APPENDIX A

THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

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THE CITY AND THE AIRPORT DEPARTMENT

The City

The City of San José (the "City") was incorporated on March 27, 1850 and operates as a charter city, having had its first charter granted by the State of California (the "State") in 1897. In 1916, another charter was adopted enabling the City to institute a council-manager form of government, making it one of the first cities in the nation to take this step. Under the California Constitution, charter cities are generally independent of the state legislature in matters relating to municipal affairs. The present charter became effective on May 4, 1965 and created the Airport Department as a separate department of the City.

The City is governed by a City Council consisting of a Mayor and ten other council members. The Mayor is elected at large for a four-year term. Council members are elected by district for staggered, four-year terms. The Mayor and the council members are limited to two consecutive four-year terms.

The City Council appoints the City Manager who is responsible for the operation of all municipal functions except the offices of City Attorney, City Clerk, City Auditor and Independent Police Auditor. The officials heading these offices are appointed by and carry out the policies set forth by the City Council.

The Airport Department

The Airport Department is responsible to the City Manager and is headed by the Director of Aviation. The finances of the Airport Department are managed by Airport staff who coordinate with the staff of the City Department of Finance. An Airport Commission, made up of seven members appointed by the City Council for three-year terms, serves in primarily an advisory capacity to the City Council.

In addition to the Office of the Director of Aviation, the Airport Department has four divisions: Airport Planning and Development, Airport Facilities and Engineering, Airport Operations and Airport Finance and Administration. At its peak, the Airport Department had 400 authorized positions in fiscal year 2008-09. For fiscal year 2010-11, the Airport Department had 206 authorized positions and has 205 authorized positions in its budget for fiscal year 2011-12. For further information regarding the City's labor relations, see "OTHER MATTERS—Labor Relations" herein.

Presentation of Unaudited Results

Unaudited results from the Airport's fiscal year 2010-11 are included in the Official Statement, including this Appendix A. Such information is preliminary and subject to change, including as a result of accounting changes proposed as part of the audit process or otherwise required to conform such information to generally accepted accounting principles applicable to local governments such as the City, and such changes may be material. Thus, direct comparisons between corresponding information in the audited and unaudited results may not be useful. The most recent Comprehensive Annual Financial Report of the Airport available, presenting the Airport's audited financial results for the fiscal year ended June 30, 2010 and including footnotes, which may be material, is attached to this Official Statement as Appendix E.

THE AIRPORT

General

The Airport is located on approximately 1,050 acres of land approximately two miles north of downtown San José, between the Bayshore Freeway (Highway 101) and Interstate 880. The Airport had its beginning in 1945, with the lease of approximately 16 acres of farmland from the City to Mr. James M. Nissen. Mr. Nissen and his associates formed an operating company (California Aviation Inc.), which undertook the construction of a 1,900-foot runway, a hangar and an office building. Flight operations began in 1946. In the Fall of 1948, the City assumed the operation of the San José Municipal Airport from California Aviation Inc. The Airport was renamed San José International Airport (SJC) in 1984 with the addition of airline service to Canada and was again renamed Norman Y. Mineta San José International Airport (SJC) in 2001.

The original terminal building (Terminal C) was built at the Airport in 1965. To accommodate increased commercial service at the Airport, Terminal C was expanded in 1969, 1970, 1971 and 1983. Terminal A, including the Terminal A+ extension, opened in 1990 and the International Arrivals Facility opened in 2002. Beginning in 2007, portions of Terminal C were closed as construction of Terminal B began. In June 2010, Terminal B opened and the remainder of Terminal C was permanently closed. Following its closure, Terminal C was demolished.

The Airport is a commercial service and general aviation airport and is classified by the FAA as a "medium hub" (an airport that enplanes at least 0.25% but less than 1.0% of the total number of passenger boardings at all commercial service airports in the United States). The Airport is located in Santa Clara County, California (the "County"), which is commonly referred to as the "Silicon Valley." The County, together with the counties of Alameda, Monterey, San Benito, San Mateo and Santa Cruz, California, constitute the "Air Service Area" for the Airport. According to the U.S. Census Bureau's 2010 Census, the population of the Air Service Area was approximately 4.7 million residents, approximately 12.7% of the population of the State.

Three of the counties within the Air Service Area (Santa Clara, San Mateo and Alameda) are considered part of the "Bay Area," which includes the major metropolitan areas of San José, San Francisco and Oakland. In addition to the Airport, the Bay Area is served by San Francisco International Airport, approximately 34 driving miles northwest of the Airport, and Oakland International Airport, approximately 36 driving miles north of the Airport. Another commercial service airport that serves portions of the Air Service Area, Monterey Peninsula Airport, is approximately 75 driving miles from the Airport. See the Report of the Independent Airport Consultant in Appendix B for additional information about the Air Service Area and the other airports that serve the Air Service Area.

The Airport is often referred to as an "origin and destination airport" because it primarily serves passengers beginning or ending their trips at the Airport, as opposed to passengers connecting through the Airport to other cities. The City estimates that in fiscal year 2010-11, approximately 97.5% of the passengers enplaning at the Airport were origin and destination ("O&D") passengers. In general, at airports primarily serving O&D passengers, air traffic is more dependent upon the population and economy of the airport service area than upon the financial condition and route decisions of individual airlines. See "AIR TRAFFIC—Factors Affecting Aviation Demand and the Airline Industry" in Appendix B.

Approximately 4.2 million passengers were enplaned and approximately 122,000 operations occurred at the Airport (takeoffs and landings) during fiscal year 2010-11. See "PASSENGER SERVICES AND OPERATIONS." According to statistics published by the Airports Council

International—North America ("ACI-NA"), in calendar year 2010 the Airport was the 42nd busiest airport nationwide in terms of total passengers and the 60th busiest in terms of total cargo.

Passenger airline traffic at the Airport declined markedly during fiscal years 2001-02 and 2002-03, increased slightly during fiscal years 2003-04, 2004-05 and 2005-06, and then again declined markedly between fiscal years 2006-07 and 2009-10. In fiscal year 2010-11, enplanements grew by approximately 2.0% compared to fiscal year 2009-10. In contrast, from fiscal year 2006-07 to fiscal year 2010-11, the Airport's total operating revenues increased by approximately 34.3%, while total maintenance and operation expenses, excluding depreciation and amortization, decreased by approximately 16.7%.

See "AIRPORT FINANCIAL MATTERS" below and "AIR TRAFFIC—Factors Affecting Aviation Demand and the Airline Industry" in Appendix B.

Existing Facilities

General. Existing facilities at the Airport include three parallel runways; two commercial passenger terminals; an International Arrivals Facility; maintenance buildings; parking facilities; a control tower; and various other facilities.

For a description of the Airport's capital development program, see "CAPITAL DEVELOPMENT AT THE AIRPORT" below and "AIRPORT FACILITIES AND DEVELOPMENT" in Appendix B.

Airfield Facilities. The Airport's airfield facilities consist of three parallel runways, including two air carrier runways (Runway 30L and Runway 30R), one general aviation runway (Runway 11–29) and connecting taxiways. Runway 30R is the primary runway for departures, and Runway 30L is the primary runway for arrivals.

Staggered simultaneous operations on both runways are possible during Visual Flight Rules (VFR) operations, which are implemented to reduce peak period delays. Runway 30L and Runway 30R can each accommodate Boeing 747 and the future Boeing 787 and Airbus 340 (but not Airbus 380) aircraft on a limited basis with special operating procedures.

To accommodate air carriers, Runway 30R, which previously served as an approximately 4,400 foot commuter runway, was improved and extended to approximately 11,000 feet in 2001. In 2005, Runway 30L was extended from 10,200 feet in length to 11,000 feet, the maximum length allowed under the Airport Master Plan.

Runway 11-29, approximately 4,600 feet long, is a lighted, non-instrument runway located on the west side of the airfield which recently had been used exclusively by general aviation aircraft. Runway 11-29 is currently not in operation, and general aviation aircraft instead use Runway 30L and Runway 30R.

Lighting for the entire flight area, including lighting for the three runways and all connecting taxiways, approach lights, obstruction lights, lighted wind indicators and loading ramp floodlights, is provided on a 24-hour basis.

Terminal Facilities. Passenger services are located in Terminal A, Terminal B and the International Arrivals Facility, for a total of 28 gates, all of which have passenger loading bridges. American Airlines, American Eagle, Hawaiian Airlines, jetBlue Airways, US Airways, United Airlines and Volaris are currently located in Terminal A, and Alaska Airlines, Delta Air Lines, Horizon Air and Southwest Airlines are currently located in Terminal B. The terminal facilities include food, beverage and other concessions.

Terminal A, including the Terminal A+ extension that opened in 1990 and the International Arrivals Facility, is a 16-gate, multi-story building. The renovated and expanded Terminal A is designed to handle up to approximately 7.2 million passengers annually and the International Arrivals Facility is designed to handle up to approximately 1.1 million passengers annually. The renovated Terminal A also includes significantly more concession space. See “AIRPORT FACILITIES AND DEVELOPMENT—New and Improved Terminal Facilities—Renovated and Expanded Terminal A” in Appendix B.

The International Arrivals Facility, which opened in 2002, is located between Terminal A and Terminal B, and is accessible from both the south end of Terminal A and the north end of Terminal B. In addition to offices for U.S. Customs and Border Protection, U.S. Public Health Service, U.S. Fish and Wildlife Service, U.S. Department of Agriculture and U.S. Immigration and Customs Enforcement personnel, the International Arrivals Facility houses two of the 16 aircraft gates in Terminal A and a waiting area for departing international passengers. See “AIRPORT FACILITIES AND DEVELOPMENT—New and Improved Terminal Facilities—Renovated and Expanded Terminal A” in Appendix B.

Effective July 12, 2011, the City has temporarily deactivated six gates in the Terminal A+ extension and has shifted airline operations to gates in Terminal A and the International Arrivals Facility. See “LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—Terminal Concession, Advertising and Other Agreements” below.

Terminal B, which opened in June 2010, includes 12 gates, ticket counters, baggage claim areas, concession areas, security screening areas, passenger holdroom areas and airline and other tenant offices in approximately 380,000 square feet of terminal space. Terminal B also includes permanent facilities for the United Service Organizations (“USO”). Terminal B is designed to handle approximately 6.1 million passengers annually. See “AIRPORT FACILITIES AND DEVELOPMENT—New and Improved Terminal Facilities—New Terminal B” in Appendix B.

Rental Car Facilities. Currently, five rental car companies, representing a total of ten rental car brands, operate at the Airport in the new seven-story Consolidated Rental Car Facility (the “ConRAC”) located immediately across the street from the new Terminal B. The ConRAC, which opened in June 2010, includes 3,000 ready/return spaces and approximately 320 short-term public parking spaces located on the first floor. See “LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession and Other Agreements—Rental Car Agreements” below and “AIR TRAFFIC—Airport Facilities and Development—Existing Airport Facilities—New Consolidated Rental Car Facility” in Appendix B.

Parking. As of October 1, 2011, the Airport had a total of approximately 5,530 available public parking spaces. Terminal A is connected to a parking garage with approximately 1,300 spaces for hourly public parking. The first floor of the ConRAC is dedicated to short-term public parking for Terminal B and includes approximately 320 spaces. Two additional hourly surface parking lots, one adjacent to Terminal B and one adjacent to the ConRAC, provide approximately 880 hourly parking spaces for Terminal B. Two daily surface parking lots provide a total of approximately 1,360 daily rate spaces for Terminal B. The Airport’s economy surface parking lot is located on 16 acres of Airport property northeast of Terminal A and includes approximately 1,670 economy parking spaces. See “LEASE AND OPERATING AGREEMENTS—Parking, Concession Rental Car and Other Agreements—Parking Agreement” below and “FINANCIAL ANALYSIS—Nonairline Revenues—Automobile Parking Revenues” in Appendix B.

General Aviation Facilities. As of October 1, 2011, there were approximately 60 general aviation aircraft based at the Airport. General aviation facilities include a combination of T-hangars and tie-down spaces. Other general aviation facilities are provided by fixed-base operators ("FBOs"), which provide services such as aircraft sales, rentals and maintenance, charter service, flight instruction and aircraft radio sales.

The Airport currently has three FBOs. ACM Aviation Services, Inc. has been at the Airport under various owners and names since 1966 and offers full service to based and itinerant aircraft. Atlantic Aviation (formerly San José Jet Center) started operations in 1986 and currently has five hangars that offer full service to based and itinerant aircraft. ACM and Atlantic Aviation share a common parent entity, but operate as separate entities at the Airport. The third FBO, AvBase San José, LLC ("AvBase"), started operations in 2005, offering general aviation services to based and itinerant aircraft. AvBase also offers fueling services to aircraft owned by AvBase and its sub-lessees.

Hewlett Packard has a ground lease for corporate aviation operations at the Airport and handles only Hewlett Packard aircraft. Hewlett Packard completed its first hangar in 1987 and a second hangar in 2001. Hewlett Packard's lease is scheduled to expire in November 2028.

Fuel, Cargo and Other Support Facilities. An Airport fuel farm completed in December 2009 is located on Airport property on the north side of Highway 101, with a pipeline under Highway 101 that connects the fuel farm to fuel dispensing racks located on the airfield apron north of Terminal A. The airlines serving the Airport formed a consortium which funded and oversaw construction of the fuel farm. The consortium is responsible for the operation and maintenance of the fuel farm. The storage capacity of the fuel farm is 45,000 barrels of jet fuel (approximately equal to a seven day working supply at the Airport). Fuel is distributed to the fuel farm via a two-mile underground pipeline connected to the San José Kinder Morgan Products Terminal. See "CAPITAL DEVELOPMENT AT THE AIRPORT—Environmental Matters."

Other facilities include the City's aircraft rescue and firefighting facility, which is currently located near the southeast corner of the Airport, and ground support, equipment maintenance and belly freight facilities near the northeast and southeast corners of the airfield.

PASSENGER SERVICES AND OPERATIONS

Passenger Services

As of October 1, 2011, 13 passenger airlines provided nonstop service from the Airport to a total of 26 U.S. cities and two foreign cities, and two airlines provided scheduled all-cargo service at the Airport.

Table 6
Norman Y. Mineta San José International Airport
Airlines Serving the Airport
as of October 1, 2011

Domestic Airlines	Regional Commuter Airlines(1)	Foreign-Flag Airline
Alaska Airlines(2)	American Eagle(3)	Volaris
American Airlines	Horizon Air(2)	
Continental Airlines(4)	SkyWest(5)	
Delta Air Lines		
Hawaiian Airlines		
jetBlue Airways		
Southwest Airlines		
United Airlines(4)		
US Airways(6)		
All-Cargo Service(7)		
FedEx Corporation		
United Parcel Service		

(1) Commuter service is service on aircraft weighing less than 75,000 pounds. Other airlines listed may provide commuter service to certain destinations.
(2) Alaska Airlines and Horizon Air are separately certificated air carriers and wholly-owned subsidiaries of Alaska Air Group, Inc. Horizon Air is currently doing business at the Airport as Alaska Airlink.
(3) American Eagle is currently doing business at the Airport as American Airlines.
(4) United Airlines and Continental Airlines merged on October 1, 2010, but have announced that they intend to continue to operate as separate airlines until their operations have been fully integrated, which they expect to occur in 2012.
(5) SkyWest is currently doing business at the Airport as United Express and Delta Connection.
(6) US Airways is providing what was previously America West service at the Airport.
(7) Air Transport International, which formerly provided cargo service at the Airport, ceased cargo service operations at the Airport on September 2, 2011.
Source: Norman Y. Mineta San José International Airport.

According to Airport records, the Airport reached a peak annual total of approximately 6.9 million enplanements in fiscal year 2000-01 following a period of extraordinary economic growth in Silicon Valley and the broader technology industry. Between fiscal year 1996-97 and fiscal year 2000-01, total enplanements at the Airport increased at a compound annual growth rate of 8.1%. Following the steep decline in the value of shares of technology companies listed on the NASDAQ Stock Exchange beginning in calendar year 2000, the subsequent technology industry recession and broader economic recession, and the terrorist attacks on September 11, 2001, Airport passenger traffic declined in fiscal years 2001-02 and 2002-03. Additionally, enplaned passengers decreased in fiscal year 2002-03, in part due to service cuts made by American Airlines as part of its de-hubbing at the Airport. In total, from fiscal year 2000-01 to fiscal year 2002-03 the number of enplanements decreased by 25%. Activity levels showed signs of leveling off, with overall growth in passenger activity from fiscal year 2002-03 to fiscal year 2005-06 at a compound annual growth rate of 1.3%, but traffic fell sharply during fiscal year 2007-08 in conjunction with the national credit crisis, an aviation fuel cost spike, and a global recession. Enplaned passengers at the Airport decreased each fiscal year from fiscal year 2007-08 through fiscal year 2009-10. In addition to the economic recession that the nation entered in December 2007 and a spike in the cost of aviation fuel, Airport enplaned passengers between fiscal year 2006-07 and fiscal year 2009-10 were impacted by increased low cost carrier competition in the Bay Area. The Airport enplaned approximately 4.2 million passengers and deplaned approximately 4.2 million passengers for fiscal year 2010-11, which represented an increase in combined enplanements and deplanements of approximately 2.0% from fiscal year 2009-10, but a decrease in combined enplanements and deplanements of 22.7% from fiscal year 2005-06. Of the total enplaned passengers in fiscal year 2010-11, approximately 97.5% were O&D passengers and approximately 98.1% were traveling to U.S. cities. See "AIR TRAFFIC—Historical Passenger Activity" and "ECONOMIC BASE FOR AIR TRANSPORTATION—Silicon Valley and the Technology Industry" in Appendix B. Total enplanements at the Airport during the first three months of fiscal year 2011-12 have exceeded total enplanements during the same three months of fiscal year 2010-11.

