays be accelerated and become due immediately. Events of default under the Reimbursement Agreement include, among others: a default under the Master Trust Agreement or the issuing and paying agent agreement for the Subordinated CP Notes; non-payment; a breach of a covenant; bankruptcy; and ratings events including a suspension or withdrawal of the long-term, unenhanced debt rating assigned to the Bonds (other than where the 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 Bonds below "Baa2," "BBB" and "BBB," respectively for a period of 120 consecutive calendar days. All amounts payable by the City to Barclays under the 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 Bonds.

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In connection with the LOCs issued by WFB and Barclays, the City entered into separate fee letters 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 both fee letters was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to the stated amount of the applicable 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 Reimbursement Agreement. The facility fee rate in effect is 0.425% as of June 30, 2015 and 2014.

Commercial paper activities for the fiscal years ended June 30, 2015 and 2014 were as follows:

	2015	2014
Beginning balance	\$ 41,159,000	45,380,000
Paid	(3,247,000)	(4,221,000)
Ending balance	\$ 37,912,000	41,159,000

Balances of Subordinated CP Notes payable as of June 30, 2015 and 2014 were as follows:

As of June 30, 2015

Series A-2 commercial paper notes maturing on September 18, 2015 were issued with an interest rate of 0.13%	\$ 11,992,000
Series B commercial paper notes maturing on September 18, 2015 were issued with an interest rate of 0.14%	13,045,000
Series C commercial paper notes maturing on July 2, 2015 were issued with an interest rate of 0.32%	12,875,000
Total commercial paper notes payable	\$ 37,912,000

As of June 30, 2014

Series A-2 commercial paper notes maturing on September 11, 2014 were issued with an interest rate of 0.09%	\$ 11,992,000
Series B commercial paper notes maturing on September 11, 2014 were issued with an interest rate of 0.10%	13,045,000
Series C commercial paper notes maturing on September 8, 2014 were issued with an interest rate of 0.24%	16,122,000
Total commercial paper notes payable	\$ 41,159,000

Although the Subordinated CP Notes have short-term maturities, the Airport's intent is to pay the remaining balance on a long-term basis based on the assumption that the outstanding Subordinated CP Notes will be paid on a 30-year amortization period with the first principal payments paid in fiscal year 2011.

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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 Master Trust Agreement, the City has irrevocably pledged the general airport revenues and certain other funds held or made available under the Master Trust Agreement, first to the payment of maintenance and operation costs of the Airport, and second to the payment of principal of and premium, if any, and interest on the bonds. General airport revenues generally include all revenues, income, receipts, and moneys derived by the City from the operation of the Airport with the exception of certain expressly excluded revenues.

The net revenues available to pay debt service in fiscal year ended June 30, 2015 totaled \$143,562,995, which is composed of \$60,377,533 of net general airport revenues and \$83,185,462 of other available funds. Other available funds include surplus carryover of \$35,521,794, rolling debt service coverage of \$17,891,765, CFC revenues of \$18,689,878, and unspent Series 2007B bond proceeds of \$11,082,025. The bond debt service paid from the general airport revenues and other available funds amounted to \$70,880,317, which is net of \$25,202,373 of bond debt service paid from the accumulated PFC funds.

The net revenues available to pay debt service in fiscal year ended June 30, 2014 totaled \$136,554,628, which is composed of \$61,397,494 of net general airport revenues and \$75,157,134 of other available funds. Other available funds include surplus carryover of \$32,033,921, rolling debt service coverage of \$16,547,214, CFC revenues of \$15,493,561, and unspent Series 2007B bond proceeds of \$11,082,438. The bond debt service paid from the general airport revenues and other available funds amounted to \$69,320,262, which is net of \$25,747,384 of bond debt service paid from the accumulated PFC funds.

The City has covenanted in the Master Trust Agreement that net revenues available to pay debt service for each fiscal year plus any other available funds (as defined in the Master Trust Agreement) will be at least 125% of annual debt service for such fiscal year. Under the Master Trust Agreement, “debt service” means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Under the Master Trust Agreement, annual debt service excludes Available PFC Revenues for such fiscal year. Total principal and interest remaining on the bonds is \$2.6 billion, with the final payment due on March 1, 2047.

As of June 30, 2015 and 2014, the reserve requirement in the general account of the bond reserve fund is satisfied, in part, by approximately (a) \$4.3 million surety bond from Ambac Indemnity Corporation (currently known as Ambac Assurance Corporation, the principal operating subsidiary of Ambac Financial Group Inc., Ambac), and (b) approximately \$6.6 million surety bond from National Public Finance Guaranty Corporation (NFPG), as successor to MBIA Insurance Corporation. The ratings of Ambac and NFPG were reduced or withdrawn subsequent to the deposit of the respective surety bonds to the general account. The Master Trust Agreement does not require that the rating of any surety bond held in the general account be maintained after the date of deposit.

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The NFPG surety bond expires on March 1, 2016, and the Ambac surety bond expires on March 1, 2018. In connection with the issuance of the Airport Revenue Bonds Series 2014A, 2014B, and 2014C in October 2014, the City deposited additional cash in the amount of \$6.6 million into the general account held with the trustee to account for the expiration of the NFPG surety bond in March 2016. If no additional bonds are issued and no additional amount is deposited in the general account prior to March 1, 2018, the City would have to make a deposit to the general account from the accumulated Airport surplus funds or provide new qualified reserve facility to replace the amount of the expiring Ambac surety bond. The City will also be obligated to replenish the general account prior to the expiration date of the Ambac surety bond in the event of non-payment or cancellation of the Ambac surety bond including upon the liquidation of Ambac.

Qualified reserve facility means (i) a surety bond or similar instrument issued by a municipal bond insurer, for which obligations insured have a rating of “AAA” (or the equivalent) by at least two rating agencies (one of which must be Moody’s) on the date the qualified reserve facility is issued, or (ii) a LOC issued by a qualified bank which has a rating of “AA” (or the equivalent) by at least two rating agencies (one of which must be Moody’s) on the date the qualified reserve facility is issued.

On May 1, 2013, Ambac emerged from bankruptcy protection which had been filed under Chapter 11 of the Bankruptcy Code. Starting in March 2010, certain of the policy liabilities of Ambac were allocated to a segregated account, which has been subject to a plan of rehabilitation. Policy obligations not allocated to such segregated account, including obligations in respect of the surety bond provided by Ambac on deposit in the general account of the bond reserve fund, are not subject to, and therefore will not be directly impacted by, such rehabilitation proceeding.

On October 7, 2014, the City issued Airport Revenue Bonds Series 2014A, 2014B and 2014C in the amount of \$57,350,000, \$28,010,000, and \$40,285,000, respectively. The City issued Airport Revenue Bonds Series 2014A, 2014B, and 2014C to refund Airport Revenue Bonds Series 2004C, 2004D, and 2001A, respectively. This refunding resulted in an accounting loss on the refunding of the prior debt issues in the amount of \$2,837,899, which is reported as an increase in the deferred outflows of resources balance.

The Series 2014A Bonds proceeds and a portion of the 2004 Reserve, approximately \$8.9 million, were used (i) to refund all of the outstanding Airport Revenue Bonds Series 2004C, (ii) to make a cash deposit to the general account of the bond reserve fund, (iii) to pay a portion of the costs of issuing Series 2014A Bonds. The bonds were issued with the true interest cost of 2.7%, no changes to the final maturity of the bonds, and provided \$17.7 in aggregate debt service savings or \$14.1 million on a present value basis.

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The Series 2014B Bonds proceeds and a portion of the 2004 Reserve, approximately \$4.3 million, were used (i) to refund all of the outstanding Airport Revenue Bonds Series 2004D, (ii) to make a cash deposit to the general account of the bond reserve fund, (iii) and to pay a portion of the costs of issuing Series 2014B Bonds. The 2014B Bonds were issued with the true interest cost of 3.4%, no changes to the final maturity of the bonds, and provided \$10.4 million in aggregate debt service savings or \$7.1 million on a present value basis.

The Series 2014C Bonds proceeds were used to refund the remaining outstanding Airport Revenue Bonds Series 2001A, and to pay a portion of the costs of issuing Series 2014C Bonds. The 2014C Bonds were issued with the true interest rate cost of 3.7%, no changes to the final maturity of the bonds, and provided \$9.7 million in aggregate debt service savings or \$6.3 million on a present value basis.

Balances of Bonds payable as of June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
2014C Series Airport Revenue Bonds of \$40,285,000 with interest rate of 3.6% to 5%; 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	-
2014B Series Airport Revenue Bonds of \$28,010,000 at a rate of 3.1% to 5%; 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	-
2014A Series Airport Revenue Bonds of \$57,350,000 at rates of 2% to 5%; payable in annual installments ranging from \$50,000 to \$9,175,000 with the final installment due in March 2026	56,325,000	-
2012A Series Airport Revenue Bonds of \$49,140,000 at rate of 1.5%; payable in annual installments ranging from \$8,340,000 to \$8,585,000 with the final installment due in March 2018	25,385,000	33,605,000
2011B Series Airport Revenue Bonds of \$271,820,000 at rates of 3.7% to 6.8%; payable in annual installments ranging from \$800,000 to \$27,330,000 with the final installment due in March 2041	263,590,000	264,085,000
2011A-2 Series Airport Revenue Bonds of \$86,380,000 at rates of 4% to 5.3%; payable in annual installments ranging from \$2,030,000 to \$12,220,000 with the final installment due in March 2034	78,460,000	80,390,000
2011A-1 Series Airport Revenue Bonds of \$150,405,000 at rates of 3% to 6.3%; payable in annual installments ranging from \$3,535,000 to \$21,115,000 with the final installment due in March 2034	136,505,000	139,900,000

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	2015	2014
2007B Series Airport Revenue Bonds of \$179,260,000 at rates 4.3% to 5%; payable in annual installments ranging from \$2,440,000 to \$28,800,000 with the final installment due in March 2037	174,675,000	177,015,000
2007A Series Airport Revenue Bonds of \$545,755,000 at rates of 5% to 6%; payable in annual installments ranging from \$6,375,000 to \$73,500,000 with the final installment due in March 2047	533,905,000	539,975,000
2004D Series Airport Revenue Bonds of \$34,270,000 was fully paid in October 2014	-	34,270,000
2004C Series Airport Revenue Bonds of \$75,730,000 was fully paid in October 2014	-	69,730,000
2001A Series Airport Revenue Bonds of \$158,455,000 was partially refunded in July 2011; the remaining balance of \$45,710,000 was fully paid in October 2014	-	45,710,000
Total bonds payable	\$ 1,337,140,000	1,384,680,000

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Bonds outstanding and related activities for the fiscal years ended June 30, 2015 and 2014, were as follows:

	Balance at July 1, 2014	Additions	Retirements	Balance at June 30, 2015	Amounts Due Within One Year
2014C Series	\$ -	40,285,000	-	40,285,000	-
2014B Series	-	28,010,000	-	28,010,000	-
2014A Series	-	57,350,000	1,025,000	56,325,000	140,000
2012A Series	33,605,000	-	8,220,000	25,385,000	8,340,000
2011B Series	264,085,000	-	495,000	263,590,000	800,000
2011A-2 Series	80,390,000	-	1,930,000	78,460,000	2,030,000
2011A-1 Series	139,900,000	-	3,395,000	136,505,000	3,535,000
2007B Series	177,015,000	-	2,340,000	174,675,000	2,440,000
2007A Series	539,975,000	-	6,070,000	533,905,000	6,375,000
2004D Series	34,270,000	-	34,270,000	-	-
2004C Series	69,730,000	-	69,730,000	-	-
2001A Series	45,710,000	-	45,710,000	-	-
Total long-term debt	1,384,680,000	125,645,000	173,185,000	1,337,140,000	23,660,000
Add unamortized:					
Premium	2,863,938	19,191,295	228,571	21,826,662	87,240
Less unamortized:					
Discount	11,506,438	-	1,804,974	9,701,464	60,931
Total long-term debt, net	\$ 1,376,037,500	144,836,295	171,608,597	1,349,265,198	23,686,309

	Balance at July 1, 2013	Additions	Retirements	Balance at June 30, 2014	Amounts Due Within One Year
2012A Series	\$ 41,710,000	-	8,105,000	33,605,000	8,220,000
2011B Series	264,085,000	-	-	264,085,000	495,000
2011A-2 Series	82,255,000	-	1,865,000	80,390,000	1,930,000
2011A-1 Series	143,180,000	-	3,280,000	139,900,000	3,395,000
2007B Series	179,260,000	-	2,245,000	177,015,000	2,340,000
2007A Series	545,755,000	-	5,780,000	539,975,000	6,070,000
2004D Series	34,270,000	-	-	34,270,000	-
2004C Series	70,730,000	-	1,000,000	69,730,000	1,000,000
2001A Series	45,710,000	-	-	45,710,000	-
Total long-term debt	1,406,955,000	-	22,275,000	1,384,680,000	23,450,000
Add unamortized:					
Premium	2,926,845	-	62,907	2,863,938	65,412
Less unamortized:					
Discount	11,549,612	-	43,174	11,506,438	55,698
Total long-term debt, net	\$ 1,398,332,233	-	22,294,733	1,376,037,500	23,459,714

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Scheduled maturities of outstanding Bonds are as follows:

Fiscal year ending June 30,	Principal	Interest
2016	\$ 23,660,000	71,791,786
2017	24,700,000	71,021,924
2018	25,910,000	70,106,571
2019	24,280,000	69,103,982
2020	25,660,000	67,872,643
2021-2025	156,755,000	317,703,630
2026-2030	219,655,000	271,602,488
2031-2035	429,335,000	193,674,062
2036-2040	322,970,000	67,718,941
2041-2045	65,530,000	14,555,715
2046-2047	18,685,000	1,698,000
Total	<u>\$ 1,337,140,000</u>	<u>1,216,849,742</u>

A number of limitations and restrictions are imposed upon the Airport by covenants relating to certain outstanding Bonds. As of June 30, 2015 and 2014, 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.

