



COMPREHENSIVE ANNUAL FINANCIAL REPORT



**NORMAN Y. MINETA SAN JOSE
INTERNATIONAL AIRPORT**

**SAN JOSE, CALIFORNIA
A DEPARTMENT OF THE CITY OF SAN JOSE**

**FISCAL YEARS ENDED
JUNE 30, 2019 AND 2018**



COMPREHENSIVE ANNUAL FINANCIAL REPORT

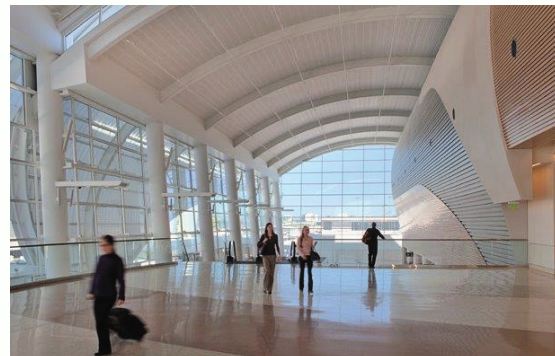
NORMAN Y. MINETA SAN JOSE
INTERNATIONAL AIRPORT



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

PREPARED BY:
FINANCE AND ADMINISTRATION
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FISCAL YEARS
ENDED JUNE 30,
2019 AND 2018



**Norman Y. Mineta San José International Airport
(A Department of the City of San José)
Comprehensive Annual Financial Report
Fiscal Years Ended June 30, 2019 and 2018**

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INTRODUCTORY

Funded in part by a \$5 million grant from the Federal Aviation Administration, the Airport purchased 10 new electric buses and associated charging infrastructure to replace the aging Compressed Natural Gas (CNG) fleet currently in use since 2008. The zero-emissions electric bus fleet is anticipated to reduce ozone emissions by 1.1 tons over a 10-year period, which is the equivalent of 50 gas-powered passenger vehicles taken off the roads. Ever since the fleet's commissioning in May, Proterra's fully-electric buses have been operating alongside the Airport's aging CNG buses, which will eventually be phased out.



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GEO LOCATOR MAP



Norman Y. Mineta San José International Airport

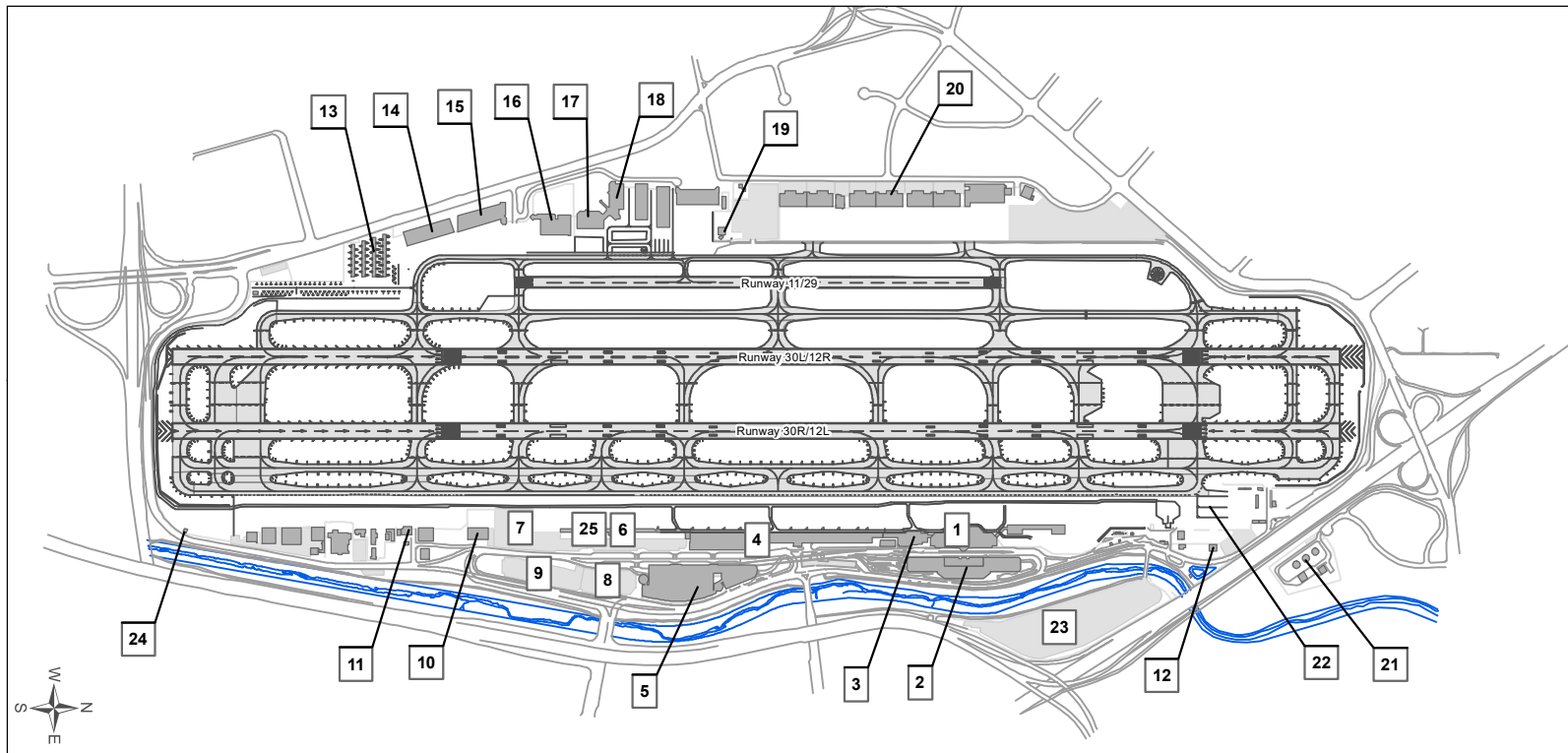
San José, California
A Department of the
City of San José
Fiscal Years Ended
June 30, 2019 and 2018

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



Reduced
View of
Service
Areas

Norman Y. Mineta San José International Airport



Map Legend

- | | |
|-----------------------------------|--|
| 1. Terminal A | 14. AvBase Aviation |
| 2. Hourly Lot 2 | 15. ACM Aviation |
| 3. Federal Inspection Services | 16. HP Aviation |
| 4. Terminal B | 17. FAA-Flight Standards District Offices |
| 5. Consolidated Rental Car Center | 18. Atlantic San José (Fueling and Transit Services) |
| 6. Hourly Lot 5 | 19. FAA Air Traffic Control Tower |
| 7. Daily Lot 6 | 20. Signature Flight Support |
| 8. Hourly Lot 3 | 21. Fuel Farm Location |
| 9. Daily Lot 4 | 22. North Air Cargo |
| 10. Air Freight | 23. Economy Lot 1 |
| 11. Fire Station 20 | 24. South Main Point of Entry |
| 12. SJPDP Airport Division | 25. Interim Facility Gates 31-35 |
| 13. General Aviation West | |

LOCATOR MAP

September 2019

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



November 7, 2019

HONORABLE MAYOR AND CITY COUNCIL

The Comprehensive Annual Financial Report (CAFR) of the Norman Y. Mineta San José International Airport (Airport or SJC), a department of the City of San José (City), for the fiscal years ended June 30, 2019 and 2018, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Airport's management. We believe the data, as presented, is accurate in all material aspects and presented in a manner designed to fairly set forth the financial position, changes in financial position, and cash flows of the Airport, and that all disclosures necessary to enable the reader to gain the maximum understanding of the Airport's financial affairs have been included.

This transmittal letter provides a non-technical summary of the Airport's background, economic condition and outlook, and major initiatives. Management's Discussion and Analysis (MD&A) is contained in the Financial Section of the CAFR and provides readers with a more detailed discussion of the Airport's financial results.

The annual audit of Airport funds was completed by the independent firm of Macias Gini & O'Connell LLP, Certified Public Accountants for the fiscal year ended June 30, 2019 and fiscal year ended June 30, 2018. In addition to meeting the requirements set forth in the City Charter, the City's audit was also designed to meet the requirements of the Federal Uniform Guidance for federal awards. The Airport's federal awards programs are included in the Citywide Single Audit Report. The auditor's report on the Airport's financial statements is included in the Financial Section of this report.

REPORTING ENTITY

The City Charter created the Airport Department (Department) in 1965 as a department within the City.¹ The City is a charter city that operates under a council-manager form of government. 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 connect, serve, and inspire.

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

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

agency and rank within the top five most populated counties of the ABAG Region, with Santa Clara and Alameda Counties ranking first and second, and the County of San Mateo ranking fifth. In addition to the Airport, two other commercial airports serve the San Francisco/San José/Oakland area: San Francisco International Airport and Oakland International Airport.

ECONOMIC CONDITION AND OUTLOOK

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

Passenger levels at the Airport are 44% higher than the pre-recession levels of fiscal year (FY) 2008. Airport management closely monitors its operating budget costs and continues to look for ways to increase non-airline revenues. In addition, the Airport has an objective of maintaining a competitive cost per enplaned passenger (CPE). The CPE was \$9.24 in FY 18 and \$8.21 in FY 19. The CPE is estimated to be \$11.55 for FY 20 based on a number of assumptions, which may or may not materialize.

Since FY 13, the Airport has experienced a rebound in passenger activity, resulting in a total of approximately 14.9 million passengers traveling through the Airport and passenger traffic growth of 10.8% for FY 19.

The City and the Airport continue to work with business stakeholders including the Silicon Valley Leadership Group and the Silicon Valley Organization to help attract new airlines and routes. In an effort to attract new service, the Airport and airports across the nation have developed and enhanced air service support programs. These support programs are so common that the Federal Aviation Administration (FAA) has published guidelines that airports should follow to comply with rules and regulations for use of airport revenue. The Airport continues to offer an air service support program to promote the development of new domestic and international passenger air service that qualifies under specific guidelines. The terms and conditions of the airline air service support program can be modified at any time by the City Council. For qualifying flights, there is a waiver of landing fees provided for a period of between twelve and eighteen months. The minimum frequency of the new flight must be three times weekly nonstop service for twelve consecutive months or four consecutive months for international seasonal service. Given the constraints on airport facilities, there are no fee waivers for ticket counters or boarding gates. The program provides for dedicated marketing funds ranging from \$25,000 to \$500,000, depending on the type of new service provided. In cases where an airline introduces multiple low frequency routes within a 12-month period, the Director of Aviation also has the discretion to recognize the contribution of these additional services and extend the program benefits, including landing fee waivers and the award of marketing funds not to exceed \$100,000.

The Airport entered into an Airline-Airport Lease and Operating Agreement (Airline Lease Agreement) that took effect on December 1, 2007 and expired on June 30, 2019. The Airport entered into a new Airline-Airport Lease and Operating Agreement (New Agreement) with the various passenger and cargo airlines serving the Airport effective July 1, 2019. Currently, eleven of the thirteen passenger airlines and both of the cargo airlines have executed the Signatory Agreement. For additional information about the Airline-Airport Lease and Operating Agreement, see the Airline Rates and Charges section of the MD&A as well as Footnote 6, Lease and Agreements.

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 1,043,058 as of January 1, 2019, reflecting growth of 0.02% over the prior year. San José is located in the Santa Clara Valley, at the southern end of the San Francisco Bay Area, a region referred to as Silicon Valley. Santa Clara County is the sixth largest county in California and the largest in Northern California. The population of Santa Clara County grew 0.3% from 2018 to 2019, with the population increasing to 1,954,286 as of January 1, 2019. The six counties comprising the primary service area for the Airport grew 0.5% from 2018, in line with the state growth rate of 0.5%. In total, the population of the primary service area increased by 23,747 from the prior year and accounts for 13% of the state’s population.²

The per capita income information described below is the information available from the U.S. Bureau of Economic Analysis as updated on March 6, 2019. Total personal income and per capita personal income (PCPI) are highly relied upon measures of economic standing. These indicators are a composite measurement of market potential and indicate the general ability to purchase available products or services. As personal income increases, air travel becomes more affordable and can be used more frequently.

According to U.S. Bureau of Economic Analysis’ estimates updated as of March 6, 2019, for 2017 Santa Clara County had a PCPI of \$98,032 and was 164% of the state average of \$59,796, 190% of the national average of \$51,640, and ranked 4th in the State of California. Within the Air Service Area, the remaining counties personal income and PCPI were as follows:

Personal Income and Per Capita Personal Income within the Air Service Area							
County Name	Personal Income (in Thousand Dollars)			Per Capita Personal Income (Dollars)			
	2016	2017	% Change 2016-2017	2016	2017	% Change 2016-2017	2017 Rank
Santa Clara	\$178,029,092	\$190,001,690	6.7%	\$92,168	\$98,032	6.4%	4
Alameda	111,354,955	118,554,685	6.5%	67,356	71,282	5.8%	6
San Mateo	82,046,470	87,485,845	6.6%	106,615	113,410	6.4%	3
Monterey	22,828,552	23,819,797	4.3%	52,316	54,395	4.0%	21
Santa Cruz	16,766,106	17,665,129	5.4%	60,924	64,028	5.1%	11
San Benito	2,870,816	3,096,482	7.9%	48,383	51,343	6.1%	24
California	\$2,259,413,865	\$2,364,129,404	4.6%	\$57,497	\$59,796	4.0%	
United States	\$16,115,630,000	\$16,820,250,000	4.4%	\$49,831	\$51,640	3.6%	

Per capita income increased by 6.4% from 2016 in Santa Clara County compared to an increase of 4.0% and 3.6% for California and the nation, respectively.³

Employment

Employment levels in Santa Clara County have increased steadily since 2007 and as of June 2019 are reported at over 1 million. Likewise, the unemployment rate has fallen below pre-recession levels and continues to exhibit a downward trend. With 27,700 unemployed, Santa Clara County’s unemployment

² California Department of Finance

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

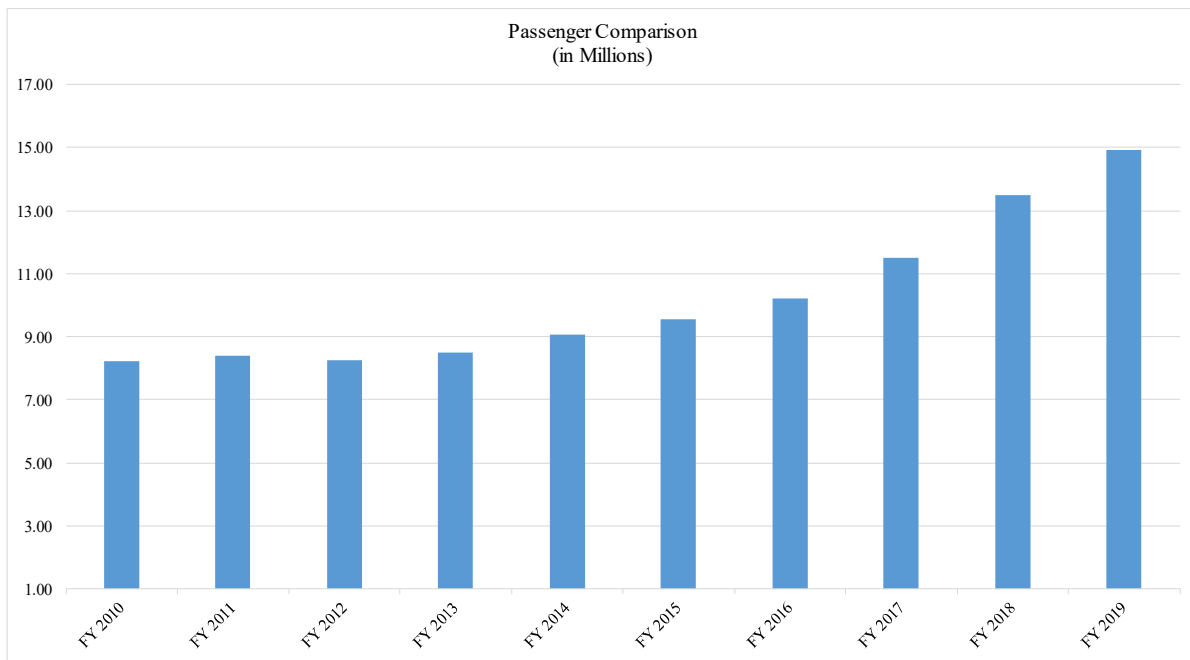
rate of 2.6% as of June 2019 has decreased about 0.2 points, compared to June 2018⁴ and is lower than the 4.2% and 3.7% unemployment rates for California and the U.S., respectively.⁵

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 40th busiest airport in the nation in terms of total passengers according to Airports Council International-North America statistics, as of calendar year 2018. As of June 30, 2019, 13 carriers provided scheduled passenger service to 50 destinations, including eight US flag carriers and five international carriers. In addition, two all-cargo carriers provided scheduled cargo service at the Airport.

For FY 19, the Airport enplaned and deplaned 14.9 million passengers, which represents an increase of 10.8% from the previous fiscal year.

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



For FY 19, the Airport experienced an overall increase of 15.8% in traffic operations due to gains in the following categories: passenger carrier (an increase of 13,212 or 10.3%) and general aviation itinerant (an increase of 13,726 or 43.5%). Effective January 2019, general aviation Itinerant includes Air Taxi.

Airport Master Plan

In 1997, after extensive planning and environmental studies and reports, the City Council approved the new Master Plan. In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new Airport Layout Plan (ALP) for the Airport 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

⁴ Employment Development Department – State of California

⁵ Employment Development Department – State of California

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 airfield, terminal, cargo, general aviation, roadway, parking, and support facilities. 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 Airport 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 TAIP and other ADP revisions. Funding for Master Plan projects is from several sources, including grants, Passenger Facility Charges (PFC), airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

The most recent amendment to the Master Plan, approved by the City Council in August 2018, allows for the development of various aviation support facilities on the southwest side of the Airport formerly designated for exclusively general aviation facilities. The Master Plan, as amended to date, is intended to serve a demand level of 17.6 million annual passengers and a total of 263,800 annual aircraft operations by the year 2027, including up to 1.70 million square feet of passenger terminal facilities and 40 gates. The next proposed amendment to the Master Plan and ALP, currently in preparation and more comprehensive in scope, would extend the planning horizon and demand forecasts out to the year 2037 and revise the facility development program accordingly.

Construction of the TAIP Phase I projects was substantially complete in FY 11. The Phase I 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, 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 I that was completed in FY 14 included the final phase of the Taxiway W extension project. The Phase I projects also included design of certain Phase II projects, but under the Airline Lease Agreement the commencement of construction of the Phase II projects is contingent upon satisfying specified activity-based triggers.

TAIP Phase II 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 II projects are preapproved in the Airline Lease Agreement that expired on June 30, 2019, but construction of the Phase II 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 II projects.

The Airport has met both the operational and passenger triggers for Phase II of the terminal development under the current Airline Lease Agreement that expired on June 30, 2019. The Airport has developed an interim plan to increase gate capacity while the Airport evaluates the feasibility of construction of additional gates. The interim plan includes the construction of two new "bolt-on" gates that were completed in December 2018. In addition, on August 21, 2018, the San Jose City Council approved a project to allow the Airport to build an interim facility with up to six gates. On June 14, 2019, five of the six interim facility gates opened. The sixth gate opened on November 1, 2019.

MAJOR INITIATIVES

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

Highlights of the Airport's activities and accomplishments for the fiscal year ended June 30, 2019, include the following:

- Air Service Development

Passenger levels grew 10.8% in FY 19, with the addition of numerous new nonstop domestic and international destinations, bringing the passenger count for the fiscal year to nearly fifteen million for the first time.

International:

International enplanements decreased 0.6% in FY 19. The Airport has five international carriers as of June 30, 2019.

In November 2018, Volaris launched, twice-weekly flights to León, Mexico. Volaris now offers nonstop service to four cities in Mexico.

Domestic:

Capacity has increased for destinations throughout the United States, including nonstop flights to Hawaii.

Southwest Airlines started new daily, nonstop service to Tucson in November 2018, Long Beach in April 2019, Honolulu and Kahului in May 2019, and Nashville in June 2019, as well as weekly service to El Paso in January 2019 and Raleigh/Durham in June 2019.

In November 2018, Delta Airlines started nonstop service to Detroit. Delta is the only carrier offering service to Detroit and now offers nonstop flights to all the carrier's U.S. hub airports.

In July 2018, Alaska Airlines began SJC's first daytime, daily, nonstop service to New York's JFK International Airport. Alaska started service to Paine Field in Everett, Washington in March 2019.

- Interim Facility

With the increased passenger growth that the Airport has been experiencing in the past years, there has become a need for additional gates in the terminal. On June 14, 2019, five of the six gates and hold rooms in the Interim Facility at the south end of Terminal B opened, along with additional concessions and restrooms. The sixth gate is expected to open in November 2019.

- Funding for Airfield Electrical Rehabilitation

In August 2018, the Airport was awarded \$5.3 million in federal funding for the rehabilitation of the airfield electrical system. This project will enhance reliability of an aging system and will upgrade existing facilities to newer technology. The federal grant is administered by the U.S. Department of Transportation and the FAA.

- Funding for Perimeter Protection Project

In September 2019, the Airport entered into an agreement with the Transportation Security Administration (TSA) to provide \$2.5 million in federal funding for new security technologies on portions of the Airport perimeter. The TSA will fully reimburse the Airport for expenses incurred for this project, up to the maximum obligation.

- Clear Channel Advertising Extension

In February 2019, the term of the Clear Channel Advertising agreement was extended seven years, from 2020 to 2027, as Clear Channel is transforming the SJC advertising program to an all-digital platform. The new advertising program creates an opportunity for the airport to receive additional revenue based on Clear Channel's commitments from the Foundation Brand Partnerships, which are larger, longer-term sponsorships with companies that are interested in launching new products, promoting brand awareness, and executing multiple year advertising and sponsorship type agreements. The new all-digital platform is expected to roll out in the fall of 2019.

- New Fleet of All-Electric Buses

In May 2019, the Airport deployed the largest fleet of electric buses at any airport in the country. The brand-new fleet of ten zero-emission buses and charging systems were designed and manufactured locally by Proterra.

- Facial Biometrics

In August 2018, the Airport announced its partnership with U.S. Customs and Border Protection (CBP) in using facial recognition technology to facilitate the arrival and departure of all international travelers, with the goal of increasing security and enhancing the customer experience.

OUTLOOK FOR THE FUTURE

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

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

Due to the strong passenger growth over the past seven years, FY 19 total enplaned passengers surpassed pre-recession levels of FY 08 by 44%. The Airport recorded strong growth of over one million or more total passengers in FY 17 (+12.7%), FY 18 (+17.2), and FY 19 (+10.8%). While the Airport continuously manages expenditures due to the high debt service costs, additional consideration is directed toward handling the significant new demand on the facilities and capacity constraints at peak periods resulting from

the rapid growth. An Interim Terminal Facility, at the south end of Terminal B, was completed in June 2019 and immediately began operating from five gates and hold rooms. A sixth gate and hold room is expected to open November 2019. The project, costing \$58.0 million, allows the Airport to respond to the current challenges of the growth in flight operations and passengers while the Airport continues to plan for Phase II of the Terminal Area Improvement Program as envisioned in the Master Plan.

Additionally, focus continues on increasing revenue generation prospects and programs, growing and retaining passengers, and developing non-aviation revenue opportunities. The Airport is actively collaborating with the City's Office of Economic Development as well as local business groups like the Silicon Valley Leadership Group and the Silicon Valley Organization to pursue air service development opportunities and customer service enhancements. The wide variety of strategic efforts to increase revenue sources is critical to enhance the Airport's resiliency and adaptability to the dynamic aviation industry environment. With increasing passenger levels, strategic augmentation of staffing levels, leveraging technology to increase efficiencies, and optimizing airfield and terminal space are important initiatives for the Airport. With careful management of expenditures, and efforts to increase non-airline revenues, the Airport has a goal of keeping the airline CPE at a competitive level with other airports.

The FY 20 Adopted Budget contains funding for ten additional full-time positions to support the increasing workload associated with the growing passenger base. Activity levels increased substantially, thereby requiring strategic augmentation of staffing levels to ensure needs of the organization and customers are served. Staffing in several programs were supplemented including finance, facilities maintenance, marketing and communications, operations and mapping services.

The FY 20 Budget also includes funding increases for cost of living adjustments to existing agreements, gas and electric utility adjustments associated with passenger growth and the additional Interim Terminal Facility space, increases in service hours for custodial, baggage handling, and shared use and network system contractors. Additional contractual funding also provides for managing projects and pursuing new revenue generating opportunities. There are cost increases associated with increases in the number of passengers and flights in order to maintain safety, security, and high levels of customer service. Airline seat capacity projections indicate continued growth for SJC. Therefore, efforts to operate efficiently and effectively and sustain that growth are paramount to decision making and implementing new initiatives.

Conservative budget and fiscal policies have led to a surplus for FY 19. After completion of the year-end closing and annual audit, the FY 19 actual net remaining revenues were \$29.3 million and will be allocated in accordance with the revenue sharing provisions of the Airline Lease Agreement. As noted in the financial statements, the participating airline net revenue sharing portion was \$13.9 million for FY 19.

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

- Drive Growth
- Innovate
- Fund the Future
- Reinvent the Organization

The Airport's FY 20-24 Adopted Capital Improvement Program (CIP) contains projects reflecting all of the Airport's strategic priorities. The Airport, now in its 70th year, serves more than 14.5 million passengers annually, with 450 peak daily departures and arrivals on 13 international and domestic carriers to 50 nonstop destinations. It is important that the Airport continue to support all of the airlines and the success of the

flights by improving safety and security, leveraging technology, maintaining infrastructure, and providing a favorable environment for sustained growth.

The FY 20-24 Adopted CIP budget funding of \$390.2 million primarily for projects and debt service, of which \$149.5 million is allocated to FY 20. Over the five-year CIP, funding allocated to pay debt service on outstanding bonds totals \$137.8 million. A total of \$30.0 million is allocated to general non-construction activities and public art projects, leaving \$222.3 million for capital construction over the next five years.

Program highlights of the Airport's FY 20-24 Adopted CIP are as follows:

- \$42.6 million Economy Lot Parking Garage provides for the construction of up to 1,200 new parking spaces (current capacity is 1,670 spaces), elevators, stairways, conduit for electric vehicle chargers, parking system equipment, and other modifications to the existing surface level parking lot to accommodate the transfer of passengers to the busing system. The project is intended to improve accommodation of current and near-term demand for auto parking given the recent reduction to parking south of Terminal B from construction of the Interim Terminal Facility.
- \$68.0 million for Runway Incursion Mitigation (formerly known as Airfield Geometric Implementation) is the second stage of a multi-year project. The goal of the project is to implement changes to airfield geometry to comply with FAA regulations and new design standards identified in the Runway Incursion Mitigation Study project. This project is important to maximize airfield safety through facility design and reconfiguration improvements.
- \$21.7 million for the Terminal B Ramp Rehabilitation provides for the reconstruction of the apron south of the existing terminal. This project anticipates the potential development of the terminal and extends the apron to accommodate additional gates and/or ground boarding to maximize functionality and efficiency of the terminal. This apron is used to park aircraft for fueling, servicing, loading and unloading both passengers and cargo. The existing pavement is reaching the end of its lifespan and new pavement needs to be constructed to support existing and new aircraft operations. This project has received FAA grant funding for Phase 1, 2, and 3 of the project or \$17.4 million and represents a significant expenditure illustrated in the Airfield Facilities spending category. Future funding is for Phases 4 and 5 of the apron.
- \$14.2 million for Airfield Electrical Circuit Rehabilitation provides for the replacement of airfield lighting cables and associated improvements to improve electrician access, safety to airfield lighting circuits, and help reduce the impacts of confined space. This project will help ensure the integrity and reliability of the airfield lighting system, further supporting Airfield safety and security. This project has received FAA Airport Improvement Program grant funding for the first phase of tasks related to improvements to runway lighting and runway guard lights. Additional phases are planned for improvements to signage and taxiway lighting.
- \$19.5 million for the Aircraft Rescue and Fire Fighting (ARFF) Facility upgrades provide for renovation of the existing facility to include a larger training area, additional sleeping quarters, and additional vehicle bays. A recent change to comply with federal requirements resulting from up-gauge in aircraft types, and new international flights with wide-body aircraft required additional staff and activation of a third apparatus. In FY 18, FAA grant funding supported the replacement of two ARFF vehicles to further support Airfield safety and security.

