



# 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, 2018 AND 2017





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

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**Norman Y. Mineta San José International Airport  
(A Department of the City of San José)  
Comprehensive Annual Financial Report  
Fiscal Years Ended June 30, 2018 and 2017**

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# INTRODUCTORY



In August 2017, SJC welcomed approximately 50 guests from Mexico, including 30 children, ages 8 – 14. The students won a robotics championship resulting in a trip to Silicon Valley. SJC was the first stop on their tour, which included visits to Google, Samsung, NASA, and Netflix during their brief stay.



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**FISCAL YEARS ENDED JUNE 30, 2018 AND 2017**

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# GEO LOCATOR MAP



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

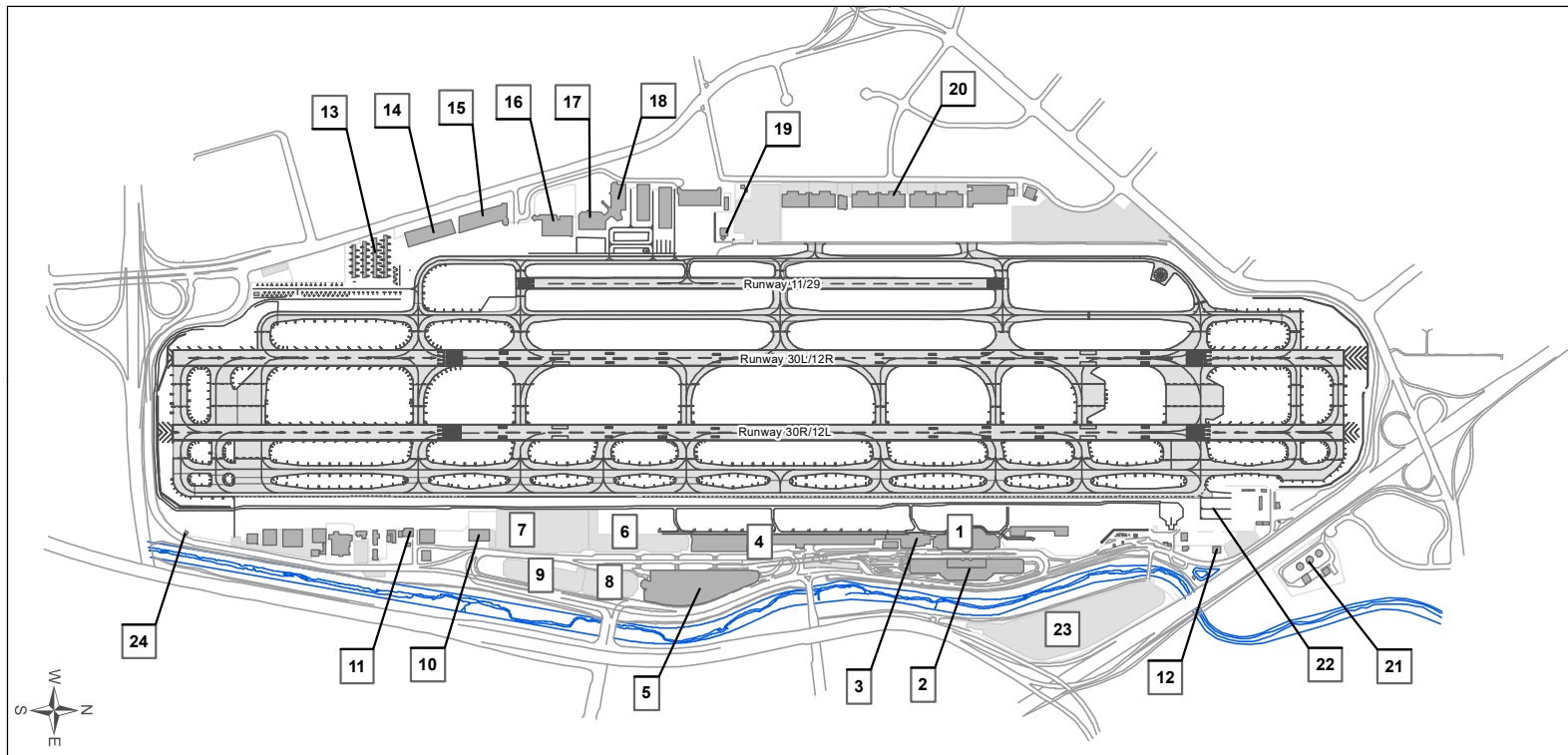
## Norman Y. Mineta San José International Airport

San José, California  
 A Department of the City of San José  
 Fiscal Years Ended June 30, 2018 and 2017



Reduced View of Service Areas

# Norman Y. Mineta San José International Airport



## Map Legend

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

## LOCATOR MAP

September 2018

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



November 13, 2018

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, 2018 and 2017, 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, 2018. For the fiscal year ended June 30, 2017, the annual audit of the Airport funds was completed by the independent firm of Grant Thornton LLP, Certified Public Accountants. 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.

This CAFR is organized into four sections:

- The Introductory Section is intended to familiarize the reader with the economic condition of the Airport, the Airport's major accomplishments, and the Airport's plans for the future.
- The Financial Section includes MD&A, Basic Financial Statements, Notes to the Financial Statements, and Required Supplementary Information (RSI). This section also contains the Independent Auditor's Report on the Basic Financial Statements.
- The Statistical Section presents up to ten years of detailed statistical data on the Airport's financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information as a context to the information presented in the financial statements and note disclosures.
- The Bond Disclosure Section provides detailed information in accordance with the requirements of the Continuing Disclosure Agreements for specific Airport Revenue Bonds.

## REPORTING ENTITY

The City Charter created the Airport Department (Department) in 1965 as a department within the City.<sup>1</sup> 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 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 origin-destination, medium-hub airport, the Airport is dependent upon the regional economy, national and international economic conditions, airline service, airfare levels, and population for the passengers who produce its revenue base.

Passenger levels at the Airport are 30% 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 \$10.01 in FY 2017 and \$9.24 in FY 2018. The CPE is estimated to be \$10.07 for FY 2019 based on a number of assumptions, which may or may not materialize.

Since FY 2013, the Airport has experienced a rebound in passenger activity, resulting in a total of approximately 13.5 million passengers traveling through the Airport and passenger traffic growth of 17.2% for FY 2018.

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 been developing and enhancing air service support programs. These support programs are so common among airports that the Federal Aviation Administration (FAA) has published guidelines that airports should follow in order 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. The current airline support program identifies air services that qualify under specific guidelines and provides for the waiver of landing fees for airlines providing service to a new airport destination for a specified period of time, with a

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<sup>1</sup> The San José City Charter was put into effect in May of 1965.

minimum frequency of three times weekly nonstop service for twelve consecutive months or four consecutive months for international seasonal service. In addition, new carriers are given a waiver of eligible terminal fees for the same duration as the landing fee waiver. The program also provides for marketing funds ranging from \$25,000 to \$600,000, depending on the type of new service provided. The program is a two-year incentive that is implemented over a period of between one and two and a half years (the Incentive Period). The terms and conditions of the airline support program can be modified at any time by the City Council.

In September 2018, a new airline incentive program was approved by the City Council that replaces the prior program. The air services that qualify under this program for new domestic and international flights are the same as the prior program. 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. There will no longer be facility fee waivers for ticket counters and boarding gates for new entrant carriers. The new program provides for marketing fund waivers 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 would also have the discretion to recognize the contribution of these additional services and extend the program benefits, including landing fee waivers and award marketing funds not to exceed \$100,000.

In addition, as part of the Airline-Airport Lease and Operating Agreement (Airline Lease Agreement) through June 30, 2017, the City funded the Municipally-Funded Air Service Incentive Program in any year where the percentage growth in enplaned passengers at the Airport exceeds the growth in enplaned passengers nationwide (as measured by data published in the FAA Aviation Forecast or similar report/forecast if the FAA Aviation Forecast is no longer available). In any year when the program was funded, the Airport's share of indirect overhead expenses allocated to it by the City for support services the City provides to the Airport was reduced, thus reducing the airline CPE by an amount equal to the reduction of the portion of City overhead expenses allocable to airline rates and charges. The Airline Lease Agreement also provides that in no event will the City's indirect overhead expenses allocated to the Airport operating budget exceed twenty-five percent (25%) or be less than fifteen percent (15%) during the term of the airline agreement. Terms and conditions of the Municipally-Funded Air Service Incentive Program are set forth in the Airline Lease Agreement. The goal of this program is to increase air service at the Airport and to show City support for these efforts.

Prior to its scheduled June 30, 2017 expiration, the parties agreed to extend the current Airline Lease Agreement from July 1, 2017 through June 30, 2019. The two-year extension allows negotiations for a new agreement with the airlines to continue, and the parties also agreed to terminate the Municipally-Funded Air Service Incentive Program effective July 1, 2017.

### **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 1,051,316 as of January 1, 2018, reflecting a growth of 0.8% 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 1.0% from 2017 to 2018, with the population increasing to 1,956,598 as of January 1, 2018. The six counties comprising the primary service area for the Airport grew 0.8% from 2017, in line with the state

growth rate of 0.8%. In total, the population of the primary service area increased by 38,522 from the prior year and accounts for 13% of the state's population.<sup>2</sup>

The per capita income information described below is the information available from the U.S. Bureau of Economic Analysis as updated on November 16, 2017. 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 November 16, 2017, for 2016 Santa Clara County had a PCPI of \$88,920 and was 158% of the state average of \$56,374, 181% of the national average of \$49,246, and ranked 4<sup>th</sup> 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)			
	2015	2016	% Change 2015-2016	2015	2016	% Change 2015-2016	2016 Rank
Santa Clara	\$163,034,586	\$170,672,534	4.7%	\$85,354	\$88,920	4.2%	4
Alameda	102,742,614	108,556,593	5.7%	62,926	65,884	4.7%	7
San Mateo	77,283,538	80,855,056	4.6%	101,264	105,721	4.4%	3
Monterey	22,142,878	22,827,059	3.1%	51,256	52,448	2.3%	20
Santa Cruz	15,911,723	16,330,704	2.6%	58,151	59,455	2.2%	12
San Benito	2,622,190	2,756,362	5.1%	44,844	46,392	3.5%	29
California	\$2,133,664,158	\$2,212,691,221	3.7%	\$54,718	\$56,374	3.0%	
United States	\$15,547,661,000	\$15,912,777,000	2.3%	\$48,451	\$49,246	1.6%	

Per capita income increased by 4.2% from 2015 in Santa Clara County compared to an increase of 3.0% and 1.6% for California and the nation, respectively.<sup>3</sup>

### **Employment**

Employment levels in Santa Clara County have increased steadily since 2007 and as of June 2018 are reported at over 1 million. Likewise, the unemployment rate has fallen below pre-recession levels and continues to exhibit a downward trend. With 30,600 unemployed, Santa Clara County's unemployment rate of 2.9% as of June 2018 has decreased about 0.5 points, compared to June 2017<sup>4</sup> and is lower than the 4.5% and 4.2% unemployment rates for California and the U.S., respectively.<sup>5</sup>

### **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 41<sup>st</sup> busiest airport in the nation in terms of total passengers according to Airports Council International-North America statistics, as of calendar year 2017. As of June 30, 2018, 16 carriers provided scheduled passenger service to 53

<sup>2</sup> California Department of Finance

<sup>3</sup> U.S. Department of Commerce, Bureau of Economic Analysis

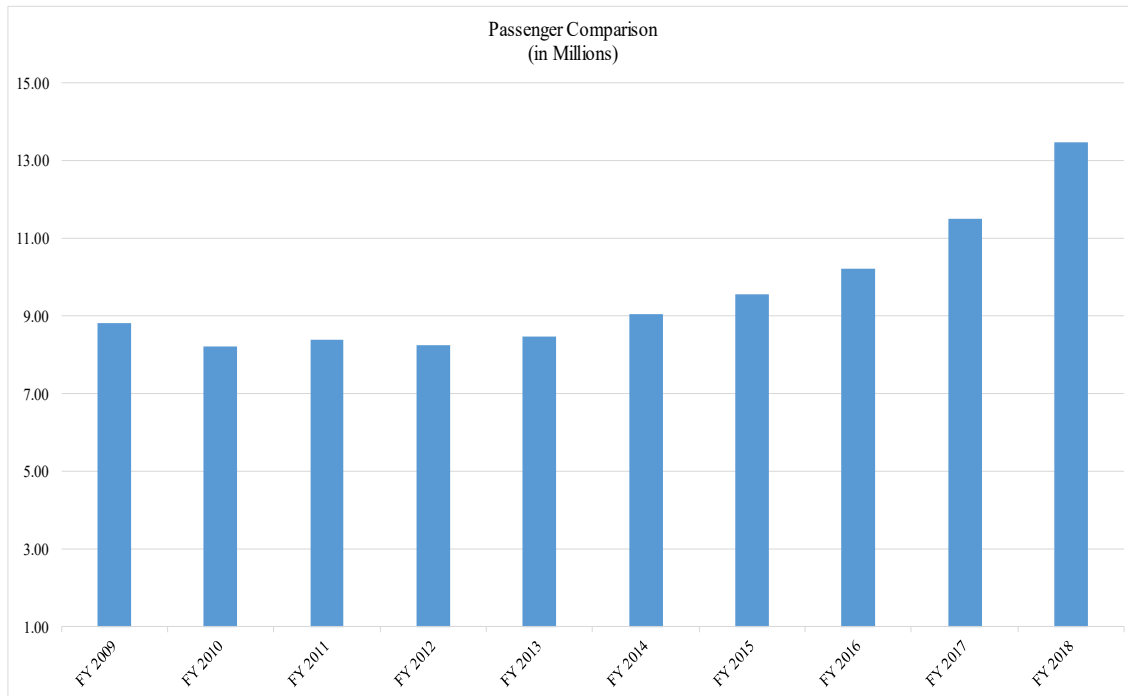
<sup>4</sup> Employment Development Department – State of California

<sup>5</sup> Employment Development Department – State of California

destinations, including eight mainline carriers and eight international carriers. In addition, two all-cargo carriers provided scheduled cargo service at the Airport.

For FY 2018, the Airport enplaned and deplaned 13.5 million passengers, which represents an increase of 17.2% from the previous fiscal year.

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



For FY 2018, the Airport experienced an overall increase of 13.0% in traffic operations due to gains in the following categories: passenger carrier (an increase of 17,906 or 16.2%), military (an increase of 10 or 4.2%), and General Aviation Itinerant (an increase of 1,977 or 6.7%).

### **Airport Master Plan**

In 1997, after extensive planning and environmental studies and reports, the City Council approved a new master plan for the Airport (the Master Plan). In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new Airport Layout Plan (ALP) displaying the Master Plan projects and unconditionally approved all of the near-term projects. Both the Master Plan and the ALP have been amended several times since 1997 and currently are intended to provide facility improvements needed to accommodate forecast demand in the year 2027 for commercial passenger service, air cargo, and corporate general aviation demand. The Master Plan includes both the substantially complete Phase 1 and the planned Phase 2 of the Airport Development Program (ADP), which collectively comprise improvements to the Airport's terminal facilities, roadways, parking facilities, and airfield facilities and includes 1.075 million square feet of passenger terminal facilities comprised of up to 49 gates; parking and garage facilities comprised of up to 16,200 public parking spaces, 2,600 employee parking spaces, and 10,000 rental-car parking spaces (including 2,000 ready-return spaces); air cargo facilities; ground transportation, roadway, and other access improvements; and airfield improvements. In the fall of 2005, and in recognition of how

current market conditions were impacting passenger growth, the Airport and its airline tenants reexamined the Master Plan and developed the Terminal Area Improvement Program (TAIP), a program for implementing the Master Plan by aligning ongoing and planned construction activities with available fiscal resources, taking into account revised passenger growth projections. In June 2006, the City Council approved an amendment to the Master Plan to incorporate the TAIP and other ADP revisions. In June 2010, the City Council approved an additional amendment to the Master Plan that updated projected aviation demand and facility requirements, and modified specific components of the ADP. Pursuant to the amended Master Plan, the former interim long-term public parking and employee parking lots on the northwest side of the Airport (which have been relocated to the east side terminal area) are designated for development of facilities to accommodate projected growth in general aviation demand. The 29-acre Signature fixed based facility development is located in this portion of the Airport, and an additional 15 acres north of the FAA air traffic control tower remains available for future general aviation development opportunities.

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

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

The Airport has met both the operational and passenger triggers for Phase 2 of the terminal development under the current Airline Lease Agreement that expires 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.

## **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 FY ended June 30, 2018, include the following:



- Air Service Development

Passenger levels grew 17.2% in FY 2018, with the addition of numerous new nonstop domestic and international destinations, bringing the passenger count for the fiscal year to over thirteen million for the first time in over a decade.

International:

International enplanements grew 15.0% in FY 2018. With the addition of Aeromexico, the Airport had eight international carriers as of June 30, 2018.

Aeromexico began daily, nonstop service to Guadalajara, Mexico in July 2017. In October 2017, the Airline announced daily, nonstop service to Mexico City, which started in June 2018. This service ran through the summer season until the end of August.

Southwest Airlines began nonstop, once a week, service to Cabo San Lucas, a top-requested destination by Silicon Valley travelers, in March 2018. This is Southwest Airlines' first international route from the Airport.

In December 2017, Volaris launched two, twice-weekly flights to Morelia and Zacatecas, Mexico. Both cities are currently unserved by any other airline.

Domestic:

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

In August 2018, California Pacific Airlines announced nonstop service between Carlsbad, CA and SJC starting November 1, 2018. This route will consist of two flights each weekday and one flight on Saturdays and Sundays.

Southwest Airlines started new daily service to Boise, Houston-Hobby, St. Louis, and Spokane in April 2018, as well as weekly service to Albuquerque and New Orleans. The airline began daily, nonstop service to Orlando, Florida in May 2018. Also in May, Southwest announced plans to serve Tucson, Arizona beginning in November 2018, along with the major addition of nonstop service between SJC and Hawaii, with tickets expected to be going on sale later this year, pending FAA approval.

In December 2017, Delta Airlines announced daily, nonstop service to New York's JFK International Airport. This service began in June 2018.

Alaska Airlines began nonstop daily service to Dallas Love Field in February 2018. In July 2018, Alaska began SJC's first daytime, daily, nonstop service to New York's JFK International Airport. In April 2018, Alaska announced that it would serve Paine Field in Everett, Washington sometime in Fall 2018, pending FAA approval.

In October 2017, Frontier Airlines returned to the Airport with the start of its daily, nonstop service to Denver, Colorado, followed by nonstop, four times weekly, service to Las Vegas, which began in November 2017. Frontier also started new, nonstop service to Atlanta, Austin, Cincinnati, San Antonio, and Tulsa in April 2018, with the San Antonio service being a first from SJC.

- City Council Approves 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. In May 2018, the San José City Council approved a plan to build an interim facility at the south end of Terminal B, which is set to be open in summer 2019. This facility will add up to six additional boarding gates, a hold room with seating for 650 passengers, as well as more concession space and restrooms. With a projected cost of \$50 million, plus or minus 15%, funded by commercial paper, the facility will be used while planning and construction of more permanent gates and support facilities is considered.

- Funding for Terminal Apron Reconstruction

In June 2018, the Airport was awarded \$10.3 million in federal funding for the reconstruction of the Airport apron. The existing pavement must be reconstructed to support existing and future aircraft operations. The federal grant is administered by the U.S. Department of Transportation and the FAA.

- 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.

- Six-year Contract Extension for HMSHost

In March 2018, the HMSHost group was granted a six-year contract extension that was approved by San José City Council. The contract extension is valued at approximately \$267 million with a minimum capital investment of \$6 million. HMSHost plans to bring new brands into the Airport, such as Shake Shack, Chick-fil-A, The Great American Bagel, International Beer Union, and Trader Vic's. They also plan on expanding some existing locations, including Gordon Biersch and one of the Starbucks stores.

- Terminal B Automated Exit Lanes

In August 2017, Terminal B passengers were introduced to the new hi-tech, automated exit lanes. These doors will automatically open to passengers that are exiting, but an alarm will sound if someone approaches from the opposite direction. If the alarms are activated, the exit doors will not open until they are cleared by authorized personnel. These automated exits will help ensure the highest level of safety and security to all Airport passengers.

- The Club SJC Named the Best Airport Service/Amenity

In April 2018, Airport Lounge Development, Inc. announced that The Club SJC was named the Best Airport Service/Amenity by USA Today's 10Best Readers' Choice Awards. This award is given each year to the amenity or service that is considered the most sought after airport experience by travelers. The Club SJC lounge offers a relaxing, spacious getaway for passengers in the terminal by catering to their specific needs with different zones. These zones include a replenish zone for

food and beverages, a productivity zone with workstations, a refresh zone with shower facilities, and a relax zone with comfortable seating and charging outlets.

- SJC tied for third place for Top-Quality Customer Service

In March 2018, it was announced that the Airport tied for third place among its North American airport peers that serve over 2 million passengers annually in the 2017 Airports Council International – North America’s Airport Service Quality Awards. The SJC team has been recognized for making the customer experience a high priority even while experiencing double-digit passenger growth.

- Security Perimeter Project Named Partnered Project of the Year

In March 2018, the Airport was notified that the Security Perimeter Technology Project Team had won the 2018 International Partnering Institute (IPI) Partnered Project of the Year Award. The Partnered Project of the Year Award is given to teams who distinguish themselves by implementing IPI’s best practices and by fostering high-trust and collaborative relationships on their projects. At the IPI Awards Ceremony, the Diamond Level award was given to the Airport as recognition for the Team’s commitment to the partnering process, achievement of excellent results, and the overall outstanding project that was delivered.

## **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 six years, FY 2018 total enplaned passengers surpassed pre-recession levels of FY 2008 by 30%. While the Airport continues to carefully manage expenditures due to the high debt service costs, additional consideration is directed toward managing the significant new demand on the facilities and capacity constraints at peak periods resulting from the rapid growth. 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 ever changing 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 2019 Adopted Budget contains funding for four additional full-time positions to support the increasing workload associated with the growing passenger base in addition to 0.5 position to support customer service efforts. 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 capital projects, facilities, parking, and terminal services.

The FY 2019 Budget also includes funding increases for cost of living adjustments to existing agreements, gas and electric utility adjustments, increase in support for elevator/escalator services, and increased service hours for custodial and baggage handling contractors. Over the past couple years, the Airport has had difficulty in filling Electrician positions and the FY 2019 budget includes non-personal budget to utilize contract electrician staff to cover for long-term position vacancies. At peak periods of the day aircraft gates are utilized to maximum capacity. To be able to accommodate additional flights at those times, funding was increased for shuttle bus service to aircraft parked remotely from the terminal. Beginning in FY 2018, passengers have been bussed from the newly refurbished Gate 7a holding room to aircraft parked north of Terminal A and board the aircraft from mobile stairways. Other additional services related to increased passenger levels include terminal support services, which is contractual staff to provide assistance with tasks such as line control management at security checkpoints, baggage handling assistance, and support at curbside and terminal locations. The increase in passenger levels and service needs for these functions exceeds the capacity for permanent staff to incorporate along with their regularly assigned duties. The increase in international airlines and destinations requires continued work with Customs and Border Protection (CBP) to implement and fund modified and extended schedules for CBP staff. The 559 CBP program allows the Airport to be flexible in programming international flights to accommodate airline schedules and connections. 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, continued 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 2018. Computed pursuant to the Airline Lease Agreement, Airport's revenues exceeded its expenses and other reserve requirements for the FY ended June 30, 2018 by \$25.5 million. This was approximately \$5.2 million greater than the \$20.3 million anticipated and utilized in the preparation of the Adopted FY 2019 Rates and Charges. The additional \$5.2 million surplus will assist in balancing the budget and establishing a capital fund for expansion in future years.