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Other long-term liability activities for the fiscal years ended June 30, 2015 and 2014 were as follows:

	Balance at July 1, 2014	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2015	Amounts Due Within One Year
Self-insurance	\$ 2,242,233	903,666	404,498	2,741,401	563,462
Accrued vacation, sick leave and compensatory time	2,455,423	1,251,881	1,276,949	2,430,355	1,613,000
Other postemployment benefits	13,635,779	1,968,802	1,838,008	13,766,573	-
Pollution remediation liability	714,000	-	-	714,000	714,000
Total	\$ 19,047,435	4,124,349	3,519,455	19,652,329	2,890,462

	Balance at July 1, 2013	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2014	Amounts Due Within One Year
Self-insurance	\$ 1,678,773	1,050,067	486,607	2,242,233	393,009
Accrued vacation, sick leave and compensatory time	2,146,791	1,638,523	1,329,891	2,455,423	1,667,000
Other postemployment benefits	12,076,469	3,037,439	1,478,129	13,635,779	-
Pollution remediation liability	1,758,657	-	1,044,657	714,000	714,000
Total	\$ 17,660,690	5,726,029	4,339,284	19,047,435	2,774,009

(6) Leases and Agreements

The City has entered into an Airline-Airport Lease and Operating Agreement with the various passenger and cargo airlines serving the Airport. The airline lease agreement, which took effect on December 1, 2007, was originally set to expire on June 30, 2012. In August 2011, the City Council authorized the Director of Aviation to extend the term for five years through June 30, 2017, which allows the airlines to continue to conduct operations and occupy leased space through the extended term. The existing rates and charges structure, as well as all other terms and conditions, remained unchanged through the extended term. Negotiations for a new agreement with the airlines are currently underway.

The airline lease agreement provides that any passenger airline that (a) signs an agreement substantially similar to the airline lease agreement, (b) provides passenger service at the Airport, (c) leases from the City an amount of exclusive use premises (not including gates) in the terminal deemed sufficient by the Director of Aviation to support the airline's operation, and (d) at the time the airline executes its agreement with the City, operates at least one scheduled flight, scheduled year-round, at least three days per week shall be a Signatory Airline. The airline lease agreement also provides that any air cargo carrier will also be a Signatory Airline if the air cargo carrier (a) signs an agreement with the City substantially similar to the airline lease agreement (other than in

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connection with terminal facilities), (b) leases from the City cargo support space at the Airport for a term at least equal to the term of the airline lease agreement, (c) guarantees a minimum of 142,000 pounds of maximum gross certificated landed weight per scheduled flight, and (d) at the time it executes its agreement with the City, operates at least five scheduled flights per week.

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

Any passenger or air cargo carrier operating at the Airport that is neither a Signatory Airline nor a Non-Signatory Airline will be subject to the Airline Rates and Charges Ordinance, which requires such air carriers to comply with all applicable rules and regulations as established by the Director of Aviation regarding the proper use and occupancy of the Airport or any portion thereof. In addition, the Airline Rates and Charges Ordinance establishes all rates and charges applicable to such airline’s operations at and use of the Airport or any portion thereof, including airfield and terminal rates and charges, at a 30% premium over the rates and charges as determined pursuant to the terms of the City’s then current airline lease and operating agreement.

The key provisions in the airline lease agreement include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The airline lease agreement also includes a revenue sharing provision to evenly divide net unobligated Airport revenues between the Airport and the airlines currently operating at the Airport after each fiscal year. In any fiscal year in which there are net unobligated Airport revenues and all requirements of the City’s Airport financing documents have been satisfied, the remaining net unobligated Airport revenues are to be evenly divided between the City and the airlines. If net revenues exceed the projected levels, outlined in the Airport Forecast identified in the airline lease agreement, then the airlines share of the difference will be deposited into the Rate Stabilization Fund up to a cap of \$9 million. Once the Rate Stabilization Fund has been fully funded or in the event that the actual net revenues do not exceed the projected net revenues, the airline’s share of net revenues shall be applied as a credit to the airline terminal revenue requirement for the following fiscal year, thus reducing terminal rental rates for the following fiscal year. The first \$1 million of City’s share of any net revenues shall be retained by the Airport in a discretionary fund to be used for any lawful Airport purpose.

For the fiscal years ended June 30, 2015 and 2014, the Airport’s revenues as defined in its lease agreements exceeded its expenditures and reserve requirements by \$24,348,571 and \$31,639,988, respectively. The surplus for fiscal year ended June 30, 2015 will be distributed in accordance with the revenue sharing provisions of the lease agreement as described above and/or used in the budget balancing actions for fiscal year 2017. The surplus for the year ended June 30, 2014 was distributed in accordance with the revenue sharing provisions.

In December 2013, the City entered into a ground lease and operating agreement with Signature, which is constructing a full-service, fixed based facility on 29-acres of the Airport’s west side.

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The term of the agreement is for 50 years from December 11, 2013 to December 11, 2063. Signature pays interim ground rental equal to 50% of the base ground rental until the earlier of (i) the first day of the twenty-fifth full calendar month from the effective date or (ii) the date a certificate of occupancy is issued for the use and occupancy of the leasehold improvements, whichever is earlier. At such date the certificate of occupancy is issued, or commencing with the twenty-fifth month after effective date, whichever is earlier, and continuing throughout the term, effective December 12, 2014, Signature shall pay base ground rental of \$2.13 per square foot per year based upon the actual square footage of premises occupied. The base ground rental is subject to a consumer price index increase annually and by appraisal every five years. Rental revenues from the ground lease with Signature were \$1,356,206 and \$736,423 for the fiscal years ended June 30, 2015 and 2014, 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, 2015, the remaining terms of these operating leases range from one month to 23 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount.

Rental revenues from the aforementioned operating leases were \$75,005,966 and \$76,594,275 for the fiscal years ended June 30, 2015 and 2014, respectively.

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

<u>Fiscal year ending June 30,</u>	
2016	\$ 95,876,315
2017	98,046,923
2018	38,128,964
2019	37,857,356
2020	38,068,712
2021-2025	43,465,780
2026-2030	47,527,411
2031-2035	48,441,631
2036-2040	40,163,178
2041-2045	28,136,709
2046-2050	32,111,570
2051-2055	36,647,958
2056-2060	41,825,199
2061-2063	32,778,110
Total minimum lease rentals	<u>\$ 659,075,816</u>

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

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As of June 30, 2015 and 2014, leased assets had total historical costs of \$1,025,338,387 and \$1,019,399,661 and accumulated depreciation of \$177,695,737 and \$151,928,437, respectively.

Pursuant to the terms of individual agreements entered into with the City, every airline, operator, tenant or any other entity or person, which is party to an agreement with the City authorizing them to conduct business at the Airport, is required to maintain a security deposit on file with the City. The deposit shall be in a form and amount acceptable to the Director of Aviation, often in the form of irrevocable letter of credit, 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 statement of net position. The Airport maintains on file copies of all security deposits, in the form of letter of credit or surety bond, which are not recorded in the financial statements. The amount on file as of June 30, 2015 and 2014 totaled \$43,874,590 and \$44,708,101, respectively.

(7) Employees' Retirement System

(a) General Information about the Pension Plan

All full-time and certain part-time employees of the Airport participate in the City of San José Federated City Employees' Retirement System (Federated Plan), which is a single employer defined benefit retirement system that covers substantially all City employees, except for certain unrepresented employees and employees who are members of the City's Police and Fire Department Retirement Plan. The benefits provided by the Federated Plan include pension, death, and disability, which are under the Defined Benefit Pension Plan, as well as medical and dental benefits, which are under the Postemployment Healthcare Plan. Unrepresented executive management and professional employees who are hired directly into a position in the City's unrepresented executive management unit (Unit 99) and who are first hired on or after January 20, 2013, have a one-time irrevocable election to either participate in a defined contribution plan or become a Tier 2 member in the Federated Plan; to be eligible, an employee must not have previously been a member of a City of San José retirement system.

A stand-alone report is issued for the Federated Plan and is available from the City of San José Office of Retirement Services, 1737 North First Street, Suite 580, San José, California 95112. As a department of the City, the Airport shares benefit costs with the City. The Airport presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City.

(b) Benefits Provided

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. Amendments or changes to contribution requirement and benefits terms are approved by the City Council.

On June 5, 2012, San José voters adopted Measure B which enacted the *Sustainable Retirement Benefits and Compensation Act* (the Pension Act). The Pension Act amended the City Charter to,

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among other changes, (1) increase pension contribution requirements for current employees effective June 23, 2013; (2) require the City to establish an alternative voluntary plan with reduced benefits for current employees (Voluntary Election Plan or VEP) subject to Internal Revenue Service (IRS) approval; (3) place limitations on disability retirements; (4) authorize the City Council to temporarily suspend the cost of living adjustments if the City Council adopts a resolution declaring a fiscal and service level emergency; (5) require the elimination of the Supplemental Retirement Reserve within the Federated Plan; (6) codify in the City Charter contribution requirements for current employees for the retiree health and dental benefits and provide for a reservation of rights for the City Council to terminate or modify any retiree healthcare plan; (7) require the establishment of Tier 2 plans for new employees within the Federated Plan; and (8) reserve to the voters the right to approve future changes to retirement benefits.

Significant portions of Measure B are currently subject to legal challenge by individual employees, bargaining units representing current employees, and retirees. Additionally, various bargaining units representing current employees have filed unfair labor practice charges with the California Public Employment Relations Board related to Measure B and other lawsuits related to Measure B and changes made to retiree healthcare benefits are pending. A complete copy of Measure B is available from the San José City Clerk, 200 East Santa Clara Street, San José, California 95113. For more information regarding the pending litigation and other proceedings, please refer to the City's CAFR which is available from the City's Finance Department as described at the end of this note.

The Federated Plan has different tiers of benefits: Tier 1, Tier 2, Tier 2B, and Tier 2C. Tier 2 became effective for employees hired or rehired on or after September 30, 2012. The Tier 2 plan includes significant benefit changes from the existing Tier 1 plan, including a change in the cost sharing between the City and active Tier 2 members to a 50/50 split of all costs. Currently, Tier 1 members split normal costs with 8/11 paid by the City and 3/11 paid by Tier 1 members. The responsibility for funding the unfunded liability is generally not shared by Tier 1 employees.

Tier 2B became effective for employees hired or rehired on or after September 27, 2013. Employees in Tier 2B are excluded from retiree medical and dental benefits. The ordinance of the City Council establishing Tier 2B specifies that the City shall bear and pay an amount equal to the additional costs incurred by the Federated Plan for that portion of the unfunded liability as determined by the actuary of the Federated Plan that the City and Tier 2B members would have otherwise paid as contributions had those employees been eligible for retiree healthcare defined benefits. Tier 2B members receive the same pension benefits as Tier 2 members.

Tier 2C members are City employees who were Tier 1 members that separated from City employment and who later were rehired as Tier 2 or Tier 2B employees, but during the period that these employees were Tier 1 employees, they vested in the dental benefit provided under Tier 1.

The payroll for Airport employees covered by the Federated Plan for the fiscal years ended June 30, 2015 and 2014 was \$12,902,842 and \$12,532,010, respectively. The Airport's total payroll for the fiscal years ended June 30, 2015 and 2014 was \$15,141,158 and \$15,100,522, respectively.

The Federated Plan's pension benefits in effect at June 30, 2015, are summarized in the table below. For a more detailed information regarding the Federated Plan's benefits, please contact the City of San José Office of Retirement Services.

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	Federated - Tier 1
	<hr/>
Benefit formula	2.5% x Years of Service x Final ^(a) Compensation (75% max)
Benefit vesting schedule	5 years service
Benefit Payments	monthly for life
Retirement age	55 ^(b)
Monthly benefits, as a % of eligible compensation	1.04%-6.25%
	 Federated - Tier 2
	<hr/>
Benefit formula	2.0% x Years of Service x ^(c) Final Compensation (65% max)
Benefit vesting schedule	5 years service
Benefit Payments	monthly for life
Retirement age	55-65 ^(d)
Monthly benefits, as a % of eligible compensation	0.83%-5.42%
	 Federated - Tier 2B
	<hr/>
Benefit formula	2.0% x Years of Service x ^(c) Final Compensation (65% max)
Benefit vesting schedule	5 years service
Benefit Payments	monthly for life
Retirement age	55-65 ^(d)
Monthly benefits, as a % of eligible compensation	0.83%-5.42%
	 Federated - Tier 2C
	<hr/>
Benefit formula	2.0% x Years of Service x ^(c) Final Compensation (65% max)
Benefit vesting schedule	5 years service
Benefit Payments	monthly for life
Retirement age	55-65 ^(d)
Monthly benefits, as a % of eligible compensation	0.83%-5.42%

(a) If separation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months. If separation takes place on or after July 1, 2001, Final Compensation is highest average monthly salary during 12 consecutive months, not to exceed 108% of compensation paid to the member during the second highest consecutive 12 month period excluding the months used to calculate the highest 12 months.

(b) Retirement age at either 55 with 5 years of service, or 30 years of service at any age.

(c) Final Compensation is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service (year of service = 2,080 hours worked). Excludes premium pay or other forms of additional compensation.

(d) Retirement age is 65 years with 5 years of Federated City Service, but may retire on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction.

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(c) Contributions

Under GASB Statement No. 68, the City's and the participating employees' contributions to the Defined Benefit Pension Plans are based upon an actuarially determined percentage of each employee's base salary to arrive at an actuarially determined contribution (ADC) and will be sufficient to provide adequate assets to pay benefits when due. Prior to GASB Statement No. 68, contributions to the Defined Benefit Pension Plans were referred to as the annual required contribution (ARC).

Contribution rates for the Airport and the participating employees for the periods July 1, 2013 through June 21, 2014, June 22, 2014 through June 20, 2015, and June 21, 2015 through June 30, 2015 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2012, June 30, 2013, and June 30, 2014, respectively, for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan.

Pay Period	Airport's Contribution ⁽¹⁾		Employees' Contribution	
	Defined Benefit Pension	Postemployment Healthcare Plan	Defined Benefit Pension	Postemployment Healthcare Plan
07/01/2013 through 06/21/2014				
Tier 1	50.85%	8.66%	5.97%	8.01%
Tier 2	6.68%	8.66%	6.68%	8.01%
Tier 2B	6.68%	10.59%	6.68%	0.00%
06/22/2014 through 06/20/2015				
Tier 1	60.25%	9.41%	5.64%	8.76%
Tier 2	5.53%	9.41%	5.53%	8.76%
Tier 2B	5.53%	12.66%	5.53%	0.00%
Tier 2C	5.53%	12.86%	5.33%	0.39%
06/21/2015 through 06/30/2015				
Tier 1	66.16%	9.41%	6.33%	8.76%
Tier 2	5.70%	9.41%	5.70%	8.76%
Tier 2B	5.70%	12.66%	5.70%	0.00%
Tier 2C	5.70%	12.86%	5.70%	0.39%

⁽¹⁾ The actual contribution rates paid by the City for fiscal year ended June 30, 2014 differed due to the City funding the ARC 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.