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 over federal award programs and that the evaluation of costs and benefits is subject to management estimates and judgments.

Single Audit, PFC, and Customer Facility Charges (CFC)

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

As part of the City's Single Audit procedures, tests are made to determine compliance with the internal control system over federal awards in place, and whether the Airport has complied with all applicable laws and regulations. The City's Single Audit for the year ended June 30, 2019 is still in progress.

The Airport was authorized to impose PFC effective September 1, 1992. Legislation authorizing the collection of PFC revenues prescribes reporting and control requirements and restricts the use of PFC revenue to the acquisition of specified assets or payment of PFC eligible debt service. As part of the compliance audit of the PFC program, tests are made to determine compliance with the PFC internal control system in place and whether the Airport has complied with all applicable laws and regulations. The PFC program audit for the year ended June 30, 2019 is still in progress.

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

Budgetary Controls

Each year, the Airport prepares an operating budget and a capital budget. These documents are presented to the City Council and included in the City's annual operating and capital budgets and the annual appropriation ordinance. The approved budgets serve as an approved plan to facilitate control and operational evaluation.

The Airport and the City maintain budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The level of budgetary control, at which expenses cannot legally exceed the budgeted amount, is at the appropriation level.

The Airport, as with the City, also uses encumbrance accounting as another technique of accomplishing budgetary control of the Airport funds. Purchase commitments are earmarked for particular purposes and become unavailable for general spending. Appropriations that are not encumbered lapse at the end of the fiscal year. Year-end encumbrances are carried forward and become part of the following year's budget. For budget purposes, expenses are recognized in the year encumbered. For financial statement purposes, expenses are recognized when incurred.

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

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

OTHER INFORMATION

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Norman Y. Mineta San José International Airport for its CAFR for the fiscal year ended June 30, 2018. This was the twenty-second 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.

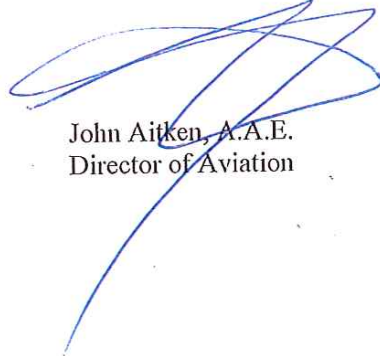
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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,



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



Kim Hawk, CPA
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, 2018

Christopher P. Morrill

Executive Director/CEO

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

ELECTED OFFICIALS:

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

AIRPORT COMMISSION:

Ken Pyle	Member
Brandon Chaidez	Member
Julie Riera Matsushima	Member
E. Ronald Blake	Member
Robert Hencken	Member
Allison Stember	Member
Surjit Bains	Member
Catherine Hendrix	Member
Dan Connolly	Member
Joe Head	Member
Raul Peralez	Council Member, Airport Liaison

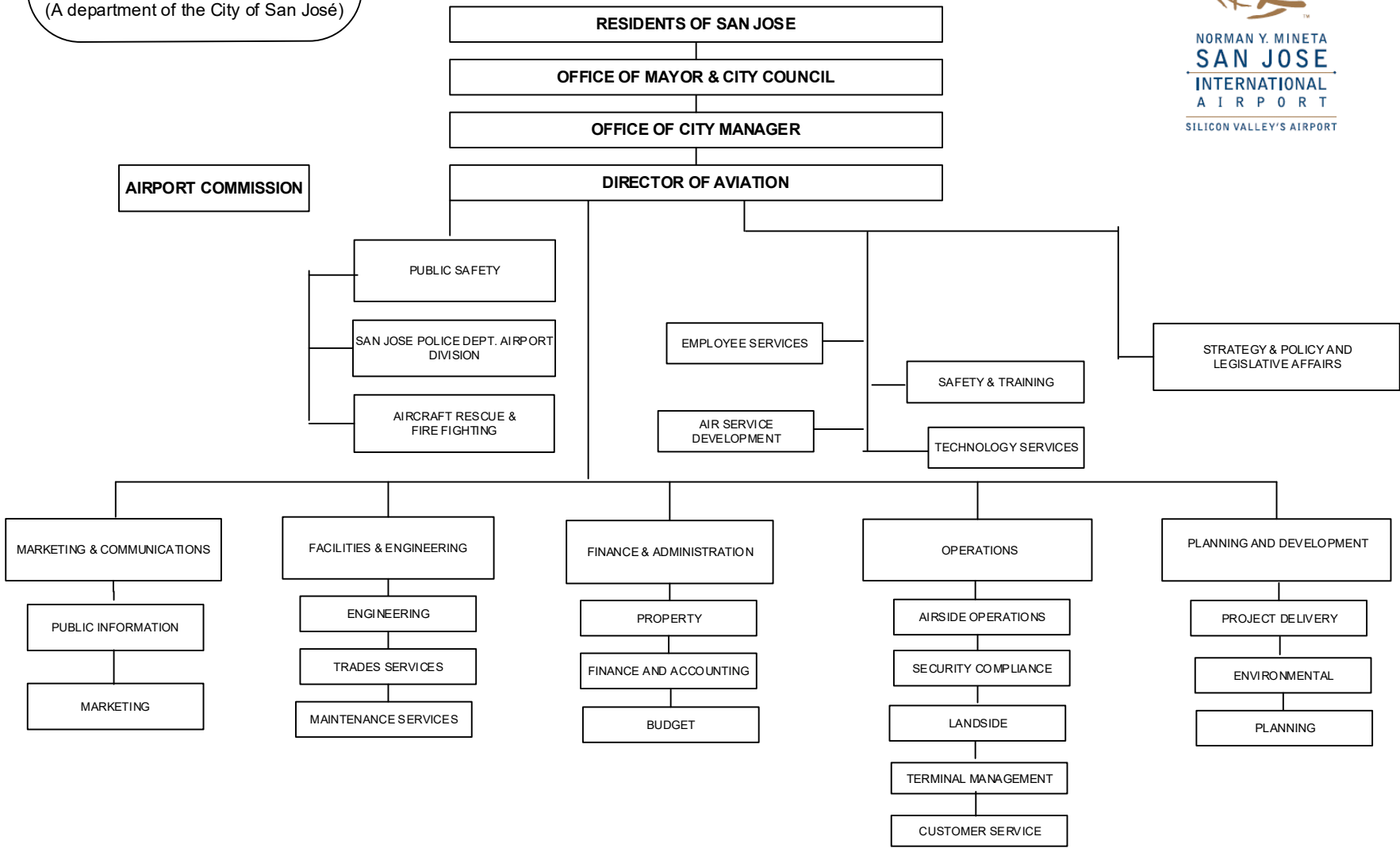
CITY OFFICIAL:

David Sykes	City Manager
Julia Cooper	Director of Finance

AIRPORT DEPARTMENT:

John Aitken, A.A.E.	Director of Aviation
Judy M. Ross, A.A.E.	Assistant Director of Aviation
Robert Lockhart, C.M., ACE	Deputy Director, Airport Operations
Kim Hawk, CPA	Deputy Director, Finance & Administration
Patrick R. Tonna	Deputy Director, Facilities & Engineering
Andres Niemeyer	Deputy Director, Planning & Development
Scott Wintner	Deputy Director, Marketing & Communications
Lieutenant Bruce Young	San José Police Dept. – Airport Division

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





FINANCIAL



The Airport's passenger activity levels are at an all-time high in its 70-year history. SJC currently ranks as the No. 2 Bay Area airport in terms of travelers served. In December, SJC served its 14.3 millionth passenger, Sergio Aguilera, Sr., who was traveling with five family members and connecting through SJC while en route to Guadalajara.



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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Airport's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Basis of Presentation

As discussed in Note 1(a) to the financial statements, the financial statements of the Airport are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities and major fund of the City that is attributable to the transactions of the Airport. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2019 and 2018, the changes in its financial position, or, where applicable, its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the proportionate share of the net pension liability, the schedule of contributions (pension), the schedule of the proportionate share of the net OPEB liability, and the schedule of contributions (OPEB), identified in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2019 on our consideration of Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Airport's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California

November 7, 2019

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

This section of the Airport CAFR presents a narrative overview and analysis of the financial activities of the Airport for the fiscal years ended June 30, 2019 and 2018.

AIRPORT ACTIVITIES HIGHLIGHTS

A total of approximately 14.9 million passengers traveled through the Airport in FY 19 compared to approximately 13.5 million in FY 18, resulting in passenger traffic growth of 10.8%. The Airport experienced an increase in passenger traffic of 17.2% in FY 18 and of 12.7% in FY 17.

International passengers declined 0.4% in FY 19. Air China, Lufthansa, and Aeromexico discontinued operations at the Airport in September 2018, October 2018, and January 2019, respectively. Volaris launched a twice weekly flight to León, Mexico in November 2018.

Domestic passengers rose 11.7% as a result of increased capacity and numerous new destinations added across the country. During the fiscal year, Southwest Airlines launched new daily service to Honolulu, Kahului, Long Beach, Nashville, and Tucson, as well as weekly service to El Paso and Raleigh. Alaska Airlines began daily nonstop service to Everett and New York's JFK International Airport, and Delta Airlines started daily nonstop service to Detroit.

As of June 30, 2019, Airport carriers served 50 nonstop markets with 232 peak daily departures compared to 53 nonstop markets with 208 peak daily departures as of June 30, 2018 and 40 nonstop markets with 179 peak daily departures as of June 30, 2017.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Flight operations	192,008 <i>15.8 %</i>	165,751 <i>13.0 %</i>	146,722 <i>11.5 %</i>
Landed weight by passenger (1,000's lbs.)	8,984,703 <i>9.0 %</i>	8,244,933 <i>14.5 %</i>	7,202,172 <i>17.8 %</i>
Landed weight by cargo carriers (1,000's lbs.)	244,440 <i>(1.3)%</i>	247,607 <i>(0.6)%</i>	249,020 <i>(6.5)%</i>
Total enplaned and deplaned passengers	14,949,956 <i>10.8 %</i>	13,490,514 <i>17.2 %</i>	11,514,425 <i>12.7 %</i>
Enplaned passengers	7,462,126 <i>11.0 %</i>	6,725,127 <i>17.2 %</i>	5,739,769 <i>12.8 %</i>
Deplaned passengers	7,487,830 <i>10.7 %</i>	6,765,387 <i>17.2 %</i>	5,774,656 <i>12.7 %</i>
Domestic passengers	14,015,534 <i>11.7 %</i>	12,552,055 <i>17.4 %</i>	10,690,188 <i>9.9 %</i>
International passengers	934,422 <i>(0.4)%</i>	938,459 <i>13.9 %</i>	824,237 <i>70.1 %</i>
Cargo tonnage (in tons)	57,393 <i>(6.1)%</i>	61,114 <i>0.2 %</i>	60,997 <i>4.8 %</i>
Parking (vehicles) exits	1,133,242 <i>(4.6)%</i>	1,187,802 <i>5.8 %</i>	1,122,402 <i>6.4 %</i>

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

FINANCIAL HIGHLIGHTS

The Airport posted an increase in net position for the 2019 fiscal year.

- Operating revenues increased by 3.7% from \$168.6 million in 2018 to \$174.8 million in 2019.
- Operating expenses before depreciation increased by 1.9% from \$98.9 million in 2018 to \$100.8 million in 2019.
- Operating income before depreciation increased by 6.3% from \$69.6 million in 2018 to \$74.1 million in 2019.
- Depreciation increased by 3.2% from \$47.5 million in 2018 to \$49.0 million in 2019.
- The above resulted in an operating income before nonoperating revenues and expenses of \$22.2 million in 2018 and \$25.0 million in 2019.
- Nonoperating expenses, net of nonoperating revenues, increased 32.1% from \$11.0 million in 2018 to \$14.5 million in 2019.
- Capital contributions earned in the form of grants from the federal government increased from \$9.3 million in 2018 to \$18.7 million in 2019.
- The Airport recorded \$16.3 million in 2019 as a special item pertaining to the rate stabilization fund and ten-year lookback distribution. The details of the special item can be found in Note 6 to the financial statements.
- Change in net position from current year activities showed an increase of \$13.0 million in 2019 compared to an increase of \$7.9 million in 2018. The combination of an increase in operating income and capital contributions, and the restatement of 2018 beginning net position to reflect the changes in accounting principle resulting from the implementation of GASB Statement No. 75 was more than the offset to an increase in net nonoperating expenses and the rate stabilization fund and ten-year lookback distribution.

In addition, the Airport showed an increase in net position for the 2018 fiscal year.

- Operating revenues increased by 10.2% from \$152.9 million in 2017 to \$168.6 million in 2018.
- Operating expenses before depreciation increased by 11.9% from \$88.4 million in 2017 to \$98.9 million in 2018.
- Operating income before depreciation increased by 7.9% from \$64.5 million in 2017 to \$69.6 million in 2018.
- Depreciation increased by 2.2% from \$46.4 million in 2017 to \$47.5 million in 2018.
- The above resulted in an operating income before nonoperating revenues and expenses of \$18.1 million in 2017 and \$22.2 million in 2018.
- Nonoperating expenses, net of nonoperating revenues, decreased 56.9% from \$25.4 million in 2017 to \$11.0 million in 2018.
- Capital contributions earned in the form of grants from the federal government decreased from

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\$10.1 million in 2017 to \$9.3 million in 2018.

- Change in net position showed an increase of \$7.9 million in 2018 compared to an increase of \$2.8 million in 2017. The combination of an increase in operating income and a decrease in net nonoperating expenses was more than the offset due to an increase in operating expenses, a decrease in capital contributions, and the restatement of beginning net position to reflect the changes in accounting principle resulting from the implementation of GASB Statement No. 75. GASB Statement No. 75 was not retroactively implemented in fiscal year 2017.

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, 2019, 2018, and 2017:

	2019	2018	2017
Operating revenues	\$ 174,828	\$ 168,582	\$ 152,935
Operating expenses before depreciation	(100,766)	(98,935)	(88,393)
Operating income before depreciation	74,062	69,647	64,542
Depreciation	(49,026)	(47,486)	(46,449)
Operating income	25,036	22,161	18,093
Nonoperating revenues and expenses, net	(14,498)	(10,978)	(25,446)
Income (loss) before capital contributions	10,538	11,183	(7,353)
Capital contributions	18,747	9,287	10,120
Special item - rate stabilization fund and ten-year lookback distribution	(16,266)	-	-
Change in net position	13,019	20,470	2,767
Net position - beginning, as previously reported	204,522	196,589	193,822
Restatement due to implementation of GASB 75	-	(12,537)	-
Net position - beginning, as restated	204,522	184,052	193,822
Net position - ending	\$ 217,541	\$ 204,522	\$ 196,589

NET POSITION SUMMARY

Net position serves over time as a useful indicator of the Airport's financial position. The Airport's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$217.5 million, \$204.5 million, and \$196.6 million at June 30, 2019, 2018, and 2017, respectively, a \$13.0 million increase from June 30, 2018 to June 30, 2019 and an \$7.9 million increase from June 30, 2017 to June 30, 2018.

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A condensed summary of the Airport's net position (in thousands) at June 30, 2019, 2018, and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Assets:</u>			
Unrestricted assets	\$ 173,870	\$ 168,230	\$ 149,485
Restricted assets	173,584	166,958	190,805
Capital assets	1,305,205	1,275,662	1,302,658
Other assets	3,401	4,850	5,391
Total assets	<u>1,656,060</u>	<u>1,615,700</u>	<u>1,648,339</u>
<u>Deferred outflows of resources:</u>			
Deferred outflows of resources related to pension	18,111	27,068	30,220
Deferred outflows of resources related to OPEB	2,427	1,754	-
Loss on refundings of debt	8,128	8,616	9,687
Total deferred outflows of resources	<u>28,666</u>	<u>37,438</u>	<u>39,907</u>
<u>Liabilities:</u>			
Current liabilities - unrestricted	84,728	24,334	40,802
Current liabilities - restricted	56,668	55,483	65,648
Noncurrent liabilities	1,322,553	1,368,640	1,384,914
Total liabilities	<u>1,463,949</u>	<u>1,448,457</u>	<u>1,491,364</u>
<u>Deferred inflows of resources:</u>			
Deferred inflows of resources related to pension	61	128	186
Deferred inflows of resources related to OPEB	3,175	31	-
Gain on refundings of debt	-	-	107
Total deferred inflows of resources	<u>3,236</u>	<u>159</u>	<u>293</u>
<u>Net Position:</u>			
Net investment in capital assets	126,419	100,587	82,801
Restricted	61,897	62,014	64,907
Unrestricted	29,225	41,921	48,881
Net position	<u>\$ 217,541</u>	<u>\$ 204,522</u>	<u>\$ 196,589</u>

2019 versus 2018

Total deferred outflows of resources decreased \$8.8 million or 23.4%, which was attributed to the decreases from the deferred outflows of resources related to pension and the loss on the refundings of debt, partially offset by the increase in the deferred outflows of resources related to other post employment benefits (OPEB).

Deferred outflows of resources related to pension decreased from \$27.1 million at June 30, 2018 to \$18.1 million at June 30, 2019, which reflects the increase in contributions made subsequent to the measurement date, offset by the decreases in the changes in assumptions and net difference between projected and actual earnings on pension plan investments. Deferred outflows of resources related to OPEB increased from \$1.8 million at June 30, 2018 to \$2.4 million at June 30, 2019, which reflects the increase in contributions made subsequent to the measurement date and increases in the changes in assumptions, differences between expected and actual experience, and net difference between projected and actual earnings on OPEB plan investments. Detailed information about the Federated City Employees' Retirement System (FCERS), which is a single employer defined benefit retirement system that covers substantially all benefited City employees, except for certain unrepresented employees and employees who are members of the City's Police and Fire Department Retirement Plan (PFDRP), can be

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found in Note 7 to the financial statements.

Loss on the refundings of debt decreased \$0.5 million from \$8.6 million as of June 30, 2018 to \$8.1 million as June 30, 2019 due to the annual amortization.

Total liabilities increased 1.1%, or \$15.5 million. Unrestricted current liabilities increased 248.2%, or \$60.4 million, due to the issuance of commercial paper assumed during the year and an increase in accounts payable. A total of \$55.0 million of commercial paper was issued in FY 19. Noncurrent liabilities decreased 3.4% or \$46.1 million due to decreases in the bond payable balance, net OPEB liability, and net pension liability.

Total deferred inflows of resources increased \$3.1 million, or 1,935.2%, which was mainly attributed to the changes in assumptions made by the FCERS OPEB actuarial valuation, which reduced the total OPEB liability. Detailed information about the FCERS can be found in Note 7 to the financial statements.

The largest portion of the Airport's net position 58.1% and 49.2% at June 30, 2019 and 2018, respectively, represents its investment in capital assets (e.g. land, buildings, improvements, and equipment), less the debt outstanding used to acquire those capital assets and related deferred inflows and outflows associated with that debt. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently, these assets are not available for future spending.

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

2018 versus 2017

Total deferred outflows of resources decreased \$2.5 million or 6.2%, which was attributed to the decreases from the loss on the refundings of debt and the deferred outflows of resources related to pension, partially offset by the increase in the deferred outflows of resources related to OPEB as a result of implementation of GASB Statement No. 75.

Deferred outflows of resources related to pension decreased from \$30.2 million at June 30, 2017 to \$27.1 million at June 30, 2018, which reflects the increase in contributions made subsequent to the measurement date, offset by the decreases in the changes in assumptions and net difference between projected and actual earnings on pension plan investments. Detailed information about the FCERS, which is a single employer defined benefit retirement system that covers substantially all benefited City employees, except for certain unrepresented employees and employees who are members of the PFDRP, can be found in Note 7 to the financial statements.

Deferred outflows of resources related to OPEB increased \$1.8 million as a result of the implementation of GASB Statement No. 75.

Loss on the refundings of debt decreased \$1.1 million from \$9.7 million as of June 30, 2017 to \$8.6 million as of June 30, 2018 mainly due to a change in the amortization method. The amortization method was changed from principal base to straight line base to conform with City's practice.

Total liabilities declined 2.9%, or \$42.9 million as a result of additional payments made on commercial paper liabilities and the annual payment of the bonds payable, partially offset by the increases in net pension and net OPEB liabilities.

Unrestricted current liabilities reduced 40.4%, or \$16.5 million, mainly because of the additional payment made on the principal balance of the commercial paper. A total of \$18.0 million was paid to

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reduce the commercial paper principal balance in FY 18.

Noncurrent liabilities decreased from \$1,384.9 million to \$1,368.6 million due to a decrease in the bond payable balance, partially offset by the increases of net pension liability and net OPEB liability as a result of the implementation of GASB Statement No. 75.

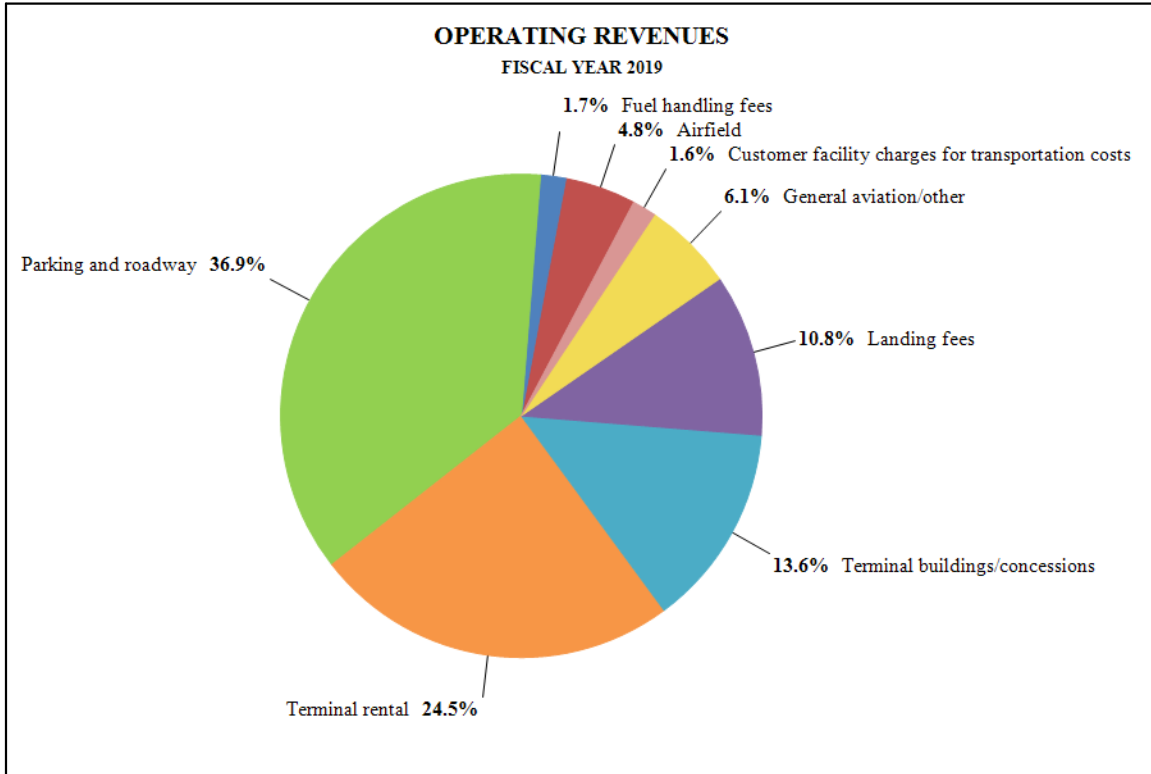
The largest portion of the Airport's net position 49.2% and 42.1% at June 30, 2018 and 2017, respectively, represents its investment in capital assets (e.g. land, buildings, improvements, and equipment), less the debt outstanding used to acquire those capital assets and related deferred inflows and outflows associated with that debt. The Airport uses these capital assets to provide services to its passengers and visitors to the Airport; consequently, these assets are not available for future spending.

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

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REVENUES

The following chart reflects the major sources and the percentage of operating revenues for the fiscal year ended June 30, 2019:



As illustrated in the above chart, parking and roadway revenue represents 36.9% of the total operating revenues. Parking and roadway revenues include public parking, utility and concession fees from rental cars, employee parking, Transportation Network Companies (TNCs), taxicab and other ground transportation fees, and facility and ground rents from rental car companies for use of the ConRAC located at the Airport. Facility rent for the ConRAC will vary each year as it is calculated under the terms of the rental car agreement: an amount equal to the sum of annual debt service and coverage amounts and reserve fund requirements, less estimated CFC revenues, is allocated to each rental car company based upon that company's percentage occupancy of the ConRAC. In addition, each rental car company's share of operating costs for the transportation system and the cost to demolish the previous temporary common use rental car facility is charged to each of the rental car companies. In the event that CFC revenues exceed the sum of annual debt service plus coverage amounts and reserve fund requirements, each rental car company's share of any such CFC revenues will be deducted from its share of operating costs for the transportation system. In the event that CFC revenues remain after CFC revenues are deducted from each company's share of operating costs for the 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. The City had previously determined that it should identify the specific rental car customers who used the transportation system in order to apply the CFC revenues to cover transportation costs. However, upon further consultation with the rental car companies, the City and the rental car companies have agreed that the City may apply the CFC revenues to cover transportation costs, which are a component of CFC eligible ConRAC expenses, without first identifying the specific rental car customers who used the transportation system. In FY 19, the City recognized \$2.8

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million of CFC revenues for transportation costs, which represents 1.6% of operating revenues.

The next largest category is airline terminal rental, which represents 24.5% of the total operating revenues. Revenues from terminal buildings/concessions, which came in at 13.6% 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 10.8% of the total operating revenues.

General aviation/other revenues are 6.1% 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 4.8% and 1.7%, respectively, of the total operating revenues. The airfield area category is comprised of air carrier parking fees, fees from the in-flight kitchen services, and fees from ground service providers. Fuel handling fees include sales of diesel, unleaded, 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.

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A summary of revenues (in thousands) for the fiscal years ended June 30, 2019, 2018, and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Operating revenues:</u>			
Landing fees	\$ 18,984	\$ 19,297	\$ 18,370
Terminal rental	42,815	43,477	39,778
Terminal buildings/concessions	23,717	22,375	20,207
Airfield	8,340	8,027	7,307
Parking and roadway	64,507	59,714	52,514
Fuel handling fees	2,930	3,078	3,080
General aviation/other	10,773	10,096	9,748
Customer facility charges for transportation costs	2,762	2,518	1,931
Total operating revenues	<u>174,828</u>	<u>168,582</u>	<u>152,935</u>
<u>Nonoperating revenues:</u>			
Passenger facility charges	29,735	27,048	23,097
Customer facility charges for debt service	18,704	18,364	18,026
Investment income	9,893	2,842	1,591
Operating grants	720	809	1,169
Other, net	1,045	1,214	603
Total nonoperating revenues	<u>60,097</u>	<u>50,277</u>	<u>44,486</u>
Capital contributions	18,747	9,287	10,120
Total revenues	<u>\$ 253,672</u>	<u>\$ 228,146</u>	<u>\$ 207,541</u>

2019 versus 2018

June 2019 marked the 78th straight month of consecutive passenger growth at the Airport. Total operating revenues increased by 3.7% from \$168.6 million in 2018 to \$174.8 million in 2019. All revenue categories grew, except for landing fees, terminal rental, and fuel handling fees.

Landing fees decreased 1.6%, or \$0.3 million, due to a decrease in the landing fee rate. Although the landing fee rate decreased from \$2.45 to \$2.18 per thousand pounds, landed weights increased year-over-year from 8.5 billion pounds to 9.2 billion pounds.

Terminal rental revenues decreased 1.5%, or \$0.7 million, due to a \$5.2 million credit applied against terminal rental revenues resulting from the final true-up under the Airline Lease Agreement, offset by an increase in the budgeted rate for terminal space. The \$5.2 million represents the 2019 airline terminal true-up based on the actual results. Additional information about the true-up can be found in Note 1 to the financial statements. The budgeted rate for terminal space increased from an average of \$172.24 per square foot in 2018 to \$183.78 per square foot in 2019.

Terminal buildings/concessions posted an increase of 6.0%, or \$1.3 million, primarily due to the increase in passenger activity.

Airfield revenues increased by 3.9%, or \$0.3 million, mainly due to the higher ground support

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concessions and inflight kitchen revenues resulting from the increased passenger activity.

