

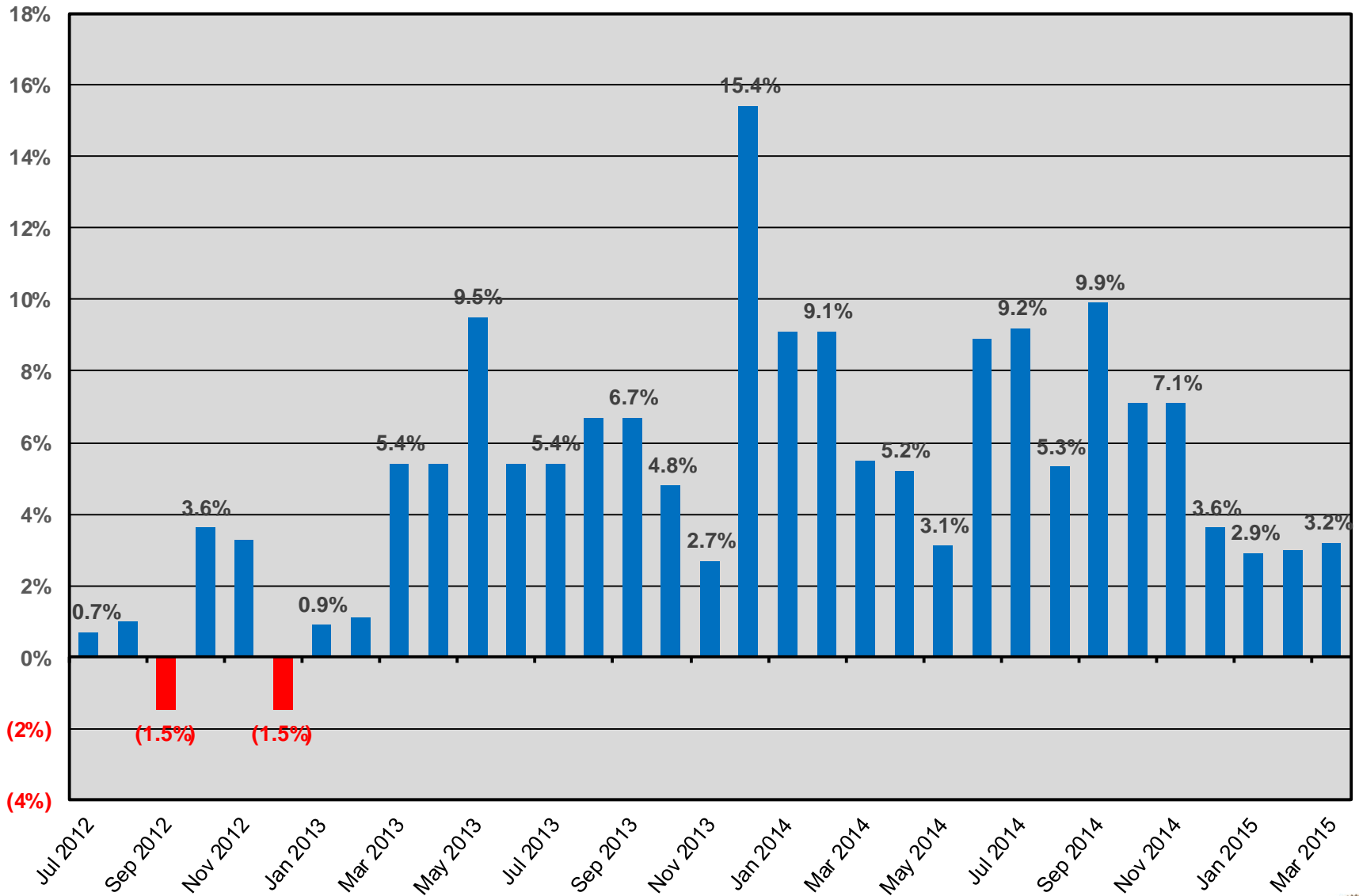


Airport Commission Meeting

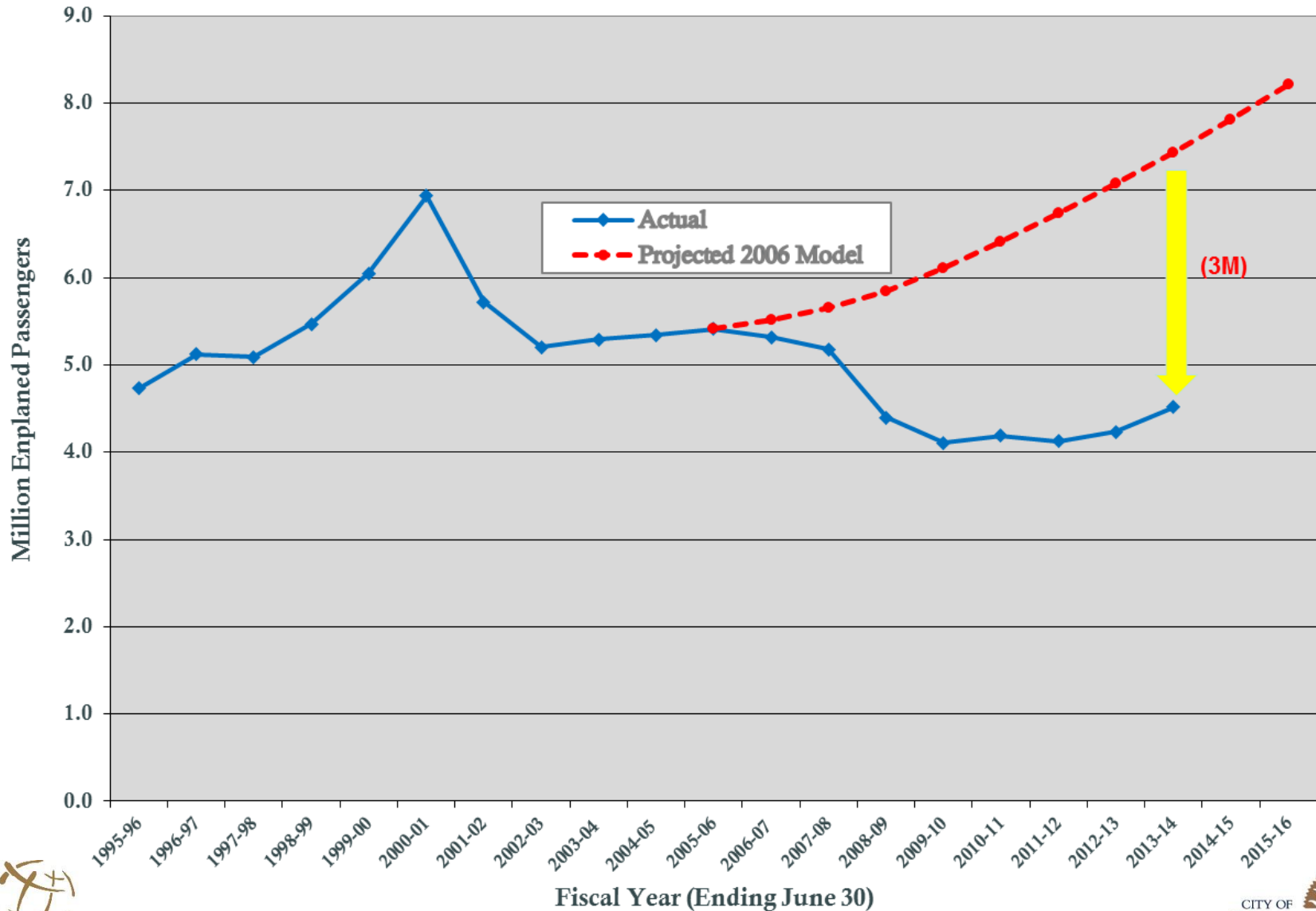
2015-2016 Airline Rates & Charges

May 11, 2015

SJC Year-over-Year Passenger Growth



Enplaned Passengers – Actual and Projected



FY2015-16 Highlights - Revenue

Higher Parking and Rental Car Revenues	\$3.1 million
Increased Fuel Flowage Fees & Land Rents	\$1.6 million
FIS revenues and terminal concessions	\$1.1 million
In-flight kitchen revenues & ground support fees	\$0.4 million

FY2015-16 Highlights – Expenses

Personnel Cost Changes	\$1.2 million
Overhead Cost Changes	\$0.7 million
Expiration of SAFER grant – SJFD	\$0.7 million
Utilities	\$0.4 million
Additional SJPD overtime shift	\$0.4 million
Custodial Services	\$0.3 million
Fire alarm testing	\$0.2 million
Superbowl marketing	\$0.1 million
Cashierless parking management	(\$0.6) million

FY2015-16 Highlights - Other

Annual Savings from Bond Refunding \$ 2.2 million

Use of Unspent Bond Proceeds to \$11.1 million
Pay Debt Service

Rate Stabilization Fund fully funded

Anticipate Municipally Funded Air Service Incentive
Program to be activated

SJC Rate Comparison

	<u>FY2014-15</u>	<u>FY2015-16</u>
Landing Fee	\$ 2.09	\$ 2.13
Average Rental Rate	\$147.68	\$162.74
CPE (budgeted)	\$ 10.50	\$ 10.90