The Airport recently 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 2019-2023 Adopted Capital Improvement Program (CIP) contains projects reflecting all of the Airport's strategic priorities. Recent announcements of new flights by Aeromexico, Alaska, Frontier, Southwest, California Pacific, Delta, and Volaris demonstrate significant achievements. 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 2019-2023 Adopted CIP budget funding of \$411.6 million primarily for projects and debt service, of which \$147.0 million is allocated to FY 2018-2019. Over the five-year CIP, funding allocated to pay debt service on outstanding bonds totals \$137.8 million. A total of \$10.7 million is allocated to general non-construction activities and public art projects, leaving \$263.1 million for capital construction over the next five years.

Program highlights of the Airport's FY 2019-2023 Adopted CIP are as follows:

- \$58.0 million for Interim Facility provides for the construction of an interim facility at Terminal B that would allow for hold rooms, five gates, and a ground boarding option for a sixth gate. The five gates with jet bridges will also accommodate ground boarding which allows for boarding from the front and rear of the aircraft simultaneously to expedite the boarding process. The Airport continues to experience significant demand for gate facilities caused by high demand from the added airline flights. This continues to be the case even after completing the two additional gates in November 2017. The interim facility is anticipated to be completed in one year and will allow 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.
- \$57.1 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.
- \$47.1 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.
- \$21.6 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.
- \$20.0 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 2018, 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, Passenger Facility Charges (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, 2018 is still in progress.

The Airport was authorized to impose PFC effective September 1, 1992. Legislation authorizing the collection of PFC 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, 2018 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 FY ended June 30, 2017. This was the twenty-first 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, 2017**

*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
Tam Nguyen.....	Council Member, District 7
Sylvia Arenas .....	Council Member, District 8
Donald Rocha.....	Council Member, District 9
Johnny Khamis.....	Council Member, District 10

**AIRPORT COMMISSION:**

Ken Pyle .....	Member
Tom Cruz .....	Member
Julie Riera Matsushima .....	Member
Mark Schmidt .....	Member
E. Ronald Blake.....	Member
Raymond Greenlee .....	Member
Allison Stember.....	Member
R. William Highlander.....	Member
Catherine Hendrix .....	Member
Dan Connolly .....	Member
Joe Head .....	Member
Raul Peralez.....	Council Member, Airport Liaison

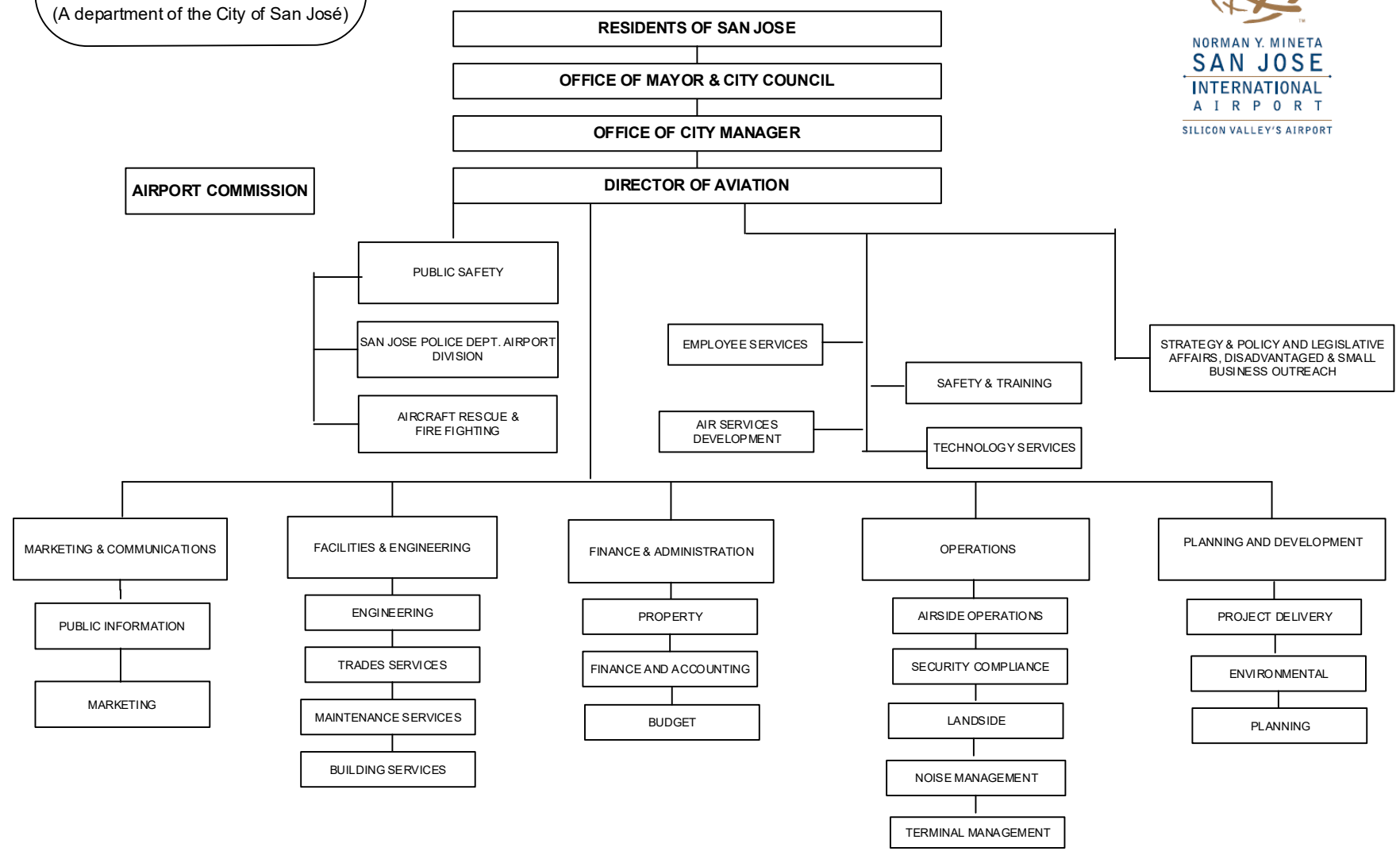
**CITY OFFICIAL:**

Dave Sykes .....	City Manager
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**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
Bonnie Cromartie.....	Interim Deputy Director, Planning & Development
Vacant .....	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



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

Highlights of new flights included Delta and Alaska Airlines' daily, nonstop service to New York's JFK International Airport. Southwest Airlines started new daily service to Boise, Houston Hobby, St. Louis, Spokane, and Orlando, as well as weekly service to Albuquerque and New Orleans.

Frontier Airlines returned to the Airport with the start of its daily, nonstop service to Denver, Las Vegas, Atlanta, Austin, Cincinnati, San Antonio, and Tulsa, with the San Antonio service being a first from SJC.





## 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 year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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, 2018, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matters***

### *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, 2018, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Change in Accounting Principles*

As discussed in Note 1(n) to the financial statements, effective as of July 1, 2017, the Airport adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Airport's financial statements as of and for the fiscal year ended June 30, 2017 were not restated because the City's postemployment healthcare plan information prepared in accordance with the requirements of GASB Statement No. 75 was not available for periods prior to July 1, 2017. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Prior Period Financial Statements*

The financial statements of the Airport as of and for the fiscal year ended June 30, 2017 were audited by other auditors, whose report dated November 16, 2017, expressed an unmodified opinion on those 2017 financial statements.

### *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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2018 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 the Airport's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California  
November 13, 2018

**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, 2018 and 2017.

**AIRPORT ACTIVITIES HIGHLIGHTS**

A total of approximately 13.5 million passengers traveled through the Airport in FY 2018 compared to approximately 11.5 million in FY 2017, resulting in passenger traffic growth of 17.2%. The Airport experienced an increase in passenger traffic of 12.7% in FY 2017 and of 6.9% in FY 2016.

International passengers grew 13.9% in FY 2018. Aeromexico started a daily nonstop flight to Guadalajara, Mexico in July 2017 and added a daily nonstop seasonal service to Mexico City, Mexico in June 2018. Volaris launched two, twice weekly flights to Morelia and Zacatecas, Mexico in December 2017. Southwest Airlines also began nonstop service, once a week, to Cabo San Lucas in March 2018. This was Southwest Airlines' first-ever international route from the Airport.

Domestic passengers rose 17.4% 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 Boise, Houston-Hobby, St. Louis, Spokane, and Orlando, as well as weekly service to Albuquerque and New Orleans. Also, in May 2018, Southwest announced plans to add nonstop service between the Airport and Hawaii. Delta Airlines started daily nonstop service to New York's JFK International Airport, and Alaska Airlines began nonstop service to Dallas Love Field. Frontier Airlines returned to the Airport in October 2017 with a daily, nonstop service to Denver, followed by nonstop, four times weekly service to Las Vegas, and quickly added new nonstop service to Atlanta, Austin, Cincinnati, San Antonio, and Tulsa.

As of June 30, 2018, Airport carriers served 53 nonstop markets with 208 peak daily departures compared to 40 nonstop markets with 179 peak daily departures as of June 30, 2017 and 35 nonstop markets with 162 peak daily departures as of June 30, 2016.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Flight operations	165,751 <i>13.0 %</i>	146,722 <i>11.5 %</i>	131,561 <i>3.3 %</i>
Landed weight by passenger (1,000's lbs.)	8,244,933 <i>14.5 %</i>	7,202,172 <i>17.8 %</i>	6,113,904 <i>8.6 %</i>
Landed weight by cargo carriers (1,000's lbs.)	247,606 <i>(0.6 %)</i>	249,020 <i>(6.5 %)</i>	266,344 <i>12.5 %</i>
Total enplaned and deplaned passengers	13,490,514 <i>17.2 %</i>	11,514,425 <i>12.7 %</i>	10,213,261 <i>6.9 %</i>
Enplaned passengers	6,725,127 <i>17.2 %</i>	5,739,769 <i>12.8 %</i>	5,087,705 <i>6.8 %</i>
Deplaned passengers	6,765,387 <i>17.2 %</i>	5,774,656 <i>12.7 %</i>	5,125,556 <i>7.0 %</i>
Domestic passengers	12,552,055 <i>17.4 %</i>	10,690,188 <i>9.9 %</i>	9,728,689 <i>5.7 %</i>
International passengers	938,459 <i>13.9 %</i>	824,237 <i>70.1 %</i>	484,572 <i>38.5 %</i>
Cargo tonnage (in tons)	61,114 <i>0.2 %</i>	60,997 <i>4.8 %</i>	58,212 <i>11.9 %</i>
Parking (vehicles) exits	1,187,802 <i>5.8 %</i>	1,122,402 <i>6.4 %</i>	1,054,534 <i>0.2 %</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 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 received in the form of grants from the federal government decreased from \$10.1 million in 2017 to \$9.3 million in 2018.
- Change in net position from current year activities 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 or 2016.

In addition, the Airport shows an increase in net position for the 2017 fiscal year.

- Operating revenues increased by 7.7% from \$142.0 million in 2016 to \$152.9 million in 2017.
- Operating expenses before depreciation increased by 13.5% from \$77.9 million in 2016 to \$88.4 million in 2017.
- Operating income before depreciation increased by 0.8% from \$64.0 million in 2016 to \$64.5 million in 2017.
- Depreciation decreased by 10.4% from \$51.9 million in 2016 to \$46.4 million in 2017.
- The above resulted in an operating income before nonoperating revenues and expenses of \$12.2 million in 2016 and \$18.1 million in 2017.
- Nonoperating expenses, net of nonoperating revenues, decreased 1.8% from \$25.9 million in 2016 to \$25.4 million in 2017.
- Capital contributions received in the form of grants from the federal government increased from \$5.8 million in 2016 to \$10.1 million in 2017.

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

- Net position showed an increase of \$2.8 million in 2017 compared to a decrease of \$8.0 million in 2016. This was attributed to a combination of increases in operating income and capital contributions and a decrease in net nonoperating expenses.

**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, 2018, 2017, and 2016:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 168,582	\$ 152,935	\$ 141,953
Operating expenses before depreciation	(98,935)	(88,393)	(77,907)
Operating income before depreciation	69,647	64,542	64,046
Depreciation	(47,486)	(46,449)	(51,864)
<b>Operating income</b>	<b>22,161</b>	<b>18,093</b>	<b>12,182</b>
Nonoperating revenues and expenses, net	(10,978)	(25,446)	(25,911)
Loss before capital contributions	11,183	(7,353)	(13,729)
Capital contributions	9,287	10,120	5,760
<b>Change in net position</b>	<b>20,470</b>	<b>2,767</b>	<b>(7,969)</b>
Net position - beginning, as previously reported	196,589	193,822	201,791
Restatement due to implementation of GASB 75	(12,537)	-	-
<b>Net position - beginning, as restated</b>	<b>184,052</b>	<b>193,822</b>	<b>201,791</b>
<b>Net position - ending</b>	<b>\$ 204,522</b>	<b>\$ 196,589</b>	<b>\$ 193,822</b>

**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 \$204.5 million, \$196.6 million, and \$193.8 million at June 30, 2018, 2017, and 2016, respectively, a \$7.9 million increase from June 30, 2017 to June 30, 2018 and an \$2.8 million increase from June 30, 2016 to June 30, 2017.

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

A condensed summary of the Airport's net position (in thousands) at June 30, 2018, 2017, and 2016 is as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Assets:</u>			
Unrestricted assets	\$ 168,230	\$ 149,485	\$ 141,687
Restricted assets	166,958	190,805	208,075
Capital assets	1,275,662	1,302,658	1,312,671
Other assets	4,850	5,391	9,445
<b>Total assets</b>	<b>1,615,700</b>	<b>1,648,339</b>	<b>1,671,878</b>
<u>Deferred outflows of resources:</u>			
Deferred outflows of resources related to pension	27,068	30,220	15,145
Deferred outflows of resources related to OPEB	1,754	-	-
Loss on refundings of debt	8,616	9,687	3,326
<b>Total deferred outflows of resources</b>	<b>37,438</b>	<b>39,907</b>	<b>18,471</b>
<u>Liabilities:</u>			
Current liabilities - unrestricted	24,334	40,802	46,379
Current liabilities - restricted	55,483	65,648	50,432
Noncurrent liabilities	1,368,640	1,384,914	1,399,343
<b>Total liabilities</b>	<b>1,448,457</b>	<b>1,491,364</b>	<b>1,496,154</b>
<u>Deferred inflows of resources:</u>			
Deferred inflows of resources related to pension	128	186	-
Deferred inflows of resources related to OPEB	31	-	-
Gain on refundings of debt	-	107	373
<b>Total deferred inflows of resources</b>	<b>159</b>	<b>293</b>	<b>373</b>
<u>Net Position:</u>			
Net investment in capital assets	100,587	82,801	95,800
Restricted	62,014	64,907	61,308
Unrestricted	41,921	48,881	36,714
<b>Net position</b>	<b>\$ 204,522</b>	<b>\$ 196,589</b>	<b>\$ 193,822</b>

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 pension contributions made subsequent to the measurement date, partially offset by the increase in the deferred other post employment benefits (OPEB) contributions as a result of the implementation of GASB Statement No. 75.

Deferred pension contributions decreased from \$30.2 million at June 30, 2017 to \$27.1 million at June 30, 2018, which reflects the contributions made subsequent to the measurement date and offset by changes in assumptions and net difference between projected and actual earnings on pension plan investments. Detailed information about the Federated City Employee 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, can be found in Note 7 to the financial statements.

Deferred OPEB contributions increased \$1.8 million as a result of the implementation of the GASB Statement No. 75. The details of the implementation can be found in Note 7 to the financial statements.

Loss on the refundings of debt decreased \$1.1 million from \$9.7 million as of June 30, 2017 to \$8.6 million as June 30, 2018 mainly due to a change in the amortization method. The amortization method

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was changed from principal base to straight line base to conform with the 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 reduce the commercial paper principal balance in FY 2018.

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.

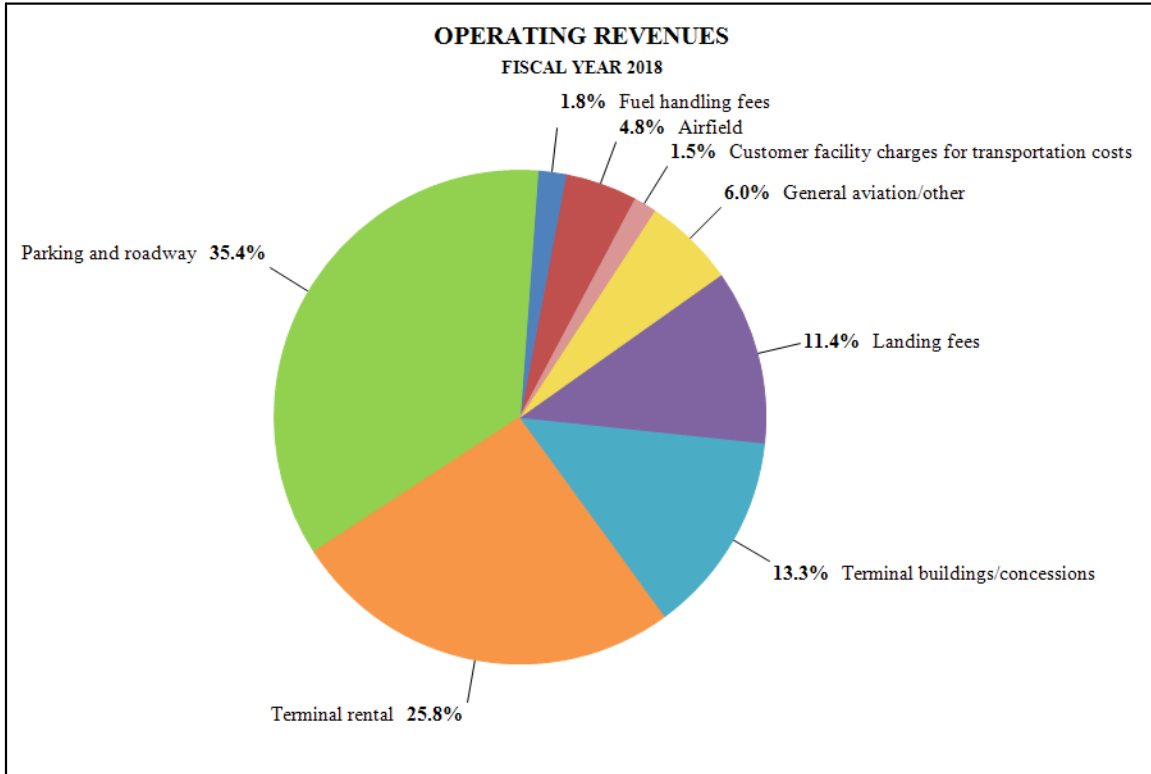
The largest portion of the Airport's net position 49.2%, 42.1%, and 49.4% at June 30, 2018, 2017, and 2016, respectively, represents its investment in capital assets (e.g. land, buildings, improvements, and equipment), less the debt outstanding used to acquire those capital assets and related deferred 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, 2018:



As illustrated in the above chart, parking and roadway revenue represents 35.4% of the total operating revenues. Parking and roadway revenues include public parking, utility and concession fees from rental cars, employee parking, taxicab and other ground transportation fees, and facility and ground rents from rental car companies for use of the ConRAC located at the Airport. Facility rent for the ConRAC 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 2018, the City applied \$2.5 million of CFC revenues to

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transportation costs, which represents 1.5% of operating revenues. Facility rent will vary each year in relation to changes in any of these amounts.

The next largest category is airline terminal rental, which represents 25.8% of the total operating revenues. Revenues from terminal buildings/concessions, which came in at 13.3% 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 11.4% of the total operating revenues.

General aviation/other revenues are 6.0% 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 1.8%, 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, 2018, 2017, and 2016 is as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Operating revenues:</u>			
Landing fees	\$ 19,297	\$ 18,370	\$ 13,095
Terminal rental	43,477	39,778	40,800
Terminal buildings/concessions	22,375	20,207	17,576
Airfield	8,027	7,307	4,891
Parking and roadway	59,714	52,514	53,704
Fuel handling fees	3,078	3,080	3,226
General aviation/other	10,096	9,748	8,661
Customer facility charges for transportation costs	2,518	1,931	-
<b>Total operating revenues</b>	<b><u>168,582</u></b>	<b><u>152,935</u></b>	<b><u>141,953</u></b>
<u>Nonoperating revenues:</u>			
Passenger facility charges	27,048	23,097	20,603
Customer facility charges for debt service	18,364	18,026	19,888
Investment income	2,842	1,591	2,444
Operating grants	809	1,169	497
Other, net	1,214	603	1,902
<b>Total nonoperating revenues</b>	<b><u>50,277</u></b>	<b><u>44,486</u></b>	<b><u>45,334</u></b>
Capital contributions	9,287	10,120	5,760
<b>Total revenues</b>	<b><u>\$ 228,146</u></b>	<b><u>\$ 207,541</u></b>	<b><u>\$ 193,047</u></b>

2018 versus 2017

June 2018 marked the 66<sup>th</sup> 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 fees from the Transportation Network Companies (TNCs) and public parking revenues experienced

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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 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, total CFC revenues increased only 4.6% from the 2017 level, reflective of the presence of TNCs.

Operating grants decreased 30.8%, or \$0.4 million, from 2017, mainly because of the runway incursion mitigation study grant from the FAA. This is 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 received during 2018 pertained to grant reimbursements from the FAA, mainly for the perimeter security technology upgrades, southeast ramp reconstruction, aircraft rescue fire fighting vehicle, lightning 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.

2017 versus 2016

June 2017 marked the 54<sup>th</sup> straight month of consecutive passenger growth at the Airport. Total operating revenues increased by 7.7% from \$142.0 million in 2016 to \$152.9 million in 2017. Landing fees, terminal building/concessions, airfield, and general aviation/other revenues increased while terminal rental, parking and roadway, and fuel handling fees decreased.

Landing fees increased 40.3% or \$5.3 million due to the increase in landing fee rate from \$2.13 to \$2.70 per thousand pounds of the maximum gross landing weight and the increase year-over-year in landing weights from 6.4 billion pounds to 7.5 billion pounds.

Terminal rental revenues decreased 2.5% or \$1.0 million mainly due to lower rental rates. The rate for terminal space decreased from an average of \$162.74 per square foot in 2016 to \$154.63 per square foot in 2017. The reduction in revenues due to lower rental rates was partially offset by the increase in additional flights.

Terminal buildings/concessions posted an increase of 15.0%, or \$2.6 million, primarily due to the increase in passenger activity.

Airfield revenues increased by 49.4%, or \$2.4 million, mainly due to the higher inflight kitchen revenues and ground support concessions resulting from the increased passenger activity.



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Parking and roadway revenues were down by 2.2% or \$1.2 million. Ground transportation, excluding the TNCs, and public parking experienced decreases, which were partially offset by increased revenues from rental car concessions and TNCs. The reduction of other ground transportation and public parking revenues reflected the presence of TNCs, which were authorized to start operating at the Airport in November 2015.

General aviation/other revenues rose by 12.6% or \$1.1 million. The main contributor to this increase was the ground rent from Signature Flight Support, which completed the full service fixed base facility on the west side of the Airport. The increase can also be attributed to more hangar spaces rented out and increases in land and building rental rates as a result of appraised values and the consumer price index.

PFC revenues grew by 12.1% or \$2.5 million reflective of the growth in passenger activity.

Investment income in 2017 decreased by 34.9%, or \$0.9 million, to \$1.6 million from 2016 mainly due to unrealized loss on investments.

CFC 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 passenger traffic increase, CFC revenues were virtually unchanged from the 2016 level, reflective of the presence of TNCs.

The FY 2017 operating grants increased 135.2% or \$0.7 million from 2016 due to the grant awarded from the FAA for the runway incursion mitigation study.

