

CITY OF SAN JOSE, CALIFORNIA

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

For the Year Ended June 30, 2020



Certified
Public
Accountants

**CITY OF SAN JOSE, CALIFORNIA
CUSTOMER FACILITY CHARGES**
For the Year Ended June 30, 2020

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

To the Honorable City Council
City of San José, California

Report on Compliance for the Customer Facility Charge Program

We have audited the Norman Y. Mineta San José International Airport’s (Airport), a department of the City of San José (City), California, compliance with the types of compliance requirements described in the California Civil Code Chapter 1.5 (commencing with Section 1939.01) to Title 5 of Part 4 of Division 3, and California Government Code Section 50474.1 through Section 50474.3 (CFC Code), that could have a direct and material effect on the Airport’s Customer Facility Charge (CFC) program for the year ended June 30, 2020.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations and contracts applicable to the CFC program.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Airport’s CFC program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements described in the CFC Code. Those standards and the CFC Code require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the CFC program occurred. An audit includes examining, on a test basis, evidence about the Airport’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Airport’s CFC program. However, our audit does not provide a legal determination of the Airport’s compliance with those requirements.

Opinion

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Airport’s CFC program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on its CFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the CFC program and to test and report on internal control over compliance in accordance with the CFC Code, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

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

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

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

Schedule of Customer Facility Charge Revenues and Expenditures

We have audited the financial statements of the Airport, a department of the City, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements. We issued our report thereon dated November 12, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Customer Facility Charge Revenues and Expenditures (CFC Schedule) is presented for purposes of additional analysis as required by the CFC Code, and is not a required part of the Airport's financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the CFC Schedule is fairly stated in all material respects in relation to the financial statements as a whole.



Walnut Creek, California
December 21, 2020

CITY OF SAN JOSE, CALIFORNIA
Schedule of Customer Facility Charge Revenues and Expenditures
Year Ended June 30, 2020

| | |
|-----------------------------|-----------------------|
| Revenues | |
| Customer facility charges | \$ 15,393,630 |
| Facility rent | 1,239,207 |
| Investment income | 325,970 |
| Total revenues | <u>16,958,807</u> |
| Expenditures | |
| Transportation expenditures | 2,119,449 |
| Debt service expenditures | 19,167,714 |
| Total expenditures | <u>21,287,163</u> |
| Expenditures over revenues | <u>\$ (4,328,356)</u> |

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

CITY OF SAN JOSE, CALIFORNIA

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures Year Ended June 30, 2020

(1) GENERAL

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

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

(2) BASIS OF ACCOUNTING

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

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

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

(4) IMPACTS OF THE COVID-19 PANDEMIC

The impacts of the COVID-19 were swift, widespread, and deep. The first eight months of fiscal year 2020 continued the positive momentum of global and national demand for air travel reflecting the then state of the economy. However, the last four months starting in mid-March 2020 experienced a drop of approximately 97% of passenger activity and approximately 76% of aircraft operations activity followed by a slow and gradual rebound beginning in May 2020. The impact on Customer Facility Charge collections is evident starting with a slowdown in March 2020 through the end of June 2020 resulting from travel and rental car activity that was significantly lower than for the same period in fiscal year 2019.

CFC collection levels are anticipated to recover as the demand for air and rental car travel recovers. However, the speed of the recovery is unknown and some anticipate it will take at least two years to occur, with the leisure travel sector leading the recovery. This sector of the traveling public is approximately half of the Airport's demographic and is showing signs of quicker recovery than business travel demand.