2016-2020 Capital Improvement Program

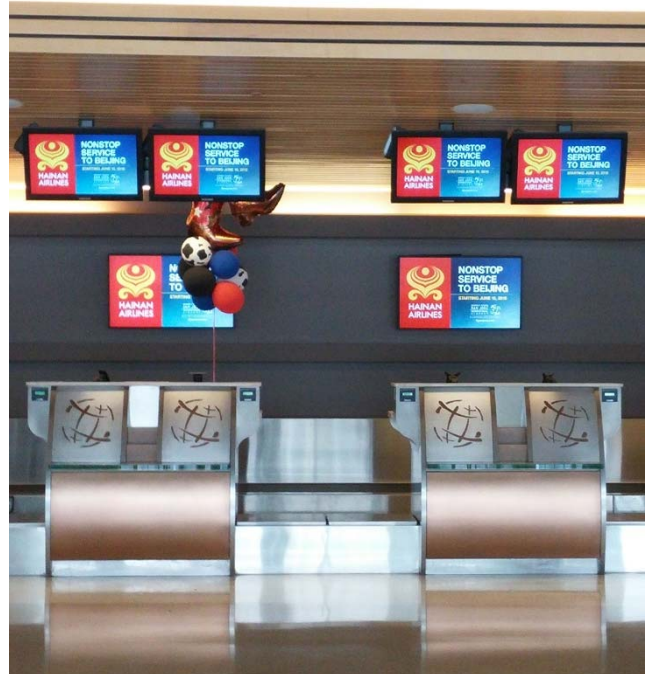
Five Year CIP represents \$227.4 million. The largest projects/allocation of capital funding over the 5 year period include:

- ✓ Airfield Geometric Implementation \$ 14.9 million (contingent funding)
- ✓ ARFF Facility Upgrade \$ 14.0 million (contingent funding)
- ✓ Southeast Ramp Reconstruction \$ 8.8 million (contingent funding)
- ✓ Security Upgrades \$ 7.0 million (contingent funding)
- ✓ Renewal and Replacement projects (FY16-FY20) \$ 22.4 million
- ✓ Use of PFC's/Unspent 2007 Bond Proceeds to Pay Debt Service (FY16-FY20) \$131.1 million
- ✓ Use of Unspent 2007 Bond Proceeds to Fund Eligible Operating Costs (FY18) \$ 17.1 million



Preliminary Airline Rates And Charges Fiscal Year 2015-16

Norman Y. Mineta San José International Airport



FISCAL YEAR 2015-16 BUDGET OVERVIEW

REVENUES

OVERVIEW

The Airport's mission is to meet the air transportation needs of the community in a safe, efficient, and cost effective manner. The fiscal year (FY) 2015-16 budget process will recommend changes to meet this mission as well as the priorities outlined below:

- ◆ Maintain and Improve Security and Safety
- ◆ Retain, Expand, and Grow Air Service and Passengers
- ◆ Achieve Financial Sustainability
- ◆ Recruit, Develop and Retain Staff to Achieve Organizational Sustainability
- ◆ Improve Organizational and Operational Efficiency
- ◆ Preserve Infrastructure and Focus on Essential Projects
- ◆ Strategically Plan for the Airport's Future

After several years of declines or little growth, passenger activity at Norman Y. Mineta San José International Airport (Airport) has improved. The Airport experienced an overall increase of 5.9% and 6.9% in passenger activity in calendar years 2013 and 2014, respectively. The Airport again experienced increases of 2.9% and 3.0% in January and February 2015, respectively, marking the 26th consecutive month of year-over-year passenger growth. This higher than expected growth has translated into higher revenues that will be shared with the airlines. However, this growth in revenue is offset by a smaller prior year surplus resulting from the Airport keeping its share of the surplus in FY 2014-15. Despite the healthy growth, the Airport continues to remain cautiously optimistic and vigilant in its efforts to remain at nationally competitive levels and to meet a cost per enplaned passenger (CPE) of under \$12 as directed by the City Council. The total revenues for FY 2015-16 are projected to decrease by 0.6% from \$167.6 million to \$166.6 million.

Airline Rates & Charges

The preliminary calculation of landing fees and terminal rental rates for FY 2015-16 resulted in an increase in the landing fee rate from \$2.09 to \$2.13 per thousand pounds. The average rental rate is estimated to increase from \$147.68 per square foot to \$162.74 per square foot.