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For the year ended June 30, 2015, the contributions paid during the measurement period (contributions made during the fiscal year ended June 30, 2014) were as follows (dollars in thousands):

	Annual Pension Contribution	
	Airport	Participants
Defined Benefit Pension Plan	\$ 6,654	999

In fiscal year ended June 30, 2011, the Federated Plan’s Board approved the establishment of a “floor funding method” for payment of ARC, which under GASB Statement No. 68 becomes ADC, for pension benefits to address unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The “floor funding method” interprets the ADC as the greater of the annual dollar contribution amount established in the valuation, or the ADC that would result from applying the employer contribution rate determined from that same valuation to the actual emerging payroll of Federated Plan members throughout the fiscal year.

The resolutions adopted by the Federated Plan’s Board setting the contribution rates for the fiscal year ended June 30, 2015 provide that the employer’s contribution rates may be adjusted in order to achieve a minimum dollar contribution for that fiscal year. However, in September 2014, the Federated Plan’s Board approved the City’s request to exclude Tier 2 from the floor methodology, so the ADC for Tier 2 employees is the rate determined by the Federated Plan’s actuary multiplied by the actual payroll of Tier 2 employees.

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

As of June 30, 2015, the Airport reported \$64,649,657 of net pension liability for its proportionate share of the City’s net pension liability. The net pension liability of the Federated Plan was measured as of June 30, 2014, and the total pension liability (TPL) for the Federated Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 and rolled forward to June 30, 2014 using standard update procedures. The Airport’s portion of the net pension liability was based on the Airport’s share of its contributions to the Federated Plan relative to the actual contributions. The Airport’s proportionate share of the Federated Plan’s net pension liability was 3.8% as of June 30, 2014, the measurement date.

For the year ended June 30, 2015, the Airport recognized pension expenses of \$4,709,000. As of June 30, 2015, \$7,103,082 was reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. As of June 30, 2015, \$7,933,265 was reported as deferred inflows of resources related to the net differences between projected and actual earnings on the Federated Plan’s investments.

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The amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows (dollars in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	\$ 7,103	(1,983)
2017	-	(1,983)
2018	-	(1,983)
2019	-	(1,984)
	\$ 7,103	(7,933)

(e) Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used to compute TPL as of June 30, 2015, ADC for the fiscal year ended June 30, 2015, and ARC for the fiscal year ended June 30, 2014 are as follows:

Description	Method/Assumption (TPL)	Method/Assumption (ADC)	Method/Assumption (ARC)
Measurement Date	June 30, 2014	June 30, 2014	N/A
Valuation Date	June 30, 2013	June 30, 2013	June 30, 2012
Actuarial Cost Method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	N/A	20-year layered, closed, level percentage of payroll with the 6/30/2009 unfunded actuarial accrued liability amortized over a closed 30-year period. Supplemental Retiree Benefit Reserve elimination to be amortized over 19 years.	20-year layered, closed, level percentage of payroll with the 6/30/2009 unfunded actuarial accrued liability amortized over a closed 30-year period. Supplemental Retiree Benefit Reserve elimination to be amortized over 20 years.
Actuarial asset valuation method	N/A	5 year smoothed market	5 year smoothed market

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<u>Description</u>	<u>Method/Assumption (TPL)</u>	<u>Method/Assumption (ADC)</u>	<u>Method/Assumption (ARC)</u>
Actuarial assumptions:			
Assumed rate of return on investments (net of inflation)	7.25% per annum	7.25% per annum	7.50% per annum
Post retirement mortality	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the California Public Employees' Retirement System (CalPERS) ordinary disability table from their 2000-2004 study for miscellaneous employees.	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees.	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees.
Active service withdrawal, death, disability service retirement	Tables based on experience study performed in 2011.	Tables based on experience study performed in 2011.	Tables based on experience study performed in 2011.
Salary increases	The base annual rate of salary increase is the wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service. The wage inflation rate is assumed to be 2.00% for the next five years and 2.85% thereafter.	The base annual rate of salary increase is the wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service. The wage inflation rate is assumed to be 2.00% for the next five years and 2.85% thereafter.	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service.
Projected total payroll increases	For the amortization, payroll is assumed to grow 2.43% per year.	For the amortization, payroll is assumed to grow 2.43% per year.	3.25%
Cost of Living Adjustment	Tier 1 - 3% per year; Tier 2 - 1.5% per year	Tier 1 - 3% per year; Tier 2 - 1.5% per year	Tier 1 - 3% per year; Tier 2 - fluctuates with actual inflation and capped at 1.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and investment return. Experience studies are performed by the Retirement Boards' actuaries to determine appropriate revision to the actuarial assumptions as actual results are compared with past expectations and new estimates are made about the future. The last experience studies for the Federated Plan were performed in 2011 and the next experience studies are scheduled to be conducted in 2015.

Long-term Expected Rate of Return on Plan Investments - The assumption for the long-term expected rate of return on investments of 7.25% was selected by estimating the median nominal rate of return based on long-term capital market assumptions provided by the investment

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consultants, 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 arithmetic real rates of return for each major asset class included in the Federated Plan's target asset allocation as of June 30, 2014, are summarized in the following table:

Asset Class	Asset	Long-Term Expected Real Rate of Return (Net of Fees)
Equity and Real Estate	40%	8.2%
Fixed Income	15%	2.2%
Absolute Return Strategies	25%	3.8%
Real Assets	20%	5.9%
Total	100%	
Total Arithmetic Expected Return		5.7%
Total Geometric Expected Return		5.1%

Discount Rate - The discount rate used to measure the total pension liability was 7.25%. It is assumed that members' contributions and Airport's contributions will be made based on the actuarially determined rates based on the Federated Plan Board's funding policies. Based on those assumptions, the Federated Plan's 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 were applied to all periods of projected benefit payments to determine the total pension liabilities.

The June 30, 2013 valuations included changes in the expected rate of return from 7.5% to 7.25%; and changes in the payroll wage inflation assumption from 3.25% for all years to 2.00% for the next five years and 2.85% thereafter.

Sensitivity of the Net Pension Liability to Changes in Discount Rates - The following presents the Airport's proportionate share of the net pension liability, 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 1 - percentage point lower or 1 - percentage point higher than the measurement date discount rate (dollars in thousands):

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	Measurement Date		
Sensitivity Analysis	1% Decrease	Discount Rate	1% Increase
	(6.25%)	(7.25%)	(8.25%)
Net pension liability	\$ 98,080	64,650	37,182

The allocation was based on 3.8% of the Airport's proportion of the Federated Plan's assets and liabilities at measurement date, June 30, 2014.

As of June 30, 2014, the actuarial valuation date, the Federated Board is utilizing a discount rate of 7.0%. For more details on the current discount rate, please refer to the stand-alone report issued by the Federated Plan.

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

(f) Payable to the Pension Plan

At June 30, 2015, the Airport had no outstanding contribution payable to the pension plan.

(g) Pension Contributions Under GASB Statement No. 27

Under GASB Statement No. 27, an employer reports an annual pension cost (APC) equal to the ARC plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). For fiscal year 2014, the Airport's APC of \$6,372,527 was equal to the Airport's required and actual contributions. The following is the three-year trend information for the Airport's ARC and contributions made:

Fiscal Year	Defined Benefit Pension			
	<u>ARC</u>	<u>Contributions</u>	<u>% of Contributions</u>	<u>Unfunded Liability</u>
6/30/2012	\$ 3,834,609	3,834,609	100%	-
6/30/2013	5,748,106	5,748,106	100%	-
6/30/2014	6,653,570	6,653,570	100%	-

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(h) Other Postemployment Benefits

During the fiscal year ended June 30, 2015, the Federated Plan GASB Statement No. 43-compliant OPEB valuation study as of June 30, 2014, was prepared by Cheiron, Inc., the Federated Plan’s actuary. In 2009, the City entered into agreements (Retiree Healthcare Agreements) with the bargaining units representing the Federated Plan members to increase the contribution rates for retiree health and dental benefits in order to phase-in to full funding of the GASB Statement No. 43 ARC over a five period ending in fiscal year 2013. The Retiree Healthcare Agreements also provide that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions. At the end of the phase-in, the City and active members were to pay the ARC for retiree healthcare benefits. Under the Retiree Healthcare agreements, the ratio of contribution remained unchanged with the contribution for retiree medical benefits split evenly between the City and the employee and retiree dental benefits split in the ratio of 8 to 3 with the City contributing 8/11 of the total contribution.

The fiscal year ended June 30, 2013 was supposed to mark the end of the 0.75% cap and per the Retiree Healthcare Agreements, the employees and the City are required to contribute at the GASB Statement No. 43 ARC for fiscal year ended June 30, 2014. However, the City and the bargaining groups negotiated an extension of the 0.75% cap on increases to medical contributions for 18 months. In October 2014, the City Council approved to extend the cap for an additional six months to June 20, 2015, the last pay period for fiscal year 2014-2015. At the end of fiscal year 2014-2015, the bargaining units and the City jointly agreed to keep the contribution rates the same as fiscal year 2014-2015 until December 20, 2015, at which point the parties would begin to pay the full ARC; however, the contribution rate may change based on ongoing negotiations between the City and the bargaining units. The contribution rates under the Retiree Healthcare Agreements are applied to unrepresented employees.

The “floor methodology” described above in Note 7(c) applies to the calculation of the ARC for OPEB for Tier 1, but not Tier 2 employees, for fiscal year 2014-2015.

The June 30, 2013 valuation establishes, for the fiscal year ended June 30, 2015, the City’s ARC rate as a percentage of pay on a GASB valuation basis to be 23.16% compared to 9.41% on a phase-in funded basis for Tier 1 and Tier 2 members and 12.66% for Tier 2B members, and 12.86% for Tier 2C members.

The following is the three-year trend information for the Airport’s annual OPEB cost (AOC), and contributions made:

<u>Fiscal Year</u>	<u>Postemployment Healthcare Plan</u>				
	<u>ARC</u>	<u>AOC</u>	<u>Contributions</u>	<u>% of Contributions</u>	<u>Unfunded Liability</u>
6/30/2013	\$ 3,691,308	3,677,300	1,565,113	43%	12,076,469
6/30/2014	3,220,885	3,037,439	1,478,129	49%	13,635,779
6/30/2015	2,107,026	1,968,802	1,838,008	93%	13,766,573

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The City has determined a Citywide OPEB cost based upon an actuarial valuation performed in accordance with GASB Statement No. 45 by the Federated Plan's actuary. The City allocated to the Airport its proportionate share of the Citywide OPEB cost for Federated Plan employee members. The difference between the cumulative OPEB cost allocated and the costs contributed by the Airport was \$13,766,573 and \$13,635,799 at June 30, 2015 and 2014, respectively, which is recorded as the Airport's net OPEB obligation. The Airport has earmarked funds from the unrestricted net position to pay the full amount of the net OPEB obligation.

The City issues a publicly available CAFR 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 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, 2015 and 2014, were \$2,857,133 and \$2,417,925, respectively. The City also charged the Airport fees of \$9,221,534 and \$7,230,895 for the fiscal years ended June 30, 2015 and 2014, 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 \$1,201,775 and \$1,029,385 for the fiscal years ended June 30, 2015 and 2014, respectively, are included in operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

The FAA auditors reviewed the City's allocation of its costs to the Airport for services provided by the City to the Airport in fiscal year 2010. 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 fiscal years 2005 through 2010 using an allocation methodology that reflects services actually provided to the Airport and repay any overcharges to the Airport, with interest.

The City believes that its cost allocation methodologies reflect the cost of City services actually provided to the Airport and that the methodologies used by the City are consistent with applicable federal cost allocation guidance. In an effort to resolve the issue, the City capped 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 total credit of \$5.6 million that would be applied equally to the Airport cost allocation plan over a seven-year period beginning in fiscal year 2012-13. The City also proposed to adjust its indirect cost allocation methodology commencing with fiscal year 2014-15. The City's proposal is yet to be accepted by the FAA and as such, the Airport has not recorded this contingency. On August 14, 2015, the FAA responded to the City's proposal. See Subsequent Event Note 11 for a full description of the FAA's response.

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(9) Risk Management

(a) Insurance Policies

The Airport is covered under the City’s annual all-risk property insurance policy with coverage for City property, including coverage for boiler and machinery exposures. The policy also provides coverage for loss due to business interruption and flood coverage. The City does not carry earthquake insurance as it is not available at reasonable rates. A summary of these coverages is provided below for the policy period of October 1, 2014 to October 1, 2015.

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

The City has airport liability policies covering the Airport for the policy periods of October 1, 2014 to October 1, 2015 and October 1, 2013 to October 1, 2014 including operation of vehicles on premises, which provide 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 sublimit of \$100 million each occurrence and in the annual aggregate for war liability. During the past three years, there have not been any instances that the amount of claim settlements exceeded the insurance coverage.

A separate automobile liability policy provides 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 no deductible. Physical damage coverage is obtained for the Airport Shuttle Bus Fleet and is subject to a \$10,000 comprehensive and \$25,000 collision deductible. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

For the policy period of December 18, 2014 to December 18, 2015, 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.

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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.

(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:

	2015	2014
Accrued liability, beginning of fiscal year	\$ 2,242,233	1,678,773
Claims payments and adjustments	(404,498)	(486,607)
Provision for current year claims and changes in prior year estimates	903,666	1,050,067
Accrued liability, end of fiscal year	\$ 2,741,401	2,242,233

(c) Airport Owner Controlled Insurance Program

On March 31, 2004, the City bound certain liability insurance coverage (see chart below) for major components of the "2004 Security Projects" (currently referred to as the North Concourse Project) through an Owner Controlled Insurance Program (OCIP) from Chartis, formerly American International Group, AIU Holdings, Inc., and AIU LLC (AIU). The OCIP is a single insurance program that provides commercial general liability, excess liability and workers' compensation insurance coverage for construction job site risks of the project owner, general contractors, and all subcontractors associated with construction at the designated project site.