Reduced passenger traffic between fiscal years 2000-01 and 2009-10 led to reduced operating revenues and required the Airport to reduce annual operating costs by carefully reviewing services and creating further efficiencies in order to provide a balanced budget. See "AIRPORT FINANCIAL MATTERS" herein. The following Tables 7, 9 and 10 illustrate the decline in total enplanements and landed weight at the Airport from fiscal year 2000-01 through fiscal year 2009-10, and the increase in total enplanements in fiscal year 2010-11, but continuing decrease in landed weight at the Airport for fiscal years 2009-10 and 2010-11. See "AIR TRAFFIC—Historical Passenger Activity" in Appendix B.

Table 7
Norman Y. Mineta San José International Airport
Historical Passenger Enplanements
Fiscal Years Ended June 30[1]

	Air Carrier Domestic Enplanements	Air Carrier International Enplanements	Total Air Carrier Enplanements	Regional Commuter Enplanements [2]	Total Enplanements	Percent Change in Total Enplanements
2000-01	6,664,821	214,115	6,878,936	58,441	6,937,377	–
2001-02	5,421,107	150,874	5,572,277	146,936	5,719,213	(17.6)%
2002-03	4,772,654	122,110	4,894,674	310,223	5,204,987	(9.0)
2003-04	4,651,137	134,176	4,785,313	506,536	5,291,849	1.7
2004-05	4,660,730	138,142	4,798,872	546,761	5,345,633	1.0
2005-06	4,706,038	137,054	4,843,092	571,739	5,414,831	1.3
2006-07	4,686,496	102,368	4,788,864	529,995	5,318,859	(1.8)
2007-08	4,584,448	67,459	4,651,907	526,696	5,178,603	(2.6)
2008-09	3,907,376	60,381	3,967,757	431,805	4,399,562	(15.0)
2009-10	3,636,146	62,437	3,698,583	408,811	4,107,394	(6.6)
2010-11	3,728,493	77,963	3,806,456	382,767	4,189,223	2.0
Compound Annual Growth Rates						
FY 2000-01 through FY 2010-11	(5.6)%	(9.6)%	(5.7)%	20.7%	(4.9)%	

(1) Some data reported previously have been revised to reflect more recent information.
(2) Includes scheduled and unscheduled commuter aircraft.

Source: Norman Y. Mineta San José International Airport

For a further discussion of historical trends in enplanements at the Airport, see "AIR TRAFFIC—Historical Passenger Activity" and "—Historical Air Service" in Appendix B.

Table 8 lists the cities served by nonstop flights from the Airport as of October 7, 2011.

Table 8
Norman Y. Mineta San José International Airport
Cities Served by Nonstop Service as of October 7, 2011

Domestic Cities
Atlanta, Georgia
Austin, Texas
Boise, Idaho
Boston, Massachusetts
Burbank, California
Chicago, Illinois
Dallas/Fort Worth, Texas
Denver, Colorado
Honolulu, Hawaii
Houston, Texas
Kahului-Maui, Hawaii
Kona, Hawaii
Las Vegas, Nevada
Lihue, Hawaii
Los Angeles, California
Minneapolis/St. Paul, Minnesota
New York, New York
Ontario, California
Orange County, California
Phoenix, Arizona
Portland, Oregon
Reno, Nevada
Sacramento, California
Salt Lake City, Utah
San Diego, California
Seattle, Washington
Foreign Cities
Cabo San Lucas, Mexico
Guadalajara, Mexico

Source: Official Airline Guide, Inc., October 7, 2011.

The City offers several air service incentive programs to support the development of new passenger air service at the Airport, including a program aimed at increasing service to unserved or underserved cities (the "New Service Program"), another program aimed at encouraging airlines to add additional service to designated cities (the "Focus City Program") and a program that reduces the Airport's share of indirect overhead expenses allocated to it by the City for support services the City provides to the Airport (the "Municipally-Funded Cost Incentive Program").

As part of the New Service Program, the Director of Aviation designates certain unserved or underserved cities as either qualifying short-haul domestic cities, medium-range domestic or international cities or long-haul international cities. The Director has the authority to change the cities on the list from time to time; depending on market conditions, passenger data, market research, route feasibility studies and community feedback. Under the New Service Program, an airline providing new nonstop service between the Airport and an airport in a qualifying short-haul domestic city, medium-range domestic or international city or long-haul international city will receive credits against landing fees, facility rental charges, gate use fees, aircraft parking charges and Airport imposed international passenger processing fees (excluding Passenger Facility Charges) that the airline would otherwise have incurred for the new service, for a promotional period ranging from one to three years from the commencement of the service. All eligible fees are waived during the one-year promotional period for new nonstop service to qualifying short-haul domestic cities. New nonstop service to qualifying medium-range domestic or international cities is eligible for a two-year promotional period, with all eligible fees waived during the first year and fifty percent (50%) of eligible fees waived during the second year of the promotional period. New nonstop service to qualifying long-haul international cities is eligible for a three-year promotional period, with all eligible fees waived during the first year, sixty-six percent (66%) of eligible fees waived during the second year, and thirty-three (33%) of eligible fees waived during the third year. All airlines, including both new and incumbent carriers, are eligible to participate in the program. Past participants have included Southwest Airlines and Alaska Airlines, both with service to Austin. Current participants include jetBlue Airways, with service to Boston, and Alaska Airlines, with service to Cabo San Lucas, Kona, Lihue (Kauai) and Kahului-Maui. To receive the fee waiver credits, the airline must agree to begin new nonstop service between the Airport and an airport in a qualifying domestic or international city, and the qualifying service must be continuously operated during the length of the promotional period. In addition, an airline will qualify for the fee waiver only if the new service is not offset by a reduction in service by that airline on an existing nonstop route.

The Focus City Program is designed to encourage airlines to add new air service at the Airport. Compared to the New Service Program, the Focus City Program offers longer incentive periods to any airline that designates the City as a focus city and commits to two consecutive years of incremental growth at the Airport, adding a minimum number of new qualifying routes and frequencies. Under the Focus City Program, an airline would qualify for a waiver of fees for two years if it adds at least four flights each year, with at least two of those flights to currently unserved or underserved cities. Additional flights to destinations that are already well served would not receive the fee waiver, but those flights would count toward meeting the remaining Focus City Program incentive threshold of four new flights per year. The City has entered into negotiations with one or more airlines concerning participation in the Focus City Program, however none have yet executed a participation agreement with the City.

The Municipally-Funded Cost Incentive Program reduces the Airport's share of indirect overhead expenses allocated to it by the City for support services the City provides to the Airport. Terms and conditions of the Municipally-Funded Cost Incentive Program are set forth in the Airline Lease Agreement. For more information about the Municipally-Funded Cost Incentive Program, see "FINANCIAL ANALYSIS—Airline Agreement—Municipally-Funded Air Service Incentive Program" in Appendix B.

Enplanements by Airline. Southwest Airlines is the leading airline at the Airport, with a market share of approximately 52.2% in fiscal year 2010-11 and 51.7% in fiscal year 2009-10 (up from approximately 42.6% in fiscal year 2006-07). Over the same time period, American Airlines' and American Eagle's combined market share declined, from 17.4% in fiscal year 2006-07 to approximately 10.4% in fiscal year 2010-11, in part due to continuing service cuts American Airlines made following its decision to discontinue hubbing operations at the Airport in 2002. The shares of each of United Airlines (and its affiliates) and Delta Airlines (and its affiliates) decreased to approximately 5.3% and 5.2%, respectively, in fiscal year 2010-11 from 7.2% and 9.2%, respectively, in fiscal year 2006-07. Otherwise, the market shares of the passenger airlines that serve the Airport have been relatively stable in the five fiscal years ended June 30, 2011.

Alaska, Southwest and Volaris added flights at the Airport in fiscal year 2010-2011. Alaska and Hawaiian Airlines have announced plans to add additional service in 2012. Alaska added three weekly flights to Lihue beginning in March 2011 and daily flights to Kahului-Maui beginning in June 2011. Southwest added additional daily flights to Los Angeles and Denver in March 2011, an additional daily flight to Seattle in May 2011 and additional daily flights to San Diego and Orange County beginning in June 2011. Volaris added three additional weekly flights to Guadalajara in March 2011. Hawaiian Airlines has announced plans for three weekly non-stop flights to Maui beginning in January 2012, and Alaska has announced that it plans to initiate daily nonstop service to Honolulu beginning in April 2012 and to increase the frequency of service on both its Kauai and Kona routes to daily beginning in March 2012. Finally, Southwest has announced plans to decrease daily service to Reno, but increase daily service to Seattle beginning in April 2012. See "AIR TRAFFIC—Bay Area Airport Passenger Demand and Air Service" and "—Airlines Serving the Airport" in Appendix B.

Table 9 sets forth enplanements for airlines (together with their affiliates) serving the Airport for the fiscal years 2006-07 through 2010-11.

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Table 9
Norman Y. Mineta San José International Airport
Enplaned Commercial Passengers by Airline
Fiscal Years Ended June 30 (1)
(Ranked by Fiscal Year 2011 Results)

	FY 2006-07		FY 2007-08		FY 2008-09		FY 2009-10		FY 2010-11	
Airline[2]	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
Southwest Airlines	2,266,766	42.6%	2,333,432	45.1%	2,082,271	47.3%	2,121,917	51.7%	2,187,033	52.2%
Alaska Carriers	467,324	8.8	445,689	8.6	632,723	14.4	480,402	11.7	561,400	13.4
American Carriers	923,052	17.4	771,429	14.9	401,655	9.1	427,644	10.4	435,815	10.4
United Carriers [3]	384,341	7.2	349,962	6.8	136,153	3.1	132,942	3.2	222,834	5.3
Delta Carriers	491,234	9.2	451,609	8.7	254,389	5.8	208,809	5.1	216,757	5.2
US Airways Carriers	323,328	6.1	314,740	6.1	345,419	7.9	393,982	9.6	184,380	4.4
Continental Carriers [3]	169,220	3.2	171,189	3.3	208,184	4.7	138,836	3.4	134,449	3.2
Hawaiian Airlines	82,561	1.6	84,259	1.6	148,643	3.4	95,118	2.3	85,571	2.0
JetBlue Airways	109,351	2.1	116,776	2.3	81,397	1.9	72,266	1.8	80,797	1.9
Volaris [4]	0	0.0	0	0.0	0	0.0	8,072	0.2	48,325	1.2
All Other Airlines	101,682	1.9	139,518	2.7	108,728	2.5	27,406	0.7	31,862	0.8
Total	5,318,859	100.0%	5,178,603	100.0%	4,399,562	100.0%	4,107,394	100.0%	4,189,223	100.0%

(1) Percentage totals may not add due to rounding.
(2) As appropriate, Airlines and their affiliates have been grouped to show relative market share by carrier.
(3) United Airlines and Continental Airlines merged on October 1, 2010, but have announced that they intend to continue to operate as separate airlines until their operations have been fully integrated, which they expect to occur in 2012.
(4) Concesionaria Vuela Compania de Aviacion S.A DE CV (aka Volaris) started operations at the Airport in April 2010.

Source: Norman Y. Mineta San José International Airport.

Historical Air Cargo

In addition to cargo carried by passenger airlines, FedEx Corporation and United Parcel Service provided domestic and international air cargo service at the Airport as of October 1, 2011. In fiscal year 2010-11, the total amount of enplaned and deplaned cargo carried by all-cargo carriers at the Airport decreased by approximately 1% from fiscal year 2009-10 to approximately 319,185,000 pounds.

Landed Weight and Airport Operations

Table 10 sets forth total landed weight of aircraft (other than general aviation and military aircraft) that used the Airport in fiscal years 2000-01 through 2010-11.

Table 10
Norman Y. Mineta San José International Airport
Historical Gross Landed Weight(1)
(in thousand pounds)
Fiscal Years Ended June 30

Fiscal Year	Mainline Air Carrier(2)	Regional Commuter	All-Cargo(3)	Total	Annual Percentage Change
2000-01	9,878,167	105,389	747,929	10,731,485	--
2001-02	8,566,942	232,223	734,778	9,533,943	(11.2)%
2002-03	7,476,745	425,177	648,405	8,550,327	(10.3)
2003-04	6,795,591	677,143	547,057	8,019,791	(6.2)
2004-05	6,468,513	660,694	531,843	7,661,050	(4.5)
2005-06	6,342,853	677,843	478,376	7,499,072	(2.1)
2006-07	6,351,084	638,449	511,763	7,501,296	<0.1
2007-08	6,255,828	656,298	492,624	7,404,750	(1.3)
2008-09	5,576,343	553,726	421,088	6,551,157	(11.5)
2009-10	4,903,780	506,737	322,267	5,732,784	(12.5)
2010-11	4,779,979	441,023	319,185	5,540,187	(3.4)
Compound Annual Growth Rates					
FY 2000-01 through FY 2010-11	(7.0)%	15.4%	(8.2)%	(6.4)%	

(1) Some data reported previously have been revised to reflect more recent information.
(2) Includes domestic and international airlines.
(3) Includes all-cargo service only. Includes cargo service provided by Air Transport International, which ceased cargo service operations from the Airport on September 2, 2011.

Source: Norman Y. Mineta San José International Airport.

Table 11 lists the number of aircraft operations (take-offs and landings) at the Airport for fiscal years 2000-01 through 2010-11. Total aircraft operations decreased at the Airport during this eleven-year period, from 282,935 in fiscal year 2000-01 to 122,091 in fiscal year 2010-11. In fiscal year 2010-11, total aircraft operations decreased by 7.2% to 122,091 from 131,590 in fiscal year 2009-10. However, regional commuter operations increased and held steady through fiscal year 2007-08, reflecting a general trend of airlines' shifting service to smaller planes in order to lower their costs and continue to serve decreased levels of passengers without eliminating destinations. Regional commuter operations subsequently declined during the economic downturn of fiscal years 2008-09 through 2010-11.

Table 11
Norman Y. Mineta San José International Airport
Historical Aircraft Operations(1)(2)
Fiscal Years Ended June 30

Fiscal Year	Mainline Air Carrier Operations(3)	Regional Commuter Operations	All-Cargo Operations	Total Commercial Operations(4)	Commercial Operations as a % of Total	General Aviation Operations	Military Operations	Total Operations	% Change in Total Operations
2000-01	148,960	5,094	6,208	160,262	56.6%	122,435	238	282,935	---
2001-02	129,319	10,385	5,815	145,519	64.9	78,618	211	224,348	(20.7)%
2002-03	113,972	19,032	4,636	137,640	68.7	62,510	125	200,275	(10.7)
2003-04	103,526	30,838	3,586	137,950	69.8	59,521	113	197,584	(1.3)
2004-05	98,892	29,672	3,594	132,158	67.4	63,708	99	195,965	(0.8)
2005-06	97,198	30,756	3,464	131,418	67.9	61,907	83	193,408	(1.3)
2006-07	97,596	28,806	3,388	129,790	70.2	55,021	103	184,914	(4.4)
2007-08	96,860	29,504	3,140	129,504	70.1	55,146	64	184,714	(0.1)
2008-09	86,668	23,830	2,558	113,056	70.7	46,674	242	159,972	(13.4)
2009-10	76,024	19,776	2,076	97,876	74.4	33,439	275	131,590	(17.7)
2010-11	73,094	16,172	2,046	91,312	74.8	30,503	276	122,091	(7.2)
Annual Compound Growth Rate									
FY 2000-01 through FY 2010-11	(6.9)%	12.2%	(10.5)%	(5.5)%		(13.0)%	1.5%	(8.1)%	

(1) An aircraft operation is defined as the takeoff or landing of an aircraft.
(2) Some data reported previously have been revised to reflect more recent information.
(3) Includes domestic and international airlines.
(4) Represents the sum of Mainline Air Carrier Operations, Regional Commuter Operations and All-Cargo Operations.

Source: Norman Y. Mineta San José International Airport.

LEASE AND OPERATING AGREEMENTS

The Airport Department's operating revenues are derived primarily from airline agreements, parking, rental car and other concession agreements and from other business arrangements.

Airline Agreements

Airline Lease Agreement. The current Airline Lease Agreement for passenger and cargo airlines is a five-year agreement that became effective in 2007 and is scheduled to expire on June 30, 2012. In fiscal year 2010-11, approximately 37% of the Airport's operating revenues were derived from payments made pursuant to the Airline Lease Agreement. The Airline Lease Agreement may be extended for one additional five year term by mutual consent of the City and the Signatory Airline (defined below) and is subject to early termination under certain circumstances. At its meeting on August 16, 2011, the City Council approved a recommendation that the City exercise the option to extend the Airline Lease Agreement to June 30, 2017, and the City has submitted amendments to extend the term accordingly to the passenger and cargo airlines for execution. The City expects all of the Signatory Airlines to sign the extension. The Airline Lease Agreement provides that any airline which does not execute the amendment to extend the Airline Lease Agreement prior to its June 30, 2012, expiration will be deemed to be a month-to-month tenant and shall pay the 25% Non-Signatory Premium (described below) for any period during which the airline holds over. For a summary of certain provisions of the Airline Lease Agreement, see "FINANCIAL ANALYSIS—Airline Agreement" in Appendix B and "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT" in Appendix H.

The provisions of the Airline Lease Agreement are subordinate to provisions of the Master Trust Agreement. The Airline Lease Agreement will not be assigned or pledged to the Trustee as security for the Series 2011B/C Bonds.

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 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. Signatory Airlines also participate in the "Majority-in-Interest" ("MII") review and approval process for capital projects proposed for the Airport.

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 will not participate in the MII review process.