Terminal Concessions

Terminal Concessions are projected to generate an increase of approximately \$1.1 million, or 6.7%, primarily due to increases in FIS revenues resulting from the addition of Beijing service and higher food and beverage revenues associated with increases in passenger activity.

Airfield Area

The Airfield Area revenues reflect an overall increase of approximately \$0.4 million, or 12.2%, principally due to higher ground support fees and in-flight kitchen revenues as a result of new international and expanded domestic airline services at the Airport.

FISCAL YEAR 2015-16 BUDGET OVERVIEW

REVENUES

Parking and Roadway Program

Revenues from the Parking and Roadway Program are projected to increase by approximately \$3.1 million, or 6.9%, mainly due to the increase in public parking revenues and rental car concessions, reflective of the increase in passenger activity.

Other Cost Centers/Petroleum

The Other Cost Center/Petroleum Program revenues are anticipated to increase by approximately \$1.6 million, or 13.9%, due to increases in compressed natural gas revenues and land rent attributable to rate adjustments based on increases in appraised values and consumer price index.

Revenue Sharing

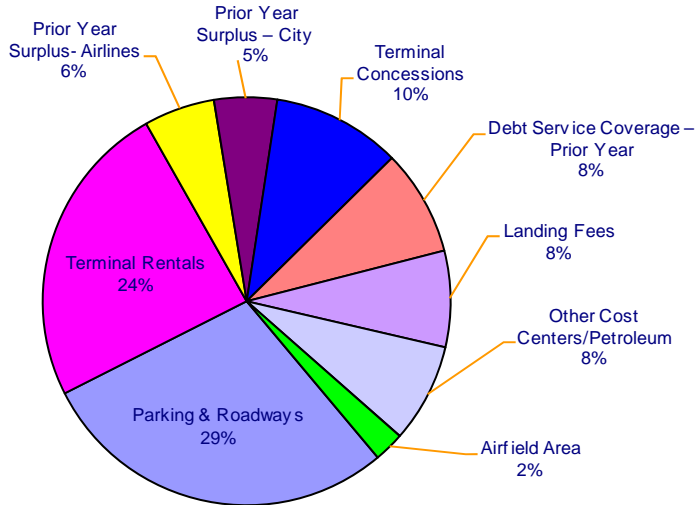
The Airport is projected to end FY 2014-15 with a net surplus of \$17.7 million or about \$7.4 million higher than budgeted. Revenues are estimated to exceed the budget by approximately \$2.6 million due to higher than anticipated activity levels. Expenses and use of contingency reserves are estimated to be lower than budget by about \$4.8 million due to numerous vacant positions and contractual services savings.

Approximately \$1.1 million of the net surplus is attributed to the Airline Terminal and Airfield cost centers and is credited directly to the airline terminal rents and landing fees for FY 2015-16. The remaining surplus of \$16.6 million is distributed equally between the City and the airlines. Of the City's \$8.3 million 50% revenue share, \$2.8 million will be applied to the Airline Terminal Revenue Requirement, while all of the airlines' \$8.3 million 50% share will be applied to the Airline Terminal Revenue Requirement. These actions contribute to lowering the projected FY 2015-16 CPE to \$10.90.

FISCAL YEAR 2015-16 BUDGET OVERVIEW

REVENUES

**Airport Revenues
Fiscal Year 2015-16**



REVENUES

	Proposed Budget <u>FY2015-16</u>	Approved Budget <u>FY2014-15</u>	<u>Percent Change</u>
Landing Fees	\$12,705,869	\$11,893,558	7%
Terminal Rentals	40,417,875	36,154,376	12%
Terminal Concessions	16,995,915	15,934,624	7%
Airfield Area	3,998,162	3,564,129	12%
Parking & Roadways	47,739,656	44,667,977	7%
Other Cost Centers/Petroleum	13,085,687	11,490,356	14%
Debt Service Coverage - Prior Year	13,994,538	14,119,002	(1%)
Prior Year Surplus- Airlines	9,374,983	18,015,868	(48%)
Prior Year Surplus - City	8,307,053	11,747,887	(29%)
TOTAL	<u><u>\$166,619,738</u></u>	<u><u>\$167,587,777</u></u>	<u><u>(1%)</u></u>

FISCAL YEAR 2015-16 BUDGET OVERVIEW

EXPENSES

Proposed budget changes are included in both the Proposed Operating Budget, as well as the Proposed Capital Budget which is outlined in the City's Capital Improvement Program (CIP).