<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	\$2 million per accident	\$250,000
Excess Liability	\$150,000,000	None

The North Concourse OCIP required the City to fund a claims loss reserve fund with Chartis in the amount of \$3.9 million. The full amount of the claims loss reserve had been deposited with Chartis

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and was recorded as advances and deposits in the accompanying statement of net position. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible, subject to an aggregate maximum loss exposure within coverage limits to the City of \$3.9 million.

The North Concourse Project was completed in the fall of 2008. Chartis is currently in the process of closing out the North Concourse OCIP and is auditing the project payroll and cost factors associated with the premium. The closing out process for OCIP includes an actuarial review, which examines outstanding claims. The City was able to negotiate the return of a large portion of the unused claims reserve in advance of the 10-year coverage term and in March 2010 the amount of \$2,516,719 was returned to the Airport. In addition, \$6,556 and \$7,912 was returned to the Airport in August 2014 and April 2015, respectively. Chartis will continue to hold the remaining funds in the claims loss reserve fund until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

Activities relating to the North Concourse OCIP claims reserve fund for the fiscal years ended June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 929,517	947,687
Interest earned and other adjustments	7,368	279
Reserve returned	(14,468)	-
Losses paid	<u>(3,244)</u>	<u>(18,449)</u>
Ending balance	<u><u>\$ 919,173</u></u>	<u><u>929,517</u></u>

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

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

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

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claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of \$8.9 million. The City was able to negotiate to fund 74% of the claims loss reserve and interest generated remains in the fund. The full amount of \$6.5 million was deposited with Chartis in fiscal year 2009 and was recorded as advances and deposits in the accompanying statement of net position. In August 2013, as part of the annual loss reserve analysis by Chartis, an amount of \$1,397,838 was returned to the Airport. In addition, \$124,930 and \$56,058 was returned to the Airport in August 2014 and May 2015, respectively.

Activities relating to the TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 2,516,817	4,032,392
Interest earned	1,040	1,714
Reserve returned	(180,988)	(1,397,838)
Losses paid	<u>(83,423)</u>	<u>(119,451)</u>
Ending balance	<u>\$ 2,253,446</u>	<u>2,516,817</u>

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 (HP). The term of the TAIP OCIP expired on June 30, 2011. All work covered under the contract with HP has been completed and accepted. Chartis will continue to hold the remaining funds in the claims loss reserve fund until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

(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. The term of the agreement is from December 2007 to May 2017. Rental and maintenance expenses were \$1,295,044 and \$1,319,724 for fiscal years ended June 30, 2015 and 2014, respectively.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 955,815
2017	<u>878,920</u>
Total minimum lease payments	<u>\$ 1,834,735</u>

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(b) *Purchase Commitments and Capital Outlay Projections*

As of June 30, 2015, the Airport was obligated for purchase commitments of approximately \$8.3 million primarily for pavement maintenance, terminal area development, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber approximately \$72 million on proposed 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, bond proceeds, and other Airport revenues.

(c) *Fuel Tank Farms*

Until December 22, 1998, the City and Chevron U.S.A., Inc. (Chevron), operated adjacent fuel storage facilities at the Airport. The City's facilities have not been in operation since December 22, 1998, when the facilities were closed in response to the federal deadline for upgrade or closure of underground storage tanks. Since the discovery in fiscal year 1985-86 that petroleum products had been released into the soil and groundwater from either or both the City and Chevron fuel storage facilities, the City and Chevron have operated a groundwater extraction system to control migration (spread) of the contamination and to remediate (cleanup) contaminated groundwater. This interim remediation system consists of an extraction and treatment system to remove floating jet fuel product from groundwater and to prevent its offsite migration. Chevron operates and maintains the system. Through June 1998, the City and Chevron shared in the cost of operating this system. The agreement expired but Chevron continued the work.

A new joint agreement was entered into by the City and Chevron in November 2009. Chevron was designated as the lead in the remediation efforts. The agreement provides for a 50%-50% cost sharing responsibility for actual future costs until successful closure of the site. As of June 30, 2014, the Airport has paid its 50% of the remediation costs totaling \$2,024,242. The Airport did not incur any remediation costs for the fiscal year ended June 30, 2015. The agreement also required the City to pay its 50% share of the past costs that Chevron has incurred during the period after expiration of the prior agreement and before the new agreement was in place. During the fiscal year ended June 30, 2010, the Airport paid its share of the past costs amounting to \$660,434.

Chevron is responsible for administering the new agreement, including retaining a corrective action contractor. The agreement is also structured to facilitate reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (Plume Fund). Chevron has received a reimbursement from the Plume Fund amounting to \$2,948,039 and is requesting the remaining \$51,961 of the eligible \$3 million reimbursement.

Due to the proximity of the closed City jet fuel farm to the adjacent Chevron jet fuel farm that was still active, and the apparently stable contaminant plume, the regulators approved a waiver to allow the City tanks to be left in place until such time as a completely new fuel farm could be built, thereby allowing the Chevron site to be closed, and investigation/remediation to be done on both sites at once. The new jet fuel farm was constructed off-Airport across Highway 101 and was placed in service in December 2009. The Chevron fuel farm was subsequently closed upon commencement of the operation of the new fuel farm.

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Chevron demolished its fuel farm during fiscal year 2010 and removed its USTs. The City removed its USTs in September 2011. Chevron completed the site's interim remedial action in November 2012 pursuant to the plan, which was approved by the County of Santa Clara (County) in February 2012. The approved plan is a fixed area remedial excavation to remove the secondary source materials beneath and adjacent to the former USTs. In March 2013, four groundwater monitoring wells were installed within the area of excavation to monitor and evaluate the effectiveness of the remedial excavation on water quality. Quarterly monitoring and sampling was done through the fourth quarter of 2013. Following four quarters of monitoring and sampling, the site conditions were evaluated for closure using the framework of the State Water Resources Control Board Low-Threat Underground Storage Tank Closure Policy, which became effective August 17, 2012. Following approval of closure from the County, the monitoring wells were destroyed in Spring 2015. In June 2015, Chevron and the City received a letter from the County confirming the completion of the investigation and cleanup of the site.

Chevron will deduct the Airport's share in the remaining remediation costs from the Airport's half of the Plume Fund reimbursement.

(d) Master Plan

In 1997, after extensive planning and environmental studies and reports, the City Council approved a new master plan for the Airport. In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new ALP displaying the Master Plan projects and unconditionally approved all of the near-term projects. Both the Master Plan and the ALP have been amended several times since 1997 and currently are intended to provide facility improvements needed to accommodate forecast demand in the year 2027 for commercial passenger service, air cargo, and general aviation. Implementation of the Master Plan has been ongoing, collectively comprising improvements to the Airport's terminal facilities, roadways, parking facilities, and airfield facilities, and includes 1.075 million square feet of passenger terminal facilities comprised of up to 49 gates; parking and garage facilities comprised of up to 16,200 public parking spaces, 2,600 employee parking spaces and 10,000 rental-car parking spaces (including 2,000 ready-return spaces); air cargo facilities; ground transportation, roadway and other access improvements; and runway improvements. In the fall of 2005, and in recognition of how current market conditions were impacting passenger growth, the Airport and its airline tenants reexamined the Master Plan and developed the TAIP, a program for implementing the Master Plan by aligning ongoing and planned construction activities with available fiscal resources, taking into account revised passenger growth projections. In June 2006, the City Council approved an amendment to the Master Plan to incorporate the TAIP and other Airport Development Program revisions. Funding for Master Plan projects is from several sources, including grants, PFCs, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

In June 2010, the City Council approved the most recent amendment to the Master Plan that updated projected aviation demand and facility requirements. This amendment to the Master Plan modified specific components of the Airport Development Program. Pursuant to the amended Master Plan, the former interim long-term public parking and employee parking lots on the northwest side of the Airport (which have been relocated to the east side terminal area) are designated for development of facilities to accommodate projected growth in general aviation demand. The 29-acre Signature fixed based facility development is located in this portion of the

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Airport, and an additional 15 acres north of the FAA air traffic control tower remains available for future general aviation development opportunities.

(e) 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. As a general rule, 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 fiscal years 2005 through 2010 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 to cap 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 fiscal year 2012-13. The City also proposed to adjust its indirect cost allocation methodology commencing with fiscal year 2014-15 in an effort to address FAA concerns.

On August 14, 2015, the FAA responded to the City's proposal to resolve the cost allocations issue. The City continues discussions with the FAA with regard to the cost allocations issue, but cannot predict the final outcome of the audit. See Subsequent Event Note 11 for a full description of the FAA's response.

(f) Litigation

Between May 2013 and January 2014, SJJC Aviation Services, LLC filed three lawsuits seeking to block the Signature fixed base operation project at the Airport. SJJC Aviation Services, LLC is an incumbent tenant at the Airport that conducts fixed base operations under the name "Atlantic Aviation," and the Signature fixed base operation will be in competition with Atlantic Aviation at the Airport.

The first lawsuit (RFP lawsuit), filed in May 2013 in the Superior Court of the State of California in Santa Clara County, challenged the City's request for proposal (RFP) process and the resulting award of the lease and operating agreement to Signature. The Superior Court entered judgment dismissing the RFP lawsuit with prejudice on May 2, 2014, and SJJC Aviation Services

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subsequently filed an appeal to the Sixth District Court of Appeal on May 16, 2014. The parties have fully briefed the appeal, but a hearing date for the appeal has not yet been set.

The remaining two lawsuits filed in May and December 2013 in the Superior Court of the State of California in Santa Clara County, seek to block the Signature project under the California Environmental Quality Act (CEQA). In both CEQA lawsuits, SJJC Aviation Services alleges that the City violated CEQA by approving the Signature project without adequate environmental review. The Superior Court subsequently consolidated the two CEQA lawsuits. The City successfully defended its CEQA environmental review and received a judgment in its favor on December 23, 2014, and SJJC subsequently filed an appeal to the Sixth District Court of Appeal on February 5, 2015. The City's brief on the appeal is currently due on November 16, 2015, but a hearing date for the appeal has not yet been set.

The City believes that the SJJC Aviation Services challenges to the RFP process and the environmental review for the Signature project are without merit.

There are several pending lawsuits in which the Airport is involved in the normal course of its operation. The Airport's and the City's management believe that any potential exposure will not have a material effect on the Airport's financial position or changes in financial position.

(11) Subsequent Event

On July 27, 2015, the City filed a rating change notification relating to Fitch's Rating Services upgrade of the underlying rating of the City's Airport Revenue Bonds, Series 2007A, 2007B, 2011A-1, 2011A-2, 2011B, 2014A, 2014B, and 2014C from "BBB+" to "A" with a stable rating outlook.

On August 14, 2015, the City received a response from the FAA regarding the FAA audit of Use of Airport Revenue (see Note 10(e)). The FAA considers two issues identified in the audit to be closed. With respect to the remaining outstanding issue concerning cost allocation methodology, 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. The City continues discussions with the FAA, but cannot predict the final outcome of the audit.

Effective September 16, 2015, the City reduced the Stated Amount of the Letter of Credit issued by Barclays to support the Subordinated CP Notes from \$65 million to approximately \$41 million, which covers the outstanding amount of about \$38 million.

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Required Supplementary Information (Unaudited)
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Schedule of the Proportionate Share of the Net Pension Liability (dollars in thousands)

	<u>2015</u>
Proportion of the collective net pension liability	3.8%
Proportionate share of the collective net pension liability	\$ 64,650
Covered - employee payroll	\$ 12,903
Proportionate share of the collective net pension liability as percentage of covered-employee payroll	501.0%
Plan fiduciary net position as a percentage of the total pension liability	63.8%

Schedule of Contributions (dollars in thousands)

	<u>2015</u>	<u>2014</u>
Contractually required contribution (actuarially determined)	\$ 7,103	6,654
Contributions in relation to the actuarially determined contributions	7,103	6,654
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
Covered-employee payroll	\$ 12,903	12,532
Contributions as a percentage of covered-employee payroll	55.0%	53.1%

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 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 ten-year period when the information is available.

STATISTICAL



The Airport opened new concessions in both Terminal A and B to serve its growing passenger activity. Sip Savvy and First Class Deli opened in Terminal A. Sip Savvy is a full bar adventure featuring fresh juice, organic liquors and spirits, bottled beers, a small plate menu of gourmet-quality salads, cheeses, sandwiches, and desserts. First Class Deli is a contemporary sandwich shop, inspired by East Coast deli traditions, which uses fresh ingredients found in Northern California for unique salads, made-to-order sandwiches, and a variety of individual desserts.

In Terminal B, the Airport welcomed the first Menchie's Frozen Yogurt at an airport location, which offers self-serve frozen yogurt with a variety of flavors and toppings to create your own yogurt treat.

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

Statistical Section
June 30, 2015

This part of the comprehensive annual 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

Financial Trends

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

Annual Revenues, Expenses, Changes in Net Position, and Net Position *A*

Revenue Capacity

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

Airline Cost per Enplaned Passenger *B*

Gross Concession Revenue per Enplaned Passenger *C*

Scheduled Airline Rates and Charges *D*

Debt Capacity

These schedules present information regarding the Airport's current levels of outstanding debt.

Ratios of Outstanding Debt and Debt Service *E*

Debt Service Coverage *F*

Demographic and Economic Information

These schedules illustrate demographic and economic indicators to provide a context for understanding and assessing the Airport's financial activities.

Service Area Population in the Air Trade Area *G*

Service Area Personal Income in the Air Trade Area *H*

Service Area Per Capita Personal Income in the Air Trade Area *I*

Principal Employers in the City of San José *J*

Service Area Annual Average Unemployment Rate in the Trade Area *K*

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

Statistical Section
June 30, 2015

Contents

Schedule

Operating Information

These schedules contain service and infrastructure data related to services the Airport provides and the activities it performs.