Any passenger or air cargo carrier operating at the Airport that is neither a Signatory Airline nor a Non-Signatory Airline is subject to the Airline Rates and Charges Ordinance, which requires such air carriers to comply with all applicable rules and regulations as established by the Director of Aviation regarding the proper use and occupancy of the Airport or any portion thereof. In addition, the Airline

Rates and Charges Ordinance establishes all rates and charges applicable to such airline's operations at and use of the Airport or any portion thereof, including airfield and terminal rates and charges, at a 30% premium over the rates and charges as determined pursuant to the terms of the City's then current airline lease and operating agreement.

All passenger airlines, with the exception of Volaris, are operating at the Airport as Signatory Airlines. Volaris currently operates at the Airport as a Non-Signatory Airline.

Parking, Rental Car, Concession and Other Agreements

In addition to the Airline Lease Agreements, the City has entered into leases, concession agreements and other agreements with a parking operator, five automobile rental companies (representing a total of ten rental car brands), an in-flight kitchen operator, several Airport-based retailers, three FBOs and one corporate general aviation operator. Based on unaudited results, approximately 63% of the Airport's operating revenues in fiscal year 2010-11 were derived from these and other sources of non-airline revenues, compared to 58% in fiscal year 2010-11. See "AIRPORT FINANCIAL MATTERS—Historical Operating Results" and "—Management Discussion of Recent Financial Results."

Parking Agreement. The City's public parking and employee parking lots at the Airport are managed by AMPCO System Parking ("AMPCO") pursuant to a one year agreement that includes two one year options to extend. The contract previously provided that AMPCO would be paid a management fee equal to 15.92% of net parking receipts. The City extended the contract to no later than October 31, 2012 at a reduced rate of 15.49% of net parking receipts beginning November 1, 2011. The City has issued a request for proposals for a new parking management agreement. It is anticipated that the agreement with the successful proposer will be scheduled for City Council approval in the spring of 2012.

The City sets rates for parking in the Airport's public parking lots and, in June 2011, changed the parking fee structure from $1.00 per 20 minutes with maximum daily charges of $15.00 in the long-term lot and $30.00 in the short-term lot to $2.00 per 30 minutes in the hourly lots with a maximum first 24 hour charge of $30.00 followed by $30 per day flat rates per 24 hour period or portions thereof. A $22.00 flat rate per day is charged in the daily parking lots, and a $15.00 flat rate per day is charged in the economy lot to reflect new parking lot configurations of hourly, daily, and economy parking. Based on unaudited results for fiscal year 2010-11, parking fees represented approximately 17% of Airport gross operating revenue in fiscal year 2010-11. See "AIRPORT FINANCIAL MATTERS – Management Discussion of Recent Financial Results – Parking Revenues."

Rental Car Agreements. The City opened the ConRAC in June 2010. Each of the five rental car companies (representing a total of ten rental car brands) that currently operate on-Airport has an agreement with the City for its operations at the ConRAC that is to terminate on May 31, 2020, subject to two optional ten year extensions, which must be approved by the City and the rental car companies. Pursuant to these agreements, the rental car companies must pay facility rent to the City for use of the ConRAC and related transportation expenses (the "Facility Rent") and remit to the City customer facility charges ("CFCs") that are collected from the rental car companies' customers. Facility Rent is equal to the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC-related debt service, less revenues from CFCs (referred to as "CFC Revenues" in the Master Trust Agreement) plus operating costs for any transportation system operated by the City to transport passengers between the terminals and the ConRAC (the "ConRAC Transportation System"). In the event that CFC Revenues exceed the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC, each rental car company's share of any such CFC Revenues will be deducted from its share of operating costs for the ConRAC Transportation System, as calculated under the terms of the agreement. Facility Rent also includes each rental car company's share of the City's cost to demolish the previous temporary common use rental car facilities at the Airport, as calculated under the terms of the agreement, amortized over the initial ten-year term of the agreement. These demolition costs are not CFC Eligible Costs (as defined below).

Facility Rent will vary each year in relation to any change in the total amount of CFC Revenues collected during such year. The City currently applies the CFCs collected from on-Airport rental car companies first toward payment of debt service and the City's actual costs related to CFC Eligible Obligations (as defined below), and second, toward common use transportation costs. See "AIRPORT FINANCIAL MATTERS—Customer Facility Charges."

In addition to Facility Rent and CFCs, the rental car companies pay the City a concession fee equal to the greater of a Minimum Annual Guarantee ("MAG") or 10% of gross revenues, ground rent equal to the fair market rental value of the underlying Airport land, and utility charges allocated based upon relative square footages occupied by the rental car companies at the ConRAC. Ground rent is subject to annual adjustment based upon year-to-year increases in the consumer price index, with the adjustment in the sixth year made by appraisal. In fiscal year 2010-11, rental car concession and facility and ground rental revenue represented approximately 16.5% of Airport gross operating revenue.

Terminal Concession, Advertising and Other Agreements. Food and beverage and retail concession services at the Airport are provided by three concessionaires under four separate agreements, each of which expires in June 2020. Host International, Inc., ("Host") provides food and beverage and retail services at the Airport under a food and beverage concession agreement and a retail concession agreement. Areas USA SJC, LLC provides food and beverage services at the Airport under a food and beverage concession agreement, and AMS-SJC-JV provides retail services under a retail concession agreement. Each food and beverage and retail concession agreement provides for payment to the City of the greater of a MAG or a percentage of gross revenues. The agreements include a number of retail food and beverage and retail providers as sub-concessionaires and food and beverage and retail outlets in both terminals. Based on unaudited results for fiscal year 2010-11, Airport operating revenue from the food and beverage and retail concession agreements in fiscal year 2010-11 equaled approximately $8.5 million, or 6.6% of Airport gross operating revenue (an increase of 225% from fiscal year 2009-10), representing the combined MAG for food and beverage, and retail concessions.

The City has an Airport Advertising Concession Agreement with Clear Channel Outdoor, Inc., d/b/a Clear Channel Airports ("Clear Channel") for fixed display in terminal advertising, outdoor advertising, transit and bus shelter advertising, and promotional marketing opportunities at the Airport for a term running through July 31, 2014, with an option in the City's sole discretion to extend the term for an additional three year period. The agreement guarantees the City the greater of a MAG of $4,222,324 or a percentage of revenues.

The City also has a ground lease with LSG/Skychefs, Inc. ("LSG/Skychefs"), the operator of an in-flight kitchen that provides catering services to some of the airlines at the Airport. The ground lease provides for a minimum payment of 10% of gross revenue or a MAG, whichever is greater, and expires in 2015.

The City issues licenses for the operation of newsracks and has agreements with operators of foreign currency exchanges, ATMs, luggage cart racks, pay phones, visitor information publications, prohibited item mailers, wireless antenna and wireless internet services. With the exception of the luggage cart operator, which pays the greater of a MAG or a percentage of gross revenues, the operators pay fixed fees to operate at the Airport.

Effective July 12, 2011, the City has temporarily deactivated six gates in the Terminal A+ extension and has shifted airline operations to gates in Terminal A and the International Arrivals Facility. This shift will concentrate passenger activity in areas with a wider variety of concession choices and, the Airport expects, should increase sales at concession locations in Terminal A. In conjunction with the temporary deactivation of gates in the Terminal A+ extension, the City has amended its concession contract with Host to allow for the closure of certain concessions facilities in the Terminal A+ extension. Closure of these facilities has decreased the MAG paid by Host to the City by approximately $350,000.

These temporary gate deactivations will remain in effect until the City determines that flight or passenger activity levels justified their re-activation. Upon re-activation of the gates, the closed concession facilities would be re-opened and the MAG restored to its level prior to the closure. Should the gate deactivations last more than four years, however, the MAG would be permanently reduced and the City would compensate Host for remaining unamortized capital investment in an amount estimated to be approximately $900,000.

AIRPORT FINANCIAL MATTERS

Airport and City Budget Process

Airport Rate-Setting. The Airline Lease Agreement sets forth the following procedures related to landing fee and terminal rent determinations, which represent key components of the Airport's budget: No later than May 1 of each year during the term of the Airline Lease Agreement, the City is to disclose to all Signatory Airlines the revised landing fees and terminal rents that the City expects to charge for the next fiscal year, effective July 1. No later than June 1 of each year, the City is to consult with the Signatory Airlines to discuss the proposed revised landing fees and terminal rents. In connection with this consultation, the City is to provide to each Signatory Airline the calculations the City has made in determining the revised charges with reasonable supporting documentation. No later than June 10 of each year, the City is to notify the Signatory Airlines of the actual landing fees and terminal rents it will charge for the next fiscal year, effective July 1. The Airline Lease Agreement provides that the City's obligation to consult with the Signatory Airlines does not limit in any way the City's rate setting powers or otherwise cause any delay in the effectiveness of the revised charges. See "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT" in Appendix H.

The Airline Rates and Charges Ordinance establishes all rates and charges applicable to the operations of airlines that are neither Signatory Airlines nor Non-Signatory Airlines at the Airport and use of the Airport or any portion thereof, including airfield and terminal rates and charges, at a 30% premium over the rates and charges as determined pursuant to the terms of the City's then current airline lease and operating agreement. See "LEASE AND OPERATING AGREEMENTS – Airline Agreements" above.

City and Airport Budget. The Airport's and the City's fiscal year is from July 1 through June 30. Historically, the City's annual budget process begins each October with the determination by the City Council's Rules Committee (now the "Rules and Open Government Committee") of the budget schedule for the next fiscal year. The schedule sets dates for the release of the various documents (except those specified in the City Charter), the dates of the study sessions of the Council and of the public hearings to discuss the budget.

In the third quarter of each fiscal year, the City Manager releases the "City Manager's Budget Request and Five-Year Economic Forecast and Revenue Projections for the General Fund and Capital Improvement Program." Since 1986, the City has used this five-year forecast to assist in projecting revenue levels and expenditures based upon certain assumptions and expectations.

Pursuant to the City Charter, the Mayor releases an annual "budget message." This document describes the budget process, the current fiscal situation of the City and the strategy for developing the proposed budget, recommendations on specific budget items and other related issues. The City Council reviews the Mayor's budget message, and a public hearing is held to discuss the budget message prior to its approval by the City Council.

The City Charter requires that the City Manager release the Proposed Capital Budget and Capital Improvement Program and the Proposed Operating Budget at least thirty days prior to the beginning of each fiscal year, or at such earlier time as the City Council may specify. As currently directed by the City Council, in early May, the City Manager releases the Proposed Operating and Capital Budgets and a report recommending fees and charges to be imposed during the next fiscal year for City services, excluding the Airport (the "Proposed Fees and Charges Report"). Under current City practice, fees and charges related to the Airport are considered separately by the City Council.

The Proposed Operating Budget contains the complete financial plan for the City, including the Airport Department, for the next fiscal year. It describes activities by City Service Area, department and core service and makes recommended additions or reductions to those activities. The Proposed Operating Budget accounts for all revenue received by the City and accounts for the usage of the revenue. The City Council holds a number of study sessions beginning in May to discuss the proposed operating and capital budgets and also holds a series of public hearings on these proposed budgets in May and June.

In early June, the Mayor releases the final budget modification message. It contains changes to the proposed budget recommended by the Mayor after City Council review and discussion of the document during the budget study sessions and public hearings. In June, the City Council adopts the operating and capital budgets for the next fiscal year, along with the implementing appropriation ordinances and funding sources resolutions that appropriate the budgeted amounts to the respective departments. The fiscal year 2011-12 Operating and Capital Budgets were adopted by City Council on June 14, 2011.

Though the Airport is a department within the City, and appears alongside other departments in the City's budget documents, its revenues are accounted for separately from other City funds (including the General Fund) and cannot be redirected to other non-Airport uses.

There are a number of policies, agreements and legal restrictions that regulate the application of Airport revenue. The federal Airport and Airway Improvement Act of 1982 and related statutes mandate that airport owners/operators use all internally generated revenues for the capital/operating costs of their local aviation-related facilities. Federal grant agreements entered into by the Airport also contain this restriction. Additionally, the Airport is organized as a proprietary enterprise fund which requires that its costs be recovered with fees and charges, which must also be set on a cost-recovery basis. Based upon unaudited results for fiscal year 2010-11, the amount the Airport paid for direct City services, excluding Police and Fire services, was approximately $1.2 million. See "LITIGATION—FAA Audit of Use of Airport Revenue—Cost Allocations."

Current City practice calls for the preparation of Bi-Monthly Financial Reports that are distributed to the City Council as a method of monitoring the budget and financial status. In January of each year, the Mid-Year Budget Review is released providing a detailed and expanded analysis of the operating and capital budget status. In February of each year, the City Council considers this report and takes actions as necessary to maintain a balanced budget. The City Council's Mid-Year Budget Review is not the only time that the City Council takes budget actions to maintain a balanced budget; at any public meeting, the City Council may amend or supplement the budget by affirmative vote of at least a majority of the total members of the City Council. Historically, the City Council has taken budget actions throughout the fiscal year to balance the budget or to make budget adjustments to respond to changing circumstances.

Unrestricted Cash Balance. Based on unaudited results for fiscal year 2010-11, the Airport's unrestricted cash balance as of June 30, 2011 was approximately $62.7 million. Unrestricted cash balances fluctuate throughout the fiscal year due to timing of cash receipts and disbursements. Based on unaudited results for fiscal year 2010-11, month-end unrestricted cash balances ranged from a low of approximately $38.0 million to a high of approximately $62.9 million during fiscal year 2010-11. No assurance can be given that the Airport's future unrestricted cash balances will be similar to its unrestricted cash balances in fiscal year 2010-11, and the Master Trust Agreement does not require that the Airport maintain any particular unrestricted cash balance.

City Audit. The City Council engages an independent certified public accountant (the "Accountant") who examines books, records, inventories and reports of all officers and employees who receive, control, handle, or disburse public funds and of any other officers, employees or departments as the City Council directs. These duties are performed both annually and upon request. For each fiscal year beginning with the fiscal year 2005-06 financial statements, the City retained Macias Gini & O'Connell LLP as the Accountant. Within 180 days following the end of each fiscal year, the Accountant submits the final audit to the City Council. The City then publishes the City's financial statements as of the close of the fiscal year in the Comprehensive Annual Financial Report.

The audited financial statements of the Airport for fiscal year 2009-10 are included as Appendix E to this Official Statement. The Accountant has not reviewed this Official Statement, has not been requested to consent to the inclusion herein of the audited financial statements and has not performed any post-audit review of the financial condition or operations of the Airport.

Except for City Charter requirements, the above-described budget and audit process is determined by internal policies and can be changed at any time.

Passenger Facility Charges

Passenger Facility Charges ("PFCs") are fees authorized by the Aviation Safety and Capacity Expansion Act of 1990, as amended (the "PFC Act"), as implemented by the FAA pursuant to published regulations ("PFC Regulations"), to be collected from enplaned paying passengers to finance eligible, approved airport-related projects ("PFC Projects"). The PFC Act authorized the FAA to approve a PFC of $1.00, $2.00 or $3.00. In 2000, the Wendell M. Ford Aviation Investment and Reform Act for the 21st Century ("AIR-21") was signed into law, allowing the FAA to authorize a PFC of $4.00 or $4.50. Airport operators are required to apply to the FAA for approval before imposing or using PFCs.

The City currently imposes a PFC of $4.50 per paying enplaned passenger (net of a handling fee currently set at $0.11 per PFC), excepting passengers on carriers in the air taxis/commercial operators class of carriers which the FAA agreed could be excluded. PFCs are collected and remitted to the City by the airlines from paying passengers that enplane at the Airport. Pursuant to the PFC Regulations, the current $4.50 PFC level collected by the City results in a 75% reduction in passenger based entitlement grants. See "—Federal Grants" below.

Airport industry groups have requested that federal PFC Regulations be changed to increase the PFC program's maximum PFC level from its current $4.50 maximum. If the current $4.50 maximum PFC level is increased by Congress, the City plans to seek FAA approval for a higher PFC level at the Airport.

As of June 30, 2011, the City is authorized by the FAA to impose and use PFCs, including investment income thereon (collectively, "PFC Revenues"), of up to $1,064,522,397. The City estimates that it had collected approximately $357.3 million in PFC Revenues from the Airport's passenger airlines through June 30, 2011 and had spent approximately $311.6 million of that amount on approved projects (including debt service on certain Series of Bonds) as of the same date.

Debt service paid with PFC Revenues is not included in the calculation of rates and charges payable by the airlines, and PFC Revenues is not included in the definition of pledged "General Airport Revenues" under the Master Trust Agreement. PFC Revenues, however, in some cases have been and, in the future, are expected again to be used (but not pledged) to pay the portion of Debt Service on the Outstanding Bonds that is allocable to PFC Projects without FAA approval, potentially including Series 2001A Bonds, Series 2004C/D Bonds, Series 2007A Bonds, Series 2011A Bonds and Series 2011C Bonds. PFC Revenues may not be used to pay Maintenance and Operation Expense or to pay debt service on Bonds other than Bonds that finance PFC Projects. Finally, when calculating Annual Debt Service, Debt Service in a given fiscal year will be reduced by the amount of any PFC Revenues designated by the City as "Available PFC Revenues" and deposited with the Trustee to pay Debt Service in such fiscal year as provided in the Master Trust Agreement. See "SECURITY FOR THE BONDS—Other Available Funds, CFC Revenues and Available PFC Revenues" in the forepart of this Official Statement.