A. Operating

The Airport Proposed Operating Budget reflects a relatively stable environment with continued efforts to align budgets with expectations to ensure that costs to airlines remain at nationally competitive levels and enable successful competition for air service. The expected service delivery for FY 2015-16 includes operating the Airport in a safe and efficient manner, delivering reliable and convenient air traveler services and amenities while preserving Airport assets and facilities through cost effective maintenance and operations, and providing services and infrastructure to support and promote a strong economy and enhance community vitality. The budget strategy for FY 2015-16 includes enhancing business development efforts with a focus on passenger marketing, keeping cost to airlines at competitive levels while offering exceptional service and modern facilities, and improving operational efficiencies. The impacts to Airline Rates and Charges are highlighted below. Updates on these proposals will be discussed at the next AAAC meeting.

Personnel Cost Adjustments

Personnel costs are broken down into three major components: salary, retirement, and other fringe benefits. The City of San José implemented a tiered retirement system in which the City's contribution for pensions is lower for new employees. As the Airport experiences turnover, through retirement or resignations, positions are budgeted at the lower level, reducing the impact of rising retirement costs when compared to Tier 1 employees.

Retirement contribution rates are adjusted annually in July. With anticipated 2015-2016 rates, overall personnel costs result in an increase of \$1.2 million reflecting increases to the salary (\$0.3 million) and retirement cost detail (\$1.0 million), partially offset by a decrease in benefits (\$0.1 million), with cost center impact as follows:

<u>Cost Center</u>	<u>Net Increase</u>
Terminal	\$ 188,000
Airfield	282,000
Parking & Roadway	59,000
Other Cost Center/Petroleum	14,000
General & Administration	643,000
	<u>\$ 1,186,000</u>

FISCAL YEAR 2015-16 BUDGET OVERVIEW

EXPENSES

Non-Personal Cost Adjustments

All operating services and programs were reviewed and evaluated for efficiencies, restructuring, and right-sizing opportunities. Non-personal cost increases total approximately \$1.0 million. This includes an overhead cost increase of \$0.3 million.

It is expected that the Municipally-Funded Air Service Incentive Program provision of the Airline Operating Agreement will be activated and reduce the overhead rates by the difference between the Airport's enplanement growth and growth nationwide. The adjustment will be calculated after the close of the fiscal year. Other increases were primarily focused around business development needs, such as advertising and marketing efforts for the upcoming Super Bowl 50 to be held at Levi's Stadium in Santa Clara in February 2016, required cost of living adjustments for ongoing agreements, and cost adjustments for new agreements going out to bid. Adjustments, other than the overhead rate increase, to non-personal budgets by cost center are described below:

- ◆ **Terminal** adjustments reflect an approximate increase of \$0.9 million. The most significant change results from electricity (\$0.3 million) due to rate increases implemented by PG&E, as well as anticipated future rate increases. Costs for custodial services (\$0.3 million) are also increasing to supplement cleaning frequency as passenger traffic continues to rise. Funding for fire alarm testing (\$0.2 million) increased to cover a one-time cost for five-year certification and annual testing. In addition, there are increased costs to the baggage systems maintenance agreement, and there is a new agreement for Smarte Carte luggage cart services.
- ◆ **Airfield Area** adjustments reflect an approximate increase of \$0.5 million primarily resulting from a net-zero shift (\$0.5 million) for private security from the Parking & Roadway to the Airfield cost center to reflect that the services are no longer being offset by grant funding. The increase is partially offset by the decrease for vehicle operations and maintenance.
- ◆ **Parking & Roadway** adjustments total an approximate decrease of \$0.8 million primarily resulting from the decreased costs for the agreement for the parking lot operator (\$0.6 million) as a result of transitioning into cashierless operations and the shifting of funding for private security to the Airfield cost center (\$0.5 million) as discussed above. The decrease is partially offset by increases for agreements for the shuttle bus operator (\$0.1 million), increases for gas and electricity for the CNG station (\$0.1 million) and electricity for the ConRAC (\$0.1 million).
- ◆ **Other Cost Centers/Petroleum** increases are minimal with increases in electricity and other utility costs being partially offset by decreases in vehicle operations and maintenance.
- ◆ **General and Administration** increases total approximately \$0.1 million primarily resulting from increases for business development needs related to the Super Bowl 50 marketing campaign and costs to host the 2015 Airport Roundtable Conference. These increases are partially offset by the decrease in funding for the airport web content management system.

FISCAL YEAR 2015-16 BUDGET OVERVIEW

EXPENSES

Workers' Compensation

- ◆ The Airport has updated its Worker's Compensation allocation to reflect the City's most recent actuarial study, resulting in an increase of \$0.2 million.

Other Postemployment Benefits Cost

- ◆ A total amount of \$2.5 million is set aside to fund the liability related to employees' postemployment healthcare and other non-pension benefits (collectively referred to as Other Postemployment Benefits). The same amount was set aside in 2014-15.