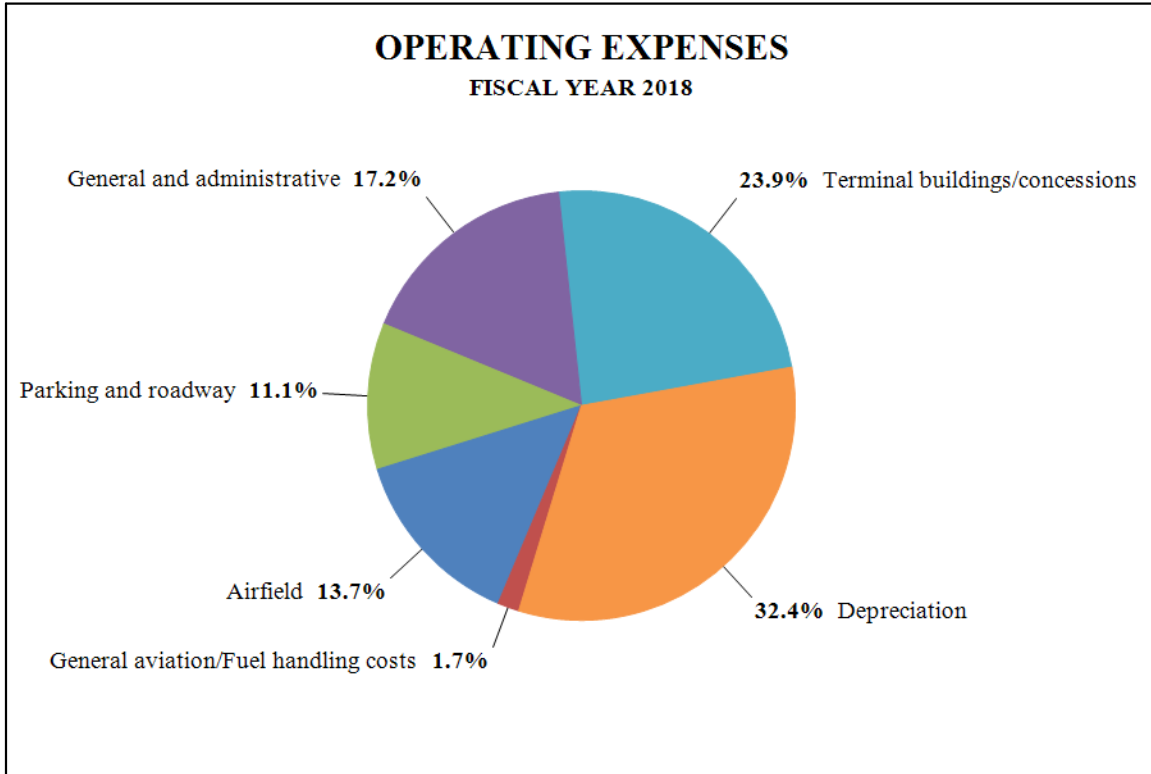
Other nonoperating revenues decreased 68.3%, or \$1.3 million, mainly due to the one-time reimbursement from the California Plume Fund for clean-up of the old fuel farm underground storage tanks in FY 2016.

Capital contributions received during 2017 pertained to grant reimbursements from the FAA, which increased 75.7%, or \$4.4 million from 2016, to \$10.1 million in 2017, mainly for the perimeter security fence line upgrades, perimeter security technology upgrades, southeast ramp reconstruction, and aircraft rescue fire fighting vehicle.

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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, 2018:



A summary of expenses (in thousands) for the fiscal years ended June 30, 2018, 2017, and 2016 is as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Operating expenses:</b>			
Terminal buildings/concessions	\$ 34,922	\$ 31,115	\$ 27,724
Airfield	20,116	16,776	12,767
Parking and roadway	16,282	16,046	16,684
Fuel handling costs	58	16	(565)
General aviation	2,438	1,383	1,963
General and administrative	25,118	23,057	19,334
Depreciation	47,486	46,449	51,864
<b>Total operating expenses</b>	<b><u>146,420</u></b>	<b><u>134,842</u></b>	<b><u>129,771</u></b>
<b>Nonoperating expenses:</b>			
Interest expense	61,305	67,440	71,245
Bond issuance costs	(50)	2,492	-
<b>Total nonoperating expenses</b>	<b><u>61,255</u></b>	<b><u>69,932</u></b>	<b><u>71,245</u></b>
<b>Total expenses</b>	<b><u>\$ 207,675</u></b>	<b><u>\$ 204,774</u></b>	<b><u>\$ 201,016</u></b>

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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 expenses.

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 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.

2017 versus 2016

Operating expenses in 2017 increased 3.9%, or \$5.1 million, from \$129.8 million in 2016 to \$134.8 million in 2017. Increases were experienced in salaries and fringe benefits and partially offset by a decrease in the overhead costs.

Salaries and fringe benefits increased \$1.3 million from \$24.7 million in 2016 to \$26.0 million in 2017 due to the cost of living allowance adjustments and additional staff.

Pension expense was \$14.0 million in 2017 compared to pension expense of \$8.1 million in 2016. The increase of \$5.9 million over the prior year was a result of investment losses, experience losses, and assumption changes.

Overhead expense decreased by 27.4%, or \$1.0 million, due to the rate change from 21.3% in 2016 to 15.0% in 2017.

Interest expense in 2017 declined by 5.3%, or \$3.8 million, compared to 2016, due to lower interest rates and a declining balance of the outstanding debt.

**CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES**

The Airport expended \$24.7 million on both capitalized and noncapitalizable capital activities in fiscal year 2018 and \$41.3 million in 2017. Major capital projects in 2018 included 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. Major capital projects in 2017 included the perimeter security technology upgrades, southeast ramp reconstruction, aircraft rescue firefighting vehicles, FIS baggage system upgrades, FIS curbside improvements, security exit doors, construction of gates 29 and 30 in Terminal B, and Terminal A ground transportation island modification.

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As of June 30, 2018, the Airport was obligated for purchase commitments relating to capital projects of approximately \$15.9 million primarily for the perimeter security technology upgrades, zero emissions buses, and the Terminal B expansion ramp. 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, 2018 and 2017, the total amount of Subordinated CP Notes outstanding totaled \$7.5 million and \$25.5 million, respectively. The Airport paid principal of \$18.0 million and \$9.2 million during each of the fiscal years ended June 30, 2018 and 2017, respectively.

As of June 30, 2018, the Subordinated CP Notes were supported by the \$41.0 million letter of credit (LOC) issued by Barclays Bank PLC (Barclays) to cover the principal amount of \$38.0 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, 2018 and 2017, the Airport had total outstanding revenue bonds of \$1,187.6 million and \$1,229.5 million, respectively. In April 2017, all but one maturity of the Airport Revenue Bonds Series 2007A and all of Series 2007B Bonds in the amount of \$683.5 million were refunded with the issuance of Airport Revenue Refunding Bonds Series 2017A and 2017B Bonds. During the fiscal years ended June 30, 2018, and 2017, the Airport paid principal of \$41.9 million and \$24.7 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 June 2018, S&P upgraded the Airport's rating from "A-" to "A" with a stable outlook. Fitch reaffirmed their rating and stable outlook in March 2018, and Moody's outlook remains stable.

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

## **AIRLINE RATES AND CHARGES**

The Airport entered into an Airline 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 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 key provisions in the Airline Lease Agreement include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The Airline Lease Agreement also includes a revenue sharing provision to evenly divide net unobligated Airport revenues between the

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Airport and the airlines currently operating at the Airport after each fiscal year. In any fiscal year in which there are net unobligated Airport revenues and all requirements of the City's Airport financing documents have been satisfied, the remaining net unobligated Airport revenues are to be evenly divided between the City and the airlines. If net revenues exceed the projected levels, outlined in the Airport Forecast identified in the Airline Lease Agreement, then the airlines' share of the difference will be deposited into the Rate Stabilization Fund up to a cap of \$9.0 million. The Rate Stabilization Fund is fully funded at \$9.0 million. No additional contributions were made to the fund in the fiscal year ended June 30, 2018. Once the Rate Stabilization Fund has been fully funded or in the event that the actual net revenues do not exceed the projected net revenues, the airlines' share of net revenues shall be applied as a credit to the airline terminal revenue requirement for the following fiscal year, thus reducing terminal rental rates for the following fiscal year. The first \$1.0 million of City's share of any net revenues shall be retained by the Airport in a discretionary fund to be used for any lawful Airport purpose.

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

The rates and charges for the signatory (passenger and cargo) airlines for fiscal years 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Landing fee (per 1,000 lbs MGLW)	\$ 2.45	\$ 2.70
Terminal average rental rate (per square foot)	172.24	154.63
Airline cost per enplanement (budgeted)	10.36	10.90

Terminal rental rates and airline landing fees for FY 2019 have been developed as part of the annual budget process. The rates and charges for the signatory airlines for FY 2019, which became effective July 1, 2018, are as follows:

Landing fee (per 1,000 lbs MGLW)	\$ 2.18
Terminal average rental rates (per square foot)	183.78
Airline cost per enplanement (budgeted)	10.07

After completion of the year-end closing and annual audit, the Airport achieved savings of approximately \$5.2 million greater than what was anticipated in the preparation of the adopted 2018-19 fiscal year Airline Rates and Charges. The surplus for 2018 will be allocated in accordance with the revenue sharing provisions of the Airline Lease Agreement.

**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

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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, 13<sup>th</sup> Floor, San José, CA, 95113.

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**June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Current assets:		
Unrestricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	\$ 149,223,058	\$ 134,910,940
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$411,077 in 2018 and \$351,491 in 2017	14,094,901	8,617,208
Accrued interest	1,002,689	753,189
Grants	3,783,517	5,031,630
Prepaid expenses, advances, and deposits	125,530	171,635
Total unrestricted assets	168,229,695	149,484,602
Restricted assets:		
Equity in pooled cash and investments held in City Treasury (Note 2)	59,816,733	75,859,613
Investments held by fiscal agent (Note 2)	102,144,389	109,416,632
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$15,000 in 2018 and 2017	4,507,782	5,222,706
Accrued interest	395,385	256,508
Prepaid expenses, advances, and deposits	844	844
Current portion of prepaid bond insurance	93,124	48,690
Total restricted assets	166,958,257	190,804,993
Total current assets	335,187,952	340,289,595
Noncurrent assets:		
Capital assets (Note 3):		
Nondepreciable	97,158,645	114,764,459
Depreciable assets, net of accumulated depreciation	1,178,503,228	1,187,893,826
Total capital assets	1,275,661,873	1,302,658,285
Advances and deposits	2,815,756	2,793,179
Prepaid bond insurance, less current portion	2,034,429	2,598,059
Total noncurrent assets	1,280,512,058	1,308,049,523
Total assets	1,615,700,010	1,648,339,118
<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources:		
Deferred outflows of resources related to pension (Note 7)	27,067,836	30,220,347
Deferred outflows of resources related to OPEB (Note 7)	1,753,603	-
Loss on refundings of debt	8,615,999	9,686,371
Total deferred outflows of resources	\$ 37,437,438	\$ 39,906,718

See accompanying notes to the financial statements.

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**Statements of Net Position**  
**June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Liabilities</b>		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	\$ 4,304,074	\$ 7,536,912
Accrued salaries, wages, and payroll taxes	1,223,084	1,069,714
Accrued vacation, sick leave, and compensatory time, current (Note 5)	1,739,000	1,586,000
Advances and deposits payable	1,584,263	1,437,672
Unearned revenues	7,340,102	3,045,424
Estimated liability for self-insurance, current (Notes 5 and 9)	633,500	633,500
Accrued interest payable	1,440	31,979
Commercial paper notes payable (Note 4)	7,509,000	25,461,000
Total payable from unrestricted assets	24,334,463	40,802,201
Payable from restricted assets:		
Accounts payable	328,025	4,603,297
Accrued salaries, wages, and payroll taxes	-	39,491
Unearned revenues	1,459,256	-
Other current liabilities	-	200,204
Accrued interest payable	21,195,344	16,460,282
Current portion of bonds payable, net of unamortized discount/premium (Note 5)	32,500,324	44,344,228
Total payable from restricted assets	55,482,949	65,647,502
Total current liabilities	79,817,412	106,449,703
Noncurrent liabilities:		
Bonds payable, less current portion and net of unamortized discount/premium (Note 5)	1,229,408,957	1,265,988,568
Estimated liability for self-insurance, noncurrent (Note 5 and 9)	2,387,730	2,219,169
Accrued vacation, sick leave, and compensatory time, noncurrent (Note 5)	589,401	611,669
Net pension liability (Note 7)	108,167,076	102,068,534
Net OPEB liability (Note 7)	28,086,340	14,026,167
Total noncurrent liabilities	1,368,639,504	1,384,914,107
Total liabilities	1,448,456,916	1,491,363,810
<b>Deferred Inflows of Resources</b>		
Deferred inflows of resources:		
Deferred inflows of resources related to pension (Note 7)	127,970	185,525
Deferred inflows of resources related to OPEB (Note 7)	30,916	-
Gain on refundings of debt	-	107,104
Total deferred inflows of resources	158,886	292,629
<b>Net Position</b>		
Net investment in capital assets	100,586,607	82,800,664
Restricted:		
Per Airline Lease Agreement for Airline revenue sharing	18,137,118	23,711,208
Per Master Trust Agreement for rolling debt service coverage	18,511,586	18,426,215
Per Rental Car Agreement	1,000,000	1,000,000
California Government Code Sections 50474.1-50474.3 for Customer Facility Charges	7,350,276	7,086,924
Future debt service (Note 1 (i))	17,015,247	14,683,570
Unrestricted	41,920,812	48,880,816
Total net position	\$ 204,521,646	\$ 196,589,397

See accompanying notes to the financial statements.



**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT**  
**(A Department of the City of San José)**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Fiscal Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Airline rates and charges:		
Landing fees	\$ 19,296,794	\$ 18,369,680
Terminal rental	43,476,503	39,778,321
Total airline rates and charges	<u>62,773,297</u>	<u>58,148,001</u>
Terminal buildings/concessions	22,374,869	20,206,590
Airfield	8,026,892	7,306,545
Parking and roadway	59,714,260	52,514,182
Fuel handling fees	3,078,026	3,080,382
General aviation/other	10,096,062	9,748,227
Customer facility charges for transportation costs	2,518,167	1,931,208
Total operating revenues	<u>168,581,573</u>	<u>152,935,135</u>
Operating expenses:		
Terminal buildings/concessions	34,922,052	31,115,432
Airfield	20,115,815	16,775,579
Parking and roadway	16,282,557	16,046,348
Fuel handling costs	58,567	16,000
General aviation	2,437,603	1,382,625
General and administrative	25,117,612	23,056,916
Depreciation	47,486,266	46,449,311
Total operating expenses	<u>146,420,472</u>	<u>134,842,211</u>
Operating income	<u>22,161,101</u>	<u>18,092,924</u>
Nonoperating revenues (expenses):		
Passenger facility charges	27,047,668	23,097,057
Customer facility charges for debt service	18,363,648	18,025,887
Investment income	2,841,765	1,591,015
Interest expense	(61,304,733)	(67,439,927)
Bond issuance costs	50,204	(2,492,092)
Operating grants	809,282	1,169,001
Other, net	1,213,677	602,920
Total nonoperating revenues (expenses), net	<u>(10,978,489)</u>	<u>(25,446,139)</u>
Income (loss) before capital contributions	<u>11,182,612</u>	<u>(7,353,215)</u>
Capital contributions	<u>9,286,900</u>	<u>10,120,255</u>
Change in net position	20,469,512	2,767,040
Net position - beginning, as previously reported	196,589,397	193,822,357
Restatement due to implementation of GASB 75 (Note 7)	(12,537,263)	-
Net position - beginning, as restated	<u>184,052,134</u>	<u>193,822,357</u>
Net position - ending	<u>\$ 204,521,646</u>	<u>\$ 196,589,397</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, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Receipts from customers and users	\$ 168,106,049	\$ 153,714,863
Payments to suppliers	(42,219,792)	(40,448,387)
Payments to employees	(29,722,896)	(27,189,683)
Payments for City services	(17,841,925)	(15,438,657)
Claims paid	(234,071)	(471,664)
Other receipts	1,732,868	664,304
	<u>79,820,233</u>	<u>70,830,776</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Operating grants	809,272	1,113,147
	<u>809,272</u>	<u>1,113,147</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(26,609,938)	(29,829,970)
Principal payments on bonds payable	(41,900,000)	(24,700,000)
Interest paid	(62,112,651)	(75,157,748)
Capital grants	10,535,023	7,064,445
Passenger facility charges received	27,915,427	22,238,621
Customer facility charges received	18,210,812	17,918,653
Bond proceeds	-	7,323,759
Bond issuance costs paid	(150,000)	(2,291,888)
Prepaid bond insurance	-	(83,155)
Principal payments on commercial paper	(17,952,000)	(9,211,000)
Advances on deposits (paid) received	(22,577)	174,496
	<u>(92,085,904)</u>	<u>(86,553,787)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities:		
Proceeds from sale and maturities investments	39,290,748	46,854,135
Purchase of investments	(39,290,748)	(77,826,079)
Investment income received	2,971,646	1,986,241
	<u>2,971,646</u>	<u>(28,985,703)</u>
Net cash provided by (used in) investing activities		
Net change in cash and cash equivalents	(8,484,753)	(43,595,567)
Cash and cash equivalents - beginning	276,005,716	319,601,283
Cash and cash equivalents - ending	<u>\$ 267,520,963</u>	<u>\$ 276,005,716</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, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 22,161,101	\$ 18,092,924
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	47,486,266	46,449,311
Other revenues	1,732,868	664,304
Decrease (increase) in:		
Accounts receivable	(5,477,693)	467,567
Prepaid expenses, advances, and deposits	(1,701)	(1,413)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(1,143,415)	(124,845)
Advances and deposit payable	146,591	(21,740)
Unearned revenues	5,753,934	(561,724)
Estimated liability for self insurance	168,561	-
Net pension liability, deferred outflows/inflows of resources related to pensions	9,193,498	5,866,392
Net OPEB liability, deferred outflows/inflows of resources related to OPEB	(199,777)	-
Net cash provided by operating activities	<u>\$ 79,820,233</u>	<u>\$ 70,830,776</u>
Noncash noncapital financing activities:		
Change in operating grants receivable	\$ (10)	\$ (55,854)
Noncash capital and related financing activities:		
Change in accounts payable related to acquisition of capital assets	6,120,083	(6,606,411)
Change in capital grants receivables	1,248,123	(3,055,810)
Unrealized gain (loss) on investments held by fiscal agent	(518,258)	(758,475)
Bond refunding	-	683,505,000
Amortization of bond discount/premium/prepaid bond insurance	(6,004,319)	(361,643)
Amortization of deferred outflows/inflows of resources related to bond refundings	963,268	154,049
Reconciliation of cash and cash equivalents to the statements of net position		
Equity in pooled cash and investments held in City Treasury		
Unrestricted	\$ 149,223,058	\$ 134,910,940
Restricted	59,816,733	75,859,613
Investments held by fiscal agent classified as cash equivalents	<u>58,481,172</u>	<u>65,235,163</u>
Total cash and cash equivalents	<u>\$ 267,520,963</u>	<u>\$ 276,005,716</u>

See accompanying notes to the financial statements.

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**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

**(1) Summary of Significant Accounting Policies**

***(a) Description of Reporting Entity***

The Norman Y. Mineta San José International Airport had its beginning in 1945 with the lease of approximately 16 acres of farmland to Mr. James Nissen. Mr. Nissen and his associates formed an operating company, which undertook the construction of a 1,900-foot runway, a hangar, and an office building. Flight operations were initiated in 1946. In the fall of 1948, the City assumed responsibility for the operation of San José Municipal Airport, which was renamed San José International Airport in 1984 with the addition of airline service to Canada. In 2001, the San José International Airport was renamed the Norman Y. Mineta San José International Airport.

The Airport is operated as a department of the City and is accounted for as a self-supporting enterprise fund in the basic financial statements of the City. The eleven members of the City Council serve as the governing body that oversees the operation of the Airport.

A variety of federal, state and local laws, agreements, and regulations govern the operations at the Airport. The FAA has general jurisdiction over flying operations, including personnel, aircraft, ground facilities, and other technical matters, as well as certain environmental matters. Pursuant to the Airport and Airway Improvement Act of 1982 and other statutes, the City is constrained from transferring Airport revenues to its General Fund. This restriction is embodied in the federal grant agreements entered into by the City. Additionally, federal laws govern the reasonableness of fees that may be charged for the use of Airport facilities, Airport noise limits, and impose certain other restrictions on the City and Airport operations.

***(b) Basis of Presentation - Fund Accounting***

The accounts of the Airport are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a set of self-balancing accounts that comprise the Airport's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's cost of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) where the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

***(c) Basis of Accounting and Estimates***

- (i) The Airport prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP), which provide that revenues are recorded when earned and expenses are recorded when incurred. Grants are recorded as revenues when all eligibility requirements have been met. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

- (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 habitational rights and aviation/relocation easements acquired in connection with the California Noise Reduction Act as intangible assets with indefinite useful lives. Intangible assets not having indefinite useful lives will be amortized over the estimated service capacity of the asset.

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.

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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:

	Years
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, 2018 and 2017.

***(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.

Prior to July 1, 2017, bond issuance costs related to prepaid insurance costs were capitalized and amortized using the effective interest method. Other bond issuance costs were expensed when incurred. Original issue bond discount or premium were offset against the related debt and were also amortized using the effective interest method. Deferred outflows/inflows of resources from refunding of debt were recognized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever was 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) Passenger Facility Charges***

PFC 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, 2018 and 2017, accumulated PFC funds amounted to \$17,015,247 and \$14,683,570, respectively, and are reported as restricted for future debt service in the restricted net position category of the Airport's statements of net position.

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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 \$24,791,626 and \$24,788,523 from accumulated PFC funds had been designated as Available PFC Revenues for payment of eligible bond debt service in fiscal years ended June 30, 2018 and 2017, respectively.

***(j) 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 \$18,363,648 and \$18,025,887 had been designated as "Other Available Funds" for payment of eligible bond debt service in fiscal years ended June 30, 2018 and 2017, respectively.

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

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

***(l) Pensions***

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

***(m) 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 additions to/deductions from the FCERS' fiduciary net position have been determined on the same basis as they are reported by the FCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. FCERS' investments are reported at fair value.

***(n) Net Position***

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

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT**  
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**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation, deferred outflows and inflows associated with the debt, and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2018 and 2017, the Airport's statements of net position report restricted net position of \$62,014,227 and \$64,907,917, respectively, of which \$24,365,523 and \$21,770,494, 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.

***(o) New Pronouncements***

During the fiscal year ended June 30, 2018, the Airport implemented the following accounting standards:

- In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement requires a liability for OPEB obligations, known as the net OPEB liability (NOL), to be recognized on the statement of net position of the employer. In addition, an OPEB expense to be recognized in the statement of revenues, expenses, and changes in net position of the participating employers. The OPEB expense in GASB Statement No. 75 is no longer equal to the annual required contribution (ARC) and has shorter amortization periods. Recognition of OPEB expense that incorporates deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement requires that the notes to financial statements of a single employer that sponsors an OPEB include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. This statement also requires that a single employer that sponsors an OPEB plan to present in Required Supplementary Information the sources of changes in the net OPEB liability and the components of the net OPEB liability and related ratios.



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**Notes to the Financial Statements**  
**June 30, 2018 and 2017**

- In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. An irrevocable split-interest agreement is one type of split-interest agreement used by donors to provide resources to two or more beneficiaries, including governments. Under an irrevocable split-interest agreement, the donor does not reserve, or confer to another person, the right to terminate the agreement at will and have the donated resources returned to the donor or a third party. This statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This statement requires that a government recognize revenue when the resources become applicable to the reporting period. The application of Statement No. 81 did not have any effect on the Airport's financial statements.
- In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and pensions and OPEB. The requirements of this statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The application of Statement No. 85 did not have any effect on the Airport's financial statements.
- In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The requirements of this statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. The application of Statement No. 86 did not have any effect on the Airport's financial statements.