Parking and roadway revenues were up by 8.0% or \$4.8 million, mainly due to TNC trip fee revenues and public parking revenues. TNC trip fee revenue increased \$2.9 million or 45.8% due to increased activity, as well as an increase in the pick-up fee and the implementation of a new drop-off fee, effective October 1, 2017. Public parking increased \$1.3 million or 4.1% from \$31.0 million to \$32.3 million as a result of rate changes for various parking lots: Hourly Lot 2 from \$30.00 per day to \$24.00 per day effective August 24, 2018, Daily Lot 4 and Daily Lot 6 from \$22.00 per day to \$30.00 per day effective September 24, 2018, and Hourly Lot 3 from \$30.00 per day to \$38.00 per day effective September 24, 2018.

General aviation/other revenues rose by 6.7% or \$0.7 million. The main contributors to the increase were higher land and building rental rates as a result of appraised values. Additionally, there were new land rental agreements and consumer price index adjustments.

PFC revenues grew by 9.9%, or \$2.7 million, reflective of the growth in passenger activity.

Investment income in 2019 increased by 248.1%, or \$7.1 million, to \$9.9 million, mainly due to higher unrealized gains, interest rates and higher cash and investment balances.

CFC revenues are the charges to customers of rental car companies at the Airport in accordance with California Government Code Sections 50474.1-50474.3 to help pay for capital costs and related debt service associated with the ConRAC and certain operating expenses related to the transportation of rental car customers between the terminals and the ConRAC. Despite the Airport's 10.8% passenger traffic growth, total CFC revenues increased only 2.8% from the 2018 level, reflective of the presence of TNCs.

Other nonoperating revenues decreased 13.9%, or \$0.2 million, as a result of settlement income received in fiscal year 2018 and the expired CNG tax credits. Decreases in other nonoperating revenues were partially offset by an increase in jet fuel sales tax and the reduction of bond issuance costs.

Capital contributions earned during 2019 pertained to grant reimbursements from the FAA, mainly for the Terminal B expansion ramp, zero emissions buses and related infrastructure, and airfield electrical circuit rehabilitation, which increased 101.9%, or \$9.5 million, from \$9.3 million in 2018 to \$18.7 million in 2019.

2018 versus 2017

June 2018 marked the 66th straight month of consecutive passenger growth at the Airport. Total operating revenues increased by 10.2% from \$152.9 million in 2017 to \$168.6 million in 2018. All revenue categories grew, except for fuel handling fees, which were unchanged.

Landing fees increased 5.0% or \$0.9 million due to increase in activity. Despite the landing fee rate decrease from \$2.70 to \$2.45 per thousand pounds, landed weights increased year-over-year from 7.5 billion pounds to 8.5 billion pounds.

Terminal rental revenues increased 9.3% or \$3.7 million mainly due to higher rental rates. The rate for terminal space increased from an average of \$154.63 per square foot in 2017 to \$172.24 per square foot in 2018.

Terminal buildings/concessions posted an increase of 10.7%, or \$2.2 million, primarily due to the increase in passenger activity.

Airfield revenues increased by 9.9%, or \$0.7 million, mainly due to the higher inflight kitchen revenues and ground support concessions resulting from the increased passenger activity.

Parking and roadway revenues were up by 13.7% or \$7.2 million. Ground transportation, including trip

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fees from the TNCs and public parking revenues experienced increases. Public parking increased \$2.4 million or 8.4% from \$28.6 million to \$31.0 million as a result of increased passenger activity and the rate increase for the economy lot going from \$15.00 per day to \$18.00 per day effective on October 1, 2017. Ground transportation, including TNCs, increased \$4.2 million or 107.3% due to increased activity and the implementation of a new drop-off fee of \$3.00 per trip, and an increase of the pick-up fee from \$2.30 to \$3.00 per trip for regular fuel vehicles, effective October 1, 2017.

General aviation/other revenues rose by 3.6% or \$0.3 million. The main contributor to this increase was the higher land and building rental rates as a result of appraised values and the consumer price index.

PFC revenues grew by 17.1% or \$4.0 million reflective of the growth in passenger activity.

Investment income in 2018 increased by 78.6%, or \$1.3 million, to \$2.8 million, mainly due to higher interest rates and higher cash and investment balances.

CFC revenues are the charges to customers of rental car companies at the Airport in accordance with California Government Code Sections 50474.1-50474.3 to help pay for capital costs and related debt service associated with the ConRAC and certain operating expenses related to the transportation of rental car customers between the terminals and the ConRAC. Despite the Airport's 17.2% passenger traffic growth, CFC revenues increased only 4.6% from the 2017 level, reflective of the presence of TNCs.

Operating grants in 2018 decreased 30.8% or \$0.4 million from 2017, mainly because of the runway incursion mitigation study grant from the FAA. This was the second year of this grant and the majority of the tasks for this project were done in the first year.

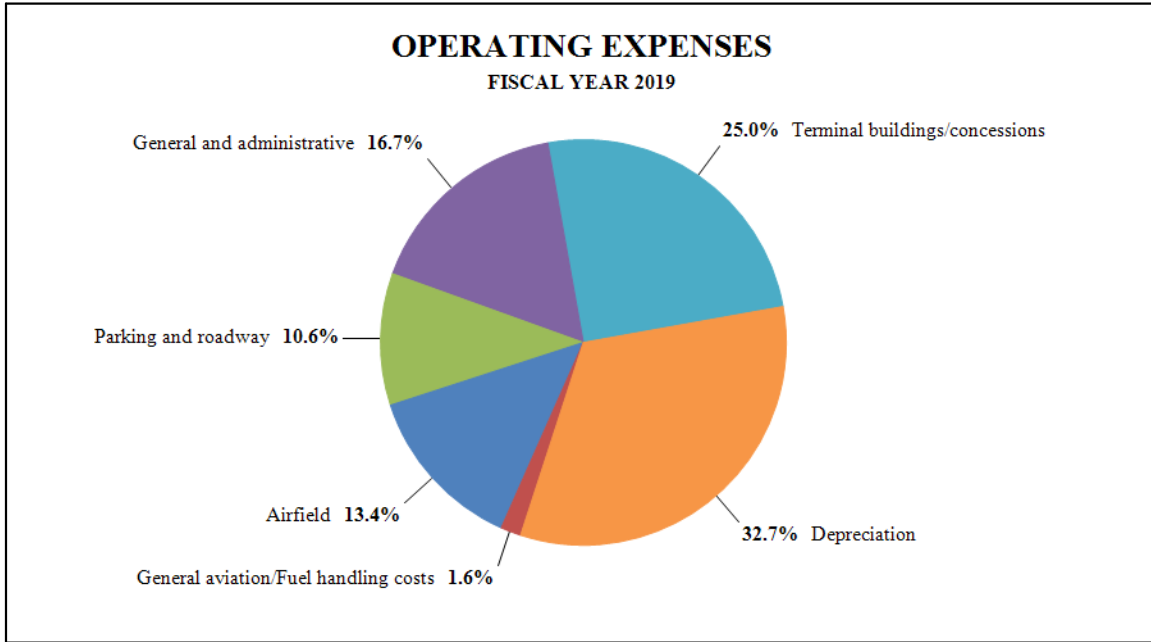
Other nonoperating revenues increased 101.3%, or \$0.6 million, mainly as a result of a settlement received from a lawsuit.

Capital contributions earned during 2018 pertained to grant reimbursements from the FAA, mainly for the perimeter security technology upgrades, southeast ramp reconstruction, aircraft rescue fire fighting vehicle, lighting system upgrade category II approach, and the Terminal B expansion ramp, which decreased 8.2%, or \$0.8 million, from \$10.1 million in 2017 to \$9.3 million in 2018.

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EXPENSES

The following chart reflects the major cost centers as a percentage of operating expenses for the fiscal year ended June 30, 2019:



A summary of expenses (in thousands) for the fiscal years ended June 30, 2019, 2018, and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating expenses:			
Terminal buildings/concessions	\$ 37,372	\$ 34,922	\$ 31,115
Airfield	20,062	20,116	16,776
Parking and roadway	15,837	16,282	16,046
Fuel handling costs	69	58	16
General aviation	2,383	2,438	1,383
General and administrative	25,042	25,118	23,057
Depreciation	49,026	47,486	46,449
Total operating expenses	<u>149,791</u>	<u>146,420</u>	<u>134,842</u>
Nonoperating expenses:			
Participating airline net revenue sharing	13,944	-	-
Interest expense	60,381	61,305	67,440
Bond issuance costs	-	(50)	2,492
Loss on capital assets disposal	271	-	-
Total nonoperating expenses	<u>74,596</u>	<u>61,255</u>	<u>69,932</u>
Special item - rate stabilization fund and ten-year lookback distribution	16,266	-	-
Total expenses	<u>\$ 240,653</u>	<u>\$ 207,675</u>	<u>\$ 204,774</u>

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2019 versus 2018

Operating expenses in 2019 increased 2.3%, or \$3.4 million, from \$146.4 million in 2018 to \$149.8 million in 2019, due to increases experienced in salaries and fringe benefits, overhead costs, higher costs for public safety employees, depreciation expense, and non-personal expenses, partially offset by a decrease in OPEB expense.

Salaries and fringe benefits increased \$2.7 million from \$28.6 million in 2018 to \$31.3 million in 2019 due to the cost of living allowance adjustments and additional staff.

Overhead costs increased \$2.3 million from \$2.8 million in 2018 to \$5.1 million in 2019. Overhead costs were reduced in 2018 partly due to the Municipally-Funded Air Service Incentive Program that is no longer part of the Airline Lease Agreement. In addition, the City overhead rate increased year-over-year.

Costs of public safety personnel increased \$1.8 million from \$14.3 million in 2018 to \$16.1 million in 2019 due to the higher salaries, benefits, and additional staffing as a result of increased passenger activity.

Depreciation expense increased \$1.5 million from \$47.5 million in 2018 to \$49.0 million in 2019 due to an increase in net investment in capital assets.

Non-personal expenses increased \$1.0 million from \$36.0 million in 2018 to \$37.0 million in 2019 due to cost of living adjustments for ongoing agreements and services, augmenting contractual staffing to maintain service levels associated with higher passenger volumes, and utility cost increases.

OPEB expense decreased \$6.2 million due to assumption changes effective at the beginning of the measurement year and benefit changes as a result of Measure F, which decreased the net OPEB liability.

Nonoperating expenses in 2019 increased by \$13.3 million due to the recognition of the participating airline net revenue sharing required by the Airline Lease Agreement. Additional information about the revenue sharing can be found in Note 1 of the financial statements.

The Airport recorded \$16.3 million in 2019 as a special item pertaining to the rate stabilization fund and ten-year lookback distribution. The details of the special item can be found in Note 6 to the financial statements.

2018 versus 2017

Operating expenses in 2018 increased 8.6%, or \$11.6 million, from \$134.8 million in 2017 to \$146.4 million in 2018. Increases were experienced in salaries and fringe benefits, pension expenses, higher costs for public safety employees, non-personal expenses, and depreciation expense.

Salaries and fringe benefits increased \$2.6 million from \$26.0 million in 2017 to \$28.6 million in 2018 due to the cost of living allowance adjustments and additional staff.

Pension expense was \$18.0 million in 2018 compared to pension expense of \$14.0 million in 2017. The increase of \$4.0 million over the prior year was a result of recognizing benefit improvements, experience losses, and assumption changes.

Costs of public safety personnel increased from \$12.2 million in 2017 to \$14.3 million in 2018 due to the higher salaries, benefits and additional staffing as a result of increased passenger activity.

Non-personal expenses increased \$3.1 million from \$32.9 million to \$36.0 million due to cost of living adjustments for ongoing agreements and services, and a new program agreement with the United States Customs and Border Protection (CBP). The agreement reimburses CBP for providing extra coverage to

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process international arriving passengers.

Interest expense in 2018 decreased by 9.1%, or \$6.1 million, compared to 2017, due to the refunding of the 2007 bonds and the amortization of premium related to debt.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

The Airport expended \$86.1 million on both capitalized and noncapitalizable capital activities in fiscal year 2019 and \$24.7 million in 2018. Major capital projects in 2019 included the interim facility, Terminal B expansion ramp, zero emissions buses, network replacement, and airfield electrical circuit rehabilitation. Major capital projects in 2018 included the Terminal B expansion ramp, the perimeter security technology upgrades, construction of gates 29 and 30 in Terminal B, and lighting system upgrade category II approach.

As of June 30, 2019, the Airport was obligated for purchase commitments relating to capital projects of approximately \$9.8 million primarily for the interim facility and airfield electrical circuit rehabilitation. Detailed information about capital assets can be found in Note 3 to the financial statements.

OUTSTANDING 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, 2019 and 2018, the total amount of Subordinated CP Notes outstanding totaled \$52.2 million and \$7.5 million, respectively. During the fiscal year, \$55.0 million of Subordinated CP Notes were issued to the Airport. The Airport paid principal of \$10.3 million and \$18.0 million during each of the fiscal years ended June 30, 2019 and 2018, respectively.

As of June 30, 2019, the Subordinated CP Notes were supported by the \$81.7 million letter of credit (LOC) issued by Bank of America to cover the principal amount of \$75.0 million and interest.

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

Revenue Bonds

As of June 30, 2019 and 2018, the Airport had total outstanding revenue bonds of \$1,158.7 million and \$1,187.6 million, respectively. During the fiscal years ended June 30, 2019, and 2018, the Airport paid principal of \$28.9 million and \$41.9 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. In April 2019, Moody's reaffirmed their rating and stable outlook, and the Fitch and S&P outlooks remain stable.

On September 27, 2019, Fitch Ratings upgraded the ratings for the City's Airport revenue bonds to "A" with a stable rating outlook. Fitch Ratings also upgraded the underlying rating on the bank note associated with the Airport's Subordinated CP Notes (AMT) to "A-" with a stable rating outlook.

AIRLINE RATES AND CHARGES

The Airport entered into an Airline Lease 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

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extend the term for five years through June 30, 2017, which allowed the airlines to continue to conduct operations and occupy leased space through the extended term. In May 2017, the Airline Lease Agreement was further extended for two years until June 30, 2019, with Article 11 amended to remove the Municipally-Funded Air Service Incentive Program, effective July 1, 2017, and other provisions were added as required under federal law and regulations. The Airport entered into a new Airline Lease Agreement (New Agreement) with the various passenger and cargo airlines serving the Airport, effective July 1, 2019.

The key provisions in the Airline Lease Agreement included compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The Airline Lease Agreement also included a revenue sharing provision to evenly divide any net unobligated Airport revenues, after all other obligations are satisfied, between the Airport and the airlines currently operating at the Airport after each fiscal year. If net revenues exceeded the projected levels outlined in the Airport Forecast, identified in the Airline Lease Agreement, then the airlines' share of the difference was deposited into the Rate Stabilization Fund up to a cap of \$9.0 million. Once the Rate Stabilization Fund had been fully funded or in the event that the actual net revenues did not exceed the projected net revenues, the airlines' share of net revenues were 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 \$1.0 million of City's share of any net revenues were retained by the Airport in a discretionary fund to be used for any lawful Airport purpose. The Rate Stabilization Fund was fully funded at \$9.0 million during the fiscal year and the entire balance was distributed among all the Signatory Airlines at the termination of the Airline Lease Agreement in accordance with the terms of the New Agreement.

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

The budgeted rates and charges for the signatory (passenger and cargo) airlines for fiscal years 2019 and 2018 were as follows:

	2019	2018
Landing fee (per 1,000 lbs MGLW)	\$ 2.18	\$ 2.45
Terminal average rental rate (per square foot)	183.78	172.24
Airline cost per enplanement (budgeted)	10.07	10.36

Terminal rental rates and airline landing fees for FY 20 have been developed as part of the annual budget process. Since the prior year terminal true-up and the revenue sharing are no longer rolling into the subsequent year's rates, the budgeted terminal rental rate for FY 20 increased as these amounts will be paid to the airlines if there is any overpayment or will be billed to the airlines if there is an underpayment. The rates and charges for the signatory airlines for FY 20, which became effective July 1, 2019, are as follows:

Landing fee (per 1,000 lbs MGLW)	\$ 2.87
Terminal average rental rates (per square foot)	268.31
Airline cost per enplanement (budgeted)	13.37

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After completion of the year-end closing and annual audit, the FY 19 actual net remaining revenues were \$29.3 million and will be allocated in accordance with the revenue sharing provisions of the Airline Lease Agreement. As noted in the financial statements, the participating airline net revenue sharing portion was \$13.9 million for FY 19.

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 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, 13th Floor, San José, CA, 95113.

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Statements of Net Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Unrestricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	\$ 159,169,837	\$ 149,223,058
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$283,788 in 2019 and \$411,077 in 2018	11,087,452	14,094,901
Accrued interest	1,183,479	1,002,689
Grants	2,325,772	3,783,517
Prepaid expenses, advances, and deposits	103,993	125,530
Total unrestricted assets	173,870,533	168,229,695
Restricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	34,836,277	59,816,733
Investments held by the fiscal agents (Note 2)	133,293,744	102,144,389
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$349 in 2019 and \$15,000 in 2018	4,789,939	4,507,782
Accrued interest	569,959	395,385
Prepaid expenses, advances, and deposits	844	844
Current portion of prepaid bond insurance	93,124	93,124
Total restricted assets	173,583,887	166,958,257
Total current assets	347,454,420	335,187,952
Noncurrent assets:		
Capital assets (Note 3):		
Nondepreciable	96,402,702	97,158,645
Depreciable assets, net of accumulated depreciation	1,208,801,789	1,178,503,228
Total capital assets	1,305,204,491	1,275,661,873
Advances and deposits	1,460,181	2,815,756
Prepaid bond insurance, less current portion	1,941,304	2,034,429
Total noncurrent assets	1,308,605,976	1,280,512,058
Total assets	1,656,060,396	1,615,700,010
Deferred Outflows of Resources		
Deferred outflows of resources:		
Deferred outflows of resources related to pension (Note 7)	18,111,144	27,067,836
Deferred outflows of resources related to OPEB (Note 7)	2,427,063	1,753,603
Loss on refundings of debt	8,127,577	8,615,999
Total deferred outflows of resources	\$ 28,665,784	\$ 37,437,438

See accompanying notes to the financial statements.

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Statements of Net Position
June 30, 2019 and 2018**

	2019	2018
Liabilities		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	\$ 22,994,903	\$ 4,304,074
Accrued salaries, wages, and payroll taxes	1,290,134	1,223,084
Accrued vacation, sick leave, and compensatory time, current (Note 5)	1,842,000	1,739,000
Advances and deposits payable	1,846,845	1,584,263
Unearned revenues	3,826,127	7,340,102
Estimated liability for self-insurance, current (Notes 5 and 9)	633,500	633,500
Accrued interest payable	78,767	1,440
Commercial paper notes payable (Note 4)	52,216,000	7,509,000
Total payable from unrestricted assets	84,728,276	24,334,463
Payable from restricted assets:		
Accounts payable	1,169,431	328,025
Accrued salaries, wages, and payroll taxes	38,894	-
Unearned revenues	95,334	1,459,256
Accrued interest payable	20,739,206	21,195,344
Current portion of bonds payable, net of unamortized discount/premium (Note 5)	34,625,324	32,500,324
Total payable from restricted assets	56,668,189	55,482,949
Total current liabilities	141,396,465	79,817,412
Noncurrent liabilities:		
Bonds payable, less current portion and net of unamortized discount/premium (Note 5)	1,194,783,633	1,229,408,957
Estimated liability for self-insurance, noncurrent (Notes 5 and 9)	1,900,843	2,387,730
Accrued vacation, sick leave, and compensatory time, noncurrent (Note 5)	397,425	589,401
Net pension liability (Note 7)	105,487,247	108,167,076
Net OPEB liability (Note 7)	19,983,200	28,086,340
Total noncurrent liabilities	1,322,552,348	1,368,639,504
Total liabilities	1,463,948,813	1,448,456,916
Deferred Inflows of Resources		
Deferred inflows of resources:		
Deferred inflows of resources related to pension (Note 7)	60,780	127,970
Deferred inflows of resources related to OPEB (Note 7)	3,175,536	30,916
Total deferred inflows of resources	3,236,316	158,886
Net Position		
Net investment in capital assets	126,419,366	100,586,607
Restricted:		
Per Airline Lease Agreement for Airline revenue sharing	16,058,712	18,137,118
Per Master Trust Agreement for rolling debt service coverage	16,645,496	18,511,586
Per Rental Car Agreement	1,000,000	1,000,000
California Government Code Sections 50474.1-50474.3 for Customer Facility Charges	8,068,148	7,350,276
Future debt service (Note 1(j))	20,123,834	17,015,247
Unrestricted	29,225,495	41,920,812
Total net position	\$ 217,541,051	\$ 204,521,646

See accompanying notes to the financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position
Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Airline rates and charges:		
Landing fees	\$ 18,984,453	\$ 19,296,794
Terminal rental	42,814,627	43,476,503
Total airline rates and charges	61,799,080	62,773,297
Terminal buildings/concessions	23,716,743	22,374,869
Airfield	8,340,064	8,026,892
Parking and roadway	64,507,752	59,714,260
Fuel handling fees	2,929,570	3,078,026
General aviation/other	10,772,808	10,096,062
Customer facility charges for transportation costs	2,761,531	2,518,167
Total operating revenues	<u>174,827,548</u>	<u>168,581,573</u>
Operating expenses:		
Terminal buildings/concessions	37,371,223	34,922,052
Airfield	20,062,237	20,115,815
Parking and roadway	15,837,473	16,282,557
Fuel handling costs	69,279	58,567
General aviation	2,383,080	2,437,603
General and administrative	25,041,601	25,117,612
Depreciation	49,026,263	47,486,266
Total operating expenses	<u>149,791,156</u>	<u>146,420,472</u>
Operating income	<u>25,036,392</u>	<u>22,161,101</u>
Nonoperating revenues (expenses):		
Passenger facility charges	29,735,049	27,047,668
Customer facility charges for debt service	18,703,660	18,363,648
Participating airline net revenue sharing (Note 1(i))	(13,943,476)	-
Investment income	9,893,377	2,841,765
Interest expense	(60,380,677)	(61,304,733)
Bond issuance costs	-	50,204
Operating grants	719,852	809,282
Loss on capital assets disposal	(271,269)	-
Other, net	1,045,264	1,213,677
Total nonoperating revenues (expenses), net	<u>(14,498,220)</u>	<u>(10,978,489)</u>
Income before capital contributions	<u>10,538,172</u>	<u>11,182,612</u>
Capital contributions	<u>18,747,529</u>	<u>9,286,900</u>
Special item - rate stabilization fund and ten-year lookback distribution (Note 6)	<u>(16,266,296)</u>	<u>-</u>
Change in net position	<u>13,019,405</u>	<u>20,469,512</u>
Net position - beginning	<u>204,521,646</u>	<u>184,052,134</u>
Net position - ending	<u>\$ 217,541,051</u>	<u>\$ 204,521,646</u>

See accompanying notes to the financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Cash Flows
Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from customers and users	\$ 178,409,023	\$ 168,106,049
Payments to suppliers	(32,827,037)	(42,219,792)
Payments to employees	(32,652,080)	(29,722,896)
Payments for City services	(21,945,655)	(17,841,925)
Payments to airlines	(30,209,772)	-
Claims paid	(140,975)	(234,071)
Other receipts	1,138,389	1,732,868
	<u>61,771,893</u>	<u>79,820,233</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Operating grants	946,223	809,272
	<u>946,223</u>	<u>809,272</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(77,586,215)	(26,609,938)
Principal payments on bonds payable	(28,915,000)	(41,900,000)
Interest paid	(63,837,267)	(62,112,651)
Capital grants	19,978,904	10,535,023
Passenger facility charges received	29,520,735	27,915,427
Customer facility charges received	18,635,818	18,210,812
Bond issuance costs paid	-	(150,000)
Proceeds from commercial paper	55,000,000	-
Principal payments on commercial paper	(10,293,000)	(17,952,000)
Advances on deposits received (paid)	1,355,575	(22,577)
	<u>(56,140,450)</u>	<u>(92,085,904)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities:		
Proceeds from sale and maturities investments	73,994,227	39,290,748
Purchase of investments	(69,510,989)	(39,290,748)
Investment income received	8,658,063	2,971,646
	<u>13,141,301</u>	<u>2,971,646</u>
Net cash provided by investing activities		
Net change in cash and cash equivalents	19,718,967	(8,484,753)
Cash and cash equivalents - beginning	267,520,963	276,005,716
Cash and cash equivalents - ending	<u>\$ 287,239,930</u>	<u>\$ 267,520,963</u>

See accompanying notes to the financial statements.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
Statements of Cash Flows
Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 25,036,392	\$ 22,161,101
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	49,026,263	47,486,266
Special item - rate stabilization fund and ten-year lookback distribution	(16,266,296)	-
Participating airline net revenue sharing	(13,943,476)	-
Other revenues	1,138,389	1,732,868
Decrease (increase) in:		
Accounts receivable	3,007,449	(5,477,693)
Prepaid expenses, advances, and deposits	2,415	(1,701)
Increase (decrease) in:		
Accounts payable and accrued liabilities	18,295,265	(1,143,415)
Advances and deposit payable	262,582	146,591
Unearned revenues	(4,877,897)	5,753,934
Estimated liability for self-insurance	(486,887)	168,561
Net pension liability, deferred outflows/inflows of resources related to pension	6,209,673	9,193,498
Net OPEB liability, deferred outflows/inflows of resources related to OPEB	(5,631,979)	(199,777)
Net cash provided by operating activities	\$ 61,771,893	\$ 79,820,233
Noncash noncapital financing activities:		
Increase (decrease) in operating grants receivable	\$ 226,370	\$ (10)
Noncash capital and related financing activities:		
Increase in accounts payable related to acquisition of capital assets	1,253,935	6,120,083
Decrease in capital grants receivables	1,231,375	1,248,123
Decrease (increase) in fair value of investments held by the Fiscal Agent	(879,950)	518,258
Amortization of bond discount/premium/prepaid bond insurance	3,492,200	6,004,319
Amortization of deferred outflows/inflows of resources related to bond refundings	(488,422)	(963,268)
Loss on disposal of capital assets	(271,272)	-
Reconciliation of cash and cash equivalents to the statements of net position		
Equity in pooled cash and investments held in City Treasury		
Unrestricted	\$ 159,169,837	\$ 149,223,058
Restricted	34,836,277	59,816,733
Investments held by the fiscal agents classified as cash equivalents	93,233,816	58,481,172
Total cash and cash equivalents	\$ 287,239,930	\$ 267,520,963

See accompanying notes to the financial statements.

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Notes to the Financial Statements
June 30, 2019 and 2018

(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).

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

(c) Basis of Accounting and Estimates

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

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

(d) Cash and Investments

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

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

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

(e) Capital Assets

Capital assets are defined as assets with an initial individual cost of more than \$5,000 for general capital assets and \$100,000 for major infrastructure assets, and an estimated useful life in excess of one year. Capital assets are carried at cost, with the exception of donated capital assets, donated works of art and similar items, and capital assets received in a service concession agreement, which are reported at acquisition value. Certain property acquisition costs incurred in accordance with the California Noise Reduction Act have been capitalized in the land account in prior years. The purchase of land included movable structures that had to be removed for the land to be usable for the Airport's purposes.

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

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

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:

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	<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, 2019 and 2018.

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

Effective July 1, 2017, bond issuance costs related to prepaid insurance costs are capitalized and amortized using the straight-line method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the straight-line method. Deferred outflows/inflows of resources from refunding of debt are recognized as a component of interest expense using the straight-line method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

(h) Operating Grants and Capital Contributions

Certain expenditures for Airport capital improvements, Airport safety and security operations, are significantly funded through the Airport Improvement Program (AIP) of the FAA, with certain matching funds provided by the Airport. Funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants awarded by Transportation Security Administration (TSA) to reimburse the Airport for safety and security costs are reported in the statements of revenues, expenses and changes in net position as nonoperating revenues. Grants for capital asset acquisition, facility development, and rehabilitation are reported as capital contributions, after nonoperating revenues and expenses.