<i>Airport Employees</i>	<i>L</i>
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<i>Enplaned Commercial Passengers by Airline</i>	<i>N</i>
<i>Airline Landed Weights</i>	<i>O</i>
<i>Airline Flight Operations by Airline and Cargo Carrier</i>	<i>P</i>
<i>Scheduled/Commuter/All-Cargo Airline Service</i>	<i>Q</i>
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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)

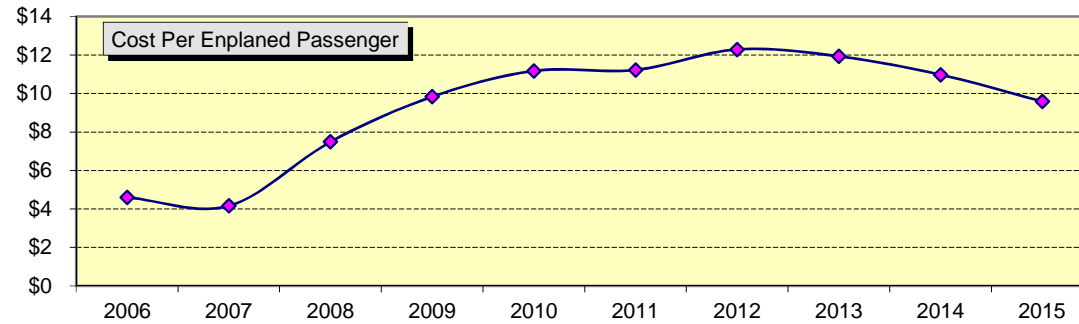
	2006	2007	2008	2009	2010	2011 ⁽¹⁾	2012	2013	2014	2015 ⁽²⁾
Operating revenues										
Airline rates and charges:										
Landing fees	\$10,768	\$13,504	\$13,084	\$14,504	\$13,190	\$13,370	\$11,414	\$12,888	\$11,973	\$11,856
Terminal rental	16,575	11,308	26,539	29,716	33,459	34,446	39,864	38,256	38,130	34,372
Total airline rates and charges	27,343	24,812	39,623	44,220	46,649	47,816	51,278	51,144	50,103	46,228
Terminal buildings/concessions	8,672	9,201	11,470	11,947	11,157	16,877	15,770	15,102	15,423	16,271
Airfield area	3,074	2,519	2,833	3,171	2,791	2,925	2,783	3,038	3,553	3,993
Parking and roadway	46,484	48,226	48,369	44,227	38,934	47,320	51,023	46,700	47,268	49,049
Fuel handling fees	1,492	1,592	1,806	1,474	1,310	1,504	1,690	2,361	3,170	3,257
Customer facility charges ⁽¹⁾	4,491	4,451	6,351	6,713	6,021	-	-	-	-	-
General aviation/other	3,858	4,528	4,789	5,826	5,909	4,521	4,431	4,770	6,193	7,183
Total operating revenues	95,414	95,329	115,241	117,578	112,771	120,963	126,975	123,115	125,710	125,981
Operating expenses:										
Terminal buildings/concessions	24,685	26,929	31,790	28,813	31,701	33,019	23,659	23,303	24,233	23,833
Airfield area	21,765	19,860	22,692	16,170	10,911	9,749	9,069	8,707	9,570	9,891
Parking and roadway	28,518	28,559	27,936	26,853	24,032	25,344	25,514	16,631	16,343	17,170
Fuel handling costs	325	171	311	557	885	288	556	1,065	11	28
General aviation	3,152	3,679	3,428	4,072	3,052	2,409	1,676	1,605	1,609	2,006
General and administrative	24,665	28,787	32,879	28,268	23,624	19,095	18,328	18,763	19,877	18,208
Depreciation and amortization	19,153	19,323	22,834	20,647	55,288	51,532	51,520	54,353	54,027	53,437
Total operating expenses	122,263	127,308	141,870	125,380	149,493	141,436	130,322	124,427	125,670	124,573
Operating income (loss)	(26,849)	(31,979)	(26,629)	(7,802)	(36,722)	(20,473)	(3,347)	(1,312)	40	1,408
Nonoperating revenues (expenses):										
Passenger facility charges	22,271	22,169	21,224	17,416	17,043	17,311	16,787	17,294	18,161	19,291
Customer facility charges ⁽¹⁾	-	-	-	-	-	6,840	10,137	13,385	15,493	18,690
Investment income	5,376	9,294	15,446	8,138	311	1,613	2,217	(257)	1,571	1,222
Interest expense	(3,184)	(11,995)	(11,737)	(11,404)	(10,750)	(54,430)	(70,009)	(75,058)	(73,836)	(72,237)
Bond issuance costs	-	-	-	-	-	-	(4,141)	(196)	-	(976)
Operating grants	8,398	8,284	8,444	4,625	1,150	701	670	565	605	610
Loss on disposal of capital assets	(3)	-	-	(3,537)	(11,733)	-	(9)	-	(481)	-
Other, net	2,332	2,541	2,767	4,227	200	1,438	698	451	614	806
Total nonoperating revenues (expenses), net	35,190	30,293	36,144	19,465	(3,779)	(26,527)	(43,650)	(43,816)	(37,873)	(32,594)
Income (loss) before capital contribution	8,341	(1,686)	9,515	11,663	(40,501)	(47,000)	(46,997)	(45,127)	(37,833)	(31,186)
Capital contributions	10,508	9,694	4,970	12,868	34,722	10,862	7,399	6,954	4,843	937
Change in Net Position	\$18,849	\$8,008	\$14,485	\$24,531	(\$5,779)	(\$36,138)	(\$39,598)	(\$38,173)	(\$32,990)	(\$30,249)
Net Position at Year-End										
Net investment in capital assets	\$219,510	\$239,960	\$267,321	\$316,935	\$314,664	\$272,598	\$242,916	\$209,381	\$169,870	\$126,350
Restricted	113,182	118,334	84,491	45,260	61,349	64,128	69,350	65,408	67,848	56,752
Unrestricted	78,827	61,233	82,200	96,348	76,751	79,900	58,811	58,114	62,195	18,689
Net Position at Year-End ⁽²⁾	\$411,519	\$419,527	\$434,012	\$458,543	\$452,764	\$416,626	\$371,077	\$332,903	\$299,913	\$201,791

(1) CFCs are used to pay for capital costs and related debt service associated with the ConRAC and certain operating expenses related to the transportation of rental car customers. CFCs were reclassified from operating to nonoperating revenue beginning in fiscal year 2011 when the Airport started using CFCs for the debt service associated with the ConRAC.

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



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	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Airline revenues:										
Terminal rental	\$ 15,886 ⁽¹⁾	10,748 ⁽¹⁾	26,539	29,716	33,459	34,446	39,864	38,256	38,130	34,372
Landing fees (Passenger Carriers)	9,036	11,390	12,252	13,560	12,443	12,582	10,838	12,298	11,451	11,361
Total	24,922	22,138	38,791	43,276	45,902	47,028	50,702	50,554	49,581	45,733
Enplaned passengers	5,415	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517	4,765
Airline cost per enplaned passenger (not in 000's)	\$ 4.60	4.16	7.49 ⁽²⁾	9.84 ⁽²⁾	11.18 ⁽²⁾	11.23 ⁽²⁾	12.29 ⁽²⁾	11.94 ⁽³⁾	10.98 ⁽³⁾	9.60

(1) Terminal Rental for fiscal years 2006 through 2007 do not agree with Schedule A, where revenue categories have been presented in accordance with the provisions of the current Airline-Airport Lease and Operating Agreement. Secondary and shared holdroom revenues, previously included in the Terminal Buildings/Concessions category, were reclassified to Terminal Rental in Schedule A.

(2) Increases in airline cost per enplaned passenger during fiscal years 2008 through 2012 were principally due to the decreases in enplaned passengers and the increases in debt service.

(3) Decreases in airline cost per enplaned passenger during fiscal years 2013 and 2014 were principally due to the increases in enplaned passengers.

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)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gross Concession Revenue: ⁽¹⁾										
Parking ⁽²⁾	\$ 29,744	29,702	28,625	23,632	21,260	22,081	22,943	24,814	26,759	27,845
Rental Cars	125,371	142,115	156,227	127,661	114,614	125,730	126,333	129,643	142,439	149,384
Food and Beverage	18,251	20,156	20,041	16,753	16,493	21,141	22,280	24,216	27,350	30,078
Advertising	4,627	3,451	1,892	1,923	1,736	1,903	1,873	2,355	2,506	2,245
Gift Shop & Retail	8,534	8,007	7,957	7,380	8,868	11,290	11,983	12,668	13,475	14,130
In-Flight Kitchen	7,731	7,277	5,819	6,173	8,580	9,823	8,920	10,680	13,114	15,904
Total Gross Concession Revenue	\$ 194,258	210,708	220,561	183,522	171,551	191,968	194,332	204,376	225,643	239,586
Enplaned Passengers:	5,415	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517	4,765
Gross Concession Revenue Per Enplaned Passenger (not in 000's)	\$ 35.87	39.61	42.59	41.71	41.77	45.83	47.11	48.26	49.95	50.28

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⁽¹⁾ Gross revenues of major concessionaires only.

⁽²⁾ Gross public parking revenues only.

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED AIRLINE RATES AND CHARGES
FISCAL YEARS 2006 THROUGH 2007 AND THE PERIOD JULY 1 TO NOVEMBER 30, 2007

	<u>2006</u>	<u>2007</u> ⁽²⁾	<u>2008</u> ⁽³⁾
Landing Fees (per 1,000 lbs. MGLW) ⁽¹⁾	\$ 1.43	\$ 1.80	\$ 1.44
Terminal Rental Rates (per square foot)			
Terminal A :			
Ticket counter	224	133	
Operations	168	100	
Holdroom	202	120	
Baggage claim	112	67	
Baggage makeup/storage	79	47	
Terminal C :			
Ticket counter	111	110	
Operations	84	83	
Holdroom	100	99	
Baggage Claim ⁽⁴⁾	56	55	
Baggage makeup/storage	39	39	
Blended:			
Ticket counter			351
Operations			316
Holdroom			263
Baggage Claim ⁽⁴⁾			175
Baggage makeup/storage			123

(1) MGLW - Maximum Gross Landing Weight

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

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

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED AIRLINE RATES AND CHARGES ⁽¹⁾
PERIOD DECEMBER 1, 2007 to JUNE 30, 2008 THROUGH FISCAL YEAR 2015

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Unit</u>
Landing Fees	\$ 2.00	\$ 2.24	\$ 2.32	\$ 2.47	\$ 2.14	\$ 2.38	\$ 2.22	\$ 2.09	per 1,000 lbs. MGLW ⁽⁴⁾
Terminal Rental Rates									
<u>Group A:</u>									
Ticket counter and queuing, Skycap/Curbside Check-in									
- Preferential	73,729	81,192	145,136	241,041	319,205	296,954	293,680	235,177	per counter
- Common	35	63	57	73	97	90	98	94	per hour
Airline ticket office, Club/VIP	166.07	237.81	204.57	157.18	184.19	186.55	192.73	178.08	per sq. ft.
Holdroom (Gate)									
- Preferential	418,598	481,687	726,212	742,245	872,527	886,424	915,350	775,820	per gate
- Common	228	330	497	496	598	607	591	470	per turn
<u>Group B:</u>									
Baggage Claim ⁽²⁾ /Other Office	132.86	190.25	163.66	125.74	147.35	149.24	154.19	142.47	per sq. ft.
<u>Group C:</u>									
Baggage Make-up ⁽³⁾ /Operations Space	83.04	118.91	102.29	78.59	92.09	93.28	96.37	89.04	per sq. ft.

(1) These rates and charges were for the period December 1, 2007 to June 30, 2015 and were calculated based on the provisions of the current Airline-Airport Lease and Operating Agreement which took effect on December 1, 2007.

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

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

(4) MGLW - Maximum Gross Landing Weight

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Outstanding Debt per Enplaned Passenger										
Outstanding debt by type:										
Revenue bonds	\$ 493,100	484,347	1,057,386	1,046,606	1,035,266	1,023,304	1,415,552	1,398,332	1,376,038	1,349,265
Commercial paper notes	8,089	41,424	186,190	323,561	417,348	410,079	47,937	45,380	41,159	37,912
Total outstanding debt	\$ 501,189	525,771	1,243,576	1,370,167	1,452,614	1,433,383	1,463,489	1,443,712	1,417,197	1,387,177
Enplaned Passengers	5,415	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517	4,765
Total outstanding debt per enplaned passenger (not in 000's)	\$ 93	99	240	311	354	342	355	341	314	291
Debt Service										
Revenue bonds ⁽²⁾⁽³⁾	\$ 21,423	20,837	21,567	23,037	31,367	53,890	80,725	86,325	95,068	96,083
Commercial paper notes ⁽⁴⁾⁽⁵⁾	737	3,391	710	292	734	16,605	6,818	4,043	2,859	2,213
Total debt service	22,160	24,228	22,277	23,329	32,101	70,495	87,543	90,368	97,927	98,296
Less: Funds available for debt service										
Passenger facility charges	-	-	-	-	4,588	21,388	21,336	22,100	25,747	25,202
Customer facility charges ⁽⁶⁾	-	-	-	-	-	6,840	10,137	13,385	15,494	18,690
Unspent bond proceeds ⁽⁶⁾	-	-	-	-	-	-	1,713	5,802	11,082	11,082
Net debt service	\$ 22,160	24,228	22,277	23,329	27,513	42,267	54,357	49,081	45,604	43,322
Net debt service per enplaned passenger (not in 000's)	\$ 4.09	4.55	4.30	5.30	6.70	10.09	13.18	11.59	10.10	9.09

(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 Master Trust, the City may designate Passenger Facility Charges as "Available Passenger Facility Charges" for payment of eligible debt service. The amount of Debt Service is reduced by the amount of Available Passenger Facility Charges designated by the City and deposited with the Trustee to pay Bond Debt Service.

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

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

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

(6) Fiscal years 2010 through 2012 were 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.

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

Year	Adjusted General Airport Revenues ⁽¹⁾	Operating Expenses ^{(2) & (3)}	Net Revenues	Other Available Funds	Net Revenues Available for Debt Service	Total Bond Debt Service ⁽⁴⁾	Available Passenger Facility Charges ⁽⁴⁾	Net Bond Debt Service Payable from Revenues	Coverage Ratio - Bonds	Estimated Commercial Paper (CP) Debt Service ^{(6) (7)}	Coverage Ratio- Bonds & CP
2006	\$ 102,615	\$ 78,374	\$ 24,241	\$ 37,022	\$ 61,263	\$ 21,423 ⁽⁵⁾		\$ 21,423	2.86	\$ 737	2.76
2007	99,111	86,404	12,707	44,250	56,957	20,837 ⁽⁵⁾		20,837	2.73	3,391	2.35
2008	119,651	95,615	24,036	44,175	68,211	21,567 ⁽⁵⁾		21,567	3.16	710	3.06
2009	120,041	91,051	28,990	49,053	78,043	23,037		23,037	3.39	292	3.35
2010	110,226	82,711	27,515	51,610	79,125	31,367	\$ 4,588	26,779	2.95	734	2.88
2011	123,538	76,850	46,688	52,447	99,135	53,890	21,388	32,502	3.05	16,605	2.02
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	67,661	60,377	83,186	143,563	96,083	25,202	70,880	2.03	2,213	1.96

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(1) Does not include Customer Facility Charges (CFCs), Passenger Facility Charges (PFCs), or AIP grant proceeds. PFC revenues and AIP grant proceeds are included in the Statements of Revenues, Expenses, and Changes in Net Position as nonoperating revenues. Beginning in fiscal year 2011, CFC revenues were reclassified from operating to nonoperating revenue (see Note 1 in Schedule A).