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

- 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 is effective for the Airport's fiscal year ending June 30, 2019.

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- 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 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 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. GASB Statement No. 88 is effective for the Airport's fiscal year ending June 30, 2019.
- 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.

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**(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 6, 2018. 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, 2018 and 2017, the Airport's share of the City's cash and investment pool totaled \$209,039,791 and \$210,770,553, 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, 2018 CAFR. A copy of that report may be obtained by visiting the City's website at [www.sanjoseca.gov](http://www.sanjoseca.gov) or by contacting the City's Finance Department, 200 East Santa Clara Street, 13<sup>th</sup> 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, 2018 and 2017, restricted investments held by the Fiscal Agent totaled \$102,144,389 and \$109,416,632, respectively. The Master Trust Agreement addresses any limitations in Airport investment of moneys. The investments are subject to certain types of risk, including interest rate risk, credit quality risk, and concentration credit risk. However, the Master Trust Agreement does not specifically address policies for each risk.

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

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

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position in the LAIF pool. LAIF is part of the State's Pooled Money Investment Account (PMIA).

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.

As of June 30, 2017, the Airport's investments in LAIF held by the Fiscal Agent was \$63,561,072. The weighted average maturity of LAIF at June 30, 2017 was 194 days. The total amount recorded by all public agencies in the LAIF pool at June 30, 2017 was approximately \$22.8 billion. The total amount recorded by all public agencies in PMIA at June 30, 2017 was approximately \$77.6 billion and of that amount, 60.79% was invested in U.S. Treasuries and agencies, 27.73% in depository securities, 10.60% in commercial paper, 0.83% in loans, and 0.05% 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, 2018, and June 30, 2017, was approximately 520 days, and 513 days, respectively.

**Credit Quality Risk** – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. 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 Agent, by category and maturity, as of June 30, 2018 and 2017. 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 agent</u>						
Federated Treasury Obligations Fund	Aaa-mf/AAAm	\$ 1,768,454	\$ -	\$ -	\$ -	\$ 1,768,454
Federal Agricultural Mortgage <sup>(1)</sup>	Aaa/AA+	5,396,058	-	-	5,317,434	10,713,492
Federal Farm Credit Bank <sup>(1)</sup>	Not rated	6,999,370	-	-	-	6,999,370
Federal Home Loan Bank <sup>(1)</sup>	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>

**As of June 30, 2017**

<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 agent</u>						
Federated Treasury Obligations Fund	Aaa-mf/AAAm	\$ 1,674,092	\$ -	\$ -	\$ -	\$ 1,674,092
Federal Home Loan Bank <sup>(1)</sup>	Aaa/AA+	-	-	-	44,181,468	44,181,468
California Local Agency Investment Fund	Not rated	-	63,561,072	-	-	63,561,072
		<u>\$ 1,674,092</u>	<u>\$ 63,561,072</u>	<u>\$ -</u>	<u>\$ 44,181,468</u>	<u>\$ 109,416,632</u>

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

**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, 2018 and June 30, 2017:

<u>Investments by Fair Value Level</u>	<u>Carrying Value at June 30, 2018</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 with fiscal agents:</u>				
<u>Investments by fair value level</u>				
Federated Treasury Obligations Fund	\$ 1,768,454	\$ -	\$ 1,768,454	\$ -
Federal Agricultural Mortgage <sup>(1)</sup>	10,713,492	-	10,713,492	-
Federal Farm Credit Bank <sup>(1)</sup>	6,999,370	-	6,999,370	-
Federal Home Loan Bank <sup>(1)</sup>	25,950,348	-	25,950,348	-
Total investments by fair value level	45,431,664	-	45,431,664	-
<u>Investments not subject to the fair value hierarchy:</u>				
California Local Agency Investment Fund	56,712,725	-	-	-
Total investments	56,712,725	-	-	-
Total investments with fiscal agents	<u>\$ 102,144,389</u>	<u>\$ -</u>	<u>\$ 45,431,664</u>	<u>\$ -</u>

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<b>Investments by Fair Value Level</b>	<b>Carrying Value at June 30, 2017</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Investments with fiscal agents:				
Investments by fair value level				
Federated Treasury Obligations Fund	\$ 1,674,092	\$ -	\$ 1,674,092	\$ -
Federal Home Loan Bank <sup>(1)</sup>	44,181,468	-	44,181,468	-
Total investments by fair value level	45,855,560	-	45,855,560	-
Investments not subject to the fair value hierarchy:				
California Local Agency Investment Fund	63,561,072	-	-	-
Total investments	63,561,072	-	-	-
Total investments with fiscal agents	<u>\$ 109,416,632</u>	<u>\$ -</u>	<u>\$ 45,855,560</u>	<u>\$ -</u>

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

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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**(3) Capital Assets**

Capital asset activities for the fiscal years ended June 30, 2018 and 2017, were as follows:

	Balance at July 1, 2017	Additions	Retirements	Transfers	Balance at June 30, 2018
Capital assets, not depreciated:					
Land	\$ 75,781,265	\$ -	\$ -	\$ -	\$ 75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	26,101,647	18,965,530	-	(36,571,344)	8,495,833
Total capital assets, not depreciated	<u>114,764,459</u>	<u>18,965,530</u>	<u>-</u>	<u>(36,571,344)</u>	<u>97,158,645</u>
Capital assets, depreciated:					
Buildings	1,147,186,946	929,072	-	14,055,719	1,162,171,737
Other improvements	605,451,724	136	-	11,139,849	616,591,709
Equipment	51,569,349	595,116	(216,537)	11,375,776	63,323,704
Total capital assets, depreciated	<u>1,804,208,019</u>	<u>1,524,324</u>	<u>(216,537)</u>	<u>36,571,344</u>	<u>1,842,087,150</u>
Less accumulated depreciation:					
Buildings	307,766,567	26,504,073	-	-	334,270,640
Other improvements	272,135,014	18,139,786	-	-	290,274,800
Equipment	36,412,612	2,842,407	(216,537)	-	39,038,482
Total accumulated depreciation	<u>616,314,193</u>	<u>47,486,266</u>	<u>(216,537)</u>	<u>-</u>	<u>663,583,922</u>
Total capital assets, depreciated, net	<u>1,187,893,826</u>	<u>(45,961,942)</u>	<u>-</u>	<u>36,571,344</u>	<u>1,178,503,228</u>
Total capital assets, net	<u>\$ 1,302,658,285</u>	<u>\$ (26,996,412)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,275,661,873</u>

	Balance at July 1, 2016	Additions	Retirements	Transfers	Balance at June 30, 2017
Capital assets, not depreciated:					
Land	\$ 75,781,265	\$ -	\$ -	\$ -	\$ 75,781,265
Intangible assets	12,881,547	-	-	-	12,881,547
Construction in progress	7,620,376	32,278,660	-	(13,797,389)	26,101,647
Total capital assets, not depreciated	<u>96,283,188</u>	<u>32,278,660</u>	<u>-</u>	<u>(13,797,389)</u>	<u>114,764,459</u>
Capital assets, depreciated:					
Buildings	1,139,355,904	(26,829)	-	7,857,871	1,147,186,946
Other improvements	599,155,892	356,314	-	5,939,518	605,451,724
Equipment	47,954,441	3,828,231	(213,323)	-	51,569,349
Total capital assets, depreciated	<u>1,786,466,237</u>	<u>4,157,716</u>	<u>(213,323)</u>	<u>13,797,389</u>	<u>1,804,208,019</u>
Less accumulated depreciation:					
Buildings	281,249,575	26,516,992	-	-	307,766,567
Other improvements	254,129,129	18,005,885	-	-	272,135,014
Equipment	34,699,501	1,926,434	(213,323)	-	36,412,612
Total accumulated depreciation	<u>570,078,205</u>	<u>46,449,311</u>	<u>(213,323)</u>	<u>-</u>	<u>616,314,193</u>
Total capital assets, depreciated, net	<u>1,216,388,032</u>	<u>(42,291,595)</u>	<u>-</u>	<u>13,797,389</u>	<u>1,187,893,826</u>
Total capital assets, net	<u>\$ 1,312,671,220</u>	<u>\$ (10,012,935)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,302,658,285</u>

The Airport's depreciation expense on capital assets was \$47,486,266 and \$46,449,311 for fiscal years ended June 30, 2018 and 2017, respectively.

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**(4) Commercial Paper Notes Payable**

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

In February 2014, the City entered into a LOC and reimbursement agreement (Reimbursement Agreement) with Barclays. Pursuant to the Reimbursement Agreement, Barclays issued a \$65.0 million LOC supporting the Subordinated CP Notes, effective on February 11, 2014. On September 16, 2015, the City reduced the LOC stated amount from \$65.0 million to approximately \$41.0 million. The LOC provided by Barclays was extended to February 8, 2019, and can be extended or terminated earlier pursuant to its terms. See Note 11 for discussion of the termination and substitution of the LOC issued by Barclays in September 2018.

The terms of the Barclays LOC are specified in the Reimbursement Agreement. In general, Barclays agrees to advance funds to the issuing and paying agent for the Subordinated CP Notes to pay the principal and interest on maturing Subordinated CP Notes in an amount not to exceed the stated amount of the LOC. In the event that the commercial paper dealer is unable to find investors to purchase Subordinated CP Notes to repay the advance from Barclays, the City is obligated to pay interest to Barclays based on a formula specified in the Reimbursement Agreement and repay principal in accordance with the schedule and the terms also specified in the Reimbursement Agreement.

An event of default under the Reimbursement Agreement would entitle Barclays to demand that no additional Subordinated CP Notes be issued, that the City reimburse Barclays immediately for draws under the LOC, and that all other amounts owed by the City to Barclays be accelerated and become due immediately. Events of default under the Reimbursement Agreement include, among others: a default under the Master Trust Agreement or the issuing and paying agent agreement for the Subordinated CP Notes; non-payment; a breach of a covenant; bankruptcy; and ratings events including a suspension or withdrawal of the long-term, unenhanced debt rating assigned to the 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. All amounts payable by the City to Barclays under the Reimbursement Agreement are secured by a lien on the Surplus Revenues held in the Subordinated Debt Account of the Surplus Revenue Fund, including the earnings on such Surplus Revenues, which lien is subordinate to the lien of the Airport Revenue Bonds.

In connection with the LOC issued by Barclays, the City entered into a separate fee letter to specify the facility fee rate and other charges payable by the Airport. The facility fee rate under the fee letter was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to the stated amount of the LOC. The facility fee rate is subject to increase in the event that the underlying credit rating of the Airport Revenue Bonds is withdrawn, suspended, or downgraded or upon an event of default under the Reimbursement Agreement. The facility fee rate in effect is 0.425% as of June 30, 2018 and 2017.



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Subordinated CP Notes activities for the fiscal years ended June 30, 2018 and 2017 were as follows:

	2018	2017
Beginning balance	\$ 25,461,000	\$ 34,672,000
Paid	(17,952,000)	(9,211,000)
Ending balance	\$ 7,509,000	\$ 25,461,000

Balances of Subordinated CP Notes payable as of June 30, 2018 and 2017 were as follows:

As of June 30, 2018

Series A-2 Subordinated CP Notes maturing on July 24, 2018 were issued with an interest rate of 1.4%	<u>\$ 7,509,000</u>
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As of June 30, 2017

Series A-2 Subordinated CP Notes maturing on August 10, 2017 were issued with an interest rate of 0.92%	\$ 11,992,000
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Series B Subordinated CP Notes maturing on August 10, 2017 were issued with an interest rate of 0.94%	13,045,000
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Series C Subordinated CP Notes maturing on July 3, 2017 were issued with an interest rate of 1.45%	<u>424,000</u>
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Total Subordinated CP Notes payable	<u>\$ 25,461,000</u>
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Although the Subordinated CP Notes have short-term maturities, the Airport's original intent was to pay the remaining balance on a long-term basis based on the assumption that the outstanding Subordinated CP Notes will be paid on a 30-year amortization period with the first principal payments paid in fiscal year 2011. However, the Airport is monitoring the increase in interest rates and paying down the CP 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, 2018 totaled \$166,435,205, which is composed of \$88,278,098 of Net General Airport Revenues (as defined in the Master Trust Agreement) and \$78,157,107 of Other Available Funds (as defined in the Master Trust Agreement). 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

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paid from the accumulated PFC funds.

The Airport reported net revenues available to pay Debt Service in fiscal year ended June 30, 2017 of \$156,577,274, which was composed of \$78,701,317 of Net General Airport Revenues and \$77,875,957 of Other Available Funds. Other Available Funds include surplus carryover of \$37,278,613, rolling debt service coverage of \$18,276,738, CFC Revenues of \$18,025,887, and unspent Series 2007B bond proceeds of \$4,294,719. The bond Debt Service paid from the General Airport Revenues and Other Available Funds amounted to \$70,871,026, which is net of \$24,788,523 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 \$2,227,585,060, with the final payment due on March 1, 2047.

As of June 30, 2018, the Required Reserve in the General Account of the Bond Reserve Fund secures the Series 2011A-1, 2011A-2, 2014A, 2014B, 2014C, 2017A, and 2017B Bonds. No additional deposit into the General Account of the Bond Reserve Fund was required upon the expiration on March 1, 2018 of the surety bond issued by Ambac Indemnity Corporation (currently known as Ambac Assurance Corporation, the principal operating subsidiary of Ambac Financial Group Inc., [Ambac]) in the approximate amount of \$4.3 million. A separate reserve account in the Bond Reserve Fund secures the Series 2011B Bonds.

As of June 30, 2017, the reserve requirement in the General Account of the Bond Reserve Fund was satisfied, in part, by approximately \$4.3 million surety bond from Ambac, which expired on March 1, 2018. According to the Master Trust Agreement, in the event that the Ambac surety bond for any reason terminates and the remaining amount on deposit in the General Account is less than the Required Reserve, the Airport is to address such shortfall by delivering to the trustee a surety bond or a LOC meeting the criteria of a Qualified Reserve Facility (as defined in the Master Trust Agreement) under the Master Trust Agreement, or depositing cash to the General Account in up to twelve equal monthly installments. Ambac's rating was reduced or withdrawn subsequent to the deposit of the surety bond in the General Account. The Master Trust Agreement does not require that the rating of any surety bond held in the General Account be maintained after the date of deposit.

On May 1, 2013, Ambac emerged from bankruptcy protection, which had been filed under Chapter 11 of the Bankruptcy Code. Starting in March 2010, certain of the policy liabilities of Ambac were allocated to a segregated account, which has been subject to a plan of rehabilitation. Policy obligations not allocated to such segregated account, including obligations in respect of the surety bond provided by Ambac on deposit in the general account of the bond reserve fund, are not subject to, and therefore will not be directly impacted by, such rehabilitation proceeding. No assurance can be made regarding the claims paying ability of Ambac on the surety bond described above.

On April 11, 2017, the City issued \$624,270,000 of City of San José, California Airport Revenue Refunding Bonds, Series 2017A (AMT) and Series 2017B (non-AMT) to (1) refund outstanding fixed-rate Airport Revenue Bonds Series 2007A (AMT) and Series 2007B (non-AMT) (2) make a deposit into the General Account of the Bond Reserve Fund and (3) pay costs of issuance. The Series 2017A and

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2017B Bonds refunded all but one maturity of the Series 2007A and all of the outstanding Series 2007B (collectively, the “Refunded Bonds”). This transaction was a restructuring to eliminate the debt service “spike” that would have occurred from 2033-2037, creating level debt service from 2035-2037. Even with the restructuring, significant savings were achieved with \$83,231,501 in present value savings (12.17% of the refunded bonds). The City completed the refunding to reduce the total debt service payments over the next 30 years by \$27,523,933 (prior debt service of \$1,266,430,505 and the refunding debt service of \$1,238,906,572). The Series 2017A/B Bonds are limited obligations of the City payable solely from and secured by a pledge of General Airport Revenues generated by the Airport, certain funds and accounts held by the trustee or made available under the Master Trust Agreement, after the payment of Maintenance and Operation Costs.

The Series 2017A Bonds were issued in a principal amount of \$473,595,000 with fixed coupon interest rates ranging from 4% to 5% and have a final maturity date of March 1, 2047. The Series 2017B Bonds were issued in a principal amount of \$150,675,000 and have fixed coupon rates between 3% and 5%, with a final maturity on March 1, 2047. The Series 2017A Bonds maturing in 2042 were issued with a bond insurance policy from Build America Mutual (the “Insured Bonds”). The bond insurance policy was purchased at a cost of 0.15% of the total principal and interest payments of the insured bonds through the optional redemption date in 2027, equal to \$83,155. If the Insured Bonds are not called for redemption in 2027, a premium of 0.05% of the principal and interest will be payable annually thereafter while the Insured Bonds are outstanding.

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Balances of Bonds payable as of June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
2017B Series Airport Revenue Bonds of \$150,675,000 with interest rate of 3.0% to 5.0%; payable in annual installments ranging from \$1,275,000 to \$11,180,000 with the final installment due in March 2047	\$ 146,170,000	\$ 150,675,000
2017A Series Airport Revenue Bonds of \$473,595,000 with interest rate 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	459,450,000	473,595,000
2014C Series Airport Revenue Bonds of \$40,285,000 with interest rate 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 at rate 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 rates of 3.2% to 5.0%; payable in annual installments ranging from \$50,000 to \$9,175,000 with the final installment due March 2026	56,040,000	56,090,000
2012A Series Airport Revenue Bonds of \$49,140,000 were fully paid off in March 2018	-	8,585,000
2011B Series Airport Revenue Bonds of \$271,820,000 at rates of 4.1% to 6.8%; payable in annual installments ranging from \$1,540,000 to \$27,330,000 with the final installment due in March 2041	260,095,000	261,635,000
2011A-2 Series Airport Revenue Bonds of \$86,380,000 at rates of 4.0% to 5.3%; payable in annual installments ranging from \$1,910,000 to \$12,220,000 with the final installments due in March 2034	72,140,000	74,340,000
2011A-1 Series Airport Revenue Bonds of \$150,405,000 at rates of 5.0% to 6.3%; payable in annual installments ranging from \$3,355,000 to \$21,115,000 with the final installment due in March 2034	125,455,000	129,305,000
2007A Series Airport Revenue Bonds of \$545,755,000 was partially refunded in April 2017; the remaining balance of \$7,025,000 was fully paid off in March 2018	-	7,025,000
Total Bonds payable	<u>\$ 1,187,645,000</u>	<u>\$ 1,229,545,000</u>

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Bonds outstanding and related activities for the fiscal years ended June 30, 2018 and 2017, were as follows:

	<b>Balance at July 1, 2017</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance at June 30, 2018</b>	<b>Amounts Due Within One Year</b>
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>

	<b>Balance at July 1, 2016</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance at June 30, 2017</b>	<b>Amounts Due Within One Year</b>
2017B Series	\$ -	\$ 150,675,000	\$ -	\$ 150,675,000	\$ 4,505,000
2017A Series	-	473,595,000	-	473,595,000	14,145,000
2014C Series	40,285,000	-	-	40,285,000	-
2014B Series	28,010,000	-	-	28,010,000	-
2014A Series	56,185,000	-	95,000	56,090,000	50,000
2012A Series	17,045,000	-	8,460,000	8,585,000	8,585,000
2011B Series	262,790,000	-	1,155,000	261,635,000	1,540,000
2011A-2 Series	76,430,000	-	2,090,000	74,340,000	2,200,000
2011A-1 Series	132,970,000	-	3,665,000	129,305,000	3,850,000
2007B Series	172,235,000	-	172,235,000	-	-
2007A Series	527,530,000	-	520,505,000	7,025,000	7,025,000
Total long-term debt	1,313,480,000	624,270,000	708,205,000	1,229,545,000	41,900,000
Add unamortized:					
Premium	21,739,422	66,558,759	946,759	87,351,422	2,518,703
Less unamortized:					
Discount	9,640,533	-	3,076,907	6,563,626	74,475
Total long-term debt, net	<u>\$ 1,325,578,889</u>	<u>\$ 690,828,759</u>	<u>\$ 706,074,852</u>	<u>\$ 1,310,332,796</u>	<u>\$ 44,344,228</u>

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Scheduled maturities of outstanding Bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2019	\$ 28,915,000	\$ 63,586,033
2020	31,040,000	62,217,617
2021	33,205,000	60,701,680
2022	34,975,000	59,035,020
2023-2027	136,885,000	272,934,010
2028-2032	206,225,000	230,893,323
2033-2037	243,305,000	164,588,872
2038-2042	262,500,000	93,367,755
2043-2047	210,595,000	32,615,750
<b>Total</b>	<b>\$ 1,187,645,000</b>	<b>\$ 1,039,940,060</b>

A number of limitations and restrictions are imposed upon the Airport by covenants relating to certain outstanding Bonds. As of June 30, 2018 and 2017, 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, 2018 and 2017 were as follows:

	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
<b>Total</b>	<b>\$ 5,050,338</b>	<b>\$ 1,860,886</b>	<b>\$ 1,561,593</b>	<b>\$ 5,349,631</b>	<b>\$ 2,372,500</b>

	Balance at July 1, 2016	Adjustments/ Additions	Adjustments/ Retirements	Balance at June 30, 2017	Amounts Due Within One Year
Self-insurance	\$ 2,852,669	\$ 471,318	\$ 471,318	\$ 2,852,669	\$ 633,500
Accrued vacation, sick leave and compensatory time	2,385,437	1,429,335	1,617,103	2,197,669	1,586,000
<b>Total</b>	<b>\$ 5,238,106</b>	<b>\$ 1,900,653</b>	<b>\$ 2,088,421</b>	<b>\$ 5,050,338</b>	<b>\$ 2,219,500</b>

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**(6) Lease and Agreements**

The City has 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 allows the airlines to continue to conduct operations and occupy leased space through the extended term. Pursuant to the City Council authorization, the Airline Lease Agreement was extended for two years until June 30, 2019, with Article 11 amended to remove the Municipally-Funded Air Service Incentive Program, and other provisions were added as required under federal law and regulations. The existing rates and charges structure remained unchanged through the extended term. Negotiations for a new agreement with the airlines are currently underway. The current agreement shall terminate upon execution of a new Airline Lease Agreement between City and the airlines.

The Airline Lease Agreement provides that any passenger airline that (a) signs an agreement substantially similar to the Airline Lease Agreement, (b) provides passenger service at the Airport, (c) leases from the City an amount of exclusive use premises (not including gates) in the terminal deemed sufficient by the Director of Aviation to support the airline's operation, and (d) at the time the airline executes its agreement with the City, operates at least one scheduled flight, scheduled year-round, at least three days per week shall be a Signatory Airline. The Airline Lease Agreement also provides that any air cargo carrier will also be a Signatory Airline if the air cargo carrier (a) signs an agreement with the City substantially similar to the Airline Lease Agreement (other than in 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 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 net remaining revenues after all other obligations are satisfied, the airline's share of the net remaining revenues shall be applied as a credit to the airline terminal rate for the following fiscal year, thus reducing the rates. The landing fee rate is calculated by dividing the expenses allocable to the airfield, offset by airfield revenues, other than landing fees, by the

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projected aggregated maximum gross landed weight for all aircraft carrying passengers or cargo in commercial service at the Airport during the fiscal year.

For the fiscal years ended June 30, 2018 and 2017, the Airport's revenues as defined in its lease agreements exceeded its expenditures and reserve requirements by \$25,530,263 and \$34,030,566, respectively. The surplus for fiscal year ended June 30, 2018 will be distributed in accordance with the revenue sharing provisions of the lease agreement and/or used in the budget balancing actions for fiscal year 2019. The surplus for the year ended June 30, 2017 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 29-acres of the Airport's west side. The term of the agreement is for 50 years from December 12, 2013 to December 11, 2063. The base ground rental is subject to a consumer price index adjustment annually and by appraisal every five years. The base ground rental rate effective December 12, 2017 is \$2.36 per square foot per year. Rental revenues from the ground lease with Signature were \$3,009,259 and \$2,911,120 for the fiscal years ended June 30, 2018 and 2017, 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, 2018, the remaining terms of these operating leases range from one month to 20 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 \$93,172,399 and \$85,960,593 for the fiscal years ended June 30, 2018 and 2017, respectively.