(i) Airline Rates and Charge

From July 1, 2007 through June 30, 2019, the City and the Airlines were operating under the Airline Lease Agreement, which included provisions for a true-up of the terminal and airfield cost centers based on the actual results, as well as a revenue sharing provision. The amounts calculated for the terminal and airfield true-ups as well as the revenue sharing credited to the Airlines were rolled into the following year's airline rates and charges calculations. For the New Agreement effective July 1, 2019, rather than rolling the terminal true-up and revenue sharing into subsequent years' rates, the City will: (a) pay these amounts to the Airlines if there is any overpayment; or (b) bill these amounts to the Airlines if there is an underpayment. The Airfield true-up will continue to be rolled into the following years' Airfield rates and charges calculations. In this New Agreement, a provision was added that the FY19 terminal true-up and revenue sharing will follow the new lease terms, resulting in a payment to the Airlines if there is any overpayment or an invoice being sent to the Airlines if there is an underpayment. The Airline portion of the terminal is cost-recovery; therefore the true-up is an adjustment so that the actual terminal rentals paid by the Airlines match the operating costs incurred by the City in that cost center. As a result, the City records the terminal true-up as operating revenues. The revenue sharing provision relates to the Airport cost centers and provides for a split of any net remaining revenues between the City and the Airlines based on the terms provided for in the Airline Lease Agreement and the New Agreement. Since

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the sharing of net revenues is not a cost of providing airport services, the City records the revenue sharing amount as nonoperating expenses.

(j) Passenger Facility Charges

PFC revenues are recorded as nonoperating revenue in the year they are collected by the air carriers from the sale of air travel tickets and remitted to the Airport in accordance with Airport regulations. At June 30, 2019 and 2018, accumulated PFC funds amounted to \$20,123,834 and \$17,015,247, 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 \$27,025,696 and \$24,791,626 from accumulated PFC funds had been designated as Available PFC Revenues for payment of eligible bond debt service in fiscal years ended June 30, 2019 and 2018, respectively.

(k) Customer Facility Charges

CFC revenues are the charges to customers of rental car companies at the Airport in accordance with California Government Code Sections 50474.1-50474.3 to help pay for capital costs and related debt service associated with the ConRAC and certain operating expenses related to the transportation of rental car customers between terminals and the ConRAC. CFC revenues are recorded as operating and nonoperating revenues. Effective July 1, 2016, the Airport started using a portion of CFC revenues to pay for the transportation costs, which is recorded as operating revenue. CFC revenues are recorded as nonoperating revenues to the extent of the annual debt service on the Airport Revenue Bond Series 2011B.

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 \$18,703,660 and \$18,363,648 had been designated as "Other Available Funds" for payment of eligible bond debt service in fiscal years ended June 30, 2019 and 2018, respectively.

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

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

(m) Pensions

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

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(n) Other Postemployment Benefits

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

(o) Net Position

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

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation, deferred outflows and inflows of resources associated with the debt, and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2019 and 2018, the Airport's statements of net position report restricted net position of \$61,896,190 and \$62,014,227, respectively, of which \$28,191,982 and \$24,365,523, respectively, is restricted by enabling legislation.
- Unrestricted Net Position – This category represents the net amount that do not meet the criteria for “restricted” or “net investment in capital assets.”

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

(p) New Pronouncements

During the fiscal year ended June 30, 2019, the Airport implemented the following accounting standards:

- In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, and requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. Application of Statement No. 83 did not have any effect on the Airport's financial statements.
- In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The requirements of this statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources

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to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The application of Statement No. 88 had an impact on the reporting relating to its Subordinated CP Notes and Long-Term Obligations. The Airport updated Note 4 and Note 5 to include additional disclosures.

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

- In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments and describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Application of Statement No. 84 is effective for the Airport's fiscal year ending June 30, 2020.
- In June 2017, the GASB issued Statement No. 87, *Leases*. This statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. GASB Statement No. 87 is effective for the Airport's fiscal year ending June 30, 2021.
- In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for business-type activities and enterprise funds. GASB Statement No. 89 is effective for the Airport's fiscal year ending June 30, 2021.
- In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*, to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. GASB Statement No. 90 is effective for the Airport's fiscal year ending June 30, 2020.
- In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The requirements of this statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in

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practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. GASB Statement No. 91 is effective for the Airport's fiscal year ending June 30, 2022.

(2) Cash and Investments

The City Council adopted an investment policy (Investment Policy) on April 2, 1985 related to the City's cash and investment pool, which is subject to annual review and was reviewed and amended on March 19, 2019. The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Investment Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable 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 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, 2019 and 2018, the Airport's share of the City's cash and investment pool totaled \$194,006,114 and \$209,039,791, 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, 2019 CAFR. A copy of that report may be obtained by visiting the City's website at www.sanjoseca.gov or by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113.

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 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, 2019 and 2018, restricted investments held by the fiscal agents totaled \$133,293,744 and \$102,144,389, 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 agents.

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

As of June 30, 2019, the Airport's investments in LAIF held by the Fiscal Agent was \$57,525,693. The weighted average maturity of LAIF at June 30, 2019 was 173 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2019 was approximately \$24.6 billion. The total amount recorded by all public agencies in PMIA at June 30, 2019 was approximately \$105.7 billion and, of that amount, 70.72% was invested in U.S. Treasuries and agencies, 22.15% in depository securities, 6.37% in commercial paper, 0.74% in loans, and 0.02% in mortgages.

As of June 30, 2018, the Airport's investments in LAIF held by the Fiscal Agent was \$56,712,725. The weighted average maturity of LAIF at June 30, 2018 was 193 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2018 was approximately \$22.5 billion. The total amount recorded by all public agencies in PMIA at June 30, 2018 was approximately \$88.8 billion and of that amount, 66.37% was invested in U.S. Treasuries and agencies, 24.33% in depository securities, 8.44% in commercial paper, 0.83% in loans, and 0.03% in mortgages.

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

In practice, the City purchases a combination of shorter-term and longer-term investments and times the cash flows to meet liquidity needs for operations. The average maturity of the City's pooled cash and investments at June 30, 2019, and June 30, 2018, was approximately 661 days, and 520 days, respectively.

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

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

The following schedule indicates the interest rate risk and credit risk of the investments held by the fiscal agents, by category and maturity, as of June 30, 2019 and 2018. The credit ratings listed are for Moody's and S&P, respectively.

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<u>Type of Investments:</u>	<u>Credit Rating</u>	<u>Maturities</u>				<u>Carrying Value</u>
		<u>Under 30 Days</u>	<u>31-180 Days</u>	<u>181-365 Days</u>	<u>1-5 Years</u>	
<u>Investments held by the fiscal agents</u>						
Federated Treasury Obligations Fund	Aaa-mf/AAAm	\$ 311,862	\$ -	\$ -	\$ -	\$ 311,862
Federal National Mortgage Association	Aaa/AA+	-	-	-	5,499,438	5,499,438
Federal Agricultural Mortgage	Aaa/AA+	5,394,546	-	-	-	5,394,546
Federal Farm Credit Bank	Aaa/AA+	-	-	-	782,301	782,301
Federal Home Loan Bank ⁽¹⁾	Aaa/AA+	-	-	-	26,686,169	26,686,169
US Treasury ⁽¹⁾	Aaa/AA+	-	-	-	7,092,020	7,092,020
California Local Agency Investment Fund	Not rated	-	57,525,693	-	-	57,525,693
Money Market Mutual Fund ⁽¹⁾	Aaa-mf/AAAm	30,001,715	-	-	-	30,001,715
		<u>\$ 35,708,123</u>	<u>\$ 57,525,693</u>	<u>\$ -</u>	<u>\$ 40,059,928</u>	<u>\$ 133,293,744</u>

As of June 30, 2018

<u>Type of Investments:</u>	<u>Credit Rating</u>	<u>Maturities</u>				<u>Carrying Value</u>
		<u>Under 30 Days</u>	<u>31-180 Days</u>	<u>181-365 Days</u>	<u>1-5 Years</u>	
<u>Investments held by the fiscal agents</u>						
Federated Treasury Obligations Fund	Aaa-mf/AAAm	\$ 1,768,454	\$ -	\$ -	\$ -	\$ 1,768,454
Federal Agricultural Mortgage ⁽¹⁾	Aaa/AA+	5,396,058	-	-	5,317,434	10,713,492
Federal Farm Credit Bank ⁽¹⁾	Not rated	6,999,370	-	-	-	6,999,370
Federal Home Loan Bank ⁽¹⁾	Aaa/AA+	-	-	6,893,880	19,056,468	25,950,348
California Local Agency Investment Fund	Not rated	-	-	56,712,725	-	56,712,725
		<u>\$ 14,163,882</u>	<u>\$ -</u>	<u>\$ 63,606,605</u>	<u>\$ 24,373,902</u>	<u>\$ 102,144,389</u>

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

Fair Value Measurement Categorization. The Airport categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The Airport has the following recurring fair value measurements as of June 30, 2019 and June 30, 2018:

<u>Investments by Fair Value Level</u>	<u>Carrying Value at June 30, 2019</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Investments held by the fiscal agents:</u>				
<u>Investments by fair value level</u>				
Federated Treasury Obligations Fund	\$ 311,862	\$ -	\$ 311,862	\$ -
Federal National Mortgage Association	5,499,438	-	5,499,438	-
Federal Agricultural Mortgage	5,394,546	-	5,394,546	-
Federal Farm Credit Bank	782,301	-	782,301	-
Federal Home Loan Bank	26,686,169	-	26,686,169	-
US Treasury	7,092,020	-	7,092,020	-
Total investments by fair value level	<u>45,766,336</u>	<u>-</u>	<u>45,766,336</u>	<u>-</u>
<u>Investments not subject to the fair value hierarchy:</u>				
California Local Agency Investment Fund	57,525,693	-	-	-
Money Market Mutual Fund	30,001,715	-	-	-
Total investments	<u>87,527,408</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments held by the fiscal agents	<u>\$ 133,293,744</u>	<u>\$ -</u>	<u>\$ 45,766,337</u>	<u>\$ -</u>

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	<u>Fair Value Measurements Using</u>			
	<u>Carrying</u> <u>Value at</u> <u>June 30, 2018</u>	<u>Quoted</u> <u>Prices in</u> <u>Active</u> <u>Markets for</u> <u>Identical</u> <u>Assets</u> <u>(Level 1)</u>	<u>Significant</u> <u>Observable</u> <u>Inputs</u> <u>(Level 2)</u>	<u>Significant</u> <u>Unobservable</u> <u>Inputs</u> <u>(Level 3)</u>
Investments by Fair Value Level				
Investments held by the fiscal agents:				
Investments by fair value level				
Federated Treasury Obligations Fund	\$ 1,768,454	-	\$ 1,768,454	-
Federal Agricultural Mortgage	10,713,492	-	10,713,492	-
Federal Farm Credit Bank	6,999,370	-	6,999,370	-
Federal Home Loan Bank	25,950,348	-	25,950,348	-
Total investments by fair value level	45,431,664	-	45,431,664	-
Investments not subject to the fair value hierarchy:				
California Local Agency Investment Fund	56,712,725	-	-	-
Total investments	56,712,725	-	-	-
Total investments held by the fiscal agents	<u>\$ 102,144,389</u>	<u>\$ -</u>	<u>\$ 45,431,664</u>	<u>\$ -</u>

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

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

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(4) Commercial Paper Notes Payable

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

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

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

On September 12, 2018, the City substituted the LOC supporting the Subordinated CP Notes issued by Barclays with a LOC issued by Bank of America, N.A (BofA) and the Barclays Reimbursement Agreement and associated fee letter and LOC were terminated. Pursuant to a LOC and Reimbursement Agreement between the City and BofA (BofA Reimbursement Agreement), BofA issued its irrevocable transferrable LOC in the initial stated amount of \$81.7 million (to cover principal of \$75.0 million and interest on the Subordinated CP Notes accruing calculated at a rate of 12% for 270 days based on a 365 day year) that is scheduled to expire on September 10, 2021 unless sooner terminated or extended pursuant to its terms. The \$75.0 million principal amount of the LOC was secured in order to provide additional capacity for the issuance of the Subordinated CP Notes to finance proposed terminal area projects.

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

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

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

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

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

In connection with the LOC issued by Barclays and BofA, the City entered into a fee letter with each bank to specify the facility fee rate and other charges payable by the Airport with respect to the respective LOCs. The facility fee rate under each fee letter was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to the stated amount of the associated LOC. The facility fee rate is subject to increase in the event that the underlying credit rating of the Airport Revenue Bonds is withdrawn, suspended, or downgraded or upon an event of default under the respective Reimbursement Agreements. The facility fee rates in effect were 0.35% and 0.425% as of June 30, 2019 and 2018.

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The change in Subordinated CP Notes payable during FY 19 and FY 18 were as shown in the table below. The principal amount available under the LOC issued by BofA as of June 30, 2019 is \$22.8 million.

	2019	2018
Beginning balance	\$ 7,509,000	\$ 25,461,000
Additional Issuance	55,000,000	-
Paid	(10,293,000)	(17,952,000)
Ending balance	\$ 52,216,000	\$ 7,509,000

Balances of Subordinated CP Notes payable as of June 30, 2019 and 2018 were as follows:

As of June 30, 2019

Series B Subordinated CP Notes of \$37,216,000 with an interest rate of 1.45% and \$15,000,000 with an interest rate of 1.54% both maturing on August 14, 2019	<u>\$ 52,216,000</u>
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As of June 30, 2018

Series A-2 Subordinated CP Notes that matured on July 24, 2018 were issued with an interest rate of 1.4%	<u>\$ 7,509,000</u>
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Although the Subordinated CP Notes have short-term maturities, the Airport's intent was to roll the outstanding balance over a long-term basis based on the assumption that the outstanding Subordinated CP Notes will be paid down on an 8-year amortization period with the first principal payments paid in FY 19. However, the Airport is monitoring the changes in interest rates and paying down the Subordinated CP Notes as cash flow permits.

(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 (as defined in the Master Trust Agreement) and certain other funds held or made available under the Master Trust Agreement, first to the payment of Maintenance and Operation Costs of the Enterprise (as defined in the Master Trust Agreement), and second to the payment of principal of and premium, if any, and interest on the bonds. General Airport Revenues generally include all revenues, income, receipts, and moneys derived by the City from the operation of the Airport with the exception of certain expressly excluded revenues.

The net revenues available to pay Debt Service (as defined in the Master Trust Agreement) in fiscal year ended June 30, 2019 totaled \$151,368,496, which is composed of \$88,622,987 of Net General Airport Revenues (as defined in the Master Trust Agreement) and \$62,745,509 of Other Available Funds (as defined in the Master Trust Agreement). Other Available Funds include surplus carryover of \$25,530,263, rolling debt service coverage of \$18,511,586, and CFC Revenues of \$18,703,660. The bond Debt Service paid from the General Airport Revenues and Other Available Funds amounted to \$65,475,337, which is net of \$27,025,696 of bond Debt Service paid from the accumulated PFC funds.

The Airport reported net revenues available to pay Debt Service in fiscal year ended June 30, 2018 of \$166,435,205, which was composed of \$88,278,098 of Net General Airport Revenues and \$78,157,107

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of Other Available Funds. Other Available Funds include surplus carryover of \$34,043,370, rolling debt service coverage of \$18,338,714, CFC Revenues of \$18,363,648, and \$7,411,375 released from the 2007 Reserve Account upon the repayment of the final maturity of the Series 2007 Bonds on March 1, 2018. The bond Debt Service paid from the General Airport Revenues and Other Available Funds amounted to \$78,973,891, which is net of \$24,791,626 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 certain Other Available Funds held or made available under 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 \$2,135,084,028, with the final payment due on March 1, 2047.

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

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Balances of Bonds payable as of June 30, 2019 and 2018 were as follows:

	2019	2018
2017B Series Airport Revenue Bonds of \$150,675,000 with interest rates of 4.0% to 5.0%; payable in annual installments ranging from \$1,275,000 to \$11,180,000 with the final installment due in March 2047	\$ 142,595,000	\$ 146,170,000
2017A Series Airport Revenue Bonds of \$473,595,000 with interest rates of 4.0% to 5.0%; payable in annual installments ranging from \$4,005,000 to \$35,145,000 with the final installment due in March 2047	448,205,000	459,450,000
2014C Series Airport Revenue Bonds of \$40,285,000 with interest rates of 3.6% to 5.0%; payable in five annual installments ranging from \$7,295,000 to \$8,860,000 with the first installment in March 2027 and the final installment due in March 2031	40,285,000	40,285,000
2014B Series Airport Revenue Bonds of \$28,010,000 with interest rates of 3.1% to 5.0%; payable in three annual installments of \$7,975,000, \$9,665,000, and \$10,370,000 in March 2026, March 2027, and March 2028, respectively	28,010,000	28,010,000
2014A Series Airport Revenue Bonds of \$57,350,000 with interest rates of 3.2% to 5.0%; payable in annual installments ranging from \$140,000 to \$9,175,000 with the final installment due March 2026	49,155,000	56,040,000
2011B Series Airport Revenue Bonds of \$271,820,000 with interest rates of 4.1% to 6.8%; payable in annual installments ranging from \$2,390,000 to \$27,330,000 with the final installment due in March 2041	258,150,000	260,095,000
2011A-2 Series Airport Revenue Bonds of \$86,380,000 with interest rates of 4.0% to 5.3%; payable in annual installments ranging from \$2,005,000 to \$12,220,000 with the final installments due in March 2034	70,230,000	72,140,000
2011A-1 Series Airport Revenue Bonds of \$150,405,000 with interest rates of 5.0% to 6.3%; payable in annual installments ranging from \$3,525,000 to \$21,115,000 with the final installment due in March 2034	122,100,000	125,455,000
Total Bonds payable	\$ 1,158,730,000	\$ 1,187,645,000

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Bonds outstanding and related activities for the fiscal years ended June 30, 2019 and 2018, were as follows:

	Balance at July 1, 2018	Additions	Retirements	Balance at June 30, 2019	Amounts Due Within One Year
2017B Series	\$ 146,170,000	\$ -	\$ 3,575,000	\$ 142,595,000	\$ 3,890,000
2017A Series	459,450,000	-	11,245,000	448,205,000	12,210,000
2014C Series	40,285,000	-	-	40,285,000	-
2014B Series	28,010,000	-	-	28,010,000	-
2014A Series	56,040,000	-	6,885,000	49,155,000	7,020,000
2011B Series	260,095,000	-	1,945,000	258,150,000	2,390,000
2011A-2 Series	72,140,000	-	1,910,000	70,230,000	2,005,000
2011A-1 Series	125,455,000	-	3,355,000	122,100,000	3,525,000
Total long-term debt	1,187,645,000	-	28,915,000	1,158,730,000	31,040,000
Add unamortized					
Premium:	79,547,785	-	3,818,420	75,729,365	3,818,420
Less unamortized					
Discount:	5,283,504	-	233,096	5,050,408	233,096
Total long-term debt, net	<u>\$ 1,261,909,281</u>	<u>\$ -</u>	<u>\$ 32,500,324</u>	<u>\$ 1,229,408,957</u>	<u>\$ 34,625,324</u>

	Balance at July 1, 2017	Additions	Retirements	Balance at June 30, 2018	Amounts Due Within One Year
2017B Series	\$ 150,675,000	\$ -	\$ 4,505,000	\$ 146,170,000	\$ 3,575,000
2017A Series	473,595,000	-	14,145,000	459,450,000	11,245,000
2014C Series	40,285,000	-	-	40,285,000	-
2014B Series	28,010,000	-	-	28,010,000	-
2014A Series	56,090,000	-	50,000	56,040,000	6,885,000
2012A Series	8,585,000	-	8,585,000	-	-
2011B Series	261,635,000	-	1,540,000	260,095,000	1,945,000
2011A-2 Series	74,340,000	-	2,200,000	72,140,000	1,910,000
2011A-1 Series	129,305,000	-	3,850,000	125,455,000	3,355,000
2007A Series	7,025,000	-	7,025,000	-	-
Total long-term debt	1,229,545,000	-	41,900,000	1,187,645,000	28,915,000
Add unamortized:					
Premium	87,351,422	-	7,803,637	79,547,785	3,818,420
Less unamortized:					
Discount	6,563,626	-	1,280,122	5,283,504	233,096
Total long-term debt, net	<u>\$ 1,310,332,796</u>	<u>\$ -</u>	<u>\$ 48,423,515</u>	<u>\$ 1,261,909,281</u>	<u>\$ 32,500,324</u>

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Scheduled maturities of outstanding Bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2020	\$ 31,040,000	\$ 62,217,617
2021	33,205,000	60,701,680
2022	34,975,000	59,035,020
2023	24,630,000	57,295,803
2024-2028	143,635,000	265,848,683
2029-2033	227,505,000	219,475,610
2034-2038	241,655,000	150,669,622
2039-2043	249,600,000	79,023,993
2044-2047	172,485,000	22,086,000
	<u>\$ 1,158,730,000</u>	<u>\$ 976,354,028</u>

A number of limitations and restrictions are imposed upon the Airport by covenants relating to certain outstanding Bonds. As of June 30, 2019 and 2018, the Airport believes it is in compliance with all such limitations and restrictions, for which non-compliance would adversely affect its ability to pay debt service.

Other long-term liability activities for the fiscal years ended June 30, 2019 and 2018 were as follows:

	Balance at July 1, 2018	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2019	Amounts Due Within One Year
Self-insurance	\$ 3,021,230	\$ (345,912)	\$ (140,975)	\$ 2,534,343	\$ 633,500
Accrued vacation, sick leave and compensatory time	2,328,401	1,502,670	(1,591,646)	2,239,425	1,842,000
Total	<u>\$ 5,349,631</u>	<u>\$ 1,156,758</u>	<u>\$ (1,732,621)</u>	<u>\$ 4,773,768</u>	<u>\$ 2,475,500</u>

	Balance at July 1, 2017	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2018	Amounts Due Within One Year
Self-insurance	\$ 2,852,669	\$ 402,632	\$ (234,071)	\$ 3,021,230	\$ 633,500
Accrued vacation, sick leave and compensatory time	2,197,669	1,458,254	(1,327,522)	2,328,401	1,739,000
Total	<u>\$ 5,050,338</u>	<u>\$ 1,860,886</u>	<u>\$ (1,561,593)</u>	<u>\$ 5,349,631</u>	<u>\$ 2,372,500</u>

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(6) Lease and Agreements

The City entered into an Airline Lease 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. On May 23, 2017, the City Council authorized the Director of Aviation, or Interim Director of Aviation, as applicable, to extend the term for two years through June 30, 2019, which allowed the airlines to continue to conduct operations and occupy leased space through the extended term. The rates and charges structure remained unchanged through the extended term. The City entered into a new Airline Lease Agreement (New Agreement) with the various passenger and cargo airlines serving the Airport, effective July 1, 2019. The New Agreement has an initial term of ten years and is set to expire on June 30, 2029. The term of this New Agreement may be extended for two consecutive five-year renewal periods by the mutual written agreement of the airlines and the City.

The Airline Lease Agreement in effect through June 30, 2019 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 in effect through June 30, 2019 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 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 Agreement.

The key provisions in the Airline Lease Agreement in effect through June 30, 2019 include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The terminal rate per square foot is calculated based on expenses allocable to the Terminal for each fiscal year divided by the total amount of rentable terminal space. Should there be any remaining net revenues after all other obligations are satisfied, the airline's share of the remaining net revenues shall be applied as a credit to the airline terminal rate for the following fiscal year, thus reducing the rates, or distributed as a refund once a final accounting of the Airport's operations for the last fiscal year of the Airline Lease Agreement has been completed. The landing fee rate is calculated by dividing the expenses allocable to the airfield, offset by airfield revenues, other than landing fees, by the projected aggregated maximum gross landed weight for all aircraft carrying passengers or cargo in commercial service at the Airport during the fiscal

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year.

For the fiscal years ended June 30, 2019 and 2018, the Airport's revenues as defined in its lease agreements exceeded its expenditures and reserve requirements by \$16,371,553 and \$25,530,263, respectively. The surplus for the fiscal year ended June 30, 2019 will be divided 50/50 between the Airport and all airlines in accordance with the revenue sharing provisions of the Airline Lease Agreement. The surplus for the fiscal year ended June 30, 2018 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 constructed a full-service, fixed-based facility on approximately 29 acres of the Airport's west side (Original Master Leasehold Parcel). The term of the agreement is for 50 years from December 12, 2013 to December 11, 2063. On July 2, 2018, the City entered into the first amendment to the ground lease and operating agreement by adding a new parcel of land containing approximately 4 acres (Additional Premises) bringing the total lease to approximately 33 acres. The base ground rental is subject to a consumer price index adjustment annually and by appraisal every five years. The annual base ground rental rate as of June 30, 2019 is \$2.36 per square foot for the Original Master Leasehold Parcel and an interim rate of \$1.18 per square foot for the Additional Premises. Rental revenues from the ground lease with Signature were \$3,237,473 and \$3,009,259 for the fiscal years ended June 30, 2019, and 2018, 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, 2019, the remaining terms of these operating leases range from one month to 19 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 \$99,708,486 and \$93,172,399 for the fiscal years ended June 30, 2019 and 2018, respectively.

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

<u>Fiscal Year Ending June 30,</u>	
2020	\$ 115,563,185
2021	97,690,231
2022	97,037,405
2023	95,957,540
2024	95,002,356
2025-2029	443,970,650
2030-2034	56,986,980
2035-2039	56,907,864
2040-2044	38,197,998
2045-2049	46,410,614
2050-2054	56,388,954
2055-2059	68,512,649
2060-2064	<u>73,888,675</u>
Total minimum lease rentals	<u>\$ 1,342,515,101</u>

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

As of June 30, 2019, and 2018, assets leased to tenants had total historical costs of \$1,091,338,819 and \$1,046,515,754 and accumulated depreciation of \$277,498,798 and \$252,262,252, 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 LOC, surety bond, cashier's check or other form acceptable to the Director of Aviation. The Director of Aviation has the authority to revise the amount of security deposit at any time to protect the interests of the City. Each deposit must be maintained in full force and effect during the entire term of the agreement to ensure faithful performance by the other party of all the covenants, terms and conditions of the agreement. Security deposits in the form of cashier's checks are recorded as advances and deposits payable on the accompanying statements of net position. The Airport maintains on file copies of all security deposits, in the form of LOC or surety bond, which are not recorded in the financial statements. The amount on file as of June 30, 2019 and 2018 totaled \$34,539,983 and \$34,906,336, respectively.

Rate Stabilization Fund and Ten-Year Lookback Distribution – The Rate Stabilization Fund is a fund of up to \$9.0 million that is maintained by the City to facilitate the deposit and collection of moneys from the rates and charges of users of the Airport in the amounts and at the times needed to satisfy the financial requirements and contractual obligations of the Airport and to insure the City's ability to meet its obligations under the Master Trust. Moneys in the Rate Stabilization Fund also may be applied by the City in order to facilitate administration of revenue sharing or rate stabilization provisions of contractual agreements with airlines or other tenants of the Airport. Once the Rate Stabilization Fund reaches a balance of \$9.0 million, the City shall not deposit any additional sums into this fund until the balance falls below \$9.0 million. Under the terms of the New Agreement, if certain conditions are met, the City shall distribute the entire balance remaining in the Rate Stabilization Fund under Section 9.11 of the Airline Lease Agreement in effect through June 30, 2019 among all the Signatory Airlines under the Airline Lease Agreement in the proportion to each airline's share, if any, of enplaned passengers for all Signatory Airlines for FY 15.

Under the terms of the New Agreement, the City shall also distribute any overpayment of terminal rents by the airlines. The overpayment of terminal rents by the passenger airlines resulted from the City's annual calculation of terminal rents in a manner that was not consistent with the terms of the Airline Lease Agreement between the passenger airlines and the City. Specifically, from fiscal year 2008 to the fiscal year ended June 30, 2017, the City did not include the City office and administrative space at the terminals that should have been counted as "Rentable Terminal Space" under the terms of the Airline Lease Agreement for the purpose of calculating terminal rents to be charged to the passenger airlines.

All of the eligible airlines met the conditions for distribution by the June 30, 2019 deadline and the corresponding \$16,266,296 expense from the Rate Stabilization Fund and overpayment of terminal rents by the airlines was recorded as a Special Item in the accompanying financial statements because it is infrequent in occurrence. In addition, the cash reserves for this payout were established under the Airport Lease Agreement and management made a decision to release the reserves as a result of airline lease negotiations for the New Agreement.