The annual amount of PFCs payable to the City depends upon the number of passenger enplanements at the Airport and the payment of PFCs to the City by the airlines. No assurance can be given that PFCs will actually be received in the amounts or at the times contemplated by the City. In addition, the FAA may terminate or reduce the City's authority to impose PFCs, subject to informal and formal procedural safeguards, if the FAA determines that the City has violated certain provisions of the Airport Noise and Capacity Act of 1990, as amended ("ANCA"), the PFC Act (including as amended by the Vision 100-Century of Aviation Reauthorization Act, which was enacted on December 13, 2003 (the "Vision 100 Act")), AIR-21 or the PFC Regulations, or if the FAA determines that PFC Revenues is not being used for PFC Projects or that implementation of such projects did not begin within the time frames specified in the PFC Act or the PFC Regulations. Future PFC applications may be denied if the FAA determines that the City violated any of its federal grant assurances or violated the PFC Act, AIR-21, the Vision 100 Act or certain other federal statutes and regulations applicable to airports. Amounts received or receivable under the PFC program are also subject to audit and adjustment by the FAA. See "CERTAIN FACTORS AFFECTING THE AIRPORT—Bankruptcy Risks" and "—Regulatory Uncertainties" in the forepart of this Official Statement and "LITIGATION—FAA Audit of Use of Airport Revenue" in this Appendix A.

Customer Facility Charges

CFCs are collected by the rental car companies from their customers and then remitted to the City. Since January 1, 2008, the Airport has imposed a CFC of $10.00 per rental contract. Pursuant to Section 1936 of the California Civil Code ("Section 1936"), the City may currently increase the CFC to $6.00 per contract day, to a maximum of five days, on each rental instead of the $10.00 per rental contract CFC the City now charges. Section 1936 further permits the City to increase the per contract day CFC to $7.50 commencing January 1, 2014, and to $9.00 commencing January 1, 2017. The $6.00 per contract day CFC and any subsequent increase of the per contract day CFC are each subject to audit and substantiation by the California State Controller prior to City Council approval. The State Controller's audit substantiated the increase to a CFC of $6.00 per contract day on October 13, 2011. The City Council approved a CFC increase on November 8, 2011, establishing a CFC of $6.00 per contract day, to a maximum of five days, to become effective December 1, 2011. The City also plans to increase the CFC per contract day to $7.50 (subject to the five day maximum) beginning January 1, 2014. Such an increase will be subject to audit and substantiation by the California State Controller, and City Council approval. The rental car companies have expressed their support to the City regarding the City's plans with respect to changes to the CFC. Federal legislation ("H.R. 2469") was introduced on July 8, 2011 in the House of Representatives that would have the effect of prohibiting certain state and local taxes (which the bill defines to include fees) on motor vehicle rentals. It is currently under consideration by the House Judiciary Committee. The City cannot predict whether or in what form H.R. 2469 might ultimately become law. As currently drafted, H.R. 2469 would not impact collection of CFC Revenues at existing rates but could have the effect of prohibiting certain future increases in the rates at which CFC Revenues are collected. [TO BE UPDATED, IF NECESSARY, CLOSER TO POSTING.]

CFC Revenues are currently used to pay the reasonable costs to finance, design, and construct the ConRAC and to finance, design, construct and provide the ConRAC Transportation System (collectively, the "CFC Eligible Costs"). Under the Master Trust Agreement, CFC Revenues (approximately $6.8 million in fiscal year 2010-11) are excluded from the definition of "General Airport Revenues" and are not pledged to the payment of the Bonds, including the Series 2011B/C Bonds; however, CFC Revenues may, at the option of the City, be designated as Other Available Funds to pay debt service on debt obligations issued to fund CFC Eligible Costs (referred to herein as the "CFC Eligible Obligations"). See "AIRPORT FINANCIAL MATTERS—Historical Operating Results" below, "FINANCIAL ANALYSIS—Trust Agreement—Other Available Funds" and "—Nonairline Revenues—Rental Car Revenues" in Appendix B and "Other Available Funds" in "APPENDIX D—SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT." Upon their issuance and while any Series 2011B Bonds remain outstanding, the City expects to designate CFC Revenues as Other Available Funds. See "INTRODUCTION—General" and "—Security for the Bonds—Other Available Funds, CFC Revenues and Available PFC Revenues" in the forepart of this Official Statement. Finally, to the extent that any CFC Revenues have been designated as "Other Available Funds" and pledged to the payment of Debt Service as provided in the Master Trust Agreement, such CFC Revenues may be added to Net General Airport Revenues for the purpose of satisfying certain requirements relating to the issuance of Additional Bonds. See "SECURITY FOR THE BONDS—Additional Series of Bonds—Conditions for the Issuance of Additional Bonds" in the forepart of this Official Statement.

Current State law permits the Airport to impose CFCs to pay for common use transportation costs or so long as CFC Eligible Obligations remain outstanding. CFC Eligible Obligations currently include the Subordinated Commercial Paper Notes to be refunded with a portion of the proceeds of the Series 2011B Bonds, at which time the Series 2011B Bonds will be the only outstanding CFC Eligible Obligations. It is anticipated the CFC Revenues will be collected until at least the final maturity date of the Series 2011B Bonds.

The initial term of the City's current agreements with the on-Airport rental companies for use of the ConRAC is 10 years, beginning June 1, 2010 and ending May 31, 2020, subject to two optional ten year extensions, which must be approved by the City and the rental car companies. Should all of the rental car companies determine at the expiration of the 10-year term not to extend the agreements, the City would not be able to continue to collect CFC Revenues after the on-Airport rental car companies vacate the ConRAC (other than for CFCs collected by off-Airport rental car companies for on-Airport common use transportation costs). In such event, the City would seek other tenants or uses for the ConRAC, but would remain responsible for payment of the remaining CFC Eligible Obligations from General Airport Revenues until such time as new rental car companies were to begin operations at the ConRAC and the City could again collect CFCs.

The City currently applies the CFC Revenues collected from on-Airport rental car companies first toward payment of debt service and the City's actual costs related to CFC Eligible Obligations, and second, toward ConRAC Transportation System costs. Because the ConRAC is located near Terminal B, only those rental car customers arriving or departing from Terminal A use the common use transportation system to and from the ConRAC. Therefore, in the event that any portion of CFC Revenues is available to pay ConRAC Transportation System costs, such transportation costs may only be paid from CFC Revenues collected by on-Airport rental car companies from customers arriving or departing from Terminal A.

Based upon current rental car transaction forecasts, it is anticipated the CFC Revenues will not be sufficient to pay all CFC Eligible Obligations and common use transportation costs during the initial term of the current agreements between the Airport and the rental car companies. Pursuant to such agreements, the rental car companies must pay Facility Rent to the City for use of the ConRAC in an amount equal to the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC-related debt service, less CFC Revenues, plus operating costs for the ConRAC Transportation System. In the event that CFC Revenues exceed the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC, each rental car company's share of any such CFC Revenues will be deducted from its share of operating costs for the ConRAC Transportation System, as calculated under the terms of the rental car agreement. Facility Rent also includes each rental car company's share of the City's cost to demolish the previous temporary common use rental car facilities at the Airport, as calculated under the terms of the rental car agreement, amortized over the initial ten-year term of the agreement. The portion of Facility Rent attributable to the sum of annual debt service associated with the ConRAC plus coverage amounts and reserve fund requirements applicable to the ConRAC-related debt service is apportioned among the companies operating in the ConRAC according to the amount of exclusive use space allocated to each company, as a percentage of the total exclusive use space in the ConRAC. ConRAC Transportation System operating costs are allocated by the City pro-rata based upon ridership among rental car company customers and all other users of the ConRAC Transportation System. Each rental car company's share of the City's cost to demolish the previous temporary common use rental car facilities at the Airport is determined in the sole discretion of the Director of Aviation.

Total Facility Rent for the ConRAC in fiscal year 2010-11 was approximately $8.2 million. Facility Rent will vary each year in relation to any change in the total amount of CFC Revenues collected during such year. In the event that CFC Revenues are higher than estimated, the total Facility Rent would be lower. If the CFC Revenues are lower than estimated, total Facility Rent will be higher. For example, in the event that the proposed transition to daily CFCs at a rate of $6.00 per day for the first five days of a car rental contract fails to occur, it is estimated that the total Facility Rent would eventually increase to more than $15 million per year.

Federal Grants

The Airport and Airway Improvement Act of 1982, as amended, created the Airport Improvement Program (the "AIP"), which is administered by the FAA. Grants are available to airport operators in the form of entitlement funds and discretionary funds and are payable on a reimbursement basis. Entitlement funds are apportioned annually based upon the number of enplaned passengers and the aggregate landed weight of all-cargo aircraft; discretionary funds are available at the discretion of the FAA based upon a national priority system. Funds obligated for the AIP are drawn from the Airport and Airway Trust Fund that is supported by user fees, fuel taxes, and other similar revenue sources that must be authorized and approved by Congress. Authority for the existing federal user fees, fuel taxes and other revenue sources for the Airport and Airway Trust Fund, FAA expenditure authority for the Trust Fund, AIP appropriations and FAA authority to issue AIP grants expires at midnight on January 31, 2012. In the event that these authorizations are not extended before midnight on January 31, 2012, the FAA will no longer have the authority to issue new AIP grants. However, existing AIP grant funded projects for which FAA has already obligated money will continue to be funded by automatic outlays. FAA air traffic control and tower operations and PFC authorizations and collections are not subject to the January 31, 2012, expiration deadline and will not be impacted by an expiration of these authorizations. See “CERTAIN FACTS AFFECTING THE AIRPORT — Regulatory Uncertainties—General” in the forepart of this Official Statement.

To enable airport operators to predict the availability of funds for major projects, the FAA established a procedure by which an airport operator may request a letter of intent from the FAA indicating the FAA’s present intention of making grants in the future (an “LOI”). The funding of an LOI is subject to Congressional approval and is not a binding appropriation or a commitment of funds by the FAA. The City has in the past received grants pursuant to an LOI and expects in the future to apply for additional grants.

The City currently receives approximately $1.8 million of AIP entitlement grants per federal fiscal year ending September 30. The City currently expects to receive approximately $700,000 of additional AIP entitlement grant funding in connection with the CIP. Based on unaudited results, in fiscal year 2010-11, the City received approximately $8.9 million of AIP discretionary grants associated with taxiway and apron improvements at the Airport. The City also received approximately $5.18 million of AIP grant funding associated with the American Recovery and Reinvestment Act of 2009 (“ARRA”) for prior taxiway improvements at the Airport, but does not expect to receive any additional ARRA grant funding for projects related to the CIP. On July 18, 2011, the City received a grant agreement for $7.5 million for the construction of a portion of Taxiway W. See “CAPITAL DEVELOPMENT AT THE AIRPORT—Five Year Capital Improvement Program.”

Federal Security Grants

Aviation Security Act. In the immediate aftermath of the terrorist attacks of September 11, 2001, the FAA mandated new safety and security requirements, which have been implemented by the Airport and the airlines serving it. In addition, Congress passed the Aviation and Transportation Security Act (the “ASA”), which imposed additional safety and security measures. The ASA imposes additional security requirements on airlines and airport operators and imposes penalties against airport operators and airlines that violate ASA provisions (ranging from $1,000 to $10,000 for a single violation of a regulation by an airport operator).

Certain safety and security functions at the Airport were assumed by the TSA, which was established by the ASA and is now a part of the United States Department of Homeland Security (the “DHS”). Among other requirements, the ASA required that (i) explosive detection screening be conducted for all checked baggage; (ii) as soon as practicable after the date of enactment of the ASA, all individuals, goods, property, vehicles and other equipment entering secured areas of airports be screened; and (iii) security screeners be federal employees, United States citizens and satisfy other specified requirements. All ASA requirements currently mandated under TSA regulations have been implemented at the Airport. For passengers originating at the Airport, the TSA operates two separate security checkpoints, each containing eight security lanes. For passengers arriving on an international flight and connecting to a domestic flight, the TSA operates an additional checkpoint containing one security lane.

The Airport is one of a number of domestic airports in the nation where the backscatter x-ray imaging machines are being used by the TSA, although, under certain circumstances, passengers may still opt to be screened through the current metal detector system. The costs of acquisition and installation of the whole-body imaging machines at the Airport was paid for by the TSA.

Security Grants. The City received substantial TSA grant funding for costs associated with the construction of new automated baggage screening systems for both Terminal A and Terminal B. The

City does not expect to receive any additional TSA grant funding in connection with capital development projects at this time. The Office of the Inspector General of the Department of Homeland Security is currently auditing the costs invoiced by the City to the TSA in connection with the grant funding for such costs for Terminal B. The City cannot predict the outcome of the audit. The draft audit recommends that the TSA resolve certain unsupported costs in the amount of approximately $255,000 and review total expenditures of approximately $3,678,000 of costs for iron, steel and manufactured goods used in the Terminal B baggage system to determine whether the City fully complied with applicable “Buy American” requirements under ARRA.

On June 14, 2007, the City submitted a cooperative agreement application to the TSA for the law enforcement officer reimbursement program. This program provides partial funding for the mandated security measure of providing a law enforcement officer presence at each passenger-screening location. The City applied for $5,545,000 in funding over the five-year period of the program, representing the estimated cost of the mandated security measure. Any federal funding provided through the reimbursement program would partially offset the Airport’s total security costs. Based on unaudited results, the City received a total of approximately $359,000 of grant funds in fiscal year 2010-11 as part of this program and a total of approximately $200,000 to provide funding for canine units at the Airport.

Historical Operating Results

The following tables summarize operating revenues and maintenance and operation expenses at the Airport for fiscal years 2006-07 through 2010-11. The summary presented in Table 12 for fiscal years 2006-07 through 2009-10 is derived from the audited financial statements of the Airport Department for fiscal years 2006-07 through fiscal year 2009-10. The fiscal year 2010-11 figures summarized in Table 12 represent unaudited results for fiscal year 2010-11.

A “Net Operating Loss” is shown for each year in Table 12. This is primarily because the Maintenance and Operation Expenses in the audited financial statements include (1) depreciation and amortization and (2) the non-capitalized construction costs, particularly for soundproofing and noise mitigation in fiscal years 2006-07 through 2009-10 and Terminal C demolition costs in fiscal years 2009-10 and 2010-11, that are actually paid from certain Airport capital funds and not from the Maintenance and Operation Fund. These items are discussed in more detail under “Management Discussion of Recent Financial Results.” Table 13, which presents the Airport’s historical debt service coverage, reflects adjustments to these items and certain other adjustments and demonstrates that the Airport’s actual debt service coverage has exceeded its Rate Covenant in each of the years shown.

Table 12
Norman Y. Mineta San José International Airport
Summary of Operating Revenues and Maintenance and Operation Expenses
Fiscal Years Ended June 30

	2006-07[1]	2007-08[1]	2008-09[1]	2009-10[1]	2010-11[2]
Operating Revenues[3]:					
Airline Rates & Charges:					
Landing Fees	$13,504,341	$13,083,948	$14,503,816	$13,190,345	$13,370,404
Terminal Rental	11,308,051	26,539,244	29,715,996	33,458,906	34,446,216
Total Airline Rates and Charges	$24,812,392	$39,623,192	$44,219,812	$46,649,251	$47,816,620
Other Operating Revenues:					
Terminal Concessions	$9,200,513	$11,469,631	$11,947,163	$11,156,946	16,876,892
Airfield Area	2,518,761	2,833,130	3,170,562	2,791,491	2,924,976
Parking and Roadway[4]	48,093,044	48,013,807	42,596,075	37,370,612	47,320,098 [8]
Fuel Handling Fees	1,592,337	1,806,169	1,473,647	1,309,532	1,503,834
General Aviation	4,419,745	4,725,880	5,127,335	4,995,007	4,481,424
CFC Revenues	4,451,055	6,350,575	6,713,160	6,021,365	6,839,740
Other	107,780	63,476	699,398	913,626	39,536
Total Other Revenues	70,383,235	75,262,668	71,727,340	64,558,579	79,986,500
Total Operating Revenues[5]	$95,195,627	$114,885,860	$115,947,152	$111,207,830	$127,803,120
Maintenance and Operation Expenses[6]:					
Terminal Buildings	$26,928,516	$31,789,787	$28,813,366	$31,701,098	$33,019,384
Airfield Area	19,859,736	22,692,587	16,170,121	10,911,014	9,748,512
Parking and Roadway	28,559,202	27,935,599	26,852,623	24,031,701	25,344,190
Fuel Handling Costs	171,101	310,586	557,036	885,303	331,046
General Aviation	3,679,285	3,428,380	4,072,008	3,052,466	2,365,729
General and Administrative	28,786,983	32,878,854	28,268,277	23,623,554	19,095,433
Depreciation and Amortization[7]	19,324,493	22,834,484	20,646,758	55,288,220	51,532,165
Total Maintenance and Operation Expenses	$127,309,316	$141,870,277	$125,380,189	$149,493,356	$141,436,459
Net Operating Loss	**($32,113,689)**	**($26,984,417)**	**($9,433,037)**	**($38,285,526)**	**($13,633,339)**

(1) Derived from the Airport Department's audited financial statements.

(2) Unaudited.

(3) Revenue categories have been presented in accordance with the provisions of the Airline Lease Agreement, which took effect on December 1, 2007. Certain revenue categories in fiscal year 2006-07 have been reclassified to conform with the provisions of the Airline Lease Agreement.

(4) Includes public parking, employee parking, taxi concession and other ground transportation fees, and rental car concession fees and space rentals.

(5) Does not include investment income, AIP grant proceeds or PFC Revenues. AIP grant proceeds and PFC Revenues are included in the City's audited financial statements as nonoperating revenues.

(6) Includes certain expenditures for projects that are treated in the Airport Department's audited financial statements as maintenance and operation expenses, but that are paid from certain Airport capital funds, rather than from Operating Revenues deposited in the Maintenance and Operation Fund. This is the primary cause for the Net Operating Loss. See "—Management Discussion of Recent Financial Results—Airport Revenues and Expenses" and Table 13.

(7) Depreciation and amortization have been restated retroactively to reflect the fact that intangible assets have indefinite useful lives and are not to be amortized in accordance with the provisions of Government Accounting Standards Board Statement No. 51, which was adopted by the Airport on July 1, 2009.