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

<u>Fiscal Year Ending June 30,</u>	
2019	\$ 89,056,223
2020	38,256,589
2021	18,100,364
2022	17,528,122
2023	16,619,882
2024-2028	69,522,359
2029-2033	50,049,586
2034-2038	51,787,526
2039-2043	30,806,799
2044-2048	34,411,827
2049-2053	39,582,437
2054-2058	45,529,968
2059-2063	52,371,155
2064-2065	<u>5,457,627</u>
Total minimum lease rentals	<u>\$ 559,080,464</u>

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



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and other tenants.

As of June 30, 2018 and 2017, assets leased to tenants had total historical costs of \$1,046,515,754 and \$1,033,403,403 and accumulated depreciation of \$252,262,252 and \$227,789,156, 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, 2018 and 2017 totaled \$34,906,336 and \$50,217,510, respectively.

**Potential Claim**

The passenger airlines that currently operate at the Airport have a potential unasserted claim against the City for overpayment of terminal rents by the airlines. The overpayment of terminal rents by the passenger airlines has resulted from the City's annual calculation of terminal rents in a manner that is not consistent with the terms of the current 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 be 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.

The statute of limitations for claims against a government entity such as the City is one (1) year pursuant to California Government Code Section 911.2. If the airlines file a claim, the City will raise the limitations period as a defense.

At this time it is impossible to predict the outcome of this potential unasserted claim, the possible loss or range of loss, or whether the unasserted claim will be made and if made, when it would be resolved.

**(7) Employees' Retirement System**

***(a) General Information about the Pension Plan***

All full-time and certain part-time employees of the Airport participate in the FCERS. The benefits provided by the FCERS include pension, death, and disability, which are under the Defined Benefit Pension Plan, as well as medical and dental benefits, which are under the defined benefit postemployment healthcare plan (Postemployment Healthcare Plan). Unrepresented executive management and professional employees who are hired directly into a position in the City's unrepresented executive management unit (Unit 99) and who are first hired on or after January 20, 2013, have a one-time irrevocable election to either participate in a defined contribution plan 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 of a City of San José retirement system.

A stand-alone report is issued for the FCERS and is available at [www.sjretirement.com](http://www.sjretirement.com) and from the City of San José Office of Retirement Services, 1737 North First Street, Suite 600, San José, CA 95112. As a department of the City, the Airport shares benefit costs with the City. The Airport presents the related

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defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City.

***(b) Benefits Provided***

Benefits are based on average final compensation, years of service, and cost of living increases as specified by the City's Municipal Code. The contribution and benefit provisions and all other requirements are established by the City Charter and the City's Municipal Code. Benefits are based on average final compensation, years of service, and cost-of-living increases as specified by the City's Municipal Code.

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. The settlement of legal challenges brought by or on behalf of the City's active employee 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

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(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 fiscal year 2018. As implementation issues arise, minor modifications are being made to the provisions of FCERS in the Municipal Code to address these issues.

The payroll for Airport employees covered by the FCERS for the fiscal years ended June 30, 2018 and 2017 was \$15,335,023 and \$13,693,811, respectively. The Airport's total payroll for the fiscal years ended June 30, 2018 and 2017 was \$17,880,280 and \$16,630,916, respectively.

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

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

- <sup>(1)</sup> 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.
- <sup>(2)</sup> 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.
- <sup>(3)</sup> Employees in these Tiers were mandatorily placed into the VEBA.
- <sup>(4)</sup> Unrepresented employees were eligible to opt in to the VEBA, but are not eligible to make ongoing contributions to the VEBA.
- <sup>(5)</sup> 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.

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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.

	<b>Tier 1 &amp; 1A<sup>(1)</sup></b>	<b>Tier 1B or Tier 1 Classic<sup>(2)</sup></b>	<b>Tier 1C<sup>(3)</sup></b>	<b>Tier 2</b>	<b>Tier 2B</b>
<b>Pension</b>					
Service Required to Leave Contributions in System	5 years			5 years Federated City Service Years of Service (Year of Service = 2080 hours worked in the applicable 12 month period)	
<b>Service Retirement:</b>					
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)  If separation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months  If separation takes place on or after July 1, 2001, Final Compensation is highest average monthly salary during 12 consecutive months			2.0% x Years of Federated City Service x Final Compensation (70% max)  "Final Compensation" is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service. Excludes premium pay or any other forms of additional compensation	
Final Compensation	Highest one-year average			Highest three-year average	
<b>Disability Retirement (Service Connected)</b>					
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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	<b>Tier 1B or Tier 1</b>	
	<b>Tier 1 &amp; 1A<sup>(1)</sup></b>	<b>Tier 1C<sup>(3)</sup></b>
	<b>Classic<sup>(2)</sup></b>	<b>Tier 2</b>
		<b>Tier 2B</b>
<b>Disability Retirement (Non-Service Connected)</b>		
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)
<b>Reciprocity</b>		
Reciprocity	As of December 9, 1994, the City of San José Federated City Employees' Retirement System 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. Please call the Retirement Department or CalPERS for more information.	
<b>Cost of Living Adjustments</b>		
Cost of Living Adjustments	Retirees are eligible for a 3% annual cost of living adjustment (COLA). Regular COLA's 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.

<sup>(1)</sup> Tier 1 applies to employees hired on or before September 29, 2012, or former Tier 1 members who were rehired on or after June 18, 2017, who did not take a return of contributions. Tier 1A applies to employees rehired on or after September 30, 2012 through September 27, 2013, and employees rehired after September 27, 2013 with 15 or more years of service, but before June 18, 2017.

<sup>(2)</sup> Tier 1B applies to employees rehired after September 27, 2013 with less than 5 years of service, but before June 18, 2017. Tier 1B employees are not eligible for the defined benefit retiree healthcare plan. Employees with "Classic" membership from a CalPERS or reciprocal agency hired by the City of San Jose on or after June 18, 2017. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan.

<sup>(3)</sup> Tier 1C applies to employees rehired after September 27, 2013 with between 5 and 15 years of service, but before June 18, 2017. Tier 1C employees are not eligible for the defined benefit retiree medical plan.

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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, 1A, 1B, and 1C**

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**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	<p>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)</p> <p>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</p> <p>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)</p>

**Death After Retirement**

Standard allowance to surviving spouse/domestic partner or children  (Minimum 5 years of service)	<p>To surviving spouse/domestic partner:          50% of Retiree's Allowance</p> <p>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</p> <p>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.</p>
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.

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 2 and 2B**

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**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.

Note: 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 65 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***

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 for fiscal year June 30, 2018.

In fiscal year 2011, the FCERS Board approved the establishment of a “floor funding method”, commencing with fiscal year 2012, 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 fiscal year 2017. The “floor funding method” does not apply to FCERS Tier 2, Tier 2B, and Tier 2C 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.



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Contribution rates for the Airport and the participating employees for the periods July 1, 2016 through June 17, 2017 and June 18, 2017 through June 30, 2018 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2016, and June 30, 2017, respectively, for the Defined Benefit Pension Plan.

<u>Pay Period</u>	<u>Airport's Contribution<sup>(1)</sup></u>	<u>Employees' Contribution</u>
July 1, 2016 - June 17, 2017		
Tier 1	78.06%	6.47%
Tier 2	6.04%	6.04%
Tier 2B	6.04%	6.04%
Tier 2C	6.04%	6.04%
June 18, 2017 - June 30, 2018		
Tier 1 and 1A	94.04%	6.60%
Tier 1B	94.04%	6.60%
Tier 1C	94.04%	6.60%
Tier 2	7.72%	7.72%
Tier 2B	7.72%	7.72%

<sup>(1)</sup> For Tier 1 members, the actual contribution rates paid by the City for fiscal year ended 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.

For the fiscal year ended June 30, 2018, the contributions paid during the measurement period (contributions made during the fiscal year ended June 30, 2017) were as follows:

	<u>Annual Pension Contributions</u>	
	<u>Airport</u>	<u>Participants</u>
Defined Benefit Pension Plan	\$ 8,134,457	\$ 1,115,615

For the fiscal year ended June 30, 2017, the contributions paid during the measurement period (contributions made during the fiscal year ended June 30, 2016) were as follows:

	<u>Annual Pension Contributions</u>	
	<u>Airport</u>	<u>Participants</u>
Defined Benefit Pension Plan	\$ 7,373,508	\$ 1,067,499

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

As of June 30, 2018, the Airport reported \$108,167,076 of net pension liability for its proportionate share of the City's net pension liability. The net pension liability of the FCERS was measured as of June 30, 2017, and the total pension liability (TPL) for the FCERS used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to June 30, 2017 using standard update procedures. The Airport's portion of the net pension liability was based on the Airport's share of its contributions to the FCERS relative to the actual contributions. The Airport's proportionate share of the FCERS' net pension liability 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. 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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	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
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	-
	<u>\$ 27,067,836</u>	<u>\$ 127,970</u>

As of June 30, 2018, \$8,814,338 was reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

	<b>Deferred Outflows (Inflows) of Resources</b>
2019	\$ 8,577,718
2020	7,297,291
2021	2,865,693
2022	(615,174)
	<u>\$ 18,125,528</u>

As of June 30, 2017, the Airport reported \$102,068,534 of net pension liability for its proportionate share of the City's net pension liability. The net pension liability of the FCERS was measured as of June 30, 2016, and the TPL for the FCERS used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 and rolled forward to June 30, 2016 using standard update procedures. The Airport's portion of the net pension liability was based on the Airport's share of its contributions to the FCERS relative to the actual contributions. The Airport's proportionate share of the FCERS' net pension liability was 3.4% as of June 30, 2016, the measurement date.

For the fiscal year ended June 30, 2017, the Airport recognized pension expense of \$14,000,849. As of June 30, 2017, the Airport reported deferred outflows and inflows of resources related to pension from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Contributions subsequent to measurement date	\$ 8,134,457	\$ -
Differences between expected and actual experience	1,307,897	185,525
Changes in assumptions	8,357,071	-
Net difference between projected and actual earnings on pension plan investments	12,420,922	-
	<u>\$ 30,220,347</u>	<u>\$ 185,525</u>

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As of June 30, 2017, \$8,134,457 was reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date was recognized as a reduction of the net pension liability in the year ended June 30, 2018.

***(e) Actuarial Methods and Assumptions***

The significant actuarial methods and assumptions used to compute TPL as of June 30, 2018 and June 30, 2017 are from the actuarial valuation reports with valuation dates of June 30, 2016 and June 30, 2015, respectively. The valuation reports were rolled forward to June 30, 2017 and June 30, 2016, respectively, using standard update procedures:

	<b>Method/Assumption (TPL as of June 30, 2018)</b>	<b>Method/Assumption (TPL as of June 30, 2017)</b>
Measurement date	June 30, 2017	June 30, 2016
Valuation date	June 30, 2016	June 30, 2015
Inflation rate	2.50%	2.50%
Discount rate	6.875% per annum	7.00% per annum
Post retirement mortality		
(a) Service:	Healthy annuitants: 0.952 for males x 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.	For healthy annuitants, the CalPERS 2009 Healthy Annuitant Mortality Table multiplied by 0.952 for males and 0.921 for females and projected from 2009 on a generational basis using scale MP-2015.
(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 base using the MP-2017 scale.	For disabled annuitants, the CalPERS 2009 Ordinary Disability Table multiplied by 1.051 for males and 1.002 for females and projected from 2009 on a generational basis using scale MP-2015.
Rate of service withdrawal, death, disability, retirements	Tables based on current experience.	Tables based on current experience.
Salary increases		
Wage Inflation	The base inflation assumption of 3.25% 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 wage 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	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 provided by the investment consultants, including nominal expected rates of return for each of the asset classes, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the returns. Best estimates of arithmetic real rates of return for each major asset class included in the FCERS' target asset allocation are summarized in the following tables:

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	33%	1.0%
Private debt	6%	4.3%
Real assets	13%	3.0%
Absolute return	11%	3.7%
Global tactical asset allocation/Opportunistic	-	2.1%
Cash	-	0.2%
Total	<u>100%</u>	

As of June 30, 2016, using a long-term expected rate of return on investments of 7.000% with a valuation date of June 30, 2015:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	28%	7.5%
Private equity	9%	9.4%
Global fixed income	19%	4.0%
Private debt	5%	6.9%
Real assets	23%	6.5%
Absolute return strategies	11%	6.0%
Global tactical asset allocation	5%	5.0%
Cash	-	2.3%
Total	<u>100%</u>	

**Discount Rate** - The discount rates used to measure the total pension liability as of June 30, 2017 and June 30, 2016 were 6.875% and 7.000%, respectively. It is assumed that members' contributions and Airport's contributions will be made based on the actuarially determined rates based on the FCERS' Board funding policies. Based on those assumptions, the FCERS' net position is expected to be available

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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, 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 discount rate:

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

<b>As of June 30, 2017:</b>	<b>1% Decrease 6.000%</b>	<b>Measurement Date Discount Rate 7.000%</b>	<b>1% Increase 8.000%</b>
Net pension liability	\$ 141,341,780	\$ 102,068,534	\$ 70,124,644

The allocation was based on 3.4% of the Airport's proportion of the FCERS' assets and liabilities at measurement dates June 30, 2017 and June 30, 2016.

As of June 30, 2017 and June 30, 2016, the actuarial valuation dates, the FCERS' Board were utilizing a discount rate of 6.875% and 7.000%, respectively. For more details on the current discount rate, please refer to the stand-alone report issued by the FCERS.

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

***(f) Payable to the Pension Plan***

At June 30, 2018 and June 30, 2017, 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, 2018 CAFR related to the dispute between FCERS and the City regarding the overpayment of pension benefits. 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 Plan, the City also sponsors and administers a single employer Postemployment Healthcare Plan, which includes an Internal Revenue Code (IRC) 401(h) Plan and an IRC 115 Trust. The Postemployment Healthcare Plan covers eligible full-time and certain part-time employees of the City, and are accounted for in the Pension Trust Funds.

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 Federated Framework, the City established the VEBA for retiree healthcare for the members of the FCERS in fiscal year 2018. The City does not make contributions into the VEBA and the VEBA is not subject to the jurisdiction of the FCERS' Board.

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

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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, 2018 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. No amount has been determined on an actuarial basis to fund the Postemployment Healthcare Plan. With the implementation of Measure F, ADC will be calculated beginning with the fiscal year ending June 30, 2019. The FCERS transitioned into annual valuations beginning June 30, 2010, from biennial actuarial valuations.

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 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, 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 for fiscal year June 30, 2018.

In fiscal year 2011, the FCERS' Board approved the establishment of a "floor funding method", commencing with fiscal year 2012, 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. The "floor funding method" does not apply to Tier 2, Tier 2B, and Tier 2C members.

In 2009, the City entered into agreements (Retiree Healthcare Agreements) with the bargaining units representing the FCERS members to increase the contribution rates for retiree health and dental benefits in order to phase-in to full funding of the GASB Statement No. 45 ARC over a five-year period ending in fiscal year 2013. The Retiree Healthcare Agreements also provide that the five-year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions. At the end of the phase-in, the City and active members were to pay the ARC for retiree healthcare benefits. Under the Retiree Healthcare agreements, the ratio of contribution remained unchanged with the contribution for retiree medical benefits split evenly between the City and the employee and retiree dental benefits split in the ratio of 8 to 3 with the City contributing 8/11 of the total contribution.

The fiscal year ended June 30, 2013 was supposed to mark the end of the 0.75% cap and per the Retiree

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Healthcare Agreements, the employees and the City were required to contribute at the GASB Statement No. 45 ARC for fiscal year ended June 30, 2014. However, the City and the bargaining groups negotiated an extension of the 0.75% cap on increases to medical contributions for 18 months. In October 2014, the City Council approved to extend the cap for an additional six months to June 20, 2015, the last pay period for fiscal year 2015. At the end of fiscal year 2015, the bargaining units and the City jointly agreed to keep the contribution rates the same as fiscal year 2015 until December 20, 2015, at which point the parties would begin to pay the full ARC. However, in December 2015, the Federated Board approved to extend the fiscal year 2015 healthcare rates until the implementation of the settlement of the Measure B litigation, referred to as the “Alternative Pension Reform Framework Settlement Agreement.” Pursuant to subsequent agreements with the Federated bargaining units, the City did not implement the full ARC rates and instead opted to extend the rates in effect for fiscal year 2015 until the implementation of the Federated Framework. The FCERS' Board approved the extension of the phase-in rates in March 2016.

On August 27, 2013, San Jose City Council adopted Ordinance No. 29283 to exclude FCERS Tier 2 members hired on and after September 27, 2013, from retiree medical and dental benefits (referred to as Tier 2B members) but the City shall bear and pay an amount equal to the additional costs incurred by the FCERS for that portion of the unfunded liability as determined by the actuary for the FCERS that the City and Tier 2B members would have otherwise paid as contributions had those employees been eligible for the retiree healthcare defined benefit.

On December 15, 2015 and January 12, 2016, the City and the bargaining units representing employees in FCERS reached a settlement agreement on the 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 included, an agreement on a new lowest cost medical plan associated with retiree healthcare, and an agreement that a ballot measure would be placed on the November 8, 2016 ballot. The defined benefit retiree healthcare plan was already closed to new Federated employees based on the action taken by City Council in 2013.

The Federated Framework allowed Tier 1 and Tier 2 members in the FCERS a one-time irrevocable election to remain in the defined benefit Postemployment Healthcare Plan or opt in to the defined contribution VEBA. Under the terms of the Federated Framework, the Tier 1 and Tier 2 members in the FCERS who opted to remain in the defined benefit Postemployment Healthcare Plan will contribute seven and one-half percent (7.5%) of pay and the City will continue to pay the phased-in contribution rate until the beginning of fiscal year 2019, subject to a cap of fourteen percent (14%) of payroll.

On November 8, 2016, the Alternative Pension Reform Act, or Measure F, was passed. Measure F significantly changed the benefits and contribution agreement between the City and its employees, including amending the City Charter to prohibit enhancements to defined retirement benefits without voter approval and closing the defined benefit retiree healthcare plan to new employees. Effective March 25, 2018, and under the terms of the Federated Framework, the Tier 1 and Tier 2 members in FCERS who opted to remain in the defined benefit Postemployment Healthcare Plan began to contribute seven and one-half percent (7.5%) of pay, and the City continued to pay the phased-in contribution rate until the beginning of fiscal year 2019. At that time, the City will pay a contribution determined by the Federated Board, subject to a cap of fourteen (14%) of payroll of all active members of FCERS.

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Contribution rates for the Airport and the participating employees for the periods July 1, 2016 through June 17, 2017 and June 18, 2017 through June 30, 2018:

<u>Pay Period</u>	<u>Airport's Contribution</u>	<u>Employees' Contribution</u>
July 1, 2016 through June 17, 2017		
Tier1	9.41 %	8.76 %
Tier 2	9.41 %	8.76 %
Tier 2B	12.66 %	-
Tier 2C	12.86 %	0.39 %
June 18, 2017 through March 24, 2018		
Tier 1	9.41 %	8.76 %
Tier 1B	8.91 %	8.76 %
Tier 1C	12.86 %	0.39 %
Tier 2	9.41 %	8.76 %
Tier 2B	12.66 %	-
March 25, 2018 through June 30, 2018		
Tier 1	9.41 %	7.50 %
Tier 1B	8.91 %	7.50 %
Tier 1C	12.86 %	7.50 %
Tier 2	9.41 %	7.50 %
Tier 2B	12.66 %	-

As of July 1, 2017, the Airport restated the beginning net position to record the beginning deferred OPEB contributions and net OPEB liability as follows:

Net position - beginning, as previously reported	\$ 196,589,397
Change in accounting principle	<u>(12,537,263)</u>
Net Position - beginning, as restated	<u><u>\$ 184,052,134</u></u>

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. 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. The Airport's proportionate share of the FCERS' net OPEB liability was 5.5% as of June 30, 2017, the measurement date. The net OPEB liability of the FCERS was measured as of June 30, 2017, and the total OPEB liability for the FCERS used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to June 30, 2017 based on the following actuarial methods and assumptions:



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**Actuarial Methods and Assumptions**

Description	Method/Assumption (Total OPEB Liability as of June 30, 2018)
Measurement date	June 30, 2017
Valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
<u>Actuarial assumptions:</u>	
Discount Rate	6.875%
Merit Increase	Merit component added based on an individual's years of service ranging from 4.5% at hire to 0.25% for members with 14 or more years of service.
Salary Increase	2.85%
Investment Rate of Return	6.875%
Mortality Rate*	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.
Health 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 6.5% to 4.25% per annum graded down over a 14 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)

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

Age	Rate of Termination		
	0 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%	0.00%
65	0.00%	0.00%	0.00%

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

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

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	55%	6.7%
Fixed Income	28%	1.0%
Real Assets	17%	4.4%
Cash	-	-
Total	100%	

**Discount Rate** - The discount rate used to measure the total OPEB liability as of June 30, 2017 was 6.875%. It is assumed that the members' contributions and Airport's contributions will be made based on the actuarially determined rates based on the FCERS' Board funding policies. Based on those assumptions, the FCERS' fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return 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, 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 discount rate:

Sensitivity Analysis	Measurement Date		
	1% Decrease (5.875%)	Discount Rate (6.875%)	1% Increase (7.875%)
Net OPEB liability	\$ 34,800,354	\$ 28,086,340	\$ 23,092,618

**Sensitivity of the Net OPEB Liability to Changes in Health Care Cost Trend Rates** - The following presents the Airport's proportionate share of the net OPEB liability 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 discount rate :

Sensitivity Analysis	Measurement Date		
	1% Decrease	Healthcare Trend Rate	1% Increase
Net OPEB liability	\$ 22,530,871	\$ 28,086,340	\$ 34,975,994

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The allocation was based on 5.5% of the Airport's proportion of the FCERS' assets and liabilities at measurement date, June 30, 2017.

**OPEB Plan Fiduciary Net Position** - Detailed information about the FCERS' fiduciary net position is available in a separately issued FCERS' financial report.

**Recognition of Deferred Outflows and Inflows of Resources**

Gains and losses related to changes in total OPEB liability and fiduciary net position 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)

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

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

As of June 30, 2018, \$1,753,603 reported as deferred outflows of resources related to contributions 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:

	<b>Deferred Inflows of Resources</b>
2019	\$ (7,729)
2020	(7,729)
2021	(7,729)
2022	(7,729)
	<u>\$ (30,916)</u>

***(h) Other Postemployment Benefits Under GASB Statement No. 45***

During the fiscal year ended June 30, 2017, the FCERS' GASB Statement No. 45-compliant OPEB

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valuation study as of June 30, 2015, was prepared by Cheiron, Inc., the FCERS' actuary. Information regarding the history of the OPEB plan can be found above in Note 7(g).

The "floor methodology" described above in Note 7(c) applies to the calculation of the ARC for OPEB for Tier 1, but not Tier 2A, Tier 2B, and Tier 2C employees, for fiscal year 2017.

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

Fiscal Year	Postemployment Healthcare Plan				
	ARC	AOC	Contributions	% of Contributions	Unfunded Liability
6/30/2016	\$ 2,446,660	\$ 2,259,794	\$ 2,000,200	89 %	\$ 14,026,167
6/30/2017	2,053,763	2,104,783	2,104,783	100 %	14,026,167

The City has determined a Citywide OPEB cost based upon an actuarial valuation performed in accordance with GASB Statement No. 45 by the FCERS' actuary. The City allocated to the Airport its proportionate share of the Citywide OPEB cost for FCERS employee members. The difference between the cumulative OPEB cost allocated and the costs contributed by the Airport was \$14,026,167 at June 30, 2017, which is recorded as the Airport's net OPEB obligation. The Airport has earmarked funds from the unrestricted net position to pay the full amount of the net OPEB obligation.