Police & Fire Services

- ◆ Alternative service delivery models for public safety services at the Airport have been deferred at this time. 2015-16 services include Airport law enforcement services with San José Police Department (\$6.6 million) and Aircraft Rescue and Firefighting services with the San José Fire Department (\$4.0 million).

Debt Service/Coverage/Unspent 2007B Bond Proceeds

- ◆ Total debt service and coverage allocable to the rates and charges calculation in FY 2015-16 is \$58.8 million. Total amount allocated in FY 2014-15 was \$60.3 million. The decrease of \$1.5 million is due to the refunding that was completed in October of 2014. In close coordination with bond counsel, the Airport is allocating the 2007B Unspent Bond Proceeds toward payment of future debt service on the Series 2007B bonds. Amounts will be available to pay Series 2007B debt service until FY 2016-17. This provides an alternative source of funds for debt service rather than the Airline Rates and Charges. The amount of 2007B Unspent Bond Proceeds allocated toward the payment of Series 2007B Bond debt service in FY 2015-16 is \$11.1 million. The same amount was allocated in FY 2013-14 and FY 2014-15.

FISCAL YEAR 2015-16 BUDGET OVERVIEW

EXPENSES

Transfer to the Renewal and Replacement Fund

- ◆ The transfer to the Renewal and Replacement Fund is budgeted at \$4.0 million. The following is a list of major capital project budget proposals that are proposed to be funded through the Renewal and Replacement Fund in FY 2015-16:
 - a) Refurbishment of terminal jet bridges to replace components including floors, capacitors, air-conditioning hoses, and tunnel rollers.
 - b) Upgrades to the Airport's paging system including the purchase and installation of new software, audio hardware, and server hardware.
 - c) Replacement of the aging network equipment to meet operational needs of tenants and passengers.
 - d) Urgent repair, replacement, or reconstruction of asphalt and concrete pavement and joint sealing at various locations throughout the Airport to meet airfield and roadway safety requirements.
 - e) Procurement of equipment necessary to support Airport operations' systems including, but not limited to, access control, shared use, security camera, parking revenue control, ground transportation, and noise monitoring.
 - f) Modifications and other minor alterations to accommodate expansions or changes in operations, including maintenance projects at all Airport buildings and terminals.
 - g) Replacement of incandescent and quartz airfield lamps with LED technology, which includes edge lights, runway centerline, and taxiway lead-in lights and associated fixtures used over the entire aircraft movement area.
 - h) Preliminary planning, programming, special studies, and surveys to the Airport

Rate Stabilization Fund

- ◆ The Rate Stabilization Fund is fully funded at \$9.0 million. The amount allocated in FY 2014-15 from the prior year net surplus was \$2.3 million.

Reserve for Discretionary Expenditures

- ◆ A Reserve for Discretionary Expenditures of \$1.0 million in FY 2015-16 is set aside from the Airport's prior year revenue share. The same amount was set aside in FY 2014-15.

FISCAL YEAR 2015-16 BUDGET OVERVIEW

EXPENSES

Reserve for Future Budgets

- ◆ A reserve for future budgets of \$8.3 million represents the City's revenue share from the prior year's net surplus. \$5.5 million of this reserve will be set aside to be used for future budget actions. The Airport contributed \$2.8 million of its net surplus to lower the airline rates and charges.

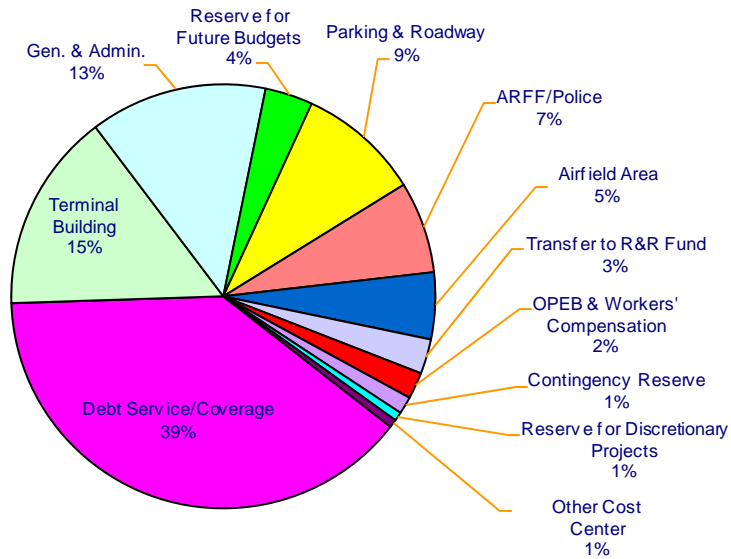
Contingency Reserve

- ◆ A contingency reserve of \$2.0 million is set aside in FY 2015-16. The same amount was set aside for contingencies in FY 2014-15.