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(7) Retirement Systems

(a) General Information

The City sponsors and administers two single employer defined benefit retirement systems, PFDRP and FCERS, and collectively, the Retirement Systems, which with the exception of certain unrepresented employees together cover all full-time and certain part-time employees of the City. The Retirement Systems provide general retirement benefits under a single employer Defined Benefit Pension Plans, as well as the Postemployment Healthcare Plans. 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 401(a) plan that excludes participation in retiree healthcare or become a Tier 2 member in the FCERS; to be eligible, an employee must not have previously been a member the Retirement Systems.

All full-time and certain part-time employees of the Airport participate in the FCERS unless they opted to participate in the defined contribution plan. The Airport pays a pro rata fee to the City for airport firefighting and police services that includes contributions paid to PFDRP for pension and OPEB expenses. More detailed information about the PFDRP is provided in Section IV of the Notes to the Basic Financial Statements in the City's June 30, 2019 CAFR, and is not included herein because the PFDRP liability is not material to the financial statements. The Airport presents the related defined benefit disclosures as a participant in a cost-sharing arrangement with the City.

The Retirement Systems are administered by the Chief Executive Officer of the Office of Retirement Services, an employee of the City, who serves at the pleasure of the Boards of Administration for the Retirement Systems. The separately issued annual reports of PFDRP and FCERS, together with various chapters in Title 3 of the City's Municipal Code, provide more detailed information about the Retirement Systems. Those reports may be obtained from the City of San José Office of Retirement Services, 1737 North First Street, Suite 600, San José, California 95112.

(b) Benefits Provided

The Retirement Systems' 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. This subsection provides information related to benefits provided by FCERS. See Section IV of the Notes to the Basic Financial Statements in the City's June 30, 2019 CAFR for information about benefits provided by PFDRP.

On June 5, 2012, San José voters adopted Measure B, which enacted the Sustainable Retirement Benefits and Compensation Act (Measure B). Measure B amended the City Charter to, 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 FCERS; (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 FCERS Plan; and (8) reserve to the voters the right to approve future changes to retirement benefits. Measure B has subsequently been the subject of various forms of litigation and the City Council directed the City Administration to settle the litigation with the City's various bargaining units. The legal challenges to Measure B are resolved.

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The settlement of legal challenges brought by or on behalf of the City's active employees is discussed below.

On December 15, 2015 and January 12, 2016, the City and the bargaining units representing employees in the FCERS reached a settlement agreement on the Federated Alternative Pension Reform Settlement Framework (Federated Framework). The terms of the Federated Framework also applied to unrepresented employees, including unrepresented management and executive employees in Unit 99.

The Federated Framework includes among other things, revised Tier 2 pension benefits that include increased pension benefits for Tier 2 employees while preserving the 50/50 cost sharing between the City and Tier 2 employees; closing the defined benefit retiree healthcare benefit to new employees, as well as agreement on a new lowest cost medical plan associated with retiree healthcare; allowing Tier 1 and some Tier 2 employees to opt out of the applicable Postemployment Healthcare Plan to a Voluntary Employee Benefit Association (VEBA) for retiree healthcare subject to legal and Internal Revenue Service approval (which has since been received); allowing Tier 1 employees who terminated employment with the City and either subsequently returned or who return in the future to return as Tier 1 employees; and continuing the elimination of the Supplemental Retiree Benefit Reserve (SRBR). The Federated Framework also included an agreement that a ballot measure would be placed on the November 8, 2016 election for the voters to replace Measure B as described below. On November 8, 2016, the voters approved the Alternative Pension Reform Act known as Measure F. Measure F included, among other things, prohibiting any enhancements to defined retirement benefits without voter approval; codifying the Tier 2 pension benefit; closing the defined benefit retiree healthcare plan; and prohibiting retroactive defined retirement benefit enhancements.

The specific terms of FCERS are set forth in the Municipal Code. FCERS has different benefit Tiers. Prior to June 18, 2017, FCERS had Tier 1, Tier 2, Tier 2B, and Tier 2C. Tier 2, Tier 2B, and Tier 2C had the same reduced pension benefits as compared to Tier 1. Tier 2 had the same retiree healthcare (medical and dental) benefits as Tier 1. Tier 2B originally consisted of employees who were newly hired or rehired on or after September 27, 2013 and were not eligible for the defined benefit; however, the City was responsible for the contributions that both the City and the Tier 2B members would have otherwise paid for retiree healthcare had those employees been eligible. Tier 2C had retiree dental benefits but no retiree medical benefits.

Subsequent ordinances amending the Municipal Code implementing the terms of Measure F and the Federated Framework have since been adopted by the City Council and the changes described below became effective on June 18, 2017, which was the commencement date of the first pay period of FY 18. As implementation issues arise, minor modifications are being made to the provisions of FCERS in the Municipal Code to address these issues.

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The payroll for Airport employees covered by the FCERS for the fiscal years ended June 30, 2019 and 2018 was \$16,189,970 and \$15,335,023, respectively. The Airport's total payroll for the fiscal years ended June 30, 2019 and 2018 was \$20,872,191 and \$17,880,280, respectively.

Effective June 18, 2017, the FCERS has several Tiers as follows:

Tier	Hire Date	Pension	Defined Benefit Retiree Healthcare (Medical/Dental)
Tier 1	- On or before September 29, 2012 - Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions ⁽¹⁾	Tier 1	Medical/Dental ⁽²⁾⁽⁴⁾
Tier 1 Rehire	- Former Tier 1 rehired on or after September 30, 2012 through June 17, 2018 ⁽¹⁾	Tier 1	Medical/Dental ⁽²⁾⁽⁴⁾⁽⁵⁾
Tier 1 Classic	- "Classic" membership with CalPERS/reciprocal agency hired on or after September 27, 2013 ⁽⁶⁾	Tier 1	Not eligible ⁽³⁾⁽⁴⁾
Tier 2 (or Tier 2A)	- Hired/rehired/reinstated on or after September 30, 2012	Tier 2	Medical/Dental ⁽²⁾⁽⁴⁾
Tier 2B	- Hired/rehired/reinstated after September 27, 2013 and have not met City's eligibility for retiree healthcare	Tier 2	Not eligible ⁽³⁾⁽⁴⁾

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

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

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

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

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

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

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

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

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	Tier 1⁽¹⁾	Tier 1 Classic⁽²⁾	Tier 2A⁽³⁾	Tier 2B⁽⁴⁾
Disability Retirement (Non-Service Connected)				
Minimum Service	5 years		5 Years Federated City Service	
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation.) If under 55 years old, subtract 0.5% for every year under age 55.		2.0% x Years of Federated City Service x Final Compensation	
	For those entering the System 9/1/98 or later, the calculation is as follows: 20% of Final Compensation for up to 6 years of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of service. (Maximum 75% of Final Compensation)		(Minimum of 20% and maximum of 70% of Final Compensation)	
Reciprocity				
Reciprocity	As of December 9, 1994, FCERS adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between this retirement system and CalPERS or certain other public agency retirement systems that also have reciprocal agreements with CalPERS. Final eligibility for reciprocity is determined at the time of retirement.			
Cost of Living Adjustments				
Cost of Living Adjustments	Retirees are eligible for a 3% annual cost of living adjustment (COLA). Regular COLAs are compounded and paid each April. There is no prorating of COLA.		Retirees are eligible for annual COLA limited to the lesser of the increase in the Consumer Price Index (San Jose - San Francisco - Oakland, U.S. Bureau of Labor Statistics index, CPIU, December to December), or a back loaded 2% COLA per fiscal year. The back loaded COLA shall be calculated as follows:	
			i. Service at retirement of 1-10 years: 1.25% per year	
			ii. Service at retirement of 1-10 years and hired before June 16, 2017: 1.5%	
			iii. Service at retirement of 11-20 years: 1.5% per year	
			iv. Service at retirement of 21-25 years: 1.75% per year	
			v. Service at retirement of 26 years and above: 2.0% per year	
			The first COLA will be prorated based on the number of months retired.	

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

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

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

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

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The following table summarizes the survivorship pension and health benefits for the FCERS members. Please consult the Municipal Code for complete information.

Tier 1 and Tier 1 Classic

Death Before Retirement

Nonservice-Connected Death with less than 5 years of service	Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (Benefit may not exceed 50% of the salary earned in year prior to death.)
Greater than 5 years of service or Service-Connected Death	To surviving spouse/domestic partner: Years of Service x 2.5% of Final Compensation (40% minimum, 75% maximum, except that "deferred vested" members not eligible for 40% minimum) If no surviving spouse/domestic partner, to surviving children: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance If no surviving spouse/domestic partner or surviving children: Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (Benefit may not exceed 50% of the salary earned in year prior to death)

Death After Retirement

Standard allowance to surviving spouse/domestic partner or children (Minimum 5 years of service)	To surviving spouse/domestic partner: 50% of Retiree's Allowance If no surviving spouse/domestic partner, to surviving children: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance If no surviving spouse/domestic partner or surviving children: Estate or beneficiary will receive the difference between employee contributions (including interest) and the total paid to member by the retirement system at the time of death.
Optional Settlements	Retiree may choose an optional settlement at retirement that reduces the allowance to provide a survivorship allowance to a designated beneficiary or a higher survivorship allowance to their spouse/domestic partner.
Special Death Benefit	\$500 death benefit paid to estate or designated beneficiary in addition to benefits above.

Notes: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. For members who were at least 55 and had at least 20 years of service at the time of death, or 30 years of service regardless of age, the survivorship allowance to surviving spouse/domestic partner lasts until death. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

If there is an allowance payable to a surviving spouse/domestic partner, no allowance will be paid to surviving children. Surviving children receive a monthly survivorship allowance only when there is no surviving spouse/domestic partner.

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Tier 2A and 2B

Death Before Retirement

Nonservice-Connected Death Not Eligible for Retirement Return of employee contributions, plus interest.

Eligible for Retirement To surviving spouse/domestic partner:
2.0% x Years of Federated Service x Final Compensation (70% max)

If no surviving spouse/domestic partner, to surviving children until age 18:
1 Child: 25% of spousal/domestic partnership allowance
2 Children: 50% of spousal/domestic partnership allowance
3 Children: 75% of spousal/domestic partnership allowance

If no surviving spouse/domestic partner or surviving children: Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50% of the salary earned in year prior to death.)

Employees killed in line of duty -
To surviving spouse/domestic partner:
Monthly benefit equivalent to 50% of Final Compensation

Death After Retirement

Survivorship allowance to surviving spouse/domestic partner or children that was elected by the member at retirement
(Minimum 5 years of service) To surviving spouse/domestic partner:
50% of Retiree's Allowance

If no surviving spouse/domestic partner, to surviving children until age 18:
1 Child: 25% of spousal/domestic partnership allowance
2 Children: 50% of spousal/domestic partnership allowance
3 Children: 75% of spousal/domestic partnership allowance

If no surviving spouse/domestic partner or surviving children: estate or beneficiary will receive the difference between employee contributions (including interest) and the total paid to member by the retirement system at the time of death.

Optional Settlements Retiree may choose an optional settlement at retirement that reduces the allowance to provide a survivorship allowance to a designated beneficiary or a higher survivorship allowance to their spouse/domestic partner.

Notes: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death, remarriage, or establishment of a domestic partnership if member was at least 62 with at least 20 years of service (or 55 with a reduction factor of 5%) at the time of death. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

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(c) Contributions

This subsection provides information related to contributions paid by the Airport for pension benefits provided by FCERS. See Section IV of the Notes to the Basic Financial Statements in the City's June 30, 2019 CAFR for information about the Airport's contribution for pension benefits provided by PFDRP.

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

Subsequently, in October 2014, the FCERS' Board approved implementing an incremental reduction approach to determining the "actuarial equivalence" for the City's prefunding of its contribution when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach was undertaken to ensure that as business expansions and/or market valuations mature and exceed historic norms, FCERS reduces the City's incentive to prefund its contributions when market valuations and/or economic expansions are beyond historic norms. The incremental reduction is to be applied to the discount rate of the City's prefunding of its contribution. The incremental reduction is 15% per year, up to a maximum of 45%, which was the reduction to the discount rate that was applied to calculate the actuarially determined prepayment amount for the Tier 1 members to be paid by the City at the beginning of the fiscal years ended June 30, 2018 and June 30, 2019.

In FY 11, the FCERS' Board approved the establishment of a "floor funding method", commencing with FY 12, setting the City's funding policy contribution amount to be 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.

In February 2016, the FCERS' Board approved the City's request that the floor methodology for Tier 1 pension contributions be used only for the annual employer Normal Cost contribution (which includes administrative expenses) and that the annual employer Unfunded Accrued Liability (UAL) contribution be set at the dollar amount recommended by the actuary and adopted by the Board in the annual actuarial valuation report beginning FY 17. The "floor funding method" does not apply to FCERS Tier 2A and Tier 2B members.

Under GASB Statement No. 68, the City's and the participating employees' contributions to the Defined Benefit Pension Plan are based upon an actuarially determined percentage of each employee's pensionable and earnable salary to arrive at an actuarially determined contribution (ADC) sufficient to provide adequate assets to pay benefits when due.

FCERS contribution rates for the Airport and the participating employees for the periods July 1, 2017 through June 17, 2018 and June 18, 2018 through June 30, 2019 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2017, and June 30, 2018, respectively, for the Defined Benefit Pension Plan.

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Defined Benefit Pension Plan	Airport's Contribution⁽¹⁾		Employees' Contribution⁽²⁾	
	Pay Period	Tier 1	Tier 2	Tier 1
July 1, 2017 - June 30, 2018	94.04%	7.72%	6.60%	7.72%
July 1, 2018 - June 29, 2019	99.16%	8.28%	6.81%	8.28%
As of June 30, 2019	19.34% *	8.33%	7.06%	8.33%

⁽¹⁾ For Tier 1 members, the actual contribution rates paid by the City for fiscal year ended June 30, 2019 and June 30, 2018 differed due to the City funding the ADC amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

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

* Normal Cost + Unfunded Liability/Prior Service Cost Amount determined as a flat dollar amount of \$137,409,447 (for the City as a whole) for all Tier 1 and not a rate of pay.

The Airport's contributions paid during the the fiscal year ended June 30, 2019 were \$9,989,148.

The Airport's contributions paid during the the fiscal year ended June 30, 2018 were \$8,814,338.

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

As of June 30, 2019, the Airport reported \$105,487,247 of net pension liability (NPL) for its proportionate share of the City's NPL for both the FCERS and PFDRP. The Airport's portion of the NPL was based on the Airport's share of its contributions to the FCERS relative to the total City's contributions to FCERS and its proportionate share of the City's pension contributions to PFDRP. The Airport's proportionate share of the PFDRP NPL was based on the pro rata fee paid to the City for airport firefighting and police services for pension contributions divided by the City's total current annual expenses for pension contributions for PFDRP.

The NPL of the FCERS and the PFDRP was measured as of June 30, 2018, and the total pension liability (TPL) for the FCERS and the PFDRP used to calculate the NPL was determined by the actuarial valuation for FCERS and the PFDRP as of June 30, 2017 and rolled forward to June 30, 2018 using standard update procedures. The Airport's percentage of the City's NPL for both the FCERS and PFDRP NPL was 3.4% as of June 30, 2018, the measurement date.

For the fiscal year ended June 30, 2019, the Airport recognized pension expense of \$16,198,821 for both the FCERS and its proportionate share of PFDRP. As of June 30, 2019, the Airport reported deferred outflows and inflows of resources related to pension from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 9,989,148	\$ -
Differences between expected and actual experience	2,433,884	60,780
Changes in assumptions	326,606	-
Net difference between projected and actual earnings on pension plan investments	5,361,506	-
	\$ 18,111,144	\$ 60,780

As of June 30, 2019, \$9,989,148 was reported as deferred outflows of resources related to contributions for both the FCERS and its proportionate share of the PFDRP subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020.

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

	Deferred Outflows (Inflows) of Resources
2020	\$ 6,368,567
2021	2,159,174
2022	(518,842)
2023	52,317
	\$ 8,061,216

As of June 30, 2018, the Airport reported \$108,167,076 of NPL for its proportionate share of the City's NPL for both the FCERS and the PFDRP. The Airport's portion of the NPL was based on the Airport's share of its contributions to the FCERS relative to the total City's contributions to FCERS and its proportionate share of the City's pension contributions to PFDRP. The Airport's proportionate share of the PFDRP NPL was based on the pro rata fee paid to the City for airport firefighting and police services for pension contributions divided by the City's total current annual expenses for pension contributions for PFDRP.

The NPL of the FCERS and the PFDRP was measured as of June 30, 2017, and the TPL for the FCERS and the PFDRP used to calculate the NPL was determined by actuarial valuation for FCERS and the PFDRP as of June 30, 2016 and rolled forward to June 30, 2017 using standard update procedures. The Airport's percentage of the City's NPL of the FCERS and the PFDRP NPL was 3.4% as of June 30, 2017, the measurement date.

For the fiscal year ended June 30, 2018, the Airport recognized pension expense of \$18,007,836 for both the FCERS and its proportionate share of the PFDRP. As of June 30, 2018, the Airport reported deferred outflows and inflows of resources related to pension from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 8,814,338	\$ -
Differences between expected and actual experience	3,038,666	127,970
Changes in assumptions	7,615,329	-
Net difference between projected and actual earnings on pension plan investments	7,599,503	-
	\$ 27,067,836	\$ 127,970

As of June 30, 2018, \$8,814,338 was reported as deferred outflows of resources related to contributions for both the FCERS and its proportionate share of the PFDRP subsequent to the June 30, 2017 measurement date was recognized as a reduction of the NPL in the fiscal year ended June 30, 2019.

(e) Actuarial Methods and Assumptions

This subsection provides information related to the actuarial methods and assumptions specific to the FCERS Defined Benefit Pension Plan. See Section IV of the Notes to the Basic Financial Statements in the City's June 30, 2019 CAFR for information related to the actuarial methods and assumptions specific to the PFDRP Defined Benefit Pension Plan.

The significant actuarial methods and assumptions used to compute TPL as of June 30, 2019 and June 30, 2018 are from the FCERS actuarial valuation reports with valuation dates of June 30, 2017 and June 30, 2016, respectively. The valuation reports were rolled forward to June 30, 2018 and June 30, 2017, respectively, using standard update procedures:

	Method/Assumption (TPL as of June 30, 2019)	Method/Assumption (TPL as of June 30, 2018)
Measurement date	June 30, 2018	June 30, 2017
Valuation date	June 30, 2017	June 30, 2016
Inflation rate	2.50%	2.50%
Discount rate	6.875% per annum	6.875% per annum
Mortality		
(a) Service:	Healthy annuitants: 0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table. Healthy non-annuitants: 0.919 for males and 0.918 for females, times the CalPERS 2009 Employee Mortality Table.	Healthy annuitants: 0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table. Healthy non-annuitants: 0.919 for males and 0.918 for females, times the CalPERS 2009 Employee Mortality Table.
(b) Disability:	Disabled annuitants: 1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disabled Mortality table. Mortality is projected from 2009 on a generational basis using the MP-2017 scale.	Disabled annuitants: 1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disabled Mortality table. Mortality is projected from 2009 on a generational basis using the MP-2017 scale.
Active, withdrawal, death, disability, service retirements	Tables based on current experience.	Tables based on current experience.
Salary increases		
Wage Inflation	The base inflation assumption of 2.85% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.	The base inflation assumption of 2.85% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service
Merit increase	For the amortization schedule, payroll is assumed to grow 3.00% per year.	For the amortization schedule, payroll is assumed to grow 2.85% per year.
Cost of living adjustment	Tier 1 - 3% per year; Tier 2 - 1.25-2% per year depending on years of service.	Tier 1 - 3% per year; Tier 2 - 1.5% per year

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Long-term Expected Rate of Return on Plan Investments - The assumption for the long-term expected rate of return on investments was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the Board, including nominal expected rates of return for each of the asset classes, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the returns. Best estimates of geometric real rates of return for each major asset class included in the FCERS target asset allocation are summarized in the following tables. See Section IV of the Notes to the Basic Financial Statements in the City's June 30, 2019 CAFR for information related to the long-term expected rate of return on plan investments specific to the PFDRP Defined Benefit Pension Plan.

As of June 30, 2018, using a long-term expected rate of return on investments of 6.875% with a valuation date of June 30, 2017:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public equity	28%	4.0%
Private equity	9%	6.4%
Market neutral strategies	11%	2.8%
Private debt	6%	3.9%
Commodities	4%	1.9%
Emerging market bonds	4%	2.4%
Core bonds	25%	1.1%
High yield debt	4%	2.6%
Infrastructure	1%	3.0%
Real estate	8%	3.9%
Cash	-	0.2%
Total	<u>100%</u>	

As of June 30, 2017, using a long-term expected rate of return on investments of 6.875% with a valuation date of June 30, 2016:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	28%	4.6%
Private equity	9%	7.0%
Global fixed income	19%	1.0%
Private debt	5%	4.3%
Real assets	23%	3.7%
Absolute return	11%	3.0%
Global tactical asset allocation/Opportunistic	5%	2.1%
Cash	-	0.2%
Total	<u>100%</u>	

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Discount Rate - The discount rates used to measure the total pension liability as of June 30, 2018 and June 30, 2017 were 6.875% and 6.875%, respectively, for both the FCERS and PFDRP plans for valuations dated June 30, 2017 and June 30, 2016. It is assumed that members' contributions and Airport's contributions will be made based on the actuarially determined rates based on the FCERS' and PFDRP's Board funding policies. Based on those assumptions, the FCERS' and PFDRP's fiduciary net positions are expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liabilities.

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

The allocation was based on 3.4% of the Airport's proportion of the FCERS' and PFDRP's assets and liabilities at measurement date June 30, 2018, and 3.4% at measurement date June 30, 2017.

<u>As of June 30, 2019:</u>	<u>1% Decrease</u> <u>5.875%</u>	<u>Measurement Date</u> <u>Discount Rate</u> <u>6.875%</u>	<u>1% Increase</u> <u>7.875%</u>
Net pension liability	\$ 147,235,704	\$ 105,487,247	\$ 71,448,389

<u>As of June 30, 2018:</u>	<u>1% Decrease</u> <u>5.875%</u>	<u>Measurement Date</u> <u>Discount Rate</u> <u>6.875%</u>	<u>1% Increase</u> <u>7.875%</u>
Net pension liability	\$ 150,063,740	\$ 108,167,076	\$ 74,137,079

As of June 30, 2018 and June 30, 2017, the actuarial valuation dates, the FCERS' and PFDRP's Boards were utilizing a discount rate of 6.875% and 6.875%, respectively. For more details on the current discount rate, please refer to the stand-alone reports issued by the FCERS and PFDRP.

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

Recognition of Deferred Outflows and Inflows of Resources for FCERS and PFDRP

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

One fifth of the net earnings is recognized in the first year when the gain or loss occurred. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pension and are to be recognized in future pension expense.

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

Net difference between projected and actual earnings on pension plan investments	5 years
All other amounts	Expected average remaining service lifetime (EARSL) (6.0 Years at June 30, 2017)

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(f) Payable to the Pension Plan

At June 30, 2019 and June 30, 2018, the Airport had no outstanding contribution payable to the pension plan. Please see, however, Section IV.B.8 of the Notes to the Basic Financial Statements in the City's June 30, 2019 CAFR related to the dispute between regarding the overpayment of pension benefits by both FCERS and PDFRP. The Airport believes that its proportional share of the amount in dispute is immaterial.

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

In addition to the Defined Benefit Pension Plans, the City also sponsors and administers two single employer defined benefit postemployment healthcare plans, PFDRP, which includes a Postemployment Healthcare 401(h) Plan, the Police Department Postemployment Healthcare Plan (Section 115 Trust) and the Fire Department Postemployment Healthcare Plan (Section 115 Trust) and the Federated City Employees' Postemployment Healthcare Plan (FCERS), which includes 401(h) Plan and a Section 115 Trust, together the Postemployment Healthcare Plans. These Postemployment Healthcare Plans cover eligible full-time and certain part-time employees of the City.

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

Per the terms of the Frameworks discussed in Note IV A.1 of the Notes to the Basic Financial Statements in the City's June 30, 2019 CAFR, the City established two separate Voluntary Employee Beneficiary Associations (VEBA) for retiree healthcare for the members of the PFDRP and FCERS in FY 18. The City does not make contributions into the VEBAs and the VEBAs are not subject to the jurisdiction of the Retirement Boards.

In November 2017, the Internal Revenue Service and City entered into a Closing Agreement whereby the FCERS Tier 1 and some FCERS Tier 2 members were eligible for an irrevocable opt-out of the applicable Postemployment Healthcare Plan into a VEBA. The transfer of their retiree healthcare contributions (medical and dental) from the applicable Postemployment Healthcare Plan to their individual VEBA accounts remained subject to Internal Revenue Service approval. The VEBA opt-in election period was October 18, 2017 through December 15, 2017. In February 2018, the Internal Revenue Service issued favorable private letter rulings with respect to the transfer of retiree healthcare contributions from the Postemployment Healthcare Plan for those employees opting into a VEBA and in March 2018, the retiree healthcare contributions of members who opted in to a VEBA were transferred from the applicable Postemployment Healthcare Plan into their individual VEBA accounts. The Internal Revenue Service also approved allowing eligible employees who are rehired by the City during calendar years 2018 through 2022 to opt into the applicable VEBA and transfer the retiree healthcare contributions from the applicable Postemployment Healthcare Plan to their individual VEBA accounts. Additional information can be found in Section IV.A.4 of the Notes to the Basic Financial Statements in the City's June 30, 2019 CAFR.

Contribution amounts to the Postemployment Healthcare Plan for both the City and the participating members are based upon agreements between the City and the bargaining units. With the implementation of Measure F, ADC was calculated beginning with the fiscal year ended June 30, 2019. The FCERS and the PFDRP transitioned into annual valuations beginning June 30, 2010, from biennial actuarial valuations.

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

Subsequently, in October 2014, the Boards of Administration of FCERS and PFDRP approved implementing an incremental reduction approach to determining the “actuarial equivalence” for the City’s prefunding of its contribution when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach was undertaken to ensure that as business expansions and/or market valuations mature and exceed historic norms, the FCERS reduces the City’s incentive to prefund its contributions when market valuations and/or economic expansions are beyond historic norms. The incremental reduction is 15% per year, up to a maximum of 45%, which was the reduction to the discount rate that was applied to calculate the actuarially determined prepayment amount for the participating members to be paid by the City at the beginning of fiscal years ended June 30, 2018 and June 30, 2019.

The FCERS' on February 15, 2018 and the PFDRP on March 1, 2018 approved a contribution policy for the respective Postemployment Healthcare Plans that sets the City's contribution as a flat dollar amount.

Historically, member and City contributions to the Postemployment Healthcare Plans were negotiated through collective bargaining and were not actuarially determined. Until the City entered into agreements with various bargaining groups in 2009 and prior to implementation of Measure F, contributions for the health and dental benefits for both the City and the participating employees of the Postemployment Healthcare Plan were based upon an actuarially determined percentage of employees’ base salary sufficient to provide adequate assets to pay benefits when due over the next 10 years for PFDRP and over the next 15 years for the FCERS. From 2009 until the implementation of Measure F, the City had been in the process of phasing in payment of the annual required contribution (ARC) for the retiree health and dental benefits provided by both Postemployment Healthcare Plan as calculated pursuant to GASB Statement No. 43 and GASB Statement No. 45 then in effect. However, the contribution rates for the City and members of the Postemployment Healthcare Plans were capped before the full ARC was reached.

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

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

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actuarial liability for both implicit and explicit subsidies, and the unfunded actuarial liability for only the explicit subsidy. The unfunded actuarial liability for the explicit subsidy is used to calculate the City's ADC to each Postemployment Healthcare Plan.

Effective March 25, 2018, members remaining in the PFDRP Postemployment Healthcare Plan make contributions fixed at 8.0% of pay. The City continued to pay the phased-in contribution rate until the beginning of fiscal year 2018-19 when it commenced paying the ADC as determined by the PFDRP Board subject to a cap of 11% of payroll of all active members of PFDRP.

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

The contributions to the FCERS Postemployee Healthcare for the Airport and the participating employees for the periods July 1, 2017 through June 17, 2018 and June 18, 2018 through June 30, 2019 are shown below. See Section IV of the Notes to the Basic Financial Statements in the City's June 30, 2019 CAFR for information related to the Airport's contributions to the PFDRP Postemployment Healthcare Plans.