The City issues a publicly available CAFR that includes the complete note disclosures and required supplementary information related to the City's pension and other postemployment benefit obligations. A copy of that report may be obtained by visiting the City's website at [www.sanjoseca.gov](http://www.sanjoseca.gov) or by contacting the City's Finance Department, 200 East Santa Clara Street, 13<sup>th</sup> 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, 2018 and 2017, were \$2,755,364 and \$2,556,031, respectively. The City also charged the Airport fees of \$14,295,055 and \$12,221,498 for the fiscal years ended June 30, 2018 and 2017, 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 \$1,377,981 and \$1,310,468 for the fiscal years ended June 30, 2018 and 2017, 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, 2017 to October 1, 2018 and October 1, 2016 to October 1, 2017.

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<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)
Flood, other locations	\$100 million per occurrence and annual aggregate	\$100,000

The City has airport liability policies covering the Airport for the policy periods of October 1, 2017 to October 1, 2018 and October 1, 2016 to October 1, 2017 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 four 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 four fiscal years.

For the policy period of October 1, 2017 to October 1, 2018 and December 18, 2016 to October 1, 2017, 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>2018</u>	<u>2017</u>	<u>2016</u>
Accrued liability, beginning of fiscal year	\$ 2,852,669	\$ 2,852,669	\$ 2,741,401
Claims payments and adjustments	(234,071)	(471,318)	(410,397)
Provision for current year claims and changes in prior year estimates	402,632	471,318	521,665
Accrued liability, end of fiscal year	<u>\$ 3,021,230</u>	<u>\$ 2,852,669</u>	<u>\$ 2,852,669</u>

***(c) Airport Owner Controlled Insurance Program***

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

<u>Coverage</u>	<u>Limits</u>	<u>Deductible per Occurrence</u>
General liability	\$2 million per occurrence/ \$4 million aggregate	\$250,000
Workers' compensation	Statutory	\$250,000
Employers' liability	\$2 million per accident	\$250,000
Excess liability	\$150,000,000	None

The North Concourse OCIP required the City to fund a claims loss reserve fund with Chartis in the amount of \$3.9 million. The full amount of the claims loss reserve had been deposited with Chartis and was recorded as advances and deposits in the accompanying statements of net position. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible, subject to an aggregate maximum loss exposure within coverage limits to the City of \$3.9 million.

The North Concourse Project was completed in the fall of 2008. Chartis is currently in the process of closing out the North Concourse OCIP and is auditing the project payroll and cost factors associated with the premium. The closing out process for OCIP includes an actuarial review, which examines outstanding claims. The City was able to negotiate the return of a large portion of the unused claims reserve in advance of the 10-year coverage term. Since March 2010, Chartis has returned \$2,626,550 to the Airport. Chartis will continue to hold the remaining funds in the claims loss reserve fund until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

Activities relating to the North Concourse OCIP claims reserve fund for the fiscal years ended June 30, 2018, 2017, and 2016 were as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 827,033	\$ 851,415	\$ 919,173
Interest earned	8,003	2,668	555
Reserve returned	-	(27,050)	(68,313)
Ending balance	<u>\$ 835,036</u>	<u>\$ 827,033</u>	<u>\$ 851,415</u>

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

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

The liability under the TAIP OCIP is based upon an estimated payroll of \$92.5 million for the covered projects and a construction period of 45 months, commencing on March 15, 2007 through December 31, 2010. The terms of the TAIP OCIP require the City to fund a claims loss reserve fund with Chartis in the amount of \$8.9 million. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of \$8.9 million. The City was able to negotiate to fund 74% of the claims loss reserve and interest generated remains in the fund. The full amount of \$6.5 million was deposited with Chartis in fiscal year 2009 and was recorded as advances and deposits in the accompanying statements of net position. Since August 2013, as part of the annual loss reserve analysis by Chartis, a total amount of \$1,635,986 has been returned to the Airport.

Activities relating to the TAIP OCIP claims reserve fund for the fiscal years ended June 30, 2018, 2017, and 2016 were as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 1,966,147	\$ 2,116,260	\$ 2,253,446
Interest earned	19,518	8,420	2,331
Reserve returned	-	(7,441)	(49,719)
Losses paid	(4,945)	(151,093)	(89,798)
Ending balance	<u>\$ 1,980,720</u>	<u>\$ 1,966,146</u>	<u>\$ 2,116,260</u>

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

**(10) Commitments and Contingencies**

***(a) Lease Commitments***

In September 2009, the Airport entered into a restated operating lease and maintenance agreement for ten CNG powered buses 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. Rental and maintenance expenses were \$1,399,193 and \$1,322,884 for fiscal years ended June 30, 2018 and 2017, respectively.

The future minimum lease and maintenance payments required under the existing agreement for the ten

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CNG powered buses are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Amount</b>
2019	\$ <u>773,850</u>
Total minimum lease payments	\$ <u>773,850</u>

***(b) Purchase Commitments and Capital Outlay Projections***

As of June 30, 2018, the Airport was obligated for purchase commitments of approximately \$22.9 million primarily for the zero emission buses, Terminal B expansion ramp, perimeter security technology infrastructure, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber approximately \$263.1 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, commercial paper 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 terminal facilities, roadways, parking facilities, and airfield facilities, and includes 1.075 million square feet of passenger terminal facilities comprised of up to 49 gates; parking and garage facilities comprised of up to 16,200 public parking spaces, 2,600 employee parking spaces, and 10,000 rental-car parking spaces (including 2,000 ready-return spaces); air cargo facilities; ground transportation, roadway, and other access improvements; and airfield improvements. In the fall of 2005, and in recognition of how current market conditions were impacting passenger growth, the Airport and its airline tenants reexamined the Master Plan and developed the TAIP, a program for implementing the Master Plan by aligning ongoing and planned construction activities with available fiscal resources, taking into account revised passenger growth projections. In June 2006, the City Council approved an amendment to the Master Plan to incorporate the TAIP and other ADP revisions. Funding for Master Plan projects is from several sources, including grants, PFC, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

In June 2010, the City Council approved the most recent amendment to the Master Plan that updated projected aviation demand and facility requirements. This amendment to the Master Plan modified specific components of the ADP. Pursuant to the amended Master Plan, the former interim long-term public parking and employee parking lots on the northwest side of the Airport (which have been relocated to the east side terminal area) are designated for development of facilities to accommodate projected growth in general aviation demand. The 29-acre Signature fixed based operations facility is located in this portion of the Airport, and an additional 15 acres north of the FAA air traffic control tower remains available for future general aviation development opportunities.

***(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



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deemed to be improper revenue diversion. On June 2, 2010, auditors from the FAA provided the City with a draft of its audit findings alleging improper use of Airport revenues by the City in three areas of expenditure. On August 14, 2015, as the result of discussions and correspondence with City staff, the FAA notified the City that it has closed two of the three audit issues. The remaining audit issue is described below.

Cost Allocations - The City uses both direct and indirect methodologies to allocate costs to the Airport. The FAA auditors found the direct cost allocations to be acceptable. The FAA contends that the City's indirect methodology does not correlate to the cost of services actually provided by the City to the Airport. Consequently, the auditors have recommended that the City re-allocate its costs charged to the Airport for fiscal years 2005 through 2010 using an allocation methodology that reflects services actually provided to the Airport and repay any overcharges to the Airport, with interest. The City believes the allocation methodology used to allocate costs to the Airport is in compliance with federal cost allocation guidance. In an effort to resolve the issue, the City proposed 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 fiscal year 2013 and ending in fiscal year 2019. 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 fiscal year 2016, 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 fiscal year 2017 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

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FAA review and approval of a disposition plan for those parcels no longer needed by the City for noise 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***

In 2016, the City's Workers' Compensation Program underwent two audits by the State's Department of Industrial Relations (DIR): a routine three-tier Profile Audit Review (PAR) of randomly selected claims conducted every five years and a Target Utilization Review audit triggered by workers' complaints regarding the City's utilization review and procedures for requests for authorization of medical treatment of work-related injuries and illnesses. At the time of the audits the program was administered as a hybrid – a combination of the City team and Third Party Administrator (TPA). The hybrid program was the result of a series of Council directed actions. In October 2012, the City Council approved the staff recommendation that the City begin the Pilot Program for a TPA to handle a portion of claims administration, as well as bill review, utilization review and medical case management for all claims, and for in-house staff to handle the remaining claims administration. In June 2015, the City Council approved an extension of the hybrid Pilot Program to allow additional time to evaluate the performance of the hybrid Pilot Program. An extension to June 30, 2018, was granted in November 2016, given the change in TPA from Athens to Intercare.

The PAR audit, consisting of three tiers, proceeded to a more comprehensive Full Compliance Audit with an additional and expanded selection of files, including denied claims. The City failed each of the three tiers of the Full Compliance Audit, resulting in the State DIR assessing the following amounts, which arise from the City's delay in processing claims: (1) a penalty in the amount of \$142,215; (2) additional disability payments in the amount of \$16,090; and (3) additional medical and medical legal payments owed to providers in the approximate amount of \$16,000, on which interest at the rate of 7% per annum continues to accrue until the date of payment. The City made the payment of the assessed amounts in December 2016. The DIR will be monitoring the City's claim review process through calendar year 2018.

The City is subject to a re-audit in December 2018 and must pass the re-audit or its ability to retain its status as a self-insured employer may be in jeopardy. Additionally, failure to pass two (2) consecutive Full Compliance Audits would expose the City to the risk of assessment of a civil penalty, currently a one-time payment in an amount not to exceed \$100,000. In the event that the City were unable to retain its status as a self-insured employer, the City would be required to procure workers' compensation insurance coverage for its employees. All research suggests that the purchase of workers' compensation insurance coverage will be significantly more expensive than a self-insured program.

The Target Utilization Review audit reviewed files from the first phase of the routine audit with a focus on the City's utilization review process and procedure. This audit commenced in late October 2016 and concluded in January 2017. Only the portion of the City's Workers' Compensation Program administered by the in-house City staff was subject to the Full Compliance Audit. Both the in-house staff and the TPA

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were subject to the Target Utilization Review. The in-house program was assessed penalties of \$3,000 for three (3) failures to respond to requests for medical treatment. The City received the final Audit report on January 5, 2017 and payment was issued by January 31, 2017.

In addition to these audits, the State DIR's Administrative Director of the Division of Workers' Compensation issued an Order to Show Cause, assessing \$120,000 in administrative penalties for the City's failure to properly address independent medical review appeals of utilization review non-certifications of medical treatment requests in 24 claims. The penalties have been assessed, primarily, for failure to timely provide responsive documents to the company under contract with the State that performs independent medical review. The penalties are assessed at the rate of \$500 per day for each day the response is untimely, up to a maximum of \$5,000 per claim. The City paid the penalties in November 2016. The City failed this audit due in part to staffing challenges. It should be noted that the City's TPA at the time passed the same routine audit in 2016.

In June 2018, the City Council approved the staff recommendation to provide all Worker's Compensation claims administration through a TPA and that the transition begin July 1, 2018. It is worth noting that the State may proceed with the re-audit regardless of the City Council's decision about service delivery. Therefore, the City's recommendation at the time was not related to the State re-audit scheduled for 2018.

The City's Workers' Compensation Program is one component of the City's overall health and safety efforts for employees, and the City's first goal is to prevent injuries and accidents. The ultimate goal and policy objective is to provide the most effective service to the City's injured workers and to acknowledge that there are ongoing limitations and challenges with the City's ability to provide the necessary services.

The City began the process of transferring the entire Workers' Compensation Program administration to its current TPA, Intercare, effective July 1, 2018, and has completed the transition. The City will conduct a request for proposals (RFP) for the Workers' Compensation program in the current fiscal year to ensure a contract with a TPA is in place by July 1, 2019.

***(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**

In September 2018, the City substituted the LOC supporting the Subordinated Commercial Paper Notes issued by Barclays with a LOC issued by Bank of America, N.A. (BoFA). Pursuant to a LOC and Reimbursement Agreement between the City and BoFA, BoFA issued its irrevocable transferable letter of credit in the initial stated amount of \$81.7 million (to cover principal of \$75 million and interest on the Subordinated Commercial Paper 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 million principal amount of the LOC issued by BoA is larger than the \$38 million principal amount of the letter of credit issued by Barclays and was secured in order to provide additional capacity for the issuance of the Subordinated Commercial Paper Note to finance proposed terminal area projects. In connection with BoFA's issuance of its LOC, other agreements governing the Subordinated Commercial Paper Notes were executed, including the First Amendment to the Third and Amended and Restated Issuing and Paying 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 notes and a Fee Letter between the City and BoFA.

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The ratings of the outstanding Airport Subordinated Commercial Paper 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.

After fiscal year end 2018, Air China, Lufthansa, and Aeromexico airlines have discontinued service from the Airport. Air China will stop service to Shanghai effective September 25, 2018, Lufthansa will cancel service to Frankfurt effective October 27, 2018, and Aeromexico will discontinue service to Guadalajara effective January 8, 2019. In fiscal year 2018, the passengers that took flights on Air China, Lufthansa and Aeromexico airlines represented 1.6% of the total passengers that travelled through the Airport during the fiscal year. The Airport does not believe that the departure of these carriers will have a material impact on the operations or financial results of the Airport.

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**Required Supplementary Information (Unaudited)**  
**Last 10 Fiscal Years**

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Proportion of the collective net pension liability	3.4 %	3.4 %	3.6 %	3.8 %	3.7 %
Proportionate share of the collective net pension liability	\$ 108,167	\$ 102,069	\$ 81,313	\$ 64,650	\$ 74,527
Covered payroll	\$ 13,694	\$ 13,163	\$ 12,903	\$ 12,532	\$ 12,932
Proportionate share of the collective net pension liability as percentage of covered payroll	789.9 %	775.4 %	630.2 %	515.9 %	576.3 %
Plan fiduciary net position as a percentage of the total pension liability	12.7 %	12.9 %	15.9 %	19.4 %	17.4 %

**Schedule of Contributions (dollars in thousands)**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Actuarially determined contribution	\$ 8,814	\$ 8,134	\$ 7,374	\$ 7,103	\$ 6,654
Contributions in relation to the actuarially determined contributions	8,814	8,134	7,374	7,103	6,654
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 15,335	\$ 13,694	\$ 13,163	\$ 12,903	\$ 12,532
Contributions as a percentage of covered payroll	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.

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**Required Supplementary Information (Unaudited)**  
**Last 10 Fiscal Years**

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

	<b>2018</b>
Proportion of the collective net OPEB liability	5.5 %
Proportionate share of the collective net OPEB liability	\$ 28,086
Covered payroll	\$ 13,694
Proportionate share of the collective net OPEB liability as percentage of covered payroll	205.1 %
Plan fiduciary net position as a percentage of the total OPEB liability	48.7 %

**Schedule of Contributions (dollars in thousands)**

	<b>2018</b>
Actuarially determined contribution	\$ 1,754
Contributions in relation to the actuarially determined contributions	1,754
Contribution deficiency (excess)	\$ -
Covered payroll	\$ 15,335
Contributions as a percentage of covered payroll	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.

# STATISTICAL

In April 2018, Airport Lounge Development, Inc. announced that The Club SJC was named the Best Airport Service/Amenity by USA Today's 10Best Readers' Choice Awards. This award is given each year to the amenity or service that is considered the most sought after airport experience by travelers.

The Club SJC lounge offers a relaxing, spacious getaway for passengers in the terminal by catering to their specific needs with different zones. These zones include a replenish zone for food and beverages, a productivity zone with workstations, a refresh zone with shower facilities, and a relax zone with comfortable seating and charging outlets.







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**Statistical Section**  
**June 30, 2018**

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.

<b>Contents</b>	<b>Schedule</b>
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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>

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**Statistical Section**  
**June 30, 2018**

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

	<u>2009</u>	<u>2010</u>	<u>2011<sup>(1)</sup></u>	<u>2012</u>	<u>2013</u>
Operating revenues:					
Airline rates and charges:					
Landing fees	\$ 14,504	\$ 13,190	\$ 13,370	\$ 11,414	\$ 12,888
Terminal rental	29,716	33,459	34,446	39,864	38,256
Total airline rates and charges	44,220	46,649	47,816	51,278	51,144
Terminal buildings/concessions	11,947	11,157	16,877	15,770	15,102
Airfield	3,171	2,791	2,925	2,783	3,038
Parking and roadway	44,227	38,934	47,320	51,023	46,700
Fuel handling fees	1,474	1,310	1,504	1,690	2,361
General aviation/other	5,826	5,909	4,521	4,431	4,770
Customer facility charges <sup>(1)</sup>	6,713	6,021	-	-	-
Total operating revenues	<u>117,578</u>	<u>112,771</u>	<u>120,963</u>	<u>126,975</u>	<u>123,115</u>
Operating expenses:					
Terminal buildings/concessions	28,813	31,701	33,019	23,659	23,303
Airfield	16,170	10,911	9,749	9,069	8,707
Parking and roadway	26,853	24,032	25,344	25,514	16,631
Fuel handling costs	557	885	288	556	1,065
General aviation	4,072	3,052	2,409	1,676	1,605
General and administrative	28,268	23,624	19,095	18,328	18,763
Depreciation	20,647	55,288	51,532	51,520	54,353
Total operating expenses	<u>125,380</u>	<u>149,493</u>	<u>141,436</u>	<u>130,322</u>	<u>124,427</u>
Operating income (loss)	<u>(7,802)</u>	<u>(36,722)</u>	<u>(20,473)</u>	<u>(3,347)</u>	<u>(1,312)</u>
Nonoperating revenues (expenses):					
Passenger facility charges	17,416	17,043	17,311	16,787	17,294
Customer facility charges for debt service <sup>(1)</sup>	-	-	6,840	10,137	13,385
Investment income	8,138	311	1,613	2,217	(257)
Interest expense	(11,404)	(10,750)	(54,430)	(70,009)	(75,058)
Bond issuance costs	-	-	-	(4,141)	(196)
Operating grants	4,625	1,150	701	670	565
Loss on disposal of capital assets	(3,537)	(11,733)	-	(9)	-
Other, net	4,227	200	1,438	698	451
Total nonoperating revenues (expenses), net	<u>19,465</u>	<u>(3,779)</u>	<u>(26,527)</u>	<u>(43,650)</u>	<u>(43,816)</u>
Income (loss) before capital contributions	11,663	(40,501)	(47,000)	(46,997)	(45,127)
Capital contributions	12,868	34,722	10,862	7,399	6,954
Change in net position	<u>\$ 24,531</u>	<u>\$ (5,779)</u>	<u>\$ (36,138)</u>	<u>\$ (39,598)</u>	<u>\$ (38,173)</u>
Net position at year-end					
Net investment in capital assets	\$ 316,935	\$ 314,664	\$ 272,598	\$ 242,916	\$ 209,381
Restricted	45,260	61,349	64,128	69,350	65,408
Unrestricted	96,348	76,751	79,900	58,811	58,114
Net position at year-end <sup>(2)(3)</sup>	<u>\$ 458,543</u>	<u>\$ 452,764</u>	<u>\$ 416,626</u>	<u>\$ 371,077</u>	<u>\$ 332,903</u>

<sup>(1)</sup> 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.

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

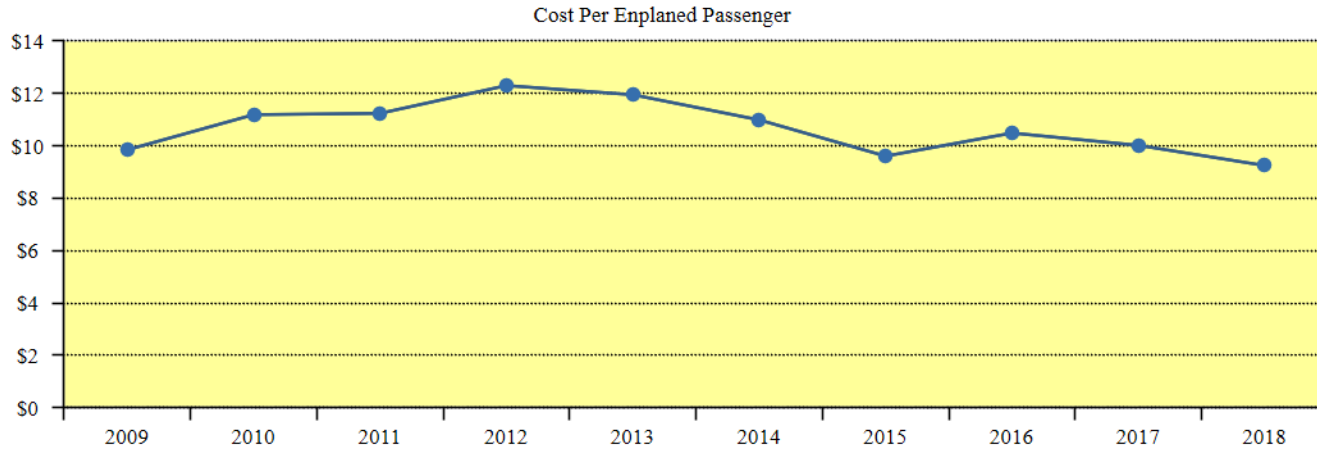
	<b>2014</b>	<b>2015<sup>(2)</sup></b>	<b>2016</b>	<b>2017<sup>(1)</sup></b>	<b>2018<sup>(3)</sup></b>
Operating revenues:					
Airline rates and charges:					
Landing fees	\$ 11,973	\$ 11,856	\$ 13,095	\$ 18,370	\$ 19,297
Terminal rental	38,130	34,372	40,800	39,778	43,476
Total airline rates and charges	50,103	46,228	53,895	58,148	62,773
Terminal buildings/concessions	15,423	16,271	17,576	20,207	22,375
Airfield	3,553	3,993	4,891	7,307	8,027
Parking and roadway	47,268	49,049	53,704	52,514	59,715
Fuel handling fees	3,170	3,257	3,226	3,080	3,078
General aviation/other	6,193	7,183	8,661	9,748	10,096
Customer facility charges <sup>(1)</sup>	-	-	-	1,931	2,518
Total operating revenues	125,710	125,981	141,953	152,935	168,582
Operating expenses:					
Terminal buildings/concessions	24,233	23,833	27,724	31,115	34,922
Airfield	9,570	9,891	12,767	16,776	20,116
Parking and roadway	16,343	17,170	16,684	16,046	16,283
Fuel handling costs	11	28	(565)	16	59
General aviation	1,609	2,006	1,963	1,383	2,438
General and administrative	19,877	18,208	19,334	23,057	25,118
Depreciation	54,027	53,437	51,864	46,449	47,486
Total operating expenses	125,670	124,573	129,771	134,842	146,422
Operating income (loss)	40	1,408	12,182	18,093	22,160
Nonoperating revenues (expenses):					
Passenger facility charges	18,161	19,291	20,603	23,097	27,048
Customer facility charges for debt service <sup>(1)</sup>	15,493	18,690	19,888	18,026	18,364
Investment income	1,571	1,222	2,444	1,591	2,842
Interest expense	(73,836)	(72,237)	(71,245)	(67,440)	(61,305)
Bond issuance costs	-	(976)	-	(2,492)	50
Operating grants	605	610	497	1,169	809
Loss on disposal of capital assets	(481)	-	-	-	-
Other, net	614	806	1,902	603	1,214
Total nonoperating revenues (expenses), net	(37,873)	(32,594)	(25,911)	(25,446)	(10,978)
Income (loss) before capital contributions	(37,833)	(31,186)	(13,729)	(7,353)	11,182
Capital contributions	4,843	937	5,760	10,120	9,287
Change in net position	\$ (32,990)	\$ (30,249)	\$ (7,969)	\$ 2,767	\$ 20,469
Net position at year-end					
Net investment in capital assets	\$ 169,870	\$ 126,350	\$ 95,800	\$ 82,801	\$ 100,587
Restricted	67,848	56,752	61,308	64,907	62,014
Unrestricted	62,195	18,689	36,714	48,881	41,921
Net position at year-end <sup>(2)(3)</sup>	\$ 299,913	\$ 201,791	\$ 193,822	\$ 196,589	\$ 204,522

(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

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**AIRLINE COST PER ENPLANED PASSENGER**  
**LAST TEN FISCAL YEARS**  
 (\$ and Passengers in 000's)



	<u>2009</u>	<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>
Airline revenues:										
Terminal rental	\$ 29,716	\$ 33,459	\$ 34,446	\$ 39,864	\$ 38,256	\$ 38,130	\$ 34,372	\$ 40,800	\$ 39,778	\$ 43,477
Landing fees (passenger carriers)	<u>13,560</u>	<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>
Total	43,276	45,902	47,028	50,702	50,554	49,581	45,733	53,328	57,475	62,167
Enplaned passengers	4,400	4,107	4,189	4,125	4,235	4,517	4,765	5,088	5,740	6,725
Airline cost per enplaned passenger (not in 000's)	<u>\$ 9.84</u>	<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>

Source: Norman Y. Mineta San José International Airport audited financial statements and activity reports

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**GROSS CONCESSION REVENUE PER ENPLANED PASSENGER**  
**LAST TEN FISCAL YEARS**  
**(\$ and Passengers in 000's)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gross concession revenue <sup>(1)</sup>										
Public parking <sup>(2)</sup>	\$ 23,632	\$ 21,260	\$ 22,081	\$ 22,943	\$ 24,814	\$ 26,759	\$ 27,845	\$ 29,392	\$ 28,635	\$ 31,053
Rental cars	127,661	114,614	125,730	126,333	129,643	142,439	149,384	157,857	162,142	166,291
Food and beverage	16,753	16,493	21,141	22,280	24,216	27,350	30,078	32,870	39,060	45,024
Advertising	1,923	1,736	1,903	1,873	2,355	2,506	2,245	2,368	3,550	4,525
Gift shop & retail	7,380	8,868	11,290	11,983	12,668	13,475	14,130	15,742	17,636	19,739
In-flight kitchen <sup>(3)</sup>	6,173	8,580	9,823	8,920	10,680	13,114	15,904	22,893	40,790	39,559
<b>Total gross concession revenue</b>	<b>\$ 183,522</b>	<b>\$ 171,551</b>	<b>\$ 191,968</b>	<b>\$ 194,332</b>	<b>\$ 204,376</b>	<b>\$ 225,643</b>	<b>\$ 239,586</b>	<b>\$ 261,122</b>	<b>\$ 291,813</b>	<b>\$ 306,191</b>
Enplaned passengers	4,400	4,107	4,189	4,125	4,235	4,517	4,765	5,088	5,740	6,725
Gross concession revenue per enplaned passenger (not in 000's)	\$ 41.71	\$ 41.77	\$ 45.83	\$ 47.11	\$ 48.26	\$ 49.95	\$ 50.28	\$ 51.32	\$ 50.84	\$ 45.53

<sup>(1)</sup> Gross revenues of major concessionaires only.