(8) Includes reclassification of ConRAC Facility Rent from non-operating revenue to operating revenue.

Source: Norman Y. Mineta San José International Airport.

Table 13
Norman Y. Mineta San José International Airport
Historical Bond Debt Service Coverage
Fiscal Years Ended June 30

	2006-07	**2007-08**	**2008-09**	**2009-10**	**2010-11 (1)**
Total Operating Revenues (2)	$95,195,627	$114,885,860	$115,947,152	$111,207,830	$127,803,120
Adjustments to Total Operating Revenues					
Plus: Interest income and nonoperating revenues	6,367,910	6,711,827	6,580,661	2,230,565	2,523,323
Less: Other revenues (3)	(4,902,907)	(6,414,051)	(7,412,558)	(6,934,991)	(6,879,276)
Adjusted Revenues	$96,660,630	$115,183,636	$115,115,255	$106,503,404	$123,447,167
Maintenance & Operation Expenses	$127,309,316	$141,870,277	$125,380,189	$149,493,356	$141,436,459
Adjustments to Maintenance and Operation Expenses					
Less: Maintenance and operation expenses paid from sources other than General Airport Revenues (4)	(21,476,052)	22,929,430	(14,100,056)	(11,690,051)	(8,541,475)
Less: Depreciation and Amortization	(19,324,493)	(22,834,484)	(20,646,758)	(55,288,220)	(51,532,165)
Expenses paid from Maintenance & Operation Fund	86,508,771	96,106,363	90,633,375	82,515,085	81,362,819
Add: Interest expense	0	153,552	286,983	76,414	0
Add: Transfer to General Fund	0	0	103,120	0	0
Add: Transfer to Vehicle Maintenance & Operation Fund	0	0	0	14,645	0
Less: LOC Fees (5)	(388,837)	(644,287)	(240,629)	0	(4,513,156)
Adjusted Maintenance and Operation Expenses	$86,119,934	$95,615,628	$90,782,849	$82,606,144	$76,849,663
Net General Airport Revenues	$10,540,696	$19,568,008	$24,332,406	$23,897,260	$46,597,504
Plus: AIP grant proceeds	10,559,465	10,555,270	10,560,440	9,832,518	2,183,000
Commercial paper proceeds	3,516,000	5,950,460	0	741,923	0
CFCs	0	0	0	0	6,839,740
Transfer from Rate Stabilization Fund (formerly "Safety Net Account")	4,016,000	507,000	0	5,934,738	1,200,000
Prior year's ending surplus	20,803,098	21,953,804	33,101,042	29,336,101	35,458,972
Rolling coverage	5,355,747	5,209,324	5,391,800	5,764,467	6,765,662
Total: Other Available Funds	$44,250,310	$44,175,858	$49,053,282	$51,609,747	$52,447,374
Net Revenues Available for Bond Debt Service	$54,791,006	$63,743,866	$73,385,688	$75,507,007	$99,044,878
Revenue Bond Debt Service Requirement	$20,837,295	$21,567,199	$23,036,635	$31,367,070	$53,889,951
Less: Available PFC Revenues	0	0	0	(4,588,000)	(21,388,340)
Net Revenue Bond Debt Service Payable from Revenues	$20,837,295	$21,567,199	$23,036,635	$26,779,070	$32,501,611
Revenue Bond Debt Service Coverage Ratio	2.63	2.96	3.19	2.82	3.05

(1) Unaudited.

(2) Does not include PFCs or AIP grant proceeds. AIP grant proceeds and PFC Revenues are included in the City's audited financial statements as nonoperating revenues.

(3) Includes reimbursements from the Airport's tenants for improvements initially funded by the Airport, and CFC Revenues collected from rental car customers. Under the Master Trust Agreement, these payments are excluded from the definition of "General Airport Revenues" and are not pledged to the payment of Bonds. See "SECURITY FOR THE BONDS—Pledge of General Airport Revenues" in the forepart of this Official Statement.

(4) Consists of Maintenance and Operation Expenses that were paid from available moneys other than General Airport Revenues, which consist primarily of certain capital projects that did not meet the criteria for capitalization into fixed assets that were paid from Airport capital funds.

(5) Letter of credit fees associated with the Subordinated Commercial Paper Notes, net of capitalized fees. Letter of credit fees are reflected in this Table 13 and in Table 12 as a Maintenance and Operation Expense 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 Maintenance and Operation Expenses for purposes of calculating debt service coverage.

Source: Norman Y. Mineta San José International Airport.

Management Discussion of Recent Financial Results

Airport Revenues and Expenses. Based on unaudited results for fiscal year 2010-11, total operating revenues increased by 34.3% from $95,195,627 in fiscal year 2006-07 to approximately $127,803,120 in fiscal year 2010-11. The largest contributors to this increase were the terminal rents from the airlines, concession revenues, and CFCs. The decline in the parking and roadway category from 2007-08 through 2009-10 was due to the sharp decline in passenger activity, as well as the closure of the short-term parking lot in front of Terminal C during construction of the Terminal Area Improvement Program projects. Parking and roadway revenues increased 26.6% from $37,370,612 in 2009-10 to approximately $47,320,098 in 2010-11. This increase was primarily due to facility rent associated with the new ConRAC facility, as well as increases in public parking and rental car concessions.

The amount of Maintenance and Operation Expenses shown in Table 12 includes depreciation and amortization and certain expenditures of projects that are treated in the Airport's audited financial statements as maintenance and operation expenses but that are paid from sources other than General Airport Revenues. Such other sources of funds include certain expenses paid from Airport capital funds that did not meet the criteria for capitalization into fixed assets. The total amount of such operating expenses paid annually from sources other than General Airport Revenues is shown in Table 12. The majority of the expenses paid from Airport capital funds primarily related to noise mitigation projects in fiscal years 2006-07 through 2009-10 and Terminal C demolition costs in fiscal years 2009-10 and 2010-11. The operating expenses actually paid from the Airport's Maintenance and Operation Fund in fiscal years 2006-07 through 2010-11, based on unaudited results for fiscal year 2010-11, were $86,119,034, $95,615,628, $90,782,849, $82,606,144, and approximately $76,849,663, respectively.

The Airport experienced an increase in Maintenance and Operation expenses in fiscal year 2007-08 by $9,597,592. Factors that contributed to this increase included (i) costs related to other postemployment benefits (OPEB) that were recorded as of June 30, 2008 as required by Statement 45 issued by the Government Accounting Standards Board; (ii) increases in personnel costs due to negotiated salary increases and the associated increases in retirement contributions; (iii) increases in lease payments for the Airport West Property (as defined below under "LITIGATION – FAA Audit of Use of Airport Revenue"); (iv) increase in private security services due to the elevation of the national security threat level from Yellow to Orange; and (v) higher shuttle bus operator costs due to the need for increased inter-terminal and employee parking lot bus services as a result of the closure, relocation and downsizing of the short-term and employee parking lots during construction.

Based on unaudited results for fiscal year 2010-11, Maintenance and Operation expenses in fiscal years 2008-09, 2009-10, and 2010-11 decreased by $5,472,988, $8,118,290, and approximately $1,152,266, respectively, compared to the previous fiscal years. Significant components of these decreases include (i) the downward adjustment of the OPEB costs in fiscal year 2008-09 to reflect the then latest actuarial study; (ii) a significant reduction in the lease rentals paid for the Airport West Property in fiscal year 2008-09; (iii) the sizeable reduction of staffing levels; (iv) the decrease in overhead as a result of the reduced staffing levels and the rate reduction in fiscal year 2009-10; (v) the substantial decrease in building rent due to a reduction in leased administration spaces effective January 1, 2010, and the eventual termination of the lease effective November 30, 2010; (vi) the decreased amounts paid for parking and shuttle bus operators in fiscal year 2009-10 as a result of the reduced passenger activity, and (vii) the lower fees charged by the City in fiscal year 2009-10 for airport rescue and firefighting services due to lower staffing requirements allowed by reduced passenger levels and reduced overhead rate.

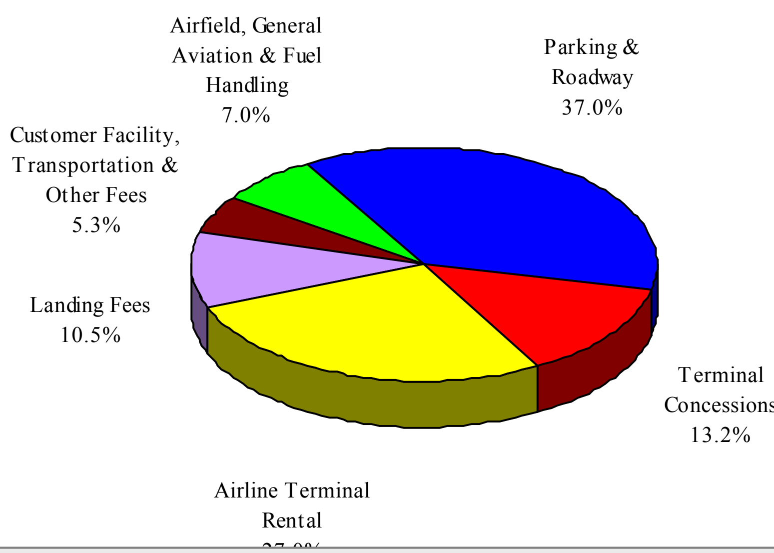
Depreciation and amortization increased by $3,509,992 in fiscal year 2007-08 due to the write-off of the deferred bond issuance costs related to the Series 2004A/B Bonds that were refinanced with proceeds of commercial paper in April 2008, which in turn the City refunded with a portion of the proceeds of the Series 2011A-1 Bonds. Depreciation also posted a substantial increase of $34,641,642 in fiscal year 2009-10 due to the fact that the Airport ended airline and concession operations in Terminal C on June 29, 2010 and accelerated its depreciation schedule. The demolition of Terminal C was completed in September 2010.

Airline Rates and Charges. The primary charges paid by the airlines are landing fees and terminal rentals for leased space. For fiscal year 2010-11, the average terminal rental rate was $130.34 per square foot while landing fee rate was $2.47 per 1,000 pounds of aircraft maximum gross landed weight ("MGLW"). For fiscal year 2011-12, the average terminal rental rate is $153.20 per square foot while the landing fee rate is $2.14 per 1,000 pounds of aircraft MGLW. See "CERTAIN FACTORS AFFECTING THE AIRPORT—Regulatory Uncertainties—Rates and Charges Regulation" in the forepart of this Official Statement.

Parking and Roadway Revenues. Based on unaudited results, public parking revenues of approximately $22,081,458 and facility and ground rents and concession fees from rental car companies of approximately $21,122,797 in fiscal year 2010-11 increased by 3.9% and 43.7%, respectively, compared to fiscal year 2009-10. In fiscal year 2010-11, the Airport also derived $4,114,972 in revenues from employee parking, dispatch and trip fees from taxi companies and other ground transportation operators and ground rental revenue and utility charges from rental car companies, compared to $2,977,253 in fiscal year 2009-10. Facility Rent in 2010-11 was approximately $8,240,262. See "THE AIRPORT—Existing Facilities—Parking" and "LEASE AND OPERATING AGREEMENTS—Parking, Rental Car, Concession And Other Agreements" above.

Revenue Diversity. Based on unaudited results, the chart below summarizes the Airport Department's major sources of revenue for fiscal year 2010-11. As shown in the chart, the Airport Department derived approximately 37.5% of its revenues from the landing fees and terminal rentals paid by the airlines serving the Airport, compared to 41.9% in fiscal year 2009-10, and approximately 62.5% of its revenues from various sources other than the airlines (primarily parking, rental cars, terminal concessions, income from certain non-airline leases and interest income), compared to 58.1% in fiscal year 2009-10.

Norman Y. Mineta San José International Airport
Major Sources of Revenue
Fiscal Year 2010-11



Source: Norman Y. Mineta San José International Airport.

Historical Debt Service Coverage. The Annual Debt Service coverage ratios for the five fiscal years ended June 30, 2011, calculated in accordance with the Master Trust Agreement, are presented in Table 13. The prior year's ending surplus, the amount that the City maintains as "rolling coverage" on the Bonds, transfers from the Rate Stabilization Fund (formerly "Safety Net Account"), and the commercial paper proceeds are considered "Other Available Funds" and are added to the Net General Airport Revenues Available for Bond Debt Service under the Master Trust Agreement.

The Master Trust Agreement also provides a mechanism by which PFCs and certain other funds (including, among others, federal grants) can be considered in the calculation of debt service coverage when such funds are applied toward the payment of Debt Service. Since fiscal year 2001-02, the Airport has been applying certain federal grant funds toward Debt Service. In fiscal year, 2009-10, the Airport began applying PFCs toward Debt Service.

REPORT OF THE INDEPENDENT AIRPORT CONSULTANT

The City has retained Ricondo & Associates Inc. of Cincinnati, Ohio (the "Independent Airport Consultant"), which is recognized as an expert in its field, to prepare a report in connection with the Series 2011A Bonds and the Series 2011B/C Bonds. The Report of the Independent Airport Consultant, dated June 27, 2011, and a letter dated [______________, 2011] (collectively, the "Report of the Independent Airport Consultant") are included in this Official Statement as Appendix B, with the Independent Airport Consultant's consent. The Independent Airport Consultant will also prepare the additional bonds written report required under the Master Trust Agreement for the issuance of the Series 2011B/C Bonds. The Report of the Independent Airport Consultant presents the Independent Airport Consultant's projections of activity and financial results of the Airport from the City's fiscal year ending June 30, 2011 through the fiscal year ending June 30, 2017 (the "Projection Period") and the assumptions upon which the projections are based. See "LEASE AND OPERATING AGREEMENTS—Airline Agreements" herein and "FINANCIAL ANALYSIS—Airline Revenues" in Appendix B.

The information regarding the analyses and conclusions contained in the Report of the Independent Airport Consultant is included in this Official Statement in reliance upon the expertise of the Independent Airport Consultant. The Report of the Independent Airport Consultant should be read in its entirety for an understanding of the assumptions and rationale underlying the financial projections contained therein.

The financial projections in the Report of the Independent Airport Consultant are based upon certain information and assumptions that were provided by, or reviewed and agreed to by the Airport's management. In the opinion of the Independent Airport Consultant, these assumptions provide a reasonable basis for the projections. See "AIR TRAFFIC—Projections of Aviation Demand," "RENTAL CAR ACTIVITY AND CUSTOMER FACILITY CHARGE REVENUE—Projected Rental Car Activity and CFC Revenue at the Airport" and "FINANCIAL ANALYSIS" in Appendix B.

Neither the City's independent auditors nor any other independent accountants have compiled, examined or performed any procedures with respect to the projected financial information contained in the Report of the Independent Airport Consultant, nor have they expressed any opinion or any other form of assurance on such information or its achievability.

The Report of the Independent Airport Consultant is an integral part of this Official Statement and should be read in its entirety. See "APPENDIX B."

CAPITAL DEVELOPMENT AT THE AIRPORT

The Airport's capital development program (the "Airport Development Program") has been formulated through a master planning process, which originally received City Council approval in 1997. The Airport Development Program consists of two phases, Phase 1 and Phase 2. The City has substantially completed Phase 1 of the Airport Development Program, which includes projects in the Terminal Area Improvement Program, as described below under "—Phase 1 of the Airport Development Program." Projects in Phase 2 of the Airport Development Program are pre-approved in the Airline Lease Agreement, but construction of the Phase 2 projects is contingent upon satisfying specified activity based triggers. See "LEASE AND OPERATING AGREEMENTS—Airline Agreements" herein and "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT—Capital Expenditures" in Appendix H.

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 (the "ALP") displaying the Master Plan projects and unconditionally approved all of the near-term projects. Both the Master Plan and the ALP have been amended several times since 1997 and currently are intended to provide facility improvements needed to accommodate forecast demand in the year 2027 for commercial passenger service, air cargo and corporate general aviation demand. The Master Plan includes both the substantially complete Phase 1 and the planned Phase 2 of the Airport Development Program, which collectively comprise improvements to the Airport's terminal facilities, roadways, parking facilities and airfield facilities and includes 1.075 million square feet of passenger terminal facilities comprised of up to 49 gates; parking and garage facilities comprised of up to 16,200 public parking spaces, 2,600 employee parking spaces and 10,000 rental-car parking spaces (including 2,000 ready-return spaces); air cargo facilities; ground transportation, roadway and other access improvements; and runway improvements. In the fall of 2005, and in recognition of how current market conditions were impacting passenger growth, the Airport and its airline tenants reexamined the Master Plan and developed the Terminal Area Improvement Program, a program for implementing the Master Plan by aligning ongoing and planned construction activities with available fiscal resources, taking into account revised passenger growth projections. In June 2006, the City Council approved an amendment to the Master Plan to incorporate the Terminal Area Improvement Program and other Airport Development Program revisions.

In June 2010, the City Council approved an additional amendment to the Master Plan that updated projected aviation demand and facility requirements, and modified specific components of the Airport Development Program. Pursuant to the amended Master Plan, the former interim long-term public parking and employee parking lots on the northwest side of the Airport (which have been relocated to the east side terminal area) will be gradually converted to new general aviation leasehold facilities.

Phase 1 of the Airport Development Program

Construction of the Phase 1 projects was substantially complete in fiscal year 2010-11. The Phase 1 projects included nine new gates and approximately 366,000 square feet of new terminal space; design and construction of the new Terminal B; improvements to the existing Terminal A, including new ticketing facilities, a new in-line baggage system that serves both Terminals A and B and security checkpoint, lobby concessions and other improvements; the phased demolition of Terminal C; design and construction of the ConRAC; realignment and improvement of existing terminal roadways; parking improvements; airfield projects, including noise mitigation and the reconstruction of Taxiway Y; and other improvements, including construction of a new belly freight facility and an aircraft rescue and fire fighting facility. The Phase 1 projects also include design of certain Phase 2 projects, but under the Airline Lease Agreement the commencement of construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers.