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

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

(4) 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 Master Trust, the City may designate Passenger Facility Charges as "Available Passenger Facility Charges" for payment of eligible debt service. The amount of Debt Service is reduced by the amount of Available Passenger Facility Charges designated by the City and deposited with the Trustee to pay Bond Debt Service.

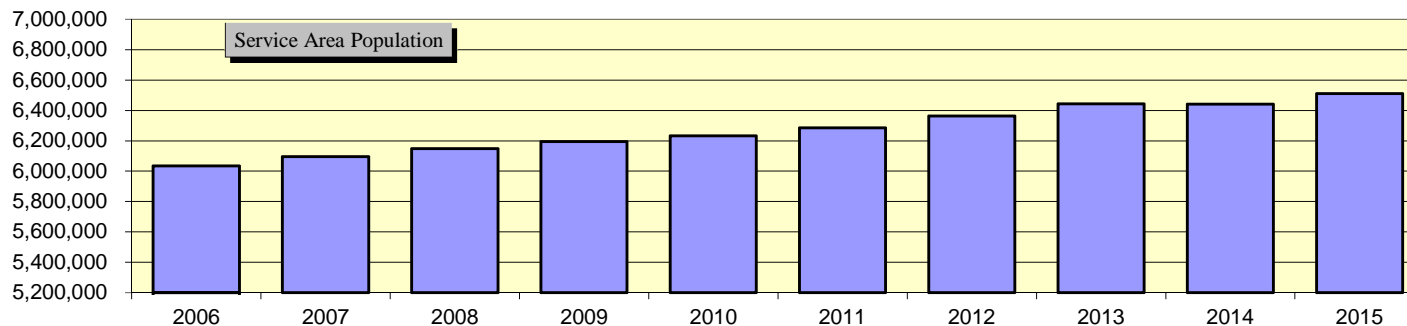
(5) Per the Master Trust, rates used to calculate the interest payable on variable rate bonds, Series 2004A&B Airport Revenue Bonds, which were outstanding during fiscal years 2006 through 2008, were the actual interest rates that were in effect for the relevant period of calculation.

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

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

(8) Total may not add due to rounding.

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

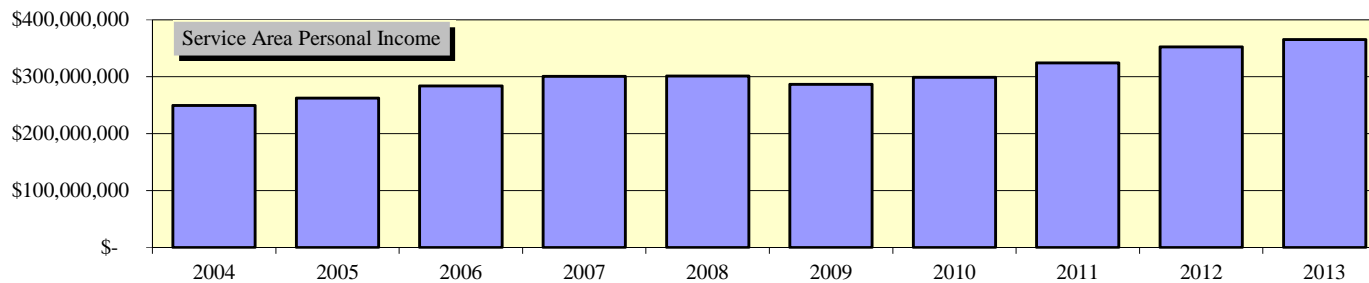


S-10

Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2006	1,470,622	406,890	54,948	701,838	1,725,066	256,543	247,542	665,304	505,959	6,034,712
2007	1,484,085	409,387	55,022	707,820	1,747,912	258,737	250,734	672,492	509,389	6,095,578
2008	1,497,799	412,233	55,068	713,818	1,767,204	260,892	253,026	677,833	511,226	6,149,099
2009	1,509,240	415,108	55,272	718,614	1,781,427	262,552	255,399	684,057	514,003	6,195,672
2010	1,517,756	416,968	55,474	722,372	1,794,337	263,954	257,098	689,160	516,244	6,233,363
2011	1,530,206	419,586	56,137	727,793	1,813,702	265,348	260,039	693,013	519,350	6,285,174
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	1,594,569	425,413	58,344	753,123	1,889,638	271,646	266,134	719,511	532,297	6,510,675

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⁾⁽²⁾
(in \$ 000's)



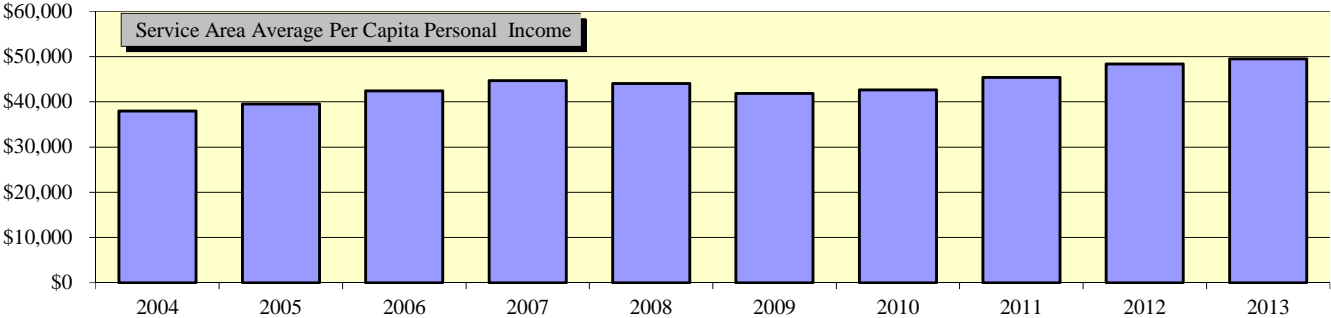
	Primary Service Area		Secondary Service Area
	<u>Alameda</u> <u>Monterey</u> <u>San Benito</u> <u>San Mateo</u> <u>Santa Clara</u> <u>Santa Cruz</u>		<u>Merced</u> <u>San Joaquin</u> <u>Stanislaus</u> <u>Total</u>

S-11

	<u>Years</u>	<u>Alameda</u>	<u>Monterey</u>	<u>San Benito</u>	<u>San Mateo</u>	<u>Santa Clara</u>	<u>Santa Cruz</u>	<u>Merced</u>	<u>San Joaquin</u>	<u>Stanislaus</u>	<u>Total</u>
	2004	\$61,913,092	\$14,757,411	\$1,735,630	\$40,321,583	\$82,491,972	\$10,858,843	\$5,813,489	\$17,836,603	\$13,781,360	\$249,509,983
	2005	64,547,920	15,363,221	1,776,831	43,264,212	87,276,312	11,127,128	5,935,128	18,578,286	14,426,308	262,295,346
	2006	69,413,342	16,593,766	1,888,615	47,439,966	95,739,260	12,093,124	6,153,715	19,676,512	15,050,420	284,048,720
	2007	72,269,758	17,079,370	1,996,555	50,186,023	102,922,133	12,881,411	6,918,424	20,817,871	15,801,138	300,872,683
	2008	73,944,674	16,931,392	1,967,929	49,148,183	102,433,735	12,940,365	6,826,882	21,029,219	15,857,505	301,079,884
	2009	70,463,233	16,732,911	1,904,402	46,631,310	95,588,054	12,112,253	6,771,237	20,747,584	15,697,151	286,648,135
	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	87,373,095	19,233,171	2,224,472	59,709,755	130,624,491	14,809,976	8,406,195	24,480,660	18,528,026	365,389,841

(1) Information for calendar years 2014 and 2015 is not available.
(2) Some data reported previously were revised to reflect the most recent information.

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⁾⁽²⁾



Years	Primary Service Area						Secondary Service Area			Average PCPI
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2004	\$42,825	\$36,105	\$31,644	\$58,423	\$49,599	\$43,030	\$24,511	\$27,744	\$27,976	\$37,984
2005	44,777	37,921	32,515	62,695	52,096	44,265	24,469	28,278	28,851	39,541
2006	48,054	41,295	34,894	68,736	56,612	48,062	25,083	29,686	29,823	42,472
2007	49,646	42,446	36,924	72,330	60,117	50,854	27,836	31,161	31,115	44,714
2008	50,057	41,701	36,264	69,830	58,837	50,446	27,249	31,308	31,152	44,094
2009	47,021	40,786	34,984	65,345	54,153	46,584	26,838	30,613	30,686	41,890
2010	48,144	40,732	34,558	66,362	57,336	46,925	27,706	30,857	31,500	42,680
2011	51,286	41,906	36,273	71,232	62,623	50,138	29,995	32,157	33,005	45,402
2012	54,379	43,411	37,867	79,420	67,974	53,473	30,726	33,777	34,437	48,385
2013	55,338	44,851	38,619	79,893	70,151	54,970	31,935	34,755	35,259	49,530

(1) Information for calendar years 2014 and 2015 is not available.
 (2) Some data reported previously were revised to reflect the most recent information.

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

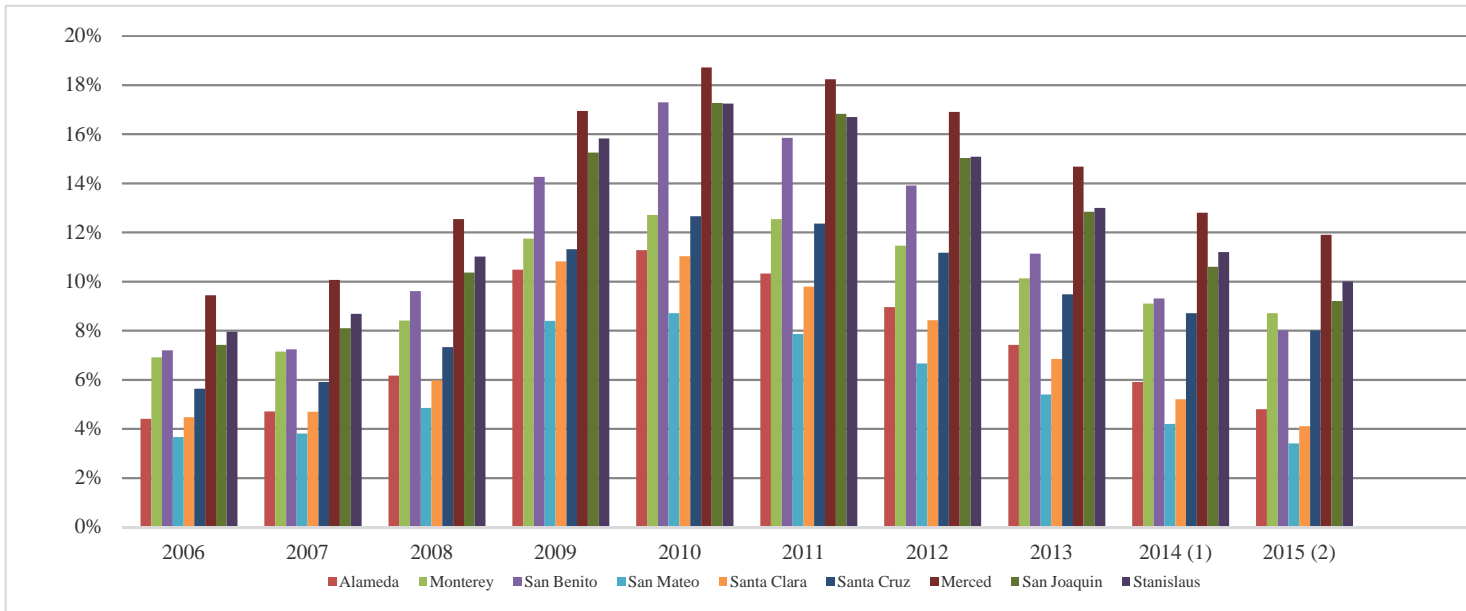
Company or Organization	2015			2006		
	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
County of Santa Clara	17,013	1	2.5%	14,860	2	3.7%
Cisco Systems	15,000	2	2.2%	16,500	1	4.1%
City of San Jose*	5,945	3	0.9%	6,670	3	1.6%
San Jose State University	4,670	4	0.7%	3,100	5	0.8%
U.S. Postal Service	3,800	5	0.6%	na (**)	na (**)	na (**)
eBay	3,297	6	0.5%	2,200	8	0.5%
San Jose Unified School District	3,000	7	0.4%	1,820	13	0.4%
Paypal, Inc.	2,731	8	0.4%	na (**)	na (**)	na (**)
Kaiser Permanente	2,363	9	0.3%	na (**)	na (**)	na (**)
IBM Corporation	2,239	10	0.3%	5,800	4	1.4%
Good Samaritan Hospital	2,083	11	0.3%	1,850	12	0.5%
Target Corporation	2,070	12	0.3%	na (**)	na (**)	na (**)
Adobe Systems, Inc.	2,050	13	0.3%	2,000	10	0.5%
Brocade Communication	1,674	14	0.2%	na (**)	na (**)	na (**)
Cadence Design Systems	1,480	15	0.2%	1,750	14	0.4%

(*) Full-time employees

(**) Companies or organizations not included in top 15 principal employers in 2006

Sources: Office of Economic Development, City of San Jose
California Employment Development Department, Labor Market Information Division

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 ⁽¹⁾



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	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014 (1)</u>	<u>2015 (2)</u>
Alameda	4.4%	4.7%	6.2%	10.5%	11.3%	10.3%	9.0%	7.4%	5.9%	4.8%
Monterey	6.9%	7.1%	8.4%	11.7%	12.7%	12.5%	11.5%	10.1%	9.1%	8.7%
San Benito	7.2%	7.2%	9.6%	14.3%	17.3%	15.9%	13.9%	11.1%	9.3%	8.0%
San Mateo	3.7%	3.8%	4.9%	8.4%	8.7%	7.9%	6.7%	5.4%	4.2%	3.4%
Santa Clara	4.5%	4.7%	6.0%	10.8%	11.0%	9.8%	8.4%	6.8%	5.2%	4.1%
Santa Cruz	5.6%	5.9%	7.3%	11.3%	12.7%	12.4%	11.2%	9.5%	8.7%	8.0%
Merced	9.4%	10.1%	12.5%	16.9%	18.7%	18.2%	16.9%	14.7%	12.8%	11.9%
San Joaquin	7.4%	8.1%	10.4%	15.3%	17.3%	16.8%	15.0%	12.8%	10.6%	9.2%
Stanislaus	8.0%	8.7%	11.0%	15.8%	17.2%	16.7%	15.1%	13.0%	11.2%	10.0%

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

(2) Information for 2015 is the average of January to July 2015.