<sup>(2)</sup> Public parking revenues is net of credit card fees and refunds.

<sup>(3)</sup> 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**

	2009	2010	2011	2012	2013	Unit
Landing fees:	\$ 2.24	\$ 2.32	\$ 2.47	\$ 2.14	\$ 2.38	per 1,000 lbs. MGLW <sup>(3)</sup>
Terminal rental rates:						
<u>Group A</u>						
Ticket counter and queuing, skycap/curbside check-in						
Preferential	81,192	145,136	241,041	319,205	296,954	per counter
Common	63	57	73	97	90	per hour
Airline ticket office, Club/VIP	237.81	204.57	157.18	184.19	186.55	per sq. ft.
Holdroom (gate)						
Preferential	481,687	726,212	742,245	872,527	886,424	per gate
Common	330	497	496	598	607	per turn
<u>Group B</u>						
Baggage claim <sup>(1)</sup>	190.25	163.66	125.74	147.35	149.24	per sq. ft.
<u>Group C</u>						
Baggage make-up <sup>(2)</sup> /Operations space	118.91	102.29	78.59	92.09	93.28	per sq. ft.

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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**

	2014	2015	2016	2017	2018	Unit
Landing fees:	\$ 2.22	\$ 2.09	\$ 2.13	\$ 2.70	\$ 2.45	per 1,000 lbs. MGLW <sup>(3)</sup>
Terminal rental rates:						
<u>Group A</u>						
Ticket counter and queuing, skycap/curbside check-in						
Preferential	293,680	235,177	287,230	273,042	255,345	per counter
Common	98	94	88	54	73	per hour
Airline ticket office, Club/VIP	192.73	178.08	195.75	186.08	206.25	per sq. ft.
Holdroom (gate)						
Preferential	915,350	775,820	883,722	763,701	632,610	per gate
Common	591	470	552	521	633	per turn
<u>Group B</u>						
Baggage claim <sup>(1)</sup>	154.19	142.47	156.60	148.86	165.00	per sq. ft.
<u>Group C</u>						
Baggage make-up <sup>(2)</sup> /Operations space	96.37	89.04	97.87	93.04	103.12	per sq. ft.

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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<sup>(1)</sup>**  
**LAST TEN FISCAL YEARS**  
**(\$ and Passengers in 000's)**

	2009	2010	2011	2012	2013
<b>Outstanding debt per enplaned passenger</b>					
Outstanding debt by type:					
Revenue bonds	\$ 1,046,606	\$ 1,035,266	\$ 1,023,304	\$ 1,415,552	\$ 1,398,332
Commercial paper notes	323,561	417,348	410,079	47,937	45,380
Total outstanding debt	<u>1,370,167</u>	<u>1,452,614</u>	<u>1,433,383</u>	<u>1,463,489</u>	<u>1,443,712</u>
Enplaned passengers	<u>4,400</u>	<u>4,107</u>	<u>4,189</u>	<u>4,125</u>	<u>4,235</u>
Total outstanding debt per enplaned passenger (not in 000's)	<u>\$ 311</u>	<u>\$ 354</u>	<u>\$ 342</u>	<u>\$ 355</u>	<u>\$ 341</u>
<b>Debt service</b>					
Revenue bonds <sup>(2)</sup>	\$ 23,037	\$ 31,367	\$ 53,890	\$ 80,725	\$ 86,325
Commercial paper notes <sup>(3) (4)</sup>	292	734	16,605	6,818	4,043
Total debt service	<u>23,329</u>	<u>32,101</u>	<u>70,495</u>	<u>87,543</u>	<u>90,368</u>
Less: Funds available for debt service					
Passenger facility charges	-	4,588	21,388	21,336	22,100
Customer facility charges <sup>(5) (6)</sup>	-	-	6,840	10,137	13,385
Unspent bond proceeds <sup>(5)</sup>	-	-	-	1,713	5,802
Series 2007 Bond Reserve Fund <sup>(7)</sup>	-	-	-	-	-
Net debt service	<u>\$ 23,329</u>	<u>\$ 27,513</u>	<u>\$ 42,267</u>	<u>\$ 54,357</u>	<u>\$ 49,081</u>
Net debt service per enplaned passenger (not in 000's)	<u>\$ 5.30</u>	<u>\$ 6.70</u>	<u>\$ 10.09</u>	<u>\$ 13.18</u>	<u>\$ 11.59</u>

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

<sup>(2)</sup> 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.

<sup>(3)</sup> 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<sup>(1)</sup>  
LAST TEN FISCAL YEARS  
(\$ and Passengers in 000's)**

	2014	2015 <sup>(6)</sup>	2016 <sup>(6)</sup>	2017 <sup>(6)</sup>	2018
<b>Outstanding debt per enplaned passenger</b>					
Outstanding debt by type:					
Revenue bonds	\$ 1,376,038	\$ 1,349,265	\$ 1,325,579	\$ 1,310,333	\$ 1,261,909
Commercial paper notes	41,159	37,912	34,672	25,461	7,509
Total outstanding debt	<u>1,417,197</u>	<u>1,387,177</u>	<u>1,360,251</u>	<u>1,335,794</u>	<u>1,269,418</u>
Enplaned passengers	<u>4,517</u>	<u>4,765</u>	<u>5,088</u>	<u>5,740</u>	<u>6,725</u>
Total outstanding debt per enplaned passenger (not in 000's)	<u>\$ 314</u>	<u>\$ 291</u>	<u>\$ 267</u>	<u>\$ 233</u>	<u>\$ 189</u>
<b>Debt service</b>					
Revenue bonds <sup>(2)</sup>	\$ 95,068	\$ 96,083	\$ 95,452	\$ 95,660	\$ 103,766
Commercial paper notes <sup>(3) (4)</sup>	2,859	2,213	2,116	1,728	686
Total debt service	<u>97,927</u>	<u>98,296</u>	<u>97,568</u>	<u>97,388</u>	<u>104,452</u>
Less: Funds available for debt service					
Passenger facility charges	25,747	25,202	24,829	24,789	24,792
Customer facility charges <sup>(5) (6)</sup>	15,494	17,412	17,701	18,026	18,364
Unspent bond proceeds <sup>(5)</sup>	11,082	11,082	11,083	4,295	-
Series 2007 Bond Reserve Fund <sup>(7)</sup>	-	-	-	-	7,411
Net debt service	<u>\$ 45,604</u>	<u>\$ 44,600</u>	<u>\$ 43,955</u>	<u>\$ 50,278</u>	<u>\$ 53,885</u>
Net debt service per enplaned passenger (not in 000's)	<u>\$ 10.10</u>	<u>\$ 9.36</u>	<u>\$ 8.64</u>	<u>\$ 8.76</u>	<u>\$ 8.01</u>

<sup>(4)</sup>Includes letter of credit fees associated with subordinated commercial paper.

<sup>(5)</sup>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.

<sup>(6)</sup>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.

<sup>(7)</sup>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

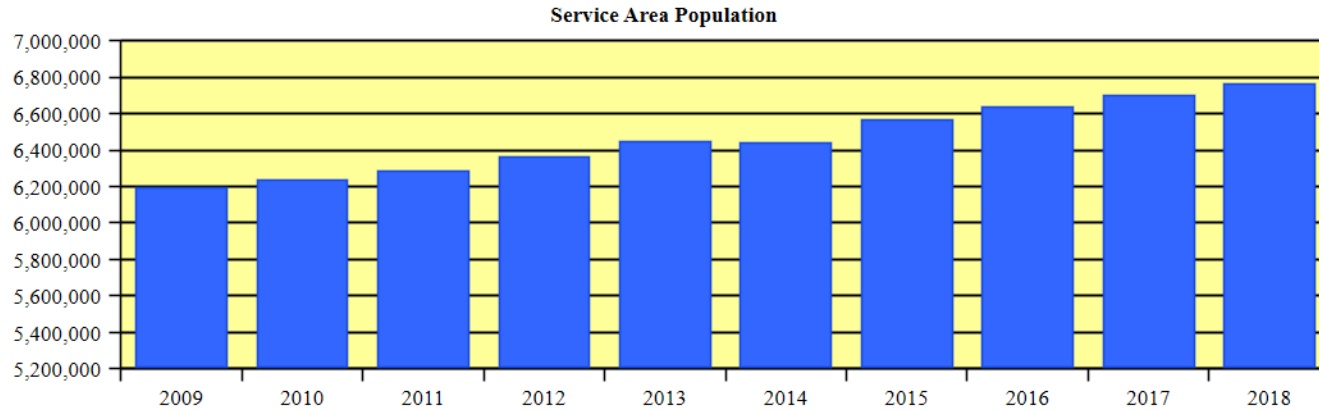
**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT**  
**(A Department of the City of San José)**  
**DEBT SERVICE COVERAGE**  
**LAST TEN FISCAL YEARS**  
**(in \$ 000's)**

Years	Adjusted General Airport Revenues <sup>(1)</sup>	Operating Expenses <sup>(2) (3)</sup>	Net Revenues	Other Available Funds <sup>(8)</sup>	Net Revenues Available for Debt Service	Total Bond Debt Service <sup>(4)</sup>	Available PFC Revenues <sup>(4)</sup>	Net Bond Debt Service Payable from Revenues	Coverage Ratio - Bonds	Estimated CP Debt Service <sup>(5) (6)</sup>	Coverage Ratio - Bonds & CP
2009	\$ 120,041	\$ 91,051	\$ 28,990	\$ 49,053	\$ 78,043	\$ 23,037	\$ -	\$ 23,037	<b>3.39</b>	\$ 292	<b>3.35</b>
2010	110,226	82,711	27,515	51,610	79,125	31,367	4,588	26,779	<b>2.95</b>	734	<b>2.88</b>
2011	123,538	76,850	46,688	52,447	99,135	53,890	21,388	32,502	<b>3.05</b>	16,605	<b>2.02</b>
2012	129,573	67,875	61,698	58,917	120,615	80,725	21,336	59,389	<b>2.03</b>	6,818	<b>1.82</b>
2013	124,851	64,974	59,877	66,006	125,883	86,325	22,100	64,225	<b>1.96</b>	4,043	<b>1.84</b>
2014	127,717	66,319	61,398	75,157	136,555	95,068	25,747	69,321	<b>1.97</b>	2,859	<b>1.89</b>
2015	128,038	70,054 <sup>(7)</sup>	57,984	78,026 <sup>(9)</sup>	136,010	96,083	25,202	70,881	<b>1.92</b>	2,213	<b>1.86</b>
2016	145,809	73,118	72,691	71,466 <sup>(9)</sup>	144,157	95,452	24,829	70,623	<b>2.04</b>	2,116	<b>1.98</b>
2017	156,278	77,577	78,701	77,876	156,577	95,660	24,789	70,871	<b>2.21</b>	1,728	<b>2.16</b>
2018	173,862	85,584	88,278	78,157	166,435	103,766	24,792	78,974	<b>2.11</b>	686	<b>2.09</b>

- (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**

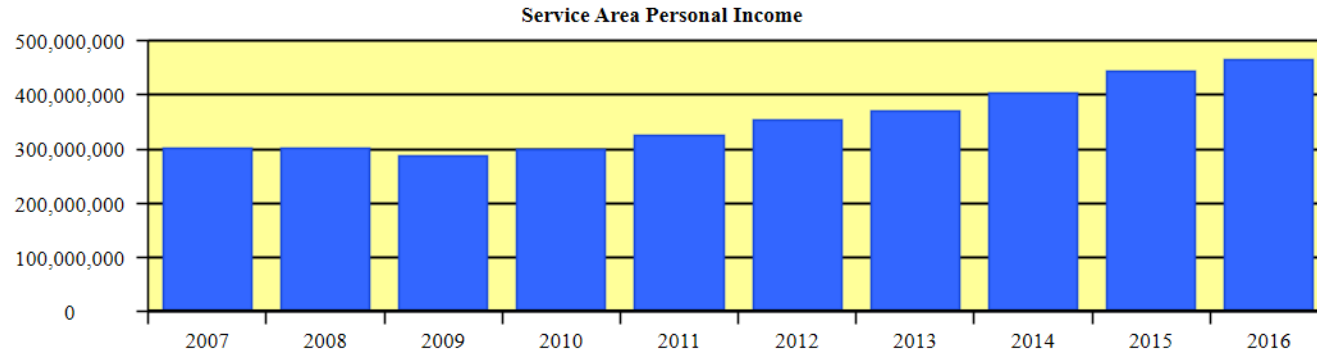


Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2009	1,509,240	415,108	55,272	718,614	1,781,427	262,552	255,399	684,057	514,003	6,195,672
2010	1,517,756	416,968	55,474	722,372	1,794,337	263,954	257,098	689,160	516,244	6,233,363
2011	1,530,206	419,586	56,137	727,793	1,813,702	265,348	260,039	693,013	519,350	6,285,174
2012	1,550,119	422,754	57,079	736,647	1,840,895	268,189	262,390	701,745	523,038	6,362,856
2013	1,573,254	425,756	57,517	745,193	1,868,558	271,595	264,922	710,731	526,042	6,443,568
2014	1,574,497	424,774	57,909	745,635	1,868,038	269,322	264,567	708,678	528,157	6,441,577
2015	1,610,765	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 <sup>(1)</sup>	1,646,405	442,149	56,879	770,256	1,937,473	276,504	275,104	747,263	549,976	6,702,009
2018	1,660,202	443,281	57,088	774,155	1,956,598	276,864	279,977	758,744	555,624	6,762,533

<sup>(1)</sup> 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<sup>(1)</sup>**  
**(in \$ 000's)**



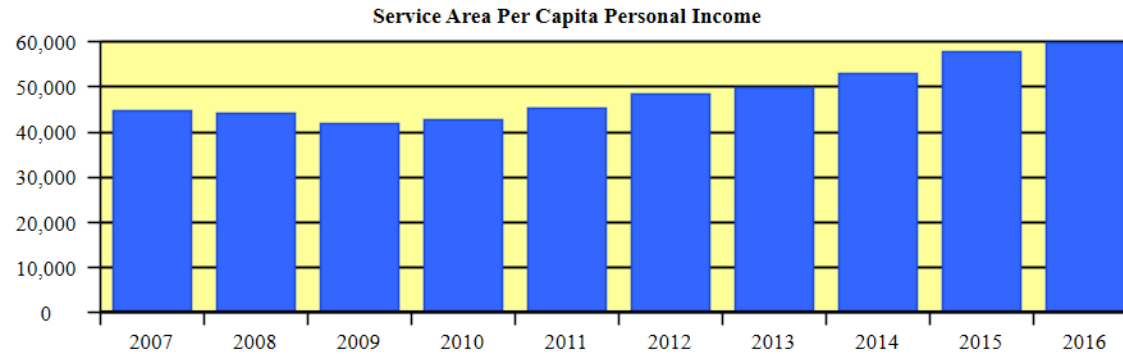
Years	Primary Service Area						Secondary Service Area			Total
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2007	\$ 72,269,758	\$ 17,079,370	\$ 1,996,555	\$ 50,186,023	\$ 102,922,133	\$ 12,881,411	\$ 6,918,424	\$ 20,817,871	\$ 15,801,138	\$ 300,872,683
2008	73,944,674	16,931,392	1,967,929	49,148,183	102,433,735	12,940,365	6,826,882	21,029,219	15,857,505	301,079,884
2009	70,463,233	16,732,911	1,904,402	46,631,310	95,588,054	12,112,253	6,771,237	20,747,584	15,697,151	286,648,135
2010	72,870,527	16,958,117	1,920,847	47,787,433	102,432,990	12,361,716	7,117,031	21,214,529	16,232,916	298,896,106
2011	78,550,471	17,668,188	2,037,248	51,931,876	113,461,610	13,284,573	7,797,651	22,369,055	17,095,084	324,195,756
2012	84,503,175	18,496,346	2,153,480	58,665,994	124,801,907	14,251,103	8,038,978	23,682,855	17,957,396	352,551,234
2013	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 <sup>(2)</sup>	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	108,556,593	22,827,059	2,756,362	80,855,056	170,672,534	16,330,704	9,888,269	29,684,494	22,365,699	463,936,770

<sup>(1)</sup> Information for calendar years 2017 and 2018 is not available.

<sup>(2)</sup> 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<sup>(1)</sup>**



Years	Primary Service Area						Secondary Service Area			Average PCPI
	Alameda	Monterey	San Benito	San Mateo	Santa Clara	Santa Cruz	Merced	San Joaquin	Stanislaus	
2007	\$ 49,646	\$ 42,446	\$ 36,924	\$ 72,330	\$ 60,117	\$ 50,854	\$ 27,836	\$ 31,161	\$ 31,115	\$ 44,714
2008	50,057	41,701	36,264	69,830	58,837	50,446	27,249	31,308	31,152	44,094
2009	47,021	40,786	34,984	65,345	54,153	46,584	26,838	30,613	30,686	41,890
2010	48,144	40,732	34,558	66,362	57,336	46,925	27,706	30,857	31,500	42,680
2011	51,286	41,906	36,273	71,232	62,623	50,138	29,995	32,157	33,005	45,402
2012	54,379	43,411	37,867	79,420	67,974	53,473	30,726	33,777	34,437	48,385
2013	53,798	44,707	39,576	85,653	71,431	49,942	32,774	34,709	34,961	49,728
2014	57,842	46,438	40,543	91,935	77,663	54,585	34,567	36,483	37,352	53,045
2015 <sup>(2)</sup>	62,926	51,256	44,844	101,264	85,354	58,151	36,255	39,087	40,305	57,716
2016	65,884	52,448	46,392	105,721	88,920	59,455	36,804	40,458	41,299	59,709

<sup>(1)</sup> Information for calendar years 2017 and 2018 is not available.

<sup>(2)</sup> 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)**  
**PRINCIPAL EMPLOYERS IN THE CITY OF SAN JOSE**  
**CURRENT AND NINE YEARS AGO**

Company or Organization	2018			2009		
	Number of Employees	Rank	Percentage of Total Employment	Number of Employees	Rank	Percentage of Total Employment
County of Santa Clara	18,000	1	1.7%	15,340	1	1.9%
Cisco Systems	9,750	2	0.9%	11,600	2	1.4%
City of San José <sup>(1)</sup>	6,250	3	0.6%	6,472	4	0.8%
Paypal, Inc.	3,300	4	0.3%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	-
eBay	3,200	5	0.3%	3,000	6	0.4%
Adobe Systems, Inc.	2,700	6	0.3%	2,000	12	0.2%
Insight Global	2,200	7	0.2%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	-
Kaiser Permanente	2,150	8	0.2%	2,120	11	0.3%
Good Samaritan Health System	2,075	9	0.2%	1,850	13	0.2%
Western Digital	1,950	10	0.2%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	-
Brocade Communication	1,900	11	0.2%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	-
Super Micro	1,850	12	0.2%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	-
Cadence Design Systems, Inc.	1,775	13	0.2%	1,560	15	0.2%
Regina Medical Center	1,700	14	0.2%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	-
Xilinx	1,600	15	0.2%	2,430	9	0.3%

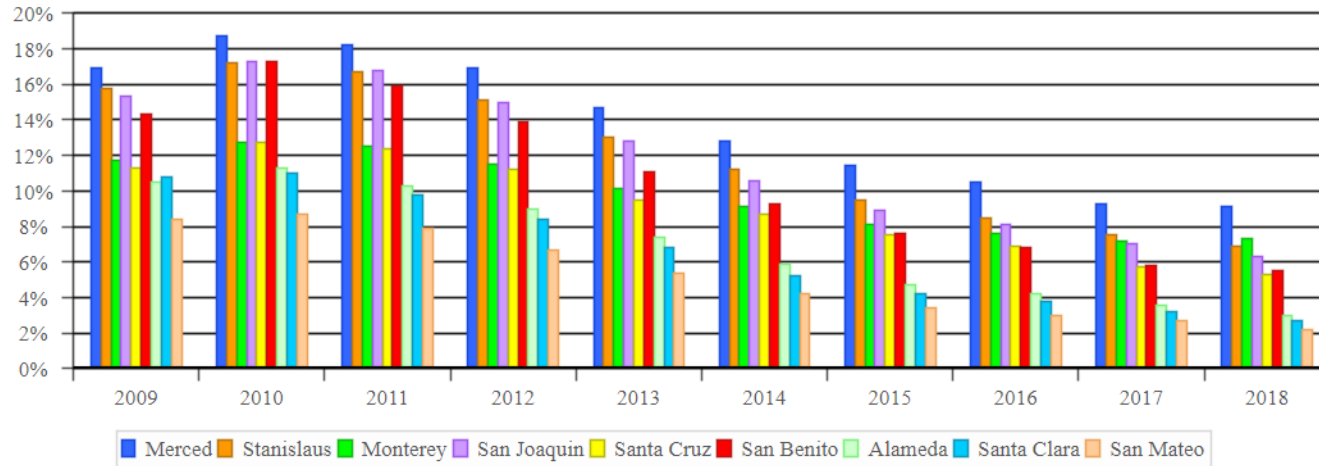
<sup>(1)</sup> Full-time employees

<sup>(2)</sup> Companies or organizations not included in top 15 principal employers in 2009

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**



	2009	2010	2011	2012	2013	2014	2015	2016	2017 <sup>(1)</sup>	2018 <sup>(2)</sup>
Merced	16.9 %	18.7 %	18.2 %	16.9 %	14.7 %	12.8 %	11.4 %	10.5 %	9.3 %	9.1 %
Stanislaus	15.8 %	17.2 %	16.7 %	15.1 %	13.0 %	11.2 %	9.5 %	8.5 %	7.5 %	6.9 %
Monterey	11.7 %	12.7 %	12.5 %	11.5 %	10.1 %	9.1 %	8.1 %	7.6 %	7.2 %	7.3 %
San Joaquin	15.3 %	17.3 %	16.8 %	15.0 %	12.8 %	10.6 %	8.9 %	8.1 %	7.0 %	6.3 %
Santa Cruz	11.3 %	12.7 %	12.4 %	11.2 %	9.5 %	8.7 %	7.5 %	6.9 %	5.7 %	5.3 %
San Benito	14.3 %	17.3 %	15.9 %	13.9 %	11.1 %	9.3 %	7.6 %	6.8 %	5.8 %	5.5 %
Alameda	10.5 %	11.3 %	10.3 %	9.0 %	7.4 %	5.9 %	4.7 %	4.2 %	3.6 %	3.0 %
Santa Clara	10.8 %	11.0 %	9.8 %	8.4 %	6.8 %	5.2 %	4.2 %	3.8 %	3.2 %	2.7 %
San Mateo	8.4 %	8.7 %	7.9 %	6.7 %	5.4 %	4.2 %	3.4 %	3.0 %	2.7 %	2.2 %

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

<sup>(2)</sup> Information for 2018 is the average of January to July 2018.