Phase 2 of the Airport Development Program

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 developments. Phase 2 projects are pre-approved 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. See "SUMMARY OF

CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT—Capital Expenditures" in Appendix H and "PASSENGER SERVICES AND OPERATION—Landed Weight and Airport Operations" herein.

Costs and Funding Sources of the Airport Development Program

Phase 1 of the Airport Development Program was initially budgeted at $1.3 billion (including, among other costs, design, engineering, construction, reserves, contingency, insurance and escalation for inflation). The City currently estimates that, upon final completion of all Phase 1 projects, the total actual cost of the Phase 1 projects will have been significantly below the budgeted cost of $1.3 billion. Phase 1 costs have thus far been funded, and the City expects to continue to fund them, from a combination of federal grants, PFCs, internally generated Airport funds and the proceeds of Bonds and Subordinated Commercial Paper Notes.

Costs of Phase 2 of the Airport Development Program are currently estimated at $400 million in 2011 dollars; however, under the Airline Lease Agreement, the commencement of construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. See "—Phase 2 of the Airport Development Program." The City expects sources of funding for Phase 2 projects to include (but not necessarily be limited to) federal grants, PFCs, internally-generated Airport funds, and, if necessary, reasonable Airport user fees, the proceeds of additional Bonds or Subordinated Commercial Paper Notes.

Five Year Capital Improvement Program

In June 2011, the City also adopted a five year, 2012-2016 Airport Capital Improvement Program comprising projects that are not part of either Phase 1 or Phase 2 of the Airport Development Program (the "CIP"). The budgets for the projects included in the CIP total approximately $59.1 million, as summarized below. Approximately 75% of the estimated CIP costs (the Completion of Taxiway W Improvements and the Non-Terminal Area Projects) are contingent upon the receipt of grant funding, which the City anticipates it will receive from the FAA, and the future availability of other Airport funds. The City does not plan to use any of the proceeds of the Series 2011B/C Bonds for CIP projects and does not plan to issue any Bonds during the Projection Period for CIP projects.

Five Year CIP	Estimated Cost (millions)
Completion of Taxiway W Improvements	$36.3
Non-Terminal Area Projects	8.2
Airfield safety, signage, other improvements	2.7
Pavement Maintenance	2.6
Operations System Support Maintenance	2.5
Other Aviation Support Projects	3.1
Other (AVI, environmental, terminal)	3.7
Total 5-Year CIP:	$59.1

Completion of Taxiway W improvements includes certain extensions of Taxiway W and the strengthening and reconstruction of Taxiways C, G, and J. These improvements address concerns identified by the FAA Runway Safety Action Team, and will add taxiway capacity on the Airport's west side to support future general aviation demand. On July 18, 2011, the City received a grant agreement for $7.5 million for the construction of a portion of Taxiway W, and the City awarded a construction contract for the third phase of the Taxiway W improvements in the amount of $7.8 million in July 2011. Construction on the first phase of the Taxiway W improvements is scheduled for completion in August

2012. Completion of the remaining phases of the Taxiway W improvements is contingent upon the receipt of grant funding from the FAA and the availability of resources to fund the required local match.

The Non-Terminal Area Projects include planning and site preparation work for future facilities and improvements outside of the terminals. Future improvements may include development of aviation support facilities such as hangars, light maintenance facilities, airline provisioning, cargo operations, and other aviation support services by third parties, and Airport support facilities, such as shuttle bus storage and other Airport operational support. Such projects are contingent upon available funding.

Other future projects listed above include various safety, maintenance, and support projects with estimated costs ranging from $2.5 million to $3.7 million.

All Signatory Airlines have MII participation rights with respect to airfield CIP projects; only passenger Signatory Airlines have MII participation rights with respect to terminal CIP projects. MII review of CIP projects by the Signatory Airlines only applies to projects that: (a) will affect airline rates and charges during the term of the Airline Lease Agreement; and (b) have gross project costs expected to exceed $5 million. MII review will not apply to projects: (a) that are required by the federal government; (b) that must be rebuilt or replaced to meet the Airport's obligations under the Airline Lease Agreement or applicable law; (c) that are required to respond to emergencies in order to keep the Airport open for public use; (d) that are undertaken in cost centers other than the airfield and terminal cost centers; (e) for the increased requirements of any Signatory Airline(s) if such Signatory Airline(s) agree to increased rentals, fees, and charges sufficient to cover the annual debt service associated with the project; or (f) that are for special purpose facilities for which the user will pay or reimburse the Airport.

The City will not proceed to design or build CIP projects that are subject to MII review without first giving the Signatory Airlines a detailed description of the purpose and expected costs of each such project and an opportunity to voice any objections to the project. If an MII review by the Signatory Airlines does not disapprove the project, the Airport may proceed with design and construction. If, within 60 days of the Airport's notice, an MII review by the Signatory Airlines disapproves the proposed project, the Airport shall defer the project for a period of up to one year to allow for further consultation with the Signatory Airlines. At the end of the one-year deferral period, the Airport may proceed with the project notwithstanding any remaining airline objections.

The threshold for approval in the MII review process for airfield CIP projects shall be Signatory Airlines with at least 50% of the total landing fees paid by Signatory Airlines during the preceding fiscal year. The threshold for approval in the MII review process for terminal CIP projects shall be at least 50% of the Signatory Airlines who together have (a) paid at least 50% of the total terminal rents paid by Signatory Airlines during the preceding fiscal year; and (b) carried at least 50% of the enplaned passengers in the preceding fiscal year.

Environmental Matters

Master Plan EIR and EIS. All Airport development is subject to the requirements for environmental studies and appropriate clearances under the California Environmental Quality Act ("CEQA") and, where federal funding or other federal actions are involved, to the requirements of the National Environmental Protection Act ("NEPA").

An Environmental Impact Report under CEQA was prepared for the Master Plan (the "Master Plan EIR"). The Master Plan EIR was certified as complete by the City on June 10, 1997. As required by statute, the Master Plan EIR was made available for public review and City Council consideration prior to the adoption of the Master Plan. The Master Plan has been amended several times since the adoption of the Master Plan EIR and the Master Plan EIR has in turn been supplemented to reflect changes in the Master Plan.

An Environmental Impact Statement for the Master Plan (the "Master Plan EIS") under NEPA was prepared by the FAA during 1998 and 1999. The FAA issued a Record of Decision for the Master Plan EIS in December 1999. The EIS divided the Master Plan Projects into three phases. The City received unconditional approval of the Phase 1 Projects and conditional approval of the projects included in Phases 2 and 3, pending subsequent environmental clearance from the FAA. No legal challenge to the Master Plan EIS was filed, and the statutory time for making such a challenge has elapsed. On February 9, 2007, the FAA approved the Airport Layout Plan, including unconditional approval of the Terminal Area Improvement Program.

Airport Noise and Capacity Act of 1990. The Airport Noise and Capacity Act of 1990 ("ANCA") provides for a phaseout of Stage 2 aircraft by December 31, 1999 and also limits the scope of the local airport operator's regulatory discretion for adopting new aircraft operational restrictions for noise purposes. The FAA subsequently adopted regulations implementing ANCA under Part 161 of the Federal Aviation Regulations ("Part 161"). From 1990 forward, airport proprietors considering the adoption of restrictions or prohibitions on the operation of Stage 2 and Stage 3 aircraft are required to conduct studies that detail the economic costs and benefits of proposed restrictions, to publish proposed restrictions and to provide notice to potentially affected airlines and conduct any necessary environmental analysis, prior to enacting restrictions on the operations of Stage 2 or Stage 3 aircraft. Proposed restrictions on the operation of Stage 3 aircraft adopted after 1990 also require affirmative approval of the FAA under defined statutory criteria before they may legally be implemented. ANCA and Part 161 make the adoption of many traditional aircraft operating noise regulations by local airport proprietors infeasible without the concurrence of the airlines or other operators affected by the restrictions. Subject to certain procedural safeguards, violations of ANCA or of Part 161 could result in termination of an airport's authority to impose and use PFCs or to receive AIP grant awards.

California Airport Noise Regulations. The Airport operates under a variance pursuant to the California Airport Noise Regulations (CCR Title 21, Division 2.5, Chapter 6) (the "Noise Regulations"). The Noise Regulations identify an exterior 65 decibel ("dB") Community Noise Equivalent Level ("CNEL") contour at an airport as the "Noise Impact Boundary." The Noise Regulations provide that no proprietor of a "noise problem airport" shall operate an airport with a Noise Impact Boundary based on the standard of 65 dB CNEL, unless the operator has applied for or received a variance as prescribed by the Noise Regulations. To obtain a variance, an airport that has been deemed a noise problem airport by the county in which the airport is located must demonstrate to the State that it is making good faith efforts to eliminate incompatible land uses within the Noise Impact Boundary. Under the Noise Regulations, residential land uses may be made compatible through land acquisition, sound insulation to an interior noise level of 45 dB CNEL, or by obtaining avigation easements for the incompatible land uses. See "—ACT Program" below. Once the county determines that an airport is a noise problem airport, an airport will remain subject to the variance requirement under the Noise Regulations until such time that the county determines that the airport is no longer a noise problem airport.

The Santa Clara County Board of Supervisors designated the Airport as a noise problem airport on June 19, 1972. Since that time, the State has issued a successive series of three-year variances to the City, and the City's current variance was renewed for a three-year term effective March 15, 2008. Because the City has eliminated incompatible land uses within the Noise Impact Boundary through completion of its ACT Program (described below), the City has requested that Santa Clara County determine that the Airport is no longer a noise problem airport. In anticipation of this determination by the County, the State has granted an extension of the current variance through February 15, 2012. The

City will need to request a further extension to the variance from the State in the event that the County Board of Supervisors fails to act on the City's request prior to February 15, 2012.

Land Use Compatibility Measures. Since the late 1960s, the City has undertaken a series of land use compatibility measures to minimize the effects of aircraft noise on neighborhoods surrounding the Airport, and to provide an airport approach zone. These measures have included land acquisition, avigation easements, noise insulation of existing residences and schools and use of planning and building code measures to increase compatibility with Airport operations.

The City began acquiring residential and other incompatible land uses in the area to the south of the Airport in the late 1960s, for both approach zone and noise compatibility purposes. All 625 parcels, totaling approximately 120 acres, within this southern acquisition area have been acquired, largely, with federal grant funds. The area is designated as Public Park/Open Space in the City's General Plan. In compliance with the conditions to the federal grants used to fund the acquisition program, any reuse of property would require approval by the FAA. See "LITIGATION—FAA Audit of Use of Airport Revenue—Guadalupe Gardens" herein.

The City has also completed the acquisition of fee interests and habitation rights in two former mobile home parks to the north of the Airport, and the uses of such properties have been converted to uses compatible with Airport operations.

ACT Program. In 1993, the City Council established the Acoustical Treatment Program (the "ACT Program") for the noise insulation of residences and other incompatible structures, such as schools, surrounding the Airport. The purpose of the ACT Program was to improve the living environment of eligible residences and other structures by reducing interior noise to meet an interior noise level of 45 dB CNEL, as required by the Noise Regulations. Typical treatment included the replacement of windows and doors and the installation of attic insulation, weather-stripping and air conditioning. Participation in the ACT Program was voluntary. Undertaking the ACT Program was a required noise mitigation measure included in the Master Plan approved by the City Council in 1997 and by the FAA in 1999.

The ACT program was completed in January 2010. From its inception in 1989-1990, the program treated over 2,400 dwelling units and four schools using $139.8 million in AIP grants and PFCs. The Airport continues to conduct acoustical testing on an as-requested basis.

Airport Noise Control Program. Since 1973, time of day operational restrictions or a scheduling "curfew" has been in effect at the Airport, when it was promulgated by the Airport Director pursuant to the authority granted under the City's Municipal Code (the "Curfew"). The Airport Noise Control Program containing these restrictions was adopted in 1984 by the City Council as a formal Airport regulation and was subsequently amended by an ordinance adopted by the City Council on October 21, 2003 (the "Curfew Ordinance"). Under the Airport Noise Control Program, as amended by the Curfew Ordinance, jet aircraft operators are prohibited from scheduling or conducting takeoffs or landings between 11:30 p.m. and 6:30 a.m. (local time), unless any such takeoff or landing is conducted by a jet aircraft that is listed on a Schedule of Authorized Aircraft issued by the Director of Aviation. If a jet aircraft is not listed on the Schedule of Authorized Aircraft, the aircraft will be allowed to operate during Curfew Hours only if the operator demonstrates in writing to the Director of Aviation that the FAA part 36 manufacturer-certificated noise level of such aircraft (using the arithmetic average of the takeoff, sideline and approach noise levels) is equal to or less than 89.0 Effective Perceived Noise Decibel Level ("EPNdB"). In addition, Stage II aircraft operators (other than certain governmental operators) may only conduct takeoffs or landings at the Airport between the hours of 7:00 a.m. and 11:00 p.m., unless the aircraft was delayed solely because of a force majeure event. Operational procedures to minimize aircraft noise on departure are implemented by the FAA through its Air Traffic Control personnel. These procedures are intended to minimize noise impact on the surrounding community. By letter dated October 2, 2003, the FAA acknowledged that the Airport Noise Control Program is "grandfathered" under ANCA because it was adopted prior to 1990, and the FAA also found that the amendments made to the Airport Noise Control Program by the Curfew Ordinance do not present a current issue of noncompliance under either ANCA or the City's federal grant assurances. See "—Airport Noise and Capacity Act of 1990" above.

Underground Fuel Tanks. Until December 22, 1998, the City and Chevron U.S.A., Inc. ("Chevron"), operated adjacent fuel storage facilities at the Airport. The City's facilities have not been in operation since December 22, 1998, when the facilities were closed in response to the federal deadline for upgrade or closure of underground storage tanks. Chevron operated its fuel storage facility at the Airport until the opening of the new fuel storage facility owned and operated by a consortium of airlines in December 2009. See "AIRPORT FACILITIES AND DEVELOPMENT—Existing Airport Facilities—Fuel, Cargo and Other Support Facilities in Appendix B."

The City and Chevron entered into an agreement effective November 30, 2009, for coordinated corrective actions at the closed City and Chevron fuel storage facility sites at the Airport. Under the agreement, Chevron is the lead in coordinating and reporting to the regulators, conducting investigations, and performing remedial activities. The agreement provides for a 50/50 cost sharing responsibility for costs accrued until successful closure of the sites, with the City's share of the cost not to exceed $1,800,000.

OTHER MATTERS

Investment Policy and Practices of the City

The City and its related entities are required to invest all funds under the Director of Finance's control in accordance with principles of sound treasury management and in accordance with the provisions of the California Government Code, the Charter, the City Municipal Code and the City Investment Policy (the "Policy"). The Policy was originally adopted by the City Council on April 2, 1985 (Resolution No. 58200) and is reviewed annually by the City Council. The Investment Policy was recertified in December 2009 by The Association of Public Treasurers of the United States and Canada ("Association") that the revised policy is a professionally accepted policy based on the standards developed by the Association. This certification is applied for every two years.

On September 28, 2010, the City Council approved various updates to the Investment Policy. In August 2011, the City Council approved technical amendments to the Investment Policy. All changes are consistent with the California Government Code. The primary objectives of the Policy, in their order of priority, are to (1) provide for the safe preservation of principal, (2) ensure that there is sufficient liquidity for operating needs, and (3) attain the maximum yield possible as long as investment practices are consistent with the first two stated objectives.

The City has not entered into any interest rate or commodity swap or hedging agreements and does not currently expect to enter into any such agreements.

Current Investment Portfolio

As of August 31, 2011, the book value of the City's pooled investment fund was $816,743,138, while the market value was $821,511,390. The fund is classified by different types of investment securities. The composition of this fund, including the weighted average days to maturity and yield, is provided in Table 14. Airport Funds invested in the fund represented approximately 13.41% of the fund.

Table 14
City of San José Pooled Investment Fund
General Pool Investments
As of August 31, 2011[1]

	Book Value	Percent of Portfolio	Market Value	Weighted Average Days to Maturity	Weighted Average Yield
U.S. Treasury Bills and Notes	$ 0	0.0%	$ 0	0	0.00%
Federal Agency Securities[2]	621,038,404	76.0	625,548,002	570	0.811
Medium Term Notes (corporate)	24,928,250	3.1	25,179,688	100	3.048
Bankers Acceptance	0	0.0	0	0	0.000
Commercial Paper	31,962,666	3.9	31,964,229	48	0.155
Repurchase Agreements	0	0.0	0	0	0.000
Negotiable Certificate of Deposit	40,000,000	4.9	40,005,653	65	0.274
Money Market Mutual Fund	2,190,000	0.3	2,190,000	1	0.058
State of California Local Agency Investment Fund[3]	96,623,818	11.8	96,623,818	1	0.390
Total[4]	$816,743,138	100.0%	$821,511,390	441	0.727%

(1) Excludes funds invested in separate, segregated accounts as part of City held invested funds; excludes bond proceeds held by fiscal agents/trustees.
(2) Composed only of Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal Farm Credit Bank (FFCB) securities.
(3) Estimated based upon City's participation in the Local Agency Investment Fund (LAIF). Weighted average yield for LAIF is based upon the most recently reported quarterly earnings rate.
(4) Totals may not add due to independent rounding.
Source: City of San José Finance Department.

Pension Plans

All regular full time and certain part-time City employees, including employees assigned to the Airport, participate in one of two public employee retirement plans established pursuant to the City Charter: the Federated City Employees' Retirement System (the "Federated Plan") and the Police and Fire Department Retirement Plan (the "Police and Fire Plan" and together with the Federated Plan, the "Pension Plans"). Both Pension Plans are structured as tax-qualified defined benefit plans in which retirement benefits are based upon salary and length of service. Both Pension Plans pay retirement benefits with fixed cost of living increases, and all or a portion of health and dental insurance premiums for retirees who qualify, their dependents and survivors.