Postemployment Healthcare Plan	Airport's Contribution		Employee's Contribution	
	Tier 1	Tier 2	Tier 1	Tier 2
Pay period				
July 1, 2017 - March 24, 2018	9.41%	12.66%	8.76%	8.76%
March 25, 2018 - June 30, 2018	9.41%	12.66%	7.50%	7.50%
July 1, 2018 - June 30, 2019	*	*	7.50%	7.50%

* In February 2018, the Board approved the contribution policy that sets the City healthcare contributions as a flat dollar amount, beginning with FY 19. The City's contribution for the FCERS Postemployment Healthcare Plan during the fiscal year ended June 30, 2019 of prefunded contributions that covered Tier 1 and Tier 2 in the amount of \$20,856,125, for the City as a whole. The Airport's contributions paid during the the fiscal year ended June 30, 2019 were \$1,872,043. The Airport's contributions paid during the the fiscal year ended June 30, 2018 were \$1,753,603.

As of June 30, 2019, the Airport reported \$19,983,200 of net OPEB liability for its proportionate share of the City's net OPEB liability. The Airport's portion of net OPEB liability was based on the Airport's share of its OPEB contributions to the FCERS relative to the total City's OPEB contributions to FCERS and its proportionate share of the City's OPEB contributions to PFDRP. The Airport's proportionate share of the PFDRP OPEB liability was based on the pro rata fee paid to the City for airport firefighting and police services for OPEB contributions divided by the City's total current annual expenses for the City's OPEB and pension contributions. The net OPEB liability of the FCERS and the PFDRP was measured as of June 30, 2018, and the total OPEB liability for FCERS and PFDRP used to calculate the net OPEB liability was determined by actuarial valuations for the FCERS Postemployment Healthcare Plan and the PFDRP Postemployment Healthcare Plans as of June 30, 2017 and rolled forward to June 30, 2018 using standard update procedures. The Airport's proportionate share of the City's net OPEB liability of FCERS and PFDRP was 2.2%, as of June 30, 2018, the measurement date.

As of June 30, 2018, the Airport reported \$28,086,340, of net OPEB liability for its proportionate share of the City's net OPEB liability for FCERS. The Airport's portion of the net OPEB liability was based on the Airport's share of its contributions to the FCERS relative to the actual contributions and did not include any share of the City's net OPEB liability for PFDRP. The Airport's proportionate share of City's net OPEB liability for FCERS was 5.5%, as of June 30, 2017, the measurement date.

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The net OPEB liability of the FCERS as of June 30, 2019 and June 30, 2018 was measured as of June 30, 2018 and June 30, 2017, respectively, and the total OPEB liability for the FCERS used to calculate the net OPEB liability was determined by actuarial valuations as of June 30, 2017 and June 30, 2016 based on the following actuarial methods and assumptions and rolled forward to June 30, 2018 and June 30, 2017, respectively, using standard update procedures. See Section IV of the Notes to the Basic Financial Statements in the City's June 30, 2019 CAFR for information related to the actuarial methods and assumptions specific to the PFDRP Postemployment Healthcare Plans.

	Method/Assumption (FCERS OPEB Liability as of June 30, 2019)	Method/Assumption (FCERS OPEB Liability as of June 30, 2018)
Measurement date	June 30, 2018	June 30, 2017
Valuation date	June 30, 2017	June 30, 2016
Actuarial cost method	Entry Age Normal, level of percentage of pay	Entry Age Normal
<u>Actuarial assumptions:</u>		
Inflation Rate	2.50%	2.50%
Discount Rate (net)	6.875%	6.875%
Merit Increase	Merit component added based on an individual's years of service ranging from 4.50% at hire to 0.25%.	Merit component added based on an individual's years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.
Wage Inflation Rate	3.25%	2.85%
Investment Rate of Return	6.875%	6.875%
Mortality Rate*	Mortality is projected from 2009 on a generational basis using the MP-2017 scale.	Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex-distinct employee and annuitant CalPERS tables as described below.
Pre-Retirement Turnover**	Please see below table.	
Healthcare Cost Trend Rate	The valuation assumes that future medical inflation will be at a rate of 8.5% to 4.25% per annum graded down over a 15 year period for medical-pre age 65 and 6.0% to 4.25% per annum graded down over a 15 year period for medical-post age of 65. Dental inflation is assumed to be 3.50%	The valuation assumes that future medical inflation will be at a rate of 8.5% to 4.25% per annum graded down over a 15 year period for medical-pre age 65 and 6.5% to 4.25% per annum graded down over a 15 year period for medical-post age of 65. Dental inflation is assumed to be 4.00%

* Federated Mortality Rates

Category	Male	Female
Healthy Annuitant	0.952 times the CalPERS 2009 Healthy Annuitant Mortality Table (Male)	0.921 times the CalPERS 2009 Healthy Annuitant Mortality table (Female)
Healthy Non-Annuitant	0.919 times the CalPERS 2009 Employee Mortality Table (Male)	0.918 times the CalPERS 2009 Employee Mortality Table (Female)
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table (Male)	1.002 times the CalPERS 2009 Ordinary Disability Mortality Table (Female)

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

Age	Rate of Termination		
	0 in Years of Service	1-4 Years of Service	5 or more Years of Service
20	18.00%	17.50%	9.00%
25	18.00%	15.50%	9.00%
30	18.00%	13.50%	7.00%
35	18.00%	11.50%	5.50%
40	18.00%	9.50%	4.50%
45	18.00%	8.00%	3.50%
50	18.00%	7.00%	3.00%
55	18.00%	6.00%	3.00%
60	18.00%	5.00%	-
65	-	-	-

Note: Withdrawal/terminations do not apply once a member is eligible for retirement.

Long-term Expected Rate of Return on Plan Investments - The assumption for the long-term expected rate of return on investments was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the FCERS Board and PFDRP Board for the respective Postemployment Healthcare Plans, 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. See Section IV of the Notes to the Basic Financial Statements in the City's June 30, 2019 CAFR for information related to the long-term expected rate of return on plan investments specific to the PFDRP Postemployment Healthcare Plans.

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

As of June 30, 2018, using a long-term expected rate of return on investments of 6.875% with a valuation date of June 30, 2017:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	55%	4.7%
Short-term investment grade bonds	28%	0.8%
Core real estate	8%	2.7%
Commodities	5%	1.9%
Cash	-	0.2%
Natural resources	4%	4.4%
Total	<u>100%</u>	

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As of June 30, 2017, using a long-term expected rate of return on investments of 6.875% with a valuation date of June 30, 2016:

Asset Class	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	47%	5.3%
Fixed Income	30%	0.8%
Real Assets	23%	3.4%
Cash	-	0.2%
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total OPEB liability as of June 30, 2018 was 6.875% and is based on the long-term expected rate of return on investments, for the both the FCERS and PFDRP plan valuations dated June 30, 2017. It is assumed that FCERS and PFDRP members' contributions and City contributions will continue at the current contribution rates and that the City will contribute the actuarially determined contribution toward the explicit subsidy up to a maximum of 14% of total payroll for FCERS and up to a maximum of 11% for PFDRP. In addition, the City will pay the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the FCERS and PFDRP fiduciary net positions are expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 6.875% on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liabilities.

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

As of June 30, 2019, the Airport's share of the City's net OPEB liability was based on 2.2% of the Airport's proportion of the City's net OPEB liabilities for both FCERS and PFDRP at the measurement date, June 30, 2018.

	<u>1% Decrease (5.875%)</u>	<u>Measurement Date Discount Rate (6.875%)</u>	<u>1% Increase (7.875%)</u>
As of June 30, 2019:			
Net OPEB liability	\$ 25,003,324	\$ 19,983,200	\$ 15,899,676

As of June 30, 2018, the Airport's share of the City's net OPEB liability was based on 5.5% of the Airport's portion of the City's net OPEB liabilities for FCERS only at the June 30, 2017 measurement date.

	<u>1% Decrease (5.875%)</u>	<u>Measurement Date Discount Rate (6.875%)</u>	<u>1% Increase (7.875%)</u>
As of June 30, 2018:			
Net OPEB liability	\$ 34,800,354	\$ 28,086,340	\$ 23,092,618

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

As of June 30, 2019, the Airport's share of the City's net OPEB liability was based on 2.2% of the Airport's proportion of the City's net OPEB liabilities for both FCERS and PFDRP at the measurement date, June 30, 2018.

As of June 30, 2019:	Measurement Date Healthcare Trend		
	1% Decrease	Rate	1% Increase
Net OPEB liability	\$ 15,473,810	\$ 19,983,200	\$ 25,541,801

As of June 30, 2018, the Airport's share of the City's net OPEB liability was based on 5.5% of the Airport's portion of the City's net OPEB liabilities for FCERS only at the June 30, 2017 measurement date.

As of June 30, 2018:	Measurement Date Healthcare Trend		
	1% Decrease	Rate	1% Increase
Net OPEB liability	\$ 22,530,871	\$ 28,086,340	\$ 34,975,994

OPEB Plan Fiduciary Net Position - Detailed information about the FCERS' and PFDRP's fiduciary net positions are available in separately issued FCERS' and PFDRP's financial reports.

Recognition of Deferred Outflows and Inflows of Resources for FCERS and PFDRP

Gains and losses related to changes in total OPEB liability and fiduciary net position for both the FCERS and the Airport's proportionate share of the PFDRP are recognized in OPEB expense systematically over time. One fifth of the gain or loss is recognized in the first year when the gain or loss occurred for the difference between projected and actual earnings on OPEB plan investments. The other deferred amounts are amortized over the expected average remaining service lifetime. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

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

Net difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	Expected average remaining service lifetime (EARSL) (6.0 Years at June 30, 2017)

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For fiscal year ended June 30, 2019, the Airport recognized OPEB negative expense of \$3,759,937 for both the FCERS and its proportionate share of the PFDRP. As of June 30, 2019, the Airport reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 1,872,043	\$ 23,916
Differences between expected and actual experience	105,010	39,780
Changes in assumptions	148,110	3,111,840
Net difference between projected and actual earnings on OPEB plan investments	301,900	-
Total	\$ 2,427,063	\$ 3,175,536

As of June 30, 2019, \$1,872,043 reported as deferred outflows of resources related to contributions for both the FCERS and its proportionate share of the PFDRP subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

	Deferred Outflows (Inflows) of Resources
2020	\$ (1,395,567)
2021	(1,402,567)
2022	102,143
2023	75,475
	\$ (2,620,516)

For fiscal year ended June 30, 2018, the Airport recognized OPEB expense of \$2,467,942 for FCERS only. As of June 30, 2018, the Airport reported deferred outflows and inflows of resources related to OPEB expense for FCERS only from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 1,753,603	\$ -
Net difference between projected and actual earnings on OPEB plan investments	-	30,916
Total	\$ 1,753,603	\$ 30,916

As of June 30, 2018, \$1,753,603 reported as deferred outflows of resources related to contributions for FCERS only, subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

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	Deferred (Inflows) of Resources
2019	\$ (7,729)
2018	(7,729)
2017	(7,729)
2016	(7,729)
	\$ (30,916)

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 visiting the City's website at www.sanjoseca.gov or by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113.

(8) Related Party Transactions

The City provides certain general support services to the Airport and charges a pro rata fee. The fees charged to the Airport for these services for the fiscal years ended June 30, 2019 and 2018, were \$5,128,635 and \$2,755,364, respectively. The City also charged the Airport fees of \$16,059,784 and \$14,295,055 for the fiscal years ended June 30, 2019 and 2018, 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 \$1,283,275 and \$1,377,981 for the fiscal years ended June 30, 2019 and 2018, respectively, are included in operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

(9) Risk Management

(a) Insurance Policies

The Airport is covered under the City's 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 periods of October 1, 2018 to October 1, 2019 and October 1, 2017 to October 1, 2018.

October 1, 2018 to October 1, 2019

Coverage	Limit Per Occurrence	Deductible Per Occurrence
Property, including Business Interruption	\$1.5 billion	\$100,000
Flood Zone, Special Flood Hazard Area - as defined by the Federal Emergency Management Agency (FEMA)	\$25 million per occurrence and annual aggregate	\$10,000,000

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October 1, 2017 to October 1, 2018

<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 -as defined by the Federal Emergency Management Agency (FEMA)	\$25 million per occurrence and annual aggregate	5% of values at risk (\$1 million minimum deductible)

The City has airport liability policies covering the Airport for the policy periods of October 1, 2018 to October 1, 2019 and October 1, 2017 to October 1, 2018 including Control Tower Operators, which provides a \$200 million combined single limit for bodily injury and property damage subject to a deductible of \$0 each occurrence and annual aggregate, with a sublimit of \$50 million each occurrence and in the annual aggregate for personal injury, and a limit of \$200 million each occurrence and in the annual aggregate for war liability. During the past five fiscal years, there have not been any instances that the amount of claim settlements exceeded the insurance coverage.

In addition, the airport liability policy also provides excess liability coverage with a limit of \$50 million in excess of the underlying limit of \$1 million, which is provided by a separate automobile liability policy issued to provide coverage for the off-premises operation of Airport vehicles including shuttle bus fleets with a limit \$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 deductible and \$25,000 collision deductible. Settled claims have not exceeded the City's commercial insurance coverage in any of the past five fiscal years.

For the policy period of October 1, 2018 to October 1, 2019 and December 18, 2017 to October 1, 2018, 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.

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.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Accrued liability, beginning of fiscal year	\$ 3,021,230	\$ 2,852,669	\$ 2,852,669
Claims payments and adjustments	(140,975)	(234,071)	(471,318)
Provision for current year claims and changes in prior year estimates	<u>(345,912)</u>	<u>402,632</u>	<u>471,318</u>
Accrued liability, end of fiscal year	<u>\$ 2,534,343</u>	<u>\$ 3,021,230</u>	<u>\$ 2,852,669</u>

(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 airport's North Concourse Project through an Owner Controlled Insurance Program (OCIP) with American International Group (AIG), AIU Holdings, Inc., and AIU LLC (AIU), formerly known as Chartis Insurance. 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 City was also required to establish a claims loss reserve for the North Concourse Project in the aggregate amount of \$3.9 million available in a cash working fund. The full amount of the claims loss reserve had been deposited with AIG and was recorded as advances and deposits in the accompanying Airport enterprise fund statements of net position. The claims loss reserve funds were available to AIG to pay claims within the City's deductible of up to \$250,000 per occurrence to an aggregate maximum loss exposure within coverage limits to the City of \$3.9 million. 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.

The North Concourse Project was completed in fall of 2008 and the policies expired December 31, 2008. Closeout procedures on the North Concourse Project were completed in FY 19. AIG returned the balance of the reserve fund to the Airport in the amount of \$831,000. The balance of the North Concourse reserve fund as of June 30, 2019 is now \$0.

Activities relating to the North Concourse OCIP claims reserve fund for the fiscal years ended June 30, 2019, 2018, and 2017 were as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 835,036	\$ 827,033	\$ 851,415
Interest earned	6,876	8,003	2,668
Reserve returned	(830,974)	-	(27,050)
Losses paid	<u>(10,938)</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ -</u>	<u>\$ 835,036</u>	<u>\$ 827,033</u>

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On March 15, 2007, the City obtained additional liability insurance through AIG for major components of the Airport's 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 AIG in the amount of \$8.9 million. The claims loss reserve fund is available to AIG to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of \$8.9 million. The City was able to negotiate to fund 74% of the claims loss reserve and interest generated remains in the fund. The full amount of \$6.5 million was deposited with AIG in FY 09 and was recorded as advances and deposits in the accompanying statements of net position. Since August 2013, as part of the annual loss reserve analysis by AIG, a total amount of \$2,297,000 has been returned to the Airport. The balance of the TAIP reserve fund as of June 30, 2019 is \$1,460,181.

Activities relating to the TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2019, 2018, and 2017 were as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 1,980,720	\$ 1,966,146	\$ 2,116,260
Interest earned	36,923	19,519	8,420
Reserve returned	(543,033)	-	(7,441)
Losses paid	<u>(14,429)</u>	<u>(4,945)</u>	<u>(151,093)</u>
Ending balance	<u>\$ 1,460,181</u>	<u>\$ 1,980,720</u>	<u>\$ 1,966,146</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 TAIP Project has been completed and the policies expired on June 30, 2011. AIG will continue to hold the remaining funds in the claims loss reserve fund until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

(10) Commitments and Contingencies

(a) Lease Commitments

In September 2009, the Airport entered into a restated operating lease and maintenance agreement for ten CNG powered buses from December 2007 to May 2017. In May 2017, the restated agreement was amended to extend through May 2019, with a one year option to extend, which was exercised in May 2019. Rental and maintenance expenses were \$1,376,990 and \$1,399,193 for fiscal years ended June 30,

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2019 and 2018, respectively.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 773,850
Total minimum lease payments	\$ 773,850

(b) Purchase Commitments and Capital Outlay Projections

As of June 30, 2019, the Airport was obligated for purchase commitments of approximately \$16.2 million primarily for the Interim Facility, airfield electrical circuit rehabilitation, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber approximately \$222.3 million on capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from federal grants, CP proceeds, and other Airport revenues.

(c) Master Plan

In 1997, after extensive planning and environmental studies and reports, the City Council approved the new Master Plan. In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new Airport Layout Plan for the Airport 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 airfield, terminal, cargo, general aviation, roadway, parking, and support facilities. 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 (ADP) revisions. Funding for Master Plan projects is from several sources, including grants, PFC, airline rates and charges, airport revenue bonds, and Subordinated CP proceeds.

The most recent amendment to the Master Plan, approved by the City Council in August 2018, allows for the development of various aviation support facilities on the southwest side of the Airport formerly designated for exclusively general aviation facilities. The Master Plan, as amended to date, is intended to serve a demand level of 17.6 million annual passengers and a total of 263,800 annual aircraft operations by the year 2027, including up to 1.70 million square feet of passenger terminal facilities and 40 gates. The next proposed amendment to the Master Plan and ALP, currently in preparation, would extend the planning horizon and demand forecasts out to the year 2037 and revise the facility development program accordingly.

(d) FAA Audit of Use of Airport Revenue

Federal law requires all airport owners that receive federal assistance, such as the City, to use airport revenues for the capital or operating costs of the Airport. 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

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with a draft of its audit findings alleging improper use of Airport revenues by the City in three areas of expenditure. On August 14, 2015, as the result of discussions and correspondence with City staff, the FAA notified the City that it has closed two of the three audit issues. The remaining audit issue is described below.

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

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

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

Potential Claim from FAA Regarding Reuse of Guadalupe Gardens

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

During discussions regarding proposals to develop certain portions of the Guadalupe Gardens, the FAA has taken the position that the City must dispose of any portion of the Guadalupe Gardens that is no longer needed for noise compatibility purposes. Citing provisions of federal law that require recipients of FAA grants for acquisition of land for noise compatibility purposes to dispose of any such acquired land when no longer needed by the airport owner for noise compatibility purposes, the FAA contends that the FAA ADO erred in its 2002 approval of the Guadalupe Gardens Master Plan and that the City is obligated to prepare an inventory of the Guadalupe Gardens to identify those parcels that were acquired by the City with noise compatibility grant proceeds. This inventory would then be used to prepare for FAA review and approval of a disposition plan for those parcels no longer needed by the City for noise

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compatibility. Proceeds of the sale of the parcels proportionate to the FAA grant share of the original purchase price would be required to be used for other approved noise compatibility projects at the Airport or returned to the FAA.

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

(e) Workers' Compensation Program Audit

The City is self-insured and self-administered for workers' compensation with claims paid on a "pay as you go" basis. The City budgets for workers' compensation payouts based on prior year payout history.

Pursuant to City Council direction, the City's Workers' Compensation Program has been fully outsourced to Intercare, a third-party administrator (Intercare). As of September 1, 2018, all in-house claims were electronically transferred to Intercare with all open claims administered by Intercare staff.

As of March 1, 2019, open claims data for Intercare were at 2,599. The total number of open claims has been significantly reduced (by approximately 17%) since June 30, 2018 when the open claim inventory was 3,120 (Intercare - 1,488, City of San Jose - 1,632). This was in large part a result of Intercare's triage process.

The City conducted a Request for Proposal process for a third-party administrator to provide all services related to the City's Workers' Compensation Program to commence on July 1, 2019, which was approved by the City Council in June 2019. Intercare was awarded a three year contract that began July 1, 2019.

As a result of the transfer of all claims administration to Intercare, the City anticipates no longer being subject to state audits related to the City's Workers' Compensation Program in the future. The last state audit of the City's Workers' Compensation Program was in 2016. The City anticipated the possibility of being subject to a re-audit by the State in the end of 2018. The City is not aware of any pending audits by the State of the City's Workers' Compensation Program.

(f) Litigation

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

(11) Subsequent Event

On January 15, 2019, the City Council adopted Resolution 78954, which authorized the Director of Aviation to negotiate and execute Signatory and Non-Signatory Airline-Airport Lease and Operating Agreements with any current or new passenger or cargo airlines at the Airport. The effective date of the (Lease Agreements) was July 1, 2019 for a 10-year term with two 5-year options to extend subject to the mutual agreement of the City and the airlines. The new Lease Agreements include provisions to: 1) allocate the cost of the office and administrative space used by the City and the City's contractors at the Airport to all terminal tenants; 2) pre-approves the TAIP for the Phase II of Terminal B, which can include new Federal Inspection Station (FIS) Facilities when the Airport reaches an annual rate 550,000

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international deplaning passengers for 18 consecutive months; 3) increases current spending limits for terminal and airfield projects from \$5.0 million to \$10.0 million without consultation or approval from the Signatory Airlines to fund a capital project; 4) requires Non-Signatory Airlines to pay a 25 percent premium over the rates and charges applicable to Signatory Airlines as well as provide a security deposit; 5) establishes revenue sharing in any year when there is remaining revenue generated at the Airport for Signatory Airlines as follows: a) the Airport will receive the first \$4.0 million until the Phase II of Terminal B terminal project is completed and occupied and \$2.0 million thereafter, and b) the rest of the net remaining revenue will be split 60%/40% (Signatory Airlines/Airport) throughout the term.

Beginning in January 2020, Southwest Airlines will add two new destinations to Hawaii: non-stop three days a week service to Kona and non-stop four days a week to Lihue. In May 2020, Air Canada will begin daily round trip service to Toronto, Canada. This will mark the Airport's 10th international non-stop destination.

In September 2019, the Airport entered into an agreement with the TSA to provide \$2.5 million in federal funding for new security technologies on portions of the Airport perimeter. The TSA will fully reimburse the Airport for expenses incurred for this project, up to the maximum obligation.

On September 27, 2019, Fitch Ratings upgraded the ratings for the City's Airport revenue bonds to "A" with a stable rating outlook. Fitch Ratings also upgraded the underlying rating on the bank note associated with the Airport's Subordinated CP Notes (AMT) to "A-" with a stable rating outlook.

Effective October 1, 2019, the City obtained a new primary airport automobile liability policy with a \$1 million per occurrence limit and \$250,000 deductible per accident. The airport liability policy effective as of October 1, 2019 reduced the excess automobile liability coverage under the prior policy from \$50 million to \$5 million beyond the underlying \$1 million limit.

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

Required Supplementary Information (Unaudited)
Last 10 Fiscal Years

Schedule of the Proportionate Share of the Net Pension Liability (dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the collective net pension liability	3.4 %	3.4 %	3.4 %	3.6 %	3.8 %	3.7 %
Proportionate share of the collective net pension liability	\$ 105,487	\$ 108,167	\$ 102,069	\$ 81,313	\$ 64,650	\$ 74,527
Covered payroll	\$ 15,335	\$ 13,694	\$ 13,163	\$ 12,903	\$ 12,532	\$ 12,932
Proportionate share of the collective net pension liability as percentage of covered payroll	687.9 %	789.9 %	775.4 %	630.2 %	515.9 %	576.3 %
Plan fiduciary net position as a percentage of the total pension liability	65.0 %	63.3 %	63.4 %	68.9 %	74.0 %	69.0 %

Schedule of Contributions (dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 9,989	\$ 8,814	\$ 8,134	\$ 7,374	\$ 7,103	\$ 6,654
Contributions in relation to the actuarially determined contributions	9,989	8,814	8,134	7,374	7,103	6,654
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 16,190	\$ 15,335	\$ 13,694	\$ 13,163	\$ 12,903	\$ 12,532
Contributions as a percentage of covered payroll	61.7 %	57.5 %	59.4 %	56.0 %	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 collective net pension liability. The Airport recognizes pension expense and reports deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

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

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

Required Supplementary Information (Unaudited)
Last 10 Fiscal Years

Schedule of the Proportionate Share of the Net OPEB Liability (dollars in thousands)

	<u>2019</u>	<u>2018</u>
Proportion of the collective net OPEB liability	2.2 %	5.5 %
Proportionate share of the collective net OPEB liability	\$ 19,983	\$ 28,086
Covered payroll	\$ 15,335	13,694
Proportionate share of the collective net OPEB liability as percentage of covered payroll	130.3 %	205.1 %
Plan fiduciary net position as a percentage of the total OPEB liability	43.8 %	34.0 %

Schedule of Contributions (dollars in thousands)

	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 1,872	\$ 1,754
Contributions in relation to the actuarially determined contributions	<u>1,872</u>	<u>\$ 1,754</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 16,190</u>	<u>\$ 15,335</u>
Contributions as a percentage of covered payroll	11.6 %	11.4 %

Note to Schedules

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

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

Beginning FY 19, the Airport began paying for its share of PFDRP OPEB liability. The Airport's proportionate share of the PFDRP OPEB liability was based on the pro rata fee paid to the City for airport firefighting and police services for OPEB contributions divided by the City's total current annual expenses for the City's OPEB and pension contributions.



STATISTICAL



Service has increased for destinations throughout the United States, including nonstop flights to Hawaii.

Southwest Airlines started new daily, nonstop service to Honolulu, Kahului, Tucson, Long Beach, and Nashville, as well as weekly service to El Paso and Raleigh/Durham. Delta Airlines started nonstop service to Detroit. Alaska Airlines began SJC's first daytime, daily, nonstop service to New York's JFK, and started twice-daily service to Everett. On the international front, Volaris launched, twice-weekly flights to León, Mexico.