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 <sup>(1)</sup> Employees as of Fiscal Year-End									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Acoustical Treatment Program (ACT)	4	-	-	-	-	-	-	-	-	-
Administration	35	31	27	27	27	27	28	28	30	30
Air service development	2	2	1	1	1	1	1	1	1	1
Airport technology services	19	16	13	13	13	13	13	11	11	11
Airside operations	47	38	35	40	42	43	43	43	51	51
Customer service and outreach	8	6	5	6	7	7	6	8	10	10
Capital and airport development	27	26	18	14	15	15	15	18	19	19
Environmental	4	3	1	1	1	1	1	1	2	2
Facilities (building services, trades, and maintenance)	135	128	64	66	64	64	64	61	68	68
Landside operations and services	56	47	34	29	9	8	8	8	9	9
Property management	12	9	8	8	8	8	8	8	10	10
	<u>348</u>	<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>

<sup>(1)</sup> A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full-time equivalent employment is calculated by dividing total labor hours by 2,080.

Source: 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, 2018**

<b>Location:</b>	Four miles north of downtown San José, "Capital of Silicon Valley"		
<b>Area:</b>	1,000 acres		
<b>Elevation:</b>	62.2 ft.		
<b>Airport code:</b>	SJC		
<b>Runways:</b>	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)
<b>Terminal:</b>	Airlines		264,146 sq. ft.
	Concessions and Other Rentables		68,009 sq. ft.
	Public/Common		558,397 sq. ft.
	City		46,374 sq. ft.
	Vacant		31,190 sq. ft.
	<b>Total</b>		<b>968,116 sq. ft.</b>
	Number of passenger gates - Terminal A and FIS		17
	Number of passenger gates - Terminal B		14
	Number of loading bridges		30
	Number of concessionaires in terminal		48
	31 Food & Beverage Concessions		
	17 Retail Concessions		
	Number of rental car brands		11
<b>Apron:</b>	Commercial Airlines		1,130,894 sq. ft.
	Cargo Airlines		596,482 sq. ft.
	Fixed Based Operator (FBO)		1,362,771 sq. ft.
	General Aviation West		436,659 sq. ft.
	<b>Total</b>		<b>3,526,806 sq. ft.</b>
<b>Public parking spaces:</b>	Hourly - Terminal A Garage		1,021
	Hourly - Terminal B Garage & Surface		954
	Daily Lots		1,358
	Economy Lot		1,673
	<b>Total</b>		<b>5,006</b>
<b>Cargo:</b>	Air Freight Building		21,403 sq. ft.
<b>International:</b>	Customs / Federal Inspection Service Facility		
<b>Tower:</b>	Operational hours 0600 - 0000, after hours CTAF 124.0/TRACON 24/7		
<b>FBOs:</b>	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 2009 THROUGH 2013**  
**(Ranked by Fiscal Year 2018 Results)**

Airline	2009		2010		2011		2012		2013 <sup>(6)</sup>	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,082,271	47.3 %	2,121,917	51.7 %	2,187,033	52.2 %	2,192,234	53.1 %	2,169,956	51.2 %
Alaska Airlines <sup>(1)</sup>	345,419	7.9 %	393,982	9.6 %	561,400	13.4 %	609,315	14.8 %	727,616	17.2 %
Delta Airlines <sup>(2)</sup>	157,739	3.6 %	175,775	4.3 %	216,757	5.2 %	218,447	5.3 %	228,824	5.4 %
American Airlines <sup>(3)</sup>	887,112	20.2 %	692,293	16.9 %	620,195	14.8 %	571,167	13.8 %	587,829	13.9 %
United Airlines <sup>(4)</sup>	420,317	9.6 %	376,879	9.2 %	357,283	8.5 %	298,808	7.2 %	253,837	6.0 %
JetBlue Airways	148,643	3.4 %	95,118	2.3 %	80,797	1.9 %	76,063	1.8 %	71,506	1.7 %
Hawaiian Airlines	81,397	1.9 %	72,266	1.8 %	85,571	2.0 %	103,483	2.5 %	116,928	2.8 %
Frontier Airlines, Inc.	-	-	-	-	-	-	-	-	-	-
Volaris	-	-	8,072	0.2 %	48,325	1.2 %	49,709	1.2 %	49,700	1.2 %
Air Canada	-	-	-	-	-	-	-	-	-	-
British Airways	-	-	-	-	-	-	-	-	-	-
Aeromexico	-	-	-	-	-	-	-	-	-	-
All Nippon Airways	-	-	-	-	-	-	-	-	3,273	0.1 %
Hainan Airlines	-	-	-	-	-	-	-	-	-	-
Lufthansa	-	-	-	-	-	-	-	-	-	-
Air China Airlines	-	-	-	-	-	-	-	-	-	-
All other airlines <sup>(5)</sup>	276,664	6.3 %	169,551	4.1 %	31,862	0.8 %	5,659	0.1 %	25,284	0.6 %
<b>Total<sup>(7)</sup></b>	<b>4,399,562</b>	<b>100.0 %</b>	<b>4,105,853</b>	<b>100.0 %</b>	<b>4,189,223</b>	<b>100.0 %</b>	<b>4,124,885</b>	<b>100.0 %</b>	<b>4,234,753</b>	<b>100.0 %</b>

<sup>(1)</sup> Includes enplaned passengers on flights operated by Horizon and Skywest.

<sup>(2)</sup> Includes enplaned passengers on flights operated by Skywest and Compass Airlines.

<sup>(3)</sup> 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 2014 THROUGH 2018  
(Ranked by Fiscal Year 2018 Results)**

Airline	2014		2015		2016		2017		2018	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,280,346	50.5 %	2,420,333	50.8 %	2,507,648	49.3 %	2,607,667	45.4 %	3,050,314	45.4 %
Alaska Airlines <sup>(1)</sup>	704,944	15.6 %	750,673	15.8 %	795,136	15.6 %	988,852	17.2 %	1,183,145	17.6 %
Delta Airlines <sup>(2)</sup>	332,544	7.4 %	463,746	9.7 %	551,084	10.8 %	648,825	11.3 %	701,037	10.4 %
American Airlines <sup>(3)</sup>	601,104	13.3 %	604,952	12.7 %	642,626	12.6 %	634,827	11.1 %	628,683	9.3 %
United Airlines <sup>(4)</sup>	231,287	5.1 %	186,656	3.9 %	184,570	3.6 %	237,281	4.1 %	314,024	4.7 %
JetBlue Airways	70,860	1.6 %	71,577	1.5 %	73,950	1.5 %	151,587	2.6 %	222,987	3.3 %
Hawaiian Airlines	113,381	2.5 %	161,707	3.4 %	164,088	3.2 %	153,379	2.7 %	169,044	2.5 %
Frontier Airlines, Inc.	-	-	-	-	-	-	-	-	80,943	1.2 %
Volaris	51,056	1.1 %	51,185	1.1 %	58,385	1.1 %	61,585	1.1 %	60,602	0.9 %
Air Canada	-	-	-	-	6,882	0.1 %	46,701	0.8 %	57,145	0.8 %
British Airways	-	-	-	-	9,872	0.2 %	54,145	0.9 %	54,092	0.8 %
Aeromexico	-	-	-	-	-	-	-	-	51,326	0.8 %
All Nippon Airways	42,999	1.0 %	47,560	1.0 %	49,717	1.0 %	49,160	0.9 %	49,735	0.7 %
Hainan Airlines	-	-	1,849	0.0 %	34,939	0.7 %	44,123	0.8 %	38,995	0.6 %
Lufthansa	-	-	-	-	-	-	40,490	0.7 %	30,057	0.4 %
Air China Airlines	-	-	-	-	-	-	15,511	0.3 %	25,829	0.4 %
All other airlines <sup>(5)</sup>	88,500	2.0 %	4,763	0.1 %	8,808	0.2 %	5,636	0.1 %	7,169	0.1 %
<b>Total<sup>(7)</sup></b>	<b>4,517,021</b>	<b>100.0 %</b>	<b>4,765,001</b>	<b>100.0 %</b>	<b>5,087,705</b>	<b>100.0 %</b>	<b>5,739,769</b>	<b>100.0 %</b>	<b>6,725,127</b>	<b>100.0 %</b>

<sup>(4)</sup> Continental and United merged in October 2010. The combined airlines (named "United Airlines") received FAA approval to operate under a single certificate in December 2011. The enplanements include flights operated by Skywest.

<sup>(5)</sup> 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.

<sup>(6)</sup> 2013 enplanements for "All other airlines" has been revised to show corrected information.

<sup>(7)</sup> 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<sup>(1)</sup></u>	<u>2009</u>	<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>
AeroMexico	-	-	-	-	-	-	-	-	-	51,936
Air Canada	-	-	-	-	-	-	-	8,103	57,831	70,950
Air China Airlines	-	-	-	-	-	-	-	-	51,359	61,390
Alaska Airlines	449,070	507,257	693,168	680,586	806,403	790,691	825,699	864,768	1,127,836	1,359,717
All Nippon Airways	-	-	-	-	9,880	138,114	138,700	140,925	138,790	141,175
American Airlines	1,056,475	760,177	692,995	643,199	664,570	669,391	653,971	726,312	730,283	735,296
British Airways	-	-	-	-	-	-	-	24,650	152,150	138,460
Delta Airlines	190,950	196,914	230,537	233,473	252,297	386,609	537,959	677,209	829,238	849,208
Frontier Airlines	158,644	78,484	672	-	672	499	269	-	-	80,893
Hainan Airlines	-	-	-	-	-	-	4,180	80,559	97,695	82,815
Hawaiian Airlines	109,970	94,075	110,895	133,520	161,560	154,290	230,520	230,052	206,901	229,459
JetBlue Airways	188,439	115,710	91,292	82,903	79,348	77,215	75,508	82,039	199,784	302,960
Lufthansa	-	-	-	-	-	-	-	-	99,364	62,646
Mexicana Airlines	86,527	76,916	10,890	-	-	-	-	-	-	-
Northwest Airlines	101,284	51,691	-	-	-	-	-	-	-	-
Southwest Airlines	3,236,828	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
United Airlines	522,979	452,916	413,524	355,121	293,930	269,572	206,682	214,585	268,074	353,304
Volaris	-	8,320	54,663	59,451	52,014	51,472	55,653	59,565	61,549	61,549
All other airlines	28,902	34,649	44,488	20,108	54,361	179,532	15,137	29,020	19,857	27,580
<b>Subtotal</b>	<b>6,130,069</b>	<b>5,410,517</b>	<b>5,221,002</b>	<b>5,125,391</b>	<b>5,213,194</b>	<b>5,536,593</b>	<b>5,628,460</b>	<b>6,113,904</b>	<b>7,202,172</b>	<b>8,244,933</b>
<b><u>Cargo Carriers</u></b>										
Air Transport Int'l.	56,042	57,159	71,055	12,015	250	-	-	-	-	-
Airborne Express	1,088	-	-	-	-	-	-	-	-	-
Fedex	231,594	168,403	164,642	163,213	158,845	152,417	150,160	164,527	149,908	146,996
United Parcel Service	132,055	96,505	83,136	93,250	88,940	82,584	86,546	101,377	98,944	100,450
All other cargo airlines	309	200	352	270	33	-	-	440	168	161
<b>Subtotal</b>	<b>421,088</b>	<b>322,267</b>	<b>319,185</b>	<b>268,748</b>	<b>248,067</b>	<b>235,002</b>	<b>236,706</b>	<b>266,344</b>	<b>249,020</b>	<b>247,607</b>
<b>Total</b>	<b>6,551,157</b>	<b>5,732,784</b>	<b>5,540,187</b>	<b>5,394,139</b>	<b>5,461,261</b>	<b>5,771,595</b>	<b>5,865,167</b>	<b>6,380,248</b>	<b>7,451,193</b>	<b>8,492,540</b>

<sup>(1)</sup> 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> <sup>(1)</sup>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
AeroMexico	-	-	-	-	-	-	-	-	-	722
Air Canada	-	-	-	-	-	-	-	214	1,538	1,920
Air China Airlines	-	-	-	-	-	-	-	-	256	306
Alaska Airlines	8,604	9,928	13,370	12,948	15,172	13,960	13,936	14,314	20,330	25,400
All Nippon Airways	-	-	-	-	52	726	730	732	730	730
American Airlines	25,310	16,308	13,448	12,452	12,672	12,374	12,172	12,356	12,042	12,256
British Airways	-	-	-	-	-	-	-	116	716	652
Delta Airlines	4,008	4,344	4,656	4,784	4,810	8,596	12,702	14,300	15,958	16,496
Frontier Airlines	2,426	1,202	10	-	10	8	4	-	-	1,132
Hainan Airlines	-	-	-	-	-	-	22	424	504	420
Hawaiian Airlines	732	620	732	882	1,036	1,014	1,462	1,462	1,324	1,466
JetBlue Airways	2,986	1,876	1,284	1,166	1,116	1,086	1,062	1,146	2,740	4,126
Lufthansa	-	-	-	-	-	-	-	-	476	296
Mexicana Airlines	1,250	1,126	160	-	-	-	-	-	-	-
Northwest Airlines	1,410	746	-	-	-	-	-	-	-	-
Southwest Airlines	52,414	48,942	46,584	47,002	45,486	44,942	45,654	46,918	48,538	55,466
United Airlines	10,654	9,986	7,432	6,072	5,600	5,052	3,714	3,444	4,042	5,624
Volaris	-	124	812	886	770	752	774	820	846	846
All other airlines	704	598	778	286	784	2,546	226	394	296	384
<b>Subtotal</b>	<b>110,498</b>	<b>95,800</b>	<b>89,266</b>	<b>86,478</b>	<b>87,508</b>	<b>91,056</b>	<b>92,458</b>	<b>96,640</b>	<b>110,336</b>	<b>128,242</b>
<b><u>Cargo Carriers</u></b>										
Air Transport Int'l.	426	434	538	88	2	-	-	-	-	-
Airborne Express	8	-	-	-	-	-	-	-	-	-
Fedex	1,264	958	926	928	918	918	920	936	928	918
United Parcel Service	854	672	566	652	610	550	580	670	664	676
All other cargo airlines	6	12	16	10	6	-	-	8	4	2
<b>Subtotal</b>	<b>2,558</b>	<b>2,076</b>	<b>2,046</b>	<b>1,678</b>	<b>1,536</b>	<b>1,468</b>	<b>1,500</b>	<b>1,614</b>	<b>1,596</b>	<b>1,596</b>
<b>Total</b>	<b>113,056</b>	<b>97,876</b>	<b>91,312</b>	<b>88,156</b>	<b>89,044</b>	<b>92,524</b>	<b>93,958</b>	<b>98,254</b>	<b>111,932</b>	<b>129,838</b>

(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
<b>SCHEDULED DOMESTIC AIRLINE SERVICE</b>	
Alaska Airlines	Austin (AUS) Boise (BOI) Burbank (BUR) Dallas (DAL) Eugene (EUG) Honolulu, Oahu (HNL) Kahului, Maui (OGG) Kona, Hawaii (KOA) Lihue, Kauai (LIH) Los Angeles (LAX) Newark (EWR) Orange County (SNA) Portland (PDX) Reno (RNO) San Diego (SAN) Seattle (SEA) Tucson (TUS)
American Airlines	Charlotte (CLT) <sup>(1)</sup> Chicago/O'Hare (ORD) Dallas/Ft. Worth (DFW) Los Angeles (LAX) Phoenix (PHX)
Delta Air Lines	Atlanta (ATL) Las Vegas (LAS) Los Angeles (LAX) Minneapolis/St. Paul (MSP) New York (JFK) Salt Lake City (SLC) Seattle (SEA)
Frontier Airlines	Atlanta (ATL) <sup>(1)</sup> Austin (AUS) Cincinnati (CVG) <sup>(1)</sup> Denver (DEN) Las Vegas (LAS) San Antonio (SAT) <sup>(1)</sup> Tulsa (TUL) <sup>(1)</sup>
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)



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

CARRIER	NONSTOP SERVICE
	Dallas Love Field (DAL) Denver (DEN) Houston (HOU) Las Vegas (LAS) Los Angeles (LAX) New Orleans (MSY) <sup>(1)</sup> Ontario (ONT) Orange County (SNA) Orlando (MCO) Phoenix (PHX) Portland (PDX) Reno (RNO) Salt Lake City (SLC) San Diego (SAN) Seattle (SEA) Spokane (GEG) St. Louis (STL)
United Airlines	Chicago/O'Hare (ORD) Denver (DEN) Houston (IAH) Newark (EWR)
<b>SCHEDULED FOREIGN AIRLINE SERVICE</b>	
AeroMexico	Guadalajara (GDL) Mexico City (MEX) <sup>(1)</sup>
Air Canada	Vancouver (YVR)
Air China	Shanghai (PVG)
Alaska Airlines	Cabo San Lucas (SJD) Guadalajara (GDL)
All Nippon Airways	Tokyo-Narita (NRT)
British Airways	London (LHR)
Hainan Airlines	Beijing (PEK)
Lufthansa	Frankfurt (FRA)
Southwest Airlines	Cabo San Lucas (SJD)
Volaris	Guadalajara (GDL) Morelia (MLM) Zacatecas (ZCL)
<b>ALL-CARGO AIRLINES</b>	
Federal Express Corporation	
United Parcel Service	

<sup>(1)</sup> Seasonal flights as of June 30, 2018.

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**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Passengers (1,000's):										
Enplanements	4,400	4,107	4,189	4,125	4,235	4,517	4,765	5,088	5,740	6,725
Deplanements	4,422	4,125	4,200	4,131	4,254	4,546	4,790	5,125	5,775	6,765
Total passengers	<u>8,822</u>	<u>8,232</u>	<u>8,389</u>	<u>8,256</u>	<u>8,489</u>	<u>9,063</u>	<u>9,555</u>	<u>10,213</u>	<u>11,515</u>	<u>13,490</u>
Mail/freight/cargo (1,000 lbs):										
Mail	1,987	3,357	2,264	1,160	1,431	1,135	1,546	1,786	1,856	4,132
Freight/express	5,995	5,432	5,060	5,303	6,172	16,156	18,257	22,344	42,126	43,228
Cargo	129,809	97,578	87,329	77,303	78,766	86,239	84,203	92,294	78,013	74,868
Total mail/freight/cargo	<u>137,791</u>	<u>106,367</u>	<u>94,653</u>	<u>83,766</u>	<u>86,369</u>	<u>103,530</u>	<u>104,006</u>	<u>116,424</u>	<u>121,995</u>	<u>122,228</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<sup>(1)</sup>**  
**LAST TEN FISCAL YEARS**

Fiscal Year	Air Carrier Operations <sup>(2)</sup>	Cargo Operations	Total Commercial Operations	Percent Commercial Operations	General Aviation Operations	Military Operations	Total Operations
2009	110,498	2,558	113,056	70.7 %	46,674	242	159,972
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

**Annual compound growth rate**

FY 2009 through FY 2018	1.5 %	(4.6)%	1.4 %	(2.7)%	0.3 %	0.4 %
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<sup>(1)</sup> An aircraft operation is defined as the takeoff or landing of an aircraft.

<sup>(2)</sup> Includes domestic, including regional commuter operations, and international airlines.

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

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# BOND DISCLOSURE

International enplanements grew 15.0% in FY 2018. Southwest began nonstop, once a week, service to Cabo San Lucas and Volaris launched two, twice-weekly flights to Morelia and Zacatecas, Mexico.





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

**Bond Disclosure Report**

**June 30, 2018**

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 - 74 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, 2018, 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 103 of the Bond Disclosure Section of this report.**

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

**Refer to Table 2, page 104 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 100 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 3, page 105 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 97 - 98 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.

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

**Bond Disclosure Report**

**June 30, 2018**

**Refer to Schedule N, pages 93 - 94 of the Statistical Section of this report.**

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

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

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

**Refer to Schedule F, page 85 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. In June 2018, S&P upgraded the Airport's rating from "A-" to "A" with a stable outlook. Fitch reaffirmed their rating and stable outlook in March 2018, and Moody's outlook remains stable.



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**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<sup>(1)</sup></u>	<u>Air Carrier International Enplanements</u>	<u>Total Enplanements</u>	<u>Total Percent Change</u>
2009	4,339,181	60,381	4,399,562	(15.0)%
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 %
<b>Annual compound growth rate</b>				
FY 2009 through				
FY 2018	3.7 %	22.7 %	4.3 %	

<sup>(1)</sup> 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 CONNECTING/ENPLANED PASSENGER TRAFFIC**  
**LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Total Enplanements</u>	<u>Total Origin and Destination Enplanements</u>	<u>Total Connecting Enplanements</u>	<u>Connecting Enplanements as a Percentage of Total Enplanements</u>
2009	4,399,562	4,281,747	117,815	2.7%
2010	4,105,853	3,996,223	109,630	2.7%
2011	4,189,223	4,083,459	105,764	2.5%
2012	4,124,885	4,013,758	111,127	2.7%
2013	4,234,753	4,146,393	88,360	2.1%
2014	4,517,021	4,426,965	90,056	2.0%
2015	4,765,001	4,665,281	99,720	2.1%
2016	5,087,705	5,001,106	86,599	1.7%
2017	5,739,769	5,627,790	111,979	2.0%
2018	6,725,127	6,491,437	233,690	3.5%
<b>Annual compound growth rate</b>				
FY 2009 through				
FY 2018	4.3 %	4.2 %	7.1 %	

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<sup>(1)</sup></u>	<u>Cargo<sup>(2)</sup></u>	<u>Total<sup>(3)</sup></u>
2009	6,130,069	421,088	6,551,157
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	5,213,193	248,067	5,461,260
2014	5,536,593	235,002	5,771,594
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
<b>Annual compound growth rate</b>			
FY 2009 through			
FY 2018	3.0 %	(5.2)%	2.6 %

(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.

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