FISCAL YEAR 2015-16 BUDGET OVERVIEW

EXPENSES

Airport Expenses Fiscal Year 2015-16



EXPENSES

	Approved Budget FY2015-16	Approved Budget FY2014-15	Percent Change
Terminal Building	\$22,982,358	\$21,628,105	6%
Airfield Area	7,683,706	6,759,122	14%
Parking & Roadway	14,100,377	14,671,468	(4%)
Other Cost Centers	948,830	909,773	4%
General & Administration	20,390,230	19,283,496	6%
Workers' Compensation	563,462	393,009	43%
Other Post Employment Benefits Cost	2,500,000	2,500,000	0%
ARFF/Police	10,565,703	9,075,534	16%
Debt Service/Coverage	58,796,252	60,346,246	(3%)
Transfer to R&R Fund	4,000,000	4,000,000	0%
Replenishment of Rate Stabilization Fund	-	2,300,000	(100%)
Reserve for Discretionary Expenditures	1,000,000	1,000,000	0%
Reserve for Future Budgets	5,507,053	11,747,887	100%
Employee Compensation Planning Reserve	-	733,400	(100%)
Contingency Reserve	2,000,000	2,000,000	0%
TOTAL	\$151,037,971	\$157,348,040	(4%)

FISCAL YEAR 2015-16 BUDGET OVERVIEW

CAPITAL

B. Capital

The following is a list of significant capital projects with funding in FY 2015-16:

- ◆ Perimeter Fence Line Upgrades: This project augments the perimeter fence line in concert with Perimeter Technology Infrastructure for technology and analytics to detect and deter unauthorized access to the airfield and enhance security.
- ◆ Landside Program Enhancements: This allocation funds enhancements to landside projects including, but not limited to an Airport sign at the Coleman entrance, parking program enhancements, and construction of the Terminal A Ground Transportation Island.
- ◆ FIS Baggage Carousel Upgrade: This upgrade adds a second FIS baggage carousel and extends the existing FIS carousel by approximately 16 feet to increase baggage system capacity and meet the demands of increasing international passengers.
- ◆ Runway Pavement Rehabilitation. This project funds the design and construction of an intersection reconstruction project on Runway 30R and Taxiway J. Approximately 40 concrete panels will be removed and replaced. This project is grant eligible and is contingent upon the availability and timing of FAA Airfield Improvement Program grant funding.

A total of approximately \$35.9 million from passenger facility charges and 2007 Unspent Bond Proceeds will be used for payment of eligible bond debt service in FY 2015-16.

FINANCIAL HIGHLIGHTS

FISCAL YEAR 2014-15 (ESTIMATES) HIGHLIGHTS

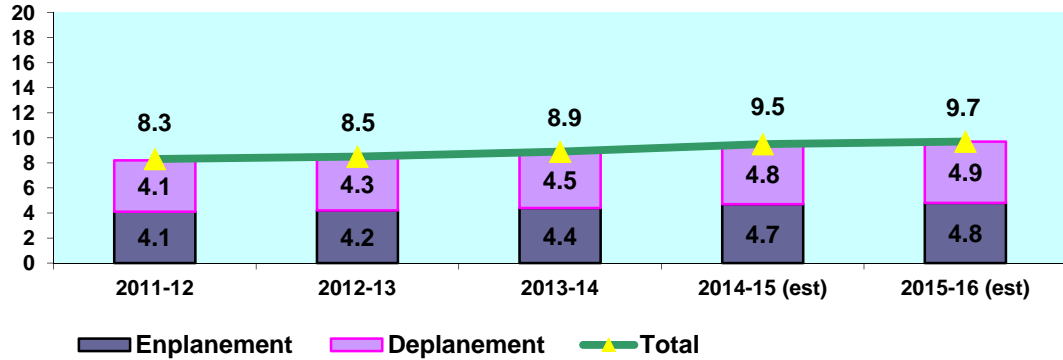
❖	Total Passengers	9.5 million
❖	Total Revenues	\$ 170.2 million
❖	Total Expenses	\$ 152.5 million
❖	Year-End Surplus	\$ 17.7 million
❖	Cost Per Enplaned Passenger	\$ 9.61