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

Statistical Section
June 30, 2019

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
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Financial Trends

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

<i>Annual Revenues, Expenses, Changes in Net Position, and Net Position</i>	<i>A</i>
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Revenue Capacity

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

<i>Airline Cost per Enplaned Passenger</i>	<i>B</i>
<i>Gross Concession Revenue per Enplaned Passenger</i>	<i>C</i>
<i>Scheduled Airline Rates and Charges</i>	<i>D</i>

Debt Capacity

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

<i>Outstanding Debt and Debt Service</i>	<i>E</i>
<i>Debt Service Coverage</i>	<i>F</i>

Demographic and Economic Information

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

<i>Service Area Population in the Air Trade Area</i>	<i>G</i>
<i>Service Area Personal Income in the Air Trade Area</i>	<i>H</i>
<i>Service Area per Capita Personal Income in the Air Trade Area</i>	<i>I</i>
<i>Principal Employers in the City of San José</i>	<i>J</i>
<i>Service Area Annual Average Unemployment Rate in the Air Trade Area</i>	<i>K</i>

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

Statistical Section
June 30, 2019

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>
<i>Airport Information</i>	<i>M</i>
<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/All-Cargo Airline Service</i>	<i>Q</i>
<i>Passengers, Mail, Freight, and Cargo Statistics</i>	<i>R</i>
<i>Historical Aircraft Operations</i>	<i>S</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)

	<u>2010</u>	<u>2011⁽¹⁾</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Operating revenues:					
Airline rates and charges:					
Landing fees	\$ 13,190	\$ 13,370	\$ 11,414	\$ 12,888	\$ 11,973
Terminal rental	33,459	34,446	39,864	38,256	38,130
Total airline rates and charges	<u>46,649</u>	<u>47,816</u>	<u>51,278</u>	<u>51,144</u>	<u>50,103</u>
Terminal buildings/concessions	11,157	16,877	15,770	15,102	15,423
Airfield	2,791	2,925	2,783	3,038	3,553
Parking and roadway	38,934	47,320	51,023	46,700	47,268
Fuel handling fees	1,310	1,504	1,690	2,361	3,170
General aviation/other	5,909	4,521	4,431	4,770	6,193
Customer facility charges ⁽¹⁾	6,021	-	-	-	-
Total operating revenues	<u>112,771</u>	<u>120,963</u>	<u>126,975</u>	<u>123,115</u>	<u>125,710</u>
Operating expenses:					
Terminal buildings/concessions	31,701	33,019	23,659	23,303	24,233
Airfield	10,911	9,749	9,069	8,707	9,570
Parking and roadway	24,032	25,344	25,514	16,631	16,343
Fuel handling costs	885	288	556	1,065	11
General aviation	3,052	2,409	1,676	1,605	1,609
General and administrative	23,624	19,095	18,328	18,763	19,877
Depreciation	55,288	51,532	51,520	54,353	54,027
Total operating expenses	<u>149,493</u>	<u>141,436</u>	<u>130,322</u>	<u>124,427</u>	<u>125,670</u>
Operating income (loss)	<u>(36,722)</u>	<u>(20,473)</u>	<u>(3,347)</u>	<u>(1,312)</u>	<u>40</u>
Nonoperating revenues (expenses):					
Passenger facility charges	17,043	17,311	16,787	17,294	18,161
Customer facility charges for debt service ⁽¹⁾	-	6,840	10,137	13,385	15,493
Participating airline net revenue sharing	-	-	-	-	-
Investment income	311	1,613	2,217	(257)	1,571
Interest expense	(10,750)	(54,430)	(70,009)	(75,058)	(73,836)
Bond issuance costs	-	-	(4,141)	(196)	-
Operating grants	1,150	701	670	565	605
Loss on capital assets disposal	(11,733)	-	(9)	-	(481)
Other, net	200	1,438	698	451	614
Total nonoperating revenues (expenses), net	<u>(3,779)</u>	<u>(26,527)</u>	<u>(43,650)</u>	<u>(43,816)</u>	<u>(37,873)</u>
Income (loss) before capital contributions	<u>(40,501)</u>	<u>(47,000)</u>	<u>(46,997)</u>	<u>(45,127)</u>	<u>(37,833)</u>
Capital contributions	<u>34,722</u>	<u>10,862</u>	<u>7,399</u>	<u>6,954</u>	<u>4,843</u>
Special item - rate stabilization fund and ten-year lookback distribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	<u>\$ (5,779)</u>	<u>\$ (36,138)</u>	<u>\$ (39,598)</u>	<u>\$ (38,173)</u>	<u>\$ (32,990)</u>
Net position at year-end					
Net investment in capital assets	\$ 314,664	\$ 272,598	\$ 242,916	\$ 209,381	\$ 169,870
Restricted	61,349	64,128	69,350	65,408	67,848
Unrestricted	76,751	79,900	58,811	58,114	62,195
Net position at year-end ⁽²⁾⁽³⁾	<u>\$ 452,764</u>	<u>\$ 416,626</u>	<u>\$ 371,077</u>	<u>\$ 332,903</u>	<u>\$ 299,913</u>

⁽¹⁾ CFC 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. CFC were reclassified from operating to nonoperating revenue beginning in fiscal year 2011 when the Airport started using CFC for the debt service associated with the ConRAC. Effective July 1, 2016, the Airport started using a portion of CFC revenues to pay for transportation costs, which is recorded as operating income.

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)
ANNUAL REVENUES, EXPENSES, CHANGES IN NET POSITION, AND NET POSITION
LAST TEN FISCAL YEARS
(in \$ 000's)

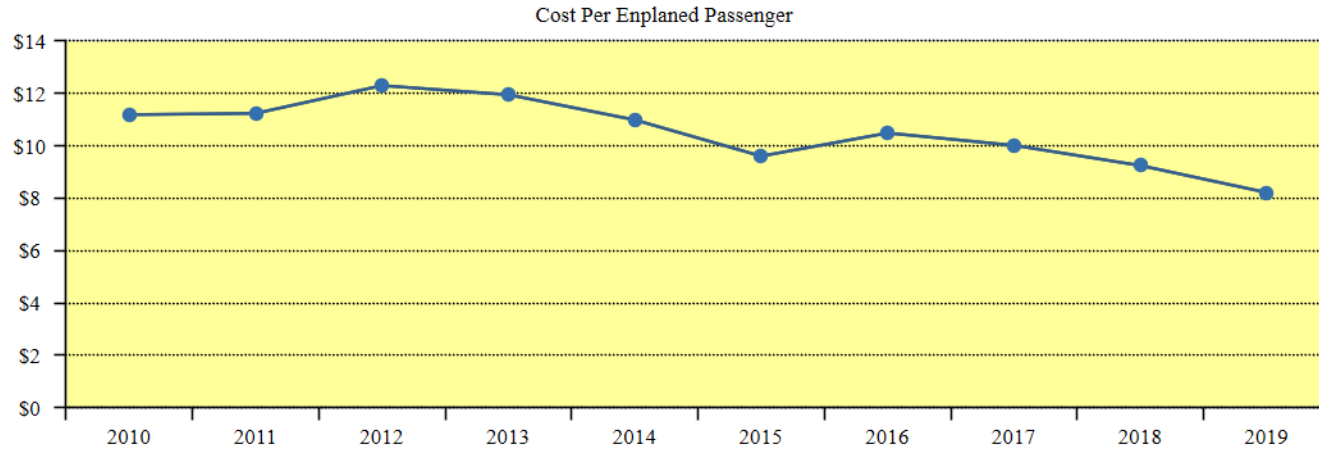
	<u>2015⁽²⁾</u>	<u>2016</u>	<u>2017⁽¹⁾</u>	<u>2018⁽³⁾</u>	<u>2019</u>
Operating revenues:					
Airline rates and charges:					
Landing fees	\$ 11,856	\$ 13,095	\$ 18,370	\$ 19,297	\$ 18,984
Terminal rental	34,372	40,800	39,778	43,476	42,815
Total airline rates and charges	46,228	53,895	58,148	62,773	61,799
Terminal buildings/concessions	16,271	17,576	20,207	22,375	23,717
Airfield	3,993	4,891	7,307	8,027	8,340
Parking and roadway	49,049	53,704	52,514	59,715	64,507
Fuel handling fees	3,257	3,226	3,080	3,078	2,930
General aviation/other	7,183	8,661	9,748	10,096	10,773
Customer facility charges ⁽¹⁾	-	-	1,931	2,518	2,762
Total operating revenues	125,981	141,953	152,935	168,582	174,828
Operating expenses:					
Terminal buildings/concessions	23,833	27,724	31,115	34,922	37,372
Airfield	9,891	12,767	16,776	20,116	20,062
Parking and roadway	17,170	16,684	16,046	16,283	15,837
Fuel handling costs	28	(565)	16	59	69
General aviation	2,006	1,963	1,383	2,438	2,383
General and administrative	18,208	19,334	23,057	25,118	25,042
Depreciation	53,437	51,864	46,449	47,486	49,026
Total operating expenses	124,573	129,771	134,842	146,422	149,791
Operating income (loss)	1,408	12,182	18,093	22,160	25,037
Nonoperating revenues (expenses):					
Passenger facility charges	19,291	20,603	23,097	27,048	29,735
Customer facility charges for debt service ⁽¹⁾	18,690	19,888	18,026	18,364	18,704
Participating airline net revenue sharing	-	-	-	-	(13,944)
Investment income	1,222	2,444	1,591	2,842	9,893
Interest expense	(72,237)	(71,245)	(67,440)	(61,305)	(60,381)
Bond issuance costs	(976)	-	(2,492)	50	-
Operating grants	610	497	1,169	809	720
Loss on capital assets disposal	-	-	-	-	(271)
Other, net	806	1,902	603	1,214	1,045
Total nonoperating revenues (expenses), net	(32,594)	(25,911)	(25,446)	(10,978)	(14,499)
Income (loss) before capital contributions	(31,186)	(13,729)	(7,353)	11,182	10,538
Capital contributions	937	5,760	10,120	9,287	18,747
Special item - rate stabilization fund and ten-year lookback distribution	-	-	-	-	(16,266)
Change in net position	\$ (30,249)	\$ (7,969)	\$ 2,767	\$ 20,469	\$ 13,019
Net position at year-end					
Net investment in capital assets	\$ 126,350	\$ 95,800	\$ 82,801	\$ 100,587	\$ 126,419
Restricted	56,752	61,308	64,907	62,014	61,897
Unrestricted	18,689	36,714	48,881	41,921	29,225
Net position at year-end ⁽²⁾⁽³⁾	\$ 201,791	\$ 193,822	\$ 196,589	\$ 204,522	\$ 217,541

⁽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.

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

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

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



	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Airline revenues:										
Terminal rental	\$ 33,459	\$ 34,446	\$ 39,864	\$ 38,256	\$ 38,130	\$ 34,372	\$ 40,800	\$ 39,778	\$ 43,477	\$ 42,815
Landing fees (passenger carriers)	<u>12,443</u>	<u>12,582</u>	<u>10,838</u>	<u>12,298</u>	<u>11,451</u>	<u>11,361</u>	<u>12,528</u>	<u>17,697</u>	<u>18,690</u>	<u>18,453</u>
Total	45,902	47,028	50,702	50,554	49,581	45,733	53,328	57,475	62,167	61,268
Enplaned passengers	4,107	4,189	4,125	4,235	4,517	4,765	5,088	5,740	6,725	7,462
Airline cost per enplaned passenger (not in 000's)	<u>\$ 11.18</u>	<u>\$ 11.23</u>	<u>\$ 12.29</u>	<u>\$ 11.94</u>	<u>\$ 10.98</u>	<u>\$ 9.60</u>	<u>\$ 10.48</u>	<u>\$ 10.01</u>	<u>\$ 9.24</u>	<u>\$ 8.21</u>

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)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Gross concession revenue ⁽¹⁾										
Public parking ⁽²⁾	\$ 21,260	\$ 22,081	\$ 22,943	\$ 24,814	\$ 26,759	\$ 27,845	\$ 29,392	\$ 28,635	\$ 31,053	\$ 32,330
Rental cars	114,614	125,730	126,333	129,643	142,439	149,384	157,857	162,142	166,291	173,631
Food and beverage	16,493	21,141	22,280	24,216	27,350	30,078	32,870	39,060	45,024	50,588
Advertising	1,736	1,903	1,873	2,355	2,506	2,245	2,368	3,550	4,525	5,022
Gift shop & retail	8,868	11,290	11,983	12,668	13,475	14,130	15,742	17,636	19,739	21,243
In-flight kitchen ⁽³⁾	8,580	9,823	8,920	10,680	13,114	15,904	22,893	40,790	39,559	29,203
Total gross concession revenue	\$ 171,551	\$ 191,968	\$ 194,332	\$ 204,376	\$ 225,643	\$ 239,586	\$ 261,122	\$ 291,813	\$ 306,191	\$ 312,017
Enplaned passengers	4,107	4,189	4,125	4,235	4,517	4,765	5,088	5,740	6,725	7,462
Gross concession revenue per enplaned passenger (not in 000's)	\$ 41.77	\$ 45.83	\$ 47.11	\$ 48.26	\$ 49.95	\$ 50.28	\$ 51.32	\$ 50.84	\$ 45.53	\$ 41.81

⁽¹⁾ Gross revenues of major concessionaires only.

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

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

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

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED AIRLINE RATES AND CHARGES
LAST TEN FISCAL YEARS**

	2010	2011	2012	2013	2014	Unit
Landing fees:	\$ 2.32	\$ 2.47	\$ 2.14	\$ 2.38	\$ 2.22	per 1,000 lbs. MGLW ⁽³⁾
Terminal rental rates:						
<u>Group A</u>						
Ticket counter and queuing, skycap/curbside check-in						
Preferential	145,136	241,041	319,205	296,954	293,680	per counter
Common	57	73	97	90	98	per hour
Airline ticket office, Club/VIP	204.57	157.18	184.19	186.55	192.73	per sq. ft.
Holdroom (gate)						
Preferential	726,212	742,245	872,527	886,424	915,350	per gate
Common	497	496	598	607	591	per turn
<u>Group B</u>						
Baggage claim ⁽¹⁾	163.66	125.74	147.35	149.24	154.19	per sq. ft.
<u>Group C</u>						
Baggage make-up ⁽²⁾ /Operations space	102.29	78.59	92.09	93.28	96.37	per sq. ft.

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

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

⁽³⁾ MGLW - Maximum Gross Landing Weight

Source: Norman Y. Mineta San José International Airport annual rates and charges analysis.

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SCHEDULED AIRLINE RATES AND CHARGES
LAST TEN FISCAL YEARS**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Unit</u>
Landing fees:	\$ 2.09	\$ 2.13	\$ 2.70	\$ 2.45	\$ 2.18	per 1,000 lbs. MGLW ⁽³⁾
Terminal rental rates:						
<u>Group A</u>						
Ticket counter and queuing, skycap/curbside check-in						
Preferential	235,177	287,230	273,042	255,345	233,439	per counter
Common	94	88	54	73	78	per hour
Airline ticket office, Club/VIP	178.08	195.75	186.08	206.25	218.88	per sq. ft.
Holdroom (gate)						
Preferential	775,820	883,722	763,701	632,610	720,993	per gate
Common	470	552	521	633	492	per turn
<u>Group B</u>						
Baggage claim ⁽¹⁾	142.47	156.60	148.86	165.00	175.11	per sq. ft.
<u>Group C</u>						
Baggage make-up ⁽²⁾ /Operations space	89.04	97.87	93.04	103.12	109.44	per sq. ft.

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

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

⁽³⁾ MGLW - Maximum Gross Landing Weight

Source: Norman Y. Mineta San José International Airport annual rates and charges analysis.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
OUTSTANDING DEBT AND DEBT SERVICE⁽¹⁾
LAST TEN FISCAL YEARS
(\$ and Passengers in 000's)

	2010	2011	2012	2013	2014
Outstanding debt per enplaned passenger					
Outstanding debt by type:					
Revenue bonds	\$ 1,035,266	\$ 1,023,304	\$ 1,415,552	\$ 1,398,332	\$ 1,376,038
Commercial paper notes	417,348	410,079	47,937	45,380	41,159
Total outstanding debt	<u>1,452,614</u>	<u>1,433,383</u>	<u>1,463,489</u>	<u>1,443,712</u>	<u>1,417,197</u>
Enplaned passengers	<u>4,107</u>	<u>4,189</u>	<u>4,125</u>	<u>4,235</u>	<u>4,517</u>
Total outstanding debt per enplaned passenger (not in 000's)	<u>\$ 354</u>	<u>\$ 342</u>	<u>\$ 355</u>	<u>\$ 341</u>	<u>\$ 314</u>
Debt service					
Revenue bonds ⁽²⁾	\$ 31,367	\$ 53,890	\$ 80,725	\$ 86,325	\$ 95,068
Commercial paper notes ^{(3) (4)}	734	16,605	6,818	4,043	2,859
Total debt service	<u>32,101</u>	<u>70,495</u>	<u>87,543</u>	<u>90,368</u>	<u>97,927</u>
Less: Funds available for debt service					
Passenger facility charges	4,588	21,388	21,336	22,100	25,747
Customer facility charges ^{(5) (6)}	-	6,840	10,137	13,385	15,494
Unspent bond proceeds ⁽⁵⁾	-	-	1,713	5,802	11,082
Series 2007 Bond Reserve Fund ⁽⁷⁾	-	-	-	-	-
Net debt service	<u>\$ 27,513</u>	<u>\$ 42,267</u>	<u>\$ 54,357</u>	<u>\$ 49,081</u>	<u>\$ 45,604</u>
Net debt service per enplaned passenger (not in 000's)	<u>\$ 6.70</u>	<u>\$ 10.09</u>	<u>\$ 13.18</u>	<u>\$ 11.59</u>	<u>\$ 10.10</u>

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

⁽²⁾ Under the Master Trust Agreement (MTA) dated July 1, 2001, and as amended and supplemented to date (Master Trust), "Bond Debt Service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Also, under the 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⁾ 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.

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
OUTSTANDING DEBT AND DEBT SERVICE⁽¹⁾
LAST TEN FISCAL YEARS
(\$ and Passengers in 000's)

	2015 ⁽⁶⁾	2016 ⁽⁶⁾	2017 ⁽⁶⁾	2018	2019
Outstanding debt per enplaned passenger					
Outstanding debt by type:					
Revenue bonds	\$ 1,349,265	\$ 1,325,579	\$ 1,310,333	\$ 1,261,909	\$ 1,229,409
Commercial paper notes	37,912	34,672	25,461	7,509	52,216
Total outstanding debt	<u>1,387,177</u>	<u>1,360,251</u>	<u>1,335,794</u>	<u>1,269,418</u>	<u>1,281,625</u>
Enplaned passengers	<u>4,765</u>	<u>5,088</u>	<u>5,740</u>	<u>6,725</u>	<u>7,462</u>
Total outstanding debt per enplaned passenger (not in 000's)	<u>\$ 291</u>	<u>\$ 267</u>	<u>\$ 233</u>	<u>\$ 189</u>	<u>\$ 172</u>
Debt service					
Revenue bonds ⁽²⁾	\$ 96,083	\$ 95,452	\$ 95,660	\$ 103,766	\$ 92,501
Commercial paper notes ^{(3) (4)}	2,213	2,116	1,728	686	317
Total debt service	<u>98,296</u>	<u>97,568</u>	<u>97,388</u>	<u>104,452</u>	<u>92,818</u>
Less: Funds available for debt service					
Passenger facility charges	25,202	24,829	24,789	24,792	27,026
Customer facility charges ^{(5) (6)}	17,412	17,701	18,026	18,364	18,704
Unspent bond proceeds ⁽⁵⁾	11,082	11,083	4,295	-	-
Series 2007 Bond Reserve Fund ⁽⁷⁾	-	-	-	7,411	-
Net debt service	<u>\$ 44,600</u>	<u>\$ 43,955</u>	<u>\$ 50,278</u>	<u>\$ 53,885</u>	<u>\$ 47,088</u>
Net debt service per enplaned passenger (not in 000's)	<u>\$ 9.36</u>	<u>\$ 8.64</u>	<u>\$ 8.76</u>	<u>\$ 8.01</u>	<u>\$ 6.31</u>

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

⁽⁵⁾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.

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

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

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

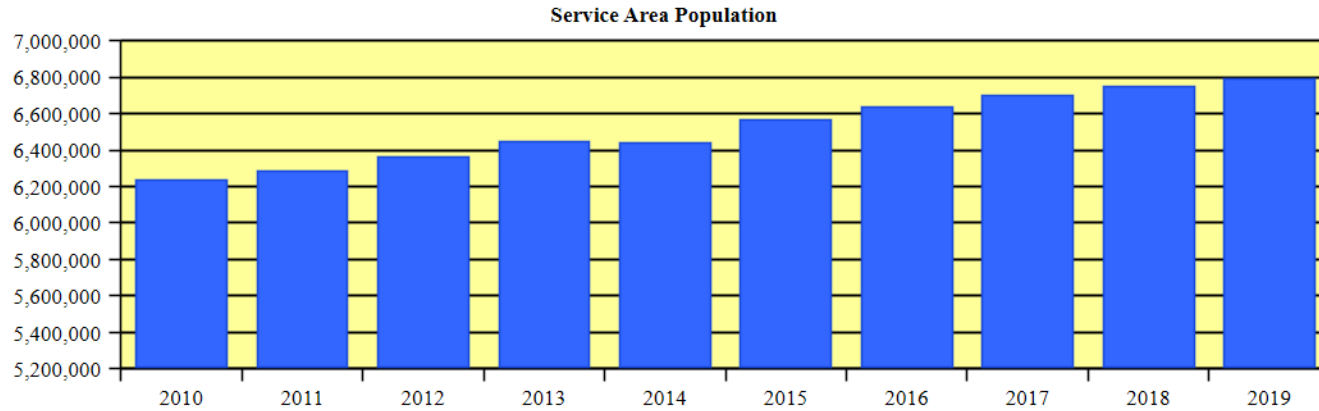
NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
DEBT SERVICE COVERAGE
LAST TEN FISCAL YEARS
(in \$ 000's)

Years	Adjusted General Airport Revenues ⁽¹⁾	Operating Expenses ^{(2) (3)}	Net Revenues	Other Available Funds ⁽⁸⁾	Net Revenues Available for Debt Service	Total Bond Debt Service ⁽⁴⁾	Available PFC Revenues ⁽⁴⁾	Net Bond Debt Service Payable from Revenues	Coverage Ratio - Bonds	Estimated CP Debt Service ^{(5) (6)}	Coverage Ratio - Bonds & CP
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	70,054 ⁽⁷⁾	57,984	78,026 ⁽⁹⁾	136,010	96,083	25,202	70,881	1.92	2,213	1.86
2016	145,809	73,118	72,691	71,466 ⁽⁹⁾	144,157	95,452	24,829	70,623	2.04	2,116	1.98
2017	156,278	77,577	78,701	77,876	156,577	95,660	24,789	70,871	2.21	1,728	2.16
2018	173,862	85,584	88,278	78,157	166,435	103,766	24,792	78,974	2.11	686	2.09
2019	181,195	92,572	88,623	62,746	151,369	92,501	27,026	65,475	2.31	317	2.30

- (1) Does not include PFC revenues, AIP grant proceeds, or CFC revenues classified as nonoperating revenues. PFC revenues and AIP grant proceeds are included in the Statements of Revenues, Expenses, and Changes in Net Position as nonoperating revenues. Beginning in fiscal year 2011, CFC revenues were reclassified from operating to nonoperating revenue. Beginning fiscal year 2017, the Airport started using a portion of CFC revenues to pay for transportation costs, which is recorded as operating income.
- (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) As required by the Letter of Credit and Reimbursement Agreements related to the Airport's 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.
- (6) Includes letter of credit fees associated with subordinated commercial paper.
- (7) Fiscal year 2015 operating expenses were revised to exclude expenses related to GASB Statement No. 68.
- (8) Other Available Funds include the Rolling Coverage Amount, uncommitted monies in the General Revenue Fund from the prior fiscal year, unspent bond proceeds in FY 12 through FY 17, and CFC Revenues, in an amount not to exceed the amount of eligible debt service and transportation costs.
- (9) Other Available Funds was restated to include CFC revenues available for debt services not to exceed the amount of CFC eligible debt service and transportation costs.

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

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
SERVICE AREA POPULATION IN THE AIR TRADE AREA
LAST TEN CALENDAR YEARS AS OF JANUARY 1**

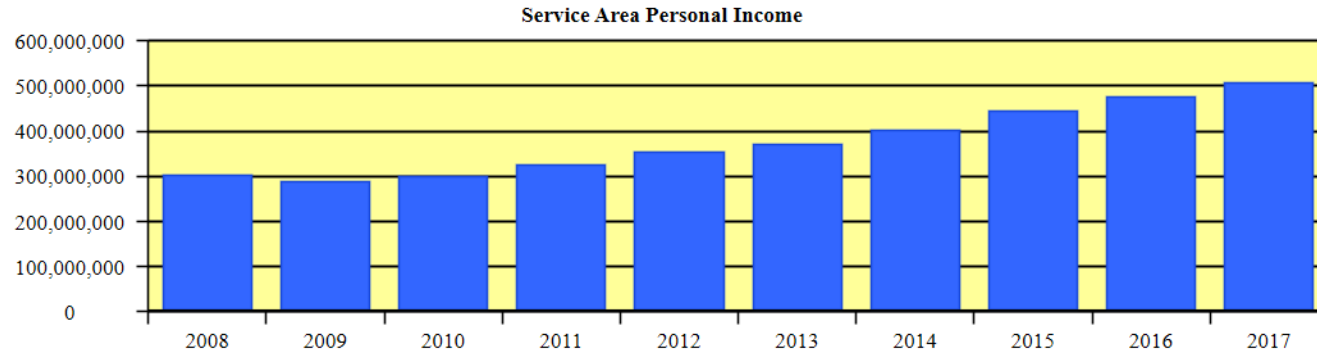


Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2010	1,517,756	416,968	55,474	722,372	1,794,337	263,954	257,098	689,160	516,244	6,233,363
2011	1,530,206	419,586	56,137	727,793	1,813,702	265,348	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	1,610,765	432,637	56,445	759,155	1,903,974	273,594	269,280	723,761	534,902	6,564,513
2016	1,629,233	438,171	56,621	765,895	1,922,619	275,557	271,547	735,677	541,466	6,636,786
2017	1,646,405	442,149	56,879	770,256	1,937,473	276,504	275,104	747,263	549,976	6,702,009
2018 ⁽¹⁾	1,656,884	442,940	60,841	772,372	1,947,798	276,071	279,424	757,279	554,108	6,747,717
2019	1,669,301	445,414	62,296	774,485	1,954,286	274,871	282,928	770,385	558,972	6,792,938

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

Source: California Department of Finance, Demographic Research Unit

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



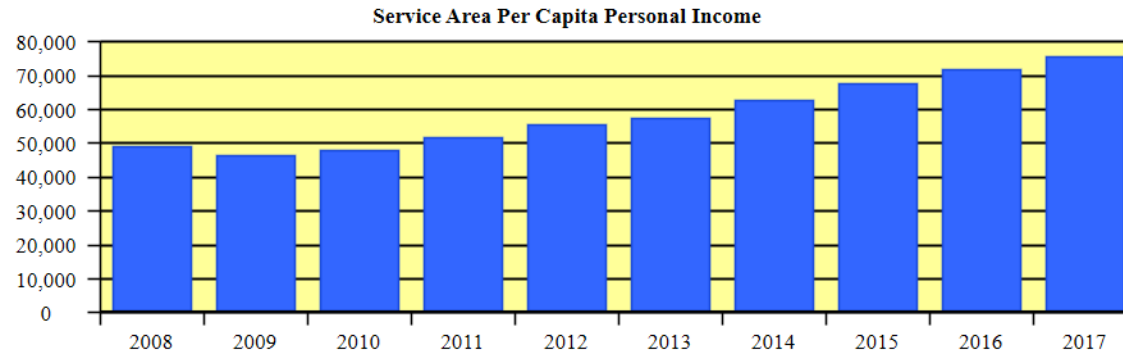
Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2008	\$ 73,944,674	\$ 16,931,392	\$ 1,967,929	\$ 49,148,183	\$ 102,433,735	\$ 12,940,365	\$ 6,826,882	\$ 21,029,219	\$ 15,857,505	\$ 301,079,884
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	85,173,987	19,184,636	2,279,346	64,281,690	133,654,835	13,456,565	8,635,380	24,470,917	18,399,577	369,536,933
2014	93,290,149	20,028,430	2,364,002	69,717,150	147,251,454	14,814,476	9,197,957	26,089,638	19,869,327	402,622,583
2015	102,742,614	22,142,878	2,622,190	77,283,538	163,034,586	15,911,723	9,683,705	28,279,556	21,578,734	443,279,524
2016 ⁽²⁾	111,354,955	22,828,552	2,870,816	82,046,470	178,029,092	16,766,106	9,913,086	30,102,917	22,360,836	476,272,830
2017	118,554,685	23,819,797	3,096,482	87,485,845	190,001,690	17,665,129	10,556,722	31,920,185	23,446,103	506,546,638

⁽¹⁾ Information for calendar years 2018 and 2019 is not available.

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

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

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



Primary Service Area

Secondary Service Area

Years	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	Average PCPI ⁽³⁾
2008	\$ 50,057	\$ 41,701	\$ 36,264	\$ 69,830	\$ 58,837	\$ 50,446	\$ 27,249	\$ 31,308	\$ 31,152	\$ 48,963
2009	47,021	40,786	34,984	65,345	54,153	46,584	26,838	30,613	30,686	46,266
2010	48,144	40,732	34,558	66,362	57,336	46,925	27,706	30,857	31,500	47,951
2011	51,286	41,906	36,273	71,232	62,623	50,138	29,995	32,157	33,005	51,581
2012	54,379	43,411	37,867	79,420	67,974	53,473	30,726	33,777	34,437	55,408
2013	53,798	44,707	39,576	85,653	71,431	49,942	32,774	34,709	34,961	57,350
2014	57,842	46,438	40,543	91,935	77,663	54,585	34,567	36,483	37,352	62,504
2015	62,926	51,256	44,844	101,264	85,354	58,151	36,255	39,087	40,305	67,527
2016 ⁽²⁾	67,356	52,316	48,383	106,615	92,168	60,924	36,868	40,996	41,305	71,763
2017	71,282	54,395	51,343	113,410	98,032	64,028	38,716	42,822	42,793	75,581

⁽¹⁾ Information for calendar years 2018 and 2019 is not available.