Each Pension Plan is administered by its own Board of Administration, and day-to-day operations are carried out by the City's Director of the Department of Retirement Services and by the Department staff. Participation by covered employees in the Pension Plans is mandatory; employees contribute a percentage of their salaries to the applicable Pension Plan, and currently the City provides funding through contributions equal to a percentage of its full time employee covered payroll.

As a department of the City, the Airport shares in the risks, rewards and costs of the Pension Plans, including sharing benefit costs with the City. Employees of the City of San José Fire Department and Police Department staff the Airport's rescue and fire fighter station and provide police services at the Airport. The Airport reimburses the City's General Fund for these Police and Fire services. The Airport's share of the City's costs and liabilities associated with the Police and Fire Plan is a component of the aforementioned reimbursement, which totaled $16,945,384 in the fiscal year ended June 30, 2009 and $15,598,269 in the fiscal year ended June 30, 2010.

The total contribution rates for employees and the City are based upon actuarial calculations that take into consideration a number of assumptions, including assumed investment earnings on the valuation assets of the Pension Plans that are used to pay benefits. Prior to fiscal year 2010-11 actuarial valuations for the retirement benefits of both Pension Plans were prepared on a biennial basis. Commencing with the June 30, 2009 actuarial valuations, the valuations for the retirement and health and dental benefits of both Pension Plans will be prepared on an annual basis, and, in each actuarial valuation for each of the Pension Plans, the corresponding actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective Boards of the Pension Plans, these become the City's and the employees' legally required contribution rates for the fiscal year beginning one year after the valuation date. However, the Boards for both Pension Plans recently expressed support for implementing a fixed dollar contribution "floor" each year as determined by the respective Pension Plan's actuary as an alternative to the current percent of payroll method, so that future required contributions will be whichever method yields the higher contribution amount.

For a more detailed discussion of the City's Pension Plans, service retirement formulas, contributions and their calculation, funding status, other post-employment benefits and reform initiatives, see "Pension Plans" in Appendix C.

The payroll for Airport employees covered by the Federated Plan for the fiscal years ended June 30, 2010 and 2009 was $22,686,445 and $26,514,642, respectively. The Airport's total payroll for the fiscal years ended June 30, 2010 and 2009 was $28,829,122 and $32,951,096, respectively. Contribution rates for the Airport and the participating employees for 2010 and 2009 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2007 for the Federated Plan. Table 15 below shows the Airport and Airport employee contribution rates to the Federated Plan for fiscal years 2008-09 and 2009-10.

Table 15
Airport and Airport Employee Contribution Rates
Federated Plan

	Airport's Contribution Rate (% of covered payroll)		Employees' Contribution Rate (% of payroll)	
Pay Period	Retirement Benefits	Health and Dental Benefits	Retirement Benefits	Health and Dental Benefits
6/28/09 through 6/26/10	18.31%	5.70%(1)	4.28%	5.07%
6/29/08 through 6/27/09	18.31%	5.25%(1)	4.28%	4.65%

(1) The actual contribution rates paid by the City were 5.49% and 5.05% for fiscal years 2009-10 and 2008-09, respectively, as a result of the City exercising its option to make lump sum prepayments for 26 periods of fiscal year 2010 and 24 periods of fiscal year 2009.
Source: City of San José Finance Department.

In fiscal year 2006-07 and fiscal year 2007-08, the City engaged in a process to determine whether to implement a policy to fully pre-fund the ARC as calculated under GASB Statement No. 45 for each of the Healthcare Plans. The City implemented GASB Statement No. 45 in fiscal year 2008 and elected to report a zero net Other Post Employment Benefits ("OPEB") obligation at the beginning of the transition year for both Pension Plans. Since then the City has determined a Citywide annual required contribution (ARC) and annual other post-employment benefits cost (AOC) for the Federated Plan based upon an actuarial valuation performed in accordance with GASB Statement No. 45 by the Pension Plans' actuaries, as further described under "Pension Plans" in Appendix C.

For the fiscal year ended June 30, 2010, the City allocated to the Airport its proportionate share of the Citywide ARC and AOC for the Federated Plan based upon its percentage of retirement benefit costs for Federated Plan members. Actuarially required contributions were equal to the Airport's contributions made for retirement benefits under the Federated Plan. As shown in the table below, the difference between the prior year's cumulative AOC (Liability) and the current year contributions by the Airport for health and dental benefits determine the Airport's current year net OPEB obligation. The Airport's net OPEB obligation was $5,739,584 and $4,167,075 at June 30, 2010 and 2009, respectively, which is recorded as the Airport's net OPEB obligation. The Airport has reserved cash in an amount equal to such OPEB obligation. The following table sets forth the three-year trend information for the Airport's ARC, AOC, and contributions made toward the retirement and health and dental components of the Federated Plan:

Table 16
Airport Contributions and Liability
Federated Plan

Fiscal Year ended June 30,	Retirement Benefits			Health and Dental Benefits			
	ARC	Contributions	Liability	Unfunded ARC	Unfunded AOC(1)	Contributions	Liability
2008	$4,634,810	$4,634,810	--	$5,696,697	$5,696,697	$1,029,269	$4,667,428
2009	4,854,831	4,854,831	--	3,107,769	981,682	1,482,035	4,167,075
2010	4,153,888	4,153,888	--	3,404,451	3,476,282	1,903,773	5,739,584

(1) The AOC is equal to the ARC plus interest accrued on the outstanding net pension obligation at the beginning of the fiscal year and reduced by an adjustment to the ARC amount due to amortization of unfunded actuarial accrued liability.
Source: City of San José Finance Department.

Labor Relations

Overview. The City has eleven recognized employee bargaining units, seven of which represent employees assigned to the Airport. The representation and agreement dates are shown below in Table 17. Through the end of fiscal year 2010-11, the City had agreements with all bargaining units. As indicated in Table 17, the City and five bargaining units have entered into agreements with a term expiring on June 30, 2013. On May 31, 2011, the City Council approved the implementation of terms for four bargaining units for fiscal year 2011-12, effective June 26, 2011, with the exception of the Confidential Employees' Organization ("CEO") for which the implemented terms were effective on September 18, 2011. In addition to its represented employees, the City has 222 unrepresented employees budgeted for fiscal year 2011-12, twelve of which are assigned to the Airport.

Table 17
City of San José
Summary of Labor Agreements

	Agreement Expiration Date	Full-Time Equivalent Employment(1)	Assigned to Airport
Assoc. of Building, Mechanical and Electrical Inspectors (ABMEI)(2)	06/30/2013	52	-
Association of Maintenance Supervisory Personnel (AMSP)	06/30/2013	77	18
Association of Engineers and Architects (AEA)(3)	06/30/2013	199	5
Association of Legal Professionals (ALP)	06/30/2012	36	-
Operating Engineers, Local #3 (OE#3)	06/30/2011	697	59
International Brotherhood of Electrical Workers (IBEW)	06/30/2011	73	7
City Association of Management Personnel (CAMP)	06/30/2013	335	34
San José Police Officers' Association (POA)(4)	06/30/2012	1,085	-
International Association of Firefighters (IAFF, Local 230)	06/30/2013	645	-
Municipal Employees Federation (MEF)	06/30/2011	1,798	64
Confidential Employees' Organization (CEO)	09/17/2011	183	6
Total		5,180	193

(1) Full Time Equivalents ("FTEs") are the combined total number of budgeted full-time positions. For example, one full-time position equals one FTE. Similarly, two half-time positions equal one FTE. The FTE numbers presented are as of July 1, 2011, and have been rounded to the nearest FTE.
(2) Does not represent any employees paid by the Airport Department.
(3) The City has two separate agreements with AEA; the first agreement is related to employees of Unit 41 and Unit 42 and the second agreement is related to employees in Unit 43. Both agreements expire on June 30, 2013.
(4) See discussion below regarding the term of the agreement with the POA.
Source: City of San José, Office of Employee Relations, City Manager's Budget Office.

Under California law, sworn police and fire employees are not permitted to strike. The City Charter provides that police and fire bargaining units have the right to binding interest arbitration of labor disputes once either the City or the applicable bargaining unit declares that the negotiations are at impasse. A summary of the City Charter's binding arbitration provisions is set forth below in "– Binding Arbitration." The agreements with Association of Engineers and Architects ("AEA"), Confidential Employees' Organization ("CEO"), International Brotherhood of Electrical Workers ("IBEW"), Municipal Employees Federation ("MEF"), and Operating Engineers, Local #3 ("OE#3") have "no strike" clauses during the terms of their respective agreements.

Also, under California law, the City and the bargaining units have the mutual obligation to meet and confer promptly upon request by either party and to endeavor to reach agreement on matters within the scope of representation, which generally include wages, hours, benefits and other terms and conditions of employment. In the event that the City and a bargaining unit are unable to reach an agreement, the parties are required to follow the impasse procedures set forth in the City's resolution governing employer-employee relations, which specifies mediation of the dispute. The non-public safety bargaining units do not have the right to binding arbitration of disputes. In situations where mediation with a non-public safety bargaining unit does not result in an agreement, the City has the right to implement the terms of its last, best and final offer. Implementation of terms does not result in a bargaining agreement.

Reduction in Labor Costs; Bargaining Unit Agreements for Fiscal Year 2010-11. The City has commenced efforts to reduce its labor costs. During the period from fiscal year 2000-01 through fiscal year 2011-12, the City's total compensation costs have increased significantly. The term "total compensation costs" refers to the City's cost of pay and benefits, including base pay, retirement contributions, health insurance and other benefits. The chart below shows the increase in budgeted costs of total compensation of the City's full-time employees ("FTEs") from fiscal year 2000-01 through fiscal year 2011-12 for all of the City's funds. Although the number of FTEs decreased during this period, the City's average total compensation cost per FTE has increased approximately 92% from $73,581 per FTE in fiscal year 2000-01 to $141,918 in fiscal year 2011-2012.

Table 18
City of San José
Citywide Salary and Benefits(1)

	FY 2000-01	FY 2011-12	Difference
Base Payroll	$416,010,420	$444,504,016	6%
Retirement Benefits	**$63,054,083**	**$244,424,404**	**287%**
Federated Retirement	$39,409,193	$107,327,541	172%
Police/Fire Retirement	$23,644,890	$137,096,863	479%
Health/Dental Benefits(2)	**$30,317,792**	**$56,498,083**	**86%**
Health	$24,856,910	$50,842,071	104%
Dental	$5,460,882	$5,656,012	3%
Other Benefits	**$6,608,312**	**$20,935,476**	**216%**
(Unemployment & Other Miscellaneous Benefits)			
Total (All Benefits)	**$99,980,187**	**$321,857,963**	**221%**
Grand Total	**$515,990,607**	**$766,361,979**	**48%**
Average Total Cost Per FTE	**$73,581**	**$141,918**	**92%**

(1) Does not include worker's compensation cost or overtime. The figures above are budgeted costs and include the cost of providing paid time off, such as vacation, holidays, personal/executive leave, and sick leave, to the extent that paid leave is taken during the fiscal year. The actual salary and benefit costs of individual employees vary.
(2) Health/Dental Benefits are the costs budgeted for the health and dental benefits provided to FTEs.

Source: City of San José Salary and Fringe Benefit Costs by Bargaining Unit & Fund for 2000-2001 through 2011-2012 Adopted Budget

Bargaining Agreements for Fiscal Year 2010-2011. Prior to the commencement of fiscal year 2010-11, the City reached agreement with six bargaining units, each for a one-year term, that resulted in a 10% reduction in total compensation for fiscal year 2010-11 for these bargaining units. Additionally, the City Council approved a compensation package for 237 unrepresented employees for fiscal year 2010-11 that includes a 10% reduction in total compensation for fiscal year 2010-11.

The City was unable to reach agreement with CEO, MEF and Association of Building, Mechanical and Electrical Inspectors ("ABMEI") to reduce their total compensation. In the case of CEO and MEF, their agreements are in effect through fiscal year 2010-11 and their members received a 2.0% wage increase in fiscal year 2010-11. The City and ABMEI were unable to reach an agreement for fiscal year 2010-11, and the City Council imposed the terms of its last, best and final offer on ABMEI, which resulted in a 5.0% ongoing reduction in total compensation for fiscal year 2010-11.

After the commencement of fiscal year 2010-11, the City entered into bargaining agreements with its two public safety bargaining groups, the POA and Local 230. In August 2010, the City and the POA entered into an agreement for fiscal year 2010-11 that avoided layoffs of 70 police officers. The reduction in total compensation agreed to by the POA was approximately 3.82%.

Bargaining Agreements for Fiscal Year 2011-12. The City was in negotiations with all of the bargaining units for fiscal year 2011-12. On November 18, 2010, the City Council gave direction to the City Manager regarding the negotiations with the bargaining units for the fiscal year 2011-12 agreements as follows: (1) continue, on an ongoing basis, the 10% total compensation reduction for those bargaining units that had agreed to the reduction in fiscal year 2010-11; (2) roll back any general wage increases received in fiscal year 2010-11 and reduce total compensation by 10% on an ongoing basis; (3) include healthcare cost containment in cost sharing, co-pays, health and dental in-lieu and dual coverage as had been previously recommended by the City's Auditor. In addition, the City Council directed the City Manager to negotiate reforms with respect to pension and retiree healthcare benefits, payments of accrued sick leave to employees upon retirement, disability leave supplement, supplemental retiree benefit reserve, and compensation structure. See "APPENDIX C—Pension Plans—Pension Reform Initiatives."

The City has entered into agreements with seven bargaining groups that achieved the Council directive. ABMEI, AEA, AMSP, and CAMP have agreements for a two year term of July 1, 2011 through June 30, 2013. The City and ALP have entered into an agreement with a one year term of July 1, 2011 through June 30, 2012. The City and the POA entered into an agreement with a one year term of July 1, 2011 through June 30, 2012. The Agreement with IAFF, Local 230 includes a term retroactive to July 1, 2009 through June 30, 2013. Key components of the agreement include: (1) a 10% total ongoing compensation reduction commencing as of June 26, 2011; (2) healthcare cost containment in cost sharing, co-pays, health and dental in-lieu and dual coverage effective as of July 1, 2011; (3) reduction of minimum staffing requirements effective upon the City Council's approval of the agreement; and (4) a five-year phase in of retiree healthcare funding commencing on June 26, 2011. Under the agreement, the City agreed to establish a qualified trust by July 1, 2011 for the retiree healthcare funding. See "APPENDIX C—Pension Plans—Other Postemployment Benefits—Agreement with Local 230 Related to Police and Fire Plan's Health and Dental Benefits" and "—Potential Tax Limitation on Phase-In Funding of ARC for both Healthcare Plans." In addition, IAFF, Local 230 and the City agreed to continue to meet and confer on a number of issues, including pension and retiree health care benefits for both current and future employees. See "APPENDIX C—Pension Plans—Pension Reform Initiatives" for a discussion of the various proposals to establish a second tier retirement plan for new employees and the proposals to reduce the retirement and retiree health care benefits for existing employees, including the legal risks associated with implementing changes to these benefits for existing employees.

The City Council also has approved the compensation package for its unrepresented employees. The terms of these agreements and compensation package include (1) reduction in base pay by approximately 10% from fiscal year 2009-10; (2) healthcare cost containment in cost sharing, co-pays, health and dental in-lieu and dual coverage effective as of July 1, 2011; (3) reduction of disability leave supplemental pay in fiscal year 2011-12 with its elimination as of the first pay period in fiscal year 2012-13; and (4) for the unrepresented employees and those bargaining groups with the right to sell vacation time, the reduction of the number of hours eligible to be sold in calendar year 2012 and the elimination of this benefit in calendar year 2013.

Additionally, the City and ABMEI, AEA, ALP, AMSP and CAMP agreed to continue to meet and confer on a number of issues, including sick leave payout, pension and retiree health care benefits for both current and future employees. See "APPENDIX C—Pension Plans—Pension Reform Initiatives."

The City and four bargaining groups (IBEW, OE#3, MEF and CEO) were unable to reach agreement on a successor agreement. On May 31, 2011, the City Council approved the implementation of the City's last, best final offer made to each of these bargaining groups. The implemented terms became effective as of July 1, 2011, except, for CEO, with respect to which the implemented terms became effective on September 18, 2011. The implemented terms mirror those that were agreed to by ABMEI, AEA, AMSP and CAMP, except that the City Council also implemented the elimination of sick leave payout for employees in these bargaining units who currently are eligible to receive a portion of accrued sick leave paid out to them upon retirement as of January 1, 2012. Additionally, there is no agreement to continue to meet and confer on pension and retiree health care benefits for both current and future employees. However, under State law, the City and bargaining groups have the obligation to meet and confer promptly upon request and to endeavor to reach agreement on matters within the scope of representation. The City is currently in negotiations with all bargaining groups on the issues of retirement. The City is also currently in negotiations on the issue of Sick Leave Payout with AEA, AMSP, CAMP ALP, POA, IAFF, Local 230 and ABMEI.

The City estimates that the cost savings for all funds in fiscal year 2011-12 resulting from the agreements with its bargaining groups, including Local 230, the approval of the compensation package for unrepresented employees and the implementation of terms on the other bargaining units is $50.9 million with approximately $1.9 million in savings for the Airport.

Administrative Actions. The California Public Employment Relations Board ("PERB") oversees the implementation of the Meyers-Milias-Brown Act, which governs collective bargaining by certain public employers and their employees. PERB acts as an appellate body to hear challenges to proposed decisions that are issued by PERB staff. Two matters involving the City are now pending before PERB or its staff as described below.