FISCAL YEAR 2015-16 (PROJECTIONS) HIGHLIGHTS

❖	Total Passengers	9.7 million
❖	Total Revenues	\$ 166.6 million
❖	Total Expenses	\$ 151.0 million
❖	Year-End Surplus	\$ 15.6 million
❖	Cost Per Enplaned Passenger	\$ 10.90

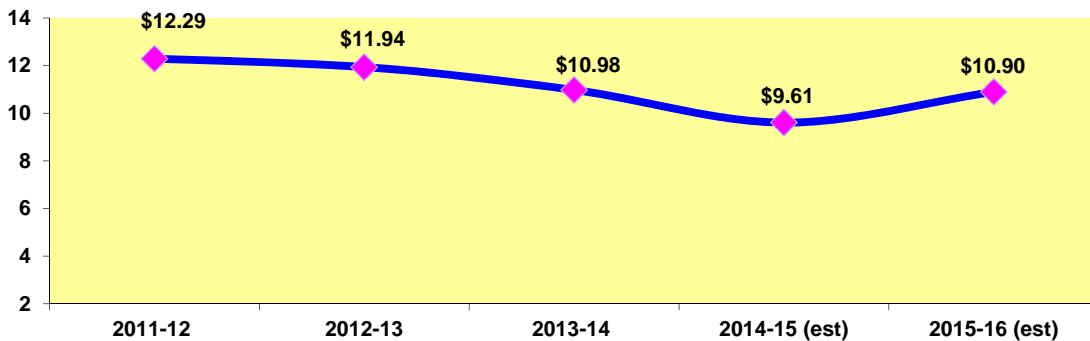
FINANCIAL HIGHLIGHTS

Passengers (In Millions)



The passenger activity posted an increase of 6.8% in FY 2013-14. Total passenger activity at the Airport during the first eight months of FY 2014-15 has increased by 6.1% compared to the passenger activity for the same period of FY 2013-14. Trends indicate that we will end FY 2014-15 with approximately 4.7% growth to 9.5 million passengers. The Airport expects growth in passenger activity to be 2.0% in FY 2015-16.

Cost Per Enplaned Passenger



BUDGET CALENDAR

April/May

- ◆ 2015-16 Proposed Capital Budget Released April 22, 2015
- ◆ 2015-16 Proposed Operating Budget Released May 1, 2015
- ◆ Public Hearing on Proposed Capital/Operating Budgets May 12, 2015
- ◆ Mayor's Budget Message Release May 29, 2015

June

- ◆ Final Public Hearing on Proposed Capital/Operating Budgets June 8, 2015
- ◆ City Council Reviews/Approves Mayor's Budget Message and Approves Capital/Operating Budgets June 9, 2015
- ◆ City Council Formal Adoption of Budget June 16, 2015



New Facility on the West Side of the Airport



Signature Flight Support, a global leader in fixed base operations, continues to progress on its \$82 million private investment on SJC's west side that will provide more space and services for corporate aviation. The project is expected to be completed by early 2016. Signature San José will serve the general aviation needs of individuals and companies in Silicon Valley. The 29-acre Signature facility will feature 240,000 square feet of hangar space, a passenger terminal and other amenities. Blue City Holdings, the private aviation arm of Google's founders, is one of the anchor tenants. The LEED-designed facility will create 150 to 200 on-Airport and regional construction jobs, 36 permanent on-Airport jobs and will generate more than \$3 million in annual revenue for San José.



FIS Baggage Carousel Upgrade



The FIS Baggage Carousel Upgrade will add a second FIS baggage carousel that will be able to deliver oversized baggage and provide a back-up baggage delivery device. It also includes an expanded building addition of approximately 2,600 square-feet to increase baggage system capacity and meet the demands of increasing international passengers.



Duty Free Shopping Experience



Hainan Airlines will begin new nonstop flights between Silicon Valley and Beijing, China, on June 15, 2015. With more international flights at SJC, a Dufry duty free shop is coming soon to the international departures area. The approximately 1,200 square-foot store, located between Gates 14 and 15, will boast a brand lineup designed to provide the ultimate luxury shopping experience for Silicon Valley's wide range of travelers. Dufry will feature high-end merchandise, top-selling cosmetics and fragrances, premium-brand wines and spirits, and tobacco products.

International passengers showing a boarding pass and passport will enjoy tax- and duty-free shopping, while domestic passengers will have access to all the same brands with all duty and taxes payable.



FIS Sterile Corridor Extension



The FIS Sterile Corridor Extension funds the design and construction of a secure interior corridor connecting Gates 17 & 18 to the ramp which leads deplaning passengers to the U.S. Customs and Border Protection exit. These two gates can be used for international or domestic flights.