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

Functional Area	Budgeted Full-time-Equivalent ⁽¹⁾ Employees as of Fiscal Year-End									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Acoustical Treatment Program (ACT)	9	7	7	4	0	0	0	0	0	0
Administration	35	38	40	35	31	27	27	27	27	28
Air Service Development	5	5	5	2	2	1	1	1	1	1
Airport Technology Services	17	21	21	19	16	13	13	13	13	13
Airside Operations	46	47	47	47	38	35	40	42	43	43
Customer Service and Outreach	8	11	10	8	6	5	6	7	7	6
Capital and Airport Development	46	38	28	27	26	18	14	15	15	15
Environmental	4	3	3	4	3	1	1	1	1	1
Facilities (Building Services, Trades and Maintenance)	143	143	155	135	128	64	66	64	64	64
Landside Operations and Services	65	62	62	56	47	34	29	9	8	8
Property Management	12	12	13	12	9	8	8	8	8	8
	<u>389</u>	<u>386</u>	<u>391</u>	<u>348</u>	<u>305</u>	<u>206</u>	<u>205</u>	<u>187</u>	<u>187</u>	<u>187</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.

Source: Norman Y. Mineta San José International Airport, Budget & Administration Section

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRPORT INFORMATION
JUNE 30, 2015

Location:	Two miles north of downtown San José, "Capital of Silicon Valley"		
Area:	1,050 acres		
Elevation:	62.2 ft.		
Airport Code:	SJC		
Runways:	11/29 (temporarily closed)	North/South	4,599 × 100 ft.
	12R/30L	North/South	11,000 × 150 ft. ILS/ VOR / GPS
	12L/30R	North/South	11,000 × 150 ft. GPS (VOR 30R only)
Terminal:	Airlines		224,308 sq. ft.
	Concessions and Other Rentables		60,994 sq. ft.
	Public/common		195,640 sq. ft.
	Airport		368,258 sq. ft.
	Vacant		31,840 sq. ft.
	Other		104,148 sq. ft.
	Total		985,188 sq. ft.
	Number of passenger gates - Terminal A and FIS		16
	Number of passenger gates - Terminal B		12
	Number of loading bridges		28
	Number of concessionaires in terminal		48
		29 Food & Beverage Concessions	
		19 Retail Concessions	
	Number of rental car brands		12
Apron:	Commercial Airlines		1,130,408 sq. ft.
	Cargo Airlines		596,436 sq. ft.
	Fixed Base Operator (FBO)		426,071 sq. ft.
	General Aviation West		436,659 sq. ft.
Public parking spaces:	Hourly - Terminal A Garage		1,349
	Hourly - Terminal B Garage & Surface		1,209
	Daily lots		1,358
	Economy lot		1,673
	Total public spaces		<u>5,589</u>
Cargo:	Air Freight Building		19,200 sq. ft.
International:	Customs / Federal Inspection Service Facility		
Tower:	Operational hours 0600 - 0000, after hours CTAF 124.0/TRACON 24/7		
FBOs:	Atlantic San Jose		
	AvBase		
	Signature Flight Support (under construction)		

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 2006 THROUGH 2010
(Ranked by Fiscal Year 2015 Results)

Airline	2006		2007		2008		2009		2010	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,198,806	40.6%	2,266,766	42.6%	2,333,432	45.1%	2,082,271	47.3%	2,121,917	51.7%
Alaska Airlines	489,022	9.0%	467,324	8.8%	445,689	8.6%	345,419	7.9%	393,982	9.6%
American Airlines ⁽¹⁾	1,337,358	24.7%	1,245,294	23.4%	1,086,169	21.0%	887,112	20.2%	692,293	16.9%
Delta Airlines ⁽²⁾	235,304	4.3%	217,018	4.1%	197,465	3.8%	157,739	3.6%	175,775	4.3%
United Airlines ⁽³⁾	651,846	12.0%	654,791	12.3%	595,209	11.5%	420,317	9.6%	376,879	9.2%
Hawaiian Airlines	62,261	1.1%	82,561	1.6%	84,259	1.6%	81,397	1.9%	72,266	1.8%
JetBlue Airways	136,666	2.5%	109,351	2.1%	116,776	2.3%	148,643	3.4%	95,118	2.3%
Volaris ⁽⁴⁾									8,072	0.2%
All Other Airlines ⁽⁵⁾	303,568	5.6%	275,754	5.2%	319,604	6.2%	276,664	6.3%	169,551	4.1%
Total ⁽⁶⁾	5,414,831	100%	5,318,859	100%	5,178,603	100%	4,399,562	100%	4,105,853	100%

⁽¹⁾ 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 and Mesa Airlines.

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

⁽³⁾ Continental and United merged in October 2010. The combined airlines (named "United Airlines") received FAA approval to operate under a single certificate in December 2011 but continued to operate as separate airlines until June 30, 2012. The enplanements include flights operated by Skywest as United Express.

⁽⁴⁾ Concesionaria Vuela Compania de Aviacion S.A.P.I. de C.V. (aka Volaris) started operations in April 2010.

⁽⁵⁾ Consists of airlines no longer serving the Airport and charter airlines.

⁽⁶⁾ 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)
ENPLANED COMMERCIAL PASSENGERS BY AIRLINE
FISCAL YEARS 2011 THROUGH 2015
(Ranked by Fiscal Year 2015 Results)

Airline	2011		2012		2013		2014		2015	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,187,033	52.2%	2,192,234	53.1%	2,169,956	51.2%	2,280,346	50.5%	2,420,333	50.8%
Alaska Airlines	561,400	13.4%	609,315	14.8%	727,616	17.2%	704,944	15.6%	750,673	15.8%
American Airlines ⁽¹⁾	620,195	14.8%	571,167	13.8%	587,829	13.9%	601,104	13.3%	604,952	12.7%
Delta Airlines ⁽²⁾	216,757	5.2%	218,447	5.3%	228,824	5.4%	332,544	7.4%	463,746	9.7%
United Airlines ⁽³⁾	357,283	8.5%	298,808	7.2%	253,837	6.0%	231,287	5.1%	186,656	3.9%
Hawaiian Airlines	85,571	2.0%	103,483	2.5%	116,928	2.8%	113,381	2.5%	161,707	3.4%
Virgin America ⁽⁵⁾					18,265	0.4%	85,859	1.9%		
JetBlue Airways	80,797	1.9%	76,063	1.8%	71,506	1.7%	70,860	1.6%	71,577	1.5%
Volaris ⁽⁴⁾	48,325	1.2%	49,709	1.2%	49,700	1.2%	51,056	1.1%	51,185	1.1%
All Nippon Airways ⁽⁵⁾					3,273	0.1%	42,999	1.0%	47,560	1.0%
Hainan Airlines ⁽⁶⁾									1,849	0.0%
All Other Airlines ⁽⁷⁾	31,862	0.8%	5,659	0.1%	7,019	0.2%	2,641	0.1%	4,763	0.1%
Total ⁽⁸⁾	4,189,223	100%	4,124,885	100%	4,234,753	100%	4,517,021	100%	4,765,001	100%

⁽¹⁾ In December 2013, the American Airlines and US Airways ("American Airlines Group") merger was completed. US Airways passengers are grouped with American Airlines starting July 1, 2014. The enplanements include flights operated by Skywest and Mesa Airlines.

⁽²⁾ Includes enplaned passengers on flights operated by Skywest and Compass Airlines as Delta Connection.

⁽³⁾ Continental and United merged in October 2010. The combined airlines (named "United Airlines") received FAA approval to operate under a single certificate in December 2011 but continued to operate as separate airlines until June 30, 2012. Continental Airlines passengers are grouped with United Airlines starting July 1, 2012. The enplanements include flights operated by Skywest as United Express.

⁽⁴⁾ Concesionaria Vuela Compania de Aviacion S.A.P.I. de C.V. (aka Volaris) started operations in April 2010.

⁽⁵⁾ Virgin America and All Nippon Airways started operations at the Airport in May 2013 and June 2013, respectively. Virgin America stopped operations at the Airport in May 2014.

⁽⁶⁾ Hainan Airlines started operations in June 2015.

⁽⁷⁾ Consists of airlines no longer serving the Airport and charter airlines.

⁽⁸⁾ Percentage totals may not add due to rounding.

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

<u>Airline</u> ⁽¹⁾	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Alaska Airlines	594,873	571,040	557,090	449,070	507,257	693,168	680,586	806,403	790,691	825,699
All Nippon Airways								9,880	138,114	138,700
American Airlines	1,631,473	1,517,067	1,288,451	1,056,475	760,177	692,995	643,199	664,570	669,391	653,971
Volaris					8,320	54,663	59,451	52,014	51,472	55,653
Delta Airlines	281,319	270,186	240,802	190,950	196,914	230,537	233,473	252,297	386,609	537,959
Frontier Airlines	128,282	143,487	153,166	158,644	78,484	672		672	499	269
Hainan Airlines										4,180
Hawaiian Airlines	87,360	128,960	115,545	109,970	94,075	110,895	133,520	161,560	154,290	230,520
JetBlue Airways	155,706	124,565	147,688	188,439	115,710	91,292	82,903	79,348	77,215	75,508
Mexicana Airlines	116,903	113,125	100,668	86,527	76,916	10,890				
Northwest Airlines	107,918	100,756	101,591	101,284	51,691					
Southwest Airlines	3,065,960	3,197,472	3,366,428	3,236,828	3,033,408	2,877,878	2,917,030	2,838,160	2,819,208	2,884,182
United Airlines	810,223	799,499	756,971	522,979	452,916	413,524	355,121	293,930	269,572	206,682
Virgin America								32,515	167,315	277
All Other Airlines	40,679	23,376	83,726	28,902	34,649	44,488	20,108	21,847	12,217	14,861
Subtotal	7,020,696	6,989,533	6,912,126	6,130,069	5,410,517	5,221,002	5,125,391	5,213,194	5,536,593	5,628,460
Cargo Carriers										
Air Transport Int'l.	55,733	57,941	59,379	56,042	57,159	71,055	12,015	250		
Airborne Express	68,816	70,176	57,392	1,088						
Fedex	223,154	252,539	241,953	231,594	168,403	164,642	163,213	158,845	152,417	150,160
United Parcel Service	126,660	129,090	133,653	132,055	96,505	83,136	93,250	88,940	82,584	86,546
All Other Cargo Airlines	4,013	2,017	247	309	200	352	270	33		
Subtotal	478,376	511,763	492,624	421,088	322,267	319,185	268,748	248,067	235,002	236,706
Total	7,499,072	7,501,296	7,404,750	6,551,157	5,732,784	5,540,187	5,394,139	5,461,261	5,771,595	5,865,167

⁽¹⁾ See Notes on Schedule N.

⁽²⁾ 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⁾	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Alaska Airlines	10,792	10,350	10,362	8,604	9,928	13,370	12,948	15,172	13,960	13,936
All Nippon Airways								52	726	730
American Airlines	36,878	34,310	30,534	25,310	16,308	13,448	12,452	12,672	12,374	12,172
Volaris					124	812	886	770	752	774
Delta Airlines	4,460	4,348	7,012	4,008	4,344	4,656	4,784	4,810	8,596	12,702
Frontier Airlines	1,942	2,190	2,360	2,426	1,202	10		10	8	4
Hawaiian Airlines	546	806	732	732	620	732	882	1,036	1,014	1,462
Hainan Airlines										22
JetBlue Airways	2,190	1,752	2,102	2,986	1,876	1,284	1,166	1,116	1,086	1,062
Mexicana Airlines	1,588	1,600	1,430	1,250	1,126	160				
Northwest Airlines	1,540	1,434	1,446	1,410	746					
Southwest Airlines	50,936	52,872	54,974	52,414	48,942	46,584	47,002	45,486	44,942	45,654
United Airlines	16,210	16,324	14,960	10,654	9,986	7,432	6,072	5,600	5,052	3,714
Virgin America								458	2,366	4
All Other Airlines	872	416	452	704	598	778	286	326	180	222
Subtotal	127,954	126,402	126,364	110,498	95,800	89,266	86,478	87,508	91,056	92,458
<u>Cargo Carriers</u>										
Air Transport Int'l.	424	442	452	426	434	538	88	2		
Airborne Express	506	516	422	8						
FedEx	1,270	1,326	1,324	1,264	958	926	928	918	918	920
United Parcel Service	908	926	916	854	672	566	652	610	550	580
All Other Cargo Airlines	356	178	26	6	12	16	10	6		
Subtotal	3,464	3,388	3,140	2,558	2,076	2,046	1,678	1,536	1,468	1,500
Total	131,418	129,790	129,504	113,056	97,876	91,312	88,156	89,044	92,524	93,958

⁽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/COMMUTER/ALL-CARGO AIRLINE SERVICE

CARRIER**NONSTOP SERVICE****SCHEDULED DOMESTIC AIRLINE SERVICE**

Alaska Airlines

Honolulu, Oahu (HNL)
 Kahului, Maui (OGG)
 Kona, Hawaii (KOA)
 Lihue, Kauai (LIH)
 Portland (PDX)
 Seattle (SEA)

American Airlines

Chicago/O'Hare (ORD)
 Dallas/Ft. Worth (DFW)

Delta Air Lines

Atlanta (ATL)
 Minneapolis/St. Paul (MSP)
 Salt Lake City (SLC)

Hawaiian Airlines

Honolulu, Oahu (HNL)
 Kahului, Maui (OGG)

JetBlue Airways

Boston (BOS)
 New York (JFK)