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

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

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

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

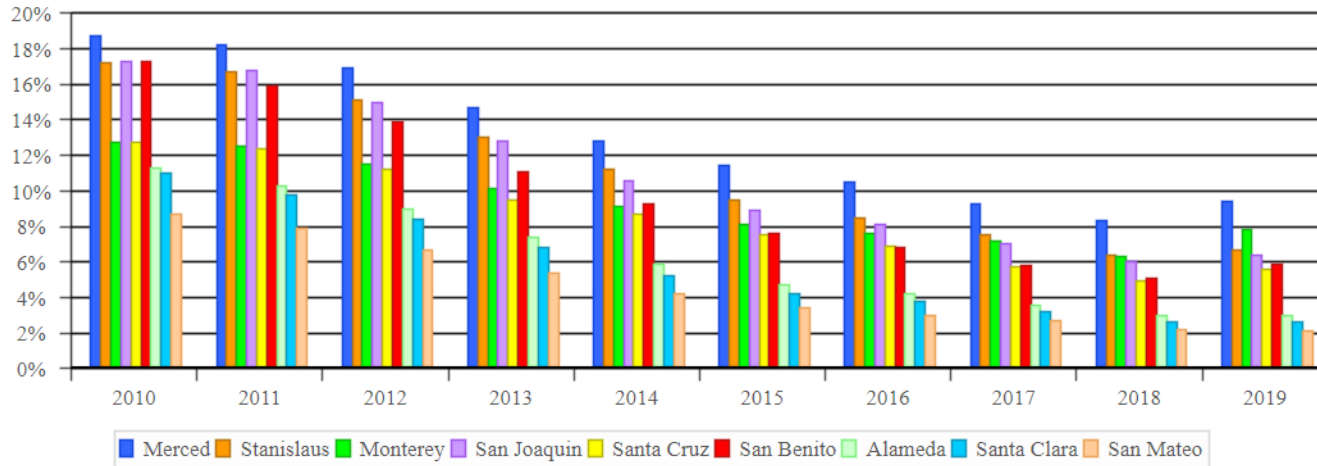
Company or Organization	2019			2010		
	Number of Employees	Rank	Percentage of Total Employment	Number of Employees	Rank	Percentage of Total Employment
County of Santa Clara	18,570	1	1.8%	15,360	1	1.8%
Cisco Systems	9,500	2	0.9%	11,600	2	1.4%
City of San José ⁽¹⁾	6,647	3	0.6%	6,620	4	0.8%
San José State University	3,600	4	0.3%	3,100	5	0.4%
eBay	3,400	5	0.3%	3,000	6	0.4%
Paypal, Inc.	3,300	6	0.3%	N/A ⁽²⁾	N/A ⁽²⁾	-
Adobe Systems Inc.	2,900	7	0.3%	2,000	12	0.2%
Kaiser Permanente	2,585	8	0.2%	2,120	11	0.2%
Target Stores	2,400	9	0.2%	N/A ⁽²⁾	N/A ⁽²⁾	-
Good Samaritan Health System	2,240	10	0.2%	1,850	13	0.2%
Western Digital	2,200	11	0.2%	N/A ⁽²⁾	N/A ⁽²⁾	-
Super Micro Computer	2,000	12	0.2%	N/A ⁽²⁾	N/A ⁽²⁾	-
Safeway	1,800	13	0.2%	N/A ⁽²⁾	N/A ⁽²⁾	-
Cadence Design Systems	1,750	14	0.2%	1,560	15	0.2%
Regional Medical Center	1,625	15	0.2%	N/A ⁽²⁾	N/A ⁽²⁾	-

⁽¹⁾ Full-time employees

⁽²⁾ Companies or organizations not included in top 15 principal employers in 2010

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

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



	2010	2011	2012	2013	2014	2015	2016	2017	2018 ⁽¹⁾	2019 ⁽²⁾
Merced	18.7 %	18.2 %	16.9 %	14.7 %	12.8 %	11.4 %	10.5 %	9.3 %	8.3 %	9.4 %
Monterey	12.7 %	12.5 %	11.5 %	10.1 %	9.1 %	8.1 %	7.6 %	7.2 %	6.3 %	7.8 %
Stanislaus	17.2 %	16.7 %	15.1 %	13.0 %	11.2 %	9.5 %	8.5 %	7.5 %	6.4 %	6.7 %
San Joaquin	17.3 %	16.8 %	15.0 %	12.8 %	10.6 %	8.9 %	8.1 %	7.0 %	6.0 %	6.4 %
San Benito	17.3 %	15.9 %	13.9 %	11.1 %	9.3 %	7.6 %	6.8 %	5.8 %	5.1 %	5.9 %
Santa Cruz	12.7 %	12.4 %	11.2 %	9.5 %	8.7 %	7.5 %	6.9 %	5.7 %	4.9 %	5.6 %
Alameda	11.3 %	10.3 %	9.0 %	7.4 %	5.9 %	4.7 %	4.2 %	3.6 %	3.0 %	3.0 %
Santa Clara	11.0 %	9.8 %	8.4 %	6.8 %	5.2 %	4.2 %	3.8 %	3.2 %	2.6 %	2.6 %
San Mateo	8.7 %	7.9 %	6.7 %	5.4 %	4.2 %	3.4 %	3.0 %	2.7 %	2.2 %	2.1 %

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

⁽²⁾ Information for 2019 is the average of January through June 2019.

Source: California Employment Development Department, Labor Market Information Division

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

<u>Functional Area</u>	Budgeted Full-time-Equivalent ⁽¹⁾ Employees as of Fiscal Year-End									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Administration	31	27	27	27	27	28	28	30	30	31
Air service development	2	1	1	1	1	1	1	1	1	1
Airport technology services	16	13	13	13	13	13	11	11	11	11
Airside operations	38	35	40	42	43	43	43	51	51	50
Customer service and outreach	6	5	6	7	7	6	8	10	10	11
Capital and airport development	26	18	14	15	15	15	18	19	19	20
Environmental	3	1	1	1	1	1	1	2	2	2
Facilities (building services, trades, and maintenance)	128	64	66	64	64	64	61	68	68	70
Landside operations and services	47	34	29	9	8	8	8	9	9	10
Property management	9	8	8	8	8	8	8	10	10	10
	<u>305</u>	<u>206</u>	<u>205</u>	<u>187</u>	<u>187</u>	<u>187</u>	<u>187</u>	<u>211</u>	<u>211</u>	<u>216</u>

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

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

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
AIRPORT INFORMATION
June 30, 2019

Location:	Four miles north of downtown San José, "Capital of Silicon Valley"		
Area:	1,000 acres		
Elevation:	62.2 ft.		
Airport code:	SJC		
Runways:	11/29	North/South	4599 x 100 ft.
	12R/30L	North/South	11,000 x 150 ft. ILS/VOR/GPS
	12L/30R	North/South	11,000 x 150 ft. GPS (VOR 30R only)
Terminal:	Airlines		280,063 sq. ft.
	Concessions and other rentables		77,963 sq. ft.
	Public/common		544,343 sq. ft.
	Vacant		23,915 sq. ft.
	Other		<u>103,877 sq. ft.</u>
	Total		<u><u>1,030,161 sq. ft.</u></u>
	Number of passenger gates - Terminal A and FIS		17
	Number of passenger gates - Terminal B		19
	Number of loading bridges		35
	Number of concessionaires in terminal		53
	29 food & beverage concessions		
	24 retail concessions		
	Number of rental car brands		11
Apron:	Commercial airlines		1,330,140 sq. ft.
	Cargo airlines		596,482 sq. ft.
	Fixed based operator (FBO)		1,362,771 sq. ft.
	General Aviation West		<u>308,218 sq. ft.</u>
	Total		<u><u>3,597,611 sq. ft.</u></u>
Public parking spaces:	Hourly - Terminal A Garage (Lot 2)		1,021
	Hourly - Terminal B Garage and Surface (Lots 3 and 5)		599
	Daily lots (Lots 4 and 6)		1,283
	Economy lot (Lot 1)		<u>1,673</u>
	Total		<u><u>4,576</u></u>
Cargo:	Air freight building		<u>21,403 sq. ft.</u>
International:	Customs / Federal Inspection Service Facility		
Tower:	Operational hours 0600 - 0000, after hours CTAF 124.0/TRACON 24/7		
FBOs:	Atlantic San José		
	AvBase		
	Signature Flight Support		

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 2010 THROUGH 2014
(Ranked by Fiscal Year 2014 Results)

Airline	2010		2011		2012		2013 ⁽¹⁾		2014	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,121,917	51.7 %	2,187,033	52.2 %	2,192,234	53.1 %	2,169,956	51.2 %	2,280,346	50.5 %
Alaska Airlines ⁽²⁾	393,982	9.6 %	561,400	13.4 %	609,315	14.8 %	727,616	17.2 %	704,944	15.6 %
Delta Airlines ⁽³⁾	175,775	4.3 %	216,757	5.2 %	218,447	5.3 %	228,824	5.4 %	332,544	7.4 %
American Airlines ⁽⁴⁾	692,293	16.9 %	620,195	14.8 %	571,167	13.8 %	587,829	13.9 %	601,104	13.3 %
United Airlines ⁽⁵⁾	376,879	9.2 %	357,283	8.5 %	298,808	7.2 %	253,837	6.0 %	231,287	5.1 %
JetBlue Airways	95,118	2.3 %	80,797	1.9 %	76,063	1.8 %	71,506	1.7 %	70,860	1.6 %
Hawaiian Airlines	72,266	1.8 %	85,571	2.0 %	103,483	2.5 %	116,928	2.8 %	113,381	2.5 %
Frontier Airlines	-	-	-	-	-	-	-	-	-	-
Volaris	8,072	0.2 %	48,325	1.2 %	49,709	1.2 %	49,700	1.2 %	51,056	1.1 %
British Airways	-	-	-	-	-	-	-	-	-	-
Air Canada	-	-	-	-	-	-	-	-	-	-
All Nippon Airways	-	-	-	-	-	-	3,273	0.1 %	42,999	1.0 %
Hainan Airlines	-	-	-	-	-	-	-	-	-	-
Aeromexico	-	-	-	-	-	-	-	-	-	-
Lufthansa	-	-	-	-	-	-	-	-	-	-
Air China	-	-	-	-	-	-	-	-	-	-
All other airlines ⁽⁶⁾	169,551	4.1 %	31,862	0.8 %	5,659	0.1 %	25,284	0.6 %	88,500	2.0 %
Total⁽⁷⁾	4,105,853	100.0 %	4,189,223	100.0 %	4,124,885	100.0 %	4,234,753	100.0 %	4,517,021	100.0 %

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

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

⁽³⁾ Includes enplaned passengers on flights operated by Skywest and Compass Airlines.

⁽⁴⁾ In December 2013, the American Airlines and US Airways ("American Airlines Group") merger was completed. Passengers previously reported under US Airways are now grouped with American Airlines. The enplanements include flights operated by Skywest, Mesa Airlines, and Compass Airlines.

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 2015 THROUGH 2019
(Ranked by Fiscal Year 2019 Results)**

Airline	2015		2016		2017		2018		2019	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,420,333	50.8 %	2,507,648	49.3 %	2,607,667	45.4 %	3,050,314	45.4 %	3,569,213	47.8 %
Alaska Airlines ⁽²⁾	750,673	15.8 %	795,136	15.6 %	988,852	17.2 %	1,183,145	17.6 %	1,416,446	19.0 %
Delta Airlines ⁽³⁾	463,746	9.7 %	551,084	10.8 %	648,825	11.3 %	701,037	10.4 %	783,809	10.5 %
American Airlines ⁽⁴⁾	604,952	12.7 %	642,626	12.6 %	634,827	11.1 %	628,683	9.3 %	606,477	8.1 %
United Airlines ⁽⁵⁾	186,656	3.9 %	184,570	3.6 %	237,281	4.1 %	314,024	4.7 %	323,965	4.3 %
JetBlue Airways	71,577	1.5 %	73,950	1.5 %	151,587	2.6 %	222,987	3.3 %	155,313	2.1 %
Hawaiian Airlines	161,707	3.4 %	164,088	3.2 %	153,379	2.7 %	169,044	2.5 %	143,314	1.9 %
Frontier Airlines	-	-	-	-	-	-	80,943	1.2 %	99,539	1.3 %
Volaris	51,185	1.1 %	58,385	1.1 %	61,585	1.1 %	60,602	0.9 %	91,784	1.2 %
British Airways	-	-	9,872	0.2 %	54,145	0.9 %	54,092	0.8 %	59,099	0.8 %
Air Canada	-	-	6,882	0.1 %	46,701	0.8 %	57,145	0.8 %	56,389	0.8 %
All Nippon Airways	47,560	1.0 %	49,717	1.0 %	49,160	0.9 %	49,735	0.7 %	48,901	0.7 %
Hainan Airlines	1,849	-	34,939	0.7 %	44,123	0.8 %	38,995	0.6 %	42,025	0.6 %
Aeromexico	-	-	-	-	-	-	51,326	0.8 %	34,761	0.5 %
Lufthansa	-	-	-	-	40,490	0.7 %	30,057	0.4 %	17,756	0.2 %
Air China	-	-	-	-	15,511	0.3 %	25,829	0.4 %	4,436	0.1 %
All other airlines ⁽⁶⁾	4,763	0.1 %	8,808	0.2 %	5,636	0.1 %	7,169	0.1 %	8,899	0.1 %
Total⁽⁷⁾	4,765,001	100.0 %	5,087,705	100.0 %	5,739,769	100.0 %	6,725,127	100.0 %	7,462,126	100.0 %

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

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

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

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

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

<u>Airline</u> ⁽¹⁾	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
AeroMexico	-	-	-	-	-	-	-	-	51,936	37,427
Air Canada	-	-	-	-	-	-	8,103	57,831	70,950	73,271
Air China	-	-	-	-	-	-	-	51,359	61,390	9,630
Alaska Airlines	507,257	693,168	680,586	806,403	790,691	825,699	864,768	1,127,836	1,359,717	1,682,496
All Nippon Airways	-	-	-	9,880	138,114	138,700	140,925	138,790	141,175	139,285
American Airlines	760,177	692,995	643,199	664,570	669,391	653,971	726,312	730,283	735,296	688,165
British Airways	-	-	-	-	-	-	24,650	152,150	138,460	146,625
Delta Airlines	196,914	230,537	233,473	252,297	386,609	537,959	677,209	829,238	849,208	894,266
Frontier Airlines	78,484	672	-	672	499	269	-	-	80,893	94,850
Hainan Airlines	-	-	-	-	-	4,180	80,559	97,695	82,815	85,785
Hawaiian Airlines	94,075	110,895	133,520	161,560	154,290	230,520	230,052	206,901	229,459	184,495
JetBlue Airways	115,710	91,292	82,903	79,348	77,215	75,508	82,039	199,784	302,960	216,553
Lufthansa	-	-	-	-	-	-	-	99,364	62,646	35,556
Mexicana Airlines	76,916	10,890	-	-	-	-	-	-	-	-
Northwest Airlines	51,691	-	-	-	-	-	-	-	-	-
Southwest Airlines	3,033,408	2,877,878	2,917,030	2,838,160	2,819,208	2,884,182	2,976,117	3,161,461	3,635,596	4,223,415
United Airlines	452,916	413,524	355,121	293,930	269,572	206,682	214,585	268,074	353,304	347,168
Volaris	8,320	54,663	59,451	52,014	51,472	55,653	59,565	61,549	61,549	96,214
All other airlines	34,649	44,488	20,108	54,361	179,532	15,137	29,020	19,857	27,580	29,505
Subtotal	5,410,517	5,221,002	5,125,391	5,213,194	5,536,593	5,628,460	6,113,904	7,202,172	8,244,933	8,984,703
<u>Cargo Carriers</u>										
Air Transport Int'l.	57,159	71,055	12,015	250	-	-	-	-	-	-
Fedex	168,403	164,642	163,213	158,845	152,417	150,160	164,527	149,908	146,996	147,188
United Parcel Service	96,505	83,136	93,250	88,940	82,584	86,546	101,377	98,944	100,450	97,171
All other cargo airlines	200	352	270	33	-	-	440	168	161	82
Subtotal	322,267	319,185	268,748	248,067	235,002	236,706	266,344	249,020	247,607	244,440
Total	5,732,784	5,540,187	5,394,139	5,461,261	5,771,595	5,865,167	6,380,248	7,451,193	8,492,540	9,229,143

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

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

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

<u>Airline</u> ⁽¹⁾	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
AeroMexico	-	-	-	-	-	-	-	-	722	526
Air Canada	-	-	-	-	-	-	214	1,538	1,920	1,952
Air China	-	-	-	-	-	-	-	256	306	48
Alaska Airlines	9,928	13,370	12,948	15,172	13,960	13,936	14,314	20,330	25,400	30,784
All Nippon Airways	-	-	-	52	726	730	732	730	730	730
American Airlines	16,308	13,448	12,452	12,672	12,374	12,172	12,356	12,042	12,256	11,452
British Airways	-	-	-	-	-	-	116	716	652	690
Delta Airlines	4,344	4,656	4,784	4,810	8,596	12,702	14,300	15,958	16,496	17,338
Frontier Airlines	1,202	10	-	10	8	4	-	-	1,132	1,294
Hainan Airlines	-	-	-	-	-	22	424	504	420	420
Hawaiian Airlines	620	732	882	1,036	1,014	1,462	1,462	1,324	1,466	1,454
JetBlue Airways	1,876	1,284	1,166	1,116	1,086	1,062	1,146	2,740	4,126	2,924
Lufthansa	-	-	-	-	-	-	-	476	296	168
Mexicana Airlines	1,126	160	-	-	-	-	-	-	-	-
Northwest Airlines	746	-	-	-	-	-	-	-	-	-
Southwest Airlines	48,942	46,584	47,002	45,486	44,942	45,654	46,918	48,538	55,466	64,484
United Airlines	9,986	7,432	6,072	5,600	5,052	3,714	3,444	4,042	5,624	5,434
Volaris	124	812	886	770	752	774	820	846	846	1,328
All other airlines	598	778	286	784	2,546	226	394	296	384	428
Subtotal	95,800	89,266	86,478	87,508	91,056	92,458	96,640	110,336	128,242	141,454
<u>Cargo Carriers</u>										
Air Transport Int'l.	434	538	88	2	-	-	-	-	-	-
Fedex	958	926	928	918	918	920	936	928	918	916
United Parcel Service	672	566	652	610	550	580	670	664	676	644
All other cargo airlines	12	16	10	6	-	-	8	4	2	2
Subtotal	2,076	2,046	1,678	1,536	1,468	1,500	1,614	1,596	1,596	1,562
Total	97,876	91,312	88,156	89,044	92,524	93,958	98,254	111,932	129,838	143,016

(1) See notes on Schedule N.

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

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

CARRIER	NONSTOP SERVICE
SCHEDULED DOMESTIC AIRLINE SERVICE	
Alaska Airlines	Austin (AUS) Boise (BOI) Burbank (BUR) Dallas (DAL) Everett/Seattle Area (PAE) Honolulu, Oahu (HNL) Kahului, Maui (OGG) Kona, Hawaii (KOA) Lihue, Kauai (LIH) Los Angeles (LAX) Newark (EWR) New York (JFK) Orange County (SNA) Portland (PDX) Reno (RNO) San Diego (SAN) Seattle (SEA) Tucson (TUS)
American Airlines	Chicago/O'Hare (ORD) Dallas/Ft. Worth (DFW) Los Angeles (LAX) Phoenix (PHX)
Delta Air Lines	Atlanta (ATL) Detroit (DTW) Las Vegas (LAS) Los Angeles (LAX) Minneapolis/St. Paul (MSP) New York (JFK) Salt Lake City (SLC) Seattle (SEA)
Frontier Airlines	Denver (DEN) Las Vegas (LAS)
Hawaiian Airlines	Honolulu, Oahu (HNL) Kahului, Maui (OGG)
JetBlue Airways	Boston (BOS) Long Beach (LGB) New York (JFK)
Southwest Airlines	Albuquerque (ABQ) Austin (AUS) Baltimore/Washington (BWI) Boise (BOI) Burbank (BUR) Chicago/Midway (MDW) Dallas Love Field (DAL) Denver (DEN) El Paso (ELP)

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

CARRIER

NONSTOP SERVICE

	Honolulu (HNL)
	Houston (HOU)
	Kahului, Maui (OGG)
	Las Vegas (LAS)
	Long Beach (LGB)
	Los Angeles (LAX)
	Nashville (BNA)
	New Orleans (MSY) ⁽¹⁾
	Ontario (ONT)
	Orange County (SNA)
	Phoenix (PHX)
	Portland (PDX)
	Raleigh-Durham (RDU)
	Reno (RNO)
	Salt Lake City (SLC)
	San Diego (SAN)
	Seattle (SEA)
	Spokane (GEG)
	St. Louis (STL)
	Tucson (TUS)
United Airlines	Chicago/O'Hare (ORD)
	Denver (DEN)
	Houston (IAH)

SCHEDULED FOREIGN AIRLINE SERVICE

Air Canada	Vancouver (YVR)
Alaska Airlines	Guadalajara (GDL)
	Cabo San Lucas (SJD)
All Nippon Airways	Tokyo-Narita (NRT)
British Airways	London (LHR)
Hainan Airlines	Beijing (PEK)
Volaris	Guadalajara (GDL)
	Leon (BJX)
	Morelia (MLM)
	Zacatecas (ZCL)

ALL-CARGO AIRLINES

Federal Express Corporation
United Parcel Service

⁽¹⁾ Seasonal flights as of June 30, 2019

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Passengers (1,000's):										
Enplanements	4,107	4,189	4,125	4,235	4,517	4,765	5,088	5,740	6,725	7,462
Deplanements	4,125	4,200	4,131	4,254	4,546	4,790	5,125	5,775	6,765	7,488
Total passengers	<u>8,232</u>	<u>8,389</u>	<u>8,256</u>	<u>8,489</u>	<u>9,063</u>	<u>9,555</u>	<u>10,213</u>	<u>11,515</u>	<u>13,490</u>	<u>14,950</u>
Mail/freight/cargo (1,000 lbs):										
Mail	3,357	2,264	1,160	1,431	1,135	1,546	1,786	1,856	4,132	3,497
Freight/express	5,432	5,060	5,303	6,172	16,156	18,257	22,344	42,126	43,228	42,402
Cargo	97,578	87,329	77,303	78,766	86,239	84,203	92,294	78,013	74,868	68,887
Total mail/freight/cargo	<u>106,367</u>	<u>94,653</u>	<u>83,766</u>	<u>86,369</u>	<u>103,530</u>	<u>104,006</u>	<u>116,424</u>	<u>121,995</u>	<u>122,228</u>	<u>114,786</u>

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

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

Fiscal Year	Air Carrier Operations ⁽²⁾	Cargo Operations	Total Commercial Operations	Percent Commercial Operations	General Aviation Operations ⁽³⁾	Military Operations	Total Operations
2010	95,800	2,076	97,876	74.4 %	33,439	275	131,590
2011	89,266	2,046	91,312	74.8 %	30,503	276	122,091
2012	86,478	1,678	88,156	73.4 %	31,664	285	120,105
2013	87,508	1,536	89,044	73.8 %	31,321	210	120,575
2014	91,056	1,468	92,524	75.6 %	29,619	208	122,351
2015	92,458	1,500	93,958	73.7 %	33,246	213	127,417
2016	96,640	1,614	98,254	74.7 %	33,048	259	131,561
2017	110,336	1,596	111,932	76.3 %	34,551	239	146,722
2018	128,242	1,596	129,838	78.3 %	35,664	249	165,751
2019	141,454	1,562	143,016	74.5 %	48,762	230	192,008

Annual compound growth rate

FY 2010 through FY 2019	4.0 %	(2.8)%	3.9 %	3.8 %	(1.8)%	3.9 %
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- (1) An aircraft operation is defined as the takeoff or landing of an aircraft.
- (2) Includes domestic, including regional commuter operations, and international airlines.
- (3) Includes local and itinerant general aviation.

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

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BOND DISCLOSURE



To accommodate the high growth in flight operations and passengers while the Airport continues to plan for Phase II of the Terminal Area Improvement Program, Terminal B expanded in June to include an

interim facility with five gates and five accompanying ground loading jet bridges. A sixth gate and ground loading jet bridge is expected to be operational in November 2019.

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

Bond Disclosure Report

June 30, 2019

In accordance with the requirements of the Disclosure Agreements for the City of San José Airport Revenue Bonds Series 2011A-1, 2011A-2, 2011B, and Airport Revenue Refunding Bonds Series 2014A, 2014B, 2014C, 2017A, and 2017B, the Airport is including this section to meet the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the Rule).

Airport Revenue Bonds Series 2007A and 2012A were fully paid off in March 2018, which terminated the reporting obligations of the bonds. Additional information about the Airport's revenue bonds can be found in Note 5 to the financial statements.

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

Annual Report

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

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

Refer to the Financial Section, pages 1 - 76 of this report.

- ◆ A schedule showing the debt service requirements (required only to the extent there are changes).
Since there are no changes to the debt service requirements during the fiscal year ended June 30, 2019, update of this table is not required.

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

Refer to Table 1, page 105 of the Bond Disclosure Section of this report.

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

Refer to Schedule S, page 102 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 2, page 106 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 99 - 100 of the Statistical Section of this report.

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

Refer to Schedule N, pages 95 - 96 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.

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

Bond Disclosure Report

June 30, 2019

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

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

Refer to Schedule F, page 87 of the Statistical Section of this report.

REPORTING OF SIGNIFICANT EVENTS

Airport revenue bond ratings

The underlying ratings of the outstanding Airport Revenue Bonds are "A", "A2" and "A-" by S&P, Moody's, and Fitch, respectively, all with a stable outlook.

On September 27, 2019, Fitch Ratings upgraded the ratings for the City's Airport revenue bonds to "A" with a stable rating outlook. Fitch Ratings also upgraded the underlying rating on the bank note associated with the Airport's Subordinated CP Notes (AMT) to "A-" with a stable rating outlook.

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⁽¹⁾</u>	<u>Air Carrier International Enplanements</u>	<u>Total Enplanements</u>	<u>Total Percent Change</u>
2010	4,043,416	62,437	4,105,853	(6.7)%
2011	4,111,260	77,963	4,189,223	2.0 %
2012	4,041,624	83,261	4,124,885	(1.5)%
2013	4,124,464	110,289	4,234,753	2.7 %
2014	4,353,383	163,638	4,517,021	6.7 %
2015	4,592,047	172,954	4,765,001	5.5 %
2016	4,847,098	240,607	5,087,705	6.8 %
2017	5,334,312	405,457	5,739,769	12.8 %
2018	6,258,431	466,696	6,725,127	17.2 %
2019	6,997,766	464,360	7,462,126	11.0 %
Annual compound growth rate				
FY 2010 through				
FY 2019	5.6 %	22.2 %	6.2 %	

⁽¹⁾ Includes commuter enplanements previously reported separately.

Source: Norman Y Mineta San José International Airport activity reports

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
(A Department of the City of San José)
HISTORICAL MAXIMUM GROSS LANDING WEIGHT
LAST TEN FISCAL YEARS
(In 1,000 lbs)

<u>Fiscal Year</u>	<u>Air Carrier⁽¹⁾</u>	<u>Cargo⁽²⁾</u>	<u>Total⁽³⁾</u>
2010	5,410,517	322,267	5,732,784
2011	5,221,002	319,185	5,540,187
2012	5,125,391	268,748	5,394,139
2013 ⁽⁴⁾	5,213,194	248,067	5,461,261
2014 ⁽⁴⁾	5,536,593	235,002	5,771,595
2015	5,628,460	236,706	5,865,167
2016	6,113,904	266,344	6,380,248
2017	7,202,172	249,020	7,451,193
2018	8,244,933	247,607	8,492,540
2019	8,984,703	244,440	9,229,143
 Annual compound growth rate			
FY 2010 through			
FY 2019	5.2 %	(2.7)%	4.9 %

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

(2) Includes all-cargo airlines.

(3) Totals may not add due to rounding.

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

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