OE#3 filed unfair labor practice charges with PERB arising out of the negotiations with the City and the City's declaration of impasse that preceded the agreement that the City and OE#3 entered into for fiscal year 2010-11. In June 2011, PERB issued its complaint against the City and scheduled an informal conference on June 29, 2011 before a PERB representative for the purpose of entering into a settlement agreement or limiting the number of issues to be heard by PERB. At the informal conference, no resolution of the matter was reached and a hearing before PERB was set for September 2011. The hearing was held in September for one day before an administrative law judge. Closing briefs of the parties are due to be filed in December. A number of the remedies sought by OE#3 are no longer relevant as the City and OE#3 entered into an agreement for fiscal year 2010-11, however, the City cannot predict the outcome of this matter.

In June 2011, the American Federation of State, County & Municipal Employees ("AFSCME") filed unfair labor charges with PERB on behalf of MEF and CEO arising out of the City Council's implementation of its last, best, final offer made to both MEF and CEO. AFSCME is requesting PERB to enjoin the City from implementing the last, best final offer with MEF and CEO. The City cannot predict the outcome of this matter; however, if PERB ultimately finds in AFSCME's favor, the remedies available range from a posting that an unfair practice has been found to a need to further negotiate. If the contract negotiations are required to recommence, then the estimated $1.9 million of savings attributable to the Airport with respect to the compensation reductions for fiscal year 2011-12 could be reduced. The City filed an unfair practices charge against MEF and CEO in conjunction with the same negotiations, asserting that the bargaining units engaged in several unfair and illegal bargaining practices.

Outsourcing. Employees of the City of San José Fire Department (the "Fire Department") and the City of San José Police Department (the "Police Department") staff the rescue and fire fighting station and provide law enforcement services at the Airport. The Airport Department reimburses the City's General Fund for these law enforcement and airport rescue and fire fighting ("ARFF") services.

After exploring other cost-cutting measures with City departments, the City issued requests for proposals for contract law enforcement and ARFF services at the Airport. The City received responsive proposals to each request for proposals, and an evaluation panel recommended the Santa Clara County Sheriff's Office (the "Sheriff's Office") for Airport law enforcement services, and Wackenhut Services, Inc. ("Wackenhut"), for ARFF services, and the City subsequently commenced negotiations on business terms with these two potential service providers.

The City implemented a new service delivery model for Airport law enforcement services based on reduced staffing levels provided by the Police Department that took effect in July 2011. No staff reductions were implemented for ARFF services. Subject to City Council approval and the outcome of contract negotiations with the Sheriff's Office, outsourcing of law enforcement services to the Sheriff's Office is planned to take effect by February 1, 2012.

As part of its approval of the Budget on June 14, 2011, the City Council considered a recommendation from the Mayor to direct staff to review a hybrid alternative to full outsourcing of law enforcement services at the Airport that would include both Police Department staff and contract law enforcement services from the Sheriff's Office, with staff to report its findings and recommendations to a Council Committee later this year. The Mayor has also recommended that potential savings from the proposed Fiscal Reform Plan be included as part of the City's analysis of whether to outsource law enforcement services at the Airport. The Fiscal Reform Plan was originally scheduled to be considered by the City Council on August 2, 2011, but has now been postponed [to a date to be determined after October 31, 2011]. See "Appendix C—Pension Reform Initiatives—May 2011/June 2011—Fiscal Reform Plan; Proposal to Declare Fiscal Emergency." [TO BE UPDATED]

The City also postponed any outsourcing of ARFF services until at least July 1, 2013, based upon a proposal to use proceeds from a Staffing for Adequate Fire and Emergency Response ("SAFER") Grant from the Federal Emergency Management Agency/Department of Homeland Security to fund the cost differential between the cost of Fire Department staff and the cost proposal for ARFF services from Wackenhut for the two-year period from July 1, 2011, to June 30, 2013. The Police Department and Fire Department will continue to provide public safety services at the Airport until any service transitions take place.

The City has also commenced the process to evaluate the possible outsourcing of Airport parking and traffic control services currently provided by City employees at terminal curbs. Outsourcing Airport parking and traffic control services would affect 20 positions at the Airport, and is subject to meet and confer obligations for non-public safety bargaining units. See "—Overview" above. The estimate for potential Airport savings from a potential outsourcing of Airport parking and traffic control services ranges between $500,000 and $900,000 annually. The City anticipates this matter to be considered by the City Council by early 2012; however, the City is unable to predict whether the outsourcing of Airport parking and traffic control services will occur.

Binding Arbitration. In November 2010, the voters approved a Charter amendment to revise the Charter's binding arbitration provisions for the City's public safety bargaining units to, among other things, change the selection process for the neutral arbitrator member of the Arbitration Board (as defined below) and the factors to be weighed by the Arbitration Board in making its award, and to place limits on the Arbitration Board's authority. The Charter's provisions governing arbitration, as amended, are described below.

Under the City's Charter, the City and the bargaining unit each select one arbitrator and jointly select a third neutral arbitrator. The neutral arbitrator serves as the Chair of the three-person arbitration board ("Arbitration Board"). If the City and the bargaining unit cannot reach agreement on the selection of the neutral arbitrator, then either party may request the Superior Court to appoint the third arbitrator who shall be a retired judge of the Superior Court.

At the conclusion of the arbitration hearings, the Arbitration Board shall direct each of the parties to submit, within such time limit as the Board may establish, a last offer of settlement on each of the issues in dispute. The Arbitration Board shall decide each issue by majority vote by selecting whichever last offer of settlement on that issue it finds by the preponderance of the evidence submitted to the Arbitration Board satisfies the factors below, is in the best interest and promotes the welfare of the public, and most nearly conforms with those factors traditionally taken into consideration in the determination of wages, hours, and other terms and conditions of public and private employment, including, but not limited to, changes in the average consumer price index for goods and services, the wages, hours, and other terms and conditions of employment of other employees performing similar services.

The primary factors in decisions regarding compensation shall be the City's financial condition and, in addition, its ability to pay for employee compensation from on-going revenues without reducing City services. No arbitration award may be issued unless a majority of the Arbitration Board determines, based upon a fair and thorough review of the City's financial condition and a cost analysis of the parties' last offers, that the City can meet the cost of the award from on-going revenues without reducing City services. The arbitrators shall also consider and give substantial weight to the rate of increase or decrease of compensation approved by the City Council for other bargaining units.

Additionally, the Arbitration Board cannot issue an award that would (1) increase the projected cost of compensation at a rate that exceeds the rate of increase in revenues from the sales tax, property tax, utility tax and telephone tax averaged over the prior five fiscal years; (2) retroactively increase or decrease compensation, excluding base wages; (3) create a new unfunded liability for which the City would be obligated to pay; or (4) interfere with the discretion of the Police or Fire Chiefs to make operational or staffing decisions.

Insurance and Self-Insurance Programs

The City, including the Airport, reassesses its insurance coverage annually. Therefore, the City makes no representations that the insurance coverages described herein will be maintained in the future.

City-Wide Coverages. The City self-insures for liability (other than for the Airport and the San José/Santa Clara Water Pollution Control Plant), personal injury, and workers' compensation. The City currently maintains an all-risk property insurance policy with coverage for property owned by the City, including the Airport, and property owned by the Redevelopment Agency of the City of San José. This policy also provides coverage for boiler and machinery exposures and loss due to business interruption resulting from a covered risk or flood. The City generally does not carry earthquake insurance as it is not reasonably available. A summary of these coverages is provided in Table 19.

Table 19
City of San José
Summary of Citywide Property Insurance Coverage
(For Policy Period October 1, 2011 to October 1, 2012)

Coverage	Limit Per Occurrence	Deductible Per Occurrence
Property, including Business Interruption	$1 Billion	$100,000[1]
Flood:		
Flood Zones SFHA[3]	$15 Million per occurrence and annual aggregate	5% of values at risk Minimum $1 Million[2]
Flood Zone B	$25 Million per occurrence and annual aggregate	2% of values at risk Minimum $100,000[2]
All Other Flood Zones	$100 Million per occurrence and Annual Aggregate	$100,000[2]

(1) The deductible for property coverage and business interruption is combined $100,000 per occurrence.
(2) Deductible applies to values at risk.
(3) SFHA: Special Flood Hazard Area.
Source: City of San José, Finance Department – Risk & Insurance.

Unemployment Insurance. The City self-insures to the limits required by State statute. The City budgets for each year's anticipated unemployment insurance claims. By policy, the City also funds a reserve of the same amount in each fiscal year.

Airport Coverages.

Liability Coverages. The City has airport liability policies covering the Airport, which provide a $200 million combined single limit for bodily injury and property damage, with a sublimit of $50 million each occurrence and in the annual aggregate for personal injury and a sublimit of $100 million each occurrence and in the annual aggregate for war and terrorism. The City also maintains an automobile liability policy covering vehicles associated with the Airport and Water Pollution Control Plan operations. As part of general support services, the City charges the Airport for the cost of these liability insurance coverages. The limit of automobile liability is $1 million each occurrence combined single limit for bodily injury and property damage and the City is self-insured for physical damage, except for leased shuttle buses.

Workers' Compensation Reserve. The Airport participates in the City's self-insurance program for workers' compensation. The Airport's workers' compensation program is accounted for on a separate contribution basis under which workers' compensation claims and reserves are maintained in Airport funds, separate from the City's General Fund. Estimated workers' compensation reserves are determined using actuarial methods. As of June 30, 2011, the Airport's reserve for workers' compensation was $3.3 million.

Additionally, all airlines operating under the Airline Lease Agreement are required to maintain certain insurance coverages. See "SUMMARY OF CERTAIN PROVISIONS OF THE AIRLINE LEASE AGREEMENT—Indemnification, Insurance and Public Liability" in Appendix H.

Airport Coverages For Phase 1 of the Airport Development Program.

Airport Owner-Controlled Insurance Program — North Concourse Project. On March 31, 2004, the City bound certain liability insurance coverages for the major components of the North Concourse project through an owner-controlled insurance program from Chartis, formerly American International Group, AIU Holdings, Inc. and AIU LLC ("Chartis"). An owner-controlled insurance program ("OCIP") is a single insurance program that provides insurance coverage for construction job site risks of the project owner, general contractors, and all subcontractors associated with construction at the designated project site. The specific coverages, limits, and deductibles are outlined in Table 20 below.

Table 20
City of San José
Summary of Airport Owner-Controlled
Insurance Program –
North Concourse Project

Coverages	Limit	Deductible Per Occurrence
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 million	

Source: *City of San José*

Due to delay in completing the North Concourse project, in March of 2007, the City was required to establish a claims loss reserve for the North Concourse Project in the aggregate principal amount of $3.6 million with an additional $300,000 available in a cash working fund. The claims loss reserve funds the deductible amount of up to $250,000 per occurrence, to a maximum loss exposure to the City of $3.9 million.

The North Concourse Project has been completed and the policies expired December 31, 2008. Chartis refunded to the City $2.5 million of the loss fund in June 2010. Chartis will continue to hold the remaining funds in the 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.

Airport Owner-Controlled Insurance Program - Terminal Area Improvement Program. On March 15, 2007, the City bound certain liability insurance coverages for the major components of the Terminal Area Improvement Program through another OCIP (the "TAIP OCIP") procured through Chartis. The terms of the TAIP OCIP require the City to fund a claims loss reserve with Chartis in the amount of $8.9 million which Chartis has permitted the City to fund incrementally. The claims loss reserve had a balance of approximately $4.9 million as of June 30, 2011. The specific coverages, limits, and deductibles are outlined in Table 21.

Table 21
City of San José
Summary of Airport Owner-Controlled Insurance Program –
Terminal Area Improvement Program

	Limit	Deductible Per Occurrence
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 million	

Source: City of San José.

The City was obligated to maintain the TAIP OCIP through final acceptance of the Terminal Area Improvement Program, pursuant to the terms of its design-build contract with Hensel Phelps. The term of the TAIP OCIP expired on June 30, 2011. With the exception of certain remaining Airport signage work and certain punch list work in Terminal B, the City's final acceptance of the Terminal Area Improvement Program occurred in June 2011. Hensel Phelps provided the required coverages for the Airport signage work that remained to be completed after June 30, 2011. The Terminal B punch list work has been completed, and the Airport signage work is scheduled to be completed by October 30, 2011.

Owner's and Contractor's Protective Professional Indemnity, Including Contractor's Pollution Liability Policies.

Hensel Phelps, under its design-build agreement with the City for the Terminal Area Improvement Program, has provided a contractor's protective professional liability insurance ("CPPI") policy specific to its design work on the Terminal Area Improvement Program. The CPPI affords vicarious liability coverage for the City and the contractor's pollution liability policy names the City as an additional insured. The limit on the coverage is $5.0 million.

LITIGATION

There are a number of litigation matters pending against the City relating to incidents at the Airport or contractual disputes involving the Airport. These claims and suits are of a nature usually incidental to the operation and development of the Airport and, in the aggregate, in the opinion of Airport management, based upon the advice of the City Attorney, will not have a material adverse effect on the Net General Airport Revenues or financial condition of the Airport. It should be noted that a portion of the claims relating to personal injuries and property damage currently are covered by a comprehensive insurance program maintained by the City for the Airport. See "OTHER MATTERS—Insurance and Self-Insurance Programs" above.

FAA Audit of Use of Airport Revenue. The FAA commenced an audit of the City's use of Airport revenue in the spring of 2010. Federal law requires all airport owners that receive Federal assistance, such as the City, to use airport revenues for the capital or operating costs of the Airport. As a general rule, any use of airport revenues by an airport owner for costs that cannot properly be considered airport capital or operating costs is deemed to be improper revenue diversion. On June 2, 2010, auditors from the FAA provided the City with a draft audit finding improper use of Airport revenues by the City in three areas of expenditure as described below.

The City provided its response to the draft findings in June 2010. In March 2011, the FAA notified the City that the FAA was prepared to issue its final audit consistent with the draft findings, but would give the City the opportunity to comment on the final draft of the audit findings prior to issuance. The FAA has not provided the City with a timeframe for its issuance of a final audit. In the event that the FAA issues a final audit finding improper use of Airport revenue by the City, the City will have an opportunity for an administrative hearing to contest any such determination.

The improper uses of Airport revenues alleged by the FAA are described below.

<u>Airport Lease Obligation</u>. The City purchased approximately 75 acres of real property located near the southwest corner of the Airport from the FMC Corporation between 2005 and 2006, as a strategic effort to promote economic development opportunities and to preserve the future viability of the Airport. The City acquired the property in two phases. The initial phase, consisting of the acquisition of 52 acres of the property (referred to as the "Airport West Property") was completed in February 2005. The City completed the second phase, consisting of the acquisition of the remaining 23 acres of the property, in May 2006. The City intended to use the remaining 23 acres of the property for non-Airport economic development purposes.

The purchase of the Airport West Property was financed with lease revenue bonds issued by the City of San José Financing Authority (the "Authority"). Upon acquisition, the City leased the Airport West Property from the Authority and used a portion of the Airport West Property for construction laydown needs (including material storage and construction employee parking) to support the Terminal Area Improvement Program. The City agreed to make lease payments for the Airport West Property from Airport operating revenues available in the Maintenance and Operation Fund. At the time of the acquisition, the City contemplated other potential Airport uses for the Airport West Property, such as rental car storage, public or employee parking, flight kitchen operations, airport/airline warehouses and compatible non-aviation leaseholds. The City subsequently determined not to use the Airport West Property for these other potential Airport uses, and the City's use of the Airport West Property for construction laydown needs ceased with the completion of the Terminal Area Improvement Program on June 30, 2010. The City ceased using Airport operating revenues to make Airport West Property lease payments as of July 1, 2010.

In its June 2, 2010, draft audit finding, the FAA determined that the City could use Airport operating revenues to pay rent only for those portions of the Airport West Property that the City actually used for its Airport construction laydown needs and that the use of Airport operating revenues to pay rent for the remainder of the Airport West Property not actually used by the City for Airport purposes violated federal law regarding use of airport revenue. Consequently, the FAA auditors recommended that the City recalculate the rent paid from Airport operating revenues based upon actual Airport use, set the rent at fair market value, and return the remainder to the Airport enterprise fund, with interest. The City paid approximately $2.2 million from Airport operating revenues and approximately $10.0 million from the issuance of Subordinated Commercial Paper Notes as rent for the Airport West Property from the date of its acquisition through June 30, 2010.

The City believes that it has viable defenses to the FAA audit determination with regard to Airport West lease payments. The City further believes the acquisition of property for Airport purposes (whether by purchase or lease) necessarily requires planning and development prior to the commencement of actual Airport uses, and the use of Airport operating revenues to pay rent on property acquired for planned future Airport uses does not constitute improper use of Airport operating revenues under federal law. The City believes there is no basis under applicable federal law for the distinction made by the FAA auditors between rent payments for actual as opposed to planned airport uses. However, the City cannot predict the final outcome of the audit.

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.

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 auditors determined that the FAA ADO erred in its 2002 approval of the Guadalupe Gardens Master Plan and that the City is obligated to prepare an inventory of the Guadalupe Gardens to identify those parcels that were acquired by the City with noise compatibility grant proceeds. This inventory would then be used to prepare for FAA review and approval of a disposition plan for those parcels no longer needed by the City for noise 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 the FAA audit determination 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 the audit.

Cost Allocations. The FAA auditors reviewed the City's allocation of its costs to the Airport Department for services provided by the City to the Airport in fiscal year 2010-11. 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 enterprise fund, with interest. The amount of costs allocated by the City to the Airport using the indirect methodology for fiscal years 2005 through 2010 was estimated to be $59 million.

The City believes that its cost allocation methodologies reflect the cost of City services actually provided to the Airport and that the methodologies used by the City are consistent with applicable federal cost allocation guidance. However, the City cannot predict the final outcome of the audit.