Southwest Airlines

Austin (AUS)
 Burbank (BUR)
 Chicago/Midway (MDW)
 Dallas Love Field (DAL)
 Denver (DEN)
 Las Vegas (LAS)
 Los Angeles (LAX)
 Ontario (ONT)
 Orange County (SNA)
 Phoenix (PHX)
 Portland (PDX)
 San Diego (SAN)
 Seattle (SEA)

United Airlines

Denver (DEN)
 Houston (IAH)

US Airways

Phoenix (PHX)

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

CARRIER

NONSTOP SERVICE

COMMUTER AIRLINE SERVICE

Compass (regional carrier for Delta Airlines)

Los Angeles (LAX)
Seattle (SEA)

Horizon Air (regional carrier for Alaska Airlines)

Boise (BOI)
Portland (PDX)
Reno (RNO)
Salt Lake City (SLC)

Mesa (on behalf of American, US Airways)

Dallas/Ft. Worth (DFW)
Los Angeles (LAX)
Phoenix (PHX)

Skywest (on behalf of Alaska, American, Delta, and United)

Denver (DEN)
Los Angeles (LAX)
Salt Lake City (SLC)
Seattle (SEA)

SCHEDULED FOREIGN AIRLINE SERVICE

Alaska Airlines

Cabo San Lucas (SJD)
Guadalajara (GDL)

ANA

Tokyo-Narita (NRT)

Hainan

Beijing (PEK)

Volaris

Guadalajara (GDL)

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Passengers (1,000's):										
Enplanements	5,415	5,319	5,179	4,400	4,107	4,189	4,125	4,235	4,517	4,765
Deplanements	5,437	5,335	5,202	4,422	4,125	4,200	4,131	4,254	4,546	4,790
Total Passengers	<u>10,852</u>	<u>10,654</u>	<u>10,381</u>	<u>8,822</u>	<u>8,232</u>	<u>8,389</u>	<u>8,256</u>	<u>8,489</u>	<u>9,063</u>	<u>9,555</u>
Mail/Freight/Cargo (1,000 lbs):										
Mail	7,593	4,342	3,044	1,987	3,357	2,264	1,160	1,431	1,135	1,546
Freight/Express	22,577	12,228	7,101	5,995	5,432	5,060	5,303	6,172	16,156	18,257
Cargo	179,612	171,754	166,509	129,809	97,578	87,329	77,303	78,766	86,239	84,203
Total mail/freight/cargo	<u>209,782</u>	<u>188,324</u>	<u>176,654</u>	<u>137,791</u>	<u>106,367</u>	<u>94,653</u>	<u>83,766</u>	<u>86,369</u>	<u>103,530</u>	<u>104,006</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⁾⁽⁴⁾
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Air Carrier Operations ⁽²⁾</u>	<u>Regional Commuter Operations</u>	<u>Cargo Operations</u>	<u>Total Commercial Operations ⁽³⁾</u>	<u>Percent Commercial Operations</u>	<u>General Aviation Operations</u>	<u>Military Operations</u>	<u>Total Operations</u>
2006	97,198	30,756	3,464	131,418	67.9%	61,907	83	193,408
2007	97,596	28,806	3,388	129,790	70.2%	55,021	103	184,914
2008	96,860	29,504	3,140	129,504	70.1%	55,146	64	184,714
2009	86,668	23,830	2,558	113,056	70.7%	46,674	242	159,972
2010	76,024	19,776	2,076	97,876	74.4%	33,439	275	131,590
2011	73,094	16,172	2,046	91,312	74.8%	30,503	276	122,091
2012	71,672	14,806	1,678	88,156	73.4%	31,664	285	120,105
2013	71,598	15,910	1,536	89,044	73.8%	31,321	210	120,575
2014	73,596	17,460	1,468	92,524	75.6%	29,619	208	122,351
2015	72,690	19,768	1,500	93,958	73.7%	33,246	213	127,417

Annual Compound Growth Rate

FY 2006 through FY 2015	(2.9%)	(4.3%)	(8.0%)	(3.3%)	(6.0%)	9.9%	(4.1%)
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⁽¹⁾ An aircraft operation is defined as the takeoff or landing of an aircraft.

⁽²⁾ Includes domestic and international airlines.

⁽³⁾ Represents the sum of Mainline Air Carrier Operations, Regional Commuter Operations, and All-Cargo Operations.

⁽⁴⁾ Some data reported previously have been revised to reflect more recent information.

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



BOND DISCLOSURE

The Airport's baby grand piano located near the Terminal B baggage claim was featured in a New York Times article, "Overcoming a Lifetime of Stage Fright."

At the age of 59, the author, a Santa Cruz resident, described her journey of performing the piano in public over the course of a year. While entertaining passengers and Airport employees, the pianist overcame her stage fright through a prescribed therapy program.

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

Bond Disclosure Report

June 30, 2015

In accordance with the requirements of the Continuing Disclosure Agreements (Disclosure Agreements) for the City of San José Airport Revenue Bonds Series 2007A, 2007B, 2011A-1, 2011A-2, 2011B, and Airport Revenue Refunding Bonds Series 2012A, 2014A, 2014B, and 2014C, the Airport is including this section to meet the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the Rule).

In October 2014, the City issued Airport Revenue Refunding Bonds Series 2014A, 2014B, and 2014C to current refund the Series 2001A, 2004C, and 2004D Series Bond, which terminated the reporting obligation of the refunded bonds.

Section 4 of the Disclosure Agreements requires the City to provide an Annual Report, which is consistent with the requirements of Section 4 of the Disclosure Agreements, no later than six months after the end of the City's fiscal year. The Annual Report may be submitted to the Municipal Securities Rulemaking Board's EMMA system as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of the Disclosure Agreements. The Bond Disclosure Report included in this CAFR meets the requirements of Section 4 of the Disclosure Agreements.

Annual Report

The following items are required by the Disclosure Agreements to be included in the Annual Report:

- ◆ Audited financial statements of the Airport, updated to incorporate information for the most recent fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board and further modified according to applicable State law.

Refer to the Financial Section, pages 1-64 of this report.

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

Refer to Table 1, page B-3 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 B-4 of the Bond Disclosure Section of this report.

- ◆ A table showing, for the Airport's most recently completed fiscal year, historical connecting enplaned passenger traffic.

Refer to Table 3, page B-5 of the Bond Disclosure Section of this report.

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

Bond Disclosure Report

June 30, 2015

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

Refer to Schedule S, page S-24 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 4, page B-6 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 S-21 and S-22 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, page S-18 of the Statistical Section of this report.

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

Refer to Financial Section, Exhibit II, page 21 of this report.

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

Refer to Schedule F, page S-9 of the Statistical Section of this report.

REPORTING OF SIGNIFICANT EVENTS

On July 27, 2015, the City filed a rating change notification relating to Fitch's Rating Services upgrade of the City's Airport Revenue Bonds, Series 2007A, 2007B, 2011A-1, 2011A-2, 2011B, 2014A, 2014B, and 2014C from "BBB+" to "A-" with a stable rating outlook.

Table 1

SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
BOND DEBT SERVICE REQUIREMENTS

Year Ending June 30	Total Debt Service Requirements on Outstanding Bonds ⁽¹⁾	Principal Requirements on Series 2014 A Bonds	Interest Requirements on Series 2014 A Bonds	Total Debt Service Requirements on Series 2014 A Bonds	Principal Requirements on Series 2014 B Bonds	Interest Requirements on Series 2014 B Bonds	Total Debt Service Requirements on Series 2014 B Bonds	Principal Requirements on Series 2014 C Bonds	Interest Requirements on Series 2014 C Bonds	Total Debt Service Requirements on Series 2014 C Bonds	Total Debt Service Requirements on All Bonds
2016	\$ 89,105,226	140,000	2,803,325	2,943,325		1,393,660	1,393,660		2,009,575	2,009,575	95,451,786
2017	89,423,164	95,000	2,800,525	2,895,525		1,393,660	1,393,660		2,009,575	2,009,575	95,721,924
2018	89,764,711	50,000	2,798,625	2,848,625		1,393,660	1,393,660		2,009,575	2,009,575	96,016,571
2019	80,298,122	6,885,000	2,797,625	9,682,625		1,393,660	1,393,660		2,009,575	2,009,575	93,383,982
2020	80,656,033	7,020,000	2,453,375	9,473,375		1,393,660	1,393,660		2,009,575	2,009,575	93,532,643
2021	81,021,595	7,655,000	2,102,375	9,757,375		1,393,660	1,393,660		2,009,575	2,009,575	94,182,205
2022	81,395,835	7,765,000	1,719,625	9,484,625		1,393,660	1,393,660		2,009,575	2,009,575	94,283,695
2023	81,772,943	8,475,000	1,331,775	9,806,775		1,393,660	1,393,660		2,009,575	2,009,575	94,982,953
2024	82,168,860	8,925,000	908,025	9,833,025		1,393,660	1,393,660		2,009,575	2,009,575	95,405,120
2025	82,562,948	9,175,000	463,475	9,638,475		1,393,660	1,393,660		2,009,575	2,009,575	95,604,658
2026	82,977,848	140,000	4,725	144,725	7,975,000	1,393,660	9,368,660		2,009,575	2,009,575	94,500,808
2027	75,588,198				9,665,000	1,001,750	10,666,750	7,295,000	2,009,575	9,304,575	95,559,523
2028	76,016,975				10,370,000	518,500	10,888,500	7,655,000	1,644,825	9,299,825	96,205,300
2029	92,821,080							8,035,000	1,262,075	9,297,075	102,118,155
2030	93,573,378							8,440,000	860,325	9,300,325	102,873,703
2031	93,969,975							8,860,000	438,325	9,298,325	103,268,300
2032	104,925,440										104,925,440
2033	138,623,262										138,623,262
2034	138,686,875										138,686,875
2035	137,505,185										137,505,185
2036	138,031,716										138,031,716
2037	138,572,335										138,572,335
2038	37,427,763										37,427,763
2039	37,935,095										37,935,095
2040	38,722,033										38,722,033
2041	39,325,615										39,325,615
2042	10,191,600										10,191,600
2043	10,190,500										10,190,500
2044	10,188,600										10,188,600
2045	10,189,400										10,189,400
2046	10,191,100										10,191,100
2047	10,191,900										10,191,900
Totals ⁽²⁾	<u>\$2,364,015,307</u>	<u>56,325,000</u>	<u>20,183,475</u>	<u>76,508,475</u>	<u>28,010,000</u>	<u>16,850,510</u>	<u>44,860,510</u>	<u>40,285,000</u>	<u>28,320,450</u>	<u>68,605,450</u>	<u>2,553,989,742</u>

⁽¹⁾These amounts pertain to total debt service requirements on outstanding Airport Revenue Bonds Series 2007A, 2007B, 2011A, 2011B, and 2012A.

⁽²⁾Totals may not add due to rounding.

Table 2

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

<u>Fiscal Year</u>	<u>Air Carrier Domestic Enplanements</u>	<u>Air Carrier International Enplanements</u>	<u>Total Air Carrier Enplanements</u>	<u>Commuter Enplanements</u>	<u>Total Enplanements</u>	<u>Total Percent Change %</u>
2006	4,706,038	137,054	4,843,092	571,739	5,414,831	1.3%
2007	4,686,496	102,368	4,788,864	529,995	5,318,859	(1.8%)
2008	4,584,448	67,459	4,651,907	526,696	5,178,603	(2.6%)
2009	3,907,376	60,381	3,967,757	431,805	4,399,562	(15.0%)
2010	3,634,605	62,437	3,697,042	408,811	4,105,853	(6.7%)
2011	3,728,493	77,963	3,806,456	382,767	4,189,223	2.0%
2012	3,672,704	83,261	3,755,965	368,920	4,124,885	(1.5%)
2013	3,720,640	110,289	3,830,929	403,824	4,234,753	2.7%
2014	3,891,911	163,638	4,055,549	461,472	4,517,021	6.7%
2015	4,036,246	172,954	4,209,200	555,801	4,765,001	5.5%
Annual Compound Growth Rate						
FY 2006 through						
FY 2015	(1.5%)	2.4%	(1.4%)	(0.3%)	(1.3%)	

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

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Table 3

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
A Department of the City of San José)
HISTORICAL CONNECTING/ENPLANED PASSENGER TRAFFIC
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Total Enplanements</u>	<u>Total Origin and Destination Enplanements</u>	<u>Total Connecting Enplanements</u>	<u>Connecting Enplanements as a Percentage of Total Enplanements</u>
2006	5,414,831	5,192,594	222,237	4.1%
2007	5,318,859	5,145,726	173,133	3.3%
2008	5,178,603	5,044,473	134,130	2.6%
2009	4,399,562	4,281,747	117,815	2.7%
2010	4,105,853	3,996,223	109,630	2.7%
2011	4,189,223	4,083,459	105,764	2.5%
2012	4,124,885	4,013,758	111,127	2.7%
2013	4,234,753	4,146,393	88,360	2.1%
2014	4,517,021	4,426,965	90,056	2.0%
2015	4,765,001	4,665,281	99,720	2.1%
Annual Compound Growth Rate				
FY 2006 through FY 2015	(1.3%)	(1.1%)	(7.7%)	

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

Table 4

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
HISTORICAL MAXIMUM GROSS LANDING WEIGHT
LAST TEN FISCAL YEARS
(In thousand pounds)

Fiscal Year	<u>Air Carrier</u> ⁽¹⁾	<u>Commuter</u>	<u>Cargo</u> ⁽²⁾	<u>Total</u>
2006	6,342,853	677,843	478,376	7,499,072
2007	6,351,084	638,449	511,763	7,501,296
2008	6,255,828	656,298	492,624	7,404,750
2009	5,576,343	553,726	421,088	6,551,157
2010	4,903,780	506,737	322,267	5,732,784
2011	4,779,979	441,023	319,185	5,540,187
2012	4,719,484	405,907	268,748	5,394,139
2013	4,759,393	453,801	248,067	5,461,261
2014	4,999,691	536,903	235,002	5,771,595
2015	4,984,646	643,814	236,706	5,865,167
Annual Compound Growth Rate				
FY 2006 through FY 2015	(2.4%)	(0.5%)	(6.8%)	(2.4%)

⁽¹⁾ Includes domestic and international air carriers.

⁽²⁾ Includes all-cargo airlines.

⁽³⁾ Totals may not add due to rounding.

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